



Q4FY24 Bajaj Finance Ltd.



Bajaj Finance Ltd.

Focus on newer and secured segment; NIMs will continue to see pressure

CMP INR 6,827*	Target INR 8,000	Potential Upside 17.2%	Market Cap (INR Mn) 42,21,555	Recommendation BUY	Sector NBFC
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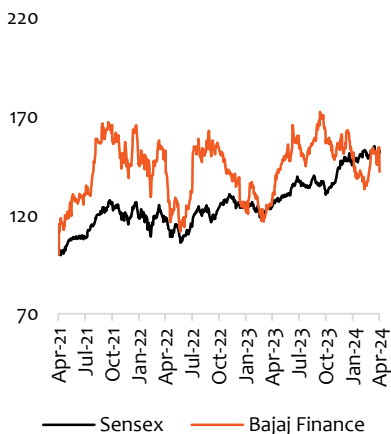
Result Highlights:

- Net Interest Income (NII) for Q4FY24 increased by 28.1% YoY (+4.7% QoQ) to INR 92,931 Mn, primarily led by the robust growth in AUM. The NII was in-line with our estimates. Pre-Provision Operating Profit (PPOP) stood at INR 64,121 Mn, a growth of 25.3% YoY (+4.4% QoQ) in Q4FY24. PPOP was 0.8% below our estimates. Profit after tax for Q4FY24 increased by 21.1% YoY (+5.1% QoQ) to INR 38,245 Mn. Net profit met our expectations.
- The Board of Directors has recommended a dividend of INR 36 per equity share for FY24.
- We have lowered our PAT estimates for FY25E/ FY26E by 4.5%/ 2.4% considering the lower business growth and have increased our credit costs to 1.75% in line with the management guidance for FY25E. **We assign a P/ABV multiple of 4.5x on FY26E adj. book value of INR 1,778.0 to arrive at a T.P. of INR 8,000 per share. We maintain our “BUY” rating on BAF shares.**

MARKET DATA

Shares outs (Mn)	619
Net Worth (INR Mn)	7,66,953
Mkt Cap (INR Mn)	42,21,555
52 Wk H/L (INR)	8,192/ 6,156
Volume Avg (3m K)	1,392
Face Value (INR)	2
Bloomberg Code	BAF IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	74,671
NIFTY	22,643

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
NII	175,215	229,903	295,819	383,455	487,771
PPOP	143,072	187,158	239,326	306,472	387,205
PAT	70,282	115,077	144,435	181,234	232,688
ABVPS	693.1	881.9	1215.4	1463.0	1778.0
NIM	10.4%	10.6%	10.4%	10.4%	10.5%
Advances Growth	29.1%	25.3%	33.6%	27.0%	25.0%

Source: Company, KRChoksey Research

Strong AUM growth; however, customer acquisition growth moderates with the ban on two products:

- As of March 31, 2024, AUM reported a 33.6% YoY/ 6.2% QoQ growth at INR 3,304,000 Mn, despite growth moderation in customer acquisition. The Rural B2C segment reported a growth of 6.0% during the period, lower than its historical highs of 25.0% growth.
- In Q4FY24, the Company added 3.23 Mn new customers to the franchise. Customer franchise stood at 83.64 Mn as of March 31, 2024. Cross sell franchise crossed a milestone of 50 Mn and stood at 50.75 Mn. The NBFC added 14.5 Mn customers to its franchise in FY24. It remains confident of adding 12-14 Mn customers in FY25E as well.
- For FY25E, BAF expects an AUM growth of 26.0-28.0% which will be supported by newly launched secured businesses in FY24 such as LAP, New car financing and Tractor finance.
- BAF has made required changes in response to the regulatory restriction imposed by RBI on the NBFC, on sanction and disbursement of loans under 'eCOM' and 'Insta EMI Card'. BAF has formally requested RBI for review and removal of these restrictions.

NIMs under pressure on account of higher Cost of Funds; digital initiatives to improve operating leverage going forward:

- The NIM compression in Q4FY24 over Q3FY24 was 21 bps, primarily due to AUM composition changes.
- NIM has been moderating throughout FY24 due to an increase in Cost of Funds (CoF) and a gradual shift in AUM composition towards secured assets.
- BAF expects CoF to peak by July-August-24 and AUM composition to pivot towards secured assets to stabilize by September-24. Accordingly, it expects a 30-40 bps moderation in NIM over the next two quarters from the current levels.

