

Bajaj Finance (BAF IN)

Rating: BUY | CMP: Rs4,419 | TP: Rs5,000

January 29, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	5,000		4,665	
NII (Rs.)	216,957	274,119	206,134	262,958
% Chng.	5.3	4.2		
PPoP (Rs.)	146,958	187,460	135,028	175,288
% Chng.	8.8	6.9		
EPS (Rs.)	146.8	191.1	133.2	153.5
% Chng.	10.2	24.5		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Int.Inc. (Rs m)	118,615	168,423	216,957	274,119
Growth (%)	45.9	42.0	28.8	26.3
Op. Profit (Rs m)	76,805	111,122	146,958	187,460
PAT (Rs m)	39,950	61,434	88,311	114,943
EPS (Rs.)	69.4	104.3	146.8	191.1
Gr. (%)	55.9	50.3	40.8	30.2
Margin (%)	11.3	11.1	10.4	10.3
RoAE (%)	22.5	22.5	22.4	23.3
RoAA (%)	3.8	4.0	4.2	4.3
PE (x)	63.7	42.4	30.1	23.1
P/BV (x)	12.9	7.5	6.1	4.8
P/ABV (x)	13.4	7.7	6.3	5.0

Key Data

BJFN.BO | BAF IN

52-W High / Low	Rs.4,444 / Rs.2,372
Sensex / Nifty	41,199 / 12,130
Market Cap	Rs.2,659bn / \$ 37,312m
Shares Outstanding	602m
3M Avg. Daily Value	Rs.10178.08m

Shareholding Pattern (%)

Promoter's	56.45
Foreign	22.22
Domestic Institution	10.46
Public & Others	10.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.9	35.9	75.7
Relative	4.9	24.3	51.8

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All guns blazing

Quick pointers

- NII continues to exceed AUM traction; customer base now 40mn
- Asset quality woes largely behind; critical exposures sufficiently provided for

Meeting expectations across all key parameters barring elevated provisions for one key brokerage account, BAF continues to maintain robust earnings trajectory (PAT at Rs16.1bn grew 52%YoY/7%QoQ). NII at Rs45.2bn (PLe: Rs45.1bn) grew strong 41% YoY exceeding AUM traction of 35%YoY/7%QoQ for Q2FY20. We believe sustenance of stronger top-line is a result of BAF's customer franchise strength that is setting new normal in terms of higher customer addition per year at 8mn with total franchise expected to climb to 44mn by FY20 (40mn in Q3FY20). Better NII and operating leverage aided PPoP expansion of 44%YoY/15%QoQ to Rs30bn (PLe:Rs29.9bn). While the Co. has guided for higher credit costs at 170-180bps, we derive greater comfort in BAF's balance sheet resilience emanating predominantly from (a) maintenance of 68-70% of incremental business acquisition from existing/seasoned customer since past 9months now (b) risk averse BHFL portfolio with RoEs restricted to 13-15%, RoA 1.4% (c) aggressive provision & stable write-off policy in-line with customer behavior mapping on ECL methodology.

With structural story intact, BAF's demonstration of capabilities on quality asset and customer acquisition backed by benefits from lower tax rates and capital sufficiency (no dilution over next 3years) prompt us to upgrade our EPS estimates over FY20-22E. Resultantly, BAF remains poised to deliver 23.0%ROEs/4.3% RoAs by FY22E. Such a robust performance coming in the tough periods reinforces our confidence in the business further prompting us to upgrade the price target to Rs5,000 (earlier Rs4,668) valuing the Co. at 6.3x PABV Sep'21E. With BAF currently trading at fwd. multiple of mere ~5x, we believe a new innings has begun. REITERATE BUY.

- Unperturbed business traction:** BAF's robust 35% AUM growth was largely driven by robust captive auto business (51%YoY growth), 58% Rural B2C growth and BHFL's 44% YoY mortgage business growth. With customer addition run-rate setting new normal at 8mn per year, customer franchise strength posed to climb to 44mn by FY20. The stronghold in consumer lending, repeat customer to enable 28% AUM CAGR over FY20-22E for BAF.
- Asset quality woes behind:** Last and major of our worries w.r.t asset quality stood rightly addressed with steady Q3 performance and Mngt.'s confident strategy to tackle the few critical exposures. Auto financing remains the only portfolio in red in 3QFY20 with recovery expected in 2 to 3 quarters. Digital products too to turn green from yellow by FY20-end. Co. expects resolution emerging in the next 60 days for the beleaguered brokerage account (Rs3bn), 850mn provision in place. ILFS (Rs2.3bn) with Rs0.6bn provisions, Rs0.3bn in escrow and coffee conglomerate (Rs0.9bn) with Rs0.6bn provisions remain under control. We incorporate headwinds in NPA estimate at 1.8%, yet BAF stands poised to record industry best RoA at 4%+ and RoEs at 23%+ by FY22.

