

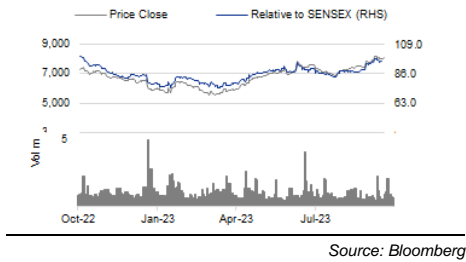
India

ADD (no change)

Consensus ratings*:	Buy 26 Hold 4 Sell 5
Current price:	Rs8,093
Target price: ▲	Rs9,850
Previous target:	Rs9,000
Up/downside:	21.7%
InCred Research / Consensus:	15.2%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$58,896m Rs4,903,699m
Average daily turnover:	US\$83.8m Rs6975.4m
Current shares o/s:	0.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- BAF plans to raise Rs88bn of equity capital to support its next phase of growth aided by new lending areas as well as penetration improving in current geographies.



Price performance	1M	3M	12M
Absolute (%)	7.2	9.1	9.5
Relative (%)	9.1	9.7	(2.8)

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

Gearing up for next phase of growth

- 2Q NII grew at a slower pace compared to AUM growth amid margin pressure, but managed healthy profitability as the operating leverage kicked in.
- BAF plans to raise Rs88bn of equity to support its next phase of growth aided by new lending areas as well as penetration improving in current geographies.
- We have raised our earnings estimates by ~9.2%/~8.1% for FY25F/26F & increased target price from Rs9,000 earlier to Rs9,850, or ~7.4x FY25F BV.

Weak NII growth compared to AUM growth amid margin pressure

Bajaj Finance (BAF) reported consolidated 2QFY24 AUM growth of ~32.9% yoy/ ~7.5% qoq to Rs2.9tr, with the historical highest customer acquisition at ~3.58m and new loans booked amounting to ~8.53m. However, overall net interest income (NII) grew at a slower pace of ~26.3% yoy/~5.3% qoq, compared to AUM growth, as the company continued to face margin pressure (~36bp calculated sequentially) amid elevated cost of borrowings and a competitive lending environment. The trend may continue in the coming quarters as well, and we are building in further margin compression of 35bp in 2HFY24F.

Operating leverage, coupled with lower provision, to aid profitability

BAF's management remains confident of managing healthy profitability, despite consistent pressure on margins, as the operating leverage comes into play. The company had been investing in various technology-led platforms during the past few years but the same should now result in cost optimization and aid profitability. We are building in the cost-to-income ratio improving to ~30.4% by FY26F vs. ~35.1% in FY23. Similarly, lower credit costs amid a superior asset quality trend will also support profitability. We are building in ~28% CAGR in PAT over FY23-26F, with a best-in-class RoA of ~4.7% and an average RoE of ~26%.

BAF plans to raise capital as it is entering the next phase of growth

The board of directors of BAF has approved a plan to raise Rs88bn of capital through equity issue and Rs12bn of preferential allotment of shares to the promoters to build the capital base. BAF's management has already indicated its intention to foray into new lending businesses including new car financing, microfinance, etc. as well as to penetrate further into its existing geographies to improve growth diversity. We have not factored in the raising of capital in our estimates. The capital raising stems from the confidence that management has over BAF's ability to grow in a most dynamic and granular manner.

