

Bajaj Finance

 Estimate change 

 TP change 

 Rating change 

Bloomberg	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USD\$b)	3001.6 / 40.9
52-Week Range (INR)	5373 / 1783
1, 6, 12 Rel. Per (%)	-11/12/0
12M Avg Val (INR M)	21788

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Net Income	169.1	170.8	210.0
PPP	112.5	119.4	150.2
PAT	52.6	43.9	88.2
EPS (INR)	87.7	73.2	147.0
EPS Gr. (%)	26.7	-16.6	100.8
BV/Sh. (INR)	540	606	738

Ratios

NIM (%)	10.5	9.4	10.5
C/I ratio (%)	33.5	30.1	28.4
RoA (%)	3.6	2.6	4.8
RoE (%)	20.2	12.8	21.9
Payout (%)	13.8	10.0	10.0

Valuations

P/E (x)	56.8	68.1	33.9
P/BV (x)	9.2	8.2	6.7
Div. Yield (%)	0.2	0.1	0.3

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	56.1	56.1	56.2
DII	9.1	10.7	10.5
FII	24.2	21.6	22.5
Others	10.6	11.6	10.9

FII Includes depository receipts

CMP: INR4,981
TP: INR5,000 (+0%)
Neutral

Stressed pool stable; guidance positive

- PAT declined 29% YoY to INR11.5b (19% miss) in 3QFY21. The miss was wholly on account of lower-than-expected NII (15% miss). The same was offset by lower credit costs (10% beat). An interest reversal of INR4.5b led to the NII miss.
- GNPL ratio (excluding the SC dispensation on term loan EMIs payments) increased to 2.86% from 1.34% QoQ. BAF wrote-off ~INR20b worth of loans (1.4% of loans) and restructured INR20.4b worth of loans (1.4% of loans). **The management also lowered its credit cost guidance for FY21 to INR59-60b from INR60-63b earlier and reiterated its run-rate credit costs of 1.6-1.7% for FY22.**
- With growth drivers back in place, we expect BAF to deliver 20-25% YoY AUM growth in FY22 and beyond. With the economic scenario improving and greater clarity on the stressed pool, we cut our FY22E credit cost estimate by 50bp to 1.8%. This has led to a 4% EPS upgrade for FY22E. With strong economic recovery cutting of flab from opex and up-fronting of asset quality related pain, earnings are likely to see a strong rebound in FY22. As valuations are rich, we maintain our Neutral stance, with a target price of INR5,000 per share (5.5x FY23E BV).

Disbursements at 80% of YoY levels

- **Disbursements in 3QFY21/Dec'20 stood at 81%/90% of YoY levels.** AUM grew 5% QoQ to INR1.44t (flat YoY). The loan mix was largely stable on a sequential basis. AUM growth for 3QFY21 was partially impacted by ~1.4% of write-offs.
- The management has guided to pre-COVID growth levels in all lines, barring Auto loans. **While mortgage disbursements stood at 90% of YoY levels, BAF witnessed elevated repayments given the intense balance transfer pressure. It has lowered yields to combat this pressure.**

Sharp reduction in liquidity; CoF declining

- **The company sharply reduced liquidity to 12% of borrowings from 18% over the past quarter. The management has guided at a further reduction in the coming months to a run-rate of 7-8%.**
- Spreads (calculated) improved 10bp QoQ to 11.4%, driven by stable yields and 10bp decline in cost of funds to 7.6%. **There were interest reversals of INR4.5b in 3Q compared to INR3.6b in 1HFY21.**
- The borrowing mix was largely unchanged. While the total deposit book grew 15% YoY to INR238b, the share of retail increased to 74% from 61% over this period. Retail deposits tend to be stickier than corporate deposits. The incremental cost of retail deposits is ~6.5%.

Total stressed pool down ~20% QoQ

- Proforma GS3 loans jumped 150bp QoQ to 2.9%. **However, the total pool of assets in Stage 2 and Stage 3 declined to INR101b (7%) from INR128b (9.3%) sequentially. This was driven by ~INR20b write-offs during 3QFY21.**

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- Total provisions against these 'stressed' assets stands at INR37b. The management has guided at INR12-12.5b of credit costs for 4QFY21 and run-rate credit costs for FY22.
- Excess COVID-19 related provisions stands at INR8b now v/s INR22.6b QoQ. Our calculation suggests that BAF has written off ~3% of AUM in the last four quarters. Outstanding provisions on the Balance Sheet stands ~3.6% of AUM as of 3QFY21 v/s 1.9% pre-COVID. It still has room to write-off at least ~1.5% of loans going forward.

