

Bajaj Finance Ltd.



Bajaj Finance Ltd.

Business transformation strategies on track; Outlook remains strong

CMP INR 7,432	Target INR 8,630	Potential Upside 16.1%	Market Cap (INR Mn) INR 4,499,792	Recommendation BUY	Sector NBFC
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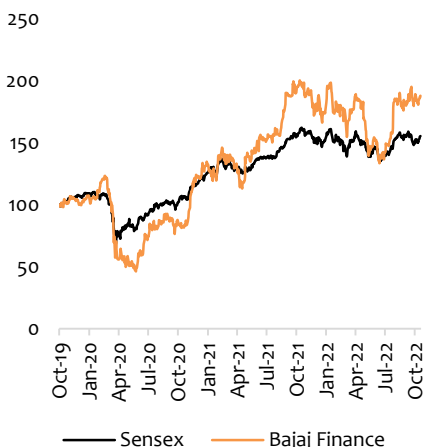
Result Highlights:

- Net Interest Income (NII) for Q2FY23 increased by 31.2% YoY (+5.4% QoQ) to INR 69,970 Mn; for H1FY23, NII stood at INR 1,36,388 Mn, a growth of 38.8% YoY.
- Pre-Provision Operating Profit (PPOP) stood at INR 44,865 Mn, a growth of 35.8% YoY (+5.4% QoQ) in Q2FY23; the cost-to-income ratio for Q2FY23 was sequentially stable at 35.9%, while improved by 213 bps YoY.
- Profit after tax for Q2FY23 increased by 87.8% YoY (+7.1% QoQ) to INR 27,807 Mn from INR 25,963 Mn in Q2FY22.
- Gross NPA and Net NPA as of September 30, 2022, stood at 1.17% and 0.44%, respectively, against 1.25% and 0.51% as of June 30, 2022.
- The capital adequacy ratio (including Tier-II capital) as of June 30, 2022, was 25.1%. The Tier-I capital was 23.1%.

MARKET DATA

Shares outs (Mn)	605
Equity Cap (INR Mn)	4,63,089
Mkt Cap (INR Mn)	4,499,792
52 Wk H/L (INR)	8,050/5,220
Volume Avg (3m K)	1,308
Face Value (INR)	2
Bloomberg Code	BAF IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,203
NIFTY	17,564

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
NII	1,69,006	1,72,541	2,18,842	2,79,238	3,44,933
Operating Profit	1,12,516	1,19,609	1,43,072	1,81,034	2,27,107
PAT	52,638	44,199	70,282	1,06,436	1,37,493
EPS	87.5	73.5	116.6	175.8	227.1
NIM	13.3%	12.0%	12.9%	12.8%	12.6%
Advances Growth	25.7%	3.8%	30.5%	27.1%	25.0%

Source: Company, KRChoksey Research

Strong growth momentum across all segments: As of September 30, 2022, AUM reported a growth of 30.8% YoY/ 7.0% QoQ at INR 21,83,660 Mn. In Q2FY23, the AUM grew by 143,480 Mn. BAF saw robust momentum across all business segments in H1FY23, with secular AUM growth. The NBFC booked 6.76 Mn new loans during the quarter against 6.33 Mn in Q2FY22. BAF continues to focus on customer acquisition, through which it added 2.61 Mn customers in Q2FY23. It is on track to achieve 10-11 Mn customers by the end of FY23E. As of September 30, 2022, the AUM mix was- Consumer: Rural: SME: Commercial: Mortgages at 43%: 14%: 18%: 16%: 9%, respectively. The disbursement of the B2B segment stood at 138.6 Bn, a growth of 14.9% YoY. BHFL reported AUM growth of 41.6% YoY at INR 629.3 Bn. The housing subsidiary is expected to be the key driver for growth going ahead for BAF. We expect the AUM to grow at a CAGR of 27.2%, led by strong overall business traction, digital initiatives & increasing geographic penetration aided by an omnipresence strategy.

All-round performance: BAF has performed strongly across all the financial parameters. NII grew 31.2% YoY/ 5.4% QoQ at INR 69,970 Mn, led by strong business momentum. In Q2FY23, Opex to NII was 35.9% vs 38.0% in Q2FY22. The NBFC continues to invest in teams and technology for business transformation. BAF expects Opex to NII to remain between 35-36% for FY23E, considering the Omnichannel strategy and Payment's investments. PPOP for Q2FY23 stood at INR 44,865 Mn, an increase of 35.8% YoY/ 5.4% QoQ. Loan losses and provisions for the quarter declined 43.5% YoY/ 2.7% QoQ. The NBFC expects its loan losses at 1.35-1.45% of average assets in FY23E. Net Profit for Q2FY23 grew by 87.8% YoY/ 7.1% QoQ led by robust operating performance and lower provisions. We expect net profit to grow by 41.8% CAGR over FY22-24E.

