

January 28, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	7,835		8,953	
NII (Rs.)	3,39,767	3,89,827	3,33,557	3,80,796
% Chng.	1.9	2.4		
PPoP (Rs.)	2,20,636	2,59,016	2,18,820	2,55,285
% Chng.	0.8	1.5		
EPS (Rs.)	217.1	241.4	208.2	230.6
% Chng.	4.3	4.7		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	2,18,842	2,89,116	3,39,767	3,89,827
Growth (%)	26.8	32.1	17.5	14.7
Op. Profit (Rs m)	1,43,072	1,88,589	2,20,636	2,59,016
PAT (Rs m)	70,282	94,908	1,30,615	1,45,224
EPS (Rs.)	116.8	157.8	217.1	241.4
Gr. (%)	58.8	35.0	37.6	11.2
DPS (Rs.)	20.0	5.0	5.2	5.2
Yield (%)	0.3	0.1	0.1	0.1
Margin (%)	11.4	12.1	11.4	11.4
RoAE (%)	17.5	23.9	24.0	24.2
RoAA (%)	3.7	4.9	4.6	4.7
PE (x)	49.3	36.5	26.5	23.9
P/BV (x)	7.9	6.4	5.1	4.2
P/ABV (x)	8.1	6.8	5.3	4.4

Key Data

BJFN.BO | BAF IN

52-W High / Low	Rs.7,778 / Rs.5,220
Sensex / Nifty	59,331 / 17,604
Market Cap	Rs.3,488bn/ \$ 42,783m
Shares Outstanding	605m
3M Avg. Daily Value	Rs.6813.14m

Shareholding Pattern (%)

Promoter's	56.09
Foreign	19.86
Domestic Institution	12.44
Public & Others	11.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.4)	(9.9)	(15.7)
Relative	(9.6)	(16.1)	(17.8)

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Strong growth momentum; Asset quality pristine

Quick Pointers:

- Gross NPA/NIM at 1.14%/13.24% in Q3 vs 1.17%/13.26% of Q2FY23.
- Highest ever loans booked along with significant customer addition.

We maintain 'BUY' rating and reduce our TP to Rs 7,835 on (7x Sep'24E PABV) from Rs 8,953 (earlier:8.4x Sep'24E PABV) as we increase our FY23/24/25 NII estimates by 3.9%/1.9%/2.4%, given decrease in cost of funds from 7.5%/7.6%/7.7% to 7.2%/7.3%/7.4%. The impact of rate hikes on cost of funds is more gradual than anticipated. However our multiple stands reduced, as competition intensity remains high especially in consumer finance and mortgage segment along with company's plan to enter into risky microfinance business. However re-rating can happen if company executes long range strategy framework and increase stickiness of new franchise customers. Maintain 'BUY'.

- Earnings in-line with our estimates with PAT at Rs29.7bn:** BAF's Q3FY23 earnings (PAT at Rs29.7bn) stood in line with our estimates (PLe: Rs30.0bn), on account of strong NII growth. PPoP aided by healthy NII grew 8.2%QoQ/23.8% YoY to Rs48.5bn above our estimates [PLe of Rs47.9bn]. Margins sustained, as rate hikes did not have an adverse impact on cost of funds and NIM for Q3FY23 came in at 13.24% vs 13.26% in Q2FY23.
- Improvement in asset quality:** BAF's asset quality exhibited improvement during Q3FY23 with (1) significant improvement in auto finance asset quality (GNPA % at 5.99% vs 8.01% (Q3FY23)) (2) ECL Stage 3 provision at 8.4bn vs Rs 7.3bn (Q2FY23) (3) largely stable PCR at 64% vs 62% (Q2FY23). Overall stage 2 assets stood at Rs 3.94 bn as of 31 December 2022 as against Rs 4.38 bn of 30 September 2022.
- Healthy core performance with AUM growth of 5.7%QoQ:** In Q3FY23, BAF reported its highest ever customer franchise addition in a quarter- even bettering record set in Q1'23. The company added 3.14mn customers, customer franchise grew 4.9%QoQ to 66.05mn and AUMs grew at 5.7%QoQ/27.4%YoY at Rs2,308bn. On QoQ basis, AUM growth was driven by Consumer B2C business (6.6%+) and Rural B2C (4.1%+). SME business growth was tepid at 4.5%QoQ vs 8%QoQ growth shown in Q2'23. AUM growth was slow in mortgages at 3.3% QoQ due to intense pricing pressure.
- Long Range Strategy:** BAF has released LRS which is an annual 5 year rolling strategy planning process with an execution plan of 12-24 months. As part of LRS, the Company analyses macro, industry outlook, technology megatrends, business megatrends and selects a leading benchmark company to learn from. As part of strategy, BAF is planning to launch new auto loans in Q2 FY24, Micro Finance in Q4 FY24 and tractor financing in Q1 FY25. They plan to open 100 locations in UP, Bihar and North-East and another 100 locations in FY25.

