



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

**ESG RISK RATING**  
Updated Feb 08, 2022 **19.46**

**Low Risk**

NEGL	<b>LOW</b>	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

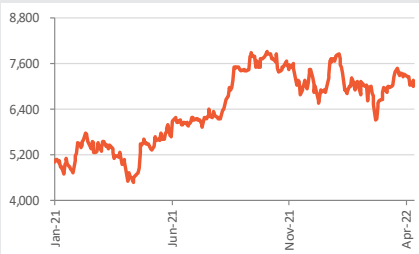
Company details

Market cap:	Rs. 4,33,996 cr
52-week high/low:	Rs. 8,044 / 4,662
NSE volume: (No of shares)	12.5 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	26.5 cr

Shareholding (%)

Promoters	55.9
FII	21.4
DII	11.2
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	3.0	-4.2	51.4
Relative to Sensex	3.0	4.0	-22.6	33.0

Sharekhan Research, Bloomberg

NBFC

Sharekhan code: BAJFINANCE

<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 7,240</b>	<b>Price Target: Rs. 9,097</b>	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- Bajaj Finance reported robust operating performance with strong consolidated AUM growth of 29% y-o-y and 9% q-o-q in FY2022. PAT grew by 80% y-o-y in Q4Y2022, the highest-ever consolidated profit by the company. NII stood at Rs. 6,068 crore versus our expectations of Rs. 5,105 crore, up 30% y-o-y and 1% q-o-q.
- Asset quality continued to witness improvement during the quarter with stage-3 assets at 1.6%, down by ~14 bps q-o-q.
- Consolidated AUM at Rs. 1.97 trillion was up ~29% y-o-y/~9% q-o-q, added Rs. 16,250 crore worth of loans sequentially.
- At the CMP, the company trades at 8.2x its FY2023E P/BV. We maintain our Buy rating on the stock with a revised PT of Rs. 9,097.

Bajaj Finance (BAF) reported consolidated PAT of Rs. 2,420 crore, up by 80% y-o-y and ~14% q-o-q. This was primarily on account of robust net interest income (NII) and other income growth. NII grew by ~30% y-o-y (up ~2 q-o-q). Other income rose by 54% y-o-y. GNPA and NNPA declined by ~14 bps q-o-q and ~10 bps q-o-q to 1.6% and 0.68%, respectively, in Q4FY2022. PCR on GS3 stood at 58% versus 55% in Q3FY2022. Consolidated assets under management (AUM) stood at Rs. 1.97 trillion, up ~29% y-o-y/~9% q-o-q, and added Rs. 14,700 crore worth of loans sequentially. AUM composition remained steady with all the segments registering double-digit growth except for the auto finance business.

Key positives

- Continued improvement in headline GNPA by ~10 bps q-o-q with the auto finance business witnessing better asset quality.
- Consolidated AUM registered robust growth of ~29% y-o-y/~9% q-o-q.
- B2B consumption businesses grew strongly by 15% y-o-y and disbursements grew by 27% y-o-y in Q4FY2022.

Key negatives

- Operating expenses rose sharply on a y-o-y basis as the company continues to invest in technology for business transformation.

Management Commentary

- Management has guided for operating costs (opex to NII) to remain elevated as the company continues to invest in technology geo-expansion, app platform, and web platform.
- With robust AUM growth during the quarter, management continues to guide for 25% to 27% AUM growth going ahead.
- Despite continued asset-quality improvement to pre-Covid levels, the company had increased management's overlay to Rs. 1,060 crore in Q4FY2022 versus Rs. 1,083 crore in Q3FY2022 (~0.6% of the AUM). It intends to use these overlays after assessing the situation going ahead.
- According to management, portfolio composition across Stage 1, Stage 2, and Stage 3 is currently better than pre-Covid metrics.

Our Call

**Valuation – We maintain Buy on BAF with a PT of Rs. 9,097:** At the CMP, the company trades at 8.2x its FY2023E P/BV. BAF stands poised to deliver robust AUM growth of 22% over FY2022E through FY2024E with RoE and RoA of 22-24% and 4-5% over FY2023E and FY2024E, respectively. This can be attributed to improving auto financing cycle, pick up in mortgage lending business, and lower estimates of credit cost supported by a strong balance sheet. Further, undergoing digital transformation is likely to bode well for its growth objectives going ahead along with operational efficiencies. BAF is one of the most diversified NBFCs with a wide range of product offerings with the management planning to be a digital company by FY2023E. The company has the ability to demonstrate high credit growth in the new credit cycle, aided by its strong cross-sell franchise and robust risk management framework. Hence, we maintain our Buy rating on BAF with a price target (PT) of Rs. 9,097.