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	Sep-23
Promoters	54.7	54.8	55.9
FIIIs	20.6	20.9	20.4
DIIIs	14.4	14.1	13.1
Others	10.3	10.2	10.6
Total	100.0	100.0	100.0

*Based on previous closing

28.4%

NII CAGR between FY24
and FY26E

26.9%

PAT CAGR between FY24
and FY26E

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- In Q4, Net total income grew by 25.0% YoY/ 4.5% QoQ to INR 97,149 Mn as against INR 77,712 Mn in Q4FY23.
- In Q4FY24, Opex to Net total income improved to 34.0% as against 34.2% in Q4FY23. The NBFC has deployed various GenAI initiatives across operations, service, and contact centers to enhance operating efficiencies. Opex to Net Total Income (NTI) is expected to improve by 20-40 bps from current levels.
- Employee costs for the quarter increased by 23.0%, but QoQ remained flat. The employee headcount was reduced by 499 in Q4FY24. Attrition for FY24 was 14.9%, as against 18.7% for FY23.
- BAF has been cautiously optimistic about FY25E, with profit growth to be more rear-ended due to moderation in NIM in H1FY25E.

Rural B2C continued to be an irritant; however, asset quality for other businesses improving steadily:

- Loan losses and provisions were INR 13,100 Mn in Q4FY24. In Q4, rural B2C businesses continued to experience elevated loan losses.
- Loan loss to average AUM, excluding management overlay, was 1.86% in Q4FY24.
- The NBFC holds a management and macro-economic overlay of INR 3,000 Mn as of March 31, 2024. During the quarter, the Company utilized INR 1,270 Mn towards the strengthening of its ECL model and released INR 1,630 Mn towards loan losses and provisions.
- GNPA & NNPA stood at 0.85% & 0.37% as of March 31, 2024, as against 0.94% & 0.34% as of March 31, 2023, amongst the lowest in the industry. GNPA and NNPA are expected to remain lower than its long-term guidance.
- Risk metrics across all businesses were stable except Rural B2C business. The NBFC continues to be watchful on risk actions in Rural B2C business.
- Adjusted for the release of management overlay, Loan loss to average AUM was 1.82%. For FY25E, BAF expects its loan loss to average AUM in the corridor of 1.75%–1.85%.

Key Concall Highlights:

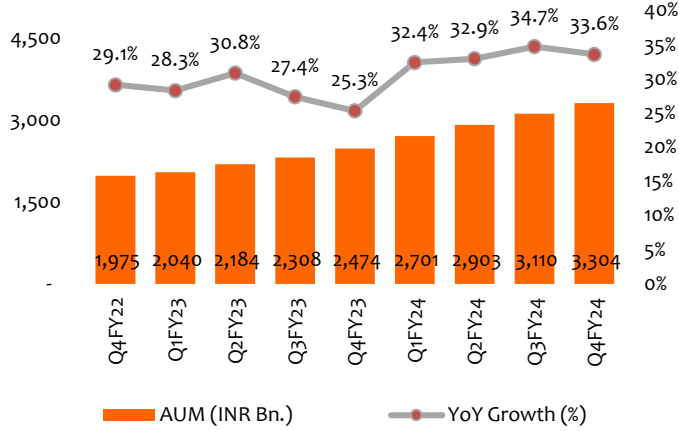
- BAF's total cross-sell franchise crossed a milestone of 50 Mn customers and stood at 50.75 Mn customers. The NBFC added 53 new locations and 7,700 distribution points. It is physically present in 4,145 locations and serves over 198,000 active distribution points as of March 31, 2024.
- In terms of liquidity buffer, the liquidity buffer was strong at INR 157 Bn.
- The deposit book also grew in line with the asset's growth, grew by 35% and stood at INR 601.51 Bn. Net deposit accretion was INR 21.43 Bn. Deposits on a consolidated balance sheet contribute to ~21.0% of overall borrowings.
- The Board of Directors of BHFL, which is a wholly owned subsidiary of BAF, evaluated various options for meeting the mandatory listing conditions pursuant to BHFL's classification as an upper-layer company and including a potential IPO. In this regard, the BHFL Board has considered a committee to undertake a variety of actions and steps.
- In the quarter gone by, NBFC, to diversify its borrowing profile, raised USD 725 Mn in external commercial borrowing, which is equivalent to INR 60.2 Mn. So, the ECB accounts for 2.0% of the overall borrowing profile. At its peak, BAF used to have 4.0% of its borrowing in ECB, so based on market conditions, it expects to take ECB to 4.0%-odd in FY25E.
- The NBFC has made the required changes in response to the regulatory restrictions imposed by the RBI on the company on the sanction and disbursal of loans under the e-com and Insta EMI cards. BAF has formally requested RBI for a review and removal of these restrictions.
- To ensure compliance in form and spirit, the company, in addition to the two lending products, that are under embargo, has now implemented KFS (Key Fact Statement) for all lending products, effective March 31, 2024. So, any client who takes a loan from the company across retail and SME, effective April 1, gets to receive a comprehensive KFS, and it's in 20 vernacular languages.
- Bajaj Financial Securities ended the quarter with an INR 260 Mn profit against an INR 30 Mn profit a year ago. Profit after tax came in at INR 220 Mn against a profit of INR 30 Mn again, adding 43,000 customers. The NBFC on a full year basis delivered a pre-tax profit of INR 720 Mn, giving the NBFC latitude to start investing in the business and to grow.

