

BSE Sensex
65,881

S&P CNX
19,611

CMP: INR7,388

TP: INR8,800 (+19%)

Buy



BAJAJ FINANCE LIMITED



Stock Info

Bloomberg	BAF IN
Equity Shares (m)	604
M.Cap.(INRb)/(USDb)	4476.4 / 53.8
52-Week Range (INR)	8000 / 5486
1, 6, 12 Rel. Per (%)	3/10/-7
12M Avg Val (INR M)	7160
Free float (%)	44.1

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
Net Income	288	357	439
PPP	187	236	296
PAT	115	145	183
EPS (INR)	190	240	302
EPS Gr. (%)	63	26	26
BV/Sh. (INR)	891	1,094	1,355

Ratios

NIM (%)	10.6	10.3	10.2
C/I ratio (%)	35.1	33.8	32.6
RoA (%)	4.7	4.6	4.6
RoE (%)	23.7	24.1	24.7
Payout (%)	15.8	15.2	13.8

Valuations

P/E (x)	38.8	30.8	24.4
P/BV (x)	8.3	6.7	5.5
Div. Yield (%)	0.4	0.5	0.6

Omni-channel transformation to drive market and profit share

Bajaj Finance (BAF)'s FY23 Annual Report provides insights into the company's business construct and the different elements of its Long Range Strategy, including its ambition, approach, philosophy, market share, and profit share. The company plans to execute this strategy by increasing business agility, establishing a more efficient cost structure, and expanding its share of wallet within its customer base.

- During the challenging period of COVID-19, BAF seized the opportunity to transform its core identity, implementing a fully digitized Omni-channel strategy that seamlessly integrates its entire product and service portfolio.
- This was a huge structural shift for BAF, completely reinventing its operational approach. Once fully implemented, the omni-channel strategy will establish BAF as a customer-centric digital enterprise.
- The company delivered a healthy performance in FY23 through (a) effective capital management (Tier I of ~23%), (b) conservative liquidity buffers (~6% of average borrowings in FY23), (c) its strong underwriting capabilities, and (d) significant progress across various aspects of its omni-channel strategy, thereby, further strengthening its risk management capabilities.
- We estimate an AUM/PAT CAGR of ~29%/26% over FY23-FY25 and expect BAF to deliver a RoA/RoE of 4.6%/25% in FY25. We reiterate our BUY rating with a TP of INR8,800 (premised on 6.5x FY25E BVPS).

Stellar year with healthy recovery in loan volumes

- BAF's customer additions increased to 11.5m (vs. 9m in FY22). New loans booked grew 20% YoY to ~29.6m. Consumer-facing product categories 2W, 3W, and Lifestyle financing reported an increase of 12%, 78%, and 38% YoY, respectively, to 0.71m, 0.13m, and 0.64m.
- E-commerce related loans also grew 12% YoY to 2.8m. Within retail spending finance, the company has enhanced its business model by introducing small ticket financing options in select geographies and expanding into higher-ticket spending categories that prove to be economically more viable; volumes improved to 0.8m vs. 0.65m a year ago.
- For new originations, the cross-sell ratio moderated to ~61% vs. ~64% a year ago. In the 2W category, its market share in Bajaj Motorcycles increased to 40% (vs. 37% in FY22).

Customer franchise growing from strength to strength

- Overall customer franchise grew 20% YoY to ~69m. Of the total EMI card customers, 2% were financed across all sales finance categories (a sharp decline from ~44% in FY22) and 50-60% over the three years pre-COVID. Urban B2C AUM grew 30% YoY as against 27% in FY22. Consolidated AUM witnessed a robust growth of 25% YoY to INR2.47t and the proportion of unsecured loans declined to 42% (vs. ~43-44% over the prior two years).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Distribution income, a key catalyst for healthy improvement in fees

- Services and administrative fees grew 34% YoY to ~INR15.5b, with their contribution to overall fees coming down to 36% (vs. 38% in FY22). We believe this may be driven largely by a) a much lower conversion fees (from term to hybrid flexi loans) than in FY22 and b) much lower penal interest charges (if any). Fees on value-added services grew 12% YoY. The contribution of fee and commission income to overall profitability remained high at 1.8% of average assets (up ~20bp YoY and on par with FY20 levels).
- Distribution fees which increased 60% YoY, was driven by significant co-branded credit card usage (interchange fees), distribution of third-party products and incremental sourcing of credit cards. The number of EMI cards / co-branded credit cards outstanding grew at a rapid pace of 40%/24% YoY to ~42m/~3.5m.

Opex ratios were elevated, but should moderate from hereon

- Employee expenses and other operating expenses grew ~40%/ ~45% YoY, led by an increase in expenses related to advertisements and promotions (up 100% YoY), travel (up 115% YoY), and outsourcing expenses (up ~70% YoY), among others. Recovery cost as a percentage of average AUM declined to ~75bp (vs. 90bp/~80bp in FY22/FY21). Opex to avg. assets increased ~20bp YoY to 4.2%; however, robust growth supported overall profitability.

Proportion of unsecured loans decline; asset quality at its historical best

- Rising interest rates and inflation combined with a high proportion (42%) of unsecured advances poses the risk of asset quality deterioration for the company. In response, BAF has allocated substantial resources to fortify its risk management structure and introduced specialized credit risk units for each business vertical. This strategic move has yielded positive results, as evidenced by the reduction in write-offs and slippages over the course of the year. For FY23, it wrote off ~INR33.8b (~1.7% of the TTM AUM) and ECL/EAD declined to 1.8% (vs. 2.2% in FY22). GS2% moderated ~80bp YoY to 1.2% in FY23. With moderation in stress additions, GS1 inched up to ~98% (from ~96% in FY22).

Omni-channel transformation to become even more apparent

- The Omni-channel platform has provided a fully-integrated, seamless experience for customers to navigate between online and offline channels in a frictionless manner. In FY24, it will further accelerate the execution of its Omni-channel strategy and gain increased penetration across the country by opening additional 400-450 locations. With this transformation, BAF targets a substantial rise in business volumes, enriched customer experience, and a leaner cost structure. This should generate greater customer acquisition, higher customer loyalty, more profitable cross-selling, and better margins for each of its businesses. The company has made significant progress in multiple domains across its Omni-channel strategy (further details on page 11).

Other highlights

- BAF commenced financing of all 2Ws (across all manufacturers) from Jun'22, largely in two states, covering ~350 locations and ~2300 dealers. BAF intends to expand this offering to 20 large cities and 227 small cities in India by Mar'24. The company has established its presence in non-Bajaj auto dealerships and financed ~58K two-wheelers in FY23.
- AUM of used car finance grew by ~135% YoY to INR27.6b, enabled by expanded presence in 50 locations in FY23 (vs. 28 locations a year earlier). In FY23, BAF entered into a tie-up agreement with a used car dealership platform for providing end-to-end digital financing experience for customers transacting on the platform by providing used car finance loans.
- BAF managed its liabilities very well. Given the rising interest rate environment and higher interest rates in the debt capital markets (vis-a-vis bank term loans), it replaced the maturing money-market liabilities with bank term loans with its proportion in the borrowing mix improving to 33% vs. 28% the previous year.
- The rural business continued to grow at a stable pace and contributed ~10% to the AUM mix (same as that in FY22).
- After the RBI capped IPO funding by NBFCs to INR10m per borrower, BAF has been focusing on Commercial lending (ex-LAS), which grew 38% YoY.
- The net slippage ratio improved to at 1.3% vs. 3.5% in FY22, 4% in FY21, 2.4% (~2.1% ex-lumpy accounts) in FY20, and ~2% each in FY18/FY19.

