

Business normalisation with new banking expectation

Bajaj Finance has sailed through the headwinds and emerged stronger with a leaner operating model and robust growth guidance. RBI's new banking licence review has recommended that large NBFCs with >₹ 50000 crore assets with 10 year existence can apply for banking licence. Also, the management commentary to consider the same if it is favourable bodes well for the long term view of the stock. Growth guidance of ~25% for FY22E and opportunity to apply for banking licence have resulted in renewed interest of investors in the stock.

We expect AUM CAGR of 21% to ₹ 210734 crore in FY21-23E. NII is expected to gain strength and provisions to moderate from FY22. We raise our PAT estimates at 36% CAGR (FY21-23E) to ₹ 7644 crore by FY23E. RoE is seen returning to ~15% and RoA at 2.2% in FY22E. We factor fund raising in FY23E as growth surges. As per the management, post March, April 2021 when normalcy is likely to be achieved: 1) growth is expected to accelerate to 25-27% (we factor in 20% growth in FY22) and 2) credit costs for FY22 to be lower at 160-180 bps of average loans (we factor in 210 bps).

Asset quality trend improving

The moratorium book came down from 15.7% in Q1FY21 to 8% in September 2020. As of September 2020, Bajaj Finance is holding its credit costs estimate at ₹ 6,000-6,300 crore for FY21E in addition to 1,150 crore (₹ 900 crore of Covid-19 provision and ₹ 250 crore of estimated write off recovery) provisioned in Q4FY20. Bajaj Finance has taken a loan loss provision of ₹ 3386 crore till now against its credit cost estimate of ₹ 6,000-6,300 crore for FY21E. It is front-loading all provisions in FY21E. The company expects loan losses and provisions to revert to pre-Covid 19 levels.

Bajaj Finance has increased its provisioning for stage 1 and 2 assets by ₹ 1,370 crore taking it to ₹ 5099 crore as of September 30 2020. Overall standard assets provisioning (ECL stage 1 and 2) grew to 3.69% from 2.73% QoQ led by Covid provisions build-up.

We remain a bit watchful on Flexiloans where in Q2FY21, the company has converted ₹ 1750 crore of term loans into flexi loans to provide customers flexibility of lower repayment and higher prepayment. Outstanding flexi-loans are now at ₹ 43000 crore. Whether these loans include some overdue loans or not remain a question.

Valuation & Outlook

We had upgraded the stock to BUY post quarterly earnings but the multiple expansion has been far higher. We believe premium multiples are returning for Bajaj Finance. Therefore, we roll over to FY23E and raise our P/ABV multiple to 7x FY23E ABV. Accordingly, we revise our target price to ₹ 5900 (earlier ₹ 3850). We maintain **BUY** recommendation on the stock.

Particulars

Particulars	Amount
Market Capitalisation	₹ 295466 crore
GNPA (Q2FY21)	₹ 1439 crore
NNPA (Q2FY21)	₹ 515 crore
NIM (Q2FY21) (calculated)	12.6
52 week H/L	4957 / 1783
Face Value	₹ 2
Net worth	₹ 34164 Crore
DII Holding (%)	10.7
FII Holding (%)	21.3

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Key Financial Summary

Financial Performance	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
NII (₹ crore)	11864	16901	16919	18480	22799	10%
PPP (₹ crore)	7681	11252	11699	11481	14700	9%
PAT (₹ crore)	3995	5264	4121	5815	7644	13%
ABV (₹)	313	534	566	637	832	
P/E	71	55	71	51	39	
P/ABV	15.6	9.2	8.7	7.7	5.9	
RoA	3.0	2.8	1.8	2.2	2.4	
RoE	22.4	20.2	12.1	15.1	15.9	

