

Bajaj Finance

Estimate change

TP change

Rating change



Bloomberg	BAF IN
Equity Shares (m)	619
M.Cap.(INRb)/(USDb)	4164.1 / 49.8
52-Week Range (INR)	8192 / 6188
1, 6, 12 Rel. Per (%)	-10/-20/-35
12M Avg Val (INR M)	8466

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Net Income	363	447	562
PPP	239	298	380
PAT	144	171	223
EPS (INR)	234	275	359
EPS Gr. (%)	23	18	30
BV/Sh. (INR)	1,240	1,491	1,803
Ratios			
NIM (%)	10.4	9.8	9.9
C/I ratio (%)	34.0	33.5	32.4
RoA (%)	4.4	4.0	4.2
RoE (%)	22.0	20.2	21.8
Payout (%)	15.4	14.8	13.1
Valuations			
P/E (x)	28.8	24.4	18.7
P/BV (x)	5.4	4.5	3.7
Div. Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	54.7	54.7	55.9
DII	14.3	14.4	12.9
FII	21.2	20.7	20.2
Others	9.8	10.2	11.0

FII Includes depository receipts

CMP: INR6,727
TP: INR7,500 (+11%)
Neutral

Navigating stress in B2C; credit costs elevated

Earnings in line; NIM continued to moderate but fee income healthy

- BAF's 1QFY25 reported PAT grew 14% YoY to ~INR39.1b (in line). NII grew 25% YOY to ~INR83.6b (in line). Non-interest income stood at ~INR20.5b (+21% QoQ and +22% YoY) due to the resumption of EMI card sourcing and one-off recovery from written-off pool of loans of INR450m.
- BAF's 1QFY25 NIM contracted ~23bp QoQ to ~9.8%. Out of this, ~13bp was on account of rise in CoF and ~10bp due to change in AUM composition.
- AUM growth in 1Q was supported by mortgages, commercial (ex LAS), SME, and new product segments such as cars and LAP. Higher growth in the secured product segments will likely keep yields under pressure in the near term. The management guided that the change in the AUM mix is expected to stabilize by Oct'24, which will result in stable NIMs. We estimate NIM of 9.9%/10% in FY25/FY26.
- We cut our FY26 PAT estimate by ~3% to factor in higher steady-state normalized credit costs. We estimate a CAGR of ~27%/24% in AUM/PAT over FY24-FY26 and expect BAF to deliver RoA/RoE of ~4.2%/22% in FY26.
- Upside risks: 1) Stronger AUM growth vs. its guidance of ~26-28%; and 2) the situation improving in the B2C business, resulting in lower-than-guided credit costs for FY25.

AUM up ~31% YoY; robust new customer acquisition

- BAF's total customer franchise stood at ~88.11m, up ~21% YOY and ~5% QoQ. New customer acquisitions surged to ~4.5m (vs. ~3.8m YoY and ~3.2m QoQ). New loans booked rose ~10% YoY to ~10.97m (vs. ~9.9m in 1QFY24).
- Total AUM grew 31% YoY and ~7% QoQ to INR3.5t. The rural B2C business continued to exhibit muted AUM growth given that BAF has cut business volumes in this segment amid higher delinquencies.

Slippages into Stage 2; credit costs elevated

- BAF's GS3/NS3 remained stable at ~0.85%/0.4%. However, the Stage 3 PCR further declined ~1pp QoQ to ~56%.
- Net credit costs in 1QFY25 stood at ~2pp (PY: ~155bp). Credit costs were elevated primarily due to muted collection efficiencies and ECL provisions for continuing slippages into Stage 2. BAF utilized ~INR1.1b from its macro-economic overlay.
- The management guided for gross credit costs of 1.75-1.85% in FY25. We model net credit costs of 185bp/170bp in FY25E/FY26E.

Highlights from the management commentary

- AUM growth guidance remains unchanged at 26-28% for FY25, but it will remain watchful of high delinquencies in certain segments.
- At the industry level, there has been some moderation in personal loans. ~35-40% of the total lending in the unsecured lending segment is from the PSU banks. BAF has lost some market share in the PL segment (which has declined ~30bp to ~6.7%).

