



India

ADD (no change)

Consensus ratings*: Buy 23 Hold 6 Sell 5

Current price:	Rs6,781
Target price:	Rs9,000
Previous target:	Rs9,000
Up/downside:	32.7%
InCred Research / Consensus:	10.2%
Reuters:	BJFN.NS
Bloomberg:	BAF IN
Market cap:	US\$49,929m Rs4,197,352m
Average daily turnover:	US\$107.3m Rs9020.4m
Current shares o/s:	0.0m
Free float:	45.4%

*Source: Bloomberg

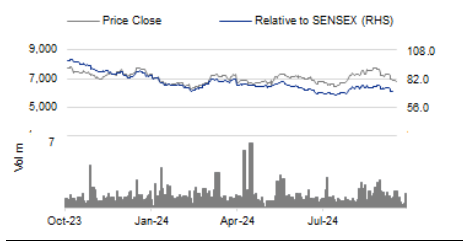
Bajaj Finance Ltd

Be greedy when others are fearful

- BAF posted in-line 2Q PAT of Rs40.1bn, despite elevated credit costs, (~213bp) amid healthy NII growth (24% yoy) & improving operating leverage.
- Management has increased its credit cost guidance for FY25F to 205bp, against 195bp earlier, but has assured that credit costs have already peaked.
- BAF consol. comes at ~3.8x FY26F BV, with ~4.3% RoA/23% RoE for FY26F providing attractive risk-reward. Retain high-conviction ADD with Rs9,000 TP.

Key changes in this note

- BAF consol. is available at ~3.8x FY26F BV, with ~4.3% RoA/23% RoE for FY26F providing an attractive risk-reward ratio.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.6)	(1.5)	(12.7)
Relative (%)	(6.8)	(2.3)	(29.7)

Major shareholders	% held
Bajaj Finserv Ltd	54.7
Government of Singapore	3.1
SBI MF	2.6

Growth momentum led by new product & robust customer addition

Bajaj Finance or BAF reported AUM growth of ~28.8% yoy to Rs3.73tr in 2QFY25, which was led by robust customer addition of 3.98m, taking the total franchise to 57.7m customers. Management has categorically highlighted that BAF is witnessing consolidation in its legacy portfolio (mainly unsecured loans), which is growing at a 24-25% CAGR whereas new products (mainly secured) including gold loans, new car financing, tractor and commercial vehicle loans, etc. are growing at a much faster pace due to a low base as well as aggressive push from BAF. We maintain our AUM growth estimate of ~29% CAGR over FY24-27F led by rising geographic penetration, improving product diversity and an aggressive growth approach.

With margin bottoming out, operating leverage to aid profitability

Net interest income of BAF grew by ~23.8% yoy, which was lower than AUM growth of ~28.8% yoy, indicating some pressure on margins during the quarter. Going ahead, management remains confident of a gradual margin improvement amid the diversified liability mix diluting cost of funds as well as steady yields on the existing portfolio. Interestingly, in case of softening of the RBI's monetary stance, management intends to utilize any probable margin gain for increasing its secured portfolio, which is relatively low yield. Management also remains confident of improving operating leverage as incremental tech-led levers come into play. BAF retains its long-term cost-to-income target of ~30%.

Asset quality trend - the worst is already behind

Provision in 2Q inched up to Rs19.1bn (+13.3% qoq), indicating flat credit costs qoq at ~213bp. Management indicated that overall EMI bounces remain low, yet the flow remains elevated. It has increased credit cost guidance for FY25F to ~205bp vs. previous estimate of ~175-185bp, but the credit cost trend for 2HFY25F will be lower than in 1HFY25. BAF has already tightened its underwriting norms & strengthened the overall collection force. We feel that in the current volatility, lenders like BAF, with a decent vintage in unsecured loans, will perform better compared to lenders lacking seasoning in unsecured loans.

Outlook & valuation

With pain in margin & credit costs already behind, BAF is attractively priced at current levels. We retain our high-conviction ADD rating on it with a target price of Rs9,000, or ~5x FY26F P/BV & ~23.5x FY26F EPS. Slowing consumption remains a key downside risk.

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

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)	(75,633)	(92,642)	(116,513)
Net Profit (Rsm)	115,060	144,315	173,596	233,242	300,562
Core EPS (Rs)	190.72	233.52	280.90	377.41	486.35
Core EPS Growth	64%	22%	20%	34%	29%
FD Core P/E (x)	35.55	29.04	24.14	17.97	13.94
DPS (Rs)	30.00	36.00	50.00	70.00	90.00
Dividend Yield	0.44%	0.53%	0.74%	1.03%	1.33%
BVPS (Rs)	901.2	1,241.0	1,471.9	1,780.3	2,176.6
P/BV (x)	7.52	5.46	4.61	3.81	3.12
ROE	23.5%	22.0%	20.7%	23.2%	24.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

Figure 1: Quarterly results summary

Rs m	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Total income	83,980	88,447	93,004	97,149	1,04,185	1,09,461	23.8%	5.1%
Operating expenses	28,544	30,100	31,567	33,028	34,709	36,390	20.9%	4.8%
Operating profit	55,437	58,347	61,438	64,121	69,475	73,071	25.2%	5.2%
Provisions	9,953	10,771	12,484	13,100	16,847	19,091	77.2%	13.3%
CoR (%)	1.5%	1.5%	1.7%	1.6%	2.0%	2.1%		
Profit before tax	45,512	47,578	48,971	51,051	52,654	54,015	13.5%	2.6%
Tax	11,143	12,070	12,566	12,806	13,534	13,877	15.0%	2.5%
Tax rate (%)	24.5%	25.4%	25.7%	25.1%	25.7%	25.7%		
Profit after tax	34,369	35,508	36,405	38,245	39,120	40,137	13.0%	2.6%
AUMs	27,03,530	29,02,640	31,09,680	33,06,150	35,41,920	37,39,240	28.8%	5.6%
Borrowings	23,78,286	26,10,524	26,36,727	29,33,458	31,38,700	33,06,550	26.7%	5.3%
Gross NPL (%)	0.9%	0.9%	1.0%	0.9%	0.9%	1.1%		
Net NPL (%)	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%		
Provision coverage ratio (%)	64.4%	65.9%	61.1%	56.5%	55.8%	56.6%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

