

Long term prospects intact...

Bajaj Finance posted a steady set of numbers on the business and operational front with QoQ improvement in AUM, profitability being boosted by lower provisions. **With high frequency risk, collections not warranting risk stance change guidance remains the same. Hence, it is a welcome sign.**

During the quarter, AUM growth on a sequential basis was at a multi quarter high of 6.5% at ₹ 152947 crore led by 6.1% QoQ rise in mortgage book, while SME, consumer B2C and securities lending also showed respectable growth. The company during the quarter acquired 22.6 lakh new customers vs. 21.9 lakh QoQ and total customer franchisee for the quarter was at 4.8 crore representing growth of 14% YoY. The quarterly new customer addition was within their general guidance of 70-80 lakh new customer acquisition in a year.

Net interest income was marginally down 0.5% YoY but increased 8.4% QoQ to ₹ 4655 crore. Interest reversals for the quarter were at ₹ 298 crore vs. ₹ 122 crore YoY, ₹ 450 crore QoQ. Opex increased ~16% QoQ owing to rise in business activity and as a result C/I ratio was up from ~32% to 34.5% QoQ. Provisions came in at ₹ 1231 crore, lower than our estimate. As a result, PAT was higher at ₹ 1347 crore, up 42% YoY, 17.5% QoQ.

Asset quality improves

For Q4FY21, overall asset quality improved as GNPA and NNPA declined to 1.79% and 0.75% from proforma levels of 2.86% and 1.22%, respectively. The company had a write-off of ~₹ 2000 crore during the quarter, which partially aided NPA decline. **Bajaj Finance has done accelerated write-offs of ₹ 1530 crore due to Covid related stress and still holds management overlay and macro provisions of ₹ 840 crore.** Non overdue one-time restructuring (OTR) book was at ₹ 1739 crore (1.13% of book) as of March 31, 2021. This includes secured exposures of ₹ 918 crore, one large B2B retailer account of ₹ 397 crore and ₹ 424 crore of unsecured assets. ECL provision was at ₹ 328 crore (19%). Bounce rates are close to pre-Covid levels while collection efficiencies across buckets is better than pre-Covid level.

Valuation & Outlook

Bajaj Finance has sailed through the headwinds and emerged stronger with a leaner operating model and robust growth guidance. The management not changing the stance and expecting the current loss in Q1 due to the second wave to be largely covered in the next three quarters remains a positive scenario for the stock. We expect 20%, 22% growth for FY22E, FY23E and PAT growth of 40%, 31% (marginal revised upwards by 6%), respectively. RoE is seen returning to ~15-16% and RoA at >3%. Possibility of application for banking licence is also an added positive. We believe premium multiples will be maintained for Bajaj Finance and accordingly value the stock at 6.7x FY23E. We maintain target price of ₹ 5900. We maintain **BUY** rating.



Particulars

Particulars	Amount
Market Capitalisation	₹ 293667 crore
GNPA (Q4FY21)	₹ 2731 crore
NNPA (Q4FY21)	₹ 1136 crore
NIM (Q4FY21) (calculated)	12.9
52 week H/L	5921 / 1783
Face Value	₹ 2
Net worth	₹ 36918 Crore
DII Holding (%)	9.1
FII Holding (%)	24.1

Key Highlights

- GNPA declined to 1.79% from 2.86% (proforma) QoQ
- Accelerated write-off of ₹ 1530 crore due to Covid stress
- Maintain BUY with unchanged TP of ₹ 5900

Risk to our call

- Prolonged impact of second wave of pandemic could impact asset quality
- Delay in pick-up in AUM trajectory could impact performance

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narmolia
vishal.narmolia@icicisecurities.com

