

July 28, 2022

RESULT REPORT Q1 FY23 | Sector: Financials

Bajaj Finance Limited

In-line show; management commentary strong

BAF delivered a largely in-line operating performance with a mild 3% miss on PPOP and PAT due to higher opex (up 13% qoq/73% yoy) that represented continuous investment in people and tech for growth and profitability expansion. Core AUM growth and customer franchise addition was reasonably strong. Asset quality improved across products, underpinning moderate credit cost. NII growth/NIM movement was on expected lines, but CoF reduction was a surprise. FY23 guidance on every metric is encouraging viz. a) co. is confident of adding 9-10mn new customers, b) NPL levels expected to further come down and credit cost estimated at 1.35-1.45% of avg. assets, c) NIMs to be maintained with gradual rise of CoF and lending rates hikes and d) Opex/NII to start tapering from H2.

Improvement in asset quality; strong growth in core AUM/customer franchise

Stage-2/Stage-3 assets were down 8%/19% qoq and GNPA/NNPA stood at 1.25%/0.51% v/s 1.60%/0.68% as of March. Write-offs, other than of Rs4bn commercial account, have been flattish over past three quarters. Except for 2w/3w finance, credit metric/quality of all other businesses is similar or better than pre-Covid level. Credit cost was at annualized 1.5% but includes Rs1.9bn provisions towards abovementioned commercial account. Management overlay was maintained at Rs10bn (~50bps of AUM).

Core AUM (ex-IPO Financing) growth was at 6% qoq/31% yoy. Sequential growth was led by consumer finance (ex. Auto Loans), complimented by brisk momentum in Mortgages and SME lending. BAF recorded highest-ever quarterly increase in customer franchise, and the non-delinquent/cross-sell customer base grew by 22% yoy/26% yoy.

Margins to be maintained; Opex/NII to start tapering

NIM expansion in Q1 FY23 was on expected lines, driven by seasonal shift in AUM mix towards better-yielding Consumer Finance portfolio and reduction in CoF. To protect margin profile across businesses, BAF has started increasing pricing across products from June. Co. expects a gradual increase in CoF, as bank borrowings in stand-alone entity are largely linked to MCLR and avg. deposits tenor is 30-33 months. Opex/NII should start tapering from H2 FY23 with co. having taken a pause on investments.

BAF is looking to double its AUM over next three years (26% CAGR) while maintaining its return metrics. In the medium term, the key monitorable would be opex productivity as the co. goes fully digital across all products and services (on App by January 2023 and Web by March 2023). We see BAF delivering 4.5-4.6% RoA and 23-24% RoE over next two years. Hold a constructive view on BAF with a 12m PT of Rs8140. Earnings estimates have seen some upgrade, but we have moderated target multiple to reflect eventual conversion into a bank.

Exhibit 1: Result table

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Operating Income	92,809	86,266	7.6	67,419	37.7
Interest expended	(26,451)	(25,626)	3.2	(22,536)	17.4
Net Interest Income	66,358	60,640	9.4	44,884	47.8
Operating expenses	(23,801)	(21,006)	13.3	(13,733)	73.3
PPOP	42,575	39,671	7.3	31,162	36.6
Provisions	(7,547)	(7,016)	7.6	(17,503)	(56.9)
PBT	35,028	32,655	7.3	13,659	156.5
Tax	(9,065)	(8,460)	7.2	(3,634)	149.4
Reported PAT	25,963	24,195	7.3	10,024	159.0

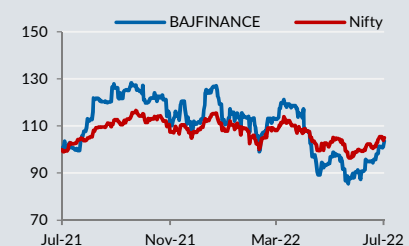
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 6,396
Target Price	: Rs 8,140
Potential Return	: 27.2%

Stock data (as on July 27, 2022)

Nifty	16,642
52 Week h/l (Rs)	8050 / 5220
Market cap (Rs/USD mn)	3872540 / 48466
Outstanding Shares (mn)	605
6m Avg t/o (Rs mn):	8,237
Div yield (%):	0.3
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	13.8%	-4.4%	3.0%

