

Bajaj Finance Ltd.



Bajaj Finance Ltd.

All-round performance with strong outlook intact

CMP INR 6,672	Target INR 8,183	Potential Upside 22.7%	Market Cap (INR Mn) INR 40,35,216	Recommendation BUY	Sector NBFC
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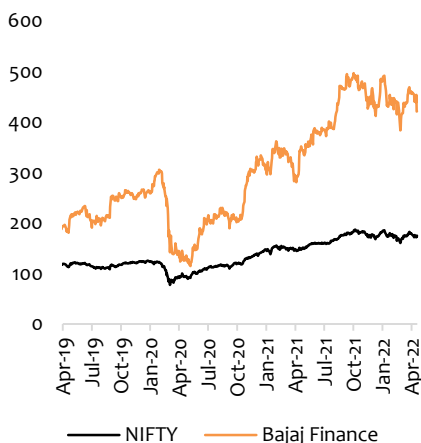
Result Highlights:

- Net Interest Income (NII) for Q4FY22 increased by 30% YoY to INR 60,640 Mn. For the full year FY22, NII stood at 2,18,842 Mn, an increase of 26.8% YoY. Operating Profits stood at INR 39,671 Mn, a growth of 29.5% YoY. For the full year FY22, operating profits saw a 19.6% YoY growth at INR 1,43,072 Mn. The cost to income ratio for Q4FY22 was stable at 34.6%. Profit after tax for Q4FY22 increased by 78.5% to INR 24,195 Mn from INR 13,556 Mn in Q4FY21.
- Assets under management (AUM) grew by 29% YoY as on 31st March 2022 at INR 19,74,520 Mn. Core AUM in Q4FY22 was approximately INR 1,08,370 Mn.
- Gross NPA and Net NPA as of 31st March 2022 stood at 1.60% and 0.68% respectively, as against 1.73% and 0.73% as of 31st December 2021. Capital adequacy ratio as of 31st March 2022 was 27.22%. The Tier-I capital was 24.75%.

MARKET DATA

Shares outs (Mn)	605
Equity Cap (INR Mn)	4,37,127
Mkt Cap (INR Mn)	40,35,216
52 Wk H/L (INR)	8,050/4,747
Volume Avg (3m K)	1,2,91
Face Value (INR)	2
Bloomberg Code	BAF IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,061
NIFTY	17,103

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
NII	1,69,006	1,72,541	2,18,842	2,60,254	3,18,459
Operating Profit	1,12,516	1,19,609	1,43,072	1,77,470	2,20,400
PAT	52,638	44,199	70,282	1,02,215	1,37,404
EPS	87.5	73.5	116.6	168.8	227.0
NIM	13.3%	12.0%	12.9%	12.6%	12.8%
Advances Growth	25.7%	3.8%	30.5%	15.1%	25.0%

Source: Company, KRChoksey Research

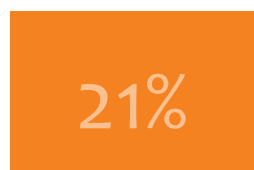
Asset quality continues to see improvement: GNPA and NNPA stood at 1.60% and 0.68% in Q4FY22 from 1.73% and 0.78%, respectively, in Q3FY22. The ratios were better than the pre-covid levels. The company has a provisioning coverage ratio of 58% on stage 3 assets and 134 bps on stage 1 and 2 assets as of 31st March 2022. Loan losses and provisions for the quarter were INR 7,020 Mn. The provisions include the addition of INR 1,000 Mn for one large B2B commercial account. The overall stage 3 assets stood at INR 31,330 Mn as of 31st March 2022 against INR 31,080 Mn as of 31st December 2021. This includes one large B2B commercial account of INR 3,930 Mn, which has moved to Stage 3 in Q4 FY22. The stage 2 assets stood at INR 38,610 Mn as of 31st March 2022 against INR 52,990 Mn as of 31st December 2021. The portfolio composition across Stage 1, Stage 2 and Stage 3 is better than pre-covid metrics. As of 31st March 2022, stage 1 stood at 96.4%, stage 2 was at 2.0%, and stage 3 at 1.6% as against pre-covid stage 1 at 95.8%, Stage 2 at 2.5% and Stage 3 at 1.7% as of 31st December 2019. We expect credit costs to lower in FY23E at 2.0% and around 1.5% in FY24E.