Outlook & valuation

BAF is a pure play retail lending franchise equipped with a diversified funding mix and strong capital base. Based on the healthy performance in 1HFY24 as well as improving dynamics for the company, we have raised our earnings estimates by ~9.2%/~8.1% for FY25F/26F, respectively. Accordingly, we have raised our target price to Rs9,850 (Rs9,000 earlier), corresponding to ~7.4x FY25F BV & ~31x FY25F EPS. Retain ADD rating on the stock. 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	296,529	380,590	480,046
Total Non-Interest Income (Rsm)	43,627	58,555	67,217	83,043	103,030
Pre-provisioning Operating Profit (Rsm)	143,072	187,158	240,649	316,860	405,973
Total Provision Charges (Rsm)	(48,034)	(31,897)	(42,494)	(60,168)	(84,355)
Net Profit (Rsm)	70,282	115,060	148,616	192,519	241,213
Core EPS (Rs)	116.50	190.72	246.34	319.11	269.05
Core EPS Growth	59%	64%	29%	30%	(16%)
FD Core P/E (x)	69.47	42.43	32.85	25.36	30.08
DPS (Rs)	20.00	30.00	45.00	60.00	70.00
Dividend Yield	0.25%	0.37%	0.56%	0.74%	0.86%
BVPS (Rs)	724.6	901.2	1,102.6	1,361.7	1,116.7
P/BV (x)	11.17	8.98	7.34	5.94	7.25
ROE	17.4%	23.5%	24.6%	25.9%	26.5%
% 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	2QFY24	YoY (%)	QoQ (%)
Total income	66,376	70,009	74,347	77,712	83,980	88,447	26.3%	5.3%
Operating expenses	23,801	25,144	25,818	26,522	28,544	30,100	19.7%	5.5%
Operating profit	42,575	44,865	48,529	51,190	55,437	58,347	30.0%	5.2%
Provisions	7,547	7,342	8,413	8,594	9,953	10,771	46.7%	8.2%
CoR (%)	1.5%	1.4%	1.5%	1.4%	1.5%	1.5%		
Profit before tax	35,028	37,523	40,117	42,611	45,512	47,578	26.8%	4.5%
Tax	9,065	9,716	10,387	11,033	11,143	12,070	24.2%	8.3%
Tax rate (%)	25.9%	25.9%	25.9%	25.9%	24.5%	25.4%		
Profit after tax	25,963	27,807	29,730	31,578	34,369	35,508	27.7%	3.3%
AUMs	2,040,180	2,183,660	2,308,420	2,473,790	2,700,970	2,902,640	32.9%	7.5%
Borrowings	1,705,100	1,824,620	1,824,620	2,166,905	2,378,286	2,610,524	43.1%	9.8%
Gross NPL (%)	1.3%	1.2%	1.2%	0.9%	0.9%	0.9%		
Net NPL (%)	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%		
Provision coverage ratio (%)	59.2%	62.4%	62.4%	63.8%	64.4%	65.9%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

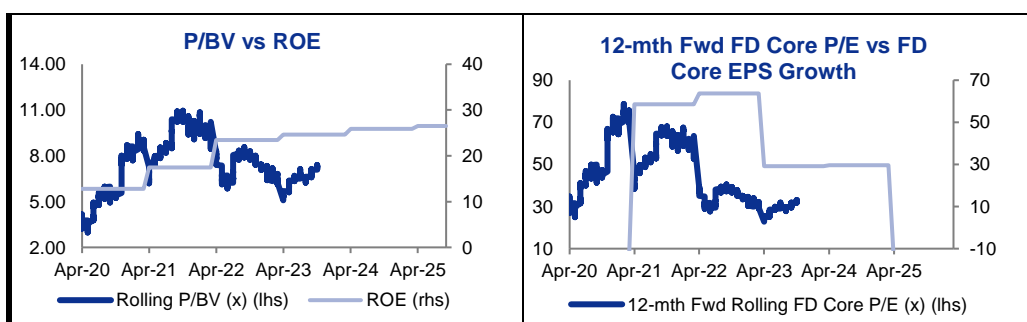
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	360,263	363,747	1.0%	446,957	463,634	3.7%	563,228	583,076	3.5%
PPOP	235,452	240,649	2.2%	297,185	316,860	6.6%	383,147	405,973	6.0%
PAT	142,995	148,616	3.9%	176,303	192,519	9.2%	223,176	241,213	8.1%
EPS (Rs)	237	247	3.9%	293	320	9.2%	370	400	8.1%
BV (Rs)	1,087	1,096	0.9%	1,322	1,353	2.3%	1,596	1,649	3.3%
ABV (Rs)	1,073	1,082	0.9%	1,304	1,335	2.4%	1,571	1,623	3.3%
AUM	3,154,962	3,192,051	1.2%	3,989,068	4,101,049	2.8%	5,072,910	5,271,745	3.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call highlights

