



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	✗	↔	✗

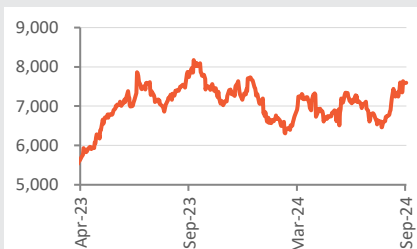
Company details

Market cap:	Rs. 4,72,731 cr
52-week high/low:	Rs. 8,190 / 6,190
NSE volume: (No of shares)	12.5 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	27.5 cr

Shareholding (%)

Promoters	54.7
FII	21.1
DII	14.2
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	8.7	9.0	-3.7
Relative to Sensex	7.1	-1.1	-8.2	-32.3

Sharekhan Research, Bloomberg

Bajaj Finance Ltd

Better times ahead; Maintain Buy

NBFC	Sharekhan code: BAJFINANCE		
Reco/View: Buy	↔	CMP: Rs. 7,624	Price Target: Rs. 9,940
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate a Buy rating with a revised SOTP of Rs. 9,940 (valuing stock at 4.9x/ 4.0x of FY26/FY27 BV estimates on standalone basis plus considering Bajaj Housing Finance's valuation). Stock trades at 4.1x/3.4x/2.8x FY2025E/FY2026E/FY2027E BV (standalone) estimates.
- Moderation in credit costs and stable NIMs would support earnings growth from H2FY25 onwards, however Q2 would see higher credit cost and continued pressure on margins.
- Management is guiding for a 26-28% AUM growth in FY2025. Tightening of credit filters in unsecured segment will result in slower growth in unsecured but would be offset by faster growth in secured segment.
- Bajaj Finance is consistently outpacing industry growth while maintaining sector leading profitability metrics across cycles drives our positive view. We believe underperformance could reverse led by receding headwinds from H2FY25.

We believe an improving outlook is likely to bode well for Bajaj Finance as headwinds recede in terms of margin and credit cost from H2FY25. Healthy 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 in FY2025. BAF's earnings growth in Q1FY25 was soft due to lower margins and a rise in credit costs. Q2 would also see pressure on NIMs and higher credit cost would be absorbed however, these trends would start to improve from H2FY2025 onwards, as it is witnessing improvement in bounce rates and stability in margins led by lower interest rate regimes (taking assumption of first rate cut by RBI in December 2024).

- AUM growth to remain healthy:** Management is guiding for 26-28% AUM growth for FY2025. Tightening of credit filters in the unsecured segment will result in lower growth in the unsecured segment but would be offset by faster growth in the secured segment. Strong underlying demand, diversified product offerings, strong customer acquisition rate and ability to cross-sell are likely to support sustained healthy growth. Repo rate cuts by the RBI can also surprisingly add to the volume growth which can drive higher than expected AUM growth, thus upside risks for AUM growth persists
- NIMs to stabilise/ improve:** From H2FY25 onwards, a decline in cost of funds led by lower interest rate cycle is expected to support NIMs given ~48% borrowings are from banks (largely linked to external benchmarks) as liabilities are expected to get repriced downwards faster than assets. This is based on the assumption that first rate cut by RBI happens in Dec 2024).
- Credit cost to moderate:** Company is witnessing an improvement in bounce rates after the muted collection efficiency witnessed in Q1 due to elections, heatwaves etc. Thus, moderation in credit cost is expected in H2FY2025 led by higher collection efficiency.

Our Call

Valuation – Maintain Buy with a revised SOTP of Rs. 9,940: We reiterate a Buy on Bajaj Finance with a revised SOTP of Rs. 9,940 (valuing the stock at 4.9x/4.0x of FY26/FY27 BV estimates on standalone basis and also considering Bajaj Housing Finance's (BHF's) valuation). The stock trades at 4.1x/3.4x/2.8x FY2025E/FY2026E/FY2027E BV (standalone). BHF contributes ~18% to the total SOTP. The stock has continuously underperformed the market in the last 3 years. It has delivered 0% returns, while Nifty has delivered 50% returns in absolute terms over the last 3 years. We believe this underperformance could reverse as headwinds recede from H2FY25 onwards. We are confident on strong sustainable earnings growth and longevity of the franchise. Consistently outpacing the industry growth while maintaining sector leading profitability metrics across cycles drives our positive view and thus, we remain constructive on the stock.

