

BSE SENSEX
52,100

S&P CNX
15,670

CMP: INR5,994

TP: INR6,200 (+3%)

Buy

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	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	3617.7 / 49.6
52-Week Range (INR)	6009 / 2199
1, 6, 12 Rel. Per (%)	-1/7/106
12M Avg Val (INR M)	21634

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Income	172.7	207.5	251.6
PPP	119.6	147.3	178.6
PAT	44.2	79.1	106.9
EPS (INR)	73.5	131.5	177.6
EPS Gr. (%)	-16.3	79.0	35.1
BV/Sh. (INR)	606	724	884

Ratios

NIM (%)	9.5	10.5	10.5
C/I ratio (%)	30.7	29.0	29.0
RoA (%)	2.6	4.2	4.8
RoE (%)	12.8	19.8	22.1
Payout (%)	13.6	10.0	10.0

Valuations

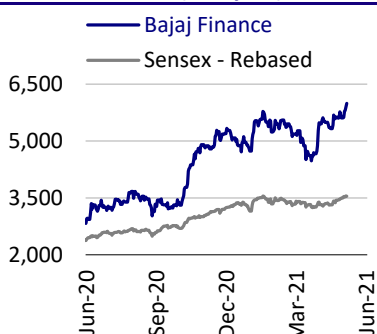
P/E (x)	81.6	45.6	33.7
P/BV (x)	9.9	8.3	6.8
Div. Yield (%)	0.2	0.2	0.3

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	56.1	56.1	56.2
DII	9.1	9.1	10.9
FII	24.2	24.2	21.5
Others	10.6	10.6	11.5

FII Includes depository receipts

Stock Performance (one-year)



Second wave impact manageable

Tweak earnings to factor in lower growth and higher credit cost; ROE still at 20%

Bajaj Finance Ltd (BAF) has released its mid-quarter update highlighting the impact of the second COVID wave on AUM (INR40-50b, 3% of outstanding AUM) and provisioning (INR11-13b, 0.8% additional credit cost). A large portion of the provisioning is likely to be up-fronted in 1Q. New origination in B2B/other businesses are down to 40/60% vs planned level in May. We have tweaked our estimate based on the revised guidance. Despite an earnings cut of ~11% for FY22, ROEs are likely to be strong at 20%, and we believe the impact is likely to be transient. With the process of unlocking having commenced, the rebound may be equally strong. Reiterate Buy.

Strong customer acquisition businesses see moderation

- The company has seen sharp moderation in high-volume, low ticket size, and strong customer acquisition related businesses such as Auto Financing and B2B Financing. **Volumes in these businesses were 70%/40% of the planned volumes in April/May.** Moreover, with the lockdown continuing in some states, June is also likely to see moderation, although it would be better than May, in our view
- **Other lines of business (largely cross-sell kind of products) had 85%/60% of planned volumes in April/May.** The company expects volumes to see an uptick in June. **The management expects the AUM impact to be INR40-50b (~3% of the outstanding AUM) for FY22.**

Limited impact; better economic revival may surprise positively

- With the high severity of the second wave, some impact on AUM / credit cost was expected. **B2B and Auto Financing contribute ~16% to the overall AUM for the company;** however, their contribution to overall customer acquisitions is very high. Considering the short duration of the high-volume products, they also contribute meaningfully to fee income for the quarter.
- We see temporary moderation in these businesses and expect some part of the lost demand to be compensated by the start of the unlocking
- With good pent-up demand, we may see a positive surprise in 2H – provided there is no impact in the form of a third COVID wave or the wave is less intense in nature.

Guiding for higher provisions

- The management has guided for provisioning cost to be INR11-13b higher than earlier estimated. During the 4Q earnings call, it mentioned that the entire first COVID wave related pain was taken upfront and FY22 is likely to be near normalized levels.

Alpesh Mehta - Research Analyst (Alpesh.Mehta@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Divya Maheshwari (Divya.Maheshwari@motilalosal.com)

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Twinking the estimates; ROEs still 20%+

- We cut our estimates by ~11% for FY22, factoring in lower AUM and credit cost. We lower our AUM estimates (by ~5%) to ~19% now. Considering the evolving liquidity situation, we expect the NII impact to be marginally lower owing to the benefit on cost of funds.
- On the back of lower volumes, we now model in lower opex as well. Hence, our PPop estimates are largely unchanged. On the back of higher provisioning, PAT sees a downgrade of ~11% for FY22. We further tweak our FY23/FY24 estimates by ~2%, factoring in lower AUM. Despite the earnings cut, ROEs are likely to be ~20%, with superior core operating profitability.

