

## Stellar show, beats estimates, improved visibility...

**About the stock:** Bajaj Finance is a dominant player in the consumer finance space while it has also made a foray into various lending segments wherein housing has grown to a significant size.

- Consumer business forms ~34% of overall consolidated AUM
- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to >18% RoE and >3% RoA consistently

### Q3FY22 Results: Healthy business momentum, improved asset quality.

- Strong NII growth at 39% YoY, 12.5% QoQ, above estimate at ₹ 5998 crore
- C/I declined to 34.7% vs. 38.1% QoQ as costs were controlled
- GNPA, NNPA ratio declined to 1.73%, 0.78%, respectively in Q3FY22
- PAT grew 85.5% YoY and 43.5% QoQ to ₹ 2125 crore

**What should investors do?** Bajaj Finance's share price has been largely steady in the past few months while it has jumped 64% in the past year. We believe since the fin-tech story is embedded in this business, valuations should stay at premium.

- We maintain BUY rating on the stock

**Target Price and Valuation:** The core business has got potential and is well on track to get transformed into an adaptable new age fin-tech. We roll over our valuations and arrive at a TP of ₹ 9500 by valuing the business at ~8.4x FY24E ABV.

### Key triggers for future price performance:

- Growth on the cusp of acceleration once uncertainties of pandemic fade off
- Agility to switch from online to offline model and vice versa provides edge
- Strong asset quality performance despite shift to new norms is positive
- RoE is seen returning to ~15% and RoA at >3%

### Alternate Stock Idea: Apart from BAF, in our BFSI coverage we also like HDFC Ltd.

- HDFC Ltd is the largest housing finance company in India with AUM of ₹ 5.2 lakh crore. With housing demand picking up, we believe HDFC would be the largest beneficiary of the same
- We have a BUY rating with a target price of ₹ 3350

**BAJAJ**  
FINANCE

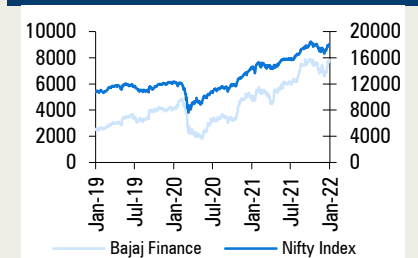
#### Particulars

Particulars	Amount
Market Capitalisation	₹ 467613 crore
52 week H/L	8020/ 4361
Face Value	₹ 2
Net worth	₹ 41193 Crore
DII Holding (%)	9.7
FII Holding (%)	23.6

#### Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	56.1	56.1	56.0	56.0	56.0
FII	23.9	24.1	24.0	23.6	23.6
DII	9.1	9.1	9.3	9.7	9.7
Others	10.9	10.7	10.6	10.6	10.6

#### Price Chart



#### Recent Event & Key risks

- Strong performance on topline leads to healthy PAT growth
- Key Risk:** (1) Third wave of pandemic may dent asset quality (2) Unsecured book can be vulnerable

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#### Key Financial Summary

₹ Crore	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
NII (₹ crore)	16901	17254	33%	20898	24763	30176	20%
PPP (₹ crore)	11252	11961	35%	13708	16415	20478	20%
PAT (₹ crore)	5264	4420	25%	6463	8960	10742	34%
ABV (₹)	534	597		662	899	1,133	
P/E	87	105		72	53	45	
P/ABV	14.5	13.0		11.7	8.6	6.8	
RoA	2.8	2.4		3.6	3.9	3.9	
RoE	20.2	12.8		16.2	17.6	16.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY22 Results: stable results, all eyes on digital execution

- Strong net interest income (NII) growth at 28% YoY above expectations at ₹ 5335 crore up 19% QoQ (₹ 4484 crore in Q1FY22) stole the show. Interest reversal for the quarter was ₹ 322 crore compared to ₹ 215 crore YoY and ₹ 450 crore QoQ
- Bajaj Finance has posted a stellar performance for Q3Y22 with NII growth of 39.7% YoY and 12.5% QoQ to ₹ 5998 crore, which beat our estimates. Costs were under control. Thus, sequentially C/I ratio declined to 34.7% from 38.1% QoQ
- Provisions for Q3FY22 declined 19% QoQ and 22% YoY to ₹ 1051 crore. This was mainly due to healthy improvement in asset quality. The company currently holds management overlay provisions worth ₹ 1083 crore. Thus, net profit for the quarter came in at ₹ 2125 crore, up 85% YoY and ahead of our estimates
- Asset quality performance was healthy as GNPA and NNPA declined 72 bps and 32 bps QoQ to 1.73% and 0.78%, respectively. These key ratios are now back to pre-Covid levels. Overall stage 2 assets reduced to ₹ 5,299 crore vs. ₹ 5,962 crore QoQ
- AUM growth also gained traction as it was up 8.6% QoQ and 26.3% YoY to ₹ 181250 crore. This was primarily driven by 46% uptick in consumer (sales finance) business, 40% rise in commercial lending, while consumer B2C and mortgage also saw steady 25% growth each. Deposit were up 28% YoY to ₹ 30481 crore
- Capital adequacy was strong at 26.96% with Tier I at 24.4%. Total customer franchise was at 5.53 crore, representing growth of 20% YoY. It acquired 25.6 lakh new customers in Q3FY22 vs. 21.9 lakh in the previous year. New loans booked during the quarter were at 74.4 lakh vs. 60.4 lakh YoY

