

April 26, 2023

RESULT REPORT Q4 FY23 | Sector: Financials

Bajaj Finance Limited

Remains on strong footing

Performance surpasses expectations and allays emerging concerns; commentary encouraging too

BAF not only delivered 4-7% beat on NII/PPOP/PAT, but its performance and commentary also doused emerging concerns pertaining to growth/competition in B2B business, slowdown in housing portfolio, growth trajectory in new loan bookings/cross-sell, and the impact of inevitable NIM moderation on RoA. Factors that drove earnings beat in Q4 FY23 were resilient NIM (supported by lending rate hikes taken so far) and restrained opex growth (manifesting early benefits of digital platforms). Management remains reasonably confident about strong customer additions, loan bookings, AUM growth, cost metric improvement and benign credit cost in FY24.

We have marginally upped our AUM growth forecast and pruned credit cost estimates which has led to FY24/25 earnings being upgraded by 4-5%. Addition of new product lines like Gold Loans, Auto loans, CV finance, Tractor loans, Microfinance and Emerging Corporate loans would support long-term growth and profitability of the franchise. BAF currently trades near its seven-year average 1-yr rolling fwd. P/ABV of 5.6x. With expectations of 25% AUM CAGR and average 4.7%/23.7% RoA/RoE delivery over FY23-25, we reiterate BUY on the stock with an upgraded 12m PT of Rs7,865.

Well-rounded growth and robust asset quality

BAF's asset growth in the quarter was well-rounded with significant growth seen even in B2B and Housing Finance businesses where the traction had materially slowed down in preceding quarter. In both these segments, the disbursement growth was reasonably strong at 21% yoy. Growth remained robust in commercial segment, resilient in Consumer B2C financing business and on recovery path in 2w/3w financing. BAF's competitive position/market share in each business remains strong on incremental basis.

Stage-3 loans declined by 12% qoq and there was a small increase in Stage-2 loans. The improvement in GNPL ratio was seen in all products. While credit cost was slightly higher than estimated, it mainly represented enhanced coverage on Stage-2 assets and clean-up of Stage-3 assets.

Moderation of Opex/NII ratio and sustenance of low credit cost likely

Notwithstanding 25 bps increase in CoF, BAF delivered resilient NIMs (NII grew 6% qoq/28% yoy) underpinned by rate hikes taken in both floating and fixed rate products. Almost entire portfolio of BHFL is on floating rate, and the co. had transmitted 50-70 bps of CoF increase in fixed-rate loan segments earlier. Assuming one more policy rate hike, BAF expects its NIM to compress by 40-50 bps in FY24. Notably, the co. has not taken further lending rate hikes in any product during recent months. The impact of the envisaged NIM decline on RoA/RoE profile would largely get mitigated by moderation of Opex/NII ratio and sustenance of low credit cost. Besides the moderation in cost growth due to lower recovery commissions from benign delinquency trends, the productivity/efficiency gains from rising business volumes on App/Web consumer platforms would cause a gradual decline in Opex/NII ratio.

Reco : **BUY**

CMP : Rs 6,056

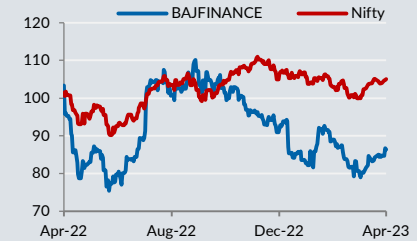
Target Price : Rs 7,865

Potential Return : 30.0%

Stock data (as on Apr 26, 2023)

Nifty	17,814
52 Week h/l (Rs)	7778 / 5220
Market cap (Rs/USD mn)	3672008 / 44952
Outstanding Shares (mn)	604
6m Avg t/o (Rs mn):	7,276
Div yield (%):	0.3
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	7.2%	4.5%	-16.4%

Shareholding pattern

Promoter	55.9%
FII+DII	13.0%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	7,865	7,620

