

Lower provisions boost PAT, in line quarter...

About the stock: Bajaj Finance is a dominant player in the consumer finance space while it has also made a foray into various lending segments wherein housing has grown to a significant size.

- Consumer business forms ~33% of overall consolidated AUM
- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to >18% RoE and >3.5% RoA consistently

Q4FY22 Results: Healthy business momentum, improved asset quality.

- Strong NII growth at 30% YoY largely in line with estimates at ₹ 6064 crore
- C/I steady to 34.6% vs. 34.7% QoQ as costs were controlled
- GNPA, NNPA ratio declined to 1.60%, 0.68%, respectively, in Q4FY22
- PAT grew 80% YoY and 14% QoQ to ₹ 2420 crore

What should investors do? We believe since the fin-tech story is embedded in this business, valuations should stay at premium. The digital web platform, similar to app is the new strategy in FY23. We raise PAT estimates for FY24 by 17.8%.

- We maintain **BUY** rating on the stock

Target Price and Valuation: The core business has got potential and is well on track to get transformed into an adaptable new age fin-tech. No plans to convert to a bank on immediate basis. Maintain TP of ₹ 9500 by valuing at ~8.4x FY24E ABV.

Key triggers for future price performance:

- Digital transformation with robust customer additions and wallets to boost profitability factoring initial cashbacks as part of opex, no impact on profit
- Asset quality performance continues to improve
- RoE at ~18% and RoA at >3.5%
- To seek clarification from RBI on credit cards business

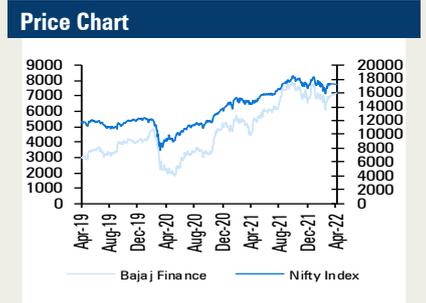
Alternate Stock Idea: Apart from BAF, in our BFSI coverage we also like HDFC Ltd.

- HDFC Ltd is the largest housing finance company in India with AUM of ₹ 5.2 lakh crore. With housing demand picking up, we believe HDFC would be the largest beneficiary of the same
- We have a BUY rating with a target price of ₹ 3350



Particulars	Amount
Market Capitalisation	₹ 438373 crore
52 week H/L	8043/ 4662
Face Value	₹ 2
Net worth	₹ 43712 Crore
DII Holding (%)	11.2
FII Holding (%)	21.4

Shareholding pattern					
(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	56.1	56.0	56.0	56.0	55.9
FII	24.1	24.0	23.6	23.6	21.4
DII	9.1	9.3	9.7	9.7	11.2
Others	10.7	10.6	10.6	10.6	11.5



- Recent Event & Key risks**
- Strong performance on topline, lower provisions led to healthy PAT growth
 - Key Risk:** (1) Fourth wave of pandemic may dent asset quality (2) Unsecured book can be vulnerable

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII (₹ crore)	11864	16901	17254	21884	23%	26592	33136	23%
PPP (₹ crore)	7681	11252	11961	14307	23%	17462	22360	25%
PAT (₹ crore)	3995	5264	4420	7028	21%	9583	12444	33%
ABV (₹)	313	534	597	704		843	1,126	
P/E	104	81	98	62		46	36	
P/ABV	23.1	13.6	12.1	10.3		8.6	6.4	
RoA	3.0	2.8	2.4	3.8		4.1	4.3	
RoE	22.4	20.2	12.8	17.4		19.9	20.0	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Results largely in line with estimates

- Led by strong AUM growth of 29% YoY, Bajaj Finance posted stellar earnings growth with NII growing of 30% YoY and 12.5% QoQ to ₹ 6064 crore and PAT growth of 80% YoY to ₹ 2420 crore. Costs were under control and stable sequentially with C/I ratio at 34.6% from 34.7% QoQ. With the deep investments being committed to omni channel strategy (geo-expansion, app platform, web platform), the Company expects Opex to NII to remain elevated for FY23
- Provisions for Q3FY22 declined 33% QoQ and 44% YoY to ₹ 702 crore, mainly due to improvement in asset quality. The company currently holds management overlay provisions worth ₹1060 crore
- Asset quality performance was healthy as GNPA and NNPA declined 13 bps and 10 bps QoQ to 1.60% and 0.68%, respectively. These key ratios are now back to pre-Covid levels. ECL provisions for stage 1 & 2 is at 1.34% and overall coverage ratio is at 2.25%
- AUM growth also gained traction as it was up 9% QoQ and 29% YoY to ₹197500 crore, which was primarily driven by 27% YoY growth in Consumer B2C while Consumer sales finance business grew 30%, SME and Mortgage also saw steady 24% growth to ₹24979 crore and ₹61701 crore respectively. Deposit growth for Bajaj finance was up 28% YoY to ₹30481 crore. BHFL AUM grew by 37% to ₹ 53322 crore as of March 31, 2022
- In Q4, the company added 2.21 mn new customers to its franchise. Customer franchise was at 57.57 mn as of March 31, 2022, up 19% YoY. Highest ever customer franchise addition of 9 mn in FY22. Cross sell franchise stood at 32.77 mn, a growth of 22% YoY
- In Q4, cost of funds was 6.71%. Liquidity buffer stood at ~₹ 10110 crore as of March 31, 2022. Liquidity buffer has now normalised to pre-Covid levels. The management is focused on maintaining margins

