

April 27, 2022

RESULT REPORT Q4 FY22 | Sector: Financials

Bajaj Finance Limited

Structural framework in place to deliver high growth and profitability

Our view

BAF delivered an in-line performance at earnings level despite a marginal miss on NII with a lower-than-expected portfolio yield. Credit metrics and collection efficiencies across products improved further in Q4 FY22 and were better than pre-Covid levels. Notwithstanding slippage of a large B2B commercial account worth Rs3.9bn, overall Stage-3 assets were flat at Rs31bn (GNPL lower at 1.6% v/s 1.73% in Q3). Stage-2 assets declined significantly by 27% qoq in abs terms (within this OTR pool more than halved) and stood at 2% of loan assets. Credit cost was at annualized 1.5% despite an additional charge of Rs1bn for the above-mentioned commercial account. Provisions on OTR/non-OTR Stage-2 assets stood at healthy 20%/30% respectively. ECL cover on Stage-3 assets was raised to 58%.

Excluding the short-term IPO financing book, the core AUM growth stood at 6% qoq/26% yoy. While growth remained weak in auto finance (5% of core AUM), the business velocity was strong in consumer finance, SME & Commercial loans and Mortgages. Total customer franchise stood at 57.6mn and grew by 19% yoy. Within this, non-delinquent and cross-sell customer base grew by 18% yoy and 21% yoy respectively. Co. had net 19.1mn active users on its digital app platform as of March as against net 16.5mn active users as of Dec 2021. NII growth of 30% yoy, despite the larger-than-expected yield contraction, was aided by lower CoF and normalization of liquidity on balance sheet. Structurally, the co. continues to protect its margin profile across products. Opex to NII ratio was elevated in Q4 FY22, as BAF continued to invest in talent and technology for its omnichannel strategy.

Management is upbeat about AUM growth, active customer base addition on digital app platform and asset quality. BAF intends to utilize the management overlay provisions (Rs10.6bn – 50 bps of AUM/7-8% of PPOP), if coming six months are normal. BAF's franchise growth (AUM/customer base), asset quality construct and profitability metrics has reverted to pre-pandemic levels. Consistent investments in distribution, resources/sales channels and technology (digital web platform to be launched in FY23) is structurally supporting long-term franchise growth. We see 25%+ AUM growth and 35%+ earnings growth (normalization of credit cost) over FY22-24. BAF offers a much superior growth and profitability metrics within our financials coverage universe. Stock currently trades at 7x FY24 P/ABV and we maintain BUY.

Exhibit 1: Result table

(Rs mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Operating Income	86,266	85,326	1.1	68,506	25.9
Interest expended	(25,626)	(25,345)	1.1	(21,956)	16.7
Net Interest Income	60,640	59,980	1.1	46,551	30.3
Other income	37	25	49.6	43	(14.1)
Total Income	60,677	60,005	1.1	46,594	30.2
Operating expenses	(21,006)	(20,814)	0.9	(16,060)	30.8
PPOP	39,671	39,192	1.2	30,534	29.9
Provisions	(7,016)	(10,512)	(33.3)	(12,308)	(43.0)
PBT	32,655	28,680	13.9	18,226	79.2
Tax	(8,460)	(7,427)	13.9	(4,760)	77.7
Reported PAT	24,195	21,253	13.8	13,466	79.7

Source: Company, YES Sec

Reco : **BUY**

CMP : Rs 7,241

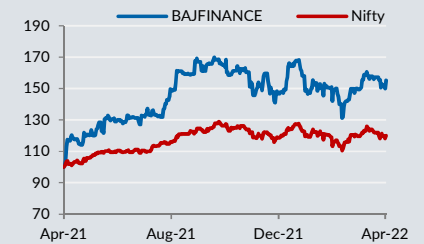
Target Price : Rs 9,000

Potential Return : 24.3%

Stock data (as on Apr 26, 2022)

Nifty	17,201
52 Week h/l (Rs)	8050 / 4690
Market cap (Rs/USD mn)	4383373 / 57239
Outstanding Shares (mn)	605
6m Avg t/o (Rs mn):	8,861
Div yield (%):	0.1
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	3.8%	4.0%	53.1%

Shareholding pattern

Promoter	55.9%
FII+DII	32.6%
Others	11.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	9,000	9,000

