

## Sustainable performance to aid valuation...

**About the stock:** Bajaj Finance, a strong NBFC with digital footprints, made a strong comeback with AUM growth reaching ~26-28% YoY. Harnessing its large franchise base digitally offers a huge opportunity. Housing forms 33% of the book.

- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to > 18% RoE and > 4% RoA leading to 2x

**Q3FY23 Results:** In line performance; long term guidance is more encouraging.

- AUM grew 27% YoY, NII growth at 23.8% YoY to ₹ 7433 crore, marginal uptick in cost of funds
- GNPA, NNPA ratio declined to 1.14%, 0.41%, respectively, in Q3FY23
- PAT grew 40% YoY, 7% QoQ to ₹ 2973 crore as expected
- In Q3FY23, reported RoE at 24% and RoA at 5.4% (annualised)

**What should investors do?** The stock has given ~20% returns over the past two years. We believe the long range strategy to reach 4-5% of retail credit (~3.5% by FY27E) in India is believable considering the management's proven track record on meeting guidance. Valuations is likely to stay at premium. The management reiterated that it has no plans to convert into a bank.

- We maintain **BUY** rating on the stock, offering compounding returns

**Target Price and Valuation:** Omnipresence strategy and organic momentum building up offers comfort on growth sustainability. We revise target price to ₹ 7250 from ₹ 8650 keeping multiple at ~5.7x FY25E ABV.

**Key triggers for future price performance:**

- The management has rolled out a five-year long range strategy (LRS), aiming for 3-4% share in total credit and 4-5% share in retail credit
- New products entry planned in auto (including tractor financing), MFI and emerging corporate segments to aid business growth over coming years
- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR) to boost profitability
- Stable asset quality and controlled costs expected to continue
- RoE at ~19-21% and RoA at 4-4.5%

**Alternate Stock Idea:** Besides Bajaj Finance, in our coverage we also like Axis Bank.

- Axis Bank is the third largest private sector bank in India with a balance sheet size of ₹ 12.2 lakh crore as on December 2022
- We have a BUY rating with a target price of ₹ 1100

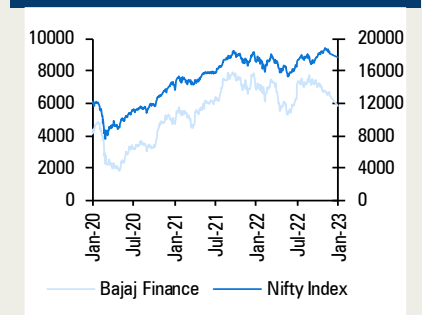
### Particulars

Particulars	Amount
Market Capitalisation	₹ 348485 crore
52 week H/L	7777/ 5235
Face Value	₹ 2
Net worth	₹ 51156 Crore
DII Holding (%)	12
FII Holding (%)	20

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	56.0	55.9	55.9	55.9	55.9
FII	22.9	21.4	20.0	20.5	19.9
DII	10.1	11.2	12.0	12.1	12.4
Others	11.0	11.5	12.1	11.6	11.9

### Price Chart



### Recent Event & Key risks

- A ~3 bps QoQ improvement in both GNPA & NNPA
- Key Risk:** (1) Extended moderation in AUM growth (2) Deterioration in asset quality of unsecured book may impact profitability

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### Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII (₹ crore)	11864	16901	17254	21892	23%	29138	35074	43712	26%
PPP (₹ crore)	7681	11252	11961	14315	23%	19238	22450	27592	24%
PAT (₹ crore)	3995	5264	4420	7036	21%	11985	14191	17153	35%
ABV (₹)	313	534	597	710		868	1,052	1,269	
P/E	83	64	78	49		29	25	21	
P/ABV	18.4	10.8	9.6	8.1		6.6	5.5	4.5	
RoA	3.0	2.8	2.3	3.7		5.1	4.8	4.7	
RoE	22.4	20.2	12.8	17.5		24.2	22.9	22.2	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Healthy performance; largely in line with estimates

