Result Update

Bajaj Finance

Refer to important disclosures at the end of this report

On the path of gradual recovery

CMP: Rs 3,233 as of (October 21, 2020)	TP: Rs 2,950 (■) 12 months	Rating: HOLD (■)	Upside: (8.7) %

- BAF reported a PAT of Rs9.65bn (-35.9% yoy, +0.3% qoq), which came in slightly lower than our estimate of Rs9.85bn, on healthy margins and lower opex. BAF made additional Covid-19-related provisions of Rs13.7bn, further front-loading the uncertainty on recoverability. Total contingent Covid-19-related provisions now stand at Rs33.9bn.
- Consolidated moratorium has reduced to ~8% of AUM (~15.7% in Q1FY21) on a reduction in bounce rates, coupled with better collection efficiency. However, overall trend in collection remains weak across products compared with pre-Covid levels. The company has restructured assets worth Rs2.5bn (Mortgages/Consumer) which may see further rise.
- On the growth momentum front, management is relatively more optimistic for H2FY21E. However, regaining the lost market share would be a time-consuming task, in our view. We also remain watchful of the performance of Flexi Loans (Rs430bn) which also include converted Flexi Loans of about Rs100bn as well.
- We keep our estimates intact and await further clarity on growth and asset-quality trends. We maintain Hold rating and EW stance in NBFC EAP with a TP of Rs2,950 (~3.5x P/B Mar'23E). Valuation multiple expansion is possible only once the company starts regaining lost market share, especially in its core B2B segment.

What we like

- Healthy operational performance with ~14.9% yoy growth in operating profit to Rs30.1bn despite interest reversals of Rs1.4bn on doubtful accounts.
- NIMs continued to remain elevated in spite of declining share of superior-yielding consumer lending segment due to better liability franchise, while cost-control measures were effective with the C/I ratio remaining low at ~27.8% (cost to avg. assets at 3.4%).
- Disclaimers regarding asset-quality trends and moratorium had been fairly transparent. Upfronting of credit costs by creating a Covid-19 provision buffer is also encouraging.

What we remain concerned about

- Bounce rates for business segments still remain fairly high, posing NPA and growth risk in the near term. After moratorium, the behavior of non-delinquent customers remains the key as the recovery pattern for existing delinquent customers is already known.
- The rising dependence on existing customer base should accelerate overall leverage risk regarding the same set of customers. In addition, increasing focus on secured lending may affect growth momentum further.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-NBFCs (page 6)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	1,18,782	1,69,124	1,76,653	2,07,334	2,69,261
Net profit	39,950	52,638	39,892	74,495	1,05,536
EPS (Rs)	68.8	90.6	66.2	123.6	175.1
ABV (Rs)	326.5	541.2	559.8	655.9	797.8
RoA (%)	3.8	3.6	2.4	3.8	4.2
RoE (%)	22.5	20.2	11.8	19.2	22.6
PE (x)	47.0	35.7	48.9	26.2	18.5
P/ABV	9.9	6.0	5.8	4.9	4.1

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	66.2	123.6
Consensus	74.7	130.1
Mean Consensus TP (12M)		Rs 3,268

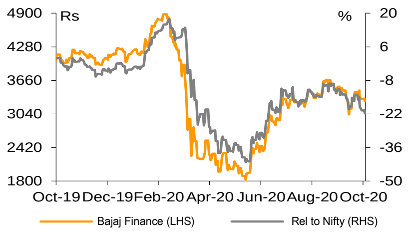
Stock Details	
Bloomberg Code	BAF IN
Face Value (Rs)	2
Shares outstanding (mn)	603
52 Week H/L	4,923 / 1,783
M Cap (Rs bn/USD bn)	1,948 / 26.47
Daily Avg Volume (nos.)	61,56,422
Daily Avg Turnover (US$ mn)	282.7

Shareholding Pattern Jun '20	
Promoters	56.2%
FIIs	21.2%
DIIs	10.1%
Public and Others	12.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(2)	54	(22)
Rel. to Nifty	(9)	(8)	16	(24)