Valuation and view

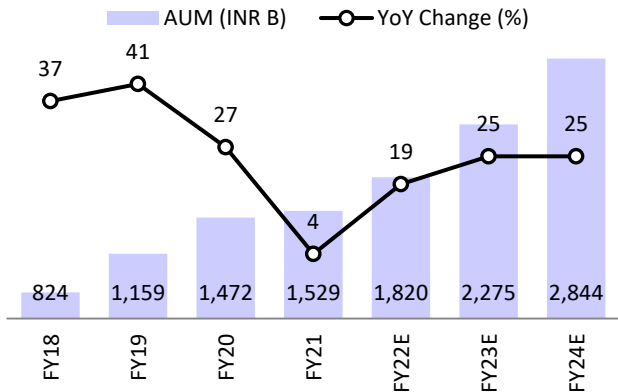
- The severity of earnings impact of the COVID second wave has been much lower than the first wave. The management is well-prepared to deal with this and compensate the lost business with the start of the unlocking process. Digital initiatives have been upfronted and are likely to provide significant benefit on the cost and growth fronts. The cross-selling of products to the existing Credit segment customer base of ~39m would be a key growth driver in FY22 as well.
- In the 4QFY21 earnings call, the management guided for achieving long-term growth guidance of 25% AUM growth and 20% ROE – if the impact of the second wave is in line with expectations. However, while the AUM growth now seems like a stretch, ROE of 20% still seems achievable on the back of strong margins and operating efficiencies.
- BAF's return ratios have not only been consistent but are also the highest in our Coverage Universe (after that of the gold financiers). Reiterate Buy, with TP of INR6,200 (7x BV FY23).

Earnings cut factors in lower growth and higher provisions; operating profit estimates largely unchanged

INR B	Old Est.			New Est.			% Change		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
NII	174.1	216.6	272.9	170.2	207.8	261.9	-2.2	-4.0	-4.0
Other operating Income	37.6	44.2	52.0	37.1	43.6	51.2	-1.3	-1.4	-1.6
Other Income	0.2	0.2	0.3	0.2	0.2	0.3			
Total Income	211.9	261.0	325.2	207.5	251.6	313.4	-2.1	-3.6	-3.6
Operating Expenses	63.4	77.1	94.9	60.3	73.1	89.7	-4.9	-5.2	-5.4
Operating Profits	148.5	183.9	230.4	147.3	178.6	223.7	-0.9	-2.9	-2.9
Provisions	27.6	35.0	41.3	40.3	34.1	40.3	46.0	-2.5	-2.3
PBT	120.9	148.9	189.1	106.9	144.4	183.4	-11.6	-3.0	-3.0
Tax	31.7	39.1	50.1	27.8	37.5	47.7	-12.4	-4.0	-4.9
PAT	89.2	109.8	139.0	79.1	106.9	135.7	-11.3	-2.7	-2.4
Loans	1,839	2,299	2,874	1,765	2,206	2,758	-4.0	-4.0	-4.0
Borrowings	1,600	1,966	2,428	1,536	1,886	2,331	-4.0	-4.0	-4.0
RoA	4.7	4.7	4.9	4.2	4.8	4.9			
RoE	22.1	22.2	22.9	19.8	22.1	22.9			

