

October 21, 2022

RESULT REPORT Q2 FY23 | Sector: Financials

Bajaj Finance Limited

Robust execution continues

A strong show and firm commentary

BAF delivered a largely in-line operating performance with a mild 1-3% miss on PPOP/PAT. AUM growth (up 7% qoq/31% yoy) and customer franchise addition (up 4% qoq/19% yoy) was strong. Asset quality and credit metrics improved, underpinning moderate credit cost (1.5%). NII growth (up 5% qoq/31% yoy) and NIM movement (+10 bps qoq/+20 bps yoy) was on expected lines, underpinned by transmission of increasing CoF. Opex growth (up 5.6% qoq/24% yoy) remains elevated, represented sustained investments in omnichannel strategy (geo expansion, app platform, web platform). However, Opex/NII ratio remains under check. RoA/RoE for the past two quarters being delivered at 5.3%/23%, materially higher than long-term objectives.

FY23 guidance on every metric is encouraging viz. a) co. is confident of adding 10-11mn new customers, b) credit cost estimated at 1.35-1.45% of avg. assets, c) NIMs to be maintained with focus on protecting margin profile across products and d) Opex/NII to taper from H2.

Improvement in asset quality; robust accretion in AUM/customer franchise

Stage-2 assets were down 10%+ qoq and Stage-3 assets were stable in absolute terms. OTR assets now only at Rs3.4bn, comprising solely of mortgages. ECL Coverage on Stage-3 assets improved qoq from 60% to 62.3%, while it was stable on Stage-2 assets at near 30%. At the product level, decline in GNPL ratio was seen in 2w/3w financing and Mortgages. Management overlay provisions were maintained at Rs10bn (~40bps of AUM), which BAF could use to strengthen its ECL model. Sequential growth in AUM was led by consumer B2C lending, Mortgages, SME lending and Commercial Finance. Robust traction in customer franchise continued, and the non-delinquent/cross-sell customer base grew by 19% yoy/24% yoy.

BAF remains confident about its growth prospects in the near-term as well as in longer run, notwithstanding its increasing size and inclusion in regulatory Upper Layer of NBFCs. A multi-product well-diversified franchise allows the co. to smoothly navigate through cyclical and transient competitive pressure in any product segment. We forecast 27% AUM CAGR over FY22-24. With rising scale, opex productivity would be a key monitorable amidst co. going fully digital across all products and services on App as well as Web by March 2023. We see BAF delivering 4.6-4.9% RoA and 22-24% RoE over next two years. Hold a constructive view on BAF with a 12m PT of Rs8500. Earnings estimates have seen marginal upgrade.

Exhibit 1: Result table

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Operating Income	99,684	92,828	7.4	77,314	28.9
Interest expended	(29,714)	(26,451)	12.3	(23,976)	23.9
Net Interest Income	69,970	66,376	5.4	53,338	31.2
Other Income	42	18	136.3	7	504.3
Total Income	70,013	66,394	5.4	53,345	31.2
Operating expenses	(25,148)	(23,819)	5.6	(20,297)	23.9
PPOP	44,865	42,575	5.4	33,048	35.8
Provisions	(7,342)	(7,547)	(2.7)	(13,003)	(43.5)
PBT	37,523	35,028	7.1	20,045	87.2
Tax	(9,716)	(9,065)	7.2	(5,235)	85.6
Reported PAT	27,807	25,963	7.1	14,810	87.8

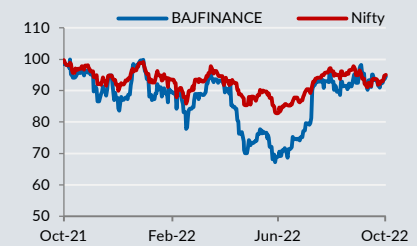
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 7,432
Target Price	: Rs 8,500
Potential Return	: 14.4%

Stock data (as on Oct 20, 2022)

Nifty	17,564
52 Week h/l (Rs)	8045 / 5220
Market cap (Rs/USD mn)	4499803 / 54372
Outstanding Shares (mn)	605
6m Avg t/o (Rs mn):	8,329
Div yield (%):	0.3
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	-2.7%	22.4%	-3.9%

Shareholding pattern

Promoter	55.9%
FII+DII	32.0%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	8,500	8,140

Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	116.5	188.1	233.9
EPS (Old)	116.5	182.3	233.4
% Change	-	3.2%	0.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Op. income	218,922	288,404	356,507
PPOP	143,072	187,523	235,450
Net profit	70,282	113,465	141,142
Growth (%)	59.0	61.4	24.4
EPS (Rs)	116.5	188.1	233.9
ABVPS (Rs)	702.3	860.0	1,057.1
P/E (x)	63.8	39.5	31.8
P/ABV (x)	10.6	8.6	7.0
ROE (%)	17.4	23.3	23.6
ROA (%)	3.7	4.7	4.7

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CALL TAKEAWAYS & KEY HIGHLIGHTS FROM INVESTOR PRESENTATION

- Strong momentum across all lines of businesses with secular AUM growth - BAF confident of a strong FY23.
- No change in growth outlook from inclusion as Upper Layer NBFC – will comply with Bajaj Housing listing requirement in three years.
- May have lost some market share (to non-fintech lenders) in CD financing due to increase in no. of competing players - competition from almost 17 players now v/s 4-5 few years ago.
- Overall B2B business disbursements grew by 15% yoy (Rs139bn v/s Rs121bn).
- Bajaj Housing Finance AUM grew by 42% yoy – within which, Home Loans and LAP grew by 37% yoy, LRD by 72% yoy and Developer Finance by 68% yoy - portfolio composition in terms of HL, LAP, LRD, DF, Rural and Others stood at 60%, 11%, 15%, 7%, 4% and 3%.
- Robust growth in Home Loans driven by distribution and finer/aggressive pricing in high-ticket (>Rs10mn) segment – management believes that co. is better placed on process than peers.
- By Q4 FY23, the 2w/3w financing business is expected to be back in growth mode.
- BAF has applied to RBI for a credit card license.
- In Gold Loans, more infrastructure roll-out will happen over the next 2-3 quarters – this should drive growth in next couple of years.
- ATS of Personal Loans growing around the rate of inflation.
- Competitive intensity remains elevated across products - company continues to protect its margin profile across businesses while gradually passing on the impact of higher interest rates across businesses.
- Given the deep investments being committed to Omnichannel strategy (geo expansion, app platform, web platform) and payments, BAF expects Opex/NII to remain at 35-36% for FY23.
- Credit Cost guidance for FY23 at 1.35-1.45% of average assets – co. currently holds a management overlay of Rs10bn (incl. Rs2.4bn under Bajaj Housing).
- Not taken a call over management overlay which will be either used for strengthening ECL model or released over time.
- BAF added 2.6mn new customers to the franchise in Q2 - on track to add 10-11mn new customers in FY23.
- Customer franchise stood at 62.9mn, within which cross-sell franchise at 36.4mn – co. confident of ending the fiscal with 68.7mn customer franchise.
- Co. added 99 new locations and 4400+ distribution points during the quarter.
- Crossed 26mn net users on the App - Phase 1 of Web 2.0 has gone live – co. on track to go fully digital across all products and services by March 2023.
- 90-95K people in recovery and collections.

Exhibit 2: Business Data

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
AUM	2,183,660	2,040,180	7.0	1,669,370	30.8
Consumer B2B -Auto Fin.	101,600	99,620	2.0	107,380	(5.4)
Consumer B2B -Sales Fin.	162,590	164,750	(1.3)	125,550	29.5
Consumer B2C	440,720	412,070	7.0	336,790	30.9
Rural Business	222,370	213,040	4.4	166,340	33.7
SME Business	288,810	265,640	8.7	218,710	32.1
Securities Lending	121,820	108,010	12.8	72,930	67.0
Commercial Lending	133,780	120,400	11.1	98,010	36.5
Mortgages	710,920	656,650	8.3	541,960	31.2

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Total Franchise	62.9	60.3	1.0	52.8	19.1
Non-Delinquent Customers	41.9	40.3	3.9	35.3	18.6
Cross sell franchise	36.4	34.7	5.0	29.4	23.9
New to BAF	2.6	2.7	(4.4)	2.4	11.1
New loans booked	6.8	7.4	(8.9)	6.3	6.8
EMI Cards in force	32.8	32.8	-	25.7	27.6

Source: Company, YES Sec

Exhibit 4: Key Ratios

(%)	Q2 FY23	Q1 FY23	chg qoq	Q2 FY22	chg yoy
Op Income / Average AUM*	18.9	18.5	0.4	19.0	(0.1)
Interest Expense / Average AUM*	5.6	5.3	0.4	5.9	(0.3)
NII / Average AUM*	13.3	13.2	0.0	13.1	0.2
Cost to Income	35.9	35.9	0.0	38.0	(2.1)
Provisions / Average AUM	1.4	1.5	(0.1)	3.2	(1.8)
RoE	23.6	23.1	0.5	15.2	8.4
RoA	5.4	5.3	0.1	3.6	1.8
CAR	25.1	26.2	(1.0)	27.7	(2.6)
Tier-1	23.1	23.8	(0.7)	24.9	(1.8)
Gross NPA	1.2	1.3	(0.1)	2.5	(1.3)
Net NPA	0.4	0.5	(0.1)	1.1	(0.7)
PCR	62.0	60.0	2.0	55.0	7.0

