

22 October 2024

Bajaj Finance

Elevated credit cost, outlook brighter; maintaining a Buy

Healthy, 29% y/y, AUM growth, was offset by high, Rs19.1bn, provisions leading to Bajaj Finance's muted 13% y/y consol PAT growth. Despite premium valuations, we retain a Buy, on the best-in-class execution skill, robust customer franchisees and strong tech architecture. We lower estimates on higher credit-cost assumptions. At our higher TP, the stock would trade at 4.4x FY26e consol BV (4.6x earlier).

AUM growth moderates a tad. Driven by the broadening product portfolio and deeper penetration, the company's assets under management rose a healthy 29% y/y, 5.6% q/q. The number of new loans booked grew 13.6% y/y, as the embargo was lifted. Management says the rural B2C business has now stabilised and is poised for growth next year. A widening product base, strong online presence and deepening penetration in rural markets are likely to aid a 25% loan CAGR over FY24-27.

NIM stable, better productivity. Calculated NIM on AUM slid 18bps q/q. We build in softer NIM over the next couple of quarters on tighter liquidity and the product-mix change. At 33.3%, cost-income has improved 79bps y/y, as the operating leverage pans out on account of technology improvement.

Higher credit cost likely to persist. The 2.2% credit cost was higher than expected on more flow throughs in delinquencies. Management expects this credit cost to continue in the current year, with expected improvement in the fourth quarter. We build in a higher, 1.9%, credit cost over FY25/26.

Valuation. At our 12-mth higher TP, the stock would trade at 4.4x FY26e consol BV and 23x FY26e EPS. It has traded at higher valuations in the past.

Risks: Key-man risk, regulatory changes.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income (Rs m)	2,73,314	3,48,487	4,33,513	5,41,622	6,75,884
PPoP (Rs m)	1,87,176	2,39,326	2,97,192	3,72,380	4,65,809
Provisions (Rs m)	31,897	46,307	76,321	88,921	1,05,921
PAT (Rs m)	1,15,078	1,44,511	1,63,003	2,09,193	2,65,597
EPS (Rs.)	190	234	263	336	426
NIM (%)	11.5	10.9	10.4	10.3	10.4
Cost-to-income	35.1	34.0	33.8	33.3	32.9
RoE (%)	23.5	22.0	19.4	20.7	21.6
RoA (%)	4.7	4.4	3.8	3.9	4.0
AUM growth (%)	25.3	29.9	26.5	25.9	26.0
GNPA (%)	1.5	1.4	1.4	1.4	1.5
CRAR	26.6	26.0	24.0	23.2	23.0
P/E (x)	34.8	28.3	25.2	19.7	15.5
P/BV (x)	7.4	5.3	4.5	3.7	3.0
P/ABV (x)	7.5	5.4	4.6	3.8	3.1

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.7,905

Share Price: Rs.6,677

Key data	BAF IN / BJFN.BO
52-week high / low	Rs.7,885 / 6,188
Sensex / Nifty	80,221 / 24,472
3-m average volume	\$106m
Market cap	Rs.4,134bn / \$49,164.9m
Shares outstanding	619m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	54.7	54.7	54.7
- of which, Pledged			
Free float	45.3	45.3	45.3
- Foreign institutions	20.8	21.1	20.6
- Domestic institutions	15.1	14.3	14.4
- Public	9.4	9.9	10.4

Estimates revision (%)	FY25e	FY26e
NII	(0.4)	(0.8)
PPOP	(0.6)	(1.1)
PAT	(5.0)	(5.4)

Relative price performance



Source: Bloomberg

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Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Consol Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net Interest Income	273,314	348,487	433,513	541,622	675,884
Growth (%)	27.8	27.5	24.4	24.9	24.8
Non-interest Income	15,148	14,068	15,475	17,022	18,725
Total income	288,462	362,555	448,988	558,645	694,609
Total inc. growth (%)	32.2	25.7	23.8	24.4	24.3
Operating expenses	101,286	123,229	151,796	186,264	228,799
of which, emp. benefit exp.	50,494	63,960	80,590	1,01,543	1,27,944
PPoP	187,176	239,326	297,192	372,380	465,809
PPoP growth (%)	30.4	27.9	24.2	25.3	25.1
Provisions	31,897	46,307	76,321	88,921	105,921
PBT	155,279	193,019	220,871	283,459	359,888
Tax	40,202	48,584	57,868	74,266	94,291
PAT	115,078	144,511	163,003	209,193	265,597
PAT growth (%)	63.7	25.6	12.9	28.3	27.0

