

Q3FY24

Bajaj Finance Ltd



Bajaj Finance Ltd
Mixed performance; Stress on B2C takes a minor toll on the asset quality

CMP INR 6,863	Target INR 8,600	Potential Upside 25.3%	Market Cap (INR Mn) 42,43,285	Recommendation BUY	Sector NBFC
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Result Highlights:

- Net Interest Income (NII) for Q3FY24 increased by 29.2% YoY (+6.4% QoQ) to INR 76,553 Mn. For 9MFY24, NII grew by 28.9% to INR 215,708 Mn, led by strong business momentum.
- Pre-Provision Operating Profit (PPOP) stood at INR 61,422 Mn, a growth of 26.6% YoY (+5.3% QoQ) in Q3FY24. PPOP was 1.3% below our estimates. PPOP for 9MFY24 stood at INR 175,206 Mn, an increase of 28.9% YoY.
- Profit after tax for Q3FY24 increased by 22.4% YoY (+2.5% QoQ) to INR 36,390 Mn from INR 29,730 Mn in Q3FY23, despite higher provisions. Net profit was 3.5% below our estimates because of higher-than-expected provisions during the quarter. For 9MFY24, net profit grew by 27.3% YoY to INR 106,266 Mn.
- The capital adequacy ratio (including Tier-II capital) as of December 31, 2023, was 23.9%. Tier-I capital was 22.8%.

MARKET DATA

Shares outs (Mn)	618
Equity Cap (INR Mn)	107,502
Mkt Cap (INR Mn)	42,43,285
52 Wk H/L (INR)	8,192/ 5,486
Volume Avg (3m K)	1,209
Face Value (INR)	2
Bloomberg Code	BAF IN

KEY FINANCIALS

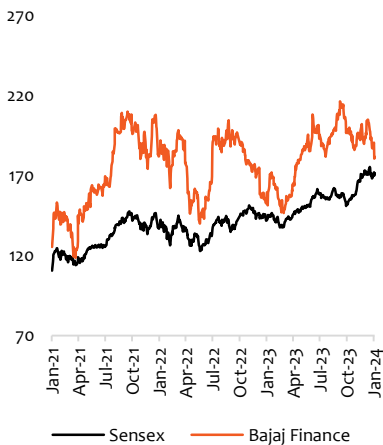
Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
NII	175,215	229,903	295,313	384,699	489,332
PPOP	143,072	187,158	241,635	310,709	391,492
PAT	70,282	115,077	144,060	189,707	238,520
ABVPS	693.1	881.9	1215.3	1471.6	1792.4
NIM	10.4%	10.6%	10.4%	10.3%	10.3%
Advances Growth	29.1%	25.3%	33.0%	30.0%	25.0%

Source: Company, KRChoksey Research

Consistently reporting robust AUM growth; RBI ban a temporary blip: As of December 31, 2023, AUM reported a 34.7% YoY/ 7.1% QoQ growth at INR 31,09,680 Mn, led by the strong growth in new customer addition during the quarter. The customer franchise stood at 80.4 Mn as of December 31, 2023, compared to 66.1 Mn as of December 31, 2022, a growth of 21.7%. The NBFC recorded the highest quarterly increase in its customer franchise of 3.9 Mn in Q3FY24. BAF expects to end the year FY24E with 83 Mn customer franchises with 13–14 Mn new customer additions for the full year FY24E. New loans booked were up 25.8% to 9.86 Mn in Q3FY24 as against 7.84 Mn in Q3FY23. In Q3FY24, B2B disbursements were up 31.1% to INR 216,860 Mn as against INR 165,370 Mn in Q3FY23. In Q3FY24, the NBFC added 158 new locations and 9.5K distribution points. The geographic presence stood at 4,092 locations and over 190K active distribution points as of December 31, 2023. BAF has temporarily suspended the sanction and disbursal of new 'eCOM' loans and loans on 'Insta EMI Card' effective November 16, 2023, which complies with the RBI ban orders. Further, as part of its commitment to the highest customer service standards, it has temporarily suspended the sourcing and issuance of EMI cards to new customers and levied annual renewal fees on existing EMI cards.

