

Sustainable growth in AUM, PAT; valuation justified...

About the stock: Bajaj Finance, a strong NBFC with digital footprints made a strong comeback with AUM growth reaching ~28-30% YoY. Harnessing its large franchise base digitally offers huge opportunity. Housing forms 32% of the book.

- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to > 18% RoE and > 4% RoA leading to 2x

Q2FY23 Results: Confidence on growth sustainability to support valuations.

- NII growth at 31% YoY to ₹ 7000 crore, marginal uptick in cost of funds
- GNPA, NNPA ratio declined to 1.17%, 0.44%, respectively, in Q2FY23
- PAT grew 88% YoY, 7% QoQ to ₹ 2840 crore
- In Q2FY23, reported RoE at 23.57% and RoA at 5.4% (annualised)

What should investors do? The stock has given ~2x returns over the past two years. We believe since the fintech story is embedded in this business, valuations should stay at premium. We raise PAT estimates for FY23E & FY24E by 13% & 2.1%, respectively. No plans to convert to a bank on an immediate basis.

- We maintain **BUY** rating on the stock, offering compounding returns

Target Price and Valuation: Omnipresence strategy and organic momentum building up offers comfort on growth sustainability. Same holds key for premium valuations. We marginally revise target price to ₹ 8650 from ₹ 8500 keeping multiple same at 7.5x FY24E ABV.

Key triggers for future price performance:

- Adding 10-11 mn customers in a year. Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR to ₹ 3.8-4 lakh crore by FY25) to boost profitability
- Strong deposit base and plans to raise to 25% of overall liabilities and reach ~₹ 50000 crore by end FY23E
- Stable asset quality and controlled costs expected to continue
- RoE at > 18-19% and RoA at >4% with guidance over 4.5%

Alternate Stock Idea: Besides Bajaj Finance, in our coverage we also like Axis Bank.

- Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 11.85 lakh crore as on September 2022
- We have a BUY rating with a target price of ₹ 970

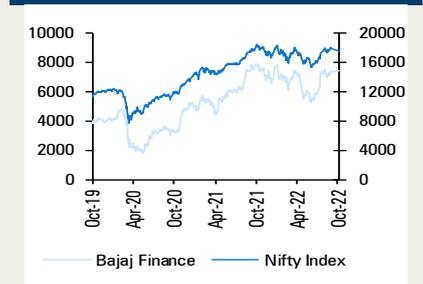
Particulars

Particulars	Amount
Market Capitalisation	₹ 449789 crore
52 week H/L	8043/ 5235
Face Value	₹ 2
Net worth	₹ 48042 Crore
DII Holding (%)	16
FII Holding (%)	17

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.0	56.0	55.9	55.9	55.9
FII	23.6	23.6	21.4	20.0	17.0
DII	9.7	9.7	11.2	12.0	16.0
Others	10.6	10.6	11.5	12.1	11.1

Price Chart



Recent Event & Key risks

- An 8 bps, 6 bps QoQ improvement in GNPA, NNPA, respectively
- Key Risk:** (1) Growth moderation from current levels (2) Higher NPAs in unsecured book may impact earnings

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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%	28484	35074	27%
PPP (₹ crore)	7681	11252	11961	14307	23%	18584	22450	25%
PAT (₹ crore)	3995	5264	4420	7028	21%	11501	13989	41%
ABV (₹)	313	534	597	710		860	1,152	
P/E	107	83	101	64		39	33	
P/ABV	23.7	13.9	12.4	10.5		8.6	6.4	
RoA	3.0	2.8	2.3	3.7		4.9	4.7	
RoE	22.4	20.2	12.8	17.4		23.4	21.6	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong results, largely priced in

- NII grew 31%YoY to ₹ 7000 crore led by strong momentum in AUM growth. Net profit surged 88% YoY and 7% QoQ to ₹ 2781 crore
- AUM growth traction continues with 31% YoY surge to ₹ 2,18,566 crore vs. up 7% QoQ, which was primarily driven by 31% YoY, 7% QoQ growth in consumer B2C finance and surge in SME lending. Mortgage also picked up with 31% YoY growth and 8.3% QoQ to ₹ 71092 crore. BHFL (HFC) AUM was at ₹ 61191 crore, included in above
- Provisions for Q2FY23 declined further to ₹ 734 crore from ₹ 757 crore, mainly due to improvement in asset quality. GNPA, NNPA were at 1.17%, 0.44%, respectively, as of Q2FY23 vs. 1.25%, 0.50%, respectively, as of Q1FY23. The company continues to hold a management overlay of ₹ 1,000 crore. It has 62% coverage ratio on stage 1 assets and 120 bps on stage 2 and 3 assets
- In line with guidance, C/I ratio was stable QoQ at 35.9%. 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
- In Q4, the company added 2.61 million (mn) new customers to its franchise. Customer franchise was at 62.91 mn as of Q2FY23. It booked 6.76 mn new loans against 7.4 mn in Q2FY23, slightly lower in number but ticket size moved up. The company is comfortable adding 9-10 mn new customers in FY23

