



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		19.46		
Updated Aug 08, 2023				
Low Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

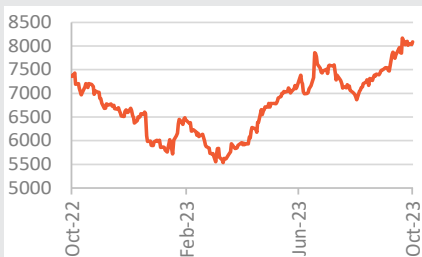
Company details

Market cap:	Rs. 4,90,270 cr
52-week high/low:	Rs. 8,190/ 5,487
NSE volume: (No of shares)	67.9 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	26.7 cr

Shareholding (%)

Promoters	55.9
FII	20.1
DII	12.9
Others	11.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	7.8	36.8	10.0
Relative to Sensex	10.1	8.0	25.6	-3.7

Sharekhan Research, Bloomberg

Bajaj Finance Ltd

Healthy AUM growth offsets NIM pressure

NBFC

Sharekhan code: BAJFINANCE

Reco/View: Buy



CMP: Rs. 8,091

Price Target: Rs. 9,300



Upgrade



Maintain



Downgrade

Summary

- Bajaj Finance Limited (BAF) reported in line performance with 28% y-o-y growth in earnings. NII grew by 30% y-o-y and 7.1% q-o-q despite NIM pressure (down 12 bps q-o-q) supported by strong AUM growth.
- BAF delivered strong AUM growth of 33% y-o-y in Q2FY2024 vs full fiscal guidance of 29-31%. Sequentially, AUM grew at 7.5% q-o-q on strong traction in auto loans (12% q-o-q), SME (10.6% q-o-q) and mortgage (9.4% q-o-q).
- Overall, asset quality trends are stable. GS-3 ratio marginally rose by 4 bps sequentially at 0.91% (vs 0.87% q-o-q). NS-2 ratio stood at 0.31% with PCR improving to 66% (vs 64% q-o-q). GS-2 assets reduced to 1.1% v/s 1.2% q-o-q.
- Management expects 20-30 bps compression in NIM over the next half of fiscal but believe the impact to be in H2FY24 partly offset by operating leverage gain supporting the company to deliver RoA over 5.0% for FY24. We have rolled forward our valuation to September 2025 estimates. We reiterate Buy on the stock with a revised PT of Rs9,300. At the CMP, the stock trades at 6.1x/4.9x FY2025E/FY2026E BV estimates.

BAF reported strong performance for Q2FY2024 in line with our expectations. NII grew by 30% y-o-y/7% q-o-q despite compression in NIM as higher AUM growth led to strong interest income growth. AUM grew at 33% y-o-y/7.5% q-o-q on strong traction across the segments. BAF booked 8.53 million new loans and added 3.58 million new customers in Q2FY24. Fee & commission income grew by 21% y-o-y but declined -2.5% sequentially. While opex grew by 19.7% y-o-y and 5.5% q-o-q, cost-to-income ratio remained flat at 34% on q-o-q basis on the back of strong NII growth. PPOP rose by 30% y-o-y/5.2% q-o-q. Provisioning however rose by 47% y-o-y/8.2% q-o-q with credit cost (on AUM) stood at 1.60%. However, the company utilized Rs 100 crore of contingent provisions during the quarter. BAF hold contingent provisions of Rs740 crore or 25 bps of AUM (vs 31 bps q-o-q). On assets quality front, the company said risk metrics across all businesses were stable except rural B2C business on which the company has slowed rural B2C AUM growth during H1FY24. However, the company guided that delinquency level in above Rs50,000 ticket size loan in FY24 would be lower than FY20.

Key positives

- Strong AUM growth offsetting NIM decline impact
- Customer acquisition trend remained healthy.

Key negatives

- Increase in GS-3 assets, rural B2C business showed some stress build up.
- NIMs declined by 12 bps q-o-q

Management Commentary

- Microfinance pilot segment was launched on 01 September with presence in 12 locations and 100 locations are on track to go live by March 2024. Tractor financing to start in first month of next fiscal.
- Management believes 20-30 bps NIM compression over the next half of the current fiscal. With the operating leverage benefit, the management is optimistic to deliver over 5% RoA for the full fiscal.

Our Call

Valuation – We reiterate a Buy on Bajaj Finance with a revised PT of Rs. 9,300: At the CMP, the stock trades at 6.1x/4.9x FY2025E/FY2026E BV estimates. BAF continues to derive benefits from a diverse loan portfolio, wide distribution network, effective execution and strong management team. Digital transformation and the company's omnichannel strategy are likely to bode well for its growth objectives along with operational efficiencies going ahead. As per our estimates, BAF to deliver a ~24%/~4.7% RoE/RoA over FY24-26E.