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Valuation and view

- The management's guidance for FY25 is below its long-term guidance on several metrics, such as AUM growth, credit costs, RoA and RoE. BAF's key product segments (until now) have been the secular growth segments. However, its foray into multiple new products such as cars, tractors, CVs, and MFI, could (in future) make its growth vulnerable to cyclicalities despite having a well-diversified product mix.
- Despite a healthy PAT CAGR of ~24% over FY24-FY26E and RoA/RoE of 4.2%/22% in FY26E, we see limited upside catalysts. Consequently, we maintain **our Neutral rating on the stock with a TP of INR7,500 (premised on 4.2x FY26E BVPS).**

Quarterly Performance

Y/E March	(INR m)											
	FY24				FY25E				FY24	FY25E	1Q Act V/S	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			FY25E	Est
Interest Income	1,08,211	1,17,340	1,25,233	1,32,301	1,40,492	1,49,764	1,60,248	1,71,036	4,83,066	6,21,540	1,41,165	0
Interest expenses	41,025	45,371	48,680	52,171	56,839	61,215	65,806	69,781	1,87,247	2,53,641	56,710	0
Net Interest Income	67,186	71,970	76,553	80,130	83,653	88,549	94,441	1,01,255	2,95,819	3,67,899	84,455	-1
YoY Growth (%)	27.4	30.0	29.3	28.1	24.5	23.0	23.4	26.4	28.7	24.4	25.7	
Other Operating Income	16,795	16,477	16,436	17,019	20,531	19,501	19,891	19,562	66,759	79,486	17,740	16
Net Income	83,980	88,447	92,989	97,149	1,04,185	1,08,051	1,14,333	1,20,817	3,62,578	4,47,385	1,02,195	2
YoY Growth (%)	33.3	26.3	25.1	25.0	24.1	22.2	23.0	24.4	25.7	23.4	21.7	
Operating Expenses	28,544	30,100	31,567	33,028	34,709	36,306	38,303	40,373	1,23,252	1,49,691	34,680	0
Operating Profit	55,437	58,347	61,422	64,121	69,475	71,745	76,030	80,444	2,39,326	2,97,693	67,516	3
YoY Growth (%)	37.0	30.0	26.6	25.3	25.3	23.0	23.8	25.5	27.9	24.4	21.8	
Provisions and Cont.	9,953	10,771	12,484	13,100	16,847	17,371	17,543	17,797	46,307	69,558	14,252	18
Profit before Tax	45,512	47,578	48,955	51,051	52,654	54,374	58,486	62,664	1,93,036	2,28,153	53,264	-1
Tax Provisions	11,143	12,070	12,566	12,806	13,534	14,083	15,148	14,726	48,584	57,490	13,795	-2
Net Profit	34,369	35,508	36,390	38,245	39,120	40,291	43,338	47,938	1,44,452	1,70,662	39,469	-1
YoY Growth (%)	36.8	27.7	22.4	21.1	13.8	13.5	19.1	25.3	25.5	18.1	14.8	
Key Operating Parameters (%)												
Fees to Net Income Ratio	20.0	18.6	17.7	17.5	19.7				18.4	17.8		
Credit Cost	1.57	1.56	1.69	1.66	1.99				1.6	1.9		
Cost to Income Ratio	34.0	34.0	33.9	34.0	33.3				34.0	33.5		
Tax Rate	24.5	25.4	25.7	25.1	25.7				25.2	25.2		
Balance Sheet Parameters												
AUM (INR B)	2,701	2,903	3,110	3,306	3,542				3,306	3,542		
Change YoY (%)	42.3	32.9	34.7	33.6	39.7				33.6	39.7		
Loans (INR B)	2,653	2,857	3,064	3,263	3,497				3,263	3,497		
Change YoY (%)	44.1	34.3	35.9	34.7	40.6				34.7	40.6		
Borrowings (INR B)	2,352	2,544	2,639	2,895	3,048				2,895	3,048		
Change YoY (%)	47.8	38.8	31.1	34.4	39.9				34.4	39.9		
Loans/Borrowings (%)	112.8	112.3	116.1	112.7	114.7				112.7	114.7		
Asset Quality Parameters (%)												
GS 3 (INR B)	23.5	26.5	29.6	28.2	30.5				27.4	37.5		
Gross Stage 3 (% on Assets)	0.87	0.91	0.95	0.85	0.86				0.83	0.88		
NS 3 (INR B)	8.3	9.0	11.4	12.1	13.4				11.8	16.1		
Net Stage 3 (% on Assets)	0.31	0.31	0.37	0.37	0.38				0.36	0.38		
PCR (%)	77.4	66.0	61.7	57.0	-43.9				56.8	57.0		
Return Ratios (%)												
ROAA (Rep)	5.42	5.16	4.92	4.84	4.63				4.4	4.0		
ROAE (Rep)	24.47	24.1	21.95	20.48	19.86				22.0	20.2		