Key Risks

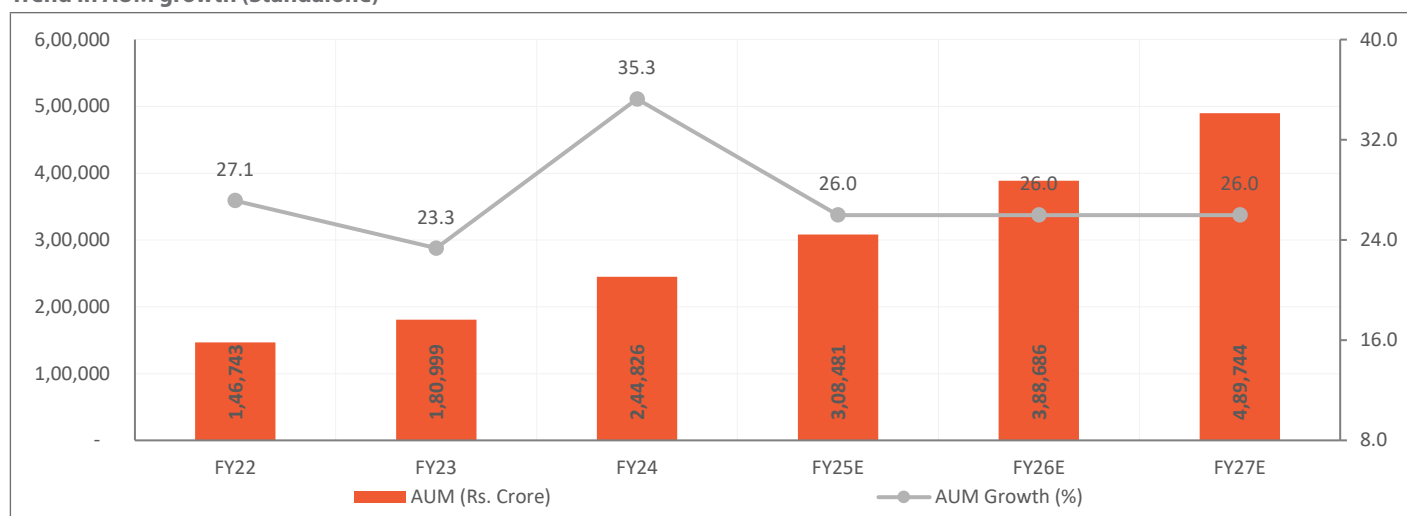
Intensifying competition in retail lending space could weigh on BAF's performance; NPA risk in retail unsecured segment, higher delinquency in new segments; Economic slowdown risk, which can impact growth and assets quality; Regulatory headwinds.

Valuation (Standalone)

	Rs cr					
Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	16,157	20,857	26,939	34,200	42,771	53,406
PAT	6,350	10,290	12,644	16,108	19,886	24,607
EPS (Rs.)	105	170	206	263	325	402
P/E (x)	55	34	28	22	18	14
P/BV (x)	8.3	6.8	4.9	4.1	3.4	2.8
RoA	4.1	5.4	4.9	4.9	4.8	4.8
RoE	16.3	22.0	20.5	20.4	21.1	21.7

