



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 **19.46**
Updated July 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 433,612 cr
52-week high/low:	Rs. 8,044/5,236
NSE volume: (No of shares)	12.97 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	26.7 cr

Shareholding (%)

Promoters	55.9
FII	21.4
DII	11.2
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	21.8	16.9	-4.0
Relative to Sensex	-3.6	14.7	5.2	-5.2

Sharekhan Research, Bloomberg

NBFC	Sharekhan code: BAJFINANCE		
Reco/View: Buy	↔	CMP: Rs. 7,162	Price Target: Rs. 8,500 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Bajaj Finance (BAF) has entered FY2023 on a strong note as seen in its Q1FY23 numbers. A large franchise of 60.3 million customers, healthy momentum in customer acquisition and strong cross-selling ability (34.7 mn) would support business growth. BAF expects to double its AUM by FY2025.
- Despite higher opex led by accelerated investments in technology, geographical expansion and talent acquisition, its higher pricing power and normalisation of credit costs are likely to support strong earnings momentum going ahead.
- Asset quality is among best in industry with GNPA of 1.25%, NNPA of 0.6% and gross stage-2 assets at 1.8% (>60 days overdue). Pandemic-led stress has mostly been factored into credit costs. BAF continues to hold contingent provisions of Rs. 1,000 crore, which accounts for 0.5% of AUM.
- We believe BAF is poised to deliver superior profitability with a PAT CAGR of 40% over FY22-24E and sector-leading ROA/ ROE of 4.8%/ 23% in FY24E. At the CMP, the stock trades at 7.3x and 5.9x its FY2023E/FY2024E ABV. We reiterate BUY on Bajaj Finance with a PT of Rs. 8,500.

Bajaj Finance (BAF) made calibrated changes to its risk management practices regaining business momentum while maintaining strong vigil on portfolio quality and adapting to changing customer preferences post the pandemic. BAF remained open for business with a nuanced strategy on new business acquisition and underwriting across all its business segment except automobile finance, as a result, BFL recorded a 29% growth in AUM (core AUM growth is 26%) and a 59% growth in consolidated PAT in FY2022 as against a 4% growth in AUM and 16% decline PAT in FY2021. Return on average assets (ROA) and return on average equity (RoE) for FY2022 was 4.2% and 17.4% respectively on a consolidated basis. This performance was despite the continued disruption in business in the first half of the year, elevated level of credit costs and higher liquidity buffers. We believe strong AUM growth and earnings momentum would further accelerate from here on.

Strong AUM growth likely to sustain led by diverse product offerings, customer acquisition and ability to cross sell: Customer franchise stood at 60.3 million (up 20% y-o-y/5% q-o-q) and cross-sell franchise at 34.7m (up 26% y-o-y/ 6% q-o-q) in Q1FY23. New loans booked were 7.4mn (up 17% q-o-q) and new to Bajaj (NTB) customers expanded sharply by 2.7mn (up 23% q-o-q). AUM expanded 3% q-o-q/ 28% y-o-y, led by sharp recovery in rural (10% q-o-q/ 38% y-o-y) and SME (up, 6% q-o-q / 31% y-o-y). However, Consumer B2B - Auto Finance continued to see weakness (down 12% y-o-y/ 2% q-o-q). The Company is further expanding its product offering for customers. It has announced the launch of two-wheeler financing across all manufacturers in addition to financing of Bajaj Auto two-wheelers. The Company plans to start this business in the second quarter of FY2023. The Company has launched co-branded credit card with DBS Bank which is likely to gain traction as it picks-up pace to 30,000-40,000 cards per month (from 9,000-10,000 per month currently) by the end of FY23. The Company has also entered into a strategic tie-up with Cars24 for providing end-to-end digital financing experience for customers transacting on Cars24 platform to gain market share in the used car financing business. The company also plans to grow gold loan portfolio as it aims to expand standalone gold loan branches to 232 (vs. 155 now) in FY23. Considering these product portfolio extensions and a healthy momentum in the existing business, we estimate AUMs to clock a 25% CAGR over FY22-24E.

