BUY (Maintained)

CMP: **INR 6,727** Target Price: **INR 8,500** ▲ 26%

ICICI Securities

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24 July 2024

India | Equity Research | Q1FY25 results review

Bajaj Finance

Financial Services

Strong PPoP growth, but higher credit cost restricted PAT; credit cost guidance intact which is a key monitorable

Bajaj Finance's (Bajaj) Q1FY25 result has been largely in line except credit cost, which was higher-than-guided range. Credit cost increased to 2.12% (adjusted for management overlay utilisation stood at 1.99%) vs guidance of 1.75-1.85%. While management highlighted that incremental delinquency and collection trend in Jul'24 is better than Apr-Jun'24 and credit cost in H2FY25 should be materially lower than H1, meeting FY25 credit cost guidance will be the key thing to watch out. Strong core operating performance as reflected in consolidated AUM growth of 7% QoQ and PPoP growth of 8% QoQ, was largely driven by strong 8% QoQ revenue growth. This resulted in Bajaj sustaining industry-leading profitability with RoA at 4.6% and RoE at ~20% in Q1. Its resilient business model, built on strong customer acquisition engines and cross-sell, augurs well for maintaining leadership in the NBFC space.

We retain **BUY**; TP unchanged at INR 8,500, valuing the standalone business at 5x FY26E BVPS and INR 830 towards housing subs.

Credit cost guidance unchanged at 1.75-1.85% for FY25

GNPA ratio was stable at 0.86% vs 0.85% QoQ and 0.87% YoY while NNPA ratio inched up to 0.38% vs 0.37% QoQ and 0.31% YoY. Gross loan loss for the company stood at INR 17.9bn or 2.12%. However, during the quarter, Bajaj utilised management overlay to the extent of INR 1.05bn and hence loan loss (net) after adjusting for management overlay stood at 1.99%. Even after utilisation, loan loss was elevated vs 1.66% QoQ and 1.57% YoY. Muted collection efficiencies was the primary reason for inch up in credit cost as per the management.

Stage-2 assets also inched up by INR 8.65bn QoQ, which entail higher provisions and are likely to keep credit cost elevated in Q2 as well, post which it could normalise. Despite inch-up in credit cost, management has kept credit cost guidance unchanged at 1.75-1.85% for FY25, which remains a key monitorable going ahead. We are building in calculated credit cost of 1.7%/1.8% for FY25/26E, respectively.

Interestingly, management highlighted that ~63% of company's total customers did not have a personal loan in FY20, which fell to 57% in FY23 and rose to 58% in FY24, suggesting leverage is still within check for its customer pool. It further added that it remains watchful across portfolios and is also proactively pruning segments.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	201,866	269,393	326,018	405,730
PAT (INR mn)	102,998	126,441	153,004	188,649
EPS (INR)	170.4	204.6	247.6	305.3
% Chg YoY	62.0	20.1	21.0	23.3
P/E (x)	39.5	32.9	27.2	22.0
P/BV (x)	7.9	5.8	4.9	4.1
Gross Stage - 3 (%)	1.2	1.1	1.1	1.2
RoA (%)	5.4	4.9	4.9	5.2
RoE (%)	22.0	20.5	19.5	20.3

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Market Data

Market Cap (INR)	4,164bn
Market Cap (USD)	49,742mn
Bloomberg Code	BAF IN Equity
Reuters Code	BJFN.BO
52-week Range (INR)	8,192 /6,188
Free Float (%)	45.0
ADTV-3M (mn) (USD)	108.2

Price Performance (%)	3m	6m	12m
Absolute	(7.3)	(4.9)	(11.3)
Relative to Sensex	(16.2)	(18.0)	(32.4)

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EPS	-	-

Previous Reports

26-04-2024: Q4FY24 results review

07-04-2024: Initiating Coverage

Product-wise Stage-2 depicts mixed trends across segments

On Stage-2 assets, we have compared current Stage-2 (Jun'24) with Feb'20 Stage-2 which was pre-covid. Interestingly, it is observed that of the disclosed data, six out of 11 products Stage-2 are currently above Feb'20 levels.

Six products with higher than pre-covid Stage-2 are gold loans at 4.0% (1.09% in Feb'20), Rural B2C (excluding gold loans) at 1.93% (1.51% in Feb'20), business and professional loans (excluding car loans) at 0.68% (0.60% in Feb'20), LAP at 0.55% (0.3% in Feb'20), Home loans at 0.39% (0.11% in Feb'20) and Rural B2B at 0.38% (0.32% in Feb'20).

