

India

ADD (no change)

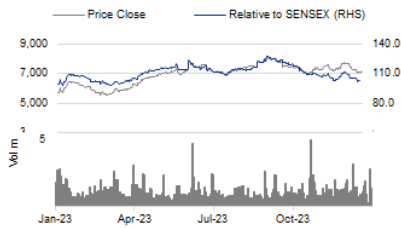
Consensus ratings*: Buy 28 Hold 3 Sell 5

Current price:	Rs7,192
Target price:	Rs9,850
Previous target:	Rs9,850
Up/downside:	37.0%
InCred Research / Consensus:	11.8%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$53,458m
	Rs4,444,606m
Average daily turnover:	US\$94.5m
	Rs7854.4m
Current shares o/s:	0.0m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- The recent rate hike to aid margins and the consolidation to ease slippage. Management reshuffle is beneficial in the long run.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.9)	(4.2)	24.8
Relative (%)	(2.7)	(15.9)	4.5

Major shareholders	% held
Bajaj Finserv Ltd	52.7
Government of Singapore	4.2
Maharashtra Scooters Ltd	3.1

Research Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547
E jignesh.shial@incredresearch.com

Mayank AGARWAL

T (91) 22 4161 0000
E mayank.agarwal@incredresearch.com

Rishabh JOGANI

T (91) 22 4161 0000
E rishabh.jogani@incredresearch.com

Bajaj Finance Ltd

Growth diversity commands a premium

- Bajaj Finance (BAF) posted a lower-than-expected 3Q PAT of Rs36.4bn (our est:Rs38bn) amid elevated cost of funds hurting margins & raising credit costs.
- The RBI tightening risk weights impacted the cost of funds while the slippage trend stayed elevated in rural unsecured loans, as per BAF's guidance.
- The recent rate hike to aid margins & consolidation to ease slippage. Management rejig beneficial in the long run. Retain ADD with a TP of Rs9,850.

Elevated cost of funds continues; recent rate hikes to aid margins

Bajaj Finance (BAF) reported consolidated 3QFY24 assets under management or AUM growth of ~34.7% yoy/ ~7.1% qoq to Rs3.11tr, with robust customer acquisition at -3.85m despite the Reserve Bank of India or RBI's restriction on 'eCOM' loans and fresh issuance of EMI cards. BAF's management has assured full compliance of the RBI order, after which new customer acquisition to gain further momentum. However, the overall net interest income (NII) grew at a slower pace of ~26.6% yoy/~5.3% qoq vs. AUM growth, as BAF continues to face margin pressure (~26bp calculated qoq) amid the elevated cost of borrowings due to the recent tightening of risk weights by the RBI. BAF has increased its lending rates by 20-30bp across products, which should support yields in the coming quarters and support incremental margins, in our view.

Operating leverage & rangebound credit costs support profitability

BAF's management remains confident of improving the operating leverage as incremental technology-led levers come into play. BAF's investments in various technology-led platforms during the past few years are likely to result in cost optimization and aid profitability. We are building in a cost-to-average assets ratio of ~3.5% by FY26F vs. ~4.2% in FY23. BAF witnessed a spike in slippage from rural unsecured loans, which its management had been highlighting since the past couple of quarters but the slippage in urban unsecured loans (due to weak collection efficiency) was a negative surprise. Management remains confident of managing credit costs in the range of ~1.6-1.8% in FY24F, which is better than the pre-Covid level and remains believable. We are building in ~29% CAGR in PAT over FY23-26F, with RoA of ~4.6% and an average RoE of ~26%.

Outlook & valuation

BAF has recently raised Rs100bn through a qualified institutional placement or QIP and preferential allotment of shares, which is likely to aid robust growth till FY26F. The recent reshuffle in managerial roles provides comfort over management stability and the ability of the company to maintain its diversified growth momentum. The aggressive customer acquisition & flawless diversity into new business segments are the unique features of the company. We retain our ADD rating on it with a target price of Rs9,850, corresponding to ~7.3x FY25F & ~31x FY25F EPS. Slowing consumption remains a key downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	175,295	229,903	294,083	388,809	492,678
Total Non-Interest Income (Rsm)	43,627	58,555	68,330	82,038	96,900
Pre-provisioning Operating Profit (Rsm)	143,072	187,158	239,315	321,982	403,768
Total Provision Charges (Rsm)	(48,034)	(31,897)	(43,421)	(68,434)	(78,225)
Net Profit (Rsm)	70,282	115,060	146,920	190,161	244,157
Core EPS (Rs)	116.50	190.72	243.53	315.20	272.33
Core EPS Growth	59%	64%	28%	29%	(14%)
FD Core P/E (x)	61.73	37.71	29.53	22.82	26.41
DPS (Rs)	20.00	30.00	45.00	55.00	75.00
Dividend Yield	0.28%	0.42%	0.63%	0.76%	1.04%
BVPS (Rs)	724.6	901.2	1,099.8	1,360.0	1,113.8
P/BV (x)	9.93	7.98	6.54	5.29	6.46
ROE	17.4%	23.5%	24.3%	25.6%	26.8%