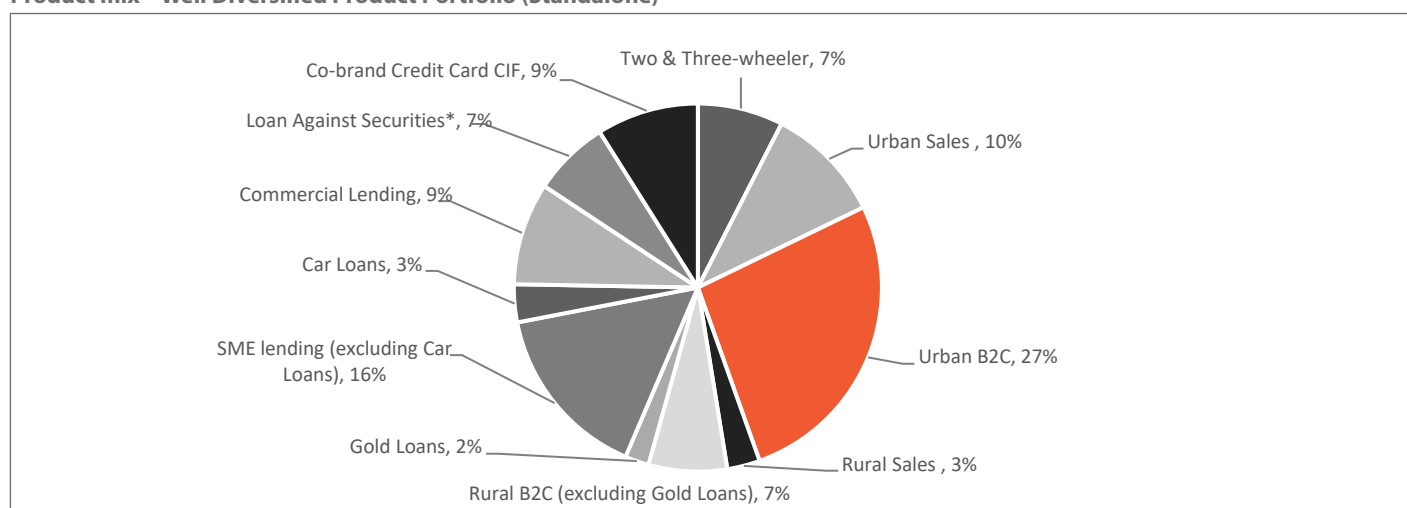
Source: Company; Sharekhan estimates

Trend in AUM growth (Standalone)



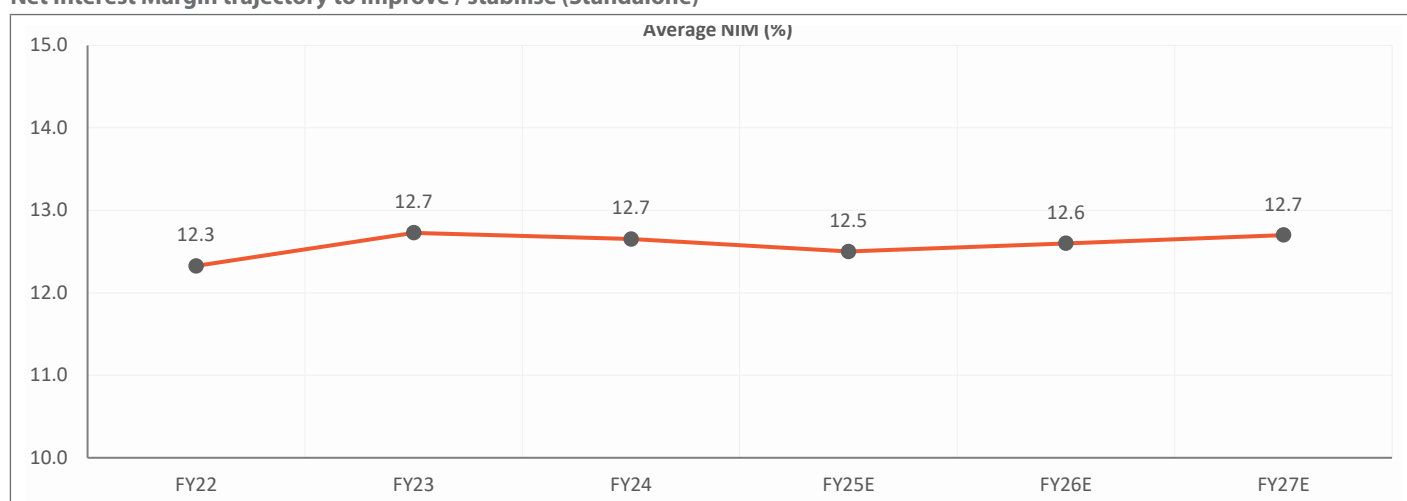
Source: Company Filings; Sharekhan Ltd.