Relative price chart



Source: Bloomberg

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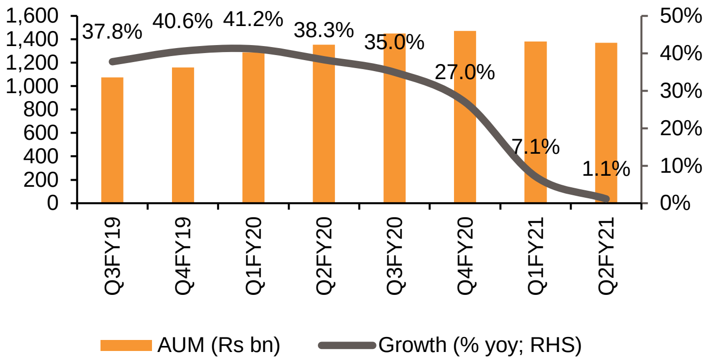
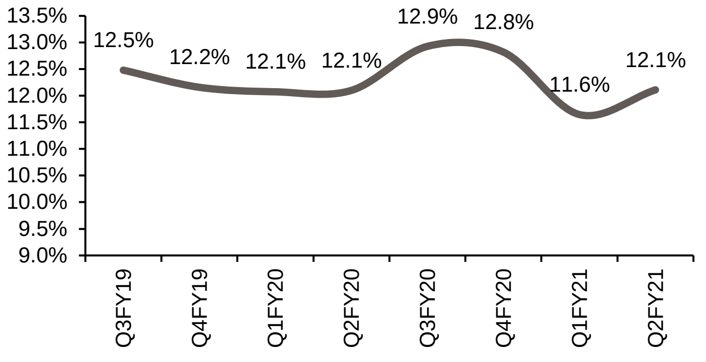
Story in Charts

Exhibit 1: AUM growth dips sharply as the company shifts focus to cost management



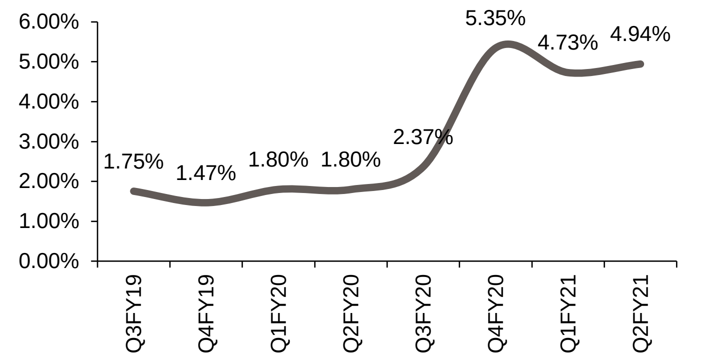
Source: Company, Emkay Research

Exhibit 2: Strong liability franchise (amid low interest rates) supports NIMs



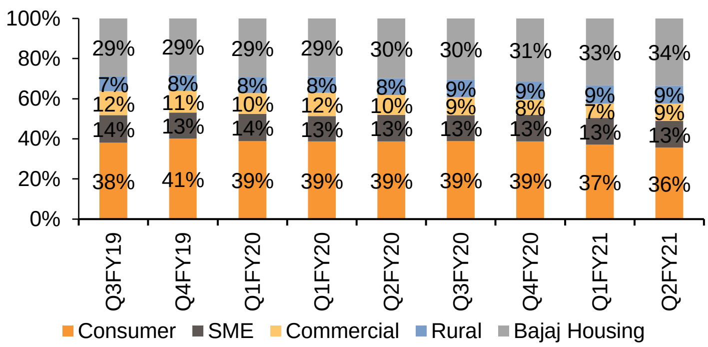
Source: Company, Emkay Research

Exhibit 3: Credit costs remain elevated for the 3rd quarter in a row as the company frontloads potential write-offs