AUM growth continues to be robust with strong customer acquisition and volume growth B2B segment: AUM as of 31st March 2022 was up 29% YoY at INR 19,74,520 Mn. The composition of AUM remained steady. The AUM mix for Q4FY22 for - Consumer: Rural: SME: Commercial: Mortgages stood at 32%: 10%: 13%: 14%: 31%, respectively. In Q4FY22, the volume growth in B2B consumption businesses was 15% YoY, and disbursements growth was 27% YoY. We believe BAF can achieve the medium-long term AUM growth of 25-27% YoY and expect a CAGR of 23% in advances over FY21-24E.

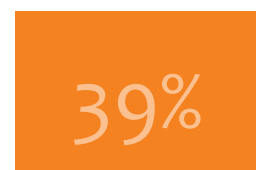
Healthy growth in NII led by strong business momentum, while opex remains stable: NII saw a growth of 30% YoY at INR 60,640 Mn. The opex to NII ratio for Q4FY22 was 34.6% vs 34.7% in Q3FY22. The company continues to invest in teams and technology for business transformation. Thus, BAF expects Opex to NII metric to be elevated for FY23E. The consolidated profit grew by 78.5% to INR 24,195 Mn in Q4FY22 compared to INR 13,556 Mn in Q4FY21.

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	55.9	56.0	56.0
FIIIs	21.4	22.9	23.6
DIIIs	11.6	10.2	9.9
Others	11.2	10.9	10.4
Total	100.0	100.0	100.0



NII CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

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Key Concall Highlights:

1. On the B2B consumption businesses front, the divergence between volume growth and value growth has increased dramatically. The volume growth in Q4FY22 was 15% YoY. The value growth was 27% YoY.
2. BAF continues to carry management overlay. It has not diluted the overlay. The company has a management overlay of INR 10,520 Mn. BAF continued to be watchful for fourth wave and as a result have chosen not to dilute any management overlay.
3. The portfolio metrics overall and debt management efficiencies continue to improve for the company. It improved further in Q4 vs Q3.
4. In the last two quarters, BAF has taken a position to significantly accelerate investments in growing distribution. So, it's a transient opex phase.
5. The deposits book grew by 19% YoY to INR 3,08,000 Mn as on 31 March 2022. Its contribution to consolidated borrowings stood at 19% as on 31 March 2022. The Company has created a deposits V2 plan to grow deposits book significantly over the next 3 years.
6. BAF is confident to add 8-9 Mn new customers in FY23E.
7. The company continues to invest in teams and technology for business transformation. Given the deep investments being committed to Omnichannel strategy (geo-expansion, app platform, web platform), the company expects Opex to NII to remain elevated for FY23E.
8. Higher Opex to NIM will not lead to lower returns ratios or profit growth.
9. Since Q3FY22, BHFL has accelerated its investment in geographic expansion and deepening of organization structures for next level of growth.
10. BHFL has maintained its management overlay provision at INR 2,110 Mn as of 31st March 2022.
11. In FY23E, BAF will completely transform web experience enabled by a common technology infrastructure layer between app and web.
12. The Phase 1 of web platform will go live by October 2022 and phase 2 by March 2023. Post implementation of both phases, BAF's customers will get full-service platform agnostic experience.
13. The company continues to invest deeply in UP, Bihar and north-eastern states.
14. BAF is creating a new brand called Bajaj Mall which will be an entire EMI store from 1st July 2022. This will create further differentiation and distinction from distinctive standpoint.
15. The competitive intensity remained elevated across the products. BAF continues to protect its margin profile across businesses.
16. Liquidity buffer has normalized to pre-covid levels at INR 1,01,100 Mn as on 31st March 2022.

