

Bajaj Finance Ltd.



Bajaj Finance Ltd.

Normalization of business activities led to a strong come back

CMP INR 7,478	Target INR 8,488	Potential Upside 13.5%	Market Cap (INR Cr) INR 4,51,340	Recommendation ACCUMULATE	Sector NBFC
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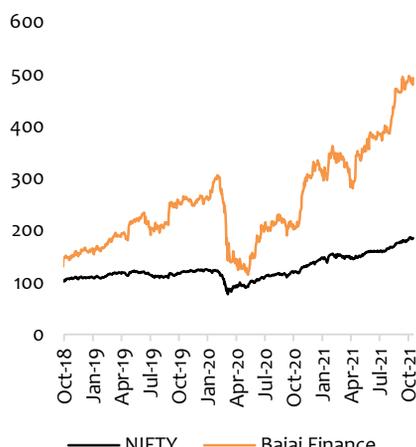
Result Highlights:

- Assets under management (AUM) grew by 22% to INR 166,937 Cr as of 30 September 2021 from INR 137,090 Cr as of 30 September 2020. Core AUM growth in Q2FY22 was approximately INR 11,150 Cr.
- Net Interest Income (NII) for Q2FY22 increased by 28% to INR 5,335 Cr as against INR 4,162 Cr in Q2FY21. Interest income reversal for the quarter was INR 322 Cr as compared to INR 216 Cr in Q2FY21.
- Loan losses and provisions for Q2FY22 was INR 1,300 Cr as against INR 1,700 Cr in Q2FY21.
- Profit after tax for Q2FY22 increased by 53% to INR 1,481 Cr from INR 965 Cr in Q2FY21.
- Gross NPA and Net NPA as of 30 September 2021 stood at 2.45% and 1.10% respectively, as against 2.96% and 1.46% as of 30 June 2021. The Company has provisioning coverage ratio of 55% on stage 3 assets and 155 bps on stage 1 and 2 assets as of 30 September 2021.
- Capital adequacy ratio (including Tier-II capital) as of 30 September 2021 was 27.68%. The Tier-I capital was 24.90%.

MARKET DATA

Shares outs (Cr)	60
Equity Cap (INR Cr)	39,000
Mkt Cap (INR Cr)	4,51,340
52 Wk H/L (INR)	8,050/3,237
Volume Avg (3m K)	1,293
Face Value (INR)	2
Bloomberg Code	BAF IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,143
NIFTY	18,211

KEY FINANCIALS

INR Crores	FY20	FY21	FY22E	FY23E	FY24E
NII	16,901	17,254	20,418	25,441	32,239
Operating Profit	11,252	11,960	14,112	17,347	22,012
PAT	5,264	4,419	6,950	10,332	13,905
EPS	87.5	73.4	115.5	171.7	231.1
NIM	13.3%	12.0%	12.6%	12.8%	13.0%
Advances Growth	25.7%	3.8%	20.2%	25.0%	25.0%

Source: Company, KRChoksey Research

Asset quality improved with the moderation of provisions: GNPA and NNPA stood at 2.45% and 1.10% in Q1FY22 from 2.96% and 1.46%, respectively, in Q1FY21. GNPA as of 30 September 2021 reduced to INR 4,103 Cr vs. INR 4,737 Cr as of 30 June 2021. The NNPA as of 30 September 2021 was reduced to INR 1,826 Cr vs. INR 2,307 Cr as of 30 June 2021. The Secured assets constituted 78% of NNPA, of which Auto finance was INR 1,027 Cr (INR 1,420 Cr as of 30 June 2021), and Mortgages was INR 296 Cr (INR 290 Cr as of 30 June 2021). Overall stage 2 assets as of 30 September 2021 reduced to INR 5,962 Cr vs. INR 7,425 Cr as of 30 June 2021. Loan losses and provisions for the quarter were INR 1,300 Cr. The total provisions taken in H1FY22 is INR 3,051 Cr. During the quarter, the company has increased management overlay provision from INR 483 Cr as of 30 June 2021 to INR 832 Cr as of 30 September 2021 to protect itself from a potential third wave. The non-overdue one-time restructuring (OTR) book as of 30 September 2021 increased to INR 1,512 Cr vs. INR 1,287 Cr as of 30 June 2021. In Q2FY22, the NBFC offered an OTR of INR 426 Cr under OTR 2.0 framework. BAF has considered OTR as an indicator of a significant increase in credit risk (SICR) and, as a matter of prudence, classified it as Stage 2. In the absence of a severe third wave, the company is committed to bringing down its GNPA to 1.7-1.8% & NNPA to 0.7-0.8% by 4QFY22E. The company estimates its overall credit cost for FY22E to be INR 4,300 Cr.

