

Q1FY19 Result Update
Hold

Industry	NBFC
CMP (Rs)	2520
FY20E Price Target	2128
52 Week H/L (Rs)	2690/1511
Volumes (BSE+NSE) *	1,73,510
Shares O/S (mn)	575.1
Market Cap (Rs bn)	1449.2
Free Float (%)	44.9
Bloomberg	BAF IN
Reuters	BJFN.BO
*Three month daily average	

Share Holding Pattern (31/06/2018)

Particulars	Shares (mn)	Holding (%)
Promoters	316.9	55.1
FIIIs	116.2	20.2
DIIIs	50.0	8.7
Others	92.0	16.0
Total	575.1	100.0

Source : BSE

Financial Highlights

(Rs bn)	FY18	FY19E	FY20E
Operating Income	81.1	111.5	149.0
PAT	24.8	34.5	47.9
PAT Growth (%)	37.4	36.6	38.9
ABV (Rs)	282.1	324.4	399.4
P/ABV (x)	8.9	7.8	6.3
EPS (Rs)	43.9	59.9	83.2
P/E (x)	57.4	42.1	30.3
RoAE (%)	19.3	19.4	22.7
RoAA (%)	3.4	3.5	3.5


Result Highlights

- Bajaj Finance Ltd (BFL), standalone reported its first IND-AS financials in Q1FY19. FY18 saw an impact of 6.8% on PAT due to IND-AS transition on a standalone basis. BFL reported a net Profit of Rs 8337mn up 82.7% YoY on a standalone basis, Q1FY18 being also re-stated under new accounting method. **For the purpose of this report, we have used standalone IND-AS numbers.**
- Healthy AUM growth** – Key parameter which is not impacted due to IND-AS reporting i.e. customer franchise saw growth of 30.0% YoY to 28.28mn from 21.69mn a year ago. AUM grew by 24.9% YoY to Rs 860.4bn. During the quarter, the company acquired 2.07mn new customers (Vs 1.41mn in Q4FY18). Loan book constitutes 42%, 14%, 14%, 8% and 22% of Consumer, SME, Commercial, Rural and Mortgage respectively.
- Net core income** grew by a robust 42.4% YoY to Rs 24.9bn. Operating cost grew by 19.0% YoY to Rs 8.8bn. Consequently, cost-to-income ratio improved to 35.4% in Q1FY19 from 39.4% in Q4FY18. This was reflected in operating profit growth of 59.9% YoY to Rs 16.2bn.
- BFL has expanded its presence in the current quarter and is now present in 1,486 locations. It expects geographic expansion to continue at 15%-20% annualized growth rate. Company continues to expand user adoption of its Bajaj Finserv Mobikwik wallet to increase engagement with customers and increase repeat purchase rate. Bajaj Finserv Mobikwik wallet has 2.2mn active wallet users as of 30 June 2018, with their EMI card linked to the wallet.
- Gross and Net NPA ratios improved to 1.39% and 0.44% respectively as against 1.48% and 0.38% respectively QoQ. The provisioning coverage ratio improved to 74% Vs 69% in Q1FY18.
- Provisions increased by 5.2% YoY to 3.2bn, much lower than operating profit growth - which led to healthy growth of 83.6% YoY in PBT to Rs 129.6bn in Q1FY19.
- Healthy Capital Position** - Capital adequacy ratio (including Tier-II capital) as of Q1FY19 stood at 23.04%. The Tier-I capital stood at 17.92%.

Outlook and Valuations

BFL has performed in-line with our expectations on the operating front, further IND-AS implementation is expected to reduce the volatility in the earnings. Bajaj Finance's learning curve in consumer durable (Rs 800bn market opportunity) and digital finance (Rs 1500bn market opportunity) is very difficult to replicate, given the challenges to build distribution franchise and fragmented consumer behaviour. We value the company at 25x (same as earlier) FY20E EPS of Rs 83.2 (Vs 84.7 earlier), which translates to 5.2x FY20 book value and arrive at a target price of Rs 2128 (Vs 2119 earlier). **Hold.**

Q1FY19 Results Summary (IND-AS, Standalone)

Particulars (Rs mn)	Q1FY19	Q1FY18	% YoY Change	Q4FY18	% QoQ Change
Income from Operations	37913.4	28265.5	34.1	34287.2	10.6
Financial Expenses	12941.7	10727.6	20.6	11950.6	8.3
Net Core Income	24971.7	17537.9	42.4	22336.6	11.8
Other Income	48.5	8.2	491.5	224.7	-78.4
Operating Income	25020.2	17546.1	42.6	22561.3	10.9
Total Expenditure	8846.0	7432.4	19.0	8886.2	-0.5
Operating Profit	16174.2	10113.7	59.9	13675.1	18.3
Provision and Contingencies	3210.5	3051.1	5.2	2281.7	40.7
Profit before Tax	12963.7	7062.6	83.6	11393.4	13.8
Tax	4626.4	2498.6	85.2	3965.6	16.7
Profit after Tax	8337.3	4564.0	82.7	7427.8	12.2