- Rs1bn of management overlay provision was released during the quarter.
- BAF may witness a further margin compression of 35bp in 2HFY24F. Despite margin compression, management is confident of achieving a 5% RoA driven by operating leverage.
- 35% of service requests are now coming through Bajaj Super App.
- Management indicated that industry's unsecured personal loans stand at 92% against 93% in FY20. BAF has 98% unsecured personal loans in its current bucket.
- Management indicated that less than Rs50,000 ticket size loans are imprudent.
- Due to imprudent behaviour of the customers, BAF has let go 8% unsecured loan business in rural areas and 14% in urban areas.
- Bajaj Housing's listing on the stock exchanges is eight quarters away.
- BAF is witnessing strong growth in non-Bajaj automobile loans. The company is likely to start giving tractor loans from Jan 2024F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	175,295	229,903	296,529	380,590	480,046
Total Non-Interest Income	43,627	58,555	67,217	83,043	103,030
Operating Revenue	218,922	288,458	363,747	463,634	583,076
Total Non-Interest Expenses	(35,897)	(50,591)	(64,757)	(80,946)	(101,183)
Pre-provision Operating Profit	143,072	187,158	240,649	316,860	405,973
Total Provision Charges	(48,034)	(31,897)	(42,494)	(60,168)	(84,355)
Operating Profit After Provisions	95,038	155,262	198,155	256,692	321,618
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	95,038	155,262	198,155	256,692	321,618
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	95,038	155,262	198,155	256,692	321,618
Exceptional Items					
Pre-tax Profit	95,038	155,262	198,155	256,692	321,618
Taxation	(24,756)	(40,202)	(49,539)	(64,173)	(80,404)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	70,282	115,060	148,616	192,519	241,213
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	70,282	115,060	148,616	192,519	241,213
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%	101.8%	101.8%	101.1%
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%	2,414.3%	2,293.6%	2,150.1%
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%	1.34%	1.48%	1.63%
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	3,203,642	4,116,361	5,291,949
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,934,106	2,443,883	3,203,642	4,116,361	5,291,949
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,934,106	2,443,883	3,203,642	4,116,361	5,291,949
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	108,150	86,546	95,795
Long-term Investments	122,488	227,551	226,138	287,270	369,275
Total Assets	2,125,054	2,752,285	3,581,116	4,540,060	5,815,296
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,652,319	2,166,905	2,826,721	3,590,878	4,615,940
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	35,608	41,662	89,210	127,676	198,217
Total Liabilities	1,687,927	2,208,567	2,915,931	3,718,554	4,814,157
Shareholders Equity	437,127	543,718	665,185	821,506	1,001,140
Minority Interests					
Total Equity	437,127	543,718	665,185	821,506	1,001,140

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	26.1%	31.2%	29.0%	28.3%	26.1%
Operating Profit Growth	23.9%	30.0%	25.7%	28.0%	25.9%
Pretax Profit Growth	59%	63%	28%	30%	25%
Net Interest To Total Income	80.1%	79.7%	81.5%	82.1%	82.3%
Cost Of Funds	6.57%	6.58%	7.30%	6.80%	6.60%
Return On Interest Earning Assets	16.0%	16.2%	17.0%	16.4%	16.0%
Net Interest Spread	9.40%	9.66%	9.66%	9.56%	9.36%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	17%	18%	19%	21%
Interest Return On Average Assets	9.13%	9.43%	9.36%	9.37%	9.27%
Effective Tax Rate	26.0%	25.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	17.2%	15.7%	18.3%	18.8%	26.0%
Return On Average Assets	3.66%	4.72%	4.69%	4.74%	4.66%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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