Shareholding pattern

Promoter	55.9%
FII+DII	32.0%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	8,140	9,000

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	116.5	182.3	233.4
EPS (Old)	116.5	175.0	221.9
% Change	-	4.1%	5.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	218,922	283,262	356,983
PPOP	143,072	182,760	233,869
Net profit	70,282	109,952	140,816
Growth (%)	59.0	56.4	28.1
EPS (Rs)	116.5	182.3	233.4
ABVPS (Rs)	702.3	854.2	1,050.3
P/E (x)	54.9	35.1	27.4
P/ABV (x)	9.1	7.5	6.1
ROE (%)	17.4	22.7	23.7
ROA (%)	3.7	4.6	4.6

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KEY CON-CALL HIGHLIGHTS

Growth & Distribution

- AUM growth has been secular across all lines of businesses.
- Looking at net balance sheet growth of Rs550-600bn in FY23.
- Co. launched its non-captive two-wheeler financing business on 6 July 2022 – this month will do 3-3.5K loans.
- Added 83 new locations in Q4 FY22. Total geographic footprint stood at 3,586 locations and 1,38,900+ distribution points. BAF continues to invest deeply in UP, Bihar and north-eastern states.
- Offering Gold Loans from 650 branches which includes 155 stand-alone branches - co will add 75 odd stand-alone branches in remaining part of the year.
- In Gold Loans, emphasis is on digital sourcing and execution - current return profile not dilutive for the co. as a whole - would be a large business in 2-3 years.
- There is significant structural opportunity for growth in every line of business – mortgages could lead growth in the medium term.
- Average exposure in developer finance at Rs250-300mn and would remain so – focus also on LRD as it does have execution and sale risk like developer finance – based on today's risk return LRD is better than LAP.
- Home Loans will remain 60-65% of BHFL book - the upper cap of developer finance will be 10-12% - the share of LRD can improve at the cost of LAP due to prevailing better risk-reward.
- BHFL well-capitalized for next 2-3 years and for reaching Rs0.9-1tn of AUM.
- BAF has 55-65% market share in the subvention market – its share in the digital segment has increased.
- SME lending business caters to businesses having annual turnover of Rs2-15cr - 65-70% of customers are traders and balance manufacturers – SME finance has a 14-year vintage and is being done from 1800 cities and not from the Top cities – BAF maintaining margin profile despite increase in competition.
- Plan to launch auto loans (new vehicle) business in FY24 - co. just introduced non-captive 2w financing.
- Remain committed to partnership with RBL Bank – will issue 35-40K cards per month.
- Cross-sell rate, adjusted for wallet loans and remi business, is better than pre-Covid.

Asset quality & Credit Cost

- GNPL and NNPL will continue trending downward in coming quarters considering prevailing collection trends.
- Except for 2w/3w finance, credit metric/quality of all other businesses is similar or better than pre-Covid level.
- Write-off other than of Rs4bn commercial account has been flattish over the past three quarters.

Bajaj Finance Limited

NIM, Opex and Digital

- Co. continues to protect its margin profile across businesses despite elevated competitive intensity across products – focus is on margin more than growth.
- Will keep incrementally passing any hardening of COF to maintain NIM.
- Qoq decline of CoF by 7 bps – should increase gradually in coming three quarters.
- Increased deposit rates by 50-70 bps across buckets for deposits – average deposit tenor is 30-33 months – public/corporate deposits composition at 70/30.
- In stand-alone BAF, bank borrowings are largely linked to MCLR which is being increased gradually by the banks.
- On track to go fully digital across all products and services on app (January 2023) and web (March 2023).
- Opex/NII should start tapering from second half of the year – the co. has taken a pause with regards to investments in people and tech and looking forward to seeing productivity improvement.
- RoA would be largely maintained through the current year – would re-evaluate long-term consolidated RoA guidance after witnessing benefits of omni-channel strategy.

