

Bajaj Finance Ltd.



Bajaj Finance Ltd.

Continues unabated

CMP INR 2067	Target INR 2346	Potential Upside 14%	Market Cap (INR Mn) 1,194,805	Recommendation ACCUMULATE	Sector BFSI
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Result highlights

AUM at INR 840 bn is up 40% yoy, led by 44% growth in consumer segment, 22% growth in SME, 48% growth in commercial and ~100% growth in the rural business. PAT at INR 7.2 bn was above our expectations and grew 60.5% yoy. NII at INR 23.7 bn was up 403% yoy, on back of robust credit growth coupled with healthy spreads. Opex at INR 9.9 bn was slightly elevated, marginally above the management's guidance, on account of continued investments in technology and geographical branch expansion. Asset quality improved during the quarter with GNPA (30 dpd) at 1.48%, down 19 bps qoq and NNPA's at 0.38%, down 15 bps qoq. Despite the improvement, the company has gone in for increased stress coverage with PCR at 74.3%. Provisioning during the quarter was INR 2.7 bn translating into credit costs of 1.3% for the quarter, +4 bps qoq. Despite some of the deteriorating macros, the company has guided for a relatively safer asset quality going ahead. The company would also continue to invest in technology and geographical expansion going ahead which could keep opex ratios slightly elevated. Bajaj Housing Finance, a 100% sub of Bajaj Finance, reported an AUM of 35.9 bn. The management expects the housing finance sub to contribute significantly going ahead.

MARKET DATA

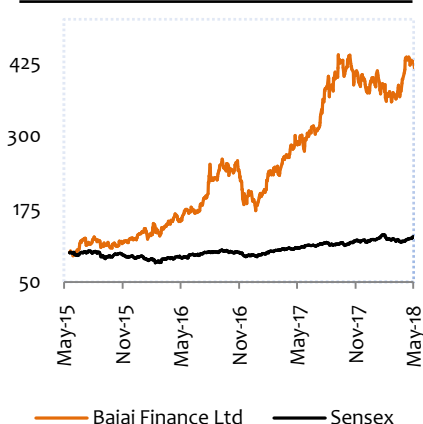
Shares outs (Mn)	577
EquityCap (INR Mn)	1156
Mkt Cap (INR Mn)	1194805
52 Wk H/L (INR)	2089/1190
Volume Avg (3m K)	1050.8
Face Value (INR)	2
Bloomberg Code	BAF IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	31,335	43,666	61,736	88,077	1,18,623	1,58,649
Pre-provision profits	17,620	25,074	36,355	51,414	70,325	95,351
Net Profit	9,183	12,785	18,363	26,741	37,829	51,257
EPS (Rs.)	183	237	33	46	65	89
BVPS (Rs.)	957	1,360	175	286	346	427
P/E (x)	29.8	33.7	41.1	34.4	24.3	17.9
P/BV (x)	5.7	5.9	7.9	5.6	4.6	3.7

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	35149
NIFTY	10683

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	55.14	55.28	55.26
FII's	19.46	20.41	21.17
DII's	8.98	8.13	6.95
Others	16.43	16.19	16.62
Total	100	100	100

SME reviving, BHFL on a good trajectory

At INR 263.7 bn, Sme book has grown 19.4% yoy / 7.4% qoq. Since past few quarters, the management had been restricting growth in this segment, taking a cautious stance on account of lingering disturbances due to demonetisation and GST-implementation. However, with most of the visible pain behind, the management has given a positive outlook for SME lending. As per them, things have stabilized in this segment with last 2-3 months behind much better than before. SME sector lending is expected to revert to normalcy in near future. The management has guided for a much higher growth going forward. As of FY18, SME forms 31% of the total AUM compared to 37% last year.

