



**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**  
Updated Aug 08, 2023

**19.46**

**Low Risk**

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

Source: Morningstar

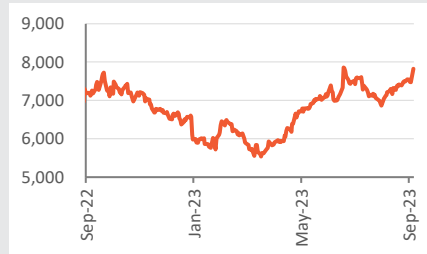
**Company details**

Market cap:	Rs. 4,73,780 cr
52-week high/low:	Rs. 7,999 / 5,487
NSE volume: (No of shares)	9.6 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	26.7 cr

**Shareholding (%)**

Promoters	55.9
FII	21.4
DII	11.2
Others	11.5

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	8.4	11.7	38.4	0.3
Relative to Sensex	7.2	7.3	25.0	-15.2

Sharekhan Research, Bloomberg

**Bajaj Finance Ltd**  
Raising growth capital

NBFC	Sharekhan code: <b>BAJFINANCE</b>
Reco/View: <b>Buy</b>	CMP: <b>Rs. 7,819</b> Price Target: <b>Rs. 8,800</b>
↑ Upgrade	↔ Maintain ↓ Downgrade

**Summary**

- ♦ Bajaj Finance (BAF) has scheduled a board meeting on October 5, 2023, to consider raising equity capital by the way of QIP.
- ♦ The company is raising capital intended for growth however the capital-raising proposal came earlier than expected as BAF has historically raised equity capital when leverage is 6.0x-7.0x and currently leverage stands at 5.2x as of June 30, 2023.
- ♦ We believe the company may raise 10-15% of the current net worth, which should translate into Rs. 8,000-10,000 crore, resulting in an increase in 10-13% BVPS despite equity dilution based on FY2024E.
- ♦ We reiterate Buy with an unchanged PT of Rs. 8,800. At the CMP, the stock trades at 7.2x/5.6x its FY2024E/FY2025E BV estimates.

**BAF is considering equity capital raise which should further boost tier-I capital. We believe this incremental capital is being raised for: a) Strong visibility of retail loan growth over the next two years, led by robust customer acquisition and increasing the cross-sell franchise through leveraging data analytics and distribution network through the omnichannel strategy; b) Launching new product segments ahead of the target timelines; and c) Looking for any inorganic opportunity. We believe strong AUM growth and earnings momentum would positively surprise the street.**

- ♦ **Strong visibility in AUM growth:** BAF already raised its loan growth guidance to 29-31% in Q1FY2024 and expects new customer additions at 12-13 million in FY2024, which should support AUM growth. The company reported solid numbers in Q1FY2024 in terms of customer franchise, which expanded to 73.0 million (up 21% y-o-y) with cross-sell franchise at 44.3 million (up 28% y-o-y) in Q1FY2024. New loans booked were 9.94 million, up 34% y-o-y, and new customer additions were at 3.84 million, up 40% y-o-y, during the quarter. AUM grew by 9% q-o-q, with broadly stable asset mix.
- ♦ **Scaling up the new segment faster:** The company has outlined its long-range strategy 2023-2027. It has decided to foray into newer products segments such as MFI, tractor, and CV and scale up gold financing, which it is gradually building on pilot basis. This should address the concerns on increasing competitive intensity in the existing product segment along with helping in diversification, which is expected to boost overall AUM growth.
- ♦ **Inorganic opportunity:** Historically, the company has grown organically and has built each business segment gradually on a pilot basis and then scaled it up fast on a sustained basis with a strong focus on asset quality. We believe there is a very bleak probability of some acquisitions in the near term, which cannot be ruled out.

**Our Call**

**Valuation – We reiterate our Buy rating on BAF with an unchanged PT of Rs. 8,800:** At the CMP, the company trades at 7.2/5.6x its FY2024E/FY2025 BV. We believe the company is poised to deliver sector-leading growth and return ratios. Diverse product offerings through its omnichannel presence along with new product lines, focus on new customer additions, and ability to cross-sell are likely to support AUM growth. Digital transformation and the company's omnichannel strategy are likely to bode well for its growth objectives along with operational efficiencies going ahead, which would be partly offset by lower NIMs in FY2024.

