

Robust results again; no visible hiccups. Maintain Accumulate

With a PAT growth of 57% YoY, Bajaj Finance witnessed another highly commendable quarter. The AUM grew 41% YoY, with secular and granular growth in key businesses. It appears to have gained market share in autos, but remained steady in other segments. This is partly due to it being a dominant player in most other segments. While there is a risk of slowing consumption (and lower economic growth), we believe that 1) its market position; 2) inability of competitors to replicate its scale and model; 3) consolidation among smaller players, given the funding constraints; and 4) growth from expansion of customer breadth and width; is expected to help it maintain growth momentum in the short to medium term (factored CAGR 40% growth in AUM). We have increased our FY20/FY21 PAT by 5%/10% largely due to lower credit costs and improved efficiency. It is well placed to gain market share with a buoyant quality, amidst the restrained growth in the system. We maintain accumulate, implying 6.5x FY21E P/ABV.

Quality of assets improve

While the overall asset quality improved marginally (10 bps), notably the asset quality in key segments, such as mortgages (despite IL&FS), SME business, consumer auto, improved sequentially by 15, 26, and 30 bps, respectively. The stress in the rural and commercial book deteriorated by 8 bps and 60 bps (GNPA at 0.64%), respectively. With a lower provision on expected loss lower by 5 bps QoQ, the overall quality of the book improved. This is in part due to a deterioration in the collateral backed segment vs the unsecured. We do not expect any material deterioration in asset quality, given the higher share of granular loans and loans to seasoned customers, and focus on new markets.

Robust loan growth of 41% YoY; momentum is maintainable

The AUM rose 41% YoY, with new loans growing 53% YoY. The growth in rural, auto, (gained market share), and consumer B2C segments was over 50% YoY. The growth in SME and mortgage too remained at par to overall growth. This growth has been higher than our estimate of 38%. We believe with rise in granular loans, higher share of wallet, and increase in breadth and width of customers and geography, it is expected to be able to maintain 40%+ growth in AUM. Its RoA is likely to improve by 10 bps with 1) improved incremental operating efficiency (lower acquisition costs and improved efficiency, despite the steady geographic expansion), 2) with steady NIMs, as the funding costs is unlikely to trend higher on a steady asset mix.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Interest earned	53,077	34,877	52.2	49,827	6.5
Interest expended	19,132	12,273	55.9	17,857	7.1
Net interest income	33,945	22,604	50.2	31,969	6.2
Other income	8	39	(79.2)	23	(64.8)
Total Net Income	33,953	22,643	49.9	31,992	6.1
Operating expenses	11,744	8,929	31.5	11,128	5.5
Pre-provision profits	22,209	13,714	61.9	20,864	6.4
Provisions	4,093	2,272	80.1	4,508	(9.2)
Tax expense	6,356	3,966	60.2	5,761	10.3
Extraordinary gains	0	0	(100.0)	0	
Reported Net Profit	11,761	7,475	57.3	10,596	11.0
			(bps)		(bps)
Advances	43.3			41.0	236
NIM (%)	11.8	11.2	62	12.2	(38)
RoA	4.4	3.9	50	4.0	40
RoE	24.8	20.5	430	23.6	120
Gross NPA (%)	1.5	1.5	6	1.6	(1)

CMP	₹ 3,295
Target / Upside	₹ 3,700 / 12%
BSE Sensex	37,469
NSE Nifty	11,257

Scrip Details

Equity / FV	₹ 1,154mn / ₹ 2
Market Cap	₹ 1,899bn
	US\$ 27bn
52-week High/Low	₹ 3,165/₹ 1,906
Avg. Volume (no)	1,266,740
NSE Symbol	BAJFINANCE
Bloomberg Code	BAF IN

Shareholding Pattern Mar'19(%)

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

Valuation (x)

