

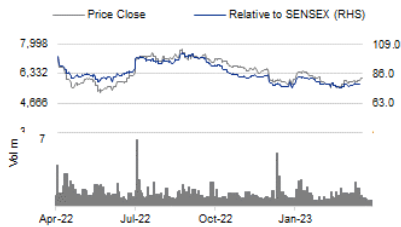
India

ADD (no change)

Consensus ratings*: Buy 24 Hold 3 Sell 7

| | |
|------------------------------|--------------|
| Current price: | Rs6,056 |
| Target price: | Rs9,000 |
| Previous target: | Rs9,000 |
| Up/downside: | 48.6% |
| InCred Research / Consensus: | 29.5% |
| Reuters: | BJFN.NS |
| Bloomberg: | BAF IN |
| Market cap: | US\$50,492m |
| | Rs3,666,449m |
| Average daily turnover: | US\$93.2m |
| | Rs6765.7m |
| Current shares o/s: | 0.0m |
| Free float: | 40.0% |

*Source: Bloomberg



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|-----|--------|
| Absolute (%) | 7.2 | 4.5 | (16.4) |
| Relative (%) | 2.5 | 2.8 | (21.2) |

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

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Bajaj Finance Ltd

Growth certainty to drive valuation premium

- Bajaj Finance posted 4Q PAT of Rs31.6bn (+30.3% yoy) amid healthy NII (+28.1% yoy) & consistency in improving operating leverage(C/I ratio ~34.1%).
- It is switching from a mass-affluent to a mass-enabler franchise with deepening reach and diversified offerings, aiming to increase customer wallet share.
- With a 25% PAT CAGR over FY23F-26F & ~24% average RoE, Bajaj Finance remains an outlier. Retain ADD rating on it with a target price of Rs9,000.

Profitability aided by steady margins & improving operating leverage

Bajaj Finance (BAF) reported consolidated AUM growth of ~25% yoy at Rs2.47tr with consistency in AUM break-up. BAF is heading towards a granular AUM growth mix against seasonal momentum, led by diversified assets. Also, net interest income or NII (ex-IPO funding) growth (+28% yoy) was in line with AUM growth, indicating BAF's pricing power. BAF is enjoying operating leverage as investments made in tech-driven platforms during the earlier years are contributing towards revenue growth. Overall provision remained flat qoq amid improved underwriting and focused recoveries, supporting the profitability further.

BAF to remain growth outlier - physically as well as digitally

BAF is gradually and granularly switching from being a mass-affluent to a mass-enabler franchise with a deep reach & diversified offering. Like HDFC Bank, BAF's management is consistently focusing on increasing the physical presence, especially in semi-urban and rural India. The company has a physical presence at ~3,733 locations (+229 in FY23) and has over 154K active distribution points. BAF has aggressively added ground force during 4QFY23 (~2,439 employee addition) to accelerate growth further. BAF (organically and without being a bank) intends a customer franchise of ~120m (~22% CAGR) with ~2.5% of India's credit market share & a RoE of +20% by FY27F.

Operating leverage led by tech investments aids profitability

An elevated mortgage portfolio (~30% of loan book) coupled with competitive pricing will keep the margin trajectory for BAF under check, but a gradual easing of excess liquidity (~9.8% of total assets against ~7% pre-Covid) can deliver margin surprise. However, we believe improving operating leverage (C/I improving to ~32.5% in FY26F against ~35% currently) along with low credit cost (~160bp in FY24F-26F) to remain key to profitability. We are building in ~25% CAGR in PAT for FY23-26F with best-in-class RoA of ~4.5% and RoE of ~24.5% for FY24F/25F.

Outlook & valuation

BAF is a pure play retail lending franchise equipped with a diversified funding mix and a strong capital base. The stock is currently trading at ~5.5x BV/24x EPS for FY24F (PEG ratio >1), offering an attractive risk-reward ratio. Maintain ADD rating on the stock with a target price of Rs9,000 or ~6.8x FY25F BV & ~30x FY25F EPS. Slowing consumption remains the key downside risk.

