

Growth with strong NII and improved asset quality...

About the stock: Bajaj Finance with its digital transformation is quickly moving from just consumer finance to multiple segments and harnessing its large franchise base digitally. Housing has grown to a significant size.

- AUM (₹204018 crore) mix as of June 30, 2022 – Consumer: Rural: SME: Commercial: Mortgage at 44%:14%:18%:15%:9%.
- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to > 18% RoE and > 4% RoA.

Q1FY23 Results: Stellar business momentum, asset quality improved.

- Strong NII growth at 48% YoY better than estimates at ₹ 6636 crore
- Opex to NII rose to 35.9% vs. 34.6 % QoQ as costs elevated.
- GNPA, NNPA ratio declined to 1.25%, 0.51%, respectively, in Q1FY23
- PAT grew ~2.6x YoY and 7.3% QoQ to ₹ 2596 crore.

What should investors do? Stock has given ~4x returns over 5 years. 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 FY23E & FY24E by 6.2% & 10.1% respectively.

- 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. However, with recent valuation reset across financials led us to revise our TP to ₹ 8500 from ₹ 9500 valuing at 7.5x FY24E ABV.

Key triggers for future price performance:

- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR to ₹3.8 – 4 lakh crore by FY25) to boost profitability.
- Asset quality performance continues to improve with high profits enabling provisions & w/off under check.
- Strong deposit base and plans to raise to 25% of overall liabilities
- RoE at > 18-19% and RoA at >4% with guidance over 4.5%

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 ₹ 5.7 lakh crore. With housing demand picking up, we believe HDFC would be the largest beneficiary of the same. Merger with HDFC bank to weigh on stock.
- We have a BUY rating with a target price of ₹ 2840

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%	26258	33365	23%
PPP (₹ crore)	7681	11252	11961	14307	23%	16773	21992	24%
PAT (₹ crore)	3995	5264	4420	7028	21%	10176	13697	40%
ABV (₹)	313	534	597	710		838	1,127	
P/E	92	71	87	55		38	29	
P/ABV	20.4	12.0	10.7	9.0		7.6	5.7	
RoA	3.0	2.8	2.3	3.7		4.3	4.6	
RoE	22.4	20.2	12.8	17.4		21.0	21.6	

Source: Company, ICICI Direct Research

BAJAJ FINANCE

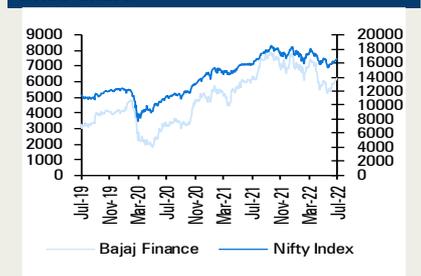
Particulars

Particulars	Amount
Market Capitalisation	₹ 387096 crore
52 week H/L	8043/ 5235
Face Value	₹ 2
Net worth	₹ 46337 Crore
DII Holding (%)	12
FII Holding (%)	20

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	56.0	56.0	56.0	55.9	55.9
FII	24.0	23.6	23.6	21.4	20.0
DII	9.3	9.7	9.7	11.2	12.0
Others	10.6	10.6	10.6	11.5	12.1

Price Chart



Recent Event & Key risks

- 35 bps and 17 bps sequential improvement in GNPA's and NNPA's
- Key Risk:** (1) Higher opex may impact return ratios (2) Higher NPAs in unsecured book may impact earnings

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Beat on NII & flattish provisions led to strong operating performance

- Stellar NII growth of 48%YoY to ₹6635 crore was higher than estimates. Overall AUM growth of 28% YoY and sequential sharp GNPA improvement add to earnings growth momentum with PAT growth of 159% YoY and 7%QoQ to ₹2596 crore. In line with guidance C/I ratio is inching up gradually to 35.9% from 34.6% 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 at 35-36% for FY23
- Provisions for Q1FY23 declined 57% YoY and rose 7% QoQ to ₹757 crore, mainly due to improvement in asset quality. GNPA & NNPA stood at 1.25% and 0.51% as of Q1FY23 as against 1.60% and 0.68% as of Q4FY22, and these key ratios are now below pre-covid levels. This quarter provision includes an impact of ₹ 190 crore towards one large B2B commercial account written off in Q1. The Company expects its loan losses at 1.35-1.45% of average assets in FY23. The Company currently holds a management overlay of ₹ 1,000 crore.
- AUM growth also gained traction as Core AUM was up 31% YoY at ₹ 2,04,018 crore vs ₹ 1,56,115 crore as of Q1FY22. It was up 9% QoQ which was primarily driven by 47% YoY and 10% QoQ growth in Consumer B2B Sales finance and Rural consumer B2B also surged 38% YoY and 10% QoQ. Mortgage also saw steady 28% growth YoY to ₹65665 crore and 6.4% QoQ.
- BHFL AUM grew by 37% to ₹ 53,322 crore as of 31 March 2022. The Company crossed a significant milestone of ₹50K crore AUM during Q4FY22
- In Q4, the Company added 2.73 mn new customers to its franchise. Customer franchise stood at 60.30 mn as of Q1FY23. It booked 7.42 MM new loans as against 4.63 MM in Q1 FY22. The Company is comfortable adding 9-10mn new customers in FY23
- In Q4, cost of funds was 6.64% from 6.71%. Liquidity buffer stood at ₹11584 as of Q1FY23. Led by strong ALM, management expects the impact of recent interest rate hikes on cost of funds will be gradual.

