

# Retail Equity Research

## Bajaj Finance Limited

NBFC

BSE CODE: 500034

NSE CODE: BAJFINANCE

Bloomberg CODE: BAF:IN

SENSEX: 40,146

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 3,293 TARGET Rs. 3,760 RETURN 14% ↑  
(Closing: 26-10-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Strong player in tough times

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.

- Q2FY21 AUM grew 1.1% YoY to Rs. 137,090cr. As of 30<sup>th</sup> Sep, the AUM under moratorium improved to 8.0% (15.7% in Q1FY21).
- Net Interest Income rose 4.0% YoY to Rs. 4,158cr. However, PAT slipped 35.9% YoY, as provisions rose to Rs. 1,700cr from Rs. 594cr in Q2FY20.
- As of 30<sup>th</sup> Sep, Capital adequacy ratio stood at 26.6%; Gross NPA/Net NPA at 1.03%/0.37%.
- The company's strong liquidity position, capital preservation, opex management coupled with improved customer sentiments should drive growth in upcoming quarters. We reiterate our BUY rating on the stock with a revised target price of Rs. 3,760 based on 5.2x FY22E BVPS.

### Pre-provisioning profit grew, driven by cost efficiencies

Q1FY21 net interest income increased by 4.0% YoY to Rs. 4,158cr, as volumes have started accelerating only from Sep-2020 onwards across all businesses. The availability of bureau data from Nov-2020 should also aid in volume growth for upcoming quarter. In Sep, the recovery in rural consumption was faster (achieving 91% volume levels vs previous year) than urban (72% volume vs. previous year). Credit card stood at 73%, ecommerce at 75%, while auto finance business remained subdued at 54% of last year's volume. Owing to prudent cost measures, the Opex to NII improved ~680bps YoY to 27.8%. Resultantly, pre-provisioning profit rose by 14.9% YoY to Rs. 3,006cr. However, PAT dropped by 35.9% YoY to Rs. 965cr, due to increased provisioning of Rs. 1,700cr vs. 594cr in Q2FY20.

### Liquidity and Asset quality Management

The liquidity buffer increased to Rs. 24,775 and SLR Investments remained stable at Rs. 2,582cr as of 20-Oct, representing 21.9% of its total borrowing. However, carrying cost of liquidity rose to Rs. 220cr (vs. Rs. 47cr in Q2FY20). Management expects the costs to come down post Q4FY21. GNPA/NNPA stood at 1.03%/0.37% (1.40%/0.50% in Q1FY21) following Supreme Court's order for not classifying customers as NPA after 31-Aug-2020.

### Key concall highlights

- The company plans to restart Retailing EMI card business by Jan-2021 and wallet loan business only by Mar-2021, given the present risk scenario.
- New loans during the quarter stood at 3.62mn (vs. 6.47mn in Q2FY20). The company is observing MoM improvement across businesses.
- Retail-Corporate deposit mix stood at 75:25 (vs. 56:44 in Q2FY20), reducing exposure to corporate deposits.
- BAF increased provisioning for Stage 1 and 2 assets by Rs. 1,370cr, with accumulated provisions of Rs. 5,099cr as on 30-Sep-2020.

### Outlook & Valuation

BAF's cost prudence has helped in delivering strong set of numbers. The MoM improvements in volumes across the segments highlight improving customer sentiments. Strong liquidity along with adequate provisioning should help the company to sail through challenging times. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 3,760 based on 5.2x FY22E BVPS.

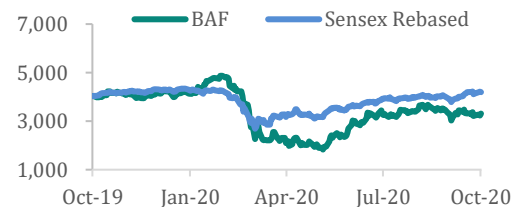
### Company Data

Market Cap (cr)	Rs. 199,181
Outstanding Shares (cr)	60.0
Free Float	41.0%
Dividend Yield	0.3%
52 week high	Rs. 4,923
52 week low	Rs. 1,783
6m average volume (lac)	3.7
Beta	1.3
Face value	Rs. 2

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	56.2	56.2	56.1
FII's	21.2	21.2	21.3
MFs/Insti	11.2	10.3	11.0
Public	8.6	9.1	9.1
Others	2.9	3.1	2.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.6%	52.5%	-17.8%
Absolute Sensex	6.7%	27.7%	4.2%
Relative Return*	-6.1%	24.8%	-22.0%

