


Inline Quarter, Strong RoA Delivery to Continue!
Est. Vs. Actual for Q4FY24: NII – **INLINE**; PPOP – **INLINE**; PAT – **INLINE**
Changes in Estimates post Q4FY24
FY25E/FY26E: NII -1.6%/-2.5%; PPOP -2.0%/-2.6%; PAT -3.0%/-3.7%

Recommendation Rationale

- **Update of progress made w.r.t RBI restrictions** – The new loans booked during Q4FY24 were lower by ~0.8 Mn on account of the restrictions placed by the RBI on sanction and disbursal of loans under 'eCOM' and 'Insta EMI Card'. BAF has made required changes in response to these regulatory restrictions. The company has formally requested the RBI for a review and removal of these restrictions. To ensure compliance in form and spirit, BAF, in addition to digital lending products, has implemented KFS for all lending products effective Mar'24 and made it available in 20 vernacular languages.
- **Asset quality to remain stable** – Apart from the Rural B2C business, all other segments continue to exhibit healthy asset quality. Despite the company making a conscious shift towards the lower-risk lower-yielding segments, the management has guided for credit costs to range between 175-185bps, marginally higher vs. pre-COVID levels. This slight increase is owing to regulatory changes with respect to the definition of NPA. Additionally, BAF has accelerated its write-off policy to maintain lower risk on the balance sheet. This has led to an added impact of 10-12bps on credit costs.

Sector Outlook: Positive

Company Guidance: BAF expects to maintain its growth momentum as it enters FY25 and targets to add 12-14 Mn new customers during the year. Supported by newly launched secured businesses such as LAP, New car financing and tractor finance, BAF is aiming at delivering AUM growth of 25-28% in FY25E. Pivot towards lower-yielding secured businesses (likely to stabilise by Sep'24) along with continued pressure on CoF will continue to weigh on margins in H1FY25. The management expects CoF to peak out in Jul-Aug'24 and margins to contract by ~30-40bps in H1FY25. The C-I ratio is expected to improve by 20-40bps. Margins pressures will weigh on RoA, which are expected to be between 4.6-4.8%. Asset quality is likely to remain stable with GNPA contained at sub-1%.

Current Valuation: 5.3x Sep'25E ABV Earlier Valuation: 5.3x Sep'25E ABV
Current TP: Rs 8,600/share Earlier TP: Rs 8,810/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Alternate BUY recommendations under our Coverage

MAS Financial Services (TP – Rs 380/share)

Financial Performance:

- **Healthy operating metrics:** BAF added 3.23 Mn customers (+5/-16% YoY/QoQ) during the qtr. vs 3.1/3.9 Mn customer YoY/QoQ, taking the total customer base to 83.64 Mn customers (+21/4% YoY/QoQ). The company booked ~7.9 Mn loans during the qtr. (+4/-20% YoY/QoQ). The new loans booked during the quarter were lower by approximately 0.8 Mn on account of the restrictions placed by the RBI, on sanction and disbursal of loans under 'eCOM' and 'Insta EMI Card'.
- **Encouraging operational performance:** NII grew by 28/5% YoY/QoQ, largely in line with our expectation, aided by AUM growth of 34/6% YoY/QoQ while margins (calc. on AAUM) contracted by ~19bps QoQ. Non-interest income grew by 12/4% YoY/QoQ, with healthy growth in fee income (~1.7% of Avg. AUM, growing at +16/3% YoY/QoQ). Opex grew by 25/5% YoY and C-I Ratio stood flat QoQ at ~34% QoQ. PPOP grew by 25/4% YoY/QoQ. Credit costs remained steady at 1.63% vs 1.66% QoQ. Earnings growth was at 21/5% YoY/QoQ.
- **Asset Quality Steady:** GNPA/NNPA stood at 0.85/0.37% vs 0.95/0.37% QoQ. PCR stood at 57%. Most segment ex-Rural B2C continue to report healthy asset quality trends. Hence, the management has continued to adopt a cautious approach in growing the Rural B2C book.