PAT at Rs 29.7bn increases by 6.9%QoQ/39.9%YoY in line with our ests [PLe of Rs30.0bn] on account of strong NII growth.

NII growth stood strong with 6.9%QoQ/25.2%YoY growth at Rs59.2bn above our estimates [PLe of Rs58.9bn] supported by AUM growth of 27.4% YoY/5.7% QoQ to Rs2,308bn . Consumer lending showed good sequential growth of 6.6%. Softness was seen in mortgages(3.3% QoQ growth). NIM for Q3'23 at 13.24% vs 13.26% in Q2'23 and 13.79% in Q3'22

Operating expenses grew 2.7%QoQ and 23.8% YoY to Rs25.8bn [PLe of Rs26.4bn]

PPoP aided by healthy NII grew 8.2%QoQ/23.8% YoY to Rs48.5bn above our estimates [PLe of Rs47.9bn]

Loan losses and provisions for Q3 FY23 stood at Rs8.4bn increasing 14.6%QoQ and decreasing 20%YoY and was above our estimates[PLe: Rs7.8bn]

Asset quality improved QoQ as Gross NPA and Net NPA as of 31 Dec'22 stood at 1.14% and 0.41% respectively, as against 1.17% and .44% as of 30 Sep'22.

Exhibit 1: Q3FY23 – Strong NII growth; Mortgages growth soft; NIM Stable

Y/e March (Rs mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
Interest Income	92,734	72,647	27.6%	85,090	9.0%
Interest Expenses	33,512	25,345	32.2%	29,714	12.8%
Net Interest Income	59,222	47,302	25.2%	55,376	6.9%
Other Income	15,126	12,744	18.7%	14,633	3.4%
Total Income	74,347	60,046	23.8%	70,009	6.2%
Total Operating Expenses	25,818	20,854	23.8%	25,144	2.7%
Operating Profit (PPP)	48,529	39,192	23.8%	44,865	8.2%
Provisions & Write Offs	8,413	10,512	-20.0%	7,342	14.6%
PBT	40,116	28,680	39.9%	37,523	6.9%
Tax Expense	10,387	7,427	39.9%	9,716	6.9%
Reported Profit	29,729	21,253	39.9%	27,807	6.9%
Asset Quality					
Gross NPAs (Rs mn)	26,313	31,356	-16.1%	25,546	3.0%
Net NPAs (Rs mn)	9,463	14,138	-33.1%	9,607	-1.5%
Gross NPA (%)	1.14%	1.73%	-0.6%	1.17%	0.0%
Net NPA (%)	0.41%	0.78%	-0.4%	0.44%	0.0%
NIM %	13.24%	13.79%	-0.6%	13.26%	0.0%
ROE %	24.21%	21.39%	2.8%	23.68%	0.5%
ROA %	2.69%	2.35%	0.3%	2.65%	0.0%
AUM (Rs mn)					
Consumer Lending	7,89,052	6,47,992	21.8%	7,40,456	6.6%
SME Lending	9,33,414	7,27,114	28.4%	8,93,092	4.5%
Commercial Lending	3,54,534	2,54,354	39.4%	3,27,742	8.2%
Rural Lending	2,31,420	1,83,040	26.4%	2,22,370	4.1%
Total	23,08,420	18,12,500	27.4%	21,83,660	5.7%
AUM mix (%)					
Consumer Lending	34%	36%	-2%	34%	0.3%
SME Lending	40%	40%	0.3%	41%	-0.5%
Commercial Lending	15%	14%	1.3%	15%	0.3%
Rural Lending	10%	10%	-0.1%	10%	-0.2%
Total	100%	100%	0.0%	100%	0.0%

Source: Company, PL

Conference Call Highlights:

- **AUM stood at Rs. 2.31trn in Q3FY23 (5.7% QoQ/27% YoY):** Softness in growth was seen due to intense pricing pressures in mortgages and muted consumer discretionary demand post festive season.
- **Highest ever new customer addition of 3.14mn** as well as highest ever number of new loans were booked in Q3 at 7.84mn.
- **Cost of Funds increased by 23bps QoQ to 7.14%.** Despite increase in CoF, the company maintained its NIMs at 13.24% vs 13.26% in Q2FY23.
- **Deposit growth was slower in Q3** relative to previous quarters, due to lag in increasing interest rates. Overall, BAF is on track to deliver its goal of 25% consolidated borrowings from deposits in the medium term.
- **Opex to NII recovered at 34.7% vs 35.9% in Q2FY23** as operating leverage kicked in. The company looks to sustain similar level of operating efficiencies in Q4.
- **Omnipresence strategy is expected to go fully live from Mar'22** with launch of Phase-2. Major portion technology investments is completed.
- **Asset quality improved QoQ with GNPA/NNPA at 1.14%/0.41%.** Credit costs are expected to be 1.4-1.5% of average assets and company holds management overlay of Rs. 10bn.
- **Long Range Strategy (LRS) Framework:** The company has disclosed an annual 5 year rolling strategy planning process having an execution plan of 12-24 months. Some of the execution plans are:
 - (i) **LAP business in BFL** for tapping huge MSME market and cross-sell.
 - (ii) **Launch of MFI business and Tractor financing**, given company's deep knowledge in consumer behavior along with its large base of existing customers.
 - (iii) **Rewards** as a platform in Q4 FY24 and **Social** as a platform in Q2 FY25.
 - (iv) **Target to add 445 branches in next 5 years** with ~400 branches in UP, Bihar and parts of North East.
 - (v) **Customer franchise at 110-120mn by FY27** with 3.5-3.75% share of retail credit.
- **BAF plans to open 650 Gold loan branches** over 4-4.5 years period aiming significant expansion in Gold loan business.

Exhibit 2: Core business trends strong led by Consumer business (+6.6% QoQ)

AUM (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Consumer B2B -Auto Finance Business	1,27,070	1,21,120	1,13,470	1,07,380	1,06,200	1,01,940	99,620	1,01,600	1,17,860
YoY gr.	-4%	-7%	-11%	-15%	-16%	-16%	-12%	-5%	11%
QoQ gr.	0%	-5%	-6%	-5%	-1%	-4%	-2%	2%	16%
AUM % mix	9%	8%	7%	6%	6%	5%	5%	5%	5%
Consumer B2B - Sales Finance Businesses	1,01,860	1,15,260	1,11,750	1,25,550	1,49,200	1,49,770	1,64,750	1,62,590	1,67,120
YoY gr.	-26%	-17%	21%	59%	46%	30%	47%	30%	12%
QoQ gr.	29%	13%	-3%	12%	19%	0%	10%	-1%	3%
AUM % mix	7%	8%	7%	8%	8%	8%	8%	7%	7%
Consumer B2C Businesses	2,90,420	3,04,500	3,13,990	3,36,790	3,63,440	3,87,720	4,12,070	4,40,720	4,67,330
YoY gr.	8%	4%	7%	19%	25%	27%	31%	31%	29%
QoQ gr.	3%	5%	3%	7%	8%	7%	6%	7%	6%
AUM % mix	20%	20%	20%	20%	20%	20%	20%	20%	20%
Rural B2B Business	24,380	28,830	29,140	32,580	39,930	41,290	45,640	43,290	46,840
YoY gr.	-10%	8%	39%	80%	64%	43%	57%	33%	17%
QoQ gr.	35%	18%	1%	12%	23%	3%	11%	-5%	8%
AUM % mix	2%	2%	2%	2%	2%	2%	2%	2%	2%
Rural B2C Business	1,09,540	1,18,220	1,25,370	1,33,760	1,43,110	1,53,010	1,67,400	1,79,080	1,84,580
YoY gr.	10%	11%	22%	30%	31%	29%	34%	34%	29%
QoQ gr.	6%	8%	6%	7%	7%	7%	9%	7%	3%
AUM % mix	8%	8%	8%	8%	8%	8%	8%	8%	8%
SME Business	1,88,820	2,02,170	2,03,350	2,18,710	2,31,530	2,49,790	2,65,640	2,88,810	3,08,800
YoY gr.	1%	4%	11%	20%	23%	24%	31%	32%	33%
QoQ gr.	3%	7%	1%	8%	6%	8%	6%	9%	7%
AUM % mix	13%	13%	13%	13%	13%	13%	13%	13%	13%
Securities Lending Business	50,740	60,540	62,900	72,930	91,270	1,59,010	1,08,010	1,21,820	1,32,570
YoY gr.	-22%	26%	59%	37%	80%	163%	72%	67%	45%
QoQ gr.	-5%	19%	4%	16%	25%	74%	-32%	13%	9%
AUM % mix	4%	4%	4%	4%	5%	8%	5%	6%	6%
Commercial Lending Business	75,100	82,930	90,110	98,010	1,04,780	1,14,980	1,20,400	1,33,780	1,48,480
YoY gr.	15%	29%	48%	50%	40%	39%	34%	36%	42%
QoQ gr.	15%	10%	9%	9%	7%	10%	5%	11%	11%
AUM % mix	5%	5%	6%	6%	6%	6%	6%	6%	6%
Mortgages	4,67,580	4,95,920	5,11,070	5,41,960	5,83,040	6,17,010	6,56,650	7,10,920	7,34,840
YoY gr.	6%	7%	11%	18%	25%	24%	28%	31%	26%
QoQ gr.	2%	6%	3%	6%	8%	6%	6%	8%	3%
AUM % mix	33%	32%	32%	32%	32%	31%	32%	33%	32%
Overall AUMs			29,420	1,700	-	-	-	1,050	-
YoY gr.	14,35,510	15,29,490	15,90,570	16,69,370	18,12,500	19,74,520	20,40,180	21,83,660	23,08,420
QoQ gr.	1%	4%	15%	22%	26%	29%	28%	31%	27%