On the positive front, five other products are depicting Stage-2 which is lower than pre-covid era namely Two and three-wheeler at 5.04% (11.27% in Feb'20), Urban B2C at 1.22% (1.43% in Feb'20), Digital product at 0.76% (0.97% in Feb'20), Car loans at 0.73% (0.82% in Feb'20) and Consumer durable and lifestyle at 0.46% (0.89% in Feb'20), Overall, sustained higher Stage-2 could lead to continued elevated credit cost; hence credit cost coupled with segment-wise Stage-2 would be a key monitorable in the ensuing quarters to gauge the trends in asset quality.

Q1FY25 earnings - Healthy PPoP, while elevated credit cost dents bottom-line

For Q1FY25, Bajaj Finance reported consolidated PAT of INR 39.1bn, up 14% YoY and 2% QoQ, translating into RoA of 4.6% and RoE of 19.9%.

NII growth was healthy at 25% YoY and 4% QoQ, while total income was also strong at 24% YoY and 7% QoQ. Opex growth, on the contrary, was relatively contained at 22% YoY and 5% QoQ. As a result, operating profit growth was strong at 25% YoY and 8% QoQ. However, 69% YoY and 28% QoQ uptick in credit cost restricted PAT growth to 14% YoY and 2% QoQ.

AUM growth was healthy at 31% YoY and 7% QoQ while margins fell 23bps QoQ on account of rising cost of funds and shift in loan mix. Overall, for the quarter,

Robust AUM growth continues; guidance intact at 26-28% YoY growth

AUM for Bajaj Finance reached INR 3.5trn, up 31% YoY and 7% QoQ. AUM growth was broad-based across segments except rural B2C (ex-gold loans) where growth was tepid at 5% YoY. Moreover, customer addition was also healthy with 4.43mn customer addition which is ~5.3% QoQ uptick in customer franchise, taking the total customer base to 88.11mn. On mortgage front, AUM growth was similar to consolidated AUM growth at 32% and now forms ~31% of the book.

Overall, AUM growth guidance of 26-28% remains intact with an upward bias towards 28%. Ideally, company is looking at AUM growth of 2.2x-2.3x of overall banking system credit growth.

Rise in funding cost and mix change to keep margins under check

After 21bps contraction in Q4, NIM contracted another 23bps QoQ in Q1. Of this, 13bps decline can be attributed to rise in cost of funds, while another 10bps decline was on account of shift in AUM mix. Cost of funds also inched up to 7.94% vs 7.86% QoQ. With likely shift in AUM mix towards secured products and pressure on funding cost, we expect margins to be under pressure in Q2 as well.

Key risks: 1) Credit cost above company guidance; and 2) AUM growth below company guidance.

Exhibit 1: Bajaj Finance - sum of the parts value

SOTP	FY26E NW (INR bn)	Multiple (x)	Value (INR bn)	Value per share (INR)
Bajaj Finance (standalone)	935	5	4,742	7,670
Bajaj Housing (100% subsidiary)	184	3	515	830
SOTP				**8,500**

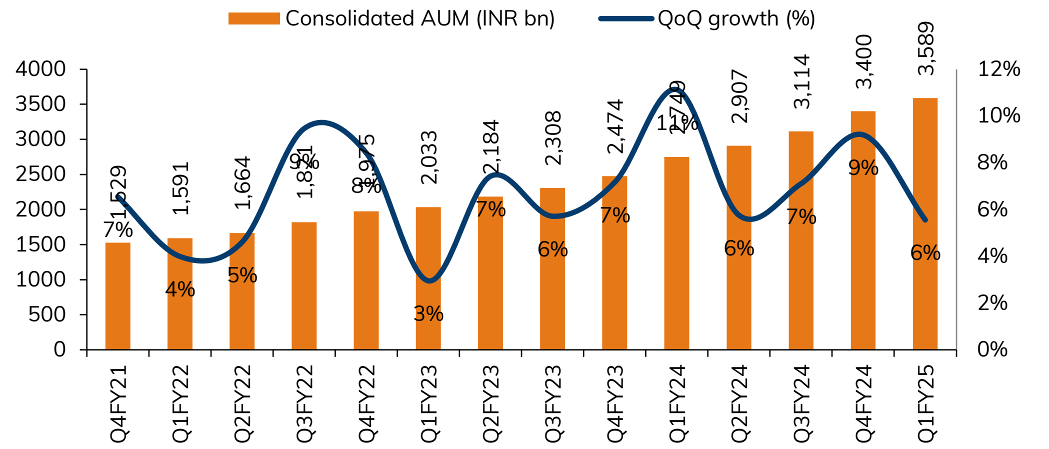
Source: Company data, I-Sec research

Exhibit 2: Q1FY25 result review (standalone)