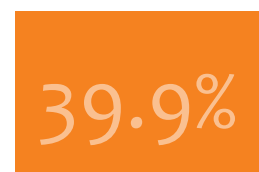
Update on omnipresence strategy: BAF added 99 new locations and 4400+ distribution points in Q2FY23. Phase 1 of the app platform is live on both app stores. Phase two will be live in 3 sprints, where sprint 1 of phase 2 is live on the play store. All Phase 1 features of the Issuance stack are live on the app store. The web platform transformation will have 2 phases. Phase 1 went live on 01 October 2022 with a staggered release methodology.

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	55.9	55.9	55.9
FIIIs	17.1	20.0	21.4
DIIIs	15.8	12.3	11.6
Others	11.3	11.8	11.2
Total	100.0	100.0	100.0



NII CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

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Key Concall Highlights:

1. Phase 1 of Web 2.0 has gone live as planned, fully on track to go fully digital across all products and services.
2. NIM growth is stronger than OpEx growth.
3. BAF will continue to retain the management overlay and use it either to strengthen its overall ECL model or eventually release it given that it is seeing strong credit performance across all portfolios.
4. As it fully goes digital, BAF will start to see operating leverage flow, given the strong franchise and low wallet share.
5. BAF has maintained its customer acquisition target of 10-11 Mn by the end of FY23E.
6. The competitive intensity remained elevated across products during the quarter. The NBFC continues to protect its margin profile across businesses and is gradually passing on the impact of higher interest rates across businesses.
7. Given the strong ALM management of BAF, the impact of recent interest rate hikes on the cost of funds will remain gradual.
8. Liquidity buffer stood at INR 92.9 Bn as of September 30, 2022.
9. The deposit book was at INR 394.2 Bn as of September 30, 2022. In Q2FY23, the net deposit growth was INR 53.2 Bn.
10. The deposits contributed ~22% of consolidated borrowings during the half-year ended FY23. The NBFC is on track to deliver its long-term goal of 25.0% of consolidated borrowings from deposits in the medium term.
11. BAF continues to invest in teams and technology for business transformation. Given the deep investments committed to Omnichannel strategy (geo-expansion, app platform, web platform) and payments, it expects Opex to NII to remain between 35.0-36.0% for full-year FY23E.
12. It has guided loan losses at 1.35-1.45% of average assets by FY23E.
13. The commoditized market, coupled with that price positioning in the premium segment of the home loan will help BAF on a faster track to gain market size both psychologically and consequently the market share.
14. GNPA & NNPA for BHFL stood at 0.24% and 0.11% as of September 30, 2022, as against 0.27% and 0.11% as of June 30, 2022.
15. BHFL has a management overlay provision of INR 2.42 Bn as of September 30, 2022.
16. In Q2FY23, BFSL (Bajaj Financial Securities Limited) added 78.7K customers to its broking franchise; its Retail and HNI customer franchise stood at 446.2K as of September 30, 2022.
17. Sprint 1 of the App Platform has gone live with a full consumer application journey for personal loans, EMI cards, co-brand Credit Cards and a two-wheeler marketplace. Sprint 1 has significant new features in credit cards, gold loans, EMI card services, new calculators, and an enhanced customer request section.
18. Sprint 2 is on track. Sprint 2 will have end-to-end journeys for fixed deposits, business loans, doctor loans and Chartered accountant loans. Sprint 2 will also have new features in fixed deposit services, Insurance services, and service-related nudges and reminders.
19. Sprint 3, the final sprint, will have end-to-end journeys for the Gold loan, loan against securities, used car financing and secured business loan.
20. Sprint 2 of payments is going 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 a Unified Dispute and Issue Resolution (UDIR) mechanism

Valuation and view:

Bajaj Finance reported a strong Q2FY23 performance with all-round performance. The NBFC continued to grow its AUM at 30% plus levels and expects to exceed its AUM growth guidance of 25% YoY annually, led by strong traction across all its segments and aggressive addition of customers. The NBFC is on track to add 10-11 Mn customers to its franchise by the end of FY23E. BAF's housing subsidiary, BHFL (Bajaj Housing Finance Ltd), also saw robust growth in its AUM led by healthy disbursements and an upward trend across the housing segments during the quarter. The management expects the housing segment to be the next key driver of growth for the NBFC. The opex to NII ratio witnessed some decline in Q2FY23 and is expected to remain in the range of 35-36% for the full year FY23E. BAF has been undergoing a business transformation led by its omnipresence strategy. It has successfully phased out the first part of this journey and expects to go fully digital and expand its presence by the end of FY23E. The NBFC continues to focus on its diversified financial offerings with an optimal mix of risk and hence delivers a sustainable & profitable business model. We remain bullish on the company's strong pedigree, brand reputation, diverse product offerings, prudent risk management, and potential to achieve robust AUM growth in the medium to long term. We expect BHFL will maintain its strong performance and embrace the opportunity with improving trends in the real estate industry and an optimistic long-term outlook for the housing financing sector. In addition, BAF has a strong capital and liquidity position, which bodes well for the overall growth story. We have factored the NII/ Operating profit/ PAT to grow at a CAGR of 25.5%/26.0%/39.9% over FY22-24E, driven by a strong business trajectory and lower provisions leading to improved profitability metrics. We expect asset quality to remain stable for FY23E/ FY24E. We see the ROE and ROA of the NBFC reach 20.0%/21.0% and 4.0%/4.2%, respectively, for FY23E/FY24E on the back of strong profitability.

The stock is currently trading at 8.5x/6.9x P/ABV multiple for FY23E/FY24E Adjusted Book Value. **We assign a P/ABV multiple of 8.2x on FY24E adj. book value of INR 1,059 to arrive at a T.P. of INR 8,630 per share, an upside of 16.1% over CMP. Accordingly, we maintain our "BUY" rating on BAF shares.**

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KRChoksey Research

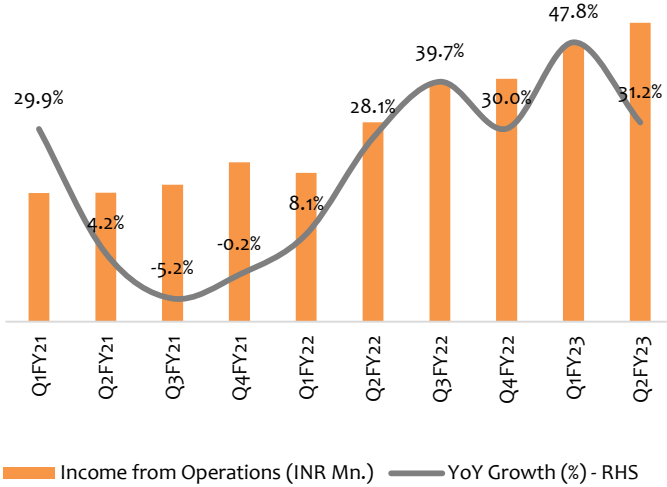
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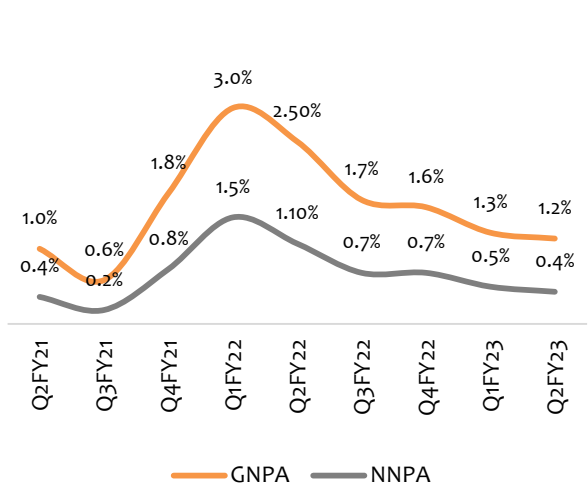
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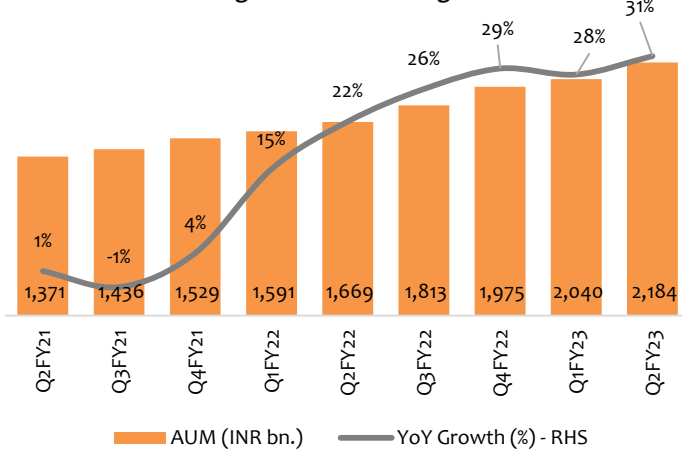
Robust growth in NII led by strong business momentum