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	-	175.0	221.9
EPS (Old)	-	174.7	224.4
% change	-	0.2%	-1.1%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	218,922	273,162	343,034
PPOP	143,072	179,108	230,169
Net profit	70,282	105,602	133,863
Growth (%)	59.0	50.3	26.8
EPS (Rs)	116.5	175.0	221.9
ABVPS (Rs)	702.3	847.0	1,031.6
P/E (x)	62.2	41.4	32.6
P/ABV (x)	10.3	8.5	7.0
ROE (%)	17.4	21.9	22.8
ROA (%)	3.7	4.4	4.4

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in



MANUJ OBEROI, Associate

KEY CON-CALL & PRESENTATION HIGHLIGHTS

Growth, Customer Franchise & Distribution

- Management excited about FY23 business prospects.
- AUM growth has been secular across all lines of businesses.
- Customer franchise stood at 57.57 MM as of March 2022, a growth of 19% yoy. Co. is comfortable adding 8-9mn new customers in FY23. The non-delinquent customer base grew by 4% qoq/18% yoy.
- Company added 81 new locations in Q4 FY22 and 516 new locations in FY22 - continues to invest deeply in UP, Bihar and north-eastern states.
- BAF has 68-70% market share in the subvention market – its share in the digital segment has increased.
- SME business has a 14-year vintage and the co. has been building granularity and diversity - the business is done from 1500+ locations and can maintain margin profile despite the increase in competition.
- BAF intends to remain a non-bank for the next three years with focus on building a payments and financial services business – would like to reach 100mn customer franchise in next 5 years.

Asset quality & Credit Cost

- Q4 FY22 credit cost includes an additional charge of Rs1bn for one large B2B commercial account.
- Management overlay stood at Rs10.6bn – Company intends to start releasing management overlay provisions if next 6 months are fine.
- Portfolio credit metrics and collection efficiencies across products improved further in Q4 FY22 and was better than pre-Covid levels - Gross/Net NPLs back to pre-Covid level.
- Overall Stage-2 assets declined significantly by 27% in abs terms and stood at 2% of loan assets - Stage-3 assets were flat at Rs31bn, which includes slippage of one large B2B commercial account of Rs3.9bn – overall the portfolio construct was better than pre-pandemic metric.
- Provisions on OTR and non-OTR Stage-2 assets stood at 20% and 30% respectively – ECL cover on Stage-3 assets was raised from 55.6% as of Dec to 58%.

NIM, CoF and Opex

- Cost of funds stood at 6.7% - Liquidity buffer on BS at Rs101bn has now normalized to pre-Covid levels.
- NIM outlook hinges on loan pricing, product mix and movement in CoF - BAF would not like to dilute its margin, and would rather prefer to slow growth - product mix expected to remain largely steady – longer liability tenor provides comfort on CoF side in the near term at least.
- Company continues to protect its margin profile across businesses despite elevated competitive intensity across products – reflected in 30% NII growth on 26% core AUM growth.
- Opex to NII was 34.6% in Q4 FY22 – BAF continues to invest in teams and technology for business transformation with deep investments being committed to Omnichannel strategy (geo-expansion, app platform, web platform), and thus expects Opex to NII to remain elevated in FY23 (34.5-35.5% corridor).

Digital

- Company had net 19.1mn active users on its digital app platform as of March 2022 as against net 16.5mn active users as of Dec 2021 - BAF intends to have 33-35mn net active users by end FY23.

- Added net 2.6mn users on digital app platform in Q4 FY22 as against 3.6mn in Q3 - In FY23, the co. intends to add 14-16mn net new users.
- In Q4 FY22, BAF booked 455K new EMI card customers digitally - Cards in Force (CIF) of EMI cards acquired digitally now stands at 1.8 MM and in Q4 FY22 this CIF delivered 234K loans.
- EMI store visits were 36.9mn in Q4 FY22 as against 44.7mn in Q3 which had festival seasonality - the co. booked 526K new loans from B2B marketplace as against 393K new loans in Q3 FY22.
- In Q4 FY22, the digital app platform delivered volumes of Rs18bn for personal loan and 29K cards for credit card distribution business.