**Key Risks**

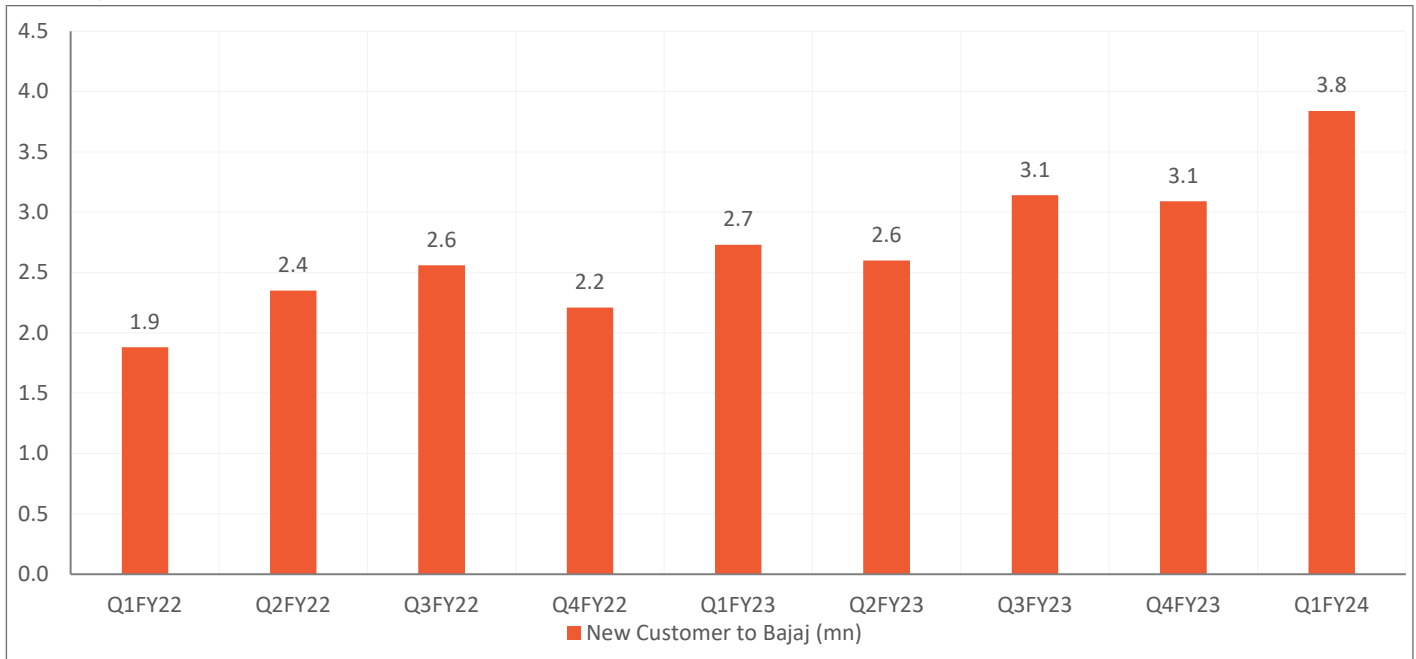
Moderation in NIM due to increasing CoF and higher-than-anticipated credit cost; and increased competitive intensity could lead to market share loss and moderation in AUM growth.

**Valuation**

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)	67.9	41.2	35.2	30.9
P/BV (x)	10.8	8.6	7.2	5.6