\*over or under performance to benchmark index



Consolidated (Rs. cr)	FY20A	FY21E	FY22E
Net Interest Income	16,901	18,106	20,947
Growth (%)	42.5	7.1	15.7
NIM (%)	12.1	10.8	10.7
Pre Pro Profit	11,252	11,292	12,815
Net Profit	5,264	4,771	6,712
Growth (%)	31.8	(9.4)	40.7
Adj. EPS	89.1	80.7	113.6
Growth (%)	29.6	(9.4)	40.7
BVPS	547.0	617.8	722.8
P/E	24.9	41.1	29.2
P/BV	4.1	5.4	4.6
P/ABV	4.1	5.4	4.6
RoE (%)	20.2	13.9	16.9

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs. cr)	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Interest Income	6,517	6,322	3.1	6,648	(2.0)	13,165	12,128	8.6
Interest Expense	2,358	2,323	1.5	2,498	(5.6)	4,856	4,437	9.4
<b>Net Interest Income</b>	<b>4,158</b>	<b>3,999</b>	<b>4.0</b>	<b>4,151</b>	<b>0.2</b>	<b>8,309</b>	<b>7,691</b>	<b>8.0</b>
Non-Interest Income	7	1	n.m.	2	337.7	8	3	n.m.
<b>Total Net Income</b>	<b>4,165</b>	<b>4,000</b>	<b>4.1</b>	<b>4,152</b>	<b>0.3</b>	<b>8,317</b>	<b>7,694</b>	<b>8.1</b>
<b>Total Income</b>	<b>6,523</b>	<b>6,323</b>	<b>3.2</b>	<b>6,650</b>	<b>(1.9)</b>	<b>13,173</b>	<b>12,131</b>	<b>8.6</b>
Operating Expenses	1,159	1,383	(16.2)	1,157	0.2	2,316	2,675	(13.4)
Total Expenditure	3,517	3,706	(5.1)	3,654	(3.7)	7,172	7,112	0.8
<b>Pre-Provisioning profit</b>	<b>3,006</b>	<b>2,617</b>	<b>14.9</b>	<b>2,995</b>	<b>0.3</b>	<b>6,001</b>	<b>5,019</b>	<b>19.6</b>
Provisions	1,700	594	186.2	1,686	0.9	3,386	1,145	195.7
<b>Profit Before Tax</b>	<b>1,305</b>	<b>2,022</b>	<b>(35.5)</b>	<b>1,310</b>	<b>(0.3)</b>	<b>2,615</b>	<b>3,874</b>	<b>(32.5)</b>
Tax	341	516	(34.0)	347	(2.0)	688	1,172	(41.3)
<b>Net Profit</b>	<b>965</b>	<b>1,506</b>	<b>(35.9)</b>	<b>962</b>	<b>0.3</b>	<b>1,927</b>	<b>2,702</b>	<b>(28.7)</b>
<b>EPS - Diluted (Rs.)</b>	<b>16.0</b>	<b>25.9</b>	<b>(38.3)</b>	<b>15.9</b>	<b>0.3</b>	<b>31.9</b>	<b>46.4</b>	<b>(31.3)</b>

### Business Performance

(Rs. cr)	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %
AUM	137,090	135,533	1.1	138,055	(0.7)
Borrowings	124,900	119,539	4.5	121,120	3.1

