

Treading difficult path quite confidently...

Covid-19 posed risk led provisions to rise to ₹ 1953 crore vs. ₹ 831 crore QoQ. Around ₹1490 crore one time provision comprised 1) ₹ 129 crore of additional provision from recalibration of ECL model in Q4, 2) ₹ 900 crore of contingency provision for Covid-19 based on moratorium, bounce behaviour of customers in April, May and expected worsening in macro environment, 3) ₹ 390 crore charge off for two large identified stressed accounts. As of April 30, 2020, 27% of consolidated AUM was under moratorium. Of customers under moratorium, 68% have no recent bounce history but overall bounce rates are high currently that needs to be watched. Consolidated AUM led by housing saw growth of 27% YoY to ₹ 147150 crore. Hence, overall NII growth was strong 38% YoY to ₹ 4679 crore, higher than estimate. PAT for Q4FY20 grew lower than expectation at 19% YoY to ₹ 948 crore, lowest in several years. However, adjusted for contingency provision of ₹ 900 crore for Covid-19, PAT was up 38% YoY. Pre-provision profitability remained strong at ₹ 3232 crore up 45% YoY.

Growth was largely led by mortgages and consumer B2C segment before lockdown growing 36% YoY each to ₹ 31255 crore and ₹ 46166 crore, respectively. Rural segment, on small base continued growth at 44% YoY SME and consumer B2B moderated to 23% YoY and 17% YoY, respectively. Headline asset quality stayed stable in percentage terms, though slippages were higher QoQ at ₹1037 crore. GNPA ratio was at 1.61% flat QoQ and NNPA ratio fell 5bps to 0.65% on a consolidated basis. NPA provision coverage ratio was stable at 60%QoQ. Overall standard assets provisioning (ECL stage 1 and 2) grew to 1.59% from 1.01% QoQ led by Covid-19 provisions build-up. Overall coverage ratio was at 2.54%.

Customer franchise as of Q4FY20 rose to 42.6 million from 40.38 million QoQ. EMI card franchise was at 21.98 million cards in force (CIF).

Deposits book was at ₹ 21,427 crore, growth of 62% YoY. Its contribution to consolidated b/s was 17% as of March 31, 2020. Retail deposits contributed to ~63% to the deposits book. Capital adequacy remained strong at 25.01%

Valuation & Outlook

The cascading impact of the lockdown is seen impacting recovery and bounce rates have risen 3x to 4x than normal. In auto finance, 70% book in moratorium and overall basis 27%. Asset quality stress is leading to higher credit cost and dip in earnings. Given anticipation of further increase in credit cost and slower business growth (11% for FY21E), we cut our earnings estimates by ~19% for FY22E and, accordingly, ABV estimate has come down from ₹ 686 to ₹ 640. At 3.1x FY22E ABV, RoE moderating to ~15% and RoA under 3%, the stock looks fairly priced currently. Lower growth & higher uncertainty warrants being cautious in the near term till clarity on lockdown and moratorium behaviour emerges. Therefore, we continue to maintain **HOLD** rating and maintain our target price lower at ₹ 2000, valuing the stock at ~3x FY22E ABV. Risks to our call remains faster opening up of the country from lockdown and pickup in economic activity.

Key Financial Summary

Financial Performance	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII (₹crore)	8126	11862	16901	16255	18063	15%
PPP (₹crore)	4878	7681	11252	10551	11286	14%
PAT (₹crore)	2393	3996	5264	5082	6200	16%
ABV (₹)	247	313	533	574	640	
P/E	45	29	23	23	19	
P/ABV	8.0	6.3	3.7	3.4	3.1	
RoA	2.9	3.6	3.7	2.9	3.0	
RoE	18.7	22.4	20.2	14.7	15.6	