Valuation and view:

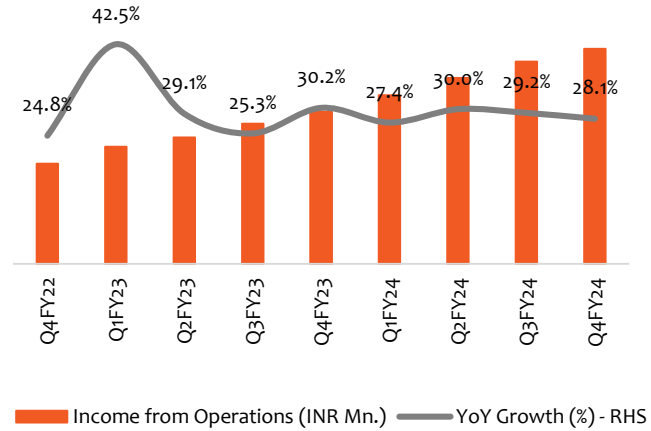
In Q4FY24, BAF delivered a decent set of numbers, despite the impact of the RBI's ban on EMI and E-com cards. Thus, the results were in line with our expectations. The overall financial result had a slight negative effect of ~4.0% on PBT, led by the ban. The NBFC mentioned in its call that it has taken steps to rectify the issues in the procedure that resulted in the RBI ban and has officially appealed to the RBI for rechecking and formally uplifting the embargo on the two products. However, the NBFC's projected performance for FY25E falls short of its long-term expectations across various key metrics, including AUM growth. BAF anticipates that newer segments, primarily the secured loan segment, will drive AUM growth in FY25E. 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 a restructuring of the asset mix. We will continue to monitor the trends in the rural B2C segment, which may continue to impact the asset quality of the NBFC. We have lowered our PAT estimates for FY25E/ FY26E by 4.5%/ 2.4% considering the lower business growth and have increased our credit costs to 1.75% in line with the management guidance for FY25E. We have factored in the NII/ Operating profit/ PAT to grow at a CAGR of 28.4%/ 27.2%/ 26.9% over FY24–26E. The stock is currently trading at 4.6x/ 3.8x P/ABV multiple for FY24E/ FY25E/ FY26E Adjusted Book Value. **We assign a P/ABV multiple of 4.5x on FY26E adj. book value of INR 1,778.0 (earlier 4.8x FY26E ABV) to arrive at a T.P. of INR 8,000 per share (earlier INR 8,600), an upside of 17.2% over CMP. Accordingly, we maintain our “BUY” rating on BAF shares.**

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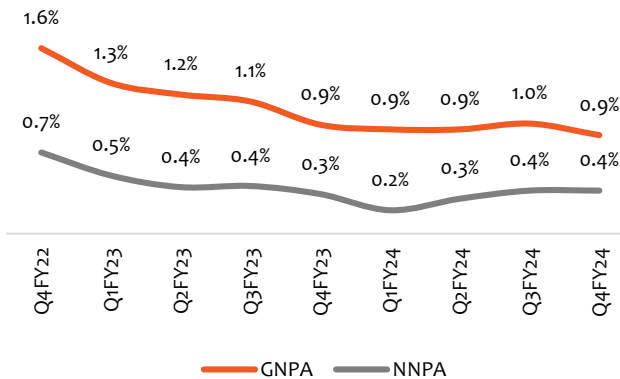
AUM growth among the best in Industry