Outlook:

The execution of the LRS continues to progress well in terms of both maintaining AUM growth or growing the customer franchise. The company remains confident of delivering yet another strong performance in FY25 across most metrics. While margin pressures will persist in the near term owing to CoF pressures and the shift in the portfolio composition towards secured products. Despite NIM pressures, we expect BAF to deliver RoA/RoR of 4.6-4.7%/20-21% over FY25-26E. Factoring in lower NIMs we trim our NII/Earnings estimates by 2-3% each over FY25-26E.

Valuation & Recommendation:

We maintain our **BUY** recommendation on the stock. BAF currently trades at 4.5x Sep'25E ABV. We value the stock at 5.3x Sep'25E ABV and arrive at a target price of Rs 8,600/share, implying an upside of 18% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q4FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------------|--------|---------|---------|-----------|----------|
| Net Interest Income | 8,013 | +4.7 | +28.1 | 8,110 | -1.2 |
| PPOP | 6,412 | +4.4 | +25.3 | 6,499 | -1.3 |
| Net Profit | 3,825 | +5.1 | +21.2 | 3,813 | +0.3 |
| NNPA (%) | 0.4 | +3 bps | +3 bps | 0.4 | -2 bps |
| RoAAUM (calc. %) | 4.8 | -7 bps | -51 bps | 4.8 | - |

Source: Company, Axis Research

(CMP as of 25 Apr, 2024)

| | |
|----------------------------|-------------|
| CMP (Rs) | 7,294 |
| Upside /Downside (%) | 18% |
| High/Low (Rs) | 8,190/5,933 |
| Market cap (Cr) | 4,52,200 |
| Avg. daily vol. (6m) Shrs. | 12,58,711 |
| No. of shares (Cr) | 60.5 |

Shareholding (%)

| | Sep-23 | Dec-23 | Mar-24 |
|-----------|--------|--------|--------|
| Promoter | 55.9 | 54.8 | 54.6 |
| FII's | 20.4 | 20.9 | 20.6 |
| MFs / UTI | 9.1 | 9.8 | 9.6 |
| Others | 14.6 | 14.5 | 15.2 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY24P | FY25E | FY26E |
|-----------------|--------|--------|--------|
| NII | 29,582 | 37,101 | 46,576 |
| PPOP | 23,933 | 29,843 | 37,380 |
| Net Profit | 14,451 | 17,492 | 21,853 |
| EPS (Rs) | 233.8 | 283.0 | 353.6 |
| P/E (x) | 31.2 | 25.8 | 20.6 |
| P/ABV (x) | 6.0 | 5.0 | 4.1 |
| RoA (%) | 4.4 | 4.1 | 4.1 |
| NNPA (%) | 0.4 | 0.4 | 0.4 |

Change in Estimates (%)

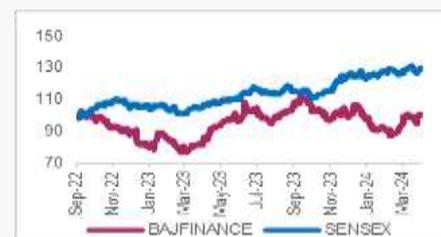
| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| NII | -1.6 | -2.5 |
| PPOP | -2.0 | -2.6 |
| PAT | -3.0 | -3.7 |

ESG disclosure Score**

| | |
|-----------------------------------|-------------|
| Environmental Disclosure | 2.1 |
| Social Disclosure Score | 24.2 |
| Governance Disclosure Score | 83.6 |
| Total ESG Disclosure Score | 36.7 |
| Sector Average | 37.3 |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative Performance


Source: AceEquity, Axis Securities

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Key Highlights

- Update on Potential Listing of BHFL (Housing Subsidiary)** – Given that Bajaj Housing Finance Ltd. (BHFL) is classified as an Upper-level NBFC, it is mandatory for the company to be listed by Sep'25. Thus, the management has constituted a committee to evaluate the process of listing. Focus for the company will remain on improving RoE and the company is likely to deliver a sustainable RoE of 14-15%. The management has stated that there will be no business segment overlap between BAF and BHFL, except for LAP. While BAF's SME lending may require the company to offer LAP loans as a by-product, the company will end up competing with BHFL on a client basis rather than a structural basis.

Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth could potentially derail our earnings estimates. The scalability of new products also remains a key monitorable.
- Another risk could potentially emerge from customer behaviour amongst the new-to-franchise customers impacting the earnings of BAF.

Change in Estimates

| | Revised | | Old | | % Change | |
|------------|---------|--------|--------|--------|----------|-------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| NII | 37,101 | 46,576 | 37,688 | 47,786 | -1.6 | -2.5 |
| PBP | 29,843 | 37,380 | 30,459 | 38,389 | -2.0 | -2.6 |
| Provisions | 6,479 | 8,191 | 6,366 | 8,057 | 1.8 | 1.7 |
| PAT | 17,492 | 21,853 | 18,025 | 22,692 | -3.0 | -3.7 |

Source: Company, Axis Securities

Results Review

| | Q4FY24 | Q4FY23 | % YoY | Q3FY24 | % QoQ | FY24 | FY23 | % YoY |
|--------------------------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|-------------|
| Interest Earned | 13,230 | 9,847 | 34.4 | 12,523 | 5.6 | 48,309 | 35,549 | 35.9 |
| Interest Expense | 5,217 | 3,592 | 45.2 | 4,868 | 7.2 | 18,725 | 12,560 | 49.1 |
| Net Interest Income | 8,013 | 6,255 | 28.1 | 7,655 | 4.7 | 29,584 | 22,989 | 28.7 |
| Non-Interest Income | 1,702 | 1,516 | 12.2 | 1,643 | 3.6 | 6,672 | 5,854 | 14.0 |
| Total Income | 9,715 | 7,771 | 25.0 | 9,298 | 4.5 | 36,256 | 28,843 | 25.7 |
| Operating expenses | 3,303 | 2,652 | 24.5 | 3,156 | 4.7 | 12,323 | 10,129 | 21.7 |
| <i>Staff Cost</i> | <i>1,650</i> | <i>1,341</i> | <i>23.0</i> | <i>1,662</i> | <i>-0.7</i> | <i>6,396</i> | <i>5,050</i> | <i>26.7</i> |
| Pre provision profits | 6,412 | 5,119 | 25.3 | 6,142 | 4.4 | 23,933 | 18,714 | 27.9 |
| Provisions and contingencies | 1,310 | 859 | 52.4 | 1,248 | 4.9 | 4,631 | 3,190 | 45.2 |
| PBT | 5,102 | 4,260 | 19.8 | 4,894 | 4.3 | 19,302 | 15,525 | 24.3 |
| Provision for Tax | 1,281 | 1,103 | 16.1 | 1,257 | 1.9 | 4,858 | 4,020 | 20.9 |
| PAT | 3,825 | 3,156 | 21.2 | 3,639 | 5.1 | 14,451 | 11,505 | 25.6 |
| Operational Performance | | | | | | | | |
| AUM | 3,30,615 | 2,47,379 | 33.6 | 3,10,969 | 6.3 | 3,30,615 | 2,47,379 | 33.6 |
| Loans Booked (Mn) | 7.9 | 7.6 | 3.6 | 9.9 | -20.1 | 36.2 | 29.6 | 3.6 |
| New customer additions (Mn) | 3.2 | 3.1 | 4.5 | 3.9 | -16.1 | 14.5 | 11.5 | 4.5 |
| Customer Franchise (Mn) | 83.6 | 69.1 | 21.1 | 80.4 | 4.0 | 83.6 | 69.1 | 21.1 |
| Cross-sell franchise (Mn) | 50.8 | 40.6 | 25.1 | 49.3 | 3.0 | 50.8 | 40.6 | 25.1 |
| Asset Quality | | | | | | | | |
| Gross NPA (%) | 0.9 | 0.9 | -9bps | 1.0 | -10bps | 0.9 | 0.9 | -9bps |
| Net NPA (%) | 0.4 | 0.3 | 3bps | 0.3 | 3bps | 0.4 | 0.3 | 3bps |
| PCR (%) | 56.5 | 63.8 | -734bps | 64.2 | -774bps | 56.5 | 63.8 | -734bps |
| Cost-to-Income Ratio | | | | | | | | |
| Cost-to-Income Ratio | 34.0 | 34.1 | -13bps | 33.9 | 6bps | 35.1 | 34.6 | 47bps |
| Spread Analysis | | | | | | | | |
| Yields on Advances (%) | 16.5 | 16.5 | 2bps | 16.7 | -17bps | 16.7 | 16.2 | 44bps |
| Yields -incl. fee income (%) | 18.1 | 18.4 | -24bps | 18.4 | -23bps | 18.5 | 18.2 | 28bps |
| CoF (%) | 7.9 | 7.5 | 38bps | 7.8 | 10bps | 7.7 | 7.0 | 68bps |
| Spreads (%) | 8.6 | 9.0 | -36bps | 8.9 | -27bps | 8.9 | 9.2 | -24bps |
| NIM (calc. % of AAuM) | 10.0 | 10.5 | -47bps | 10.2 | -19bps | 10.2 | 10.5 | -29bps |