The housing finance book now stands at INR 35.9 bn. Sticking to its earlier guidance and rationale, the management of Bajaj Finance intends to the housing finance sub (Bajaj Housing Finance Ltd.) to be run as a separate independent company with a sharper focus on building a mortgage business over the next 3-4 years. Incrementally, all mortgage business would now be booked under the BHFL. The transition (including the mortgage run-down from the existing book) could take another 2-2.5 years post which there would not be any mortgage business sitting in the parent's standalone book. The management has guided for the mortgage business to contribute to the overall balance sheet in a sizeable manner going forward. Mortgage at peak contributed 37%, which is now down to <30%.

BHFL, which became fully operational from February 2018 will be led by Mr. Atul Jain as its CEO, formerly Enterprise Risk Officer at Bajaj Finance Ltd. The company (BHFL) carries AAA/Stable rating by CRISIL and India Ratings for its long term debt and A1+ rating for its short term debt. The sub offers salaried home loans, LAP to salaried, LAP to SME, home loans to SE, developer finance and LAP/HL to rural.

Bajaj Finance is likely to invest another INR 10 bn in the BHFL during FY19.

Distribution network reflects focus on granularity

The management has reiterated its stance on granularising the portfolio in order to augment growth, reduce risk and ensure continued growth momentum for the next few years. Branches added during FY18 were 417, of which 353 were in urban locations. In terms of overall active distribution, the company has a network of >64,300 PoS against >39,600/~40,000 as of FY17 (+62% growth). Major product areas contributing to the incremental PoS are rural consumer durable stores, digital product stores, lifestyle retail stores, EMI card – retail spends stores. Going forward, the company is expected to continue its geographic expansion at 15-20% annually. With respect to the rural business specifically, the ambition is to reach 16-17 states in India which the management feels are a must.

Mobikwik update

Post making a strategic investment in Mobikwik, the company is working to digitize the entire customer franchise. Bajaj Finserv – Mobikwik wallet has 1.3 mn active users as of March 2018.

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Asset quality improves

GNPAs (90 dpd) at 1.48% stands reduced 19 bps qoq while NNPA's at 0.38% declined by 15 bps qoq. PCR has increased to ~75%, +606 bps qoq. Credit costs during the quarter were 1.3%. Segmentally, consumer GNPAs have improved by 4 bps qoq to 2.1%, SME GNPAs at 1.3% are down by 30 bps, commercial book stress is virtually nil and rural GNPAs stand at 1.2% (+8 bps qoq). Part of the asset quality improvement is on account of NPA sale under LAP/HL of INR 0.64 bn. The management is of the view that the business is very comfortably placed from asset quality perspective even if there is any deterioration in the macros. Should there be any adverse macro event, the management expects B2B/B2C/SME lending to be less impacted than the commercial business.

Segmental asset quality – GNPAs (90-dpd)	Q4FY18	Q3FY18	Q2FY18
Consumer	2.1%	2.1%	2.2%
SME	1.3%	1.6%	1.7%
Commercial	0.0%	0.0%	0.0%
Rural	1.2%	1.1%	0.8%
Total	1.5%	1.7%	1.7%

Source: Company, KRChoksey Research

Other key highlights:

- CAR stands at 24.71%. Business will not need capital for another 3 years. The management does not want to create a levered play.
- Rising rates is a risk for the company. Given their ALM, the management feels they are well positioned over the short-to-medium term.
- The company would not do business under 13-14% as that will not be justifiable for the risks taken.
- Deposit base stands at INR 75.7 bn, forming 12% of standalone borrowings.
- Customer franchise stands at 26.22 mn, +30% yoy. The company acquired 1.41 mn new customers during Q4FY18 (6.1 mn during FY18). New loans booked during the quarter were 3.78 mn, +51% yoy (15.32 mn during FY18, +52% yoy).