Strong business growth momentum continues: AUM as of 30 September 2021 was at INR 1,66,937 Cr as against INR 1,37,090 Cr as of 30 September 2020. The AUM mix for Q1FY22 for - Consumer: Rural: SME: Commercial: Mortgages stood at 34%: 10%: 13%: 10%: 33% respectively. BAF focused on an affluent mass client with a strategy to cross-sell. In the absence of a third wave, the NBFC expects a strong quarterly AUM growth rate for H2FY22E. The management believes it can achieve the medium-long term AUM growth of 25-27% YoY in normal conditions. We expect a CAGR of 23% in advances over FY21-24E.

Higher opex impacting the operating efficiencies: NII saw a growth of 27% YoY at INR 5,335 Cr protecting its margins across its segments. Interest income reversal for Q2FY22 was INR 322 Cr as against INR 216 Cr in Q2FY21. The cost of funds was reduced to 6.77% in Q2FY22 vs. 7.11% in Q1FY22. The opex to NII ratio for Q2FY22 was 38.1% vs. 27.8% in Q2FY21. The increase in operating expenses for Q2FY22 accounts for high debt management costs owing to the second wave and salary cost. In Q2FY22, the NBFC increased its employee strength by over 2,000 to support its growth stance. This metric should normalize to ~33% by Q4FY22 on the back of some increased expenses for implementing its digital journey.

SHARE HOLDING PATTERN (%)

Particulars	Sept-21	Jun-21	Mar-21
Promoters	56.0	56.0	56.1
FIIIs	23.6	24.0	24.1
DIIIs	9.9	9.6	9.1
Others	10.4	10.4	10.7
Total	100	100	100



NII CAGR between FY21 and FY24E



PAT CAGR between FY21 and FY24E

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Key Concall Highlights:

1. Q2FY22 saw strong revival across growth, risk, debt management and financial metrics. In absence of a third wave, quite confident about second half of the year on growth, risk and financial metrics.
2. Core AUM growth in 2QFY22 stood INR11,150 Cr. In absence of the third wave, BAF believes that the quarterly AUM growth for the balance of the year should be quite strong.
3. BAF continues to protect its margin profile across businesses. Interest income reversal for Q2FY22 was INR 322 Cr as against INR 216 Cr in Q2FY21. In absence of a third wave, the NBFC expects quarterly interest reversals to normalize to INR 180- 200 Cr by Q3FY22.
4. With normalization of debt management cost and increase in NII as a result of balance sheet growth, Opex to NII metric should normalize in the range of 33-34% by Q4FY22E.
5. Overall liquidity position for BAF is quite strong and it should get normalized to INR 8,000-9,000 Cr from Q3 or Q4 of FY22E depending on the attractiveness of the treasury market. Liquidity buffer will normalize to pre-COVID levels by Q4FY22 for sure according to the NBFC.
6. Adjusted for the balance sheet, the NBFC expects the Stage 2 and Stage 3 assets to look like INR 7,800 Cr to INR 8,000 Cr by Q4FY22E.
7. The total geographic footprint stood at 3,329 locations and 1,19,900+ distribution points. During the quarter, the NBFC expanded its presence in 216 new locations.
8. The NBFC is growing its geographic footprint in north and east as GDP contribution of North and East vs its portfolio contribution is lower. This will result in reducing concentration risk and create new growth opportunities
9. BAF has seen strong improvement in debt management efficiencies across products in Q2FY22. In absence of a third wave, loan loss and provisions should normalize to pre COVID levels in Q3FY22.
10. In absence of a severe third wave, the NBFC estimates its GNPA at 1.7-1.8% & NNPA at 0.7-0.8% by 31 March 2022. Accordingly, it estimates its overall credit cost for FY22 to be approximately INR 4,300 Cr.
11. BHFL launched its affordable housing business in Q2FY22. The capital adequacy of BHFL was 20.26% as of 30 September 2021.
12. The business transformation process go-live is behind schedule by 45 days due to delays in certain tech deliveries and code freeze for festival season. Go-live is now planned for mid December.
13. BAF digitally acquired 372 K new EMI card customers in Q2FY22 using an integrated digital ecosystem. This offering will be fully integrated into the new consumer app upgrade as it goes live.
14. The NBFC is in the process of significantly expanding payment talent pool.

