

25 April 2024

Bajaj Finance

Growth unabated, higher credit cost; re-iterating a Buy

Driven by strong, 34% y/y, AUM growth, Bajaj Finance's Q4 FY24 net profit rose 21% y/y to Rs38.2bn (as expected). Despite pricey valuations, we retain a **Buy** on best-in-class execution skills, robust customer franchisees and strong tech architecture. At our 12-mth unchanged TP of Rs8,630 the stock would trade at 4.7x FY26e BV and 24x FY26e EPS.

Robust all-round AUM growth. Driven by a broadening product portfolio and deeper penetration, assets under management grew a healthy 33.6% y/y, 6.3% q/q. The number of new loans booked grew only 4% y/y due to the RBI embargo. Customer franchisees were 83.6m at end-Mar'24. The focus for the coming year would be on deepening penetration in payments. The widening product base, strong online presence and deeper penetration in rural markets would aid 26% loan CAGR.

Softer NIM on the cards, better productivity. The calculated NIM on AUM declined 30bps q/q. We build in a softer NIM over the next couple of quarters on tighter liquidity and product-mix change. At 34%, cost-income has improved 20bps y/y as operating leverage pans out.

Stable asset quality, high capital adequacy. The 1.8% credit cost as percent of AUM (incl. provisions from management overlay) was higher than expected on realignment in the rural B2C business. The trend in all other asset classes is steady. 22.5% capital adequacy would suffice to support AUM growth in the next two years.

Valuation. At our 12-mth TP, the stock would trade at 4.7x FY26e BV and 24x FY26e EPS. It has traded at higher valuations in the past. **Risks:** Key-man risk, regulatory changes.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Net interest income (Rs m)	2,13,820	2,73,314	3,48,487	4,37,572	5,53,597
PPoP (Rs m)	1,43,586	1,87,176	2,39,326	3,01,251	3,84,355
Provisions (Rs m)	48,548	31,897	46,307	61,123	76,921
PAT (Rs m)	70,282	1,15,078	1,44,511	1,77,214	2,26,886
EPS (Rs.)	116	190	234	286	365
NIM (%)	11.4	11.4	10.9	10.5	10.5
Cost-to-income	34.2	35.1	34.0	33.5	32.6
RoE (%)	17.4	23.5	22.0	20.9	22.0
RoA (%)	3.7	4.7	4.4	4.2	4.2
AUM growth (%)	29.1	25.3	29.9	26.5	25.9
GNPA (%)	1.5	1.5	1.4	1.4	1.4
CRAR	27.2	26.5	26.0	24.4	23.8
P/E (x)	62.7	38.3	31.2	25.5	20.0
P/BV (x)	10.1	8.1	5.9	4.9	4.0
P/ABV (x)	10.2	8.2	6.0	5.0	4.1

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.8,630

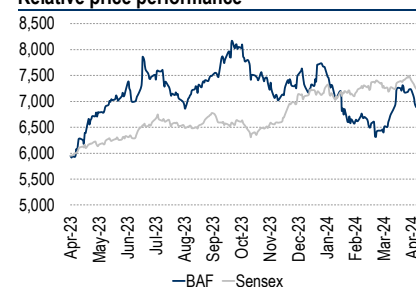
Share Price: Rs.7,294

Key data	BAF IN / BJFN.BO
52-week high / low	Rs8192 / 5929
Sensex / Nifty	74339 / 22570
3-m average volume	\$111.4m
Market cap	Rs4516bn / \$54191.6m
Shares outstanding	619m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	54.7	54.8	55.9
- of which, Pledged			
Free float	45.3	45.2	44.0
- Foreign institutions	20.6	20.9	20.1
- Domestic institutions	14.4	14.1	12.9
- Public	10.4	10.2	11.0