- NII grew 23.8% YoY to ₹ 7433 crore led by healthy momentum in AUM growth. However, the pace of AUM growth moderated a bit compared to earlier trend. Net profit grew 40% YoY and 7% QoQ to ₹ 2973 crore
- AUM growth came in at 27.4% YoY (5.7% QoQ) increasing to ₹ 2,30,842 crore, primarily driven by 29% YoY, 6% QoQ growth in consumer B2C finance and surge in SME, securities and commercial lending. Mortgage also grew 26% YoY growth and 3.4% QoQ to ₹ 73484 crore. BHFL (HFC) AUM was at ₹ 63815 crore, included in mortgage book. In Q3, cost of funds was 7.14%. Cost of funds increased by 23 bps over Q2FY23. However, the company delivered NIM at Q2 levels despite an increase in cost of funds
- Provisions for Q3FY23 increased to ₹ 841 crore from ₹ 734 crore. GNPA, NNPA were at 1.14%, 0.41%, respectively, as of Q3FY23 vs. 1.17%, 0.44%, respectively, as of Q2FY23. The company holds a management and macro-economic overlay of ₹ 1000 crore. It has 64% coverage ratio on stage 3 assets and 116 bps on stage 1 and 2 assets
- C/I ratio improved QoQ to 34.7%. The company expects opex to NII to remain at 35-36% for FY23
- In Q3, the company added 3.14 million (mn) new customers to its franchise. Customer franchise was at 66.05 mn as of Q3FY23. It booked 7.84 mn new loans against 6.76 mn in Q2FY23, ticket size moved up. The company is comfortable adding 9-10 mn new customers in FY23

### Q3FY23 Earnings Conference Call Highlights

- In fixed rate business ~50-70 bps pass through has completed. Hence, the impact of remaining transmission will be seen in coming quarters. Business linked to variable price has completely repriced
- Bajaj Finance acquired ~41.5% stake in Snapwork Technologies with the aim to strengthen its technology roadmap. Scheduled to go digital on gold loan, LAS, used car financing and secured business in March 2023
- Recovery commission came down as portfolio quality improved during the quarter
- Bajaj Finance expects to deploy 450,000-500,000 merchant QRs in Q4FY23. It will add 445 new locations in the next four to five years, with 400 in Uttar Pradesh, Bihar and North east
- Added 1400 employees in Q3FY23. It has hired 650 fresher engineers for FY24 and plans to add 1000 more engineers in the following year
- The management reiterated there are no plans to convert into a bank in the near future

#### BHFL –

- Q3 was a slower quarter. Approvals grew 14% while disbursements de grew 6.5%. Growth likely to come back in the next couple of quarters
- CoF was up 49 bps to 7.12%. Due to a rise in interest rates, there was a bit of pressure in the secondary market. In the primary market there was no significant downturn

#### Execution plan as per Long Range Strategy (LRS) framework –

- Launched loan against property (LAP) business for MSME customers in January 2023
- **To launch new auto loans in Q2FY24, MFI in Q4FY24 and tractor financing in Q1FY25. To launch emerging corporate business in Q3FY24**
- Open 100 locations in Uttar Pradesh, Bihar and North-East in FY24 and another 100 locations in FY25
- Ambition - Market share of 3% of payments GMV, 3-4% of total credit and 4-5% of retail credit

**Exhibit 1: Bajaj Finance’s long range strategy (LRS) framework**

<p><b>①</b> <b>Ambition</b></p>	<p><b>To be a leading payments and financial services company in India. Dominate with 100 MM consumers, market share of 3% of payments GMV, 3–4% of total credit and 4–5% of retail credit in India.</b></p>
<p><b>②</b> <b>Strategy</b></p>	<p><b>To be an omnipresent financial services company dominant across all consumer platforms – physical, app, web, social, rewards and virtual.</b></p>
<p><b>③</b> <b>Approach</b></p>	<p><b>To acquire &amp; cross-sell across payments, assets, deposits, insurance, investments and broking products to Consumer, MSME, Commercial and Rural consumers across all consumer platforms.</b></p>

Source: Company, ICICI Direct Research

**Exhibit 2: ...business construct**

<p><b>④</b> <b>Philosophy</b></p>	<p><b>To build businesses with a 10 year view anchored on prudence and risk management to deliver ‘through the cycle’ 19–21% shareholder returns.</b></p>
<p><b>⑤</b> <b>Market share</b></p>	<p><b>Every business of the company to be amongst top 5 in their respective product.</b></p>
<p><b>⑥</b> <b>Profit share</b></p>	<p><b>To be amongst top 20 profit-making companies in India and amongst top 5 profit-making financial services companies in India.</b></p>

Source: Company, ICICI Direct Research

**Exhibit 3: LSR 2023-2027 execution plan**

- 1. Launched Loan Against Property (LAP) business in BFL for MSME customers in January 2023.**
- 2. Launched Bajaj+ in January 2023.**
- 3. Launch New Auto Loans in Q2 FY24, Micro Finance in Q4 FY24 and Tractor financing in Q1 FY25.**
- 4. Launch Emerging corporate business in Q3 FY24.**
- 5. Launch B2B on QR and EDC in Q4 FY24, Flexi on QR in Q4 FY24 and Insta PL card in Q4 FY24.**
- 6. Deploy 8 megatrends by FY24 and balance 7 megatrends by FY25.**
- 7. Launch Rewards as a platform in Q4 FY24 and Social as a platform in Q2 FY25.**
- 8. Open 100 locations in UP, Bihar and North-East in FY24 and another 100 locations in FY25.**
- 9. Continue investing in horizontal capabilities for operational excellence and deliver robust controls and compliance.**

Source: Company, ICICI Direct Research

Exhibit 4: LRS outcomes...