Exhibit 1: Q3FY20 Earnings summary: All round performance

Y/e March (Rs mn)	Q3FY20	Q3FY19	YoY gr.	Q2FY20	QoQ gr.
Interest Income	70,111	49,854	40.6%	63,215	10.9%
Interest Expenses	24,890	17,857	39.4%	23,234	7.1%
Net Interest Income	45,220	31,997	41.3%	39,980	13.1%
Other Income	149	67	122.8%	11	1252.7%
Total Income	45,369	32,063	41.5%	39,991	13.4%
Total Operating Expenses	15,361	11,199	37.2%	13,825	11.1%
Operating Profit (PPP)	30,008	20,864	43.8%	26,167	14.7%
Provisions & Write Offs	8,308	4,508	84.3%	5,942	39.8%
PBT	21,701	16,357	32.7%	20,224	7.3%
Tax Expense	5,560	5,761	-3.5%	5,161	7.7%
Reported Profit	16,141	10,595	52.3%	15,063	7.2%
Asset Quality					
Gross NPAs (Rs mn)	23,360	16,860	38.6%	22,130	5.6%
Net NPAs (Rs mn)	10,156	6,660	52.5%	8,880	14.4%
Gross NPA (%)	1.61%	1.55%	0.1%	1.61%	0.0%
Net NPA (%)	0.70%	0.55%	0.2%	0.65%	0.1%
NIM %	12.89%	12.45%	0.4%	12.10%	0.8%
ROE %	26.46%	48.39%	-21.9%	28.04%	-1.6%
ROA %	2.20%	2.80%	-0.6%	2.22%	0.0%
AUM (Rs mn)					
Consumer Lending	587,266	438,268	34.0%	545,736	7.6%
SME Lending	562,654	402,346	39.8%	523,262	7.5%
Commercial Lending	174,331	149,216	16.8%	174,642	-0.2%
Rural Lending	126,650	85,240	48.6%	111,690	13.4%
Total	1,450,900	1,075,070	35.0%	1,355,330	7.1%
AUM mix (%)					
Consumer Lending	40%	41%		40%	
SME Lending	39%	37%		39%	
Commercial Lending	12%	14%		13%	
Rural Lending	9%	8%		8%	
Total	100%	100%		100%	

Source: Company, PL

Exhibit 2: Core business trends intact

AUM (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Consumer B2B -Auto Finance Business	53,980	60,800	62,910	67,490	73,770	90,340	97,260	109,080	118,670	131,760
YoY gr.				-55%	37%	49%	55%	62%	61%	51%
QoQ gr.	-64%	13%	3%	7%	9%	22%	8%	12%	9%	11%
AUM % mix	7%	8%	8%	7%	8%	8%	8%	8%	9%	9%
Consumer B2B - Sales Finance Businesses	95,830	104,870	92,530	113,920	115,070	141,500	122,610	140,860	136,760	139,600
YoY gr.					20%	35%	33%	24%	19%	7%
QoQ gr.		9%	-12%	23%	1%	23%	-13%	15%	-3%	2%
AUM % mix	13%	13%	11%	12%	12%	13%	11%	11%	10%	10%
Consumer B2C Businesses	129,730	142,540	154,020	168,740	185,090	210,000	230,020	248,890	270,060	293,810
YoY gr.				43%	43%	47%	49%	47%	46%	43%
QoQ gr.	10%	10%	8%	10%	10%	13%	10%	8%	9%	9%
AUM % mix	18%	18%	19%	18%	19%	19%	20%	19%	20%	20%
Rural B2B Business		13,780	12,810	16,130	16,640	24,200	21,420	23,830	22,400	27,080
YoY gr.						76%	67%	48%	35%	21%
QoQ gr.			-7%	26%	3%	45%	-11%	11%	-6%	21%
AUM % mix	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Rural B2C Business	43,430	37,340	41,770	48,350	55,260	64,210	71,010	79,610	89,290	99,570
YoY gr.				27%	27%	72%	70%	65%	62%	58%
QoQ gr.	14%	-14%	12%	16%	14%	16%	11%	12%	12%	12%
AUM % mix	6%	5%	5%	5%	6%	6%	6%	6%	7%	7%
SME Business	100,520	101,920	114,340	120,120	133,240	141,430	157,590	163,340	179,080	187,030
YoY gr.				40%	33%	39%	38%	36%	34%	32%
QoQ gr.	17%	1%	12%	5%	11%	6%	11%	4%	10%	4%
AUM % mix	14%	13%	14%	13%	14%	13%	14%	13%	13%	13%
Securities Lending Business	56,060	58,640	67,900	70,060	64,710	61,920	63,590	90,850	71,860	65,130
YoY gr.					15%	6%	-6%	30%	11%	5%
QoQ gr.		5%	16%	3%	-8%	-4%	3%	43%	-21%	-9%
AUM % mix	8%	8%	8%	8%	7%	6%	5%	7%	5%	4%
Commercial Lending Business	29,190	34,420	41,510	49,830	52,730	56,840	56,670	58,780	62,290	65,030
YoY gr.				-45%	81%	65%	37%	18%	18%	15%
QoQ gr.	-68%	18%	21%	20%	6%	8%	0%	4%	6%	4%
AUM % mix	4%	4%	5%	5%	5%	5%	5%	5%	5%	4%
Mortgages	217,950	226,020	236,430	258,230	283,620	308,860	338,710	373,740	404,920	441,910
YoY gr.				26%	30%	37%	43%	45%	43%	44%
QoQ gr.	6%	4%	5%	9%	10%	9%	10%	10%	8%	9%
AUM % mix	30%	29%	29%	28%	29%	28%	29%	29%	30%	30%
Overall AUMs	726,690	780,330	824,220	912,870	980,130	1,099,300	1,158,880	1,288,980	1,355,330	1,450,920
YoY gr.				32%	35%	41%	41%	41%	38%	35%
QoQ gr.	5%	7%	6%	11%	7%	12%	5%	11%	5%	7%