Estimates revision (%)	FY25e	FY26e
NII	0.6	2.3
PPOP	(0.6)	1.7
PAT	(1.9)	(0.8)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	2,13,820	2,73,314	3,48,487	4,37,572	5,53,597
Growth (%)	30.4	27.8	27.5	25.6	26.5
Non-interest Income	4,373	15,148	14,068	15,475	17,022
Total income	2,18,193	2,88,462	3,62,555	4,53,046	5,70,619
Total inc. growth (%)	27.0	32.2	25.7	25.0	26.0
Operating expenses	74,607	1,01,286	1,23,229	1,51,796	1,86,264
Of which emp. benefit exp.	35,897	50,494	63,960	80,590	1,01,543
PPoP	1,43,586	1,87,176	2,39,326	3,01,251	3,84,355
PPoP growth (%)	19.8	30.4	27.9	25.9	27.6
Provisions	48,548	31,897	46,307	61,123	76,921
PBT	95,038	1,55,279	1,93,019	2,40,128	3,07,434
Tax	24,756	40,202	48,584	62,913	80,548
PAT	70,282	1,15,078	1,44,511	1,77,214	2,26,886
PAT growth (%)	59.0	63.7	25.6	22.7	28.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	1,207	1,209	1,236	1,240	1,244
Other equity	4,35,920	5,42,511	7,65,718	9,26,812	11,37,526
Net worth	4,37,127	5,43,720	7,66,954	9,28,052	11,38,770
Borrowings	16,52,319	21,73,357	29,35,676	37,58,899	47,36,213
Growth (%)	25.5	31.5	35.1	28.0	26.0
Other liabilities	35,608	35,210	54,787	71,223	92,590
Total liabilities	21,25,054	27,52,287	37,57,416	47,58,174	59,67,573
Cash & cash equiv..	36,803	43,045	1,06,240	78,187	60,856
Investments	1,22,455	2,29,007	3,08,807	4,01,448	5,21,883
Loans	19,14,233	24,30,886	32,62,933	41,76,554	52,62,459
Growth (%)	30.5	27.0	34.2	28.0	26.0
Other assets	51,563	49,349	79,436	1,01,984	1,22,375
Total assets	21,25,054	27,52,287	37,57,416	47,58,174	59,67,573
AUM	19,74,520	24,73,790	32,13,125	40,65,752	51,17,978
RWA	15,88,032	23,09,341	33,28,192	43,43,617	54,72,957

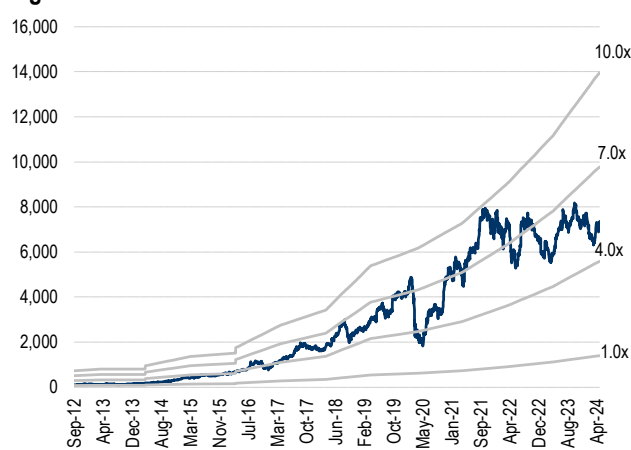
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis (%)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
NIM (%)	11.4	11.4	10.9	10.5	10.5
Cost to Income (%)	34.2	35.1	34.0	33.5	32.6
Credit Cost (%)	2.9	1.5	1.6	1.6	1.6
ROA (%)	3.7	4.7	4.4	4.2	4.2
ROE (%)	17.4	23.5	22.0	20.9	22.0
GNPA (%)	1.5	1.5	1.4	1.4	1.4
NNPA (%)	0.7	0.7	0.6	0.7	0.7
RWA/Assets (%)	74.7	83.9	88.6	91.3	91.7
CRAR (%)	27.2	26.5	26.0	24.4	23.8
Tier 1(%)	24.7	23.5	23.0	21.4	20.8
EPS (Rs)	116	190	234	286	365
BVPS (Rs)	725	900	1,241	1,497	1,831
ABVPS (Rs)	714	886	1,224	1,475	1,802
Dividend yield (%)	0.2	0.3	0.3	0.3	0.3
P/E (x)	62.7	38.3	31.2	25.5	20.0
P/B (x)	10.1	8.1	5.9	4.9	4.0
P/ABV (x)	10.2	8.2	6.0	5.0	4.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