Financial Summary

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|---|----------|----------|----------|----------|----------|
| Net Interest Income (Rsm) | 175,295 | 229,903 | 288,259 | 365,255 | 462,995 |
| Total Non-Interest Income (Rsm) | 43,627 | 58,555 | 66,884 | 81,702 | 100,233 |
| Pre-provisioning Operating Profit (Rsm) | 143,072 | 187,158 | 231,054 | 298,003 | 380,762 |
| Total Provision Charges (Rsm) | (48,034) | (31,897) | (42,216) | (58,938) | (79,292) |
| Net Profit (Rsm) | 70,282 | 115,060 | 139,740 | 176,908 | 223,087 |
| Core EPS (Rs) | 116.50 | 190.72 | 231.63 | 293.23 | 248.83 |
| Core EPS Growth | 59% | 64% | 21% | 27% | (15%) |
| FD Core P/E (x) | 51.98 | 31.75 | 26.15 | 20.65 | 24.34 |
| DPS (Rs) | 20.00 | 30.00 | 40.00 | 55.00 | 65.00 |
| Dividend Yield | 0.33% | 0.50% | 0.66% | 0.91% | 1.07% |
| BVPS (Rs) | 724.6 | 901.2 | 1,092.9 | 1,331.1 | 1,080.9 |
| P/BV (x) | 8.36 | 6.72 | 5.54 | 4.55 | 5.60 |
| ROE | 17.4% | 23.5% | 23.2% | 24.2% | 25.2% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

| Rs m | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | YoY (%) | QoQ (%) |
|------------------------------|------------------|------------------|------------------|------------------|------------------|--------------|-------------|
| Total income | 60,677 | 66,376 | 70,009 | 74,347 | 77,712 | 28.1% | 4.5% |
| Operating expenses | 20,966 | 23,801 | 25,144 | 25,818 | 26,522 | 26.5% | 2.7% |
| Operating profit | 39,711 | 42,575 | 44,865 | 48,529 | 51,190 | 28.9% | 5.5% |
| Provisions | 7,016 | 7,547 | 7,342 | 8,413 | 8,594 | 22.5% | 2.2% |
| CoR (%) | 1.5% | 1.5% | 1.4% | 1.5% | 1.4% | | |
| Profit before tax | 32,696 | 35,028 | 37,523 | 40,117 | 42,611 | 30.3% | 6.2% |
| Tax | 8,460 | 9,065 | 9,716 | 10,387 | 11,033 | 30.4% | 6.2% |
| Tax rate (%) | 25.9% | 25.9% | 25.9% | 25.9% | 25.9% | | |
| Profit after tax | 24,236 | 25,963 | 27,807 | 29,730 | 31,578 | 30.3% | 6.2% |
| AUMs | 1,974,520 | 2,040,180 | 2,183,660 | 2,308,420 | 2,473,790 | 25.3% | 7.2% |
| Borrowings | 1,652,319 | 1,705,100 | 1,824,620 | 1,824,620 | 2,166,905 | 31.1% | 18.8% |
| Gross NPL (%) | 1.6% | 1.3% | 1.2% | 1.2% | 0.9% | | |
| Net NPL (%) | 0.7% | 0.5% | 0.4% | 0.4% | 0.3% | | |
| Provision coverage ratio (%) | 58.0% | 59.2% | 62.4% | 62.4% | 63.8% | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

