

Early relief – RBI removes restrictions on Ecom/EMI Card

BFSI - NBFCs ▶ Company Update ▶ May 3, 2024

TARGET PRICE (Rs): 9,000

BAF has announced that on 2-May-24 the RBI has communicated to the company about removal of restrictions by the Regulator on BAF sanctioning and disbursing new loans under its 'eCOM' and 'Insta EMI Card' segments (restrictions put on 15-Nov-23) and suspension of issuance of EMI Cards to new customers (on 17-Nov-23). Though removal of these restrictions by the RBI is on expected lines (as the company had addressed deficiencies flagged by the RBI), the relief within less than 6 months not only comes as a positive surprise but also endorses Management's ability to course-correct quickly when needed. Overall, we continue to see our coverage initiation thesis (Read: [Execution machine robust as ever](#)) playing out over the medium term, and reiterate our BUY rating with unchanged Mar-25E TP of Rs9,000/share.

Bajaj Finance: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	114,571	144,435	178,523	219,598	265,113
AUM growths (%)	25.3	33.6	27.0	25.0	24.0
NII growths (%)	31.2	28.7	28.0	24.7	21.9
NIMs (%)	10.3	10.2	10.1	10.0	9.8
PPOP growth (%)	30.7	28.2	28.5	23.7	21.5
Adj. EPS (Rs)	190.5	236.3	288.9	355.3	429.0
Adj. EPS growth (%)	63.3	24.0	22.2	23.0	20.7
Adj. BV (INR)	899.7	1,254.8	1,484.2	1,783.3	2,144.4
Adj. BVPS growth (%)	24.1	39.5	18.3	20.2	20.2
RoA (%)	4.7	4.4	4.2	4.2	4.1
RoE (%)	23.4	22.0	21.2	21.8	21.8
P/E (x)	36.1	29.1	23.8	19.4	16.0
P/ABV (x)	8.1	5.8	4.9	4.1	3.4

Source: Company, Emkay Research

RBI removes restrictions on 'eCOM' and 'EMI Card' issuance and on loan disbursements

BAF, on 2-May-24, reported that the RBI has lifted its restrictions on Company's two key customer acquisition products 'eCOM' and 'Insta EMI card' with immediate effect. The restrictions were put by the RBI in mid-November last year, on account of deficiencies related to the Key Fact Statement (KFS) of these products. The embargo on the two products had a significant impact on BAF's profitability (PBT lower by ~4% in Q4FY24), and its new loan book was lower by 0.8mn in Q4 and by 1.2mn in FY24. Lifting of this ban would result in higher customer acquisition, along with improved fee income.

Lifting of embargo earlier than expected, a positive surprise; boosts FY25 outlook

Lifting of the restriction in less than 6 months comes as a huge positive surprise, going by incidents in recent years related to such RBI restrictions and the subsequent removal of such a ban taking longer, including ban on HDFC Bank Credit Card (from acquiring new customers during Dec-20 to Aug-21), restrictions on Diners Club (May-21 to Nov-21), and restrictions on Master Card (Jul-21 to Jun-22). The removal of restrictions comes on expected lines, as Management in its Q4FY24 call had communicated that it has addressed RBI concerns and had formally requested the Regulator to lift the limitation; however, the earlier than anticipated resolution endorses Management's ability to course-correct promptly when needed.

Our investment thesis remains intact; reiterate BUY

The recent development in the beginning of FY25 itself is a positive start for BAF for the fiscal, and is expected to boost investor confidence on processes, commitment of management in making things right, and Company's ability to adapt to the changing regulation & business environment. The early resolution of the restriction increases confidence on the FY25 outlook and raises hopes of approval by the RBI for renewal of BAF's co-branded credit card with RBL Bank in Dec-24. We keep our FY25-27 estimates unchanged and reiterate our BUY rating on the stock, with unchanged Mar-25E TP of Rs9,000/share, implying FY26E consolidated P/BV of 5.1x. (Exhibit 1-3)

