

Improvement led by unlock; stay watchful ahead...

The consolidated moratorium book has reduced to ₹ 21,705 crore (or 15.7% of AUM) from ₹ 38,599 crore (or 27% of AUM) as of April 30, 2020 owing to reduction in bounce rate (declining 3-4% monthly) coupled with better collection efficiency. Moratorium in auto finance segment stayed high at 50% from 70% in April. It decided to convert some of its existing customers with no overdue and good repayment track record from term loan to a flexi loan (old product) for a switch fee. It also has an added feature of only interest servicing for the first one to two years apart from digital repayment options. In Q1FY21, the company converted ~₹ 8,600 crore of term loans into flexi loans.

BAF contingency provision for Covid-19 of ₹ 1,450 crore led to overall contingency provision of ₹ 2,350 crore as on June 2020. The contingency provision for Covid-19 is now at 10.8% of consolidated moratorium book. This contingency provision together with existing expected credit loss provision of ₹ 623 crore provides an overall provisioning coverage of 13.7% on the consolidated moratorium book.

Consolidated AUM witnessed growth of 7% YoY to ₹ 138055 crore. AUM for Bajaj Housing increased 52% YoY, 4% QoQ to ₹ 32,982 crore as of June 30, 2020. Consumer B2C, rural B2C are depicting YoY growth but fell QoQ. Consumer B2B, rural B2B segments de-grew 12% YoY each.

Hence, overall NII growth was at 13% YoY to ₹ 4152 crore, marginally higher than estimated. Lower opex at ₹ 1152 crore (down 10% YoY, 20% QoQ) led to operating profit growth of 25% YoY to ₹ 2996 crore. Opex to income ratio improved to 27.6% from 31.0% in Q4 FY20 due to lockdown. PAT for Q1FY21 thereby came at ₹ 962 crore, down 20% YoY.

Headline asset quality improved in percentage terms, as slippages were lower QoQ at ₹ 140 crore due to moratorium. GNPA ratio was at 1.4% from 1.6% QoQ while NNPA ratio declined 24 bps to 0.4% on a consolidated basis. NPA provision coverage ratio rose to 65% from 60% QoQ. Overall standard assets provisioning (ECL stage 1 and 2) grew to 2.73% from 1.59% QoQ led by Covid provisions build-up.

Customer franchise as of Q1FY21 rose to 42.95 million from 42.6 million QoQ. New loan booked declined 76% YoY to 1.75 million.

Capital adequacy remained strong at 26.4% with Tier I at 22.56%.

Valuation & Outlook

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 expect earnings to decline by ~8% YoY for FY21E. Led by lower moratorium stock has already rallied 70% from lows. At 5.2x FY22E ABV, RoE moderating to ~15% and RoA under 3%, the stock looks fairly priced. Lower growth & higher uncertainty warrants being cautious in the near term. Therefore, we continue to maintain **HOLD** rating and revise our target price to ₹ 3050, valuing the stock at ~4.7x FY22E ABV.

Key Financial Summary

Financial Performance	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII (₹crore)	8126	11862	16901	17073	18131	15%
PPP (₹crore)	4878	7681	11252	11971	12008	16%
PAT (₹crore)	2393	3996	5264	4696	5959	14%
ABV (₹)	247	313	533	581	649	
P/E	74	48	38	42	33	
P/ABV	13.4	10.5	6.2	5.7	5.1	
RoA	2.9	3.6	3.7	2.7	2.9	
RoE	18.7	22.4	20.2	13.6	15.2	



Particulars

Particulars	Amount
Market Capitalisation	₹198426 crore
GNPA (Q1FY21)	₹2354 crore
NNPA (Q1FY21)	₹1019 crore
NIM (Q1FY21) (calculated)	12.8
52 week H/L	4923/2098
Face Value	₹2
Net worth	₹19697 C crore
DII Holding (%)	
FII Holding (%)	

Key Highlights

- Consolidated moratorium book reduced from 27% to 15.7%
- Covid provisions stands at ₹1450 crore with contingent provisions at ₹ 2350 crore.
- Maintain HOLD recommendation with a revised target price of ₹ 3050

