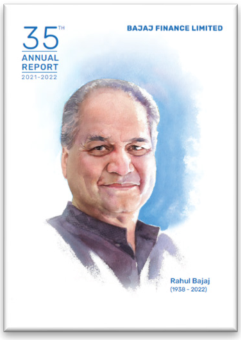
2 August 2022

Annual Report Update | Sector: Financials - NBFC

Bajaj Finance

BSE Sensex	S&P CNX
58,136	17,345



Stock Info

Bloomberg	BAF IN
Equity Shares (m)	602
M.Cap.(INRb)/(USDb)	4444.5 / 56.5
52-Week Range (INR)	8044 / 5236
1, 6, 12 Rel. Per (%)	21/4/9
12M Avg Val (INR M)	9317
Free float (%)	44.1

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
Net Income	219	270	327
PPP	143	174	214
PAT	70	105	129
EPS (INR)	116	173	213
EPS Gr. (%)	59	49	23
BV/Sh. (INR)	716	864	1,045
Ratios			
NIM (%)	10.4	10.0	9.8
C/I ratio (%)	34.6	35.6	34.5
RoA (%)	3.7	4.4	4.3
RoE (%)	17.7	22.0	22.3
Payout (%)	8.6	14.3	15.4
Valuations			
P/E (x)	63.0	42.3	34.4
P/BV (x)	10.3	8.5	7.0
Div. Yield (%)	0.3	0.3	0.4

CMP: INR7,341 TP: INR8,100 (+10%) Buy

From Physical to Phygital to Digital

Multiple building blocks of this fully digitalised omni-channel strategy

Bajaj Finance (BAF)'s FY22 Annual Report provides insights into the nuts and bolts of its omni-channel strategy, which aims to make it easier for customers to move seamlessly between online and offline channels. Through this, the company is confident of achieving higher business velocity, streamlining processes, constructing a leaner cost structure, and gaining a greater wallet share among its customer franchise.

This year, the company continued to focus on creating a risk managed superior quality portfolio by diversifying across borrowers, product categories, and geographies. It has delivered a healthy performance in FY22 through (a) capital management (Tier I of ~25%), (b) conservative liquidity buffer (~9% of average borrowings in FY22), (c) expansion of collections and servicing capabilities, (d) a strong underwriting ability, and (e) significant progress on multiple domains of its omni-channel, thereby, further strengthening its risk management abilities. We reiterate our BUY rating on the stock.

Volumes grow with the economic recovery post the second wave

BAF's customer additions increased to 9m v/s 6m a year ago. New loans booked were up 46% YoY to 24.7m. Consumer-facing product categories CD, 2W, 3W, and Lifestyle financing reported an increase of 43%, 4%, 22%, and 60% YoY, respectively, to 12.7m, 0.64m, 0.07m, and 0.5m.

E-commerce related loans also grew 47% YoY to 2.5m. Within retail spends financing it offered small ticket finance in select geographies and higher ticket spends categories which were more economically viable; volumes improved to 0.7m v/s 0.3m a year ago.

For new originations, the cross-sell ratio moderated to ~64% v/s ~65% a year ago. In the 2W category, its market share in Bajaj Motorcycles increased to 37% v/s 34% a year ago.

Healthy growth in the customer franchise and momentum is now back

The overall customer franchise grew 19% YoY to 57.6m, still below the historical annual growth of 25–30%. Of the total EMI card customers, 44% were financed v/s 37% last year and 50–60% over the three years pre-COVID. Urban B2C customer AUM grew 27% YoY after declining 3% in FY21. Consolidated AUM witnessed a robust growth of 29% YoY (core AUM grew 26%) to INR1.97t; however, the proportion of unsecured loans has remained largely stable at ~43-44%.

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Fees declined significantly, driven by distribution income

Services and administrative fees declined 12% YoY to INR11.6b, with their contribution to overall fees coming down to 38% v/s 54% in FY21. We believe this may be driven largely by a) a much lower conversion fees (from term to hybrid flexi loans) than in FY21 and b) much lower penal interest charges (if any). Fees on value added services grew 22% YoY. The contribution of fee and commission income to overall profitability remained high at 1.6% of average assets (up ~15bp YoY but still below FY20 levels of 1.8%).

Distribution fees – which increased 96% YoY, driven by significant co-branded credit card usage (interchange fees) and incremental sourcing of credit cards – had a significant impact. The number of EMI cards / outstanding co-branded credit cards grew at a rapid pace of 26%/37% YoY to ~30m/2.8m.

Operating expenses will be a key monitorable

Employee expenses and other operating expenses grew by 44%/ 50% YoY, led by an increase in expenses related to advertisements and promotions (up 70% YoY), travel (up 110% YoY), training, and tele-calling (up 49% YoY), among others. Recovery cost as a percentage of average AUM increased to ~90bp (v/s 77bp/ 73bp in FY21/ FY20). Opex to assets increased ~80bp YoY to 4.0%; however, robust growth supported overall profitability.

Industry-leading risk management translated into healthy asset quality

With a high proportion (44%) of advances being unsecured, the risk of asset quality deterioration was significantly higher for BAF, owing to the impact of the pandemic. Apart from regulatory relief – such as restructuring (INR7.2b; 0.4% of core AUM) – the company proactively implemented various measures, such as beefing up the collection infra, and undertaking aggressive provisioning and write-offs. For FY22, it wrote off INR48b (~3.1% of the TTM AUM). With the company taking aggressive write-offs in the year, ECL/EAD declined to 2.3% (v/s 2.8% in FY21). GS2% moderated ~250bp YoY to 2.2% in FY22 (including 40bp of restructured loans) v/s 4.5% in FY21. With temperance in stress additions, GS1 regained the range of 96–97% post decline to ~94% in FY21. BAF still carries management overlay of INR10.6b (54bp of AUM).

Steadfast on Omni-channel transformation; payments solution will be core

The omni-channel platform will provide a fully-integrated, seamless experience for customers to navigate between online and offline channels in a frictionless manner and enable BAF to become a single-point interface for its customers. In FY23, it will further accelerate the execution of its omni-channel strategy and gain increased penetration across the country with the opening of another 400-450 locations. With this transformation, BAF targets substantial rise in business volumes, enriched customer experience and leaner cost structure. The company has made significant progress in multiple domains across its Omni-channel strategy (further details on page 11).

Other highlights

- BAF has announced the launch of 2Q financing across all manufacturers in addition to financing of Bajaj Auto 2Ws. It plans to start this business in the second quarter of FY23.
- To grow its market share in the used car financing business, the company has entered into a strategic tie-up with Cars24 for providing end-to-end digital financing experience for its customers transacting on the Cars24 platform.
- The company leveraged the debt capital markets (where money was available at lower interest rates than bank loans) with proportion of money markets in the borrowing mix improving to 50% v/s 44% the previous year.
- The rural business is growing at a stable pace – 11% of AUM (same as that in FY21).
- It has started to increase its exposure to the commercial lending business.
- The net slippage ratio stood at 3.5% v/s 4% in FY21, 2.4% (2.07% ex-lumpy accounts) in FY20, and ~2% each in FY18/FY19.