Source: Company, Anand Rathi Research

Fig 2 – Consol Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	1,209	1,236	1,240	1,244	1,248
Other equity	542,511	765,718	912,600	1,105,621	1,354,995
Net worth	543,720	766,954	913,840	1,106,865	1,356,243
Borrowings	2,130,602	2,897,679	3,800,665	4,841,462	5,938,158
Growth (%)	28.9	36.0	31.2	27.4	22.7
Other liabilities	-	-	-	-	-
Total Liabilities	2,752,263	3,757,415	4,714,505	5,948,327	7,294,401
Cash & Cash equiv.	43,045	1,06,240	99,269	1,18,159	83,207
Investments	227,518	308,807	386,008	482,510	579,012
Loans	2,422,689	3,262,933	4,176,554	5,262,459	6,525,449
Growth (%)	26.6	34.7	28.0	26.0	24.0
Other assets	59,010	79,436	52,673	85,199	1,06,733
Total Assets	2,752,263	3,757,416	4,714,505	5,948,327	7,294,401
AUM	2,473,790	3,213,125	4,065,752	5,117,978	6,450,005
RWA	2,301,555	3,328,192	4,343,617	5,472,957	6,786,467

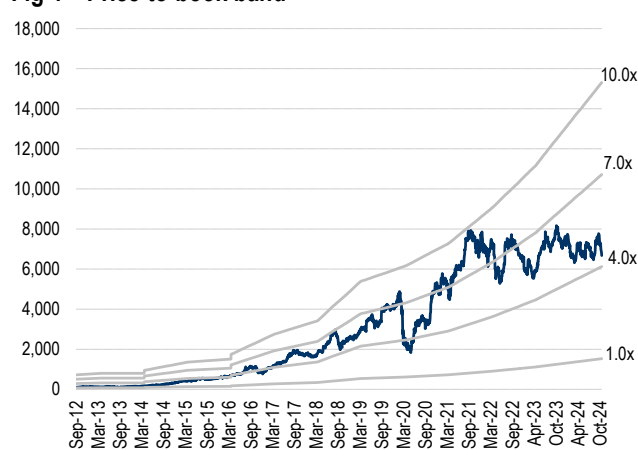
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis (%)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM (%)	11.5	10.9	10.4	10.3	10.4
Cost-to-income (%)	35.1	34.0	33.8	33.3	32.9
Credit cost (%)	1.5	1.6	2.1	1.9	1.8
RoA (%)	4.7	4.4	3.8	3.9	4.0
RoE (%)	23.5	22.0	19.4	20.7	21.6
GNPA (%)	1.5	1.4	1.4	1.4	1.5
NNPA (%)	0.7	0.6	0.7	0.7	0.7
RWA / Assets (%)	83.6	88.6	92.1	92.0	93.0
CRAR (%)	26.6	26.0	24.0	23.2	23.0
Tier 1 (%)	23.6	23.0	21.0	20.2	20.0
EPS (Rs)	190	234	263	336	426
BVPS (Rs)	900	1,241	1,474	1,780	2,173
ABVPS (Rs)	886	1,224	1,452	1,751	2,136
Dividend yield (%)	0.3	0.4	0.4	0.4	0.4
P/E (x)	34.8	28.3	25.2	19.7	15.5
P/B (x)	7.4	5.3	4.5	3.7	3.0
P/ABV (x)	7.5	5.4	4.6	3.8	3.1

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book-value



Source: Bloomberg

Fig 6 – Price movement



Source: Bloomberg

Earnings call key takeaways

NIM

- The NIM is projected to improve 10-12bps next year, contingent on an expected rate-cut and lower cost of funds.
- This benefit will materialise with a lag of 1-2 quarters.
- The company plans to use the cost reduction to fuel growth in new business lines, at a portfolio management level.

Asset quality

- Slippages are showing signs of peaking, based on industry trends and internal data.
- While flow rates are higher, portfolio quality is stable, with fewer defaults observed.
- The company has focused on capacity planning and enhancing its debt management infrastructure, deploying 2,000 people in deeper regions.
- Underwriting actions over the last 4-5 months have led to a cautiously optimistic outlook.
- Given current conditions, and with two key actions in place, management is confident that the performance can be sustained.
- Giving loans to people who already have more than 2-3 loans have become increasingly irrelevant, now constituting 8-9% of the portfolio compared to 13% in Q4 FY24.
- The impact of clients taking many loans has been absorbed, and the credit cost is expected to normalize to 185-195bps, up from 172bps pre-Covid'19, reflecting regulatory and policy changes.
- GNPA has increased across the board, but bounce rates are stable, with chronic cases persisting.
- While the management overlay buffer is reviewed regularly, additional provisions are now not needed. They have sufficient margin to sustain with 25% AUM growth and aren't pressured with a 8-10% credit cost.

