

# Retail Equity Research

## Bajaj Finance Limited

NBFC

BSE CODE: 500034

NSE CODE: BAJFINANCE

Bloomberg CODE: BAF:IN

SENSEX: 63,783

**BUY**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 7,506 TARGET Rs. 8,631 RETURN 15% ↑  
(Closing: 27-10-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Robust business momentum; outlook positive

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

- In Q2FY24, Gross interest income grew by 34.2% YoY and interest expenses grew by 52.7% YoY due to high cost of borrowing. Resultantly, Net interest income (NII) grew 26.3% YoY to Rs 8,841cr this quarter. PAT increased 27.7% YoY, despite 46.7% YoY rise in provisions.
- Asset quality remained strong in Q2FY24, with 34.3% YoY growth in the loan book and improvement in non-performing asset (NPA) levels.
- BFL is expected to capture a robust industry share in the near term driven by enlarged customer base, diversified product portfolio and strong pan-India presence. Stable asset quality and increase in assets under management (AUM) should boost growth in the upcoming quarters. Therefore, we reiterate our BUY rating on the stock with a revised target price of Rs. 8,631 based on 6.1x FY25E BVPS.

#### Increased cost of funds lowers NII

In Q2FY24, BFL's NII rose 26.3% YoY to Rs. 8,841cr owing to 34.2% YoY growth in gross interest income but was offset by 52.7% YoY jump in interest expenses. Increase in cost of funds (+76bps YoY) to 7.67% mixed with high borrowings cost raised interest expenses. Opex-to-income ratio dipped 190bps YoY to 34.3% in Q2FY24. Although, pre-provision profit increased 30.1% YoY to Rs. 5,835cr. Provisioning for Q2FY24 increased by 46.7% YoY to Rs. 1,077cr. AUM continued to increase across verticals to reach Rs. 290,264cr (+32.9% YoY) in Q2FY24, which supported interest income growth.

#### Healthy asset quality maintained

In Q2FY24, GNPA/NNPA improved to 0.91%/0.31% vs 1.17%/0.44% in Q2FY23, while BFL's management indicated stable risk metrics across all business verticals except rural B2C. Provision coverage ratio increased to 66% in Q2FY24 vs 62% in Q2FY23. Loan book grew 34.3% YoY to Rs. 285,748cr. Capital adequacy ratio (CAR) was 23.2% in Q2FY24, mixed with 21.9% of Tier 1 CAR, vs 25.1% in Q2FY24, mixed with 23.1% of Tier 1 CAR.

#### Key Concall highlights

- In October 2023, directors approved additional capital infusion of Rs. 10,000cr: Rs. 8,800cr through qualified institutional placement and Rs. 1,200cr through preferential allotment to Bajaj Finserv (holding company) by FY26.
- New car financing started in Q2FY24, with presence in 85 locations. The upcoming festive season is expected to propel new business growth.
- The microfinance business initiated a pilot start to cover 12 villages, with the aim to cover 100 villages by end-FY24 and 300 by end-FY25.

#### Valuation

Management indicated 25-30bps contraction in NIM in FY24, due to elevated cost of funds, which remains a concern owing to replacement of low-cost funds. BFL appeared to focus on Digital transformation which would also put some pressure on margins. While enhanced loan book should provide a cushion to stretched margins. However, strong presence through digital interface to acquire additional customers, locations and products provides a promising outlook for long-term growth of BFL. Therefore, we reiterate our BUY rating on the stock with a revised target price of Rs. 8,631 based on 6.1x FY25E BVPS.

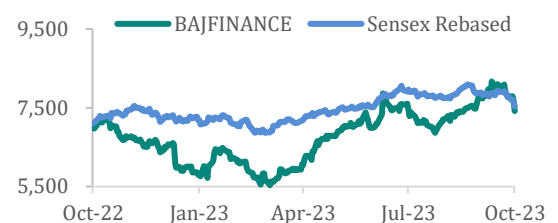
#### Company Data

Market Cap (cr)	Rs.450,830
Outstanding Shares (cr)	60.7
Free Float	44.0%
Dividend Yield	0.4
52 week high	Rs.8,190
52 week low	Rs.5,487
6m average volume	0.3
Beta	1.2
Face value	Rs.2

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	55.9	55.9	55.9
FII's	19.2	20.1	20.4
MFs/Insti	13.2	13.0	13.2
Public	11.4	10.7	10.2
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	-0.1%	22.6%	4.5%
Absolute Sensex	-5.3%	4.7%	6.1%
Relative Return*	5.2%	17.8%	-1.6%