Δ in earnings estimates

	FY23	FY24e	FY25e
EPS (New)	190.4	238.0	294.0
EPS (Old)	190.4	227.9	281.4
% Change	-	4.4%	4.5%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Op. income	288,458	352,946	436,592
PPOP	187,158	231,386	291,936
Net profit	115,077	143,837	177,712
Growth (%)	63.7	25.0	23.6
EPS (Rs)	190.4	238.0	294.0
ABVPS (Rs)	885.6	1,084.9	1,333.9
P/E (x)	31.8	25.4	20.6
P/ABV (x)	6.8	5.6	4.5
ROE (%)	23.5	23.8	23.9
ROA (%)	4.7	4.7	4.7

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MANUJ OBEROI, Associate

Exhibit 1: Result table

Particulars (Rs mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Operating Income	113,596	107,843	5.3	86,266	31.7
Interest expended	(35,920)	(33,512)	7.2	(25,626)	40.2
Net Interest Income	77,676	74,331	4.5	60,640	28.1
Other Income	36	17	115.2	37	(4.3)
Total Income	77,712	74,347	4.5	60,677	28.1
Operating expenses	(26,522)	(25,818)	2.7	(21,006)	26.3
PPOP	51,190	48,529	5.5	39,671	29.0
Provisions	(8,594)	(8,413)	2.2	(7,016)	22.5
PBT	42,595	40,116	6.2	32,655	30.4
Tax	(11,033)	(10,387)	6.2	(8,460)	30.4
Reported PAT	31,578	29,729	6.2	24,195	30.5

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
AUM	2,473,790	2,308,420	7.2	1,974,520	25.3
Consumer B2B -Auto Fin.	129,790	117,860	10.1	101,940	27.3
Consumer B2B -Sales Fin.	176,270	167,120	5.5	149,770	17.7
Consumer B2C	501,080	467,330	7.2	387,720	29.2
Rural Business	242,600	231,420	4.8	194,300	24.9
SME Business	337,650	308,800	9.3	249,790	35.2
Securities Lending	150,930	132,570	13.8	105,360	43.3
Commercial Lending	158,340	148,480	6.6	114,980	37.7
Mortgages	777,130	734,840	5.8	617,010	26.0

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Total Franchise	69.1	66.1	1.0	57.6	20.1
Non-Delinquent Customers	45.9	43.9	4.6	38.6	18.8
Cross sell franchise	40.6	38.6	5.1	32.8	23.8
New to BAF	3.1	3.1	(1.6)	2.2	39.8
New loans booked	7.6	7.8	(3.6)	6.3	20.4
EMI Cards in force	42.0	35.9	17.0	30.0	40.0

Source: Company, YES Sec

Exhibit 4: GNPA trend

GNPA - (%)	Q4 FY23	Q3 FY23	chg qoq	Q4 FY22	chg yoy
Consumer B2B-Auto Fin.	4.8	6.0	(1.2)	11.0	(6.2)
Consumer B2B-Sales Fin	0.4	0.6	(0.3)	2.8	(2.4)
Consumer B2C	0.9	1.1	(0.2)	1.0	(0.0)
Rural B2B	0.4	0.6	(0.2)	0.2	0.2
Rural B2C	1.0	1.3	(0.4)	1.2	(0.2)
SME	1.2	1.5	(0.3)	1.4	(0.2)
Mortgages	0.6	0.6	(0.0)	0.9	(0.3)

Source: Company, YES Sec

Exhibit 5: Key Ratios

(%)	Q4 FY23	Q3 FY23	chg qoq	Q4 FY22	chg yoy
Op Income / Average AUM*	19.0	19.2	(0.2)	18.2	0.8
Interest Expense / Average AUM*	6.0	6.0	0.0	5.4	0.6
NII / Average AUM*	13.0	13.2	(0.2)	12.8	0.2
Cost to Income	34.1	34.7	(0.6)	34.6	(0.5)
Provisions / Average AUM	1.4	1.5	(0.1)	1.5	(0.0)
RoE	23.9	24.0	(0.1)	22.8	1.1
RoA	5.4	5.4	-	5.2	0.2
CAR	25.0	25.1	(0.2)	27.2	(2.3)
Tier-1	23.2	23.3	(0.1)	24.8	(1.6)
Gross NPA	0.9	1.1	(0.2)	1.6	(0.7)
Net NPA	0.3	0.4	(0.1)	0.7	(0.3)
PCR	64.0	64.0	-	58.0	6.0