Valuation and view

Payments solution offerings will be core to delivering the Omnichannel strategy, since it can drive higher engagement and retention of customers on BAF's new digital platforms. To overcome the challenges posed by the pandemic, BAF focused on capital management, maintaining abundant liquidity, reducing operating expenses, expanding its collections and servicing capability, strengthening its underwriting norms combined with a keen eye on risk metrics.

The approach of 'acquire and cross-sell' across payments, loans, deposits, insurance and investments to the existing customer franchise of ~57m would be a key growth driver in FY23 as well. We model an AUM CAGR of ~25% over FY22-FY24E for a sustainable RoE of 20%-22%. BAF's return ratios have not only been consistent but are also the highest in our Coverage Universe (after that of gold financiers). We reiterate our Buy rating, with a revised TP of INR8,100 (7.75x FY24E BVPS).

Deposits franchise

Share of deposits decrease marginally with a decline in granularity

Share of deposits in overall borrowings declined to 19% v/s 20% in FY21

Deposits traction was muted

- Overall deposits grew 19% YoY to ~INR308b; within this, public deposits grew 12% YoY to ~INR212b.
- The share of deposits in overall borrowings declined to ~19% (v/s ~20% a year ago and ~17% in FY20).
- Retail deposits accounted for 69% of overall deposits (v/s 73%/ 61%/52% in FY21/FY20/FY19, respectively).
- **The share of >3 years deposits in overall deposits also declined to 45% (v/s ~64%/67%/62% in FY21/FY20/FY19, respectively).**

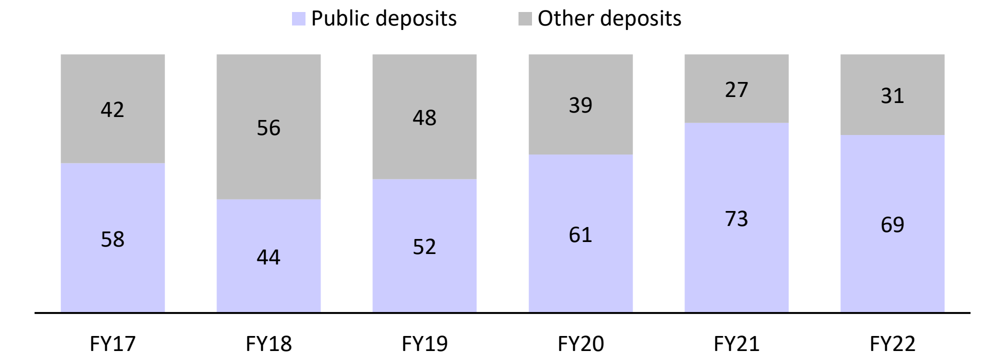
Exhibit 1: BAF is tactically looking to grow its deposit book

	FY17	FY18	FY19	FY20	FY21	FY22
Number of depositors ('000)	**71**	**101**	**190**	**362**	**498**	
Growth (%)		42	88	91	38	
Total deposits (INR b)	**43**	**78**	**132**	**214**	**258**	**308**
Growth (%)		82	69	62	20	19

Source: MOFSL, Company

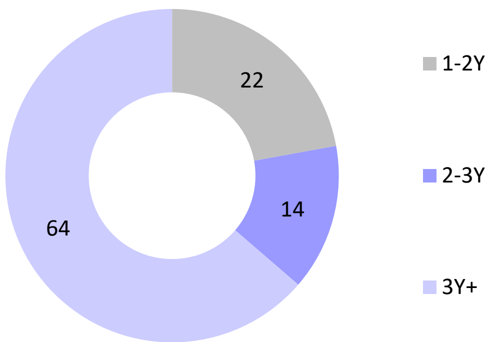
Share of public deposits at 69% of total deposits

Exhibit 2: Mix of public and non-retail deposits (%)



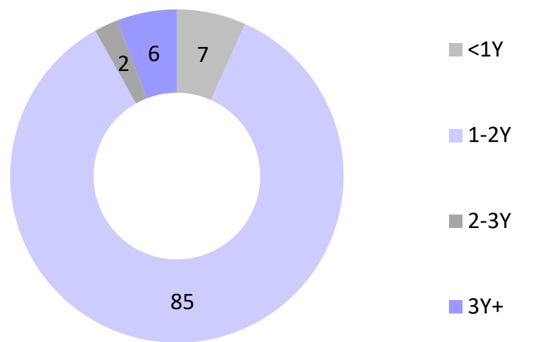
Source: MOFSL, Company

Exhibit 3: Mix of public deposits, by tenure (%)



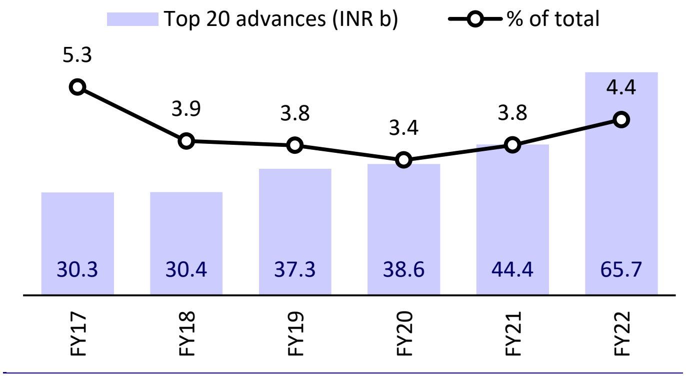
Source: MOFSL, Company; Note: Tenure at the time of origination

Exhibit 4: Mix of non-retail deposits, by tenure (%)



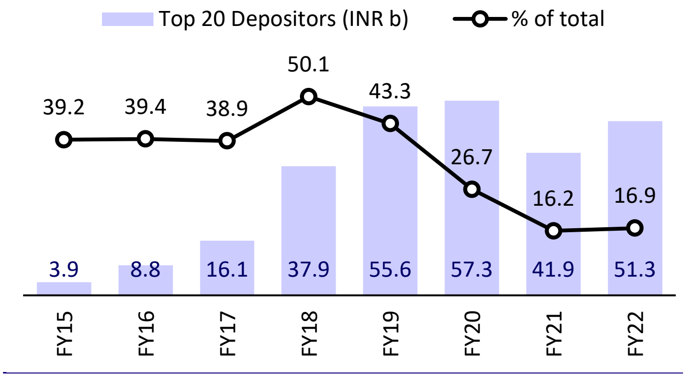
Source: MOFSL, Company; Note: Tenure at the time of origination

Exhibit 5: Exposure (standalone) to Top 20 advances on an uptrend



Source: MOFSL, Company

Exhibit 6: Concentration of Top 20 depositors was broadly stable



Source: MOFSL, Company

Strengthening business through partnerships

The company implemented various initiatives during the year to strengthen its business through partnerships:

- RBL Bank card sourcing locations increased to 400 (v/s 152/102 in FY21/FY20).
- 0.6m pocket insurance policies were sold.
- It tied up with DBS Bank (India) Ltd. on a co-branded credit card (approval received in Jan'21) and launched the co-branded credit cards in April'22.
- Online relationships increased to 210 from 74/33/19 in FY21/FY20/FY19. The total distributor tie-ups stand at 133k, of which, 122k is enabled via EMI cards.

