

Bajaj Finance Ltd.



Bajaj Finance Ltd.

Sustainable growth momentum; Return Ratios at superior levels

CMP INR 6,200	Target INR 7,635	Potential Upside 23.1%	Market Cap (INR Mn) INR 37,53,661	Recommendation BUY	Sector NBFC
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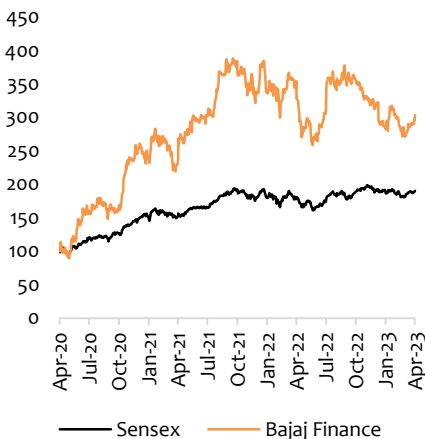
Result Highlights:

- Net Interest Income (NII) for Q4FY23 increased by 28.1% YoY (+4.5% QoQ) to INR 77,676 Mn. For the entire fiscal year FY23, NII was INR 2,88,375 Mn, up 31.8% YoY.
- Pre-Provision Operating Profit (PPOP) stood at INR 51,190 Mn, a growth of 29.0% YoY (+5.5% QoQ) in Q4FY23. The PPOP for FY23 was INR 1,87,158 Mn, a growth of 30.8% YoY.
- Profit after tax for Q4FY23 increased by 30.5% YoY (+6.2% QoQ) to INR 31,578 Mn from INR 24,195 Mn in Q4FY22. For FY23, the net profit stood at INR 1,15,077 Mn, a growth of 63.7% YoY.
- Gross NPA and Net NPA as of March 31, 2023, stood at 0.94% and 0.34%, respectively, as against 1.14% and 0.41% as of December 31, 2022.
- The capital adequacy ratio (including Tier-II capital) as of March 31, 2023, was 24.97%. The Tier-I capital was 23.20%.
- Assets under management (AUM) grew by 25.3% YoY/ 7.2% QoQ as of March 31, 2023, at INR 24,73,790 Mn

MARKET DATA

Shares outs (Mn)	605
Equity Cap (INR Mn)	5,43,720
Mkt Cap (INR Mn)	37,53,661
52 Wk H/L (INR)	6,683/5,220
Volume Avg (3m K)	1,081
Face Value (INR)	2
Bloomberg Code	BAF IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

INR Mn	FY21	FY22	FY 23	FY 24E	FY 25E
NII	1,72,541	2,18,842	2,88,375	3,52,510	4,29,636
Operating Profit	1,19,609	1,43,072	1,87,158	2,32,738	2,82,825
PAT	44,199	70,282	1,15,060	1,42,882	1,72,608
EPS	73.5	116.6	190.5	236.0	285.1
NIM	12.0%	12.9%	13.3%	13.0%	12.7%
AUM Growth	3.8%	30.5%	25.3%	25.0%	25.0%

Source: Company, KRChoksey Research

Expansion of customer franchise and geographic presence drives robust AUM growth: As of March 31, 2023, AUM reported a growth of 25.3% YoY/ 7.2% QoQ at INR 24,73,790 Mn, led by an aggressive focus on customer acquisition and further expanding its geographical footprints. The core AUM (net of the IPO financing) grew by 28.8% YoY. The company registered its highest-ever quarterly growth of INR 165.37 Bn in Q4FY23. The new loans booked during the quarter increased by 20.4% YoY at 7.56 Mn. With a continuous focus on customer acquisition, BAF has added its highest-ever customer franchise of 11.57 Mn in FY23, achieving its set target for the year. The company has guided for the addition of 11–12 Mn new customers by the end of FY24E, in line with FY23. In its B2B segment, BAF reported a 20.7% YoY growth in its disbursements at INR 159.2 Bn in Q4FY23. After slower growth in Q3FY23, mortgages regained their pace and grew by 26.0% YoY, especially in the home loan segment, contributing 31.0% to the overall loan book. The AUM mix for the quarter remained stable. We expect the AUM to grow at a CAGR of 25.0% over FY23–25E, reaping further benefits from its omnipresence strategy and foraying into new segments.

