

Bajaj Finance

Refer to important disclosures at the end of this report

Returning to normalcy but uncertainties do exist

- BAF reported PAT of Rs13.5bn (+42% yoy, +17.5% qoq) in Q4FY21, aided by solid growth momentum across lending segments (except auto). However, recent lockdowns amid the second wave of Covid-19 pose a challenge for BAF due to historically loaded AUM growth in Q1 (~35-40% of full year AUM) and dependence on discretionary spending.
- Though the sharp surge in collection efficiency is positive, we remain concerned about elevated write-offs (Rs20bn in Q4, Rs23.4bn in Q3) and restructured book (Rs17.4bn) placed under stage 2 assets. We also await more ground level data to ascertain the impact of current lockdowns on collection efficiency.
- In the last quarter, management revealed a business transformation journey by creating seamless credit experience and announcing an integrated payment solution. We believe the move is intended to increase the wallet share from the existing customers. Since the process is due in Jul-Aug'21, we await more clarity over the same.
- Although we moderate our AUM growth estimates to 25%/28% for FY22/23 from 28%/30% earlier due to current lockdowns, management's stance of open for all businesses (against shut down for months last year) provides some comfort. We introduce FY24 estimates. Maintain Hold (EW in EAP) with a TP of Rs5400 (~6.5x FY23E ABV).
- Key things to watch out for: 1) possible stress in the loan book; 2) impact on growth during lockdowns and 3) BAF's transformation journey.

Normalcy visible in Q4FY21; better collections led to reduction in credit loss: BAF has reported AUM growth of ~3.9% yoy (+6.5% qoq) to Rs1.53tn, mainly attributable to higher growth across segments along with increasing momentum in recoveries. The reported core AUM growth in Q4 was ~Rs95bn (across all products lines, except for Auto) as compared to Rs80bn in Q3. During FY21, the company has done accelerated write-offs at ~Rs35bn of principal outstanding on account of Covid-19-related stress and advancement of its write-off policy. BAF holds a management overlay and macro provision of Rs8.4bn as of Mar'21

New initiatives picking up speed; a journey toward transformation: BAF management has revealed a business transformation journey by creating an omnichannel framework, which will enable customers to move between online to offline and vice versa in a frictionless manner. The company is also in process of launching an integrated payment solution viz. 'Bajaj Pay', comprising of UPI, PPI, EMI card and credit card for its customers.

Outlook and valuation: Although we moderate our AUM growth estimates to 25%/28% for FY22/23 from 28%/30% previously due to current lockdowns, management's stance of open for all businesses (vs. shutdown for months last year) provides some comfort. We introduce FY24 estimates. Maintain Hold (EW in EAP) with a TP of Rs5,400 (~6.5x FY23E ABV).

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	2,03,277	2,06,843	2,27,264	2,87,774	3,67,213
Net profit	94,790	78,349	99,401	1,31,805	1,74,587
EPS (Rs)	102.6	72.1	117.8	163.8	220.8
ABV (Rs)	536.6	584.9	683.1	825.6	1,010.9
RoA (%)	4.2	2.6	3.7	4.1	4.3
RoE (%)	23.3	12.8	18.0	21.2	23.6
PE (x)	47.4	67.5	41.3	29.7	22.0
P/ABV	8.9	8.2	7.0	5.8	4.7

Source: Company, Emkay Research

CMP	Target Price
Rs 4,865 as of (April 26, 2021)	Rs 5,400 (■) 12 months
Rating	Upside
HOLD (■)	11.0 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(6.4)/ (1.2)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	117.8	163.8
Consensus	136.0	176.8
Mean Consensus TP (12M)	Rs 5,167	

Stock Details

Bloomberg Code	BAF IN
Face Value (Rs)	2
Shares outstanding (mn)	603
52 Week H/L	5,922 / 1,783
M Cap (Rs bn/USD bn)	2,932 / 39.27
Daily Avg Volume (nos.)	27,15,773
Daily Avg Turnover (US\$ mn)	188.8

Shareholding Pattern Mar '21

Promoters	56.1%
FIIs	24.1%
DIIIs	9.1%
Public and Others	10.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	-	41	138
Rel. to Nifty	(7)	(4)	14	51