Source: Company, YES Sec; *Calculated

Exhibit 6: PCR trend

PCR - (%)	Q4 FY23	Q3 FY23	chg qoq	Q4 FY22	chg yoy
Consumer B2B-Auto Fin.	51.0	50.0	1.0	50.0	1.0
Consumer B2B-Sales Fin	77.0	85.0	(8.0)	54.0	23.0
Consumer B2C	75.0	75.0	-	75.0	-
Rural B2B	78.0	86.0	(8.0)	84.0	(6.0)
Rural B2C	71.0	73.0	(2.0)	69.0	2.0
SME	75.0	75.0	-	75.0	-
Mortgages	57.0	54.0	3.0	53.0	4.0

Source: Company, YES Sec

Exhibit 7: ECL Summary

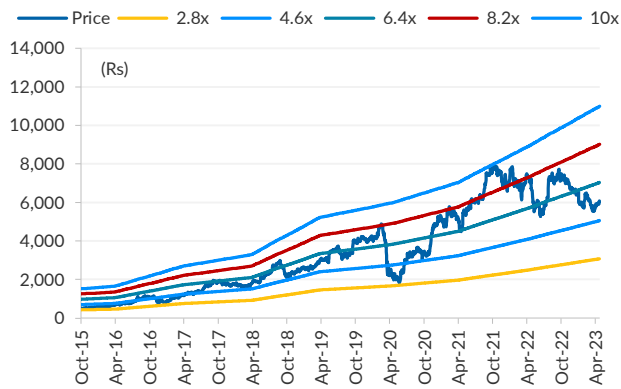
(Rs mn)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	1,926,940	1,999,290	2,143,360	2,271,030	2,443,230
ECL Provision Stage 1 & 2	25,860	25,940	25,670	26,380	28,900
Net Stage 1 & 2 assets	1,901,080	1,973,350	2,117,690	2,244,650	2,414,330
Coverage ratio (%)	1.3	1.3	1.2	1.2	1.2
Stage 3 assets					
Gross Stage 3 assets	31,330	25,390	25,300	26,100	23,130
ECL Provision Stage 3	18,180	15,210	15,770	16,760	14,760
Net Stage 3 assets	13,150	10,180	9,530	9,340	8,370
Coverage ratio (%)	58.0	59.9	62.3	64.2	63.8

Source: Company, YES Sec

KEY CALL TAKEAWAYS

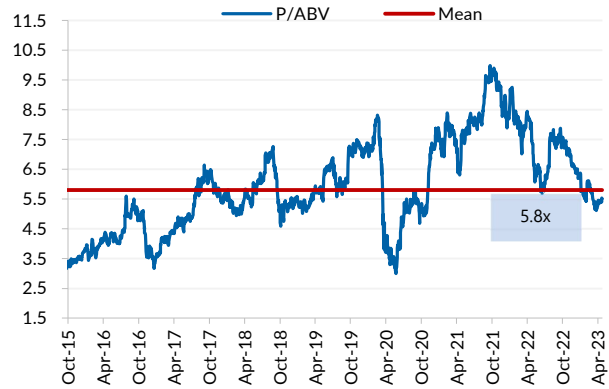
- BAF expects to grow consolidated AUM at 28-29% in FY24 with largely stable product mix.
- Expects to dispense around 35mn loans in FY24, which will be a 20% yoy growth.
- Would continue to deliver progressive outcomes on AUM and Profit per cross sell franchise.
- Assuming one more rate hike, NIM could compress by 40-50 bps – however, its impact on RoA/RoE profile would be largely mitigated by peaking of opex metrics and sustained benign credit cost.
- Expect Opex/NII metric to moderate to below 34% in the current year.
- Overall consumer credit metrics is looking very strong for the system as a whole, as per the credit bureau data.
- Risk filters were significantly tightened by the co. in the past three years - relaxations have been data dependent.
- BAF has not taken further lending rate hikes in any product since January.
- Value market share in B2B business would be 50%+ and in subvention category would be 60-65% - both market shares are likely to improve with strong staffing and distribution addition in recent past.
- About 40-50% of B2B disbursements would be digital products finance which would be largely mobile phones - amid drop in mobile phones shipments/sales, the co. has delivered a healthy disbursements growth aided by strong distribution and positioning.
- B2B disbursements going reasonably strong in April thus far.
- BAF has 7-8% market share in unsecured loans - rapid growth in PL book of many other lenders (all types) who have not seen any cycle is slightly discomfoting.
- Size of Home Loans book remains conducive for faster than industry growth even amidst some slowdown.
- There has been some slowness in HL demand in relatively affordable segment (<Rs0.5mn loans) - luxury and upper segment demand remains resilient.
- Would organically build and scale-up the targeted new products (Auto, CV, Tractor, MFI, etc.) - new products contribution in AUM would not be material in the next three years and would reach materiality only after five years.
- Recent appointment of Mr. Anup Saha and Mr. Rakesh Bhatt as EDs does not imply any future change in leadership of the company.
- Largely unimpacted by RBI regulations on penal charges and penal interest – co. doesn't capitalize penal interest and does not profit from the penal & bounce charges as it is just about recovering the cost of collecting and correcting the default.

