Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Finance Ltd

Mixed Q2, commentary offering comfort

NBFC	Sharekhan code: BAJFINANCE
Reco/View: Buy ↔	CMP: Rs. 6,677
Price Target: Rs. 9,500 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↑	

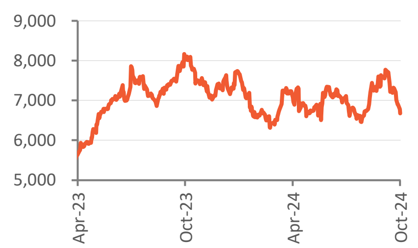
Company details

Market cap:	Rs. 4,13,328 cr
52-week high/low:	Rs. 7,857 / 6,190
NSE volume: (No of shares)	12.0 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	28.1 cr

Shareholding (%)

Promoters	54.7
FII	20.8
DII	15.0
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.1	-3.0	-8.4	-14.4
Relative to Sensex	-6.5	-2.7	-17.4	-38.6

Sharekhan Research, Bloomberg

Summary

- Overall operating performance was in line however higher credit (2.1% versus 1.9% q-o-q) was a key dampener resulting in muted earnings growth.
- Management guided that credit cost has probably peaked in Q2 as bounce rates are lower and additions to stage2/stage3 have moderated q-o-q, which is a key positive although overall credit cost guidance has been increased to 2.05% vs earlier of 1.75-1.85% for FY25.
- The company is reasonably confident that earnings growth is expected to gradually converge with asset growth, led by moderation in credit costs and stable NIMs in FY26 and outlook for H2FY25 is better than H1.
- At CMP, the stock trades at 4.2x/3.5x/3.0x FY2025E/FY2026E/ BV estimates. We retain our Buy rating with a revised PT of Rs. 9,500 as risk-reward is attractive. Underperformance could reverse as outlook gradually improves led by receding headwinds.

Bajaj Finance (BAF) reported in-line operating performance however credit cost was higher led by normalising of asset quality across retail & SME segment. NIMs were also in line with our estimates at 9.72% (as a percentage of AAUM) but contracted by 28 bps y-o-y and 6 bps q-o-q due to a rise in cost of funds and change in portfolio composition towards secured assets. NIMs are expected stabilise as cost of funds have peaked out and lower interest rate cycle could mitigate pressure from higher growth in secured assets. NII rose by 22.8% y-o-y and 5.6% q-o-q driven by strong AUM growth. Fee and other income grew by 28% y-o-y/ 2.9% q-o-q. Total operating expenses were up 20.9% y-o-y/4.8% q-o-q. Operating profits grew by 24% y-o-y/ 4% q-o-q. Provisions were at Rs.1,909 crore, up 77.2% y-o-y and 13.3% q-o-q. Credit cost stood at 2.1% (as a percentage of AAUM), higher by 46 bps y-o-y and 13 bps q-o-q. PAT grew by 13.0% y-o-y/ 2.8% q-o-q. AUM grew by 28.8% y-o-y and 5.6% to Rs. 373,924 crore. Overall, the company's portfolio performed well, except rural sales and two-wheeler finance which declined q-o-q. Asset quality deteriorated, as gross NPA came in at 1.06% as of September 30, 2024 from 0.86% as of June 30, 2024.

Key positives

- AUM surged 28.8% y-o-y and 5.6% q-o-q to Rs. 373,924 crore driven by commercial lending, car loans, SME finance and urban B2C.

Key negatives

- Higher credit cost at 2.1%, up 46 bps y-o-y and 13 bps q-o-q.

Management Commentary

- The company has guided for AUM growth of 27-28% in FY25, with newer businesses contributing 2-3% to this growth, while existing businesses are expected to grow at 24-25% y-o-y in FY25. In the medium term, it has guided for AUM growth of 25-27%.
- The company is cautiously optimistic on the portfolio and guided that loan losses peaked have in Q2 and are expected to decline below 2% by Q4. It has guided for credit costs of 205 bps in FY25 (vs. the earlier guidance of 1.75- 1.85%).
- Cost of funds peaked as of Q2.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 9,500: At CMP, the stock trades at 4.2x/ 3.5x/ 3.0x its FY2025E/ FY2026E/ FY2027E BV. The company is reasonably confident that earnings growth is expected to gradually converge with asset growth, led by moderation in credit costs and stability in NIMs in FY26 and outlook for H2FY25 is better than H1. Underperformance could reverse as outlook gradually improves led by receding headwinds. We are confident on strong sustainable earnings growth and longevity of the franchise. We retain our Buy rating with a revised PT of Rs. 9,500. Risk-reward is attractive.