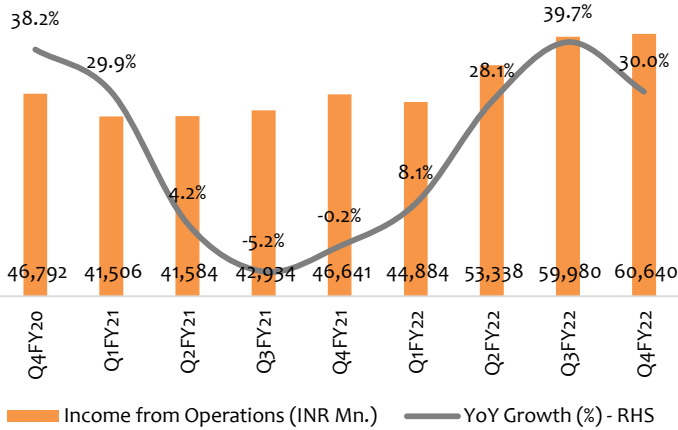
Valuation and view:

Bajaj Finance continued to report a robust set of numbers in Q4FY22. The company has performance led to strong growth traction across all the segments. The company has been focusing on customer acquisition which will be a strong growth driver for the growth. The opex is expected to remain elevated as the company has been aggressively investing in the business transformation journey. We continue to be optimistic about the strong 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 and acts as a comfortable buffer to capture the upcoming industry opportunities. We have factored the NII/ Operating profit/ PAT to grow at a CAGR of 23%/23%/46% over FY21-24E, driven by a strong business trajectory and 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 19.4%/21.2% and 4.4%/4.8%, respectively, for FY23E/FY24E on the back of strong profitability.

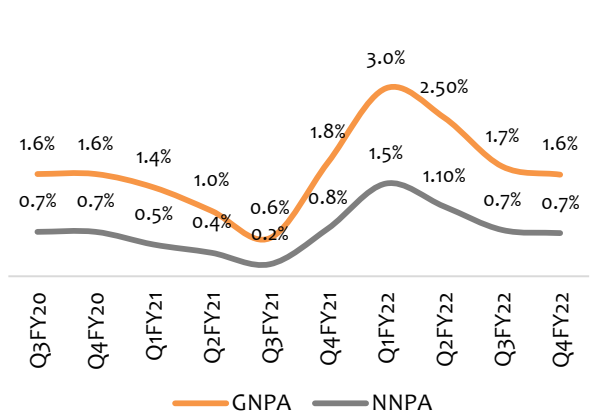
The stock is currently trading at 7.7x/6.3x P/BV multiple for FY23E/FY24E Book Value. Since our last update, the stock has corrected ~12% owing to the market volatility led by the geopolitical tensions and rising inflationary pressures. We have slightly cut our EPS for FY23E/FY24E. **We assign a P/B multiple of 8.0x (8.5x earlier) on FY24E adj. book value of INR 1,023 to arrive at a T.P. of INR 8,183 per share (previously INR 8,693 per share), an upside of 22.7% over CMP. Accordingly, we maintain our "BUY" rating on BAF shares.**

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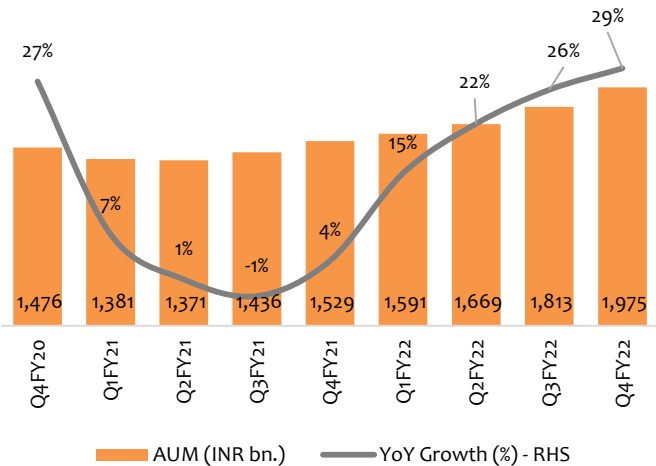
NII growth remains strong