Particulars

Particulars	Amount
Market Capitalisation	₹118367 Crore
GNPA (Q4FY 20)	₹2363 crore
NNPA (Q4FY 20)	₹938 crore
NIM (Q4FY 20) (calculated)	12.8
52 week H/L	4923/2098
Face Value	₹2
Net worth	₹19697 Crore
DII Holding (%)	10.9
FII Holding (%)	21.2

Key Highlights

- Provided ₹ 900 crore for Covid-19 which made total provisioning to stand at ₹ 1953 crore.
- 27% of the AUM is under moratorium. Overall bounce rates remains watchful.
- Maintain HOLD recommendation with an unchanged target price of ₹ 2000

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19 /oY (%)		Q3FY20 loQ (%)		Comments
NII	4,679	4,350	3,395	37.8	4,537	3.1	Healthy traction in NII on the back of 27% YoY growth in AUM
NIM (%) (calculated)	12.8	11.9	12.0	79 bps	12.9	-13 bps	Improvement in yields and focus on retail borrowing led to improvement in margin
Staff cost	618	569	532	16.2	722	-14.4	
Other Operating Expenses	833	831	642	29.8	814	2.4	
Opex to NII(%)	31.0	32.2	34.6	-10.3	33.9	-8.4	Healthy operational performance and control on opex led to improvement in ratio to 31%
PPP	3,232	2,959	2,221	45.5	3,001	7.7	
Provision	1,954	1,200	409	377.4	831	135.1	One time provision of ₹490 crore comprised of 1) ₹129 crore from recalibration of ECL model in Q4, 2) ₹900 crore related to Covid-19, 3) ₹390 crore charge off for two large identified stressed accounts
PBT	1,278	1,759	1,812	-29.5	2,170	-41.1	
Tax Outgo	330	440	636	-48.1	556	-40.6	
PAT	948	1,319	1,177	-19.4	1,614	-41.3	Strong operational performance; higher provision impacted earning trajectory
Key Metrics							
GNPA	2,363	2,599	1,804	31.0	2,354	0.4	Slippages came higher QoQ at ₹1037 crore
NNPA	938	1,013	727	29.0	1,019	-7.9	Provision coverage ratio at 60%. Outstanding standard asset provision at ~159 bps of advances
AUM	1,47,153	1,47,600	1,15,889	27.0	1,39,561	5.4	Growth largely led by mortgages and consumer B2C segment growing 36% YoY each to ₹31255 crore & ₹46166 crore. Rural segment grew 44% YoY, SME and consumer B2B moderated to 23% YoY and 17% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	17,810	16,255	-8.7	21013	18,063	-14.0
Pre Provision Profit	11,619	10,551	-9.2	13640	11,286	-17.3
NIM(%) (calculated)	9.8	9.3	-50 bps	9.572	8.7	-85 bps
PAT	5,620.7	5,082	-9.6	7649.1	6,200	-18.9
ABV per share (₹)	595.9	574.1	-3.7	685.8	639.7	-6.7

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	36.5	25.7	11.0	22.2	20.8	22.5
Borrowings Growth	30.2	23.7	15.0	22.0	22.0	22.0
NIM Calculated (%)	11.4	12.0	9.3	8.7	9.8	9.6
Cost to income ratio	35.3	33.5	35.2	37.6	34.9	35.2
GNPA (₹crore)	1,804.0	2,275.0	4,413.6	6,381.1	5,371.0	7,766.1
NNPA (₹crore)	727.0	959.4	2,465.6	4,223.9	1,460.8	3,260.7

