Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Finance Ltd

Healthy Q4

NBFC	Sharekhan code: BAJFINANCE
Reco/View: Buy ↔	CMP: Rs. 6,055 / Price Target: Rs. 7,500 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 19.49
Updated March 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

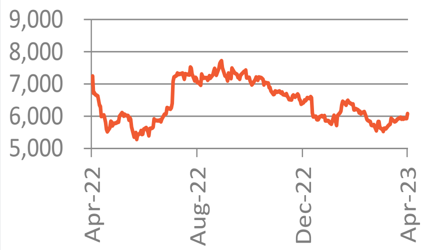
Company details

Market cap:	Rs. 3,66,576 cr
52-week high/low:	Rs. 7,777/ 5,236
NSE volume: (No of shares)	10.4 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	26.6 cr

Shareholding (%)

Promoters	55.9
FII	19.2
DII	13.0
Others	11.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	4.3	-14.9	-16.5
Relative to Sensex	2.4	5.6	-15.5	-21.8

Sharekhan Research, Bloomberg

Summary

- Healthy AUM growth, stable NIMs, opex growth moderating along with lower credit cost translated to 31% y-o-y earnings growth in Q4FY23 with steady return ratios - ROAs/ROEs at 5.4%/23.9% respectively, which remains highest in the industry.
- Margins were stable, despite rising rates. Asset quality was remarkable, as GS-3 ratio sequentially declined to 0.94% (vs. 1.14% in Q3FY2023) and GS2 ratio (incl. OTR) remained stable at 1.2% sequentially.
- Loan growth outlook remains healthy at 25-30% growth expected in FY24 with asset mix expected to remain broadly stable. However, NIMs are expected to moderate which would be partly offset by higher operating leverage and lower credit cost.
- BAF has demonstrated its ability to execute flawlessly, deliver strong performance and we are confident on the longevity of the franchise; thus we reiterate Buy on BAF with an unchanged PT of Rs. 7,500. BAF is poised to deliver a sector-leading ROA/ROE of 4.7%/22% over FY2023-FY2025E. At the CMP, the stock trades at 5.5x/4.3x FY2024E/FY2025E BV estimates.

Bajaj Finance (BAF) reported steady performance in Q4FY2023 marginally beating consensus and in line with our estimates. Net interest income (NII) grew robustly by 30% y-o-y and 6% q-o-q. NIM (calculated as a percentage of average AUM) remained stable q-o-q at 10.5% which was a key positive surprise. However, NIMs are expected to moderate by 30-40 bps in FY24 vs FY23. Customer acquisitions and the new loan booked trajectory have been strong. Fee and other income grew by 20% y-o-y/ flat q-o-q. Total operating expenses were up 26% y-o-y/3% q-o-q. Opex growth has started to moderate, which should aid operating leverage going forward. Credit cost (calculated as a percentage of average AUM) for the quarter stood at 140 bps within the guided range of 140-150 bps versus 150 bps in last quarter. PBT grew by 30% y-o-y and 6% q-o-q led by contained credit cost and strong operational performance. PAT reported at Rs. 3,158 crore was up by 31% y-o-y/6% q-o-q. AUM growth was at 25% y-o-y/7% q-o-q. Growth moderation which was seen in the B2B segment in last quarter has picked up well but demand moderation continued in affordable home loan segment. Asset quality was remarkable, as GS-3 ratio sequentially declined to 0.94% (vs. 1.14% in Q3FY2023) and the GS-2 ratio (including OTR) remained stable q-o-q at 1.2%. PCR on GS3 assets was stable q-o-q at 64%. BAF holds contingent provisions of Rs. 960 crore (40 bps of AUM).

Key positives

- Strong growth in customer acquisitions and cross-sell franchise.
- Margins remained stable sequentially.
- Robust asset quality metrics.

Key negatives

- Competitive intensity remains higher. Mortgage business growth has been lower which is dragging the overall AUM growth.

Management Commentary

- The company guided that competitive intensity is higher while consumer credit growth continues to remain very strong. It is confident of adding 11-12 mn new customers in FY24. Loan growth is expected to remain in the range of 25-30% for FY24.
- BAF expects moderation in margins by 30-40 bps in FY24 vs FY23 taking into consideration one more rate hike. This impact would be partly offset by higher operating leverage and lower credit cost. At ROA level impact could be 5-15 bps.