Relative price chart



Source: Bloomberg

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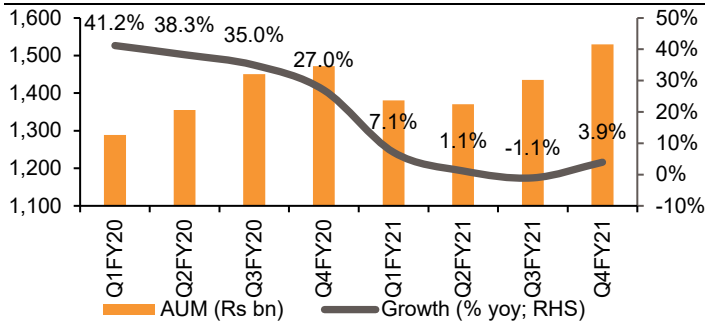
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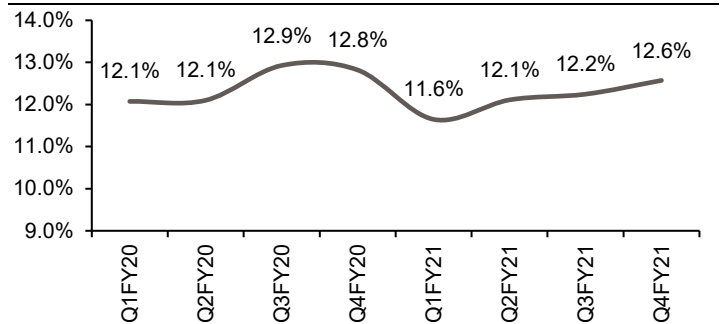
Story in Charts