% Change In Core EPS Estimates
InCred Research/Consensus EPS (x)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Total income	66,376	70,009	74,347	77,712	83,980	88,447	92,980	25.1%	5.1%
Operating expenses	23,801	25,144	25,818	26,522	28,544	30,100	31,557	22.2%	4.8%
Operating profit	42,575	44,865	48,529	51,190	55,437	58,347	61,422	26.6%	5.3%
Provisions	7,547	7,342	8,413	8,594	9,953	10,771	12,484	48.4%	15.9%
CoR (%)	1.5%	1.4%	1.5%	1.4%	1.5%	1.5%	1.7%		
Profit before tax	35,028	37,523	40,117	42,611	45,512	47,578	48,955	22.0%	2.9%
Tax	9,065	9,716	10,387	11,033	11,143	12,070	12,566	21.0%	4.1%
Tax rate (%)	25.9%	25.9%	25.9%	25.9%	24.5%	25.4%	25.7%		
Profit after tax	25,963	27,807	29,730	31,578	34,369	35,508	36,389	22.4%	2.5%
AUM	20,40,180	21,83,660	23,08,420	24,73,790	27,00,970	29,02,640	31,09,680	34.7%	7.1%
Borrowings	17,05,100	18,24,620	18,24,620	21,66,905	23,78,286	26,10,524	26,36,727	44.5%	1.0%
Gross NPL (%)	1.3%	1.2%	1.2%	0.9%	0.9%	0.9%	1.0%		
Net NPL (%)	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%		
Provision coverage ratio (%)	59.2%	62.4%	62.4%	63.8%	64.4%	65.9%	61.1%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

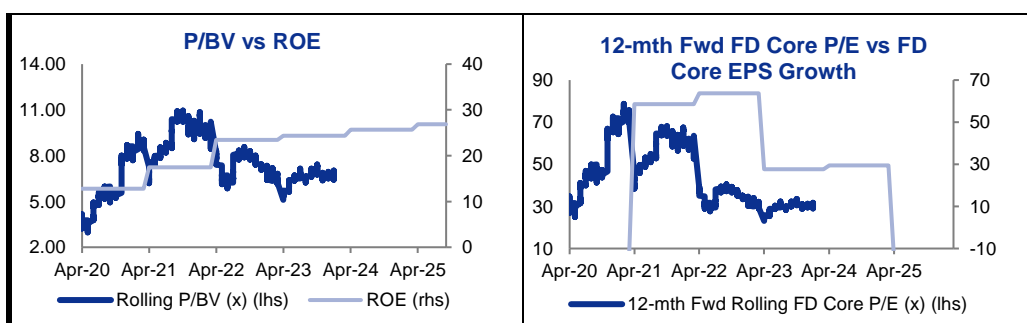
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	3,63,747	3,62,413	-0.4%	4,63,634	4,70,847	1.6%	5,83,076	5,89,579	1.1%
PPOP	2,40,649	2,39,315	-0.6%	3,16,860	3,21,982	1.6%	4,05,973	4,03,768	-0.5%
PAT	1,48,616	1,46,920	-1.1%	1,92,519	1,90,161	-1.2%	2,41,213	2,44,157	1.2%
EPS (Rs)	247	244	-1.1%	320	316	-1.2%	400	405	1.2%
BV (Rs)	1,096	1,093	-0.3%	1,353	1,352	-0.1%	1,649	1,645	-0.3%
ABV (Rs)	1,082	1,079	-0.3%	1,335	1,332	-0.2%	1,623	1,618	-0.3%
AUM	31,92,051	33,15,702	3.9%	41,01,049	42,88,109	4.6%	52,71,745	54,90,061	4.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings conference-call highlights