Source: Company, Axis Securities

Financials (Consolidated)

| Profit & Loss | | | | | (Rs Cr) |
|------------------------------|---------------|---------------|---------------|---------------|----------------|
| Y/E March | FY23 | FY24P | FY25E | FY26E | |
| Net Interest Income | 22,990 | 29,582 | 37,101 | 46,576 | |
| Non-Interest Income | 5,856 | 6,676 | 7,855 | 9,344 | |
| Total Income | 28,846 | 36,258 | 44,956 | 55,920 | |
| Operating Expenses | 10,130 | 12,325 | 15,113 | 18,540 | |
| Pre-Provision Profits | 18,716 | 23,933 | 29,843 | 37,380 | |
| Provisions | 3,191 | 4,638 | 6,488 | 8,201 | |
| PBT | 15,525 | 19,294 | 23,355 | 29,179 | |
| Tax | 4,020 | 4,858 | 5,881 | 7,347 | |
| Profit After Tax | 11,508 | 14,451 | 17,492 | 21,853 | |

Source: Company, Axis Securities

| Balance Sheet | | | | | (Rs Cr) |
|--------------------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Y/E March | FY23 | FY24P | FY25E | FY26E | |
| Equity Share Capital | 121 | 124 | 124 | 124 | |
| Reserves & Surplus | 54,251 | 76,572 | 92,315 | 1,11,982 | |
| Net Worth | 54,372 | 76,695 | 92,438 | 1,12,106 | |
| Borrowings | 2,16,690 | 2,93,346 | 3,75,376 | 4,74,968 | |
| -- O/W is Deposits | 44,666 | 60,151 | 80,350 | 1,06,417 | |
| Other Liabilities | 4,166 | 5,700 | 7,207 | 9,044 | |
| Total Liabilities | 2,75,229 | 3,75,742 | 4,75,021 | 5,96,118 | |
| Cash & Bank balances | 4,305 | 10,624 | 12,244 | 15,365 | |
| Investments | 22,752 | 30,881 | 38,090 | 47,800 | |
| Loans | 2,42,269 | 3,26,293 | 4,14,645 | 5,22,024 | |
| Fixed Assets & Others | 5,903 | 7,944 | 10,043 | 10,929 | |
| Total Assets | 2,75,229 | 3,75,742 | 4,75,021 | 5,96,118 | |