NII growth in line with the overall business momentum: NII grew 28.1% YoY/ 4.5% QoQ at INR 74,331 Mn, led by robust growth in the AUM and asset repricing. The cost of funds for the quarter increased by 25 bps QoQ at 7.39%. NIMs saw no impact of the interest rate hikes in FY23 owing to the company's strong ALM management and diversified balance sheet mix. BAF expects moderation in the Net Interest Margins (NIMs) in FY24 on account of the repricing of the borrowing mix, which is currently at a slower pace. The moderation is expected to be around 40–50 bps in FY24E. BAF reported robust growth in PPOP at 29.0% YoY/ 5.5% QoQ, led by a healthy increase in the operating income. In Q4FY23, Opex to NII was 34.1% vs 34.5% in Q4FY22. The Opex to NII ratio has peaked at these levels and is expected to be in the range of 33.7–34.0% going ahead. Despite higher operating expenses and provisions, BAF witnessed strong growth in profitability, leading to superior ROE/ ROA at 23.9%/ 5.4%, respectively.

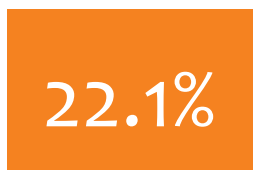
Maintain its Superior Asset quality: The loan losses and provisions for Q4FY23 stood at INR 8,594 Mn. The credit cost has been fully normalized. BAF holds a management outlay of INR 9.6 Bn as of March 31, 2023. The GNPA/ NNPA improved by 20 bps/ 7 bps QoQ at 0.94%/ 0.34%, respectively. The stage-3 assets, as of March 31, 2023, declined to INR 23.1 Bn from INR 31.3 Bn over FY22. The company has reported strong risk metrics across all its portfolios during the quarter.

MARKET INFO

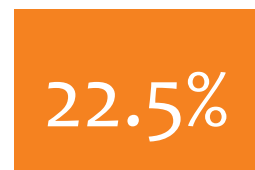
SENSEX	60,649
NIFTY	17,915

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	55.9	55.9	55.9
FIIs	19.9	19.9	17.1
DIIIs	12.6	12.6	15.7
Others	11.6	11.6	11.3
Total	100.0	100.0	100.0



NII CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

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Key Concall Highlights:

1. BAF is reasonably confident that the company will be able to add 11 to 12 Mn new customers in FY24 as well and depending on how H1FY24E pans out, the company will see if there is a upside to that.
2. BAF has added 19 locations and ended the year at 3,733 locations. As of March 31, 2023, the company has added 229 new locations. It will be adding 150 new locations and over 300 standalone gold loan branches in Q1FY24E alone as the company traverses in Q1.
3. In FY23, BAF's loan loss to average loan receivables was 1.47%.
4. Bajaj Financial Securities Ltd (BFSL), not a material subsidiary at this point in time, BAF continues to invest in building out the Chennai broking business and continued building out launching new app features. It has added 42,000 customers In Q4FY23, and overall franchise crossed 0.5 Mn mark. In Q4, BFSL delivered significant upgrades to its Web and App platforms with addition of 61 new features.
5. The Board of Directors has recommended a dividend of INR 30 per equity share and 1500% dividend for FY23 amounts to 17.65% of standalone profit for FY23 and is completely in line with the company's dividend distribution policy that's been outlined and improved.
6. The liquidity buffer as of March 31, 2023, stood at INR 118.52 Mn.
7. The deposits book grew by 45.0% YoY and stood at INR 446.7 Bn as of March 31, 2023. In Q4, the net deposit growth was INR 16.8 Bn. Deposits contributed to ~21.0% of consolidated borrowings as of March 31, 2023.
8. The disbursements for its subsidiary BHFL stood at INR 90.3 Bn, recording a growth of 20.8% YoY in Q4FY23. In Q4FY23, loan losses and provisions were INR 570 Mn as against INR 380 Mn in Q4FY22. BHFL holds a management and macroeconomic overlay provision of INR 2,370 Mn as of March 31, 2023.
9. The final Sprint of App platform has gone live in a staggered manner on Google playstore in April 2023. With this Sprint, end-to-end journeys for all Lending, Investments and Insurance products have gone live.
10. In Q1FY24E, new developments on App platform are scheduled to go live with EMI card journeys for new customer segments, home loan balance transfer journeys and new product segments for loan against securities business and opt-in/opt-out facility for promotional calls.
11. The final release of Web platform is on track for April end. Q2FY24E onwards, the features on App and Web platform will go live simultaneously. Web platform being a new platform, BAF will start to publish its success metrics from Q2FY24E.
12. The company accelerated merchant QR deployment in Q4FY23. During the quarter, it has deployed 413K merchant QR. Overall QR deployed stood at 627K as of March 31, 2023. The Company plans to deploy around 2.1-2.4 Mn merchant QRs in FY24E.
13. Bajaj EDC machines will be launched in Q1FY24E with features like Merchant onboarding, Merchant lifecycle management and Merchant service. These machines will be enabled with CC/DC, EMI card, Bajaj Wallet, UPI, invoice financing and product financing.
14. BAF's market share in unsecured loan segment is ~7-8% currently and sees ample opportunity to grow in this segment. At the same time, it is cautious on the increasing competitive intensity in India especially from Banks.
15. The company has seen no impact of interest rate hike in FY23. It expects gradual moderation in margins in FY24E. The NIM moderation is expected to be in the range of 40-50 bps for FY24E.
16. The opex metrics have already peaked with Opex to NII ratio at 34.1%. The company expects the ratio to be between 33.7%-34.0% going ahead.

Valuation and view:

Bajaj Finance ended its fiscal year on a strong note, led by robust business momentum and profitability. As of March 31, 2023, the AUM growth reported resilient growth ahead of its guidance of growing by 22-25% annually. The growth remains broad-based with a stable and well-diversified portfolio mix. BAF witnessed the highest-ever quarterly growth in AUM & customer franchise on the back of aggressive expansion of its distribution network as a part of its omnipresence strategy. The company is confident of sustaining the substantial addition of new customers in FY24E. BAF's housing subsidiary, BHFL (Bajaj Housing Finance Ltd.), reported 29.8% YoY growth in its AUM, driven by robust growth in the home loan segment. The subsidiary is expected to grow its AUM in the long-term range of 26-28%. We expect BHFL to be a core driver for growth in the upcoming quarters, led by improving opportunities in the housing finance business. BAF expects the omnipresence platforms to be fully live by H1FY24E, further accelerating operational efficiencies. The company is on track to launch a new product segment to diversify its loan portfolio further and mitigate the risk of increasing competition. On the margins side, NIMs are expected to see a moderation in FY24E, led by borrowing re-pricing. We continue to be positive on the company's growth prospects considering its strong parentage, industry-leading business growth, diversified asset & liability mix, prudent risk management, and its market leadership. BAF has a strong liquidity position and sufficient capital buffer to capture industry growth opportunities. We have factored in the NII/ Operating profit/ PAT to grow at a CAGR of 22.1%/22.9%/22.5% over FY23–25E, driven by a strong business trajectory and lower provisions leading to improved profitability metrics. We expect asset quality to remain stable for FY24E and FY25E with no negative surprises.