Exhibit 2: Business Data

(Rs mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
AUM	2,040,180	1,974,520	3.3	1,590,570	28.3
Consumer B2B -Auto Fin.	99,620	101,940	(2.3)	113,470	(12.2)
Consumer B2B -Sales Fin.	164,750	149,770	10.0	111,750	47.4
Consumer B2C	412,070	387,720	6.3	313,990	31.2
Rural Business	213,040	194,300	9.6	154,510	37.9
SME Business	265,640	249,790	6.3	203,350	30.6
Securities Lending	108,010	105,360	2.5	62,900	71.7
Commercial Lending	120,400	114,980	4.7	90,110	33.6
Mortgages	656,650	617,010	6.4	511,070	28.5

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Total Franchise	60.3	57.6	1.0	50.5	19.5
Non-Delinquent Customers	40.3	38.6	4.4	33.2	21.6
Cross sell franchise	34.7	32.8	5.8	27.4	26.4
New to BAF	2.2	2.2	-	1.9	17.6
New loans booked	7.4	6.3	18.2	4.6	60.3
EMI Cards in force	32.8	30.0	9.3	24.1	36.1

Source: Company, YES Sec

Exhibit 4: Key Ratios

(%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Op Income / Average AUM*	18.5	18.2	0.3	17.3	1.2
Interest Expense / Average AUM*	5.3	5.4	(0.1)	5.8	(0.5)
NII / Average AUM*	13.2	12.8	0.4	11.5	1.7
Cost to Income	35.9	34.6	1.2	30.6	5.3
Provisions / Average AUM	1.5	1.5	0.0	4.5	(3.0)
RoE	23.1	22.8	0.3	10.8	12.3
RoA	5.3	5.2	0.1	2.8	2.5
CAR	26.2	27.2	(1.1)	28.6	(2.4)
Tier-1	23.8	24.8	(0.9)	25.4	(1.6)
Gross NPA	1.3	1.6	(0.4)	3.0	(1.7)
Net NPA	0.5	0.7	(0.2)	1.5	(1.0)
PCR	60.0	58.0	2.0	51.0	9.0

Source: Company, YES Sec; *Calculated

Exhibit 5: GNPA trend

GNPA - (%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Consumer B2B-Auto Fin.	10.2	11.0	(0.9)	19.2	(9.0)
Consumer B2B-Sales Fin	0.3	2.8	(2.5)	1.1	(0.7)
Consumer B2C	0.8	1.0	(0.1)	2.8	(2.0)
Rural B2B	0.2	0.2	0.1	1.4	(1.1)
Rural B2C	1.0	1.2	(0.2)	2.9	(1.8)
SME	1.3	1.4	(0.1)	2.2	(0.8)
Mortgages	0.7	0.9	(0.1)	0.9	(0.1)

Source: Company, YES Sec

Exhibit 6: PCR trend

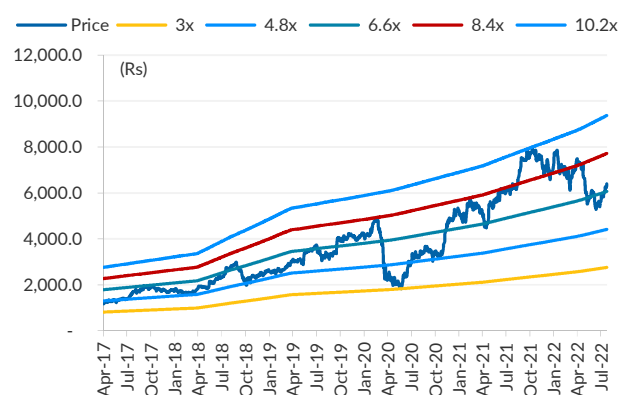
PCR - (%)	Q1 FY23	Q4 FY22	chg qoq	Q1 FY22	chg yoy
Consumer B2B-Auto Fin.	50.0	50.0	-	41.0	9.0
Consumer B2B-Sales Fin	82.0	54.0	28.0	77.0	5.0
Consumer B2C	75.0	75.0	-	67.0	8.0
Rural B2B	86.0	84.0	2.0	78.0	8.0
Rural B2C	72.0	69.0	3.0	68.0	4.0
SME	75.0	75.0	-	68.0	7.0
Mortgages	55.0	53.0	2.0	30.0	25.0