Exhibit 7: EMI cards – trends

	FY17	FY18	FY19	FY20	FY21	FY22
No. of EMI Cards (m)	6.90	12.90	18.50	22.00	23.80	29.90
No. of loans using EMI Cards (m)	2.50	6.75	11.50	13.60	8.70	13.10
Loans disbursed (m)	10.09	15.32	23.50	27.44	16.88	24.70
% of new loans booked	25%	44%	49%	50%	52%	53%

Source: MOFSL, Company

In partnership with the RBL Bank, BAF's Co-Branded Credit Cards business continued to grow robustly in FY22. These cards are now offered across 400 locations in India. The number of cards-in-force stood at over 2.8m (v/s 2.05m YoY).

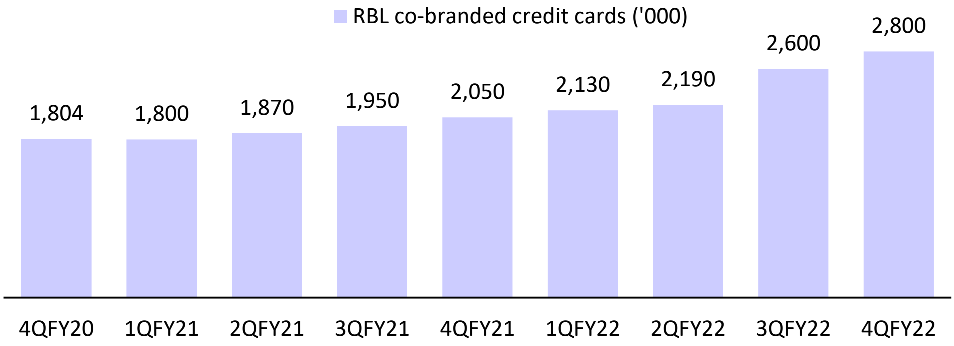
Distribution income accounted for 39% of fees in FY22 v/s 25% in FY21

Exhibit 8: Distribution fees increased YoY but service and admin fees was down 12%

INR m	FY18	FY19	FY20	FY21	FY22
Service & admin charges	3,434	5,806	8,996	13,138	11,616
Fee on value added products	1,972	3,285	4,137	3,697	4,494
Foreclosure income	247	1,052	1,574	1,446	2,269
Distribution income	**2,428**	**6,676**	**11,153**	**6,125**	**11,992**
Brokerage income			49	118	296
Total	**8,082**	**16,819**	**25,910**	**24,524**	**30,667**

Source: MOFSL, Company

Exhibit 9: Co-branded credit cards picked up momentum during the year



Source: MOFSL, Company

Rural business – investing for the future

- The total number of locations increased from ~3000 to ~3500, of which, rural locations stood at ~2140 (from ~1700 a year ago).
- The company's business spans across 21 states with co-branded credit cards and EMI cards added to its existing product offerings. The share of AUM (incl. mortgages) for the rural business to overall AUM was stable YoY at ~11% in FY22 and FY21 from ~10% in FY20 and ~9% in FY19.
- Gold loans stood at INR20.5b (-9% YoY) and were ~1.4% (similar to FY20 levels and v/s ~1.9% in FY21) of standalone AUM.

Improving mix in B2C and SME portfolios

- Within B2C products, the ratio of salaried personal loans (gross earnings >INR0.6m) and personal loans cross-sell (PLCS) improved to 43:57 (v/s 59:41 in previous year).
- The focus on professional loans (+17% YoY to INR94.2b) continues to rise, with its share in SME lending sustained at 60%.
- In the Professional loans category, medical equipment financing business gained traction with 10 OEMs and 100+ empanelled dealers for sourcing.

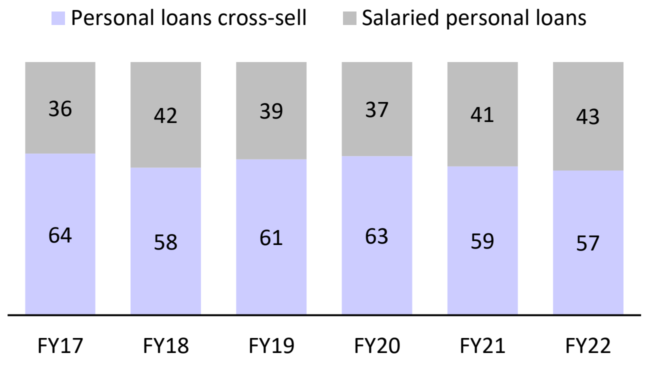
Share of professional loans in SME lending on the rise

Exhibit 10: Breakup of consumer B2C and SME lending

AUM (INR b)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Personal loans cross-sell	39	62	89	139	192	172	214
Salaried personal loans	26	35	64	87	113	121	160
Total consumer B2C	**65**	**97**	**153**	**226**	**305**	**293**	**374**
Business loans	46	59	84	101	119	120	142
Professional loans	11	17	31	53	73	80	94
Secured LAP							18
Used Car Financing							12
Total SME lending	**57**	**76**	**115**	**154**	**193**	**201**	**266**

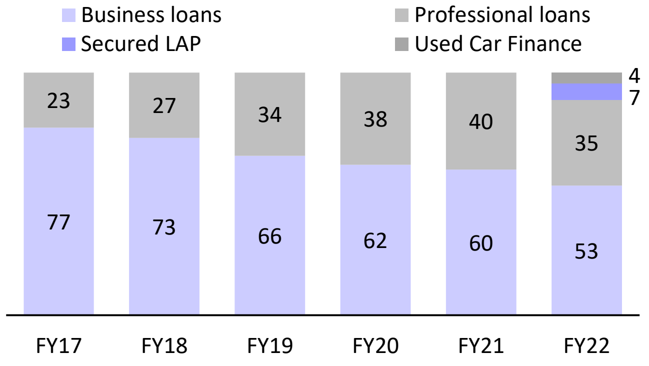
Source: MOFSL, Company

Exhibit 11: AUM mix – consumer B2C lending (%)



Source: MOFSL, Company

Exhibit 12: AUM mix – SME lending (%)



Source: MOFSL, Company

Short loan tenure led to positive ALM

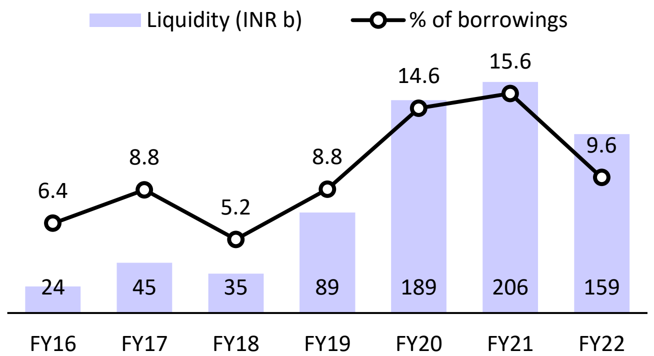
Well-placed on ALM front; BS liquidity still abundant

- The bulk of the BAF book has loan tenure of sub-3 years. Only the non-LAS commercial lending and mortgage books have longer tenures. As a result, the company is able to manage its ALM without resorting to very long-term borrowings.
- Short lending tenure aids large EMI inflows, allowing the company to conveniently service its near-term obligations. Against 50% of liabilities (including deposits), due for repayment within the next year, 47% of assets (including investments) would mature/see inflows during the same period.
- BAF has always been prudent and maintained positive ALM position across buckets, including 1–7 days (+22%), 8–14 days (+12%), and 15–31 days (+31%), despite the RBI allowing a 10%, 10%, 20% negative mismatch, respectively, in these buckets. The liquidity has normalized vis-à-vis previous year, reducing the cash drag on the profits.
- BAF maintained excess liquidity (with consequent negative carry) in 2QFY22 and 3QFY22. The company began to wind this down only in 4QFY22 as the external environment started stabilizing. However, even at end-FY22, it still had a consolidated liquidity surplus of INR101b, representing ~6% of its borrowings (this excess liquidity increased to INR115.5b at end-Jun'22).
- Furthermore, BAF maintained LCR of 134% (v/s 274% in FY21), well above the 60% (70% from Dec'22 onwards) requirement applicable to NBFCs, with an asset size of >INR50b.