Exhibit 2: Business Data

(Rs mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
AUM	1,974,520	1,812,500	8.9	1,529,490	29.1
Consumer B2B -Auto Fin.	101,940	106,200	(4.0)	121,120	(15.8)
Consumer B2B -Sales Fin.	149,770	149,200	0.4	115,260	29.9
Consumer B2C	387,720	363,440	6.7	304,500	27.3
Rural Business	194,300	183,040	6.2	147,050	32.1
SME Business	249,790	231,530	7.9	202,170	23.6
Securities Lending	105,360	91,270	15.4	58,890	78.9
Commercial Lending	114,980	104,780	9.7	82,930	38.6
Mortgages	617,010	583,040	5.8	495,920	24.4

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Total Franchise	57.6	55.4	1.0	48.6	18.5
Non-Delinquent Customers	38.6	37.2	3.7	32.6	18.3
Cross sell franchise	32.8	31.3	4.8	26.9	21.9
New to BAF	2.2	2.6	(13.7)	2.3	(2.2)
New loans booked	6.3	7.4	(15.6)	5.5	14.8
EMI Cards in force	30.0	27.5	9.1	23.8	26.2

Source: Company, YES Sec

Exhibit 4: Key Ratios

(%)	Q4 FY22	Q3 FY22	chg qoq	Q4 FY21	chg yoy
Op Income / Average AUM*	18.2	19.6	(1.4)	18.5	(0.3)
Interest Expense / Average AUM*	5.4	5.8	(0.4)	5.9	(0.5)
NII / Average AUM*	12.8	13.8	(1.0)	12.6	0.2
Cost to Income	34.6	34.7	(0.1)	34.5	0.2
Provisions / Average AUM	1.5	2.4	(0.9)	3.3	(1.8)
RoE	22.8	21.2	1.6	14.8	8.0
RoA	5.2	5.1	0.1	3.6	1.6
CAR	27.2	27.0	0.3	28.3	(1.1)
Tier-1	24.8	24.4	0.3	25.1	(0.4)
Gross NPA	1.6	1.7	(0.1)	1.8	(0.2)
Net NPA	0.7	0.8	(0.1)	0.8	(0.1)
PCR	58.0	56.0	2.0	58.0	-

Source: Company, YES Sec; *Calculated

Exhibit 5: GNPA trend

GNPA - (%)	Q4 FY22	Q3 FY22	chg qoq	Q4 FY21	chg yoy
Consumer B2B-Auto Fin.	11.0	11.0	(0.0)	9.3	1.7
Consumer B2B-Sales Fin	2.8	0.3	2.5	1.1	1.7
Consumer B2C	1.0	1.3	(0.4)	1.7	(0.8)
Rural B2B	0.2	0.2	(0.1)	1.1	(1.0)
Rural B2C	1.2	2.6	(1.4)	1.7	(0.5)
SME	1.4	1.4	0.0	0.9	0.5
Mortgages	0.9	1.0	(0.1)	0.9	(0.1)

Source: Company, YES Sec

Exhibit 6: PCR trend

PCR - (%)	Q4 FY22	Q3 FY22	chg qoq	Q4 FY21	chg yoy
Consumer B2B-Auto Fin.	50.0	50.0	-	50.0	-
Consumer B2B-Sales Fin	54.0	81.0	(27.0)	77.0	(23.0)
Consumer B2C	75.0	75.0	-	75.0	-
Rural B2B	84.0	81.0	3.0	77.0	7.0
Rural B2C	69.0	45.0	24.0	76.0	(7.0)
SME	75.0	75.0	-	76.0	(1.0)
Mortgages	53.0	46.0	7.0	38.0	15.0