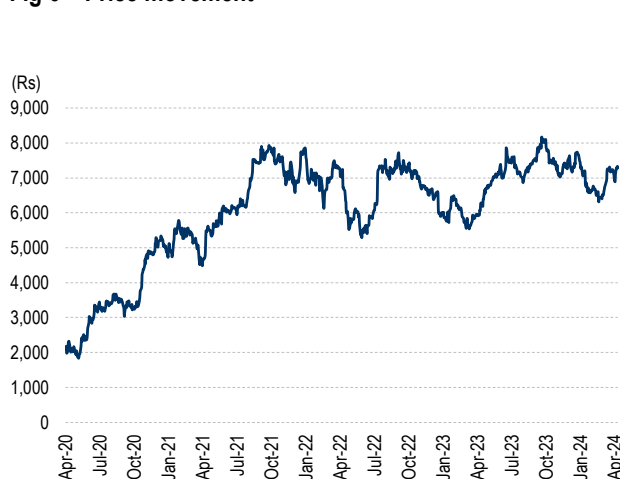
Source: Bloomberg

Fig 5 – One-year-forward price-to-book-value



Source: Bloomberg

Fig 6 – Price movement



Source: Bloomberg

Earnings call key takeaways

Guidance

- The guidance on RoA is on loan assets, not the balance sheet.
- The company anticipates a decline in RoA and loan losses, with FY26 projected to return to medium-term profit growth guidance.
- The gradual shift in the business mix presents opportunities across segments, with a strategic focus on risk management rather than profit maximisation.

Growth trajectory

- In the post-Covid landscape, Bajaj Finance aims to return to a normal business environment in FY25 while strategically adapting to changes in NPA classification.
- Operating with a forward-thinking strategy, it is nurturing businesses for sustained growth. A key overarching objective is to achieve a bottom-line figure of Rs10bn, with clear timelines and performance metrics guiding the expansion trajectory.
- The company targets breakeven in 18–24 months and 36–48 months to surpass hurdle rates, with a meticulous focus on newly-launched product lines, which typically require two years to break even.
- The gold loan segment is a promising growth avenue, with expectations of reaching the Rs10bn milestone within three years. Further, the company anticipates significant growth, with triple-digit expansion forecast for the current fiscal.
- Both developer finance and LRD segments did exceptionally well, contributing strategically to the mortgage business.

Management transition. The ongoing management transition underscores the importance of patience and disciplined execution. The approach is characterised by rigorous planning, with concerted efforts directed toward ensuring transition success in the nascent stages.

Regulatory compliance. In response to the recent RBI restrictions, the company maintains a steadfast commitment to compliance, refraining from commentary while identifying areas of concern. It demonstrates a proactive stance by acting beyond regulatory directives, reinforcing its dedication to preventing future recurrences.

Credit cost. The company strategically pivots toward secured business and a lower-yielding portfolio to effectively manage credit cost. A target corridor of 1.75-1.85 has been established, with a comprehensive write-off policy in place to mitigate balance-sheet residual impacts. The company anticipates the full impact in FY26–27 of its strategic pivot toward secured business.

Certain portfolios (two- and three-wheelers) are nearing normalisation since Dec'23, with expectations of rural business normalising in FY25. The net flow, based on intense activity particularly in home loans, anticipated to pick up by Aug'24, is impacting the NIM.

Bajaj Housing Finance

- The housing finance subsidiary prioritises sustaining a 13-15% RoE, focusing primarily on home loans (60%) and developer loans (15%). Bajaj Finance strategically balances between secured and unsecured loans, with its housing finance subsidiary and itself focusing on different product lines to avoid overlap and foster self-sufficiency.
- Bajaj Finance's diversified business model empowers strategic decision-making, allowing it to capitalise on growth opportunities while maintaining focus on portfolio quality and risk management.
- The company emphasises a cautious approach to the rural B2C segment, waiting for early indicators of business health to return to pre-Covid levels.
- The housing finance subsidiary's NIM contracted 21bps q/q.
- The company's guidance is based on a long-range perspective, with a sustainable, 13-15%, RoE target anchoring its business operations.
- It is recognised as the cleanest and largest business in India, compounding annually between 25-27%. As the company scales up, there is a concerted effort to increase competitiveness further.

