

Retail Equity Research

Bajaj Finance Limited

NBFC

BSE CODE: 500034

NSE CODE: BAJFINANCE

Bloomberg CODE: BAF:IN

SENSEX: 37,935

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 3,171 TARGET Rs. 3,630 RETURN 14% 
(Closing: 27-07-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Robust topline; Positive outlook

Bajaj Finance Limited (BFL) is one of the leading non-banking financial companies (NBFC) in India. It is engaged in lending across retail, SME, and commercial customers and accepts public and corporate deposits.

- Q1FY21 AUM grew 7.1% YoY to Rs. 138,055cr. As of June 30th, 15.7% of the consolidated AUM was under moratorium.
- Net Interest Income rose 12.4% YoY to Rs. 4,151cr in 1QFY21. However PAT fell 19.5% YoY due to continued high provisioning (+206.1% YoY).
- As of 30th June i) Capital adequacy ratio stood at 26.4%; ii) Tier I capital at 22.6%; iii) Gross NPA at 1.4%; iv) Net NPA at 0.5% and v) PCR at 65%.
- Outlook remains positive for the stock with continuous reduction in provision coupled with company's focus on capital preservation, liquidity & opex management and calibrated business restart. Hence, we reiterate our BUY rating in the stock with revised target price of Rs. 3,630 based on 5x FY22E BVPS.

Resumption in business operation to improve collections

Q1FY21 interest Income reported at Rs. 6,648cr (+14.5% YoY) from 2,322 business locations representing 85% of companies business, while remaining 15% of companies business is yet to receive the collections. BAF restarted its sales finance, auto finance, LAS and gold loan businesses from 10th of May, while home loan and credit card distribution operations resumed since June. Loan against property, SME, B2C and commercial businesses restarted from July. The company offers flexi loans to its existing customers for ensuring good repayment track record with no overdue by converting the term loan to flexi loan for a switch fee. In Q1FY21, company generated Rs. 125cr of switch fee by converting Rs. 8,600cr of term loans into flexi loans. Total customer franchise stood at 42.95mn as of 30th June (+16.0% YoY) by acquiring new customers of 0.53mn during the quarter. The company has taken various cost control measures and thus opex for 1QFY21 declined by 10.5% YoY and Opex to NII improved to 27.9% in Q1FY21 as against 35.0% in Q1FY20.

Liquidity and Asset quality Management

The company had consolidated liquidity buffer of Rs. 20,590cr and SLR Investments of Rs. 2,550cr as of 20th July, which represents 19.2% of its total borrowing. GNPA improved to 1.4% vs. 1.6% in Q1FY20. Also, NNPA reduced by 14bps YoY to 0.5% as 30th June. The company reduced rates for its retail deposit rates twice in Q1 aggregating to a drop of 65bps.

Key con-call highlights

- The company has modified its credit cost model and estimates that credit costs would increase by 100-110% (Rs. 6,000-6,300cr for FY21) over the pre-COVID levels recorded previous year.
- Focus on health card with existing customers to generate fee income.
- Gold loans are being rapidly expanding in 75 plus markets.

Outlook & Valuation

Given its strong liquidity position, healthy CRAR, cost control measures, strong geographical presence, growing AUM, positive outlook, and strong parentage, we reiterate our BUY rating on the stock with a revised target price of Rs. 3,630 based on 5x FY22E BVPS (equivalent to 5-year average forward P/BV).

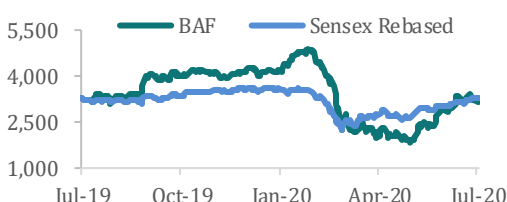
Company Data

Market Cap (cr)	Rs. 196,484
Outstanding Shares (cr)	60.2
Free Float	41.0%
Dividend Yield	0.3%
52 week high	Rs. 4,923
52 week low	Rs. 1,783
6m average volume (lac)	3.7
Beta	1.3
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	56.2	56.2	56.2
FII's	22.2	21.2	21.2
MFs/Insti	10.8	11.2	10.3
Public	8.5	8.6	9.1
Others	2.4	2.9	3.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	55.1%	-23.9%	-2.9%
Absolute Sensex	19.5%	-7.8%	0.1%
Relative Return*	35.6%	-16.1%	-3.1%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY20A	FY21E	FY22E
Net Interest Income	16,901	18,156	21,501
Growth (%)	42.5	7.4	18.4
NIM (%)	12.1	10.7	10.8
Pre Pro Profit	11,252	11,342	13,369
Net Profit	5,264	4,739	7,049
Growth (%)	31.8	(10.0)	48.7
Adj. EPS	89.1	80.2	119.3
Growth (%)	29.6	(10.0)	48.7
BVPS	547.0	617.2	725.5
P/E	24.9	39.5	26.6
P/BV	4.1	5.1	4.4
P/ABV	4.1	5.1	4.4
RoE (%)	20.2	13.8	17.8

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs. cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	6,648	5,805	14.5	7,227	(8.0)
Interest Expense	2,498	2,113	18.2	2,547	(2.0)
Net Interest Income	4,151	3,692	12.4	4,679	(11.3)
Non-Interest Income	2	2	(32.5)	4	(63.8)
Total Net Income	4,152	3,694	12.4	4,683	(11.3)
Total Income	6,650	5,808	14.5	7,231	(8.0)
Operating Expenses	1,157	1,292	(10.5)	1,451	(20.3)
Total Expenditure	3,654	3,406	7.3	3,999	(8.6)
Pre-Provisioning profit	2,995	2,402	24.7	3,232	(7.3)
Provisions	1,686	551	206.1	1,954	(13.7)
Profit Before Tax	1,310	1,851	(29.3)	1,278	2.5
Tax	347	656	(47.1)	330	5.2
Net Profit	962	1,195	(19.5)	948	1.5
EPS - Diluted (Rs.)	15.9	20.6	(22.5)	15.7	1.5