Product mix – Well Diversified Product Portfolio (Standalone)



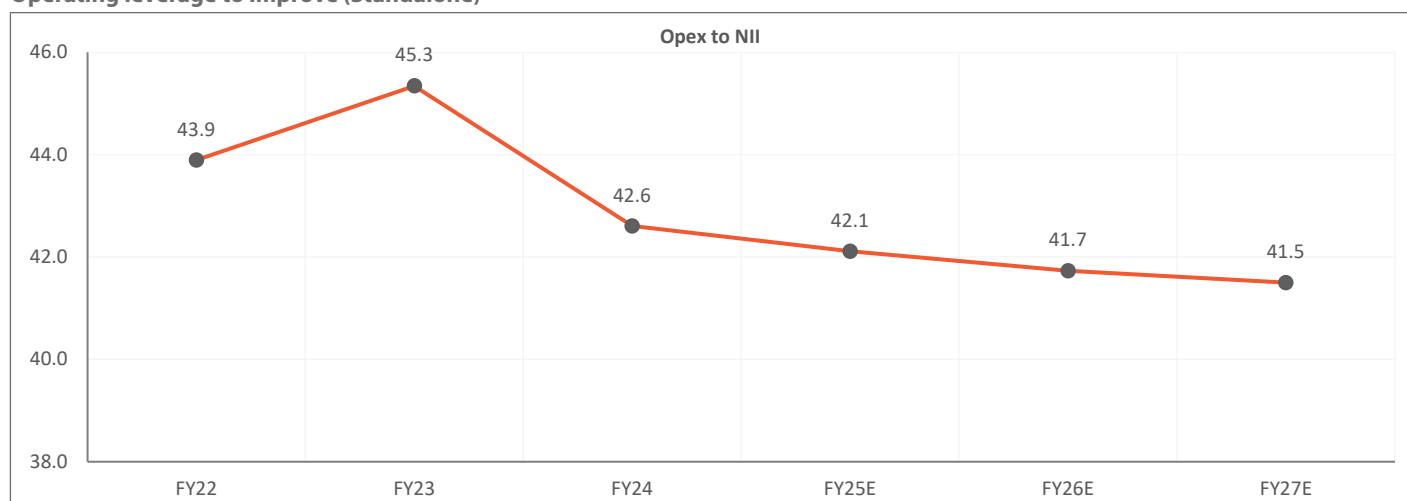
Source: Company Filings; Sharekhan Ltd.

Net Interest Margin trajectory to improve / stabilise (Standalone)



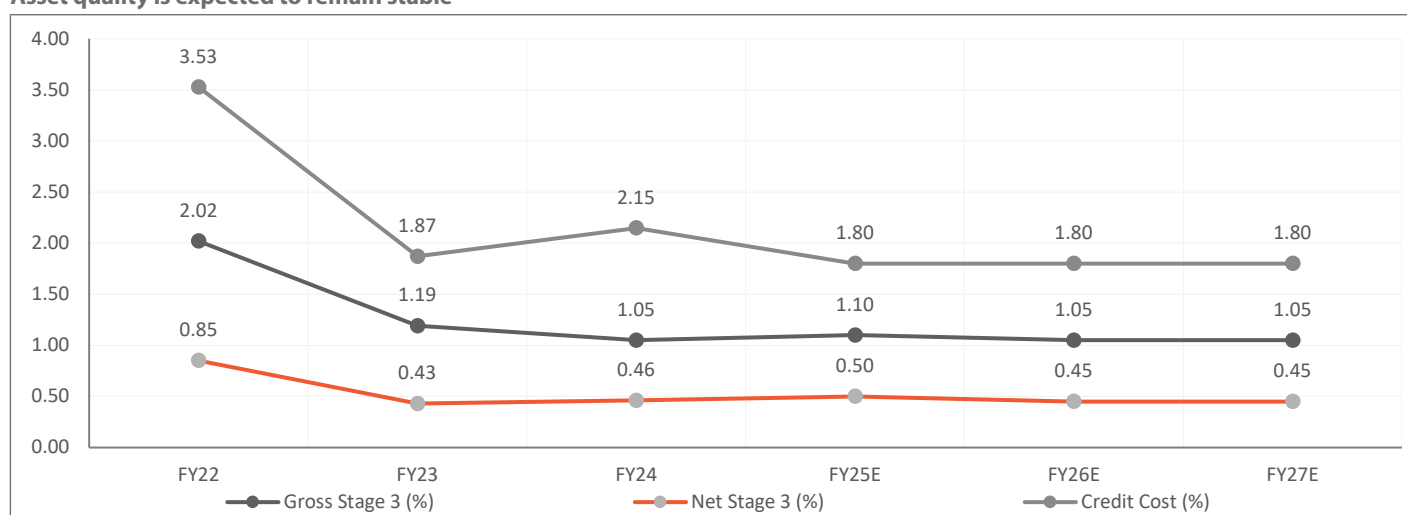
Source: Company Filings; Sharekhan Ltd.