Rural B2B and B2C

- Rural business segments, both B2B and B2C, are subject to scrutiny.
- While rural B2B saw robust 34% growth, rural B2C growth was slower, at 6%.
- The company exercises caution in accelerating growth in these segments, prioritising risk-control metrics.
- Expectations are set for growth acceleration from Q2 FY25, with focus on risk management over profit maximisation.

Sharper focus on developing social interaction channels

- Initiatives such as account aggregators and social commerce are highlighted as fundamental shifts in business operations.
- These aim to enhance customer engagement, streamline underwriting processes, expand exposure, improve portfolio monitoring and identify early warning signs.
- Although they are not expected to yield immediate commercial outcomes, they are projected to significantly improve customer engagement and acquisition in the medium term.

Key highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Income from operations	1,09,946	1,21,591	1,30,460	1,38,139	1,45,545
Interest expense	35,920	41,025	45,371	48,680	52,171
Net interest income	74,026	80,566	85,089	89,458	93,374
Growth (%)	30.2	28.0	28.7	27.3	26.1
Other income	3,720	3,415	3,358	3,521	3,775
Total income	77,746	83,980	88,447	92,980	97,149
Total inc. growth (%)	28.1	26.5	26.3	25.1	25.0
Operating expenses	26,556	28,544	30,100	31,557	33,028
of which emp. benefit exp.	13,411	14,970	15,875	16,618	16,497
PPOP	51,190	55,437	58,347	61,422	64,121
PPOP growth (%)	29.0	30.2	30.0	26.6	25.3
Provisions	8,594	9,953	10,771	12,484	13,100
PBT	42,595	45,484	47,576	48,939	51,021
Tax	11,033	11,143	12,070	12,566	12,806
PAT	31,578	34,341	35,507	36,373	38,215
PAT growth (%)	30.5	32.3	27.7	22.3	21.0

Source: Company, Anand Rathi Research

Fig 8 – Credit break-up

(Rs m)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Consumer B2B - auto finance	1,29,790	1,47,360	1,65,480	1,93,840	1,97,420
Consumer B2B - sales finance	1,76,270	2,23,210	2,29,730	2,44,850	2,34,480
Consumer B2C	5,01,080	5,48,450	2,29,730	2,44,850	2,34,480
Rural B2B sales finance	48,030	55,670	55,340	61,660	62,090
Rural B2C	1,94,570	2,02,720	2,08,800	2,14,260	1,76,070
SME	3,37,650	3,49,640	3,86,730	4,13,960	3,84,700
Securities lending	1,50,930	1,62,380	1,69,860	1,92,050	2,20,380
IPO financing	-	-	-	-	-
Commercial lending	1,58,340	1,80,640	1,95,580	2,06,720	2,20,060
Mortgages	7,77,130	8,30,900	9,09,340	9,65,290	10,33,160
Total AUM	24,73,790	27,00,970	29,02,640	31,09,680	33,06,150
Y/Y growth (%)	25.3	32.4	32.9	34.7	33.6

Source: Company, Anand Rathi Research

Fig 9 – Customer franchise

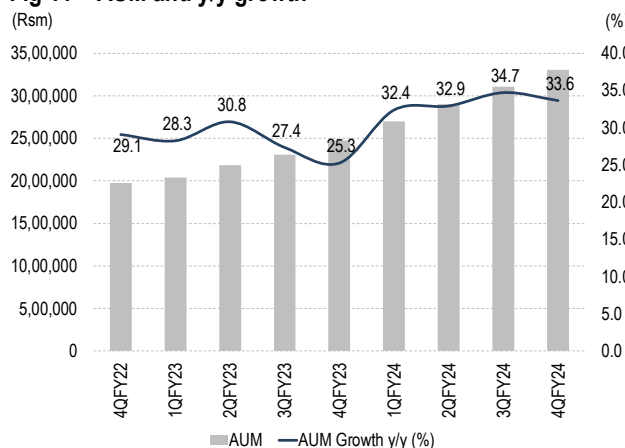
(Rs m)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Total franchise	69.1	73.0	76.6	80.4	83.6
Credit segment filter	53.6	56.9	59.7	62.9	66.0
Overall cross-sell franchise	52.0	55.2	57.9	61.1	64.2
Non-delinquent customers	45.9	48.9	51.3	54.1	56.7
Cross-sell franchise	40.6	44.3	46.7	49.3	50.8
Customer franchise addition	3.1	3.8	3.6	3.9	3.2