\*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Net Interest Income	28,847	37,954	48,426
Growth (%)	31.8	31.6	27.6
NIM (%)	12.3	12.5	12.4
Pre-Provision Profit	18,718	25,470	32,729
Net Profit	11,508	15,499	19,854
Growth (%)	63.7	34.7	28.1
Adj.EPS	189.6	255.1	326.8
Growth (%)	63.7	34.6	28.1
BVPS	895.7	1,120.2	1,415.0
P/E	29.5	29.1	22.7
P/B	6.2	6.6	5.2
RoE (%)	23.5	25.3	25.8

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Income from Operations	13,378	9,970	34.2	12,498	7.0	25,876	19,254	34.4
Interest Expense	4,537	2,972	52.7	4,103	10.6	8,640	5,617	53.8
<b>Net Interest Income</b>	<b>8,841</b>	<b>6,998</b>	<b>26.3</b>	<b>8,395</b>	<b>5.3</b>	<b>17,236</b>	<b>13,637</b>	<b>26.4</b>
Other Income	3	4	(15.3)	3	27.8	6	6	8.7
<b>Total Net Income</b>	<b>8,845</b>	<b>7,002</b>	<b>26.3</b>	<b>8,398</b>	<b>5.3</b>	<b>17,243</b>	<b>13,643</b>	<b>26.4</b>
<b>Total Income</b>	<b>13,382</b>	<b>9,974</b>	<b>34.2</b>	<b>12,501</b>	<b>7.0</b>	<b>25,882</b>	<b>19,260</b>	<b>34.4</b>
Operating Expenses	3,010	2,516	19.6	2,852	5.6	5,861	4,899	19.7
Total Expenditure	7,547	5,488	37.5	6,954	8.5	14,501	10,516	37.9
<b>Pre-Provisioning profit</b>	<b>5,835</b>	<b>4,487</b>	<b>30.1</b>	<b>5,546</b>	<b>5.2</b>	<b>11,381</b>	<b>8,744</b>	<b>30.2</b>
Provisions	1,077	734	46.7	995	8.2	2,072	1,489	39.2
<b>Profit Before Tax</b>	<b>4,758</b>	<b>3,752</b>	<b>26.8</b>	<b>4,551</b>	<b>4.5</b>	<b>9,309</b>	<b>7,255</b>	<b>28.3</b>
Tax	1,207	972	24.2	1,114	8.3	2,321	1,878	23.6
<b>Net Profit</b>	<b>3,551</b>	<b>2,781</b>	<b>27.7</b>	<b>3,437</b>	<b>3.3</b>	<b>6,988</b>	<b>5,377</b>	<b>30.0</b>
<b>EPS - Diluted (Rs.)</b>	<b>58.5</b>	<b>45.8</b>	<b>27.6</b>	<b>56.6</b>	<b>3.3</b>	<b>115.1</b>	<b>88.6</b>	<b>29.9</b>

### Business Performance

(Rs. cr)	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %
AUM	290,264	218,366	32.9	270,097	7.5
Borrowings	192,009	183,273	4.8	176,602	8.7

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	36,148	44,607	37,954	48,426	5.0	8.6
Net Interest Margin (%)	12.12	12.04	12.45	12.36	33	32
Pre-Provision Profit	23,626	29,207	25,470	32,729	7.8	12.1
Net Profit	14,054	17,481	15,499	19,854	10.3	13.6
EPS (Rs)	231.5	287.9	255.1	326.8	10.2	13.5

