

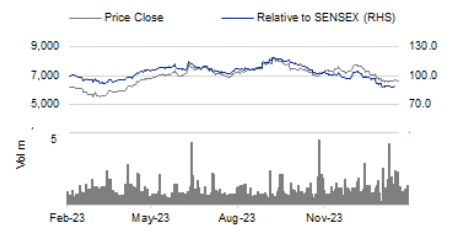
India

ADD (no change)

Consensus ratings*: Buy 29 Hold 2 Sell 4	
Current price:	Rs6,675
Target price:	Rs9,000
Previous target:	Rs9,850
Up/downside:	34.8%
InCred Research / Consensus:	3.3%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$49,792m
	Rs4,125,273m
Average daily turnover:	US\$101.5m
	Rs8412.2m
Current shares o/s:	618.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- Our channel check indicates the insignificant presence of JIO Financial Services in any consumer durable financing business and we expect zero competition risk for Bajaj Finance.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.6)	(5.6)	7.6
Relative (%)	(7.8)	(14.8)	(12.1)

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

Bajaj Finance Ltd

Dominance in durable financing continues

- Our channel check reiterates the dominance maintained by Bajaj Finance (BAF) in financing consumer durables across stores and geographies in Maharashtra.
- Our channel check also indicates the insignificant presence of Jio Financial Services in consumer durable financing & expect zero competition risk for BAF.
- We remain optimistic about BAF's robust customer addition with its diversified growth and healthy asset quality. Retain ADD rating with a lower TP of Rs9,000.

BAF continues its dominance in consumer durable financing biz

We visited quite a few large consumer durable (CD) stores across Mumbai & Pune to understand the demand environment but more importantly, to observe any change in the financing pattern or a change in key lenders in this space. Our primary research had many outcomes, but one of the most significant observations was the dominance maintained by Bajaj Finance (BAF) in financing consumer durables across stores and geographies in Maharashtra (~20% of the business). BAF has the highest staff count at the financing desks with a deep coverage of stores while the other players preferred to be selective.

Jio Financial Services' presence continues to remain insignificant

Our channel check once again indicates the insignificant presence of Jio Financial Services in any consumer durable financing business across geographies. On a slight positive note, our discussions with a couple of Reliance Digital stores highlighted that the sales force of Jio Financial Services were trained at select Reliance Digital Stores to take up durable financing business during the last festive season. However, the same was on a pilot basis without undertaking any actual transaction.

Robust customer acquisition & strong capital adequacy to aid growth

BAF had reported robust customer acquisition at ~3.85m in 3QFY24, despite the Reserve Bank of India or RBI's limit on EMI cards, which is higher than that of HDFC Bank. BAF's management has assured us that it is fully complying with the RBI's order and new customer acquisition is now expected to gain further momentum. We prefer to abstain from commenting on the rumours about its Managing Director Mr. Rajiv Jain moving out. However, after our interactions with company officials at various levels, we remain confident about the recent management reshuffle supporting quality growth with necessary diversity in the assets under management or AUM.

Outlook & valuation

We continue to like the company amid its robust and diversified growth, coupled with improving presence and superior asset quality. We retain our ADD rating on the stock but cut its target price to Rs9,000 (from Rs9,850 earlier), corresponding to ~6.8x FY25F BV & ~28x FY25F EPS. Slowing consumption growth remains a key downside risk.

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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)	57.30	35.00	27.41	21.18	24.51
DPS (Rs)	20.00	30.00	45.00	55.00	75.00
Dividend Yield	0.30%	0.45%	0.67%	0.82%	1.12%
BVPS (Rs)	724.6	901.2	1,099.8	1,360.0	1,113.8
P/BV (x)	9.21	7.41	6.07	4.91	5.99
ROE	17.4%	23.5%	24.3%	25.6%	26.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

The first-mover advantage and strong brand recognition remain intact

Our discussions with end-customers indicate that BAF experiences a familiarity bias and a strong brand recall, thereby still enjoying the first-mover advantage. BAF was the first lender to start electronic consumer durable lending (mobile/laptops), which allowed the company to have maximum brand tie-ups across different categories. Despite attractive or similar pricing and staff deployment by its rivals, consumers find more comfort in transacting with BAF. Most of the company's consumers are in the mid-income segment with a decent CIBIL score.