Sameer Sawant
Sameer.sawant@icicisecurities.com

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
NII (₹ crore)	11864	16901	17254	19005	23425	17%
PPP (₹ crore)	7681	11252	11961	12006	15327	13%
PAT (₹ crore)	3995	5264	4420	6189	8110	35%
ABV (₹)	313	534	596	681	883	
P/E	70	54	66	47	37	
P/ABV	15.5	9.1	8.2	7.2	5.5	
RoA	3.0	2.8	2.2	3.3	3.5	
RoE	22.4	20.2	12.1	15.6	16.3	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	4,655	4,534	4,679	-0.5	4,293	8.4	Higher interest reversaals of ₹ 298 crore vs. ₹ 122 crore YoY led to muted NII
NIM (%) (calculated)	12.9	12.8	12.8	11 bps	11.9	102 bps	
Staff cost	768	712	618	24.3	678	13.3	
Other Operating Expenses	838	698	833	0.5	711	17.8	
Opex to NII(%)	34.5	31.1	31.0	11.2	32.4	6.6	Meaningful rise in opex due to pick-up in business activity
PPP	3,053	3,133	3,232	-5.5	2,906	5.1	
Provision	1,231	1,620	1,954	-37.0	1,352	-8.9	Provisions were lower than estimates
PBT	1,823	1,513	1,278	42.6	1,555	17.2	
Tax Outgo	476	378	330	44.2	409	16.5	
PAT	1,347	1,134	948	42.0	1,146	17.5	Helped by lower provisions, PAT was up 42% YoY, higher than our estimates
Key Metrics							
GNPA	2,731	2,027	2,363	15.6	789	246.1	Asset quality improved as GNPA declined to 1.79% from 2.86% (proforma) QoQ
NNPA	1,136	881	938	21.1	283	301.4	
AUM	152,947	153,000	147,153	3.9	143,550	6.5	AUM growth was healthy with mortgages being largest contributor

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	18480	19,005	2.8	22,799.0	23,425	2.7
Pre Provision Profit	11481	12,006	4.6	14,699.9	15,327	4.3
NIM(%) (calculated)	12	10.2	-140 bps	11.6	10.3	-130 bps
PAT	5815	6,189	6.4	7,644.0	8,110	6.1
ABV per share (₹)	637	681.3	7.0	832.3	883.4	6.1

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current			Earlier			
	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	36.5	25.7	3.8	18.0	21.7	19.7	21.7
Borrowings Growth (%)	30.2	23.7	1.7	20.0	20.0	20.0	20.0
NIM Calculated (%)	12.2	13.3	10.5	10.2	10.3	11.6	11.6
Cost to income ratio (%)	35.3	33.5	30.7	36.9	34.6	37.9	35.6
GNPA (₹ crore)	1,732.7	2,276.2	2,731.0	4,401.2	6,673.6	5,839.1	8,110.8
NNPA (₹ crore)	708.8	918.9	1,136.0	1,611.9	3,193.2	3,065.2	4,646.0

Source: Company, ICICI Direct Research

Bajaj Finance Q4FY21 result and conference call highlights

Business

- Expects to launch three in one financial services infrastructure channel in a phased manner August and September
- Most businesses have started disbursing 90-105% of last years' volume
- Existing customers contributed 59% of new loans booked during Q4FY21 vs. 68% YoY
- Wallet and retail EMI Cards business has been dealt with selective lending
- Expect liquidity buffer to come down to ~₹ 10000 crore in the next two quarters from ₹ 16485 crore
- Originating 50-55% of daily volumes in B2B business especially from larger states
- Will continue to originate customers at point of sales

Asset Quality

- OTR offered to customers of ~₹ 2200 crore of which ~₹ 400 crore has been classified as stage 2
- Most of the write-offs done are from stage-3 assets in Q4FY21
- The bounce rates of new origination across businesses are in line or better than pre-Covid origination
- Credit cost to be ~100 to 150 bps unless pandemic does not impact larger states leading to simultaneous lockdowns

Others

- The company has paid over ₹ 7500 crore to various banks in the last two quarters as part of its strategy to optimise cost of funds
- Opex to NII to be back to pre-Covid levels once AUM growth picks up further
- Interest income reversals for the quarter were at ₹ 298 crore