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	1oQ (%)	Comments
NII	4,151	4,026	3,688	12.5	4,679	-11.3	Lower AUM growth of 7% YoY only led to NII moderation. Lower cost of funds aided NII. IR reversed interest income to the tune of ₹ 220 crore from the interest capitalized during moratorium period
NIM (%) (calculated)	11.8	11.3	12.1	-28 bps	12.8	-104 bps	
Staff cost	538	523	583	-7.8	618	-13.0	Conscious cost cutting enable C/I ratio decline
Other Operating Expenses	619	877	688	-10.0	833	-25.7	
Opex to NII(%)	27.9	34.8	34.5	-19.1	31.0	-10.2	Healthy operational performance and control on opex led to improvement in ratio to 27.3% from 31%
PPP	2,995	2,635	2,402	24.7	3,232	-7.3	
Provision	1,686	1,500	551	206.1	1,954	-13.7	Covid provision of ₹ 450 crore
PBT	1,309	1,135	1,851	-29.3	1,278	2.4	
Tax Outgo	347	284	656	-47.1	330	5.2	
PAT	962	851	1,195	-19.5	948	1.5	good operational performance but higher provision impacted earning trajectory
Key Metrics							
GNPA	1,938	2,859	2,094	-7.4	2,363	-18.0	Slippages came lower due to moratorium
NNPA	681	1,094	824	-17.4	938	-27.4	Provision coverage ratio improved to 65% from 60%. Outstanding provision at 13.7% of moratorium loans
AUM	1,38,000	1,38,000	1,28,898	7.1	1,41,376	-2.4	Growth largely led by mortgages and consumer & Rural B2C segment B2B segments, commercial lending degrew YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	16,255	17,073	5.0	18063	18,131	0.4
Pre Provision Profit	10,551	11,971	13.5	11286	12,008	6.4
NIM(%) (calculated)	9.3	10.0	74 bps	8.7	9.0	32 bps
PAT	5,082.0	4,696	-7.6	6200	5,959	-3.9
ABV per share (₹)	574.1	580.5	1.1	639.7	649.1	1.5

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	11.0	22.2
Borrowings Growth (%)	30.2	23.7	9.0	26.0	15.0	22.0
NIM C calculated (%)	11.4	12.0	10.0	9.0	9.3	8.7
Cost to income ratio (%)	35.3	33.5	29.9	33.8	35.2	37.6
GNPA (₹crore)	1,804.0	2,275.0	4,413.6	6,381.1	4,413.6	6,381.1
NNPA (₹crore)	727.0	959.4	1,690.0	3,030.0	2,465.6	4,223.9

Source: Company, ICICI Direct Research

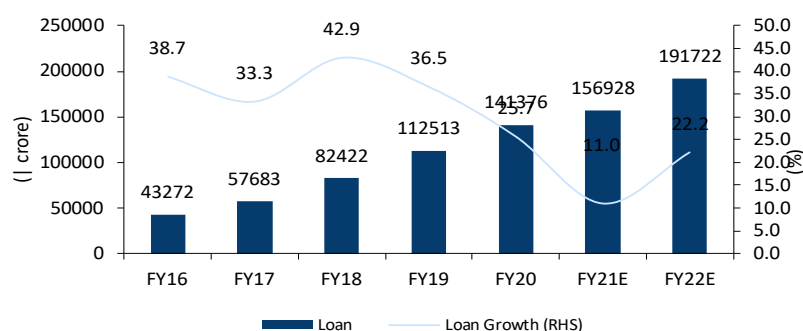
Story in Charts

Exhibit 4: Covid portfolio bounce performance and moratorium proportion

Business Segment	AUM as of 30 June 2020	AUM under moratorium	% of AUM in moratorium	AUM bounce rate	Covid Provision amount	Provision as a % of morat book
Auto finance business	12802.0	6446.0	50.3%	24.2%	553.0	11.8%
Sales finance business	9231.0	1813.0	19.6%	9.0%	245.0	15.8%
Consumer B2C business	29219.0	4454.0	15.2%	12.5%	785.0	21.6%
Rural B2C business	2089.0	214.0	10.2%	14.5%	37.0	19.6%
Rural B2B business	10281.0	1015.0	9.9%	19.2%	177.0	21.1%
SME Business	18277.0	2245.0	12.3%	10.5%	341.0	18.5%
Securities lending business	3957.0	0.0	0.0%	0.0%	0.0	0.0%
Commercial lending business	6075.0	1168.0	19.2%	0.0%	56.0	5.0%
Mortgages	46124.0	4350.0	9.4%	4.5%	156.0	5.4%
BFL Consolidated	138055.0	21705.0	15.7%	12.0%	2350.0	13.7%