Source: Company, Anand Rathi Research

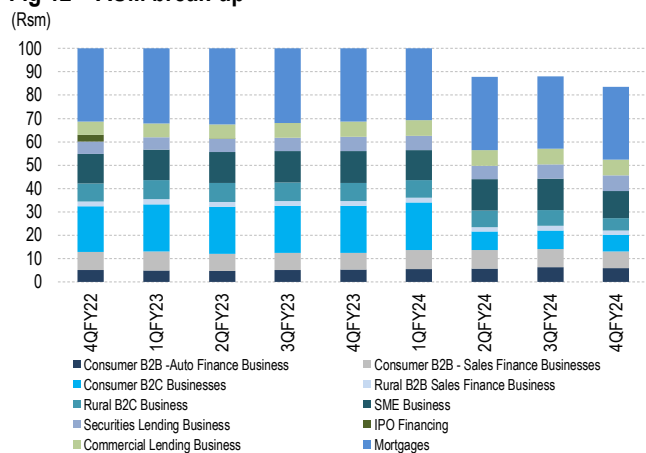
Fig 10 – Other metrics

(Rs m)	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Table - App metrics					
Downloads - in the quarter (m)	13.4	15.1	16.7	15.8	15.4
Net Installs - cumulative (m)	35.5	40.2	44.7	49.2	52.4
App Payment Metrics					
UPI Handles -cumulative (m)	13.0	15.5	18.6	21.5	24.8
Bill Pay transactions - in the quarter (m)	5.3	5.4	6.4	7.5	8.2
QRs at merchant PoS - cumulative ('000)	627.0	1,140.0	2,160.0	2,710.0	3.1
Rewards issues - in the quarter (m)	13.5	18.1	22.1	25.4	28.1
App business Metrics					
EMI cards acquired on app - in the quarter ('000)	99.0	123.0	130.0	89.0	-
Personal loan disbursed on app - in the quarter (m)	2,607.0	2,760.0	2,910.0	2,861.0	3,187.0
Credit card acquisition on app - in the quarter ('000)	72.0	77.0	69.9	59.7	38.8
Flexi loan transactions on app - in the quarter ('000)	1,554.0	1,700.0	1,990.0	2,190.0	2,300.0
DMS receipt on app - in the quarter ('000)	972.0	982.0	1,100.0	1,240.0	1,300.0
Marketplace metrics					
Bajaj Mall visits - in the quarter (m)	47.1	49.0	52.0	46.0	34.0
Bajaj Mall loans - in the quarter ('000)	607.0	826.0	589.0	491.0	255.0
Insurance Bazaar Policies - in the quarter ('000)	107.6	112.0	106.0	149.1	526.2
Investments Bazaar MF A/C - in the quarter ('000)	23.6	25.4	38.5	55.0	71.4
Digital EMI card metrics					
EMI cards acquired digitally - in the quarter ('000)	598.0	665.0	678.0	439.0	-
EMI cards acquired digitally - CIF (m)	3.6	3.8	4.2	4.5	3.6
B2B loans from digital EMI cards - in the quarter ('000)	291.0	416.0	346.0	281.0	-