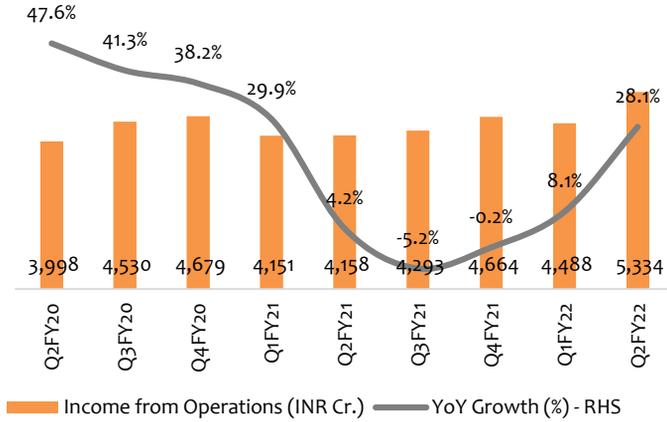
Valuation and view:

Bajaj Finance reported a decent set of numbers despite higher provisions on YoY basis in Q2FY22. We continue to like the franchise, market position, technological initiatives, credit discipline, portfolio, and geographic distribution in the medium to long term. The NBFC's strong capital position is also an advantage. We expect the NII/ Operating profit/ PAT to grow at a CAGR of 23%/23%/47% over FY21-24E, with lower provisions leading to improved profitability metrics. We expect margins to be stable with a lower cost of funds and reduced liquidity on the balance sheet. We expect the ROE and ROA of the company to be 16.1%/19.8%/21.5% and 3.8%/4.7%/5.1% respectively for FY22E/FY23E/FY24E on the back of strong profitability.

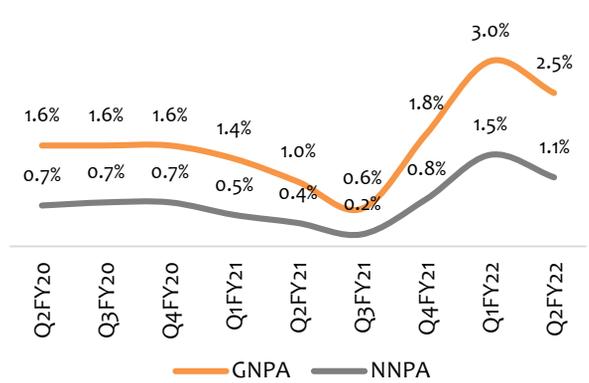
The stock is currently trading at 11.1x/9.1x/7.3x P/ABV of its FY22E/FY23E/FY24E adj. book value respectively. Since our last update, the stock has rallied 4.3%. **We assign a P/AVB multiple of 8.3x on FY24E adj. book value to arrive at a Target Price of INR 8,488 per share (previously INR 7,170 per share), an upside of 13.5% over CMP. Accordingly, we upgrade our rating to "ACCUMULATE" (earlier HOLD) on BAF shares.**

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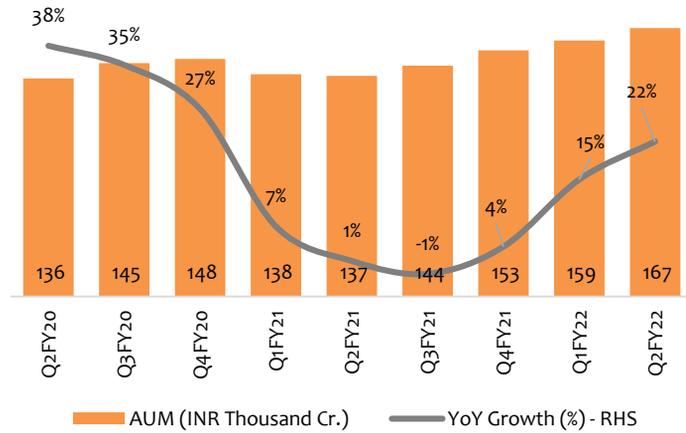
NII growth lower as NIMs compress