E: MOFSL Estimates



Highlights from the management commentary

Business Update - BAF

- Customer franchise stood at ~88m.
- CoF stood at ~7.95% in 1QFY25.
- Deposits grew by ~26% YoY to INR627b.
- Gross loan loss (as % of AUF) was 2.1% and net loan loss (as % of AUF) stood at ~2%. BAF utilized ~INR1.05b of management overlay during the quarter.
- GNPA/NNPA stable at ~85bp/40bp.
- 1QFY25 PAT grew by 14% YoY by ~INR39b.
- Other income increased due to the resumption of EMI card sourcing and a one-time gain from the write-off of INR450m.

Business Update - BHFL

- AUM grew 31% YoY to INR970b.
- HL grew 25% YoY and LAP grew by 21% YoY.
- GNPA/NNPA at 30bp/10bp.
- Annualized ROA and ROE stood at 2.35% and 14.3%, respectively.
- CRAR stood at 23.82% (Tier1: 23.26%)
- Filed DRHP for BHFL on 8th Jun'24.
- As per the principal business criteria of the RBI, ~60% of AUM has to be housing and ~50% should be individual home loans. Depending upon risk and return, the company decides the composition of LAP and LRD. Currently aggressive on LRD because of better risk-return profile.

Guidance

- Guided for RoA of ~4.5%-4.7%
- Guidance for AUM growth remains unchanged at 26-28% for FY25 but it will remain watchful of the higher delinquencies in certain product segments
- Guided for credit costs in the range of ~175-185bp with a slight upward bias.
- Expects CoB to peak by Aug'24.

Asset Quality

- Loan loss provisions are higher due to ECL provisions. Segment-wise credit quality remained healthy.
- Started to cut exposure in segments where the portfolio asset quality is deteriorating.
- In last one year, there has been no change in the write-off policy.
- Default rate across portfolio and bounce rate have not increased but collection efficiency declined, which resulted in Stage 2 assets inching up.
- Expects collection efficiency to improve from 2QFY25 onward.
- Bounce rate has not increased significantly. However, recovery is slower, which led to customer migration from stage 1 to stage 2.
- BAF has utilized all the management overlay which was created during Covid.

NIMs

- NIM compressed by ~23bp QoQ. Out of this, ~13bp was on account of a rise in CoF and ~10bp due to a change in AUM composition.

- Expects portfolio mix to stabilize in Oct'24, thus NIMs are expected to stabilize.

Car Loan Financing

- Started the business with focus on used car financing and now started focusing on new cars as well.
- ~65% of the portfolio is used cars financing and ~35% is new car financing. Expects to achieve mix of 55:45 between used and new cars in the medium term.
- Threshold level of delinquency is extremely low in car loan financing.

MSME Loans

- Captures the full MSME space through business loans, LAP etc.
- Does not pursue supply chain financing in MSME segment and only offers this product to emerging corporates.

B2B Businesses

- In the B2B businesses, it has maintained its market share, which has remained range-bound over the last four quarters.

Personal Loans

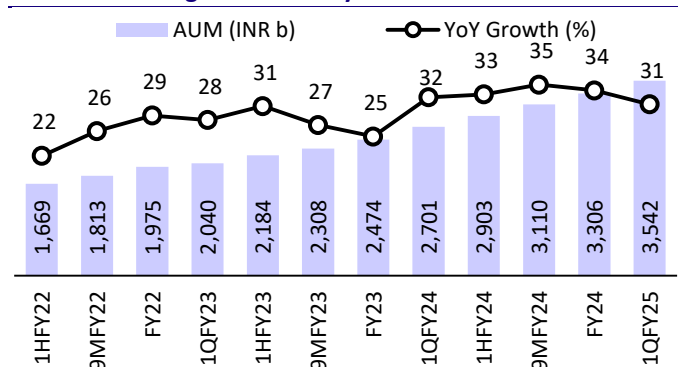
- At the industry level, there has been some moderation in personal loans.
- ~35-40% of the total lending in the unsecured lending segment is from the PSU banks.
- BAF has lost some market share in the PL segment (has declined ~30bp to 6.7%).