Source: Company, ICICI Direct Research

Conference Call Highlights

- The company is currently open for business in 1,926 urban and rural locations. It is currently open for its B2B businesses in 1,583 urban and rural locations. Other business lines are being restarted gradually
- There was no lending in B2B businesses in April 2020 on account of nationwide lockdown. B2B businesses in green and orange zones have resumed operations in May
- The ₹ 390 crore of impact is on account of two large accounts (including an infrastructure leasing company and a broker account). As no resolution happening fully provided
- The management expects rural areas to reflect the fastest signs of recovery. Mortgage would take longer as it is in top 30 cities that are in red zone
- The current focus of management is to protect the balance sheet and preserve capital. Growth does not remain the main focus area. Given the current economic scenario, Bajaj Finance is currently targeting only ETB customers (existing for Bajaj)
- Given the current scenario, the CoF is at 8.76%. However excluding the liquidity drag, the CoF would be lower at 8.35%
- The management has guided that the credit cost could inch up by 80-90 bps in FY21E from current levels of 278 bps (RBI minimum requirement of 40 bps)
- The company has not provided moratorium for those customers with 60 days overdue due to the likelihood of default. However, if the moratorium was offered for all customers, GNPA & NNPA would have been 1.38% and 0.51%, respectively
- As Bajaj Finance has no clients in IBC, delay in resolution process would not impact the company
- Slump in auto financing provisions was due to write offs of drag accounts. Thus, PCR for auto finance was at 54% in March 2020
- As a part of its life care financing business, Bajaj Finance has disbursed 3 lakh health cards from January 2020 with higher credit limits. Focus on fee from this segment is high
- Gold financing is a segment where the management is keen to capture available opportunity

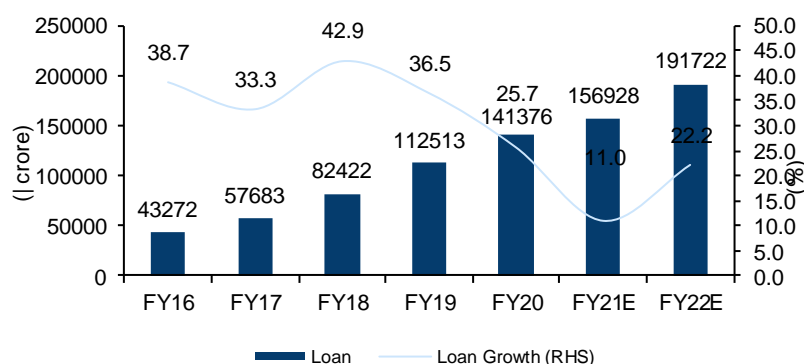
Story in Charts

Exhibit 4: Covid portfolio bounce performance and moratorium proportion

Business Segment	AUM as of 30 April	AUM under moratorium	% of AUM in moratorium	AUM bounce rate	Bounce rate on April 20	Bounce rate on May 20	% of loans with no prior bounce rate	Covid Provision amount	Provision as a % of morat book
Auto finance business	13726.0	9611.0	70.0%	24.2%	68.2%	67.8%	69.0%	209.0	2.2%
Sales finance business	10600.0	2742.0	26.0%	9.0%	27.5%	30.0%	70.0%	63.0	2.3%
Consumer B2C business	30505.0	8771.0	29.0%	12.5%	39.7%	39.8%	67.0%	251.0	2.9%
Rural B2C business	2326.0	688.0	30.0%	14.5%	36.7%	37.0%	64.0%	10.0	1.6%
Rural B2B business	10650.0	3020.0	28.0%	19.2%	47.3%	46.4%	56.0%	96.0	3.2%
SME Business	19048.0	5708.0	30.0%	10.5%	32.1%	25.6%	65.0%	174.0	3.1%
Securities lending business	4037.0	13.0	0.3%	0.0%	0.0%	0.0%	0.0%	0.0	0.0%
Commercial lending business	6215.0	1527.0	25.0%	0.0%	0.0%	0.0%	0.0%	26.0	1.7%
Mortgages	45960.0	6518.0	14.0%	4.5%	19.4%	20.5%	74.0%	71.0	1.1%
BFL Consolidated	143067.0	38598.0	14.0%	12.0%	35.3%	36.9%	68.0%	900.0	17.9%

Source: Company, ICICI Direct Research

Exhibit 5: AUM growth to moderate(o/s loan book)



