

Bajaj Finance Limited

ADD

CMP Rs4,873

Target Rs5,500

Upside 13.0%

Result Highlights

- ✓ BAF's PPOP was 5% below our estimate due to firstly, significant interest reversals (Rs3.3bn) from higher prudential write-offs (~1% of AUM - both Covid-related stress and due to advancement of w/off policy) and secondly, materially higher opex (115% of estimate) on higher recovery commission and employee costs related to business transformation initiatives.
- ✓ AUM growth in Q4 (6.5% qoq) was mainly driven by consumer B2B (Sales Finance), rural finance, mortgages (growth was back post pricing corrections), SME loans and commercial lending.
- ✓ Gross and Net NPA declined at 1.8% and 0.75% respectively as of Q4 versus 2.9% and 1.2% respectively as of December, due to w/off and improvement in bounce trends (both for new originations and current bucket) and higher collection efficiency across buckets and products. Consequently, the net credit cost was much lower than our expectation.

Our view - A transient soft patch; structural growth and earnings resilience intact:

Barring a nationwide lockdown or extended lockdowns in larger states, BAF is confident of delivering 20%+ AUM and earnings growth in FY22. Despite the lockdowns becoming pervasive in the past 7-10 days, the co. continued to originate 50-55% of daily volumes in B2B business, 80-85% in B2C and SME businesses and 40-50% in mortgages. Management believes that the impact of lower business volumes in first quarter could be reasonably mitigated in the balance three quarters of the year. With improved bounce rates, higher collection efficiency and overlay provisions (55-60bps of AUM), BAF is better positioned to navigate any temporary stresses on account of second COVID wave.

We estimate RoA moving closer to 5% in FY23 on the back of core cost/income improvement and normalization of credit cost. See BAF delivering 22-23% RoE with controlled leverage. With structural growth and earnings resilience intact, the threat to current high valuation is low. Retain ADD rating with 12m TP of Rs5,500.

Exhibit 1: Result table

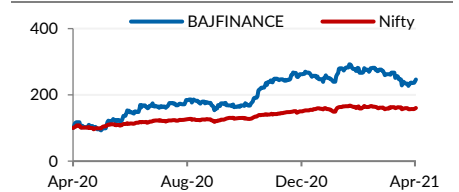
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Operating Income	68,506	66,561	2.9	72,266	(5.2)
Interest expended	(21,956)	(23,627)	(7.1)	(25,474)	(13.8)
Net Interest Income	46,551	42,934	8.4	46,792	(0.5)
Other income	43	24	83.8	43	1.6
Total Income	46,594	42,958	8.5	46,834	(0.5)
Operating expenses	(16,060)	(13,896)	15.6	(14,515)	10.6
PPOP	30,534	29,062	5.1	32,320	(5.5)
Provisions	(12,308)	(13,517)	(8.9)	(19,538)	(37.0)
PBT	18,226	15,545	17.2	12,782	42.6
Tax	(4,760)	(4,085)	16.5	(3,301)	44.2
PAT	13,466	11,460	17.5	9,481	42.0

Source: Company, YES Sec - Research

Stock data (as on Apr 27, 2021)

Sensex:	14,653
52 Week h/l (Rs)	5822 / 1783
Market cap (Rs/USD mn)	2931618 / 39267
Outstanding Shares	603
6m Avg t/o (Rs mn):	16,973
Div yield (%):	-
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	-6.1%	0.4%	138.0%

Shareholding pattern

Promoter	56.1%
FII+DII	33.1%
Others	10.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,500	5,500

Financial Summary

	FY22E	FY23E	FY24E
Op. income	210,496	263,185	331,577
PPOP	144,143	181,240	230,375
Net profit	80,188	106,211	135,458
Growth (%)	81.4	32.5	27.5
EPS (Rs)	133.3	176.5	225.2
ABVPS (Rs)	709.6	863.2	1,068.0
P/E (x)	36.6	27.6	21.6
P/adj.BV (x)	6.9	5.6	4.6
ROE (%)	19.8	21.8	22.7
ROA (%)	4.3	4.8	4.9
CAR (%)	25.5	24.4	24.2

Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	133.3	176.5	225.2
EPS (Old)	143.4	192.2	-
% change	-7.0%	-8.2%	-

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CON-CALL HIGHLIGHTS

- ✓ Booked 5.47mn new loans in Q4 FY21 as against 6.03mn in Q4 FY20. New loans origination across businesses except auto finance is back to pre-COVID levels.
- ✓ Acquired 2.26mn new customers in Q4 FY21 versus 1.85mn in Q4 FY20. Cross sell franchise stood at 26.89mn, a growth of 11% yoy.
- ✓ Reversed interest income of Rs3bn in Q4 FY21. Interest reversal was higher in Q3 FY21 at Rs4.5bn. It should normalize by Q3 FY22.
- ✓ Cost of Funds for Q4 FY21 was 7.39% vs 8.37% in Q4 FY20. Liquidity buffer at Rs165bn as of 31 March 2021 (12.5% of total borrowing).
- ✓ Operating expenses in Q4 FY21 were higher due to higher recovery commission and employee related costs. Opex to NII was 34.5% vs 31% in Q4 FY20. As the Company starts to grow AUM over the next 2-3 quarters, operating leverage kicks in and collection costs normalises, the ratio should revert to pre-COVID levels.
- ✓ After accelerated write offs, the co. still holds a management overlay and macro provision of Rs8.4bn. Based on the current risk estimates and available management overlay, the co is covered for loan losses and provisions.
- ✓ Non-overdue one-time restructuring (OTR) book stood at Rs17bn (1.1% of AUM). This includes secured exposures of Rs9.2bn, one large B2B retailer account of Rs4bn and Rs4.2bn of unsecured assets. As a matter of prudence, the OTR book is classified as Stage-2 and the co. holds ECL provision of 19%.
- ✓ Non-OTR Stage-2 assets stood at Rs50bn (3.3% of AUM) and the co. holds ECL provision of 25%. Of this block, secured assets contribute 59% and unsecured assets contribute 41%.
- ✓ Collection Efficiency across businesses for Stage 2 and OTR accounts is significantly better versus past experience.
- ✓ The bounce rates of new origination across businesses are in line or better than pre-COVID origination. The current bucket bounce rates across portfolios is close to pre-COVID levels. The current bucket collection efficiencies across all portfolios are better than pre-COVID levels.
- ✓ With improved bounce rates, higher collection efficiency and overlay provisions, the co. believes it is well positioned to navigate any temporary stresses on account of second COVID wave.
- ✓ In the last 7-10 days, the co. has continued to originate 50-55% of daily volumes in B2B business, 80-85% in B2C and SME businesses and 40-50% in mortgages. The co. believes that a disruption in first quarter could be reasonably mitigated in the balance three quarters.
- ✓ Management believes that co. is entering FY22 on a strong footing. Barring a nationwide lockdown or extended lockdowns in large GDP contributing states, BAF is confident of delivering its long-term guidance metrics in FY22.

Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
AUM	1,529,470	1,435,510	6.5	1,471,530	3.9
Consumer B2B -Auto Fin.	121,120	127,070	(4.7)	130,850	(7.4)
Consumer B2B -Sales Fin.	115,260	101,860	13.2	126,570	(8.9)
Consumer B2C	304,500	290,420	4.8	312,550	(2.6)
Rural Business	147,050	133,920	9.8	133,280	10.3
SME Business	202,170	188,820	7.1	194,290	4.1
Securities Lending	60,540	50,740	19.3	48,220	25.5
Commercial Lending	82,930	75,100	10.4	64,110	29.4
Mortgages	495,900	467,580	6.1	461,660	7.4