Others

- Resumed EMI card in May'24 and launched the ECOM card in Jun'24.
- The AUM growth rate is expected to decelerate for the industry.
- Before Covid, ~63% customers had no unsecured loan. 57% and 58% of customers had no unsecured loans as of Mar'23 and Mar'24, respectively.
- BAF has never capitalized penal income and its fee income had no impact from the RBI circular on penal income.
- Urban sales finance declined due to decline in e-com and should pick up again within the next 4-5 months.

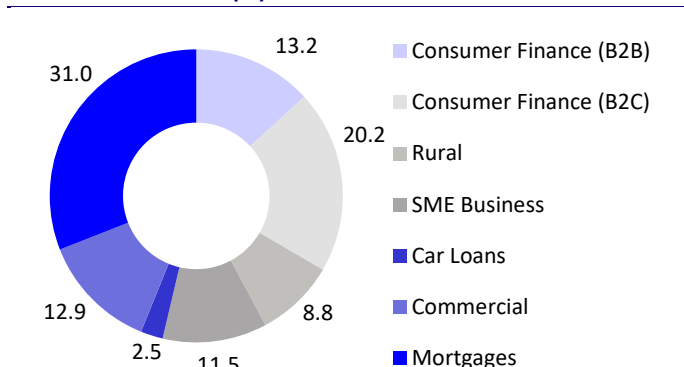
Story in charts

Exhibit 1: AUM growth healthy at 31% YoY



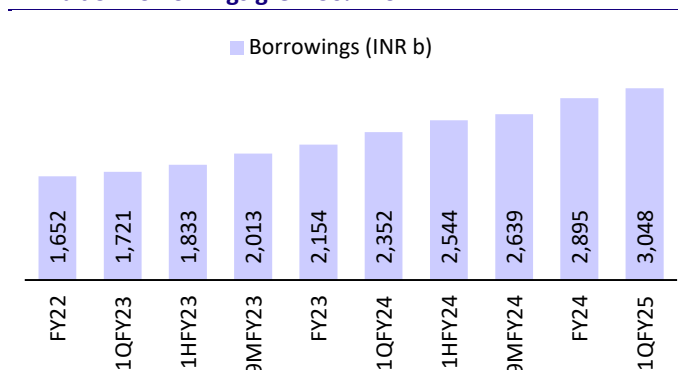
Source: MOFSL, Company

Exhibit 2: AUM mix (%)



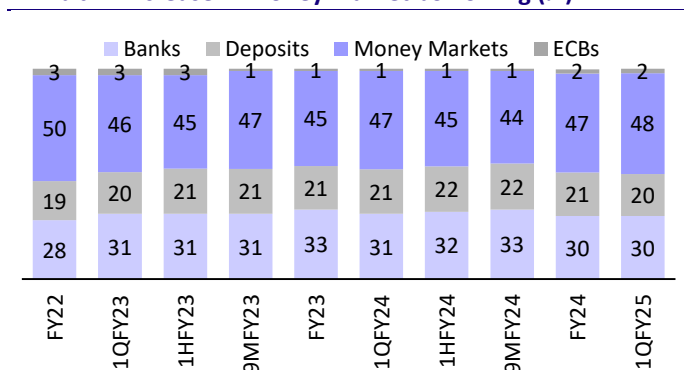
Source: MOFSL, Company; Note: Data as on 1QFY25

Exhibit 3: Borrowings grew 30% YoY



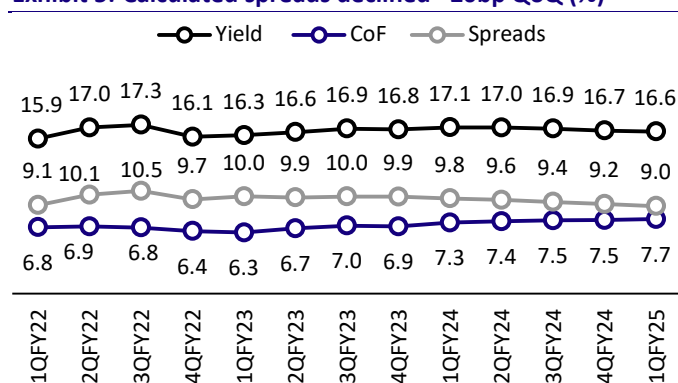
Source: MOFSL, Company

Exhibit 4: Increase in money market borrowing (%)