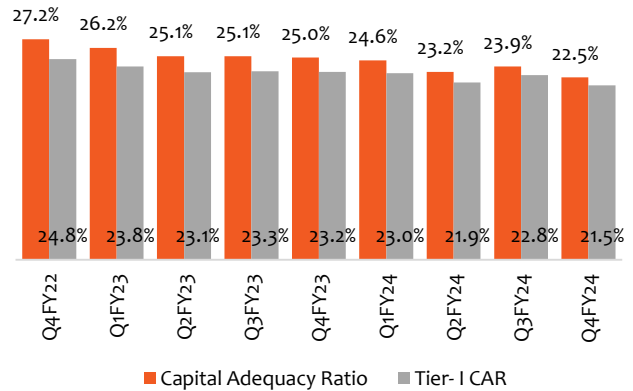
Core income growth remains than the 33.6% AUM growth during the quarter



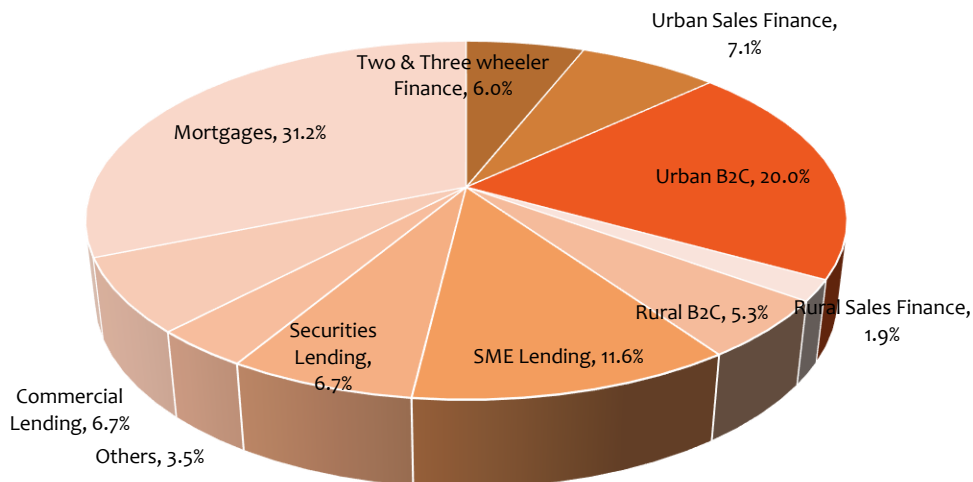
Sequentially Asset quality improved except for Rural B2C business



CRAR: Above regulatory requirements



Diversified Loan Portfolio Book as of March 31, 2024



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Interest Income	272,698	355,502	483,066	629,736	792,870
Interest Expense	97,482	125,599	187,247	246,281	305,099
Net Interest Income	175,215	229,903	295,819	383,455	487,771
Non-interest income	43,707	58,555	66,759	80,896	90,147
Operating Income	218,922	288,458	362,578	464,351	577,918
- Employee expense	35,897	50,591	63,960	83,583	98,246
- Other operating expense	39,953	50,708	59,292	74,296	92,467
Operating Expense	75,850	101,300	123,252	157,879	190,713
Operating Profit	143,072	187,158	239,326	306,472	387,205
Provisions	48,034	31,897	46,307	64,826	76,955
PBT	95,038	155,262	193,019	241,646	310,250
Tax Expense	24,756	40,185	48,584	60,411	77,563
PAT	70,282	115,077	144,435	181,234	232,688
Diluted EPS (INR)	116.6	190.5	236.9	292.9	376.1