Exhibit 13: Parent entity well-placed on ALM

Source: MOFSL, Company

Exhibit 14: BS liquidity normalized in FY22



Source: MOFSL, Company

Forward flows into S3 similar to last year, but higher recoveries/upgrades resulted in GS3 improvement

Net slippage down ~60bp YoY to 3.5%

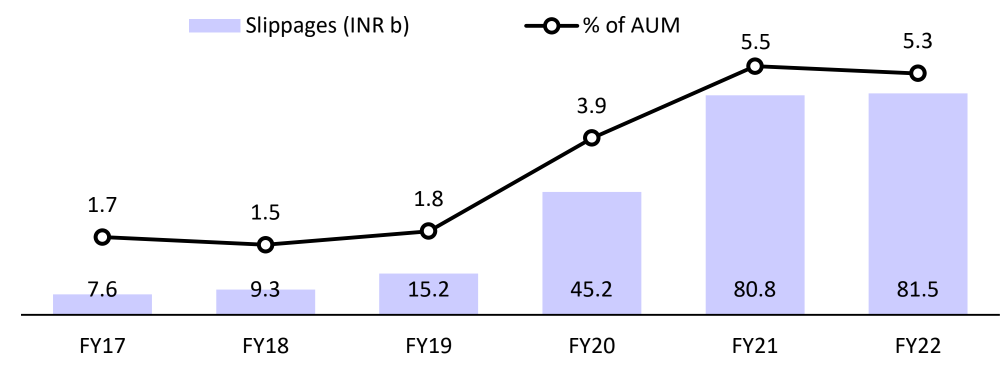
- Slippages were largely flat YoY at INR81.5b in FY22. This was led by prudent stress management in auto loans, LAP, and unsecured personal loans.
- Write-offs declined ~14% YoY to INR48b.

Improved economic environment led to higher recoveries/upgrades…

Slippage were flat YoY at ~INR82b

- With easing of Covid restrictions and improved economic environment, forward flows from S1 to S2 and S3 reduced significantly in 2HFY22 and reached pre-covid levels. Further, recoveries/upgrades improved by ~37% YoY.
- Slippage were broadly flat at ~INR81.5b – as a percentage of opening AUM, it remained largely stable at 5.3%.
- Net slippage (slippage less recoveries and upgrades) was INR52b (v/s INR59b a year ago).

Exhibit 15: Slippage reduce in FY22



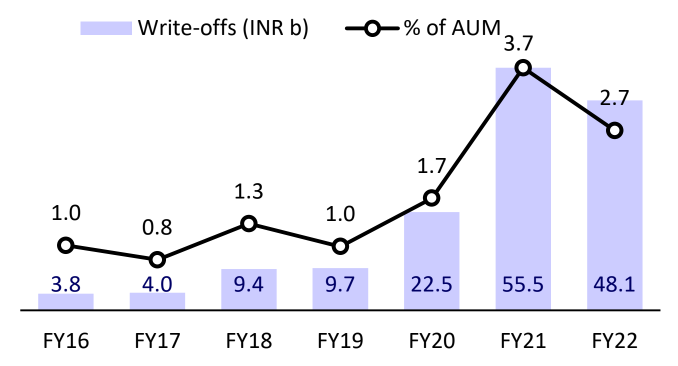
Source: MOFSL, Company

Higher recoveries/upgrades and flat slippages aid headline GNPAs; PCR healthy, stable at 58%

Write-offs – 2.7% of average AUM in FY22 (v/s 3.7% in FY21)

- Write-offs as a percentage of average AUM decreased to 2.7% in FY22 from 3.7% in FY21. In absolute terms, write-offs stood at INR48b (v/s INR55.5b).

Exhibit 16: Write-offs elevated despite no lumpy a/c



Source: MOFSL, Company

Exhibit 17: Financial assets sold (other than to ARCs)

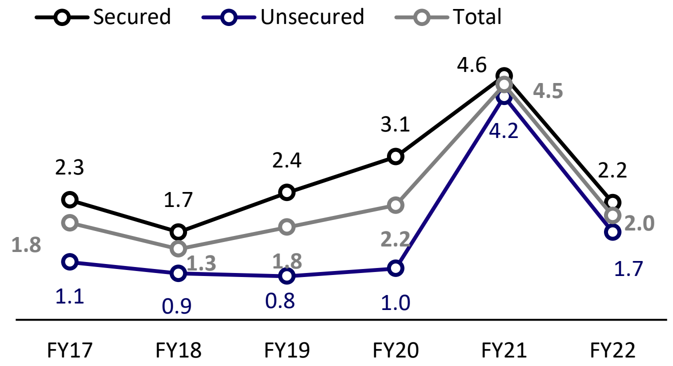
	FY17	FY18	FY19	FY20	FY21	FY22
No. of accounts sold ('000)	34	97	101	157	0	0.34
Amount outstanding (INR b)	0.91	1.84	2.82	7.38	0	0.3
Consideration recvd. (INR b)	0.28	0.20	0.10	0.30	0	0.2
- % of outstanding	31%	11%	4%	4%	-	49%

Source: MOFSL, Company

Improvement in Stage 2 loans led by improvement in both unsecured as well as secured advances

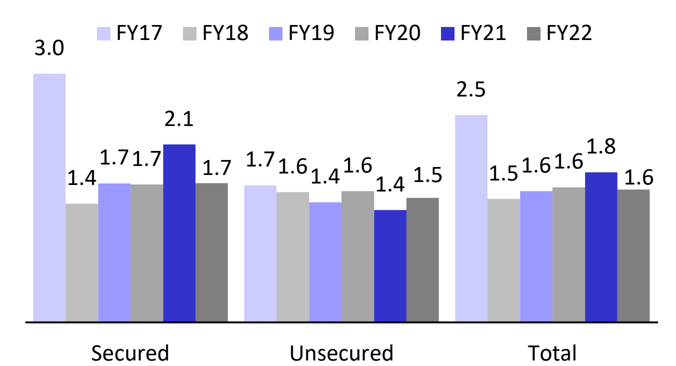
- Stage 3 and Stage 2 loans declined by ~20bp/25bp, respectively, to 1.6%/2.0% in FY22. This was primarily led by a ~260bp improvement in unsecured Stage 2 loans to 1.7% v/s 4.2% in FY21.
- Stage 2 loans were at 2.2% and 1.7% for secured and unsecured loans.