Source: Company, PL

Exhibit 3: Customer franchise robust with highest ever customer addition of 3.14mn in a quarter

Key Data Metrics	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Total Customer Franchise	46.31	48.57	50.45	52.80	55.36	57.57	60.30	62.91	66.05
YoY gr.	15%	14%	18%	20%	20%	19%	20%	19%	19%
QoQ gr.	5%	5%	4%	5%	5%	4%	5%	4%	5%
Total Cross sell Franchise	25.25	26.89	27.43	29.37	31.26	32.77	34.66	36.39	38.58
YoY gr.	8%	11%	14%	23%	24%	22%	26%	24%	23%
QoQ gr.	6%	6%	2%	7%	6%	5%	6%	5%	6%
New to BAF Customers (Nos)	21,92,461	22,60,681	18,80,000	23,50,000	23,60,000	22,10,000	27,30,000	26,10,000	31,40,000
YoY gr.	-11%	19%	253%	93%	8%	-2%	45%	11%	33%
QoQ gr.	80%	3%	-17%	25%	0%	-6%	24%	-4%	20%
Credit Card - CIF	19,00,000	20,50,000	21,30,000	21,90,000	25,90,000	27,50,000	29,60,000	31,50,000	32,90,000
YoY gr.	14%	11%	18%	17%	36%	34%	39%	44%	27%
QoQ gr.	2%	8%	4%	3%	18%	6%	8%	6%	4%
EMI Card - CIF in Mn	23.5	23.77	24.1	25.7	27.5	30	32.8	34.4	35.9
YoY gr.	15%	8%	12%	25%	17%	26%	36%	34%	31%
QoQ gr.	14%	1%	1%	7%	7%	9%	9%	5%	4%

Source: Company, PL

Exhibit 4: Healthy liability management with largely stable mix, deposits share to be 25% at the end of FY25

Liability profile	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Overall Borrowings (rs mn)	12,41,620	13,16,450	13,32,980	14,50,200	15,40,410	16,52,320	17,20,970	18,32,730	20,13,180
YoY gr.	10.8%	1.4%	10.1%	16.1%	24.1%	25.5%	29.1%	26.4%	30.7%
QoQ gr.	-0.6%	6.0%	1.3%	8.8%	6.2%	7.3%	4.2%	6.5%	9.8%
Borrowings mix (%)									
Banks	26.0%	22.0%	30.0%	29.0%	29.0%	28.0%	31.0%	31.0%	31.0%
NCDs	35.0%	34.0%	36.0%	37.0%	38.0%	40.0%	37.0%	37.0%	37.0%
Tier 2 Debt	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%	3.0%	3.0%	1.0%
FD	24.0%	26.0%	21.0%	20.0%	20.0%	19.0%	20.0%	22.0%	21.0%
Short term borrowings (CP, CBLO, ECB)	11.0%	11.0%	10.0%	11.0%	11.0%	11.0%	9.0%	7.0%	10.0%

Source: Company, PL

Exhibit 5: Opex to NII reduces sequentially to 34.7% as operating leverage kicks in

BAF CONSOLIDATED Key Metrics/Ratio Analysis	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Total Opex to Net Interest Income	32.3%	35.3%	30.6%	38.1%	34.7%	34.6%	35.9%	35.9%	34.7%
YoY increase in bps	-150	430	270	1030	240	-70	530	-220	0
QoQ increase in bps	450	300	-470	750	-340	-10	130	0	-120
Loan loss to AUM*	1.0%	1.1%	1.2%	0.8%	0.6%	0.4%	0.1%	0.4%	0.4%
YoY increase in bps	39	-30	-6	-46	-37	-71	-111	-47.25	-24.5
QoQ increase in bps	-29	9	8	-34	-20	-25	-32	29.75	2.75
Return on Average Assets	3.6%	4.4%	2.8%	3.6%	5.2%	5.2%	5.3%	5.4%	5.4%
YoY increase in bps	-120	160	0	80	160	80	253	181	23
QoQ increase in bps	80	80	-160	80	160	0	13	8	2
Return on Average Equity	13.2%	13.2%	10.8%	15.2%	21.2%	22.8%	23.1%	23.6%	24.0%
YoY increase in bps	-1040	160	-80	360	800	960	1227	840	278
QoQ increase in bps	160	0	-240	440	600	160	27	53	38

Source: Company, PL

Exhibit 6: Asset quality largely stable with 15% QoQ improvement in Auto Finance business