Operating performance driven by the resilient growth in AUM; NIMs continue to contract; capital adequacy sees an impact of risk weighted norms: NII grew 29.2% YoY/ 6.4% QoQ to INR 76,553 Mn, driven by the strong growth in AUM. NIM compression in Q3FY24 over Q2FY24 was 11 bps. Given the increase in risk weights and the higher incremental cost of funds, BAF has increased rates across all portfolios by 20–30 bps. In Q3FY24, the cost of funds was 7.76%, an increase of 9 bps over Q2FY24. On the operating side, Opex to net total income improved to 33.9% versus 34.8% in Q3FY23 (vs. 34.0% in Q2FY24). BAF is working to enhance operating efficiencies by implementing a host of GenAI capabilities and other digital initiatives. On the employees' front, BAF added 3,181 employees in Q3FY24, taking the total to 54,281. Capital adequacy remained robust and above the regulatory requirement at 23.87% as of December 31, 2023. Tier-1 capital was 22.80%. On November 16, 2023, the RBI increased the risk weights on consumer credit exposure from 100.0% to 125.0%, impacting 290 bps on the NBFC's CRAR. Adjusted for this change, CRAR was 26.77%.

Credit cost inched up; Asset quality marginally declines: In Q3FY24, loan losses & provisions were INR 12,484 Mn. The loan losses for rural B2C businesses continued to remain elevated. AUM growth of rural B2C (excl. gold loan) has been brought down from 26.0% as of March 31, 2023, to 10.0% as of December 31, 2023. Urban B2C loan losses were higher in Q3FY24 due to lower collection efficiencies. The NBFC holds a management and macro-economic overlay provision of INR 5,900 Mn as of December 31, 2023. It released INR 1,500 Mn from the overlay in Q3FY24. The risk metrics across all businesses were stable except for rural B2C businesses. BAF continues to be watchful of risky actions in rural B2C businesses.

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	71,752
NIFTY	21,726

SHARE HOLDING PATTERN (%)

Particulars	Dec-23 (%)	Sep-23 (%)	June-23 (%)
Promoters	54.8	55.9	55.9
FIs	20.9	20.4	20.1
DIs	14.1	13.1	12.8
Others	10.2	10.6	11.2
Total	100.0	100.0	100.0

28.6%

 NII CAGR between FY23
and FY26E

27.5%

 PAT CAGR between FY23
and FY26E

ANALYST

 Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

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 is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

 Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

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Key Concall Highlights:

