

Growth pickup and strong commentary gives confidence

Led by standstill status from supreme court, GNPA ratio declined to 0.55% from 1.03% QoQ and NNPA ratio came at 0.19% from 0.37% on consolidated basis. However, proforma GNPA and NNPA surged to 2.86% and 1.22% respectively. Restructuring is at 1.4% of loans and has provisions of ₹397 crore on it. **The Company expects to revert to pre-Covid NNPA by 1HFY22, except auto finance business which may take longer due to underlying collateral value.**

During the quarter, the Company has also done one-time principal write-off of ₹1,970 crore, on account of Covid related stress. The Company holds management overlay provision of ₹800 crore as of 31 December 2020 for Covid related stress. Consolidated AUM witnessed QoQ growth of 4% YoY to ₹ 143550 crore, declining 1% YoY. The Company expects core AUM growth to resume to pre-Covid levels by Q4FY21. Consumer B2B declined 16% YoY but improved 10% QoQ to ₹ 22893 crore.

NII declined 4% YoY to ₹ 4296 crore, in line with estimates. NII for the quarter was lower by ₹239 crore, compared to Q3FY20 led by interest reversal of ₹450 crore versus ₹ 83 crore in Q3FY20 and cost of surplus liquidity of ₹ 213 crore, against ₹ 83 crore in Q3 FY20. Operating profit declined 3% YoY to ₹ 2906 crore, in line with estimates. Overall provisions at ₹1351 crore were marginally lower QoQ. Profit after tax for Q3FY21 thereby came at ₹ 1146 crore, down 25% YoY and up 19% QoQ.

Management commentary remain strong and consistent

Management has revised guidance lower for provisions for FY21E and maintained normalcy from Q4FY21. We expect AUM CAGR of 21% to ₹ 210734 crore in FY21-23E. **NII is expected to gain strength and provisions to moderate from FY22. Our PAT estimates are 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. 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). The management commentary to consider the **banking licence** if it is favourable bodes well for the long term view of the stock.

Valuation & Outlook

Bajaj Finance has sailed through the headwinds and emerged stronger with a leaner operating model and robust growth guidance. Growth guidance of ~25% for FY22E and opportunity to apply for banking licence have resulted in renewed interest of investors in the stock. We believe premium multiples are returning for Bajaj Finance. We maintain valuation at multiple at 7x FY23E ABV and target price at ₹5900. Maintain **BUY** recommendation on the stock.



Particulars

Particulars	Amount
Market Capitalisation	₹ 300157 crore
GNPA (Q3FY21)	₹ 4194 crore
NNPA (Q3FY21)	₹ 1761 crore
NIM (Q3FY21) (calculated)	12.1
52 week H/L	5372 / 1783
Face Value	₹ 2
Net worth	₹ 34164 Crore
DII Holding (%)	9.1
FII Holding (%)	23.9

Key Highlights

- Proforma GNPA surged to 2.86%
- One-time principal write-off of ₹1970 crore due to covid stress
- Maintain BUY with unchanged TP of ₹5900

Risk to our call

- Further increase in NPA could keep credit cost high
- Delay in pick up in AUM trajectory could impact performance

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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	72	56	73	51	40	
P/ABV	15.9	9.3	8.8	7.8	6.0	
RoA	3.0	2.8	1.8	2.2	2.4	
RoE	22.4	20.2	12.1	15.1	15.9	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	4,293	4,286	4,537	-5.4	4,158	3.2	Decline due to interest reversals of ₹450 crore
NIM (%) (calculated)	12.1	12.2	12.9	-82 bps	11.8	30 bps	Margins also impacted by reversals of interest on NPA
Staff cost	678	566	722	-6.0	514	31.9	
Other Operating Expenses	711	734	814	-12.6	645	10.3	
Opex to NII(%)	32.4	30.3	33.9	-4.4	27.9	16.1	Increase due to rise in employee costs
PPP	2,906	2,995	3,001	-3.2	3,006	-3.3	
Provision	1,352	1,520	831	62.7	1,700	-20.5	Provision lower than estimates, one time principal write-off of ₹1900 cr done through P&L
PBT	1,555	1,475	2,170	-28.4	1,305	19.1	
Tax Outgo	409	369	556	-26.5	341	19.9	
PAT	1,146	1,106	1,614	-29.0	965	18.8	Impacted by decline in NII and provisions PAT was down YoY but up by 18% QoQ
Key Metrics							
GNPA	789	1,967	2,354	-66.5	1,873	-57.9	
NNPA	283	833	1,019	-72.2	771	-63.3	Proforma GNPA and NNPA surged to 2.86% and 1.22% respectively. Major segments are SME has 48 bps, B2C (urban and rural) has 89 bps and auto finance business has 348 bps. The Company expects to revert to pre-COVID NNPA by H1 FY22 except auto finance busin
AUM	1,43,550	1,43,700	1,45,092	-1.1	1,31,765	8.9	Declined due to B2B business in consumer and rural category