Operating leverage to improve (Standalone)



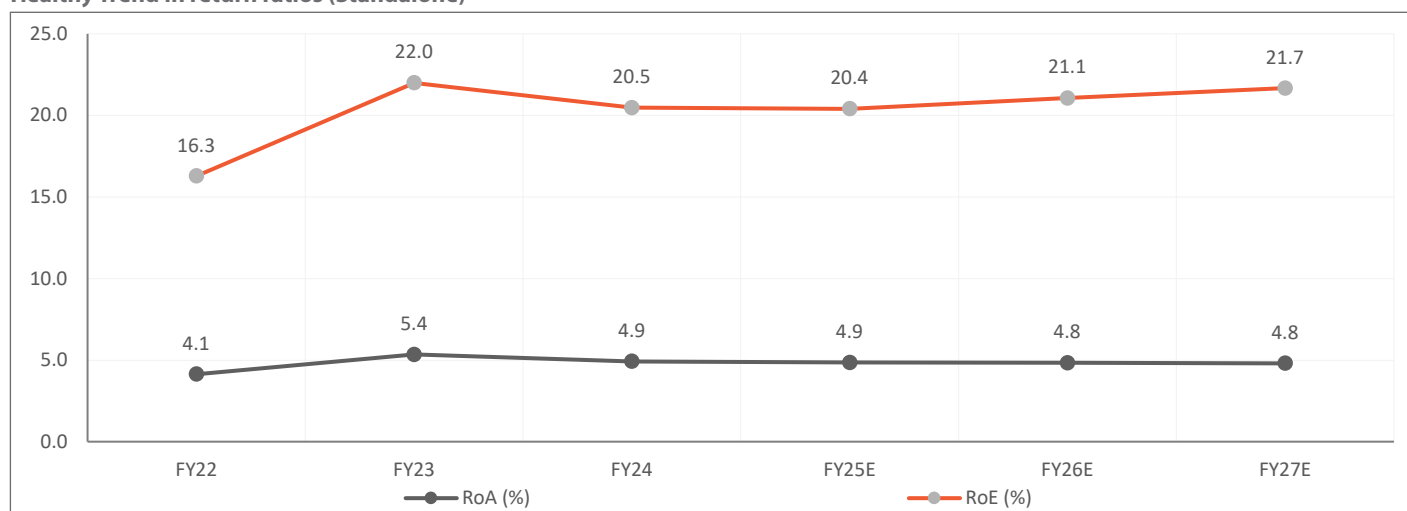
Source: Sharekhan Research

Asset quality is expected to remain stable



Source: Company Filings; Sharekhan Ltd.

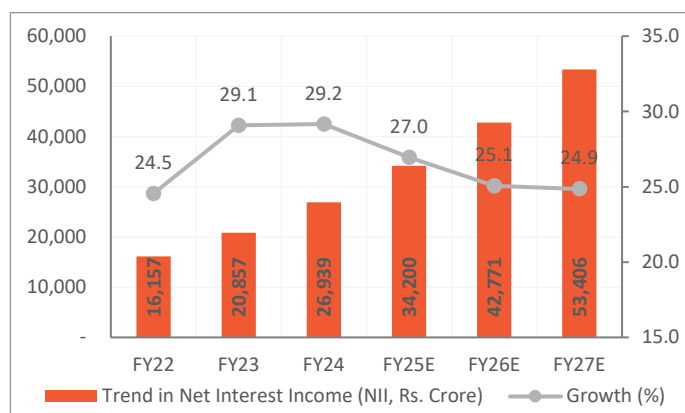
Healthy Trend in return ratios (Standalone)



Source: Company Filings; Sharekhan Ltd.