Our Call

Valuation: We reiterate BUY on BAF with revised PT of Rs. 8,500: At the CMP, the company trades at 7.3x / 5.9x its FY2023E/FY2024E ABV. We believe the company is poised to deliver superior profitability with PAT CAGR of 40% over FY22-24E and sector-leading ROA/ ROE of 4.8%/ 23% in FY24E. The stock price has corrected more than 10% from its 52-week high and offers an attractive buying opportunity. Moreover, digital transformation and omnichannel strategy is likely to bode well for its growth objectives along with operational efficiencies going ahead. The company exhibited its strong ability to navigate through economic down cycle, led by prudent and agile management team, robust risk management framework and diverse product offering strategy.

Key Risks

Economic slowdown led by slower AUM growth and higher-than-anticipated credit cost could affect earnings.

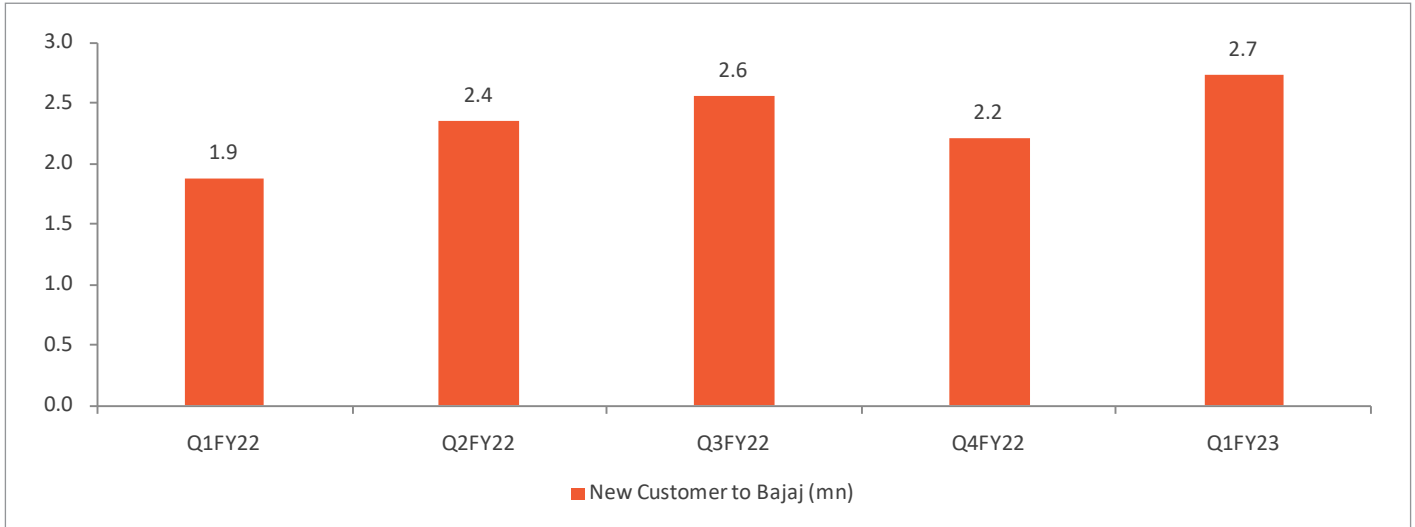
Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
PAT	4,420	7,028	11,015	13,835
EPS (Rs)	72.9	115.6	181.2	227.6
RoAA (%)	2.6	3.7	4.7	4.8
RoAE (%)	12.8	17.4	22.6	23.0
P/E (x)	98.2	61.9	35.3	28.1
P/ABV (x)	11.9	10.0	7.3	5.9