Key Risks

Intensifying competition in lending space could weigh on company performance. NPA risk in retail unsecured segment, higher delinquency in new segments like microfinance and tractor financing markets, economic slowdown risk which can impact growth and assets quality, regulatory headwinds related to upper layer NBFC, higher than expected margin pressure.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII	17,522	22,990	28,780	36,357	45,977
Gr.	17.0%	30.4%	33.0%	27.5%	25.9%
NIM (on loans)	10.4%	10.6%	10.3%	10.1%	10.1%
C/I	34.6%	35.1%	34.8%	34.2%	34.4%
PPOP	14,307	18,716	23,640	29,585	36,935
A.PAT	7,028	11,508	14,964	18,095	22,534
AUM	1,97,452	2,47,379	3,21,593	4,11,639	5,14,548
RoE	17.4%	23.5%	24.9%	24.7%	24.9%
RoA	3.7%	4.7%	4.8%	4.6%	4.6%
Leverage (x)	4.6	4.9	5.1	5.3	5.4
P/E (x)	69.9	42.6	32.8	27.2	21.8
P/BV (x)	11.2	9.0	7.5	6.1	4.9

Source: Company; Sharekhan estimates

Key result highlights

- ◆ **Management expects further compression in NIM:** NIM (as a % of avg. AUM) declined by 12 bps q-o-q to 10.3% in Q2FY24 due to increase in CoF. As expected, BAF reported a 6 bps increase in CoF to 7.67%. Meanwhile, NII grew at 30% y-o-y/7% q-o-q as the impact of increase in cost of borrowings was offset by strong AUM growth which boosted interest income growth.
- ◆ **Operating leverage gain expected:** Opex rose by 20% y-o-y/ 5.5% q-o-q during Q2FY24. Cost-to-income (C/I) ratio remained flat sequentially at 34%. As incremental tech-led investments have peaked out, the management expect operating leverage gain to kick in which will offset the impact of NIM compression.
- ◆ **AUM growth remains strong:** BAF delivered strong AUM growth of 33% y-o-y in Q2FY2024 vs full fiscal guidance of 29-31%. Sequentially, AUM grew at 7.5% q-o-q on strong traction in auto loans (12% q-o-q), SME (10.6% q-o-q) and mortgage (10.6% q-o-q). We expect diversification of products across segments, strong execution capability and well capitalized position to support BAF for registering the strong AUM growth over the medium term.

Results					Rs cr	
Particulars	Q2FY23	Q1FY24	Q2FY24	YoY	QoQ	
Interest Earned	8,509	10,821	11,734	37.9%	8.4%	
Interest Expended	2,971	4,103	4,537	52.7%	10.6%	
NII	5,538	6,719	7,197	30.0%	7.1%	
Other Income	1,463	1,679	1,648	12.6%	-1.9%	
Total Income	7,001	8,398	8,845	26.3%	5.3%	
Opex	2,514	2,854	3,010	19.7%	5.5%	
PPOP	4,487	5,544	5,835	30.0%	5.2%	
P&C	734	995	1,077	46.7%	8.2%	
PBT	3,752	4,548	4,758	26.8%	4.6%	
Tax	972	1,114	1,207	24.2%	8.3%	
Net Profit	2,781	3,437	3,550	27.7%	3.3%	
Dil. EPS	46	57	58	27.6%	3.3%	
Balance sheet items						
AUM	2,18,400	2,70,097	2,90,264	32.9%	7.5%	
Deposits	39,422	49,944	54,821	39.1%	9.8%	
Borrowings	1,43,878	1,83,417	2,01,728	40.2%	10.0%	
Net worth (NW)	47,922	57,873	59,753	24.7%	3.2%	
Key operating ratios						
NIM (cal)	10.5%	10.4%	10.3%			
C/I ratio	35.9%	34.0%	34.0%			
D/Ex	3.8	4.1	4.3			
CAR (standa)	25.1%	24.6%	23.2%			
Fee income/NII	19.4%	19.9%	18.2%			
Assets Quality						
GS-3	2,530	2,348	2,645	4.5%	12.6%	
GS-3/AUM	1.17%	0.87%	0.91%			
NS-3	950	837	900	-5.3%	7.5%	
NS-3/AUM	0.44%	0.31%	0.31%			

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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.