Valuation and view

- BAF aims to be an 'omnipresent' financial services company, asserting dominance across all consumer touchpoints, covering physical, app-based, web, social and virtual channels. BAF has made significant progress in optimizing its processes and making them digital ready and has made significant structural changes to its technology stack to this effect. Payments solution offerings will be core to delivering the Omni-channel strategy, since it can drive higher engagement and retention of customers on BAF's new digital platforms.
- The approach of 'acquire and cross-sell' (across payments, loans, deposits, insurance and investments which derives from BAF's experience of an existing customer exhibiting significantly lower credit risk) would be a key growth driver in FY24 as well. We model an AUM CAGR of ~29% over FY23-FY25E for a sustainable RoE of 25%. BAF's return ratios have not only been consistent, but are also the highest in our Coverage Universe (after that of gold financiers). We reiterate our BUY rating on the stock, with a TP of INR8,800 (6.5x FY25E BVPS).

Deposits franchise

Granularity in deposits reduces as share of retail deposits decline

Share of deposits in overall borrowings increased to 21% vs. 19% in FY22

Deposits growth momentum improves

- Overall deposits grew 44% YoY to ~INR445b; within this, public deposits grew 34% YoY to ~INR283b.
- The share of deposits in overall borrowings increased to ~21% (vs. ~19% a year ago and ~20% in FY21).
- Retail deposits accounted for 64% of overall deposits (vs. 69%/73%/61% in FY22/FY21/FY20).

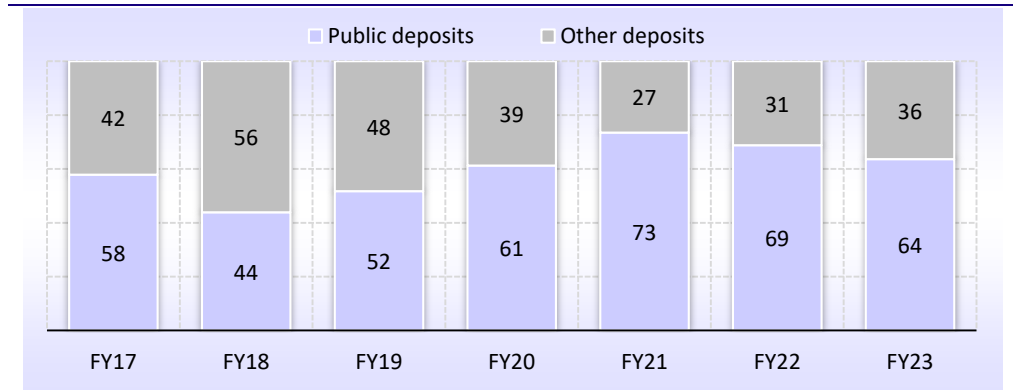
Exhibit 1: BAF is tactically looking to grow its deposit book

	FY18	FY19	FY20	FY21	FY22	FY23
Number of depositors ('000)	101	190	362	498		
Growth (%)	42	88	91	38		
Total deposits (INR b)	78	132	214	258	308	445
Growth (%)	82	69	62	20	19	44

Source: MOFSL, Company

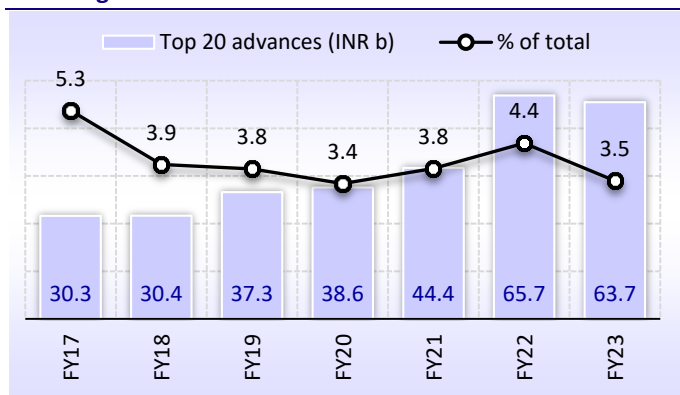
Share of public deposits at 64% of total deposits

Exhibit 2: Mix of public and non-retail deposits (%)



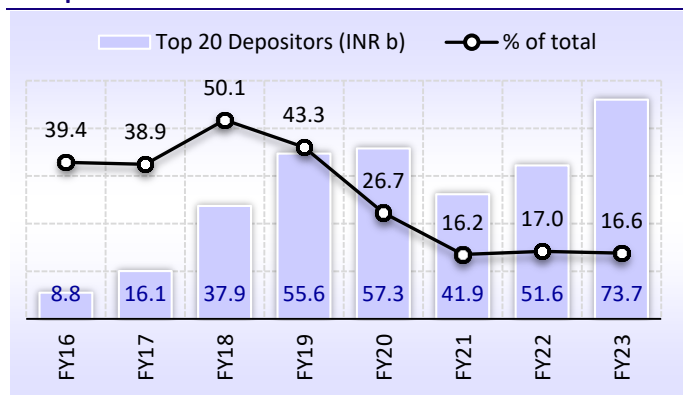
Source: MOFSL, Company

Exhibit 3: Exposure (standalone) to Top 20 advances declining



Source: MOFSL, Company

Exhibit 4: Concentration of Top 20 depositors moderated by ~40bp YoY



Source: MOFSL, Company

Strengthening business through partnerships

The company implemented various initiatives during the year to strengthen its business through partnerships:

- RBL Bank card sourcing locations increased to 600 (vs. 400/152/102 in FY22/FY21/FY20).
- The company launched a co-branded credit card with DBS Bank in Apr'22 and now offers these cards across over 80 locations in India. The number of cards-in-force stood at over ~0.2m as on Mar'23.
- Online relationships increased to 240 from 210/74/33 in FY22/FY21/FY20. The total distributor tie-ups stand at ~155k, of which, 139k is enabled via EMI cards.

Exhibit 5: EMI cards – trends

	FY18	FY19	FY20	FY21	FY22	FY23
No. of EMI Cards (m)	12.90	18.50	22.00	23.80	29.90	42.00
No. of loans using EMI Cards (m)	6.75	11.50	13.60	8.70	13.10	1.0
New Loans booked (m)	15.32	23.50	27.44	16.88	24.70	29.62
% of new loans booked using EMI cards	44%	49%	50%	52%	53%	3%

Source: MOFSL, Company

- In partnership with the RBL Bank, BAF's Co-Branded Credit Cards business continued to grow at an accelerated pace in FY23. These cards are now offered across 600 locations in India. The number of cards-in-force stood at over 3.25m (vs 2.8m YoY).

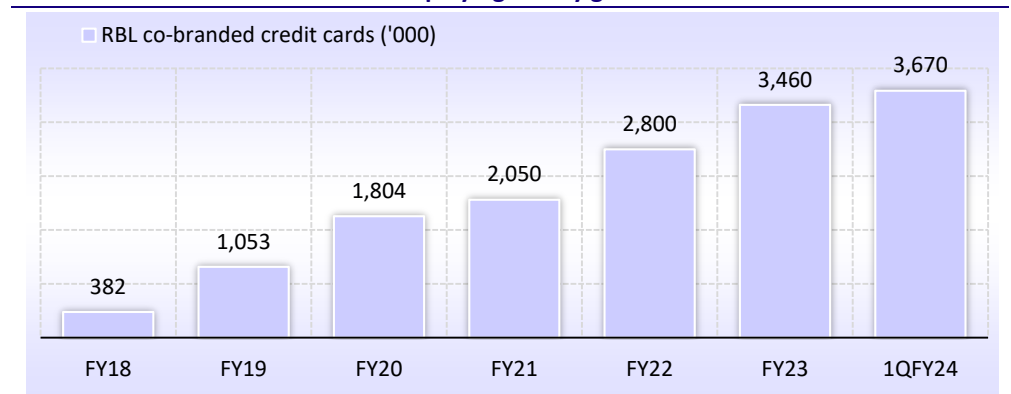
Distribution income accounted for 44% of fees in FY23 vs. 39% in FY22

