



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

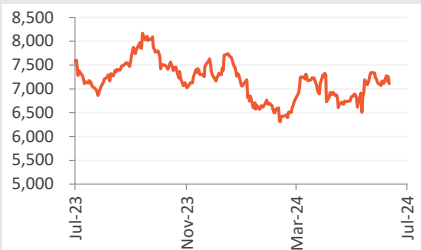
Company details

Market cap:	Rs. 4,09,162 cr
52-week high/low:	Rs. 8,190/6190
NSE volume: (No of shares)	13.0 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	27.85 cr

Shareholding (%)

Promoters	54.7
FII	21.8
DII	14.2
Others	9.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.7	-9.8	-6.3	-12.8
Relative to Sensex	-10.3	-18.3	-19.1	-33.5

Sharekhan Research, Bloomberg

Bajaj Finance Ltd
Mixed Q1

NBFC

Sharekhan code: BAJFINANCE

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 6,610

Price Target: Rs. 8,300



Downgrade

Summary

- BAF reported a mixed performance in Q1FY2025. Higher-than-expected NIM compression (down 25bps q-o-q) and elevated credit cost (1.9%, up 32bps q-o-q) led to lower earnings growth, partially offset by strong AUM growth and contained opex growth.
- Credit cost has been higher primarily due to muted collection efficiencies, and it may remain at current levels in Q2 also but should start to normalise from Q3.
- NIM is likely to bottom out in H1FY2025. Growth guidance remains intact, which is a key positive.
- We retain our BUY rating with a reduced PT of Rs. 8,300, with reducing P/B multiple. At the CMP, the stock trades at 4.9x/4.1x its FY2025E/FY2026E BV estimates.

For Q1FY2025, Bajaj Finance (BAF) reported a mixed performance on the earnings front due to higher credit cost and increased compression in NIM despite strong AUM growth. Net interest income (NII) grew 24.5% y-o-y/4.4% q-o-q (below our estimate of 1.6%). NIM (calculated as a percentage of average AUM) declined by 25bps q-o-q at 9.45%. Increased cost of funds and change in portfolio composition towards secured class led to NIM compression. Management expects continued NIM compression in Q2FY2025 and then sees improvement in earnings. Fee and other income grew by 22.2% y-o-y/20.7% q-o-q, driven by higher fee income, additions by Insta EMI and E-Com loans, and other operating income. Total operating expenses increased 21.6% y-o-y/5.1% q-o-q. Opex to NII is expected to come down due to improving digital infrastructure. Provisions stood at Rs. 1,685 crore, up 69.3% y-o-y and 28.6% q-o-q. Management overlay stands at Rs. 105 crore. Credit cost stood at 1.9%, higher by 43 bps y-o-y and 32 bps q-o-q on account of muted collection efficiency. Credit cost is expected to be 175-185 bps in FY25. PBT grew by 15.6% y-o-y/ 3.1% q-o-q. PAT grew by 13.8% y-o-y/ 2.3% q-o-q. Loan portfolio grew by 31% y-o-y to Rs. 354,192 crore; however, it was slightly lower on a sequential basis due to the continued ban on Insta EMI loans and E-com loans by the Reserve Bank of India (RBI). Although the ban has been lifted and the company began loan disbursement for both the products (Insta EMI loans from May 10, 2024, and E-Com loans from June 1, 2024). Overall, the company's portfolio performed well, except rural B2C, which grew by 5%. Asset quality was stable, as gross NPA came in at 0.86% as of June 30, 2024, from 0.85% as of March 31, 2024. To improve the credit cost and maintain stable asset quality, the company is augmenting its debt management infrastructure and remains watchful across its portfolio and proactively pruning segments.

Key positives

- AUM growth stood at 31% y-o-y to Rs. 354,149 crore, lifted ban from Insta EMI cards and E-com loans.
- Fee and other income grew by 22.2% y-o-y and 20.7% q-o-q, adding fees by Insta EMI cards and E-Com loans.

Key negatives

- Lower NIM at 9.45% dropped by 25 bps q-o-q, partially due to increased borrowing costs.
- Higher credit cost at 1.90%, up 43 bps y-o-y and 32 bps q-o-q due to muted collection efficiency.

Management Commentary

- Management has guided for 26-28% AUM growth for FY2025, led by mortgages, commercial, SME, cars, LAP, and tractors. Rural B2C (segment) grew by 5% y-o-y, it is expected to report 10-11% growth in FY2025.
- NIM declined by 25 bps q-o-q to 9.45%. Management expects continued pressure on NIM in Q2FY2025. Although pressure would ease in H2FY2025 due to improved earnings.
- Credit cost was higher due to muted collection efficiency. The company is augmenting its debt management infrastructure as a mitigation measure and remains watchful across the portfolios, hence ease on credit cost in H2FY2025. Overall, credit cost is expected to be 175-185 bps for FY2025.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 8,300: At the CMP, the stock trades at 4.9x/4.1x its FY2025E/FY2026E BV. We believe the company is poised to deliver sector-leading growth and return ratios despite normalisation of business matrices in FY2025. We are confident on strong sustainable earnings growth and longevity of the franchise; thus, we remain constructive on BAF from a medium to long-term perspective.

Key Risks

Intensifying competition in the retail lending space; asset-quality risk in the retail unsecured segment; higher delinquency in new segments; and regulatory headwinds.