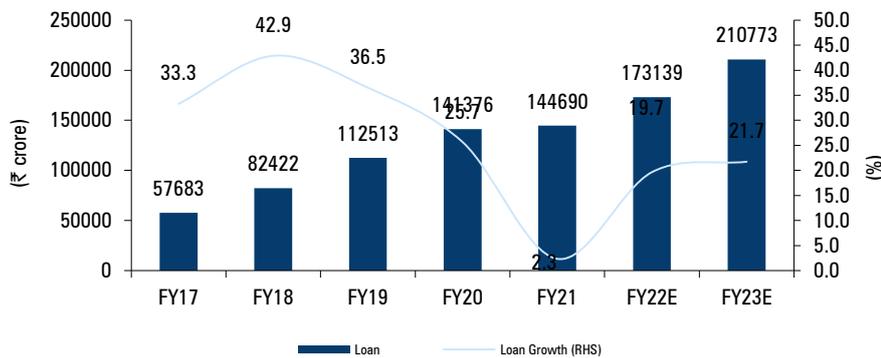
Story in Charts

Exhibit 4: Long-term guidance on key financial metrics intact



Source: Company, ICICI Direct Research

Exhibit 5: AUM growth to show increased trajectory



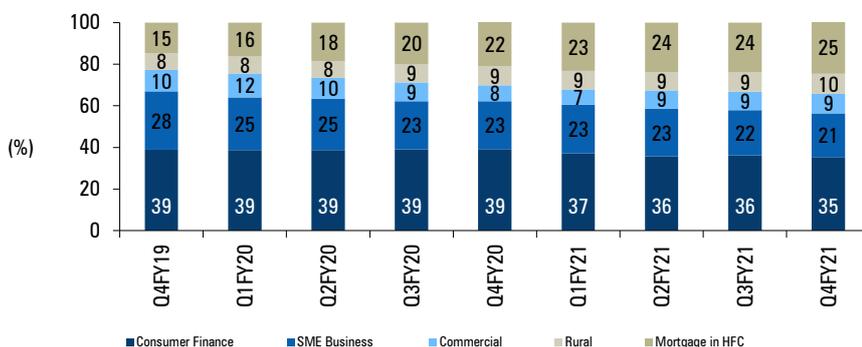
Source: Company, ICICI Direct Research

Exhibit 6: Business growth segment wise

₹ crore	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Absolute growth YoY	Variation % YoY	% Propn
Consumer B2B Businesses	25543	27136	25742	22033	20605	22893	23637	-2105	-8.2	15
Consumer B2C Businesses	27006	29381	31255	29219	28262	29042	30450	-805	-2.6	20
Rural Business	11169	12665	13328	12370	12099	13392	14705	1377	10.3	10
SME Business	17908	18703	19429	18277	18253	18882	20217	788	4.1	13
Commercial Lending & Securities lenc	13415	13016	11233	10032	11882	12584	14347	3114	27.7	9
Mortgages	40492	44191	46166	46124	45989	46758	49591	3425	7.4	32
Total AUM	135533	145092	147153	138055	137090	143551	152947	5794	3.9	100

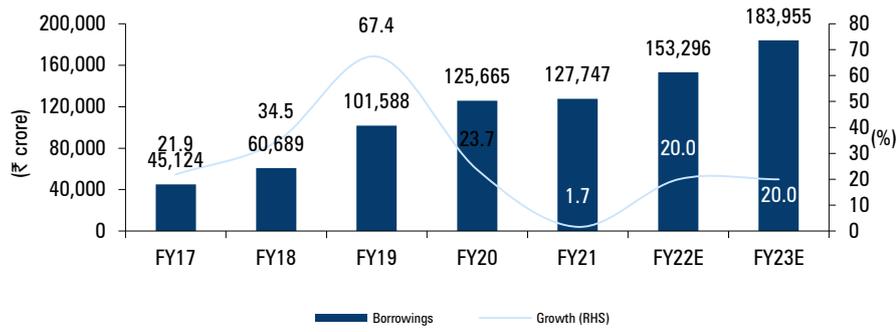
Source: Company, ICICI Direct Research

Exhibit 7: Consumer finance largest contributor to loan mix



Source: Company, ICICI Direct Research

Exhibit 8: Trend in borrowing



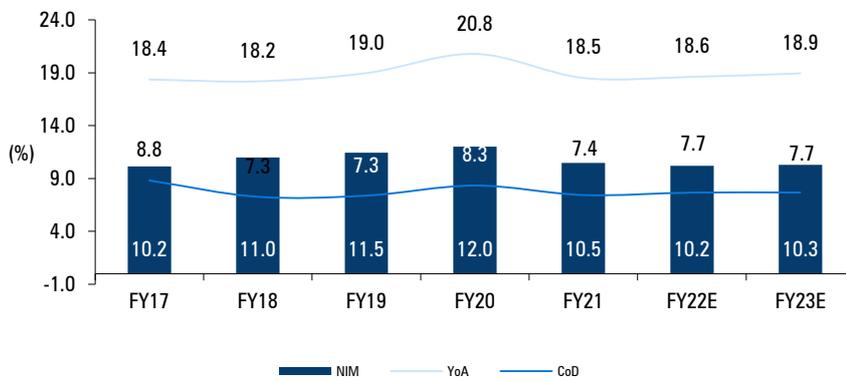
Source: Company, ICICI Direct Research

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

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NCDs/ sub debt	40	39	39	39	40	42	35	32
Banks	33	35	35	35	39	37	42	44
Deposits+CPs	26	26	26	26	21	21	23	24