Source: Company; Sharekhan estimates

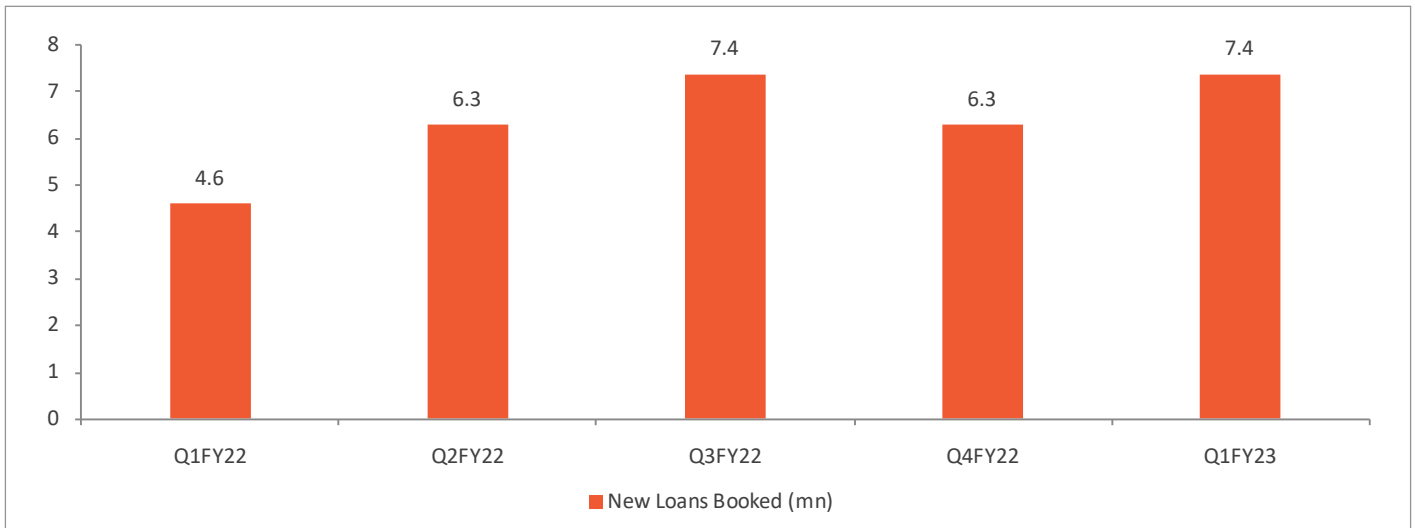
Over the next few years, BFL intends to become a dominant payments and financial services company in India. Strategy is to be an ‘Omnipresent’ financial services company dominant across all mediums of consumer presence covering physical, app, web, social and virtual. BFL will continue its approach of ‘acquire and cross-sell’ across payments, assets, deposits, insurance, investments, and broking products to its Consumer, SME, Commercial and Rural consumers. And it remains committed to build businesses with a long-term view anchored on prudence and risk management to deliver through every economic cycle. Customer acquisitions and new loans trajectory have been strong and the momentum will only get stronger from hereon with the digital ecosystem – app, web platform and the full-stack payment offerings – in place.