Consumer durable demand is seasonal, but cellphone is new FMCG

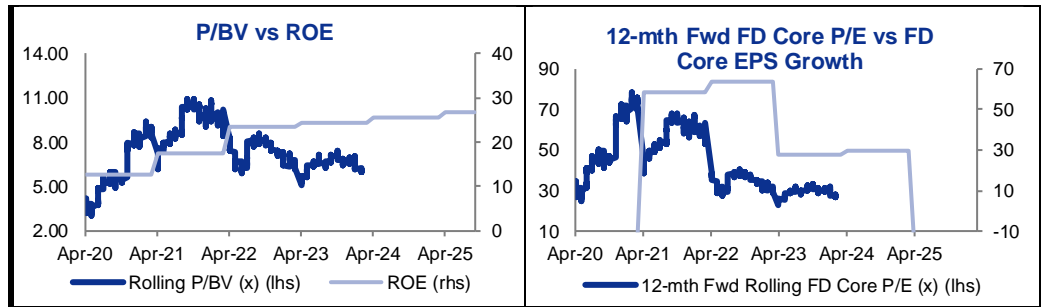
Demand in the electronic product market has been seasonal with sluggish demand in Feb 2024, after a decent momentum during the Republic Day sales last month. Among product-specific trends, demand for mobile phones remains largely inelastic. The demand is likely to see an uptick during Mar 2024 amid the Holi and Gudi Padwa festivals.

Figure 1: Key observations from large consumer durable stores

	How is BAF doing?	Is Jio Finance present?	Demand post Diwali	Products in demand	Cash/credit proportion	Other card companies	Trend going ahead
Reliance Digital							
Store 1	Doing good, sees customer loyalty	Had come for a trial, no transactions	Seasonally good, moves in hand with offers	Mobiles, home appliances, laptops, TVs	2/3 business in credit	HDFC Bank, IDFC Bank, BAF, BoB, Yes Bank, OneCard	-
Store 2	Doing good, BAF offers product finance starting from Rs6,000	Had come for a trial, no transactions	Good	Mobile phones post recent launches	-	HDFC Bank, HDB, ICICI Bank, IDFC Bank, BAF	Expects AC and laptop sales to pick up in the coming season
Store 3	-	Had come for a trial, but left saying they had cash back/return-related issues	Low	-	-	HDFC Bank, HDB, ICICI Bank, IDFC Bank, BAF, OneCard	-
Store 4	BAF does equally well as others, but not better	Said no tie-ups, trained staff will be joining on a pilot basis in different stores	Good	-	60% full swipe, rest credit	IDFC Bank, BAF, didn't get the other cards	Expects AC and laptop sales to pick up in the coming season
Store 5	Doing good, sees customer loyalty, financed a Rs1m TV recently	Had come with co-branding of another bank	Overall good, normal demand	All products	Mostly credit	HDFC Bank, IDFC Bank, BAF, Bo B, AU Small Finance Bank, Federal Bank, DBS, OneCard	Overall, good
Croma							
Store 1	Doing good, it has maximum tie-ups	No presence, no plans	Demand is generally low	Sales of mobile phones good while laptop sales are low	Mostly credit	IDFC Bank, SIB	Expects demand to pick up
Store 2	-	Heard it is coming to the market	Good	Mobile phones	-	BoB, AU Small Finance Bank, Federal Bank, HSBC, DBS, OneCard	Overall good, especially for mobile phones followed by laptops and ACs
Store 3	Doing good, has strong customer recall, good brand loyalty	No presence, no plans	Demand is good, meeting targets	Mobile phones and laptops	1/3 is credit and the rest is full payment	HDFC Bank, Kotak Mahindra Bank, BAF, OneCard	In general, all good
Store 4	Doing good, sees customer loyalty	No presence, no plans	Demand is good	Mobile phones and TVs	Mostly full swipe and less credit	OneCard, IDFC Bank, SBI, BAF, HDFC Bank	Overall good
Store 5	BAF does equally well as others, but not better	No presence, no plans	Decent	Mobile phones and TVs	Mostly full card swipe	BoB, Yes Bank, AU Small Finance Bank, IDFC Bank, OneCard, Federal Bank, DBS	Overall good
Vijay Sales							
Store 1	Doing good, sees good customer loyalty	No presence, no plans	Good, Feb month is slow	Mobile phones	Mix, more credit	IDFC Bank, HDFC Bank, BAF, HSBC, DBS, Onecard, Yes Bank	Overall, looks good
Store 2	Doing good, sees good customer loyalty	No presence,	Regular demand	Mobile phones and TVs	Mix sales	HDFC Bank, HDB, ICICI Bank, IDFC Bank, BAF	
Store 3	Doing good, strong people connect - it was a multi-floor store with 8 BAF employees, 3-5 of HDFC Bank, and 1 each of Kotak Mahindra Bank and IDFC Bank	No presence, no plans	Slow, is usually seasonal	Overall demand	Mostly credit	OneCard, Kotak Mahindra Bank, IDFC Bank, BAF	Looking at strong sales in Mar 2024 led by ACs

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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					
Prof. & 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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