The stock is currently trading at 7.0x/5.7x/4.6x P/ABV multiple for FY23/FY24E/FY25E Adjusted Book Value. We remain watchful on the trends in the unsecured segment especially in the Personal Loan segment where banks have been capturing the market share from the NBFCs. We will also monitor scalability of the new segments, going ahead. **We assign a P/ABV multiple of 7.0x on FY25E adj. book value of INR 1,339 to arrive at a T.P. of INR 7,635 per share (earlier INR 8,030), an upside of 23.1% over CMP. Accordingly, we maintain our "BUY" rating on BAF shares.**

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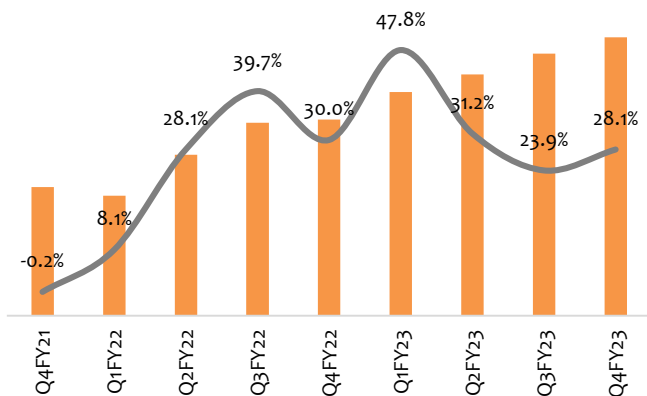
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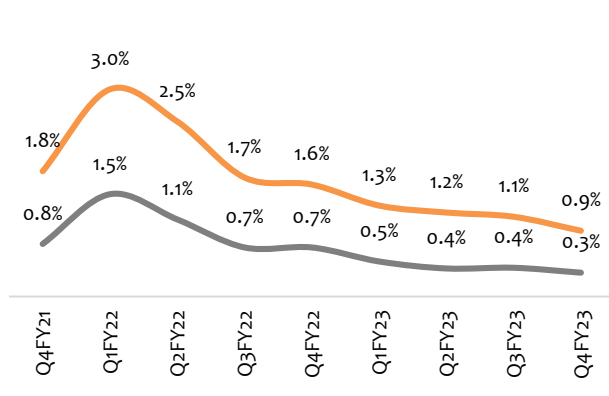
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Operating income grows in line with the AUM growth



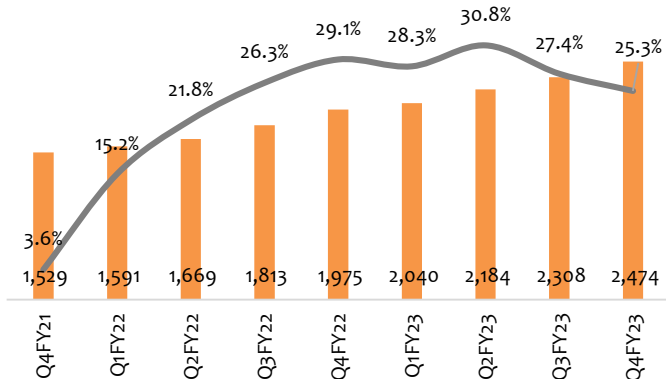
Income from Operations (INR Mn.) YoY Growth (%) - RHS

