

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	BAF IN
Equity Shares (m)	602
M.Cap.(INRb)/(USDb)	4497.9 / 54.4
52-Week Range (INR)	8044 / 5236
1, 6, 12 Rel. Per (%)	-2/2/-1
12M Avg Val (INR M)	9077

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Net Income	219	286	344
PPP	143	184	224
PAT	70	113	139
EPS (INR)	116	188	230
EPS Gr. (%)	59	61	22
BV/Sh. (INR)	716	879	1,079

Ratios

NIM (%)	10.4	10.4	10.1
C/I ratio (%)	34.6	35.6	34.8
RoA (%)	3.7	4.7	4.6
RoE (%)	17.7	23.6	23.5
Payout (%)	8.6	13.2	13.0

Valuations

P/E (x)	63.8	39.5	32.4
P/BV (x)	10.4	8.5	6.9
Div. Yield (%)	0.3	0.3	0.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	55.9	55.9	56.0
DII	12.0	11.2	9.3
FII/FI/FII	20.3	21.8	24.2
Others	11.8	11.2	10.4

FII Includes depository receipts

CMP: INR7,429 TP: INR8,310 (+12%) Buy

Earnings in line; digital transformation aiding momentum

Raises its customer acquisitions and new loans guidance for FY23

- PAT grew 88% YoY to ~INR27.8b (in line) in 2QFY23. This healthy operational performance was driven by robust customer additions, new loan acquisitions, and strong velocity, aided by its omnichannel strategy and the digital ecosystem.
- NII grew 29% YoY to INR55.4b. Other operating income grew 31% YoY, driven by a healthy improvement in fee income and higher treasury and investment income.
- NIM (calculated) improved by ~3bp QoQ to ~13.3%. We expect NIM to remain stable in FY23, but compress by ~30bp in FY24 due to BAF's limited ability to pass on the increase in borrowing costs against a large fixed-rate loan book.
- We model in an AUM/PAT CAGR of ~27%/40% and expect BAF to deliver a RoA/RoE of 4.6%/24% in FY24. We remain watchful of the various developments in BAF's payment offerings, improvement in velocity from digital transformation, and foray into the Credit Card business, subject to approval from the RBI. **We reiterate our Buy rating with a TP of INR8,310 (premised on 7.7x FY24E BVPS).**

Customer acquisitions run-rate to improve from here on; expect AUM growth to be better than its long-term guidance of 23-24%

- Total customer franchise rose 19% YoY to 62.9m. New loans booked grew 7% YoY to 6.8m. BAF raised its new customer acquisition guidance. It now expects 10-11m new customer acquisitions in FY23 (v/s its guidance of 9-10m announced after its 1QFY23 earnings).
- Total AUM grew 31% YoY and ~7% QoQ to INR2.18t. Receivables from IPO financing stood at INR1.05b in Sep'22. Core AUM (adjusted for IPO financing) grew by ~INR142b in 2QFY23.
- Sequential AUM growth was driven by Urban B2C (+7%), Rural B2C (+7%), SME (+9%), LAS (+14%), and Commercial excluding LAS (+11%) and Mortgages (+8%).
- Urban/Rural B2B Sales Finance (-1%/-5% QoQ) acted as a drag in 2QFY23. It is important to note that the second quarter has historically been a seasonally weak quarter in Consumer Durable financing before the festive season sets in the third quarter of a fiscal. We expect 3QFY23 to be no different for BAF.

OPEX to remain elevated in FY23, led by geography expansions and investments in technology and human capital

- Operating expenses grew 24% YoY to INR25.1b. Given the deep investments being committed to its omnichannel strategy (geography expansion, app, and web platform) and payments, the management expects OPEX –to-NII ratio to remain elevated at 35-36% in FY23.

Strong risk management underpinning its healthy asset quality performance

- GS3/NS3 improved by 8bp/7bp QoQ to 1.17%/0.44%, with S3 PCR rising by ~2pp QoQ to ~62%. OTR book, classified under Stage 2, stood at INR3.4b (~16bp of AUM), why BAF carrying provisions of ~INR790m (~23%) on this book in 1HFY23. GS3/NS3 levels are the lowest-ever in the past six years.
- Credit costs in 2QFY23 stood at INR7.3b (~140bp annualized). The company will continue to hold a management overlay of INR10b in the near future and will subsequently release it, as it is seeing an improved credit performance.

Diversified liability franchise will be its moat in a rising rate environment

- Deposits constituted ~22% of consolidated borrowings in 1HFY23. BAF is on track to deliver its long-term goal of ~25% of consolidated borrowings from deposits in the medium term.
- Given the strong ALM, it shared that the impact of the recent interest rate hikes on cost of funds will remain gradual, which will aid margin.

Highlights from the management commentary

- The management guided at a quarterly run-rate of INR7.25-8b in credit costs (1.35-1.45% of average assets in FY23).
- It doesn't foresee any change in the growth outlook of BHFL, given RBI's mandate for it to list within three years of it being recognized as a NBFC-UL.
- The company would have lost some market-share in the Consumer Durable Financing segment and in the OEM subvention pool due to a higher number of lenders in stores. Going forward, it anticipates that the dependence on the B2B Sales Finance segment for customer acquisition will reduce, if it is able to execute its digital transformation program.