Highlights from the management commentary

- It has not undertaken any meaningful flexi loan conversion in 3QFY21. There was a marginal increase in this pool, with incremental sourcing during the quarter.
- A recovery of INR10b is expected in Auto Finance. The latter would take another two quarters to recover to normalcy in terms of asset quality.
- It expects the share of CPs to return to normal levels of 7-10% from 4-5% at present.

Other highlights

- Opex increased 20% QoQ to INR13.9b, led by a 32% increase in employee expenses.
- Mix of restructured loans: Mortgages – INR9.3b, Unsecured loans – INR5.23b, B2B – INR4.07b, and AF – INR1.79b.
- The company issued 80k new co-branded credit cards with RBL Bank, taking the total to 1.95m. **BAF has entered into another co-branded credit card arrangement with DBS Bank (India).**
- It is developing an omnichannel framework for customers and is working on the architecture. The same is expected to be completed by May'21.

Valuation and view

3QFY21 was a healthy quarter for BAF. The company resumed disbursements in Nov'20. The same reached 90% of YoY levels in Dec'20. It regained some lost market share in CD financing in the quarter gone by. Initial asset quality performance of incremental disbursements is in line with or marginally better than pre-COVID levels. This bodes well for asset quality in the medium term. In the near term, we do not foresee any major asset quality disruption due to COVID-19. The stressed book of ~INR100b (Stage 2 + Stage 3 loans) is unlikely to witness any meaningful deterioration in 4QFY21. Margin is likely to witness sharp improvement in FY22 due to lower cost of funds, reduction in liquidity, and favorable base due to interest reversals. We upgrade our FY22E EPS by 4% to factor in better margin and lower credit costs. On the back of strong economic recovery and strong execution, we are positive on the business. But given the rich valuations, we maintain our Neutral stance with a TP of INR5,000 per share (5.5x FY23E BVPS).

Quarterly performance (INR m)

Y/E March	FY20				FY21				FY20	FY21E	3QFY21E	Actual v/s estimate
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest income	51,010	54,635	61,037	63,023	57,932	57,631	57,225	58,721	2,29,704	2,31,508	62,810	-9
Interest expenses	21,134	23,234	24,890	25,474	24,976	23,581	23,627	22,951	94,732	95,135	23,224	2
Net interest income	29,876	31,400	36,147	37,549	32,956	34,050	33,598	35,770	1,34,972	1,36,373	39,586	-15
YoY growth (%)	38.9	40.8	38.9	36.9	10.3	8.4	-7.1	-4.7	38.8	1.0	9.5	
Other operating income	7,068	8,596	9,202	9,286	8,565	7,568	9,360	8,918	34,152	34,412	7,611	23
Net income	36,944	39,997	45,349	46,834	41,521	41,618	42,958	44,688	1,69,124	1,70,785	47,197	-9
YoY growth (%)	43.3	47.7	41.4	38.4	12.4	4.1	-5.3	-4.6	42.4	1.0	4.1	
Operating expenses	12,922	13,830	15,341	14,515	11,567	11,559	13,896	14,386	56,608	51,408	13,127	6
Operating profit	24,022	26,167	30,008	32,320	29,954	30,059	29,062	30,303	1,12,516	1,19,377	34,070	-15
YoY growth (%)	47.9	49.6	43.8	45.5	24.7	14.9	-3.2	-6.2	46.5	6.1	13.5	
Provisions and cont.	5,507	5,942	8,308	19,538	16,857	17,004	13,517	12,462	39,295	59,840	15,000	-10
Profit before tax	18,514	20,224	21,701	12,782	13,097	13,055	15,545	17,841	73,221	59,538	19,070	-18
Tax provisions	6,562	5,161	5,560	3,301	3,474	3,406	4,085	4,664	20,584	15,629	4,996	-18
Net profit	11,953	15,063	16,141	9,481	9,623	9,649	11,460	13,177	52,638	43,909	14,074	-19
YoY growth (%)	43.0	63.1	52.3	-19.4	-19.5	-35.9	-29.0	39.0	31.8	-16.6	-12.8	
Key operating parameters (%)												
Fees-to-net income ratio	19.1	21.5	20.3	19.8	20.6	18.2	21.8	20.0	20.2			
Credit cost	1.85	1.86	2.46	5.56	4.93	5.15	4.01	3.50	3.06			
Cost-to-income ratio	35.0	34.6	33.8	31.0	27.9	27.8	32.3	32.2	33.5			
Tax rate	35.4	25.5	25.6	25.8	26.5	26.1	26.3	26.1	28.1			
Balance Sheet parameters												
AUM (INR b)	1,289	1,355	1,451	1,472	1,381	1,371	1,436	1,516	1,472			
Change YoY (%)	41.2	38.3	35.0	27.0	7.1	1.1	-1.1	3.0	27.0			
Borrowings (INR b)	1,122	1,195	1,221	1,298	1,211	1,249	1,242	1,291	1,298			
Change YoY (%)	66.4	46.1	31.4	27.8	8.0	4.5	1.7	-0.6	27.8			
Loans/borrowings (%)	111.5	109.4	114.3	108.9	109.3	105.5	111.1	114.0	108.9			
Asset quality parameters (%)												
GS 3 (INR b)	21.0	22.2	23.6	23.6	19.4	14.4	41.9		23.6			
Gross Stage 3 (% on assets)	1.60	1.61	1.61	1.61	1.40	1.34	2.86		1.61			
NS 3 (INR b)	8.2	8.9	10.2	9.4	6.8	5.2	17.6		9.4			
Net Stage 3 (% on assets)	0.64	0.65	0.70	0.66	0.50	0.56	1.22		0.66			
PCR (%)	60.7	59.9	56.7	60.3	64.9	64.3	58.0		60.3			
Return ratios (%)												
RoAA (reported)	4.0	4.8	4.8	2.8	2.8	2.8	3.6		3.6			
RoAE (reported)	23.5	28.0	23.6	11.6	11.6	11.6	13.2		20.2			

