

Steady and strong performance, unfettered in the crisis; Maintain Accumulate

BAF reported a strong quarter, with a PAT growth of 54% YoY, supported by a robust 41% growth in AUM and cost efficiency, despite higher credit cost. Credit costs rose, on account of higher provisions in the IL&FS account and seasoning of its loan books. This was implied by a higher provision in stage 1 and 2 assets. In addition, GNPA increased 1.55% higher by 6 bps QoQ, of which IL&FS were contributed 21 bps. With a strong and well tested business model, it is poised to benefit from scale benefits and pricing power; we expect an improved RoAs by 20 bps from current levels.

GNPA deteriorate on account of IL&FS and consumer facing rural business

The slippages in the quarter were at 272 bps at ₹ 7 bn, of which the IL&FS exposure was ₹ 2.35 bn (90 bps). The company made provision for ₹ 540 mn on the account, contributing 21bps off 173 bps of credit costs. Overall, seasoning of the book, aided the higher provisions in stage 1 and 2 assets, with ECL cover increasing to 88 bps from 86 bps last quarter, as stage 3 cover fell to 60% from 65% last quarter. With the higher risk perception in rural, higher growth momentum, we are factoring higher provisions in early buckets at 90 bps, from the current 80 bps levels.

Loan growth robust at 41% YoY; NIMs (computed) expanded

As expected, it faced no dearth of capital in the liquidity crisis, this coupled with the festive season aided a strong AUM growth. B2B businesses strongly outpaced overall growth, with Consumer B2B growing 40% and rural B2B growing 76%. The B2C businesses grew 47% YoY, as well. We believe that the company is well placed, given its robust business model, customer strength, geographical penetration, and scale. Its dominant position and market position is unlikely to be under threat. We have factored a CAGR of 30% in AUM over FY19-21. The risk remains a weaker consumption sentiment, which is visible in weak auto numbers. However, the company presence in small ticket products, increasing penetration in other products and cross selling bodes well.

Expect RoA expansion, Maintain Accumulate

We expect healthy RoA expansion by 20 bps benefitted by cost efficiency, pricing power, a strong franchise and higher opportunities to scale. We roll over our estimates and maintain Accumulate at 5.3x FY21E P/ABV.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Interest earned	49,747	33,714	47.6	42,559	16.9
Interest expended	17,861	11,788	51.5	15,673	14.0
Net interest income	31,886	21,927	45.4	26,886	18.6
Other income	206	27	667.2	404	(49.1)
Total Net Income	32,091	21,953	46.2	27,290	17.6
Operating expenses	11,197	8,534	31.2	9,799	14.3
Pre-provision profits	20,894	13,420	55.7	17,491	19.5
Provisions	4,538	2,782	63.1	3,146	44.3
Tax expense	5,761	3,737	54.2	5,110	12.7
Extraordinary gains	0	0		0	(100.0)
Reported Net Profit	10,596	6,900	53.6	9,235	14.7
			(bps)		(bps)
Advances	41.0			37.9	308
NIM (%)	0.0	0.0	0	0.0	0
RoA	4.0	4.0	0	4.0	0
RoE	23.6	18.8	480	21.6	200
Gross NPA (%)	1.6	1.7	(12)	1.4	13

CMP	₹ 2,516
Target / Upside	₹ 2,900 / 15%
BSE Sensex	35,593
NSE Nifty	10,652

Scrip Details

Equity / FV	₹ 1,156mn / ₹ 2
Market Cap	₹ 1,450bn
	US\$ 20bn
52-week High/Low	₹ 2,994/₹ 1,511
Avg. Volume (no)	1,590,610
NSE Symbol	BAJFINANCE
Bloomberg Code	BAF IN

Shareholding Pattern Dec'18(%)

Promoters	55.2
MF/Banks/FIs	8.2
FIIIs	20.1
Public / Others	16.1

Valuation (x)

	FY19E	FY20E	FY21E
P/E	35.7	26.1	20.1
P/ABV	7.4	5.8	4.6
ROAA	3.9	4.0	4.1
ROAE	22.3	24.5	25.3

Estimates (₹ mn)

	FY19E	FY20E	FY21E
NII	107,573	144,891	190,976
PPOP	72,051	98,188	127,028
PAT	40,559	55,387	72,070
Adj BV	342.1	430.3	542.7

