

# Retail Equity Research

## Bajaj Finance Limited

NBFC

BSE CODE: 500034

NSE CODE: BAJFINANCE

Bloomberg CODE: BAF:IN

SENSEX: 65,847

**BUY**

 12 Months Investment period Rating as per Large Cap  
 CMP Rs. 7,186 TARGET Rs. 8,252 RETURN 15% ↑  
 (Closing: 08-08-23)

**KEY CHANGES:**
**TARGET ↑**
**RATING ↔**
**EARNINGS ↑**

### Record quarter; promising outlook

Bajaj Finance Ltd (BFL) is a leading non-banking financial companies (NBFC) in India. It is engaged in lending across retail, SME and commercial customers and accepts public and corporate deposits.

- In Q1FY24, net interest income (NII) rose 26.5% YoY to Rs. 8,395cr. PAT increased 32.4% YoY to Rs. 3,437cr, aided by better operating leverage.
- The company reported its highest ever quarterly AUM growth of Rs. 22,718cr.
- Asset quality was strong, with GNPA/NNPA ratios at 0.87%/0.31%.
- Market leadership, strong distribution reach, healthy customer addition, digital transformation, robust AUM growth and strong asset quality augur well for the company's future performance. NIM levels may moderate in the upcoming quarters due to rising cost of funds, but we firmly believe in the company's long term growth prospects. Therefore, we reiterate our BUY rating on the stock with a revised target price of Rs. 8,252 based on 6.1x FY25E BVPS.

### Highest ever quarterly AUM growth

BFL's interest income grew 34.6% YoY to Rs. 12,498cr, while interest expenses rose 55.1% YoY to Rs. 4,103cr. In effect, NII came in at Rs. 8,395cr (up 26.5% YoY). Opex to NII improved 190bps YoY to 34.0%. Subsequently, profit after tax (PAT) grew 32.4% YoY to Rs. 3,437cr. The company delivered its highest ever quarterly AUM growth of Rs. 22,718cr. AUM stood at Rs. 2,70,097cr (up 32.4% YoY), largely driven by 26.5% YoY growth in the mortgage business, 30.7% YoY growth in urban B2C and 35.5% YoY growth in SME lending. B2B disbursements were up 37.1% YoY to Rs. 22,625cr. ROE/ROA ratios stood at 24.47%/5.42% (vs. 23.07%/5.33% in Q1FY23).

### Strong asset quality

BFL recorded its highest ever new loans in a quarter, at Rs. 9.94mn (vs. Rs. 7.42mn in Q1FY23). The deposits book grew 46.5% YoY to Rs. 49,944cr (~21% of consolidated borrowings). Asset quality was strong, with GNPA/NNPA ratios at 0.87%/0.31% (vs. 1.25%/0.51% in Q1FY23). Provision coverage ratio (PCR) stood at 65.0% (up 5.0% YoY). The capital adequacy ratio (CAR) was 24.6% and the Tier-I ratio was 23.0%, well above regulatory requirements.

### Key quarter highlights

- Customer base stood at 73.0mn. The company recorded its highest ever new customer addition of 3.84mn in Q1FY24. It is optimistic about adding 12mn new customers in FY24.
- 95 new locations and over 12,500 distribution points added during the quarter. Geographic footprint stood at 3,828 locations and 1,67,000+ distribution points.
- Consolidated lending AUM mix was as follows: urban 33%, rural 10%, SME 13%, commercial 13%, and mortgages 31%.

### Outlook and valuation

BFL delivered a superior performance in Q1FY24. The company's market leadership, omnipresence strategy, healthy customer additions, sustained focus on digital transformation, and strong asset quality augur well for its future performance. With strong AUM growth in Q1FY24, the management has revised its AUM growth guidance upwards, to 29.0-31.0% YoY in FY24. NIM levels may moderate in the upcoming quarters owing to the rising cost of funds. However, we firmly believe in the company's long-term growth prospects. Therefore, we reiterate our BUY rating on the stock with a revised target price of Rs. 8,252 based on 6.1x FY25E BVPS.