Source: MOFSL, Company



Highlights from the management commentary

Business updates

- Growth from all lines of business, except Auto Finance, has recovered. The management expects growth to return to pre-COVID levels from 4QFY21.
- **Disbursements in Dec'20 stood at 90% of YoY levels v/s an average of 81% for 3QFY21.**
- There would be some elevated interest reversal in 4QFY21, but the same would wind down to INR85-100m per quarter from 1QFY22.
- **It has not undertaken any meaningful flexi loan conversion in 3QFY21. Flexi loans are being originated in the business as usual.**

Asset quality

- A single large account in Consumer B2B is undergoing restructuring.
- **A recovery of INR10b is expected in Auto Finance.** The latter would take another two quarters to recover to normalcy in terms of asset quality.
- It sees no difference between flexi and normal loan asset quality.
- Maximum write-offs were from 3Ws, B2C, and B2B. These were customers who had not paid for the past six months or so.

- There won't be further restructuring beyond the declared INR20b number.
- **INR12b worth of Stage 2 loans has recovered to Stage 1 in 3QFY21.**
- **Bounce rates in Home loans are still higher than pre-COVID levels.**
- Customers who applied for a moratorium from BAF also partook of the same from the banking system in general.

Funding

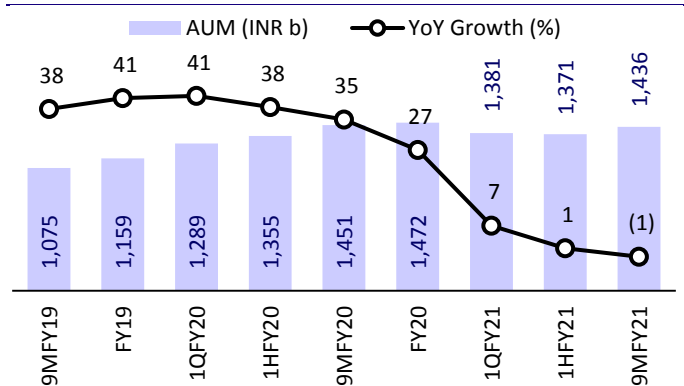
- **It expects the share of CPs to return to normal levels of 7-10% from 4-5% at present.**
- The incremental cost of deposits is 6.6% for three-years.