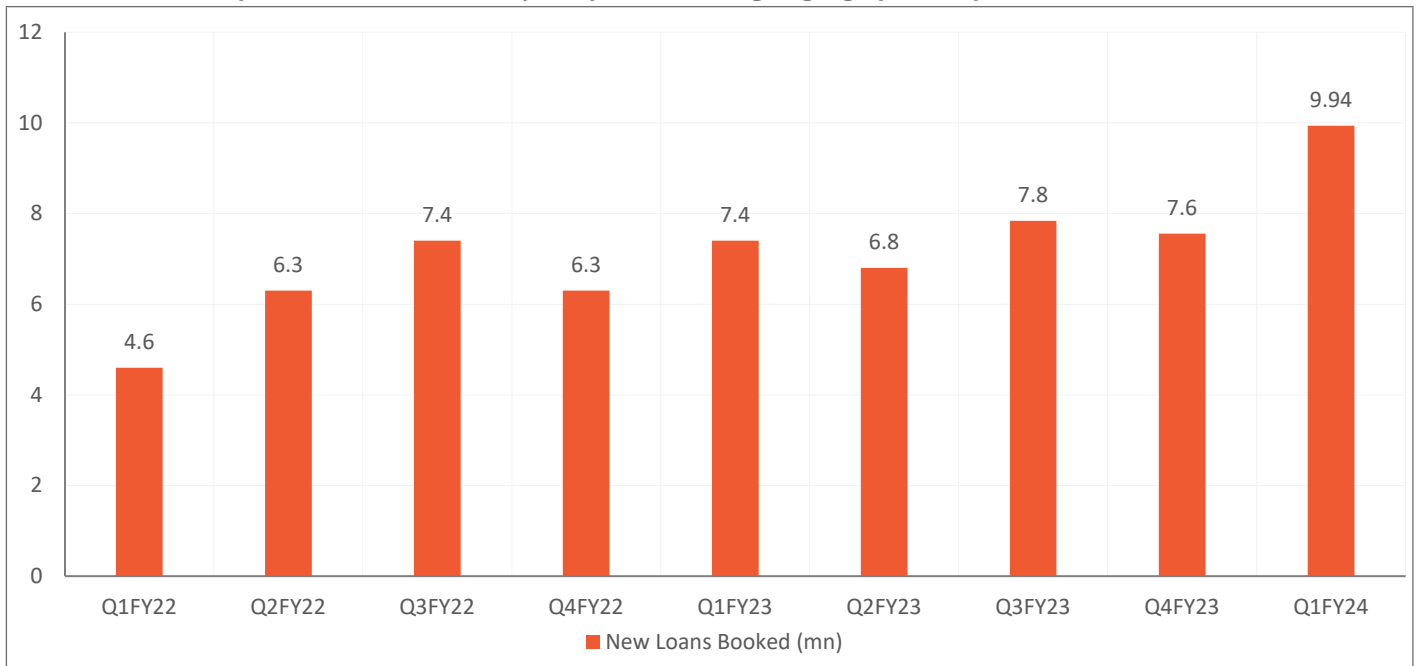
Source: Company; Sharekhan estimates

**Quarterly new customer addition run rate at historic high**



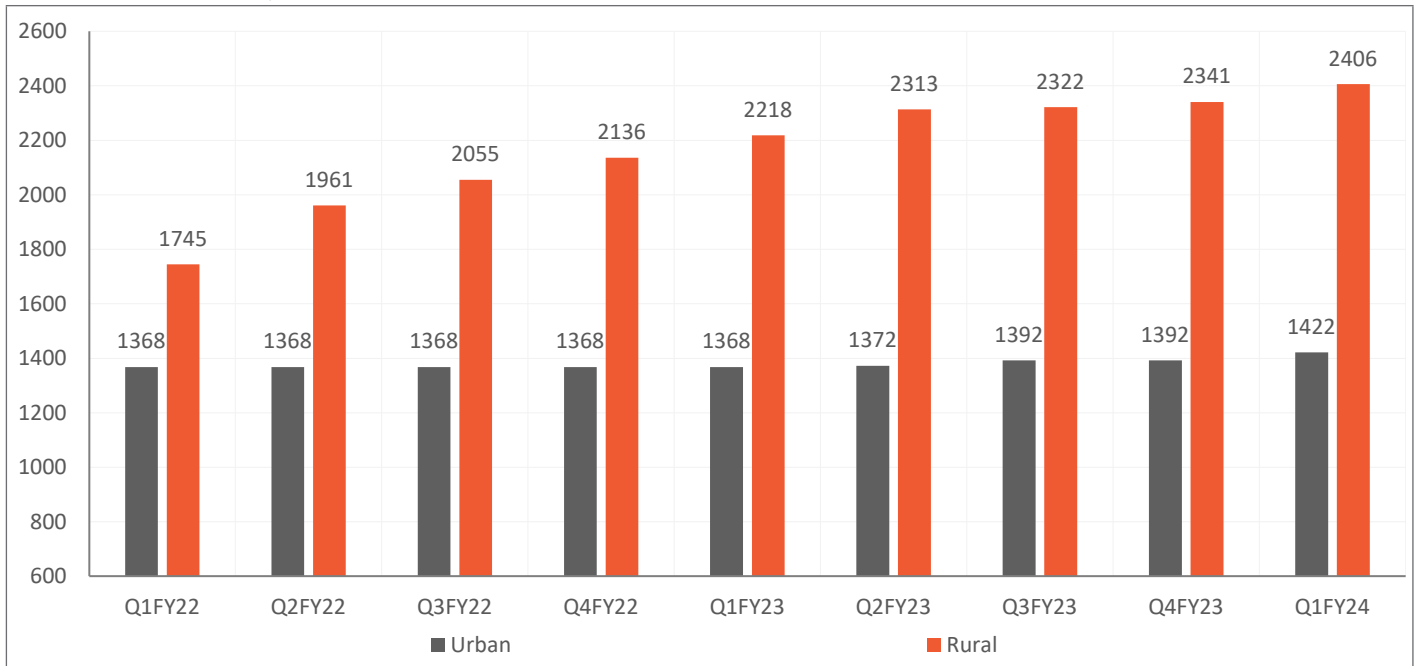
Source: Company Presentation, Sharekhan Research