	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Income statement (INR mn)					
Net interest Income	76,474	60,945	25.5%	73,400	4.2%
Add: Other Income	18,768	15,582	20.4%	15,636	20.0%
Total Net income	95,242	76,526	24.5%	89,036	7.0%
Less: Operating expenses	32,504	26,595	22.2%	30,597	6.2%
-Employee benefit expense	16,316	13,663	19.4%	15,035	8.5%
-Depreciation & amortization	1,858	1,433	29.6%	1,787	4.0%
-Other expense	14,330	11,499	24.6%	13,775	4.0%
Pre-provisioning profit	62,738	49,931	25.6%	58,440	7.4%
Less: Provisions & write-offs	16,714	9,886	69.1%	12,775	30.8%
PBT	46,025	40,045	14.9%	45,665	0.8%
Less: Taxes	12,009	10,455	14.9%	11,646	3.1%
PAT	34,016	29,591	15.0%	34,019	0.0%
Balance sheet key items (INR mn)					
AUM	2,618,280	1,995,790	31.2%	2,448,260	6.9%
Networth	756,895	546,374	38.5%	720,105	5.1%
Borrowings	2,316,099	1,764,789	31.2%	2,203,787	5.1%
Asset Quality					
Credit cost (annualised)	2.6%	2.1%	53 bps	2.2%	45 bps
Key ratios (annualised and calculated)					
Yield on AUM	18.7%	19.3%	-64 bps	19.2%	-48 bps
Cost of funds	7.6%	7.1%	50 bps	7.3%	28 bps
NIMs on AUM	12.1%	12.9%	-87 bps	12.6%	-50 bps
Cost to income	34.1%	34.8%	-63 bps	34.4%	-24 bps
Opex to AUM	5.1%	5.6%	-52 bps	5.2%	-11 bps
Annualized RoAAUF	5.4%	6.3%	-87 bps	5.7%	-33 bps
Annualized RoAE	18.4%	22.3%	-389 bps	19.4%	-96 bps
Debt to Equity (times)	3.1	3.2	-5.3%	3.1	0.0%

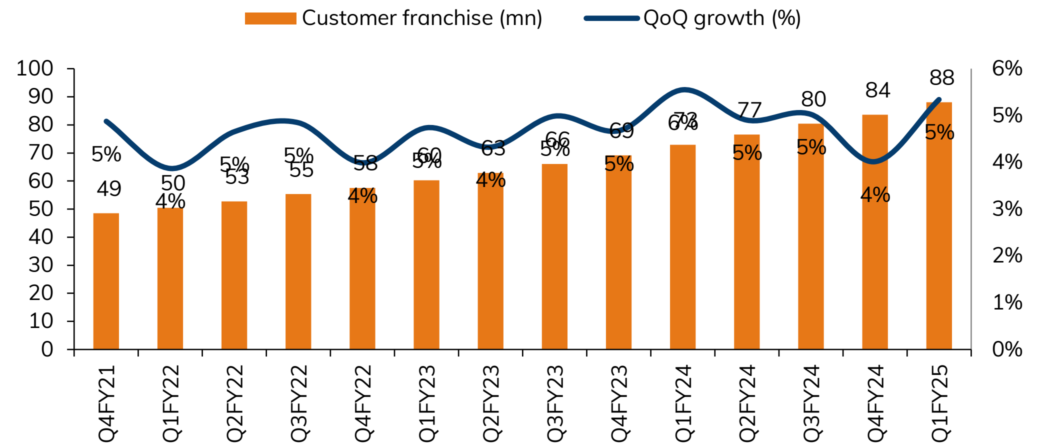
Source: Company data, I-Sec research

Exhibit 3: AUM grew 6% QoQ...