Sr. No.	Basic construct	Target Metric	9M FY23	FY27 (E)
1	Customer Franchise (MM)	100	66.1	110-120
2	Cross-sell Franchise (MM)	60	38.6	65-70
3	India payments GMV	3%	0.03%	1-1.25%
4	Share of total credit	3-4%	1.61%	2.5-2.75%
5	Share of retail credit	4-5%	2.47%	3.5-3.75%
6	Location presence	4,300-4,500	3,714	4,300-4,500
7	App – Net installs (MM)	60	31.5	70-80
8	Web – Visitors (MM)	NA	165	1,100-1,200
9	Return on Equity	19-21%	23.5%	20-22%
10	AUM per cross sell franchise	100K	59.8K	85-90K
11	PAT per cross sell franchise	4K	2.2K	3.5-3.7K

Source: Company, ICICI Direct Research

## Comparison

Exhibit 5: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
HDFC (HDFC)	2,659	2,850	Buy	4,858	66.7	75.8	89.0	103.6	39.9	35.1	29.9	25.7	4.4	4.0	4.0	3.7	12.3	12.0	13.3	14.8
Bajaj Finserv (BAFINS)	1,314	1,850	Hold	2,097	35.2	52.7	43.1	56.5	37.3	24.9	30.5	23.3	3.0	2.6	4.4	3.7	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	5,756	7,250	Buy	3,484	73.6	116.8	198.5	229.7	78.2	49.3	29.0	25.1	9.6	8.1	6.6	5.5	12.8	17.5	24.2	22.9
Muthoot Finance (MUTFIN)	1,010	1,150	Hold	405	92.8	98.5	84.4	103.9	10.9	10.3	12.0	9.7	2.7	2.4	2.1	1.8	27.8	23.5	17.3	18.8

Source: Company, ICICI Direct Research

**Exhibit 6: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	7,433	7,387	6,002	23.8	6,999	6.2	Led by healthy growth in AUM and steady NIMs
Other Income	2	3	2	-33.5	2	-19.9	
Staff cost	1,286	1,341	1,016	26.6	1,239	3.7	
Other Operating Expenses	1,296	1,342	1,070	21.2	1,275	1.7	Opex to NII largely steady at ~35%
Opex to NII(%)	34.7	36.3	34.7	0.0	35.9	-3.3	
PPP	4,853	4,708	3,919	23.8	4,487	8.2	
Provision	841	764	1,051	-20.0	734	14.6	Management expect loan losses & provisions at ~1.5%
PBT	4,012	3,944	2,868	39.9	3,752	6.9	
Tax Outgo	1,039	1,006	743	39.9	972	6.9	
PAT	2,973	2,938	2,125	39.9	2,781	6.9	Healthy topline and steady opex aided PAT

**Key Metrics**

GNPA	2,610	2,631	3,108	-16.0	2,530	3.2	GNPA and NNPA down ~3 bps QoQ to 1.14% and 0.41%, respectively
NNPA	934	1,001	1,380	-32.3	953	-2.0	
AUM	230,842	230,580	181,250	27.4	218,366	5.7	Healthy growth driven by key segments

Source: Company, ICICI Direct Research

**Exhibit 7: Change in estimates**

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	28484	29138	2.3	35,074	35,074	0.0	43,712
Pre Provision Profit	18,584	19,238	3.5	22,450	22,450	0.0	27,592
NIM(%) (calculated)	11.1	11.4	30 bps	12.0	12.1	12 bps	12.1
PAT	11,501	11,985	4.2	13,989	14,191	1.4	17,153
ABV per share (₹)	860	868	0.9	1,152	1,052	-8.7	1,269

Source: Company, ICICI Direct Research

**Exhibit 8: Assumption**

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	27.0	24.4	24.5	27.0	24.4
Borrowings Growth (%)	22.1	24.0	24.0	22.1	24.0
NIM Calculated (%)	11.4	12.1	12.1	11.1	12.0
Cost to income ratio (%)	34.0	36.0	36.9	34.8	36.0
GNPA (₹ crore)	3,350.4	4,971.9	7,260.7	3,350.4	4,971.9
NNPA (₹ crore)	2,830.1	4,669.9	7,094.5	2,830.1	4,560.8