- The loan losses were primarily on account of two portfolios of the Company. For rural B2C business, for the last two quarters, they've been elevated. They remained elevated even in Q3FY24.
- BAF remains committed to continuous transformation, shareholder value creation, good customer service and fostering a supportive and dynamic work environment. In order to prepare the NBFC to achieve its long-term growth objectives, the Board of Directors, at its meeting held, approved the following Executive Director/senior management portfolio changes:
 - a) Anup Saha – Executive Director will be re-designated as Deputy Managing Director subject to approval of shareholders.
 - b) Deepak Bagati - President Debt Management Services is being promoted to Chief Operating Officer. In his new role, he will continue to oversee Debt Management Services. Henceforth, he will also have expanded leadership responsibility for Operations, Service and Public Relations.
 - c) Sandeep Jain - Chief Financial Officer is being promoted to Chief Operating Officer and Chief Financial Officer.
 - d) Anurag Chottani - Chief Information Officer is being promoted to Chief Operating Officer.
 - e) Rajeev Jain – Managing Director, BAF will continue to be actively involved in shaping the strategy of the various businesses of the Company and its subsidiaries. He will also actively engage with CEOs of the wholly owned subsidiaries of the NBFC to achieve short-term and long-term objectives of the NBFC and its subsidiaries.
 - f) Rakesh Bhatt - Executive Director has decided to pursue new career pursuits outside the Company and has thus resigned from the services of the Company.
- BAF has launched five new product initiatives so far in FY24E. The Company has progressed well in providing similar experiences across all its platforms. The Company also launched an auto mall in FY24E.
- BAF aspires to be among the top 5 players in its new product lines, which include Embedded Insurance (launched by Apr-24), Commercial Vehicle, Bharat mortgages, Auto Leasing, Industrial Equipment Finance, Postpaid & Co-lending - (H1FY25E).
- The NBFC will continue to invest in new product lines to seize India's opportunity and grow in a sustained manner. The Company has planned nine new product initiatives in the LRS period.
- The NBFC has also worked on new product innovations with products like Assured Buyback on New Cars (live from Dec-23) and Bajaj+ EV, which is expected to be live by Sept-24.
- On geographic front, the NBFC will continue to strive to get all products in all locations in a sustained manner.
- On platforms, BAF's ambition is to dominate all digital platforms and deliver 25.0% of business volumes. The strategy is to grow from 5 Mn to 10 Mn monthly downloads on App, originate 1 Bn organic traffic on Web and deeply invest in marketplaces, social and rewards platforms.
- BAF's subsidiaries strives to dominate in their respective industries, contributing 12.0-15.0% of retail mortgages and 50.0-60.0% of brokerage accounts.
- RBI vide order dated 15 November 2023, under Section 45L(1)(b) of RBI Act, 1934, directed BAF to stop sanction and disbursement of loans under its two lending products namely, 'eCOM' and 'Insta EMI Card', with immediate effect on account of certain deficiencies observed in implementation of the extant provisions of Digital lending guidelines of Reserve Bank of India, particularly non issuance of Key Fact Statements to the borrowers under these two lending products and the deficiencies in the Key Fact Statements issued in respect of other digital loans sanctioned by the company. Further, RBI advised that these supervisory restrictions will be reviewed upon the rectification of the said deficiencies to the satisfaction of RBI. BAF has conducted a comprehensive review of Guidelines on Digital Lending and KFS and is implementing requisite corrective actions. The Company will ensure full compliance of the executive order to the satisfaction of RBI at the earliest.
- On November 02, 2023, BAF allotted 1,550,000 warrants at a price of INR 7,670 per warrant, on a preferential basis, to Bajaj Finserv Ltd, the promoter and holding company, on receipt of application money aggregating to INR 2,972 Mn being 25.0% of the total consideration. The remaining 75.0% of the consideration will be paid at the time of conversion of warrants into equity shares anytime within eighteen months from the date of allotment.
- On November 09, 09, 2023, BAF allotted 12,104,539 equity shares through QIP to eligible investors at a price of INR 7,270 per equity share (including a premium of INR 7,268 per equity share) aggregating approximately INR 88,000 Mn.
- On 19 January 2024, the NBFC acquired 26.5% equity stake on a fully diluted basis of Pennant Technologies Private Ltd for an aggregate amount of INR 2,675 Mn.
- While NIM continues to soften gradually on account of lagged effect of cost of funds increase, in Q3FY24, elevated loan losses and impact of Regulatory action has led to profit growth being lower by approximately 5.0-6.0%.
- Annualized loan loss to average AUF, excluding management overlay, was 1.79% in 9MFY24. The NBFC estimates FY24E loan loss to average AUF to hold at this level.
- Deposits book grew by 35.0% YoY and stood at INR 580.1 Bn as of December 31, 2023. In Q3FY24, net deposit growth was INR 31,870 Mn. Deposits contributed to 22.0% of consolidated borrowings as of December 31, 2023.
- Liquidity buffer stood at INR 116,240 Mn as of December 31, 2023.
- RBI has granted one year renewal for a co-branded credit card partnership with RBL Bank. RBI has communicated to the NBFC that has noted certain deficiencies in its co-branded card operations.

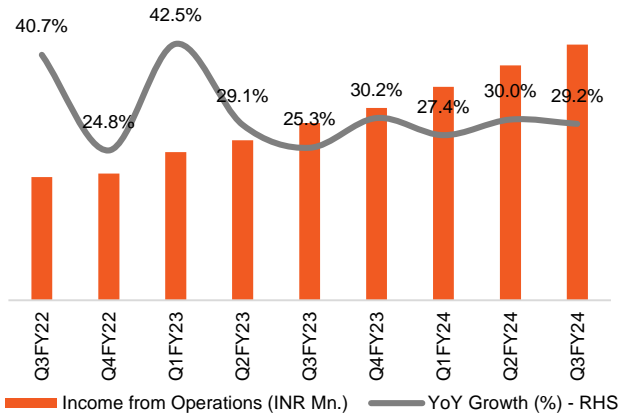
Valuation and view:

Bajaj Finance reported a mixed performance in Q3FY24 where the business trajectory remained strong on the back of a successful festive season, the credit cost and impact of regulatory action acted as dampeners for the NBFC. The business's growth was aided by its aggressive focus on customer acquisition across all segments. The geographical expansion has also been supporting the NBFC to achieve robust AUM growth. In regard to the RBI ban, the NBFC has been working on corrective actions and has suspended card issuances accordingly. On the overall AUM growth front, we expect the unsecured loans to see a deliberate slowdown, which will lead to some pressure in the medium term, especially in the B2C segment. The NBFC is confident of delivering strong AUM growth in the long term, supported by scaling up existing businesses with faster growth in the mortgage segment, launching new products, and enhancing its digital capabilities to improve its operational performance. BAF is expected to reap higher growth from its new product lines like auto loans, microfinance segments, etc. NIMs are expected to see continued pressure led by the increasing cost of borrowings, which is expected to be partially offset by higher funding rates and restructuring of the asset mix. The operating leverage has been playing out well for the NBFC, which will also aid in mitigating the impact of NIMs on the overall operating profits. We remain cautious about the quality of the assets given the uncertainty and risky unsecured portfolio. BAF has also toggled within senior management with new additions to the positions and responsibilities to build a mature organization.

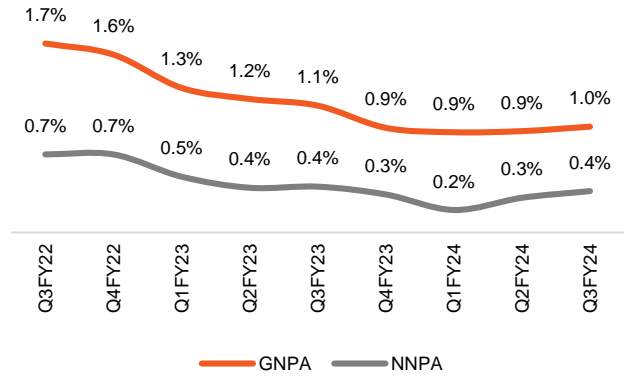
We are positive about the Company's growth prospects, considering its strong parentage, industry-leading business growth, diversified asset and liability mix, prudent risk management, and market leadership. We have factored in the Nil/ Operating profit/ PAT to grow at a CAGR of 28.6%/27.9%/27.5% over FY23–26E, driven by a strong business trajectory and operating leverage. The stock is currently trading at 5.7x/ 4.7x/ 3.9x P/ABV multiple for FY24E/ FY25E/ FY26E Adjusted Book Value. **We assign a P/ABV multiple of 4.8x on FY26E adj. book value of INR 1,792.4 (earlier 6.2x FY25E ABV to arrive at a T.P. of INR 8,600 per share (earlier INR 9,475)), an upside of 25.3% over CMP. Accordingly, we maintain our "BUY" rating on BAF shares.**

Bajaj Finance Ltd

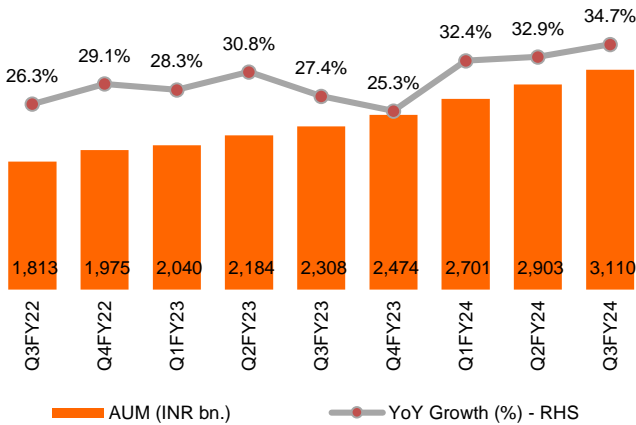
Consistently healthy NII growth led by the business momentum