Source: Company, ICICI Direct Research

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



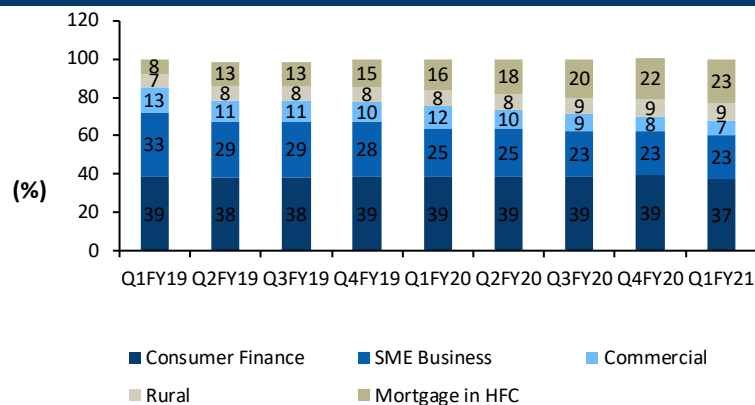
Source: Company, ICICI Direct Research

Exhibit 6: Growth moderation in business segments

₹crore	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Absolute growth	Variation %	% Propn
										YoY	YoY	
Consumer B2B Businesses	18141	20113	21776	21987	24994	25543	27136	26462	22033	-2961	-12	16
Consumer B2C Businesses	16874	18684	20515	23002	24889	27006	29381	31255	29219	4330	17	21
Rural Business	6448	7439	8524	9243	10344	11169	12665	13328	12370	2026	20	9
SME Business	12012	13370	14126	15759	16334	17908	18703	19429	18277	1943	12	13
Commercial Lending & Securities	11989	11760	11852	12027	14963	13415	13016	11233	10032	-4931	-33	7
Mortgages	25823	28851	30716	33871	37374	40492	44191	46166	46124	8750	23	33
Total AUM	91287	100217	107509	115889	128898	135533	145092	147873	138055	9157	7	100

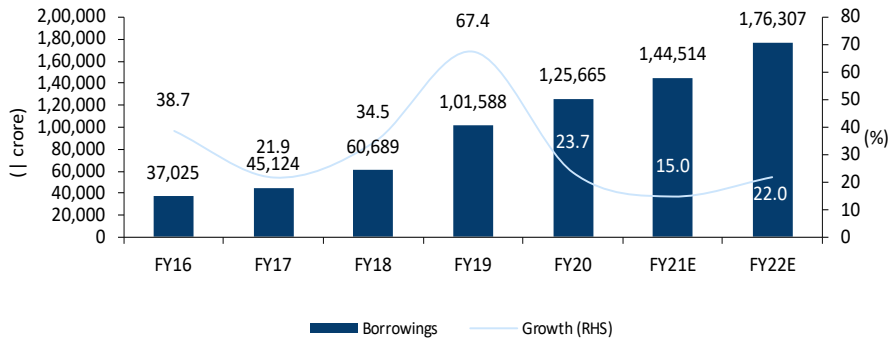
Source: Company, ICICI Direct Research

Exhibit 7: Consumer finance dominates loan mix



Source: Company, ICICI Direct Research

Exhibit 8: Trend in borrowing- excess liquidity maintained



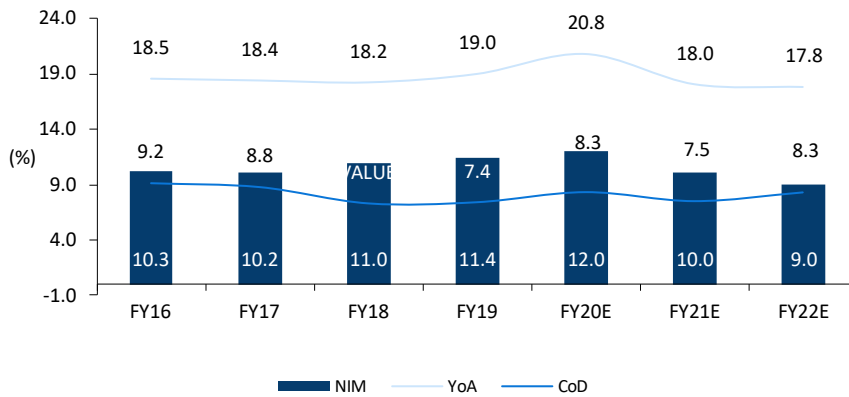
Source: Company, ICICI Direct Research

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

	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	FY21E	FY22E
NCDs/sub debt	46	40	39	39	39	40	55	61
Banks	41	33	35	35	35	39	33	33
Deposits+CPs	13	26	26	26	26	21	35	35