Q2FY23 Earnings Conference Call Highlights

- Opex to NII to remain at 35-36% for FY23. Consolidated RoA guidance of 4.5-4.7%
- On track to go fully digital across all products and services on app by January 2023 and web by March 2023. By March 2023 Bajaj Finance will be fully digital
- For Bajaj Housing, AUM was up 42% at ₹ 62,931 crore against ₹ 44,429 crore as of September 30, 2021. Home loans AUM grew 37%, loan against property grew 37%, Lease rental discounting grew 72% and developer finance grew 68%
- Phase 1 of app platform is live on both app stores. Print 1 has gone live with full consumer application journey for personal loans, EMI card, co-brand Credit Cards and two-wheeler marketplace. Sprint 1 has significant new feature additions in credit card, gold loan, EMI card services, new calculators along with enhanced customer request section
- Phase 2 will have 3 sprints. Sprint 1 is as scheduled live on August 31, 2022, for sprint 2 on November 15, 2022 and sprint 3 on January 31, 2023
- Deposits book was at ₹ 39,422 crore as of September 30, 2022. In Q2, the net deposit growth was ₹ 5,320 crore. Deposits contributed 22% of consolidated borrowings as of September 30, 2022. The company is on track to deliver its long-term goal of 25% of consolidated borrowings from deposits in the medium term
- Quarterly run rate of ₹ 50000-54000 growth in net balance sheet in FY23. B2B disbursement run rate of ₹ 60000-64000 in FY23. Comfortable to add 10-11 mn new customers on a full year basis
- All Phase 1 features of the issuance stack are live on the app store. Sprint 1 of phase 2 with regulatory changes and new category additions like credit card is live on play store
- Sprint 2 is on track to go live in Q3FY23. This release will provide enhanced experience on UPI registration and payments transactions enabled through direct API with PSP Bank, PPI interoperability through UPI railroad and unified dispute and issue resolution (UDIR) mechanism

- Overall stage 2 assets were at ₹ 3,155 crore as of September 30, 2022 against ₹ 3,569 crore as of June 30, 2022. Overall stage 3 assets were at ₹ 2,530 crore as of September 30, 2022 against ₹ 2,539 crore
- BHFL – Capital infusion of ₹ 2500 crore in Q1FY23 and well capitalised for next two years. BHFL has repo and EBLR linked bank borrowings but the contribution is lower
- AUM per client in cross sell franchise used to be ₹ 55000, which is now ₹ 60000 and profit per customer used to be ₹ 1700 per customer, which is now ₹ 3000
- Tad below 9500 employees in recovery channel

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)	2,327	2,800	Buy	4,228	66.7	75.8	84.3	101.0	34.9	30.7	27.6	23.0	3.9	3.5	3.5	3.2	12.3	12.0	12.6	14.5
Bajaj Finserv (BAFINS)	1,699	1,850	Hold	2,707	35.2	52.7	43.1	56.5	48.2	32.2	39.4	30.1	3.9	3.4	5.7	4.8	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7,342	8,650	Buy	4,445	73.6	116.7	190.5	226.4	99.8	62.9	38.5	32.4	12.3	10.3	8.5	6.4	12.8	17.4	23.4	21.6
Muthoot Finance (MUTFIN)	1,059	1,300	Hold	425	92.8	98.5	106.2	134.0	11.4	10.7	10.0	7.9	2.9	2.5	2.1	1.8	27.8	23.5	21.5	23.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	7,001	7,212	5,336	31.2	6,638	5.5	Stellar growth driven AUM traction
Other Income	1	3	1	13.2	2	-33.0	
Staff cost	1,240	1,237	937	32.3	1,183	4.8	
Other Operating Expenses	1,275	11,360	1,095	16.4	1,199	6.4	Opex to NII to remain elevated due to investments
Opex to NII(%)	35.9	174.7	38.1	-5.7	35.9	0.1	C/I ratio stable QoQ to 35.9%
PPP	4,487	4,606	3,305	35.8	4,257	5.4	
Provision	734	830	1,300	-43.5	755	-2.7	Decline in credit cost led by improved asset quality
PBT	3,753	3,776	2,004	87.2	3,503	7.1	
Tax Outgo	972	963	523	85.6	907	7.2	
PAT	2,781	2,813	1,481	87.8	2,596	7.1	Healthy top line growth and fall in credit cost boosts PAT

