



NBFC	Sharekhan code: BAJFINANCE	Result Update
------	----------------------------	---------------

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 5,938	
Price Target: Rs. 7,000	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

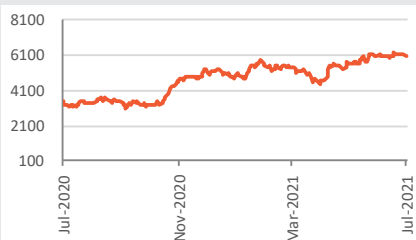
Company details

Market cap:	Rs. 358408.29 cr
52-week high/low:	Rs. 6,340 / 3,009
NSE volume: (No of shares)	14.0 lakh
BSE code:	540767
NSE code:	BAJFINANCE
Free float: (No of shares)	26.56 cr

Shareholding (%)

Promoters	56.03
FII	24.0
DII	7.4
Others	12.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3	28.8	19	73
Relative to Sensex	-2.2	19.4	14	33

Sharekhan Research, Bloomberg

Summary

- Q1FY2022 results were soft with NII increasing 12% y-o-y and rising by 4% y-o-y. AUM increased 15% y-o-y to Rs. 159,057 crore.
- Bajaj Finance has launched its payment business and has 320,000 customers as of July 15, 2021. The company plans to garner 5 million customers by Mar 2022 that will help boost customer engagement and thereby, earnings.
- Asset quality deteriorated owing to the lockdown amid the second wave of COVID-19. GNPLs increased 144% y-o-y/73% q-o-q to Rs. 4,737 crore.
- BFL trades at 8.2x/6.8x its FY2022E/FY2023E BVPS, backed by business strength. We maintain a Buy rating on the stock with an unchanged price target of Rs. 7,000.

Bajaj Finance Limited's (BFL's) Q1FY2022 results were soft under the tough COVID-led environment. NII largely met our estimates. Asset quality deteriorated sequentially, with GNPA / NNPA coming in at 2.96% / 1.46%. The Company holds a management overlay provision of Rs 483crore as of Q1FY22. The management commentary on growth and asset-quality outlook for the near term due to the opening of the economy since June was positive. The management indicated that GNPA will come down to 1.7-1.8% by March 2022. The company is well-positioned to navigate any temporary stresses on account of third COVID wave if it arises. On the operational front, BFL saw NII (calculated) stable on a y-o-y basis, but up 12%y-o-y, while PPOp was up 4% y-o-y. The company's assets under management (AUM) rose 15% y-o-y. We believe the business transformation steps that are underway for BFL, would not only be positive for business sustainability, scalability, but also position BFL to take advantage of a strong economic upturn expected in FY2022E. Business transformation, as well as relations with Banks partners will help diversify business channels. The drag on margins due to liquidity buffers continued in Q1 as well. We believe armed with factors such as a strong balance sheet, robust risk management, and prudent management, BFL is a strong franchise for the long term and is well-placed to ride over medium-term challenges. We maintain our Buy rating on the stock with an unchanged price target of Rs. 7,000.

Key positives

- Cost of funds decreased to 7.11% in Q1FY22 from 7.39% in Q4FY21. BFL has a comfortable liquidity buffer of Rs. 10857 crore, which forms 8% of its borrowings. The management indicated that cost of funds will decrease further as liquidity buffer is reinstated to pre-Covid levels
- Customer franchise increased 17% y-o-y as of Q1FY22 and stood at 5.45 million indicating a strong customer traction. The Company acquired 1.88 million new customers in Q1FY22.

Key negatives

- Asset quality deteriorated owing to the lockdown amid the second wave of COVID-19. GNPLs increased 144% y-o-y/73% q-o-q to Rs. 4737 crore.

Our Call

Valuation: BFL trades at 8.2x/6.8x its FY2022E/FY2023E BVPS backed by business strength. BFL launched its payment business and has 320,000 customers as of July 15, 2021. The company plans to garner 5 million customers by March 2022. This will aid higher customer engagement and thus increased earnings and thus valuation. The management indicated the company is today better prepared (as compared to last year) to face near-term headwinds of the pandemic resurgence. We believe that with improvement in AUM growth, liquidity drag to reduce, will be positive for margins. Given BFL's strong balance sheet and business strengths, we believe the company is structurally an over 20% ROE business franchise in a normalised steady state basis. We believe that BFL's stable leadership, well-capitalised balance sheet, robust risk management, and prudent management make it a strong franchise for the long term, which is well placed to ride over medium-term challenges. We maintain our Buy rating on the stock with an unchanged PT of Rs. 7,000.

Key Risks

Prolonged or intermittent lockdowns may result in slower growth and operational challenges, which along with worsening of economic parameters will pose a challenge.