Source: Company, PL

Exhibit 3: Formidable customer franchise

Key Data Metrics	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Total Customer Franchise	22.99	24.81	26.22	28.28	30.05	32.57	34.48	36.94	38.70	40.38
YoY gr.				30%	31%	31%	32%	31%	29%	24%
QoQ gr.	6%	8%	6%	8%	6%	8%	6%	7%	5%	4%
Total Cross sell Franchise	13.21	14.37	15.43	16.55	17.82	19.69	20.67	21.85	22.78	23.48
YoY gr.				36%	35%	37%	34%	32%	28%	19%
QoQ gr.	8%	9%	7%	7%	8%	10%	5%	6%	4%	3%
New to BAF Customers (Nos)	1,320,627	1,814,427	1,411,324	2,071,054	1,769,841	2,514,930	1,917,490	2,455,827	1,921,238	2,461,473
YoY gr.				33%	34%	39%	36%	19%	9%	-2%
QoQ gr.	-15%	37%	-22%	47%	-15%	42%	-24%	28%	-22%	28%
Credit Card - CIF	135,000	255,000	382,000	508,000	663,000	845,000	1,053,000	1,285,000	1,496,000	1,660,000
YoY gr.					391%	231%	176%	153%	126%	96%
QoQ gr.		89%	50%	33%	31%	27%	25%	22%	16%	11%
EMI Card - CIF in Mn	10.2	11.4	12.9	14.2	15.4	16.5	18.7	19.8	20	20.5
YoY gr.				45%	51%	45%	45%	39%	30%	24%
QoQ gr.	4%	12%	13%	10%	8%	7%	13%	6%	1%	2%
Wallets	0	0.47	1.3	2.2	3.3	6.5	8.3	10	11.8	13.5
YoY gr.						1283%	538%	355%	258%	108%
QoQ gr.			177%	69%	50%	97%	28%	20%	18%	14%

Source: Company, PL

Exhibit 4: Robust distribution network

Distribution network	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Overall BAF presence	1,031	1,117	1,332	1,486	1,613	1,736	1,830	1,895	1,997	2,179
YoY gr.				60%	56%	55%	37%	28%	24%	26%
QoQ gr.	11%	8%	19%	12%	9%	8%	5%	4%	5%	9%
Urban	471	529	730	793	862	867	927	944	956	986
YoY gr.				117%	83%	64%	27%	19%	11%	14%
QoQ gr.	29%	12%	38%	9%	9%	1%	7%	2%	1%	3%
% total	46%	47%	55%	53%	53%	50%	51%	50%	48%	45%
Rural	560	588	602	693	751	869	903	951	1,041	1,193
YoY gr.				24%	34%	48%	50%	37%	39%	37%
QoQ gr.	0%	5%	2%	15%	8%	16%	4%	5%	9%	15%
% total	54%	53%	45%	47%	47%	50%	49%	50%	52%	55%