Key Risks

Any sharp deterioration in asset quality and high credit cost seen as a structural concern to higher RoE.

Valuation (Consolidated)

Particulars	FY21	FY22E	FY23E	FY24E
PAT	4,420	7,028	10,589	13,495
EPS (Rs)	72.8	117.8	177.6	223.5
RoAA (%)	2.6	3.6	4.3	4.5
RoAE (%)	12.7	17.1	22.2	23.2
P/E (x)	99.4	61.5	40.8	32.4
P/B (x)	11.9	10.1	8.3	6.7

Source: Company; Sharekhan estimates

Results (consolidated)

Particulars	Rs cr				
	Q4FY21	Q3FY22	Q4FY22	Y-o-Y %	Q-o-Q %
Interest Income	6,034	7,262	7,366	22.1	1.4
Interest Expenses	2,196	2,535	2,563	16.7	1.1
<b>Net Interest Income</b>	<b>3,839</b>	<b>4,728</b>	<b>4,803</b>	<b>25.1</b>	<b>1.6</b>
Other Income	821	1,273	1,264	54.1	(0.7)
<b>"Net Operating Income (NII as reported by BAF)"</b>	<b>4,659</b>	<b>6,001</b>	<b>6,068</b>	<b>30.2</b>	<b>1.1</b>
Employee Expenses	768	1,016	1,020	32.8	0.4
Non-employee expenses	838	1,066	1,080	29.0	1.4
<b>Operating Expenses</b>	<b>1,606</b>	<b>2,081</b>	<b>2,101</b>	<b>30.8</b>	<b>0.9</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>3,053</b>	<b>3,919</b>	<b>3,967</b>	<b>29.9</b>	<b>1.2</b>
Provisions & Writeoffs	1,231	1,051	702	(43.0)	(33.3)
PBT	1,823	2,868	3,265	79.2	13.9
Tax	476	743	846	77.7	13.9
Tax Rate (%)	26.1	25.9	25.9	-21 bps	1 bps
<b>PAT</b>	<b>1,347</b>	<b>2,125</b>	<b>2,420</b>	<b>79.7</b>	<b>13.8</b>

Source: Company; Sharekhan Research

Key Financials & Ratios

Particulars	Mar-21	Dec-21	Mar-22	Y-o-Y %	Q-o-Q %
<b>AUM Mix (Rs mn)</b>					
Bajaj Finance	1,15,418	1,32,913	1,46,743	27.1	10.4
Housing	38,871	49,203	53,322	37.2	8.4
<b>Consolidated AUM</b>	<b>1,52,947</b>	<b>1,81,250</b>	<b>1,97,500</b>	<b>29.1</b>	<b>9.0</b>
<b>Consolidated AUM (Rs mn)</b>					
Consumer B2B -Auto Finance Business	12,112	10,620	10,194	(16)	(4)
Consumer B2B - Sales Finance Businesses	11,526	14,920	14,977	30	0
Consumer B2C Businesses	30,450	36,344	38,772	27	7
Rural B2B Business - Sales Finance Business	2,883	3,993	4,129	43	3
Rural B2C Business	11,822	14,311	15,301	29	7
SME Business	20,217	23,153	24,979	24	8
Securities Lending Business	6,054	9,127	15,901	163	74
Commercial Lending Business	8,293	10,478	11,498	39	10
Mortgages	49,592	58,304	61,701	24	6
<b>Total Consolidated AUM</b>	<b>1,52,949</b>	<b>1,81,250</b>	<b>1,97,452</b>	<b>29</b>	<b>9</b>
<b>Payments</b>					
Credit Card CIF (mn)	2.1	2.6	2.8	34.1	5.8
EMI Card CIF (mn)	23.8	27.5	30.0	26.2	9.1
Wallets (mn)	19.8	21.8	22.1	11.6	1.4
Consol GNPA (%) [Reported]	1.79	1.73	1.60	-19 bps	-14 bps
Consol NNPA (%) [Reported]	0.75	0.78	0.68	-7 bps	-10 bps
PCR on Stage 3 (%) [Reported]	58.4	55.6	58.4	0 bps	280 bps

