

Bajaj Finance (BAF IN)

Rating: ACCUMULATE | CMP: Rs5,217 | TP: Rs5,491

January 5, 2021

Company Report

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	5,491		3,805	
NII (Rs.)	2,18,876	2,68,437	1,94,261	2,41,582
% Chng.	12.7	11.1		
PPoP (Rs.)	1,51,244	1,65,836	1,40,791	1,74,073
% Chng.	7.4	(4.7)		
EPS (Rs.)	146.4	156.7	128.2	173.2
% Chng.	14.2	(9.5)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	1,69,006	1,76,044	2,18,876	2,68,437
Growth (%)	42.5	4.2	24.3	22.6
Op. Profit (Rs m)	1,12,516	1,29,337	1,51,244	1,65,836
PAT (Rs m)	52,638	48,884	87,814	94,025
EPS (Rs.)	89.5	81.5	146.4	156.7
Gr. (%)	29.0	(8.9)	79.6	7.1
DPS (Rs.)	4.4	4.6	4.8	5.0
Yield (%)	0.1	0.1	0.1	0.1
Margin (%)	11.7	10.1	10.7	10.8
RoAE (%)	20.2	14.1	21.2	18.7
RoAA (%)	3.6	2.8	4.3	3.8
PE (x)	58.3	64.0	35.6	33.3
P/BV (x)	9.7	8.4	6.9	5.7
P/ABV (x)	10.0	8.8	7.0	5.9

Key Data

BJFN.BO | BAF IN

52-W High / Low	Rs.5,373 / Rs.1,783
Sensex / Nifty	48,177 / 14,133
Market Cap	Rs.3,144bn/ \$ 43,051m
Shares Outstanding	603m
3M Avg. Daily Value	Rs.40614.58m

Shareholding Pattern (%)

Promoter's	56.44
Foreign	21.31
Domestic Institution	10.70
Public & Others	11.55
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.0	78.0	24.4
Relative	0.1	33.1	7.1

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Conservatism stays, downgrade to Accumulate

BAF's Q3FY21 business update indicates strong customer augmentation but continued caution on incremental lending. 5% AUM growth over Q2-Q3FY21, slowing incremental loans trend QoQ in Q3FY21 and channel checks suggesting reduction in LTVs with stringent KYC checks indicate Co.'s precedence for credit quality over aggressive book expansion. While channel checks suggest improving consumer financing, BAF's cognizance on delinquency control until clarity emerging on credit bureau stands credible. Against this backdrop and strong price momentum, we believe BAF is entering into a priced-to-perfection zone. Hence, we downgrade the stock to Accumulate (earlier BUY) valuing BAF at 6.7x PABV Mar'23E implying price target of Rs 5,491. BAF stands poised to deliver 19-20% ROEs/3.8% RoAs by FY23E and hence remains a constructive bet over 3 years' time frame.