Others

- All calls made by collection agents would be recorded by the company from Mar'21.
- Some CD stores in which the company was operating closed down during the COVID-19 pandemic.
- At present, it has 14m banked customers.
- INR6-7b ECLGS loans have been disbursed since inception.
- Points of sale in retail EMI card spends have fallen QoQ because the company is not servicing locations with sub-INR15k average ticket size spends.

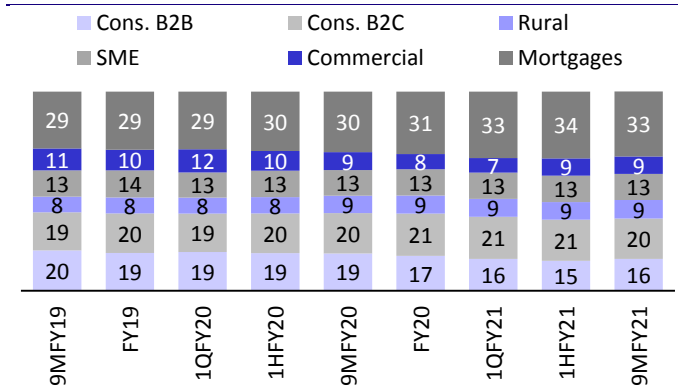
Key exhibits

Exhibit 1: AUM growth picks up sequentially (%)



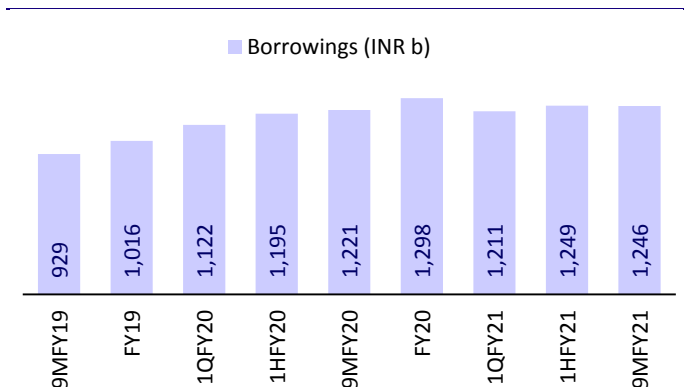
Source: MOFSL, Company

Exhibit 2: AUM mix stable (%)



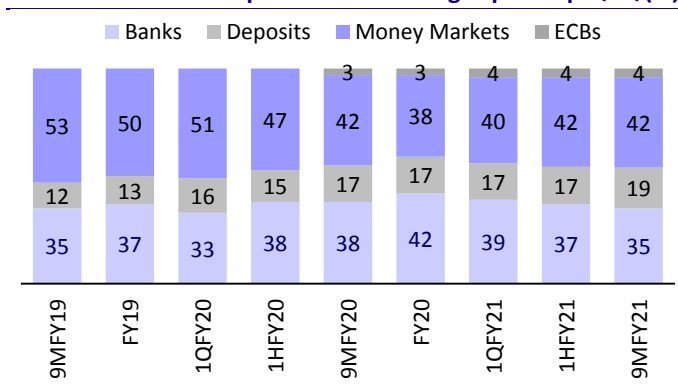
Source: MOFSL, Company

Exhibit 3: Prepaid borrowings with excess liquidity on the Balance Sheet



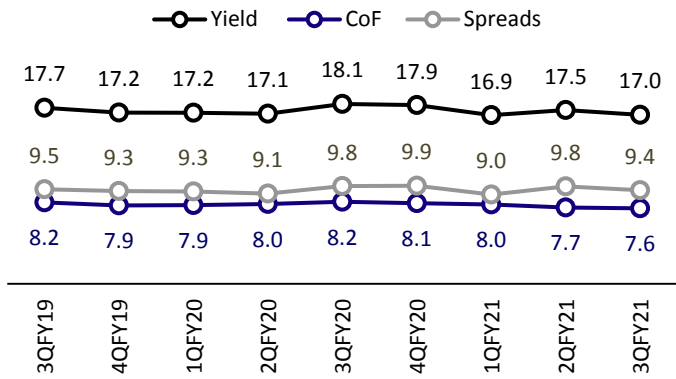
Source: MOFSL, Company

Exhibit 4: Share of deposits in borrowings up 165bp QoQ (%)