Our Call

Valuation – We reiterate a Buy on Bajaj Finance with an unchanged PT of Rs. 7,500: The stock has witnessed significant correction from its highs in the past 12 months and at CMP, the company trades at 5.5x/ 4.3x its FY2024E/ FY2025 BV. We believe the company is poised to deliver sector-leading ROA/ ROE of ~4.7%/ 22% over FY23-FY25E. Diverse product offerings through omni channel presence along with focus on new customer addition and ability to cross-sell different products is likely to support AUM growth. Digital transformation, omnichannel strategy is likely to bode well for its growth objectives along with operational efficiencies going ahead and its full impact is yet to be visible. The company has exhibited its strong ability to navigate through economic downcycle, led by a prudent and agile management team and robust risk management framework. Stock offers reasonable risk reward for long term investors.

Key Risks

Economic slowdown due to which slower AUM growth and higher-than-anticipated credit cost; Increased competitive intensity could lead to higher market share loss and further moderation in AUM growth.

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
NII	17,524	22,990	28,155	33,697
PAT	7,028	11,508	13,514	15,855
EPS (Rs)	115.8	189.6	222.3	263.0
RoA (%)	4.2	5.3	4.7	4.7
RoE (%)	17.4	23.5	22.4	22.0
P/E (x)	52.4	31.9	27.2	23.9
P/BV (x)	8.4	6.7	5.5	4.3

Source: Company; Sharekhan estimates

Stock Update

Result Update

Key result highlights

- **Strong NII growth with positive surprise from margins:** NII grew robustly by 30% y-o-y and 6% q-o-q, driven by healthy AUM growth. NIM (calculated as a percentage of average AUM) remained stable at 10.5% despite a 25-bps q-o-q rise in cost of funds. The company guided that the impact of the recent interest rate hikes on cost of funds will remain gradual due to strong ALM management. The company continues to focus on protecting the profit pool instead of merely chasing growth. Going forward, management expects moderation in margins by 30-40 bps in FY24 vs FY23 taking into consideration one more rate hike.
- **Credit cost guidance:** Credit costs stood at 140 bps annualised for the quarter. The company has guided that credit cost is expected to remain lower in FY24 below 150 bps of Avg. AUM. BAF continues to maintain contingent provisions of Rs. 960 crore (40 bps of AUM). There is no incremental stress formation visible in any of the business segment. Credit filters have been very stringent in the last 3 years.
- **Pristine asset quality:** Asset quality was remarkable, as GS3 ratio sequentially declined to 0.94% (vs. 1.14% in Q3FY2023) and the GS-2 ratio (including OTR) remained stable q-o-q at 1.2%. PCR on GS3 assets was stable q-o-q at 64%. NNPA at 0.34% (lowest in the company`s history).
- **Healthy loan growth outlook:** Customer franchise expanded to 69.1 mn (up 20% y-o-y) with cross-sell franchise at 40.6 million (up 24% y-o-y) in Q4FY2023. New loans booked were 7.6 mn, up 20% y-o-y. AUM grew by 25% y-o-y/7% q-o-q. Competitive intensity continues to remain high across the portfolio, Growth moderation which was seen in the B2B segment in last quarter has picked up well however demand moderation continued in affordable home loan segment. The company articulated that its new customer additions are expected to be higher than 11-12 million in FY2024 thus, AUM growth is expected to healthy. We believe the impact of digital transformation is yet to be visible fully, which should uplift AUM growth gradually. Diverse product offerings, new customer addition, new geographies, and ability to cross-sell likely to support AUM growth. Loan growth is expected to remain at 25-30% for FY24.
- **Strong deposit growth:** Deposits rose by 45% y-o-y and contributed to 21% of consolidated borrowings. The company is on track to deliver its long-term goal of 25% of consolidated borrowings from deposits in the medium term.
- **Higher operating leverage expected:** Total operating expenses were up 26% y-o-y/3% q-o-q. The company had earlier guided that incremental tech-led investments have peaked out. Opex to NII ratio stood at 34.1% in Q4FY2023 vs. 34.7% in the last quarter. The company expects Opex to NII ratio to be in the range of 31-34% which should aid operating leverage.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y	q-o-q
Net Interest Income	**6,255**	**4,803**	**5,922**	**30%**	**6%**
Fee & Other Income	1,516	1,264	1,513	20%	0%
Total Income	**7,771**	**6,068**	**7,435**	**28%**	**5%**
Operating Expenses	2,652	2,101	2,582	26%	3%
Pre-Provisioning Profit (PPoP)	**5,119**	**3,967**	**4,853**	**29%**	**5%**
Provisions	859	702	841	23%	2%
PBT	**4,261**	**3,266**	**4,012**	**30%**	**6%**
Tax	1,103	846	1,039	30%	6%
PAT	**3,158**	**2,420**	**2,973**	**31%**	**6%**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Structural drivers to support growth