Exhibit 1: AUM growth dips yoy, but recovers to 3.9% on qoq basis



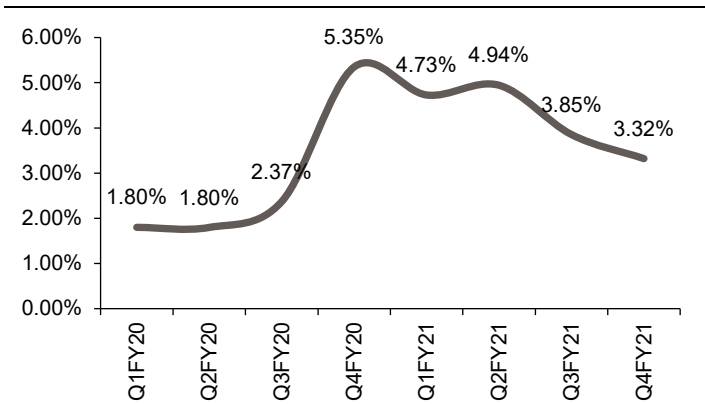
Source: Company, Emkay Research

Exhibit 2: Strong liability franchise (reducing cost of funds) supports NIMs



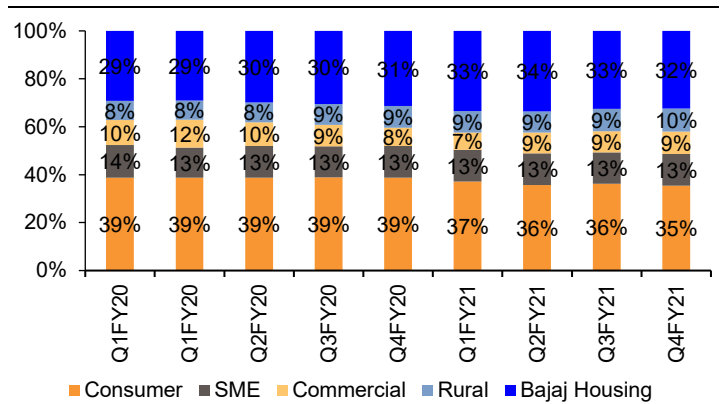
Source: Company, Emkay Research

Exhibit 3: Up-fronting of credit costs during FY21



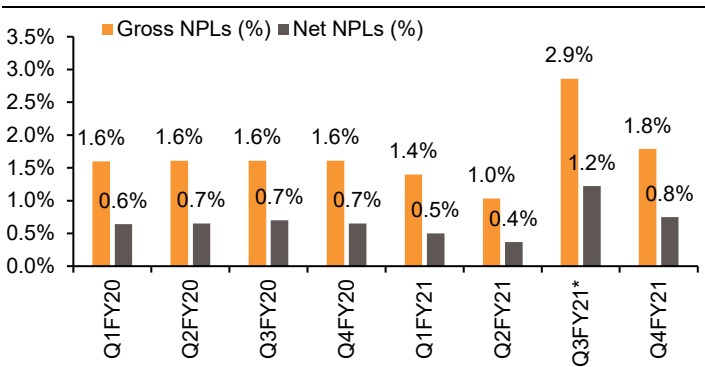
Source: Company, Emkay Research

Exhibit 4: Share of mortgage portfolio remains stable at 32% of AUM



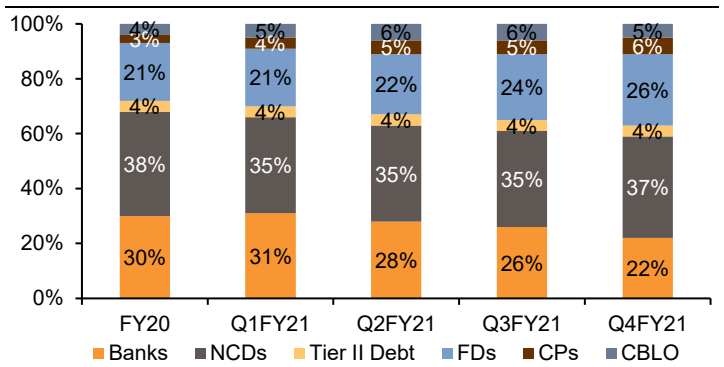
Source: Company, Emkay Research

Exhibit 5: Improving NPAs on strong collection efficiency



Source: Company, Emkay Research. *Proforma NPLs

Exhibit 6: BAF boasts of a strong, diversified liability franchise



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY21)

Rs mn	Actual	Estimates (Emkay)	Consensus estimates	% variation		Comments
				Emkay	Consensus	
Net income	46,594	46,015	41,817	1.3%	11.4%	In line with estimates
PPOP	30,534	30,260	35,039	0.9%	-12.9%	In line with estimates
PAT	13,466	11,969	13,705	12.5%	-1.7%	Better than expectations due to lower credit cost

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Total income	46,834	41,521	41,652	42,958	46,594	-0.5%	8.5%	1,69,124	1,72,691	2.1%
Operating expenses	14,515	11,567	11,593	13,896	16,060	10.6%	15.6%	56,608	53,084	-6.2%
Operating profit	32,320	29,954	30,059	29,062	30,534	-5.5%	5.1%	1,12,516	1,19,606	6.3%
Provisions	19,538	16,857	17,004	13,517	12,308	-37.0%	-8.9%	31,295	59,686	90.7%
% of operating profit	60.5%	56.3%	56.6%	46.5%	40.3%			27.8%	49.9%	
Profit before tax	12,782	13,097	13,055	15,545	18,226	42.6%	17.2%	81,221	59,921	-26.2%
Tax	3,301	3,474	3,406	4,085	4,760			20,584	15,724	-23.6%
Tax rate (%)	25.8%	26.5%	26.1%	26.3%	26.1%			25.3%	26.2%	
Profit after tax	9,481	9,623	9,649	11,460	13,466	42.0%	17.5%	60,638	44,196	-27.1%
AUMs	14,71,530	13,80,550	13,70,900	14,35,500	15,29,470	3.9%	6.5%	14,71,530	15,29,470	3.9%
Borrowings	12,98,060	12,11,200	12,49,000	12,41,620	13,16,454	1.4%	6.0%	12,98,060	13,16,454	1.4%

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

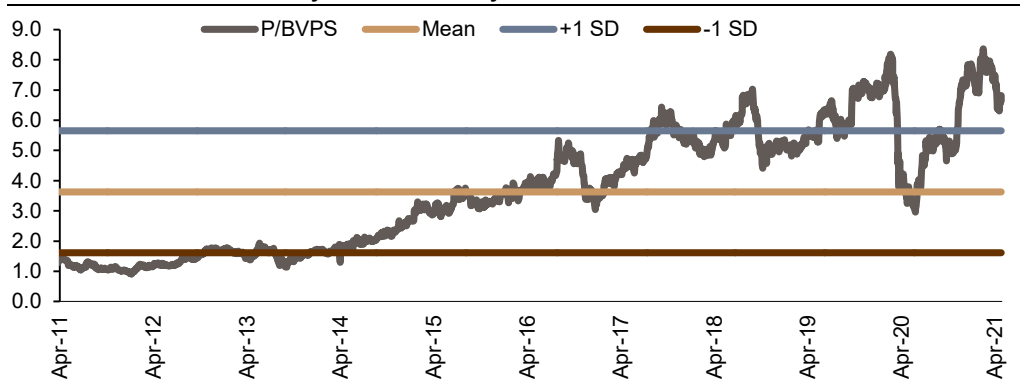
Y/e Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net operating income	2,17,274	2,00,026	-7.9%	2,77,550	2,56,335	-7.6%	3,27,922
PPOP	1,35,422	1,31,017	-3.3%	1,78,438	1,69,231	-5.2%	2,20,518
PAT	77,265	72,163	-6.6%	1,01,550	1,00,366	-1.2%	1,35,296
EPS (Rs)	125.8	117.8	-6.4%	165.8	163.8	-1.2%	220.8
BV (Rs)	711.8	703	-1.2%	848.6	843	-0.7%	1,031