Source: Company, ICICI Direct Research

Exhibit 2: 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	18480	18,480	0.0	22,799.0	22,799	0.0
Pre Provision Profit	11,699	11,699	0.0	11481	11,481	0.0	14,699.9	14,700	0.0
NIM(%) (calculated)	11.8	11.8	0 bps	12	11.6	0 bps	11.6	11.6	0 bps
PAT	4,120.9	4,121	0.0	5815	5,815	0.0	7,644.0	7,644	0.0
ABV per share (₹)	566.3	566.3	0.0	637	636.6	0.0	832.3	832.3	0.0

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current					Earlier		
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Credit growth (%)	36.5	25.7	2.3	19.7	21.7	2.3	19.7	21.7
Borrowings Growth (%)	30.2	23.7	9.0	20.0	20.0	9.0	20.0	20.0
NIM Calculated (%)	12.2	13.3	11.8	11.6	11.6	11.8	11.6	11.6
Cost to income ratio (%)	35.3	33.5	30.9	37.9	35.6	30.9	37.9	35.6
GNPA (₹ crore)	1,732.7	2,276.2	4,169.4	5,839.1	8,110.8	4,169.4	5,839.1	8,110.8
NNPA (₹ crore)	708.8	918.9	1,967.5	3,065.2	4,646.0	1,967.5	3,065.2	4,646.0

Source: Company, ICICI Direct Research

Bajaj Finance Q3FY21 result and conference call highlights

Business

- The Company expects core AUM growth to resume to pre-COVID levels by Q4 FY21
- Structural transformation is changing operating processes and that would mean change in technology stack, this process will be completed by May 2021
- On RBI bank license norms: arbitrage between bank & NBFC will go away
- New origination looking better than pre-covid origination
- Bajaj Finance has partnered with DBS, received RBI approval
- RBL bank will continue to be strategic partner for the company, DBS is a structural addition

Asset Quality

- The Company expects NPAs to revert to pre-Covid by 1HFY22, except auto finance business which may take longer due to underlying collateral value.
- The Company holds overlay provision of ₹800 crore as of 31 December 2020 for Covid related stress.
- Residual credit costs are estimated at Q4 at ₹1,200- 1,250 crore
- FY22 onwards, Loan loss provision seen at 160-170bps of average assets and thus revert to pre-COVID levels
- If recoveries are better in FY22, we may experience lower net loan loss to average assets.