Valuation and view

- Customer acquisitions and the new loan trajectory have been strong. The momentum will only get stronger from here on, with the digital ecosystem – app, web platform and the full-stack payment offerings – in place.
- We expect BAF to deliver a healthy AUM CAGR of ~28% over FY22-24. We see a compression in NIM in FY24, given as the levers on borrowing costs have largely played out and it has limited ability to pass on the higher cost of funds on a large fixed-rate book.
- We raise our FY23/FY24 PAT by ~3% each to factor in higher fee income and lower credit costs. We estimate BAF to deliver a RoA/RoE of 4.6%/24% over the medium term. We **reiterate our Buy rating with a TP of INR8,310 (premised on 7.7x FY24E BVPS)**.
- The key factors to watch out for in FY23-24 are: a) evolution of its payments landscape and the traction therein; b) velocity on the consumer app and the adoption of the envisaged web platform; c) potential foray into the Credit Card business from its own Balance Sheet (subject to RBI approval); and d) the NIM trajectory.

Quarterly Performance												(INR m)
Y/E March	FY22				FY23E				FY22	FY23E	2QFY23E	Act V/s Est
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23E	4QFY23E				
Interest Income	59,542	66,873	72,623	73,659	79,197	85,090	92,748	99,911	2,72,698	3,56,945	85,532	-1
Interest expenses	22,536	23,976	25,345	25,626	26,451	29,714	33,576	37,918	97,482	1,27,659	28,832	3
Net Interest Income	37,007	42,898	47,277	48,034	52,745	55,376	59,171	61,993	1,75,215	2,29,285	56,701	-2
YoY Growth (%)	12.3	26.0	40.7	25.1	42.5	29.1	25.2	29.1	26.2	30.9	32.2	
Other Operating Income	7,888	10,447	12,728	12,643	13,630	14,637	14,603	13,608	43,707	56,478	12,670	16
Net Income	44,895	53,345	60,005	60,677	66,376	70,013	73,774	75,601	2,18,922	2,85,763	69,370	1
YoY Growth (%)	8.1	28.2	39.7	30.2	47.8	31.2	22.9	24.6	26.8	30.5	30.0	
Operating Expenses	13,733	20,297	20,814	21,006	23,801	25,148	26,531	26,255	75,850	1,01,735	25,229	0
Operating Profit	31,162	33,048	39,192	39,671	42,575	44,865	47,243	49,346	1,43,072	1,84,029	44,141	2
YoY Growth (%)	4.0	9.9	34.9	29.9	36.6	35.8	20.5	24.4	19.6	28.6	33.6	
Provisions and Cont.	17,503	13,003	10,512	7,016	7,547	7,342	7,562	8,272	48,034	30,723	7,019	5
Profit before Tax	13,659	20,045	28,680	32,655	35,028	37,523	39,681	41,074	95,038	1,53,305	37,122	1
Tax Provisions	3,634	5,235	7,427	8,460	9,065	9,716	10,277	10,801	24,756	39,859	9,652	1
Net Profit	10,025	14,810	21,253	24,195	25,963	27,807	29,403	30,274	70,282	1,13,446	27,470	1
YoY Growth (%)	4.2	53.5	85.5	79.7	159.0	87.8	38.4	25.1	59.0	61.4	85.5	
Key Operating Parameters (%)												
Fees to Net Income Ratio	17.6	19.6	21.2	20.8	20.5	20.9	19.8	18.0	20.0	19.8		
Credit Cost	4.67	3.31	2.51	1.53	1.55	1.43	1.36	1.38	2.84	1.4		
Cost to Income Ratio	30.6	38.0	34.7	34.6	35.9	35.9	36.0	34.7	34.6	35.6		
Tax Rate	26.6	26.1	25.9	25.9	25.9	25.9	25.9	26.3	26.0	26.0		
Balance Sheet Parameters												
AUM (INR B)	1,591	1,669	1,813	1,975	2,040	2,184	2,363	2,537	1,975	2,040		
Change YoY (%)	15.2	21.8	26.3	29.1	28.3	30.8	30.3	28.5	29.1	28.3		
Loans (INR B)	1,531	1,608	1,748	1,914	1,984	2,127	2,306	2,479	1,914	1,984		
Change YoY (%)	15.7	22.0	26.7	30.5	29.5	32.3	31.9	29.5	30.5	29.5		
Borrowings (INR B)	1,333	1,450	1,540	1,652	1,721	1,833	1,971	2,102	1,652	1,721		
Change YoY (%)	10.1	16.1	24.1	25.5	29.1	26.4	27.9	27.2	25.5	29.1		
Loans/Borrowings (%)	114.9	110.9	113.5	115.9	115.3	116.1	117.0	117.9	115.9	115		
Asset Quality Parameters (%)												
GS 3 (INR B)	47.4	41.0	31.1	31.3	25.4				31.3	31.1		
Gross Stage 3 (% on Assets)	2.96	2.45	1.73	1.60	1.25				1.57	1.22		
NS 3 (INR B)	23.1	18.3	13.8	13.2	10.2				13.1	11.8		
Net Stage 3 (% on Assets)	1.46	1.10	0.78	0.68	0.51				0.69	0.47		
PCR (%)	51.3	55.5	55.6	58.0	59.9				58.0	62.0		
Return Ratios (%)												
ROAA (Rep)	2.8	3.6	5.2	5.2	5.3				3.7	4.7		
ROAE (Rep)	10.8	15.2	21.2	22.8	23.1				17.7	23.6		