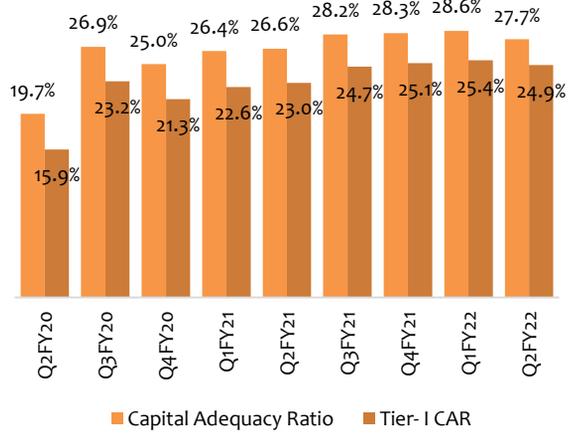
Asset Quality improves with improvement in collection efficiencies



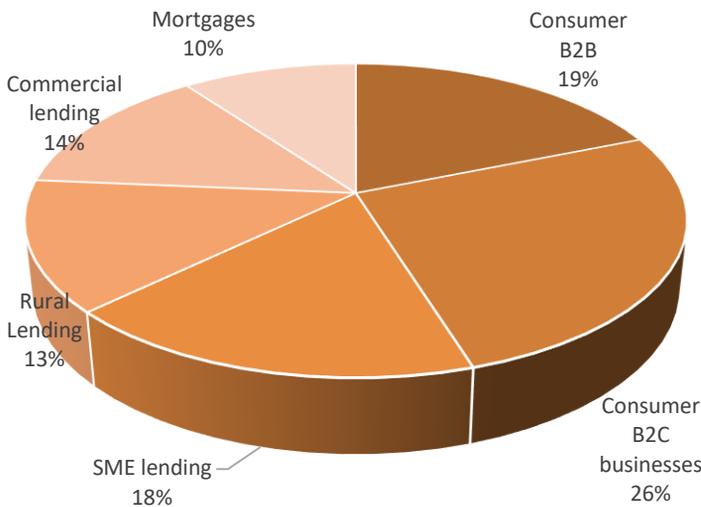
AUM growth remains strong



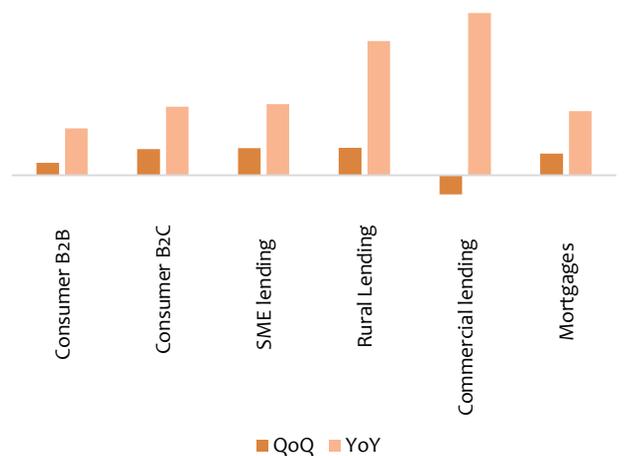
Well capitalised for growth



Diversified Loan Book



Some segments improve in momentum



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Crores	FY 20	FY 21	FY22E	FY23E	FY24E
Interest Income	26,374	26,668	30,827	38,066	47,498
Interest Expense	9,473	9,414	10,408	12,625	15,260
Net Interest Income	16,901	17,254	20,418	25,441	32,239
Non interest income	12	14	16	18	21
Operating Income	16,912	17,268	20,434	25,459	32,259
- Employee expense	2,549	2,499	2,759	3,564	4,516
- Other operating expense	3,112	2,809	3,563	4,548	5,732
Operating Expense	5,661	5,308	6,322	8,112	10,248
Operating Profit	11,252	11,960	14,112	17,347	22,012
Provisions	3,929	5,969	4,845	3,571	3,472
PBT	7,322	5,991	9,267	13,776	18,540
Tax Expense	2,058	1,572	2,317	3,444	4,635
PAT	5,264	4,419	6,950	10,332	13,905
Diluted EPS (INR)	87.5	73.4	115.5	171.7	231.1

