

Healthy quarter, management rigour holds key for future...

About the stock: Bajaj Finance, a strong NBFC with digital footprints, made a strong comeback with AUM growth reaching ~26-28% YoY. Harnessing its large franchise base digitally offers a huge opportunity. Housing forms 31% of the book.

- Bajaj Finance maintained strong operating metrics over various credit, rate cycles leading to >19% RoE, >4% RoA and maintains that guidance also

Q4FY23 Results: In line performance; robust long term guidance maintained.

- AUM grew 25% YoY (core AUM grew 29% YoY), NII growth at 23.8% YoY to ₹7433 crore, marginal uptick in cost of funds
- Asset quality has improved with Q4 GNPA and NNPA ratio declining to 0.94% and 0.34% from 1.14% and 0.41%, respectively, in Q3FY23
- PAT grew 30% YoY, 6% QoQ to ₹ 3156 crore, with RoE at 24% and RoA at 5.4% (annualised)

What should investors do? The stock has been consolidating for the last one year. We believe the long range strategy to reach 4-5% of retail credit (~3.5% by FY27E) in India is believable considering the management's proven track record on meeting guidance. Valuations have contracted over time. It now trades at 4.5x FY25E ABV and 20x FY25E PAT making it reasonable. The management reiterated that it has no plans to convert into a bank.

- 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. We maintain our target price at ₹ 7250 with a rather lower multiple of ~5.4x FY25E ABV vs. 5.7x earlier.

Key triggers for future price performance:

- The management has rolled out a five-year long range strategy (LRS), aiming for 3-4% share in total credit and 4-5% share in retail credit
- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR) to boost profitability. We expect >21% PAT growth in the next two years
- Stable asset quality and controlled costs expected to continue
- RoE at ~19-21% and RoA at 4-4.5%

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 ₹ 12.2 lakh crore as on December 2022
- We have a BUY rating with a target price of ₹ 1100

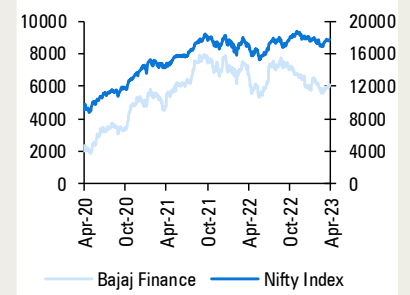
Particulars

Particulars	Amount
Market Capitalisation	₹ 366708 crore
52 week H/L	7778/ 5220
Face Value	₹ 2
Net worth	₹ 546245 Crore
DII Holding (%)	13
FII Holding (%)	19

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	55.9	55.9	55.9	55.9	55.9
FII	21.4	20.0	20.5	19.9	19.2
DII	11.2	12.0	12.1	12.4	12.9
Others	11.5	12.1	11.6	11.9	12.0

Price Chart



Recent Event & Key risks

- Core growth at 29%. The management expects 28% for FY24
- Key Risk:** (1) Extended moderation in NIM (2) Deterioration in asset quality of unsecured book may impact profitability

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII (₹ crore)	16901	17254	21892	28846	20%	35589	44348	24%
PPP (₹ crore)	11252	11961	14315	18800	19%	23305	29318	25%
PAT (₹ crore)	5264	4420	7036	11508	30%	14826	18429	27%
ABV (₹)	534	597	710	897		1,088	1,338	
P/E	69	84	53	32		26	21	
P/ABV	11.6	10.4	8.7	6.9		5.7	4.6	
RoA	2.8	2.3	3.7	4.9		4.8	4.8	
RoE	20.2	12.8	17.5	23.9		23.9	23.5	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Healthy in line performance, management's rigour holds key for future!

- Net interest income (NII) grew better than expected, by 28% YoY to ₹7,771 crore against ₹6,061 crore in Q4FY22 with B2C segments showing strong growth vs. pace of overall AUM growth moderating to 25%. Consolidated PAT grew 30% to ₹3,158 crore in Q4FY23 against ₹2,420 crore in Q4FY22. Annualised RoA of 5.40% in Q4FY23 was commendable. For FY23, reported RoA was at 5.3% while RoE was at 22%
- AUM consolidated growth came in at 25% YoY (7% QoQ) increasing to ₹ 2,47,379 crore, primarily driven by urban B2C growing 29% YoY and SME lending growing 35% YoY. Mortgages (consolidated) also grew 26% YoY and 5.7% QoQ to ₹ 77713 crore. The management expects the loan mix to be stable in foreseeable future with +/- 1% variation. AUM in HFC was up 30% at ₹69,228 crore against ₹53,322 crore as of March 31, 2022. Home loans AUM grew 24%, loan against property grew 4%, lease rental discounting grew 64% while developer finance grew 92%. In Q4, overall cost of funds was up 25 bps to 7.39% vs. 7.14% QoQ. However, the company delivered a stable NIM despite an increase in cost of funds. The management expects a gradual moderation in margins in FY24
- GNPA & NNPA for Q4FY23 were at 0.94% and 0.34% vs. 1.60% and 0.68%, respectively, on a QoQ basis. Provisions for Q4FY23 increased to ₹ 853 crore from ₹ 841 crore. The company holds a management and macroeconomic overlay of ₹960 crore. It has 64% coverage ratio on stage 3 assets
- C/I ratio improved QoQ to 34.1% from 34.7% QoQ. The company expects opex to NII to remain stable here
- In Q4, the company added 3.09 million (mn) new customers to its franchise. Customer franchise was at 69.14 mn vs. 66.05 mn in Q3FY23. It booked 7.56 mn new loans against 7.84 mn in Q3FY23. The management expects 11-12 million customers to be added in FY24