Source: Company, PL

Exhibit 5: Healthy liability management

Liability profile	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Overall Borrowings (rs mn)	528,910	579,010	615,670	674,250	738,220	808,620	863,520	944,620	975,970	1,120,500
YoY gr.				25.9%	39.6%	39.7%	40.3%	40.1%	32.2%	38.6%
QoQ gr.	-1.3%	9.5%	6.3%	9.5%	9.5%	9.5%	6.8%	9.4%	3.3%	14.8%
Borrowings mix (%)										
Banks	21.2%	25.4%	25.9%	27.2%	33.7%	32.3%	34.2%	33.4%	35.0%	32.0%
NCDs	33.4%	35.9%	35.5%	33.3%	35.3%	36.1%	37.9%	35.0%	35.0%	37.0%
Tier 2 Debt	5.3%	5.3%	5.3%	5.3%	5.3%	5.0%	4.8%	4.4%	4.0%	4.0%
FD	7.5%	8.7%	10.3%	12.8%	14.9%	14.2%	15.3%	16.0%	18.0%	21.0%
CP	3.7%	2.1%	5.0%	10.6%	8.8%	11.5%	7.4%	10.2%	8.0%	2.0%
CBLO	0.6%	1.0%	1.4%	2.1%	1.9%	0.9%	0.5%	1.1%	0.0%	0.0%

Source: Company, PL

Exhibit 6: Key profitability metrics

BAF CONSOLIDATED Key Metrics/Ratio Analysis	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Total Opex to Net Interest Income	40.6%	38.9%	39.5%	37.0%	35.4%	34.9%	34.6%	35.0%	34.6%	33.9%
YoY increase in bps				10.8%	-5.2%	-4.0%	-4.9%	-2.0%	-0.8%	-1.0%
QoQ increase in bps	14.4%	-1.7%	0.6%	-2.5%	-1.6%	-0.5%	-0.3%	0.4%	-0.4%	-0.7%
Loan loss to AUM*	0.3%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%
YoY increase in bps				-0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
QoQ increase in bps	-0.1%	0.1%	-0.1%	0.1%	0.0%	0.1%	-0.1%	0.1%	0.0%	0.2%
Return on Average Assets	3.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.4%	4.0%	4.8%	4.8%
YoY increase in bps				0.8%	0.4%	0.0%	0.4%	0.0%	0.8%	0.8%
QoQ increase in bps	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%	0.4%	-0.4%	0.8%	0.0%
Return on Average Equity	20.0%	18.8%	19.2%	20.4%	21.6%	23.6%	24.8%	23.6%	28.0%	23.6%
YoY increase in bps				0.4%	1.6%	4.8%	5.6%	3.2%	6.4%	0.0%
QoQ increase in bps	0.0%	-1.2%	0.4%	1.2%	1.2%	2.0%	1.2%	-1.2%	4.4%	-4.4%

Source: Company, PL

Exhibit 7: Asset quality intact

BAF CONSOLIDATED ASSET QUALITY PROFILE	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
GNPA (Rs mn)										
Auto Finance Business	7,360	7,950	8,040	5,420	4,570	5,060	5,290	6,020	7,040	7,980
YoY gr.				-24%	-38%	-36%	-34%	11%	54%	58%
QoQ gr.	4%	8%	1%	-33%	-16%	11%	5%	14%	17%	13%
Sale Finance Business					1,470	1,330	1,580	1,960	1,910	1,560
YoY gr.									30%	17%
QoQ gr.						-10%	19%	24%	-3%	-18%
Consumer B2C Business				3,000	3,200	3,160	3,300	4,200	4,150	4,070
YoY gr.								40%	30%	29%
QoQ gr.					7%	-1%	4%	27%	-1%	-2%
Rural B2B Business						150	220	250	280	170
YoY gr.										13%
QoQ gr.							47%	14%	12%	-39%
Rural B2C Business	390	600	700	910	940	910	1,120	1,340	1,300	1,370
YoY gr.				214%	141%	52%	60%	47%	38%	51%
QoQ gr.	34%	54%	17%	30%	3%	-3%	23%	20%	-3%	5%
SME Business	4,080	3,960	5,880	2,320	2,560	2,510	2,370	2,760	2,740	2,710
YoY gr.				-41%	-37%	-37%	-60%	19%	7%	8%
QoQ gr.	5%	-3%	48%	-61%	10%	-2%	-6%	16%	-1%	-1%
Securities Lending Business										
YoY gr.										
QoQ gr.										
Commercial Lending Business	40	30	20	-	-	-	360	360	360	390
YoY gr.							1700%			
QoQ gr.	-20%	-25%	-33%	-	-	-	-	0%	0%	8%
Mortgages				1,150	1,970	3,790	3,800	4,050	4,350	5,290
YoY gr.								252%	121%	40%
QoQ gr.					71%	92%	0%	7%	7%	22%
Overall GNPA	11,870	12,540	14,640	12,800	14,710	16,910	18,040	20,940	22,130	23,540
YoY gr.				13%	24%	35%	23%	64%	50%	39%
QoQ gr.	5%	6%	17%	-13%	15%	15%	7%	16%	6%	6%