Valuation

	Rs cr				
Particulars	FY22	FY23	FY24	FY25E	FY26E
NII	17,524	22,989	29,582	36,357	45,977
PAT	7,028	11,508	14,451	18,095	22,534
EPS (Rs.)	115.8	189.6	236	294.4	366.6
RoA (%)	4.2	5.3	5.1	4.5	4.5
RoE (%)	17.4	23.5	22.1	22.3	22.9
P/E (x)	56.9	34.7	27.9	22.4	18.0
P/BV (x)	9.1	7.3	5.4	4.9	4.1

Source: Company; Sharekhan estimates

Key result highlights

NIM outlook negative in the near term, improves in FY2025: NII grew 24.5% y-o-y/4.4% q-o-q. NIM (calculated as a percentage of average AUM) declined by 25 bps q-o-q to 9.45%. Shifting product mix towards secured assets along with increased COF is resulting in NIM compression. Management expects continued pressure on NIM in Q2FY2025. However, pressure is expected to moderate as earnings improve in H2FY2025.

Credit cost outlook: Credit cost stood at 1.9% (calculated as a percentage of AUM), higher by 43 bps y-o-y and 32 bps q-o-q on account of muted collection efficiency and build-up of stress in the unsecured segment. Faster growth in the secured segment may partially offset the credit cost and is expected to be at 175-185 bps in FY2025.

Opex ratio to moderate: Most of the investments in technology and platforms have been already committed; thus, opex to net total Income is expected to improve by 20-40 bps from current levels.

Asset quality: Overall asset quality remains healthy, except in the case of unsecured segments such as rural B2C, SME, and sales finance. GNPA and NNPA are expected to remain lower than the long-term guidance in FY2025.

Loan growth outlook: Strong AUM growth is likely to be sustained, led by diverse product offerings, customer acquisition, and the ability to cross-sell. Management has guided for 26-28% AUM growth for FY2025, led by mortgages, commercial, SME, cars, LAP, and tractors. We believe BAF is expected to beat its guidance, led by faster growth in secured segments. The company's customer franchise expanded to 88.1 million (up 21% y-o-y) in Q1FY2025. New loans booked in Q1FY2025 grew by 10% to 10.97 million. The company resumed sanction and disbursal of loans under 'eCOM' and 'Insta EMI Card' and issuance of EMI cards after the RBI removed restrictions on these businesses on May 2, 2024.

Results (consolidated)				Rs cr	
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Interest Income	8365	6719	24.5	8013	4.4
Other income	2053	1679	22.2	1701	20.7
Net Income	10418	8398	24.1	9714	7.3
Opex	3471	2854	21.6	3302	5.1
Pre-Provisioning Profit (PPoP)	6948	5544	25.3	6412	8.4
Provisions	1685	995	69.3	1310	28.6
PBT	5263	4551	15.6	5105	3.1
Tax Ex.	1353	1114	21	1280	6
PAT	3912	3437	13.8	3825	2.3

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Large opportunity pool

NBFCs have become important constituents of India's financial sector and have been recording higher credit growth than scheduled commercial banks (SCBs) over the past few years. They continue to leverage their superior understanding of regional dynamics and customised products and services to expedite financial inclusion. Lower transaction costs, innovative products, quick decision-making, customer orientation, and prompt service standards have typically differentiated NBFCs from banks. Considering the reach and expanse of NBFCs, these are well-suited to bridge the financing gap in a large country like India. Systemically important NBFCs have demonstrated agility, innovation, and frugality to provide formal financial services to millions of Indians.

■ Company outlook - An attractive franchise

BAF continues to derive benefits from a diverse loan portfolio, a wide distribution network, effective execution, and a strong management team. BAF has significantly strengthened its technology, digital platforms, and product offerings. We believe business transformation is expected to enhance growth sustainability, improve the scalability of business, and would give a competitive advantage against peers. BAF is expected to sustain a healthy RoE trajectory despite normalisation of business matrices in FY2025. We are confident on strong sustainable earnings growth and longevity of the franchise.

■ Valuation - Maintain BUY with a revised PT of Rs. 8,300

At the CMP, the stock trades at 4.9x/4.1x its FY2025E/FY2026 BV. We believe the company is poised to deliver sector-leading growth and return ratios despite normalisation of business matrices in FY2025. We are confident on strong sustainable earnings growth and longevity of the franchise and thus we remain constructive on BAF from a medium to long-term perspective.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bajaj Finance	6,610	409,120	22.4	18.0	4.9	4.1	4.5	4.5	22.3	22.9
Cholamandalam Investment and Finance Company	1,394	117,112	24.1	19.2	4.7	3.8	2.9	2.9	22.4	22.6

Source: Company; Sharekhan Research

About company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two-wheelers, consumer durables, housing, SME and MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business loans and consumer financing as its key niches. BAF has an AUM of Rs. 3.3 trillion at the end FY24, serves more than 83.6 million clients, and offers a wide range of lending services to retail, SME, and commercial customers across urban and rural India. BAF continues to be the largest consumer durables lenders in India. As a business entity, BAF continues to deliver steady performance and superior asset-quality performance.

Investment theme

BAF enjoys a dominant position in the retail finance space. BAF's dominance in the market is seen in its consistent growth and steady operational performance that has been maintained by the company across cycles. Superior asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability and collections.

Key Risks

Intensifying competition in the retail lending space could weigh on the company's performance. NPA risk in retail unsecured segment, higher delinquency in new segments, and economic slowdown risk, which can impact growth and asset quality and regulatory headwinds related to upper layer NBFCs.

Additional Data

Key management personnel

Mr. Rajeev Jain	Managing Director
Mr. Anup Saha	Deputy MD
Mr. Sandeep Jain	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Finserv Ltd.	51.34
2	Republic of Singapore	3.31
3	Maharashtra Scooters Ltd.	3.07
4	SBI Funds Management Ltd.	2.76
5	Life Insurance Corp of India	1.93
6	BlackRock Inc.	1.73
7	Vanguard Group Inc.	1.64
8	Axis Asset Management Co. Ltd./India	1.39
9	UTI Asset Management Co. Ltd.	1.06
10	FMR LLC	1.00

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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