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Structural tailwinds to support

We believe retail players have a large market to grow and recent credit growth of 9.12% y-o-y in the fortnight ending December 31, 2021, indicates pickup in credit offtake, especially in retail and consumer segments. Leading indicators depict recovery in economic activity, which will be a positive. So far, risk metrics of new volumes originated across businesses are tracking better than pre-COVID-19 origination. We believe the retail and consumer lending segments have a long structural growth runway available to them, as India's credit delivery diversifies and penetration increases. In this backdrop, aided by a strong demographic advantage, we believe nimble NBFCs and private banks can co-exist and grow for the foreseeable future as the market expands.

### ■ Company Outlook – Strong and prudent management, company getting ready for future growth

The company is in the middle of a business transformation, which aims to significantly strengthen its technology, data science, app design, and content design to transform the customer experience model. We believe there are several business transformation steps that are underway for BAF, which would not only be positive for business sustainability and scalability, but would also position BAF to take advantage of a strong economic upturn expected in FY2022E. Once implemented, this transformation should lead to significantly higher velocity at a much lower cost.

### ■ Valuation – We maintain Buy rating on BAF with a PT of Rs. 9,097

At the CMP, the company trades at 8.8x its FY2023E P/BV. BAF stands poised to deliver robust AUM growth of 22% over FY2022E through FY2024E with RoE and RoA of 22-24% and 4-5% over FY2023E and FY2024E, respectively. This can be attributed to improving auto financing cycle, pick up in mortgage lending business, and lower estimates of credit cost supported by a strong balance sheet. Further, undergoing digital transformation is likely to bode well for its growth objectives going ahead along with operational efficiencies. BAF is one of the most diversified NBFCs with a wide range of product offerings with the management planning to be a digital company by FY2023E. The company has the ability to demonstrate high credit growth in the new credit cycle, aided by its strong cross-sell franchise and robust risk management framework. Hence, we maintain our Buy rating on BAF with a price target (PT) of Rs. 9,097.

#### Peer Comparison

Particulars	CMP	MCAP	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Bajaj Finance	7,241	4,38,373	66.3	42.2	10.3	8.4	3.5	4.5	16.6	23.6
HDFC Ltd	2,230	4,04,359	33.9	27.3	3.4	3.1	2.3	2.2	12.9	13.4
Cholamandalam Investment and Finance Company	764	62,709	33.7	20.8	5.5	4.4	2.8	2.7	20.6	20.5

Source: Company, Sharekhan research

## About company

BAF is one of India's largest NBFCs for consumer finance. The company provides loans for two wheelers, consumer durables, housing, small businesses, construction equipment, and infrastructure finance. BAF undertook business and organisational restructuring in FY2008 and redefined small business and consumer financing as its key niches. The company operates through 944 urban locations and 951 rural locations, with over 91,700 distribution points. BAF continues to be the largest consumer durables lenders in India. As a business entity, BAF continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

## Investment theme

BAF enjoys a dominant position in the Indian consumer finance space with a strong presence in retail assets and liabilities. BAF's dominance in the market is seen in the consistent growth and margin performance maintained by the company across credit cycles and rate cycles. During the past few years, BAF has been consistently posting strong growth with high but stable NIMs along with excellent asset quality. Sequential improvement in asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability. Despite the medium-term impact of the pandemic, we expect BAF to maintain its loan book trajectory as well as profitability and margin because of healthy franchise expansion and increasing customer base in the long term.

## Key Risks

Any sharp deterioration in asset quality and high credit cost seen as a structural concern to higher RoE.

## Additional Data

### Key management personnel

Mr. Sanjiv Bajaj	Chairman
Mr. Rajeev Jain	Managing Director
Mr. Atul Jain	Chief Executive Officer (BHFL)
Mr. Anup Saha	Deputy CEO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of Singapore	3.2
2	Maharashtra Scooters Ltd	3.1
3	Axis Asset Management Co Ltd/India	2.7
4	SBI Funds Management Pvt Ltd	1.8
5	BlackRock Inc	1.4
6	Capital Group Cos Inc/The	1.3
7	St. Jame's Place PLC	1.3
8	Vanguard Group Inc/The	1.3
9	UTI Asset Management Co Ltd	0.9
10	FMR LLC	0.7

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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