Exhibit 6: Fee income increased YoY across all product segments

INR m	FY18	FY19	FY20	FY21	FY22	FY23
Service & admin charges	3,434	5,806	8,996	13,138	11,616	15,534
Fee on value added products	1,972	3,285	4,137	3,697	4,494	5,046
Foreclosure income	247	1,052	1,574	1,446	2,269	3,191
Distribution income	2,428	6,676	11,153	6,125	11,992	19,152
Brokerage income			49	118	296	506
Total	8,082	16,819	25,910	24,524	30,667	43,429

Source: MOFSL, Company

Exhibit 7: Co-branded credit cards displaying steady growth



Source: MOFSL, Company

Rural business – investing for the future

- The total number of locations increased from ~3500 to ~3700 over the past year, of which, rural locations stood at ~2,300 (from ~2,100 a year ago).
- The company’s business spans across 21 states with co-branded credit cards and EMI cards added to its existing product offerings. The share of AUM (incl. mortgages) for the rural business to overall AUM was stable YoY at ~9.5% in FY23.
- Gold loans stood at ~INR28b (up 37% YoY) and were ~1.5% (PY: 1.4%) of standalone AUM.

Improving mix in B2C and SME portfolios

- Within B2C products, the ratio of salaried personal loans (gross earnings >INR0.6m) and personal loans cross-sell (PLCS) shifted to 40:60 (vs. 43:57 in the previous year).
- The focus on professional loans (up 27% YoY to INR119.2b) continues to rise, with its share in SME lending at 32%.
- In the Professional loans category, medical equipment financing business gained traction with 19 OEMs and 450+ empaneled dealers for sourcing.

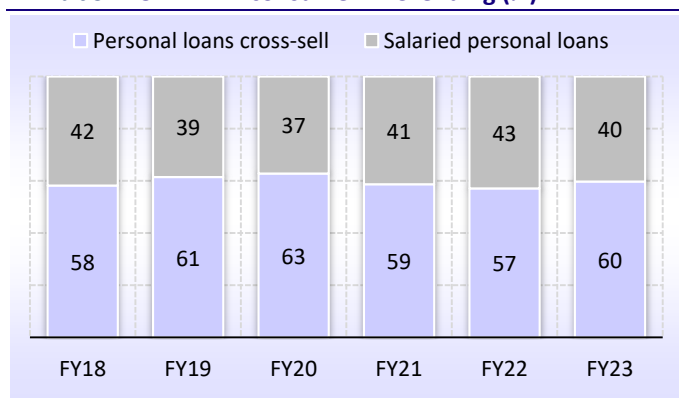
Share of secured LAP in SME lending on the rise

Exhibit 8: Breakup of consumer B2C and SME lending

AUM (INR b)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Personal loans cross-sell	62	89	139	192	172	214	290
Salaried personal loans	35	64	87	113	121	160	195
Total consumer B2C	97	153	226	305	293	374	485
Business loans	59	84	101	119	120	142	189
Professional loans	17	31	53	73	80	94	119
Secured LAP						18	33
Used Car Financing						12	28
Total SME lending	76	115	154	193	201	266	266

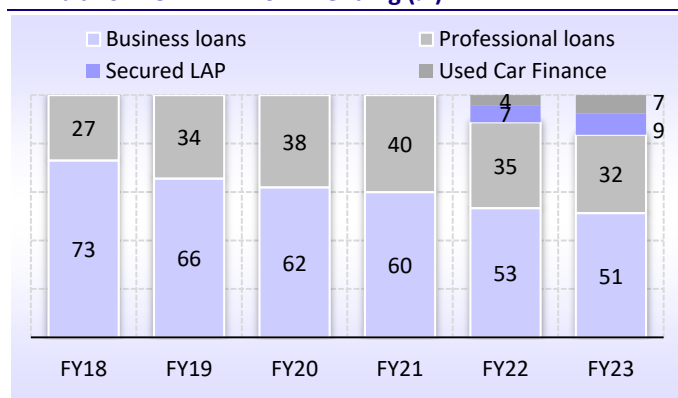
Source: MOFSL, Company

Exhibit 9: AUM mix – consumer B2C lending (%)



Source: MOFSL, Company

Exhibit 10: AUM mix – SME lending (%)



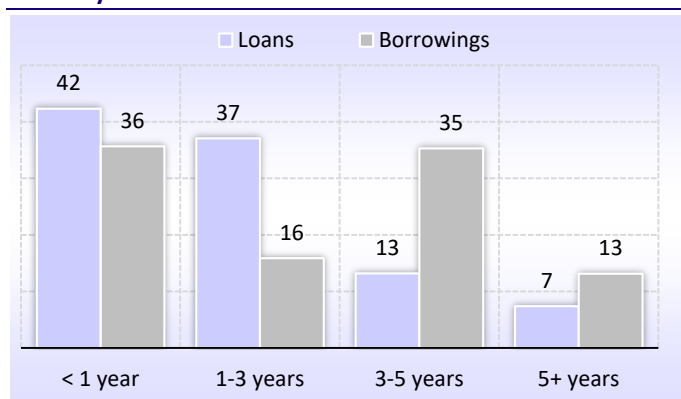
Source: MOFSL, Company

Short loan tenure led to positive ALM

Well-placed on ALM front; BS liquidity still abundant

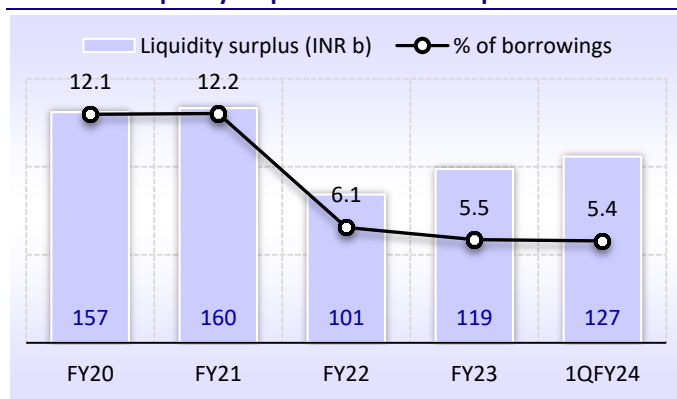
- The majority of loans in the BAF book have a tenor of less than three years. Only the non-LAS commercial lending and mortgage books have longer loan tenors. Due to this arrangement, the company can effectively handle its ALM without relying heavily on long-term borrowings.
- Short lending tenures position the company to receive significant EMI inflows, enabling them to readily meet their near-term financial obligations.
- Against 36% of liabilities (including deposits), due for repayment within the next year, 44% of assets (including investments) would mature/see inflows during the same period.
- BAF has always been prudent and maintained positive ALM position across buckets, including 1–7 days (+43%), 8–14 days (+96%), and 15–31 days (+93%), despite the RBI allowing a 10%, 10%, 20% negative mismatch, respectively, in these buckets. The liquidity has normalized vis-à-vis previous year, reducing the cash drag on the profits.
- The company began to wind down the liquidity in 1HFY23 as the external environment started stabilizing. However, even at end-FY23, it still had a consolidated liquidity surplus of INR118.5b, representing ~5% of its borrowings (this excess liquidity increased to INR127b as on Jun'23).
- Furthermore, BAF maintained LCR of 113%, well above the 70% (85% from Dec'23 onwards and 100% from Dec'24 onwards) requirement applicable to NBFCs, with an asset size of >INR50b.
- In FY23, the Company's prudent ALM approach, which focused on obtaining longer duration borrowings, allowed it to effectively mitigate the impact of policy rate hikes of 250bp. Despite the substantial increase in the policy rate, BFL's cost of funds only rose by ~23bp.