Q3FY23 Earnings Conference Call Highlights

- AUM growth guidance of 25-27% maintained. For FY24, 28-29% growth is expected
- Some level of moderation in profitability expected to be observed with NIM moderation of about 40 bps but net impact on RoA and RoE should be low
- Total 40-45% of B2B disbursements were made digitally
- The company added 19 locations in Q4FY23 and 229 locations in FY23
- The company added 3.1 million customers in Q4FY23 and 11 million customers in FY23. It aims to add 11-12 million customers in FY24
- The app platform has 35.5 million gross users and all products/services will simultaneously go live on the app and website
- In Q1FY24, Bajaj Pay Wallet will also become available on checkout page of payment gateway providers. The company accelerated merchant QR deployment in Q4. In Q4, Bajaj Finance deployed 413,000 merchant QR. Overall, QR deployed was at 627,000 as of March 31, 2023. The company plans to deploy 2.1-2.4 million merchant QRs in FY24
- The company is building its own open architecture two-wheeler financing segment to be launched in June 2023
- Opex to NIM is expected to be below 34 for FY24
- Over the next three years, AUM will come from existing product portfolio with no material change in product mix for the next three years
- The company significantly increased its physical acquisition of customers and is closely looking at capacity planning
- With respect to expected guidelines on penal charges and interest on penal interest by the RBI, the management said they do not capitalise charges on loan accounts of the customers
- Dividend of ₹30/share declared in Q4FY23

Bajaj Finance - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.4	2.1	2.1
Social	20.8	24.2	24.2
Governance	83.6	83.6	83.6
Overall ESG Score	35.0	36.7	36.7

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	7,768	7,572	6,064	28.1	7,433	4.5	NIM stable inspite of rise in cost of funds, NII grew better than expected with 29% loan growth)
Other Income	4	3	4	-4.3	2	115.2	
Staff cost	1,341	1,306	1,020	31.5	1,286	4.3	
Other Operating Expenses	1,311	1,316	1,080	21.4	1,296	1.2	Opex to NII largely improved to 34.1%
Opex to NII(%)	34.1	34.6	34.6	-1.4	34.7	-1.7	
PPP	5,119	4,953	3,967	29.0	4,853	5.5	
Provision	859	883	702	22.5	841	2.2	Management expect loan lossesprovisions contained and GNPA and NNPA ratios at 1.4-1.7% and 0.4-0.7% respectively
PBT	4,260	4,070	3,265	30.4	4,012	6.2	
Tax Outgo	1,103	1,038	846	30.4	1,039	6.2	
PAT	3,156	3,032	2,420	30.4	2,973	6.2	Healthy topline and steady opex aided PAT
Key Metrics							
GNPA	2,313	2,714	3,133	-26.2	2,610	-11.4	Lowest ever NNPA ratio at 34bps
NNPA	837	971	1,315	-36.3	934	-10.4	
AUM	2,47,379	2,47,350	1,97,452	25.3	2,30,842	7.2	Healthy growth driven by consumer B2C (10% QoQ surge), SME and Mortgages sector.

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	35074	35589	1.5	43,712	44348	1.5
Pre Provision Profit	22,450	23,305	3.8	27,592	29,318	6.3
NIM(%) (calculated)	12.1	11.8	-36 bps	12.1	11.8	-39 bps
PAT	14,191	14,826	4.5	17,153	18,429	7.4
ABV per share (₹)	1,052	1,088	3.4	1,269	1,338	5.5

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current		Earlier	
	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	24.5	24.7	24.4	24.5
Borrowings Growth (%)	24.0	24.0	24.0	24.0
NIM Calculated (%)	11.8	11.8	12.1	12.1
Cost to income ratio (%)	34.7	34.1	36.0	36.9
GNPA (₹ crore)	3,933.1	6,225.6	4,971.9	7,260.7
NNPA (₹ crore)	2,916.4	4,529.7	4,669.9	7,094.5

