

India

ADD (no change)

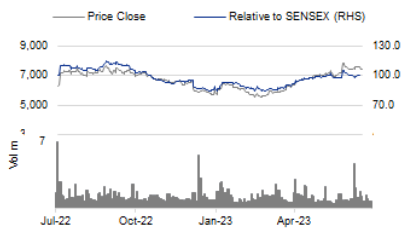
Consensus ratings*: Buy 25 Hold 3 Sell 6

Current price:	Rs7,433
Target price:	Rs9,000
Previous target:	Rs9,000
Up/downside:	21.1%
InCred Research / Consensus:	15.5%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$54,929m
	Rs4,503,884m
Average daily turnover:	US\$86.4m
	Rs7087.9m
Current shares o/s:	0.0m
Free float:	40.0%

*Source: Bloomberg

Key changes in this note

- BAF is switching from mass affluent to mass enabler franchise with deepening reach & diversified offering, aiming to increase customer wallet share.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.9	19.9	16.2
Relative (%)	0.7	9.0	(2.8)

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

Brokers Poll 2023

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InCred Research

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Bajaj Finance Ltd

All-round robust 1Q performance

- BAF posted 1Q PAT of Rs34.4bn (+32.4% yoy) amid a healthy NII (+26.5% yoy), operating leverage improvement (C/I ratio at ~34%) & a lower tax charge.
- BAF is switching from a mass affluent to a mass enabler franchise with deepening reach & diversified offerings, aiming to raise customer wallet share.
- With a 25% PAT CAGR over FY23-26F and ~24% average RoE, BAF remains an outlier. Retain ADD rating on the stock with a target price of Rs9,000.

Robust growth in AUM translates into healthy profitability

Bajaj Finance (BAF) posted consolidated 1QFY24 AUM growth of ~32.4% yoy/ ~9.2 qoq to Rs2.7tr, with consistency in AUM break-up. BAF is heading towards a granular AUM growth mix against seasonal momentum, led by diversified assets. NII growth (+26.5% yoy) was relatively weaker as the company has been facing margin headwinds, but steady operating leverage (cost-to-income at 34%) further aided profitability. The company witnessed a spurt in provisioning (+15.8% qoq) as it tightened ECL assumptions, made a one-off provision for the exposure in Manipur and higher standard asset provisioning but a lower tax outgo led to profit outperformance. Management has revised its FY24F assets under management or AUM growth guidance to 29-31% from 27-29% earlier.

BAF to remain a growth outlier - physically as well as digitally

BAF is gradually & granularly switching from a mass affluent to a mass enabler franchise with deepening reach & diversified offerings. BAF has a physical presence in ~3,828 locations (+95 in 1QFY24) and over 167K active distribution points. The company has aggressively added ground force during 1QFY24 (~3,420 employees added in 1Q) 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.

Operating leverage led by tech-investments aiding profitability

An elevated mortgage portfolio (~30% of book) coupled with competitive pricing will keep the margin trajectory for BAF under check. However, we believe that improving operating leverage (C/I improving to ~32.5% in FY26F against ~35% currently) along with low credit cost (~160bp in FY24F-26F) is key to profitability. We are building in ~25% CAGR in PAT over FY23-26F with best-in-class RoA of ~4.5% and RoE of ~24.5%.

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 available at ~5.8x BV/24x EPS for FY25F (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 a key downside risk.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	175,295	229,903	293,380	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	235,452	297,185	383,147
Total Provision Charges (Rsm)	(48,034)	(31,897)	(42,216)	(58,938)	(81,558)
Net Profit (Rsm)	70,282	115,060	142,995	176,303	223,176
Core EPS (Rs)	116.50	190.72	237.02	292.23	248.93
Core EPS Growth	59%	64%	24%	23%	(15%)
FD Core P/E (x)	63.81	38.97	31.36	25.44	29.86
DPS (Rs)	20.00	30.00	45.00	55.00	65.00
Dividend Yield	0.27%	0.40%	0.61%	0.74%	0.87%
BVPS (Rs)	724.6	901.2	1,093.3	1,330.5	1,080.6
P/BV (x)	10.26	8.25	6.80	5.59	6.88
ROE	17.4%	23.5%	23.8%	24.1%	25.2%

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Total income	66,376	70,009	74,347	77,712	83,980	26.5%	8.1%
Operating expenses	23,801	25,144	25,818	26,522	28,544	19.9%	7.6%
Operating profit	42,575	44,865	48,529	51,190	55,437	30.2%	8.3%
Provisions	7,547	7,342	8,413	8,594	9,953	31.9%	15.8%
CoR (%)	1.5%	1.4%	1.5%	1.4%	1.5%		
Profit before tax	35,028	37,523	40,117	42,611	45,512	29.9%	6.8%
Tax	9,065	9,716	10,387	11,033	11,143	22.9%	1.0%
Tax rate (%)	25.9%	25.9%	25.9%	25.9%	24.5%		
Profit after tax	25,963	27,807	29,730	31,578	34,369	32.4%	8.8%
AUM	2,040,180	2,183,660	2,308,420	2,473,790	2,700,970	32.4%	9.2%
Borrowings	1,705,100	1,824,620	1,824,620	2,166,905	2,378,286	39.5%	9.8%
Gross NPL (%)	1.3%	1.2%	1.2%	0.9%	0.9%		
Net NPL (%)	0.5%	0.4%	0.4%	0.3%	0.3%		
Provision coverage ratio (%)	59.2%	62.4%	62.4%	63.8%	64.4%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