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	26,668	31,640	41,407	56,853	74,111
Interest Exp.	9,414	9,754	12,560	18,898	25,684
<b>Net Int. Income</b>	<b>17,254</b>	<b>21,887</b>	<b>28,847</b>	<b>37,954</b>	<b>48,426</b>
% Change	2.1	26.8	31.8	31.6	27.6
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>37,963</b>	<b>48,435</b>
<b>Total Income</b>	<b>26,683</b>	<b>31,648</b>	<b>41,415</b>	<b>56,861</b>	<b>74,119</b>
Operating Exp.	5,308	7,587	10,138	12,493	15,706
<b>Total Exp.</b>	<b>14,722</b>	<b>17,341</b>	<b>22,698</b>	<b>31,391</b>	<b>41,391</b>
<b>Pre-Prov. Profit</b>	<b>11,961</b>	<b>14,307</b>	<b>18,718</b>	<b>25,470</b>	<b>32,729</b>
Provisions	5,969	4,803	3,190	4,526	5,899
<b>PBT</b>	<b>5,992</b>	<b>9,504</b>	<b>15,528</b>	<b>20,945</b>	<b>26,829</b>
Tax	1,572	2,476	4,020	5,446	6,976
Tax Rate (%)	26.2	26.0	25.9	26.0	26.0
Minority Interests	<b>4,420</b>	<b>7,028</b>	<b>11,508</b>	<b>15,499</b>	<b>19,854</b>
<b>Net Profit</b>	<b>(16.0)</b>	<b>59.0</b>	<b>63.7</b>	<b>34.7</b>	<b>28.1</b>
% Change	61	61	61	61	61
Adj.	<b>73.0</b>	<b>115.8</b>	<b>189.6</b>	<b>255.1</b>	<b>326.8</b>
<b>Adj. Net Profit</b>	<b>(18.0)</b>	<b>58.6</b>	<b>63.7</b>	<b>34.6</b>	<b>28.1</b>
No. of Shares (cr)	10.0	20.0	30.0	32.0	34.0
<b>Adj. EPS (Rs.)</b>	<b>26,668</b>	<b>31,640</b>	<b>41,407</b>	<b>56,853</b>	<b>74,111</b>
% Change	9,414	9,754	12,560	18,898	25,684
DPS (Rs.)	<b>17,254</b>	<b>21,887</b>	<b>28,847</b>	<b>37,954</b>	<b>48,426</b>

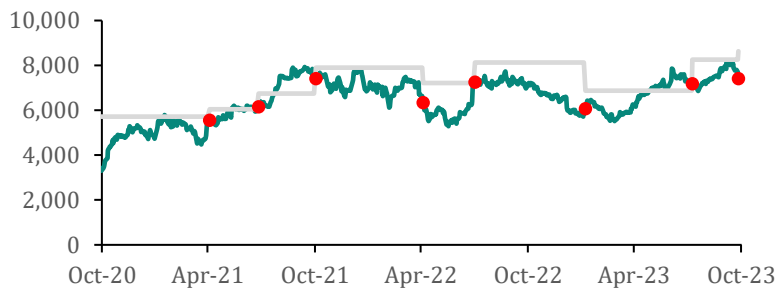
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	1,849	3,381	1,551	2,675	5,964
Investments	18,397	12,246	22,752	21,159	24,968
Advances	146,687	191,423	242,269	323,429	413,989
Fixed Assets	1,042	1,296	1,691	1,860	2,046
Other Assets	3,496	4,160	6,964	5,338	4,979
<b>Total Assets</b>	<b>171,470</b>	<b>212,506</b>	<b>275,226</b>	<b>354,462</b>	<b>451,946</b>
Capital	120	121	121	121	121
Reserves & Surplus	36,798	43,592	54,251	67,929	85,839
Deposits	25,803	30,799	44,666	70,572	104,446
Borrowings	101,932	130,587	168,395	207,231	251,933
Other Liabilities	6,817	7,407	7,794	8,609	9,608
<b>Total Liabilities</b>	<b>171,470</b>	<b>212,506</b>	<b>275,226</b>	<b>354,462</b>	<b>451,946</b>
<b>BVPS (Rs.)</b>	<b>610</b>	<b>720</b>	<b>896</b>	<b>1,120</b>	<b>1,415</b>
% Change	11.5	18.1	24.4	25.1	26.3

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	70.5	62.7	29.5	29.1	22.7
P/BV (x)	8.4	10.1	6.2	6.6	5.2
Div. Yield (%)	0.2	0.3	0.5	0.4	0.5
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	18.5	18.7	19.1	20.1	20.1
Cost of Deposits	7.4	6.7	6.7	7.7	8.1
Spread	11.1	12.0	12.4	12.4	12.0
NIM	10.7	11.9	12.3	12.5	12.4
ROE	12.8	17.4	23.5	25.3	25.8
ROA	2.6	3.7	4.7	4.9	4.9
<b>Capital Adequacy (%)</b>					
CAR	28.3	27.2	25.0	24.8	25.0
Tier I	25.1	24.8	23.2	23.4	23.8
Tier II	3.2	2.5	1.8	1.4	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	4.2
Cost/Income	30.7	34.7	35.1	32.9	32.4

## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
3-May-21	BUY	6,050
26-Jul-21	HOLD	6,745
1-Nov-21	HOLD	7,898
4-May-22	HOLD	7,219
1-Aug-22	BUY	8,121
6-Feb-23	BUY	6,870
8-Aug-23	BUY	8,252
27-Oct-23	BUY	8,631

Source: Bloomberg, Geojit research

## 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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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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