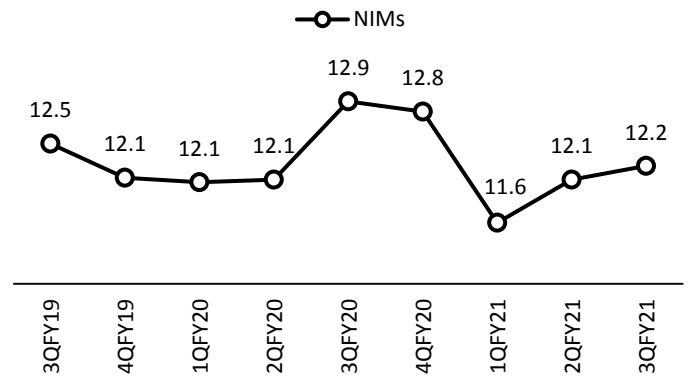
Source: MOFSL, Company

Exhibit 5: Spreads (cal.) declines ~39bp sequentially (%)



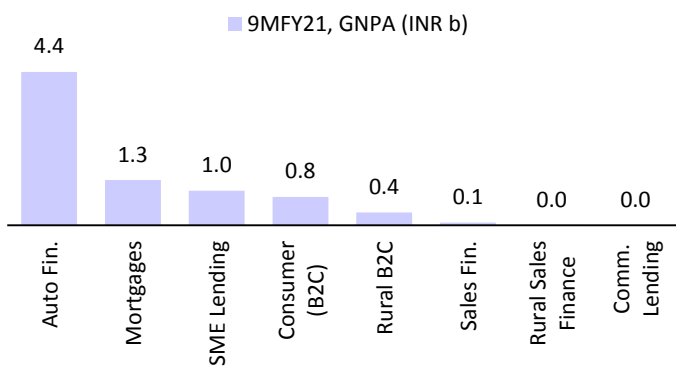
Source: MOFSL, Company

Exhibit 6: Margin (cal.) largely stable (%)



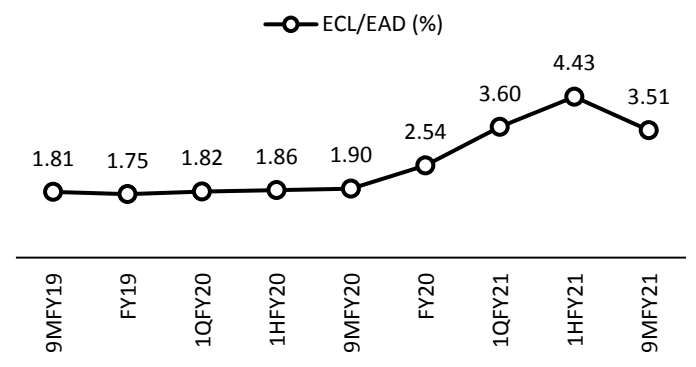
Source: MOFSL, Company

Exhibit 7: Asset quality trend



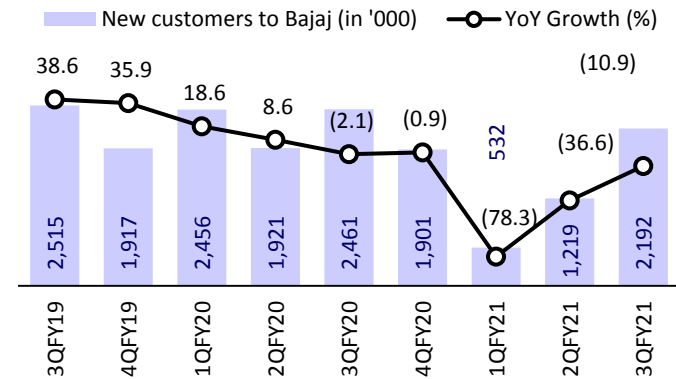
Source: MOFSL, Company; Note: Without SC dispensation, GNPA ratio would be 2.9%