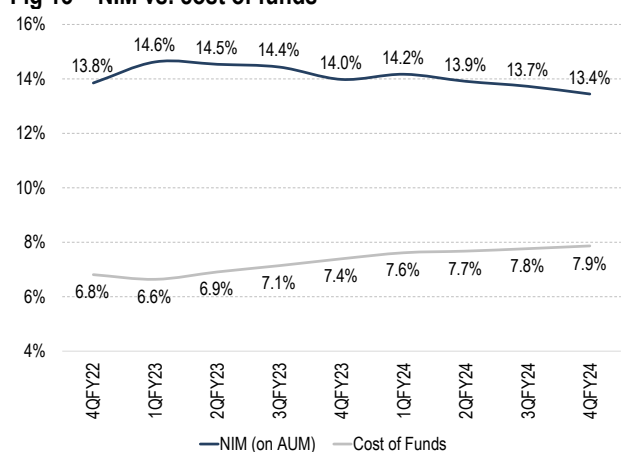
Source: Company, Anand Rath Research

Fig 11 – AUM and y/y growth

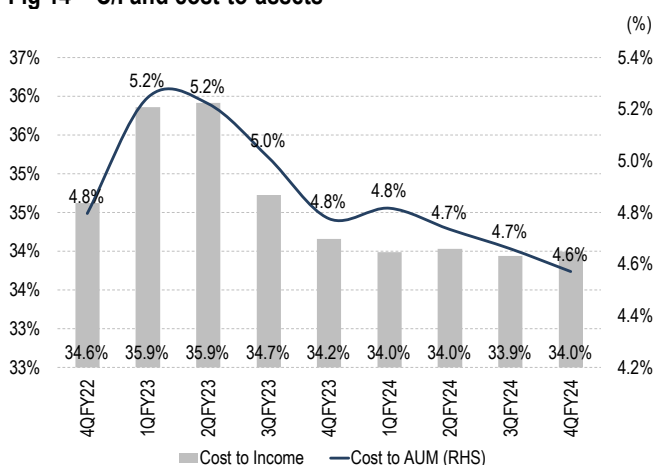
Source: Company, Anand Rathi Research

Fig 12 – AUM break-up

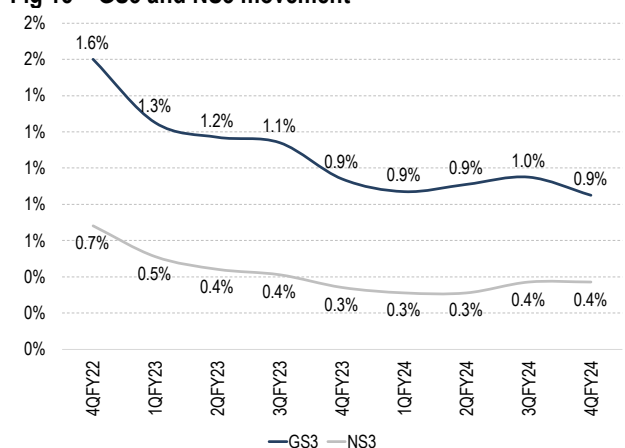
Source: Company, Anand Rathi Research

Fig 13 – NIM vs. cost of funds

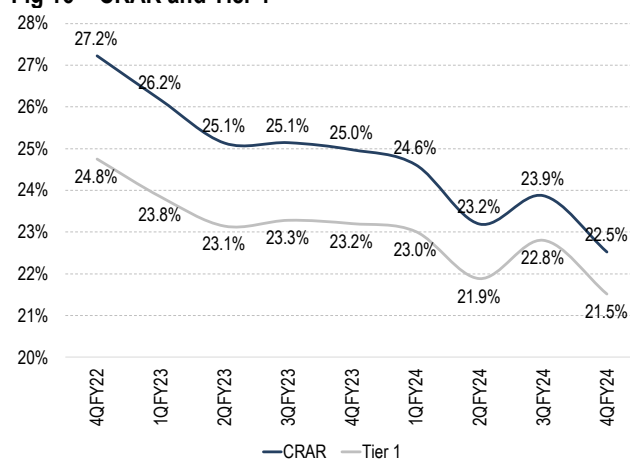
Source: Company, Anand Rathi Research

Fig 14 – C/I and cost-to-assets

Source: Company, Anand Rathi Research

Fig 15 – GS3 and NS3 movement

Source: Company, Anand Rathi Research

Fig 16 – CRAR and Tier 1

Source: Company, Anand Rathi Research

Valuation

Driven by strong, 34% y/y, AUM growth, Bajaj Finance's Q4 FY24 net profit rose 21% y/y to Rs38.2bn (in line with expectations). Despite premium valuations, we retain a Buy, on best-in-class execution skills, robust customer franchisees and strong tech architecture. News about lifting the RBI embargo and listing its subsidiaries would drive valuations in the near term. At our unchanged 12-mth TP of Rs8,630, the stock would trade at 4.7x FY26e BV and 24x FY26e EPS.