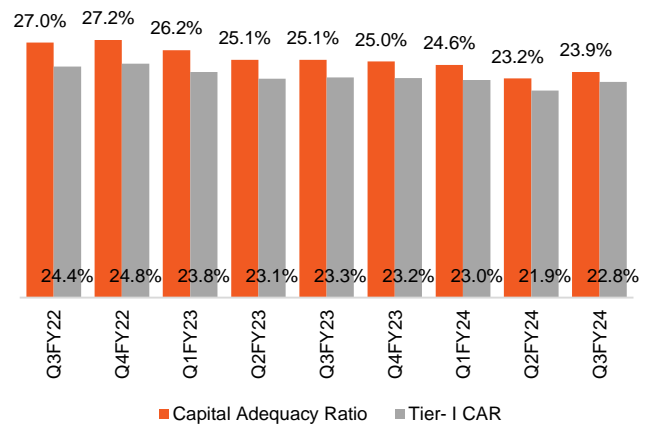
Deterioration owing to stress from Rural B2C segment



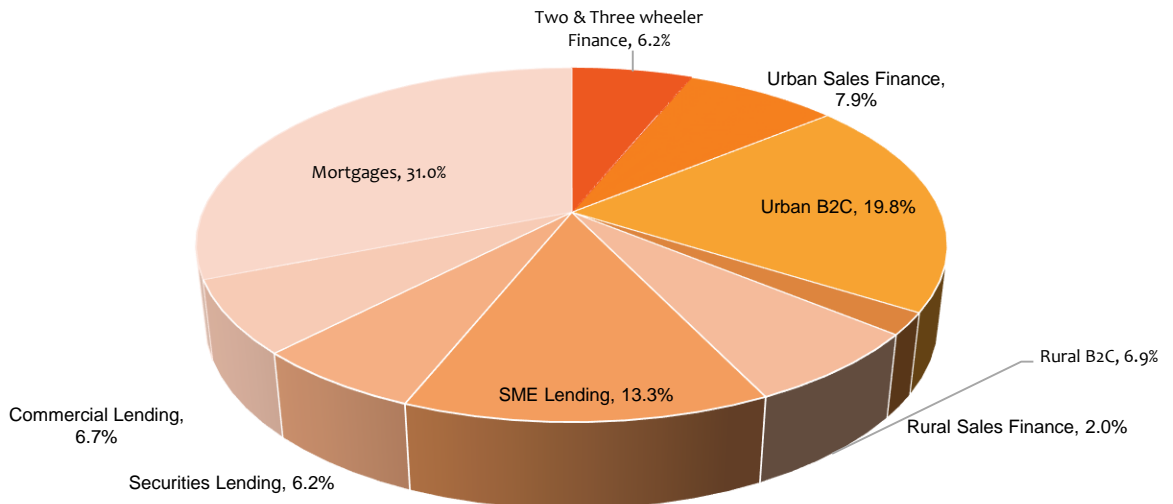
AUM growth among the best in Industry



CRAR: Above regulatory requirements



Diversified Loan Portfolio Book as of December 31, 2023



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	272,698	355,502	481,396	635,438	808,111
Interest Expense	97,482	125,599	186,083	250,739	318,779
Net Interest Income	175,215	229,903	295,313	384,699	489,332
Non-interest income	43,707	58,555	68,048	72,227	86,392
Operating Income	218,922	288,458	363,361	456,925	575,723
- Employee expense	35,897	50,591	58,138	68,539	86,358
- Other operating expense	39,953	50,708	63,588	77,677	97,873
Operating Expense	75,850	101,300	121,726	146,216	184,231
Operating Profit	143,072	187,158	241,635	310,709	391,492
Provisions	48,034	31,897	49,555	57,767	73,465
PBT	95,038	155,262	192,080	252,942	318,027
Tax Expense	24,756	40,185	48,020	63,236	79,507
PAT	70,282	115,077	144,060	189,707	238,520
Diluted EPS (INR)	116.6	190.5	233.1	307.0	385.9