Valuation

Particulars	Rs cr				
	FY19	FY20	FY21	FY22E	FY23E
Net interest income (Rs cr)	11,762	16,901	17,254	20,582	25,309
Net profit (Rs cr)	3,995	5,264	4,420	7,519	9,802
EPS (Rs)	68.9	87.7	73.5	125.0	162.9
PE (x)	86.2	67.7	80.8	47.5	36.4
Book value (Rs/share)	342	499	614	724	868
P/BV (x)	17.4	11.0	9.7	8.2	6.8
RoE (%)	22.1	20.2	12.8	18.7	20.5
RoA (%)	3.7	3.6	2.5	3.5	3.6

Source: Company; Sharekhan estimates

Bajaj Finance Key Concall Highlights

- ◆ **Customer acquisition:** BFL acquired 1.88 million new customers. As of Q1FY22, the customer franchise increased 17% y-o-y and stood at 5.45 million indicating strong customer traction.
- ◆ **Driving payment business:** BFL launched its payment business and has 320,000 customers as of Jul 15, 2021. The company plans to garner 5 million customers by March 2022. This will aid in higher customer engagement and thus increased earnings.
- ◆ **Widening geographic footprint:** BFL has presence in 3113 locations and over 114,000 distribution points. During Q1FY22, it expanded in 125 locations and opened 49 new branches.
- ◆ **Cost of funds declined:** BFL's cost of funds decreased to 7.11% in Q1FY22 from 7.39% in Q4FY21. It has comfortable liquidity buffer of Rs. 10,857 crore, which forms 8% of its borrowings. Management indicated the cost of funds will decrease further as liquidity buffer is reinstated to pre-COVID levels
- ◆ **Auto finance worst-affected:** Owing to the pandemic, auto finance portfolio was worst affected. With GNPL rising 98% q-o-q to Rs. 425 crore.
- ◆ **Improvement in bounce rate:** The EMI bounce rate improved to 0.96x in July-21 owing to improving economic activity. It was 1.08x of Q4FY21 in Q1FY22.
- ◆ **Opex to NII ratio to normalise:** Current opex to Income ratio is 30.6% as at Q1FY22. With economic activity picking up, opex to NII to normalise to 33% by Q4FY22.
- ◆ **Liquidity & borrowing costs:** The company has a liquidity buffer of Rs 16,485 crore as of 31 March 2021. This represents 12.5% of its total borrowing. BFL has paid down over Rs 7,500 crore to various banks in last two quarters as part of its strategy to optimize cost of funds and benefit from lower interest rate environment.
- ◆ **Asset quality deteriorated:** Gross NPA (%) came at 2.96% versus 1.79% in Q4FY21. Net NPA (%) came at 1.46% vs 0.75% q-o-q. It plans to bring it down GNPL to 1.7-1.8% by Mar-2022.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
Interest Income & Fees	6741.91	6648.2	1	6850.6	-2
Interest and Other Charges	2253.55	2,498	-10	2195.6	3
Net Interest Income	4488.36	4150.57	8	4655.1	-4
Other Income	1.1	1.54	-29	4.3	-74
Total Operating Income	4489.46	4152.11	8	4659.4	-4
Employee Expense	616.52	537.52	15	768.3	-20
Depreciation	89.02	84.22	6	89.9	-1
Other Expenses	388.01	349.25	11	747.8	-48
PPoP	3116.18	2995.42	4	3053.4	2
Provisions and Loan losses	1750.32	1685.73	4	1230.8	42
PBT	1365.86	1309.69	4	1822.6	-25
Tax Expense	363.42	347.37	5	476	-24
Profit After Tax	1002.44	962.32	4	1346.6	-26

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Structural Tailwinds to support

We believe that retail players have a large market to grow and recent credit growth of over 6% indicates pickup in credit offtake, especially in retail and consumer segments. Leading indicators depict recovery in economic activity, which will be a positive. So far, risk metrics of new volumes originated across businesses are tracking better than pre-COVID-19 origination. We believe that the retail and consumer lending segments have a long structural growth runway available to them, as India's credit delivery diversifies and penetration increases. In this backdrop, aided by a strong demographic advantage, we believe nimble NBFCs and private banks can co-exist and grow for the foreseeable future as the market expands.