BAF CONSOLIDATED ASSET QUALITY PROFILE	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
GNPA (Rs mn)									
Auto Finance Business	16,170	12,270	24,260	19,190	13,040	12,380	11,100	8,780	7,480
YoY gr.	103%	35%	195%	204%	-19%	1%	-54%	-54%	-43%
QoQ gr.	156%	-24%	98%	-21%	-32%	-5%	-10%	-21%	-15%
Sale Finance Business	2,650	1,450	1,330	910	450	4,320	530	880	1,090
YoY gr.	70%	-24%	22%	194%	-83%	198%	-60%	-3%	142%
QoQ gr.	755%	-45%	-8%	-32%	-51%	860%	-88%	66%	24%
Consumer B2C Business	9,820	5,000	8,960	7,090	4,790	3,610	3,350	4,030	5,000
YoY gr.	141%	-4%	135%	194%	-51%	-28%	-63%	-43%	4%
QoQ gr.	307%	-49%	79%	-21%	-32%	-25%	-7%	20%	24%
Rural B2B Business	520	330	400	360	100	70	100	240	290
YoY gr.	206%	120%	400%	1100%	-81%	-79%	-75%	-33%	190%
QoQ gr.	1633%	-37%	21%	-10%	-72%	-30%	43%	140%	21%
Rural B2C Business	4,160	2,010	3,720	4,290	3,760	1,870	1,740	2,270	2,540
YoY gr.	204%	20%	170%	352%	-10%	-7%	-53%	-47%	-32%
QoQ gr.	338%	-52%	85%	15%	-12%	-50%	-7%	30%	12%
SME Business	4,520	2,040	4,520	3,790	3,290	3,640	3,590	4,270	4,840
YoY gr.	67%	-39%	62%	83%	-27%	78%	-21%	13%	47%
QoQ gr.	118%	-55%	122%	-16%	-13%	11%	-1%	19%	13%
Securities Lending Business				20	50	20	20	20	20
YoY gr.				-	-	-	-	-	-
QoQ gr.				-	-	-	-	-	-
Commercial Lending Business	-	-	-	440	440	440	360	360	360
YoY gr.	-	-	-	-	-	-	-	-	-
QoQ gr.	-	-	-	-	-	-	-	-	-
Mortgages	4,100	4,210	4,180	4,940	5,160	4,980	4,600	4,450	4,480
YoY gr.	-22%	94%	110%	115%	26%	18%	10%	-10%	-13%
QoQ gr.	78%	3%	-1%	18%	4%	-3%	-8%	-3%	1%
Overall GNPA	41,940	27,310	47,370	41,030	31,080	31,330	25,390	25,300	26,100
YoY gr.	78%	16%	144%	185%	-26%	15%	-46%	-38%	-16%
QoQ gr.	191%	-35%	73%	-13%	-24%	1%	-19%	0%	3%

Source: Company, PL

Exhibit 7: Pristine asset quality led by 202bps QoQ improvement in auto finance GNPA's

GNPA (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Auto Finance Business	11.5%	9.3%	19.2%	16.0%	11.0%	11.0%	10.2%	8.0%	6.0%
YoY increase in bps	586	284	1335	1155	-50	170	-900	-799	-505
QoQ increase in bps	709	-223	984	-315	-496	-3	-86	-214	-202
Sale Finance Business	1.9%	1.1%	1.1%	0.6%	0.3%	2.8%	0.3%	0.5%	0.6%
YoY increase in bps	99	-22	2	34	-161	170	-73	-11	34
QoQ increase in bps	161	-80	-6	-41	-34	251	-249	21	11
Consumer B2C Business	3.3%	1.7%	2.8%	2.1%	1.3%	1.0%	0.8%	0.9%	1.1%
YoY increase in bps	200	8	148	131	-201	-75	-201	-118	-25
QoQ increase in bps	254	-164	114	-73	-78	-38	-12	10	15
Rural B2B Business	2.1%	1.1%	1.4%	1.1%	0.2%	0.2%	0.2%	0.5%	0.6%
YoY increase in bps	149	55	119	95	-184	-94	-114	-55	37
QoQ increase in bps	194	-98	25	-26	-85	-8	5	33	7
Rural B2C Business	3.6%	1.7%	2.9%	3.1%	2.6%	1.2%	1.0%	1.2%	1.3%
YoY increase in bps	231	12	155	221	-109	-45.5	-184	-186	-121
QoQ increase in bps	276	-199	120	24	-54	-135.5	-18.5	22	11
SME Business	2.3%	0.9%	2.2%	1.7%	1.4%	1.4%	1.3%	1.5%	1.5%
YoY increase in bps	92	-76	126	61	-94	49	-82	-24	15
QoQ increase in bps	125	-139	121	-46	-30	4	-10	12	9
Securities Lending Business	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
YoY increase in bps	0	0	0	2	6	1	2	0	-5
QoQ increase in bps	0	0	0	2	4	-5	1	0	-1
Commercial Lending Business	0.0%	0.0%	0.0%	0.5%	0.4%	0.4%	0.3%	0.3%	0.2%
YoY increase in bps	-58	-3	-4	43	40	38	29	-18	-18
QoQ increase in bps	0	-2	0	45	-3	-4	-9	-2	-3
Mortgages	1.0%	0.9%	0.9%	1.0%	1.0%	0.9%	0.7%	0.7%	0.6%
YoY increase in bps	-41	39	19	41	0	-6	-14	-32	-31
QoQ increase in bps	39	-3	-4	9	-2	-9	-12	-9	-1
Overall GNPA	2.9%	1.8%	3.0%	2.5%	1.7%	1.6%	1.3%	1.2%	1.1%
YoY increase in bps	125	18	156	142	-113	-19	-171	-128	-59
QoQ increase in bps	183	-107	117	-51	-72	-13	-35	-8	-3