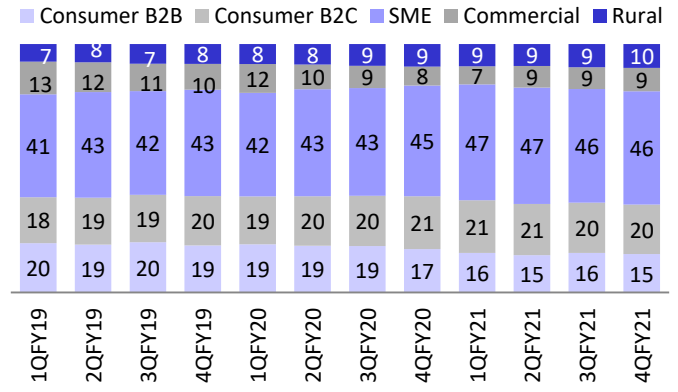
Source: MOFSL, Company

Exhibit 1: AUM growth to be ~19% in FY22



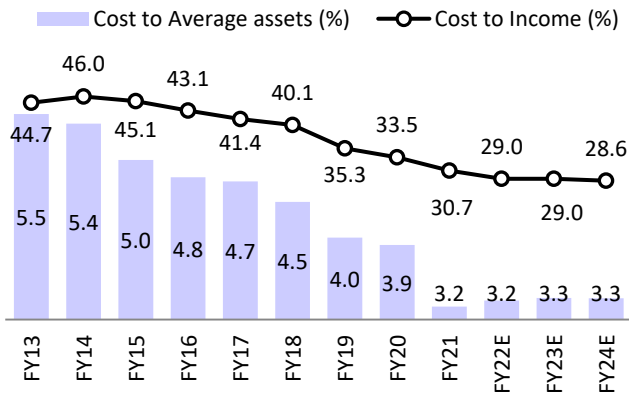
Source: MOFSL, Company

Exhibit 2: Share of B2B businesses down from 20% to 15% over FY19–21



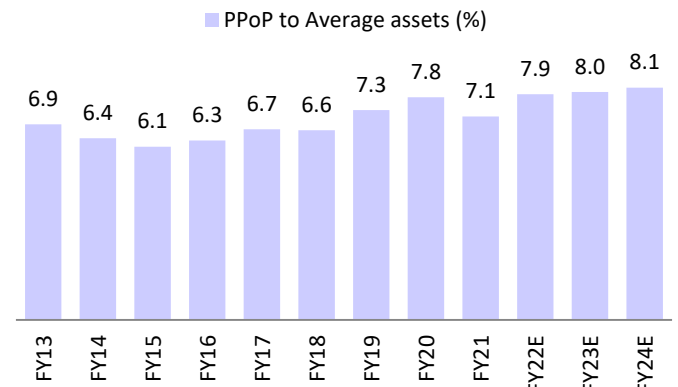
Source: MOFSL, Company

Exhibit 3: Significant cost efficiencies playing out



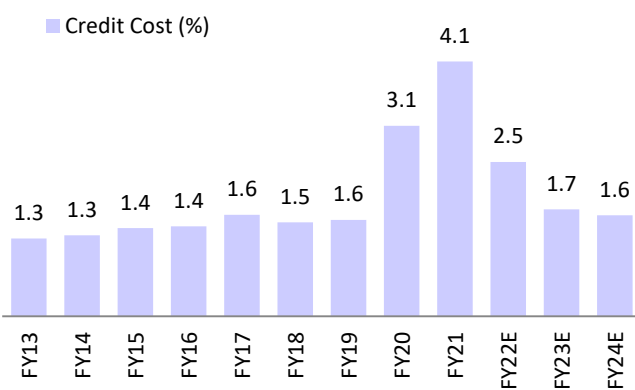
Source: MOFSL, Company

Exhibit 4: Operating profitability at multi-year highs



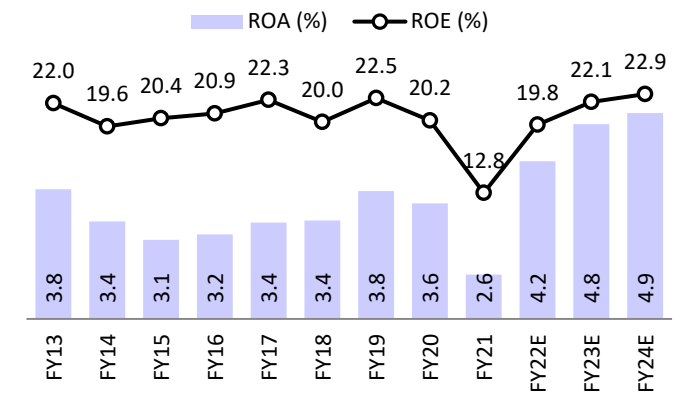
Source: MOFSL, Company

Exhibit 5: Credit cost impacted by COVID 19



Source: MOFSL, Company

Exhibit 6: Return ratios remain healthy (%)



Source: MOFSL, Company

Financials and valuations

Income Statement								INR b	
Y/E MARCH	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Interest Income	65.5	87.1	115.9	163.5	229.7	233.0	272.2	327.6	409.5
Interest Expended	29.3	38.0	46.1	66.2	94.7	94.1	102.0	119.8	147.6
Net Interest Income	36.2	49.0	69.7	97.3	135.0	138.9	170.2	207.8	261.9
Change (%)	37.0	35.4	42.2	39.5	38.8	2.9	22.5	22.1	26.0
Other Operating Income	7.5	12.7	11.6	21.4	34.0	33.6	37.1	43.6	51.2
Other Income	0.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.3
Net Income	44.1	62.0	81.4	118.8	169.1	172.7	207.5	251.6	313.4
Change (%)	39.0	40.7	31.3	45.9	42.4	2.1	20.2	21.3	24.6
Operating Expenses	19.0	25.6	32.7	42.0	56.6	53.1	60.3	73.1	89.7
Operating Profits	25.1	36.4	48.7	76.8	112.5	119.6	147.3	178.6	223.7
Change (%)	44.0	45.0	34.1	57.6	46.5	6.3	23.1	21.3	25.3
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.7	40.3	34.1	40.3
PBT	19.6	28.2	38.4	61.8	73.2	59.9	106.9	144.4	183.4
Tax	6.9	9.8	13.5	21.8	20.6	15.7	27.8	37.5	47.7
Tax Rate (%)	34.9	34.8	35.0	35.3	28.1	26.2	26.0	26.0	26.0
PAT	12.8	18.4	25.0	39.9	52.6	44.2	79.1	106.9	135.7
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.0	79.0	35.1	27.0
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	6.0	7.9	10.7	13.6