E: MOFSL Estimates

Exhibit 1: Features to be rolled out under Phase II

Digital app platform – Phase 2 feature set										
Payments	UPI	Wallet	EMI Card	Credit Card	4-in-1 Payment checkout	Bill Payment	POS terminals	4-in-1 Check Out for Partners	QR Based P2M Transaction	
Network	CD Network	DPP Network	REMI Network	LSP Network	LCP Network	E-Com Network	Coaching Network	P2M Network	QR Network	
Marketplace & Proprietary Apps	No cost EMI Marketplace	Insurance Marketplace	Investment Marketplace	2-Wheeler Marketplace	Health RX	Doctor RX	Demat and Broking			
3-in-1 Financial Services	No Cost EMI	Unsecured Lending	Mortgage	Other Secured	SME/Prof. Lending	Cards	Deposits	Fee based Services		
	<ul style="list-style-type: none"> Coms. Durable- NTB Mobile- NTB Lifestyle- NTB 	<ul style="list-style-type: none"> Personal Loans (9) Salaried PL (15) 	<ul style="list-style-type: none"> Home Loan LAP Sec. Enterprise Loan 	<ul style="list-style-type: none"> Gold Loan(3) LAS 2-Wheeler & Used Car. (1) 	<ul style="list-style-type: none"> Prof. Loans (5) SME Loans (2) Medical equipment 	<ul style="list-style-type: none"> EMI Card Health Card RBL Bank Card DBS Bank Card 	<ul style="list-style-type: none"> Fixed Deposits(6) SDP(2) GBS Loan Against FD 	<ul style="list-style-type: none"> Credit health report (2.0) 		
Rewards	Earn				Burn					
	<ul style="list-style-type: none"> Offers Cashbacks 	<ul style="list-style-type: none"> Vouchers Merchant Sponsored Vouchers 	<ul style="list-style-type: none"> Bajaj Coins 	<ul style="list-style-type: none"> Convert to Cash 	<ul style="list-style-type: none"> Bill Payment 	<ul style="list-style-type: none"> Voucher Purchase 				
Integrated Voice & Marketing Cloud	Customer Data Platform	Centralized Offer Repository	Multi Channel Orchestration	Multi Dealer Orchestration	One View for Backend Agents	Cloud Telephony Infra for Distributed Sales	Voice Call Governance			
Productivity Apps	Sales One App		Debt management One App		Partner One App 2.0		Merchant One App			
	<ul style="list-style-type: none"> Enhanced Engage & Compliance Frames 		<ul style="list-style-type: none"> Compliance, Legal & Repo Mgmt. 		<ul style="list-style-type: none"> Loan Sourcing , Dashboards 		<ul style="list-style-type: none"> Onboarding, Payment Dashboards 			
Services	Information	EMI, Credit Card	Statement	Documents	Repayments	FD & SDP	Profile Update	Calculators		
	<ul style="list-style-type: none"> Loan Info Deposit Info Fixed Loan Info Mandate Services Mutual Fund 	<ul style="list-style-type: none"> Limit & Enhancement Card Status Card Block/Unblock PIIN Change EMI Card Trx history 	<ul style="list-style-type: none"> Loan Stat. Repay Schedule FD Statement NQC COI (10) GDR & FDR 	<ul style="list-style-type: none"> Invoice LTS & Charge Slip App. Form T & C Sano Letter & Agmt Form 15G 	<ul style="list-style-type: none"> OD & Adv Pay Prepay, DD & FC GL - Part Release EMI Vault Cash Pick-up 2.0 Smart Debit 2.0 	<ul style="list-style-type: none"> FD Details Nominee addition Renew FD TDS Waiver Pre-Maturity FD Start Stop SDP 	<ul style="list-style-type: none"> PAN & DOB Mobile & Email ID Address Bank Details Re-KYC 	<ul style="list-style-type: none"> EMI & Fixed Loan Eligibility Shares + MF cal FD, SDP & GBS Mortgage Cal GST Cal 		
Engagement Stack(100+)	Travel (7+2)	Entertainment(2)	Food(7 + 5)	Utilities(4)	Shopping (34 + 8)	Gaming (10 + 10)	Health & Fitness (7 + 3)	Education(2)	Other networks (3)	Donata(1+1)
■ Phase 1 ■ Phase 2 Sprint 1 ■ Phase 2 Sprint 2/3										

Source: Company, MOFSL

Exhibit 2: Phase II will focus on new to Bajaj customer journeys, introducing new features and functionalities

Digital app platform – Phase 2 enablers							
	Stimulation	Offers and Promotions	Search	Service	Sales	Engagement	Utilities
Core Components* (23)	<ul style="list-style-type: none"> Notification Engine Nudges Personalization 	<ul style="list-style-type: none"> Dynamic Banners Offers Wishlist & Cart Segmented Banners 	<ul style="list-style-type: none"> Search Content Streams Geo Search 	<ul style="list-style-type: none"> Raise a Request FAQ Document Centre 	<ul style="list-style-type: none"> 5 Mins Call Back Track and Resume Application 	<ul style="list-style-type: none"> Social Share NPS/Feedback In-App Programs 	<ul style="list-style-type: none"> Locate Us- Maps QR Calculators Expense Manager PODs (4)
Data	Channels Data	Structured	Unstructured	Consent based App Data	Contextual Data		
	<ul style="list-style-type: none"> Web Mobile IVR Dealer Email 	<ul style="list-style-type: none"> Customer Demographics Loan & Other Information Banking & Collections Tens. Financial Services Journey Heatmaps External - Bureau, Acc Agg, etc. 	<ul style="list-style-type: none"> Cookies Consent based SMS Data Consent based Email Data Click Streams 	<ul style="list-style-type: none"> Device Info Appography Contacts Info Network Info Location & Phone State 	<ul style="list-style-type: none"> Personal Events External Events 		
APIs	600+ Digital APIs						
Core Platform	Loan/Deposit Origination Platform	Loan/ Deposit Booking Platform	Debt Management Platform	Loan/Deposit Service Management Platform			
	<ul style="list-style-type: none"> Loan/Deposit Sourcing APIs 2.0 Journey Workflows 2.0 Journey Business Rules 2.0 Decision Engine 	<ul style="list-style-type: none"> Loan Booking APIs Loan Disbursement APIs Deposit Booking APIs 	<ul style="list-style-type: none"> Overdue Payment APIs Advance Payment APIs Loan Settlement APIs 	<ul style="list-style-type: none"> Service APIs for Loans 2.0 Repayment APIs Service APIs for Deposits 			
Core Infrastructure	High Availability (HA) Infrastructure	Disaster Recovery(DR) Infrastructure	Near DR Infrastructure	Cyber Security	Data Security		
Digital & Data Infrastructure	Data Lake	Enterprise Datawarehouse	Change Data Mgmt	APIs / Micro Services	Kubernetes	TechOps	
New Talent Onboarded	* Projected Cumulative addition of 1400+ Lateral and Fresh hires in Phase 1 and 2 of Digital Transformation Journey						
	150+ UI/UX , Content Management, & Digital Domain specialist	400+ Payment Domain Resources	625+ Engineering Resources	130+ Data Resources	100+ Core Platform & Infra Resources		
■ Phase 1 ■ Phase 2 Sprint 1 ■ Phase 2 Sprint 2/3							
There are 15 stacks and 117 features and components.							