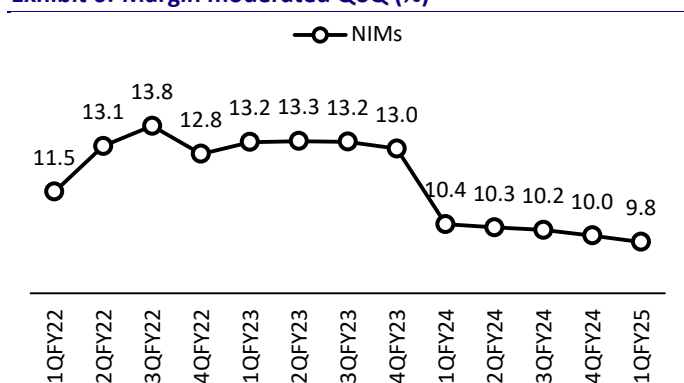
Source: MOFSL, Company

Exhibit 5: Calculated spreads declined ~20bp QoQ (%)



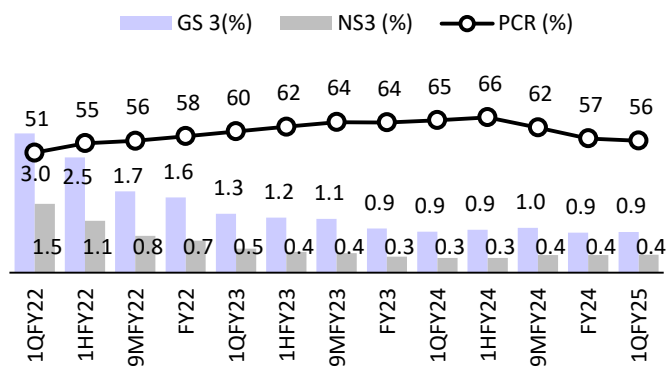
Source: MOFSL, Company

Exhibit 6: Margin moderated QoQ (%)



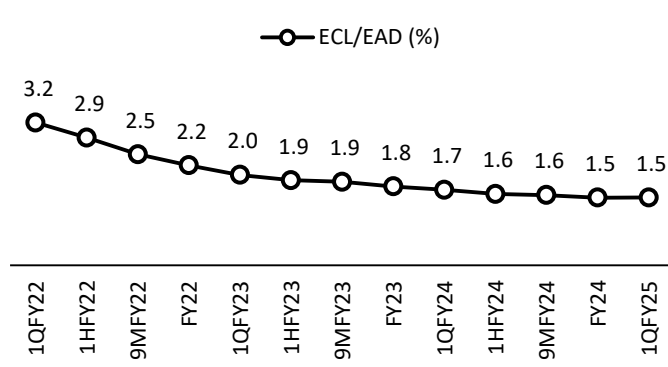
Source: MOFSL, Company

Exhibit 7: GS3 stable QoQ (%)



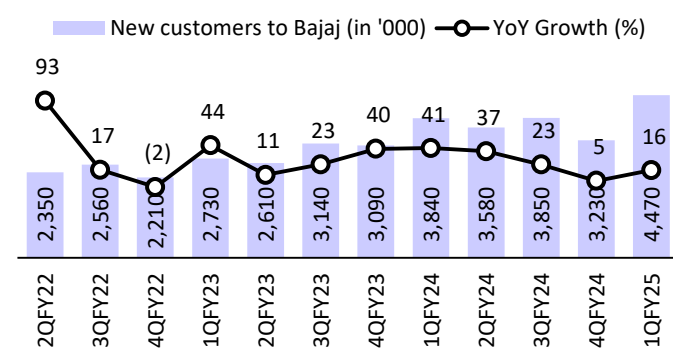
Source: MOFSL, Company;