Growth outlook

- In the next two years, investments will be small, leading to greater operating leverage, with the goal of 20-40bps improvement annually.
- The company projects 25-27% AUM growth for FY25, driven by non-new businesses growing 25-26%.
- New lines of business, such as car financing and tractor-commercial vehicle (CV) financing, which went live in Jul'24, are expected to contribute significantly by Q4 FY25.
- Organic growth is forecast at 24-25%, driven by a complete product suite that supports AUM momentum without compromising on credit quality.

Operating Efficiency

- The company is exploring deployment of Generative AI to enhance operational efficiency, with plans to expand this initiative by FY26.

- Any NIM improvement will be directed toward delivering higher RoA and RoE to shareholders.
- The long-range strategy aims to transform operating expenses through digital transformation, starting Jan'26.
- Operating cost efficiency will remain a key lever, with progress expected over the next two years.

Regulatory compliance and Risk management

- In response to the RBI commentary regarding asset quality pressure across various segments, the company is investing in compliance and operational risk management.
- A dedicated team of 250 people has been established to conduct periodic reviews and create a self-corrective regulatory compliance structure.

Rural B2B/B2C

- Rural B2B has posted double-digit growth for the first time in 7-8 quarters, signalling slow recovery.
- Growth is expected to hold within 12-14% on a full-year basis, with some elevated flow rates observed in the SME and MSME businesses.
- These businesses exhibit cyclical risk, necessitating a cautious approach.
- Rural B2C has seen a slight improvement, though only 2-3% of clients in the portfolio qualify for the MFI-equivalent segment.
- The company does not foresee significant rural distress in the B2B portfolio.

Consumption trends

- In terms of consumption, unit growth was 8% in Q1 FY25 and 9% in Q2, primarily driven by discretionary spending in digital, rural, lifestyle, and e-commerce sub-segments.
- The festival season began on 3rd Oct, with unit growth expected to reach 20-22%, forecasting strong 19-20% growth overall, which is considered a robust figure based on a large sample size.

Key highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Income from operations	130,460	138,139	145,545	155,734	164,134
Interest expense	45,371	48,680	52,171	56,839	61,493
Net interest income	85,089	89,458	93,374	98,896	102,641
growth (%)	28.7	27.3	26.1	22.8	20.6
Other income	3,358	3,521	3,775	5,289	6,820
Total income	88,447	92,980	97,149	104,185	109,461
Total inc growth (%)	26.3	25.1	25.0	24.1	23.8
Operating expenses	30,100	31,557	33,028	34,709	36,390
of which emp. benefit exp.	15,875	16,618	16,497	17,748	18,348
PPOP	58,347	61,422	64,121	69,475	73,071
PPOP growth (%)	30.0	26.6	25.3	25.3	25.2
Provisions	10,771	12,484	13,100	16,847	19,091
PBT	47,576	48,939	51,021	52,628	53,980
Tax	12,070	12,566	12,806	13,534	13,877
PAT	35,507	36,373	38,215	39,095	40,103
PAT growth (%)	27.7	22.3	21.0	13.8	12.9

Source: Company, Anand Rathi Research

Fig 8 – Credit break-up

(Rs m)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Consumer B2B - auto finance	165,480	193,840	197,420	196,890	189,600
Consumer B2B - sales finance	229,730	244,850	234,480	269,750	271,690
Consumer B2C	229,730	244,850	234,480	269,750	271,690
Rural B2B sales finance	55,340	61,660	62,090	75,530	72,800
Rural B2C	208,800	214,260	176,070	180,490	188,150
SME	386,730	413,960	384,700	407,910	443,820
Securities lending	169,860	192,050	220,380	220,430	233,590
IPO financing	-	-	-	-	-
Commercial lending	195,580	206,720	220,060	235,890	246,150
Mortgages	909,340	965,290	1,033,160	1,096,710	1,158,360
Total AUM	2,902,640	3,109,680	3,306,150	3,541,920	3,739,240
Y/Y growth (%)	32.9	34.7	33.6	31.1	28.8