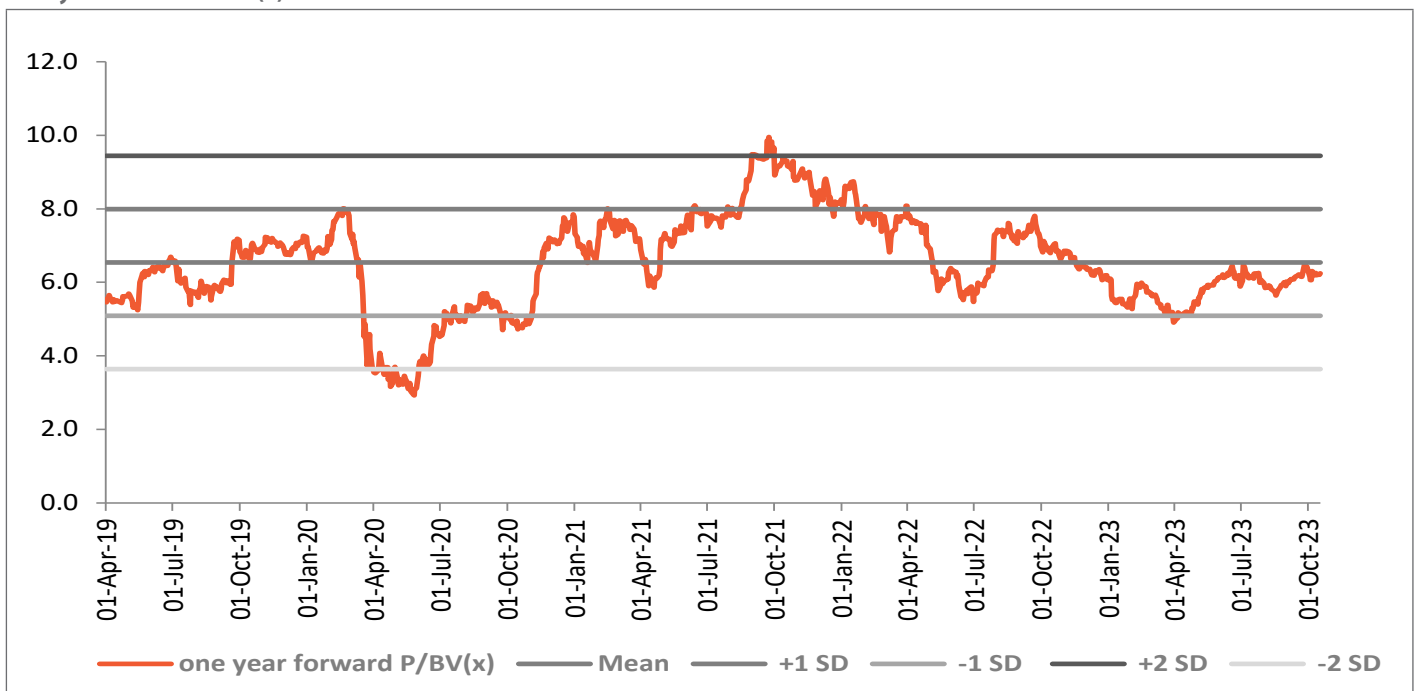
■ Company Outlook – Gaining strength with time

BAF continues to derive benefits from a diverse loan portfolio, wide distribution network, effective execution and strong management team. BAF 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 near to exiting the investment cycle. We believe strong AUM growth, better operating efficiencies and lower credit cost on pristine assets quality, BAF is expected to sustain healthy RoE trajectory.

■ Valuation – We reiterate a Buy on Bajaj Finance with a revised PT of Rs.9,300

At CMP, the company trades at 6.8x/ 5.3x its FY2024E/ FY2025 BV. We believe the company is poised to deliver sector-leading growth and return ratios. Diverse product offerings through omni-channel presence along with new product lines, focus on new customer addition and ability to cross-sell is likely to support AUM growth. Digital transformation, omni-channel strategy is likely to bode well for its growth objectives along with operational efficiencies going ahead which would be partly offset by lower NIMs in FY24.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoA (%)		RoE (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Bajaj Finance	8,091	4,90,270	32.8	27.2	7.5	6.1	4.8%	4.6%	24.9%	24.7%
Cholamandalam Investment and Finance Company	1,244	1,04,402	29.4	21.8	5.8	4.6	2.7%	2.8%	21.9%	23.7%

Source: Company, Sharekhan estimates

About the company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, SME & MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business loans and consumer financing as its key niches. BAF has an AUM of Rs 2.5tn at end-FY23, serves more than 69mn clients and offers a wide range of lending services to retail, SME and commercial customers across urban and rural India. 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. BAF has two wholly owned subsidiaries: Bajaj Housing Finance (BHFL) and Bajaj Financial Securities (BSFL).

Investment theme

BAF continues to derive benefits from a diverse product basket, wide distribution network, effective execution and seasoned management team. 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. Strong growth, better operating efficiencies and lower credit cost on pristine assets quality, BAF is expected to sustain healthy RoE trajectory.

Key Risks

Intensifying competition in lending space could weigh on company performance. NPA risk in retail unsecured segment, higher delinquency in new segments like microfinance and tractor financing markets, economic slowdown risk which can impact growth and assets quality, regulatory headwinds related to upper layer NBFC.

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	REPUBLIC OF SINGAPORE	3.4
2	MAHARASHTRA SCOOTERS LTD.	3.1
3	SBI FUNDS MANAGEMENT LTD.	3.0
4	AXIS ASSET MANAGEMENT CO. LTD.	2.2
5	VANGUARD GROUP INC.	1.6
6	BLACKROCK INC.	1.5
7	UTI ASSET MANAGEMENT CO. LTD.	1.0
8	CAPITAL GROUP COS INC.	0.9
9	ICICI Prudential Life Insurance	0.8
10	FMR LLC	0.8

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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