- **Healthy customer franchise growth:** Customer franchise stood at 46.3mn vs 40.4mn as on Q3FY20 reporting 14.7%/5.0% YoY/QoQ growth. Looking at 9MFY21 trend, sequential growth traction remains intact with Q2FY21 reporting 4% QoQ customer growth and Q3FY21 at 5%.
- **Impressive growth on customer addition:** Co. acquired 2.2mn new customers during Q3FY21 vs 2.5mn in Q3FY20 (de-growth of 12% YoY and growth of 80% QoQ). Looking at 9MFY21 trend, while Q3FY21 stood as high as 2.2mn vs 1.5mn in Q2FY21 and negligible in Q1FY21. Also, Q3FY21 customer addition no. is in-line with Q4FY20 customer count.
- **Healthy new loans growth; conservatism on incremental lending stays:** New loans booked during Q3FY21 stood at 6.0mn as compared to 7.7mn in Q3FY20 reporting de-growth of 22%YoY/67%QoQ. Looking at 9MFY21 trend, while Q3FY21 clocked 67% QoQ growth in new loans, Q2FY21 saw 112% QoQ growth. In times of pandemic uncertainties and cognizant of possibility of higher bounce rates (channel checks suggest bounce rates picked for Nov vs Oct'20), 67% sequential growth in new loans booked stands impressive.
- **Impressive sequential AUM traction:** Overall AUMs reported de-growth of 1%YoY but grew 4.8%QoQ at Rs1437bn. Looking at 9MFY21 trend, while Q1FY21 recorded a de-growth of 6% QoQ, Q2 reported 1% de-growth and Q3FY21 stood out with 5% QoQ AUM traction indicating healthier growth trends in Q4FY21 as BAF capitalizes on increased consumer financing demand that is getting closer to pre-COVID levels. Against this backdrop, we estimate 8.5% YoY growth for FY21 and 21%/23% for FY22-23E.
- **Reduced liquidity – catalyst to NIM improvement in Q3FY21:** Liquidity stood at 146bn as on Q3FY21 reporting 41.2% de-growth QoQ.
- **Healthy capitalization:** Remains well capitalized with CRAR at 28.0% in Q3FY21 vs 26.5% QoQ; such strong capitalization would also imply healthier growth prospects in Q4FY21 and ahead.
- **Continued healthy deposits traction:** Deposit book grew by 17.8% YoY and 10% QoQ at Rs238bn vs Rs202bn as on Q3FY20. Past 2 quarters, Co. maintained robust deposits augmentation.

Exhibit 1: BAF Quarterly Business Trends – Strong customer addition; caution on incremental loans

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	FY21E
AUM (Rs mn)	1288980	1355330	1450920	1471530	1380550	1370900	1437000	1597206.4
YoY growth (%)	41.2%	38.3%	35.0%	27.0%	7.1%	1.1%	-1.0%	8.5%
QoQ Growth (%)	11.2%	5.1%	7.1%	1.4%	-6.2%	-0.7%	4.8%	NA
Deposits (Rs mn)	150840	176330	202350	214270	200610	216690	238000	297202
YoY growth (%)	60.0%	65.6%	76.1%	62.4%	33.0%	22.9%	17.6%	38.7%
QoQ Growth (%)	14.3%	16.9%	14.8%	5.9%	-6.4%	8.0%	9.8%	NA
Total Customer Franchise (mn)	36.9	38.7	40.4	42.6	42.6	44.1	46.3	50.3
YoY growth (%)	30.6%	28.8%	24.0%	23.5%	15.3%	14.0%	14.7%	18.0%
QoQ Growth (%)	7.1%	4.8%	4.3%	5.5%	0.0%	3.5%	5.0%	NA
New Customer Addition (mn)	2.5	1.9	2.5	1.9	0.5	1.2	2.2	7.7
YoY growth (%)	18.6%	8.6%	-2.1%	-0.9%	-78.3%	-36.6%	-10.6%	-12.3%
QoQ Growth (%)	28.1%	-21.8%	28.1%	-22.8%	-72.0%	128.9%	80.5%	NA
New Loans Acquired (mn)	7.3	6.5	7.7	6.0	1.7	3.6	6.0	15.8
YoY growth (%)	29.7%	23.0%	13.3%	3.4%	-76.7%	-44.4%	-21.8%	-42.5%
QoQ Growth (%)	25.2%	-11.4%	18.5%	-21.4%	-71.8%	111.8%	66.7%	NA

Source: Company, PL

Exhibit 2: BAF poised for strong AUM and robust return profile over FY22-23

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
AUM	1158888	1471530	1597206	1938960	2367186
YoY growth (%)	40.6%	27.0%	8.5%	21.4%	22.1%
PPOP	76805	112516	129337	151244	165836
YoY growth (%)	57.6%	46.5%	14.9%	16.9%	9.6%
PAT	39950	52638	48884	87814	94025
YoY growth (%)	60.0%	31.8%	-7.1%	79.6%	7.1%
NIM (%)	11.4%	11.7%	10.1%	10.7%	10.8%
NPA (%)	1.5%	1.6%	2.9%	2.5%	2.5%
ROA (%)	3.8%	3.6%	2.8%	4.3%	3.8%
ROE (%)	22.5%	20.2%	14.1%	21.2%	18.7%