Exhibit 2: Balance Sheet (Consolidated)

INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Source of Funds					
Share capital	120	120	120	120	120
Reserves & Surplus	32,208	36,798	42,954	52,105	64,420
Networth	32,328	36,918	43,074	52,225	64,541
Borrowings	1,31,511	1,31,645	1,55,473	1,90,424	2,33,459
Deposits	471	892	936	983	1,032
Other liabilities & provisions	81	138	188	238	288
Total Equity & Liabilities	1,64,391	1,69,593	1,99,671	2,43,870	2,99,320
Uses of Funds					
Cash & Bank Balances	1,383	2,176	762	495	322
Receivables	952	1,107	1,273	1,464	1,684
Net investments	17,544	18,397	18,397	18,397	18,397
Deferred Tax Assets	1,067	946	993	1,043	1,095
Loans & advances	1,41,376	1,46,687	1,76,331	2,20,414	2,75,517
Fixed assets	1,321	1,367	1,754	1,862	2,014
Other assets	470	160	161	194	291
Total Assets	1,64,391	1,69,593	1,99,671	2,43,870	2,99,320

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
Growth Rates					
Advances (%)	25.7%	3.8%	20.2%	25.0%	25.0%
Deposits (%)	26.3%	0.1%	18.1%	22.5%	22.6%
Total assets (%)	32.3%	4.3%	16.4%	22.1%	22.7%
NII (%)	42.5%	2.1%	18.3%	24.6%	26.7%
Pre-provisioning profit (%)	46.5%	6.3%	18.0%	22.9%	26.9%
PAT (%)	31.8%	-16.1%	57.3%	48.7%	34.6%
B/S Ratios					
Loans/Deposit (%)	107.5%	111.4%	113.4%	115.7%	118.0%
Advances/Total Assets	86.0%	85.5%	88.3%	90.4%	92.0%
CAR (%)	25.0%	26.4%	25.9%	25.2%	24.8%
Tier-I Capital (%)	21.3%	22.7%	22.7%	22.5%	22.7%
Leverage - Total Assets to Equity	5.1	4.6	4.6	4.7	4.6
Operating efficiency					
Cost/income (%)	33.5%	30.7%	30.9%	31.9%	31.8%
Opex/total assets (%)	3.4%	3.1%	3.2%	3.3%	3.4%
Opex/total interest earning assets	4.0%	3.6%	3.6%	3.7%	3.7%
Profitability					
NIM (%)	13.3%	12.0%	12.6%	12.8%	13.0%
RoA (%)	3.2%	2.6%	3.5%	4.2%	4.6%
RoE (%)	16.3%	12.0%	16.1%	19.8%	21.5%
Asset quality					
Gross NPA (%)	1.6%	1.8%	1.5%	1.2%	1.0%
Net NPA (%)	0.7%	0.8%	0.6%	0.5%	0.4%
PCR (%)	57.2%	58.0%	59.0%	59.0%	59.0%
Credit cost (%)	3.1%	4.1%	3.0%	1.8%	1.4%
Per share data / Valuation					
EPS (INR)	87.5	73.4	115.5	171.7	231.1
BVPS (INR)	537.3	613.6	715.9	868.0	1072.7
ABVPS (INR)	509.5	582.6	676.2	823.7	1022.7
P/E (x)	67.9	101.8	64.7	43.5	32.4
P/BV (x)	11.1	12.2	10.4	8.6	7.0
P/ABV (x)	11.7	12.8	11.1	9.1	7.3
Profitability					
Return on Capital	3.7%	2.7%	3.8%	4.7%	5.1%
Return on Equity	16.3%	12.0%	16.1%	19.8%	21.5%
Spread Analysis					
Yield on loans	18.1%	16.2%	14.2%	14.5%	14.5%
Cost of borrowings	8.04%	7.15%	7.25%	7.30%	7.20%
Spread	10.1%	9.0%	7.0%	7.2%	7.3%

Source: Company, KRChoksey Research

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Bajaj Finance Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-21	7,478	8,488	ACCUMULATE	Buy	More than 15%
31-Aug-21	7,170	7,170	HOLD	Accumulate	5% – 15%
22-Jul-21	6,188	6,315	HOLD	Hold	0 – 5%
29-Apr-21	5,475	5,760	ACCUMULATE	Reduce	-5% – 0
	5,445	5,760	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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