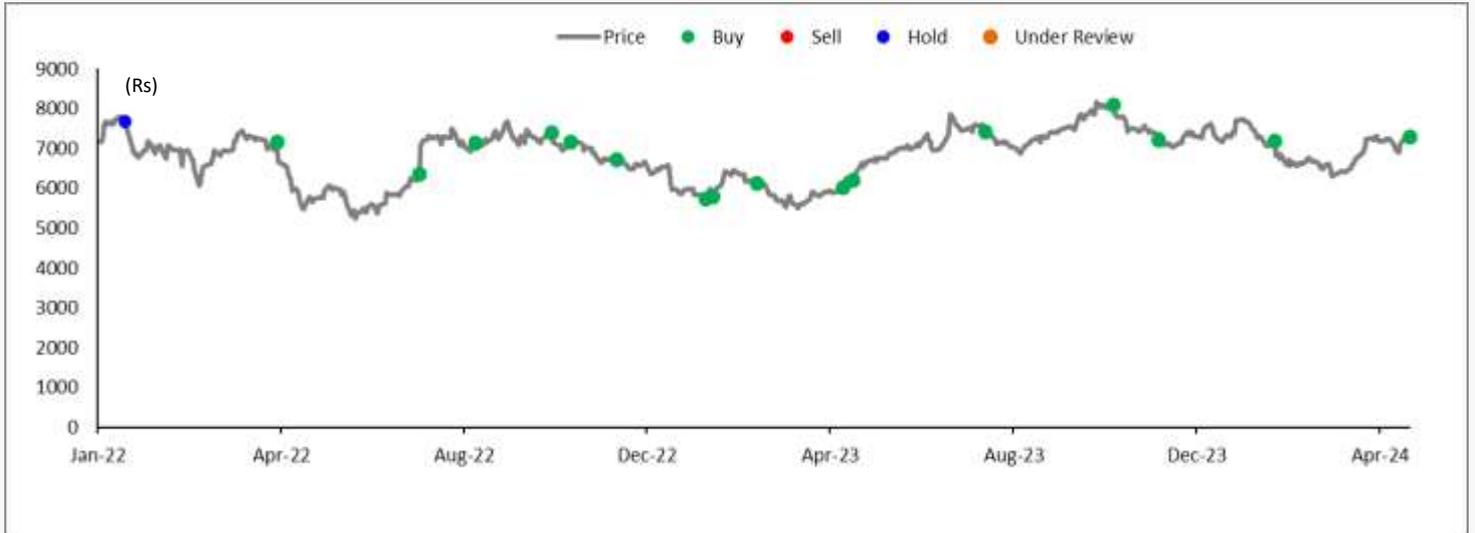
Source: Company, Axis Securities

Ratio Analysis
(%)