Exhibit 11: Proportion of assets/ liabilities in various maturity buckets



Source: MOFSL, Company

Exhibit 12: Liquidity surplus moderated to pre-Covid levels



Source: MOFSL, Company

Moderation in forward flows into S3 and lower slippages resulted in GS3 improvement

Net slippage down ~210bp YoY to 1.3%

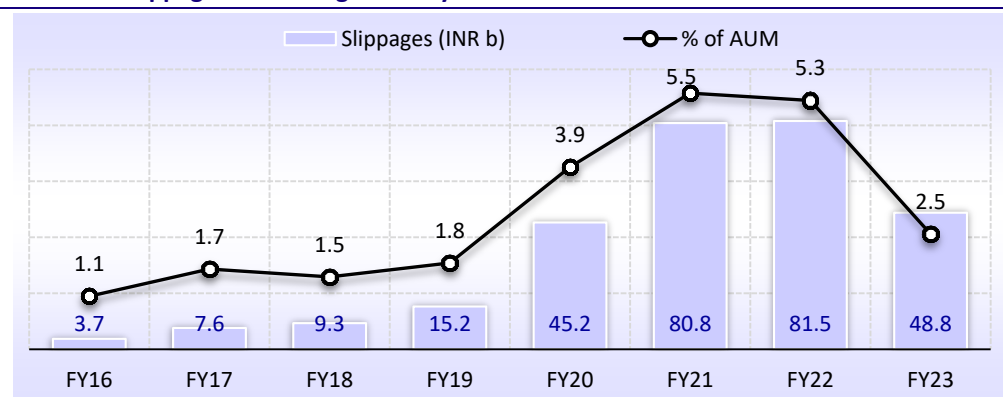
- Slippages exhibited a significant YoY decline of 40% to INR48.8b in FY23. This was led by prudent stress management in auto loans, LAP, and unsecured personal loans.
- Write-offs declined ~30% YoY to INR33.8b.

Efficiently managed flow to higher buckets...

- With improved economic environment, the company has been efficiently able to arrest flows to higher buckets with forward flows from S1 to S2 and S3 reducing significantly in FY23.
- Recoveries/upgrades declined ~21% YoY to ~INR23b. Slippage as a percentage of opening AUM, improved by ~290bp YoY to ~2.5%.

Gross Slippage ratio moderated YoY to 2.5% (PY: 5.4%)

Exhibit 13: Slippage reduced significantly in FY23



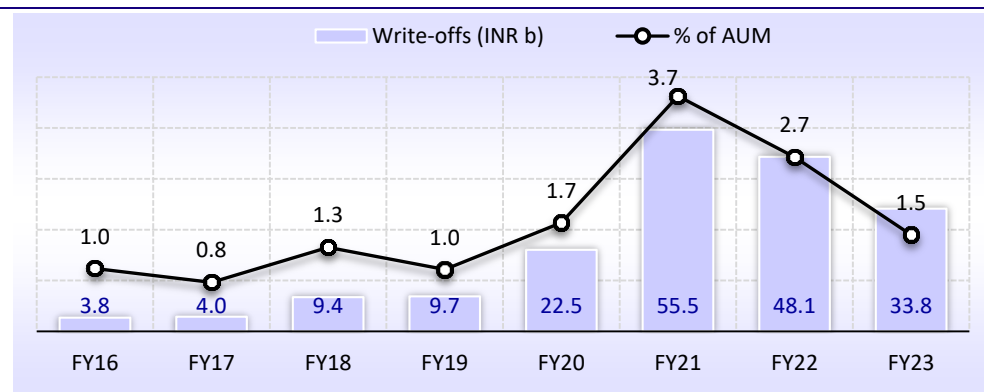
Source: MOFSL, Company

Moderation in slippages and lower write-offs aid headline GNPA's; PCR healthy at 64%

- Write-offs as a percentage of average AUM declined to 1.5% in FY23 from 2.7% in FY22. In absolute terms, write-offs stood at ~INR33.8b (vs. ~INR48b in FY22).

Write-offs – 1.5% of average AUM in FY23 (vs. 2.7% in FY22)

Exhibit 14: Write-offs moderated to 1.5%

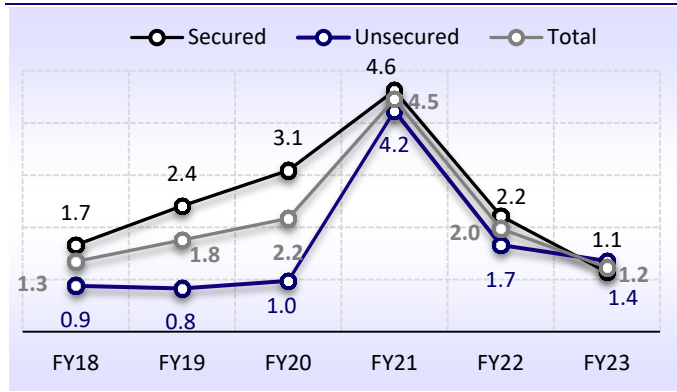


Source: MOFSL, Company

Improvement in 30+ dpd, led by improvement in both unsecured as well as secured advances

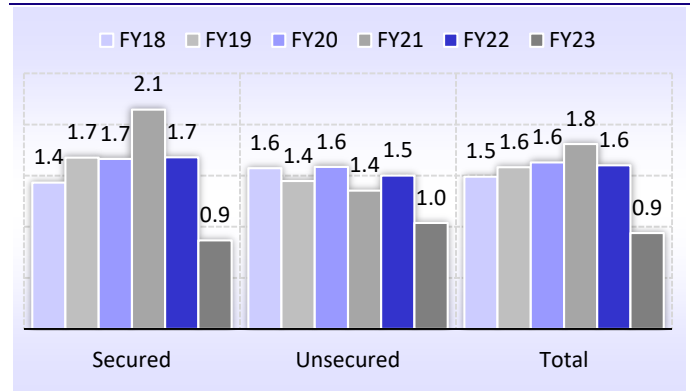
- Stage 3/ Stage 2 loans declined ~70bp/80bp to 0.9%/1.2% in FY23. This was primarily led by a ~110bp/ 80bp improvement in secured Stage 2/ Stage 3 loans to 1.1%/0.9% in FY23.
- Stage 2 and Stage 3 loans were at 1.4% and 1.0% for unsecured loans (PY: 1.7%/ 1.5%).

Exhibit 15: Trends in Stage 2 loans (%)



Source: MOFSL, Company

Exhibit 16: Trends in Stage 3 loans (%)

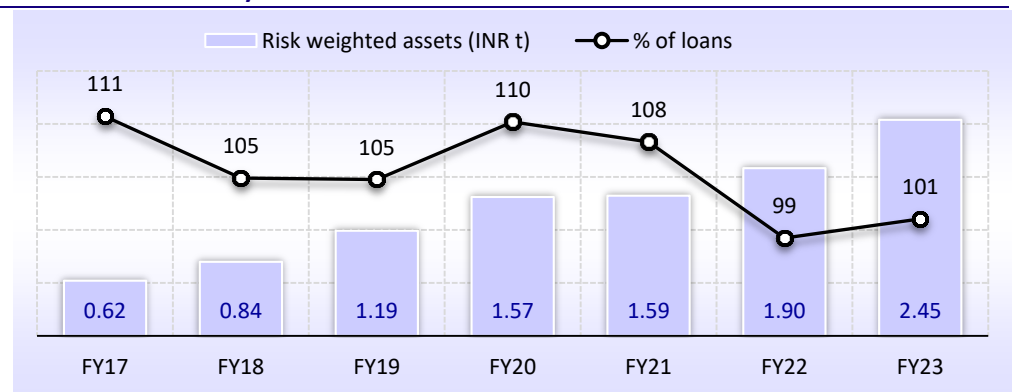


Source: MOFSL, Company

Risk density increases, driven by higher incremental unsecured loans

- RWA as a percentage of loans increased to 101% vs. 99% in the previous year. The increase of ~2pp can also be attributed to increasing incremental proportion of higher risk-weighted unsecured loans.
- The company strives to maintain a strong capital base to underpin the inherent risks associated with its business and growth strategies. Capital requirements are evaluated in congruence with regulatory standards and growth plans approved by the Board.

