

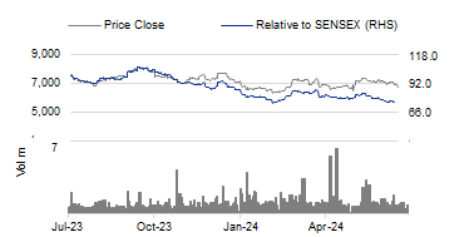
India

ADD (no change)

Consensus ratings*: Buy 26 Hold 4 Sell 4	
Current price:	Rs6,727
Target price:	Rs9,000
Previous target:	Rs9,000
Up/downside:	33.8%
InCred Research / Consensus:	8.0%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$57,344m
	Rs4,164,050m
Average daily turnover:	US\$127.7m
	Rs9275.5m
Current shares o/s:	619.0m
Free float:	45.2%
*Source: Bloomberg	

Key changes in this note

Management expects normalization from 2HFY25F, but net credit costs to remain in upward trajectory of the guided range of ~1.75-1.85%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.7)	(7.3)	(11.3)
Relative (%)	(9.3)	(14.9)	(26.8)

Major shareholders	% held
Bajaj Finserv Ltd	54.7
Government of Singapore	3.3
SBI MF	2.8

Bajaj Finance Ltd

Asset quality witnessing seasonality

- BAF posts lower-than-expected 1Q PAT of Rs39.1bn (InCred: Rs40.9bn) led by elevated provision as collection efficiency for some products saw volatility.
- Management is expecting normalization from 2HFY25F, but net credit costs to remain in upward trajectory of the guided range of ~1.75-1.85%.
- BAF remains conservative, despite superior underwriting/ collection practices. Industry to follow suit. Retain ADD rating on it with a target price of Rs9,000.

Growth momentum continues amid robust customer addition

Overall customer franchise for Bajaj Finance or BAF reached ~88.1m, with a historical high customer addition of ~4.47m in 1QFY25. Historically, 1Q and 3Q are seasonally strong quarters for the company, which was reiterated again in the current fiscal year. New loans given during the quarter remained robust at ~10% yoy (+39% qoq) at ~10.97m, which were aided by lifting of the RBI's restrictions on loans under 'eCOM' and 'Insta EMI Card'. AUM growth for the quarter remained robust at ~31% yoy to Rs3.5tr, which we attribute to rising geographic penetration, improving product diversity and aggressive growth approach.


Margin, credit cost pressure; operating leverage to aid profitability

In FY25F, BAF's management expects margin and credit cost pressure to continue during 2HFY25F amid tight liquidity, weak collection efficiency for certain products amid a heat wave and other adversities, but some normalization is likely. On the contrary, management remains confident of improving the operating leverage as incremental technology-led levers come into play. Management has given guidance of elevated credit costs in the near term and rationalization in 2HFY25F post improved collections. We believe that similar will be the trend for most lenders considering that BAF, being the market leader, has a transparent approach and we are confident that the asset quality volatility will be visible for all lenders.

Outlook & valuation

The margin and asset quality concerns raised by BAF's management will be applicable to all lenders, but rather BAF would be quick to recognize the pain and provide for the same. The recent reshuffle in managerial roles at BAF provides comfort over management stability and ability of the company to maintain its diversified growth momentum. We retain ADD rating on BAF with a target price of Rs9,000, corresponding to ~5.1x FY26F & ~23.4x FY26F EPS. Slowing consumption remains the key downside risk.