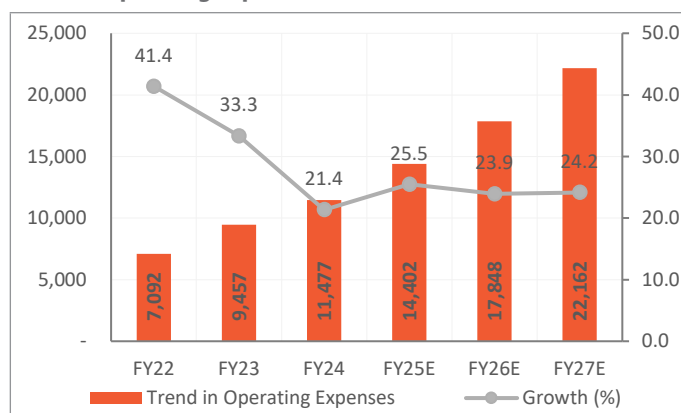
Financials in charts

Trend in Net Interest Income (NII, Rs. Crore)



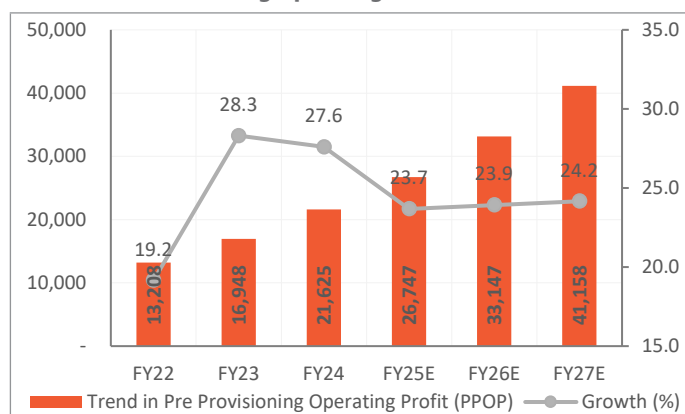
Source: Company, Sharekhan Research

Trend in Operating Expenses



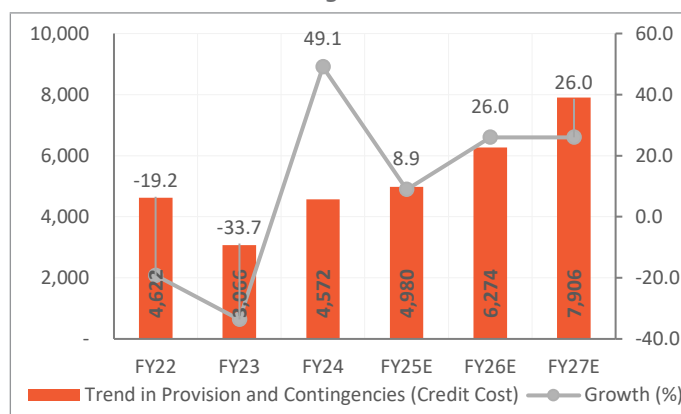
Source: Company, Sharekhan Research

Trend in Pre Provisioning Operating Profit (PPOP)



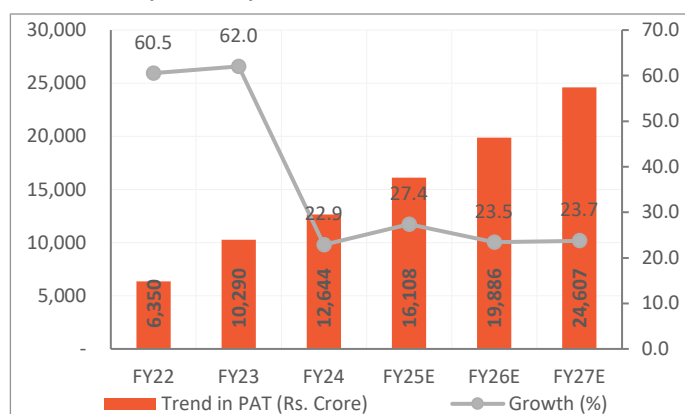
Source: Company, Sharekhan Research

Trend in Provision and Contingencies (Credit Cost)