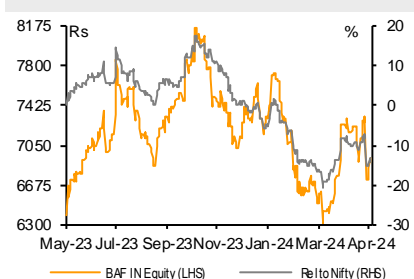
Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	30.8
CMP (02-May-24) (Rs)	6,882.7

Stock Data	Ticker
52-week High (Rs)	8,192
52-week Low (Rs)	6,156
Shares outstanding (mn)	619.0
Market-cap (Rs bn)	4,260
Market-cap (USD mn)	51,042
Net-debt, FY25E (Rs mn)	16,025
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	9,414.5
ADTV-3M (USD mn)	112.8
Free float (%)	-
Nifty-50	22,648
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	54.7
FPIs/MFs (%)	17.2/17.8

Price Performance

(%)	1M	3M	12M
Absolute	(4.5)	0.5	10.1
Rel. to Nifty	(5.3)	(3.7)	(12.1)

1-Year share price trend (Rs)



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Exhibit 1: Valuation matrix

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			Adj. EPS (Rs)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
At current market price	6,883	30.8%	4,260	4.64	3.86	3.21	23.8	19.4	16.0	4.22	4.17	4.06	21.20	21.75	21.84	1,484	1,783	2,144	289	355	429
At target price	9,000			6.06	5.05	4.20	31.2	25.3	21.0	4.22	4.17	4.06	21.20	21.75	21.84	1484	1783	2144	289	355	429

Source: Company, Emkay Research

Exhibit 2: SOTP based valuation

FY 26E	Adj. Networkth (Rs mn)	ROA	ROE	PAT CAGR (FY24-26E)	P/B (x)	M-Cap est. (Rs mn)	Price per share (Rs)
Bajaj Finance (SA)	1,008,558	4.7%	20.8%	23.6%			
Bajaj Finance (SA)	913,278	4.8%	23.2%	23.6%	5.5	5,040,382	8,156
Bajaj Housing	186,300	2.1%	14.6%	20.9%	2.8	521,639	844
No of Shares (mn)	618						
Total						5,562,021	9,000

Source: Company, Emkay Research

Exhibit 3: Revision in estimates

Y/e Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	change	Earlier	Revised	change	Earlier	Revised	change
AUM	4,198,811	4,198,811	0.0%	5,248,513	5,248,513	0.0%	6,508,156	6,508,156	0.0%
Networkth	917,221	917,221	0.0%	1,102,063	1,102,063	0.0%	1,325,216	1,325,216	0.0%
AUM growth	27.0%	27.0%	0bps	25.0%	25.0%	0bps	24.0%	24.0%	0bps
Net interest income	378,768	378,768	0.0%	472,450	472,450	0.0%	576,048	576,048	0.0%
Total Income	466,989	466,989	0.0%	577,167	577,167	0.0%	701,450	701,450	0.0%
Opex	159,365	159,365	0.0%	196,591	196,591	0.0%	239,041	239,041	0.0%
PPOP	307,625	307,625	0.0%	380,575	380,575	0.0%	462,410	462,410	0.0%
PBT	240,274	240,274	0.0%	295,556	295,556	0.0%	356,815	356,815	0.0%
PAT	178,523	178,523	0.0%	219,598	219,598	0.0%	265,113	265,113	0.0%
EPS (Rs)	289	289	0.0%	355	355	0.0%	429	429	0.0%
BV (Rs)	1,484	1,484	0.0%	1,783	1,783	0.0%	2,144	2,144	0.0%
NIM+Fees	12.4%	12.4%	0bps	12.2%	12.2%	0bps	11.9%	11.9%	0bps
Cost-to-income ratio	34.1%	34.1%	0bps	34.1%	34.1%	0bps	34.1%	34.1%	0bps
Opex-to-AUM	4.2%	4.2%	0bps	4.2%	4.2%	0bps	4.1%	4.1%	0bps
Credit costs	1.79%	1.79%	0bps	1.80%	1.80%	0bps	1.80%	1.80%	0bps
GS3	0.85%	0.85%	0bps	0.86%	0.86%	0bps	0.85%	0.85%	0bps
NS3	0.38%	0.38%	0bps	0.38%	0.38%	0bps	0.38%	0.38%	0bps
ROA	4.2%	4.2%	0bps	4.2%	4.2%	0bps	4.1%	4.1%	0bps
ROE	21.2%	21.2%	0bps	21.8%	21.8%	0bps	21.8%	21.8%	0bps