Exhibit 8: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Equity and Liabilities					
Equity Share Capital	1,203	1,207	1,209	1,209	1,209
Other Equity	367,981	435,920	542,511	665,132	818,092
Share-holders fund	369,184	437,127	543,720	666,340	819,301
Financial Liabilities	1,338,146	1,679,935	2,200,952	2,742,266	3,346,291
Deposits	258,034	307,995	446,656	567,253	703,393
Trade payables	12,360	16,511	20,955	25,669	31,445
Debt Securities	545,021	762,231	868,452	1,076,881	1,308,410
Borrowings (Excl. Debt Sec.)	474,294	543,636	815,494	1,011,213	1,228,623
Subordinated Liabilities	38,986	38,458	36,303	45,016	54,694
Other Financial Liabilities	9,451	11,104	13,093	16,235	19,726
Non-Financial Liabilities	7,374	7,992	7,615	9,518	11,898
Current tax liabilities (net)	1,802	1,001	1,392	1,740	2,175
Provisions	1,377	1,669	2,704	3,381	4,226
Other non-financial liabilities	4,195	5,322	3,518	4,398	5,497
Total Liabilities + Equity	1,714,704	2,125,054	2,752,287	3,418,125	4,177,490
Assets					
Financial Assets	1,688,819	2,094,584	2,715,935	3,380,572	4,138,622
Cash and Cash Equivalents	18,493	34,072	15,508	12,840	11,232
Bank balances	3,150	2,731	27,538	13,769	9,638
Trade Receivables	10,969	12,659	12,997	16,247	20,308
Other Receivables	0	1,219	1,489	1,861	2,326
Loans	1,466,869	1,914,233	2,422,689	3,052,589	3,754,684
Investments	183,969	122,455	227,518	273,022	327,626
Other Financial Assets	5,370	7,215	8,196	10,246	12,807
Non- Financial Assets	25,885	30,470	36,351	37,553	38,868
Current tax assets (net)	1,598	1,683	1,814	2,177	2,613
Deferred tax assets (net)	9,459	9,511	9,371	9,371	9,371
Property, plant and equipment	10,417	12,826	16,766	17,604	18,484
Goodwill	33	33	33	33	33
Other Intangible assets	3,218	4,646	7,076	7,076	7,076
Other non-financial assets	1,160	1,771	1,292	1,292	1,292
Total Assets	1,714,704	2,125,054	2,752,287	3,418,125	4,177,490