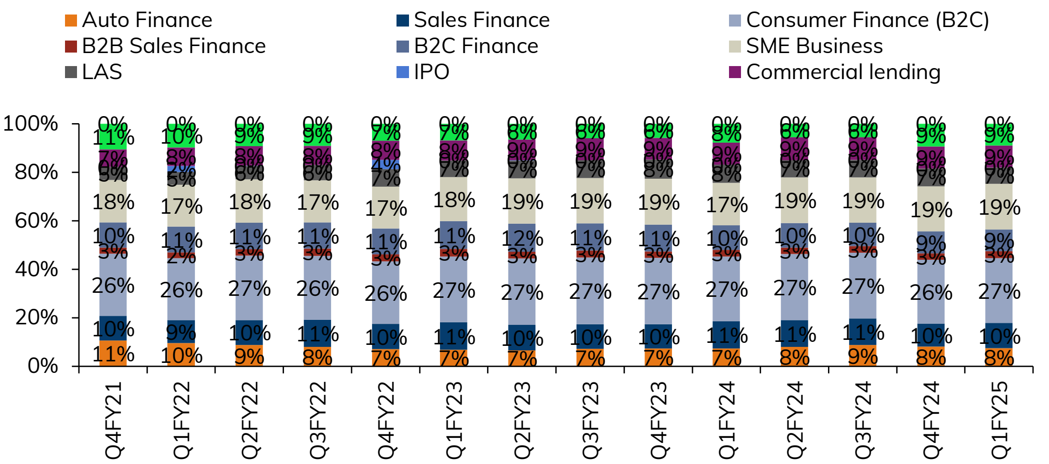
Source: Company data, I-Sec research

Exhibit 4: ...led by strong customer acquisitions



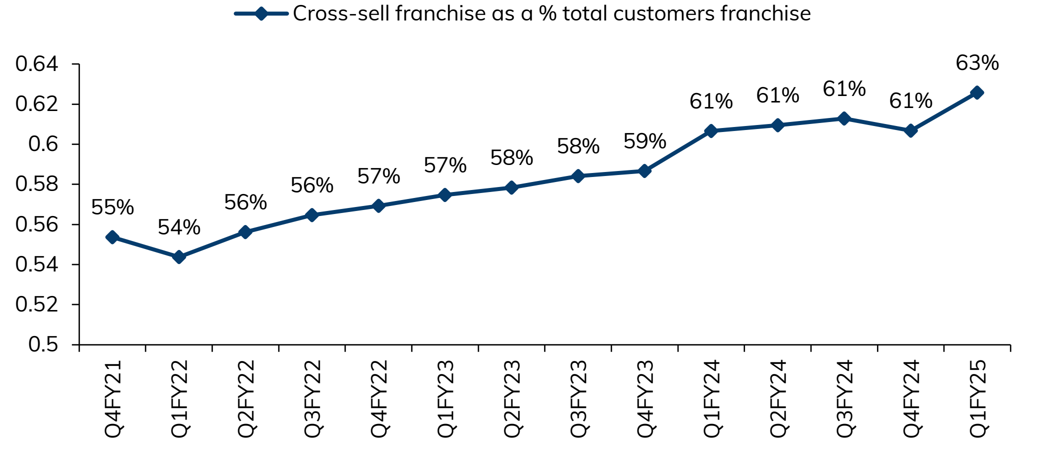
Source: Company data, I-Sec research

Exhibit 5: Well-diversified product mix provides cross-sell opportunities



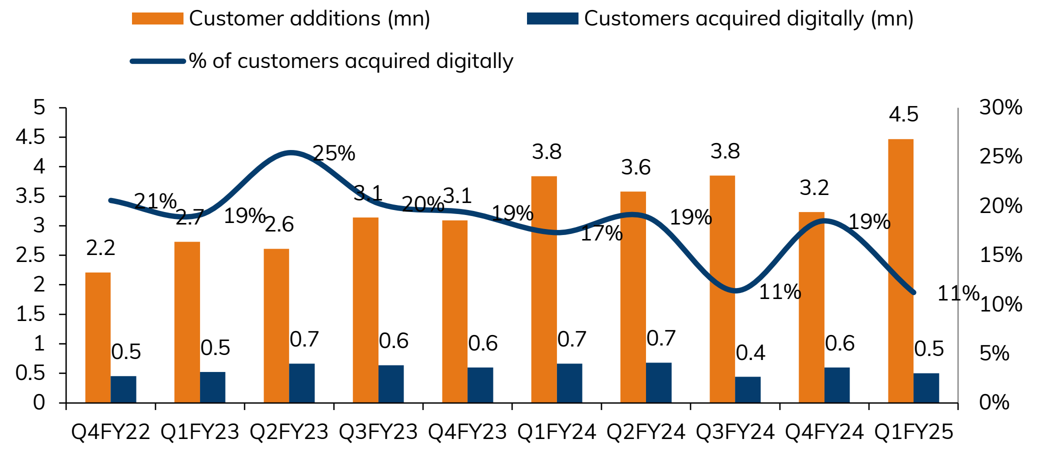
Source: Company data, I-Sec research

Exhibit 6: Cross-sell at ~63% augurs well for sustainable growth momentum



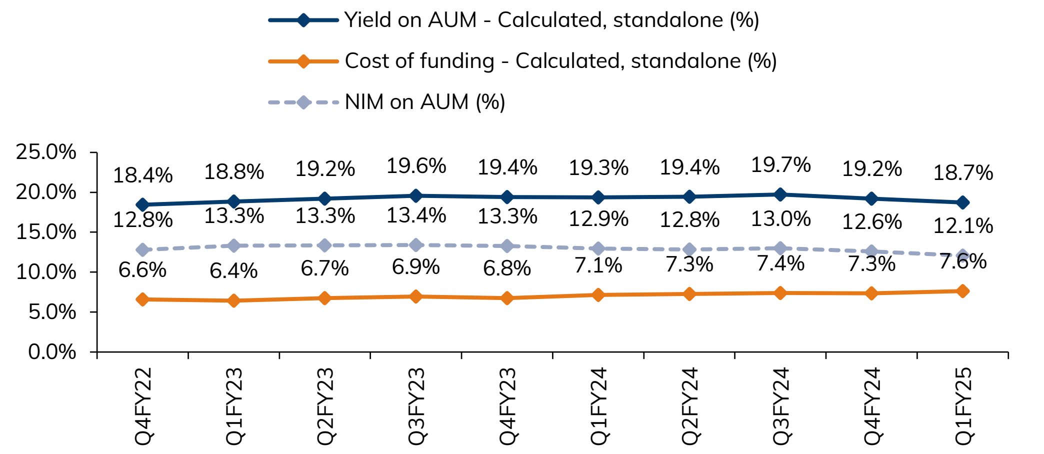
Source: Company data, I-Sec research

Exhibit 7: Digital acquisitions pick-up post embargo lifting on eCom and InstaEMI cards by RBI in May'24