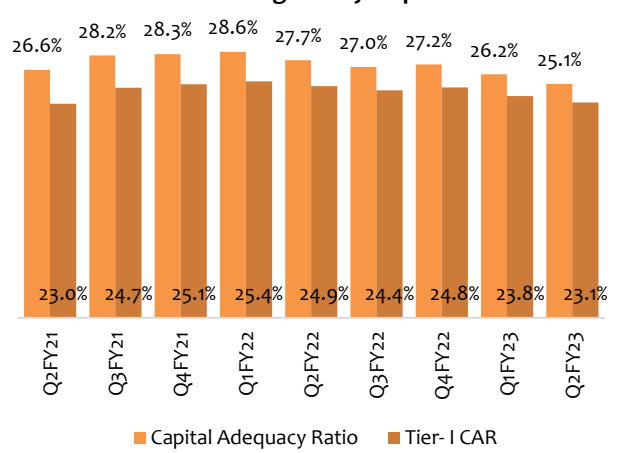
Asset quality continues to improve



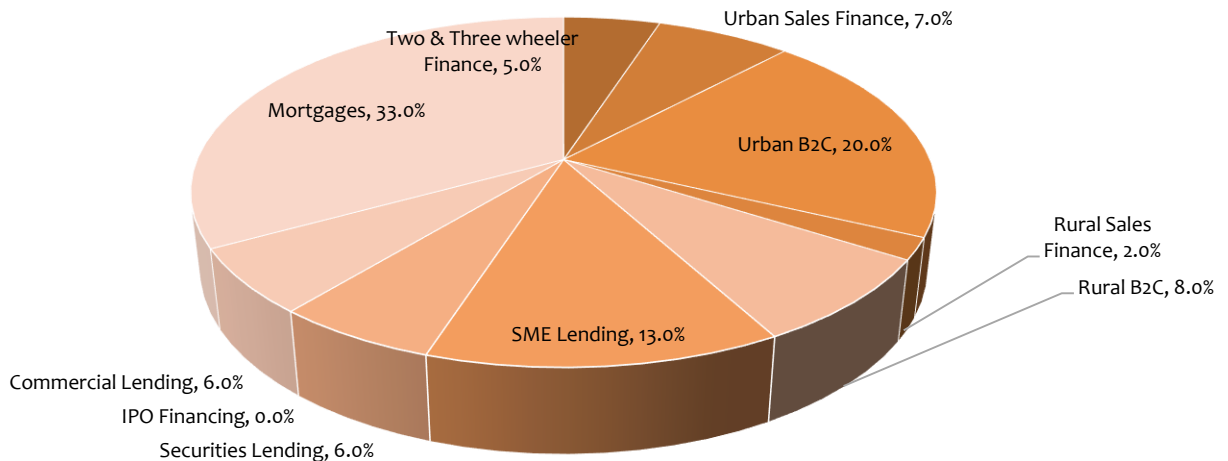
AUM grows across the segments



CRAR: Above regulatory requirements



Diversified Loan Portfolio Book



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	2,63,738	2,66,681	3,16,324	4,09,359	5,09,907
Interest Expense	94,732	94,140	97,482	1,30,120	1,64,974
Net Interest Income	1,69,006	1,72,541	2,18,842	2,79,238	3,44,933
Non interest income	118	150	80	120	138
Operating Income	1,69,124	1,72,691	2,18,922	2,79,358	3,45,071
- Employee expense	25,491	24,987	35,897	40,507	51,761
- Other operating expense	31,117	28,095	39,953	57,818	66,203
Operating Expense	56,608	53,081	75,850	98,324	1,17,964
Operating Profit	1,12,516	1,19,609	1,43,072	1,81,034	2,27,107
Provisions	39,295	59,686	48,034	39,120	43,783
PBT	73,221	59,924	95,038	1,41,914	1,83,324
Tax Expense	20,584	15,724	24,756	35,479	45,831
PAT	52,638	44,199	70,282	1,06,436	1,37,493
Diluted EPS (INR)	87.5	73.5	116.6	175.8	227.1

Exhibit 2: Balance Sheet (Consolidated)