Key Risks

Intensifying competition in retail lending space; Asset quality risk in retail unsecured segment, higher delinquency in new segments; Regulatory headwinds.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	22,990	29,584	36,756	46,036	58,089
PAT	11,508	14,451	16,151	20,796	26,232
EPS (Rs)	190	235	263	338	427
RoA (%)	4.7%	4.4%	3.9%	4.0	4.0%
RoE (%)	23.5%	22.0%	19.6%	21.2%	22.0%
P/E (x)	35.2	28.4	25.0	19.4	15.4
P/BV (x)	7.4	5.4	4.2	3.5	3.0

Source: Company; Sharekhan estimates

Key result highlights

- **Stable NIM outlook:** NIMs were in line with our estimates at 9.72% (as a percentage of AAUM) however it contracted by 28 bps y-o-y and 6 bps q-o-q due to increase in cost of funds and change in portfolio composition towards secured assets. NIMs are expected to stabilise given cost of funds have peaked out and lower interest rate cycle could mitigate pressure from higher growth in secured assets.
- **Credit cost:** Credit cost stood at 2.1% (calculated as % of AUM), higher by 46 bps y-o-y and 13 bps q-o-q. Management guided that credit cost has probably peaked in Q2 given the bounce rates are turning out lower and additions to stage-2/stage-3 have moderated q-o-q, which is a key positive although overall credit cost guidance has been increased to 2.05% vs earlier of 1.75-1.85% for FY25.
- **Asset quality:** Overall, asset quality deteriorated, GNPAs increased to 1.06% as of September 30, 2024 from 0.86% in June 30, 2024 caused by unsecured segments such as rural B2C, SME and sales finance.
- **Loan growth:** The company has guided for AUM growth of 27-28% in FY25, with newer businesses contributing 2-3% to this growth, while existing businesses are expected to grow at 24-25% y-o-y in FY25. In the medium term, it has guided for AUM growth of 25-27%.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q1FY25	Q2FY25	Y-o-Y (%)	Q-o-Q (%)
Interest Earned	11,734	14,049	14,987	27.7%	6.7%
Interest Expended	4,537	5,684	6,149	35.5%	8.2%
NII	**7,197**	**8,365**	**8,838**	**22.8%**	**5.6%**
Other Income	1,648	2,049	2,108	28.0%	2.9%
Total Income	8,845	10,415	10,946	23.8%	5.1%
Operating Expenditures	3,010	3,471	3,639	20.9%	4.8%
Pre- Prov Operating Profit	**5,835**	**6,944**	**7,307**	**25.2%**	**5.2%**
Proviisons	1,077	1,685	1,909	77.2%	13.3%
PBT	4,758	5,259	5,398	13.5%	2.6%
Tax	1,207	1,353	1,388	15.0%	2.5%
Net Profit	**3,550**	**3,906**	**4,013**	**13.0%**	**2.8%**
AUM	2,90,264	3,54,192	3,73,924	28.8%	5.6%

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 – Remain constructive on 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. The company is reasonably confident that earnings growth is expected to gradually converge with asset growth led by moderation in credit costs and stability in NIMs in FY26 and outlook for H2FY25 is better than H1.

■ Valuation – Maintain Buy with revised PT of Rs. 9,500

At CMP, the stock trades at 4.2x/ 3.5x/ 3.0x its FY2025E/ FY2026E/ FY2027E BV. The company is reasonably confident that earnings growth is expected to gradually converge with asset growth, led by moderation in credit costs and stability in NIMs in FY26 and outlook for H2FY25 is better than H1. Underperformance could reverse as outlook gradually improves led by receding headwinds. We are confident on strong sustainable earnings growth and longevity of the franchise. We retain our Buy rating with a revised PT of Rs. 9,500. Risk-reward is attractive.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bajaj Finance	6,677	413,328	25.0	19.4	4.2	3.5	3.9%	4.0%	19.6%	21.2%
Cholamandalam Investment and Finance Company	1,412.0	1,32,325.0	25.1	20.1	4.9	4.0	2.9%	2.9%	22.4	22.6

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 Saha	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	3.08
3	Maharashtra Scooters Ltd	3.07
4	SBI Funds Management Ltd	2.61
5	Life Insurance Corp of India	2.49
6	Blackrock Inc	1.69
7	Vanguard Group Inc/The	1.65
7	Axis Asset Management Co Ltd/India	1.31
9	UTI Asset Management Co Ltd	1.06
10	FMR LLC	1.02

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

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