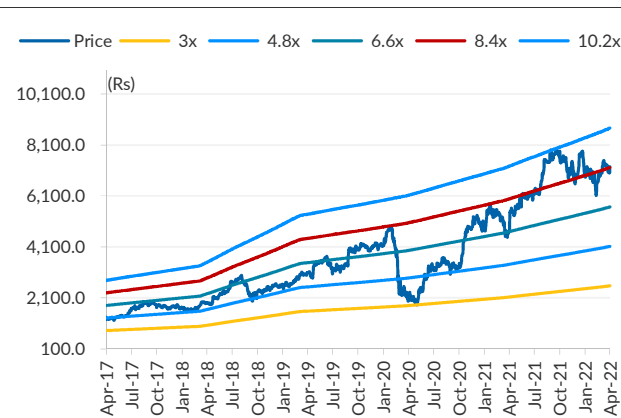
Source: Company, YES Sec

Exhibit 7: ECL Summary

(Rs mn)	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	1,498,780	1,551,880	1,635,340	1,761,410	1,926,940
ECL Provision Stage 1 & 2	27,130	27,070	25,370	27,450	25,860
Net Stage 1 & 2 assets	1,471,650	1,524,810	1,609,970	1,733,960	1,901,080
Coverage ratio (%)	1.8	1.7	1.6	1.6	1.3
Stage 3 assets					
Gross Stage 3 assets	27,310	47,370	41,030	31,080	31,330
ECL Provision Stage 3	15,950	24,300	22,770	17,280	18,180
Net Stage 3 assets	11,360	23,070	18,260	13,800	13,150
Coverage ratio (%)	58.0	51.0	55.0	56.0	58.0

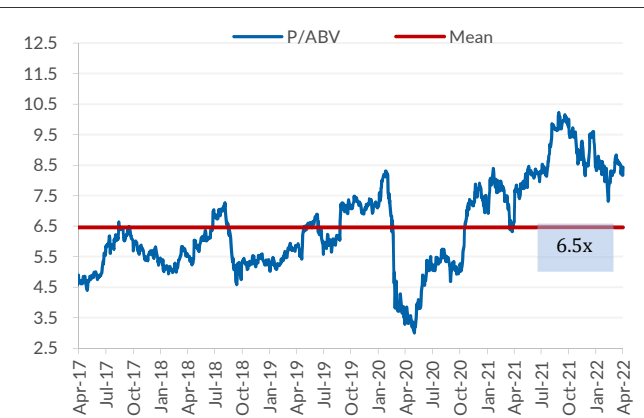
Source: Company, YES Sec

Exhibit 8: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity and Liabilities					
Equity Share Capital	1,200	1,203	1,207	1,207	1,207
Other Equity	322,076	367,981	435,920	527,405	643,621
Shareholders fund	323,276	369,184	437,127	528,612	644,828
Financial Liabilities	1,315,112	1,338,146	1,679,935	2,137,088	2,736,636
Deposits	214,271	258,034	307,995	381,914	473,573
Trade payables	9,598	12,360	16,511	20,226	24,979
Debt Securities	495,374	545,021	762,231	975,655	1,258,595
Borrowings (Excl. Debt Sec.)	547,002	474,294	543,636	695,854	897,651
Subordinated Liabilities	41,418	38,986	38,458	49,226	63,501
Other Financial Liabilities	7,451	9,451	11,104	14,214	18,335
Non-Financial Liabilities	5,525	7,374	7,992	9,990	12,488
Current tax liabilities (net)	592	1,802	1,001	1,251	1,563
Provisions	812	1,377	1,669	2,086	2,608
Other non-financial liabilities	4,121	4,195	5,322	6,653	8,316
Total Liabilities + Equity	1,643,914	1,714,704	2,125,054	2,675,690	3,393,951
Assets					
Financial Assets	1,618,973	1,688,819	2,094,584	2,644,242	3,361,426
Cash and Cash Equivalents	13,445	18,493	34,072	52,043	79,212
Bank balances	382	3,150	2,731	2,731	2,731
Trade Receivables	9,525	10,969	12,659	15,824	19,780
Other Receivables	1,718	0	1,219	1,524	1,905
Loans	1,413,761	1,466,869	1,914,233	2,440,646	3,111,824
Investments	175,439	183,969	122,455	122,455	134,701
Other Financial Assets	4,704	5,370	7,215	9,019	11,273
Non- Financial Assets	24,941	25,885	30,470	31,448	32,525
Current tax assets (net)	2,167	1,598	1,683	2,020	2,424
Deferred tax assets (net)	8,501	9,459	9,511	9,511	9,511
Property, plant and equipment	10,973	10,417	12,826	13,467	14,140
Goodwill	33	33	33	33	33
Other Intangible assets	2,205	3,218	4,646	4,646	4,646
Other non-financial assets	1,062	1,160	1,771	1,771	1,771
Total Assets	1,643,914	1,714,704	2,125,054	2,675,690	3,393,951