Source: Company, YES Sec - Research

Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
Op Income / Average AUM*	18.5	19.0	(0.5)	19.8	(1.3)
Interest Expense / Average AUM*	5.9	6.7	(0.8)	7.0	(1.0)
NII / Average AUM*	12.6	12.2	0.3	12.8	(0.2)
Cost to Income	34.5	32.3	2.1	31.0	3.5
Provisions / Average AUM	3.3	3.9	(0.5)	5.3	(2.0)
RoE	14.8	13.2	1.6	11.6	3.2
RoA	3.6	3.6	-	2.8	0.8
CAR	28.3	28.2	0.1	25.0	3.3
Tier-1	25.1	24.7	0.4	21.3	3.8
Gross NPA	1.8	0.6	1.2	1.6	0.2
Net NPA	0.8	0.2	0.6	0.7	0.1
PCR	58.0	65.0	(7.0)	60.0	(2.0)

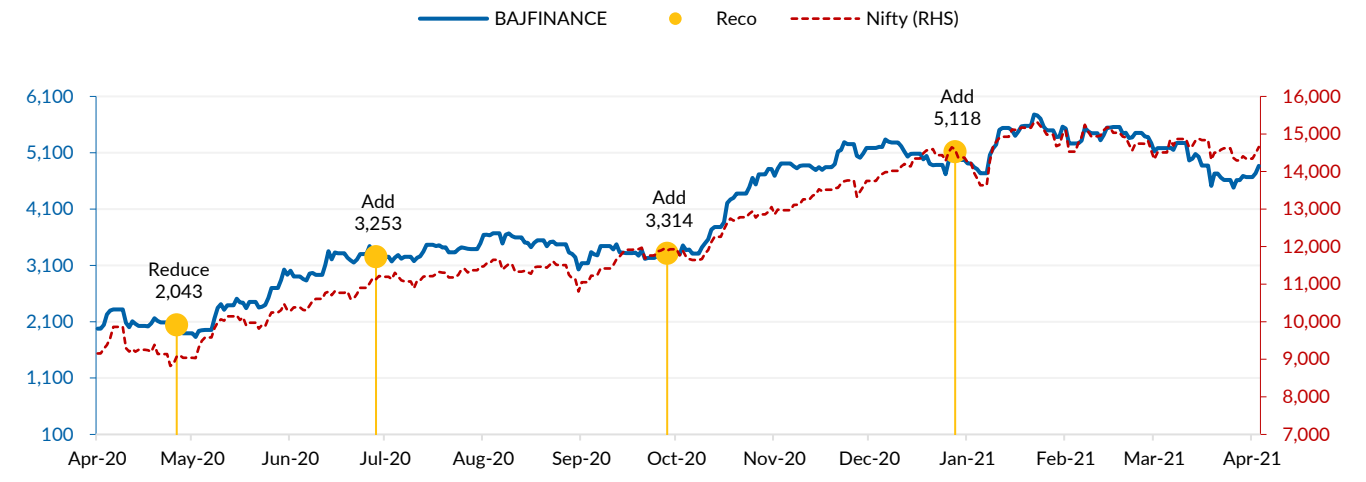
Source: Company, YES Sec - Research; *Calculated

Exhibit 4: GNPA trend

GNPA - (%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
Consumer B2B-Auto Fin.	9.3	11.5	(2.2)	6.5	2.8
Consumer B2B-Sales Fin	1.1	1.9	(0.8)	1.3	(0.2)
Consumer B2C	1.7	3.3	(1.6)	1.6	0.1
Rural B2B	1.1	2.1	(1.0)	0.6	0.6
Rural B2C	1.7	3.6	(2.0)	1.5	0.1
SME	0.9	2.3	(1.4)	1.7	(0.8)
Mortgages	0.9	1.0	(0.0)	0.5	0.4

Source: Company, YES Sec - Research

Recommendation Tracker



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