Source: Company, KRChoksey Research

Bajaj Finance Ltd

Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Source of Funds					
Share capital	1,207	1,209	1,236	1,236	1,236
Reserves & Surplus	435,920	542,511	764,962	926,212	1,128,955
Net worth	437,127	543,720	766,198	927,448	1,130,191
Borrowings	1,652,319	2,166,905	2,795,307	3,633,900	4,487,866
Deposits	34,207	41,622	47,962	54,885	63,133
Other liabilities & provisions	1,400	40	540	1,040	1,540
Total Equity & Liabilities	2,125,054	2,752,287	3,610,007	4,617,273	5,682,730
Uses of Funds					
Cash & Bank Balances	36,803	43,045	41,151	54,243	45,036
Receivables	12,659	12,997	15,597	17,156	18,872
Net investments	122,455	227,518	261,646	274,728	288,465
Deferred Tax Assets	9,511	9,371	9,839	10,331	10,848
Loans & advances	1,914,233	2,422,689	3,240,789	4,213,025	5,266,281
Fixed assets	17,296	23,222	25,694	29,997	35,436
Other assets	3,111	3,955	4,000	4,500	4,500
Total Assets	2,125,054	2,752,287	3,610,007	4,617,273	5,682,730

Source: Company, KRChoksey Research

Bajaj Finance Ltd

Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
Growth Rates					
AUM (%)	29.1%	25.3%	33.0%	30.0%	25.0%
Borrowing (%)	25.5%	31.1%	29.0%	30.0%	23.5%
Total assets (%)	23.9%	29.5%	31.2%	27.9%	23.1%
NII (%)	1.5%	31.2%	28.5%	30.3%	27.2%
Pre-provisioning profit (%)	19.6%	30.8%	29.1%	28.6%	26.0%
PAT (%)	59.0%	63.7%	25.2%	31.7%	25.7%
B/S Ratios					
Loans/Deposit (%)	115.9%	111.8%	115.9%	115.9%	117.3%
Advances/Total Assets	90.1%	88.0%	89.8%	91.2%	92.7%
CAR (%)	27.2%	25.0%	23.6%	22.1%	21.7%
Tier-I Capital (%)	24.8%	23.2%	22.3%	21.1%	20.9%
Leverage - Total Assets to Equity	4.9	5.1	4.7	5.0	5.0
Operating efficiency					
Cost/income (%)	34.6%	35.1%	33.5%	32.0%	32.0%
Opex/total assets (%)	3.6%	3.7%	3.4%	3.2%	3.2%
Opex/total interest earning assets	4.0%	4.2%	3.8%	3.5%	3.5%
Profitability					
NIM (%)	10.4%	10.6%	10.4%	10.3%	10.3%
RoA (%)	5.3%	5.3%	4.0%	4.1%	4.2%
RoE (%)	22.8%	23.5%	18.8%	20.5%	21.1%
Asset quality					
Gross NPA (%)	1.6%	0.9%	1.0%	1.2%	1.2%
Net NPA (%)	0.7%	0.3%	0.4%	0.4%	0.4%
PCR (%)	58.0%	63.8%	65.0%	65.0%	65.0%
Credit cost (%)	2.8%	1.5%	1.8%	1.6%	1.6%
Per share data / Valuation					
EPS (INR)	116.6	190.5	233.1	307.0	385.9
BVPS (INR)	722.0	898.1	1239.8	1500.7	1828.7
ABVPS (INR)	693.1	881.9	1215.3	1471.6	1792.4
P/E (x)	62.2	29.5	29.6	22.5	17.9
P/BV (x)	10.1	6.3	5.6	4.6	3.8
P/ABV (x)	10.5	6.4	5.7	4.7	3.9
Profitability					
Return on Capital	3.7%	4.8%	4.6%	4.7%	4.7%
Return on Equity	16.1%	21.2%	18.8%	20.5%	21.1%
Spread Analysis					
Yield on loans	16.1%	16.4%	17.0%	17.1%	17.1%
Cost of borrowings	6.57%	6.58%	7.50%	7.80%	7.85%
Spread	9.6%	9.8%	9.5%	9.3%	9.2%

Source: Company, KRChoksey Research

Bajaj Finance Ltd

Bajaj Finance Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
1-Feb-24	6,863	8,600	BUY
18-Oct-23	7,854	9,475	BUY
02-Aug-23	7,211	8,500	BUY
27-Apr-23	6,200	7,635	BUY
31-Jan-23	5,884	8,030	BUY
20-Oct-22	7,432	8,630	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com

ANALYST

Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

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is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com