Source: Company, ICICI Direct Research

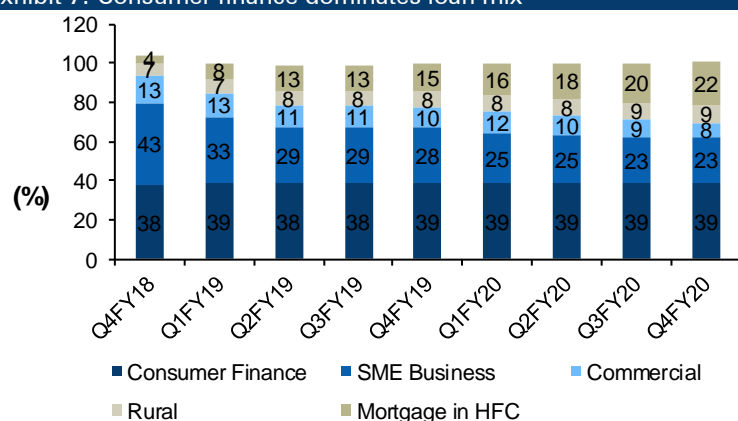
Customer franchise as of Q4FY20 increased 24% YoY to 42.60 million from 34.48 million in Q4FY19 and 40.38 million in Q3FY20. New loans acquired in FY20 were 27.44 million vs 23.50 million in FY19. EMI Card franchise stood at 21.98 million cards as against 18.7 million cards in FY19.

Exhibit 6: Consumer growth high, mortgage to slowdown

₹ crore	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Absolute Variat		% Propn
										growth YoY	ion % YoY	
Consumer B2B Businesses	15544	18141	20113	21776	21987	24994	25543	27136	25742	3755	17	17
Consumer B2C Businesses	15402	16874	18684	20515	23002	24889	27006	29381	31255	8253	36	21
Rural Business	5458	6448	7439	8524	9243	10344	11169	12665	13328	4085	44	9
SME Business	11434	12012	13370	14126	15759	16334	17908	18703	19429	3670	23	13
Commercial Lending & Securities	10941	11989	11760	11852	12027	14963	13415	13016	11230	-797	-7	8
Mortgages	23643	25823	28851	30716	33871	37374	40492	44191	46166	12295	36	31
Total AUM	82422	91287	100217	107509	115889	128898	135533	145092	147150	31261	27	100

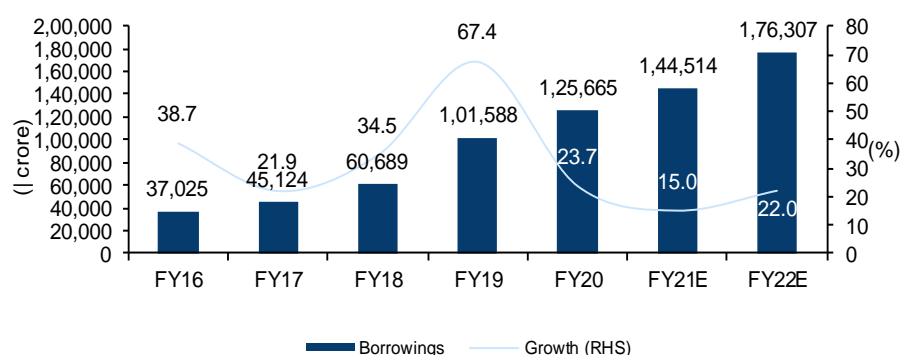
Source: Company, ICICI Direct Research

Exhibit 7: Consumer finance dominates loan mix



Source: Company, ICICI Direct Research

Exhibit 8: Trend in borrowing- excess liquidity maintained



Source: Company, ICICI Direct Research

Exhibit 9: Trend in resource mix- NCD surge and deposits gradually picking up

	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	FY21E	FY22E
NCDs/ sub debt	46	40	39	39	50	52	60
Banks	41	33	35	35	35	33	33
Deposits +CPs	13	26	26	26	30	35	35