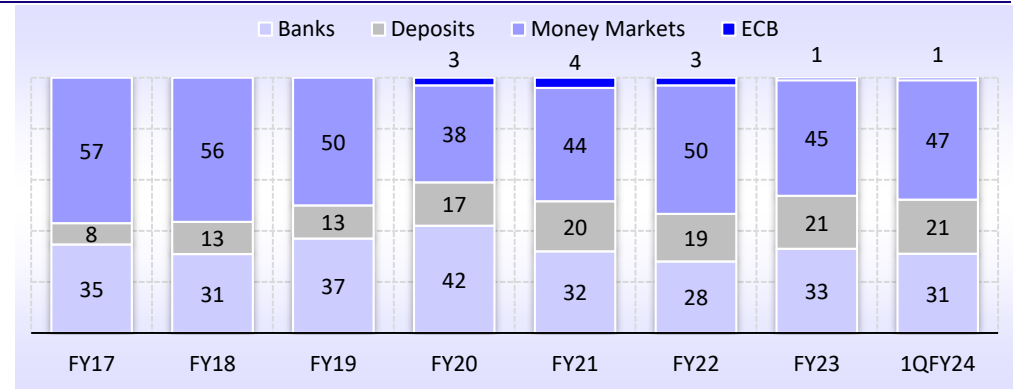
Exhibit 17: Risk density declines



Note: For consolidated RWA, we have added reported RWA Parent and Housing finance subsidiary;
Source: MOFSL, Company

Diversifying the liability mix, with reducing proportion of higher cost NCDs/CPs

Exhibit 18: Share of bank borrowings up ~3pp from last year (%)



Source: MOFSL, Company

- On the liability front, the company continues to maintain conservative liquidity buffers, driven by its prudent ALM practices. This approach has enabled it to limit the increase in its CoF by ~23bp in FY23 (relative to FY22), even as policy repo rates increased by ~250bp in FY23. BAF's diverse portfolio of lending products and customer segments necessitates a prudent liquidity strategy. The company's commitment to meeting the funding requirements of its various business lines without relying heavily on short-term borrowing enhances its resilience during times of market volatility or economic uncertainty.
- BAF exhibited great strength in terms of the stability of its deposits franchise. The proportion of deposits in the consolidated borrowing mix improved YoY to ~21% as of Jun'23 vs. 19% in FY22.

Nuts and Bolts of the Omnichannel Strategy

Few interesting statistics

In FY23,

- Web platform garnered over 219m customer visits and enabled loan disburseals of over INR50b;
- Over 35m customers installed the mobile app
- ~16.7m customers have created wallet account with the company;
- ~13m customers have created UPI handles; and
- 16m bill payment transactions were executed by the customers using BFL's bill pay service

Digital transformation: Progress made in FY23

- BAF has rapidly extended its digital footprint through platforms such as the Bajaj Finserv App, web platform, and three proprietary marketplaces: the 'Insurance Marketplace', 'Investment Marketplace', and 'EMI Store'.
- The company aims to establish a commanding presence as an all-encompassing financial services provider, spanning physical, app-based, web, social, and virtual channels. Notably, BAF has streamlined processes for enhanced digital readiness, upskilled its workforce, and revamped its technology stack to advance its Omni-channel approach.
- The Omni-channel strategy has six domains viz. (i) Geographic expansion, (ii) Bajaj Finserv app, (iii) Bajaj Finserv website, (iv) Payments, (v) Productivity apps, and (vi) Customer data platform (CDP).

In FY23, BAF has made significant progress in the following domains of Omni-channel strategy:

Geographic expansion:

In FY23, BAF expanded its geographic presence by adding 229 locations, primarily across UP, Bihar, and North-East India, taking its presence to ~3,733 locations. The company shared its ambition of 5K locations over the next few years. The company has a well-defined geographical expansion programme and it considers GDP contribution as an important parameter for selection of new locations. The company monitors portfolio contribution of regions across the country against their GDP contribution.

Bajaj Finserv App:

Phase 1 of the app went live in FY22 and Phase 2 in FY23. The company monitors over 1,850 KPIs across the app with Phase 2 of the app enabling:

- Improved customer experience with 6 Category Landing Pages and 7 new Product Display Pages;
- Payments through the inclusion of POS terminals, wallet-UPI interoperability, pay to contacts functionality, bill pay service;
- Account aggregator capability for SME business;
- End-to-end journey for various products such as home loans, LAP, LAS, business and professional loans, used Car loans

Payments Solutions:

The Company has established a full-service payments business across a wide range of issuance and acquisition formats. BAF's robust payments infrastructure will include wallets, UPI, Bharat Bill pay services, and a single-payment check out gateway.

- It has expedited the rollout of QR code technology among small and medium-sized merchants through its distribution channels.
- The Bajaj Pay QR facilitates payments via UPI, PPI (Bajaj Pay Wallet), and Bajaj EMI (where applicable).
- In FY23, over 627,000 merchant QR codes were deployed. Additionally, BFL has developed merchant solutions and functionalities that streamline on-boarding, provide a unified view of payments, business, marketing campaigns, and rewards.

Customer data platform (CDP)

- CDP, implemented in 2QFY22, facilitates multi-channel coordination, customer communication, and call management through an integrated multi-dialler, multi-lingual architecture.
- BFL currently operates eight regional call centres to provide multi-lingual sales and service assistance to its customers.
- CDP enables BAF to provide platform agnostic experience across all digital mediums.

Plans for FY24 and beyond

In Jan'23, the company shared its new long-range strategy spanning FY23 to FY27. This strategy entails the introduction of fresh products and variants, innovative offerings, expansion into new geographical areas, and a continuous focus on enhancing operational capabilities, all aimed at fostering strong growth. The following outlines a selection of these initiatives and their potential execution timelines:

- Financing for purchase of new cars (Auto Loans) – 2QFY24
- Emerging corporate loans business – 3QFY24
- Micro Finance – 4QFY24
- B2B on QR and EDC – 4QFY24
- Flexi on QR - 4QFY24
- Rewards platform - 4QFY24
- Financing for purchase of tractor – 1QFY25
- Social platform - 2QFY25
- 100 additional locations in UP, Bihar, and North-East India in FY24 and 100 more locations in FY25

Exhibit 19: Long range strategy

To be a leading payments and financial services company in India with a customer franchise of 100m, market share of 3% in payments ecosystem, and market share of 3-4% of total credit in India and 4-5% of retail credit in India.



To become an omnipresent financial services company spanning all consumer platforms — physical, app, web, social, rewards and virtual.



To acquire customers and cross-sell payments, assets, deposits, insurance, investments and broking products to meet their financial needs on all consumer platforms.



To build businesses with a long-term view anchored on prudence and risk management to deliver 'through the cycle' 19%– 21% shareholder returns.



To deliver sustainable growth and endeavor to be among the top five in respective product and sector



To focus on profitable growth and endeavor to be among the top 20 profit-making companies in India and top five in financial services companies in India.