Exhibit 1: Change in estimates

₹ Crore)	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Net Interest Income	16,919	16,919	0.0	18341	18,480	0.8	-	22,799	-
Pre Provision Profit	11,699	11,699	0.0	11341	11,481	1.2	-	14,700	-
NIM(%) (calculated)	11.8	11.8	0 bps	12	11.6	0 bps	-	11.6	-
PAT	4,120.9	4,121	0.0	5724	5,815	1.6	-	7,644	-
ABV per share (₹)	566.3	566.3	0.0	635	636.6	0.2	-	832.3	-

Source: Company, ICICI Direct Research

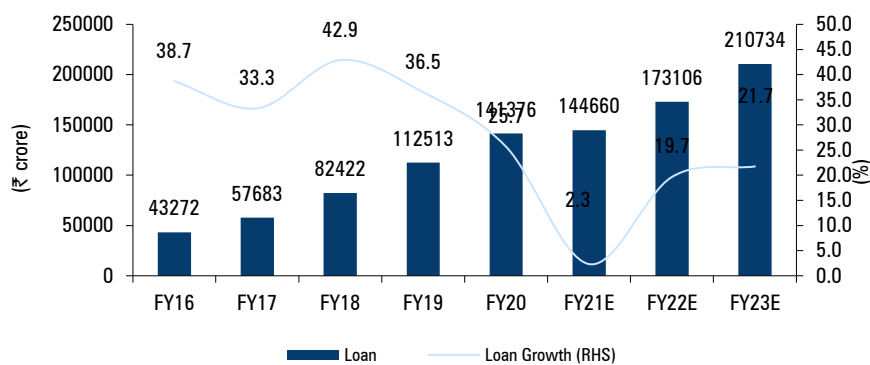
Story in Charts

Exhibit 2: Long-term guidance on key financial metrics



Source: Company, ICICI Direct Research

Exhibit 3: AUM growth to pick up from FY22E (o/s loan book)



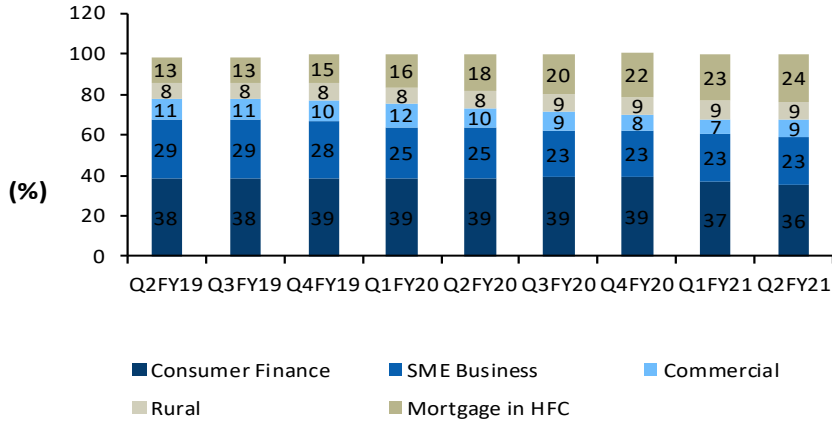
Source: Company, ICICI Direct Research

Exhibit 4: Growth moderation in business segments

₹crore	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Absolute growth	Variation %	% Propn
										YoY	YoY	
Consumer B2B Businesses	20113	21776	21987	24994	25543	27136	26462	22033	20605	-4938	-19	15
Consumer B2C Businesses	18684	20515	23002	24889	27006	29381	31255	29219	28262	1256	5	21
Rural Business	7439	8524	9243	10344	11169	12665	13328	12370	12099	930	8	9
SME Business	13370	14126	15759	16334	17908	18703	19429	18277	18253	345	2	13
Commercial Lending & Securities I	11760	11852	12027	14963	13415	13016	11233	10032	11882	-1533	-11	9
Mortgages	28851	30716	33871	37374	40492	44191	46166	46124	45989	5497	14	34
Total AUM	100217	107509	115889	128898	135533	145092	147873	138055	137090	1557	1	100