Source: Company, Anand Rathi Research

Fig 9 – Customer franchise

(Rs m)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Total franchise	76.6	80.4	83.6	88.1	92.1
Credit segment filter	59.7	62.9	66.0	73.3	76.2
Overall cross-sell franchise	57.9	61.1	64.2	70.9	73.7
Non-delinquent customers	51.3	54.1	56.7	63.0	65.8
Cross-sell franchise	46.7	49.3	50.8	55.1	57.7
Customer franchise addition	3.6	3.9	3.2	4.5	4.0

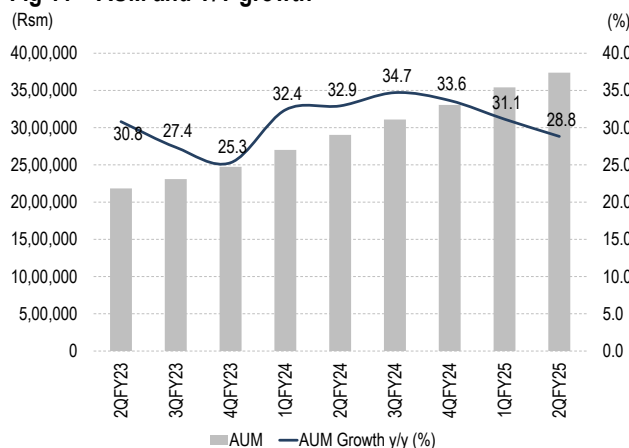
Source: Company, Anand Rathi Research

Fig 10 – Other metrics

(Rs m)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
App metrics					
Downloads - in the qtr (m)	16.7	15.8	15.4	18.3	18.7
Net installs - cumulative (m)	44.7	49.2	52.4	56.8	61.7
App payment metrics					
UPI handles -cumulative (m)	18.6	21.5	24.8	28.5	32.2
Bill-pay transactions - in the qtr (m)	6.4	7.5	8.2	8.6	8.6
QRs at merchant PoS - cumulative ('000)	2,160.0	2,710.0	3.1	3.3	3.4
Rewards issues - in the qtr (m)	22.1	25.4	28.1	20.3	30.5
App business metrics					
EMI cards acquired on app - in the qtr ('000)	130.0	89.0	-	-	-
Personal loans disbursed on app - in the qtr (m)	2,910.0	2,861.0	3,187.0	4,355.0	5,248.0
Credit card acquisition on app - in the qtr ('000)	69.9	59.7	38.8	39.0	31.8
Flexi-loan transactions on app - in the qtr ('000)	1,990.0	2,190.0	2,710.0	2,830.0	2,990.0
DMS receipts on app - in the qtr ('000)	1,100.0	1,240.0	1,470.0	1,590.0	1,600.0
Marketplace metrics					
Bajaj Mall visits - in the qtr (m)	52.0	46.0	34.0	4,103.0	4,660.0
Bajaj Mall loans - in the qtr ('000)	589.0	491.0	255.0	721.0	793.0
Insurance Bazaar policies - in the qtr ('000)	106.0	149.1	526.2	306.8	291.0
Investments Bazaar MF A/C - in the qtr ('000)	38.5	55.0	59.3	22.2	23.6
Digital EMI card metrics					
EMI cards acquired digitally - in the qtr ('000)	678.0	439.0	-	502.0	1,051.0
EMI cards acquired digitally - CIF (m)	4.2	4.5	3.6	5.3	6.3
B2B loans from digital EMI cards - in the qtr ('000)	346.0	281.0	-	155.0	306.0

