

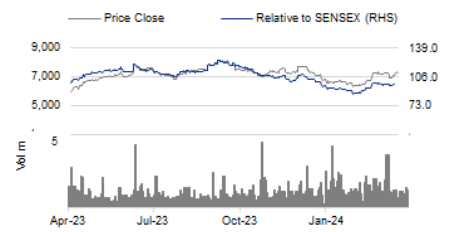
India

ADD (no change)

Consensus ratings*: Buy 31 Hold 4 Sell 3	
Current price:	Rs7,295
Target price:	Rs9,000
Previous target:	Rs9,000
Up/downside:	23.4%
InCred Research / Consensus:	4.8%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$54,192m Rs4,515,517m
Average daily turnover:	US\$106.5m Rs8871.4m
Current shares o/s:	0.0m
Free float:	40.0%
*Source: Bloomberg	

Key changes in this note

- Management aims at ~12-14m customer addition aided by a diversified AUM growth profile, but margin pressure in the near term is inevitable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.6	3.0	20.5
Relative (%)	2.9	(2.1)	(2.3)

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

Meghna LUTHRA
T (91) 22 4161 1500
E meghna.luthra@incredresearch.com

Rishabh JOGANI
T (91) 02241611569
E rishabh.jogani@incredresearch.com

Bajaj Finance Ltd

Sustainability commands a premium

- BAF reported in-line 4Q PAT of Rs38.2bn (InCred est: Rs38.4bn) aided by lower operating expenses, despite elevated cost of funds impacting margins.
- Management aims at ~12-14m customer addition aided by a diversified AUM growth profile, but margin pressure in the near term is inevitable.
- We remain confident of healthy profitability (aided by operating leverage) & best-in-class return ratios for BAF. Retain ADD rating with a TP of Rs9,000.

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

Bajaj Finance (BAF) reported consolidated AUM growth of ~33.6% yoy/~6.3% qoq to Rs3.31tr in 4QFY24, with robust customer acquisition at -3.23m, despite the RBI restriction on e-com loans and fresh issuance of EMI cards. Management has informed the investors that the company has now become fully compliant with RBI requirements for EMI cards and e-com loans and has submitted the same to the banking regulator as well. Once cleared, new customer acquisition to gain further momentum. Net interest income (NII) grew at a slower pace of ~24.9% yoy/~4.5% qoq, compared to AUM growth, as the company continued to face margin pressure amid elevated cost of borrowings.

Margin pressure to stay; operating leverage to aid profitability

For FY25F, management expects margin pressure to continue in 1HFY25F amid tight liquidity and elevated cost of funds, but some normalization is expected during 2HFY25F. The company has increased lending rates by 20-30bp across products during 2HFY24, which should support incremental yields. However, the overall margin pressure is inevitable. On the contrary, 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 expected to result in cost optimization and aid profitability. We are building in the cost-to-average assets at ~3.5% by FY26F against ~3.8% in FY24. Management remains confident of managing credit costs in the range of ~1.6-1.8% in FY25F, which is in line with the pre-Covid levels and remains achievable. We are building in ~28% CAGR in PAT for FY24-27F, with RoA of ~4.6% and an average RoE of ~26%.