Source: Company, MOFSL

Exhibit 3: Omni-channel strategy key metrics and FY23 estimates

Omnipresence strategy – disciplined execution, rapid adoption in all processes of the Company and continued progress on all metrics					
Particulars	Unit	Q4 FY22	Q1 FY23	Q2 FY23	FY23 estimates
Geography					
New locations added – in the Qtr	#	81	82	99	400-450
Locations - Cumulative	#	3,504	3,586	3,685	3,900-3,950
Gold loan branches – Cumulative	#	132	155	175	232
App Metrics					
Downloads – In the Qtr	# in MM	5.83	11.01	12.59	53-55
Net Installs – Cumulative	# in MM	19.1	23.0	26.6	35-38
In-App programs – Cumulative	#	48	62	87	100+
Ranking in financial domain in Playstore	#	7	6	5	Top 5
App Payments metrics					
Wallet accounts – Cumulative	# in MM	6.44	8.91	11.80	18.50
UPI handles – Cumulative	# in MM	1.66	3.61	7.23	12
Bill pay transactions – in the Qtr	# in MM	1.36	2.06	3.59	12
QRs at merchant PoS – Cumulative	# in '000	-	18	78	100
Rewards issued – In the Qtr	# in MM	0.75	4.8	9.1	20-22

Source: Company, MOFSL

Exhibit 4: Omni-channel strategy key metrics and FY23 estimates

Omnipresence strategy – disciplined execution, rapid adoption in all processes of the Company and continued progress on all metrics					
Particulars	Unit	Q4 FY22	Q1 FY23	Q2 FY23	FY23 estimates
App business metrics					
Digital EMI card acquisition – In the Qtr	# in '000	12	69	100	300-325
Personal loan disbursement – In the Qtr	In ₹ cr	1,800	2,109	2,391	9,000-10,000
Credit card acquisition – In the Qtr	# in '000	29	30	47.8	175-200
Flexi loan transactions – In the Qtr	# in '000	780	866	1,030	3.6-3.8 MM
DMS receipts – In the Qtr	# in '000	385	644	770	3.0-3.2 MM
Marketplace metrics					
Bajaj Mall visits – In the Qtr	# in MM	36.9	31.8	33.6	140-150
Bajaj Mall loans – In the Qtr	# in '000	526	645	562	2.6-2.8 MM
Insurance Bazaar policies – In the Qtr	# in '000	-	9.5	23.5	250-275
Investments Bazaar MF A/C – In the Qtr	# in '000	-	10	20.8	100-110
Digital EMI card metrics					
Digital EMI card acquisition – In the Qtr	# in '000	455	522	664	2.0-2.2 MM
Digital EMI card acquisition – In the CIF	# in MM	1.8	2.3	2.6	3.8-4.0
B2B loans from digital EMI cards – in the Qtr	# in '000	234	227	269	1.0-1.2 MM

Source: Company, MOFSL

Exhibit 5: Customer franchise: Key metrics

Customer franchise - Key financial metrics								BAJAJ FINANCE LIMITED	
Particulars	Unit	FY17	FY18	FY19	FY20	FY21	FY22	H1 FY22	H1 FY23
New loans booked	In MM	10.1	15.3	23.5	27.4	16.9	24.7	11.0	14.2
New customer addition	In MM	4.1	6.1	8.3	8.1	6.0	9.0	4.2	5.3
Existing customer mix	%	59.8%	60.3%	64.8%	70.4%	64.6%	63.5%	61.4%	62.3%
Total franchise	in MM	20.1	26.2	34.5	42.6	48.6	57.6	52.8	62.9
Cross sell franchise	in MM	11.0	15.4	20.7	24.1	26.9	32.8	29.4	36.4
Co-branded credit cards sold	in MM	0.03	0.39	0.81	1.12	0.70	1.36	0.44	0.87
Other financial products sold to existing customers	in MM	0.06	0.08	0.19	0.27	0.67	2.23	1.06	0.99
AUM per cross sell franchise	₹	54,722	53,417	56,066	60,983	56,879	58,617	56,839	60,007
PAT per cross sell franchise	₹	1,670	1,618	1,933	2,182	1,644	2,145	845	1,478

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Source: MOFSL, Company



Highlights from the management commentary

Digital metrics

- FY23 guidance on a) new loans booked: 31-32m loans b) total customer franchise by end FY23: 68-69m and c) Cross-sell franchise: 40-41m
- Company has increased the guidance on new customer acquisitions. It is on track to add between 10-11m new customers in FY23 (higher v/s guidance of 9-10m given in 1QFY23)
- Digital EMI card acquisition - In the CIF - reduced the FY23 guidance to 3.6-3.7m