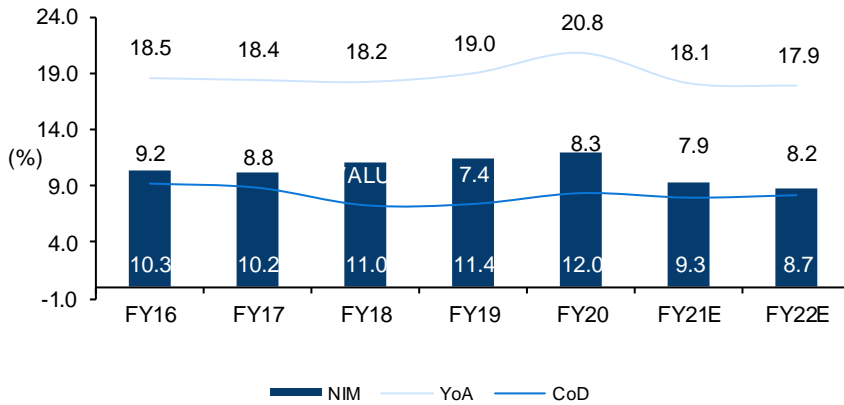
Source: Company, ICICI Direct Research

Exhibit 10: Huge distribution network of Bajaj Finance

Active Distribution	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Consumer durables stores- Urban	9400.0	14000.0	15500.0	20400.0	24200.0
Consumer durables stores- Rural	3200.0	5500.0	8200.0	14500.0	19600.0
Digital product stores	5200.0	5900.0	15900.0	22500.0	26400.0
Lifestyle retail stores	3200.0	3900.0	6000.0	7700.0	9500.0
EMI card -retail spend stores	0.0	5600.0	12100.0	19100.0	24300.0
Bajaj auto dealers, sub dealers and ASSC	3000.0	3200.0	3900.0	4600.0	5500.0
Direct sales agents	800.0	1500.0	2100.0	2800.0	4900.0
Overall active distribution network	24800.0	39600.0	63700.0	91600.0	114400.0

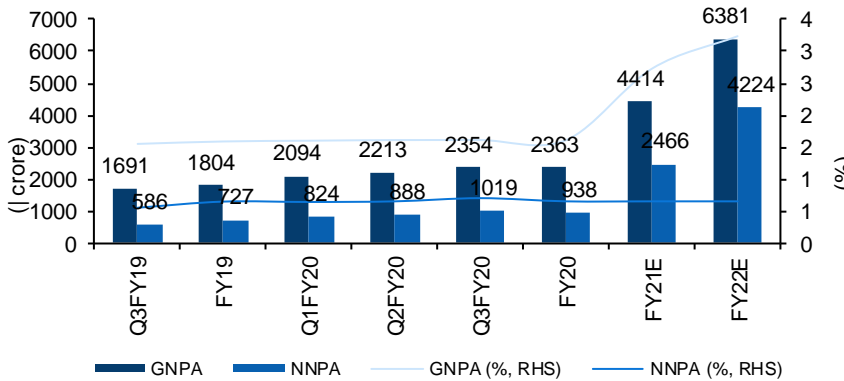
Source: Company, ICICI Direct Research

Exhibit 11: Margins to moderate



Source: Company, ICICI Direct Research

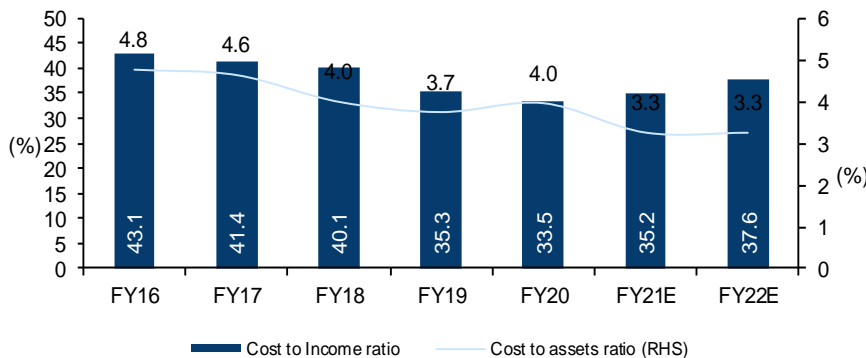
Exhibit 12: Asset quality showing signs of stress