Source: Company, PL

Exhibit 8: BHFL Robust financial metrics led to PAT growth of 81% YoY at Rs. 3,340mn

BHFL Key Metrics/Ratio Analysis	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII (Rs mn)	3,920	3,690	3,350	3,960	4,290	4,520	5,940	5,900	6,380
YoY gr.	38%	30%	38%	60%	9%	22%	77%	49%	49%
QoQ gr.	58%	-6%	-9%	18%	8%	5%	31%	-1%	8%
PAT (Rs mn)	1,990	1,790	1,610	1,660	1,850	1,980	3,160	3,060	3,340
YoY gr.	52%	97%	75%	100%	-7%	11%	96%	84%	81%
QoQ gr.	140%	-10%	-10%	3%	11%	7%	60%	-3%	9%
Total Opex to Net Interest Income	26%	27%	27%	28%	29%	33%	33%	25%	25%
YoY increase in bps	-730	120	-330	-40	230	590	530	-310	-420
QoQ increase in bps	-180	20	60	60	90	380	0	-780	-20
Loan loss to AUM	0.4%	0.1%	7.0%	0.2%	0.1%	0.1%	0.1%	0.2%	0.2%
YoY increase in bps	30	-24	684	-7	-22	-1	-694	7	7
QoQ increase in bps	13	-27	691	-684	-2	-6	-2	17	-2
RoE	0.3%	0.6%	0.5%	0.4%	0.4%	0.4%	0.7%	0.6%	0.6%
YoY increase in bps	-20	-60	-70	10	10	-20	16	18	19
QoQ increase in bps	0	30	-10	-10	0	0	26	-7	1
RoA	1.7%	3.0%	2.6%	2.6%	2.9%	3.0%	3.9%	3.2%	3.3%
YoY increase in bps	-160	-460	-380	110	120	0	128	55	43
QoQ increase in bps	20	130	-40	0	30	10	88	-73	18

Source: Company, PL

Exhibit 9: Steady QoQ growth of 4.4% in Credit cards and EMI cards each

Particulars	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Credit Card - CIF	19,00,000	20,50,000	21,30,000	21,90,000	25,90,000	27,50,000	29,60,000	31,50,000	32,90,000
QoQ gr.	1.6%	7.9%	3.9%	2.8%	18.3%	6.2%	7.6%	6.4%	4.4%
EMI Card - CIF in Mn	24	24	24	26	28	30	33	34	36
QoQ gr.	14.1%	1.1%	1.4%	6.6%	7.0%	9.1%	9.3%	4.9%	4.4%

Source: Company, PL

Exhibit 10: Portfolio credit quality improves with sequential reduction in 30+ Bucket across divisions