Exhibit 18: Trends in Stage 2 loans (%)



Source: MOFSL, Company

Exhibit 19: Trends in Stage 3 loans (%)

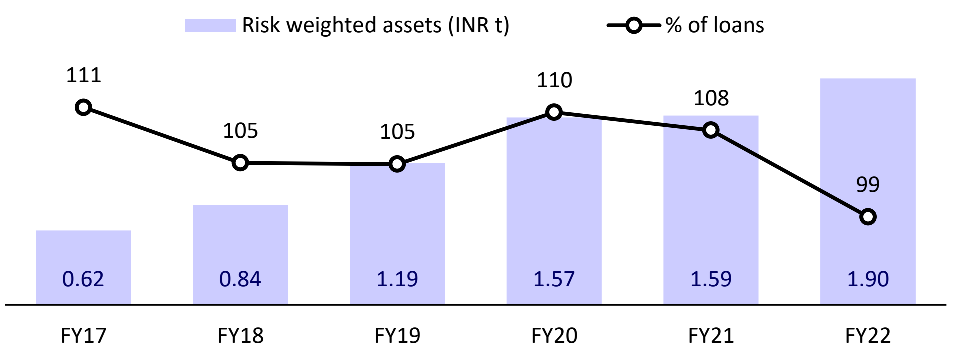


Source: MOFSL, Company

Risk density improvement driven by lower incremental unsecured loans

- RWA as a percentage of loans declined to 99% v/s 108% in the previous year. The decline of ~9pp can also be attributed to lower incremental proportion of higher risk-weighted unsecured loans.

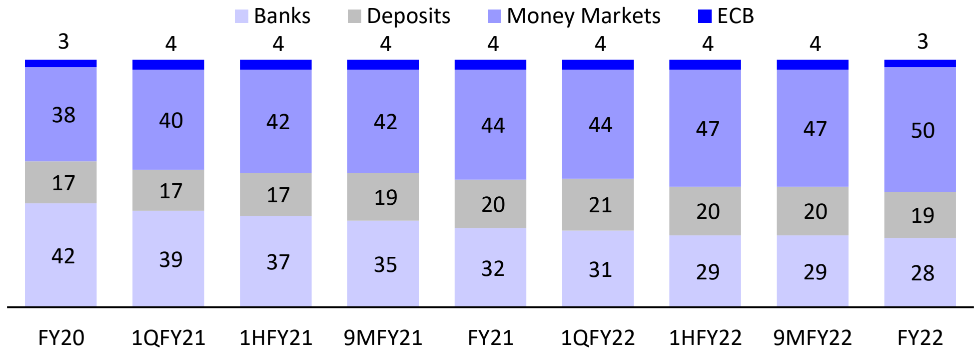
Exhibit 20: Risk density improves



Note: For consolidated RWA we have added reported RWA Parent and Housing finance subsidiary; Source: MOFSL, Company

Diversifying the liability mix, with improving proportion of lower cost NCDs/CPs

Exhibit 21: Share of bank borrowings down ~4pp in the last year (%)



Source: MOFSL, Company

- On the liability front, the company continued to maintain higher liquidity buffers to counter the reduction in EMI inflows, induced by restructuring as fallout of the second COVID wave. It was only when market conditions stabilized post the third quarter of the fiscal year that BAF started to wind down the excess liquidity buffer. While maintaining higher liquidity buffers, the company also maintained a strong vigil on the cost of borrowings, resulting in 60bp decline v/s FY21.
- BAF exhibited great strength in terms of the stability of its deposits franchise. The proportion of deposits in the consolidated borrowing mix was largely stable at 19% v/s 20% in FY21. ECB borrowings now stand at ~3%, adding a fair share of diversification to the liability mix.

Nuts and Bolts of the Omnichannel Strategy

Few interesting statistics

During FY22,

- Over 14m customers installed the new mobile app. BAF observes 8m distinct monthly active users and almost 1m daily distinct active users
- 6.4m customers have created wallet account with the company;
- 2m customers have created UPI handles; and
- 2.3m bill payment transactions were executed by the customers using BFL's bill pay service

Digital transformation: Progress made in FY22

Data, technology, and analytics are the core pillars of BAF's business transformation journey. BFL has built and migrated over 600 APIs (Application Program Interface) to a more robust micro services-based technology infrastructure to ensure minimal latency. In order to deliver the new customer experience, the company has made significant upgrades in the integration, data and core technology stack of the company.

In FY22, BAF made significant progress in the following domains of Omni-channel strategy:

Geographic expansion: BAF expanded its geographic presence by adding 516 locations in FY22, taking its presence to ~3,500 locations. The company shared its ambition of 5K locations over the next few years. The company has a well-defined geographical expansion programme and it considers GDP contribution as an important parameter for selection of new locations. The company monitors portfolio contribution of regions across the country against their GDP contribution.

Mobile App: BFL has completely rebuilt its customer facing **mobile app** with

- a refreshed interface layer;
- the inclusion of payments stack - wallets, UPI , bill pay service;
- new customer engagement features - in-app programs, rewards, offers and location-based services;
- frictionless purchase journeys for loans, investments, and insurance;
- marketplaces for financing and distribution across electronics, insurance, investment and health;
- capabilities of digitisation of EMI card and Co-brand credit card

Payments Solutions:

- Launched its own wallet called Bajaj Pay, which offers payment options via UPI, EMI card or credit card.
- Further, the company is in the process of creating a 'Bajaj Pay' payments solution for its over 120K merchant partners, enabling higher growth and larger market share.
- The company plans to continue investing in various capabilities in the data science space such as search facility on various digital properties, Optical

Character Recognition (OCR), Natural Language Processing (NLP), and machine learning-based models.

Platform agnostic experience

- As part of its Omnichannel strategy, BAF is committed to provide platform agnostic experience across all digital mediums.
- In pursuit of this strategy in FY22, BFL has invested in domain talent and technologies to build a large web platform. Further, the company has invested in expanding its presence in search ecosystem, thereby laying a strong foundation for one billion web traffic over the medium term.

Digital transformation: Plans for FY23

Payments will be core to delivering the Phase 2.0 of the omnichannel strategy.

- BAF plans to build a full-service payments business across all formats of issuance and acquiring. BFL has built a robust payments stack encompassing wallets, UPI, bill pay service, and single payment check-out gateway.
- **In FY23, BAF plans to deploy Electronic Data Capture ('EDC') terminals with on-us and off-us payment methods, QR solutions as well as its own payment gateway.** This will enable BFL to offer omnichannel payment solutions to its customers, thereby enabling higher business growth and larger market shares.
- Along with the payments journey for customers, the company has progressed on creating merchant solutions and capabilities to enable merchant On-boarding, payments and business one view for merchants, and marketing campaign solutions and rewards for merchants.