Key Metrics

GNPA	2,530	2,641	4,103	-38.3	2,539	-0.4	Asset quality trend continue to improve
NNPA	953	1,068	1,826	-47.8	1,017	-6.3	
AUM	2,18,366	2,18,350	1,66,937	30.8	2,04,018	7.0	Healthy growth driven by consumer B2B and SME lending

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	26258	28,484	8.5	33,365	35,074	5.1
Pre Provision Profit	16773	18,584	10.8	21,992	22,450	2.1
NIM(%) (calculated)	11.3	12.3	93 bps	11.5	12.0	53 bps
PAT	10176	11,501	13.0	13,697	13,989	2.1
ABV per share (₹)	838	860	2.6	1,127	1,152	2.2

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	27.0	24.4	25.5	23.1
Borrowings Growth (%)	22.1	24.0	22.1	24.0
NIM Calculated (%)	12.3	12.0	11.3	11.5
Cost to income ratio (%)	34.8	36.0	36.1	34.1
GNPA (₹ crore)	3,350.4	4,971.9	3,323.8	4,884.4
NNPA (₹ crore)	2,830.1	4,560.8	2,803.6	4,471.3

Source: Company, ICICI Direct Research

Exhibit 5: Consolidated AUM break-up

₹ crore	Sept'21	Dec'21	Mar'22	Jun'22	Sept'22
Auto Finance Business	10738	10620	10194	9962	10160
Urban Sales Finance Business	12555	14920	14977	16475	16259
Urban B2C Business	33679	36344	38772	41207	44072
Rural Sales Finance Business	3258	3993	4129	4564	4329
Rural B2C Business	13376	14311	15301	16740	17908
SME Lending Business	21871	23153	24979	26564	28881
Securities Lending Business + IPO	7463	9127	15901	10801	12287
Commercial Lending Business	9801	10478	11498	12040	13378
Mortgages	54196	58304	61701	65665	71092
Total	166937	181250	197452	204018	218366

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	40773.8	50638.1
Interest Expended	9414.0	9748.2	12289.7	15563.7
Net Interest Income	17254.1	21884.2	28484.1	35074.4
Growth (%)	2.1	26.8	30.2	23.1
Non Interest Income	15.0	8.0	9.8	12.1
Operating Income	17269.1	21892.2	28493.9	35086.5
Employee cost	2165.8	3589.7	4846.0	6396.8
Other operating Exp.	3142.4	3995.3	5064.0	6239.6
Operating Profit	11960.8	14307.2	18583.9	22450.2
Provisions	5968.6	4803.4	3042.0	3546.1
PBT	5992.3	9503.8	15541.8	18904.1
Taxes	1572.4	2475.6	4040.9	4915.1
Net Profit	4,419.8	7,028.2	11,501.0	13,989.0
Growth (%)	-16.0	59.0	63.6	21.6
EPS (₹)	73.6	116.7	190.5	226.4

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	190.5	226.4
BV (₹)	615	726	906	1226
ABV (₹)	597	710	860	1152
P/E	101	64	39	33
P/BV	12.1	10.2	8.2	6.1
P/ABV	12.4	10.5	8.6	6.4
Yields & Margins (%)				
Net Interest Margins	10.5	11.7	12.3	12.0
Yield on assets	16.3	16.9	17.6	17.3
Avg. cost on funds	7.3	6.6	6.7	6.9
Yield on average advances	18.5	18.7	18.8	18.6
Quality and Efficiency (%)				
Cost to income ratio	30.7	34.6	34.8	36.0
Cost to assets ratio	2.7	4.0	4.2	4.3
GNPA	1.8	1.7	1.4	1.6
NNPA	0.8	0.8	1.2	1.5
ROE	12.8	17.4	23.4	21.6
ROA	2.3	3.7	4.9	4.7

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	54585.8	74775.9
Networth	36918.4	43712.7	54706.5	74899.4
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	2,61,588.4	3,31,768.5
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	243153.1	302394.6
Other Assets	2817.3	4578.9	2776.4	13014.9
Total	1,70,373.6	2,11,239.5	2,61,588.4	3,31,768.5

Source: Company, ICICI Direct Research

Exhibit 9: Growth ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	3.6	24.0	23.1	26.8
Advances	3.8	30.5	27.0	24.4
Borrowings	4.7	25.5	22.1	24.0
Net interest income	2.1	26.8	30.2	23.1
Operating Income	2.1	26.8	30.2	23.1
Operating expenses	-6.8	27.1	30.7	27.5
Operating profit	6.3	19.6	29.9	20.8
Net profit	-16.0	59.0	63.6	21.6
Net worth	14.2	18.4	25.2	36.9
EPS	-17.8	58.6	63.3	18.9

Source: Company, ICICI Direct Research

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