Exhibit 8: Total ECL provisions stood at ~150bp of EAD



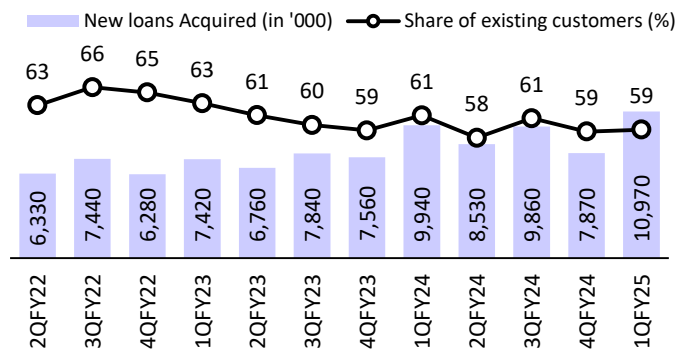
Source: MOFSL, Company

Exhibit 9: New customer additions grew ~16% YoY



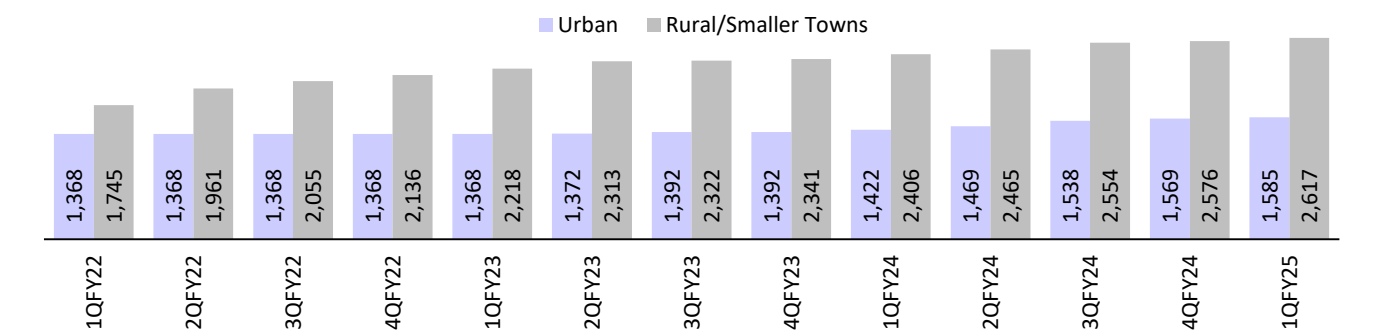
Source: MOFSL, Company

Exhibit 10: Share of existing customers in new loans booked stable at ~59%



Source: MOFSL, Company

Exhibit 11: Trend in branch expansion

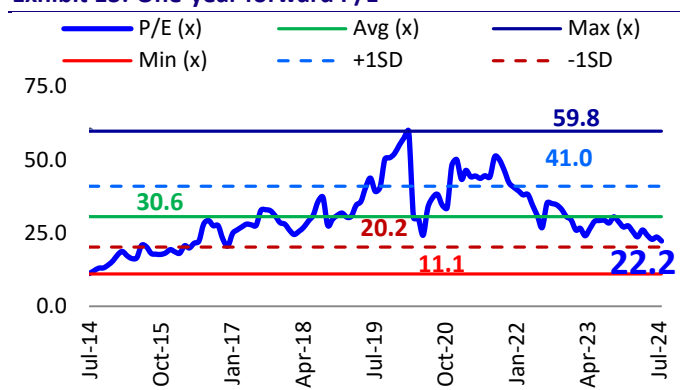


Source: MOFSL, Company

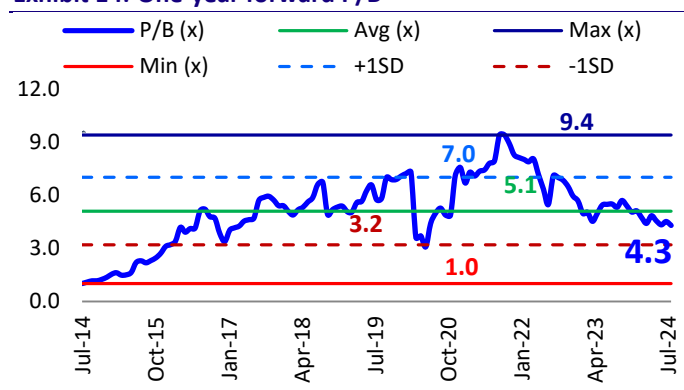
Exhibit 12: We cut our FY25E/FY26E EPS by 1%/3% to factor in higher credit costs

