

Retail Equity Research Bajaj Finance Limited

NBFC

BSE CODE: 500034

NSE CODE: BAJFINANCE

Bloomberg CODE: BAF:IN

SENSEX: 32,424

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 1,953 TARGET Rs. 2,570 RETURN 32%
(Closing: 29-05-20)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Healthy performance amid lockdown

Bajaj Finance Limited (BFL) is one of the leading non-banking financial companies (NBFC) in India. It is engaged in lending across retail, SME, and commercial customers and accepts public and corporate deposits.

- Q4FY20 AUM grew 27% YoY to Rs. 147,153cr. As of April 30th, 27% of the consolidated AUM was under moratorium.
- Net interest income rose 38.4% YoY to Rs. 4,679cr in 4QFY20. However, PAT fell 19.4% YoY due to high provisioning (+377.4% YoY). Excluding COVID-19 provisioning, adjusted PAT rose 37.9% YoY.
- Capital adequacy ratio declined to 25.0% vs. 26.8% in Q3FY20, and Tier-I ratio also deteriorated to 21.3% vs. 23.2% in Q3FY20.
- Recording strong topline performance in this quarter we believe that the heavy provisioning will give enough buffer in this challenging environment amidst COVID-19, eventually allowing the company to bounce back, we upgrade our rating to BUY with revised target price of Rs. 2,570 based on 3.5x FY22E BVPS.

Strong topline more-than-offset by high provisioning

Interest income registered a healthy growth of 36.5% YoY at Rs. 7,227cr in Q4FY20. As a result net interest income went up 38.4% YoY to Rs. 4,679cr. This was partially offset by higher opex (+24.7% YoY to Rs. 1,451cr). In 4QFY20, the company has taken an accelerated charge of Rs. 390cr for two of its large stressed accounts, Rs. 129cr on account of recalibration of its ECL model and contingency provision of Rs. 900cr for COVID-19. As a result of these provisions, PAT for 4QFY20 fell to Rs. 948cr as against Rs. 1,176cr in Q4FY19. However, excluding COVID-19 provisioning, adjusted PAT rose by 37.9% YoY to Rs. 1,622cr. This year onwards, company (along with its subsidiary, Bajaj Housing Finance Ltd.) has opted for reduced tax rate which stood at 25.2%.

Asset quality remains stable

GNPA remained largely flat at 1.6% this quarter, while NNPA improved 5bps to 0.65% on a sequential basis. AUM registered a strong growth of 27.0% YoY to Rs. 147,153cr. The company has estimated that due to the lockdown amidst COVID-19 pandemic, the company lost about 10 working days in the month of March 2020 leading to lower acquisition of nearly 1mn loan accounts and lower AUM of about Rs. 4,500cr. Adjusting for this impact, the AUM would have been grown 31% to approximately Rs. 151,700cr. Company is well capitalized with CRAR of 25.0% and has a liquidity surplus of Rs. 15,725cr as of 31 March 2020.

Key con-call highlights

- ~27% of AUM is under moratorium as on 30 April 2020.
- The management expects rural business to recover faster.
- GNPA and NNPA are projected to be in the range of 1.4%-1.7% and 0.4%-0.7%, respectively, in the long-term.
- Company was able to reduce 20%-24% of fixed opex in the past 2 months.
- In the present conditions, the company's main focus points are capital preservation, balance sheet protection and operating expenses management.

Outlook & Valuation

Given its strong liquidity position, healthy CRAR, strong geographical presence, growing AUM, positive outlook, and strong parentage, we upgrade to BUY rating on the stock with a revised target price of Rs. 2,570 based on 3.5x FY22E BVPS.