Loan and AUM Details

Particulars (Rs mn)	Q1FY19	% Loan Mix
Receivables under Financing Activity	826320.0	-
Assets under Management	860420.0	100
<i>Consumer</i>	363260.0	42
<i>SME Business</i>	121160.0	14
<i>Commercial</i>	120080.0	14
<i>Rural</i>	66740.0	8
<i>Mortgage</i>	189180.0	22

Key Ratios

Key Ratios (%)	Q1FY19	Q1FY18	Q4FY18
Capital Adequacy Ratio	23.04	20.15	24.71
Tier I Capital Ratio	17.92	14.20	19.68
Gross NPA	1.39	1.70	1.48
Net NPA	0.44	0.53	0.38

Income Statement

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
Net Operating Income	61999.4	81078.2	111519.8	149013.6
Total Expenditure	25642.3	32461.6	45327.2	58639.2
Operating Profit	36357.1	48616.6	66192.5	90374.4
Provisions and Write offs	8181.9	10304.4	13178.9	16726.1
Profit before Tax	28175.2	38312.2	53013.7	73648.3
Tax	9809.7	13467.1	18554.8	25776.9
PAT	18365.5	24845.1	34458.9	47871.4
Prior period Items	0.0	0.0	0.0	0.0
PAT	18365.5	24845.1	34458.9	47871.4
Total Other Comprehensive Income	43.6	-176.2	-244.4	-339.5
Total Comprehensive Income	NA	24668.9	34214.5	47531.9

Note: Income Statement post FY18 are as per IND-AS.

Balance Sheet

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS				
Shareholders' Funds	96003.1	165182.9	189366.9	233069.6
Preferential Warrant Application Money	-	-	-	-
Borrowings	492496.5	615670.3	899937.5	1222987.4
Current Liabilities and Provisions	48804.8	55437.0	69296.2	93549.9
Total Equity and Liabilities	637304.4	836290.2	1158600.6	1549606.9
APPLICATION OF FUNDS				
Fixed Assets	3611.3	4646.6	4878.9	5122.9
Investments	40747.0	36604.6	36604.6	36604.6
Deferred Tax Asset, net	3690.7	3864.1	3690.7	3691.7
Assets under Finance	576827.3	780112.4	1036941.3	1374406.5
Other Assets	12428.1	11062.5	76485.1	129781.2
Total Assets	637304.4	836290.2	1158600.6	1549606.9

Ratios

Y/E March	FY17	FY18	FY19E	FY20E
Valuation				
EPS (Rs)	33.6	43.9	59.9	83.2
BVPS (Rs)	175.6	287.2	329.2	405.2
Adj BVPS (Rs)	170.9	282.1	324.4	399.4
P/E (x)	75.0	57.4	42.1	30.3
P/BV (x)	14.4	8.8	7.7	6.2
P/ABV (x)	14.7	8.9	7.8	6.3
Dividend Yield (%)	0.1	0.2	0.2	0.2
Payout (%)	12.9	12.6	12.1	8.7
Growth (%)				
Borrowings	33.0	25.0	46.2	35.9
Receivables under Financing Activity	33.3	35.2	32.9	32.5
Net Interest Income	35.4	41.9	30.7	32.5
Operating Income	40.7	40.8	27.7	33.6
Operating Profit	45.0	34.4	35.5	36.5
Net Profit	43.6	37.4	36.6	38.9
Profitability (%)				
Yield on Assets	16.7	16.4	17.0	17.3
Cost of Funds	8.8	8.3	9.0	8.9
Spread	7.9	8.1	8.0	8.4
NIM	9.4	9.9	9.7	9.7
RoAE	21.7	19.3	19.4	22.7
RoAA	3.3	3.4	3.5	3.5
Cost/Income	41.4	39.6	40.6	39.4
Balance Sheet Ratios				
Leverage (Total Assets/Networth) (x)	6.6	5.1	6.1	6.6
Asset Quality (%)				
Gross NPA	1.7	1.5	1.3	1.2
Net NPA	0.4	0.4	0.3	0.2
Provision Coverage	74.0	74.7	80.0	80.0
Capital Adequacy (%)				
Capital Adequacy Ratio	20.3	24.7	19.5	17.2
Tier I Capital Ratio	14.6	19.7	15.9	14.5

Note: For FY18 - Ratios are not comparable because FY18 Balance Sheet is not disclosed as per IND-AS, while Income Statement is as per IND-AS.

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