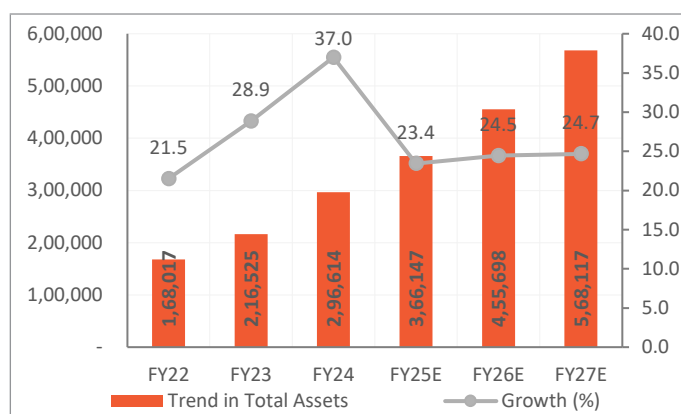
Source: Company, Sharekhan Research

Trend in PAT (Rs. Crore)



Source: Company, Sharekhan Research

Trend in Total Assets



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – 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, wide distribution network, effective execution and a strong management team. BAF has significantly strengthened its technology, digital platforms, and product offering. We believe business transformation is expected to enhance growth sustainability, improve the scalability of business, and would give competitive advantage against peers. BAF is expected to sustain a healthy RoE trajectory despite normalisation of business matrices in FY25. We are confident on strong sustainable earnings growth and longevity of the franchise.

■ **Valuation** – We reiterate a Buy on Bajaj Finance with a revised SOTP of Rs. 9,940 (valuing the stock at 4.9x/4.0x of FY26/FY27 BV estimates on standalone basis and also considering Bajaj Housing Finance's (BHF's) valuation). The stock trades at 4.1x/3.4x/2.8x FY2025E/FY2026E/FY2027E BV (standalone). BHF contributes ~18% to the total SOTP. The stock has continuously underperformed the market in the last 3 years. It has delivered 0% returns, while Nifty has delivered 50% returns in absolute terms over the last 3 years. We believe this underperformance could reverse as headwinds recede from H2FY25 onwards. We are confident on strong sustainable earnings growth and longevity of the franchise. Consistently outpacing the industry growth while maintaining sector leading profitability metrics across cycles drives our positive view and thus, we remain constructive on the stock.

Valuation

Bajaj Finance Ltd (BAF) SOTP based Valuation				
1. BAF Standalone Valuation	FY24	FY25E	FY26E	FY27E
Book Value per Share (Rs. - BPS)	1,180	1,407	1,688	2,034
Multiple (x)			4.9	4.0
A. Value of BAF (Standalone)				Rs. 8,200
Bajaj Housing Finance (BHF) Valuation	FY24	FY25	FY26	FY27
Net worth (Rs. Crore)	18,280	21,570	25,453	30,035
Growth (%)		18%	18%	18%
Multiple (x)				5.0x
Total Value of BHF				1,50,173
Stake of BAF				88.75%
Holding company discount (20%)				20%
Value Post Discount (Rs. Crore)				1,06,623
Number of Shares Bajaj Finance Ltd (Crore)				61.2
B. Value Per Share				Rs. 1,740
Target Price (A+B)				Rs. 9,940
Potential Upside (%)				30.4%

Source: Company Filing and Sharekhan Research Estimates

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bajaj Finance	7,531.0	4,66,890.0	22.0x	18.0x	4.1x	3.4x	20.4	21.1	4.9	4.8
Cholamandalam	1,615.0	1,36,178.0	29.0x	22.0x	5.6x	4.5x	21.4	22.6	2.6	2.7

Source: Company, Sharekhan estimates

About company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, SME & 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 3.3tn at 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 retail lending space could weigh on company performance. NPA risk in retail unsecured segment, higher delinquency in new segments, economic slowdown risk which can impact growth and assets quality, regulatory headwinds related to upper layer NBFC.

Additional Data

Key management personnel

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

Source: Company Website

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	2.67
5	Life Insurance Corp of India	1.93
6	BlackRock Inc	1.67
7	Vanguard Group Inc/The	1.64
8	Axis Asset Management Co Ltd/India	1.27
9	UTI Asset Management Co Ltd	1.06
10	FMR LLC	1.02

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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