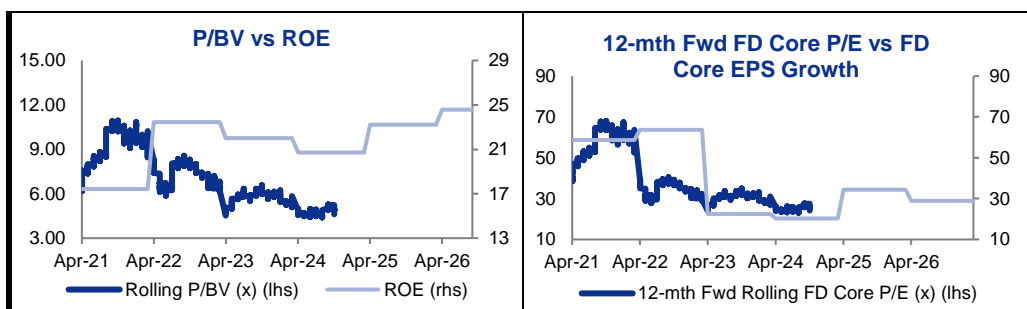
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	4,56,715	4,56,715	0.0%	5,86,210	5,86,210	0.0%	7,41,828	7,41,828	0.0%
PPOP	3,07,713	3,07,713	0.0%	4,04,463	4,04,463	0.0%	5,18,335	5,18,335	0.0%
PAT	1,77,839	1,73,596	-2.4%	2,38,713	2,33,242	-2.3%	3,07,629	3,00,562	-2.3%
EPS (Rs)	292	285	-2.4%	392	383	-2.3%	505	493	-2.3%
BV (Rs)	1,487	1,486	-0.1%	1,808	1,797	-0.6%	2,219	2,197	-1.0%
ABV (Rs)	1,468	1,467	-0.1%	1,781	1,770	-0.6%	2,184	2,161	-1.0%
AUM	42,57,155	42,57,155	0.0%	54,94,615	54,94,615	0.0%	71,01,414	71,01,414	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings-call highlights

- Management expects the cost of funds to fall by 25bp, leading to an improvement in NIM by 10-12bp. The improvement in NIM to be offset by higher lower-yielding secured assets in the AUM mix.
- Management's aim is to improve profitability by bringing in operation efficiency using technology and artificial intelligence or AI.
- Bajaj Finance had posted healthy pre-provisional operating profit but provisioning drained profitability. Management believes that even if the operational efficiency target is not achieved, there is scope to improve credit costs which will aid profitability.
- Asset quality remains healthy due to lower equated monthly instalment or EMI bounce rate, but the flow rate remains higher.
- The exposure to clients having 3+ personal loans has been reduced from 13% to 8-9%. It does not mean the segment is bad, but these are the steps taken to bring credit costs to 185-195bp.
- The hiring of ~2,000 employees, out of the total 4,000 employee addition in 2QFY25, was from deeper geographies to sharpen capacity planning and confidence in underwriting.
- As regards the rural B2C segment, for the past seven-to-eight quarters, the growth has been in single digit as management slowed down the segment considering its quality. In 2QFY25, its growth has been in double digits and management believes in building a quality book for the segment.
- SME and MSME segments must be strategically managed, as to when to go aggressive or slow down the loan book.
- Management expects a 4% growth for the newly launched segments during the year. Factoring in these new segments, the growth in advances would be around 24-25%.
- The new products aided growth without giving out on the quality aspect, as the company was able to slow down in stressful segments without affecting the growth.

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)	(75,633)	(92,642)	(116,513)
Operating Profit After Provisions	155,262	192,899	232,080	311,821	401,821
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	155,262	192,899	232,080	311,821	401,821
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	155,262	192,899	232,080	311,821	401,821
Exceptional Items					
Pre-tax Profit	155,262	192,899	232,080	311,821	401,821
Taxation	(40,202)	(48,584)	(58,484)	(78,579)	(101,259)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	115,060	144,315	173,596	233,242	300,562
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	115,060	144,315	173,596	233,242	300,562
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%	101.4%	100.1%	99.4%
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%	2,210.6%	2,056.7%	1,934.3%
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.46%	1.61%	2.00%	1.90%	1.85%
Provision Charge/Avg Assets	1.31%	1.42%	1.78%	1.73%	1.71%
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	72,411	35,757	15,582
Long-term Investments	227,551	308,839	335,692	406,887	428,151
Total Assets	2,752,285	3,757,416	4,720,976	6,004,414	7,626,338
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	81,420	117,283	164,725
Total Liabilities	2,208,567	2,990,463	3,811,326	4,904,191	6,281,173
Shareholders Equity	543,718	766,954	909,649	1,100,223	1,345,165
Minority Interests					
Total Equity	543,718	766,954	909,649	1,100,223	1,345,165

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%	20%	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%	25%	23%	22%
Interest Return On Average Assets	9.43%	9.09%	8.91%	9.19%	9.26%
Effective Tax Rate	25.9%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.7%	15.4%	17.8%	18.5%	18.5%
Return On Average Assets	4.72%	4.43%	4.10%	4.35%	4.41%

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.

Sector Ratings

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.

Country Ratings

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.