Conference call highlights

- The competitive intensity remained elevated across products. The company continues to protect its margin profile across businesses. Product mix would continue to remain largely steady
- **Phase 1 of web platform will go live by October 2022 and phase 2 by March 2023. In Q4, rewards programme has been implemented for all payment products and phase 2 is expected to deliver by Q3 FY23**
- **Customer franchise grew 19% YoY and was at 575 lakh. The management is confident of adding 80-90 lakh new customers in FY23. The company also intends to add 140-160 lakh net new users in FY23**
- The company continues to invest in teams and technology for business transformation and hence the Opex to NII expected to remain elevated for FY23
- Provisions were at ₹ 702 crore out of which additional charge of ₹ 100 crore was for one large B2B commercial account. Management overlay stood at ₹ 1060 crore as of March 31, 2022
- GNPA includes one large B2B commercial account of ₹ 393 crore, which has moved to Stage 3 during the quarter
- Liquidity buffer was at ~ ₹ 10110 crore as of March 31, 2022. Management is watchful on a Covid wave 4. If it does not come in the next six months, part of the liquidity will be released
- The company has no plans to go for banking licence in the near term

Comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC (HDFC)	2,230	3,350	Buy	4,043	59.8	72.5	83.7	37.3	30.7	26.7	3.7	3.5	3.4	2.0	2.3	2.3	11.1	11.8	13.0
Bajaj Finserv (BAFINS)	15,426	20,000	Buy	2,454	176.2	682.8	820.1	87.6	22.6	18.8	7.0	5.4	4.2	1.1	2.6	2.2	8.3	26.9	24.9
Bajaj Finance (BAJFI)	7,241	9,500	Buy	4,383	73.6	116.5	158.7	98.4	62.2	45.6	12.1	10.9	8.1	2.4	3.8	4.1	12.8	17.4	19.9
Muthoot Finance (MUTFIN)	1,299	1,700	Buy	521	8.0	9.5	12.0	163.1	136.3	107.9	3.5	3.0	2.5	6.5	6.3	6.6	27.8	24.6	24.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	6,064	6,281	4,655	30.3	5,998	1.1	Healthy growth driven by margin expansion and business traction
NIM (%) (calc)	16.2	16.5	11.6	460 bps	15.7	57 bps	Improvement in asset quality leads to margin expansion
Other Income	4	3	4	-14.1	2	49.6	
Staff cost	1,020	1,152	768	32.8	1,016	0.4	
Other Operating Expenses	1,080	1,116	838	29.0	1,066	1.4	
Opex to NII(%)	34.6	36.1	34.5	0.4	34.7	-0.2	C/I ratio stood steady
PPP	3,967	4,017	3,053	29.9	3,919	1.2	
Provision	702	1,104	1,231	-43.0	1,051	-33.3	Significant fall in credit cost improved asset quality
PBT	3,265	2,913	1,823	79.2	2,868	13.9	
Tax Outgo	846	728	476	77.7	743	13.9	
PAT	2,420	2,185	1,347	79.7	2,125	13.8	Healthy top line growth and fall in credit cost boosts PAT
Key Metrics							
GNPA	3,133	3,139	2,731	14.7	3,108	0.8	Asset quality trend back to pre-covid levels
NNPA	1,315	1,490	1,136	15.8	1,380	-4.7	
AUM	1,97,452	1,97,500	1,52,947	29.1	1,81,250	8.9	Healthy growth driven by commercial and consumer lending segment

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	25820	26,592	3.0	30,176	33,136	9.8
Pre Provision Profit	17473	17,462	-0.1	20,478	22,360	9.2
NIM(%) (calculated)	11.6	11.4	-21 bps	11.0	11.3	30 bps
PAT	9592	9,583	-0.1	10,562	12,444	17.8
ABV per share (₹)	948	960	1.2	1,187	1,230	3.6