Source: Company, Emkay Research

Bajaj Finance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	355,502	483,066	625,405	776,114	952,771
Interest Expense	125,599	187,247	246,637	303,664	376,722
Net interest income	229,903	295,819	378,768	472,450	576,048
NII growth (%)	31.2	28.7	28.0	24.7	21.9
Non interest income	58,066	66,759	88,221	104,716	125,402
Total income	287,969	362,578	466,989	577,167	701,450
Operating expenses	101,300	123,252	159,365	196,591	239,041
PPOP	186,669	239,326	307,625	380,575	462,410
PPOP growth (%)	30.7	28.2	28.5	23.7	21.5
Provisions & contingencies	31,897	46,307	67,351	85,019	105,595
PBT	154,773	193,019	240,274	295,556	356,815
Extraordinary items	0	0	0	0	0
Tax expense	40,202	48,584	61,750	75,958	91,701
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	114,571	144,435	178,523	219,598	265,113
PAT growth (%)	63.7	26.1	23.6	23.0	20.7
Adjusted PAT	114,571	144,435	178,523	219,598	265,113
Diluted EPS (Rs)	189.6	236.3	288.9	355.3	429.0
Diluted EPS growth (%)	63.7	24.7	22.2	23.0	20.7
DPS (Rs)	30.0	37.0	45.7	56.2	67.9
Dividend payout (%)	0.2	0.2	0.2	0.2	0.2
Effective tax rate (%)	26.0	25.2	25.7	25.7	25.7
Net interest margins (%)	10.3	10.2	10.1	10.0	9.8
Cost-income ratio (%)	35.2	34.0	34.1	34.1	34.1
PAT/PPOP (%)	61.4	60.4	58.0	57.7	57.3
Shares outstanding (mn)	604.5	618.0	618.0	618.0	618.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	23,130	28,160	35,929	45,368	56,002
NNPL - Stage 3	8,370	12,100	16,025	20,161	24,873
GNPL ratio - Stage 3 (%)	0.9	0.8	0.8	0.9	0.9
NNPL ratio - Stage 3 (%)	0.3	0.4	0.4	0.4	0.4
ECL coverage - Stage 3 (%)	63.8	57.0	55.4	55.6	55.6
ECL coverage - 1 & 2 (%)	1.2	1.0	1.1	1.1	1.2
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	1.7	1.5	1.6	1.6	1.6
Total credit costs (%)	1.4	1.6	1.8	1.8	1.8
NNPA to networth (%)	1.5	1.6	1.7	1.8	1.9
Capital adequacy					
Total CAR (%)	25.0	22.5	21.6	20.9	20.3
Tier-1 (%)	23.2	21.5	20.6	19.9	19.3
Miscellaneous					
Total income growth (%)	31.7	25.9	28.8	23.6	21.5
Opex growth (%)	33.6	21.7	29.3	23.4	21.6
PPOP margin (%)	8.4	8.3	8.2	8.1	7.9
Credit costs-to-PPOP (%)	17.1	19.3	21.9	22.3	22.8
Loan-to-Assets (%)	88.0	86.8	88.8	89.3	89.1
Yield on loans (%)	16.0	16.7	16.7	16.4	16.2
Cost of funds (%)	6.6	7.4	7.5	7.3	7.2
Spread (%)	9.4	9.3	9.2	9.2	9.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,209	1,236	1,236	1,236	1,236
Reserves & surplus	542,511	765,718	915,985	1,100,827	1,323,980