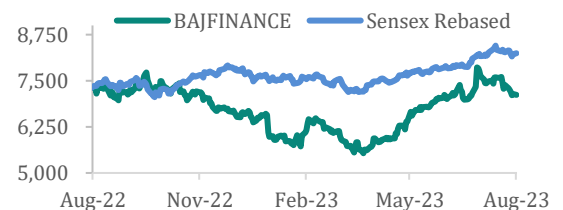
#### Company Data

Market Cap (cr)	Rs. 432,125
Outstanding Shares (cr)	60.7
Free Float	44.0%
Dividend Yield	0.2%
52 week high	Rs. 8,000
52 week low	Rs. 5,487
6m average volume (lacs)	0.4
Beta	1.2
Face value	Rs. 2

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	55.9	55.9	55.9
FII's	19.9	19.2	20.1
MFs/Insti	12.6	13.2	13.0
Public	11.3	11.4	10.7
Others	0.3	0.3	0.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.4%	15.5%	-2.6%
Absolute Sensex	8.0%	9.4%	13.0%
Relative Return*	3.4%	6.1%	-15.5%

#### \*Over or under performance to benchmark index



Consolidated (Rs. cr)	FY23A	FY24E	FY25E
Net Interest Income	28,847	36,148	44,607
Growth (%)	31.8	25.3	23.4
NIM (%)	12.3	12.1	12.0
Pre Pro Profit	18,718	23,626	29,207
Net Profit	11,508	14,054	17,481
Growth (%)	63.7	22.1	24.4
Adj. EPS	189.6	231.5	287.9
Growth (%)	63.7	22.1	24.4
BVPS	895.7	1,096.9	1,352.8
P/E	29.5	30.7	24.7
P/BV	6.2	6.5	5.3
P/ABV	6.2	6.5	5.3
RoE (%)	23.5	23.2	23.5

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs. cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Income from Operations	12,498	9,284	34.6	11,363	10.0
Interest Expense	4,103	2,645	55.1	3,592	14.2
<b>Net Interest Income</b>	<b>8,395</b>	<b>6,639</b>	26.5	<b>7,771</b>	8.0
Other Income	3	2	70.6	4	(22.9)
<b>Total Net Income</b>	<b>8,398</b>	<b>6,640</b>	26.5	<b>7,775</b>	8.0
<b>Total Income</b>	<b>12,501</b>	<b>9,286</b>	34.6	<b>11,367</b>	10.0
Operating Expenses	2,852	2,383	19.7	2,654	7.4
Total Expenditure	6,954	5,028	38.3	6,246	11.3
<b>Pre-Provisioning profit</b>	<b>5,546</b>	<b>4,257</b>	30.3	<b>5,121</b>	8.3
Provisions	995	755	31.9	859	15.8
<b>Profit Before Tax</b>	<b>4,551</b>	<b>3,503</b>	29.9	<b>4,261</b>	6.8
Tax	1,114	907	22.9	1,103	1.0
<b>Net Profit</b>	<b>3,437</b>	<b>2,596</b>	32.4	<b>3,158</b>	8.8
<b>EPS - Diluted (Rs.)</b>	<b>56.6</b>	<b>42.8</b>	32.3	<b>52.0</b>	8.8

### Business Performance

(Rs. cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
AUM	270,097	204,018	32.4	247,379	9.2
Borrowings	176,602	172,097	2.6	162,096	8.9

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income	35,294	42,385	36,148	44,607	2.4	5.2
NIM	12.68	12.34	12.12	12.04	(56)	(29)
Pre-Provisioning Profit	21,458	24,716	23,626	29,207	10.1	18.2
Net Profit	12,050	13,599	14,054	17,481	16.6	28.5
EPS (Rs.)	198.5	224.0	231.5	287.9	16.6	28.5

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	26,668	31,640	41,407	55,873	70,560
Interest Expense	9,414	9,754	12,560	19,725	25,954
<b>Net Int. Income</b>	<b>17,254</b>	<b>21,887</b>	<b>28,847</b>	<b>36,148</b>	<b>44,607</b>
% Change	2.1	26.8	31.8	25.3	23.4
Non-Int. Income	15	8	8	9	9
<b>Net Income</b>	<b>17,269</b>	<b>21,894</b>	<b>28,855</b>	<b>36,156</b>	<b>44,616</b>
<b>Total Income</b>	<b>26,683</b>	<b>31,648</b>	<b>41,415</b>	<b>55,882</b>	<b>70,569</b>
Operating Exp.	5,308	7,587	10,138	12,530	15,409
<b>Total Exp.</b>	<b>14,722</b>	<b>17,341</b>	<b>22,698</b>	<b>32,256</b>	<b>41,363</b>
<b>Pre-Prov. Profit</b>	<b>11,961</b>	<b>14,307</b>	<b>18,718</b>	<b>23,626</b>	<b>29,207</b>
Provisions	5,969	4,803	3,190	4,633	5,584
<b>PBT</b>	<b>5,992</b>	<b>9,504</b>	<b>15,528</b>	<b>18,992</b>	<b>23,623</b>
Tax	1,572	2,476	4,020	4,938	6,142
Tax Rate (%)	26.2	26.0	25.9	26.0	26.0
<b>Net Profit</b>	<b>4,420</b>	<b>7,028</b>	<b>11,508</b>	<b>14,054</b>	<b>17,481</b>
% Change	(16.0)	59.0	63.7	22.1	24.4
No. of Shares (cr)	61	61	61	61	61
<b>Adj. EPS (Rs.)</b>	<b>73.0</b>	<b>115.8</b>	<b>189.6</b>	<b>231.5</b>	<b>287.9</b>
% Change	(18.0)	58.6	63.7	22.1	24.4
DPS (Rs.)	10.0	20.0	30.0	32.0	34.0