Quarterly new customer addition run rate at historic high



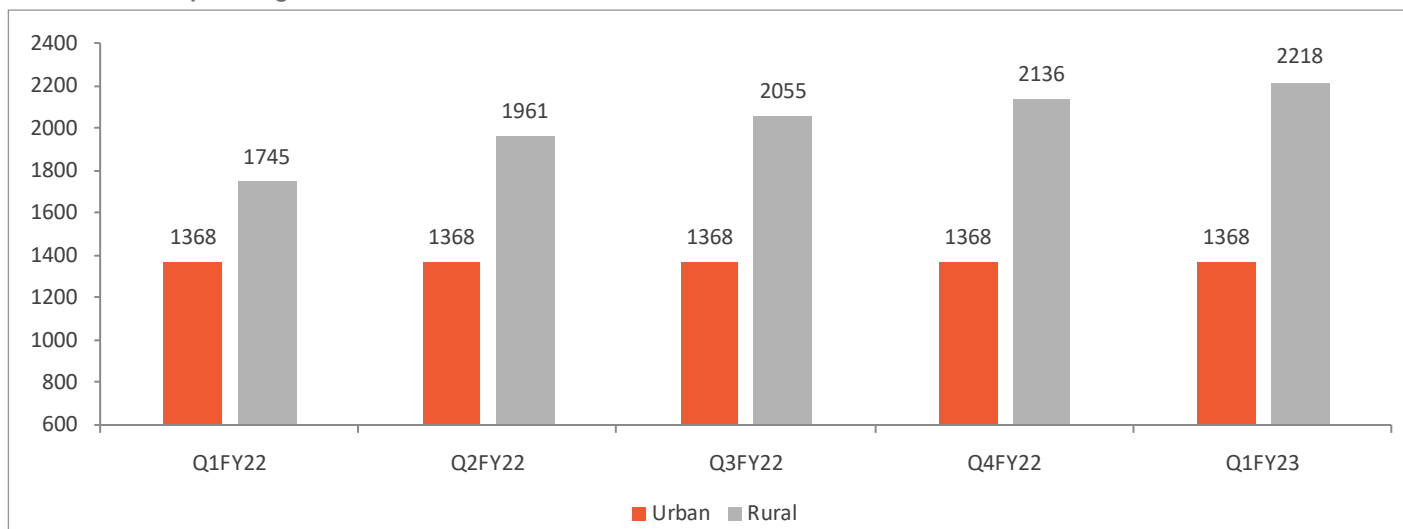
Source: Company, Sharekhan Research

New Loans Booked expected to rise further led by new product offerings & geographical expansion



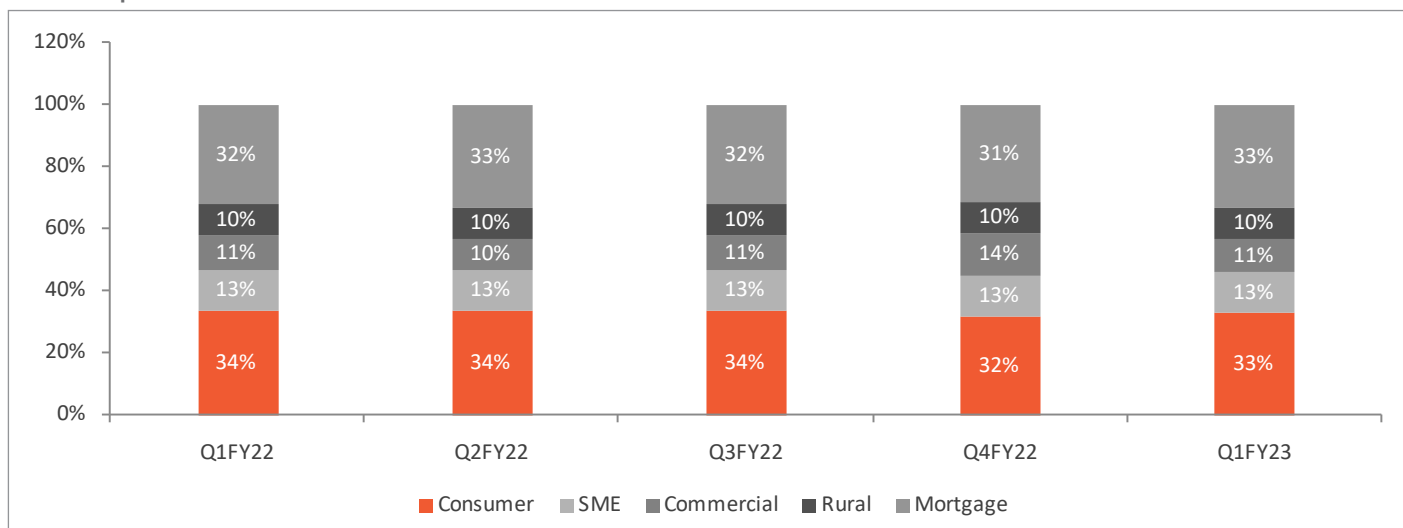
Source: Company, Sharekhan Research

Branch addition primarily in rural area



Source: Company, Sharekhan Research

AUM Composition



Source: Company, Sharekhan Research

Omni-channel strategy key metrics and FY23 estimates

Omnipresence strategy - Key metrics		BAJAJ FINANCE LIMITED		
Particulars	Unit	Q4 FY22	Q1 FY23	FY23 estimates
Geography				
New locations added - in the quarter	#	81	82	400-450
Locations - Cumulative	#	3,504	3,586	3,900-3,950
Gold loan branches - Cumulative	#	132	155	232
App Metrics				
Downloads - In the quarter	# in MM	5.83	11.01	53-55
Net Installs - Cumulative	# in MM	19.1	23.0	35-38
In-App programs - Cumulative	#	48	62	100+
App Payments metrics				
Wallet accounts - Cumulative	# in MM	6.44	8.91	18.50
UPI handles - Cumulative	# in MM	1.66	3.61	12
Bill pay transactions - in the quarter	# in MM	1.36	2.06	12
QR deployment at merchant PoS - Cumulative	# in '000	-	18	100
Rewards issued - In the quarter	# in MM	0.75	4.8	20-22