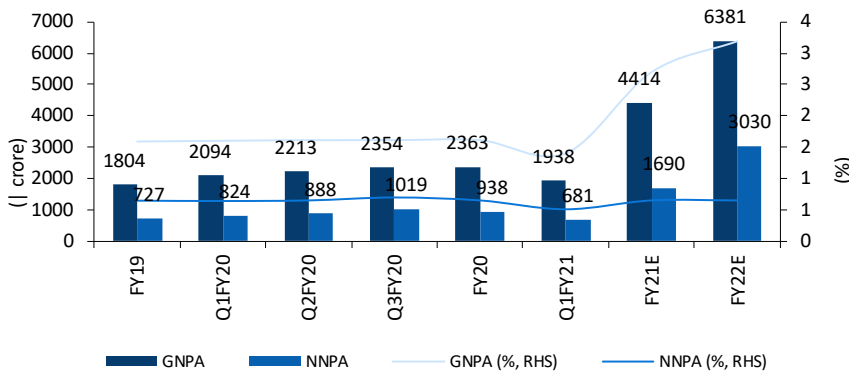
Source: Company, ICICI Direct Research

Exhibit 10: Margins to moderate moving forward



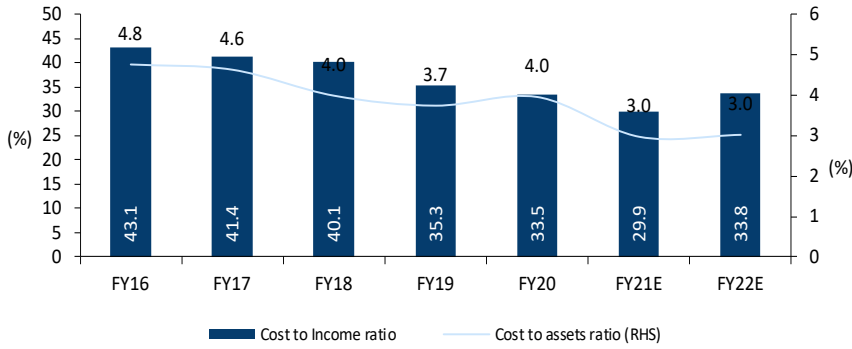
Source: Company, ICICI Direct Research

Exhibit 11: Asset quality showing signs of stress



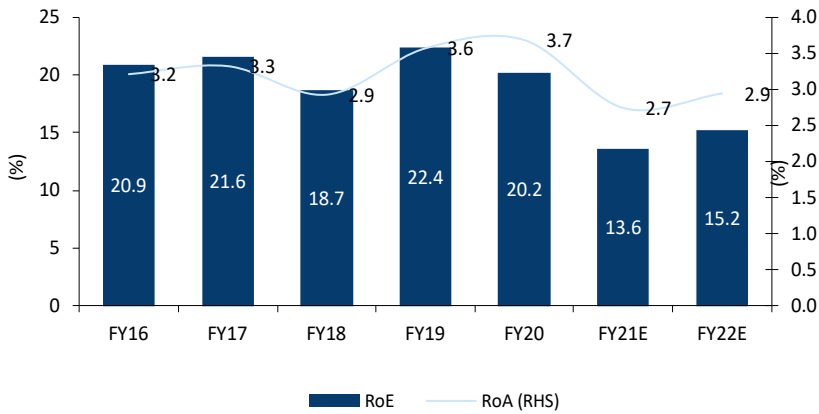
Source: Company, ICICI Direct Research

Exhibit 12: Cost to income trend



Source: Company, ICICI Direct Research

Exhibit 13: RoA and RoE trajectory



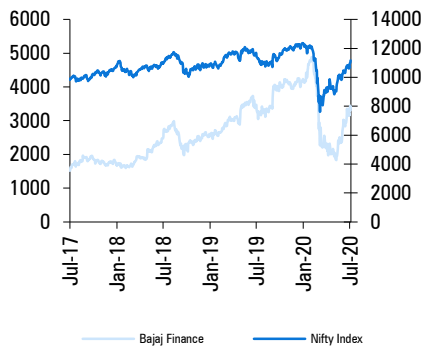
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	58.3	58.3	56.2	56.2	56.2
FII	21.3	20.7	22.2	21.2	21.2
DII	8.3	8.6	10.5	10.9	10.1
Others	12.1	12.4	11.1	11.8	12.5