Source: Company, Emkay Research

Exhibit 10: Key assumptions

(in %)	FY21	FY22E	FY23E	FY24E
AUM growth	3.9%	25.0%	28.0%	30.0%
Borrowings growth	1.4%	29.4%	28.0%	30.0%
Yield on average loans	18.5%	18.2%	18.0%	17.8%
Cost of average int. liabilities	7.2%	7.0%	6.8%	6.7%

Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 6.8x 1-year forward P/B

Source: Company, Emkay Research

Con-Call highlights

- Despite significant disruptions in the second Covid-19 wave, BAF remains open for business across geographies in line with local administration advisories. In the last 7-10 days, the company continued to originate 50-55% of daily volumes in the B2B business, 80-85% in B2C and SME businesses and 40-50% in mortgages.
- Showing the signs of normalization, credit card origination stands at 95%, ecommerce at 84% and auto finance business at 80%. For the rest of the businesses, urban consumption businesses (B2B) were at 105% and rural consumption business (B2B) at 119% of Q4FY20 volume. The company witnessed slow disbursements in urban B2C at 87% of Q4FY20, while Rural B2C was at 115% and Mortgages at 147%.
- Collection efficiency metrics across businesses for stage 2 and OTR accounts came in significantly better compared to past experience.
- The bounce rates of new origination across businesses are in line or better than pre-Covid origination. The current bucket bounce rate across portfolios is close to pre-Covid levels. The current bucket collection efficiencies across all portfolios are better than pre-Covid levels.
- With the improved bounce rate, higher collection efficiency and overlay provisions, BAF is well positioned to sail through any temporary stress related to Covid-19.
- Management expects credit cost of 150-170bps in FY22 after the Covid-19 impact compared to earlier expectation of 150-160bps. It does not carry any baggage of NPAs but in fact carrying excess provisions of 0.55%.
- The company has done accelerated write-offs in Q4 at Rs15.3bn due to Covid-19-related stress and change in write-off policy. Also, it also recorded Rs5bn of additional write-offs on account of the normal business, taking total write-offs to Rs20bn in Q4. BAF holds a management overlay and macro provision of Rs8.4bn as of Mar'21.
- Operating expenses were higher by Rs1.5bn in Q4FY21 vs. Q4FY20 due to higher recovery commission (up by Rs1.4bn in Q4FY21) and employee related cost (up by Rs1.5bn in Q4FY21), partially offset by prudent management of other expenses.
- All the planned business transformation initiatives are going live by Aug-Sep'21. It will help in accelerating market share as the economic momentum accelerates. BAF will continue to originate customers at POS and then engage them and cross-sell products on apps.
- Given the uncertain market conditions, the company has inched up its liquidity buffer to ~12.52% of its total borrowing as of Mar'21 from ~11.6% as of Dec'20. The cost of excess liquidity was Rs6.84bn for FY21.
- Management is confident of delivering its long-term guidance of AUM growth of 25-27% and RoE target of 18-20% in FY22.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	1,69,124	1,72,691	2,00,026	2,56,335	3,27,922
Other income	34,152	34,152	27,238	31,439	39,291
Net income	2,03,277	2,06,843	2,27,264	2,87,774	3,67,213
Operating expenses	56,608	53,084	69,009	87,104	1,07,404
Pre provision profit	1,46,669	1,53,759	1,58,255	2,00,670	2,59,809
PPP excl treasury	1,46,669	1,53,759	1,58,255	2,00,670	2,59,809
Provisions	31,295	59,686	34,413	34,872	39,399
Profit before tax	1,15,374	94,073	1,23,842	1,65,798	2,20,410
Tax	20,584	15,724	24,441	33,993	45,823
Tax rate	18	17	20	21	21
Profit after tax	94,790	78,349	99,401	1,31,805	1,74,587