Credit Quality- Portfolio Composition	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Consumer Durable									
Bucket 0	98.92%	99.52%	99.05%	99.58%	99.72%	97.89%	99.66%	99.63%	99.64%
30+	0.78%	0.25%	0.69%	0.27%	0.22%	0.25%	0.30%	0.30%	0.27%
2W & 3W									
Bucket 0	76.15%	78.02%	71.14%	77.76%	82.86%	85.19%	86.02%	89.34%	91.68%
30+	17.59%	17.37%	16.35%	12.67%	11.01%	8.74%	8.41%	6.34%	5.22%
Lifestyle									
Bucket 0	-	-	-	-	-	-	-	-	-
30+	-	-	-	-	-	-	-	-	-
Digital Products									
Bucket 0	99.27%	98.71%	98.71%	99.56%	99.74%	99.66%	99.46%	99.49%	99.57%
30+	0.34%	0.95%	0.95%	0.27%	0.20%	0.30%	0.48%	0.40%	0.32%
Personal Loans cross sells									
Bucket 0	-	-	-	-	-	-	-	-	-
30+	-	-	-	-	-	-	-	-	-
Salaried Personal Loans									
Bucket 0	-	-	-	-	-	-	-	-	-
30+	-	-	-	-	-	-	-	-	-
Business & professional									
Bucket 0	97.19%	98.50%	97.30%	98.51%	98.73%	98.93%	99.02%	99.06%	99.14%
30+	1.92%	1.18%	1.97%	1.04%	0.90%	0.69%	0.63%	0.55%	0.41%
Loan against property									
Bucket 0	97.31%	98.47%	96.23%	97.15%	97.88%	98.56%	98.44%	98.62%	98.81%
30+	1.78%	0.50%	2.69%	1.76%	1.29%	0.79%	0.98%	0.86%	0.72%
Home loans									
Bucket 0	98.67%	99.56%	98.31%	99.05%	99.07%	99.45%	99.37%	99.41%	99.54%
30+	1.03%	0.24%	1.36%	0.69%	0.62%	0.28%	0.42%	0.41%	0.28%
Rural lending B2B									
Bucket 0	99.21%	99.75%	98.89%	99.60%	99.82%	99.79%	99.73%	99.64%	99.70%
30+	0.52%	0.10%	0.80%	0.18%	0.14%	0.18%	0.24%	0.28%	0.22%
Rural lending B2C									
Bucket 0	94.75%	97.67%	95.47%	94.49%	95.83%	97.79%	98.05%	97.94%	98.02%
30+	3.44%	1.83%	3.59%	4.19%	2.73%	1.83%	1.65%	1.70%	1.57%

Source: Company, PL

Exhibit 11: EPS estimates of FY23 slightly increased as NII estimates increased upwards on strong growth

(Rs mn)	Old			Revised			Change in Estimates		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	2,78,160	3,33,557	3,80,796	2,89,116	3,39,767	3,89,827	3.9%	1.9%	2.4%
Operating Profit	1,75,286	2,18,820	2,55,285	1,88,589	2,20,636	2,59,016	7.6%	0.8%	1.5%
PAT	90,117	1,25,278	1,38,727	94,908	1,30,615	1,45,224	5.3%	4.3%	4.7%
EPS (Rs)	149.8	208.2	230.6	157.8	217.1	241.4	5.3%	4.3%	4.7%
Price Target (Rs)		8,953			7,835			-12.5%	
Reco		BUY			BUY				

Source: PL

Exhibit 12: TP reduced to Rs7,835 from Rs8,935
PT calculation and upside

Fair price - EVA	7,104
Fair price - P/ABV	8,566
Average of the two	7,835
Target P/ABV	7.0
Target P/E	36.1
Current price, Rs	5761
Upside (%)	36%
Dividend yield (%)	1%
Total return (%)	37%

Source: PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	3,16,324	4,11,702	4,85,808	5,82,970
Interest Expenses	97,482	1,22,586	1,46,042	1,93,143
Net interest income	2,18,842	2,89,116	3,39,767	3,89,827
Growth(%)	26.8	32.1	17.5	14.7
Non-interest income	80	73	147	394
Growth(%)	(46.6)	(8.4)	100.3	169.1
Net operating income	2,18,922	2,89,189	3,39,913	3,90,221
Expenditures				
Employees	35,897	49,939	55,675	78,421
Other Expenses	36,108	45,959	56,801	44,133
Depreciation	3,846	4,703	6,802	8,651
Operating Expenses	75,850	1,00,600	1,19,277	1,31,205
PPP	1,43,072	1,88,589	2,20,636	2,59,016
Growth(%)	19.6	31.8	17.0	17.4
Provisions	48,034	53,408	40,600	40,600
Profit Before Tax	95,038	1,35,181	1,80,036	2,18,416
Tax	24,756	40,273	49,421	73,192
Effective Tax rate(%)	26.0	29.8	27.5	33.5
PAT	70,282	94,908	1,30,615	1,45,224
Growth(%)	59.0	35.0	37.6	11.2

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	1,203	1,203	1,203	1,203
Reserves and Surplus	4,35,920	5,38,040	6,81,736	8,96,147
Networth	4,37,124	5,39,243	6,82,940	8,97,350
Growth (%)	18.4	23.4	26.6	31.4
Loan funds	16,67,432	17,42,678	20,86,419	26,28,570
Growth (%)	26.7	4.5	19.7	26.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	20,497	3,07,214	4,84,117	1,60,189
Total Liabilities	21,25,052	27,44,084	33,29,428	36,82,060
Application of funds				
Net fixed assets	12,959	16,237	18,022	20,409
Advances	19,14,233	24,92,779	31,32,621	39,24,584
Growth (%)	30.5	30.2	25.7	25.3
Investments	1,22,455	96,018	1,00,660	1,25,862
Current Assets	36,803	37,249	31,827	39,429
Net current assets	36,803	37,249	31,827	39,429
Other Assets	38,603	1,01,801	46,297	(4,28,224)
Total Assets	21,25,052	27,44,084	33,29,428	36,82,059
Growth (%)	23.9	29.1	21.3	10.6
Business Mix				
AUM	19,74,520	24,76,598	31,32,621	39,24,584
Growth (%)	29.1	25.4	26.5	25.3
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	11.4	12.1	11.4	11.4
ROAA	3.7	4.9	4.6	4.7
ROAE	17.5	23.9	24.0	-

