



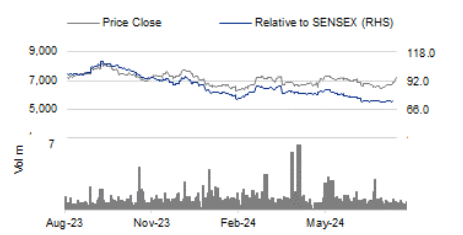
India

ADD (no change)

Consensus ratings*: Buy 25 Hold 5 Sell 5	
Current price:	Rs7,200
Target price:	Rs9,000
Previous target:	Rs9,000
Up/downside:	25.0%
InCred Research / Consensus:	12.2%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$61,377m
	Rs4,456,867m
Average daily turnover:	US\$118.6m
	Rs8611.2m
Current shares o/s:	619.0m
Free float:	45.2%
*Source: Bloomberg	

Key changes in this note

We believe the asset quality concerns over rural distress for BAF are overdone & we expect a positive surprise with a better-than-expected revival in rural India.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.5	8.8	(0.9)
Relative (%)	3.7	(2.3)	(21.4)

Major shareholders	% held
Bajaj Finserv Ltd	51.3
Government of Singapore	3.3
SBI MF	2.8

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Bajaj Finance Ltd

Return of the Jedi!

- With rising demand certainty, without much hiccups on asset quality, we prefer BAF amid superior growth, conservative underwriting & top-notch return ratios.
- We believe asset quality concerns over rural distress for BAF are overdone & we expect a positive surprise with a better-than-expected revival in rural India.
- Considering its rising product diversity, listing of the housing arm & comfortable valuation, we have added BAF to our high-conviction list with a TP of Rs9,000.

Demand scenario improving for BAF – ‘May the force be with you’

Our recent channel check indicates green shoots at consumer durable stores, with inventory build-up before the upcoming festive season. The relief is also becoming visible in several rural pockets with good monsoon advancement and improved employment data. Bajaj Finance or BAF has been consolidating its rural lending book in the past few quarters amid asset quality concerns and in case of a revival, it will be the fastest to gain advantage.

Rising share of asset-backed lending – ‘Do or Do Not, there is no try’

Post Reserve Bank of India’s consistent nudging to lenders against unsecured lending, BAF has been incrementally focusing on asset-backed financing. The company has introduced products like new car finance, commercial vehicle finance, tractor finance and has increased the momentum in gold finance, which is mostly secured in nature. The share of secured lending rose to ~62% in 1QFY25 against ~58% a year ago. We also believe that product diversity will ensure healthy assets under management or AUM growth as well as consistency in new customer addition instead of elevated reliance on cross-selling.

Operating leverage already kicking in – ‘Never tell me the odds’

BAF has witnessed a sharp surge in opex during FY21-22 amid its investments in digital infrastructure, but with major tech-driven costs already behind, the opex-to-average assets ratio has improved to ~4.1% in 1QFY25 against ~4.8% in 2QFY23. We expect the same to improve to ~3.5% by FY26F, with revenue growth surpassing costs. This will be key for RoA improvement, despite a volatile margin trajectory amid stiff competition.

Positive surprise on credit cost likely – ‘Rebellions are built on hope’

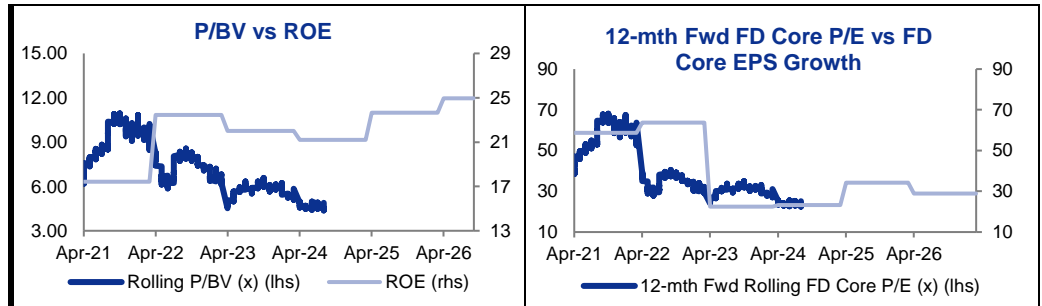
BAF’s management was the first to raise its concerns about overleveraging among rural customers and increasing the credit cost guidance for FY25F. However, the recent trend does indicate that major headwinds for the rural economy are softening gradually which, in turn, may result in a positive surprise on the asset quality front for BAF.