- Risk metrics across all businesses were stable except the rural B2C business. BAF continues to be watchful in respect of risk actions in the rural B2C business.
- The loan losses were due to two portfolios of the company in the rural B2C business segment. The AUM growth of that business continues to slow down because of risk actions.
- AUM growth of the rural B2C segment (excl. gold loans) has been brought down from 26% in Mar 2023 to 10% in Dec 2023.
- The urban B2C segment's loan losses were higher in 3QFY24 due to lower collection efficiency. Overall, the urban B2C portfolio remains in good health.
- Loan losses are expected to be at 1.79% on a full-year basis.
- Capital adequacy remains strong but because of the RBI's increase in risk weight from 100% to 125%, it had an impact of 290bp on the company's capital ratio. The CRA is now at 24 as otherwise it would have been at 26.7.
- The company has conducted a comprehensive review of the guidelines on digital lending and key financial statements or KFS, have sent them to its customers and started implementing them. Everything else is done, except in two areas, which is a digital signature on every KFS account and a vernacular statement in 20 different languages.
- The RBI has communicated to BAF that it has noted certain deficiencies in co-branded card operations and BAF is engaging with the RBI, RBL Bank and DBS Bank & may not even wait for a one-year extension - one year working with RBL Bank and DBS Bank together to file an application for renewal.
- BAF aims to be more efficient and be focused on organic rather inorganic growth.
- There are three dimensions - growth, risk and margins. The fortunate thing or the tailwind is strong growth, which means BAF's management has the latitude to calibrate, not slow down, and calibrate these three to grow.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	175,295	229,903	294,083	388,809	492,678
Total Non-Interest Income	43,627	58,555	68,330	82,038	96,900
Operating Revenue	218,922	288,458	362,413	470,847	589,579
Total Non-Interest Expenses	(35,897)	(50,591)	(64,757)	(80,946)	(105,230)
Pre-provision Operating Profit	143,072	187,158	239,315	321,982	403,768
Total Provision Charges	(48,034)	(31,897)	(43,421)	(68,434)	(78,225)
Operating Profit After Provisions	95,038	155,262	195,894	253,548	325,542
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	95,038	155,262	195,894	253,548	325,542
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	95,038	155,262	195,894	253,548	325,542
Exceptional Items					
Pre-tax Profit	95,038	155,262	195,894	253,548	325,542
Taxation	(24,756)	(40,202)	(48,973)	(63,387)	(81,386)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	70,282	115,060	146,920	190,161	244,157
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	70,282	115,060	146,920	190,161	244,157
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	89.8%	90.7%	90.8%	91.8%	91.8%
Avg Liquid Assets/Avg IEAs	100.9%	101.1%	100.6%	100.0%	99.8%
Net Cust Loans/Assets	0.9%	0.8%	0.8%	0.8%	0.8%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	2,199.5%	2,565.5%	2,408.2%	2,290.7%	2,144.6%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	2.81%	1.46%	1.50%	1.79%	1.59%
Provision Charge/Avg Assets	2.50%	1.31%	1.36%	1.65%	1.47%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	1,934,106	2,443,883	3,326,675	4,302,486	5,509,173
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,934,106	2,443,883	3,326,675	4,302,486	5,509,173
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,934,106	2,443,883	3,326,675	4,302,486	5,509,173
Intangible Assets					
Other Non-Interest Earning Assets	1,683	4,592	5,970	7,761	10,089
Total Non-Interest Earning Assets	24,361	37,805	43,186	49,883	58,277
Cash And Marketable Securities	44,098	43,046	38,633	27,427	31,214
Long-term Investments	122,488	227,551	230,939	298,667	382,383
Total Assets	2,125,054	2,752,285	3,639,433	4,678,463	5,981,046
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,652,319	2,166,905	2,886,733	3,733,335	4,779,784
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	35,608	41,662	89,210	124,659	202,699
Total Liabilities	1,687,927	2,208,567	2,975,943	3,857,994	4,982,483
Shareholders Equity	437,127	543,718	663,489	820,469	998,563
Minority Interests					
Total Equity	437,127	543,718	663,489	820,469	998,563

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	26.1%	31.2%	27.9%	32.2%	26.7%
Operating Profit Growth	23.9%	30.0%	25.1%	31.0%	24.2%
Pretax Profit Growth	59%	63%	26%	29%	28%
Net Interest To Total Income	80.1%	79.7%	81.1%	82.6%	83.6%
Cost Of Funds	6.57%	6.58%	7.50%	7.00%	6.60%
Return On Interest Earning Assets	16.0%	16.2%	16.8%	16.3%	15.8%
Net Interest Spread	9.40%	9.66%	9.26%	9.27%	9.17%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	17%	18%	21%	19%
Interest Return On Average Assets	9.13%	9.43%	9.20%	9.35%	9.24%
Effective Tax Rate	26.0%	25.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	17.2%	15.7%	18.5%	17.4%	27.5%
Return On Average Assets	3.66%	4.72%	4.60%	4.57%	4.58%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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