### Change in Estimates

(Rs. cr)	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income	18,156	21,501	18,106	20,947	(0.3)	(2.6)
NIM	10.70	10.83	10.76	10.65	6bps	(18)bps
Pre-Provisioning Profit	11,342	13,369	11,292	12,815	(0.4)	(4.1)
Net Profit	4,739	7,049	4,771	6,712	0.7	(4.8)
EPS (Rs.)	80.2	119.3	80.7	113.6	0.7	(4.8)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	12,744	18,487	26,374	27,891	35,327
Interest Expense	4,614	6,624	9,473	9,786	14,380
<b>Net Int. Income</b>	<b>8,131</b>	<b>11,864</b>	<b>16,901</b>	<b>18,106</b>	<b>20,947</b>
% Change	31.7	45.9	42.5	7.1	15.7
Non-Int. Income	12	13	12	13	14
<b>Net Income</b>	<b>8,143</b>	<b>11,877</b>	<b>16,912</b>	<b>18,119</b>	<b>20,962</b>
<b>Total Income</b>	<b>12,757</b>	<b>18,500</b>	<b>26,386</b>	<b>27,904</b>	<b>35,342</b>
Operating Exp.	3,269	4,196	5,661	6,827	8,146
<b>Total Exp.</b>	<b>7,883</b>	<b>10,820</b>	<b>15,134</b>	<b>16,612</b>	<b>22,526</b>
<b>Pre-Prov. Profit</b>	<b>4,874</b>	<b>7,681</b>	<b>11,252</b>	<b>11,292</b>	<b>12,815</b>
Provisions	1,030	1,501	3,929	4,922	3,867
<b>PBT</b>	<b>3,843</b>	<b>6,179</b>	<b>7,322</b>	<b>6,370</b>	<b>8,949</b>
Tax	1,347	2,184	2,058	1,599	2,237
Tax Rate (%)	35.0	35.3	28.1	25.1	25.0
<b>Net Profit</b>	<b>2,496</b>	<b>3,995</b>	<b>5,264</b>	<b>4,771</b>	<b>6,712</b>
% Change	35.9	60.0	31.8	(9.4)	40.7
No. of Shares (cr)	57	58	59	59	59
<b>Adj. EPS (Rs.)</b>	<b>43.9</b>	<b>68.8</b>	<b>89.1</b>	<b>80.7</b>	<b>113.6</b>
% Change	30.4	56.5	29.6	(9.4)	40.7
DPS (Rs.)	4.0	6.0	10.0	8.5	10.2

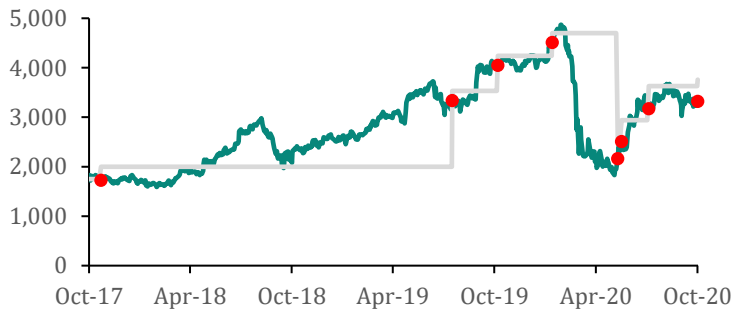
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	338	347	1,345	7,234	2,608
Investments	3,139	8,599	17,544	20,702	21,116
Advances	79,103	112,513	141,376	156,927	194,590
Fixed Assets	346	527	1,097	1,119	1,142
Other Assets	1,872	2,247	3,030	3,222	3,263
<b>Total Assets</b>	<b>84,798</b>	<b>124,233</b>	<b>164,391</b>	<b>189,205</b>	<b>222,719</b>
Capital	115	115	120	120	120
Reserve & Surplus	15,733	19,582	32,208	36,388	42,597
Deposits	7,793	13,193	21,427	26,784	27,320
Borrowings	54,626	84,256	104,238	119,378	146,077
Other Liabilities	6,531	7,087	6,399	6,536	6,606
<b>Total Liabilities</b>	<b>84,798</b>	<b>124,233</b>	<b>164,391</b>	<b>189,205</b>	<b>222,719</b>
<b>BVPS (Rs.)</b>	<b>279</b>	<b>339</b>	<b>547</b>	<b>618</b>	<b>723</b>
% Change	68.0	21.6	61.4	12.9	17.0

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Valuation</b>					
P/E (x)	40.1	43.5	24.9	41.1	29.2
P/BV (x)	6.3	8.8	4.1	5.4	4.6
Div. Yield (%)	0.2	0.2	0.5	0.3	0.3
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	18.9	19.3	20.8	18.7	20.1
Cost of Deposits	8.4	8.3	8.5	7.2	9.0
Spread	10.5	11.0	12.3	11.5	11.1
NIM	11.5	11.7	12.1	10.8	10.7
ROE	20.1	22.5	20.2	13.9	16.9
ROA	3.7	4.2	3.6	2.7	3.3
<b>Capital Adequacy (%)</b>					
CAR	24.0	20.7	25.0	25.6	26.5
Tier I	18.4	16.3	21.3	22.0	23.1
Tier II	5.5	4.4	3.7	3.6	3.3
<b>Asset Quality (%)</b>					
GNPA	1.4	1.5	1.6	2.0	2.1
NNPA	0.4	0.6	0.7	0.7	0.7
<b>Operating Ratios (%)</b>					
Debt/Equity	4.2	5.2	4.0	4.1	4.2
Cost/Income	40.1	35.3	33.5	37.7	38.9

## 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
8-Jun-20	BUY	2,940
27-Jul-20	BUY	3,630
27-Oct-20	BUY	3,760

## 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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