### Conference call highlights

- With the increase in adoption of new app, annual customer franchise addition should accelerate to 80-90 lakh against earlier guidance of 70-80 lakh per annum
- Interest income reversal for Q3FY22 was ₹ 241 crore. By Q4FY22E, interest reversals should normalise to pre-Covid levels of ₹ 180-200 crore
- The company has been able to protect its margins despite rise in competitive intensity across products
- Liquidity buffer was at ₹ 14,400 crore as of December 31, 2021. Target is to normalise to ₹ 11,000 crore levels by Q4FY22E
- Change in NPA recognition from number of EMI outstanding to days past dues, as per RBI norms, did not have any substantial impact on NPA numbers
- Overall stress reduction (Stage 3 + 2) has been 139 bps wherein 113 bps reduction was from stage 3 assets
- Loan loss provisions to be in the range of ₹ 4800-5000 crore for FY22
- Board has approved capital infusion of ₹ 2500 crore in BHFL and ₹ 400 crore in BFSL
- In Q3, BFSL changed its acquisition strategy to focus on higher activation rate
- In phase 2 of transformation journey, the company will be launching new features in three to four sprints with first part kicking in July 2022 quarter
- Top 20 dealers contribute ~20% of incremental disbursement
- Mismatch exists between risk and interest rates in some credit segments in the industry
- New customer addition guidance upped from 70-80 lakh per year to 80-90 lakh on the back of robust infrastructure.

## Comparison

### Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC (HDFC)	2,662	3,350	Buy	4,822	59.8	74.9	82.9	44.5	35.5	32.1	4.4	4.2	4.0	11.1	12.2	12.8
Bajaj Finserv (BAFINS)	18,156	20,200	Buy	2,889	235.6	290.7	408.7	77.0	62.5	44.4	8.0	7.1	6.1	11.0	12.1	14.8
Bajaj Finance (BAJFI)	7,747	9,500	Buy	4,676	73.6	107.4	146.5	105.3	72.1	52.9	13.0	11.7	8.6	12.8	15.0	15.7
M & M Finance (MAHFIN)	164	160	Reduce	190	2.7	3.4	12.5	60.3	48.4	13.1	1.6	1.8	1.5	2.6	2.8	9.7
Muthoot Finance (MUTFIN)	1,463	1,920	Buy	587	8.0	9.5	12.0	183.6	153.5	121.5	4.0	3.3	2.7	27.8	25.0	26.0

Source: Company, ICICI Direct Research

### Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
NII	5,998	5,700	4,293	39.7	5,334	12.5	Strong growth driven by margin expansion and business traction
NIM (%) (calc)	16.3	15.2	11.1	524 bps	14.1	218 bps	Improved asset quality aided margin expansion
Other Income	2	3	2	5.5	1	254.3	
Staff cost	1,016	1,018	678	49.7	937	8.4	
Other Operating Expenses	1,066	947	711	49.8	1,093	-2.5	
Opex to NII(%)	34.7	34.5	32.4	7.2	38.1	-8.8	Opex kept under check that improved C/I ratio
PPP	3,919	3,739	2,906	34.9	3,305	18.6	
Provision	1,051	1,365	1,352	-22.2	1,300	-19.2	Fall in credit cost due to improved asset quality
PBT	2,868	2,373	1,555	84.5	2,004	43.1	
Tax Outgo	743	593	409	81.8	523	41.9	
PAT	2,125	1,780	1,146	85.5	1,481	43.5	Strong top line growth along with fall in credit cost boosts PAT
Key Metrics							
GNPA	3,108	4,144	789	293.9	4,103	-24.3	Improved collections and recoveries aided asset quality
NNPA	1,380	1,972	283	387.6	1,826	-24.4	
AUM	1,81,250	1,81,300	1,43,550	26.3	1,66,937	8.6	Healthy growth driven by consumer and commercial lending