Source: Company, YES Sec

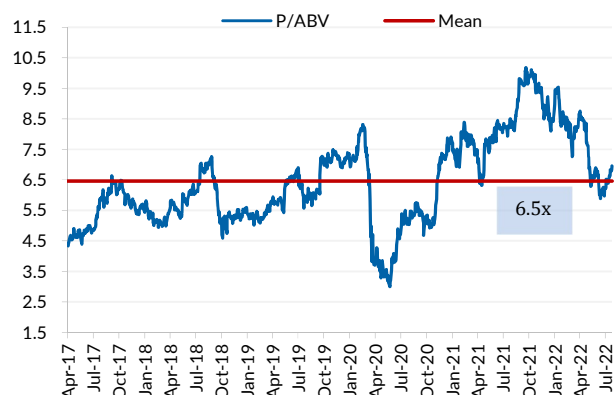
Exhibit 7: ECL Summary

(Rs mn)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	1,551,880	1,635,340	1,761,410	1,926,940	1,999,290
ECL Provision Stage 1 & 2	27,070	25,370	27,450	25,860	25,940
Net Stage 1 & 2 assets	1,524,810	1,609,970	1,733,960	1,901,080	1,973,350
Coverage ratio (%)	1.7	1.6	1.6	1.3	1.3
Stage 3 assets					
Gross Stage 3 assets	47,370	41,030	31,080	31,330	25,390
ECL Provision Stage 3	24,300	22,770	17,280	18,180	15,210
Net Stage 3 assets	23,070	18,260	13,800	13,150	10,180
Coverage ratio (%)	51.0	55.0	56.0	58.0	59.9

Source: Company, YES Sec

Exhibit 8: 1-yr rolling P/ABV band


Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean


Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity and Liabilities					
Equity Share Capital	1,200	1,203	1,207	1,207	1,207
Other Equity	322,076	367,981	435,920	531,756	654,925
Shareholders fund	323,276	369,184	437,127	532,962	656,132
Financial Liabilities	1,315,112	1,338,146	1,679,935	2,130,311	2,727,893
Deposits	214,271	258,034	307,995	381,914	473,573
Trade payables	9,598	12,360	16,511	20,226	24,979
Debt Securities	495,374	545,021	762,231	971,844	1,253,679
Borrowings (Excl. Debt Sec.)	547,002	474,294	543,636	693,135	894,145
Subordinated Liabilities	41,418	38,986	38,458	49,034	63,253
Other Financial Liabilities	7,451	9,451	11,104	14,158	18,264
Non-Financial Liabilities	5,525	7,374	7,992	9,990	12,488
Current tax liabilities (net)	592	1,802	1,001	1,251	1,563
Provisions	812	1,377	1,669	2,086	2,608
Other non-financial liabilities	4,121	4,195	5,322	6,653	8,316
Total Liabilities + Equity	1,643,914	1,714,704	2,125,054	2,673,263	3,396,513
Assets					
Financial Assets	1,618,973	1,688,819	2,094,584	2,641,816	3,363,987
Cash and Cash Equivalents	13,445	18,493	34,072	49,617	69,528
Bank balances	382	3,150	2,731	2,731	2,731
Trade Receivables	9,525	10,969	12,659	15,824	19,780
Other Receivables	1,718	0	1,219	1,524	1,905
Loans	1,413,761	1,466,869	1,914,233	2,440,646	3,111,824
Investments	175,439	183,969	122,455	122,455	146,946
Other Financial Assets	4,704	5,370	7,215	9,019	11,273
Non- Financial Assets	24,941	25,885	30,470	31,448	32,525
Current tax assets (net)	2,167	1,598	1,683	2,020	2,424
Deferred tax assets (net)	8,501	9,459	9,511	9,511	9,511
Property, plant and equipment	10,973	10,417	12,826	13,467	14,140
Goodwill	33	33	33	33	33
Other Intangible assets	2,205	3,218	4,646	4,646	4,646
Other non-financial assets	1,062	1,160	1,771	1,771	1,771
Total Assets	1,643,914	1,714,704	2,125,054	2,673,263	3,396,513