Source: Company, ICICI Direct Research

**Exhibit 9: Consolidated AUM break-up**

₹ crore	Dec'21	Mar'22	Jun'22	Sept'22	Dec'22
Auto Finance Business	10620	10194	9962	10160	11786
consumer b2b Sales Finance Business	14920	14977	16475	16259	16712
consumer B2C Business	36344	38772	41207	44072	46733
Rural Sales Finance Business	3993	4129	4564	4329	4684
Rural B2C Business	14311	15301	16740	17908	18458
SME Lending Business	23153	24979	26564	28881	30880
Securities Lending Business + IPO	9127	15901	10801	12287	13257
Commercial Lending Business	10478	11498	12040	13378	14848
Mortgages	58304	61701	65665	71092	73484
<b>Total</b>	<b>181250</b>	<b>192087</b>	<b>204018</b>	<b>218366</b>	<b>230842</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	31640.0	41427.9	50638.1	63018.6
Interest Expended	9748.2	12289.7	15563.7	19306.2
Net Interest Income	21891.8	29138.2	35074.4	43712.4
Growth (%)	26.9	33.1	20.4	24.6
Non Interest Income	8.0	9.8	12.1	14.9
Operating Income	21899.8	29148.1	35086.5	43727.3
Employee cost	3589.7	4846.0	6396.8	8443.7
Other operating Exp.	3995.3	5064.0	6239.6	7691.3
Operating Profit	14314.8	19238.0	22450.2	27592.2
Provisions	4803.4	3042.0	3273.3	4413.0
PBT	9511.4	16196.0	19176.9	23179.2
Taxes	2475.6	4210.9	4986.0	6026.6
Net Profit	7,035.8	11,985.0	14,190.9	17,152.6
Growth (%)	59.2	70.3	18.4	20.9
EPS (₹)	116.8	198.5	229.7	277.6

Source: Company, ICICI Direct Research

Exhibit 11: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Valuation</b>				
No. of shares (crore)	60.3	60.4	61.8	61.8
EPS (₹)	116.8	198.5	229.7	277.6
BV (₹)	726	914	1127	1384
ABV (₹)	710	868	1052	1269
P/E	49	29	25	21
P/BV	7.9	6.3	5.1	4.2
P/ABV	8.1	6.6	5.5	4.5
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins	10.4	11.4	12.1	12.1
Yield on assets	16.9	17.8	17.5	17.5
Avg. cost on funds	6.6	6.7	6.9	6.9
Yield on average advances	18.7	19.1	18.6	18.6
<b>Quality and Efficiency (%)</b>				
Cost to income ratio	34.6	34.0	36.0	36.9
Cost to assets ratio	4.0	4.2	4.3	4.4
GNPA	1.7	1.4	1.6	1.9
NNPA	0.8	1.2	1.5	1.9
ROE	17.5	24.2	22.9	22.2
ROA	3.7	5.1	4.8	4.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Sources of Funds</b>				
Capital	120.7	120.8	123.6	123.6
Reserves and Surplus	43592.0	55069.8	68741.8	85375.4
Networth	43712.7	55190.6	68865.3	85499.0
Borrowings	165231.9	201677.4	250079.9	310099.1
Other Liabilities & Provisions	3560.8	5204.5	6789.2	8858.6
Total	2,12,505.4	2,62,072.4	3,25,734.4	4,04,456.7
<b>Application of Funds</b>				
Fixed Assets	2991.8	3290.9	3620.0	3982.0
Investments	12245.5	12368.0	12739.0	13121.2
Advances	191423.3	243153.1	302394.6	376533.1
Other Assets	4578.9	3260.4	6980.8	10820.4
Total	2,11,239.5	2,62,072.4	3,25,734.4	4,04,456.7

Source: Company, ICICI Direct Research

Exhibit 13: Growth ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>(%)</b>				
Total assets	24.0	23.3	24.3	24.2
Advances	30.5	27.0	24.4	24.5
Borrowings	25.5	22.1	24.0	24.0
Net interest income	26.9	33.1	20.4	24.6
Operating Income	26.8	33.1	20.4	24.6
Operating expenses	27.1	30.7	27.5	27.7
Operating profit	19.7	34.4	16.7	22.9
Net profit	59.2	70.3	18.4	20.9
Net worth	18.4	26.3	24.8	24.2
EPS	58.7	70.0	15.7	20.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

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## ANALYST CERTIFICATION

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