INR B	Old Est.		New Est.		% Change	
	FY25	FY26	FY25	FY26	FY25	FY26
NII	369.4	479.5	367.9	472.3	-0.4	-1.5
Other operating Income	72.9	82.4	79.3	89.8	8.8	8.9
Other Income	0.2	0.2	0.2	0.2	0.0	0.0
Total Income	442.4	562.2	447.4	562.4	1.1	0.0
Operating Expenses	149.7	182.4	149.7	182.4	0.0	0.0
Operating Profits	292.8	379.8	297.7	380.0	1.7	0.1
Provisions	62.2	72.2	69.6	82.5	11.8	14.3
PBT	230.5	307.6	228.1	297.5	-1.0	-3.3
Tax	58.1	77.5	57.5	75.0	-1.0	-3.3
PAT	172.4	230.1	170.6	222.5	-1.0	-3.3
Loans	4,225	5,345	4,225	5,345	0.0	0.0
Borrowings	3,706	4,656	3,706	4,656	0.0	0.0
RoA	4.1	4.4	4.0	4.2		
RoE	20.4	22.4	20.2	21.8		

Source: MOFSL, Company

Exhibit 13: One-year forward P/E

Source: MOFSL, Company

Exhibit 14: One-year forward P/B

Source: MOFSL, Company

Financials and valuations

Income Statement							INR m	
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	1,63,488	2,29,704	2,33,034	2,72,698	3,55,502	4,83,066	6,21,540	7,96,765
Interest Expended	66,236	94,732	94,140	97,482	1,25,599	1,87,247	2,53,641	3,24,425
Net Interest Income	97,252	1,34,972	1,38,894	1,75,215	2,29,903	2,95,819	3,67,899	4,72,340
Change (%)	39.5	38.8	2.9	26.2	31.2	28.7	24.4	28.4
Other Operating Income	21,384	34,034	33,647	43,627	58,472	66,629	79,317	89,814
Other Income	130	118	150	80	83	130	169	212
Net Income	1,18,766	1,69,124	1,72,691	2,18,922	2,88,458	3,62,578	4,47,385	5,62,365
Change (%)	45.9	42.4	2.1	26.8	31.8	25.7	23.4	25.7
Operating Expenses	41,961	56,608	53,082	75,850	1,01,300	1,23,252	1,49,691	1,82,352
Operating Profits	76,805	1,12,516	1,19,608	1,43,072	1,87,158	2,39,326	2,97,693	3,80,013
Change (%)	57.6	46.5	6.3	19.6	30.8	27.9	24.4	27.7
Provisions and W/Offs	15,014	39,295	59,686	48,034	31,897	46,307	69,558	82,515
PBT	61,792	73,221	59,923	95,038	1,55,279	1,93,019	2,28,136	2,97,498
Tax	21,842	20,584	15,724	24,756	40,202	48,584	57,490	74,969
Tax Rate (%)	35.3	28.1	26.2	26.0	25.9	25.2	25.2	25.2
PAT	39,950	52,638	44,198	70,282	1,15,077	1,44,435	1,70,646	2,22,528
Change (%)	60.0	31.8	-16.0	59.0	63.7	25.5	18.1	30.4
Proposed Dividend	4,320	7,254	6,026	6,036	18,540	22,248	25,258	29,196