Net worth	543,720	766,954	917,221	1,102,063	1,325,216
Borrowings	2,166,905	2,933,458	3,710,128	4,641,760	5,805,252
Other liabilities & prov.	41,662	57,004	71,255	89,069	111,337
Total liabilities & equity	2,752,287	3,757,416	4,698,605	5,832,892	7,241,805
Net loans	2,422,689	3,262,933	4,170,664	5,207,286	6,450,101
Investments	227,518	308,807	386,159	479,381	595,174
Cash, other balances	43,045	106,240	50,000	62,070	77,063
Interest earning assets	2,693,253	3,677,980	4,606,823	5,748,737	7,122,339
Fixed assets	16,766	23,837	25,300	27,830	30,612
Other assets	42,268	55,600	66,483	56,325	88,854
Total assets	2,752,287	3,757,416	4,698,605	5,832,892	7,241,805
BVPS (Rs)	899.7	1,254.8	1,484.2	1,783.3	2,144.4
Adj. BVPS (INR)	899.7	1,254.8	1,484.2	1,783.3	2,144.4
Gross loans	2,466,357	3,313,340	4,236,214	5,291,298	6,556,287
Total AUM	2,473,790	3,306,150	4,198,811	5,248,513	6,508,156
On balance sheet	2,466,357	3,313,340	4,236,214	5,291,298	6,556,287
Off balance sheet	7,433	(7,190)	(37,403)	(42,785)	(48,131)
Disbursements	0	0	0	0	0
Disbursements growth (%)	0.0	0.0	0.0	0.0	0.0
Loan growth (%)	26.6	34.7	27.8	24.9	23.9
AUM growth (%)	25.3	33.6	27.0	25.0	24.0
Borrowings growth (%)	31.1	35.4	26.5	25.1	25.1
Book value growth (%)	24.1	39.5	18.3	20.2	20.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	36.1	29.1	23.8	19.4	16.0
P/B (x)	7.7	5.5	4.6	3.9	3.2
P/ABV (x)	8.1	5.8	4.9	4.1	3.4
P/PPOP (x)	23.7	18.9	14.7	11.9	9.8
Dividend yield (%)	0.4	0.5	0.7	0.8	1.0
DuPont-RoE split (%)					
NII/avg AUM	10.3	10.2	10.1	10.0	9.8
Other income	2.6	2.3	2.4	2.2	2.1
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	2.3	2.1	2.1	2.0	2.0
Employee expense	2.3	2.2	2.2	2.1	2.1
PPOP	8.4	8.3	8.2	8.1	7.9
Provisions	1.4	1.6	1.8	1.8	1.8
Tax expense	1.8	1.7	1.6	1.6	1.6
RoAUM (%)	5.2	5.0	4.8	4.6	4.5
Leverage ratio (x)	4.5	4.4	4.5	4.7	4.8
RoE (%)	23.4	22.0	21.2	21.8	21.8
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	62,549	67,186	71,970	76,553	80,130
NIM(%)	10.5	10.4	10.3	10.2	10.0
PPOP	51,190	55,437	58,347	61,422	64,121
PAT	31,578	34,369	35,509	36,390	38,245
EPS (Rs)	52.25	56.83	58.67	59.42	61.89

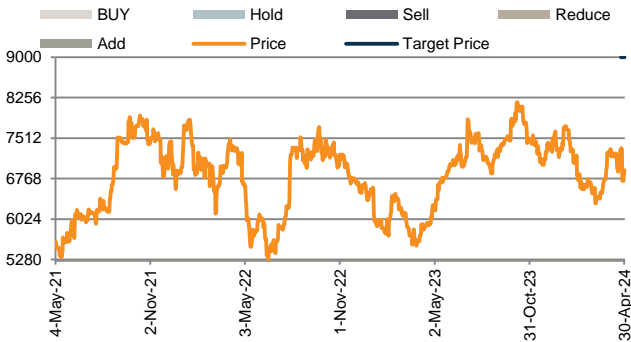
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
26-Apr-24	6,731	9,000	Buy	Avinash Singh
23-Apr-24	7,260	9,000	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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