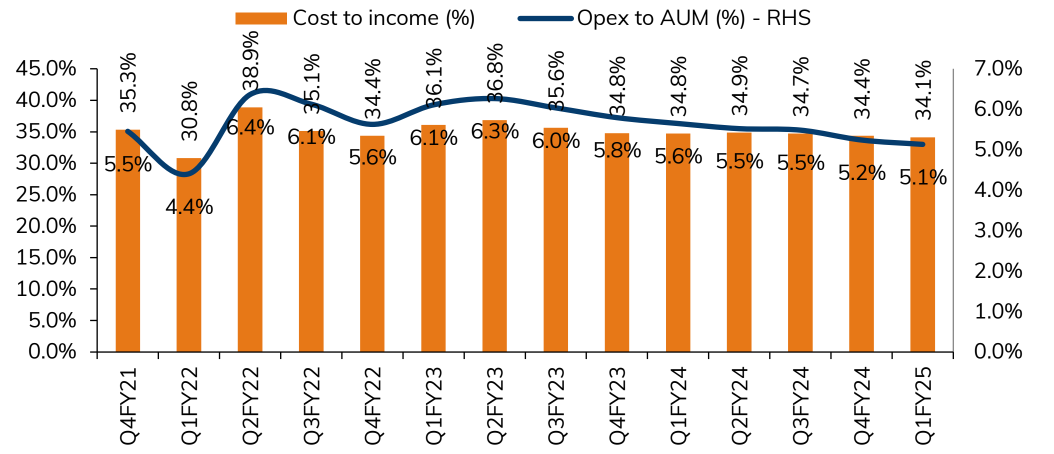
Source: Company data, I-Sec research

Exhibit 8: Rising funding costs and shift in loan mix led to contraction in NIM



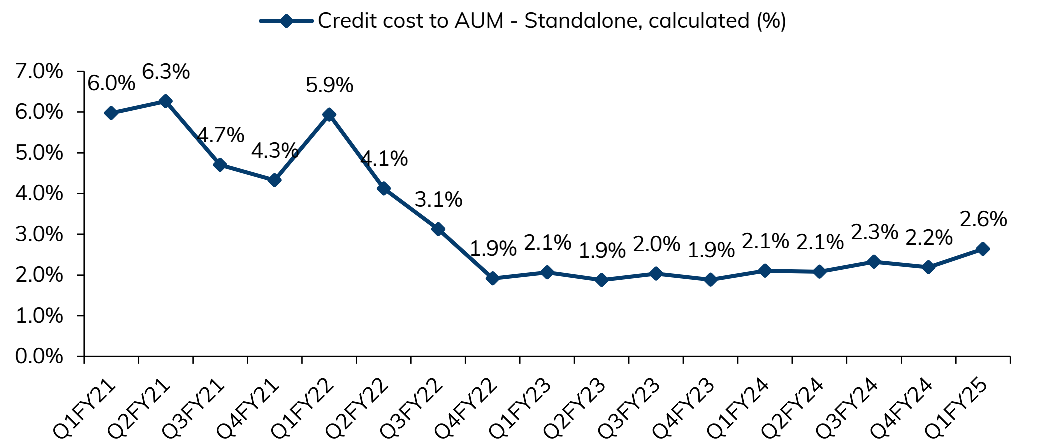
Source: Company data, I-Sec research

Exhibit 9: Steady operating leverage



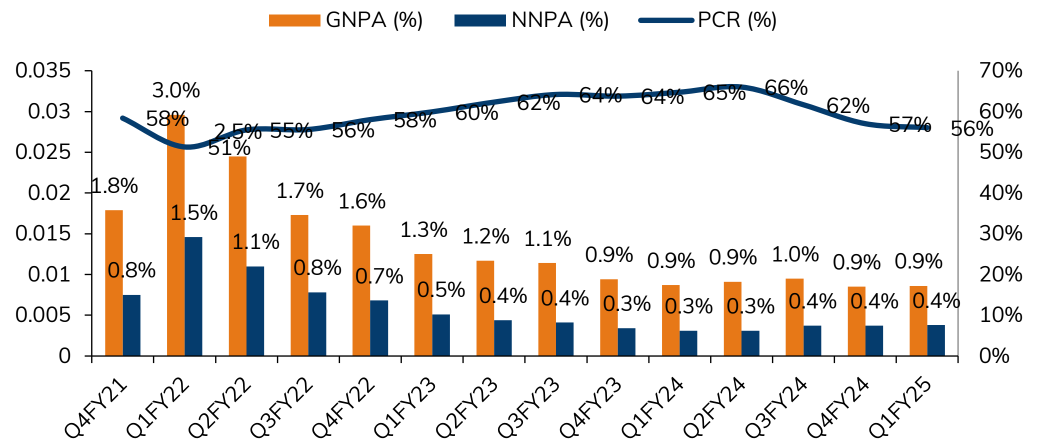
Source: Company data, I-Sec research

Exhibit 10: Credit cost inch up due to muted collection efficiency



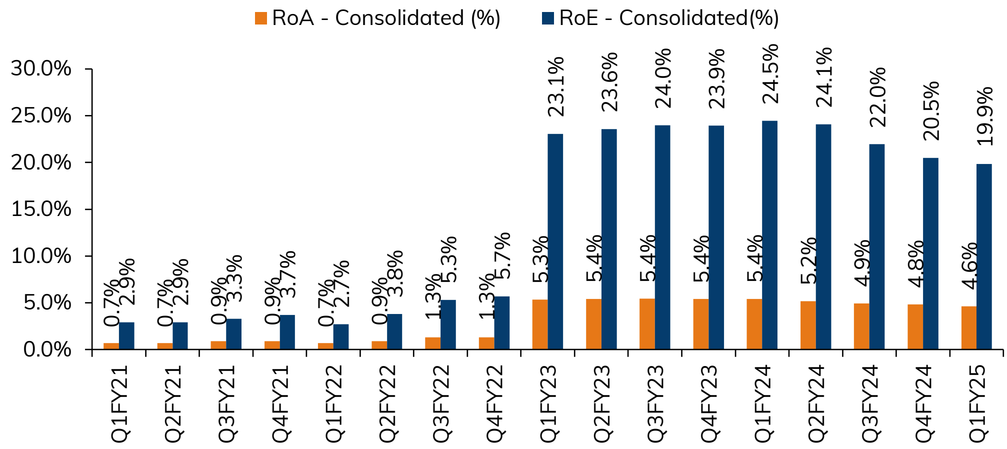
Source: Company data, I-Sec research

Exhibit 11: GNPA ratio stable while NNPA inch up QoQ



Source: Company data, I-Sec research

Exhibit 12: RoA at ~4.6% and RoE at 19.9%



Source: Company data, I-Sec research

Q1FY25 conference call key takeaways

Asset quality

- ***Company continues with its credit cost guidance of 1.75%-1.85%***
- ***Consumed management overlay of INR 1.05bn and that is the difference between gross loan loss at 2.12% and net loan loss at 1.99%***
- There has been no change in the company's write-off policy over the past 12 months
- There was no rapid increase in bounce rate, bur recovery quantum was lower and customers even migrated from Stage-1 to Stage-2. Hence, there was a requirement to increase provisions thereby.
- From FY20-24, number of customers who don't have personal loans has improved in FY24 vs. FY20 levels, but is up from FY23 levels
- ***63% of company's total customers didn't have a personal loan in FY20, which fell to 57% in FY23 and has rose to 58% in FY24***
- Company will look at incremental sourcing in the ratio of 55% used auto and 45% new auto for auto loans, while current book composition is 70% used and 30% new. Hence, asset quality here is likely to improve as loan book mix shifts in favour of new car loans. However, new car loans is low RoA business and hence company is also augmenting it with used car financing.