| Y/E March | FY23 | FY24P | FY25E | FY26E |
|---|-------|---------|---------|---------|
| VALUATION RATIOS | | | | |
| EPS | 190.4 | 233.8 | 283.0 | 353.6 |
| Earnings Growth (%) | 63.4 | 22.8 | 21.0 | 24.9 |
| BVPS | 899.5 | 1,241.0 | 1,495.8 | 1,814.0 |
| Adj. BVPS | 886.5 | 1,221.2 | 1,466.7 | 1,778.4 |
| RoAA (%) | 4.8 | 4.4 | 4.1 | 4.1 |
| ROAE (%) | 23.7 | 22.0 | 20.7 | 21.3 |
| P/E (x) | 38.3 | 31.2 | 25.8 | 20.6 |
| P/ABV (x) | 8.2 | 6.0 | 5.0 | 4.1 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.4 | 0.5 |
| PROFITABILITY & OPERATING EFFICIENCY | | | | |
| NIM – calc. on IEA (%) | 9.6 | 9.3 | 8.9 | 8.9 |
| Cost/Avg. Asset Ratio (%) | 4.2 | 3.8 | 3.6 | 3.5 |
| Cost-Income Ratio (%) | 35.1 | 34.0 | 33.6 | 33.2 |
| BALANCE SHEET STRUCTURE RATIOS | | | | |
| Loan Growth (%) | 26.6 | 34.7 | 27.1 | 25.9 |
| Borrowing Growth (%) | 31.1 | 35.4 | 28.0 | 26.5 |
| Equity/Loans (%) | 22.4 | 23.5 | 22.3 | 21.5 |
| Equity/Assets (%) | 19.8 | 20.4 | 19.5 | 18.8 |
| Total Capital Adequacy Ratio (CAR) | 25.0 | 22.5 | 21.2 | 19.8 |
| ASSET QUALITY | | | | |
| Gross NPLs (%) | 0.9 | 0.9 | 1.0 | 1.0 |
| Net NPLs (%) | 0.3 | 0.4 | 0.4 | 0.4 |
| Coverage Ratio (%) | 62.4 | 55.2 | 55.0 | 55.0 |
| Provision/Avg. AUM (%) | 1.5 | 1.6 | 1.7 | 1.7 |
| ROAA TREE (on Total Assets) | | | | |
| Net Interest Income | 9.4 | 9.1 | 8.7 | 8.7 |
| Non-Interest Income | 2.4 | 2.1 | 1.8 | 1.7 |
| Operating Cost | 4.2 | 3.8 | 3.6 | 3.5 |
| Provisions | 1.3 | 1.4 | 1.5 | 1.5 |
| Tax | 1.6 | 1.5 | 1.4 | 1.4 |
| ROAA | 4.8 | 4.4 | 4.1 | 4.1 |
| Leverage (x) | 5.0 | 5.0 | 5.0 | 5.2 |
| ROAE | 23.7 | 22.0 | 20.7 | 21.3 |

Source: Company, Axis Securities

Bajaj Finance Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-------|----------------|
| 19-Jan-22 | HOLD | 8,190 | Result Update |
| 27-Apr-22 | BUY | 8,200 | Result Update |
| 28-Jul-22 | BUY | 8,250 | Result Update |
| 21-Oct-22 | BUY | 8,600 | Result Update |
| 01-Nov-22 | BUY | 8,600 | Top Picks |
| 01-Dec-22 | BUY | 8,600 | Top Picks |
| 01-Jan-23 | BUY | 8,600 | Top Picks |
| 30-Jan-23 | BUY | 7,400 | Result Update |
| 01-Feb-23 | BUY | 7,400 | Top Picks |
| 01-Mar-23 | BUY | 7,400 | Top Picks |
| 01-Apr-23 | BUY | 7,400 | Top Picks |
| 27-Apr-23 | BUY | 7,250 | Result Update |
| 27-Jul-23 | BUY | 8,800 | Result Update |
| 18-Oct-23 | BUY | 9,425 | Result Update |
| 16-Nov-23 | BUY | 9,425 | Company Update |
| 30-Jan-24 | BUY | 8,810 | Result Update |
| 26-Apr-24 | BUY | 8,600 | Result Update |

Source: Axis Securities

About the Analyst**Analyst:** Dnyanada Vaidya**Contact Details:** dnyanada.vaidya@axissecurities.in**Sector:** BFSI**Analyst Bio:** Dnyanada Vaidya is MMS (Finance) with over 6 years of research experience in the Banking/NBFC sector.**About the Analyst****Analyst:** Prathamesh Sawant, CFA**Contact Details:** prathamesh.sawant@axissecurities.in**Sector:** BFSI**Analyst Bio:** Prathamesh Sawant is MBA (Finance) and CFA Charter holder with over 7 years of experience in Equity Research & Valuation.**Disclosures:**

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