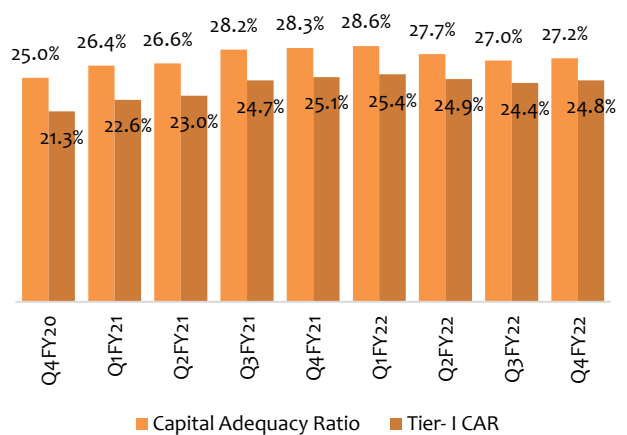
Asset Quality improves with lower credit costs



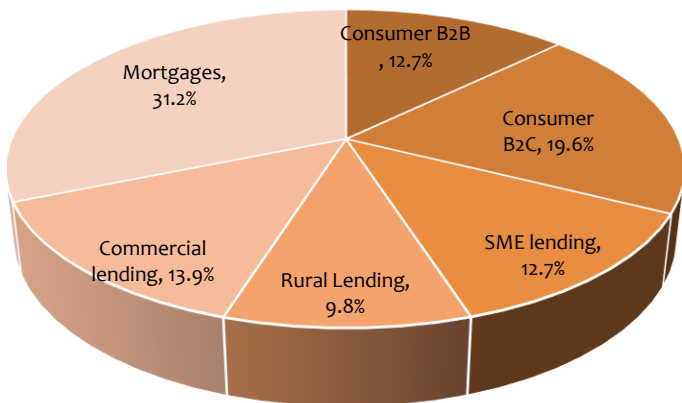
AUM growth improves



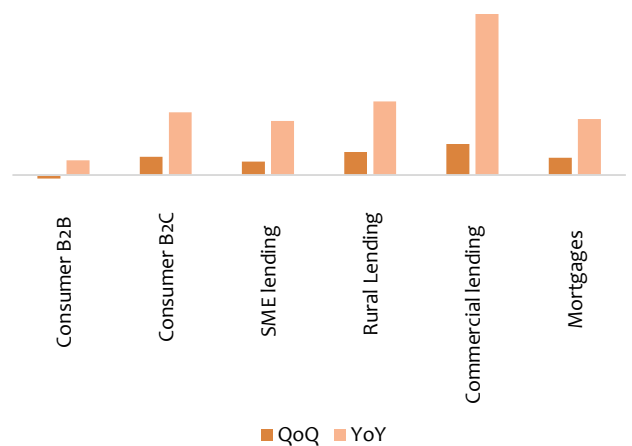
Well capitalised for growth



Diversified Loan Portfolio Book



Growth momentum across all segments



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	2,63,738	2,66,681	3,16,324	3,88,928	4,75,731
Interest Expense	94,732	94,140	97,482	1,28,674	1,57,272
Net Interest Income	1,69,006	1,72,541	2,18,842	2,60,254	3,18,459
Non interest income	118	150	80	120	138
Operating Income	1,69,124	1,72,691	2,18,922	2,60,374	3,18,597
- Employee expense	25,491	24,987	35,897	36,452	43,011
- Other operating expense	31,117	28,095	39,953	46,451	55,186
Operating Expense	56,608	53,081	75,850	82,904	98,196
Operating Profit	1,12,516	1,19,609	1,43,072	1,77,470	2,20,400
Provisions	39,295	59,686	48,034	41,184	37,195
PBT	73,221	59,924	95,038	1,36,286	1,83,206
Tax Expense	20,584	15,724	24,756	34,072	45,801
PAT	52,638	44,199	70,282	1,02,215	1,37,404
Diluted EPS (INR)	87.5	73.5	116.6	168.8	227.0

Exhibit 2: Balance Sheet (Consolidated)