**New Loans Booked expected to rise further led by new product offerings & geographical expansion**



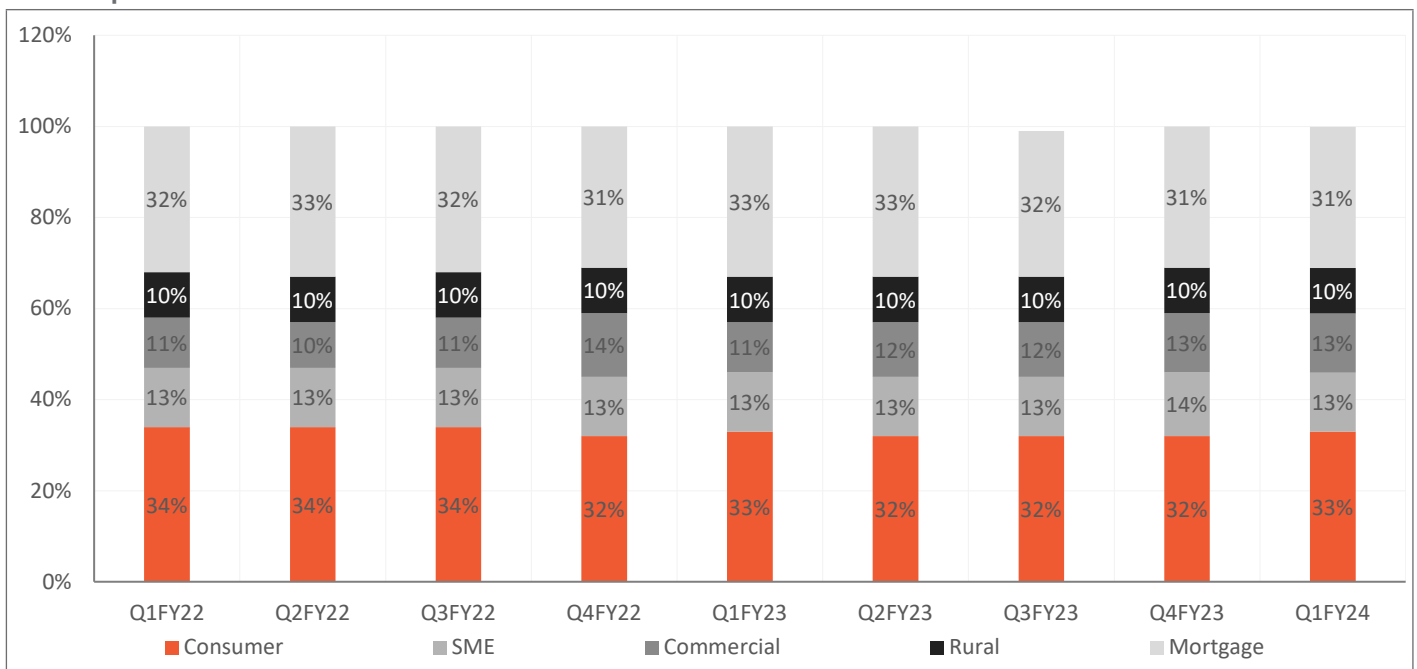
Source: Company Presentation, Sharekhan Research