	FY19E	FY20E	FY21E
P/E	38.2	49.8	32.2
P/ABV	10.0	7.5	5.8
ROAA	4.5	4.6	4.6
ROAE	24.4	25.5	26.4

Estimates (₹ mn)

	FY19E	FY20E	FY21E
NII	112,336	156,686	205,180
PPOP	80,810	111,139	142,178
PAT	43,114	58,344	79,091
Adj BV	330.8	441.5	566.8

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Exhibit 1: Quarterly Data

Particulars	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
AUM	840,330	933,140	1,002,170	1,042,257	1,204,587
YoY (%)	39.6	35.5	37.9	41.0	41.0
AUM mix (%)					
Consumer Finance	46.6	39.1	38.7	42.4	37.3
SME Finance	31.4	40.9	42.1	41.3	37.0
Commercial Finance	14.7	12.9	11.7	11.4	12.5
Rural Finance	7.3	7.2	7.4	8.5	8.9
Borrowing mix YoY (%)					
Banks	31.0	30.0	34.0	32.0	32.0
NCDs	43.0	36.0	35.0	36.0	36.0
Tier II Debt	6.0	6.0	5.0	5.0	5.0
FDs	12.0	14.0	15.0	14.0	14.0
CPs	6.0	12.0	9.0	11.0	11.0
CBLO	2.0	2.0	2.0	1.0	1.0
Contribution Margins (%)					
Yield on assets	18.9	17.8	16.1	17.3	17.2
Cost of Funds	8.3	8.5	8.9	9.2	9.0
Spreads	10.7	9.3	7.2	8.0	8.2
Cost to Income	41.8	37.1	36.4	35.1	34.6
NIMs	12.8	11.6	10.2	11.1	11.0
Asset Quality and capital ratios (%)					
GNPA (Stage 3 assets)	1.5	1.4	1.4	1.6	1.5
NNPA	0.4	-	0.5	0.6	0.6
ROE	20.5	24.0	21.6	23.6	24.8
ROA	3.9	4.8	4.0	4.0	4.4
Credit quality composition					
CD portfolio					
Bkt 0	98.91	99.04	98.91	98.96	98.69
30+	0.65	0.53	0.62	0.59	0.75
2W/3W					
Bkt 0	88.76	87.6	88.32	89.68	90.15
30+	5.51	5.96	5.69	5.04	4.65
Lifestyle					
Bkt 0	98.66	98.59	98.73	98.77	98.49
30+	0.77	0.8	0.67	0.59	0.79
Digital product finance					
Bkt 0	98.49	98.47	98.72	98.81	98.3
30+	0.88	0.89	0.74	0.7	1.01
Personal loan cross sell					
Bkt 0	97.62	97.64	97.69	97.81	97.76
30+	1.27	0.84	1.22	1.2	1.22
Salaried personal loans					
Bkt 0	99.7	99.66	99.68	99.7	99.7
30+	0.22	0.22	0.24	0.23	0.22
Business loan					
Bkt 0	98.68	98.76	98.76	98.82	98.75
30+	0.95	0.84	0.85	0.83	0.86
LAP					
Bkt 0	99.16	99.27	99.16	96.95	97.65
30+	0.8	0.66	0.81	2.97	2.25
Home loans					
Bkt 0	99.48	99.49	99.4	99.54	99.52
30+	0.21	0.47	0.43	0.32	0.41
Rural lending					
Bkt 0	99.11	99.07	98.97	99.1	99.055
30+	0.59	0.61	0.66	0.66	0.66

Source: DART

Exhibit 2: Dupont analysis as a % of average AUM

Particulars	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Income from operations	18.9	17.8	17.6	18.9	18.4
Interest Expended	6.1	6.2	6.5	6.8	6.6
Net Interest Income	12.8	11.6	11.1	12.1	11.8
Other Income	0.1	0.0	0.2	0.1	0.0
Staff Expenses	1.9	2.0	1.9	1.9	1.8
Other operating expenses	5.4	4.3	4.1	4.3	4.1
Provision & Contingencies	1.3	1.5	1.3	1.7	1.4
Adjusted Profits	3.9	4.8	4.0	4.0	4.4
Leverage	5.3	5.0	5.4	5.9	5.6
ROE	20.5	24.0	21.6	23.6	24.8