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	24.4	21.6	22.5	20.3
Borrowings Growth (%)	23.0	24.0	20.0	20.0
NIM Calculated (%)	11.4	11.3	11.6	11.0
Cost to income ratio (%)	34.4	32.5	32.4	32.2
GNPA (₹ crore)	4,176.9	5,685.0	4,610.8	6,467.2
NNPA (₹ crore)	1,905.4	2,674.3	2,401.8	3,274.0

Source: Company, ICICI Direct Research

Exhibit 5: Consolidated AUM break-up

₹ crore	Mar'21	Jun'21	Sept'21	Dec'21	Mar'22
Auto Finance Business	12112	11347	10738	10620	10194
Sales Finance Business	11525	11175	12555	14920	14977
Consumer B2C Business	30450	31399	33679	36344	38772
Rural Sales Finance Business	2883	2914	3258	3993	4129
Rural B2C Business	11822	12537	13376	14311	15301
SME Lending Business	20217	20335	21871	23153	24979
Securities Lending Business	6054	9232	7293	9127	10536
Commercial Lending Business	8293	9011	9801	10478	11498
Mortgages	49591	51107	54196	58304	61701
Total	152947	159057	166767	181250	197452

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Interest Earned	26668.1	31632.4	37551.8	46411.5
Interest Expended	9414.0	9748.2	10960.2	13275.4
Net Interest Income	17254.1	21884.2	26591.7	33136.1
Growth (%)	2.1	26.8	21.5	24.6
Non Interest Income	15.0	8.0	9.8	12.1
Operating Income	17269.1	21892.2	26601.5	33148.2
Employee cost	2165.8	3589.7	4123.6	5154.5
Other operating Exp.	3142.4	3995.3	5016.0	5633.4
Operating Profit	11960.8	14307.2	17461.9	22360.2
Provisions	5968.6	4803.4	4511.2	5544.1
PBT	5992.3	9503.8	12950.7	16816.2
Taxes	1572.4	2475.6	3367.2	4372.2
Net Profit	4,419.8	7,028.2	9,583.5	12,444.0
Growth (%)	-16.0	59.0	36.4	29.8
EPS (₹)	73.6	116.5	158.7	201.4

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Valuation				
No. of shares (crore)	60.2	60.3	60.4	61.8
EPS (₹)	73.6	116.5	158.7	201.4
BV (₹)	615	726	875	1170
ABV (₹)	597	704	843	1126
P/E	98	62	46	36
P/BV	11.8	10.0	8.3	6.2
P/ABV	12.1	10.3	8.6	6.4
Yields & Margins (%)				
Net Interest Margins	10.5	11.7	11.6	11.6
Yield on assets	16.3	16.9	16.3	16.2
Avg. cost on funds	7.6	7.7	7.5	7.4
Yield on average advances	18.5	18.7	17.5	17.6
Quality and Efficiency (%)				
Cost to income ratio	30.7	34.6	34.4	32.5
Cost to assets ratio	2.8	4.1	3.9	3.7
GNPA	1.7	1.6	1.7	1.9
NNPA	0.7	0.7	0.8	0.9
ROE	12.8	17.4	19.9	20.0
ROA	2.4	3.8	4.1	4.3

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Capital	120.3	120.7	120.8	123.6
Reserves and Surplus	36798.1	43592.0	52668.3	71313.3
Networth	36918.4	43712.7	52789.1	71436.9
Borrowings	122278.1	130586.6	160621.6	199170.7
Other Liabilities & Provisions	1562.5	38206.0	45647.0	54776.4
Total	1,60,759.0	2,12,505.4	2,59,057.6	3,25,384.0
Application of Funds				
Fixed Assets	3288.9	2955.2	3250.7	3575.8
Investments	18396.9	12245.5	11878.2	11521.8
Advances	146687.0	191423.3	238216.5	289789.0
Other Assets	2911.6	5881.4	5712.2	20497.4
Total	1,71,284.4	2,12,505.4	2,59,057.6	3,25,384.0

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	4.2	32.2	21.9	25.6
Advances	3.8	30.5	24.4	21.6
Borrowings	-2.7	6.8	23.0	24.0
Net interest income	2.1	26.8	21.5	24.6
Operating Income	2.1	26.8	21.5	24.6
Operating expenses	-6.8	42.9	20.5	18.0
Operating profit	6.3	19.6	22.0	28.1
Net profit	-16.0	59.0	36.4	29.8
Net worth	14.2	18.4	20.8	35.3
EPS	-17.8	58.4	36.2	26.9

Source: Company, ICICI Direct Research

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