Exhibit 8: Total provisions at ~3.5% of loans



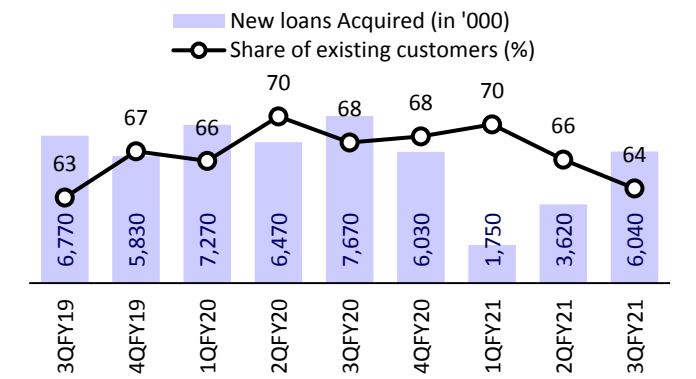
Source: MOFSL, Company

Exhibit 9: Risk appetite improving with strong additions to the customer base



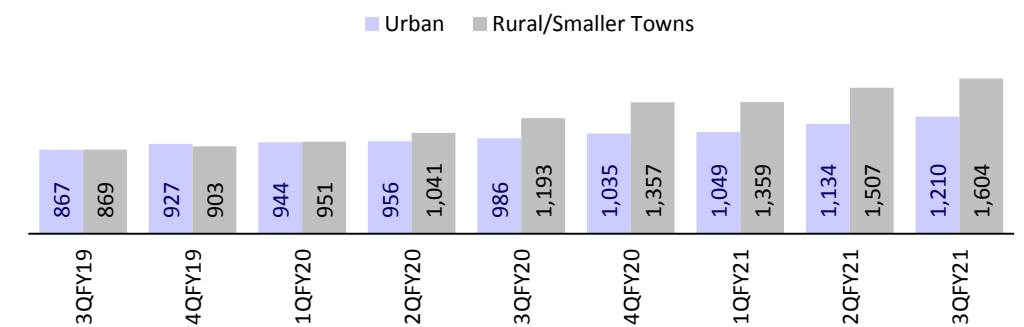
Source: MOFSL, Company

Exhibit 10: Share of existing customers down ~260bp QoQ in new loan bookings



Source: MOFSL, Company

Exhibit 11: Trend in branch expansions



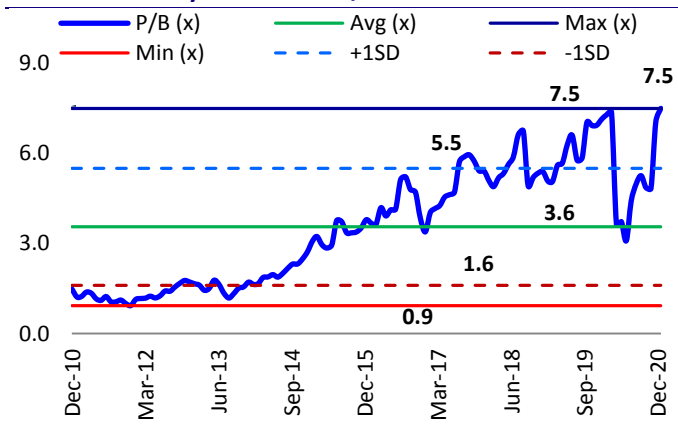
Source: MOFSL, Company

Exhibit 12: Upgrade our FY22E EPS estimate by 4% to factor in lower credit costs

INR b	Old estimate		New estimate		% change	
	FY21	FY22	FY21	FY22	FY21	FY22
NII	147.7	177.5	136.4	172.1	-7.7	-3.1
Other operating income	31.4	37.0	34.3	37.7	9.0	1.8
Other income	0.2	0.2	0.2	0.2		
Total income	179.3	214.8	170.8	210.0	-4.8	-2.3
Operating expenses	51.4	61.9	51.4	59.7	0.0	-3.5
Operating profit	127.9	152.9	119.4	150.2	-6.7	-1.7
Provisions	63.8	37.5	59.8	30.7	-6.3	-18.2
PBT	64.1	115.4	59.5	119.6	-7.1	3.6
Tax	16.8	30.3	15.6	31.4	-7.1	3.6
PAT	47.3	85.1	43.9	88.2	-7.1	3.6
Loans	1,514	1,816	1,471	1,794	-2.8	-1.2
Borrowings	1,317	1,580	1,291	1,543	-2.0	-2.3
RoA	2.8	4.5	2.6	4.8		
RoE	13.7	21.0	12.8	21.9		