Web Platform

- As articulated in Q1, Web platform transformation will have 2 phases. Phase 1 went live on 01 October 2022 with staggered release methodology
- By Mar'23, both the app and web will look identical and the customer will be able to start at one place and then resume the journey on the other platform as well

Opex

- BAF continues to invest in teams and technology for business transformation. Given the deep investments being committed to Omnichannel strategy (geo expansion, app platform, web platform) and payments, it expects Opex to NII to remain between 35-36% for FY23
- Company is currently in a super-normal profitability zone and this is a good time to make investments in capability, technology and platforms.
- Operating leverage will start flowing through now; already exhibiting stronger NII growth relative to opex growth

Asset quality

- Guided for quarterly run-rate of INR7.25-8b in credit costs (1.35-1.45% of average assets in FY23)
- 9.4K-9.5K employees are in collections out of the total employee workforce of 39.4K
- Company will continue to hold the management overlay of INR10b and will subsequently release it given that it is seeing an improved credit performance

Market Share

- Company would have lost some market-share in the consumer durable financing segment and in the OEM subvention pool because there are now much higher number of lenders in the stores. These are predominantly lenders and not really fin-techs.

Fee Income/Non-interest income

- Principal objective of payments business is a) Engagement b) Moving money. Company wants a reasonable share of the money that its customer franchise will be moving. It will give the company a greater share of the client's mind and wallet share.
- As the company goes more digital, there will be more lines of other financial products (MF, pocket insurance, payment, securities) and this will continue to exhibit stronger growth in the coming years.

Geo Expansion

- Geo expansion is a) economic b) harder for the other players to crack c) M3 supply in the economy is high which means that the customer still continues to use cash - means that branches and physical presence will remain present - even debt management function will remain relevant.
- The company will take more products to more geographies. Right now, it has B2B Sales Finance and Personal Loans in all the location. Now it will take all products to BHARAT locations over the next 8-9 years. Boots on the ground will become more efficient and product but they will never go away.

BHFL

- Portfolio composition for HL: LAP: LRD: DF: Rural: Others stood at 60%: 11%: 15%: 7%: 4%: 3%
- 2QFY23 disbursements grew by 32% YoY and stood at INR86.2b (PY: INR65.2b).
- BHFL has management overlay provision of INR2.4b
- Does not foresee any changes in the growth outlook of BHFL because of the RBI requirement to get BHFL listed within 3 years of being recognized as NBFC-UL
- The cost of funds for BHFL is now structurally lower than BFL in the last four-five years.
- Price positioning in the premium segment of Home Loans is going to help it grow faster. In Home Loans above INR10m segment- BHFL wants to be the lowest-cost mortgage lender.
- GNPA & NNPA stood at 0.24% and 0.11% as of 30 September 2022 as against 0.27% and 0.11% as of 30 June 2022

Key highlights from the presentation

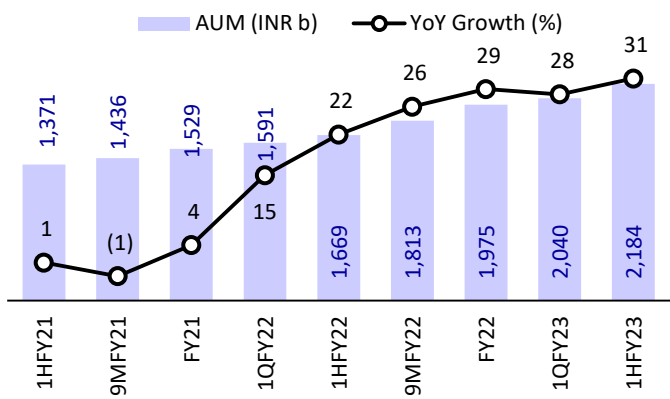
- In 2QFY23, overall B2B business disbursements grew by 15%. B2B disbursements were INR138.6b in 2QFY23 as against INR120.7b in 2QFY22
- BAF is on track to add between 10-11 MM new customers in FY23 and it sounded confident of ending FY23 with 68 -69mn customer franchise
- Given the strong ALM management, the impact of recent interest rate hikes on cost of funds will remain gradual which will support margins.
- Deposits contributed 22% of consolidated borrowings as of 1HFY23. The Company is on track to deliver its long term goal of 25% of consolidated borrowings from deposits in the medium term
- Despite strong growth in the balance sheet, the product mix has remained the same.

Others

- With the digital transformation, it will transition from the push model to the pull model - Bannerization, Nudges and Suggestions
- BAF has applied for a credit card license and will provide more clarity when it receives the clarity from the regulator.