Upgrade BAF to our high conviction list – ‘The force is with me’

Our discussion on the ground continues to advocate BAF’s superior positioning vs. most peers, due to its best-in-class turnaround time, wide customer database, innovative tech platform, and an efficient management pedigree. Considering the economic revival, listing of the housing arm & comfortable valuation, we add BAF to our high-conviction list with an ADD rating & a target price of Rs9,000 or ~5x FY26F BV. Downside risks: Slowdown in AUM and a rise in asset quality stress.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	229,968	295,949	377,590	492,617	631,000
Total Non-Interest Income (Rsm)	58,616	66,509	79,125	93,593	110,828
Pre-provisioning Operating Profit (Rsm)	187,158	239,206	307,713	404,463	518,335
Total Provision Charges (Rsm)	(31,897)	(46,307)	(69,961)	(85,328)	(107,066)
Net Profit (Rsm)	115,060	144,315	177,839	238,713	307,629
Core EPS (Rs)	190.72	233.52	287.77	386.27	497.78
Core EPS Growth	64%	22%	23%	34%	29%
FD Core P/E (x)	37.75	30.83	25.02	18.64	14.46
DPS (Rs)	30.00	36.00	55.00	70.00	90.00
Dividend Yield	0.42%	0.50%	0.76%	0.97%	1.25%
BVPS (Rs)	901.2	1,241.0	1,473.8	1,791.0	2,198.8
P/BV (x)	7.99	5.80	4.89	4.02	3.27
ROE	23.5%	22.0%	21.2%	23.7%	25.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	229,968	295,949	377,590	492,617	631,000
Total Non-Interest Income	58,616	66,509	79,125	93,593	110,828
Operating Revenue	288,584	362,458	456,715	586,210	741,828
Total Non-Interest Expenses	(51,002)	(63,960)	(79,950)	(99,938)	(124,922)
Pre-provision Operating Profit	187,158	239,206	307,713	404,463	518,335
Total Provision Charges	(31,897)	(46,307)	(69,961)	(85,328)	(107,066)
Operating Profit After Provisions	155,262	192,899	237,753	319,135	411,268
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	155,262	192,899	237,753	319,135	411,268
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	155,262	192,899	237,753	319,135	411,268
Exceptional Items					
Pre-tax Profit	155,262	192,899	237,753	319,135	411,268
Taxation	(40,202)	(48,584)	(59,914)	(80,422)	(103,640)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	115,060	144,315	177,839	238,713	307,629
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	115,060	144,315	177,839	238,713	307,629
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%	101.5%	100.3%	99.6%
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%	2,213.4%	2,069.1%	1,954.0%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.46%	1.61%	1.85%	1.75%	1.70%
Provision Charge/Avg Assets	1.31%	1.42%	1.65%	1.59%	1.57%
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	4,255,733	5,493,164	7,099,943
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,443,859	3,294,587	4,255,733	5,493,164	7,099,943
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,443,859	3,294,587	4,255,733	5,493,164	7,099,943
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	76,654	42,381	29,273
Long-term Investments	227,551	308,839	335,692	406,887	428,151
Total Assets	2,752,285	3,757,416	4,725,219	6,011,038	7,640,028
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,166,905	2,933,458	3,729,906	4,786,909	6,116,448
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	41,662	57,004	84,510	117,283	164,725
Total Liabilities	2,208,567	2,990,463	3,814,416	4,904,191	6,281,173
Shareholders Equity	543,718	766,954	910,802	1,106,847	1,358,856
Minority Interests					
Total Equity	543,718	766,954	910,802	1,106,847	1,358,856

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	31.2%	28.7%	27.6%	30.5%	28.1%
Operating Profit Growth	29.8%	25.6%	26.2%	29.1%	26.9%
Pretax Profit Growth	63%	24%	23%	34%	29%
Net Interest To Total Income	79.7%	81.7%	82.7%	84.0%	85.1%
Cost Of Funds	6.58%	7.34%	7.30%	6.80%	6.50%
Return On Interest Earning Assets	16.2%	16.8%	16.4%	16.0%	15.6%
Net Interest Spread	9.67%	9.50%	9.14%	9.25%	9.15%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	19%	23%	21%	21%
Interest Return On Average Assets	9.43%	9.09%	8.90%	9.18%	9.24%
Effective Tax Rate	25.9%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.7%	15.4%	19.1%	18.1%	18.1%
Return On Average Assets	4.72%	4.43%	4.19%	4.45%	4.51%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.