Business Performance

(Rs. cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
AUM	1,38,055	1,28,898	7.1	1,47,153	(6.2)
Borrowings	1,21,120	1,12,172	8.0	1,29,806	(6.7)

Change in Estimates

(Rs. cr)	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income	18,647	21,437	18,156	21,501	(2.6)	0.3
NIM	10.76	10.47	10.70	10.83	(7bps)	36bps
Pre-Provisioning Profit	11,866	13,355	11,342	13,369	(4.4)	0.1
Net Profit	5,393	6,937	4,739	7,049	(12.1)	1.6
EPS (Rs.)	91.3	117.4	80.2	119.3	(12.1)	1.6



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	12,744	18,487	26,374	27,812	36,454
Interest Expense	4,614	6,624	9,473	9,656	14,954
Net Int. Income	8,131	11,864	16,901	18,156	21,501
% Change	31.7	45.9	42.5	7.4	18.4
Non-Int. Income	12	13	12	13	14
Net Income	8,143	11,877	16,912	18,169	21,515
Total Income	12,757	18,500	26,386	27,825	36,469
Operating Exp.	3,269	4,196	5,661	6,827	8,146
Total Exp.	7,883	10,820	15,134	16,483	23,100
Pre-Prov. Profit	4,874	7,681	11,252	11,342	13,369
Provisions	1,030	1,501	3,929	5,015	3,970
PBT	3,843	6,179	7,322	6,327	9,398
Tax	1,347	2,184	2,058	1,588	2,350
Tax Rate (%)	35.0	35.3	28.1	25.1	25.0
Net Profit	2,496	3,995	5,264	4,739	7,049
% Change	35.9	60.0	31.8	(10.0)	48.7
No. of Shares (cr)	57	58	59	59	59
Adj. EPS (Rs.)	43.9	68.8	89.1	80.2	119.3
% Change	30.4	56.5	29.6	(10.0)	48.7
DPS (Rs.)	4.0	6.0	10.0	11.0	12.0

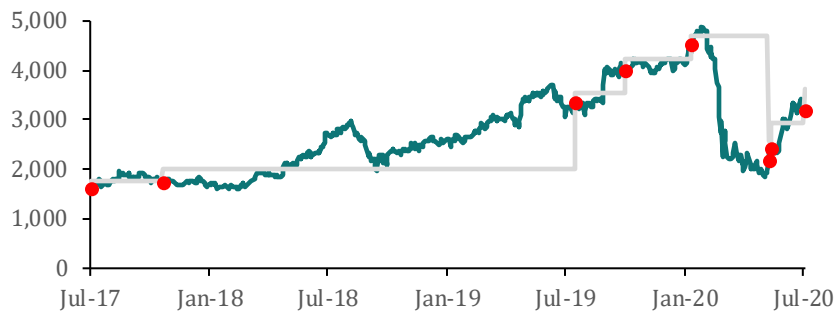
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	338	347	1,345	8,690	7,137
Investments	3,139	8,599	17,544	17,895	18,253
Advances	79,103	112,513	141,376	162,582	198,351
Fixed Assets	346	527	1,097	1,119	1,142
Other Assets	1,872	2,247	3,030	2,873	2,873
Total Assets	84,798	124,233	164,391	193,159	227,754
Capital	115	115	120	120	120
Reserve & Surplus	15,733	19,582	32,208	36,356	42,754
Deposits	7,793	13,193	21,427	26,784	27,320
Borrowings	54,626	84,256	104,238	123,444	151,105
Other Liabilities	6,531	7,087	6,399	6,455	6,455
Total Liabilities	84,798	124,233	164,391	193,159	227,754
BVPS (Rs.)	279	339	547	617	725
% Change	68.0	21.6	61.4	12.8	17.5

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	40.1	43.5	24.9	39.5	26.6
P/BV (x)	6.3	8.8	4.1	5.1	4.4
Div. Yield (%)	0.2	0.2	0.5	0.3	0.4
Profitab. & Return (%)					
Yield on Advances	18.9	19.3	20.8	18.3	20.2
Cost of Deposits	8.4	8.3	8.5	7.0	9.1
Spread	10.5	11.0	12.3	11.3	11.1
NIM	11.5	11.7	12.1	10.7	10.8
ROE	20.1	22.5	20.2	13.8	17.8
ROA	3.7	4.2	3.6	2.7	3.3
Capital Adequacy (%)					
CAR	24.0	20.7	25.0	25.0	26.0
Tier I	18.4	16.3	21.3	21.5	22.7
Tier II	5.5	4.4	3.7	3.5	3.3
Asset Quality (%)					
GNPA	1.4	1.5	1.6	2.0	2.0
NNPA	0.4	0.6	0.7	0.7	0.7
Operating Ratios (%)					
Debt/Equity	4.2	5.2	4.0	4.2	4.3
Cost/Income	40.1	35.3	33.5	37.6	37.9

Recommendation Summary



Dates	Rating	Target
13-Jul-17	BUY	1,576
25-Jul-17	BUY	1,750
13-Nov-17	BUY	2,000
8-Aug-19	HOLD	3,531
29-Oct-19	HOLD	4,240
4-Feb-20	HOLD	4,700
1-Jun-20	BUY	2,570
8-Jun-20	BUY	2,940
27-Jul-20	BUY	3,630

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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