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	1,200	1,203	1,203	1,203	1,203
Reserves	3,22,076	3,67,981	4,29,517	5,15,102	6,30,474
Net worth	3,23,276	3,69,184	4,30,720	5,16,305	6,31,677
Borrowings	12,98,064	13,16,454	17,03,447	21,80,412	28,34,536
Total liabilities	16,43,914	17,15,269	21,82,636	27,66,865	35,67,691
Cash and bank	13,827	21,762	26,775	23,268	22,600
Investments	1,75,472	1,84,002	2,04,414	2,39,845	2,83,454
Loans	14,31,874	14,83,313	19,14,097	24,50,471	31,85,613
Others	9,564	12,557	17,580	24,612	34,457
Total assets	16,43,914	17,15,269	21,82,636	27,66,865	35,67,691

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	12.9	11.5	11.6	11.8	11.7
RoA	4.2	2.6	3.7	4.1	4.3
RoAE	23.3	12.8	18.0	21.2	23.6
GNPA (%)	2.1	3.9	3.4	2.3	2.1
NNPA (%)	0.6	1.0	0.9	0.6	0.5

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	102.6	72.1	117.8	163.8	220.8
BVPS	547.0	602.5	702.9	842.6	1,030.9
ABVPS	536.6	584.9	683.1	825.6	1,010.9
DPS	10.0	10.0	17.7	24.6	33.1

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	47.4	67.5	41.3	29.7	22.0
P/BV	9.1	8.3	7.1	5.9	4.8
P/ABV	8.9	8.2	7.0	5.8	4.7
Dividend Yield (%)	0.2	0.2	0.4	0.5	0.7

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	42.4	2.1	15.8	28.2	27.9
PPOP	49.2	4.8	2.9	26.8	29.5
PAT	54.2	(17.3)	26.9	32.6	32.5
Loans	25.8	3.6	29.0	28.0	30.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	46,834	41,521	41,652	42,958	46,594
NIM (%)	12.8	11.6	12.1	12.2	12.6
PPOP	32,320	29,954	30,059	29,062	30,534
PAT	9,481	9,623	9,649	11,460	13,466
EPS (Rs)	15.80	16.04	16.06	19.07	22.38

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	56.2	56.2	56.1	56.1	56.1
FIIIs	21.2	21.2	21.3	23.9	24.1
DIIIs	10.9	10.1	10.7	9.1	9.1
Public and Others	11.8	12.4	11.9	10.9	10.7