Balance Sheet								INR b	
Y/E MARCH	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Capital	0.5	1.1	1.2	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	363.4	434.6	530.8	652.9
Net Worth	74.3	90.5	158.6	197.0	324.2	364.6	435.8	532.0	654.1
OCI	0.0	0.0	-0.1	0.0	-0.9	-1.4	-1.4	-1.4	-1.4
Net Worth (Including OCI)	74.3	90.5	158.5	197.0	323.3	363.2	434.4	530.5	652.7
Change (%)	54.7	21.9	75.1	24.3	64.1	12.3	19.6	22.1	23.0
Borrowings	370.2	508.9	665.6	1,015.9	1,298.1	1,316.5	1,535.7	1,886.5	2,330.5
Change (%)	38.7	37.5	30.8	52.6	27.8	1.4	16.7	22.8	23.5
Other liabilities	25.2	19.9	23.9	29.5	22.6	35.6	41.0	47.1	54.2
Total Liabilities	469.7	619.4	848.0	1,242.3	1,643.9	1,715.3	2,011.0	2,464.2	3,037.4
Investments	10.3	41.3	31.4	86.0	175.4	184.0	184.0	184.0	184.0
Change (%)	211.2	299.5	-24.0	173.9	104.0	4.9	0.0	0.0	0.0
Loans	438.3	564.0	800.0	1,137.1	1,428.0	1,483.3	1,765.1	2,206.4	2,758.0
Change (%)	40.5	28.7	41.8	42.1	25.6	3.9	19.0	25.0	25.0
Other assets	21.1	14.1	16.6	19.2	40.5	48.0	61.9	73.8	95.4
Total Assets	469.7	619.4	848.0	1,242.3	1,643.9	1,715.3	2,011.0	2,464.2	3,037.4

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E MARCH	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
Spreads Analysis (%)									
Yield on Advances	17.5	17.4	17.0	16.9	17.9	16.0	16.3	16.0	16.0
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.2	7.2	7.0	7.0
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.8	9.1	9.0	9.0
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.5	10.5	10.5	10.6
Profitability Ratios (%)									
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.7	29.0	29.0	28.6
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.0	47.6	47.9	48.8
RoE	20.9	22.3	20.0	22.5	20.2	12.8	19.8	22.1	22.9
RoA	3.2	3.4	3.4	3.8	3.6	2.6	4.2	4.8	4.9
Asset Quality (%)									
GNPA	5.4	9.8	11.6	18.0	23.6	27.3	35.7	36.3	45.9
NNPA	1.2	2.6	3.5	7.3	9.4	11.4	14.3	14.5	18.4
GNPA %	1.2	1.7	1.4	1.6	1.6	1.8	2.0	1.6	1.6
NNPA %	0.3	0.5	0.4	0.6	0.7	0.8	0.8	0.7	0.7
PCR %	77.2	74.0	69.6	59.7	60.3	58.4	60.0	60.0	60.0
Capitalisation (%)									
CAR	19.5	19.5	24.0	20.7	25.0	26.5	26.4	25.6	25.0
Tier I	16.1	13.3	18.4	16.3	21.3	23.1	23.6	23.5	23.5
Tier II	3.4	6.2	5.5	4.4	3.7	3.4	2.7	2.1	1.6
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.9	4.7	4.6	4.6
Valuation									
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	606.1	724.4	884.3	1,087.3
Price-BV (x)					11.1	9.9	8.3	6.8	5.5
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.5	131.5	177.6	225.6
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.3	79.0	35.1	27.0
Price-Earnings (x)					68.3	81.6	45.6	33.7	26.6
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	10.0	13.2	17.8	22.6
Dividend Yield (%)					0.2	0.2	0.2	0.3	0.4

E: MOFSL Estimates

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

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