Source: Company

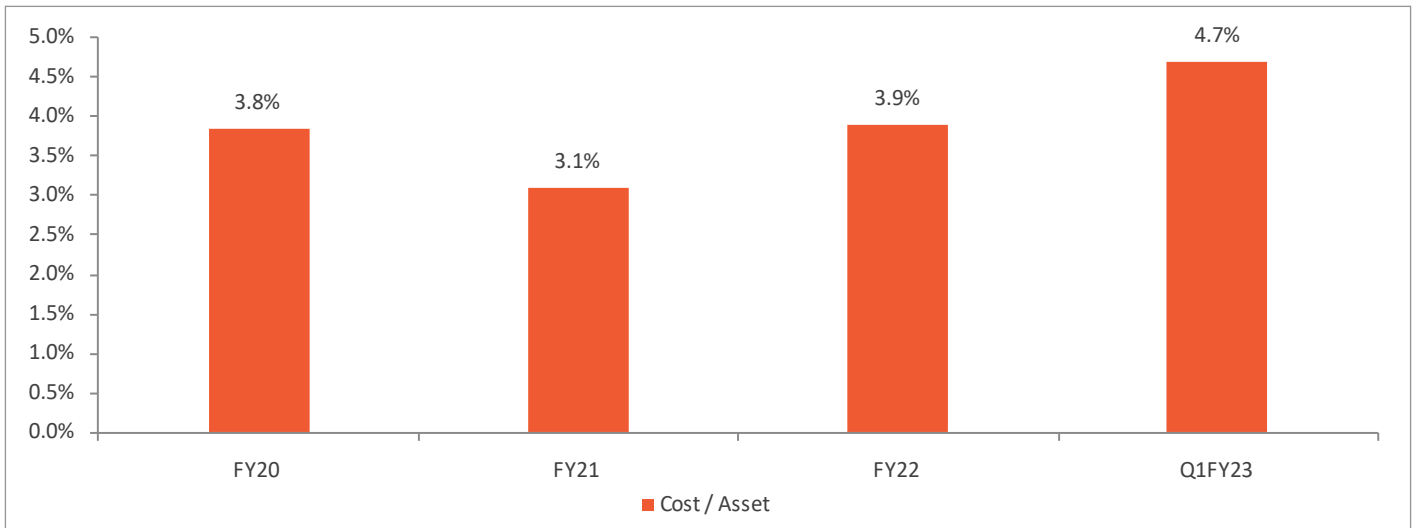
Omni-channel strategy key metrics and FY23 estimates

Omnipresence strategy – Key metrics		BAJAJ FINANCE LIMITED		
Particulars	Unit	Q4 FY22	Q1 FY23	FY23 estimates
App business metrics				
Digital EMI card acquisition – In the quarter	# in '000	12	69	300-325
Personal loan disbursement – In the quarter	In ₹ cr	1,800	2,109	9,000-10,000
Credit card acquisition – In the quarter	# in '000	29	30	175-200
Flexi loan transactions – In the quarter	# in '000	780	866	3.6-3.8 MM
DMS receipts – In the quarter	# in '000	385	644	3.0-3.2 MM
Marketplace metrics				
Bajaj Mall visits – In the quarter	# in MM	36.9	31.8	140-150
Bajaj Mall loans – In the quarter	# in '000	526	645	2.6-2.8 MM
Insurance Bazaar policies sold – In the quarter	# in '000	-	9.5	250-275
Investments Bazaar MF A/C – In the quarter	# in '000	-	10	100-110
Digital EMI card metrics				
Digital EMI card acquisition – In the quarter	# in '000	455	522	2.0-2.2 MM
Digital EMI card acquisition – In the CIF	# in MM	1.8	2.3	3.8-4.0
B2B loans from digital EMI cards – in the quarter	# in '000	234	227	1.0-1.2 MM

Source: Company

Opex to remain elevated in FY23E led by investments in technology and required talent pool Management guided for an Opex-to-NII of 35%-36% in FY23 due to investments in technology and aggressive onboarding of the talent pool across multiple domains (particularly in payments).