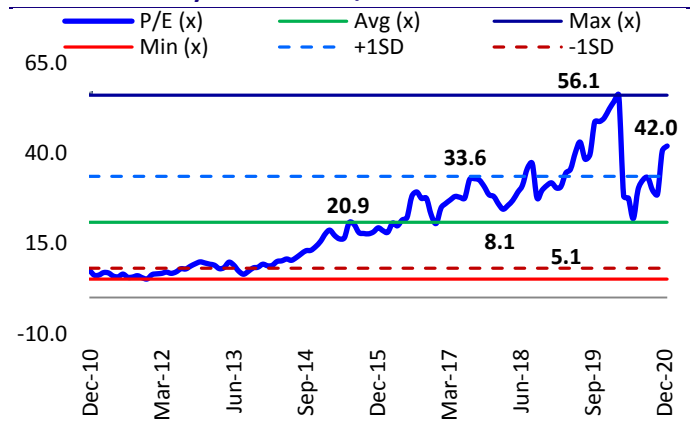
Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	M-cap (USD b)	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HFCs															
HDFC*	Buy	2,689	62.6	28.6	21.7	16.5	3.2	2.6	2.0	1.8	1.9	1.9	12.5	12.6	12.9
LICHF	Buy	431	2.9	7.2	6.7	6.3	1.1	0.9	0.8	1.3	1.3	1.3	15.8	15.1	14.1
PNBHOUSI	Neutral	372	0.8	6.5	5.6	4.1	0.7	0.6	0.6	1.2	1.4	1.7	11.4	12.2	14.7
AAVAS	Neutral	1,927	2.0	64.2	47.1	36.5	6.5	5.7	4.9	2.8	3.3	3.6	10.6	12.8	14.5
CANF	Buy	512	0.9	15.4	14.4	12.8	2.7	2.3	1.9	2.0	2.0	2.1	18.7	17.0	16.3
REPCO	Buy	268	0.2	5.8	5.4	4.9	0.8	0.7	0.6	2.4	2.3	2.4	15.2	14.0	13.7
Vehicle Finance															
SHTF	Buy	1,248	3.8	12.3	10.1	8.7	1.4	1.3	1.1	2.2	2.5	2.7	12.9	13.4	13.8
MMFS	Buy	185	1.5	25.4	19.9	12.8	1.5	1.4	1.3	1.2	1.4	2.0	6.7	7.2	10.5
CIFC	Buy	458	4.9	22.5	18.8	15.1	3.9	3.3	2.7	2.4	2.7	3.1	18.6	18.8	19.6
Diversified															
BAF	Neutral	4,981	40.8	63.2	35.1	28.1	8.1	6.7	5.5	2.8	4.5	4.6	13.7	21.0	21.7
SCUF	Buy	1,074	1.0	8.3	6.4	5.1	0.9	0.8	0.7	2.8	3.6	4.3	11.2	12.9	14.5
INDOSTAR	Neutral	321	0.5	95.7	26.3	17.5	1.0	1.0	0.9	0.4	1.4	2.3	1.3	3.8	5.4
MASFIN	Buy	889	0.7	31.1	25.9	21.7	4.4	3.9	3.4	3.5	4.1	4.2	14.9	15.9	16.7
Gold Finance															
MUTH	Buy	1,211	6.6	13.7	11.6	9.9	3.4	2.7	2.2	6.6	7.0	7.2	27.3	26.2	25.0
MGFL	Buy	168	1.9	8.7	7.0	6.0	2.0	1.6	1.3	5.3	5.9	6.1	25.5	25.3	24.1
Wholesale															
PIEL	Buy	1,596	4.6	14.5	12.5	10.8	1.2	1.1	1.0	0.0	0.0	0.0	8.4	9.4	10.0
ABCAP	Buy	91	3.0	11.9	11.6	8.8	1.2	1.0	0.7	1.6	1.4	1.5	10.6	8.7	8.9