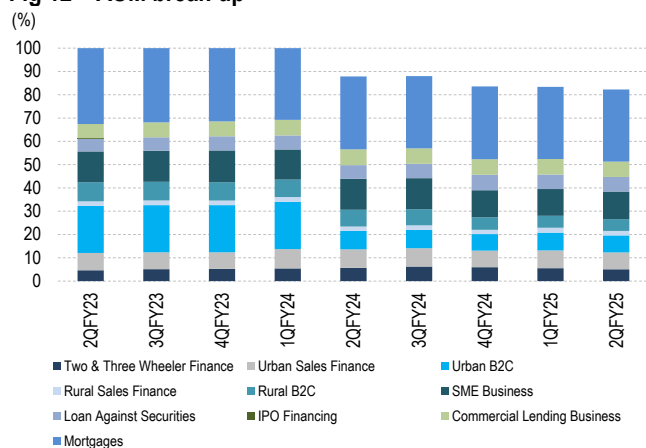
Source: Company, Anand Rath Research

Fig 11 – AUM and Y/Y growth



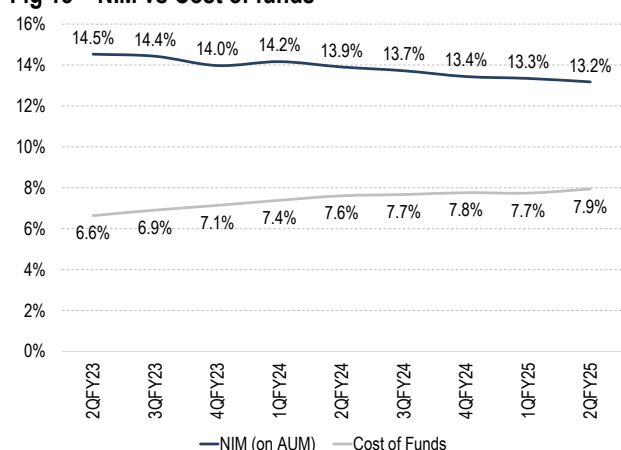
Source: Company, Anand Rathi Research

Fig 12 – AUM break-up



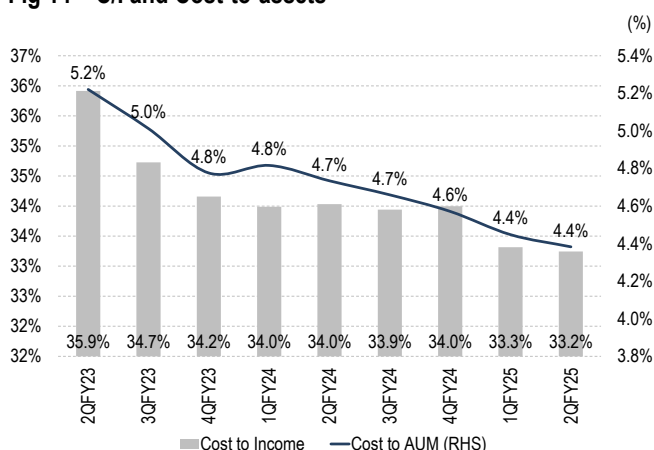
Source: Company, Anand Rathi Research

Fig 13 – NIM vs Cost of funds



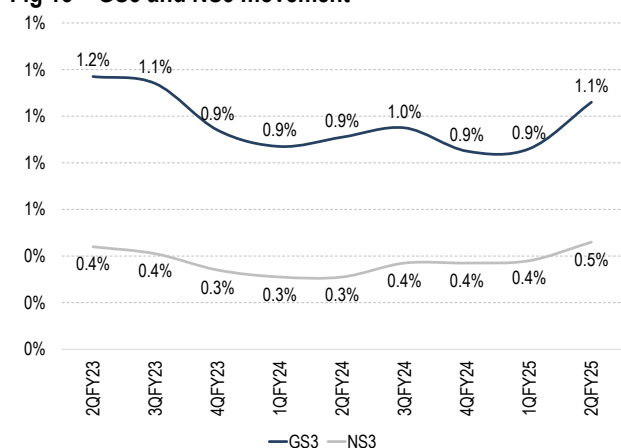
Source: Company, Anand Rathi Research

Fig 14 – C/I and Cost-to-assets



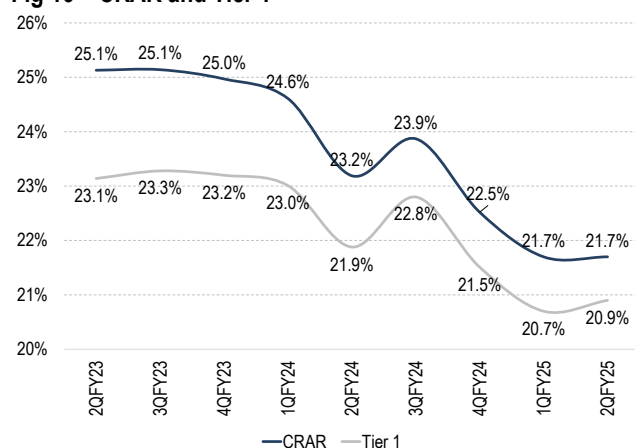
Source: Company, Anand Rathi Research

Fig 15 – GS3 and NS3 movement



Source: Company, Anand Rathi Research

Fig 16 – CRAR and Tier 1



Source: Company, Anand Rathi Research

Valuation

Healthy, 29% y/y, AUM growth, was offset by high, Rs19.1bn, provisions leading to Bajaj Finance's muted 13% y/y consolidated PAT growth. Despite premium valuations, we retain a Buy, on its best-in-class execution skill, robust customer franchisees and strong tech architecture. We lower estimates on higher credit-cost assumptions. At our higher TP, the stock would trade at 4.4x FY26e consolidated BV (4.6x earlier).

Fig 17 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	433,513	435,188	(0.4)	541,622	545,943	(0.8)
Pre-provisioning profit	297,192	298,867	(0.6)	372,380	376,701	(1.1)