Fig 17 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	4,37,572	4,34,828	0.6	5,53,597	5,40,947	2.3
Pre-provisioning profit	3,01,251	3,02,963	(0.6)	3,84,355	3,77,795	1.7
PAT	1,77,214	1,80,692	(1.9)	2,26,886	2,28,687	(0.8)

Source: Anand Rath Research

Fig 18 – Key assumptions

(%)	FY25e	FY26e
Balance sheet assumptions		
AUM growth	26.5	25.9
Borrowings growth	28.0	26.0

Asset quality assumptions

Credit cost	1.64	1.62
Provision coverage	54.1	53.2

Source: Company, Anand Rath Research

Fig 19 – du Pont analysis

(%)	FY22	FY23	FY24e	FY25e	FY26e
Operating income	16.3	16.4	16.5	16.1	16.0
Interest expense	5.1	5.2	5.8	5.8	5.7
Net interest income	11.1	11.2	10.7	10.3	10.3
Other income	0.2	0.6	0.4	0.4	0.3
Total income	11.4	11.8	11.1	10.6	10.6
Operating expenses	3.9	4.2	3.8	3.6	3.5
of which, salary	1.9	2.1	2.0	1.9	1.9
PPOP	7.5	7.7	7.4	7.1	7.2
Provisions	2.5	1.3	1.4	1.4	1.4
PBT	5.0	6.4	5.9	5.6	5.7
Tax	1.3	1.6	1.5	1.5	1.5
RoA	3.7	4.7	4.4	4.2	4.2
Equity multiplier (x)	4.8	5.0	5.0	5.0	5.2
RoE	17.4	23.5	22.0	20.9	22.0

Source: Company, Anand Rath Research

Risks

- Higher slippages
- Lower-than-expected loan growth
- Key-man risk

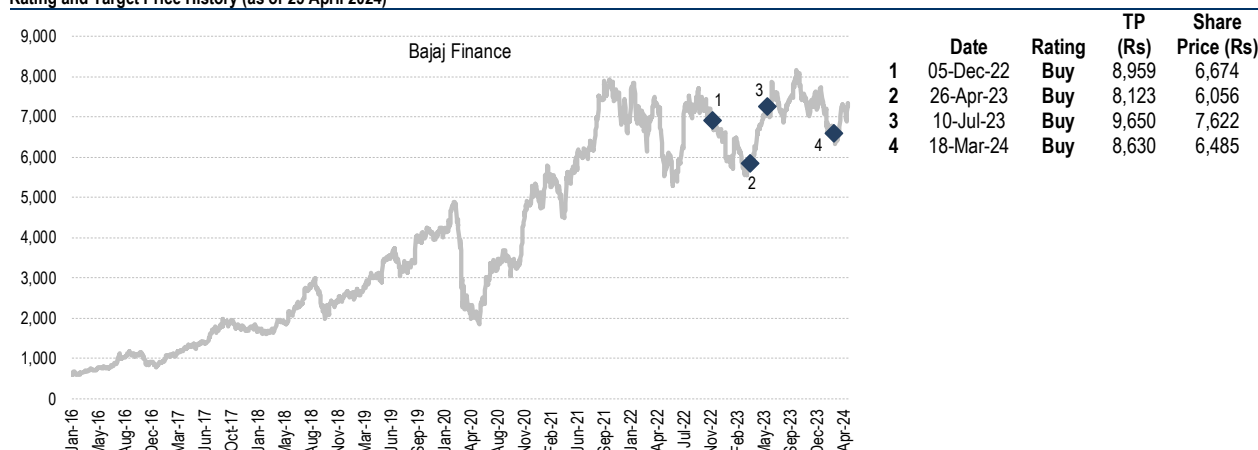
Appendix

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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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