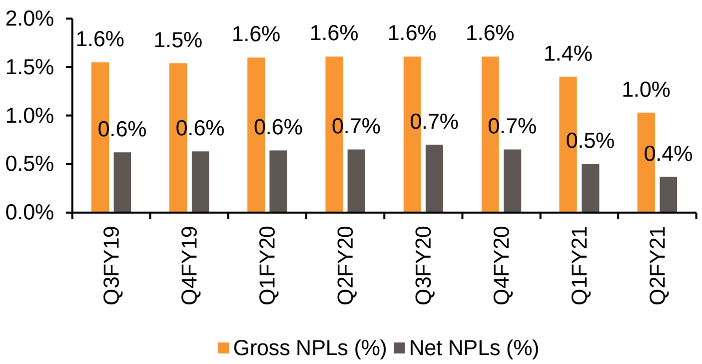
Source: Company, Emkay Research

Exhibit 4: Share of consumer loans reduces to 36% of AUM



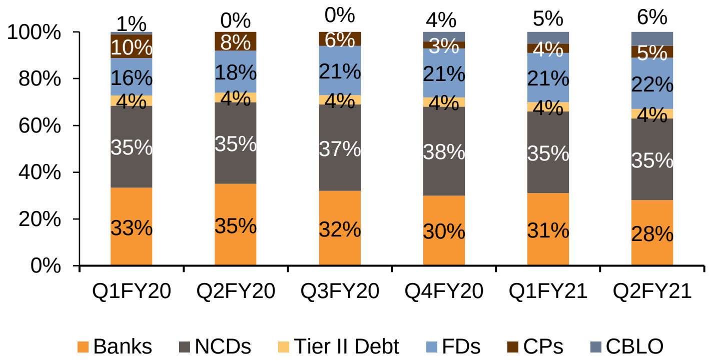
Source: Company, Emkay Research

Exhibit 5: NPAs remain under check due to asset standstill as per SC direction



Source: Company, Emkay Research

Exhibit 6: BAF boasts of a strong, diversified liability franchise



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q2FY21)

Rs mn	Actual	Estimate (Emkay)	Consensus estimate (Emkay)	% variation		Comments
				Emkay	Consensus	
Net income	41,652	42,623	43,755	-2.3%	-4.8%	Interest reversals, but largely in line with estimates
PPOP	30,059	28,743	NA	4.6%	NA	Cost control brings PPOP in line
PAT	9,649	9,848	9,447	-2.0%	2.1%	Accelerated provisioning keep profit a bit weak

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Total income	39,997	45,347	46,834	41,521	41,652	4.1%	0.3%	1,69,124	1,76,653	4.5%
Operating expenses	13,830	15,339	14,515	11,567	11,593	-16.2%	0.2%	56,608	59,612	5.3%
Operating profit	26,167	30,008	32,320	29,954	30,059	14.9%	0.3%	1,12,516	1,17,040	4.0%
Provisions	5,942	8,308	19,538	16,857	17,004	186.2%	0.9%	39,295	63,349	61.2%
% of operating profit	22.7%	27.7%	60.5%	56.3%	56.6%			34.9%	54.1%	
Profit before tax	20,224	21,701	12,782	13,097	13,055	-35.5%	-0.3%	73,221	53,691	-26.7%
Tax	5,161	5,560	3,301	3,474	3,406			20,584	13,799	-33.0%
Tax rate (%)	25.5%	25.6%	25.8%	26.5%	26.1%			28.1%	25.7%	
Profit after tax	15,063	16,141	9,481	9,623	9,649	-35.9%	0.3%	52,638	39,892	-24.2%
AUMs	13,55,330	14,50,920	14,71,530	13,80,550	13,70,900	1.1%	-0.7%	12,88,980	13,55,330	5.1%
Borrowings	11,95,390	12,20,500	12,98,060	12,11,200	12,49,000	4.5%	3.1%	9,44,620	11,95,390	26.5%