Source: Company, ICICI Direct Research

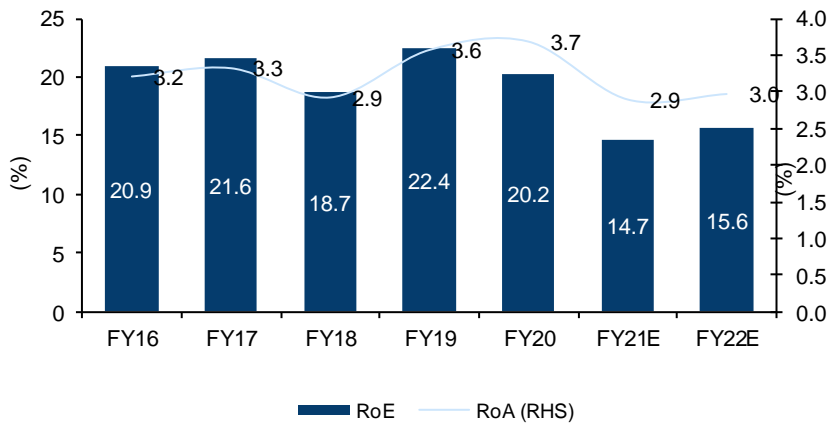
Covid 19 posed risk led to provisions rising to ₹ 1953 crore vs. ₹ 831 crore QoQ. Around ₹1490 crore one time provision comprised of 1) ₹ 129 crore of additional provision from recalibration of ECL model in Q4, 2) ₹ 900 crore of contingency provision for Covid-19 based on moratorium, bounce behaviour of customers in April and May and expected worsening in macro environment. 3) ₹ 390 crore charge off for two large identified stressed accounts (Karvy and ILFS).

Exhibit 13: Improving cost to income ratio enables high RoA- may step up a bit



Source: Company, ICICI Direct Research

Exhibit 14: RoA and RoE trajectory



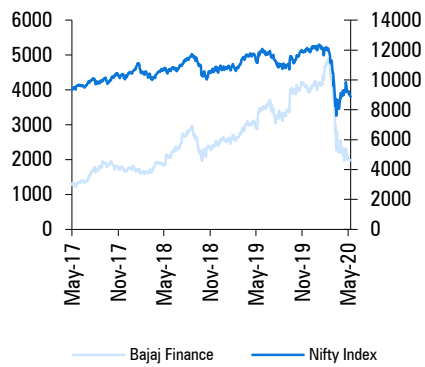
Source: Company, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	55.2	58.3	58.3	56.2	56.2
FII	20.7	21.3	20.7	22.2	21.2
DII	8.5	8.3	8.6	10.5	10.9
Others	15.6	12.1	12.4	11.1	11.8

Source: Company, ICICI Direct Research

Exhibit 16: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	18485.1	26373.8	26975.9	31146.1
Interest Expended	6623.6	9473.2	10721.0	13082.6
Net Interest Income	11861.5	16900.6	16254.9	18063.5
Growth (%)	45.9	42.5	-3.8	11.1
Non Interest Income	16.7	11.8	14.6	17.9
Operating Income	11878.2	16912.4	16269.5	18081.4
Employee cost	1940.9	2549.1	2711.4	3335.1
Other operating Exp	2256.8	3111.7	3007.4	3460.7
Operating Profit	7680.5	11251.6	10550.6	11285.6
Provisions	1501.4	3929.5	3728.8	2963.5
PBT	6179.2	7322.1	6821.8	8322.1
Taxes	2184.2	2058.4	1739.6	2122.1
Net Profit	3,995.0	5,263.8	5,082.2	6,200.0
Growth (%)	60.0	31.8	-3.4	22.0
EPS (₹)	69.3	87.7	84.7	103.3