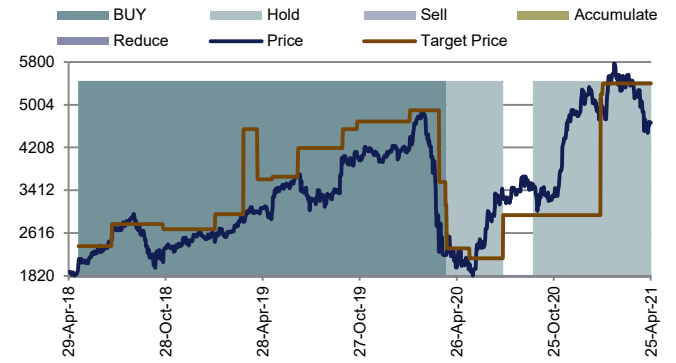
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Apr-21	4,963	5,400	12m	Hold	Jignesh Shial
19-Feb-21	5,498	5,400	12m	Hold	Jignesh Shial
25-Jan-21	4,909	5,400	12m	Hold	Jignesh Shial
21-Jan-21	5,118	5,200	12m	Hold	Jignesh Shial
21-Oct-20	3,233	2,950	12m	Hold	Jignesh Shial
06-Oct-20	3,474	2,950	12m	Hold	Jignesh Shial
16-Sep-20	3,522	2,950	12m	Hold	Jignesh Shial
22-Jul-20	3,253	2,950	12m	hold	jignesh shial
06-Jul-20	3,109	2,150	12m	Hold	Jignesh Shial
16-Jun-20	2,365	2,150	12m	Hold	Jignesh Shial
20-May-20	2,043	2,150	12m	Hold	Jignesh Shial
14-May-20	2,112	2,331	12m	Hold	Jignesh Shial
05-May-20	2,002	2,331	12m	Hold	Jignesh Shial
19-Apr-20	2,308	2,331	12m	Hold	Jignesh Shial
11-Apr-20	2,552	2,331	12m	Hold	Jignesh Shial
07-Apr-20	2,253	2,331	12m	Hold	Jignesh Shial
05-Apr-20	2,208	3,137	12m	Buy	Jignesh Shial
01-Apr-20	2,219	3,570	12m	Buy	Jignesh Shial
30-Mar-20	2,242	3,570	12m	Buy	Jignesh Shial
24-Mar-20	2,474	3,570	12m	Buy	Jignesh Shial
08-Mar-20	4,226	4,900	12m	Buy	Jignesh Shial
29-Jan-20	4,409	4,900	12m	Buy	Jignesh Shial
06-Jan-20	3,988	4,692	12m	Buy	Jignesh Shial
19-Nov-19	4,126	4,692	12m	Buy	Jignesh Shial
08-Nov-19	4,150	4,692	12m	Buy	Jignesh Shial
22-Oct-19	4,025	4,692	12m	Buy	Jignesh Shial
07-Oct-19	3,892	4,550	12m	Buy	Jignesh Shial
25-Sep-19	3,922	4,550	12m	Buy	Jignesh Shial
28-Aug-19	3,319	4,200	12m	Buy	Jignesh Shial
26-Jul-19	3,257	4,200	12m	Buy	Jignesh Shial
03-Jul-19	3,700	4,200	12m	Buy	Jignesh Shial
25-May-19	3,454	3,665	12m	Buy	Jignesh Shial
16-May-19	3,097	3,665	12m	Buy	Jignesh Shial
18-Apr-19	3,002	3,618	12m	Buy	Jignesh Shial
23-Mar-19	2,825	4,550	12m	Buy	Jignesh Shial
15-Feb-19	2,551	2,971	12m	Buy	Jignesh Shial
29-Jan-19	2,505	2,971	12m	Buy	Jignesh Shial
23-Oct-18	2,075	2,690	12m	Buy	Jignesh Shial
19-Oct-18	2,132	2,785	12m	Buy	Jignesh Shial
26-Sep-18	2,306	2,785	12m	Buy	Jignesh Shial
24-Sep-18	2,252	2,785	12m	Buy	Jignesh Shial
19-Jul-18	2,510	2,785	12m	Buy	Jignesh Shial
29-May-18	2,065	2,375	12m	Buy	Jignesh Shial
17-May-18	2,055	2,375	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.00	8.00	0%	0	100.00
Bajaj Finance	1.53	1.53	0%	0	19.07
Cholamandalam Investment	0.27	0.29	9%	2	3.61
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.48	5.49	0%	1	68.70
L&T Finance Holdings	0.09	0.10	10%	1	1.20
LIC Housing Finance	0.14	0.15	7%	1	1.92
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.13	0.05	-58%	-7	0.67
Nippon Life	0.06	0.06	0%	0	0.73
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.30	0.33	7%	2	4.08
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Apr-20	22-Oct-20	21-Jan-21	22-Mar-21	22-Apr-21
EAP - BFSI-NBFCs	100.0	80.2	101.6	138.9	137.8	131.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	75.2	95.4	130.6	129.6	123.2

*Performance measurement base date 1st April 2019

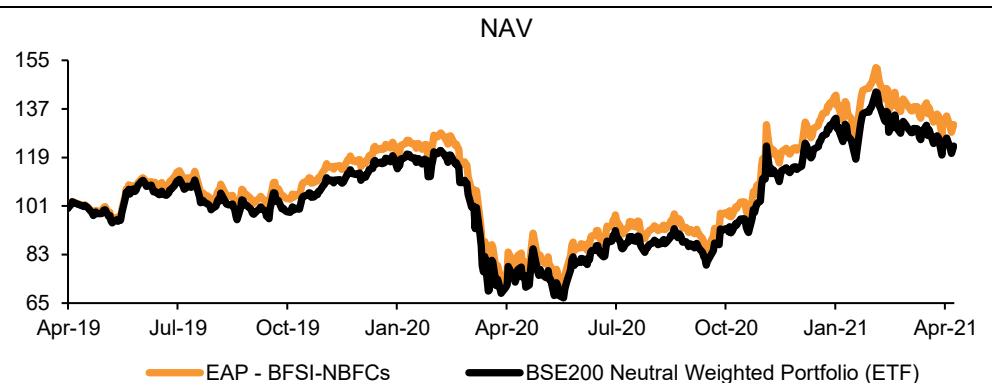
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-4.8%	-5.6%	29.1%	63.4%
BSE200 Neutral Weighted Portfolio (ETF)	-5.0%	-5.6%	29.2%	63.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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