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Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	229,968	295,949	375,803	488,844	632,062
Total Non-Interest Income (Rsm)	58,616	66,509	78,822	92,618	109,153
Pre-provisioning Operating Profit (Rsm)	187,158	239,206	305,623	399,715	517,722
Total Provision Charges (Rsm)	(31,897)	(46,307)	(69,631)	(86,669)	(111,354)
Net Profit (Rsm)	115,060	144,315	176,522	234,158	303,963
Core EPS (Rs)	190.72	233.52	285.63	256.97	333.57
Core EPS Growth	64%	22%	22%	(10%)	30%
FD Core P/E (x)	35.27	28.81	23.55	26.18	20.17
DPS (Rs)	30.00	36.00	50.00	70.00	90.00
Dividend Yield	0.45%	0.54%	0.74%	1.04%	1.34%
BVPS (Rs)	901.2	1,241.0	1,476.7	1,189.7	1,433.3
P/BV (x)	7.46	5.42	4.56	5.65	4.69
ROE	23.5%	22.0%	21.0%	23.5%	25.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Total income	66,376	70,009	74,347	77,756	83,980	88,447	93,004	97,149	1,04,185	24.1%	7.2%
Operating expenses	23,801	25,144	25,818	26,566	28,544	30,100	31,567	33,028	34,709	21.6%	5.1%
Operating profit	42,575	44,865	48,529	51,190	55,437	58,347	61,438	64,121	69,475	25.3%	8.4%
Provisions	7,547	7,342	8,413	8,594	9,953	10,771	12,484	13,100	16,847	69.3%	28.6%
CoR (%)	1.5%	1.4%	1.5%	1.4%	1.5%	1.5%	1.7%	1.6%	2.0%		
Profit before tax	35,028	37,523	40,117	42,612	45,512	47,578	48,971	51,051	52,654	15.7%	3.1%
Tax	9,065	9,716	10,387	11,033	11,143	12,070	12,566	12,806	13,534	21.5%	5.7%
Tax rate (%)	25.9%	25.9%	25.9%	25.9%	24.5%	25.4%	25.7%	25.1%	25.7%		
Profit after tax	25,963	27,807	29,730	31,578	34,369	35,508	36,405	38,245	39,120	13.8%	2.3%
AUM	20,40,180	21,83,660	23,08,420	24,73,790	27,03,530	29,02,640	31,09,680	33,06,150	35,41,920	31.0%	7.1%
Borrowings	17,05,100	18,24,620	18,24,620	21,66,905	23,78,286	26,10,524	26,36,727	29,33,458	31,38,700	32.0%	7.0%
Gross NPL (%)	1.3%	1.2%	1.2%	0.9%	0.9%	0.9%	1.0%	0.9%	0.9%		
Net NPL (%)	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%		
Provision coverage ratio (%)	59.2%	62.4%	62.4%	63.8%	64.4%	65.9%	61.1%	56.5%	55.8%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	4,61,238	4,54,625	-1.4%	5,94,030	5,81,461	-2.1%	7,60,649	7,41,215	-2.6%
PPOP	3,12,236	3,05,623	-2.1%	4,08,121	3,99,715	-2.1%	5,28,195	5,17,722	-2.0%
PAT	1,81,468	1,76,522	-2.7%	2,44,086	2,34,158	-4.1%	3,16,511	3,03,963	-4.0%
EPS (Rs)	298	290	-2.8%	401	384	-4.1%	520	499	-4.0%
BV (Rs)	1,493	1,490	-0.2%	1,790	1,771	-1.1%	2,165	2,133	-1.5%
ABV (Rs)	1,474	1,471	-0.2%	1,763	1,744	-1.1%	2,130	2,098	-1.5%
AUM	42,21,541	42,21,541	0.0%	54,02,414	54,08,355	0.1%	69,56,627	69,64,351	0.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY25 earnings conference-call highlights

- BAF's management expects the cost of funds to peak by Aug-Sep 2024F and then go sideways, which is expected to gradually lead to a rate cut cycle.
- Net interest margin or NIM compressed by 23bp, out of which 13bp was on account of the cost of funds and 10bp due to assets under management or AUM composition.
- NIM composition due to a change in the mix is backed by a pro-active strategy to cut on portfolios where there are signs of stress.
- Management expects to get a clear picture as to whether the stress is transitory or not by Sep 2024F.
- Despite slowing down on some portfolios, management has kept the balance sheet growth guidance at 26-28%, biased towards 28%.
- Credit costs remained elevated due to the heat wave and general elections limitation; it is expected to remain elevated in 2QFY25F also as the stage-2 asset bucket is high, which may get transferred to stage-3. The situation to get better in the second half of FY25F, with full-year guidance of loan loss in the range of 1.75-1.85%.
- The EMI bounce rate in Jun-Jul 2024 was better than in Jan-Mar 2024, providing management the confidence to improve loan loss in the second half of FY25F. Post EMI bounce case, the collection was slower during the quarter, which let then the assets to move from Stage-1 to Stage-2.
- Gross NPAs and net NPAs were sequentially in line but muted collectively leading to stage-2 asset bucket build-up. Default rate remains better sequentially and on YoY basis.
- Customers not having personal loans in FY20 stood at 63%, which was last year at 58% and currently at 59%.
- The car loan segment has 65% used cars and 35% new cars. The delinquency at which the segment is operating is much lower than the management's internal model, and the number of delinquencies will move up in the coming quarters for the segment.
- Competition from other lenders in urban areas led to 30bp decline in unsecured lending market share. However, the growth trajectory remains intact.