Source: Company, PL

Exhibit 8: NPA trends across key business segments

GNPA (%)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Auto Finance Business	6.1%	5.7%	5.7%	5.6%	5.4%	5.1%	5.2%	5.8%	5.7%
YoY increase in bps				-0.9%	-0.7%	-0.6%	-0.5%	0.2%	0.3%
QoQ increase in bps	-0.4%	-0.4%	0.0%	-0.1%	-0.2%	-0.3%	0.1%	0.6%	0.1%
Sale Finance Business	1.0%	1.1%	1.0%	1.1%	0.9%	1.1%	1.2%	1.1%	0.9%
YoY increase in bps				-0.1%	-0.2%	0.0%	0.1%	0.0%	0.1%
QoQ increase in bps	-0.2%	0.0%	0.0%	0.1%	-0.2%	0.2%	0.1%	-0.1%	-0.2%
Consumer B2C Business	1.8%	1.4%	1.7%	1.5%	1.5%	1.4%	1.6%	1.7%	1.3%
YoY increase in bps				-0.2%	-0.3%	0.0%	0.0%	0.2%	-0.2%
QoQ increase in bps	0.1%	-0.4%	0.3%	-0.2%	0.0%	-0.1%	0.2%	0.0%	-0.2%
Rural B2B Business	0.6%	0.9%	0.8%	1.2%	0.6%	0.9%	1.0%	0.8%	0.6%
YoY increase in bps				0.4%	0.0%	0.0%	0.2%	-0.4%	0.0%
QoQ increase in bps	-0.2%	0.3%	-0.1%	0.3%	-0.6%	0.3%	0.0%	-0.2%	-0.6%
Rural B2C Business	1.3%	1.5%	1.3%	1.4%	1.4%	1.5%	1.6%	1.4%	1.3%
YoY increase in bps				1.4%	0.1%	0.0%	0.3%	0.0%	-0.1%
QoQ increase in bps	1.3%	0.2%	-0.2%	0.1%	0.0%	0.1%	0.1%	-0.2%	-0.1%
SME Business	2.2%	1.5%	1.9%	1.5%	1.8%	1.5%	1.6%	1.9%	1.4%
YoY increase in bps				-0.4%	-0.4%	0.0%	-0.2%	0.4%	-0.3%
QoQ increase in bps	0.3%	-0.7%	0.4%	-0.4%	0.3%	-0.3%	0.2%	0.2%	-0.1%
Securities Lending Business	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
YoY increase in bps				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
QoQ increase in bps	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Lending Business	0.0%	0.6%	0.0%	0.6%	0.0%	0.6%	0.6%	0.0%	0.6%
YoY increase in bps				0.6%	0.0%	0.0%	0.6%	-0.6%	0.6%
QoQ increase in bps	0.0%	0.6%	-0.6%	0.6%	-0.6%	0.6%	0.0%	-0.6%	0.0%
Mortgages	1.1%	1.2%	0.6%	1.2%	1.4%	1.2%	1.2%	0.8%	1.4%
YoY increase in bps				-0.1%	0.3%	0.0%	0.6%	-0.4%	0.0%
QoQ increase in bps	-0.2%	0.2%	-0.7%	0.7%	0.2%	-0.2%	0.0%	-0.4%	0.2%
Overall GNPA	1.6%	1.5%	1.4%	1.6%	1.6%	1.5%	1.6%	1.5%	1.6%
YoY increase in bps				-0.1%	-0.1%	0.0%	0.2%	-0.1%	0.1%
QoQ increase in bps	-0.1%	-0.1%	-0.2%	0.2%	-0.1%	0.0%	0.1%	-0.1%	0.0%

Source: Company, PL

Exhibit 9: BHFL Business mix shaping up well with incremental focus on salaried home loans

Bajaj Housing Finance Business Profile	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
AUM (Rs mn)	140,400	175,620	217,450	257,140	300,360
QoQ gr.		25%	24%	18%	17%
Home Loan	97,230	119,010	141,520	166,420	195,700
QoQ gr.		22%	19%	18%	18%
AUM % mix	69%	68%	65%	65%	65%
LAP	21,150	27,190	25,180	30,400	35,610
QoQ gr.		29%	-7%	21%	17%
AUM % mix	15%	15%	12%	12%	12%
LRD	12,110	17,050	22,720	26,510	28,790
QoQ gr.		41%	33%	17%	9%
AUM % mix	9%	10%	10%	10%	10%
DF	5,730	7,050	10,300	13,010	16,650
QoQ gr.		23%	46%	26%	28%
AUM % mix	4%	4%	5%	5%	6%
Rural	-	-	10,830	12,900	14,860
QoQ gr.				19%	15%
AUM % mix	0%	0%	5%	5%	5%
Others (Rs mn)	4,180	5,320	6,900	7,900	8,750
QoQ gr.		27%	30%	14%	11%
AUM % mix	3%	3%	3%	3%	3%