Source: Company, ICICI Direct Research

Exhibit 15: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	18485.1	26373.8	26894.5	30996.4
Interest Expended	6623.6	9473.2	9821.2	12865.7
Net Interest Income	11861.5	16900.6	17073.3	18130.7
Growth (%)	45.9	42.5	1.0	6.2
Non Interest Income	16.7	11.8	14.6	17.9
Operating Income	11878.2	16912.4	17087.8	18148.6
Employee cost	1940.9	2549.1	2267.7	2834.7
Other operating Exp	2256.8	3111.7	2848.7	3305.8
Operating Profit	7680.5	11251.6	11971.4	12008.1
Provisions	1501.4	3929.5	5667.8	4009.5
PBT	6179.2	7322.1	6303.6	7998.6
Taxes	2184.2	2058.4	1607.4	2039.6
Net Profit	3,995.0	5,263.8	4,696.2	5,959.0
Growth (%)	60.0	31.8	-10.8	26.9
EPS (₹)	69.3	87.7	78.3	99.3

Source: Company, ICICI Direct Research

Exhibit 17: 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	78.3	99.3
BV (₹)	326	549	609	700
ABV (₹)	313	533	581	649
P/E	48	38	42	33
P/BV	10.1	6.0	5.4	4.7
P/ABV	10.5	6.2	5.7	5.1
Yields & Margins (%)				
Net Interest Margins	11.4	12.0	10.0	9.0
Yield on assets	17.8	18.7	15.8	15.4
Avg. cost on funds	7.4	8.3	7.5	8.3
Yield on average ad	19.0	20.8	18.0	17.8
Avg. Cost of Borrow	7.4	8.3	7.5	8.3
Quality and Efficiency (%)				
Cost to income ratio	35.3	33.5	29.9	33.8
Cost to assets ratio	3.7	4.0	3.0	3.0
GNPA	1.6	1.6	2.7	3.2
NNPA	0.6	0.7	1.1	1.6
ROE	22.4	20.2	13.6	15.2
ROA	3.6	3.7	2.7	2.9

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	115.4	120.0	120.0	120.0
Reserves and Surpl	19581.7	32207.6	36399.9	41854.9
Networth	19697.0	32327.6	36519.9	41974.9
Borrowings	101587.9	125664.6	136974.4	172587.8
Other Liabilities & P	2947.6	6399.2	7789.4	9502.0
Total	1,24,232.5	1,64,391.4	1,81,283.7	2,24,064.7
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	3850.3	12295.9
Total	1,24,232.5	1,64,391.4	1,81,283.7	2,24,064.7

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	23.7	30.8	12.0	23.6
Advances	36.5	25.7	11.0	22.2
Borrowings	30.2	23.7	9.0	26.0
Net interest income	46.0	42.5	1.0	6.2
Operating Income	45.7	42.4	1.0	6.2
Operating expenses	28.3	34.9	-9.6	20.0
Operating profit	57.5	46.5	6.4	0.3
Net profit	67.0	31.7	-10.8	26.9
Net worth	24.3	64.1	13.0	14.9
EPS	56.2	26.5	-10.8	26.9

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI- NBFC)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Mahindra & Mahindra Financial	228	160	Hold	14,066	14.7	14.7	14.7	15.5	15.5	15.5	1.9	2.4	2.0	1.3	1.3	1.7	8.1	7.7	8.9
Bajaj Finserv (BAFINS)	6,381	7,200	Buy	1,01,552	248.4	332.5	430.5	25.7	19.2	14.8	3.7	3.1	2.5	1.6	1.7	2.0	15.3	17.4	18.8
Bajaj Finance (BAJFI)	3,193	3,050	Hold	1,98,426	87.7	78.3	99.3	36.4	40.8	32.1	6.0	5.5	4.9	3.7	2.7	2.9	20.2	13.6	15.2
SBI Life Insurance (SBILIF)	888	800	Buy	88,828	13.1	16.1	19.2	67.8	55.2	46.3	3.4	2.9	2.5	0.8	0.8	0.7	15.5	16.5	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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