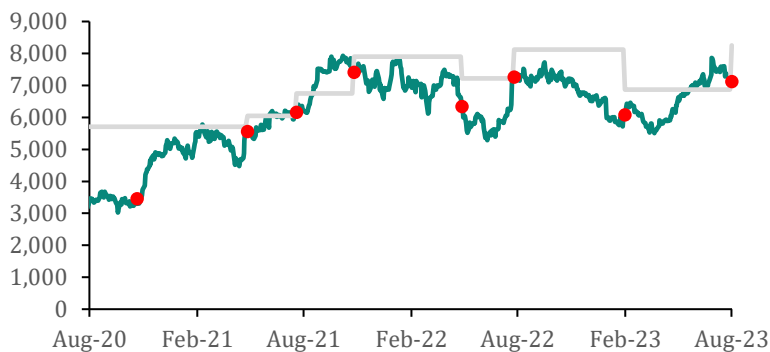
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	1,849	3,381	1,551	3,075	5,166
Investments	18,397	12,246	22,752	28,440	35,550
Advances	146,687	191,423	242,269	302,836	374,003
Fixed Assets	1,042	1,296	1,691	2,207	2,880
Other Assets	3,496	4,160	6,966	6,179	5,666
<b>Total Assets</b>	<b>171,470</b>	<b>212,506</b>	<b>275,229</b>	<b>342,737</b>	<b>423,265</b>
Capital	120	121	121	121	121
Reserve & Surplus	36,798	43,592	54,251	66,484	82,022
Deposits	25,803	30,799	44,666	70,572	103,740
Borrowings	101,932	130,587	168,395	197,477	228,987
Other Liabilities	6,817	7,407	7,796	8,083	8,395
<b>Total Liabilities</b>	<b>171,470</b>	<b>212,506</b>	<b>275,229</b>	<b>342,737</b>	<b>423,265</b>
<b>BVPS (Rs.)</b>	<b>610</b>	<b>720</b>	<b>896</b>	<b>1,097</b>	<b>1,353</b>
% Change	11.5	18.1	24.4	22.5	23.3

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	70.5	62.7	29.5	30.7	24.7
P/BV (x)	8.4	10.1	6.2	6.5	5.3
Div. Yield (%)	0.2	0.3	0.5	0.4	0.5
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	18.5	18.7	19.1	20.5	20.9
Cost of Deposits	7.4	6.7	6.7	8.2	8.6
Spread	11.1	12.0	12.4	12.3	12.2
NIM	10.7	11.9	12.3	12.1	12.0
ROE	12.8	17.4	23.5	23.2	23.5
ROA	2.6	3.7	4.7	4.5	4.6
<b>Capital Adequacy (%)</b>					
CAR	28.3	27.2	25.0	25.1	25.4
Tier I	25.1	24.8	23.2	23.6	24.2
Tier II	3.2	2.5	1.8	1.5	1.2
<b>Asset Quality (%)</b>					
GNPA	1.8	1.6	0.9	0.8	0.7
NNPA	0.8	0.7	0.3	0.3	0.3
<b>Operating Ratios (%)</b>					
Debt/Equity	3.6	3.8	4.0	4.1	4.1
Cost/Income	30.7	34.7	35.1	34.7	34.5

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
27-Jul-20	BUY	3,630
27-Oct-20	BUY	3,760
2-Feb-20	BUY	5,710
3-May-21	BUY	6,050
26-Jul-21	HOLD	6,745
1-Nov-21	HOLD	7,898
4-May-22	HOLD	7,219
2-Aug-22	BUY	8,121
6-Feb-23	BUY	6,870
8-Aug-23	BUY	8,252

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India.  
Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com.

For Compliance officer: Ms. Indu K; Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024, Phone: +91 484-2901367, Email: compliance@geojit.com. For grievances: Grievance officer: Mr Nitin K; Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024, Phone: +91 484-2901363, Email: grievances@geojit.com.

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