**Branch addition primarily in rural area**



Source: Company Presentation, Sharekhan Research

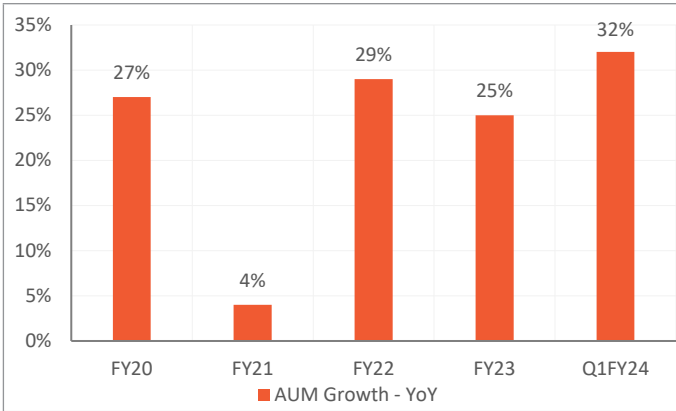
**AUM Composition**



Source: Company Presentation, Sharekhan Research

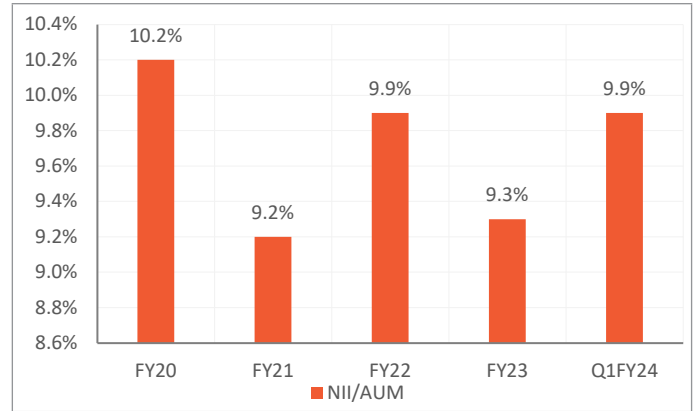
Financials in charts

Trend in AUM growth



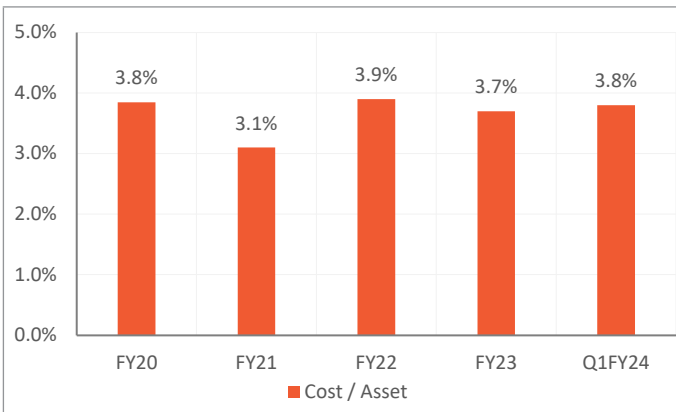
Source: Company, Sharekhan Research

Trend in NIM



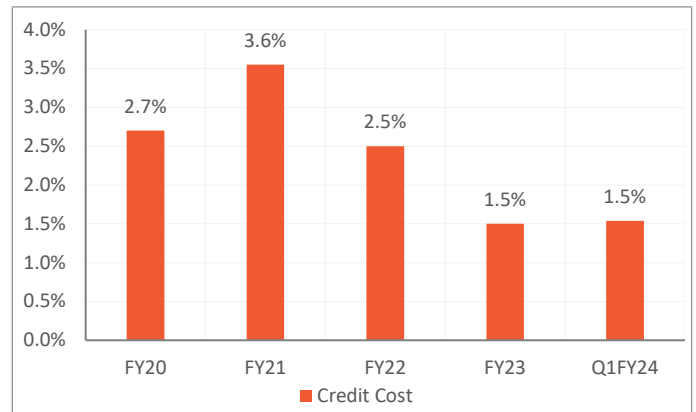
Source: Company, Sharekhan Research

Trend in Cost/Assets ratio



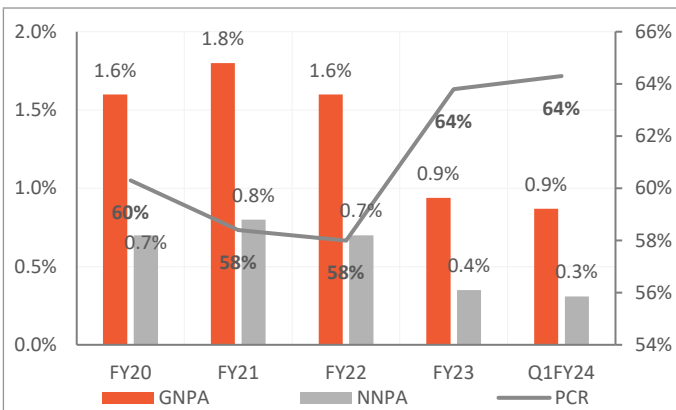
Source: Company, Sharekhan Research

Trend in credit cost



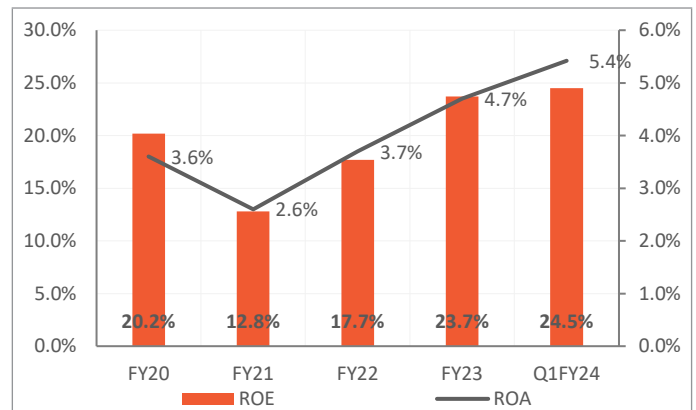
Source: Company, Sharekhan Research

Trend in assets quality



Source: Company, Sharekhan Research

Trend in return ratios



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Large opportunity pool

NBFCs have become important constituents of India's financial sector and have been recording higher credit growth than scheduled commercial banks (SCBs) over the past few years. NBFCs continue to leverage their superior understanding of regional dynamics and customised products and services to expedite financial inclusion in India. Lower transaction costs, innovative products, quick decision making, customer orientation, and prompt service standards have typically differentiated NBFCs from banks. Considering the reach and expanse of NBFCs, these are well-suited to bridge the financing gap in a large country like India. Systemically important NBFCs have demonstrated agility, innovation, and frugality to provide formal financial services to millions of Indians. The growing importance of NBFCs is reflected in the consistent rise of their credit as a proportion to GDP as well as in relation to credit extended by SCBs to the NBFC sector.

### ■ Company Outlook – Attractive franchise over the long term

BAF has completed its business transformation and has built an omnichannel presence to serve customers. The company has significantly strengthened its technology, digital platforms, and product offering to improve customer experiences. We believe business transformation would enhance growth sustainability, improve the scalability of business, and would give competitive advantage against peers. Additionally, operating leverage is expected to kick in as the company is close to exiting the investment cycle. We are confident on strong sustainable earnings growth and longevity of the franchise.