Source: DART

Con call highlights

Consumption outlook

- Outlook for Consumption demand has been lower post the festive season. More importantly it remains patchy, i.e. the outlook can be assessed for the short term).
- The NBFC plans to continue to grow with a higher share of wallet for existing customer and Category and geography expansion
- Currently it has one of the largest customer franchise with 35 million customers.
- It believes that the share of wallet is smaller and holds large opportunity.
- It plans to increase market share with investment in digital, data mining and geography.

Credit cards

- Globally, there have been players with have multiple partners.
- Currently the partnership with RBL is satisfactory.
- To meet its long-term ambition to be one of the top five issuers, it may have one more partner.

Mortgages

- The current exposure of ₹ 174mn is expected to rundown by FY21
- The current costs are higher than the industry due to a smaller size.
- The current market share is 1.5% for the NBFC; To be a meaningful player, it believes one must have a market share of 8-10%. Since it is an ALM business, it is not in a hurry.

Market share

- The market share of BAF has increased in autos because of withdrawal of players. The market share in Bajaj auto has increased to 42-44% from 32% since September.

- However, there is no reduction in competitive intensity in its other segments and markets.

Guidance:

- AUM growth: 35% growth in AUM;
- C/I 34.5-35%
- RoA is 3.5%
- RoE14-15% 8-9x gearing is basic.

The industry:

- There has been sectorial distortion in sector and fund industry wherein the two main pillars are going through distortion.
- It needs an immediate short term action and long term reforms.

Leverage risk

- Top 8-10 cities represent higher risk coupled with a higher opportunity. For the marginal income at the marginal opex, marginal risk is higher i.e the margin of safety is lower.
- Tier 2 /top 35 cities are likely to accelerate the growth momentum. It is currently comfortable in the volume, growth and risk.

Developer finance

- Has 140 relationship (₹ 12bn) with maximum size of ₹ 450-500 mn and average ticket size of ₹ 250-300mn.
- Focused in the South and is largely a sole lender.
- Enters at the plinth level, with a lower end user price (focus on velocity) and pricing at 12.5-12.75%.

Profit and Loss Account (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Interest Income	123,366	178,576	253,638	337,603
Interest expenses	46,140	66,240	96,952	132,423
Net interest income	77,226	112,336	156,686	205,180
Other incomes	11,294	11,828	13,597	15,763
Total expenses	33,720	43,354	59,144	78,765
- Employee cost	14,196	17,492	21,337	27,223
- Other	19,524	25,862	37,807	51,542
Pre provisioning profit	54,799	80,810	111,139	142,178
Provisions	10,300	15,010	20,060	20,437
Profit before taxes	44,499	65,800	91,079	121,740
Tax provision	14,221	22,686	32,735	42,650
Profit after tax	30,278	43,114	58,344	79,091
Adjusted profit	30,278	43,114	58,344	79,091

Balance Sheet (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	1,150	1,154	1,162	1,162
Reserves & Surplus	157,022	194,483	261,538	335,536
Minority Interest	0	0	0	0
Net worth	158,172	195,636	262,699	336,698
Borrowings	648,787	877,635	1,137,327	1,605,117
- Deposits	0	0	0	0
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	9,195	11,723	40,281	58,099
Total Liabilities	816,154	1,084,995	1,440,307	1,999,914
Application of Funds				
Cash and balances with RBI	2,288	2,417	52,367	106,491
Investments	36,535	103,704	41,432	42,710
Advances	755,329	951,813	1,323,417	1,824,403
Fixed assets	7,194	9,510	8,780	8,468
Other current assets, loans and advances	14,808	17,551	14,311	17,841
Total Assets	816,154	1,084,995	1,440,307	1,999,914