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Source of Funds					
Share capital	1,207	1,209	1,236	1,236	1,236
Reserves & Surplus	435,920	542,511	765,718	919,852	1,117,721
Net worth	437,127	543,720	766,954	921,088	1,118,957
Borrowings	1,652,319	2,166,905	2,933,458	3,634,040	4,501,939
Deposits	34,207	41,622	56,983	65,051	74,641
Other liabilities & provisions	1,400	40	21	21	521
Total Equity & Liabilities	2,125,054	2,752,287	3,757,416	4,620,200	5,696,058
Uses of Funds					
Cash & Bank Balances	36,803	43,045	106,240	70,934	85,924
Receivables	12,659	12,997	17,335	19,068	20,975
Net investments	122,455	227,518	308,807	324,247	340,459
Deferred Tax Assets	9,511	9,371	10,174	10,683	11,217
Loans & advances	1,914,233	2,422,689	3,262,933	4,145,727	5,182,159
Fixed assets	17,296	23,222	32,753	31,554	37,337
Other assets	3,111	3,955	3,369	4,500	4,500
Total Assets	2,125,054	2,752,287	3,757,416	4,620,200	5,696,058

Source: Company, KRChoksey Research

Bajaj Finance Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
Growth Rates					
AUM (%)	29.1%	25.3%	33.6%	27.0%	25.0%
Borrowing (%)	25.5%	31.1%	35.4%	23.9%	23.9%
Total assets (%)	23.9%	29.5%	36.5%	23.0%	23.3%
NII (%)	1.5%	31.2%	28.7%	29.6%	27.2%
Pre-provisioning profit (%)	19.6%	30.8%	27.9%	28.1%	26.3%
PAT (%)	59.0%	63.7%	25.6%	25.5%	28.4%
B/S Ratios					
Loans/Deposit (%)	115.9%	111.8%	111.2%	114.1%	115.1%
Advances/Total Assets	90.1%	88.0%	86.8%	89.7%	91.0%
CAR (%)	27.2%	25.0%	22.5%	21.9%	21.4%
Tier-I Capital (%)	24.8%	23.2%	21.5%	21.0%	20.7%
Leverage - Total Assets to Equity	4.9	5.1	4.9	5.0	5.1
Operating efficiency					
Cost/income (%)	34.6%	35.1%	34.0%	34.0%	33.0%
Opex/total assets (%)	3.6%	3.7%	3.3%	3.4%	3.3%
Opex/total interest earning assets	4.0%	4.2%	3.8%	3.8%	3.7%
Profitability					
NIM (%)	10.4%	10.6%	10.4%	10.4%	10.5%
RoA (%)	5.3%	5.3%	3.8%	3.9%	4.1%
RoE (%)	22.8%	23.5%	18.8%	19.7%	20.8%
Asset quality					
Gross NPA (%)	1.6%	0.9%	0.9%	0.9%	0.8%
Net NPA (%)	0.7%	0.3%	0.4%	0.4%	0.4%
PCR (%)	58.0%	63.8%	56.5%	56.5%	56.3%
Credit cost (%)	2.8%	1.5%	1.6%	1.8%	1.7%
Per share data / Valuation					
EPS (INR)	116.6	190.5	236.9	292.9	376.1
BVPS (INR)	722.0	898.1	1241.0	1488.0	1807.7
ABVPS (INR)	693.1	881.9	1215.4	1463.0	1778.0
P/E (x)	62.2	29.5	30.6	23.0	17.9
P/BV (x)	10.1	6.3	5.8	4.5	3.7
P/ABV (x)	10.5	6.4	6.0	4.6	3.8
Profitability					
Return on Capital	3.7%	4.8%	4.5%	4.4%	4.6%
Return on Equity	16.1%	21.2%	18.8%	19.7%	20.8%
Spread Analysis					
Yield on loans	16.1%	16.4%	17.0%	17.0%	17.0%
Cost of borrowings	6.57%	6.58%	7.3%	7.5%	7.5%
Spread	9.6%	9.8%	9.7%	9.5%	9.5%

Source: Company, KRChoksey Research

Bajaj Finance Ltd.

Bajaj Finance Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
30-Apr-24	6,827	8,000	BUY	Buy	More than 15%
31-Jan-24	6,863	8,600	BUY	Accumulate	5% – 15%
18-Oct-23	7,854	9,475	BUY	Hold	0 – 5%
02-Aug-23	7,211	8,500	BUY	Reduce	-5% – 0
27-Apr-23	6,200	7,635	BUY	Sell	Less than – 5%
31-Jan-23	5,884	8,030	BUY		

ANALYST CERTIFICATION:

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