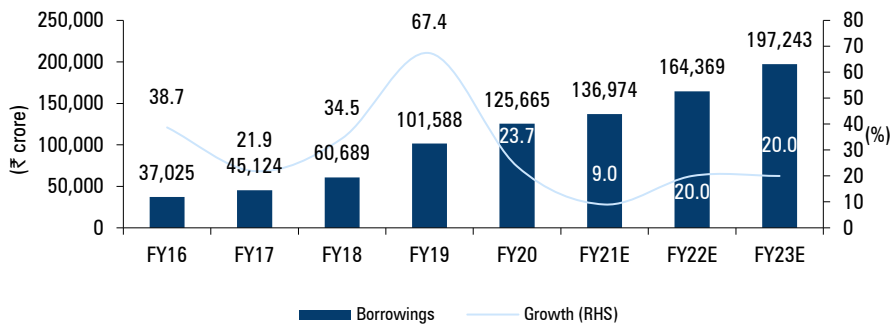
Source: Company, ICICI Direct Research

Exhibit 5: Consumer finance dominates loan mix



Source: Company, ICICI Direct Research

Exhibit 6: Trend in borrowing - excess liquidity maintained



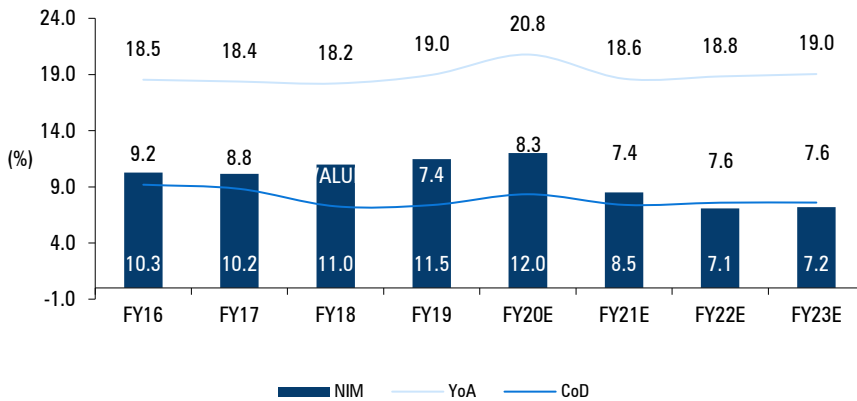
Source: Company, ICICI Direct Research

Exhibit 7: Trend in resource mix - NCD surge and deposits gradually picking up

	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21
NCDs/ sub debt	46	40	39	39	39	40	42
Banks	41	33	35	35	35	39	37
Deposits + CPs	13	26	26	26	26	21	21