PAT	163,003	171,619	(5.0)	209,193	221,238	(5.4)

Source: Anand Rathi Research

Fig 18 – Key assumptions

(%)	FY25e	FY26e
Balance sheet assumptions		
AUM growth	26.5	25.9
Borrowings growth	31.2	27.4

Asset quality assumptions

Credit cost	2.05	1.88
Provision coverage	54.1	53.2

Source: Company, Anand Rathi Research

Fig 19 – du Pont analysis

(%)	FY23	FY24	FY25e	FY26e	FY27e
Operating income	16.4	16.5	16.2	16.2	16.1
Interest expense	5.2	5.8	6.0	6.0	5.9
Net interest income	11.3	10.7	10.2	10.2	10.2
Other income	0.6	0.4	0.4	0.3	0.3
Total income	11.9	11.1	10.6	10.5	10.5
Operating expenses	4.2	3.8	3.6	3.5	3.5
of which, salary	2.1	2.0	1.9	1.9	1.9
PPoP	7.7	7.4	7.0	7.0	7.0
Provisions	1.3	1.4	1.8	1.7	1.6
PBT	6.4	5.9	5.2	5.3	5.4
Tax	1.7	1.5	1.4	1.4	1.4
RoA	4.7	4.4	3.8	3.9	4.0
Equity multiplier (x)	5.0	5.0	5.0	5.3	5.4
RoE	23.5	22.0	19.4	20.7	21.6

Source: Company, Anand Rathi Research

Risks

- Higher slippages
- Lower-than-expected loan growth
- Key-man risk.

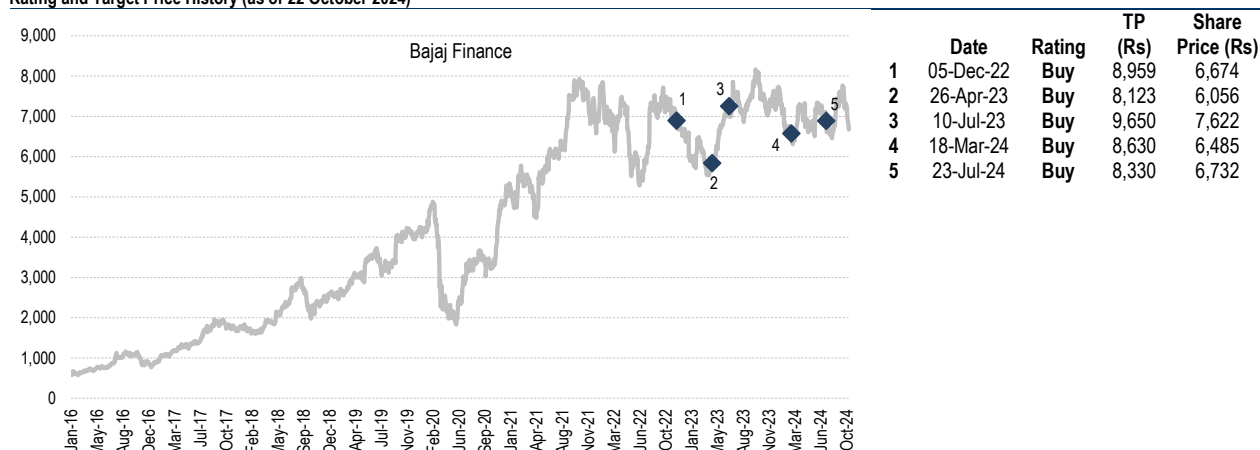
Appendix

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Rating and Target Price History (as of 22 October 2024)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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