Web platform in addition to an app

- BAF plans to completely transform web experience by revamping the entire UI/UX of the web platform, thereby offering a consistent experience across both the app and the web ('web' = 'app').
- BAF customers will be able to initiate their journey on one platform and complete the same on the other platform. All the three marketplaces of the company viz. electronics, insurance, and investments, will be seamlessly integrated into the web platform

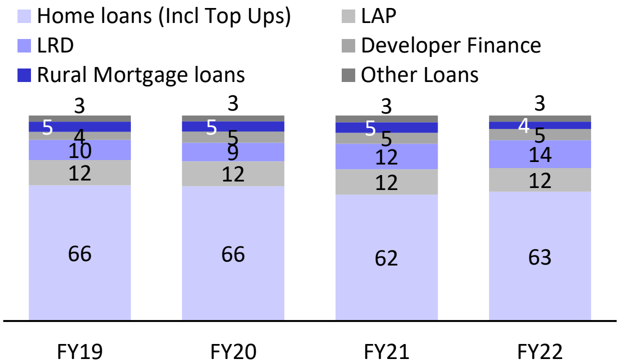
Sales One App and Debt Management One App

- **Sales One app** enables BAF sales teams with capabilities which will help improve business productivity and controllership and improves the servicing experience for customers. In FY23, the company plans to further improvise the 'Sales One app' with additional features such as merchant onboarding, calculators, and interactive reports.
- **Debt Management One app:** In FY23, the company plans to enable debt management teams with features such as agent on-boarding, performance dashboards, agency allocation, meeting calendars, repossession module, and debt management helpline. In addition to large operating benefits, this will significantly strengthen BFL's compliance and controllership.

Bajaj Housing: Seeded a new business line focused on affordable segment

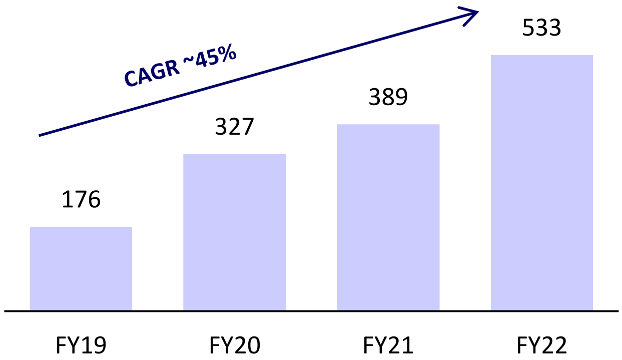
- Individual housing loans contribute ~65% of the portfolio. Nearly 95% of AUM consists of loans given to salaried and self-employed professional segments for fresh housing loan acquisitions.
- Going forward, it intends to also grow self-employed and affordable housing segment with a calibrated risk strategy to cover full spectrum of housing loan market.
- BHFL has seeded a new business line focusing on the affordable segment. The business is in nascent stage and currently in pilot mode across two cities and is expected to start delivering from 2HFY23.
- BHFL is the only housing finance company that, on a proactive basis, started offering its customers external benchmark (repo)-linked home loans.

Exhibit 22: BHFL AUM mix (%)



Source: MOSL, Company

Exhibit 23: BHFL AUM (INR b) registered a CAGR of ~45% over FY19-22

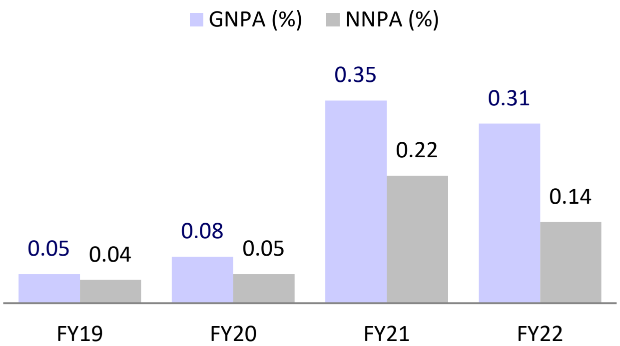


Source: MOSL, Company

Rural Mortgage Loans

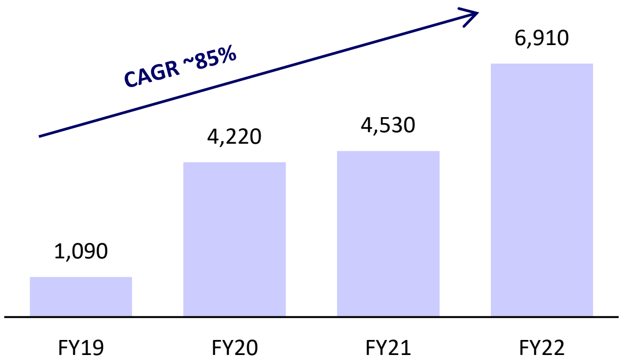
- BHFL offers home loans and LAP to salaried and self-employed customers across 85 small towns in India. During the year, it expanded its presence to Tier III locations by opening 24 centres as a part of the geo-expansion plan.
- Rural mortgages business operates at an average ticket size of nearly INR1.5m. This business closed FY22 with AUM of ~INR19.2b.

Exhibit 24: BHFL Asset quality is pristine



Source: MOSL, Company

Exhibit 25: BHFL PAT (INR m) registered a CAGR of ~85% over FY19-22



Source: MOSL, Company

Bajaj Finserv Direct (BFS-Direct)

- BFS-Direct is primarily engaged in the business of distribution of financial products through its digital marketplace.
- During FY22, BAF along with Bajaj Finserv Ltd., holding company, made joint investments in the form of Equity shares and/or Convertible Loan or Security into Equity Shares for an aggregate amount of INR2.83b. Out of this, investment in equity share capital of BFS-Direct stood at ~INR27m, representing 19.9% of its capital.
- BFS-Direct is neither a subsidiary nor an associate of the company.

Measures amid COVID

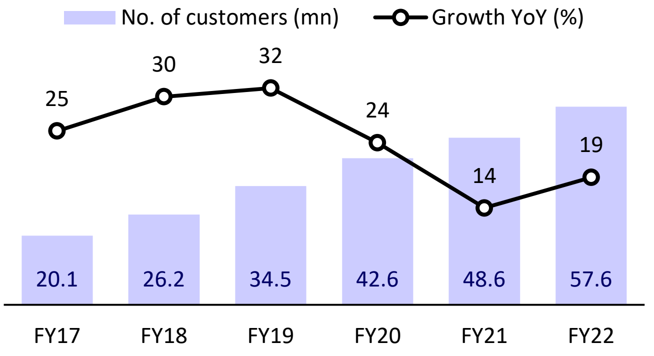
- As on Mar'22, BAF took a CGTMSE guarantee on INR52.6b of its loan assets across B2C, MSME, and 3W products under GOI's NBFC (CGS – II) scheme.
- Under ECLGS, loans have been granted to qualifying customers; ECLGS loans outstanding stood at INR6.93b as on FY22.
- It continues to re-pivot its mix towards low-risk assets such as mortgages, and other secured businesses and lower concentration in auto finance business (~5% of the portfolio) which suffered during the pandemic.
- On average, the company maintained a liquidity surplus of INR130.5b (9%) in FY22 and closed at INR101b (6% of borrowings).
- Post the second wave, the company accelerated its business rapidly by focusing on the customers less susceptible to the economic consequences of the pandemic.
- In a calibrated manner, BAF continued to relax the underwriting norms it had tightened during the first wave. With gradual relaxation of underwriting norms over the year (to pre-covid standards)and its sharp vigilance on portfolio quality have ensured that risk performance of portfolio remains in line or better than the pre-covid metrics.