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares	57.7	60.0	60.0	60.0
EPS (₹)	69.3	87.7	84.7	103.3
BV (₹)	326	549	615	710
ABV (₹)	313	533	574	640
P/E	29	23	23	19
P/BV	6.1	3.6	3.2	2.8
P/ABV	6.3	3.7	3.4	3.1
Yields & Margins (%)				
Net Interest Margin	11.4	12.0	9.3	8.7
Yield on assets	17.8	18.7	15.5	15.0
Avg. cost on funds	7.4	8.3	7.9	8.2
Yield on average a	19.0	20.8	18.1	17.9
Avg. Cost of Borro	7.4	8.3	7.9	8.2
Quality and Efficiency (%)				
Cost to income ratio	35.3	33.5	35.2	37.6
Cost to assets ratio	3.7	4.0	3.3	3.3
GNPA	1.6	1.6	2.7	3.2
NNPA	0.6	0.7	1.6	2.2
ROE	22.4	20.2	14.7	15.6
ROA	3.6	3.7	2.9	3.0

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	115.4	120.0	120.0	120.0
Reserves and Surp	19581.7	32207.6	36785.9	42481.9
Networth	19697.0	32327.6	36905.9	42601.9
Borrowings	101587.9	125664.6	144514.3	176307.5
Other Liabilities & P	2947.6	6399.2	7789.4	9502.0
Total	1,24,232.5	1,64,391.4	1,89,209.6	2,28,411.4
Application of Funds				
Fixed Assets	694.8	1097.3	1207.0	1327.7
Investments	8599.0	17543.9	19298.3	18719.3
Advances	112512.8	141376.1	156928.2	191721.7
Other Assets	2425.8	4374.2	11776.2	16642.7
Total	1,24,232.5	1,64,391.4	1,89,209.6	2,28,411.4

Source: Company, ICICI Direct Research

Exhibit 20: Growth ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	23.7	30.8	16.9	20.7
Advances	36.5	25.7	11.0	22.2
Borrowings	30.2	23.7	15.0	22.0
Net interest income	46.0	42.5	-3.8	11.1
Operating Income	45.7	42.4	-3.8	11.1
Operating expenses	28.3	34.9	1.0	18.8
Operating profit	57.5	46.5	-6.2	7.0
Net profit	67.0	31.7	-3.4	22.0
Net worth	24.3	64.1	14.2	15.4
EPS	56.2	26.5	-3.4	22.0

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		Rating	M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
HDFC (HDFC)	1,779	2,000	Buy	2,78,132	108.3	69.5	72.7	16.4	25.6	24.5	4.0	3.8	3.6	3.8	2.2	2.0	26.8	15.2	15.1		
Mahindra & Mahindra Financial	158	190	Hold	9,254	20.6	25.9	35.2	7.7	6.1	4.5	1.4	1.3	1.0	1.6	1.7	2.2	11.0	12.3	14.4		
Bajaj Finserv (BAFINS)	4,556	7,200	Buy	75,287	248.4	332.5	430.5	18.3	13.7	10.6	2.6	2.2	1.8	1.6	1.7	2.0	15.3	17.4	18.8		
Bajaj Finance (BAJFI)	1,978	2,000	Hold	1,18,367	87.7	84.7	103.3	22.5	23.4	19.1	3.7	3.4	3.1	3.7	2.9	3.0	20.2	14.7	15.6		
SBI Life Insurance (SBILIF)	718	800	Buy	75,462	14.2	13.5	16.0	50.5	53.1	45.0	2.7	2.4	2.1	0.9	0.7	0.7	16.8	14.2	14.8		

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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