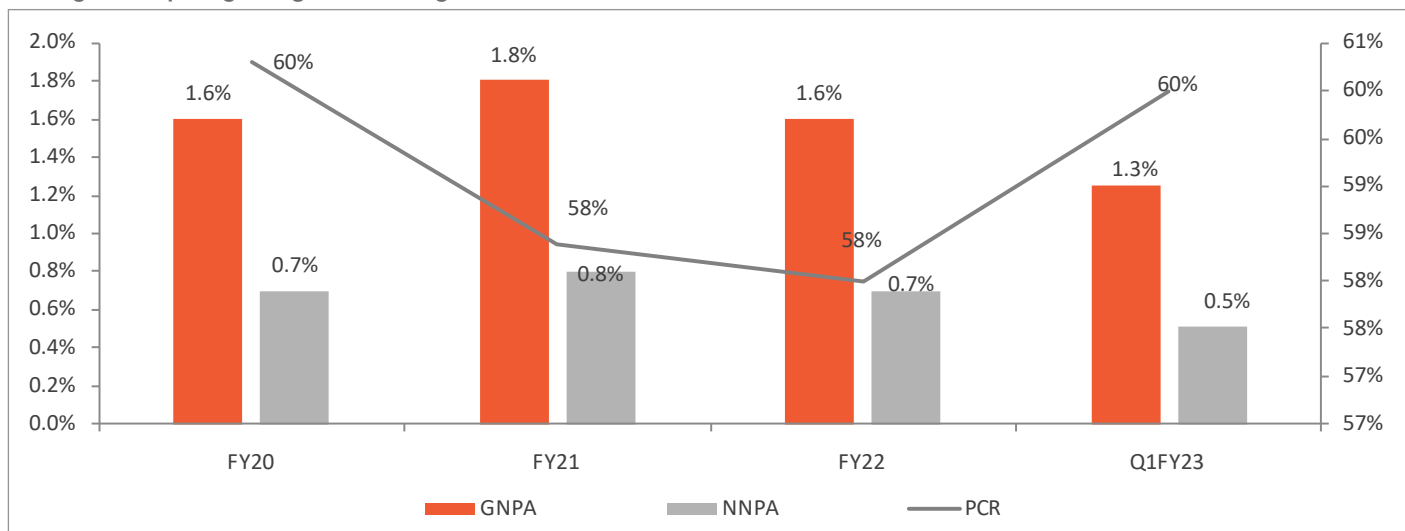
Higher Opex due to accelerated investments



Source: Company, Sharekhan Research

The COVID-19 pandemic tested the Company's risk management and debt management services framework through its severe impact on life and livelihood. To overcome this, BFL focused on capital management, maintaining abundant liquidity, reducing operating expenses, expansion of collections and servicing capability, strengthening of underwriting norms combined with a very sharp view on risk metrics. Over years, sustained efforts to strengthen its risk framework have resulted in stable risk metrics for BFL.

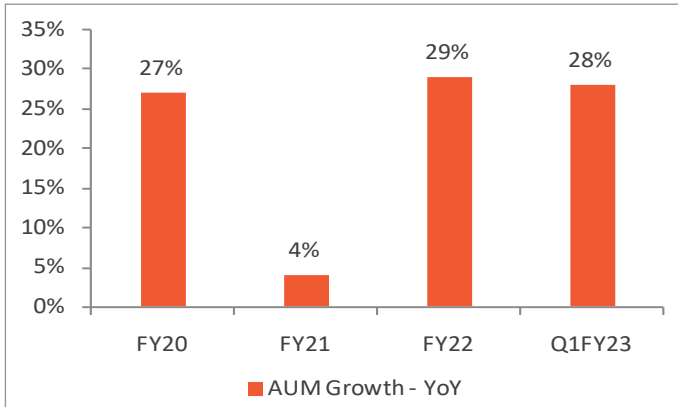
Steady Asset quality along with healthy PCR