Source: Company, ICICI Direct Research

BAF charted out trajectory of its omnipresence strategy in below charts

Exhibit 4: Bajaj Finance's omnipresence strategy update (1/2)

Particulars	Unit	Q3 FY23	Q4 FY23	FY23 (A)	FY23 (E)
Geography					
New locations added – in the Qtr	#	29	19	229	400-450
Locations – Cumulative	#	3,714	3,733	3,733	3,900-3,950
Gold loan branches – Cumulative	#	179	181	181	375
App Metrics					
Downloads – In the Qtr	# in MM	14.84	13.43	51.87	53-55
Net Installs – Cumulative	# in MM	31.5	35.5	35.5	35-38
In-App programs – Cumulative	#	101	104	104	100+
Ranking in financial domain in Playstore	#	5	5	5	Top 5
Service requests initiated on app – In the Qtr	% of total SR	22%	26%	22%	23-25%
App Payments metrics					
UPI handles – Cumulative	# in MM	10.39	12.98	12.98	12
Bill pay transactions – In the Qtr	# in MM	5.00	5.27	15.92	12
QRs at merchant PoS – Cumulative	# in '000	214	627	627	600-700
Rewards issued – In the Qtr	# in MM	17.3	13.5	44.7	37-40

Source: Company, ICICI Direct Research

Exhibit 5: Bajaj Finance's omnipresence strategy update (2/2)

Particulars	Unit	Q3 FY23	Q4 FY23	FY23 (A)	FY23 (E)
App business metrics					
EMI cards acquired on App – In the Qtr	# in '000	100	99	368	300-325
Personal loan disbursed on App – In the Qtr	In ₹ cr	2,301	2,607	9.4K	9-10K
Credit card acquisition on App – In the Qtr	# in '000	59.2	72	209	175-200
Flexi loan transactions on App – In the Qtr	# in '000	1,481	1,554	4.9 MM	3.6-3.8 MM
DMS receipts on App – In the Qtr	# in '000	900	972	3.3 MM	3.0-3.2 MM
Marketplace metrics					
Bajaj Mall visits – In the Qtr	# in MM	44.2	47.1	156.7	140-150
Bajaj Mall loans – In the Qtr	# in '000	619	607	2.4 MM	2.6-2.8 MM
Insurance Bazaar policies – In the Qtr	# in '000	153.7	107.6	294.3	250-275
Investments Bazaar MF A/C – In the Qtr	# in '000	19.5	23.6	73.9	100-110
Digital EMI card metrics					
EMI cards acquired digitally – In the Qtr	# in '000	637	598	2.4 MM	2.0-2.2 MM
EMI cards acquired digitally – CIF	# in MM	3.1	3.6	3.6	3.8-4.0
B2B loans from digital EMI cards – in the Qtr	# in '000	284	291	1.07 MM	1.0-1.2 MM

Source: Company, ICICI Direct Research

Exhibit 6: Customer franchise – Key financial metrics

Particulars	Unit	FY17	FY18	FY19	FY20	FY21	FY22	FY23
New loans booked	In MM	10.1	15.3	23.5	27.4	16.9	24.7	29.6
New customer addition	In MM	4.1	6.1	8.3	8.1	6.0	9.0	11.6
Existing customer mix	%	59.8%	60.3%	64.8%	70.4%	64.6%	63.5%	60.9%
Total franchise	in MM	20.1	26.2	34.5	42.6	48.6	57.6	69.1
Cross sell franchise	in MM	11.0	15.4	20.7	24.1	26.9	32.8	40.6
Co-branded credit cards sold	in MM	0.03	0.39	0.81	1.12	0.70	1.36	1.92
Other financial products sold to existing customers	in MM	0.06	0.08	0.19	0.27	0.67	2.23	2.36
AUM per cross sell franchise	₹	54,722	53,417	56,066	60,983	56,879	58,617	60,991
PAT per cross sell franchise	₹	1,670	1,618	1,933	2,182	1,644	2,145	2,837

Source: Company, ICICI Direct Research

Exhibit 7: Consolidated AUM break-up

₹ crore	Dec'21	Mar'22	Jun'22	Sept'22	Dec'22	Mar'23
Auto Finance Business	10620	10194	9962	10160	11786	12979
consumer b2b Sales Finance Business	14920	14977	16475	16259	16712	17627
consumer B2C Business	36344	38772	41207	44072	46733	50108
Rural Sales Finance Business	3993	4129	4564	4329	4684	4803
Rural B2C Business	14311	15301	16740	17908	18458	19457
SME Lending Business	23153	24979	26564	28881	30880	33765
Securities Lending Business+ IPO	9127	21266	10801	12287	13257	15093
Commercial Lending Business	10478	11498	12040	13378	14848	15834
Mortgages	58304	61701	65665	71092	73484	77713
Total	181250	197452	204018	218366	230842	247379