Source: Company, YES Sec; *Calculated

Exhibit 5: GNPA trend

GNPA - (%)	Q2 FY23	Q1 FY23	chg qoq	Q2 FY22	chg yoy
Consumer B2B-Auto Fin.	8.0	10.2	(2.1)	16.0	(8.0)
Consumer B2B-Sales Fin	0.5	0.3	0.2	0.6	(0.1)
Consumer B2C	0.9	0.8	0.1	2.1	(1.2)
Rural B2B	0.5	0.2	0.3	1.1	(0.6)
Rural B2C	1.2	1.0	0.2	3.1	(1.9)
SME	1.5	1.3	0.1	1.7	(0.2)
Mortgages	0.7	0.7	(0.1)	1.0	(0.3)

Source: Company, YES Sec

Exhibit 6: PCR trend

PCR - (%)	Q2 FY23	Q1 FY23	chg qoq	Q2 FY22	chg yoy
Consumer B2B-Auto Fin.	50.0	50.0	-	46.0	4.0
Consumer B2B-Sales Fin	84.0	82.0	2.0	80.0	4.0
Consumer B2C	75.0	75.0	-	75.0	-
Rural B2B	86.0	86.0	-	81.0	5.0
Rural B2C	72.0	72.0	-	59.0	13.0
SME	75.0	75.0	-	75.0	-
Mortgages	54.0	55.0	(1.0)	40.0	14.0

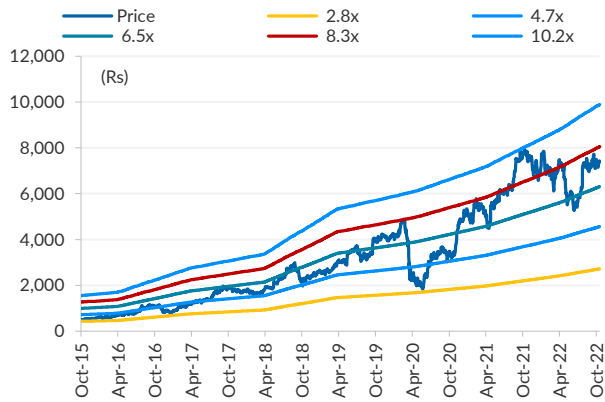
Source: Company, YES Sec

Exhibit 7: ECL Summary

(Rs mn)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	1,635,340	1,761,410	1,926,940	1,999,290	2,143,360
ECL Provision Stage 1 & 2	25,370	27,450	25,860	25,940	25,670
Net Stage 1 & 2 assets	1,609,970	1,733,960	1,901,080	1,973,350	2,117,690
Coverage ratio (%)	1.6	1.6	1.3	1.3	1.2
Stage 3 assets					
Gross Stage 3 assets	41,030	31,080	31,330	25,390	25,300
ECL Provision Stage 3	22,770	17,280	18,180	15,210	15,770
Net Stage 3 assets	18,260	13,800	13,150	10,180	9,530
Coverage ratio (%)	55.0	56.0	58.0	59.9	62.3

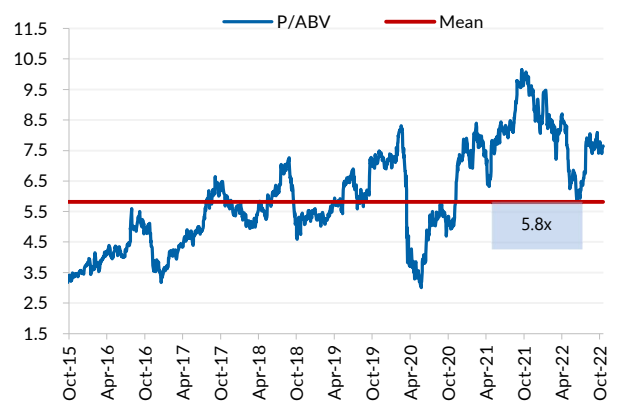
Source: Company, YES Sec

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	535,269	658,764
Shareholders fund	323,276	369,184	437,127	536,475	659,971
Financial Liabilities	1,315,112	1,338,146	1,679,935	2,123,782	2,686,302
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	968,033	1,229,402
Borrowings (Excl. Debt Sec.)	547,002	474,294	543,636	690,417	876,830
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	2,670,247	3,358,760
Assets					
Financial Assets	1,618,973	1,688,819	2,094,584	2,638,799	3,326,235
Cash and Cash Equivalents	13,445	18,493	34,072	46,600	68,385
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	3,075,215
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	2,670,247	3,358,760