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	1,200	1,203	1,207	1,207	1,207
Reserves & Surplus	3,22,076	3,67,981	4,35,920	5,26,451	6,48,149
Net worth	3,23,276	3,69,184	4,37,127	5,27,658	6,49,355
Borrowings	13,15,112	13,16,454	16,52,319	20,24,091	24,69,391
Deposits	4,713	28,255	34,207	20,913	21,152
Other liabilities & provisions	812	1,377	1,400	1,900	2,400
Total Equity & Liabilities	16,43,914	17,15,270	21,25,054	25,74,562	31,42,299
Uses of Funds					
Cash & Bank Balances	13,827	21,762	36,803	46,004	57,505
Receivables	9,525	11,072	12,659	14,558	16,741
Net investments	1,75,439	1,83,969	1,22,455	1,59,192	2,06,950
Deferred Tax Assets	10,669	9,459	9,511	9,987	10,486
Loans & advances	14,13,761	14,66,869	19,14,233	22,04,139	27,55,174
Fixed assets	13,210	13,667	17,296	19,950	21,379
Other assets	4,704	1,599	3,111	1,11,747	65,079
Total Assets	16,43,914	17,15,270	21,25,054	25,74,562	31,42,299

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY 23E	FY 24E
Growth Rates					
Advances (%)	25.7%	3.8%	30.5%	15.1%	25.0%
Deposits (%)	26.3%	0.1%	25.5%	22.5%	22.0%
Total assets (%)	32.3%	4.3%	23.9%	20.7%	22.1%
NII (%)	42.5%	2.1%	26.8%	18.9%	22.4%
Pre-provisioning profit (%)	46.5%	6.3%	19.6%	24.0%	24.2%
PAT (%)	31.8%	-16.0%	59.0%	45.4%	34.4%
B/S Ratios					
Loans/Deposit (%)	107.5%	111.4%	115.9%	108.9%	111.6%
Advances/Total Assets	86.0%	85.5%	90.1%	85.6%	87.7%
CAR (%)	25.0%	22.9%	22.0%	22.0%	22.0%
Tier-I Capital (%)	21.3%	19.7%	19.3%	19.3%	19.3%
Leverage - Total Assets to Equity	5.1	4.6	4.9	4.9	4.8
Operating efficiency					
Cost/income (%)	33.5%	30.7%	34.6%	31.8%	30.8%
Opex/total assets (%)	3.4%	3.1%	3.6%	3.2%	3.1%
Opex/total interest earning assets	4.0%	3.6%	4.0%	3.8%	3.6%
Profitability					
NIM (%)	13.3%	12.0%	12.9%	12.6%	12.8%
RoA (%)	3.2%	2.6%	3.3%	4.0%	4.4%
RoE (%)	16.3%	12.0%	16.1%	19.4%	21.2%
Asset quality					
Gross NPA (%)	1.6%	1.8%	1.6%	1.2%	1.0%
Net NPA (%)	0.7%	0.8%	0.7%	0.5%	0.4%
PCR (%)	57.2%	58.0%	58.0%	59.0%	59.0%
Credit cost (%)	3.1%	4.1%	2.8%	2.0%	1.5%
Per share data / Valuation					
EPS (INR)	87.5	73.5	116.6	168.8	227.0
BVPS (INR)	537.3	613.6	722.0	871.5	1072.6
ABVPS (INR)	509.5	582.6	682.6	827.6	1022.9
P/E (x)	25.3	90.8	57.2	39.5	29.4
P/BV (x)	4.1	10.9	9.2	7.7	6.2
P/ABV (x)	4.3	11.5	9.8	8.1	6.5
Profitability					
Return on Capital	3.7%	2.7%	3.7%	4.4%	4.8%
Return on Equity	16.3%	12.0%	16.1%	19.4%	21.2%
Spread Analysis					
Yield on loans	18.1%	16.2%	16.1%	16.5%	16.8%
Cost of borrowings	8.04%	7.15%	6.57%	7.00%	7.00%
Spread	10.1%	9.0%	9.6%	9.5%	9.8%

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
30-Apr-22	6,672	8,183	BUY	Buy	More than 15%
19-Jan-22	7,572	8,693	BUY	Accumulate	5% – 15%
27-Oct-21	7,478	8,488	ACCUMULATE	Hold	0 – 5%
31-Aug-21	7,170	7,170	HOLD	Reduce	-5% – 0
22-Jul-21	6,188	6,315	HOLD	Sell	Less than – 5%

ANALYST CERTIFICATION:

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