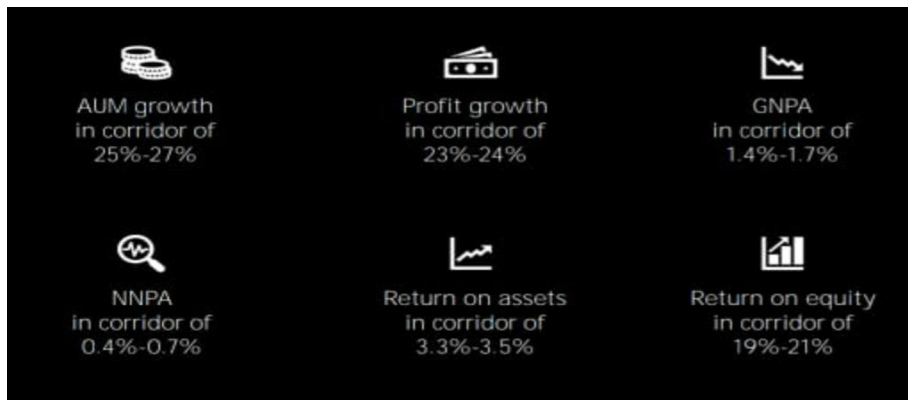
Others

- Q3 NIM lower due to interest income reversal worth ₹450 crore and high liquidity
- Have liquidity of ₹ 5500cr -7000 cr each quarter

- Capital adequacy is good for the next three years with Tier I capital ratio at 24.73%
- Structural transformation is changing operating processes and that would mean change in technology stack, this will be completed by May 2021.

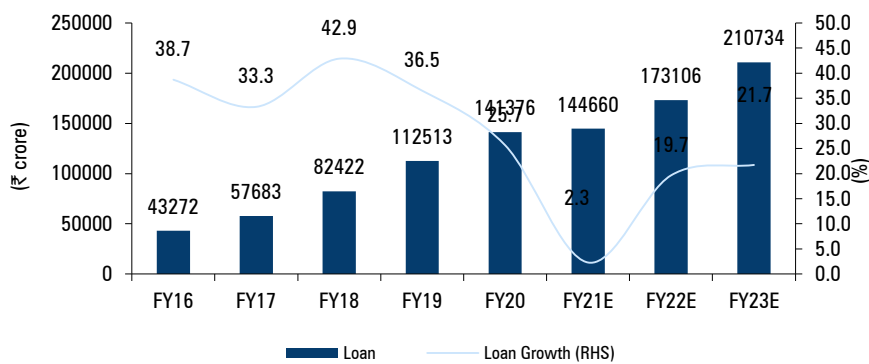
Story in Charts

Exhibit 4: Long-term guidance on key financial metrics



Source: Company, ICICI Direct Research

Exhibit 5: AUM growth to pick up from FY22E



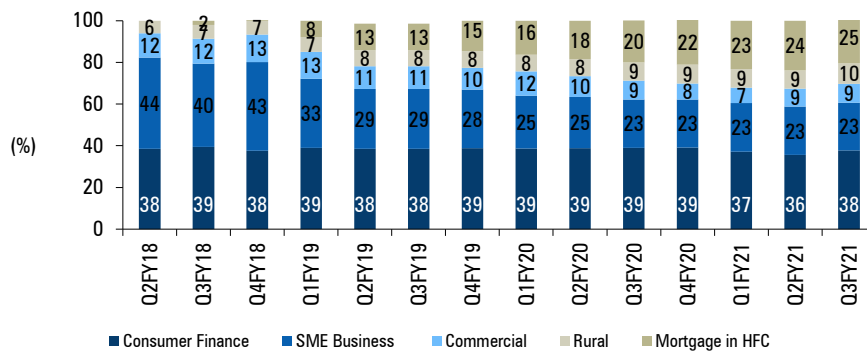
Source: Company, ICICI Direct Research

Exhibit 6: Growth in business segments moderates

₹ crore	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Absolute growth	Variation %	% Propn
									YoY	YoY	
Consumer B2B Businesses	21987	24994	25543	27136	26462	22033	20605	22893	-4243	-16	16
Consumer B2C Businesses	23002	24889	27006	29381	31255	29219	28262	29042	-339	-1	20
Rural Business	9243	10344	11169	12665	13328	12370	12099	13392	727	6	9
SME Business	15759	16334	17908	18703	19429	18277	18253	18882	179	1	13
Commercial Lending & Securities lending	12027	14963	13415	13016	11233	10032	11882	12584	-432	-3	9
Mortgages	33871	37374	40492	44191	46166	46124	45989	46758	2567	6	33
Total AUM	115889	128898	135533	145092	147873	138055	137090	143551	-1541	-1	100