### ■ Valuation – We reiterate our Buy rating on BAF with an unchanged PT of Rs. 8,800

At the CMP, the company trades at 7.2/5.6x its FY2024E/FY2025 BV. We believe the company is poised to deliver sector-leading growth and return ratios. Diverse product offerings through its omnichannel presence along with new product lines, focus on new customer additions, and ability to cross-sell are likely to support AUM growth. Digital transformation and the company's omnichannel strategy are likely to bode well for its growth objectives along with operational efficiencies going ahead, which would be partly offset by lower NIMs in FY2024.

#### Peer valuation

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	7,819	4,73,780	35.2	30.9	7.2	5.6	4.7	4.7	22.4	22.0
Cholamandalam Investment and Finance Company	1,183	97,262	31.0	25.8	5.7	5.2	3.0	2.7	19.4	20.2

Source: Company, Sharekhan estimates

## About company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two-wheelers, consumer durables, housing, SME and MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business loans and consumer financing as its key niches. The company operates through 1,422 urban locations and 2,406 rural locations, with over 167,100 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 retail finance space. BAF's dominance in the market is seen in its consistent growth and steady operational performance that 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.

## Key Risks

Economic slowdown due to which slower AUM growth and higher-than-anticipated credit cost; and increased competitive intensity could lead to market share loss and 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 Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BAJAJ FINSERV LTD.	52.45
2	REPUBLIC OF SINGAPORE	3.41
3	MAHARASHTRA SCOOTERS LTD.	3.13
4	SBI FUNDS MANAGEMENT LTD.	3.01
5	AXIS ASSET MANAGEMENT CO. LTD.	2.23
6	VANGUARD GROUP INC.	1.62
7	BLACKROCK INC.	1.51
8	UTI ASSET MANAGEMENT CO. LTD.	1.00
9	CAPITAL GROUP COS INC.	0.91
10	ICICI Prudential Life	0.80

Source: Bloomberg

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## 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 deteriorating 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

# Sharekhan

by BNP PARIBAS

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