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	1,76,653	1,76,653	0.0%	2,07,334	2,07,334	0.0%	2,69,261	2,69,261	0.0%
PPOP	1,17,040	1,17,040	0.0%	1,35,800	1,35,800	0.0%	1,76,690	1,76,690	0.0%
PAT	39,892	39,892	0.0%	74,494.8	74,495	0.0%	1,05,536	1,05,536	0.0%
EPS (Rs)	66.2	66.2	0.0%	123.6	123.6	0.0%	175.1	175.1	0.0%
BV (Rs)	588	588	0.0%	696	696	0.0%	852	852	0.0%

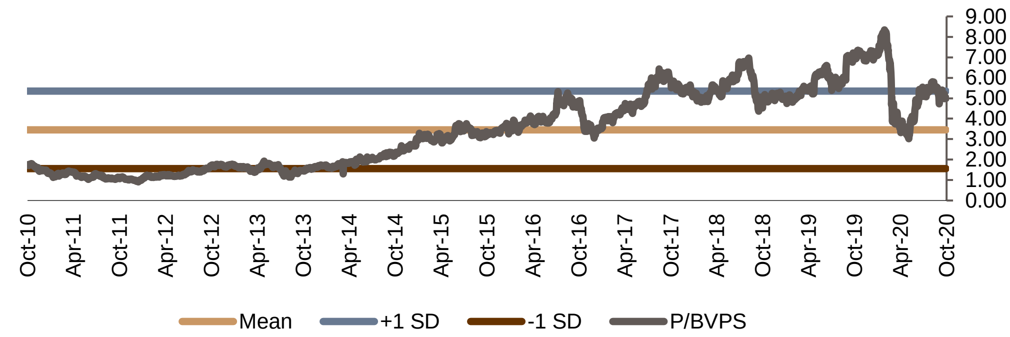
Source: Company, Emkay Research

Exhibit 10: Key assumptions

(in %)	FY20	FY21E	FY22E	FY23E
AUM growth	27.0%	5.0%	30.0%	30.0%
Borrowings growth	25.7%	-0.7%	35.3%	29.3%
Yield on average loans	18.1%	17.3%	16.8%	16.6%
Cost of average int. liabilities	8.1%	7.8%	7.5%	7.0%

Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 5x 1-year forward P/B



Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	**97,252**	**1,34,972**	**1,50,312**	**1,75,832**	**2,32,013**
Other income	21,530	34,152	26,341	31,503	37,248
Net income	**1,18,782**	**1,69,124**	**1,76,653**	**2,07,334**	**2,69,261**
Operating expenses	41,977	56,608	59,612	71,535	92,571
Pre provision profit	**76,805**	**1,12,516**	**1,17,040**	**1,35,800**	**1,76,690**
Provisions	15,014	39,295	63,349	35,537	34,649
Profit before tax	**61,792**	**73,221**	**53,691**	**1,00,262**	**1,42,041**
Tax	21,842	20,584	13,799	25,767	36,504
Tax rate	35	28	26	26	26
Profit after tax	**39,950**	**52,638**	**39,892**	**74,495**	**1,05,536**

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	1,154	1,200	1,200	1,200	1,200
Reserves	1,95,817	3,22,076	3,53,545	4,18,213	5,12,518
Net worth	**1,96,970**	**3,23,276**	**3,54,745**	**4,19,413**	**5,13,718**
Borrowings	10,32,595	12,98,064	12,88,928	17,43,799	22,54,275
Total liabilities	**12,42,325**	**16,43,914**	**16,80,125**	**22,07,879**	**28,22,566**
Cash and bank	3,487	13,827	24,068	12,005	9,338
Investments	86,023	1,75,472	1,03,114	1,74,380	1,80,342
Loans	11,38,633	14,31,874	15,24,113	19,83,883	25,82,598
Others	7,266	9,564	9,723	9,906	10,117
Total assets	**12,42,325**	**16,43,914**	**16,80,125**	**22,07,879**	**28,22,566**