Outlook & valuation

BAF recently raised Rs100bn through a QIP and preferential allotment which will support robust growth till FY26F. The recent reshuffle in managerial roles provides comfort over management stability and ability of the company to maintain diversified growth momentum. The aggressive customer acquisition & flawless diversity into new business segments are the unique features of the company. We retain ADD rating on BAF with a target price of Rs9,000, corresponding to ~5x FY26F & ~22.5x FY26F EPS. Slowing consumption remains a key downside risk.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	229,968	295,949	382,415	501,127	644,711
Total Non-Interest Income (Rsm)	58,616	66,509	78,822	92,902	115,937
Pre-provisioning Operating Profit (Rsm)	187,158	239,206	312,236	408,121	528,195
Total Provision Charges (Rsm)	(31,897)	(46,307)	(69,631)	(81,804)	(105,052)
Net Profit (Rsm)	115,060	144,315	181,468	244,086	316,511
Core EPS (Rs)	190.72	233.52	293.64	267.86	347.34
Core EPS Growth	64%	22%	26%	(9%)	30%
FD Core P/E (x)	38.25	31.24	24.84	27.23	21.00
DPS (Rs)	30.00	36.00	55.00	70.00	95.00
Dividend Yield	0.41%	0.49%	0.75%	0.96%	1.30%
BVPS (Rs)	901.2	1,241.0	1,479.7	1,202.7	1,455.0
P/BV (x)	8.09	5.88	4.93	6.07	5.01
ROE	23.5%	22.0%	21.6%	24.3%	26.1%
% 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	3QFY24	4QFY24	YoY (%)	QoQ (%)
Total income	66,376	70,009	74,347	77,756	83,980	88,447	93,004	97,149	24.9%	4.5%
Operating expenses	23,801	25,144	25,818	26,566	28,544	30,100	31,567	33,028	24.3%	4.6%
Operating profit	42,575	44,865	48,529	51,190	55,437	58,347	61,438	64,121	25.3%	4.4%
Provisions	7,547	7,342	8,413	8,594	9,953	10,771	12,484	13,100	52.4%	4.9%
CoR (%)	1.5%	1.4%	1.5%	1.4%	1.5%	1.5%	1.7%	1.6%		
Profit before tax	35,028	37,523	40,117	42,612	45,512	47,578	48,971	51,051	19.8%	4.2%
Tax	9,065	9,716	10,387	11,033	11,143	12,070	12,566	12,806	16.1%	1.9%
Tax rate (%)	25.9%	25.9%	25.9%	25.9%	24.5%	25.4%	25.7%	25.1%		
Profit after tax	25,963	27,807	29,730	31,578	34,369	35,508	36,405	38,245	21.1%	5.1%
AUMs	20,40,180	21,83,660	23,08,420	24,73,790	27,00,970	29,02,640	31,09,680	33,06,150	33.6%	6.3%
Borrowings	17,05,100	18,24,620	18,24,620	21,66,905	23,78,286	26,10,524	26,36,727	22,03,790	1.7%	-16.4%
Gross NPL (%)	1.3%	1.2%	1.2%	0.9%	0.9%	0.9%	1.0%	0.9%		
Net NPL (%)	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%		
Provision coverage ratio (%)	59.2%	62.4%	62.4%	63.8%	64.4%	65.9%	61.1%	56.5%		

SOURCE: INCRED RESEARCH

Figure 2: Our revised earnings estimates

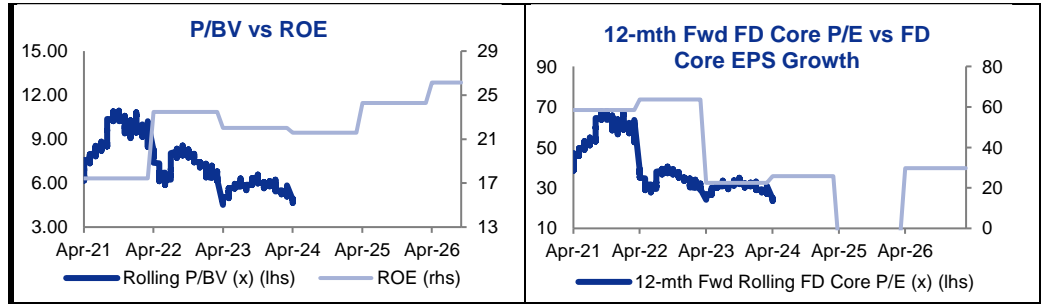
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	4,70,847	4,61,238	-2.0%	5,89,579	5,94,030	0.8%	NA	7,60,649	NA
PPOP	3,21,982	3,12,236	-3.0%	4,03,768	4,08,121	1.1%	NA	5,28,195	NA
PAT	1,93,012	1,81,468	-6.0%	2,44,157	2,44,086	0.0%	NA	3,16,511	NA
EPS (Rs)	320	298	-7.0%	405	401	-1.1%	NA	520	NA
BV (Rs)	1,348	1,493	10.8%	1,641	1,790	9.0%	NA	2,165	NA
ABV (Rs)	1,329	1,474	11.0%	1,614	1,763	9.2%	NA	2,130	NA
AUM	42,88,109	42,21,541	-1.6%	54,90,061	54,02,414	-1.6%	NA	69,56,627	NA