Asset Quality improves with improvement in collection efficiencies



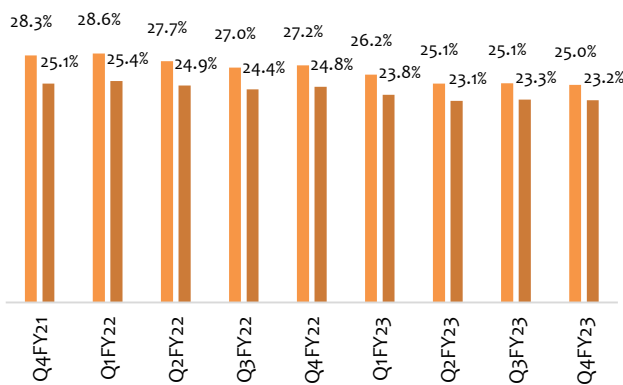
GNPA NNPA

Robust AUM growth with core AUM (excl. IPO financing) growing by ~29.0%



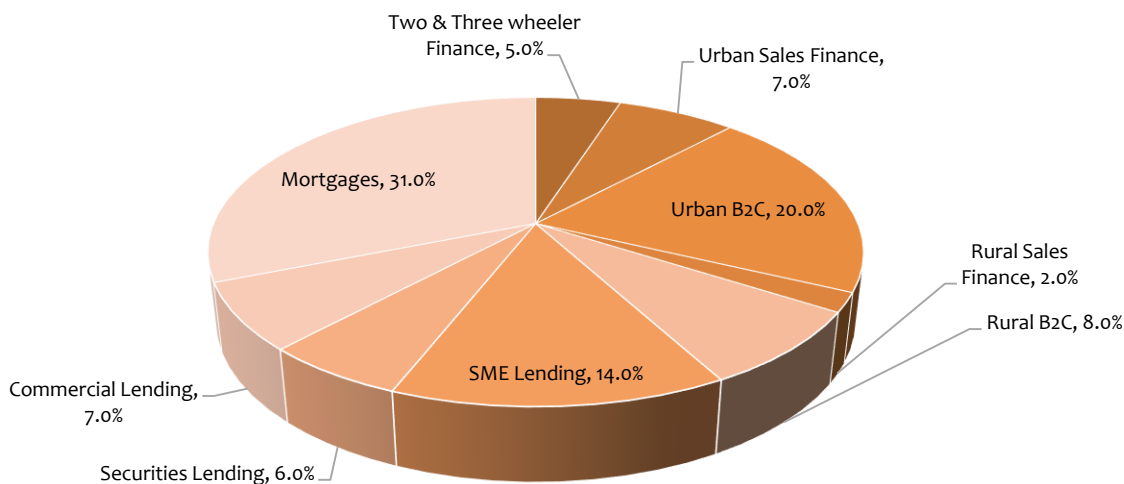
AUM (INR bn.) YoY Growth (%) - RHS

CRAR: Above regulatory requirements



Capital Adequacy Ratio Tier-1 CAR

Diversified Loan Portfolio Book



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Interest Income	2,66,681	3,16,324	4,13,974	5,26,889	6,60,322
Interest Expense	94,140	97,482	1,25,599	1,74,379	2,30,685
Net Interest Income	1,72,541	2,18,842	2,88,375	3,52,510	4,29,636
Non interest income	150	80	83	96	110
Operating Income	1,72,691	2,18,922	2,88,458	3,52,606	4,29,746
- Employee expense	24,987	35,897	50,591	61,909	75,937
- Other operating expense	28,095	39,953	50,708	57,958	70,985
Operating Expense	53,081	75,850	1,01,300	1,19,867	1,46,922
Operating Profit	1,19,609	1,43,072	1,87,158	2,32,738	2,82,825
Provisions	59,686	48,034	31,897	39,688	49,610
PBT	59,924	95,038	1,55,262	1,93,051	2,33,215
Tax Expense	15,724	24,756	40,202	50,168	60,607
PAT	44,199	70,282	1,15,060	1,42,882	1,72,608
Diluted EPS (INR)	73.5	116.6	190.5	236.0	285.1

Exhibit 2: Balance Sheet (Consolidated)