Source: Company, PL

Exhibit 10: BHFL performance metrics – healthy earnings; business yet to normalize as transitioning underway

BHFL Key Metrics/Ratio Analysis	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
NII (Rs mn)	320	770	1,020	1,320	1,620	1,980	2,640	2,850
YoY gr.				1000%	406%	157%	159%	118%
QoQ gr.	167%	141%	32%	29%	23%	22%	33%	8%
PAT (Rs mn)	40	20	90	360	620	700	1,300	1,310
YoY gr.				-1900%	1450%	3400%	1344%	-61%
QoQ gr.	-300%	-50%	350%	300%	72%	13%	86%	1%
Total Opex to Net Interest Income	78%	91%	83%	58%	42%	41%	33%	34%
YoY increase in bps				-67%	-36%	-50%	-50%	-23%
QoQ increase in bps	-47%	13%	-8%	-25%	-16%	-1%	-8%	1%
Loan loss to AUM	0.4%	0.4%	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%
YoY increase in bps				-0.4%	-0.4%	-0.4%	0.0%	0.0%
QoQ increase in bps	0.0%	0.0%	-0.4%	-0.1%	0.0%	0.0%	0.1%	0.0%
RoE	0.4%	0.0%	0.1%	1.2%	1.6%	1.6%	0.6%	0.5%
YoY increase in bps				2%	1%	2%	1%	0%
QoQ increase in bps	1%	0%	0%	1%	0%	0%	-1%	0%
RoA	1.6%	0.4%	0.5%	5.6%	8.0%	7.6%	3.4%	3.3%
YoY increase in bps				8%	6%	7%	3%	2%
QoQ increase in bps	4%	-1%	0%	5%	2%	0%	-4%	0%

Source: Company, PL

Exhibit 11: Stable asset quality for BHFL

BHFL ASSET QUALITY	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Gross Stage 1 & 2 assets	72,600	107,460	140,610	174,350	206,010	234,810	265,320
YoY gr.					184%	119%	89%
QoQ gr.		48%	31%	24%	18%	14%	13%
Gross Stage 1 & 2 assets % AUM	100.00%	99.98%	99.97%	99.95%	99.94%	99.94%	99.93%
YoY increase in bps					-0.06%	-0.04%	-0.04%
QoQ increase in bps		-0.02%	-0.01%	-0.02%	-0.01%	0.00%	-0.01%
Gross Stage 3 assets	3	23	45	95	131	133	199
YoY gr.					5140%	478%	342%
QoQ gr.		820%	96%	111%	38%	2%	50%
Gross Stage 3 assets % AUM	0.00%	0.02%	0.03%	0.05%	0.06%	0.06%	0.07%
YoY increase in bps					0.06%	0.04%	0.04%
QoQ increase in bps		0.02%	0.01%	0.02%	0.01%	0.00%	0.01%
Coverage Ratio % Stage 3 assets	33%	23.10%	23.10%	35.40%	32.30%	45.40%	32.00%
YoY increase in bps					-0.70%	22.30%	8.90%
QoQ increase in bps		-9.90%	0.00%	12.30%	-3.10%	13.10%	-13.40%
ECL/Total Assets	0.14%	0.14%	0.15%	0.17%	0.18%	0.18%	0.19%
YoY increase in bps					0.04%	0.04%	0.04%
QoQ increase in bps		0.00%	0.01%	0.02%	0.01%	0.00%	0.01%

Source: Company, PL

Conference Call Highlights

Credit Cost: Additional Rs1bn of provisions were provided this quarter on account on one broker account (0.9bn) and coffee conglomerate account (Rs0.15bn). These should be largely addressed by FY20-end. As far as IL&FS is concerned company stand over collateralised, another should be resolved in upcoming 30 days. Credit costs to reduce in upcoming quarters from current high order of 170-180bps.

Customers: Salaried book customer base stood quite steady than the self-employed ones in terms of credit risks. The company commits to add 7-8 million customers by FY20-end

Consumer Finance: 30% of the floor sales across any store in country stands financed by Bajaj Finance. Average search growth rate for Consumer electronic products on internet stood at 51% which declined to 6% this year indicative of weak customer sentiments. Despite this, the share of Bajaj Finance stood steady across retailers and wholesalers.