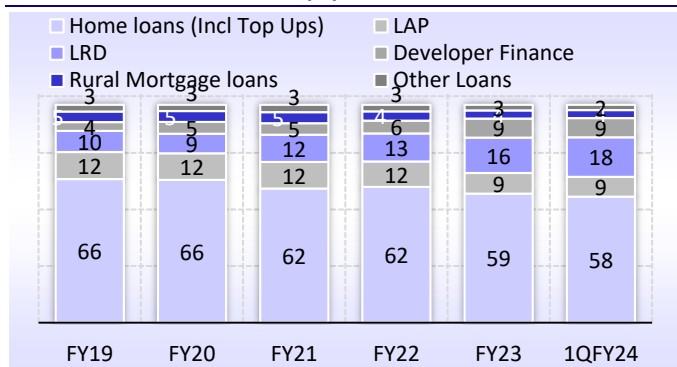
Exhibit 20: Key outcomes of omnipresent strategy

Particulars	Unit	FY23	FY22
Geography			
New locations added	#	229	516
Locations as at 31 Mar	#	3,733	3,504
Gold loan branches as at 31 Mar	#	181	132
App metrics			
Downloads	# in MN	51.9	22.7
Net installs as at 31 Mar	# in MN	35.5	19.1
In-App programs as at 31 Mar	#	104	44
Ranking in financial domain in Playstore	#	5	11
Service requests initiated on app	% of total SR	22	10
App payments metrics			
UPI handles till 31 Mar	# in MN	13	2.1
Bill pay transactions	# in MN	15.9	2.3
QRs at merchant PoS as at 31 Mar	# in '000	627	0.29
Rewards issued	# in MN	44.7	1.3
App business metrics			
EMI cards acquired on App	# in '000	368	-
Personal loan disbursed on App	INR b	94	66
Credit card acquisition on App	# in '000	209	183
Flexi loan transactions on app	# in MN	4.9	3.4
DMS receipts on App	# in MN	3.3	0.5
Marketplace metrics			
Bajaj Mall visits	# in MN	156.7	129.5
Bajaj Mall loans	# in MN	2.4	1.2
Insurance Bazaar - insurance policies	# in '000	294.3	-
Insurance Bazaar - mutual fund A/C	# in '000	73.9	-
Digital EMI card metrics			
EMI cards acquired digitally	# in MN	2.4	1.8
EMI cards acquired digitally – CIF as at 31 March	# in MN	3.6	1.8
B2B loans from digital EMI cards as at 31 March	# in MN	1.07	0.5

Bajaj Housing: Driving growth across all segments

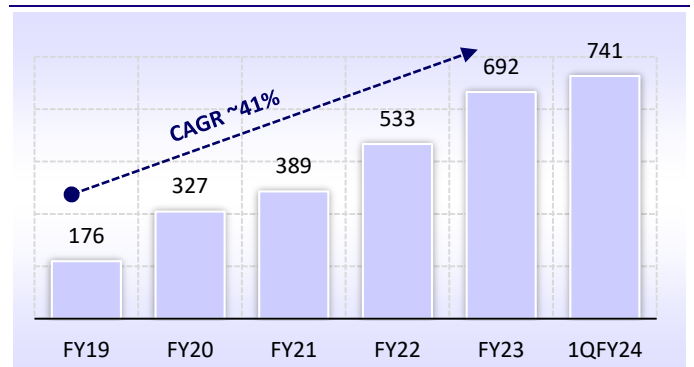
- Individual housing loans contribute ~62% of the portfolio. Nearly 95% of AUM consists of loans given to salaried and self-employed professional segments for fresh housing loan acquisitions.
- Going forward, it intends to also grow self-employed and affordable housing segment with a calibrated risk strategy to cover the full spectrum of housing loan market.
- To enhance home loan penetration, BHFL is focusing on (i) expanding within existing developer projects, (ii) broadening distribution reach, and (iii) leveraging developer finance for increased retail home loan contribution.
- With its distinct underwriting capabilities, BHFL's developer finance portfolio has consistently demonstrated strong performance. The company will further (i) grow its geographic footprint, (ii) strengthen existing developer partnerships, and (iii) engage new developers meeting stringent underwriting criteria for portfolio diversification.
- In the commercial real estate segment, BHFL now provides financing for commercial construction and lease rental discounting, particularly in the build-to-suit warehousing and industrial property segments. The company is extending its geographical reach to bolster market share, while enhancing customer service through deeper relationships.

Exhibit 21: BHFL AUM mix (%)



Source: MOFSL, Company

Exhibit 22: BHFL AUM (INR b) registered a CAGR of ~41% over FY19-23

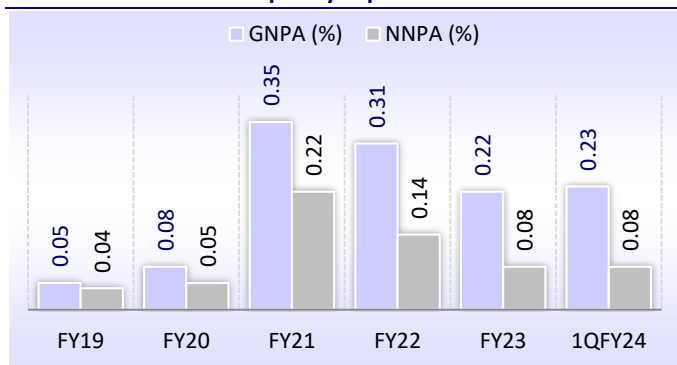


Source: MOFSL, Company

Rural Mortgage Loans

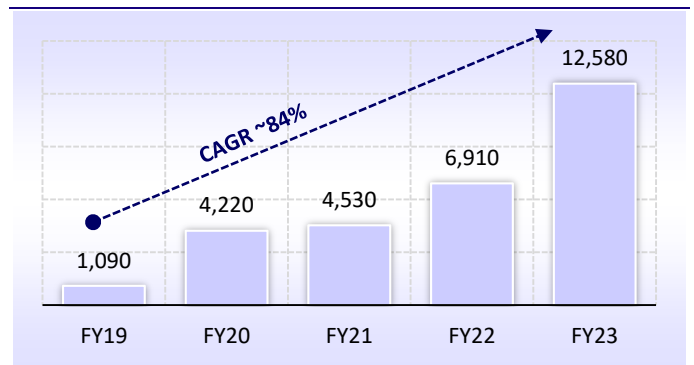
- BHFL offers home loans and LAP to salaried and self-employed customers across 85 small towns in India.
- Rural mortgages business operates at an average ticket size of nearly INR1.7m. This business closed FY23 with AUM of ~INR26b.

Exhibit 23: BHFL Asset quality is pristine



Source: MOFSL, Company

Exhibit 24: BHFL PAT (INR m) registered a CAGR of ~84% over FY19-23



Source: MOFSL, Company

Bajaj Finserv Direct (BFS-Direct)

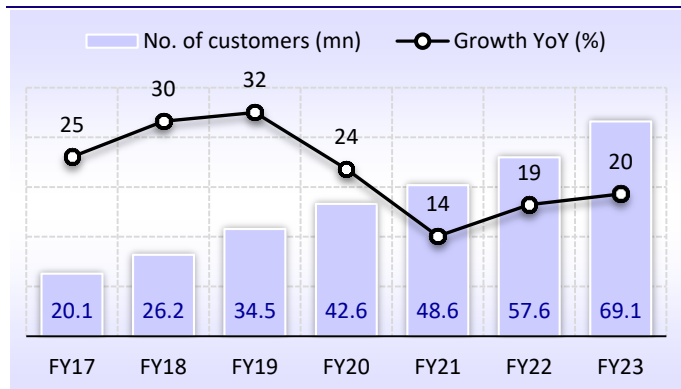
- BFS-Direct is primarily engaged in the business of distribution of financial products through its digital marketplace.
- In FY23, BFL made no fresh investments into BFS-Direct. The Company continues to hold ~19.9% of its capital and the remaining ~80.1% is held by Bajaj Finserv Ltd., the holding company.