Source: Company, Sharekhan Research

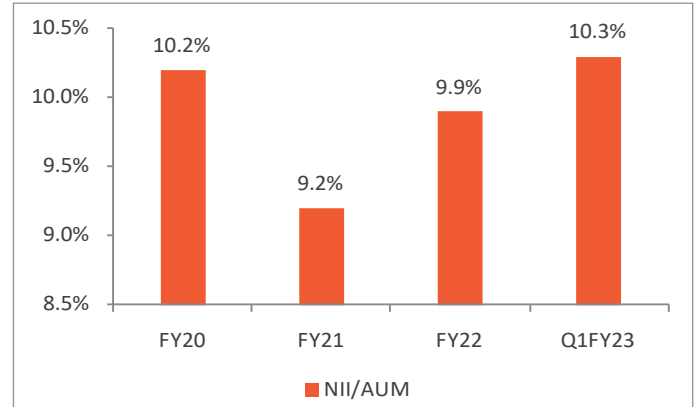
Financials in charts

Strong AUM growth likely to sustain going ahead



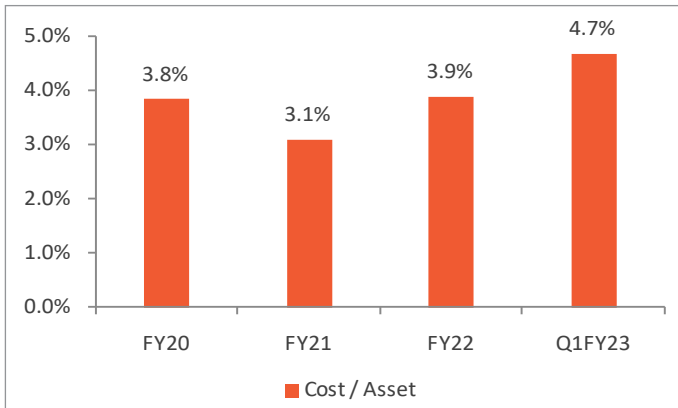
Source: Company, Sharekhan Research

Margins profile healthy



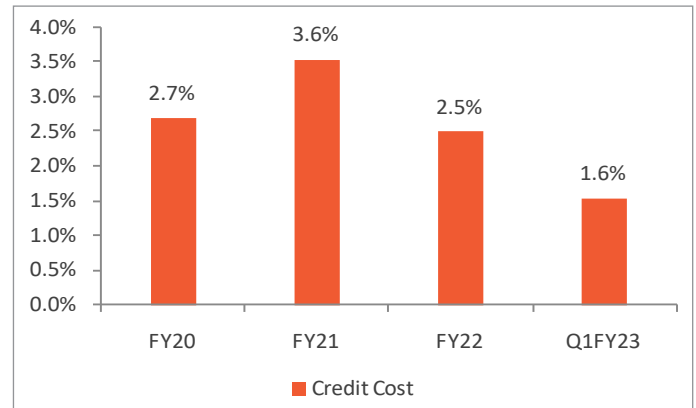
Source: Company, Sharekhan Research

Higher Opex due to accelerated investments



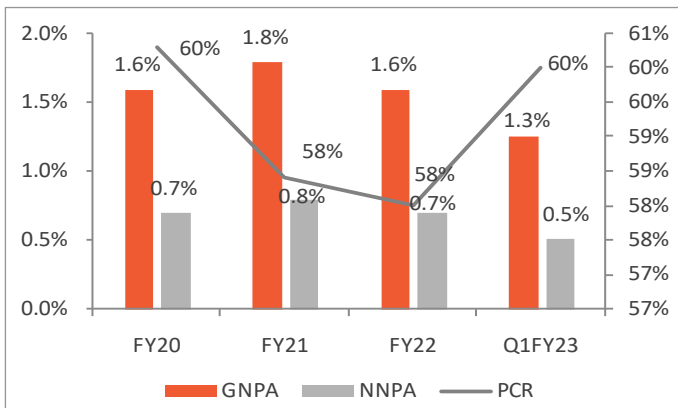
Source: Company, Sharekhan Research

Credit Cost likely to fall further



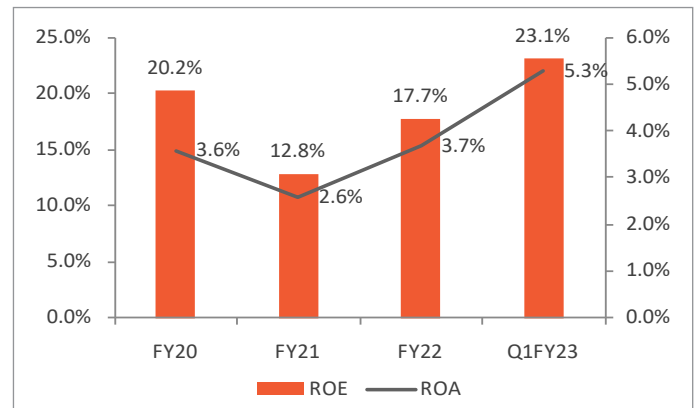
Source: Company, Sharekhan Research

Steady Asset quality along with healthy PCR



Source: Company, Sharekhan Research

Robust Return Ratios



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Structural drivers to support growth

We believe retail players have a large market to grow and recent credit growth of 15.1% y-o-y in the fortnight ending July 29, 2022 indicates healthy credit offtake, especially in retail and consumer segments. High frequency indicators are indicating strong revival in economic activity, which is positive. So far, risk metrics of new volumes originated across businesses are tracking better than pre-COVID-19 origination. We believe the retail and SME segment 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 NBFCs and private banks can co-exist and grow for the foreseeable future as the market expands.

■ Company outlook - Company on strong footing

The company has been into business transformation developing omnichannel to serve end customers. BAF has significantly strengthened its technology, digital platforms and product strategy to transform the customer experience better. We believe the business transformation would enhance business sustainability, improve its scalability, position BAF to take advantage of a strong economic cycle and would give competitive advantage among peers. Once these business transformation initiatives are fully implemented, this should lead to operating leverage to kick in which would also provide cost efficiencies.

■ Valuation - We reiterate BUY on BAF with revised PT of Rs. 8,500