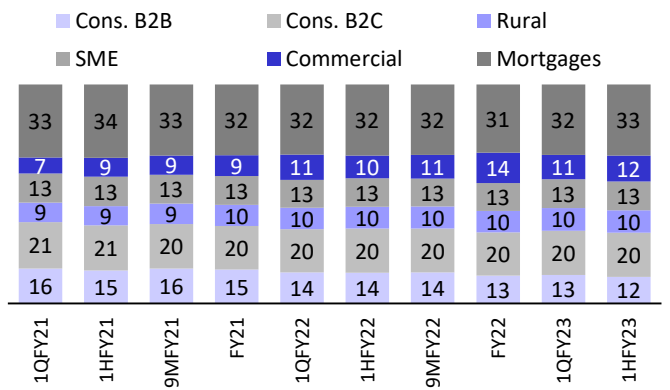
Story in charts

Exhibit 6: AUM growth healthy at 31% YoY (%)



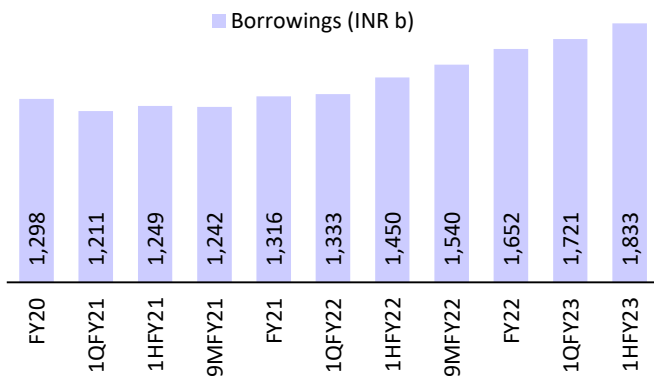
Source: MOFSL, Company

Exhibit 7: AUM mix was largely stable (%)



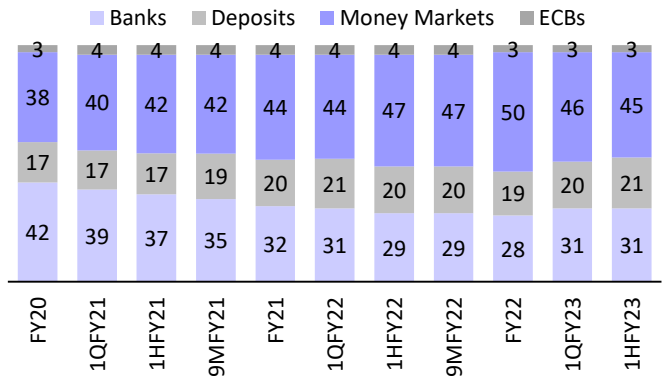
Source: MOFSL, Company

Exhibit 8: Borrowings grew by 26% YoY



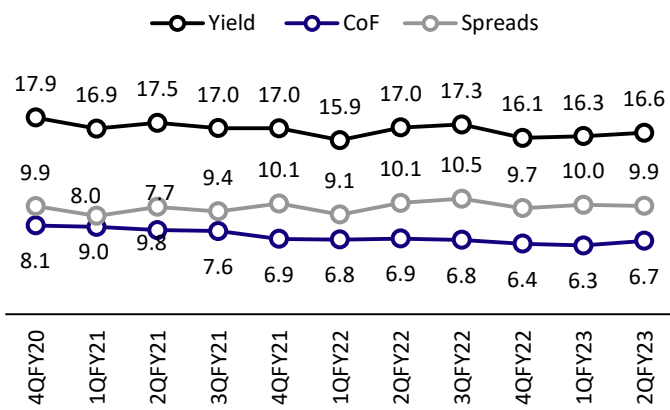
Source: MOFSL, Company

Exhibit 9: Borrowing mix stable sequentially (%)



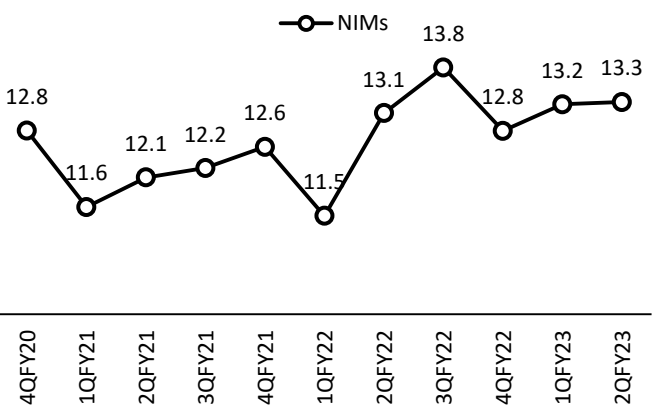
Source: MOFSL, Company

Exhibit 10: Spreads were largely stable (%)



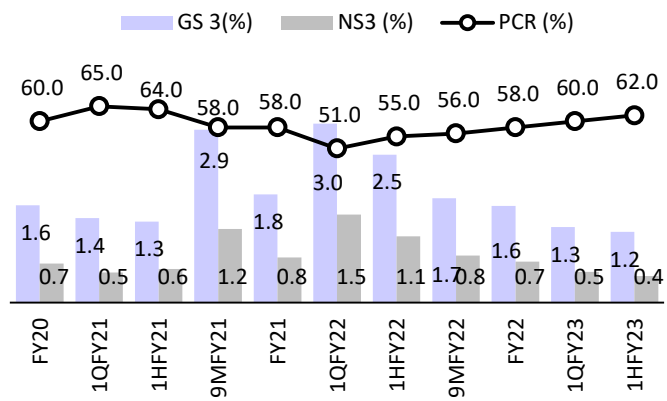
Source: MOFSL, Company

Exhibit 11: Margin (calculated) was also stable QoQ (%)