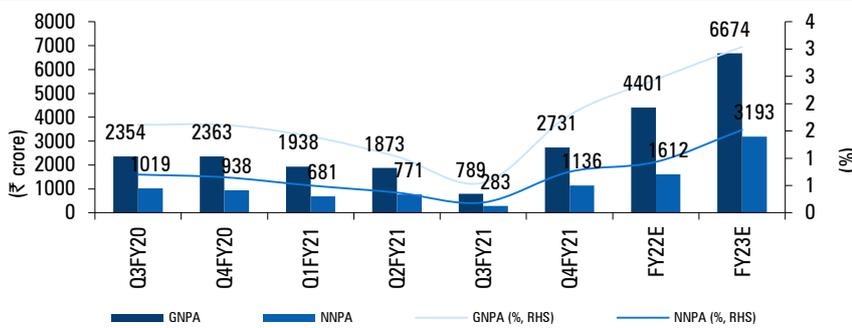
Source: Company, ICICI Direct Research

Exhibit 10: Margins to be range-bound



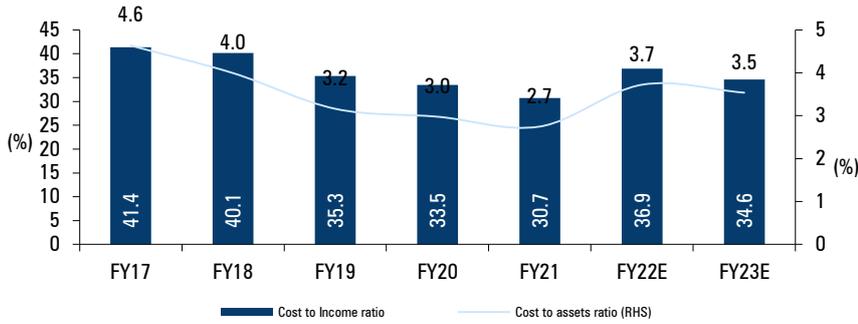
Source: Company, ICICI Direct Research

Exhibit 11: Asset quality scenario



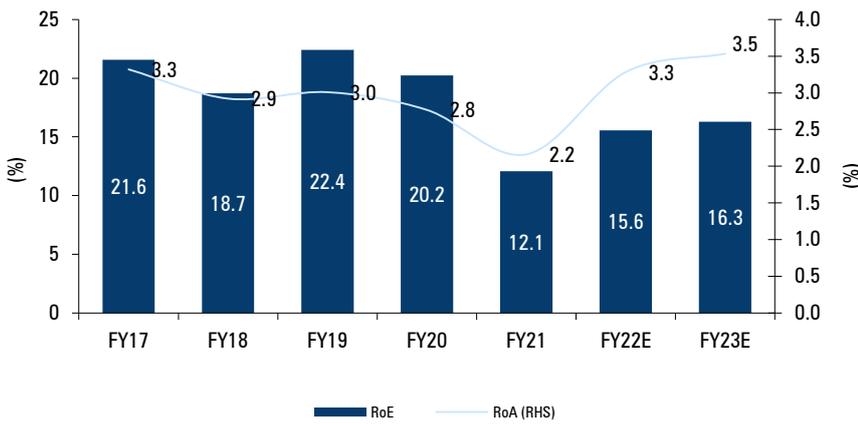
Source: Company, ICICI Direct Research

Exhibit 12: Cost to income trend



Source: Company, ICICI Direct Research

Exhibit 13: RoA and RoE trajectory



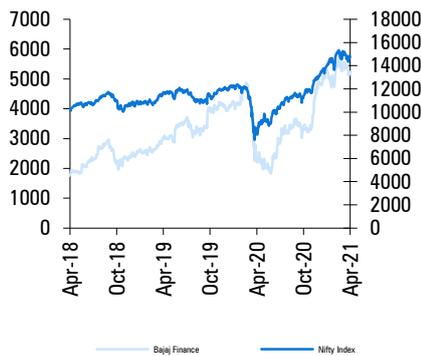
Source: Company, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	56.2	56.2	56.1	56.1	56.1
FII	21.2	21.2	21.3	23.9	24.1
DII	10.9	10.1	10.7	9.1	9.1
Others	11.8	12.5	11.9	10.9	10.7