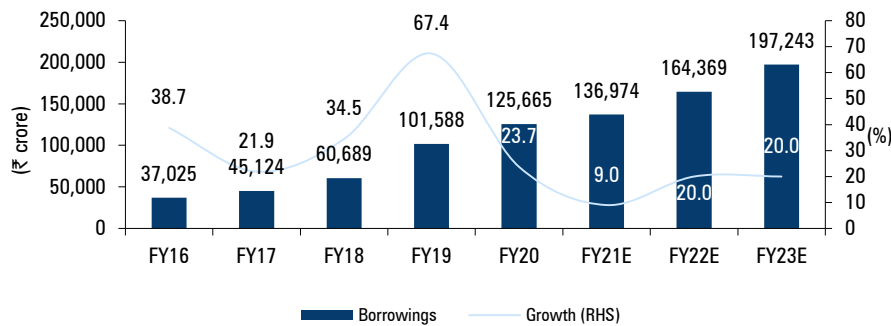
Source: Company, ICICI Direct Research

Exhibit 7: Consumer finance still dominates loan mix



Source: Company, ICICI Direct Research

Exhibit 8: Trend in borrowing



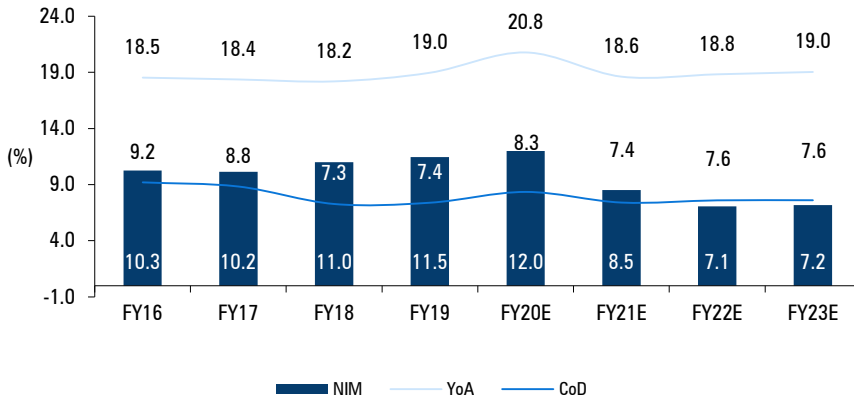
Source: Company, ICICI Direct Research

Exhibit 9: Trend in resource mix - NCD surge and deposits gradually picking up

	FY19	Q1FY20	Q2FY20	Q3FY20	FY20	Q1FY21	Q2FY21	Q3FY21
NCDs/ sub debt	46	40	39	39	39	40	42	35
Banks	41	33	35	35	35	39	37	42
Deposits+CPs	13	26	26	26	26	21	21	23