Auto Finance business: Being a captive financier, BAF maintains dominant share of sales at POS of Bajaj Auto ahead of banks and peers. The only red portfolio of auto finance is expected to revive 2 quarters hence.

Exhibit 12: Low tax rates and healthy earnings visibility lead to upgrades

(Rs mn)	Old			Revised			Change in Estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income	158,845	199,383	257,320	168,423	216,957	274,119	6%	9%	7%
Operating Profit	103,155	132,565	174,965	111,122	146,958	187,460	8%	11%	7%
Net Profit	58,036	78,136	91,923	61,434	88,311	114,943	6%	13%	25%
EPS (Rs)	98.8	130.7	153.8	102.1	147	191	3%	12%	24%
Price Target (Rs)		4,668			5,000			7%	
Reco		BUY			BUY				

Source: PL

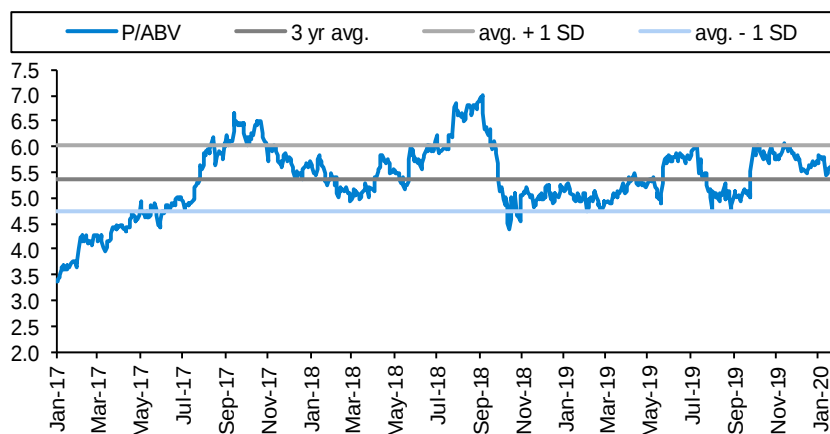
Exhibit 13: Target price increased to Rs5,000 on better earnings visibility

PT calculation and upside

Fair price - EVA	3,614
Fair price - P/ABV	6,385
Average of the two	5,000
Target P/ABV	6.3
Target P/E	29.6
Current price, Rs	4419
Upside (%)	13%
Dividend yield (%)	1%
Total return (%)	14%

Source: PL

Exhibit 14: BAF trades now at ~5x forward multiple, BUY



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Int. Inc. / Opt. Inc.	184,851	267,648	356,604	452,644
Interest Expenses	66,236	99,225	139,646	178,524
Net interest income	118,615	168,423	216,957	274,119
Growth(%)	45.9	42.0	28.8	26.3
Non-interest income	167	380	1,573	3,505
Growth(%)	34.1	128.3	313.4	122.8
Net operating income	118,782	168,803	218,530	277,624
Expenditures				
Employees	19,409	26,698	33,089	40,708
Other Expenses	21,126	28,145	34,833	44,264
Depreciation	1,442	2,839	3,651	5,192
Operating Expenses	41,977	57,681	71,573	90,164
PPP	76,805	111,122	146,958	187,460
Growth(%)	57.6	44.7	32.2	27.6
Provisions	15,014	26,256	29,021	33,956
Profit Before Tax	61,792	84,865	117,936	153,503
Tax	21,842	23,431	29,626	38,560
Effective Tax rate(%)	35.3	27.6	25.1	25.1
PAT	39,950	61,434	88,311	114,943
Growth(%)	60.0	53.8	43.7	30.2