Source: Company, ICICI Direct Research

Comparison

Exhibit 8: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)			P/ABV (x)				RoE (%)					
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E			
HDFC (HDFC)	2,678	3,150	Buy	4,892	75.8	86.7	100.0	114.4	35.3	30.9	26.8	23.4	4.0	3.6	3.2	2.8	12.0	12.3	12.6	12.7
Bajaj Finserv (BAFINS)	1,380	1,625	Buy	2,198	52.8	39.1	48.4	58.1	26.1	35.3	28.5	23.8	2.7	4.7	4.1	3.5	11.2	14.4	15.3	15.7
Bajaj Finance (BAJFI)	6,200	7,250	Buy	3,629	116.8	195.4	240.0	298.3	53.1	31.7	25.8	20.8	8.7	6.9	5.7	4.6	17.5	23.9	23.9	23.5
Muthoot Finance (MUTFIN)	948	1,150	Hold	381	98.5	85.2	95.7	111.4	9.6	11.1	9.9	8.5	2.3	2.0	1.7	1.5	23.5	17.5	17.4	17.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	31640.0	41406.0	52077.7	64802.4
Interest Expended	9748.2	12560.0	16488.3	20454.7
Net Interest Income	21891.8	28846.0	35589.4	44347.7
Growth (%)	26.9	31.8	23.4	24.6
Non Interest Income	8.0	98.0	120.5	148.3
Operating Income	21899.8	28944.0	35710.0	44495.9
Employee cost	3589.7	5080.0	6350.0	7937.5
Other operating Exp.	3995.3	5064.0	6054.7	7240.2
Operating Profit	14314.8	18800.0	23305.2	29318.2
Provisions	4803.4	3190.0	3269.5	4414.6
PBT	9511.4	15528.0	20035.7	24903.6
Taxes	2475.6	4020.0	5209.3	6474.9
Net Profit	7,035.8	11,508.0	14,826.5	18,428.6
Growth (%)	59.2	63.6	28.8	24.3
EPS (₹)	116.8	195.4	240.0	298.3

Source: Company, ICICI Direct Research

Exhibit 10: Key Ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of shares (crore)	60.3	60.4	61.8	61.8
EPS (₹)	116.8	195.4	240.0	298.3
BV (₹)	726	911	1135	1412
ABV (₹)	710	897	1088	1338
P/E	52	31	25	20
P/BV	8.3	6.6	5.3	4.3
P/ABV	8.5	6.7	5.6	4.5
Yields & Margins (%)				
Net Interest Margins	10.4	11.5	11.8	11.8
Yield on assets	16.9	17.5	17.2	17.2
Avg. cost on funds	6.6	6.7	6.9	6.9
Yield on average advances	18.7	19.2	19.1	19.1
Quality and Efficiency (%)				
Cost to income ratio	34.6	34.7	34.7	34.1
Cost to assets ratio	4.0	4.2	4.0	4.0
GNPA	1.7	0.9	1.3	1.6
NNPA	0.8	0.3	1.0	1.2
ROE	17.5	23.9	23.9	23.5
ROA	3.7	4.9	4.8	4.8

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	120.7	120.8	123.6	123.6
Reserves and Surplus	43592.0	54251.0	69188.4	87098.0
Networth	43712.7	54371.8	69311.9	87221.6
Borrowings	165231.9	213341.3	264543.3	328033.7
Other Liabilities & Provisions	3560.8	5204.5	6789.2	8858.6
Total	2,12,505.4	2,75,228.0	3,40,644.3	4,24,113.9
Application of Funds				
Fixed Assets	2991.8	3290.9	3620.0	3982.0
Investments	12245.5	22751.0	23433.5	24136.5
Advances	191423.3	242269.0	302230.8	376945.2
Other Assets	4578.9	4821.8	11360.0	19050.1
Total	2,11,239.5	2,75,228.0	3,40,644.3	4,24,113.9

Source: Company, ICICI Direct Research

Exhibit 12: Growth ratios (%)

(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	24.0	28.7	24.5	24.5
Advances	30.5	26.8	24.5	24.7
Borrowings	25.5	29.1	24.0	24.0
Net interest income	26.9	33.3	22.0	24.6
Operating Income	26.8	33.7	22.0	24.6
Operating expenses	27.1	33.7	22.3	22.4
Operating profit	19.7	33.6	21.8	25.8
Net profit	59.2	67.7	25.7	24.3
Net worth	18.4	24.4	27.5	25.8
EPS	58.7	67.3	22.8	24.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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