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Operating Inc.	73,659	79,209	85,090	92,734
Income from securitization	12,606	13,618	14,613	15,109
Interest Expenses	25,345	26,451	29,714	33,512
Net Interest Income	60,920	66,376	69,989	74,331
Growth (%)	30.9	47.9	31.2	23.8
Non-Interest Income	37	18	21	17
Net Operating Income	60,957	66,394	70,009	74,347
Growth (%)	30.8	47.9	31.2	23.8
Operating expenditure	19,962	22,705	23,936	24,628
PPP	39,951	42,575	44,865	48,529
Growth (%)	16.2	25.2	27.9	23.2
Provision	7,016	7,547	7,342	8,413
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	32,935	35,028	37,523	40,116
Tax	8,460	9,065	9,716	10,387
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.7	25.9	25.9	25.9
PAT	24,476	25,963	27,807	29,729
Growth	82	159	88	40
AUM	19,74,520	20,40,180	21,83,660	23,08,129
YoY growth (%)	29.1	28.3	30.8	27.3
Borrowing	14,70,201	-	-	-
YoY growth (%)	-	-	-	-

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	5,761	5,761	5,761	5,761
EPS (Rs)	116.8	157.8	217.1	241.4
Book value (Rs)	726.6	896.3	1,135.2	1,365.0
Adj. BV(Rs)	712.1	852.8	1,083.1	1,299.8
P/E(x)	49.3	36.5	26.5	23.9
P/BV(x)	7.9	6.4	5.1	4.2
P/ABV(x)	8.1	6.8	5.3	4.4
DPS (Rs)	20.0	5.0	5.2	5.2
Dividend Payout Ratio(%)	0.0	0.0	-	-
Dividend Yield(%)	0.3	0.1	0.1	0.1

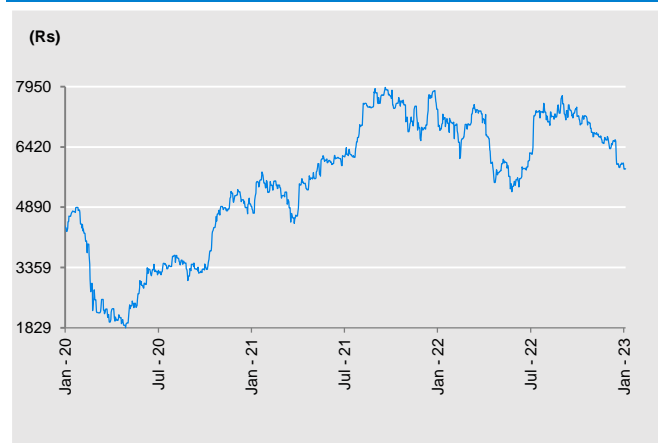
Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	30,628	57,334	69,857	90,658
Net NPA(Rs m)	13,017	26,174	31,326	39,246
Gross NPAs to Gross Adv.(%)	1.6	2.3	2.2	2.3
Net NPAs to net Adv.(%)	0.7	1.1	1.0	1.0
NPA coverage(%)	57.5	54.3	55.2	56.7

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	11.4	12.1	11.4	11.3
NII INCl. Securitization	11.4	12.1	11.4	11.3
Total income	11.4	12.1	11.4	11.3
Operating Expenses	4.0	4.2	4.0	4.1
PPOP	7.5	7.9	7.4	7.2
Total Provisions	2.5	2.2	1.4	1.5
RoAA	3.7	4.9	4.6	4.7
Avg. Assets/Avg. net worth	4.8	4.9	4.9	4.4
RoAE	17.5	23.9	24.0	24.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	8,953	5,980
2	21-Oct-22	BUY	8,953	7,432
3	06-Oct-22	BUY	8,953	7,480
4	28-Jul-22	BUY	8,953	6,396
5	07-Jul-22	BUY	8,953	5,917
6	27-Apr-22	BUY	8,953	7,241
7	12-Apr-22	BUY	8,950	7,332

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	5,980
2	Cholamandalam Investment and Finance Company	BUY	792	668
3	L&T Finance Holdings	BUY	109	95
4	Mahindra & Mahindra Financial Services	Hold	230	234
5	Manappuram Finance	BUY	144	119
6	Muthoot Finance	BUY	1,431	1,068
7	SBI Cards and Payment Services	Accumulate	935	745
8	Shriram Finance	BUY	1,521	1,294

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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