

Sector: Banks & Finance  
Company Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 3,998</b>	
Price Target: <b>Rs. 4,400</b>	↔
<span style="color: green;">↑</span> Upgrade <span style="color: gray;">↔</span> No change <span style="color: red;">↓</span> Downgrade	

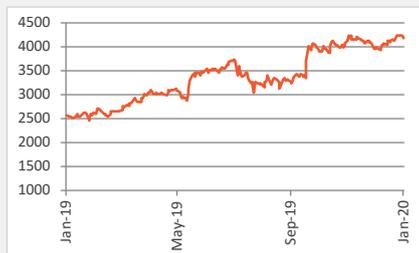
## Company details

Market cap:	Rs. 240,567 cr
52-week high/low:	Rs. 4,296/2,361
NSE volume: (No of shares)	18.2 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Sharekhan code:	BAJFINANCE
Free float: (No of shares)	24.2 cr

## Shareholding (%)

Promoters	58.3
FII	20.7
DII	7.1
Others	14.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	5.8	5.9	13.1	62.4
Relative to Sensex	3.8	-2.8	8.1	37.6

Sharekhan Research, Bloomberg

Bajaj Finance Limited's (BFL) performance update (provisional) for Q3FY2020E indicates strong customer acquisition but slower AUM growth (reflecting lacklustre festive demand, as well as cautious growth stance of the company). Assets under management (AUM) at Rs. 1,45,200 crore grew by 35% y-o-y, which although is strong, but was slower than earlier quarters. The customer base during the quarter expanded to ~40.4 million (up by 4.4% q-o-q), as BFL acquired 2.5 million new customers (1.92 million in Q2FY2020). Healthy new customer acquisition and growth in total customers indicate strong business traction. Slower AUM growth has impacted the stock's near-term performance. However, we remain constructive on the company's business strengths and expect long-term growth potential of BFL to be intact. We maintain our Buy rating with an unchanged price target (PT) of Rs. 4,400.

**Business traction slower but healthy, fund raising to help margins:** BFL's focus continues to be on quality growth and optimal credit cost in light of weak consumption demand and stress. Given the auto and consumption segments facing growth challenges, we expect AUM growth to be slower till the scenario improves. However, BFL's strong data-driven customer portfolio has attained size and presents significant opportunities. We expect near-term yields to be range-bound due to dynamic business mix and slower credit offtake. However, we expect credit cost and returns to remain strong; and expect, over a longer term, BFL to be well placed to report AUM growth of 35+%. Opex leverage gains, strong fee income growth and lower tax rate provide support to return ratios. Recent capital raising of Rs. 8,500 crore by the company will help BFL trim its leverage ratio from 6.6x (as of Q2FY2020 end) and will augment capital position and support its NIMs. Already, BFL was well capitalised (Q2 Tier 1 at 15.86%) and capital raising gives it headroom for growth. We believe the proven ability of BFL to innovate (create new product categories), leverage its large customer base and proactive risk management track record are key positives to support valuations.

## Our Call

**Valuations:** BFL is available at 5.8x its FY2021E BVPS, which we believe is reasonable. Even though the recent lacklustre festival demand has impacted AUM growth, and has impacted the near term stock performance. However, we continue to be constructive on the company and believe strong business traction (strong new customer acquisition), stable margin outlook (driven by a higher-yielding consumer durable loan book, rural financing, capital raising etc) and attractive asset quality to be key long term positives. We maintain our Buy rating on the stock with an unchanged PT of Rs. 4,400.

## Key Risks

Slowdown in consumer finance growth and worsening of economic parameters may pose challenge.

Valuation	Rs cr			
Particulars	FY18	FY19	FY20E	FY21E
Net interest income (Rs. cr)	7,567	11,146	12,852	14,698
Net profit (Rs. cr)	2,539	3,922	5,368	6,082
EPS (Rs.)	44.0	68.0	92.6	104.9
EPS growth (%)	31.1	54.5	25.3	13.3
PE (x)	68.6	48.0	43.3	38.2
Book value (Rs./share)	283	344	419	517
P/BV (x)	10.7	8.8	7.2	5.8
RoAE (%)	19.6	21.7	22.4	23.7
RoAA (%)	3.3	3.8	3.6	3.5

Source: Company; Sharekhan estimates

## About company

Bajaj Finance is one of the largest NBFCs for consumer finance in India. Bajaj Finance (BFL), erstwhile Bajaj Auto Finance, provides financing for two-wheelers, consumer durables, housing, small businesses, construction equipment and infrastructure finance. BFL undertook business and organizational restructuring in FY08 and re-defined small business and consumer financing as its key niches. The new initiatives have been delivering tangible results since FY09, with 41% and 61% CAGR in AUM and net profit respectively, over FY09-19. The Company operates through 944 urban locations and 951 rural locations, with 91,700+ distribution points. BFL continues to be the largest consumer durables lender in India. As a business entity, Bajaj Finance continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

## Investment theme

Bajaj Finance (BFL) enjoys a dominant position in the Indian Consumer finance space with strong presence in retail assets and liabilities. BFL's dominance in the market is seen in the consistent growth and margin performance maintained by the company across credit cycles and rate cycles. During last few years, Bajaj Finance has been posting consistent strong growth with high but stable NIMs and very good asset quality. The stable asset quality is indicative of the high focus on the risk management and robust credit underwriting capability of the company. We expect BFL to maintain its loan book trajectory as well as profitability and margin on back of healthy franchise expansion and increasing customer base. We opine Bajaj Finance's strong operational capabilities and efficiencies, with consistency are clear differentiators for the stock given the present times.

## Key Risks

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## Additional Data

### Key management personnel

Mr. Rahul Bajaj	Chairman
Mr. Rajeev Jain	Managing Director
Mr. Atul Jain	Chief Executive Officer (BHFL)
Mr. Anup Saha	President – Consumer Business

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Finserv Ltd	54.81
2	Republic of Singapore	3.67
3	Maharashtra Scooters Ltd	3.27
4	Axis Asset Management Co Ltd/India	1.96
5	SBI Funds Management Pvt Ltd	1.39
6	Steadview Capital Mauritius Ltd	1.26
7	BlackRock Inc	1.23
8	Capital Group Cos Inc/The	1.19
9	Vanguard Group Inc/The	1.11
10	UTI Asset Management Co Ltd	0.91

Source: Bloomberg

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