SOURCE: INCRED RESEARCH

4QFY24 earnings conference-call highlights

- AUM growth is guided to be in the range of 26-28% yoy in FY25F, with a rising contribution from recently launched products such as loan against property or LAP, new car financing and tractor financing.
- Rural B2C (excluding gold loans) continued to be a drag - the portfolio, which is ~5% of the total AUM, declined by ~17.8% sequentially due to elevated risk levels. However, GNPA's in this segment declined by ~35bp qoq to ~1.14%. The segment carried a healthy provision coverage ratio of ~73%.
- The gross flow rate or GFR, which indicates the health of the segment, continues to fall behind the pre-Covid levels. Management expects another quarter of sluggishness. Once the metrics turn favourable, the company is willing to press the growth accelerator.
- Despite the slowdown in rural B2C, BAF continues to enjoy strong leadership in the consumer durable financing market, with a market share of ~51-52%.
- Liquidity buffer was strong at Rs157bn.
- The board of directors of Bajaj Housing Finance (BHFL), a wholly-owned subsidiary, evaluated various options for meeting the mandatory listing conditions pursuant to BHFL's classification as a non-banking finance company or NBFC – Upper Layer by RBI, including through a potential initial public offer or IPO.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	229,968	295,949	382,415	501,127	644,711
Total Non-Interest Income	58,616	66,509	78,822	92,902	115,937
Operating Revenue	288,584	362,458	461,238	594,030	760,649
Total Non-Interest Expenses	(51,002)	(63,960)	(79,950)	(103,935)	(135,116)
Pre-provision Operating Profit	187,158	239,206	312,236	408,121	528,195
Total Provision Charges	(31,897)	(46,307)	(69,631)	(81,804)	(105,052)
Operating Profit After Provisions	155,262	192,899	242,604	326,318	423,143
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	155,262	192,899	242,604	326,318	423,143
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	155,262	192,899	242,604	326,318	423,143
Exceptional Items					
Pre-tax Profit	155,262	192,899	242,604	326,318	423,143
Taxation	(40,202)	(48,584)	(61,136)	(82,232)	(106,632)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	115,060	144,315	181,468	244,086	316,511
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	115,060	144,315	181,468	244,086	316,511
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	90.7%	89.6%	90.3%	91.0%	91.9%
Avg Liquid Assets/Avg IEAs	101.1%	101.7%	101.6%	100.6%	100.0%
Net Cust Loans/Assets	0.8%	0.8%	0.9%	0.9%	0.9%
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans	2,568.3%	2,423.0%	2,222.2%	2,048.6%	1,906.5%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.46%	1.61%	1.85%	1.70%	1.70%
Provision Charge/Avg Assets	1.31%	1.42%	1.65%	1.54%	1.56%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	2,443,859	3,294,587	4,220,475	5,401,885	6,956,604
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,443,859	3,294,587	4,220,475	5,401,885	6,956,604
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,443,859	3,294,587	4,220,475	5,401,885	6,956,604
Intangible Assets					
Other Non-Interest Earning Assets	4,595	4,675	6,077	7,900	10,271
Total Non-Interest Earning Assets	37,808	47,750	57,140	68,606	82,662
Cash And Marketable Securities	43,067	106,240	87,146	69,750	54,580
Long-term Investments	227,551	308,839	332,883	400,060	419,422
Total Assets	2,752,285	3,757,416	4,697,645	5,940,300	7,513,268
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,166,905	2,933,458	3,698,703	4,706,583	5,991,743
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	41,662	57,004	84,510	137,809	195,672
Total Liabilities	2,208,567	2,990,463	3,783,213	4,844,392	6,187,415
Shareholders Equity	543,718	766,954	914,432	1,095,909	1,325,852
Minority Interests					
Total Equity	543,718	766,954	914,432	1,095,909	1,325,852

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	31.2%	28.7%	29.2%	31.0%	28.7%
Operating Profit Growth	29.8%	25.6%	27.7%	28.5%	27.6%
Pretax Profit Growth	63%	24%	26%	35%	30%
Net Interest To Total Income	79.7%	81.7%	82.9%	84.4%	84.8%
Cost Of Funds	6.58%	7.34%	7.10%	6.50%	6.25%
Return On Interest Earning Assets	16.2%	16.8%	16.4%	16.1%	15.8%
Net Interest Spread	9.67%	9.50%	9.34%	9.59%	9.59%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	19%	22%	20%	20%
Interest Return On Average Assets	9.43%	9.09%	9.05%	9.42%	9.58%
Effective Tax Rate	25.9%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.7%	15.4%	18.7%	26.1%	27.4%
Return On Average Assets	4.72%	4.43%	4.29%	4.59%	4.71%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.