Balance Sheet							INR m	
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	1,154	1,200	1,203	1,207	1,209	1,236	1,239	1,239
Reserves & Surplus (Ex OCI)	1,95,809	3,22,951	3,69,179	4,36,643	5,43,349	7,65,198	9,22,600	11,15,932
Net Worth	1,96,963	3,24,150	3,70,382	4,37,850	5,44,558	7,66,434	9,23,839	11,17,171
OCI	7	-874	-1,198	-723	-839	519	519	519
Net Worth (Including OCI)	1,96,970	3,23,276	3,69,184	4,37,127	5,43,720	7,66,954	9,24,358	11,17,690
Change (%)	24.3	64.1	14.2	18.4	24.4	41.1	20.5	20.9
Borrowings	10,15,879	12,98,064	13,16,335	16,52,549	21,67,399	29,34,052	37,05,762	46,55,718
Change (%)	52.6	27.8	1.4	25.5	31.2	35.4	26.3	25.6
Other liabilities	29,476	22,573	29,185	35,378	41,168	56,411	64,872	74,603
Total Liabilities	12,42,325	16,43,914	17,14,704	21,25,054	27,52,287	37,57,416	46,94,992	58,48,011
Investments	85,990	1,75,439	1,83,969	1,22,455	2,27,518	3,08,807	3,24,247	3,40,459
Change (%)	173.9	104.0	4.9	-33.4	85.8	35.7	5.0	5.0
Loans	11,37,115	14,27,989	14,66,869	19,14,233	24,22,689	32,62,933	42,25,498	53,45,256
Change (%)	42.1	25.6	2.7	30.5	26.6	34.7	29.5	26.5
Other assets	19,220	40,485	63,866	88,366	1,02,079	1,85,677	1,45,247	1,62,296
Total Assets	12,42,325	16,43,914	17,14,704	21,25,054	27,52,287	37,57,416	46,94,992	58,48,011

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Yield on Advances	16.9	17.9	16.1	16.1	16.4	17.0	16.6	16.7
Cost of borrowings	7.9	8.2	7.2	6.6	6.6	7.3	7.6	7.8
Interest Spread	9.0	9.7	8.9	9.6	9.8	9.7	9.0	8.9
Net Interest Margin	10.0	10.5	9.6	10.4	10.6	10.4	9.8	9.9
Profitability Ratios (%)								
Cost/Income	35.3	33.5	30.7	34.6	35.1	34.0	33.5	32.4
Empl. Cost/Op. Exps.	46.2	45.0	47.0	47.3	49.9	51.9	53.6	55.0
RoE	22.5	20.2	12.7	17.4	23.4	22.0	20.2	21.8
RoA	3.8	3.6	2.6	3.7	4.7	4.4	4.0	4.2
Asset Quality (%)								
GNPA (INR m)	18,035	23,626	27,304	31,331	23,125	27,373	37,545	66,706
NNPA (INR m)	7,271	9,373	11,354	13,144	8,361	11,816	16,144	26,683
GNPA %	1.6	1.6	1.8	1.6	0.9	0.8	0.9	1.2
NNPA %	0.6	0.7	0.8	0.7	0.3	0.4	0.4	0.5
PCR %	59.7	60.3	58.4	58.0	63.8	56.8	57.0	60.0
Total Provisions/loans %	2.1	2.9	3.0	2.6	2.0	1.8	1.7	2.0
Capitalisation (%)								
CAR	20.7	25.0	28.3	27.2	25.0	22.8	21.7	21.5
Tier I	16.3	21.3	25.1	24.8	23.2	21.6	20.8	20.8
Tier II	4.4	3.7	3.2	2.5	1.8	1.2	0.9	0.7
Average Leverage on Assets (x)	5.9	5.5	4.8	4.8	5.0	5.0	5.0	5.2
Valuation								
Book Value (INR)	341	540	616	726	901	1,240	1,491	1,803
Price-BV (x)	19.7	12.5	10.9	9.3	7.5	5.4	4.5	3.7
Adjusted BV (INR)	333	529	602	711	891	1,227	1,473	1,773
Price-ABV (x)	20.2	12.7	11.2	9.5	7.6	5.5	4.6	3.8
EPS (INR)	69	88	73	116	190	234	275	359
EPS Growth (%)	59.6	26.7	-16.3	58.6	63.4	22.8	17.9	30.4
Price-Earnings (x)	97.2	76.7	91.6	57.8	35.4	28.8	24.4	18.7
OPS (INR)	133	188	199	237	310	387	481	613
OPS Growth (%)	57.1	40.9	6.0	19.3	30.6	25.1	24.1	27.7
Price-OP (x)	50.6	35.9	33.9	28.4	21.7	17.4	14.0	11.0
Dividend per Share (INR)	6.0	10.0	10.0	20.0	30.0	36.0	40.9	47.2
Dividend Yield (%)	0.1	0.1	0.1	0.3	0.4	0.5	0.6	0.7
E: MOFSL Estimates								

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NOTES

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