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	263,738	266,681	316,324	410,012	523,425
Interest expense	(94,732)	(94,140)	(97,482)	(126,830)	(166,542)
Net interest income	169,006	172,541	218,842	283,182	356,883
Non-interest income	119	150	80	80	100
Total op income	169,125	172,691	218,922	283,262	356,983
Total op expenses	(56,608)	(53,082)	(75,850)	(100,501)	(123,114)
PPoP	112,516	119,608	143,072	182,760	233,869
Provisions	(39,295)	(59,686)	(48,034)	(33,690)	(42,955)
Profit before tax	73,222	59,923	95,038	149,070	190,914
Taxes	(20,584)	(15,724)	(24,756)	(39,118)	(50,098)
Net profit	52,638	44,198	70,282	109,952	140,816

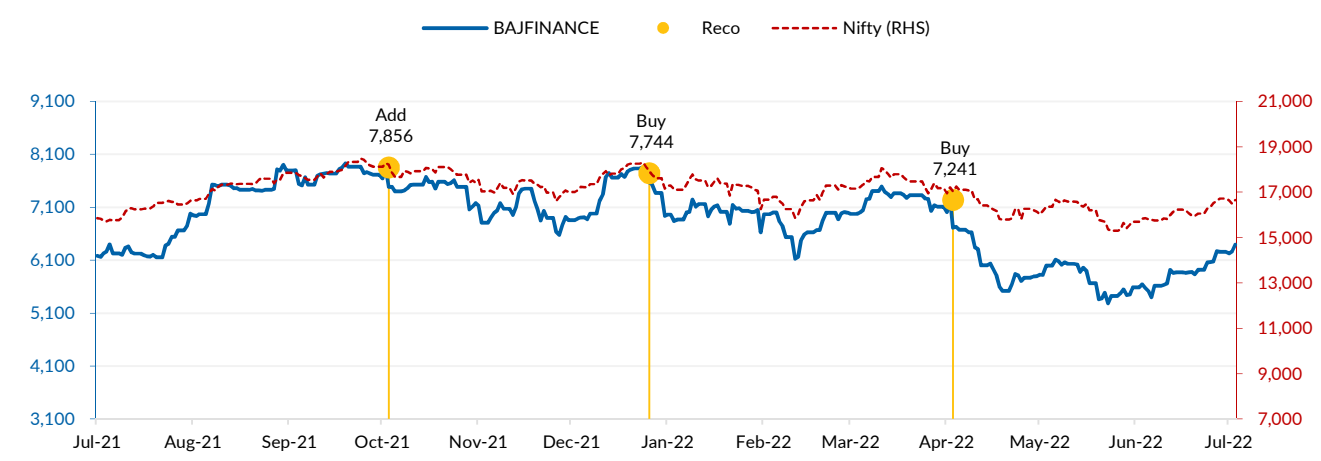
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Net interest income	42.5	2.1	26.8	29.4	26.0
Total op income	42.4	2.1	26.8	29.4	26.0
Op profit (pre-provision)	46.5	6.3	19.6	27.7	28.0
Net profit	31.8	(16.0)	59.0	56.4	28.1
Advances	25.7	3.8	30.5	27.5	27.5
Total Borrowings	22.6	(2.4)	27.0	27.5	29.0
Total assets	32.3	4.3	23.9	25.8	27.1
Profitability Ratios (%)					
NIM	12.9	11.5	12.5	12.6	12.5
Non-interest income /Total income	0.1	0.1	0.0	0.0	0.0
Return on Avg. Equity	20.2	12.8	17.4	22.7	23.7
Return on Avg. Assets	3.6	2.6	3.7	4.6	4.6
Per share ratios (Rs)					
EPS	87.7	73.5	116.5	182.3	233.4
Adj. BVPS	522.9	594.6	702.3	854.2	1,050.3
DPS	10.0	10.0	20.0	20.0	25.0
Other key ratios (%)					
Cost/Income	33.5	30.7	34.6	35.5	34.5
Tier-I capital	21.3	25.1	24.8	23.7	22.9
Gross NPLs/Loans	1.6	1.8	1.6	1.5	1.5
Credit Cost	3.0	4.0	2.7	1.5	1.5
Net NPLs/Net loans	0.7	0.8	0.7	0.7	0.7
Tax rate	28.1	26.2	26.0	26.2	26.2
Dividend yield	0.2	0.2	0.3	0.3	0.4

Source: Company, YES Sec

Recommendation Tracker



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Bajaj Finance Limited

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.