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	263,738	266,681	316,324	400,140	505,237
Interest expense	(94,732)	(94,140)	(97,482)	(127,058)	(162,282)
Net interest income	169,006	172,541	218,842	273,082	342,954
Non-interest income	119	150	80	80	80
Total op income	169,125	172,691	218,922	273,162	343,034
Total op expenses	(56,608)	(53,082)	(75,850)	(94,054)	(112,865)
PPoP	112,516	119,608	143,072	179,108	230,169
Provisions	(39,295)	(59,686)	(48,034)	(35,936)	(48,682)
Profit before tax	73,222	59,923	95,038	143,172	181,487
Taxes	(20,584)	(15,724)	(24,756)	(37,570)	(47,624)
Net profit	52,638	44,198	70,282	105,602	133,863

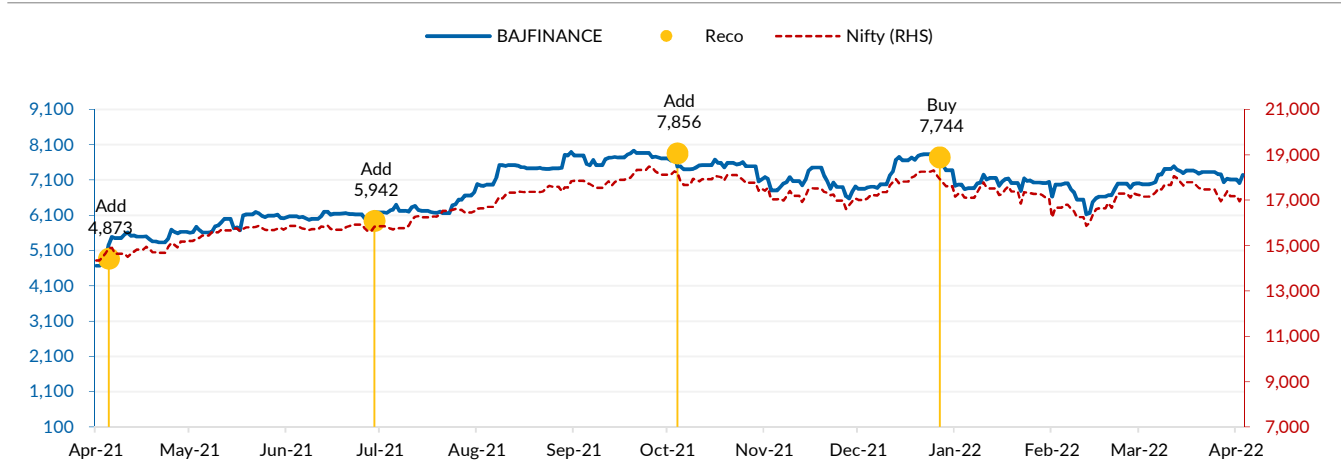
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Net interest income	42.5	2.1	26.8	24.8	25.6
Total op income	42.4	2.1	26.8	24.8	25.6
Op profit (pre-provision)	46.5	6.3	19.6	25.2	28.5
Net profit	31.8	(16.0)	59.0	50.3	26.8
Advances	25.7	3.8	30.5	27.5	27.5
Total Borrowings	22.6	(2.4)	27.0	28.0	29.0
Total assets	32.3	4.3	23.9	25.9	26.8
Profitability Ratios (%)					
NIM	12.9	11.5	12.5	12.2	12.0
Non-interest income /Total income	0.1	0.1	0.0	0.0	0.0
Return on Avg. Equity	20.2	12.8	17.4	21.9	22.8
Return on Avg. Assets	3.6	2.6	3.7	4.4	4.4
Per share ratios (Rs)					
EPS	87.7	73.5	116.5	175.0	221.9
Adj. BVPS	522.9	594.6	702.3	847.0	1,031.6
DPS	10.0	10.0	20.0	20.0	25.0
Other key ratios (%)					
Cost/Income	33.5	30.7	34.6	34.4	32.9
Tier-I capital	21.3	25.1	24.8	23.5	22.5
Gross NPLs/Loans	1.6	1.8	1.6	1.5	1.5
Credit Cost	3.0	4.0	2.7	1.6	1.7
Net NPLs/Net loans	0.7	0.8	0.7	0.7	0.7
Tax rate	28.1	26.2	26.0	26.2	26.2
Dividend yield	0.1	0.1	0.3	0.3	0.3

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

Email: research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No: +91-22-6885 0278