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	1,200	1,203	1,207	1,211	1,211
Reserves & Surplus	3,22,076	3,67,981	4,35,920	5,30,189	6,51,966
Net worth	3,23,276	3,69,184	4,37,127	5,31,400	6,53,177
Borrowings	13,15,112	13,16,454	16,52,319	20,65,399	25,81,749
Deposits	4,713	28,255	34,207	65,825	58,900
Other liabilities & provisions	812	1,377	1,400	1,900	2,400
Total Equity & Liabilities	16,43,914	17,15,270	21,25,054	26,64,525	32,96,226
Uses of Funds					
Cash & Bank Balances	13,827	21,762	36,803	40,000	45,000
Receivables	9,525	11,072	12,659	14,558	16,741
Net investments	1,75,439	1,83,969	1,22,455	1,34,701	1,48,171
Deferred Tax Assets	10,669	9,459	9,511	9,987	10,486
Loans & advances	14,13,761	14,66,869	19,14,233	24,32,411	30,40,514
Fixed assets	13,210	13,667	17,296	20,382	22,327
Other assets	4,704	1,599	3,111	3,500	4,000
Total Assets	16,43,914	17,15,270	21,25,054	26,64,525	32,96,226

Source: Company, KRChoksey Research

Bajaj Finance Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY 23E	FY 24E
Growth Rates					
Advances (%)	25.7%	3.8%	30.5%	27.1%	25.0%
Deposits (%)	26.3%	0.1%	25.5%	25.0%	25.0%
Total assets (%)	32.3%	4.3%	23.9%	25.4%	23.7%
NII (%)	42.5%	2.1%	26.8%	27.6%	23.5%
Pre-provisioning profit (%)	46.5%	6.3%	19.6%	26.5%	25.5%
PAT (%)	31.8%	-16.0%	59.0%	51.4%	29.2%
B/S Ratios					
Loans/Deposit (%)	107.5%	111.4%	115.9%	117.8%	117.8%
Advances/Total Assets	86.0%	85.5%	90.1%	91.3%	92.2%
CAR (%)	25.0%	22.9%	22.0%	22.0%	22.0%
Tier-I Capital (%)	21.3%	19.7%	19.3%	19.3%	19.3%
Leverage - Total Assets to Equity	5.1	4.6	4.9	5.0	5.0
Operating efficiency					
Cost/income (%)	33.5%	30.7%	34.6%	35.2%	34.2%
Opex/total assets (%)	3.4%	3.1%	3.6%	3.7%	3.6%
Opex/total interest earning assets	4.0%	3.6%	4.0%	4.0%	3.9%
Profitability					
NIM (%)	13.3%	12.0%	12.9%	12.8%	12.6%
RoA (%)	3.2%	2.6%	3.3%	4.0%	4.2%
RoE (%)	16.3%	12.0%	16.1%	20.0%	21.0%
Asset quality					
Gross NPA (%)	1.6%	1.8%	1.6%	1.2%	1.1%
Net NPA (%)	0.7%	0.8%	0.7%	0.4%	0.4%
PCR (%)	57.2%	58.0%	58.0%	65.0%	65.0%
Credit cost (%)	3.1%	4.1%	2.8%	1.8%	1.6%
Per share data / Valuation					
EPS (INR)	87.5	73.5	116.6	175.8	227.1
BVPS (INR)	537.3	613.6	722.0	877.7	1078.9
ABVPS (INR)	509.5	582.6	693.1	859.0	1058.9
P/E (x)	25.3	70.1	62.2	41.5	32.1
P/BV (x)	4.1	8.4	10.1	8.3	6.8
P/ABV (x)	4.3	8.8	10.5	8.5	6.9
Profitability					
Return on Capital	3.7%	2.7%	3.7%	4.5%	4.7%
Return on Equity	16.3%	12.0%	16.1%	20.0%	21.0%
Spread Analysis					
Yield on loans	18.1%	16.2%	16.1%	16.5%	16.5%
Cost of borrowings	8.04%	7.15%	6.57%	7.00%	7.10%
Spread	10.1%	9.0%	9.6%	9.5%	9.4%

Source: Company, KRChoksey Research

Bajaj Finance Ltd.

Bajaj Finance Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-Oct-22	7,432	8,630	BUY	Buy	More than 15%
17-Oct-22	7,364	8,630	BUY	Accumulate	5% – 15%
29-Jul-22	7,077	8,317	BUY	Hold	0 – 5%
29-Apr-22	6,672	8,183	BUY	Reduce	-5% – 0
19-Jan-22	7,572	8,693	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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