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Source of Funds					
Share capital	1,203	1,207	1,209	1,211	1,211
Reserves & Surplus	3,67,981	4,35,920	5,42,511	6,68,962	8,21,719
Net worth	3,69,184	4,37,127	5,43,720	6,70,173	8,22,930
Borrowings	13,16,454	16,52,319	21,66,905	27,09,950	33,57,153
Deposits	28,255	34,207	41,622	44,933	48,830
Other liabilities & provisions	1,377	1,400	40	540	1,040
Total Equity & Liabilities	17,15,270	21,25,054	27,52,287	34,25,596	42,29,954
Uses of Funds					
Cash & Bank Balances	21,762	36,803	43,045	71,465	72,853
Receivables	11,072	12,659	12,997	15,597	17,156
Net investments	1,83,969	1,22,455	2,27,518	2,73,022	3,13,975
Deferred Tax Assets	9,459	9,511	9,371	9,839	10,331
Loans & advances	14,66,869	19,14,233	24,22,689	30,14,932	37,68,664
Fixed assets	13,667	17,296	23,222	25,450	29,182
Other assets	1,599	3,111	3,955	4,000	4,500
Total Assets	17,15,270	21,25,054	27,52,287	34,25,596	42,29,954

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY21	FY22	FY 23	FY 24E	FY 24E
Growth Rates					
AUM (%)	3.9%	29.1%	25.3%	25.0%	25.0%
Borrowing (%)	0.1%	25.5%	31.1%	25.1%	23.9%
Total assets (%)	4.3%	23.9%	29.5%	24.5%	23.5%
NII (%)	2.1%	26.8%	31.8%	22.2%	21.9%
Pre-provisioning profit (%)	6.3%	19.6%	30.8%	24.4%	21.5%
PAT (%)	-16.0%	59.0%	63.7%	24.2%	20.8%
B/S Ratios					
Loans/Deposit (%)	111.4%	115.9%	111.8%	111.3%	112.3%
Advances/Total Assets	85.5%	90.1%	88.0%	88.0%	89.1%
CAR (%)	27.2%	27.2%	25.0%	21.9%	21.5%
Tier-I Capital (%)	24.8%	24.8%	23.2%	20.6%	20.5%
Leverage - Total Assets to Equity	4.6	4.9	5.1	5.1	5.1
Operating efficiency					
Cost/income (%)	30.7%	34.6%	35.1%	34.0%	34.2%
Opex/total assets (%)	3.1%	3.6%	3.7%	3.5%	3.5%
Opex/total interest earning assets	3.6%	4.0%	4.2%	4.0%	3.9%
Profitability					
NIM (%)	12.0%	12.9%	13.3%	13.0%	12.7%
RoA (%)	2.6%	5.3%	5.3%	4.2%	4.1%
RoE (%)	12.0%	22.8%	23.5%	21.3%	21.0%
Asset quality					
Gross NPA (%)	1.8%	1.6%	0.9%	0.9%	0.9%
Net NPA (%)	0.8%	0.7%	0.3%	0.3%	0.3%
PCR (%)	58.0%	58.0%	63.8%	65.0%	65.0%
Credit cost (%)	4.1%	2.8%	1.5%	1.5%	1.5%
Per share data / Valuation					
EPS (INR)	73.5	116.6	190.5	236.0	285.1
BVPS (INR)	613.6	722.0	898.1	1106.9	1359.3
ABVPS (INR)	582.6	693.1	882.4	1090.5	1339.1
P/E (x)	70.1	53.0	32.5	26.2	21.7
P/BV (x)	8.4	8.6	6.9	5.6	4.6
P/ABV (x)	8.8	8.9	7.0	5.7	4.6
Spread Analysis					
Yield on loans	16.2%	16.1%	16.4%	16.8%	17.0%
Cost of borrowings	7.15%	6.57%	6.58%	7.15%	7.60%
Spread	9.0%	9.6%	9.8%	9.6%	9.4%

Source: Company, KRChoksey Research

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Bajaj Finance Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
28-Apr-23	6,200	7,635	BUY	Buy	More than 15%
31-Jan-23	5,884	8,030	BUY	Accumulate	5% – 15%
20-Oct-22	7,432	8,630	BUY	Hold	0 – 5%
17-Oct-22	7,364	8,630	BUY	Reduce	-5% – 0
29-Jul-22	7,077	8,317	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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