Other highlights

- In the case of the dishonour of bank instrument, digital channels (along with walk-ins) account for ~45% of collections volume.
- LCR stood at 113% as of FY23 vs. the regulatory requirement of 70% (85% from December'23 and 100% from Dec'24).
- The assigned portfolio outstanding stood at INR51.1b/~INR19b on a consolidated/standalone basis.
- The SLR ratio stood at ~20% vs. the regulatory requirement of 15%.
- The company continues to stay invested in MobiKwik with total investment of ~INR2.97b, representing ~14% of MobiKwik's capital on a fully diluted basis as of FY23.

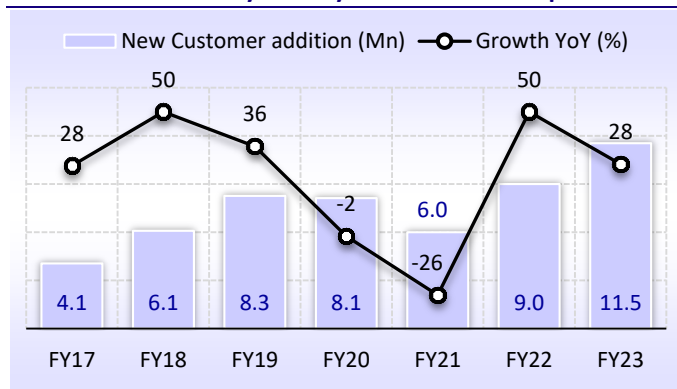
Appendix

Exhibit 25: Customer franchise growth gaining further steam...



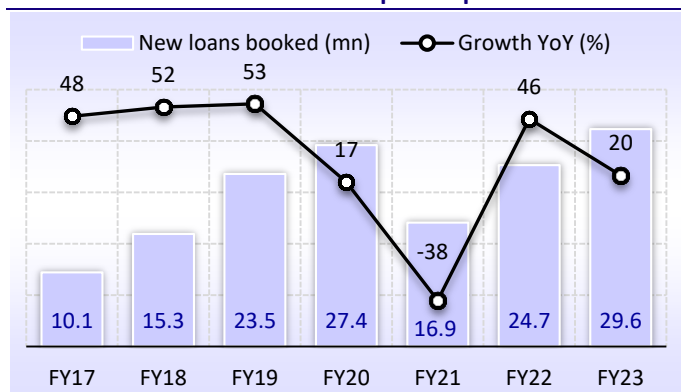
Source: MOFSL, Company

Exhibit 26: ...driven by healthy new customer acquisitions



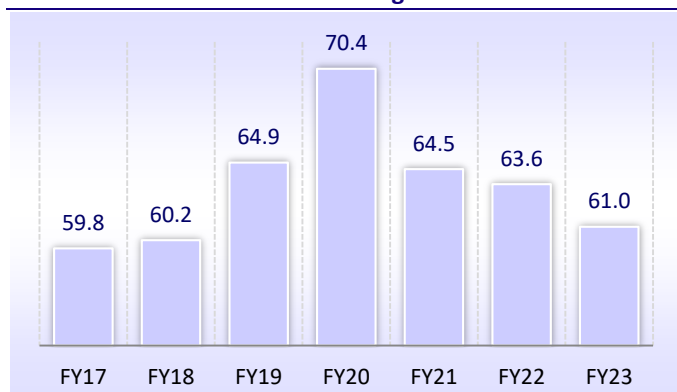
Source: MOFSL, Company

Exhibit 27: New loans booked surpassed pre-COVID levels



Source: MOFSL, Company

Exhibit 28: Share of cross-selling declined, suggesting that BAF is more amenable in disbursing to newer customers



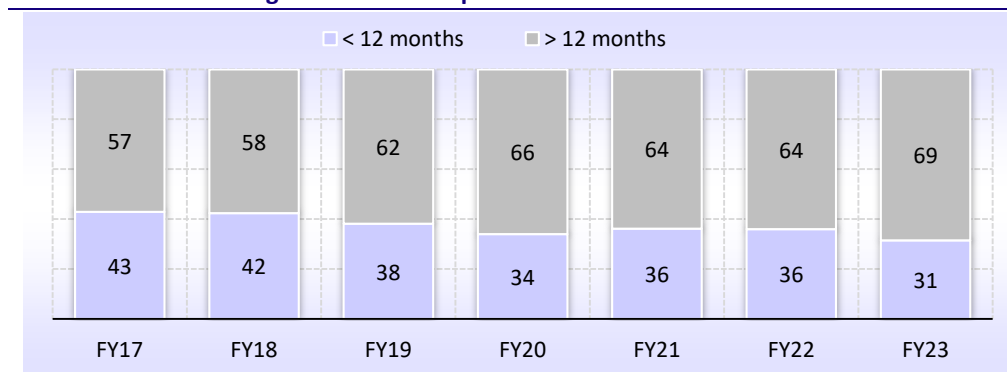
Source: MOFSL, Company

Exhibit 29: 78%/38% YoY growth in 3W/ Lifestyle financing disbursements

Number of loans booked (M)	FY18	FY19	FY20	FY21	FY22	FY23
2W loans	0.68	1.02	1.10	0.61	0.64	0.71
3W loans	0.1	0.14	0.19	0.06	0.07	0.13
CD & digital products	9.9	12.7	13.40	8.90	12.70	
Lifestyle	0.32	0.48	0.54	0.29	0.46	0.64
Ecommerce	0.7	2.11	2.56	1.70	2.50	2.82
Retail spends (small ticket)	0.71	1.46	1.80	0.34	0.66	0.83

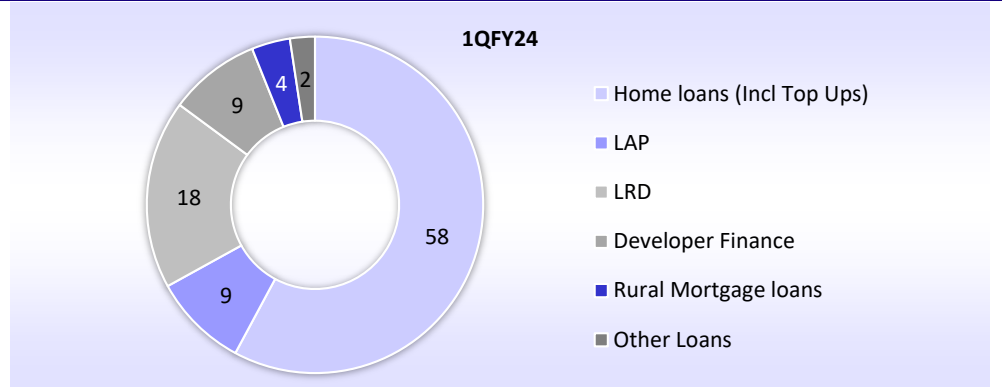
Source: MOFSL, Company

Exhibit 30: Share of longer term loans improved YoY



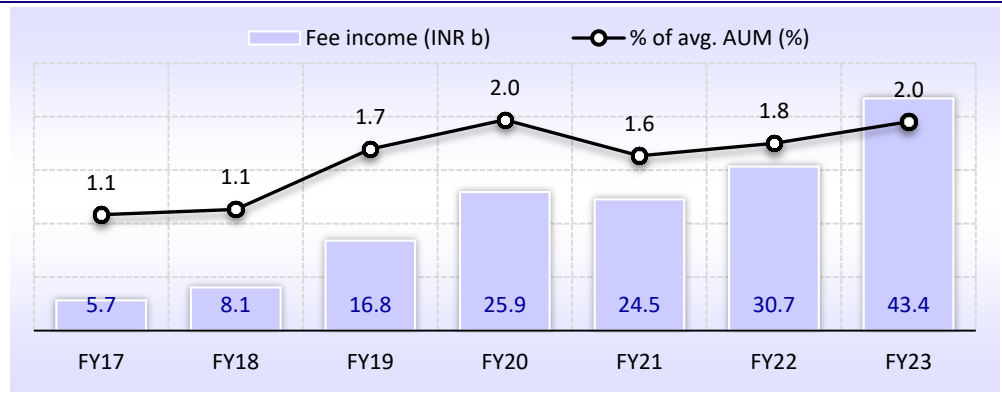
Source: MOFSL, Company

Exhibit 31: Home loans dominate AUM mix of housing subsidiary (%)