Analyst: Hemali Dhame

Tel: +91 22 40969724

E-mail: hemalid@dolatcapital.com

Associate: Pawan Rathore

Tel: +91 22 40969714

E-mail: pawanr@dolatcapital.com

Exhibit 1: Quarterly Data

Particulars	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
AUM	779,700	840,330	933,140	1,002,170	1,042,257
YoY (%)	35.4	39.6	35.5	37.9	41.0
AUM mix (%)					
Consumer Finance	47.9	46.6	39.1	38.7	42.4
SME Finance	31.5	31.4	40.9	42.1	41.3
Commercial Finance	13.5	14.7	12.9	11.7	11.4
Rural Finance	7.1	7.3	7.2	7.4	8.5
Borrowing mix YoY (%)					
Banks	32.0	31.0	30.0	34.0	32.0
NCDs	46.0	43.0	36.0	35.0	36.0
Tier II Debt	7.0	6.0	6.0	5.0	5.0
FDs	11.0	12.0	14.0	15.0	14.0
CPs	3.0	6.0	12.0	9.0	11.0
CBLO	1.0	2.0	2.0	2.0	1.0
Contribution Margins (%)					
Yield on assets	17.9	18.9	17.8	16.1	0.0
Cost of Funds	8.5	8.3	8.5	8.9	9.2
Spreads	9.4	10.7	9.3	7.2	(9.2)
Cost to Income	43.3	41.8	37.1	36.4	35.1
NIMs	11.6	12.8	11.6	10.2	11.5
Asset Quality and capital ratios (%)					
GNPA (Stage 3 assets)	1.7	1.5	1.4	1.4	1.6
NNPA	0.5	0.4	-	0.5	0.6
ROE	18.8	20.5	24.0	21.6	23.6
ROA	4.0	3.9	4.8	4.0	4.0
Credit quality composition					
CD portfolio					
Bkt 0	98.83	98.91	99.04	98.91	98.96
30+	0.69	0.65	0.53	0.62	0.59
2W/3W					
Bkt 0	87.85	88.76	87.6	88.32	89.68
30+	6.21	5.51	5.96	5.69	5.04
Lifestyle					
Bkt 0	98.63	98.66	98.59	98.73	98.77
30+	0.75	0.77	0.8	0.67	0.59
Digital product finance					
Bkt 0	98.86	98.49	98.47	98.72	98.81
30+	0.6	0.88	0.89	0.74	0.7
Personal loan cross sell					
Bkt 0	97.46	97.62	97.64	97.69	97.81
30+	1.36	1.27	0.84	1.22	1.2
Salaried personal loans					
Bkt 0	99.63	99.7	99.66	99.68	99.7
30+	0.27	0.22	0.22	0.24	0.23
Business loan					
Bkt 0	98.55	98.68	98.76	98.76	98.82
30+	0.98	0.95	0.84	0.85	0.83
LAP					
Bkt 0	98.27	99.16	99.27	99.16	96.95
30+	1.57	0.8	0.66	0.81	2.97
Home loans					
Bkt 0	98.96	99.48	99.49	99.4	99.54
30+	0.8	0.21	0.47	0.43	0.32
Rural lending					
Bkt 0	99.17	99.11	99.07	98.97	99.1
30+	0.57	0.59	0.61	0.66	0.66

Source: DART

Exhibit 2: Dupont analysis as a % of average AUM

Particulars	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Income from operations	17.9	18.9	17.8	17.6	18.9
Interest Expended	6.3	6.1	6.2	6.5	6.8
Net Interest Income	11.6	12.8	11.6	11.1	12.1
Other Income	0.0	0.1	0.0	0.2	0.1
Staff Expenses	2.1	1.9	2.0	1.9	1.9
Other operating expenses	5.0	5.4	4.3	4.1	4.3
Provision & Contingencies	1.5	1.3	1.5	1.3	1.7
Adjusted Profits	4.0	3.9	4.8	4.0	4.0
Leverage	4.7	5.3	5.0	5.4	5.9
ROE	18.8	20.5	24.0	21.6	23.6

Source: DART

Profit and Loss Account (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Interest Income	123,366	177,114	237,816	309,442
Interest expenses	46,343	69,540	93,023	118,874
Net interest income	77,022	107,573	144,793	190,568
Other incomes	11,294	14,369	16,828	19,894
Total expenses	36,901	49,891	63,530	83,842
- Employee cost	14,196	17,492	22,337	28,223
- Other	22,705	32,399	41,193	55,618
Pre provisioning profit	51,415	72,051	98,091	126,620
Provisions	10,452	9,202	12,977	16,152
Profit before taxes	40,963	62,849	85,114	110,468
Tax provision	14,221	22,290	29,790	38,664
Profit after tax	26,742	40,559	55,324	71,804
Adjusted profit	26,742	40,559	55,324	71,804