AUM

- ***AUM growth guidance of 26-28% intact with an upward bias towards 28%. Idea is to have 2.2x-2.3x of banking system credit growth.***
- In May'24, RBI, lifted restrictions on sanction and disbursal of loans under 'eCOM' and 'Insta EMI Card', with immediate effect. The Company has since resumed sanction and disbursal of loans in the above two business segments and issuance of EMI cards in a staggered manner.
- On B2B business, market share continues to retain market share and it has been rangebound since the past 4 quarters

Margins

- Margins fell 23bps QoQ of which 13bps was due to cost of funds and 10bps was due to change in AUM mix
- Opex to net total income would continue to drift downwards

Return ratios

- RoA of 4.63% and RoE of 19.86%

Bajaj Housing Finance

- Bajaj Housing Finance, which is 100% subsidiary has filed for IPO in June 2024
- AUM up 31% to INR 970bn
- Portfolio composition remains largely steady on YoY basis

Exhibit 13: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.8	54.7	54.7
Institutional investors	34.9	35.0	34.6
MFs and others	9.8	9.6	9.2
FIs/Banks	0.9	0.0	0.4
Insurance	2.9	3.6	3.9
FIIs	21.3	21.9	21.1
Others	10.3	10.3	10.7

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	294,719	407,828	504,375	608,027
Interest Expenses	(92,852)	(138,434)	(178,357)	(202,297)
Net Interest Income (NII)	**201,866**	**269,393**	**326,018**	**405,730**
Other Income	62,155	61,632	70,887	81,528
Total Income (net of interest expenses)	**264,021**	**331,025**	**396,905**	**487,258**
Employee benefit expenses	(45,637)	(58,495)	(76,879)	(91,479)
Depreciation and amortization	(4,438)	(6,291)	(6,870)	(8,514)
Fee and commission expenses	(19,344)	(19,591)	(23,936)	(29,664)
Other operating expenses	(25,021)	(30,396)	(35,346)	(41,557)
Total Operating Expense	**(94,440)**	**(114,773)**	**(143,032)**	**(171,213)**
Pre Provisioning Profits (PPoP)	**169,581**	**216,253**	**253,873**	**316,045**
Provisions and write offs	(30,665)	(45,722)	(47,518)	(61,616)
Profit before tax (PBT)	**138,916**	**170,531**	**206,356**	**254,430**
Total tax expenses	(35,918)	(44,090)	(53,352)	(65,781)
Profit after tax (PAT)	**102,998**	**126,441**	**153,004**	**188,649**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	1,209	1,236	1,236	1,236
Reserves & surplus	513,722	718,869	848,976	1,009,392
Shareholders' funds	**514,931**	**720,105**	**850,212**	**1,010,628**
Borrowings	1,616,846	2,203,787	2,400,958	2,922,647
Provisions & Other Liabilities	33,470	42,253	46,478	51,126
Total Liabilities and Stakeholder's Equity	**2,165,248**	**2,966,145**	**3,297,648**	**3,984,401**
Cash and balance with RBI	33,195	94,323	46,204	47,544
Fixed assets	22,264	31,025	34,128	37,540
Loans	**1,790,971**	**2,433,344**	**3,021,724**	**3,727,890**
Investments	287,379	371,534	156,082	127,965
Deferred tax assets (net)	9,190	9,267	10,194	11,213
Other Assets	22,249	26,652	29,317	32,249
Total Assets	**2,165,248**	**2,966,145**	**3,297,648**	**3,984,401**