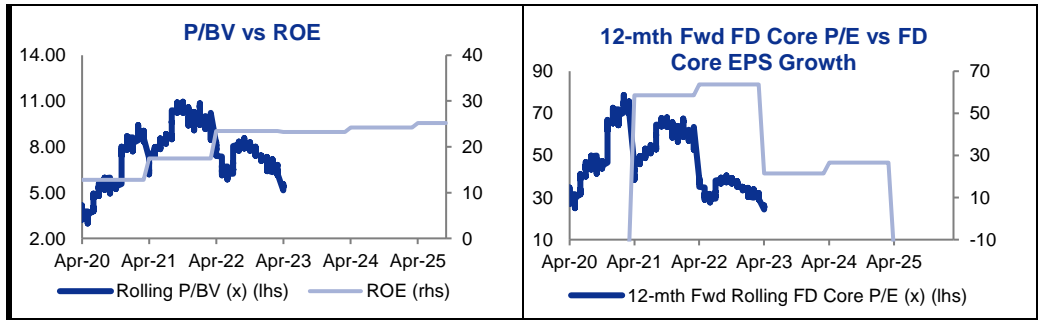
| Y/e Mar (Rs m) | FY24F | | | FY25F | | | FY26F |
|----------------------|-----------|-----------|----------|-----------|-----------|----------|-----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | |
| Net operating income | 362,834 | 355,143 | -2.1% | 454,177 | 446,957 | -1.6% | 563,228 |
| PPOP | 237,919 | 231,054 | -2.9% | 305,520 | 298,003 | -2.5% | 380,762 |
| PAT | 137,554 | 139,740 | 1.6% | 183,578 | 176,908 | -3.6% | 223,087 |
| EPS (Rs) | 228 | 232 | 1.7% | 305 | 294 | -3.7% | 370 |
| BV (Rs) | 1,082 | 1,086 | 0.4% | 1,364 | 1,323 | -3.0% | 1,596 |
| ABV (Rs) | 1,058 | 1,073 | 1.4% | 1,335 | 1,305 | -2.3% | 1,571 |
| AUM | 3,189,774 | 3,154,962 | -1.1% | 4,010,358 | 3,989,068 | -0.5% | 5,072,910 |

SOURCE: INCRED RESEARCH

Conference-call takeaways

- BAF will add 11-12m customers in FY24F and aspires to become a 10m customer company.
- Assets under management or AUM mix to remain constant.
- One more rate hike by the Reserve Bank of India can lead to a 40-50bp margin compression. However, better opex ratio to offset the overall impact on ROA.
- BAF expects to disburse Rs35m in loans in FY24F (20% growth).
- Added 19 locations in 4QFY23 & 230 new locations in FY23.
- BAF will add 150 new locations in 1QFY24F & 300 gold loan branches in the same quarter. The opex related to new branches has already been front-loaded.
- BAF carries Rs9.6bn as management overlay provision buffer.
- Two-wheeler loans witnessed the highest-ever asset quality trend.
- BAF is witnessing slowing growth in home loans due to a higher base.
- Bajaj Auto has applied for a NBFC licence while BAF will start two-wheeler financing for other vehicle manufacturers as well from FY24F. BAF expects Rs200-250bn disbursement as two-wheeler loans in respect of non-Bajaj Auto manufacturers.
- BAF will organically develop new businesses like microfinance and not through the acquisition mode.
- BAF now has a 50% share in the subvention scheme.

BY THE NUMBERS



Profit & Loss

| (Rsm) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Interest Income | 175,295 | 229,903 | 288,259 | 365,255 | 462,995 |
| Total Non-Interest Income | 43,627 | 58,555 | 66,884 | 81,702 | 100,233 |
| Operating Revenue | 218,922 | 288,458 | 355,143 | 446,957 | 563,228 |
| Total Non-Interest Expenses | (35,897) | (50,591) | (63,239) | (77,152) | (96,440) |
| Pre-provision Operating Profit | 143,072 | 187,158 | 231,054 | 298,003 | 380,762 |
| Total Provision Charges | (48,034) | (31,897) | (42,216) | (58,938) | (79,292) |
| Operating Profit After Provisions | 95,038 | 155,262 | 188,838 | 239,064 | 301,470 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Operating EBIT (incl Associates) | 95,038 | 155,262 | 188,838 | 239,064 | 301,470 |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 95,038 | 155,262 | 188,838 | 239,064 | 301,470 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 95,038 | 155,262 | 188,838 | 239,064 | 301,470 |
| Taxation | (24,756) | (40,202) | (49,098) | (62,157) | (78,382) |
| Consolidation Adjustments & Others | | | | | |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 70,282 | 115,060 | 139,740 | 176,908 | 223,087 |
| Minority Interests | | | | | |
| Pref. & Special Div | | | | | |
| FX And Other Adj. | | | | | |
| Net Profit | 70,282 | 115,060 | 139,740 | 176,908 | 223,087 |
| Recurring Net Profit | | | | | |