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	9.8	10.3	10.0	9.9	10.0
RoA	3.8	3.6	2.4	3.8	4.2
RoAE	22.5	20.2	11.8	19.2	22.6
GNPA (%)	1.6	2.1	3.8	4.1	4.3
NNPA (%)	0.6	0.6	1.2	1.2	1.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	68.8	90.6	66.2	123.6	175.1
BVPS	339.0	556.4	588.5	695.7	852.2
ABVPS	326.5	541.2	559.8	655.9	797.8
DPS	6.0	10.0	12.0	14.0	16.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	47.0	35.7	48.9	26.2	18.5
P/BV	9.5	5.8	5.5	4.6	3.8
P/ABV	9.9	6.0	5.8	4.9	4.1
P/PPOP	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.2	0.3	0.4	0.4	0.5

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	39.5	38.8	11.4	17.0	32.0
PPOP	57.6	46.5	4.0	16.0	30.1
PAT	60.0	31.8	(24.2)	86.7	41.7
Loans	42.3	25.8	6.4	30.2	30.2

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
NII	39,997	45,347	46,834	41,521	41,652
NIM(%)	12.1	12.9	12.8	11.6	12.1
PPOP	26,167	30,008	32,320	29,954	30,059
PAT	15,063	16,141	9,481	9,623	9,649
EPS (Rs)	26.13	26.91	15.80	16.04	16.06

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20
Promoters	58.3	56.2	56.2	56.2	56.2
FIIs	20.7	22.5	22.2	21.2	21.2
DIIs	8.6	10.0	10.5	10.9	10.1
Public and Others	12.5	11.4	11.2	11.8	12.4

Source: Capitaline

Emkay Alpha Portfolio – BFSI-NBFCs

Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	**7.59**	**7.59**	**0%**	**0**	**100.00**
Bajaj Finance	1.32	1.32	0%	0	17.34
Cholamandalam Investment	0.14	0.15	2%	0	1.95
Edelweiss Financial Services	0.05	0.00	-100%	-5	0.00
HDFC	5.52	5.63	2%	11	74.17
L&T Finance Holdings	0.06	0.03	-50%	-3	0.41
LIC Housing Finance	0.13	0.13	0%	0	1.77
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.12	0.08	-35%	-4	1.01
Nippon Life	0.06	0.06	0%	0	0.80
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.19	0.19	3%	0	2.55
Cash	**0.00**	**0.00**	**NA**	**0**	**0.00**

Source: Emkay Research

** Not under coverage: Equal Weight*

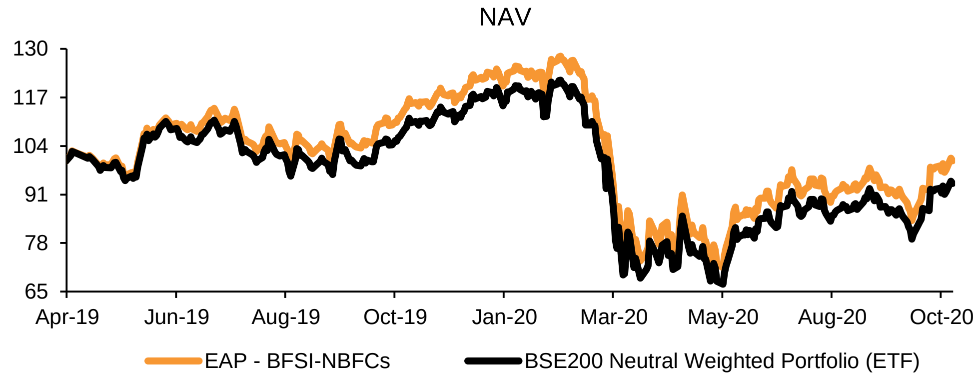
High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	21-Jan-20	21-Apr-20	21-Jul-20	18-Sep-20	20-Oct-20
EAP - BFSI-NBFCs	100.0	124.0	79.6	95.2	90.4	100.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	118.8	74.6	89.6	85.2	93.9

**Performance measurement base date 1st April 2019*
Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

Please see our model portfolio (Emkay Alpha Portfolio): SMID

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 22 Oct 2020 01:12:45 (SGT)
Dissemination Date: 22 Oct 2020 01:13:45 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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