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Yield on advances	17.1	17.4	17.9	17.5
Yields on interest earning assets	18.0	19.9	21.1	20.5
Yield on investments	0.0	0.0	0.0	0.0
Costs of funds	8.1	8.7	9.6	9.7
Cost of deposits	0.0	0.0	0.0	0.0
NIMs	10.7	11.0	11.1	10.7
(B) Asset quality and capital ratios (%)				
GNPA	1.5	1.9	1.7	1.4
NNPA	0.5	0.8	0.7	0.6
PCR	69.8	59.9	58.2	57.9
Slippages	1.2	1.3	0.5	0.3
NNPA to NW	2.8	4.1	4.1	3.7
CASA	0.0	0.0	0.0	0.0
CAR	24.7	21.4	19.7	17.7
Tier 1	19.7	16.3	16.0	15.0
Credit - Deposit	0.0	0.0	0.0	0.0
(C) Dupont as a percentage of average assets				
Interest income	17.0	18.8	20.1	19.6
Interest expenses	6.3	7.0	7.7	7.7
Net interest income	10.6	11.8	12.4	11.9
Non interest Income	1.6	1.2	1.1	0.9
Total expenses	4.6	4.6	4.7	4.6
- cost to income	38.1	34.9	34.7	35.6
Provisions	1.4	1.6	1.6	1.2
Tax	2.0	2.4	2.6	2.5
RoA	4.2	4.5	4.6	4.6
Leverage	4.1	4.5	4.3	4.8
RoE	23.8	24.4	25.5	26.4
RoRwa	3.4	3.8	3.8	3.7
(D) Measures of Investments				
EPS - adjusted	60.0	86.2	66.1	102.4
BV	275.5	341.5	473.8	601.2
ABV	270.9	330.8	441.5	566.8
DPS	4.0	4.0	6.0	8.0
Dividend payout ratio	8.2	5.7	11.1	9.6
(E) Growth Ratios (%)				
Net interest income	41.2	45.5	39.5	30.9
PPoP	50.7	47.5	37.5	27.9
Adj PAT	(70.8)	42.4	35.3	35.6
Advances	30.9	26.0	39.0	37.9
Total borrowings	31.7	35.3	29.6	41.1
Total assets	28.1	32.9	32.7	38.9
(F) Valuation Ratios				
Market Cap (₹ mn)	1,899,403	1,899,403	1,899,403	1,899,403
CMP (₹)	3295	3295	3295	3295
P/E (x)	55.0	38.2	49.8	32.2
P/BV (x)	12.0	9.6	7.0	5.5
P/ABV (x)	12.2	10.0	7.5	5.8
Div Yield (%)	0.1	0.1	0.2	0.2

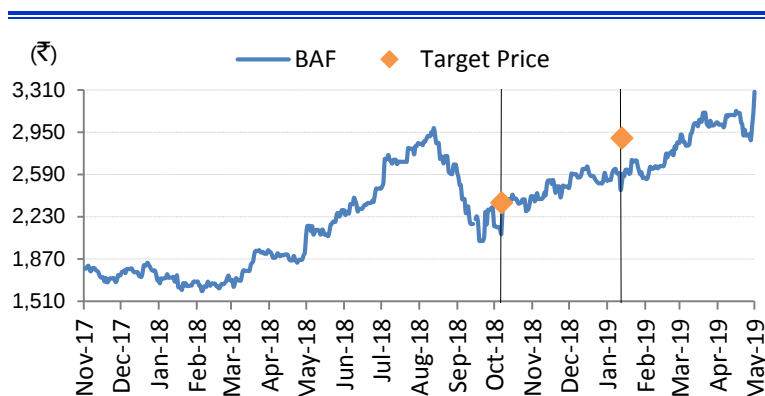
E – Estimates

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
Jan-19	Accumulate	2,900	2,516

*Price as on recommendation date

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