Valuation

Bajaj Finance has continued to deliver best-in-class performance – growth numbers and asset quality better than peers. Continued investment in technology and distribution network and efforts to digitize the franchise should yield greater dividends/benefits going forward. Tapping mortgage/housing opportunity through a dedicated vertical (BHFL) should yield better returns and be accretive to the overall entity. Bajaj Finance enjoys expertise in area of retail finance backed by a granular product mix. The company has consistently delivered industry-leading profitability. We expect ROE of 23% by FY20E. **We value the company at INR 2,346 per share based on P/B of 5.5x FY20E BVPS of INR 427. We recommend ACCUMULATE.**

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Particulars (INR Mn)					
Income Statement	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Income from operations	35,572	26,697	35,433	33.2%	0.4%
Interest expense	11,921	9,837	11,709	21.2%	1.8%
Net interest income	23,651	16,860	23,724	40.3%	-0.3%
Total income	23,651	16,860	23,724	40.3%	-0.3%
- Employee costs	3,875	2,644	3,695	46.6%	4.9%
- Depreciation	293	197	268	48.4%	9.3%
- Other operating expenses	5,752	4,258	5,531	35.1%	4.0%
Operating expenses	9,920	7,098	9,494	39.8%	4.5%
Pre-provision profit	13,731	9,762	14,230	40.7%	-3.5%
Provisions	2,739	2,865	2,468	-4.4%	11.0%
Profit before tax	10,992	6,897	11,762	59.4%	-6.5%
Tax expense	3,783	2,406	4,094	57.2%	-7.6%
Net profit	7,210	4,492	7,668	60.5%	-6.0%
AUM characteristics	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
AUM - Business segment wise					
Consumer	3,91,610	2,71,590	3,73,820	44.2%	4.8%
SME	2,63,660	2,20,820	2,45,420	19.4%	7.4%
Commercial	1,23,750	78,830	1,05,490	57.0%	17.3%
Rural	61,310	30,720	54,970	99.6%	11.5%
Total	8,40,330	6,01,960	7,79,700	39.6%	7.8%
AUM - Business segment mix					
Consumer	47%	45%	48%	1.5%	-1.3%
SME	31%	37%	31%	-5.3%	-0.1%
Commercial	15%	13%	14%	1.6%	1.2%
Rural	7%	5%	7%	2.2%	0.2%
Total	100%	100%	100%		
Operational efficiency	Q4FY18	Q4FY17	Q3FY18	Y-o-Y	Q-o-Q
Opex/NII	41.9%	42.1%	40.0%	-16 bps	193 bps
Opex/AUM	4.7%	4.7%	4.9%	1 bps	-15 bps

Source: Company, KRChoksey Research

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KEY FINANCIALS (INR Mn)						
Income Statement	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	53,818	72,934	99,773	1,34,420	1,80,113	2,42,637
Interest expense	22,483	29,269	38,037	46,343	61,490	83,988
NII	31,335	43,666	61,736	88,077	1,18,623	1,58,649
Non interest income	365	400	292	239	300	300
Operating revenues	31,700	44,066	62,027	88,316	1,18,923	1,58,949
Operating expenses	14,081	18,992	25,672	36,902	48,598	63,599
Pre-provision profits	17,620	25,074	36,355	51,414	70,325	95,351
Provisions	3,846	5,429	8,182	10,452	12,379	16,835
Profit before tax	13,774	19,646	28,173	40,962	57,947	78,516
Tax expense	4,591	6,861	9,810	14,221	20,118	27,258
Net profit	9,183	12,785	18,363	26,741	37,829	51,257