At the CMP, the company trades at 7.3x / 5.9x its FY2023E/FY2024E ABV. We believe the company is poised to deliver superior profitability with PAT CAGR of 40% over FY22-24E and sector-leading ROA/ ROE of 4.8%/ 23% in FY24E. The stock price has corrected more than 10% from its 52-week high and offers an attractive buying opportunity. Moreover, digital transformation and omnichannel strategy is likely to bode well for its growth objectives along with operational efficiencies going ahead. The company exhibited its strong ability to navigate through economic down cycle, led by prudent and agile management team, robust risk management framework and strong product offering strategy.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Bajaj Finance	7,162	4,33,612	35.3	28.1	7.3	5.9	4.7	4.8	22.6	23.0
Cholamandalam Investment and Finance Company	802	65,905	22.5	19.8	4.2	3.5	3.3	3.0	24.5	20.9

Source: Company; Sharekhan Research

About company

BAF is one of India's largest and well diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, small businesses, construction equipment, and infrastructure finance. BAF undertook business and organizational restructuring in FY2008 and re-defined 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 and superior asset-quality performance.

Investment theme

BAF enjoys a dominant position in the Indian consumer finance space. BAF's dominance in the market is seen in the consistent growth and steady operational performance maintained by the company across cycles. During the past few years. Superior asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability and collections. The Company's business model continues to generate healthy pre-impairment operating profits enabling it to withstand higher credit costs in times of stress. It remains well capitalized.

Key Risks

Economic slowdown due to which slower AUM growth and higher-than-anticipated credit cost could affect earnings.

Additional Data

Key management personnel

Mr. Sanjiv Bajaj	Chairman
Mr. Rajeev Jain	Managing Director
Mr. Sandeep Jain	Chief Financial Officer
Mr. Atul Jain	Chief Executive Officer (BHFL)

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of Singapore	3.3
2	Maharashtra Scooters Ltd	3.1
3	Axis Asset Management Co Ltd/India	2.7
4	SBI Funds Management Pvt Ltd	1.9
5	Vanguard Group Inc/The	1.5
6	Capital Group Cos Inc/The	1.3
7	BlackRock Inc	1.3
8	St. James Place PLC	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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