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Income from Operations	266,681	316,405	413,974	531,143	650,117
Interest expense	(94,140)	(97,537)	(125,599)	(178,317)	(213,655)
Net interest income	172,541	218,868	288,375	352,826	436,462
Non-interest income	150	76	83	120	130
Total op income	172,691	218,944	288,458	352,946	436,592
Total op expenses	(53,082)	(75,872)	(101,300)	(121,560)	(144,656)
PPoP	119,608	143,072	187,158	231,386	291,936
Provisions	(59,686)	(48,034)	(31,897)	(37,293)	(52,131)
Profit before tax	59,923	95,038	155,262	194,093	239,805
Taxes	(15,724)	(24,756)	(40,202)	(50,256)	(62,092)
Net profit	44,198	70,282	115,060	143,837	177,712

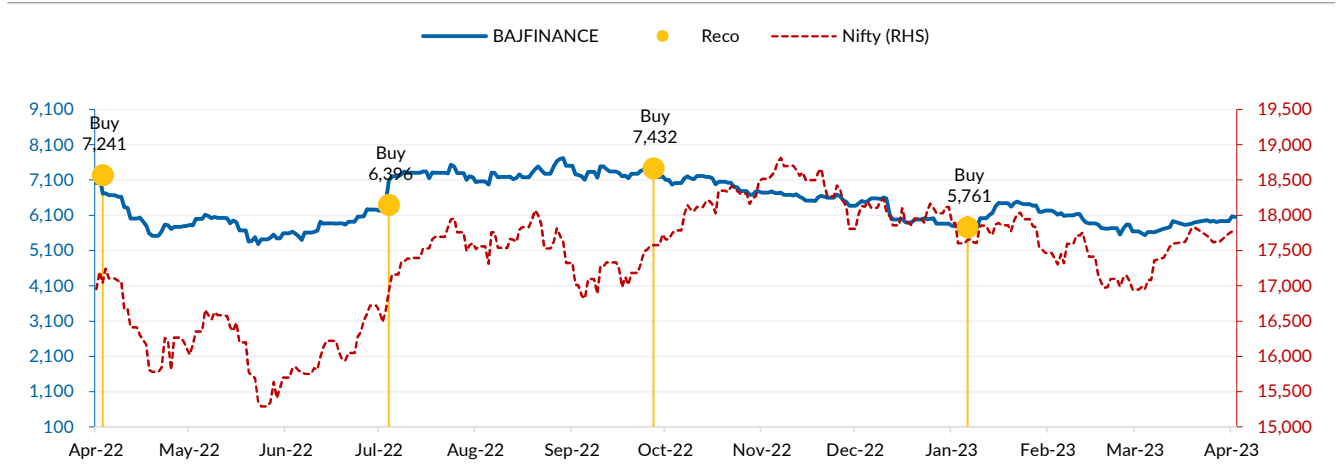
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Net interest income	2.1	26.8	31.8	22.3	23.7
Total op income	2.1	26.8	31.7	22.4	23.7
Op profit (pre-provision)	6.3	19.6	30.8	23.6	26.2
Net profit	(16.0)	59.0	63.7	25.0	23.6
Advances	3.8	30.5	26.6	26.0	23.0
Total Borrowings	(2.4)	27.0	28.0	24.0	21.5
Total assets	4.3	23.9	29.5	24.2	22.2
Profitability Ratios (%)					
NIM	11.5	12.5	13.0	12.6	12.6
Return on Avg. Equity	12.8	17.4	23.5	23.8	23.9
Return on Avg. Assets	2.6	3.7	4.7	4.7	4.7
Per share ratios (Rs)					
EPS	73.5	116.5	190.4	238.0	294.0
Adj. BVPS	594.6	702.3	885.6	1,084.9	1,333.9
DPS	10.0	20.0	30.0	30.0	35.0
Other key ratios (%)					
Cost/Income	30.7	34.7	35.1	34.4	33.1
Tier-I capital	25.1	24.8	23.8	23.2	23.2
Gross NPLs/Loans	1.8	1.6	0.9	0.9	0.9
Credit Cost	4.0	2.7	1.4	1.3	1.5
Net NPLs/Net loans	0.8	0.7	0.3	0.3	0.3
Tax rate	26.2	26.0	25.9	25.9	25.9
Dividend yield	0.2	0.3	0.5	0.5	0.6

Source: Company, YES Sec

Recommendation Tracker



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7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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