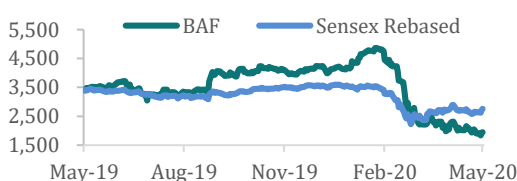
Company Data

Market Cap (cr)	Rs. 117,996
Outstanding Shares (cr)	60.2
Free Float	41.0%
Dividend Yield	0.6%
52 week high	Rs. 4,923
52 week low	Rs. 1,783
6m average volume (lac)	2.1
Beta	1.5
Face value	Rs. 2

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	58.3	56.2	56.2
FII's	20.7	22.2	21.2
MFs/Insti	9.0	10.8	11.2
Public	8.8	8.5	8.6
Others	3.3	2.4	2.9
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-56.1%	-52.1%	-42.6%
Absolute Sensex	-15.3%	-20.5%	-17.9%
Relative Return*	-40.8%	-31.5%	-24.7%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY20A	FY21E	FY22E
Net Interest Income	16,901	18,647	21,437
Growth (%)	42.5	10.3	15.0
NIM (%)	12.1	10.8	10.5
Pre Pro Profit	11,252	11,866	13,355
Net Profit	5,264	5,393	6,937
Growth (%)	31.8	2.5	28.6
Adj. EPS	89.1	91.3	117.4
Growth (%)	29.6	2.5	28.6
BVPS	547.0	628.3	734.7
P/E	24.9	21.4	16.6
P/BV	4.1	3.1	2.7
P/ABV	4.1	3.1	2.7
RoE (%)	20.2	15.5	17.2

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs. cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY2020	FY2019	YoY Growth %
Interest Income	7,227	5,294	36.5	7,011	3.1	26,374	18,487	42.7
Interest Expense	2,547	1,913	33.1	2,489	2.3	9,473	6,624	43.0
Net Interest Income	4,679	3,381	38.4	4,522	3.5	16,901	11,864	42.5
Non-Interest Income	4	4	20.7	15	(71.4)	12	13	(9.3)
Total Net Income	4,683	3,385	38.4	4,537	3.2	16,912	11,877	42.4
Total Income	7,231	5,298	36.5	7,026	2.9	26,386	18,500	42.6
Operating Expenses	1,451	1,164	24.7	1,536	(5.5)	5,661	4,196	34.9
Total Expenditure	3,999	3,077	30.0	4,025	(0.7)	15,134	10,820	39.9
Pre-Provisioning profit	3,232	2,221	45.5	3,001	7.7	11,252	7,681	46.5
Provisions	1,954	409	377.4	831	135.2	3,929	1,501	161.7
Profit Before Tax	1,278	1,812	(29.4)	2,170	(41.1)	7,322	6,179	18.5
Tax	330	636	(48.1)	556	(40.6)	2,058	2,184	(5.8)
Net Profit	948	1,176	(19.4)	1,614	(41.3)	5,264	3,995	31.8
EPS - Diluted (Rs.)	15.7	20.2	(22.5)	27.1	(42.1)	89.1	68.8	29.6

Business Performance

(Rs. cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY2020	FY2019	YoY Growth %
AUM	1,47,153	1,15,888	27.0	1,45,092	1.4	1,47,153	1,15,888	27.0
Borrowings	1,29,806	1,01,588	27.8	1,22,050	6.4	1,29,806	1,01,588	27.8

Change in Estimates

(Rs. cr)	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income	21,139	25,331	18,647	21,437	(11.8)	(15.4)
NIM	11.60	10.81	10.76	10.47	(84bps)	(34bps)
Pre-Provisioning Profit	14,158	16,316	11,866	13,355	(16.2)	(18.1)
Net Profit	8,202	9,747	5,393	6,937	(34.2)	(28.8)
EPS (Rs.)	141.2	167.7	91.3	117.4	(35.4)	(30.0)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	12,744	18,487	26,374	28,303	36,390
Interest Expense	4,614	6,624	9,473	9,656	14,954
Net Int. Income	8,131	11,864	16,901	18,647	21,437
% Change	31.7	45.9	42.5	10.3	15.0
Non-Int. Income	12	13	12	13	14
Net Income	8,143	11,877	16,912	18,660	21,451
Total Income	12,757	18,500	26,386	28,316	36,405
Operating Exp.	3,269	4,196	5,661	6,794	8,096
Total Exp.	7,883	10,820	15,134	16,450	23,050
Pre-Prov. Profit	4,874	7,681	11,252	11,866	13,355
Provisions	1,030	1,501	3,929	4,665	4,106
PBT	3,843	6,179	7,322	7,201	9,249
Tax	1,347	2,184	2,058	1,807	2,312
Tax Rate (%)	35.0	35.3	28.1	25.1	25.0
Net Profit	2,496	3,995	5,264	5,393	6,937
% Change	35.9	60.0	31.8	2.5	28.6
No. of Shares (cr)	57	58	59	59	59
Adj. EPS (Rs.)	43.9	68.8	89.1	91.3	117.4
% Change	30.4	56.5	29.6	2.5	28.6
DPS (Rs.)	4.0	6.0	10.0	11.0	12.0