Source Company data, I-Sec research

Exhibit 17: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	1,809,990	2,448,260	3,047,608	3,763,223
On-book Loans	1,809,990	2,448,260	3,047,608	3,763,223
Growth (%):				
Total AUM (%)	23.3	35.3	24.5	23.5
Loan book (on balance sheet) (%)	23.3	35.3	24.5	23.5
Total Assets (%)	28.9	37.0	11.2	20.8
Net Interest Income (NII) (%)	28.0	33.5	21.0	24.5
Non-interest income (%)	37.4	(0.8)	15.0	15.0
Total Income (net of interest expenses) (%)	30.1	25.4	19.9	22.8
Operating Expenses (%)	33.2	21.5	24.6	19.7
Employee Cost (%)	41.6	28.2	31.4	19.0
Non-Employee Cost (%)	43.2	21.5	16.3	17.6
Pre provisioning operating profits (PPoP) (%)	28.4	27.5	17.4	24.5
Provisions (%)	(33.7)	49.1	3.9	29.7
PBT (%)	61.9	22.8	21.0	23.3
PAT (%)	62.3	22.8	21.0	23.3
EPS (%)	62.0	20.1	21.0	23.3
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	12.5	12.8	12.0	12.0
NIM on IEA (%)	12.1	12.3	11.6	11.8
NIM on AUM (%)	12.3	12.7	11.9	11.9
Yield on loan assets (%)	18.2	19.3	18.5	18.0
Yield on IEA (%)	17.6	18.6	17.9	17.6
Yield on AUM (%)	18.0	19.2	18.4	17.9
Cost of borrowings (%)	6.5	7.2	7.7	7.6
Interest Spreads (%)	11.7	12.1	10.7	10.4
Operating efficiencies				
Non interest income as % of total income	56.6	57.4	56.7	58.8
Cost to income ratio	35.8	34.7	36.0	35.1
Op.costs/avg assets (%)	4.9	4.5	4.6	4.7
Op.costs/avg AUM (%)	5.8	5.4	5.2	5.0
No of employees (estimate) (x)	40,369	47,482	53,733	60,318
No of branches (x)	3,733	4,139	4,480	4,810
Salaries as % of non-interest costs (%)	48.3	51.0	53.7	53.4
NII /employee (INR mn)	5.0	5.7	6.1	6.7
AUM/employee(INR mn)	44.8	51.6	56.7	62.4
AUM/ branch (INR mn)	484.9	591.5	680.3	782.3
Capital Structure				
Average gearing ratio (x)	3.1	3.1	2.8	2.9
Leverage (x)	4.2	4.1	3.9	3.9
CAR (%)	25.0	24.3	25.9	25.7
Tier 1 CAR (%)	23.2	24.3	25.9	25.7
Tier 2 CAR (%)	1.8	-	-	-
RWA (estimate) - INR mn	1,988,901	2,783,893	3,078,539	3,699,740
RWA as a % of loan assets	111.1	114.4	101.9	99.2

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.1	1.1	1.2
NNPA (%)	0.4	0.5	0.5	0.5
GNPA (INR mn)	21,755	26,000	33,905	43,768
NNPA (INR mn)	7,866	11,262	14,410	18,164
Coverage ratio (%)	63.8	56.7	57.5	58.5
Credit Costs as a % of avg AUM (bps)	187	215	173	181
Credit Costs as a % of avg on book loans (bps)	187	215	173	181
Return ratios				
RoAA (%)	5.4	4.9	4.9	5.2
RoAE (%)	22.0	20.5	19.5	20.3
ROAAUM (%)	6.3	5.9	5.6	5.5
Valuation Ratios				
No of shares	604	618	618	618
No of shares (fully diluted)	604	618	618	618
EPS (INR)	170.4	204.6	247.6	305.3
EPS fully diluted (INR)	170.4	204.6	247.6	305.3
Price to Earnings (x)	39.5	32.9	27.2	22.0
Price to Earnings (fully diluted) (x)	39.5	32.9	27.2	22.0
Book Value (fully diluted)	852	1,165	1,376	1,635
Adjusted book value	842	1,152	1,358	1,613
Price to Book	7.9	5.8	4.9	4.1
Price to Adjusted Book	8.0	5.8	5.0	4.2
DPS (INR)	-	-	-	-
Dividend yield (%)	-	-	-	-

Source Company data, I-Sec research

Exhibit 18: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	1,922,704	2,565,696	3,131,896	3,641,024
Average Loans (INR mn)	1,616,867	2,112,158	2,727,534	3,374,807
Average Equity (INR mn)	467,745	617,518	785,158	930,420
Interest earned (%)	15.3	15.9	16.1	16.7
Interest expended (%)	4.8	5.4	5.7	5.6
Gross Interest Spread (%)	**10.5**	**10.5**	**10.4**	**11.1**
Credit cost (%)	1.6	1.8	1.5	1.7
Net Interest Spread (%)	**8.9**	**8.7**	**8.9**	**9.5**
Operating cost (%)	3.9	3.7	3.8	3.9
Lending spread (%)	**5.0**	**5.0**	**5.1**	**5.6**
Non interest income (%)	3.2	2.4	2.3	2.2
Operating Spread (%)	**8.2**	**7.4**	**7.4**	**7.8**
Tax rate (%)	25.9	25.9	25.9	25.9
ROAA (%)	**5.4**	**4.9**	**4.9**	**5.2**
Effective leverage (AA/ AE)	4.1	4.2	4.0	3.9
RoAE (%)	**22.0**	**20.5**	**19.5**	**20.3**

Source Company data, I-Sec research

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