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Source of funds				
Equity	1,154	1,203	1,203	1,203
Reserves and Surplus	195,817	348,170	436,481	548,094
Networth	196,970	349,373	437,684	549,297
Growth (%)	24.3	77.4	25.3	25.5
Loan funds	1,015,879	1,408,712	1,863,791	2,287,026
Growth (%)	52.6	38.7	32.3	22.7
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	29,476	41,056	59,648	136,279
Total Liabilities	1,242,325	1,799,141	2,361,123	2,972,602
Application of funds				
Net fixed assets	6,948	8,427	11,678	16,706
Advances	1,125,128	1,555,078	2,004,795	2,565,113
Growth (%)	42.2	38.2	28.9	27.9
Investments	85,990	127,034	116,873	144,599
Current Assets	3,487	41,993	91,347	130,048
Net current assets	3,487	41,993	91,347	130,048
Other Assets	20,771	66,609	136,429	116,136
Total Assets	1,242,325	1,799,141	2,361,123	2,972,602
Growth (%)	46.5	44.8	31.2	25.9
Business Mix				
AUM	1,158,888	1,555,078	2,004,795	2,565,113
Growth (%)	40.6	34.2	28.9	27.9
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY19	FY20E	FY21E	FY22E
NIM	11.3	11.1	10.4	10.3
ROAA	3.8	4.0	4.2	4.3
ROAE	22.5	22.5	22.4	23.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Int. Inc. / Operating Inc.	46,514	51,013	54,620	61,048
Income from securitization	6,563	7,000	8,594	9,062
Interest Expenses	19,132	21,134	23,234	24,890
Net Interest Income	33,945	36,879	39,980	45,220
Growth (%)	74.9	46.0	48.3	41.3
Non-Interest Income	8	70	11	149
Net Operating Income	33,953	36,949	39,991	45,369
Growth (%)	74.6	43.3	47.7	41.5
Operating expenditure	11,336	12,298	13,117	14,605
PPP	22,209	24,022	26,167	30,008
Growth (%)	39.3	118.1	111.9	84.0
Provision	4,093	5,507	5,942	8,308
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	18,116	18,514	20,224	21,701
Tax	6,356	6,562	5,161	5,560
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	35.1	35.4	25.5	25.6
PAT	11,761	11,953	15,063	16,141
Growth	57	43	63	52
AUM	1,158,880	1,288,980	1,355,330	1,450,920
YoY growth (%)	40.6	41.2	38.3	35.0
Borrowing	466,813	944,620	1,198,516	1,220,500
YoY growth (%)	(25.2)	40.1	46.4	50.9

Key Ratios

Y/e Mar	FY19	FY20E	FY21E	FY22E
CMP (Rs)	4,419	4,419	4,419	4,419
EPS (Rs)	69.4	104.3	146.8	191.1
Book value (Rs)	342.0	593.0	727.7	913.2
Adj. BV(Rs)	329.7	574.9	705.3	884.6
P/E(x)	63.7	42.4	30.1	23.1
P/BV(x)	12.9	7.5	6.1	4.8
P/ABV(x)	13.4	7.7	6.3	5.0

Asset Quality

Y/e Mar	FY19	FY20E	FY21E	FY22E
Gross NPAs(Rs m)	17,327	25,659	35,084	46,172
Net NPA(Rs m)	7,088	10,886	13,432	17,186
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	0.6	0.7	0.7	0.7
NPA coverage(%)	59.1	57.6	61.7	62.8

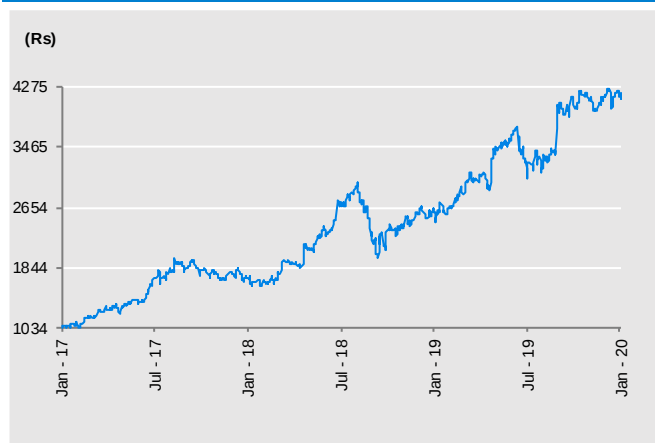
Du-Pont as a % of AUM

Y/e Mar	FY19	FY20E	FY21E	FY22E
NII	11.3	11.1	10.4	10.3
NII INCL. Securitization	11.3	11.1	10.4	10.3
Total income	11.4	11.1	10.5	10.4
Operating Expenses	4.0	3.8	3.4	3.4
PPOP	7.3	7.3	7.1	7.0
Total Provisions	1.4	1.7	1.4	1.3
RoAA	3.8	4.0	4.2	4.3
Avg. Assets/Avg. net worth	0.2	0.2	0.2	0.2
RoAE	22.5	22.5	22.4	23.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	4,665	4,193
2	22-Oct-19	BUY	4,668	4,050
3	8-Aug-19	BUY	3,860	3,266

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	4,665	4,193
2	Capital First	UR	-	495
3	Cholamandalam Investment and Finance Company	BUY	353	324
4	Edelweiss Capital	NR	-	276
5	HDFC	Accumulate	2,612	2,390
6	L&T Finance Holdings	Sell	99	118
7	LIC Housing Finance	Accumulate	409	439
8	Mahindra & Mahindra Financial Services	Reduce	373	351
9	Manappuram Finance	Accumulate	202	189
10	Shriram Transport Finance	BUY	1,441	1,160

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Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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