Other highlights

- In the case of the dishonor of bank instrument, digital channels (along with walk-ins) account for ~51% of collection volumes.
- LCR stood at 134% as of FY22 v/s the regulatory requirement of 60% (70% from December'22).
- The assigned portfolio outstanding stood at INR60.3b/INR24.7b on a consolidated/standalone basis.
- The SLR ratio stood at 18.7% v/s the regulatory requirement of 15%.
- The total investment in MobiKwik stood at ~INR2.9b, representing ~14% of MobiKwik's capital on a fully diluted basis. In FY22, MobiKwik had received in-principle approval from SEBI for an IPO of INR19b, out of which, ~INR4-b worth of shares will be offloaded through offer-for-sale by the existing shareholders.
- As of FY22, BAF had MTM loss of INR944m on the RBL investment of INR1.5b (FVOCI).

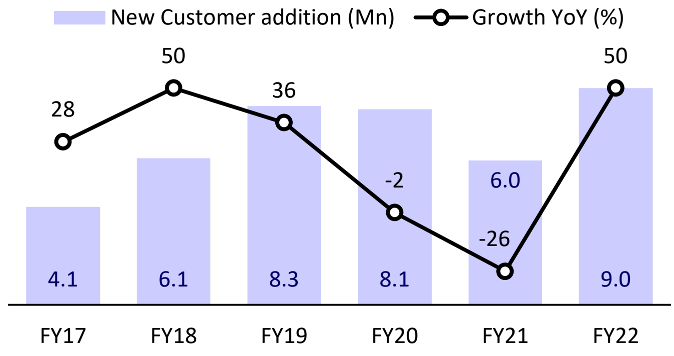
Appendix

Exhibit 26: Customer franchise growth can gain further stream…



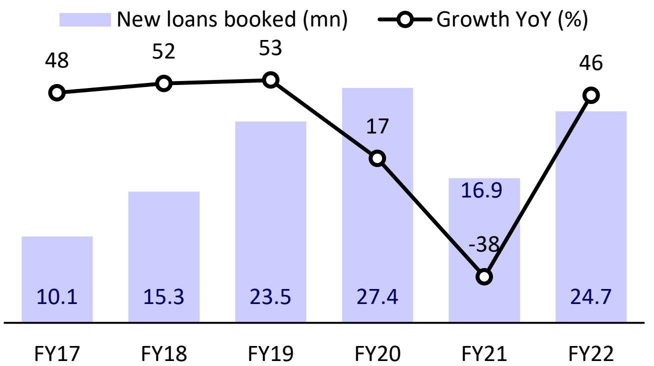
Source: MOFSL, Company

Exhibit 27: …driven by healthy new customer acquisitions



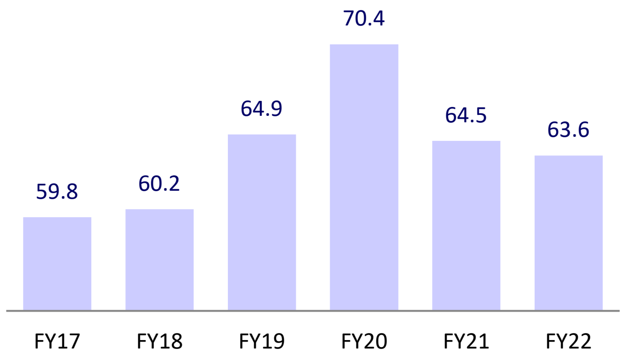
Source: MOFSL, Company

Exhibit 28: New loans booked expected to comprehensively surpass pre-COVID levels in FY23



Source: MOFSL, Company

Exhibit 29: Share of cross-selling declined, suggesting that BAF is more amenable in disbursing to newer customers



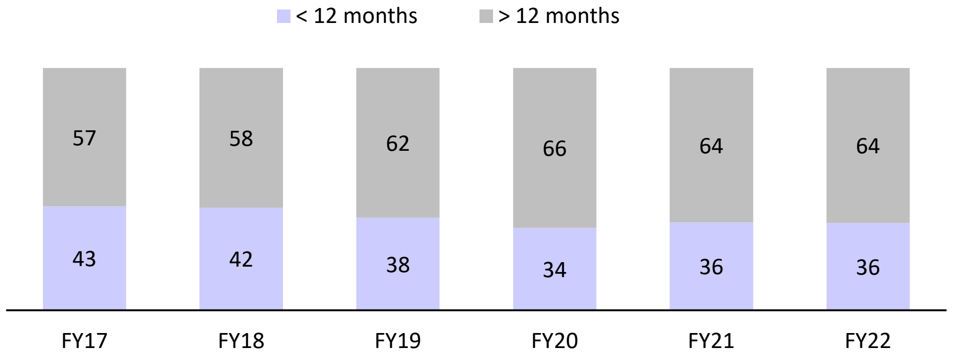
Source: MOFSL, Company

Exhibit 30: 60%/43% YoY improvement in Lifestyle/CD financing disbursements

Number of loans booked (M)	FY17	FY18	FY19	FY20	FY21	FY22
2W loans	0.72	0.68	1.02	1.10	0.61	0.64
3W loans	0.05	0.1	0.14	0.19	0.06	0.07
CD & digital products	7.2	9.9	12.7	13.40	8.90	12.70
Lifestyle	0.24	0.32	0.48	0.54	0.29	0.46
Ecommerce		0.7	2.11	2.56	1.70	2.50
Retail spends (small ticket)		0.71	1.46	1.80	0.34	0.66

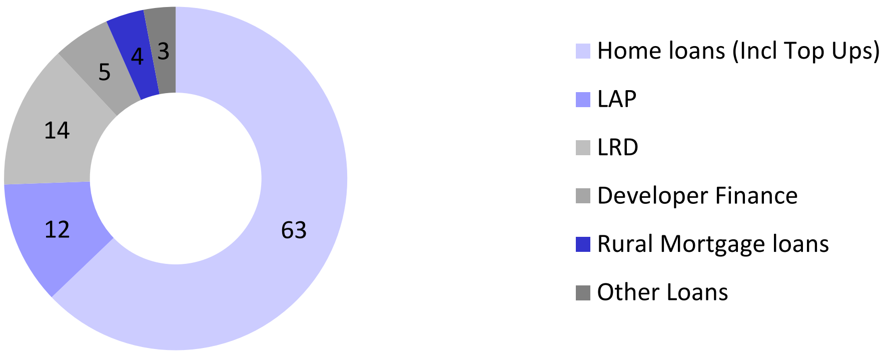
Source: MOFSL, Company

Exhibit 31: Share of longer term loans stable YoY



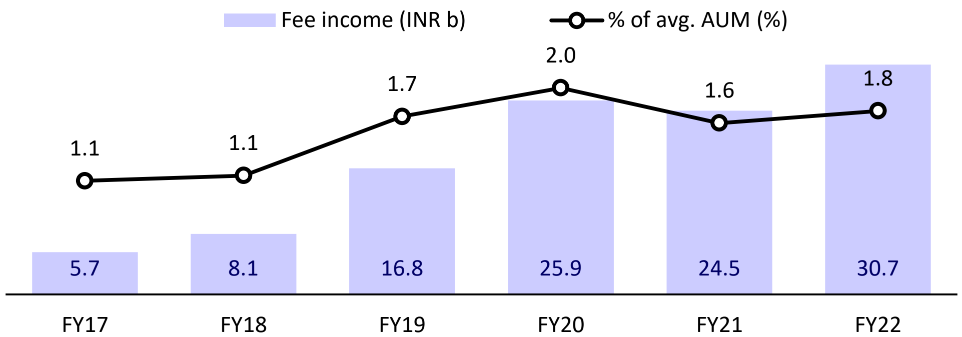
Source: MOFSL, Company

Exhibit 32: Home loans dominate AUM mix of housing subsidiary (%)