Source: MOFSL, Company

Exhibit 32: Fee income grew ~42% YoY, led by fee on value-added services and distribution income; BAF has levers for strong and sustainable fee improvement



Source: MOFSL, Company

Valuation and view

- BAF aims to be an ‘omnipresent’ financial services company, asserting dominance across all consumer touchpoints, covering physical, app-based, web, social and virtual channels. BAF has made significant progress in optimizing its processes and making them digital ready and has made significant structural changes to its technology stack to this effect.
- Payments solution offerings will be core to delivering the Omni-channel strategy, since it can drive higher engagement and retention of customers on BAF’s new digital platforms.
- The approach of ‘acquire and cross-sell’ (across payments, loans, deposits, insurance and investments which derives from BAF’s experience of an existing customer exhibiting significantly lower credit risk) would be a key growth driver in FY24 as well.
- We model an AUM CAGR of ~29% over FY23-FY25E for a sustainable RoE of 25%. BAF’s return ratios have not only been consistent, but are also the highest in our Coverage Universe (after that of gold financiers). We reiterate our BUY rating on the stock with a TP of INR8,800 (6.5x FY25E BVPS).

Financials and valuations

Income Statement									INR b
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	87.1	115.9	163.5	229.7	233.0	272.7	355.5	477.8	614.3
Interest Expended	38.0	46.1	66.2	94.7	94.1	97.5	125.6	187.4	247.1
Net Interest Income	49.0	69.7	97.3	135.0	138.9	175.2	229.9	290.3	367.3
Change (%)	35.4	42.2	39.5	38.8	2.9	26.2	31.2	26.3	26.5
Other Operating Income	12.7	11.6	21.4	34.0	33.6	43.6	58.5	66.2	71.9
Other Income	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net Income	62.0	81.4	118.8	169.1	172.7	218.9	288.5	356.6	439.3
Change (%)	40.7	31.3	45.9	42.4	2.1	26.8	31.8	23.6	23.2
Operating Expenses	25.6	32.7	42.0	56.6	53.1	75.8	101.3	120.6	143.4
Operating Profits	36.4	48.7	76.8	112.5	119.6	143.1	187.2	236.0	295.9
Change (%)	45.0	34.1	57.6	46.5	6.3	19.6	30.8	26.1	25.4
Provisions and W/Offs	8.2	10.3	15.0	39.3	59.7	48.0	31.9	41.5	49.4
PBT	28.2	38.4	61.8	73.2	59.9	95.0	155.3	194.5	246.5
Tax	9.8	13.5	21.8	20.6	15.7	24.8	40.2	49.7	63.8
Tax Rate (%)	34.8	35.0	35.3	28.1	26.2	26.0	25.9	25.6	25.9
PAT	18.4	25.0	39.9	52.6	44.2	70.3	115.1	144.8	182.6
Change (%)	43.6	35.9	60.0	31.8	-16.0	59.0	63.7	25.8	26.1
Proposed Dividend	2.5	2.8	4.3	7.3	6.0	6.0	18.1	22.0	25.1

Balance Sheet									INR b
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Reserves & Surplus (Ex OCI)	89.4	157.4	195.8	323.0	363.2	430.6	537.3	660.1	817.6
Net Worth	91	159	197	324	364	432	539	661	819
OCI	0.0	-0.1	0.0	-0.9	-1.2	-0.7	-0.8	-0.8	-0.8
Net Worth (Including OCI)	91	158	197	323	363	431	538	660	818
Change (%)	21.9	75.1	24.3	64.1	12.3	18.7	24.7	22.8	23.8
Borrowings	509	666	1,016	1,298	1,316	1,653	2,167	2,830	3,546
Change (%)	37.5	30.8	52.6	27.8	1.4	25.5	31.2	30.6	25.3
Other liabilities	19.9	23.9	29.5	22.6	35.2	41.4	47.2	54.3	62.4
Total Liabilities	619	848	1,242	1,644	1,715	2,125	2,752	3,545	4,426
Investments	41.3	31.4	86.0	175.4	184.0	122.5	227.5	227.5	227.5
Change (%)	299.5	-24.0	173.9	104.0	4.9	-33.4	85.8	0.0	0.0
Loans	564	800	1,137	1,428	1,467	1,914	2,423	3,198	4,029
Change (%)	28.7	41.8	42.1	25.6	2.7	30.5	26.6	32.0	26.0
Other assets	14.1	16.6	19.2	40.5	63.9	88.4	102.1	119.5	169.4
Total Assets	619	848	1,242	1,644	1,715	2,125	2,752	3,545	4,426

E: MOFSL Estimates

Financials and valuations

Ratios										(%)
Y/E MARCH	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	
Spreads Analysis (%)										
Yield on Advances	17.4	17.0	16.9	17.9	16.1	16.1	16.4	17.0	17.0	
Cost of borrowings	8.7	7.9	7.9	8.2	7.2	6.6	6.6	7.5	7.8	
Interest Spread	8.7	9.1	9.0	9.7	8.9	9.6	9.8	9.5	9.3	
Net Interest Margin	9.8	10.2	10.0	10.5	9.6	10.4	10.6	10.3	10.2	
Profitability Ratios (%)										
Cost/Income	41.4	40.1	35.3	33.5	30.7	34.6	35.1	33.8	32.6	
Empl. Cost/Op. Exps.	36.3	43.9	46.2	45.0	47.0	47.3	49.9	52.0	54.3	
RoE	22.3	20.0	22.5	20.2	12.8	17.7	23.7	24.1	24.7	
RoA	3.4	3.4	3.8	3.6	2.6	3.7	4.7	4.6	4.6	
Asset Quality (%)										
GNPA	9.8	11.6	18.0	23.6	27.3	31.3	23.1	26.1	40.1	
NNPA	2.6	3.5	7.3	9.4	11.4	13.1	8.4	9.1	12.0	
GNPA %	1.7	1.4	1.6	1.6	1.8	1.6	0.9	0.8	1.0	
NNPA %	0.5	0.4	0.6	0.7	0.8	0.7	0.3	0.3	0.3	
PCR %	74.0	69.6	59.7	60.3	58.4	58.0	63.8	65.0	70.0	
Capitalisation (%)										
CAR	19.5	24.0	20.7	25.0	28.3	27.2	25.0	23.3	23.1	
Tier I	13.3	18.4	16.3	21.3	25.1	24.8	23.2	22.0	22.2	
Tier II	6.2	5.5	4.4	3.7	3.2	2.5	1.8	1.3	0.9	
Average Leverage on Assets (x)	6.6	5.9	5.9	5.5	4.9	4.8	5.0	5.2	5.4	
Valuation										
Book Value (INR)	165	276	341	540	606	716	891	1,094	1,355	
Price-BV (x)				13.7	12.2	10.3	8.3	6.7	5.5	
EPS (INR)	33.6	43.4	69.3	87.7	73.5	116.5	190.4	239.6	302.2	
EPS Growth (%)	40.7	29.2	59.6	26.7	-16.3	58.6	63.4	25.8	26.1	
Price-Earnings (x)				84.2	100.5	63.4	38.8	30.8	24.4	
Dividend per Share (INR)	3.6	4.0	6.0	10.0	10.0	20.0	30.0	36.4	41.5	
Dividend Yield (%)				0.1	0.1	0.3	0.4	0.5	0.6	

E: MOFSL Estimates

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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