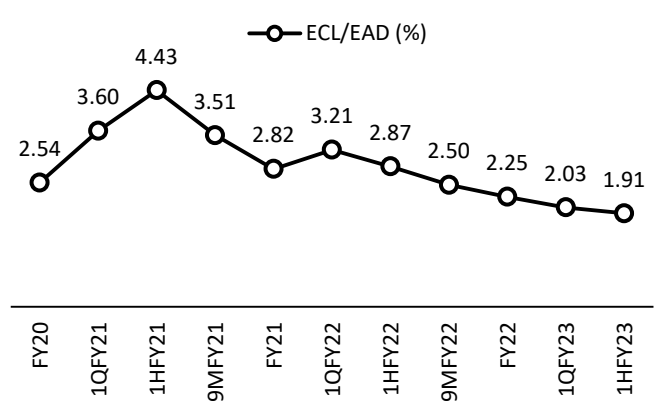
Source: MOFSL, Company

Exhibit 12: PCR on S3 increased ~2pp QoQ to 62%



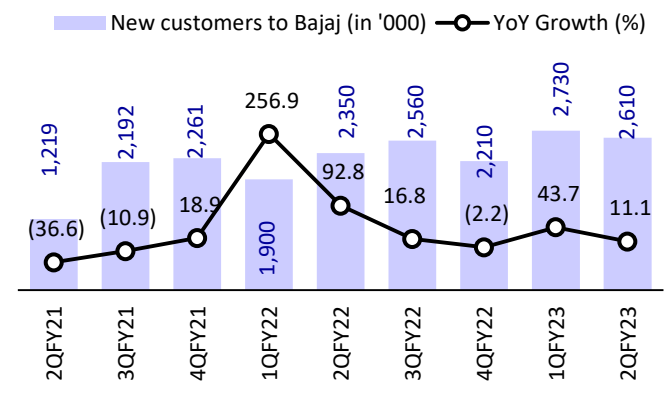
Source: MOFSL, Company; Note: Without SC dispensation, GNPA ratio would be 1.8%

Exhibit 13: Total ECL provisions stood ~190bp of EAD



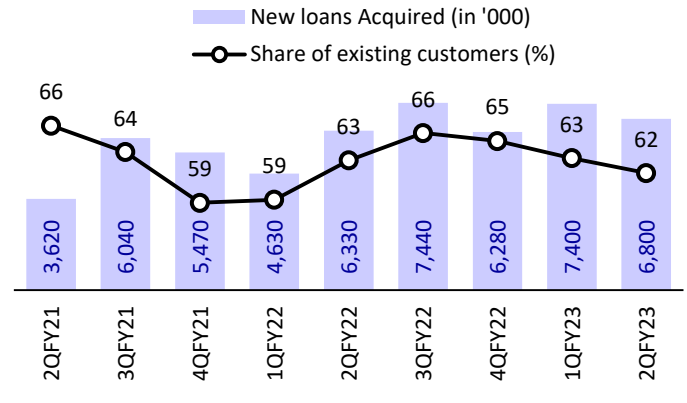
Source: MOFSL, Company

Exhibit 14: Quarterly new customer addition run-rate grew 11% YoY



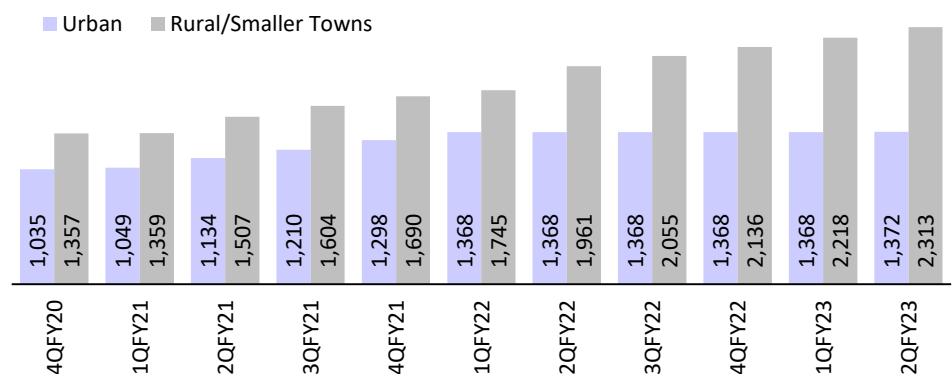
Source: MOFSL, Company

Exhibit 15: Share of existing customers in new loans booked declined to ~62%



Source: MOFSL, Company

Exhibit 16: Trend in branch expansion: Additions primarily in rural/smaller towns



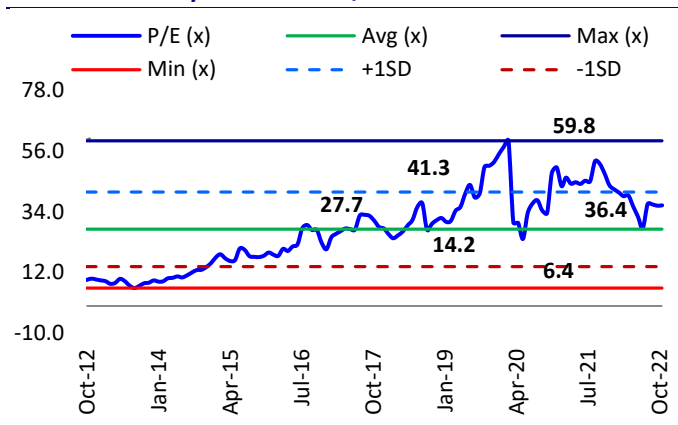
Source: MOFSL, Company

Exhibit 17: Increase our FY23/FY24E EPS estimate by ~3% each to factor in higher fee income and lower credit costs

INR B	Old Est.		New Est.		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII	227.5	281.6	229.3	283.8	0.8	0.8
Other operating Income	52.1	57.2	56.4	59.8	8.1	4.5
Other Income	0.1	0.1	0.1	0.1		
Total Income	279.8	338.9	285.8	343.7	2.1	1.4
Operating Expenses	98.8	116.1	101.7	119.6	2.9	3.0
Operating Profits	180.9	222.8	184.0	224.1	1.7	0.6
Provisions	32.6	40.9	30.7	36.9	-5.9	-9.7
PBT	148.3	181.9	153.3	187.2	3.4	2.9
Tax	38.6	47.3	39.9	48.7	3.4	2.9
PAT	109.7	134.6	113.4	138.5	3.4	2.9
Loans	2,460	3,099	2,479	3,123	0.8	0.8
Borrowings	2,086	2,603	2,102	2,624	0.8	0.8
RoA	4.6	4.5	4.7	4.6		
RoE	22.9	23.1	23.6	23.5		