Source: MOFSL, Company

Exhibit 33: Fee income grew ~25% YoY, led by fee on value-added services and distribution income; BAF has levers for strong and sustainable fee improvement



Source: MOFSL, Company

Valuation and view

- Payments solution offerings will be core to delivering Omnichannel strategy since it can drive higher engagement and retention of customers on BAF’s new digital platforms.
- To overcome the challenges posed by the pandemic, BAF focused on capital management maintaining abundant liquidity, reducing operating expenses, expanding collections and servicing capability, strengthening of underwriting norms combined with a keen eye on risk metrics.
- The approach of ‘acquire and cross-sell’ across payments, loans, deposits, insurance, and investments to the existing customer franchise of ~57m would be a key growth driver in FY23 as well.
- We model an AUM CAGR of ~25% over FY22-FY24E for a sustainable RoE of 20%-22%. BAF’s return ratios have not only been consistent but are also the highest in our Coverage Universe (after that of gold financiers). We reiterate our Buy rating with a revised TP of INR8,100 (7.75x FY24E BVPS).

Financials and valuations

Income Statement									INR b
Y/E MARCH	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Interest Income	65.5	87.1	115.9	163.5	229.7	233.0	272.7	349.8	450.5
Interest Expended	29.3	38.0	46.1	66.2	94.7	94.1	97.5	131.9	180.4
Net Interest Income	**36.2**	**49.0**	**69.7**	**97.3**	**135.0**	**138.9**	**175.2**	**217.9**	**270.1**
Change (%)	37.0	35.4	42.2	39.5	38.8	2.9	26.2	24.4	23.9
Other Operating Income	7.5	12.7	11.6	21.4	34.0	33.6	43.6	52.1	57.2
Other Income	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net Income	**44.1**	**62.0**	**81.4**	**118.8**	**169.1**	**172.7**	**218.9**	**270.2**	**327.4**
Change (%)	39.0	40.7	31.3	45.9	42.4	2.1	26.8	23.4	21.2
Operating Expenses	19.0	25.6	32.7	42.0	56.6	53.1	75.8	96.1	113.0
Operating Profits	**25.1**	**36.4**	**48.7**	**76.8**	**112.5**	**119.6**	**143.1**	**174.1**	**214.4**
Change (%)	44.0	45.0	34.1	57.6	46.5	6.3	19.6	21.7	23.2
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.7	48.0	32.6	40.5
PBT	**19.6**	**28.2**	**38.4**	**61.8**	**73.2**	**59.9**	**95.0**	**141.4**	**173.9**
Tax	6.9	9.8	13.5	21.8	20.6	15.7	24.8	36.8	45.2
Tax Rate (%)	34.9	34.8	35.0	35.3	28.1	26.2	26.0	26.0	26.0
PAT	**12.8**	**18.4**	**25.0**	**39.9**	**52.6**	**44.2**	**70.3**	**104.6**	**128.7**
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.0	59.0	48.9	23.0
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	6.0	6.0	15.0	19.8

Balance Sheet									INR b
Y/E MARCH	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Capital	0.5	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Reserves & Surplus (Ex OCI)	73.7	89.4	157.4	195.8	323.0	363.2	430.6	520.3	629.2
Net Worth	**74.3**	**90.5**	**158.6**	**197.0**	**324.2**	**364.4**	**431.8**	**521.5**	**630.4**
OCI	0.0	0.0	-0.1	0.0	-0.9	-1.2	-0.7	-0.7	-0.7
Net Worth (Including OCI)	**74.3**	**90.5**	**158.5**	**197.0**	**323.3**	**363.2**	**431.1**	**520.8**	**629.7**
Change (%)	54.7	21.9	75.1	24.3	64.1	12.3	18.7	20.8	20.9
Borrowings	**370.2**	**508.9**	**665.6**	**1,015.9**	**1,298.1**	**1,316.5**	**1,652.5**	**2,115.0**	**2,664.9**
Change (%)	38.7	37.5	30.8	52.6	27.8	1.4	25.5	28.0	26.0
Other liabilities	25.2	19.9	23.9	29.5	22.6	35.6	41.4	47.6	54.7
Total Liabilities	**469.7**	**619.4**	**848.0**	**1,242.3**	**1,643.9**	**1,715.3**	**2,125.1**	**2,683.4**	**3,349.4**
Investments	**10.3**	**41.3**	**31.4**	**86.0**	**175.4**	**184.0**	**122.5**	**122.5**	**122.5**
Change (%)	211.2	299.5	-24.0	173.9	104.0	4.9	-33.4	0.0	0.0
Loans	**438.3**	**564.0**	**800.0**	**1,137.1**	**1,428.0**	**1,466.9**	**1,914.2**	**2,431.1**	**3,063.2**
Change (%)	40.5	28.7	41.8	42.1	25.6	2.7	30.5	27.0	26.0
Other assets	21.1	14.1	16.6	19.2	40.5	64.4	88.4	129.9	163.8
Total Assets	**469.7**	**619.4**	**848.0**	**1,242.3**	**1,643.9**	**1,715.3**	**2,125.1**	**2,683.4**	**3,349.4**

E: MOFSL Estimates

Financials and valuations

Ratios									(%)
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on Advances	17.5	17.4	17.0	16.9	17.9	16.1	16.1	16.1	16.4
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.2	6.6	7.0	7.6
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.9	9.6	9.1	8.9
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.6	10.4	10.0	9.8
Profitability Ratios (%)									
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.7	34.6	35.6	34.5
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.0	47.3	48.6	49.6
RoE	20.9	22.3	20.0	22.5	20.2	12.8	17.7	22.0	22.3
RoA	3.2	3.4	3.4	3.8	3.6	2.6	3.7	4.4	4.3
Asset Quality (%)									
GNPA	5.4	9.8	11.6	18.0	23.6	27.3	31.3	39.1	50.6
NNPA	1.2	2.6	3.5	7.3	9.4	11.4	13.1	14.9	17.7
GNPA %	1.2	1.7	1.4	1.6	1.6	1.8	1.6	1.6	1.6
NNPA %	0.3	0.5	0.4	0.6	0.7	0.8	0.7	0.6	0.6
PCR %	77.2	74.0	69.6	59.7	60.3	58.4	58.0	62.0	65.0
Capitalisation (%)									
CAR	19.5	19.5	24.0	20.7	25.0	28.3	27.2	25.4	24.3
Tier I	16.1	13.3	18.4	16.3	21.3	25.1	24.8	23.6	23.0
Tier II	3.4	6.2	5.5	4.4	3.7	3.2	2.5	1.8	1.4
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.9	4.8	5.0	5.2

Valuation	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	605.7	715.8	864.4	1,044.9
Price-BV (x)					**13.6**	**12.1**	**10.3**	**8.5**	**7.0**
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.5	116.5	173.5	213.3
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.3	58.6	48.9	23.0
Price-Earnings (x)					**83.7**	**99.9**	**63.0**	**42.3**	**34.4**
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	10.0	20.0	24.9	32.9
Dividend Yield (%)					**0.1**	**0.1**	**0.3**	**0.3**	**0.4**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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