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	416,804	529,554
Interest expense	(94,732)	(94,140)	(97,482)	(128,480)	(173,147)
Net interest income	169,006	172,541	218,842	288,324	356,407
Non-interest income	119	150	80	80	100
Total op income	169,125	172,691	218,922	288,404	356,507
Total op expenses	(56,608)	(53,082)	(75,850)	(100,880)	(121,056)
PPoP	112,516	119,608	143,072	187,523	235,450
Provisions	(39,295)	(59,686)	(48,034)	(33,690)	(44,094)
Profit before tax	73,222	59,923	95,038	153,833	191,356
Taxes	(20,584)	(15,724)	(24,756)	(40,368)	(50,214)
Net profit	52,638	44,198	70,282	113,465	141,142

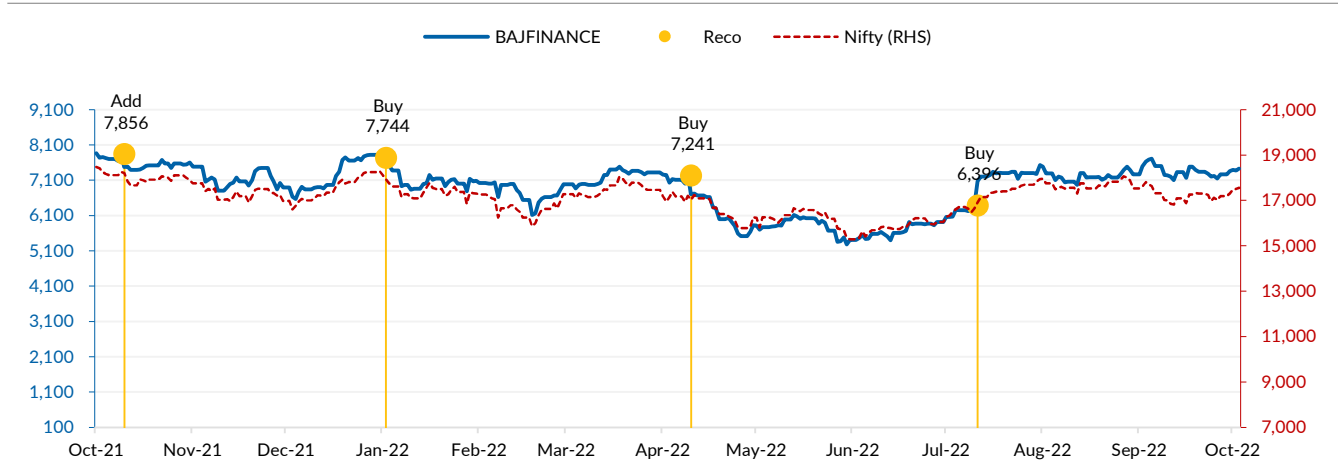
Source: Company, YES Sec

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	31.7	23.6
Total op income	42.4	2.1	26.8	31.7	23.6
Op profit (pre-provision)	46.5	6.3	19.6	31.1	25.6
Net profit	31.8	(16.0)	59.0	61.4	24.4
Advances	25.7	3.8	30.5	27.5	26.0
Total Borrowings	22.6	(2.4)	27.0	27.0	27.1
Total assets	32.3	4.3	23.9	25.7	25.8
Profitability Ratios (%)					
NIM	12.9	11.5	12.5	12.8	12.5
Return on Avg. Equity	20.2	12.8	17.4	23.3	23.6
Return on Avg. Assets	3.6	2.6	3.7	4.7	4.7
Per share ratios (Rs)					
EPS	87.7	73.5	116.5	188.1	233.9
Adj. BVPS	522.9	594.6	702.3	860.0	1,057.1
DPS	10.0	10.0	20.0	20.0	25.0
Other key ratios (%)					
Cost/Income	33.5	30.7	34.6	35.0	34.0
Tier-I capital	21.3	25.1	24.8	23.8	23.3
Gross NPLs/Loans	1.6	1.8	1.6	1.5	1.5
Credit Cost	3.0	4.0	2.7	1.5	1.6
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	0.3

Source: Company, YES Sec

Recommendation Tracker



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10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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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

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