Conference call highlights

- On track to go fully digital across all products and services on app by Jan 2023 and web by March 2023. By Mar'23 BAF will be fully digital.
- Phase 1 of app platform is live on both the app stores. Phase 2 will have 3 sprints. Sprint 1 is scheduled to go live on 31 August 2022, sprint 2 on 15 November 2022 and sprint 3 on 31 January 2023.
- Competitive intensity continues to remain elevated across products. Management will continue to focus on margins first and then on growth. BAF has increased 25-45 bps rate depending on the product and is incrementally passing rate hikes to its customers. This will keep NIMs elevated. Spreads for BHFL in coming quarters also to remain elevated.
- Quarterly run rate of ₹ 50-54k growth in net balance sheet in FY23. B2B disbursement run rate of ₹ 60-64k in FY23. Comfortable to add 9-10 mn new customers on full year basis.
- With strong ALM, the impact of increasing rate cycle on CoF will be gradual. BAF is accelerating retail deposits book and aim for 25% of overall deposits.
- BAF continue to invest in teams and technology for business transformation and hence the Opex to NII expected to remain elevated at 35-36% for FY23. At present 155 standalone gold loan branches and will have 232 standalone gold loan branches by end of the year.

- Asset quality expected to continue improve further in next 2 quarters. Consolidated - Stage 2 down by ₹ 300 crore, Stage 3 down by ₹ 600 crore QoQ. BHFL stage 2 at ₹ 492 crore, stage 3 at ₹ 3500 crore. Write offs for last 3 quarters was largely steady. During Q1, total written off was ₹ 390 crore (including commercial account).
- During Q1FY23, Bajaj Finance launched co-branded credit card in partnership with DBS Bank India
- Net addition of 2460 employees in Q1FY23.
- Consolidated RoA guidance of 4.5-4.7%.
- BHFL – Capital infusion of ₹ 2500 crore in Q1FY23 and well capitalised for next 2 years. BHFL have repo and EBLR linked bank borrowings, but the contribution is lower.

Comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC (HDFC)	2,312	2,840	Buy	4,195	66.7	75.8	85.7	101.5	34.7	30.5	27.0	22.8	3.8	3.5	3.4	3.2	12.3	12.0	12.8	14.5
Bajaj Finserv (BAFINS)	13303	18,900	Buy	2117	176.2	263.5	397.6	472.8	75.5	50.5	33.5	28.1	6.0	5.3	4.5	3.9	8.3	11.1	14.6	15.0
Bajaj Finance (BAJFI)	6,394	8,500	Buy	3,871	73.6	116.7	168.5	221.7	86.9	54.8	37.9	28.8	10.7	9.0	7.6	5.7	12.8	17.4	21.0	21.6
Muthoot Finance (MUTFIN)	1021	1,300	Buy	409	8.0	9.5	12.0	13.0	128.2	107.1	84.8	78.3	2.8	2.4	2.0	1.7	27.8	23.5	22.9	23.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	6,636	6,316	4,488	47.8	6,064	9.4	Stellar growth driven by margin expansion and business traction
NIM (%) (calc)	13.2	16.4	11.5	171 bps	12.8	41 bps	
Other Income	2	3	1	62.7	4	-51.8	
Staff cost	1,183	1,110	617	92.0	1,020	16.0	
Other Operating Expenses	1,197	1,053	757	58.1	1,080	10.8	
Opex to NII(%)	35.9	34.2	30.6	17.2	34.6	3.5	C/I ratio to remain elevated in near term
PPP	4,257	4,156	3,116	36.6	3,967	7.3	
Provision	755	842	1,750	-56.9	702	7.6	Significant fall in credit cost led by improved asset quality
PBT	3,503	3,314	1,366	156.4	3,265	7.3	
Tax Outgo	907	845	363	149.4	846	7.2	
PAT	2,596	2,469	1,002	159.0	2,420	7.3	Healthy top line growth and fall in credit cost boosts PAT

Key Metrics

GNPA	2,539	3,258	4,737	-46.4	3,133	-19.0	NPAs below pre-covid levels
NNPA	1,017	1,381	2,307	-55.9	1,315	-22.7	
AUM	2,04,018	2,04,000	1,59,057	28.3	1,97,452	3.3	Healthy growth driven by consumer B2B and rural B2B lending segment