Source: Company, PL

Exhibit 3: Channel checks: Stringent KYC, higher due diligence, reduced LTV, consumer financing back to pre-COVID level

Parameters	Croma	Reliance Mart
Competition	Banks (ICICIB): Up to 2500 cashback on selected Dell laptops by ICICI Bank (Credit/Debit) Bajaj Finance: 1 EMI Cashback on LEDs	Banks (HDFCB): Cash back facilities, Bajaj Finance: vouchers; HDFC proved to be a winner in festive season for financing max sales due to cash back facilities both on debit & credit cards; Earlier sales ratio generally stood at 30:40 between HDFC Bank & Bajaj Finance which has now changes to 40:30
Checks and due diligence on on-boarding customer	More stringent than past but didn't share specifics. Higher value products need CIBIL score of more than 750. For lesser value products only borrower history and profile	KYC: Aadhar/PAN Card; CIBIL check: Customer with >750 Score granted 95% to 100% of LTV; Mandatory down payment of at least 33% in case of customer having existing 2 or more loans; On washing machines & LEDs, if the borrower profile is good then provision of financing facility at 0 Down payment, however in case of high end products like laptops & mobiles - at least 10% down payment mandatory; with most sales are of Smartphones & laptops, the overall average loan to value ratio has come down YoY
Store sales/ Footfalls	At 70% as compared to a year ago; drastic improvement Jun'20 onwards; Dec'20 MoM footfall have reduced by 20% on account of festive demand in Nov'20	YTD sales growth of 15% led by laptop & smartphones; improvement in MoM trend; Reduction in no. of customers availing credit facility by ~10-12% YoY; Apr-May'20 stood muted, Jun'20 showed signs of improvement, Sales surged Aug'20 onwards, Oct'20 sales peaked due to festive season
Conversion of enquiries into financing demand	25% conversion for Bajaj Finserv; overall demand back to 75% of pre-COVID levels	90% of enquiries has been converted into Sales across financiers
No of products per customer	Two	More than 1 only with reduced LTV in case of second

Source: Company, PL

Exhibit 4: Change in Estimates- Improving business trends, control on delinquencies prompt us to revise FY21 estimates

Rs mn	Old			Revised			Change in Estimates		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	1,62,200	1,94,261	241581.7	1,76,044	2,18,876	2,68,437	9%	13%	11%
Operating Profit	1,15,546	1,40,791	1,74,073	1,29,337	1,51,244	1,65,836	12%	7%	-5%
PAT	36,220	76,887	1,03,910	48,884	87,814	94,025	35%	14%	-10%
EPS (Rs)	60.4	128.2	173.2	81	146	157	35%	14%	-10%
Price Target (Rs)		3,805			5,491			44.3%	
Reco		BUY			Accumulate				