Figure 3: InCred BFSI Coverage Universe

Banks	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI **	ADD	864	1,000	2.1	1.8	1.6	1.0%	1.1%	1.1%	16.3%	17.2%	17.6%
HDFC Bank **	ADD	1,618	2,000	3.1	2.8	2.6	1.9%	2.0%	2.0%	15.4%	16.3%	16.9%
ICICI Bank	ADD	1,227	1,300	3.5	3.0	2.6	2.3%	2.2%	2.3%	17.7%	17.3%	17.7%
Axis Bank	HOLD	1,263	1,150	2.0	1.7	1.5	1.7%	1.7%	1.7%	16.8%	16.0%	16.3%
IndusInd Bank	HOLD	1,413	1,650	1.8	1.6	1.4	1.7%	1.7%	1.7%	14.1%	14.4%	14.8%

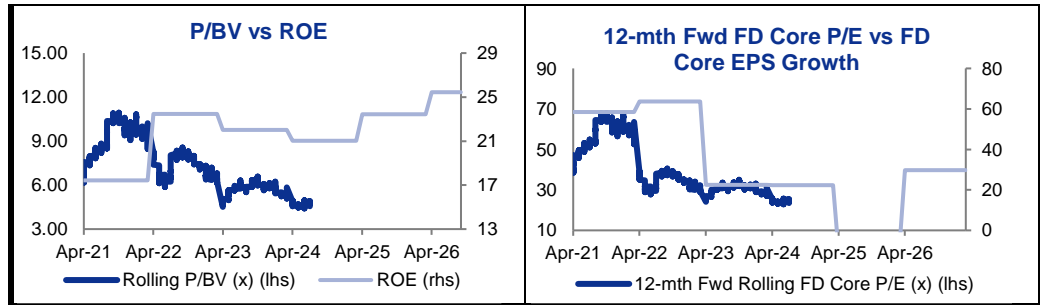
NBFCs	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Bajaj Finance	ADD	6,727	9,000	6.0	5.1	4.2	4.2%	4.4%	4.5%	21.0%	23.5%	25.4%
Cholamandalam	ADD	1,395	1,400	5.0	4.1	3.4	2.5%	2.5%	2.5%	21.0%	21.8%	22.5%
MMFS **	ADD	296	370	2.4	2.2	2.0	1.8%	1.9%	2.0%	12.3%	14.0%	15.7%
Shriram Finance **	ADD	2,739	2,950	2.0	1.7	1.4	3.4%	3.5%	3.5%	16.9%	17.3%	17.9%
SBI Cards **	REDUCE	730	500	3.4	2.9	2.5	3.6%	3.2%	3.0%	17.8%	16.6%	16.3%
Aavas Financiers	ADD	1,777	2,000	3.5	3.0	2.6	3.3%	2.9%	2.9%	14.7%	14.1%	14.9%
Home First Finance	ADD	1,063	1,100	4.2	3.7	3.2	3.4%	3.4%	3.4%	16.2%	17.7%	19.3%
Spandana Spoorthy	ADD	699	1,300	2.1	1.8	1.5	4.4%	4.6%	4.6%	16.7%	17.9%	18.2%
Fusion Micro Finance	HOLD	429	580	1.7	1.4	1.1	4.7%	4.7%	4.7%	19.4%	19.6%	19.7%

AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			ROA(%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
Nippon AMC	ADD	628	800	35.7	29.5	23.7	0.28%	0.26%	0.25%	35.2%	41.8%	50.7%
HDFC AMC	HOLD	3,957	4,250	33.5	29.9	25.3	0.37%	0.35%	0.35%	32.8%	34.2%	37.3%
UTI AMC	ADD	970	1,100	16.0	13.0	11.1	0.29%	0.29%	0.28%	18.8%	20.6%	21.4%
ABSL AMC**	ADD	678	700	21.3	17.3	14.4	0.25%	0.26%	0.26%	27.9%	30.3%	32.1%

Insurance	Rating	CMP(Rs)	TP(Rs)	P/EV (x) (at TP)			Return on EV (%)			ROE(%)		
				FY25F	FY26F	FY27F	FY25F	FY26F	FY27F	FY25F	FY26F	FY27F
SBI Life Insurance	HOLD	1595	1550	2.4	2.0	1.7	17.8%	17.4%	17.1%	24.7%	23.1%	21.0%

NOTE: **= HIGH-CONVICTION
SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	229,968	295,949	375,803	488,844	632,062
Total Non-Interest Income	58,616	66,509	78,822	92,618	109,153
Operating Revenue	288,584	362,458	454,625	581,461	741,215
Total Non-Interest Expenses	(51,002)	(63,960)	(79,950)	(99,938)	(124,922)
Pre-provision Operating Profit	187,158	239,206	305,623	399,715	517,722
Total Provision Charges	(31,897)	(46,307)	(69,631)	(86,669)	(111,354)
Operating Profit After Provisions	155,262	192,899	235,992	313,046	406,367
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	155,262	192,899	235,992	313,046	406,367
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	155,262	192,899	235,992	313,046	406,367
Exceptional Items					
Pre-tax Profit	155,262	192,899	235,992	313,046	406,367
Taxation	(40,202)	(48,584)	(59,470)	(78,887)	(102,405)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	115,060	144,315	176,522	234,158	303,963
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	115,060	144,315	176,522	234,158	303,963
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%	91.8%
Avg Liquid Assets/Avg IEAs	101.1%	101.7%	101.5%	100.5%	99.7%
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%	2,217.7%	2,026.6%	1,878.1%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.46%	1.61%	1.85%	1.80%	1.80%
Provision Charge/Avg Assets	1.31%	1.42%	1.65%	1.63%	1.66%
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	5,407,767	6,964,251
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,443,859	3,294,587	4,220,475	5,407,767	6,964,251
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,443,859	3,294,587	4,220,475	5,407,767	6,964,251
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	82,200	56,820	28,788
Long-term Investments	227,551	308,839	332,883	400,500	419,888
Total Assets	2,752,285	3,757,416	4,692,698	5,933,693	7,495,588
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,166,905	2,933,458	3,698,703	4,711,759	5,998,396
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	41,662	57,004	81,420	137,809	191,116
Total Liabilities	2,208,567	2,990,463	3,780,123	4,849,568	6,189,512
Shareholders Equity	543,718	766,954	912,575	1,084,125	1,306,077
Minority Interests					
Total Equity	543,718	766,954	912,575	1,084,125	1,306,077

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	31.2%	28.7%	27.0%	30.1%	29.3%
Operating Profit Growth	29.8%	25.6%	25.5%	28.5%	28.0%
Pretax Profit Growth	63%	24%	22%	33%	30%
Net Interest To Total Income	79.7%	81.7%	82.7%	84.1%	85.3%
Cost Of Funds	6.58%	7.34%	7.30%	6.80%	6.50%
Return On Interest Earning Assets	16.2%	16.8%	16.4%	16.1%	15.8%
Net Interest Spread	9.67%	9.50%	9.14%	9.29%	9.34%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	19%	23%	22%	22%
Interest Return On Average Assets	9.43%	9.09%	8.89%	9.20%	9.41%
Effective Tax Rate	25.9%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.7%	15.4%	17.5%	27.2%	27.0%
Return On Average Assets	4.72%	4.43%	4.18%	4.41%	4.53%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associates
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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
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