Source: Company, KRChoksey Research

Balance Sheet	FY15	FY16	FY17	FY18	FY19E	FY20E
Share capital	500	536	1,094	1,150	1,150	1,150
Reserve & Surplus	47,497	72,712	94,909	1,64,033	1,98,591	2,45,417
Shareholders' fund	47,997	73,247	96,003	1,65,183	1,99,742	2,46,567
Borrowings	2,66,546	3,70,246	4,92,495	6,15,670	8,31,155	11,22,059
Other liabilities & provisions	13,255	25,217	48,748	55,437	82,438	1,34,907
Total Liabilities	3,27,798	4,69,731	6,37,246	8,36,290	11,13,335	15,03,534
Advances	3,11,995	4,32,722	5,76,828	7,80,112	10,53,756	14,40,305
Investments	3,263	10,291	40,695	36,605	38,435	40,357
Fixed assets	2,492	2,870	3,626	4,647	5,111	5,622
Other assets	10,049	23,847	16,097	14,927	16,033	17,250
Total assets	3,27,798	4,69,731	6,37,246	8,36,290	11,13,335	15,03,534

Source: Company, KRChoksey Research

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KEY PERFORMANCE INDICATORS	FY15	FY16	FY17	FY18	FY19E	FY20E
Spread analysis						
Yield on loans (%)	18.1%	17.7%	17.5%	17.5%	17.4%	17.3%
Cost of borrowings (%)	9.7%	9.2%	8.8%	8.4%	8.5%	8.6%
Spread (%)	8.4%	8.5%	8.7%	9.1%	8.9%	8.7%
NIM (%)	10.0%	9.8%	9.5%	10.4%	10.5%	10.5%
Return ratios						
RoA	3.2%	3.2%	3.3%	3.6%	3.9%	3.9%
RoE	20.9%	21.1%	21.7%	20.5%	20.7%	23.0%
Efficiency ratios						
Cost to income ratio	47.9%	46.9%	45.9%	49.0%	48.0%	47.0%
Opex/Average assets (%)	4.9%	4.8%	4.6%	5.0%	5.0%	4.9%
Asset quality						
Gross NPAs	1.5%	1.2%	1.7%	1.5%	1.4%	1.3%
Net NPAs	0.5%	0.3%	0.4%	0.4%	0.4%	0.3%
Coverage ratio	71.0%	77.0%	74.0%	74.0%	74.0%	74.0%
Credit costs	1.4%	1.5%	1.6%	1.6%	1.4%	1.4%
Value per share data						
EPS (Rs.)	183	237	33	46	65	89
BVPS (Rs.)	957	1360	175	286	346	427
P/E (x)	29.8	33.7	41.1	34.4	24.3	17.9
P/B (x)	5.7	5.9	7.9	5.6	4.6	3.7
Earnings yield (%)	3.4%	3.0%	2.4%	2.9%	4.1%	5.6%
Growth ratios						
NII	27.5%	39.4%	41.4%	42.7%	34.7%	33.7%
PPOP	30.6%	42.3%	45.0%	41.4%	36.8%	35.6%
PAT	27.7%	39.2%	43.6%	45.6%	41.5%	35.5%
Loan book	35.8%	38.7%	33.3%	35.2%	35.1%	36.7%

Source: Company, KRChoksey Research

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Bajaj Finance Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-May-18	2,067	2,346	ACCUMULATE	Buy	More than 15%
05-Feb-18	1,592	2,184	BUY		
17-Oct-17	1,872	2,184	BUY		
20-July-17	1,560	1,650	ACCUMULATE	Accumulate	5% – 15%
04-Feb-16	6,361	6,705	ACCUMULATE		
21-Oct-15	5,306	5,585	ACCUMULATE	Hold	0 – 5%
23-July-15	5,139	5,450	ACCUMULATE		
22-May-15	4,490	4,510	HOLD		
13-Apr-15	4,522	4,025	SELL	Reduce	-5% – 0
15-Jan-15	3,766	3,685	REDUCE		
7-Jan-15	3,426	3,086	SELL	Sell	Less than – 5%
16-Oct-14	2,730	2,750	HOLD		
8-Oct-14	2,684	2,750	HOLD		
17-Jul-14	2,184	2,404	ACCUMULATE		

ANALYST CERTIFICATION:

We, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Anushka Chhajed (B.com & CA), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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