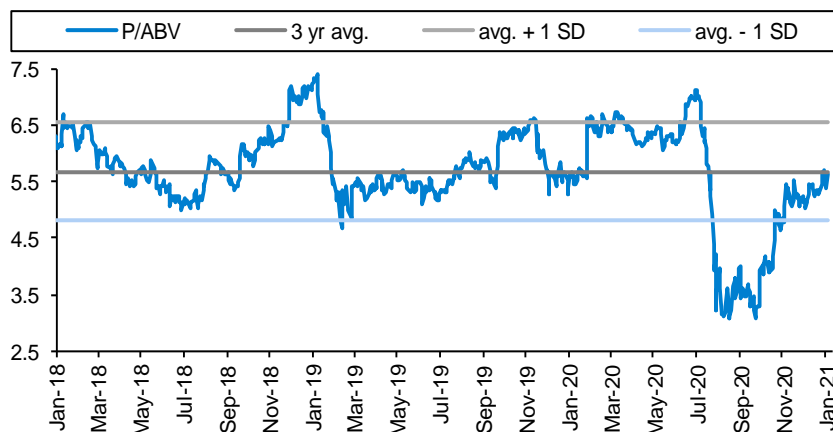
Source: Company, PL

Exhibit 5: Downgrade to Accumulate, @6.7x Sep'22e BAF is fully priced

Fair price - EVA	6,296
Fair price - P/ABV	4,686
Average of the two (Target price)	5,491
Target P/ABV	6.7
Target P/E	48.2
Current price, Rs	5217
Upside (%)	5%
Dividend yield (%)	1%
Total return (%)	6%

Source: PL

Exhibit 6: BAF heading into price-to-perfection zone



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	2,63,738	2,75,575	3,46,065	4,23,499
Interest Expenses	94,732	99,531	1,27,189	1,55,062
Net interest income	1,69,006	1,76,044	2,18,876	2,68,437
Growth(%)	42.5	4.2	24.3	22.6
Non-interest income	118	361	1,410	1,717
Growth(%)	(9.3)	205.0	290.7	21.8
Net operating income	1,69,124	1,76,405	2,20,286	2,70,154
Expenditures				
Employees	25,491	21,034	29,398	43,257
Other Expenses	28,171	22,723	35,372	55,652
Depreciation	2,946	3,311	4,272	5,409
Operating Expenses	56,608	47,068	69,042	1,04,318
PPP	1,12,516	1,29,337	1,51,244	1,65,836
Growth(%)	46.5	14.9	16.9	9.6
Provisions	39,295	63,639	33,971	40,268
Profit Before Tax	73,221	65,697	1,17,272	1,25,568
Tax	20,584	16,814	29,459	31,543
Effective Tax rate(%)	28.1	25.6	25.1	25.1
PAT	52,638	48,884	87,814	94,025
Growth(%)	31.8	(7.1)	79.6	7.1

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	1,200	1,200	1,200	1,200
Reserves and Surplus	3,22,077	3,70,961	4,55,453	5,46,012
Networth	3,23,277	3,72,161	4,56,653	5,47,212
Growth (%)	64.1	15.1	22.7	19.8
Loan funds	12,98,064	13,50,918	16,73,476	20,05,200
Growth (%)	27.8	4.1	23.9	19.8
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	22,574	1,13,985	1,14,163	1,71,730
Total Liabilities	16,43,914	18,37,064	22,44,292	27,24,142
Application of funds				
Net fixed assets	13,210	13,910	15,041	16,534
Advances	14,13,761	15,97,206	19,38,960	23,67,186
Growth (%)	25.7	13.0	21.4	22.1
Investments	1,75,439	75,855	94,642	92,380
Current Assets	13,827	92,603	1,13,724	1,30,480
Net current assets	13,827	92,603	1,13,724	1,30,480
Other Assets	27,677	57,489	81,925	1,17,562
Total Assets	16,43,914	18,37,064	22,44,292	27,24,142
Growth (%)	32.3	11.7	22.2	21.4
Business Mix				
AUM	14,71,530	15,97,206	19,38,960	23,67,186
Growth (%)	27.0	8.5	21.4	22.1
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	11.7	10.1	10.7	10.8
ROAA	3.6	2.8	4.3	3.8
ROAE	20.2	14.1	21.2	18.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Int. Inc. / Operating Inc.	61,037	63,023	57,932	57,631
Income from securitization	9,157	9,243	8,550	7,535
Interest Expenses	24,890	25,474	24,976	23,581
Net Interest Income	45,304	46,792	41,506	41,584
Growth (%)	41.6	38.4	12.5	4.0
Non-Interest Income	44	43	15	67
Net Operating Income	45,347	46,834	41,521	41,652
Growth (%)	41.4	38.4	12.4	4.2
Operating expenditure	14,583	13,662	10,725	10,878
PPP	30,008	32,320	29,954	30,059
Growth (%)	84.0	109.0	33.7	1.1
Provision	8,308	19,538	16,857	17,004
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	21,701	12,782	13,097	13,055
Tax	5,560	3,301	3,474	3,406
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.6	25.8	26.5	26.1
PAT	16,141	9,481	9,623	9,649
Growth	52	(19)	(19)	(36)
AUM	14,50,92	14,71,53	13,80,55	13,70,90
	0	0	0	0
YoY growth (%)	35.0	27.0	7.1	1.1
Borrowing	12,20,50	12,98,06	12,11,20	12,49,00
	0	0	0	0
YoY growth (%)	50.9	178.1	28.2	4.2