Source: Company, ICICI Direct Research

### Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	19787	20,898	5.6	23,572.4	24,763	5.0	30,176
Pre Provision Profit	12597	13,708	8.8	15,225.2	16,415	7.8	20,478
NIM(%) (calculated)	11	11.4	36 bps	11.1	11.1	6 bps	11.0
PAT	5963	6,463	8.4	7,794.7	8,960	15.0	10,742
ABV per share (₹)	653	661.6	1.3	877.3	899.3	2.5	1,133.4

Source: Company, ICICI Direct Research

### Exhibit 4: Assumption

	Current			Earlier	
	FY22E	FY23E	FY24E	FY22E	FY23E
Credit growth (%)	24.3	22.5	20.3	19.1	21.5
Borrowings Growth (%)	29.0	20.0	20.0	23.0	20.0
NIM Calculated (%)	11.4	11.1	11.0	11.1	11.1
Cost to income ratio (%)	34.5	33.8	32.2	36.4	35.5
GNPA (₹ crore)	4,712.8	6,516.2	8,910.1	4,575.9	6,236.1
NNPA (₹ crore)	3,071.8	4,307.3	5,716.9	3,087.8	3,973.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Interest Earned	26668.1	30876.5	37435.2	45409.4
Interest Expended	9414.0	9978.3	12672.6	15233.8
Net Interest Income	17254.1	20898.2	24762.6	30175.6
Growth (%)	2.1	21.1	18.5	21.9
Non Interest Income	15.0	18.4	22.6	27.8
Operating Income	17269.1	20916.6	24785.2	30203.4
Employee cost	2165.8	2749.1	3353.9	4091.7
Other operating Exp.	3142.4	4459.1	5016.0	5633.4
Operating Profit	11960.8	13708.4	16415.3	20478.3
Provisions	5968.6	4974.6	4306.7	5961.6
PBT	5992.3	8733.8	12108.7	14516.7
Taxes	1572.4	2270.8	3148.3	3774.3
Net Profit	4,419.8	6,463.0	8,960.4	10,742.4
Growth (%)	-16.0	46.2	38.6	19.9
EPS (₹)	73.6	107.4	146.5	171.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Valuation				
No. of shares (crore)	60.2	60.2	61.2	62.6
EPS (₹)	73.6	107.4	146.5	171.7
BV (₹)	615	713	970	1225
ABV (₹)	597	662	899	1133
P/E	105	72	53	45
P/BV	12.6	10.9	8.0	6.3
P/ABV	13.0	11.7	8.6	6.8
Yields & Margins (%)				
Net Interest Margins	10.5	11.4	11.1	11.0
Yield on assets	16.3	16.9	16.9	16.6
Avg. cost on funds	7.6	7.1	7.3	7.3
Yield on average advance	18.5	18.8	18.5	18.5
Quality and Efficiency (%)				
Cost to income ratio	30.7	34.5	33.8	32.2
Cost to assets ratio	2.8	4.0	3.7	3.5
GNPA	1.7	2.5	2.8	3.2
NNPA	0.7	1.7	1.9	2.1
ROE	12.8	16.2	17.6	16.0
ROA	2.4	3.6	3.9	3.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Sources of Funds				
Capital	120.3	120.3	122.3	125.1
Reserves and Surplus	36798.1	42755.7	58702.4	75639.3
Networth	36918.4	42876.1	58824.7	75764.4
Borrowings	122278.1	157738.8	189286.5	227143.9
Other Liabilities & Provisic	1562.5	2290.8	2787.5	3398.9
Total	1,60,759.0	2,02,905.6	2,50,898.8	3,06,307.2
Application of Funds				
Fixed Assets	3288.9	3321.8	3653.9	4019.3
Investments	18396.9	15637.4	15168.3	14713.2
Advances	146687.0	182343.2	223340.7	268759.4
Other Assets	2911.6	1603.3	8735.9	18815.3
Total	1,71,284.4	2,02,905.6	2,50,898.8	3,06,307.2

Source: Company, ICICI Direct Research

Exhibit 8: Growth ratios				
	(%)			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total assets	4.2	26.2	23.7	22.1
Advances	3.8	24.3	22.5	20.3
Borrowings	-2.7	29.0	20.0	20.0
Net interest income	2.1	21.1	18.5	21.9
Operating Income	2.1	21.1	18.5	21.9
Operating expenses	-6.8	35.8	16.1	16.2
Operating profit	6.3	14.6	19.7	24.8
Net profit	-16.0	46.2	38.6	19.9
Net worth	14.2	16.1	37.2	28.8
EPS	-17.8	46.0	36.4	17.2

Source: Company, ICICI Direct Research

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