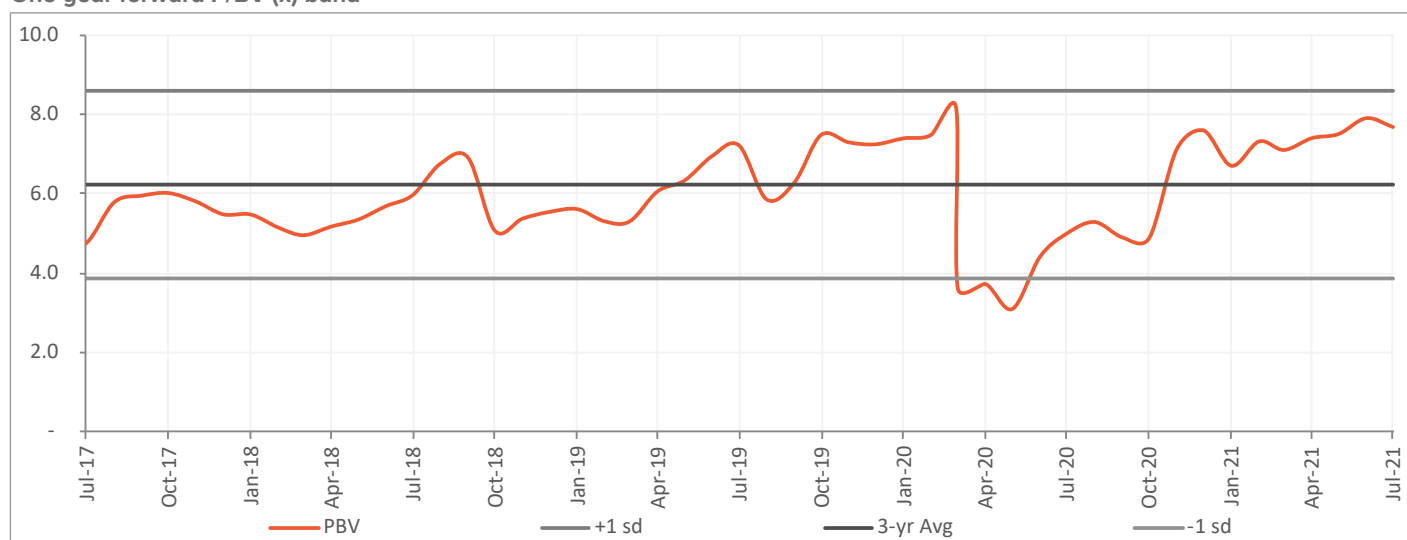
■ Company outlook – Strong and prudent management, company getting ready for future growth

BFL remains well-capitalised with a CRAR of 22.7% as at Q1FY22. The drag on margins due to liquidity buffers continued in Q1 as well, but as situation normalises, and with the return of growth, is expected to wane, which will offer positive support for BFL's margins. The company is in the middle of a business transformation, which aims to significantly strengthen its technology, data science, app design and content design to transform the customer experience model. We believe there are several business transformation steps that are underway for BFL, which would not only be positive for business sustainability and scalability, but would also position BFL to take advantage of a strong economic upturn expected in FY2022E. Once implemented, this transformation should lead to significantly higher velocity at a much lower cost.

■ Valuation – Maintain Buy recommendation with an unchanged PT of Rs. 7000

BFL trades at 8.2x/6.8x its FY2022E/FY2023E BVPS backed by business strength. BFL launched its payment business and has 320,000 customers as of July 15, 2021. The company plans to garner 5 million customers by March 2022. This will aid higher customer engagement and thus increased earnings and thus valuation. The management indicated the company is today better prepared (as compared to last year) to face near-term headwinds of the pandemic resurgence. We believe that with improvement in AUM growth, liquidity drag to reduce, will be positive for margins. Given BFL's strong balance sheet and business strengths, we believe the company is structurally an over 20% ROE business franchise in a normalised steady state basis. We believe that BFL's stable leadership, well-capitalised balance sheet, robust risk management, and prudent management make it a strong franchise for the long term, which is well placed to ride over medium-term challenges. We maintain our Buy rating on the stock with an unchanged PT of Rs. 7,000.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Bajaj Finance	5,938	8.2	6.8	47.5	36.4	3.5	3.6	18.7	20.5
HDFC Ltd	2,459	3.8	3.5	39.0	33.3	1.9	1.9	12.7	13.3
Cholamandalam	490	5.2	4.4	18.2	13.8	2.2	2.3	19.9	19.9

Source: Company, Sharekhan research

About company

BFL is one of India's largest NBFCs for consumer finance. The company provides loans for two-wheelers, consumer durables, housing, small businesses, construction equipment, and infrastructure finance. BFL undertook business and organisational restructuring in FY2008 and re-defined small business and consumer financing as its key niches. The company operates through 944 urban locations and 951 rural locations, with over 91,700 distribution points. BFL continues to be the largest consumer durables lenders in India. As a business entity, BFL continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

Investment theme

BFL enjoys a dominant position in the Indian consumer finance space with a strong presence in retail assets and liabilities. BFL's dominance in the market is seen in the consistent growth and margin performance maintained by the company across credit cycles and rate cycles. During the past few years, BFL has been posting consistently strong growth with high but stable NIMs along with excellent asset quality. The sequential improvement in asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability. Despite the medium-term impact of the pandemic, we expect BFL to maintain its loan book trajectory as well as profitability and margin because of healthy franchise expansion and increasing customer base in the long term.

Key Risks

Prolonged or intermittent lockdowns may result in slower growth and operational challenges, which along with worsening of economic parameters will pose a challenge.

Additional Data

Key management personnel

Mr. Rahul Bajaj	Chairman
Mr. Rajeev Jain	Managing Director
Mr. Atul Jain	Chief Executive Officer (BHFL)
Mr. Anup Saha	President – Consumer Business

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of Singapore	3.61
2	Maharashtra Scooters Ltd	3.15
3	Axis Asset Management Co Ltd/India	1.92
4	AXIS MUTUAL FUND TRUSTEE L	1.87
5	SBI Funds Management Pvt Ltd	1.6
6	Steadview Capital Mauritius Ltd	1.21
7	BlackRock Inc	1.15
8	Capital Group Cos Inc/The	1.11
9	Vanguard Group Inc/The	1.09
10	UTI Asset Management Co Ltd	0.77

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.