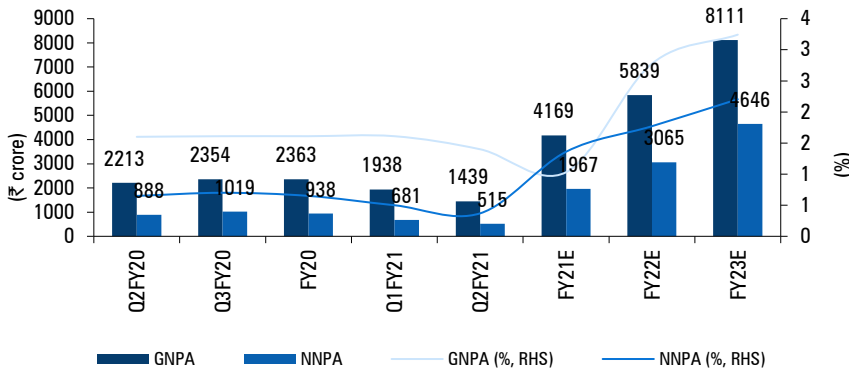
Source: Company, ICICI Direct Research

Exhibit 8: Margins to moderate, going forward



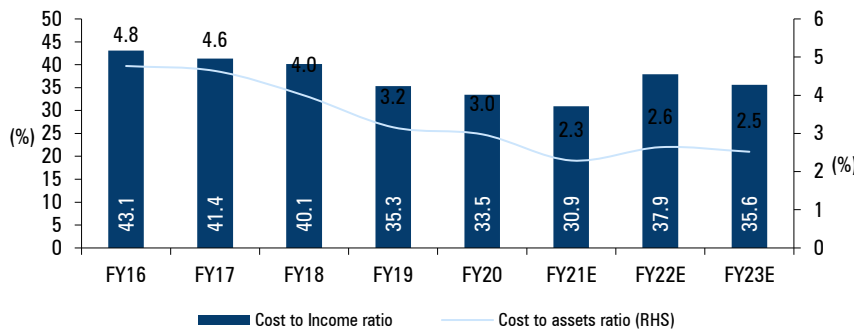
Source: Company, ICICI Direct Research

Exhibit 9: Asset quality trend



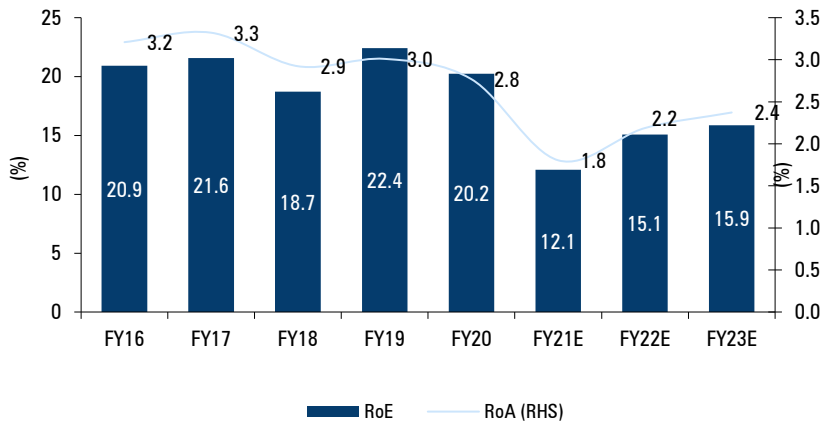
Source: Company, ICICI Direct Research

Exhibit 10: Cost to income trend



Source: Company, ICICI Direct Research

Exhibit 11: RoA and RoE trajectory



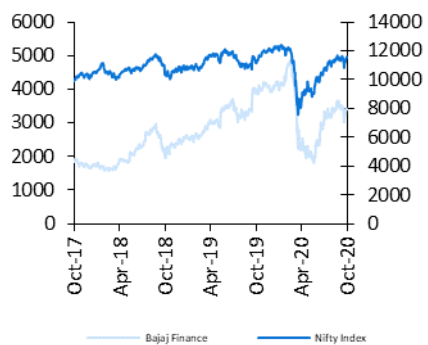
Source: Company, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	58.3	56.2	56.2	56.2	56.1
FII	20.7	22.2	21.2	21.2	21.3
DII	8.6	10.5	10.9	10.1	10.7
Others	12.4	11.1	11.8	12.5	11.9

Source: Company, ICICI Direct Research

Exhibit 13: Price performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Interest Earned	26373.8	26627.1	29913.2	36534.6
Interest Expended	9473.2	9707.8	11433.3	13735.7
Net Interest Income	16900.6	16919.4	18479.9	22799.0
Growth (%)	42.5	0.1	9.2	23.4
Non Interest Income	11.8	14.6	17.9	22.0
Operating Income	16912.4	16933.9	18497.8	22821.0
Employee cost	2290.9	2095.2	2556.1	3118.5
Other operating Exp.	3369.9	3139.9	4460.9	5002.6
Operating Profit	11251.6	11698.8	11480.8	14699.9
Provisions	3929.5	6167.4	3675.4	4439.5
PBT	7322.1	5531.4	7805.3	10260.4
Taxes	2058.4	1410.5	1990.4	2616.4
Net Profit	5,263.8	4,120.9	5,815.0	7,644.0
Growth (%)	31.8	-21.7	41.1	31.5
EPS (₹)	89.5	68.7	96.9	124.5