Balance Sheet (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	1,150	1,156	1,156	1,156
Reserves & Surplus	161,523	199,209	250,371	316,628
Minority Interest	0	0	0	0
Net worth	162,673	200,364	251,527	317,784
Borrowings	644,814	923,928	1,174,284	1,502,113
- Deposits	0	0	0	0
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	60,757	81,891	118,025	172,200
Total Liabilities	868,243	1,206,184	1,543,836	1,992,097
Application of Funds				
Cash and balances with RBI	3,395	5,450	2,984	3,232
Investments	31,460	53,098	55,175	57,427
Advances	816,001	1,127,911	1,463,491	1,906,099
Fixed assets	4,703	4,284	3,936	3,535
Other current assets, loans and advances	12,685	15,440	18,251	21,803
Total Assets	868,243	1,206,184	1,543,836	1,992,097

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Yield on advances	17.1	17.5	17.5	17.4
Yields on interest earning assets	17.3	17.9	18.1	18.2
Yield on investments	0.0	0.0	0.0	0.0
Costs of funds	8.1	8.9	8.9	8.9
Cost of deposits	0.0	0.0	0.0	0.0
NIMs	10.7	10.6	10.6	10.7
(B) Asset quality and capital ratios (%)				
GNPA	1.4	1.4	1.4	1.5
NNPA	0.4	0.4	0.3	0.3
PCR	74.5	74.5	78.9	77.6
Slippages	1.1	0.9	0.8	0.8
NNPA to NW	2.3	2.2	1.9	2.3
CASA	0.0	16.8	16.2	15.9
CAR	24.7	21.9	20.1	18.9
Tier 1	19.7	0.0	0.0	0.0
Credit - Deposit	0.0	0.0	0.0	0.0
(C) Dupont as a percentage of average assets				
Interest income	16.4	17.1	17.3	17.5
Interest expenses	6.2	6.7	6.8	6.7
Net interest income	10.2	10.4	10.5	10.8
Non interest Income	1.5	1.4	1.2	1.1
Total expenses	4.9	4.8	4.6	4.7
- cost to income	41.8	40.9	39.3	39.8
Provisions	1.4	0.9	0.9	0.9
Tax	1.9	2.1	2.2	2.2
RoA	3.6	3.9	4.0	4.1
Leverage	4.0	4.6	4.7	4.7
RoE	20.7	22.3	24.5	25.2
RoRwa	3.0	3.6	3.8	3.8
(D) Measures of Investments				
EPS - adjusted	46.5	70.5	96.2	124.8
BV	282.8	346.7	435.2	549.8
ABV	279.4	342.1	430.2	542.2
DPS	4.0	4.0	6.0	8.0
Dividend payout ratio	10.6	6.9	7.6	7.8
(E) Growth Ratios (%)				
Net interest income	40.8	39.6	34.6	31.6
PPoP	41.4	40.1	36.1	29.0
Adj PAT	(72.1)	51.7	36.4	29.7
Advances	41.5	38.2	29.7	30.2
Total borrowings	30.9	43.3	27.0	27.9
Total assets	36.2	38.9	27.9	29.0
(F) Valuation Ratios				
Market Cap (₹ mn)	1,450,089	1,450,089	1,450,089	1,450,089
CMP (₹)	2516	2516	2516	2516
P/E (x)	54.1	35.7	26.1	20.1
P/BV (x)	8.9	7.3	5.8	4.6
P/ABV (x)	9.0	7.4	5.8	4.6
Div Yield (%)	0.2	0.2	0.2	0.3

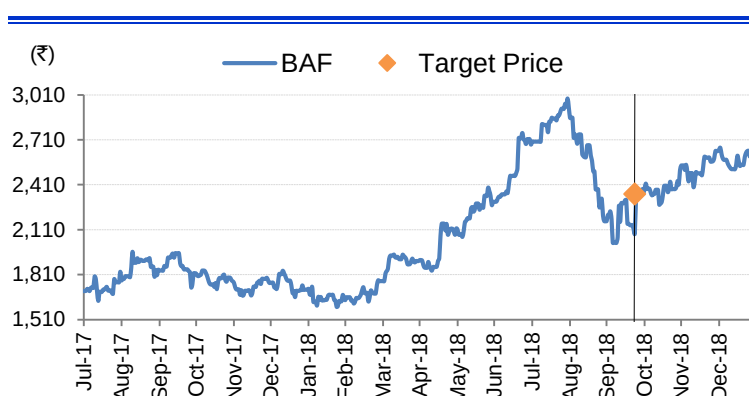
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Oct-18	Accumulate	2,350	2,083

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