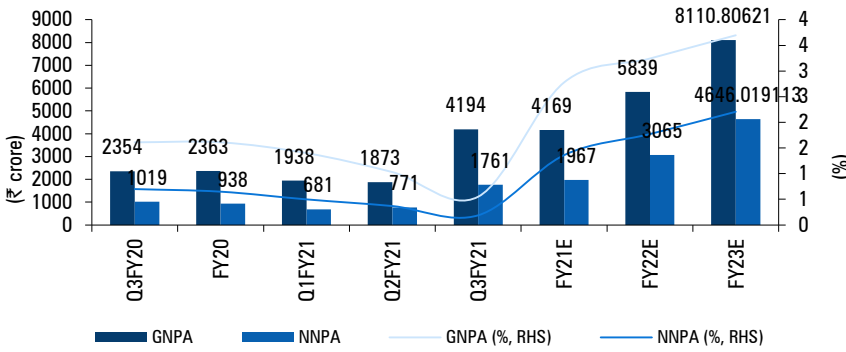
Source: Company, ICICI Direct Research

Exhibit 10: Margins to moderate moving forward



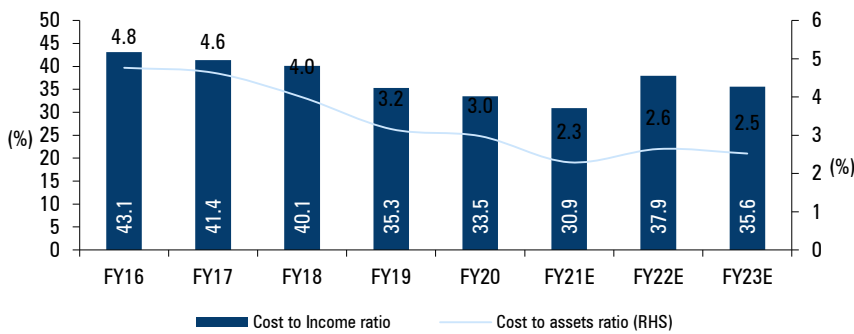
Source: Company, ICICI Direct Research

Exhibit 11: Asset quality trend



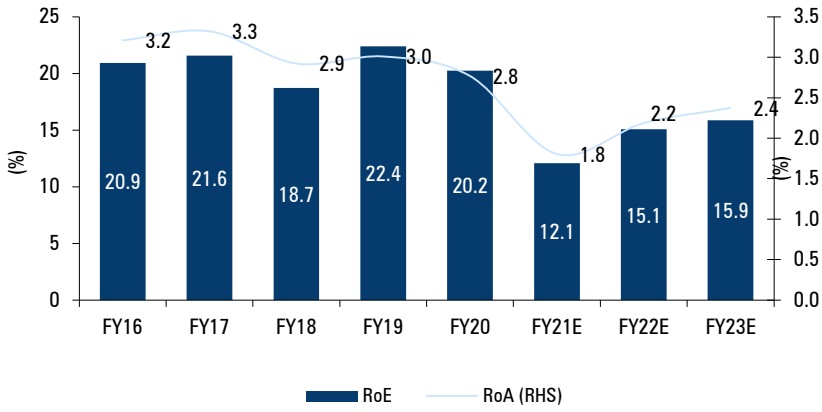
Source: Company, ICICI Direct Research

Exhibit 12: Cost to income trend



Source: Company, ICICI Direct Research

Exhibit 13: RoA and RoE trajectory



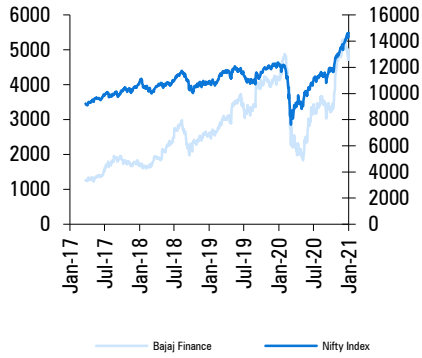
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	56.2	56.2	56.2	56.1	56.1
FII	22.2	21.2	21.2	21.3	23.9
DII	10.5	10.9	10.1	10.7	9.1
Others	11.1	11.8	12.5	11.9	10.9

Source: Company, ICICI Direct Research

Exhibit 15: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: 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 17: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	56	73	51	40
P/BV	9.1	8.3	7.2	5.5
P/ABV	9.3	8.8	7.8	6.0
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 advances	20.8	18.6	18.8	19.0
Avg. Cost of Borrowings	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 18: 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 & Provisions	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 19: Growth ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
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	34.9	-7.5	34.0	15.7
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 20: ICICI Direct coverage universe (BFSI- NBFC)

Sector/ Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
LIC Housing Finance (LICHF)	431	345	Buy	22,405	46.5	44.2	58.6	9.3	9.8	7.4	1.5	1.4	1.3	1.1	0.9	1.1	13.8	11.9	14.5
HDFC (HDFC)	2,688	2,200	Hold	4,74,703	102.6	53.5	71.1	26.2	50.2	37.8	5.4	4.6	4.4	3.6	1.7	2.1	3.6	1.7	2.1
Bajaj Finance (BAJFI)	4,981	5,900	Buy	3,00,157	89.5	68.7	96.9	55.7	72.5	51.4	9.3	8.8	7.8	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Finance	185	140	Hold	23,580	14.7	7.9	10.9	12.6	23.4	16.9	1.5	1.9	1.6	1.3	1.3	1.7	8.1	7.3	8.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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