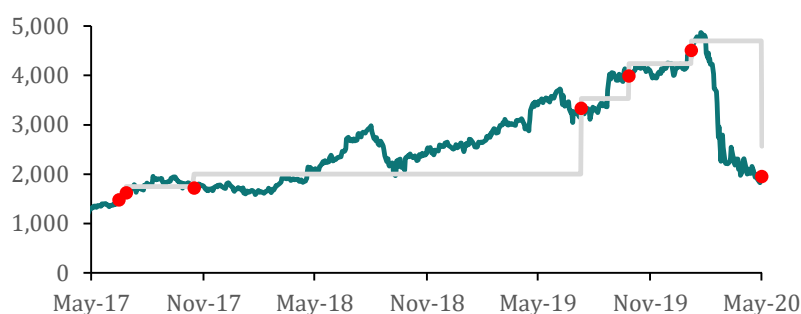
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	338	347	1,345	2,275	2,448
Investments	3,139	8,599	17,544	17,895	18,253
Advances	79,103	112,513	141,376	169,651	203,582
Fixed Assets	346	527	1,097	1,119	1,142
Other Assets	1,872	2,247	3,030	2,873	2,873
Total Assets	84,798	124,233	164,391	193,813	228,297
Capital	115	115	120	120	120
Reserve & Surplus	15,733	19,582	32,208	37,010	43,297
Deposits	7,793	13,193	21,427	26,784	27,320
Borrowings	54,626	84,256	104,238	123,444	151,105
Other Liabilities	6,531	7,087	6,399	6,455	6,455
Total Liabilities	84,798	124,233	164,391	193,813	228,297
BVPS (Rs.)	279	339	547	628	735
% Change	68.0	21.6	61.4	14.9	16.9

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	40.1	43.5	24.9	21.4	16.6
P/BV (x)	6.3	8.8	4.1	3.1	2.7
Div. Yield (%)	0.2	0.2	0.5	0.6	0.6
Profitab. & Return (%)					
Yield on Advances	18.9	19.3	20.8	18.2	19.5
Cost of Deposits	8.4	8.3	8.5	7.0	9.1
Spread	10.5	11.0	12.3	11.2	10.4
NIM	11.5	11.7	12.1	10.8	10.5
ROE	20.1	22.5	20.2	15.5	17.2
ROA	3.7	4.2	3.6	3.0	3.3
Capital Adequacy (%)					
CAR	24.0	20.7	25.0	25.5	26.3
Tier I	18.4	16.3	21.3	22.0	23.1
Tier II	5.5	4.4	3.7	3.5	3.3
Asset Quality (%)					
GNPA	1.4	1.5	1.6	1.5	1.5
NNPA	0.4	0.6	0.7	0.6	0.6
Operating Ratios (%)					
Debt/Equity	4.2	5.2	4.0	4.2	4.2
Cost/Income	40.1	35.3	33.5	36.4	37.7

Recommendation Summary



Dates	Rating	Target
13-Jul-17	BUY	1,576
25-Jul-17	BUY	1,750
13-Nov-17	BUY	2,000
8-Aug-19	HOLD	3,531
29-Oct-19	HOLD	4,240
4-Feb-20	HOLD	4,700
1-Jun-20	BUY	2,570

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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