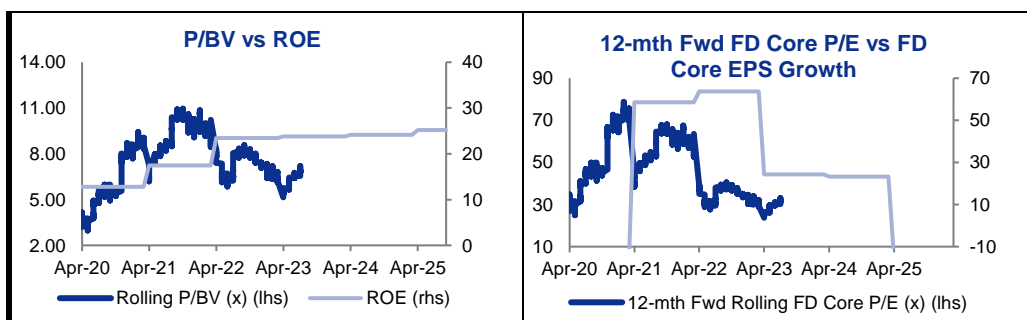
Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	355,143	360,263	1.4%	446,957	446,957	0.0%	563,228	563,228	0.0%
PPOP	231,054	235,452	1.9%	298,003	297,185	-0.3%	380,762	383,147	0.6%
PAT	139,740	142,995	2.3%	176,908	176,303	-0.3%	223,087	223,176	0.0%
EPS (Rs)	232	237	2.3%	294	293	-0.3%	370	370	0.0%
BV (Rs)	1,086	1,087	0.0%	1,323	1,322	0.0%	1,596	1,596	0.0%
ABV (Rs)	1,073	1,073	0.0%	1,305	1,304	0.0%	1,571	1,571	0.0%
AUM	3,154,962	3,154,962	0.0%	3,989,068	3,989,068	0.0%	5,072,910	5,072,910	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- 20-31% growth expected in FY24F.
- Bajaj Finance plans to add 12-13m customers in FY24F and indicated the possibility of exceeding this number.
- It is focusing on decreasing the attrition rate of employees, which has increased slightly.
- Bajaj Finance doesn't expect any significant change in its product mix going ahead.
- The company has given moratorium to Manipur customers involving an AUM of Rs400m and made a provision of Rs150m.
- Bajaj Finance has increased the provision under the expected credit loss method, which will increase credit cost by 6-8bp.
- The company is witnessing increased leverage in the system in the unsecured personal loan segment.
- Bajaj Finance expects a 10bp NIM compression in 2QFY24F and 3QFY24F.
- The company has 13-14k people for collections who manage 47,000 collection agencies.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	175,295	229,903	293,380	365,255	462,995
Total Non-Interest Income	43,627	58,555	66,884	81,702	100,233
Operating Revenue	218,922	288,458	360,263	446,957	563,228
Total Non-Interest Expenses	(35,897)	(50,591)	(65,769)	(82,211)	(102,764)
Pre-provision Operating Profit	143,072	187,158	235,452	297,185	383,147
Total Provision Charges	(48,034)	(31,897)	(42,216)	(58,938)	(81,558)
Operating Profit After Provisions	95,038	155,262	193,236	238,247	301,589
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	95,038	155,262	193,236	238,247	301,589
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	95,038	155,262	193,236	238,247	301,589
Exceptional Items					
Pre-tax Profit	95,038	155,262	193,236	238,247	301,589
Taxation	(24,756)	(40,202)	(50,241)	(61,944)	(78,413)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	70,282	115,060	142,995	176,303	223,176
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	70,282	115,060	142,995	176,303	223,176
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%	91.7%	91.8%
Avg Liquid Assets/Avg IEAs	100.9%	101.1%	101.3%	101.2%	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%	2,393.9%	2,241.1%	2,080.6%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	2.81%	1.46%	1.50%	1.64%	1.79%
Provision Charge/Avg Assets	2.50%	1.31%	1.35%	1.49%	1.64%
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	80,335	67,665	50,169
Long-term Investments	122,488	227,551	220,999	277,839	351,309
Total Assets	2,125,054	2,752,285	3,511,258	4,400,327	5,553,863
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	89,210	124,659	193,734
Total Liabilities	1,687,927	2,208,567	2,851,695	3,597,642	4,585,099
Shareholders Equity	437,127	543,718	659,564	802,685	968,764
Minority Interests					
Total Equity	437,127	543,718	659,564	802,685	968,764

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	26.1%	31.2%	27.6%	24.5%	26.8%
Operating Profit Growth	23.9%	30.0%	23.8%	23.9%	26.2%
Pretax Profit Growth	59%	63%	24%	23%	27%
Net Interest To Total Income	80.1%	79.7%	81.4%	81.7%	82.2%
Cost Of Funds	6.57%	6.58%	7.00%	6.30%	6.00%
Return On Interest Earning Assets	16.0%	16.2%	16.6%	15.7%	15.4%
Net Interest Spread	9.40%	9.66%	9.61%	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%	9.37%	9.23%	9.30%
Effective Tax Rate	26.0%	25.9%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	17.2%	15.7%	19.0%	18.8%	26.1%
Return On Average Assets	3.66%	4.72%	4.57%	4.46%	4.48%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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