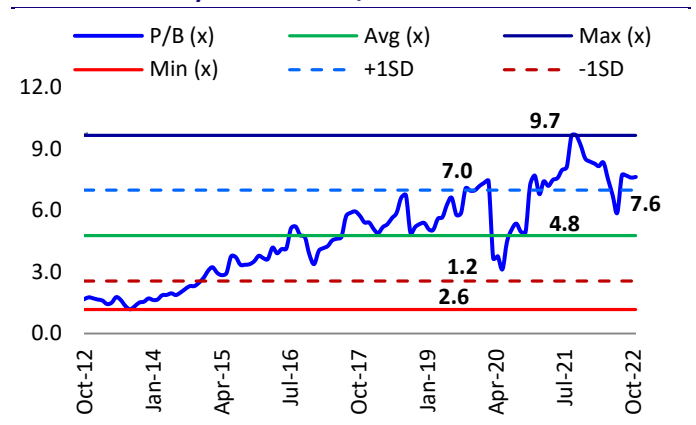
Source: MOFSL, Company

Exhibit 18: One-year forward P/E



Source: MOFSL, Company

Exhibit 19: One-year forward P/B



Source: MOFSL, Company

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	356.9	462.2
Interest Expended	29.3	38.0	46.1	66.2	94.7	94.1	97.5	127.7	178.4
Net Interest Income	36.2	49.0	69.7	97.3	135.0	138.9	175.2	229.3	283.8
Change (%)	37.0	35.4	42.2	39.5	38.8	2.9	26.2	30.9	23.8
Other Operating Income	7.5	12.7	11.6	21.4	34.0	33.6	43.6	56.4	59.8
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	285.8	343.7
Change (%)	39.0	40.7	31.3	45.9	42.4	2.1	26.8	30.5	20.3
Operating Expenses	19.0	25.6	32.7	42.0	56.6	53.1	75.8	101.7	119.6
Operating Profits	25.1	36.4	48.7	76.8	112.5	119.6	143.1	184.0	224.1
Change (%)	44.0	45.0	34.1	57.6	46.5	6.3	19.6	28.6	21.8
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.7	48.0	30.7	36.9
PBT	19.6	28.2	38.4	61.8	73.2	59.9	95.0	153.3	187.2
Tax	6.9	9.8	13.5	21.8	20.6	15.7	24.8	39.9	48.7
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	113.4	138.5
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.0	59.0	61.4	22.1
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	6.0	6.0	15.0	18.0

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	529.1	649.6
Net Worth	74.3	90.5	158.6	197.0	324.2	364.4	431.8	530.3	650.8
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	529.6	650.1
Change (%)	54.7	21.9	75.1	24.3	64.1	12.3	18.7	22.8	22.8
Borrowings	370.2	508.9	665.6	1,015.9	1,298.1	1,316.3	1,652.5	2,102.1	2,623.7
Change (%)	38.7	37.5	30.8	52.6	27.8	1.4	25.5	27.2	24.8
Other liabilities	25.2	19.9	23.9	29.5	22.6	35.2	41.4	47.6	54.7
Total Liabilities	469.7	619.4	848.0	1,242.3	1,643.9	1,714.7	2,125.1	2,679.3	3,328.6
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	2,478.9	3,123.5
Change (%)	40.5	28.7	41.8	42.1	25.6	2.7	30.5	29.5	26.0
Other assets	21.1	14.1	16.6	19.2	40.5	63.9	88.4	77.9	82.7
Total Assets	469.7	619.4	848.0	1,242.3	1,643.9	1,714.7	2,125.1	2,679.3	3,328.6

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	16.3	16.5
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.2	6.6	6.8	7.6
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.9	9.6	9.5	9.0
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.6	10.4	10.4	10.1
Profitability Ratios (%)									
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.7	34.6	35.6	34.8
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.0	47.3	48.7	49.7
RoE	20.9	22.3	20.0	22.5	20.2	12.8	17.7	23.6	23.5
RoA	3.2	3.4	3.4	3.8	3.6	2.6	3.7	4.7	4.6
Asset Quality (%)									
GNPA	5.4	9.8	11.6	18.0	23.6	27.3	31.3	31.1	37.5
NNPA	1.2	2.6	3.5	7.3	9.4	11.4	13.1	11.8	13.1
GNPA %	1.2	1.7	1.4	1.6	1.6	1.8	1.6	1.2	1.2
NNPA %	0.3	0.5	0.4	0.6	0.7	0.8	0.7	0.5	0.4
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	25.3	24.7
Tier I	16.1	13.3	18.4	16.3	21.3	25.1	24.8	23.5	23.3
Tier II	3.4	6.2	5.5	4.4	3.7	3.2	2.5	1.8	1.3
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.9	4.8	5.0	5.1
Valuation									
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	605.7	715.8	879.0	1,078.8
Price-BV (x)					13.8	12.3	10.4	8.5	6.9
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.5	116.5	188.0	229.6
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.3	58.6	61.4	22.1
Price-Earnings (x)					84.7	101.1	63.8	39.5	32.4
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	10.0	20.0	24.9	29.9
Dividend Yield (%)					0.1	0.1	0.3	0.3	0.4

E: MOFSL Estimates

NOTES

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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

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