Balance Sheet

| (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% | 91.7% | 91.8% |
| Avg Liquid Assets/Avg IEAs | 100.9% | 101.1% | 101.3% | 101.1% | 100.4% |
| 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% | 2,393.1% | 2,242.1% | 2,081.2% |
| Asset Risk Weighting | | | | | |
| Provision Charge/Avg Cust Loans | 2.81% | 1.46% | 1.50% | 1.64% | 1.74% |
| Provision Charge/Avg Assets | 2.50% | 1.31% | 1.35% | 1.49% | 1.59% |
| 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 | 3,166,739 | 4,004,940 | 5,094,109 |
| Liquid Assets & Invst. (Current) | | | | | |
| Other Int. Earning Assets | | | | | |
| Total Gross Int. Earning Assets | 1,934,106 | 2,443,883 | 3,166,739 | 4,004,940 | 5,094,109 |
| Total Provisions/Loan Loss Reserve | | | | | |
| Total Net Interest Earning Assets | 1,934,106 | 2,443,883 | 3,166,739 | 4,004,940 | 5,094,109 |
| 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 | 77,081 | 68,032 | 50,447 |
| Long-term Investments | 122,488 | 227,551 | 220,999 | 277,839 | 351,309 |
| Total Assets | 2,125,054 | 2,752,285 | 3,508,004 | 4,400,694 | 5,554,141 |
| Customer Interest-Bearing Liabilities | | | | | |
| Bank Deposits | | | | | |
| Interest Bearing Liabilities: Others | | | | | |
| Total Interest-Bearing Liabilities | 1,652,319 | 2,166,905 | 2,762,485 | 3,472,982 | 4,391,365 |
| Banks Liabilities Under Acceptances | | | | | |
| Total Non-Interest Bearing Liabilities | 35,608 | 41,662 | 86,194 | 124,659 | 193,734 |
| Total Liabilities | 1,687,927 | 2,208,567 | 2,848,678 | 3,597,642 | 4,585,099 |
| Shareholders Equity | 437,127 | 543,718 | 659,326 | 803,052 | 969,042 |
| Minority Interests | | | | | |
| Total Equity | 437,127 | 543,718 | 659,326 | 803,052 | 969,042 |

| Key Ratios | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Income Growth | 26.1% | 31.2% | 25.4% | 26.7% | 26.8% |
| Operating Profit Growth | 23.9% | 30.0% | 22.7% | 26.7% | 26.2% |
| Pretax Profit Growth | 59% | 63% | 22% | 27% | 26% |
| Net Interest To Total Income | 80.1% | 79.7% | 81.2% | 81.7% | 82.2% |
| Cost Of Funds | 6.57% | 6.58% | 6.70% | 6.30% | 6.00% |
| Return On Interest Earning Assets | 16.0% | 16.2% | 16.2% | 15.7% | 15.4% |
| Net Interest Spread | 9.40% | 9.66% | 9.46% | 9.36% | 9.36% |
| Net Interest Margin (Avg Deposits) | | | | | |
| Net Interest Margin (Avg RWA) | | | | | |
| Provisions to Pre Prov. Operating Profit | 34% | 17% | 18% | 20% | 21% |
| Interest Return On Average Assets | 9.13% | 9.43% | 9.21% | 9.24% | 9.30% |
| Effective Tax Rate | 26.0% | 25.9% | 26.0% | 26.0% | 26.0% |
| Net Dividend Payout Ratio | 17.2% | 15.7% | 17.3% | 18.8% | 26.1% |
| Return On Average Assets | 3.66% | 4.72% | 4.46% | 4.47% | 4.48% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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