Financials and valuations

Income Statement								INR b
Y/E MARCH	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	65.5	87.1	115.9	163.5	229.7	231.5	273.4	332.8
Interest Expended	29.3	38.0	46.1	66.2	94.7	95.1	101.3	121.1
Net Interest Income	36.2	49.0	69.7	97.3	135.0	136.4	172.1	211.7
Change (%)	37.0	35.4	42.2	39.5	38.8	1.0	26.2	23.0
Other Operating Income	7.5	12.7	11.6	21.4	34.0	34.3	37.7	45.1
Other Income	0.4	0.3	0.1	0.1	0.1	0.2	0.2	0.2
Net Income	44.1	62.0	81.4	118.8	169.1	170.8	210.0	257.1
Change (%)	39.0	40.7	31.3	45.9	42.4	1.0	22.9	22.4
Operating Expenses	19.0	25.6	32.7	42.0	56.6	51.4	59.7	70.5
Operating Profits	25.1	36.4	48.7	76.8	112.5	119.4	150.2	186.5
Change (%)	44.0	45.0	34.1	57.6	46.5	6.1	25.9	24.1
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.8	30.7	34.6
PBT	19.6	28.2	38.4	61.8	73.2	59.5	119.6	151.9
Tax	6.9	9.8	13.5	21.8	20.6	15.6	31.4	39.9
Tax Rate (%)	34.9	34.8	35.0	35.3	28.1	26.3	26.3	26.3
PAT	12.8	18.4	25.0	39.9	52.6	43.9	88.2	112.0
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.6	100.8	27.0
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	4.4	8.8	11.2

Balance Sheet								INR b
Y/E MARCH	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	0.5	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Reserves & Surplus (Ex OCI)	73.7	89.4	157.4	195.8	323.0	362.5	441.8	542.6
Net Worth	74.3	90.5	158.6	197.0	324.2	363.7	443.0	543.8
OCI	0.0	0.0	-0.1	0.0	-0.9	-0.9	-0.9	-0.9
Net Worth (Including OCI)	74.3	90.5	158.5	197.0	323.3	362.8	442.2	543.0
Change (%)	54.7	21.9	75.1	24.3	64.1	12.2	21.9	22.8
Borrowings	370.2	508.9	665.6	1,015.9	1,298.1	1,290.7	1,543.2	1,917.8
Change (%)	38.7	37.5	30.8	52.6	27.8	-0.6	19.6	24.3
Other liabilities	25.2	19.9	23.9	29.5	22.6	26.0	29.9	34.3
Total Liabilities	469.7	619.4	848.0	1,242.3	1,643.9	1,679.4	2,015.2	2,495.1
Investments	10.3	41.3	31.4	86.0	175.4	149.1	171.5	197.2
Change (%)	211.2	299.5	-24.0	173.9	104.0	-15.0	15.0	15.0
Loans	438.3	564.0	800.0	1,137.1	1,428.0	1,470.8	1,794.4	2,243.0
Change (%)	40.5	28.7	41.8	42.1	25.6	3.0	22.0	25.0
Other assets	21.1	14.1	16.6	19.2	40.5	59.5	49.3	54.8
Total Assets	469.7	619.4	848.0	1,242.3	1,643.9	1,679.4	2,015.2	2,495.1

E: MOSL Estimates

Financials and valuations

Ratios	(%)							
Y/E MARCH	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Yield on Advances	17.5	17.4	17.0	16.9	17.9	15.5	16.3	16.0
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.4	7.2	7.0
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.2	9.1	9.0
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.4	10.5	10.5
Profitability Ratios (%)								
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.1	28.4	27.4
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.6	47.5	48.3
RoE	20.9	22.3	20.0	22.5	20.2	12.8	21.9	22.7
RoA	3.2	3.4	3.4	3.8	3.6	2.6	4.8	5.0
Asset Quality (%)								
GNPA	5.4	9.8	11.6	18.0	23.6	63.6	40.1	45.3
NNPA	1.2	2.6	3.5	7.3	9.4	28.6	16.0	18.1
GNPA %	1.2	1.7	1.4	1.6	1.6	4.2	2.2	2.0
NNPA %	0.3	0.5	0.4	0.6	0.7	1.9	0.9	0.8
PCR %	77.2	74.0	69.6	59.7	60.3	55.0	60.0	60.0
Capitalisation (%)								
CAR	19.5	19.5	24.0	20.7	25.0	26.8	26.5	25.8
Tier I	16.1	13.3	18.4	16.3	21.3	23.4	23.8	23.8
Tier II	3.4	6.2	5.5	4.4	3.7	3.4	2.7	2.0
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.8	4.6	4.6
Valuation								
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	606.2	738.5	906.5
Price-BV (x)					9.2	8.2	6.7	5.5
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.2	147.0	186.7
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.6	100.8	27.0
Price-Earnings (x)					56.8	68.1	33.9	26.7
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	7.3	14.7	18.7
Dividend Yield (%)					0.2	0.1	0.3	0.4

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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