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	5,217	5,217	5,217	5,217
EPS (Rs)	89.5	81.5	146.4	156.7
Book value (Rs)	538.8	620.3	761.2	912.1
Adj. BV(Rs)	523.5	594.2	740.6	890.9
P/E(x)	58.3	64.0	35.6	33.3
P/BV(x)	9.7	8.4	6.9	5.7
P/ABV(x)	10.0	8.8	7.0	5.9
DPS (Rs)	4.4	4.6	4.8	5.0
Dividend Payout Ratio(%)	0.0	0.0	0.0	0.0
Dividend Yield(%)	0.1	0.1	0.1	0.1

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	22,762	46,319	47,505	57,996
Net NPA(Rs m)	9,189	15,653	18,420	18,937
Gross NPAs to Gross Adv.(%)	1.6	2.9	2.5	2.5
Net NPAs to net Adv.(%)	0.7	1.0	1.0	0.8
NPA coverage(%)	59.6	66.2	61.2	67.3

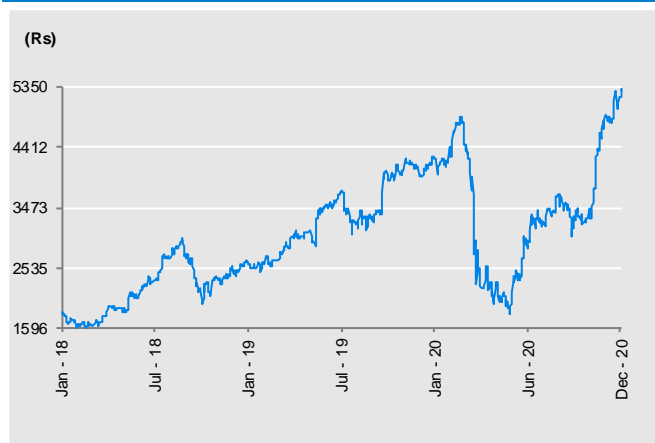
Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	11.7	10.1	10.7	10.8
NII INCL. Securitization	11.7	10.1	10.7	10.8
Total income	11.7	10.1	10.8	10.9
Operating Expenses	3.9	2.7	3.4	4.2
PPOP	7.8	7.4	7.4	6.7
Total Provisions	2.7	3.7	1.7	1.6
RoAA	3.6	2.8	4.3	3.8
Avg. Assets/Avg. net worth	5.5	5.0	4.9	4.9
RoAE	20.2	14.1	21.2	18.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Oct-20	BUY	3,805	3,233
2	12-Oct-20	BUY	3,813	3,317
3	21-Jul-20	BUY	3,815	3,292
4	13-Jul-20	BUY	3,806	3,314
5	20-May-20	BUY	3,000	1,965
6	17-Apr-20	BUY	3,582	2,308
7	29-Jan-20	BUY	5,000	4,419

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,805	3,233
2	Cholamandalam Investment and Finance Company	BUY	310	273
3	HDFC	Accumulate	2,185	2,041
4	L&T Finance Holdings	Sell	52	65
5	LIC Housing Finance	Hold	316	324
6	Mahindra & Mahindra Financial Services	Reduce	124	131
7	Manappuram Finance	Accumulate	196	162
8	Muthoot Finance	BUY	1,364	1,152
9	SBI Cards and Payment Services	Accumulate	895	852
10	Shriram Transport Finance	Accumulate	809	693

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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