Source: Company, ICICI Direct Research

Exhibit 15: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Interest Earned	26373.8	26668.1	29773.5	36363.6
Interest Expended	9473.2	9414.0	10768.9	12938.4
Net Interest Income	16900.6	17254.1	19004.6	23425.2
Growth (%)	42.5	2.1	10.1	23.3
Non Interest Income	11.8	15.0	18.4	22.6
Operating Income	16912.4	17269.1	19023.0	23447.8
Employee cost	2290.9	2498.7	2556.1	3118.5
Other operating Exp.	3369.9	2809.5	4460.9	5002.6
Operating Profit	11251.6	11960.8	12005.9	15326.8
Provisions	3929.5	5968.6	3699.1	4440.3
PBT	7322.1	5992.3	8306.8	10886.4
Taxes	2058.4	1572.4	2118.2	2776.0
Net Profit	5,263.8	4,419.8	6,188.6	8,110.4
Growth (%)	31.8	-16.0	40.0	31.1
EPS (₹)	89.5	73.5	102.9	131.7

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Valuation				
No. of shares (crore)	60.0	60.2	60.2	61.6
EPS (₹)	89.5	73.5	102.9	131.7
BV (₹)	549	615	708	935
ABV (₹)	534	596	681	883
P/E	54	66	47	37
P/BV	8.9	7.9	6.9	5.2
P/ABV	9.1	8.2	7.2	5.5
Yields & Margins (%)				
Net Interest Margins	12.0	10.5	10.2	10.3
Yield on assets	18.7	16.2	16.0	16.0
Avg. cost on funds	8.3	7.4	7.7	7.7
Yield on average advance:	20.8	18.5	18.6	18.9
Quality and Efficiency (%)				
Cost to income ratio	33.5	30.7	36.9	34.6
Cost to assets ratio	3.0	2.7	3.7	3.5
GNPA	1.6	1.8	2.4	3.0
NNPA	0.7	0.8	0.9	1.5
ROE	20.2	12.1	15.6	16.3
ROA	2.8	2.2	3.3	3.5

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Capital	120.0	120.3	120.3	123.1
Reserves and Surplus	32207.6	36798.1	42481.3	56794.6
Networth	32327.6	36918.4	42601.6	56917.7
Borrowings	125664.6	127746.8	153296.2	183955.4
Other Liabilities & Provisio	6399.2	6861.7	9352.9	12789.9
Total	1,64,391.4	1,71,526.9	2,05,250.7	2,53,663.0
Application of Funds				
Fixed Assets	1097.3	1363.5	1499.8	1649.8
Investments	17543.9	18396.9	17845.0	17309.7
Advances	141376.1	146686.9	173139.3	210773.1
Other Assets	4374.2	5079.6	12766.5	23930.5
Total	1,64,391.4	1,71,526.9	2,05,250.7	2,53,663.0

Source: Company, ICICI Direct Research

Exhibit 19: Growth ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total assets	29.9	4.3	19.7	23.6
Advances	25.7	3.8	18.0	21.7
Borrowings	23.7	1.7	20.0	20.0
Net interest income	42.5	2.1	10.1	23.3
Operating Income	42.4	2.1	10.2	23.3
Operating expenses	34.9	-16.6	32.2	15.7
Operating profit	46.5	6.3	0.4	27.7
Net profit	31.8	-16.0	40.0	31.1
Net worth	64.1	14.2	15.4	33.6
EPS	29.0	-17.9	40.0	28.1

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI- NBFC)

Sector / Company	CMP		Rating	M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Finance (LICHF)	402	475	Hold	203	58.9	65.3	76.0	6.8	6.2	5.3	1.2	1.1	1.0	1.2	1.2	1.2	15.4	15.1	15.9
HDFC (HDFC)	2,518	3,100	Buy	4,542	58.5	75.0	84.4	43.1	33.6	29.8	4.3	4.1	3.9	1.9	2.2	2.2	1.9	2.2	2.2
Bajaj Finserv (BAFINS)	10,085	10,500	Buy	1,605	253.3	305.6	405.3	39.8	33.0	24.9	4.4	3.9	3.4	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	4,873	5,900	Buy	2,937	73.5	102.9	131.7	66.3	47.4	37.0	8.2	7.2	5.5	2.2	3.3	3.5	12.1	15.6	16.3
Mahindra & Mahindra Finance	170	160	Reduce	204	2.7	7.2	10.4	62.5	23.7	16.3	1.9	1.6	1.3	0.4	1.2	1.6	2.6	5.7	7.3

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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