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
	FY20	FY21E	FY22E	FY23E
(Year-end March)				
Valuation				
No. of shares (crore)	60.0	60.0	60.0	61.4
EPS (₹)	89.5	68.7	96.9	124.5
BV (₹)	549	599	688	908
ABV (₹)	534	566	637	832
P/E	55	71	51	39
P/BV	8.9	8.2	7.1	5.4
P/ABV	9.2	8.7	7.7	5.9
Yields & Margins (%)				
Net Interest Margins	13.3	11.8	11.6	11.6
Yield on assets	18.7	13.4	11.4	11.5
Avg. cost on funds	8.3	7.4	7.6	7.6
Yield on average advar	20.8	18.6	18.8	19.0
Avg. Cost of Borrowing	8.3	7.4	7.6	7.6
Quality and Efficiency (%)				
Cost to income ratio	33.5	30.9	37.9	35.6
Cost to assets ratio	3.0	2.3	2.6	2.5
GNPA	1.6	2.8	3.2	3.7
NNPA	0.7	1.4	1.8	2.2
ROE	20.2	12.1	15.1	15.9
ROA	2.8	1.8	2.2	2.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Sources of Funds				
Capital	120.0	120.0	120.0	122.8
Reserves and Surplus	32207.6	35824.6	41135.6	54983.9
Networth	32327.6	35944.6	41255.6	55106.7
Borrowings	125664.6	136974.4	164369.3	197243.2
Other Liabilities & Prov	6399.2	69066.3	83998.5	102364.6
Total	1,64,391.4	2,41,985.3	2,89,623.4	3,54,714.5
Application of Funds				
Fixed Assets	1097.3	3491.9	3841.0	4225.1
Investments	17543.9	19298.3	18719.3	18157.8
Advances	141376.1	144660.4	173105.8	210734.4
Other Assets	4374.2	74534.8	93957.2	121597.2
Total	1,64,391.4	2,41,985.3	2,89,623.4	3,54,714.5

Source: Company, ICICI Direct Research

Exhibit 17: Growth ratios				
	FY20	FY21E	FY22E	FY23E
(Year-end March)				
Total assets				
Total assets	29.9	12.6	19.7	22.5
Advances	25.7	2.3	19.7	21.7
Borrowings	23.7	9.0	20.0	20.0
Net interest income	42.5	0.1	9.2	23.4
Operating Income	42.4	0.1	9.2	23.4
Operating expenses				
Operating expenses	34.9	-7.5	34.0	15.7
Operating profit				
Operating profit	46.5	4.0	-1.9	28.0
Net profit	31.8	-21.7	41.1	31.5
Net worth	64.1	11.2	14.8	33.6
EPS	29.0	-23.2	41.1	28.5

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (BFSI- NBFC)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC (HDFC)	2,249	2,200	Hold	4,18,935	102.6	53.5	71.1	21.9	42.0	31.6	4.5	3.9	3.7	3.6	1.7	2.1	3.6	1.7	2.1
Bajaj Finserv (BAFINS)	8,833		UR	1,17,284	269.7	249.2	300.4	32.7	35.4	29.4	4.4	3.9	3.4	1.9	1.4	1.3	15.3	11.6	12.4
Bajaj Finance (BAJFI)	4,903	5,900	Buy	2,95,466	89.5	68.7	96.9	54.8	71.4	50.6	9.2	8.2	7.1	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Financials	160	140	Hold	18,075	14.7	7.9	10.9	10.8	20.2	14.6	1.3	1.7	1.3	1.3	1.3	1.7	8.1	7.3	8.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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