We believe retail players have a large market to grow and recent credit growth of ~15.7 % y-o-y in the fortnight ending April 7 2022 indicates healthy credit offtake, especially in retail and consumer segments. So far, risk metrics of new volumes originated across businesses are tracking better than pre-COVID-19 origination. We believe the retail and SME segments have a long structural growth runway available to them, as India's credit delivery diversifies and penetration increases. In this backdrop, aided by a strong demographic advantage, we believe NBFCs and private banks can co-exist and grow for the foreseeable future as the market expands.

■ Company Outlook – On a strong footing

The company has been into business transformation developing omnichannel to serve customers. BAF has significantly strengthened its technology, digital platforms, and product strategy to improve customer experiences. We believe business transformation would enhance business sustainability, improve its scalability, and would give competitive advantage among peers. Once these business-transformation initiatives are fully implemented, this should lead to operating leverage to kick in, which would also provide cost efficiencies. Its full impact is yet to be visible. We are confident on strong earnings growth and longevity of the franchise.

■ Valuation – We reiterate a Buy on Bajaj Finance with an unchanged PT of Rs. 7,500

The stock has witnessed significant correction from its highs in the past 12 months and at CMP, the company trades at 5.5x/ 4.3x its FY2024E/ FY2025 BV. We believe the company is poised to deliver sector-leading ROA/ ROE of ~4.7%/ 22% over FY23-FY25E. Diverse product offerings through omni channel presence along with focus on new customer addition and ability to cross-sell different products is likely to support AUM growth. Digital transformation, omnichannel strategy is likely to bode well for its growth objectives along with operational efficiencies going ahead and its full impact is yet to be visible. The company has exhibited its strong ability to navigate through economic downcycle, led by a prudent and agile management team and robust risk management framework. Stock offers reasonable risk reward for long term investors.

Peer Comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Bajaj Finance	6,055	3,66,576	27.2	23.9	5.5	4.3	4.7	4.7	22.4	22.0
Cholamandalam Investment and Finance Company	838	68.882	22.5	18.8	3.8	3.4	3.0	2.7	19.4	20.2

Source: Company; Sharekhan Research

About the company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, SME & MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business and consumer financing as its key niches. The company operates through 1,392 urban locations and 2,341 rural locations, with over 154,650 distribution points. BAF continues to be the largest consumer durables lenders in India. As a business entity, BAF continues to deliver steady performance and superior asset-quality performance.

Investment theme

BAF enjoys a dominant position in the Indian consumer finance space. BAF's dominance in the market is seen in its consistent growth and steady operational performance has been maintained by the company across cycles. Superior asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability and collections. The company's business model continues to generate healthy pre-impairment operating profit, enabling it to withstand higher credit costs in times of stress.

Key Risks

Economic slowdown due to which slower AUM growth and higher-than-anticipated credit cost; Increased competitive intensity could lead to higher market share loss and further moderation in AUM growth.

Additional Data

Key management personnel

Mr. Sanjiv Bajaj	Chairman
Mr. Rajeev Jain	Managing Director
Mr. Sandeep Jain	Chief Financial Officer
Mr. Atul Jain	Chief Executive Officer (BHFL)

Source: Company data

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Finserv Ltd.	52.5
2	Republic of Singapore	3.4
3	Maharashtra Scooters Ltd.	3.1
4	SBI Funds Management Ltd.	2.8
5	Axis Asset Management Co. Ltd.	2.5
6	Vanguard Group Inc.	1.5
7	Blackrock Inc.	1.5
8	UTI Asset Management Co. Ltd.	1.0
9	Capital Group Cos Inc.	0.9
10	FMR LLC	0.7

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

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