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	26592	26,258	-1.3	33,136	33,365	0.7
Pre Provision Profit	17462	16,773	-3.9	22,360	21,992	-1.6
NIM(%) (calculated)	11.4	11.3	-6 bps	11.3	11.5	18 bps
PAT	9583	10,176	6.2	12,444	13,697	10.1
ABV per share (₹)	960	838	-12.7	1,230	1,127	-8.3

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	25.5	23.1	24.4	21.6
Borrowings Growth (%)	22.1	24.0	23.0	24.0
NIM Calculated (%)	11.3	11.5	11.4	11.3
Cost to income ratio (%)	36.1	34.1	34.4	32.5
GNPA (₹ crore)	3,323.8	4,884.4	4,176.9	5,685.0
NNPA (₹ crore)	2,803.6	4,471.3	1,905.4	2,674.3

Source: Company, ICICI Direct Research

Exhibit 5: Consolidated AUM break-up

₹ crore	Jun'21	Sept'21	Dec'21	Mar'22	Jun'22
Auto Finance Business	11347	10738	10194	10194	9962
Sales Finance Business	11175	12555	14977	14977	16475
Consumer B2C Business	31399	33679	38772	38772	41207
Rural Sales Finance Business	2914	3258	4129	4129	4564
Rural B2C Business	12537	13376	15301	15301	16740
SME Lending Business	20335	21871	24979	24979	26564
Securities Lending Business	9232	7293	10536	10536	10801
Commercial Lending Business	9011	9801	11498	11498	12040
Mortgages	51107	54196	61701	61701	65665
Total	159057	166767	197452	197452	204018

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	38547.7	48929.0
Interest Expended	9414.0	9748.2	12289.7	15563.7
Net Interest Income	17254.1	21884.2	26258.0	33365.4
Growth (%)	2.1	26.8	20.0	27.1
Non Interest Income	15.0	8.0	9.8	12.1
Operating Income	17269.1	21892.2	26267.8	33377.4
Employee cost	2165.8	3589.7	4666.6	5833.2
Other operating Exp.	3142.4	3995.3	4828.2	5552.4
Operating Profit	11960.8	14307.2	16773.1	21991.9
Provisions	5968.6	4803.4	3021.4	3482.9
PBT	5992.3	9503.8	13751.8	18509.0
Taxes	1572.4	2475.6	3575.5	4812.3
Net Profit	4,419.8	7,028.2	10,176.3	13,696.7
Growth (%)	-16.0	59.0	44.8	34.6
EPS (₹)	73.6	116.7	168.5	221.7

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	116.7	168.5	221.7
BV (₹)	615	726	884	1200
ABV (₹)	597	710	838	1127
P/E	87	55	38	29
P/BV	10.4	8.8	7.2	5.3
P/ABV	10.7	9.0	7.6	5.7
Yields & Margins (%)				
Net Interest Margins	10.5	11.7	11.3	11.5
Yield on assets	16.3	16.9	16.6	16.8
Avg. cost on funds	7.3	6.6	6.7	6.9
Yield on average advances	18.5	18.7	17.9	18.3
Quality and Efficiency (%)				
Cost to income ratio	30.7	34.6	36.1	34.1
Cost to assets ratio	2.7	4.0	4.0	3.9
GNPA	1.8	1.7	1.4	1.6
NNPA	0.8	0.8	1.2	1.5
ROE	12.8	17.4	21.0	21.6
ROA	2.3	3.7	4.3	4.6

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	53261.1	73158.9
Networth	36918.4	43712.7	53381.9	73282.4
Borrowings	131633.5	165231.9	201677.4	250079.9
Other Liabilities & Provisions	2918.5	3560.8	5204.5	6789.2
Total	1,71,470.4	2,12,505.4	2,60,263.7	3,30,151.5
Application of Funds				
Fixed Assets	2472.4	2991.8	3290.9	3620.0
Investments	18396.9	12245.5	12368.0	12739.0
Advances	146687.0	191423.3	240200.2	295623.6
Other Assets	2817.3	4578.9	4404.6	18168.8
Total	1,70,373.6	2,11,239.5	2,60,263.7	3,30,151.5

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	3.6	24.0	22.5	26.9
Advances	3.8	30.5	25.5	23.1
Borrowings	4.7	25.5	22.1	24.0
Net interest income	2.1	26.8	20.0	27.1
Operating Income	2.1	26.8	20.0	27.1
Operating expenses	-6.8	27.1	25.2	19.9
Operating profit	6.3	19.6	17.2	31.1
Net profit	-16.0	59.0	44.8	34.6
Net worth	14.2	18.4	22.1	37.3
EPS	-17.8	58.6	44.5	31.5

Source: Company, ICICI Direct Research

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