

# Bajaj Finance Limited

ADD

CMP Rs4,982

Target Rs5,500

Upside 10.4%

## Stress flow as expected - Management commentary on Growth and Credit Cost soothing

- ✓ Overall Covid stress that came to the fore stood at 4-5% of AUM, which was in line with street's expectations. Its impact on the revenue line came through huge interest reversals, which along with still high negative carry (while the liquidity buffer was dialed down) led to tepid show on NII and PPOP fronts. Despite the NPL flow of ~3% of AUM, restructuring of 1.4% and one-time large write-off of unrecoverable accounts, the credit cost in Q3 FY21 was lower than preceding quarter with BAF utilizing the Covid-related provisioning buffer (residual at 50-60bps of AUM).
- ✓ Asset quality trends are encouraging - a) collection efficiencies in bucket 0 back to pre-COVID levels and in early buckets (1 and 2) are significantly better than pre-COVID levels, b) ~Rs12bn of customers have upgraded from stage-2 to stage-1 with collections and recoveries (sequential reduction in Stage 2 & 3 combined) and c) risk metrics of new volumes originated across businesses are tracking significantly better than pre-COVID origination
- ✓ Residual credit cost in Q4 FY21 estimated at Rs12-12.5bn (lower than Q3) with upside risks from collection efficiencies remaining better through the quarter. Management expects credit cost to revert to pre-COVID levels of 160-170 bps from FY22, again with upside risks from higher recoveries.
- ✓ On growth, the management expects to attain pre-Covid run-rate in Q4 FY21. Most businesses have started disbursing 85-100% of last year's volumes with incremental growth being observed every month. In mortgages, BAF has taken pricing actions to revert to pre-COVID traction.
- ✓ Margin profile in all lines of businesses is steady other than mortgages. The expected decline in funding cost, normalization of BS liquidity and reduction in delinquencies to aid margins in ensuing quarters. With business transformation process underway that focuses on enhancing business efficiencies and productivity, a material structural improvement in cost metric would be achieved in coming years.

We believe that we should be ahead of consensus in projecting 30% earnings CAGR over FY20-23. Estimate RoA moving closer to 5% in FY22/23 on the back of core cost/income improvement and normalization of credit cost. See BAF delivering 23-24% RoE with controlled leverage. With the return of potential growth and estimated delivery of best-ever return ratios, the threat to current high valuation is low. Retain ADD rating with 12m TP of Rs5,500.

### Exhibit 1: Financial Summary

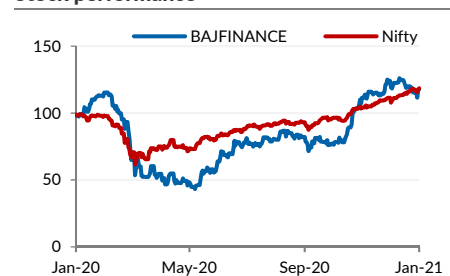
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	169,124	174,497	223,021	281,556
PPOP	112,516	120,719	155,799	198,873
Net profit	52,638	45,536	93,751	120,064
yoy growth (%)	31.8	(13.5)	105.9	28.1
EPS (Rs)	87.7	75.9	156.3	200.1
Adj. BVPS (Rs)	522.9	577.7	719.8	893.7
P/E (x)	56.8	65.6	31.9	24.9
P/adj.BV (x)	9.5	8.6	6.9	5.6
ROE (%)	20.2	13.3	23.2	24.0
ROA (%)	3.6	2.7	4.9	5.1
CAR (%)	21.3	23.3	22.6	22.4

Source: Company, YES Sec - Research

### Stock data (as on January 20, 2021)

Nifty	14,645
52 Week h/l (Rs)	5373 / 1783
Market cap (Rs/USD mn)	3002060 / 41109
Outstanding Shares (mn)	603
6m Avg t/o (Rs mn):	20,056
Div yield (%):	0.2
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

### Stock performance



	1M	3M	1Y
Absolute return	-5.2%	52.7%	20.2%

### Shareholding pattern

Promoter	56.1%
FII+DII	32.0%
Others	11.6%

### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 98925 92827



MANUJ OBEROI, Associate

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

## Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	66,561	65,132	2.2	70,194	(5.2)
Interest expended	(23,627)	(23,581)	0.2	(24,890)	(5.1)
Net Interest Income	42,934	41,550	3.3	45,304	(5.2)
Other income	24	67	(65.1)	44	(46.2)
Total Income	42,958	41,618	3.2	45,347	(5.3)
Operating expenses	(13,896)	(11,559)	20.2	(15,339)	(9.4)
PPOP	29,062	30,059	(3.3)	30,008	(3.2)
Provisions	(13,517)	(17,004)	(20.5)	(8,308)	62.7
PBT	15,545	13,055	19.1	21,701	(28.4)
Tax	(4,085)	(3,406)	19.9	(5,560)	(26.5)
PAT	11,460	9,649	18.8	16,141	(29.0)

Source: Company, YES Sec - Research

## Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
AUM	1,435,510	1,370,900	4.7	1,450,920	(1.1)
Consumer B2B -Auto Fin.	127,070	126,870	0.2	131,760	(3.6)
Consumer B2B -Sales Fin.	101,860	79,180	28.6	139,600	(27.0)
Consumer B2C	290,420	282,620	2.8	293,810	(1.2)
Rural Business	133,920	120,990	10.7	126,650	5.7
SME Business	188,820	182,530	3.4	187,030	1.0
Securities Lending	50,740	53,270	(4.7)	65,130	(22.1)
Commercial Lending	75,100	65,550	14.6	65,030	15.5
Mortgages	467,580	459,890	1.7	441,910	5.8

Source: Company, YES Sec - Research

## Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
Op Income / Avg AUM*	19.0	18.9	0.0	20.0	(1.0)
Int Exp / Avg AUM*	6.7	6.9	(0.1)	7.1	(0.4)
NII / Avg AUM*	12.2	12.1	0.2	12.9	(0.7)
Cost to Income	32.3	27.8	4.6	33.8	(1.5)
Prov / Avg AUM	3.9	4.9	(1.1)	2.4	1.5
RoE	13.2	11.6	1.6	23.6	(10.4)
RoA	3.6	2.8	0.8	4.8	(1.2)
CAR	28.2	26.6	1.6	26.9	1.4
Tier-1	24.7	23.0	1.7	23.2	1.6
Gross NPA	0.6	1.0	(0.5)	1.6	(1.1)
Net NPA	0.2	0.4	(0.2)	0.7	(0.5)
PCR	65.0	64.0	1.0	57.0	8.0

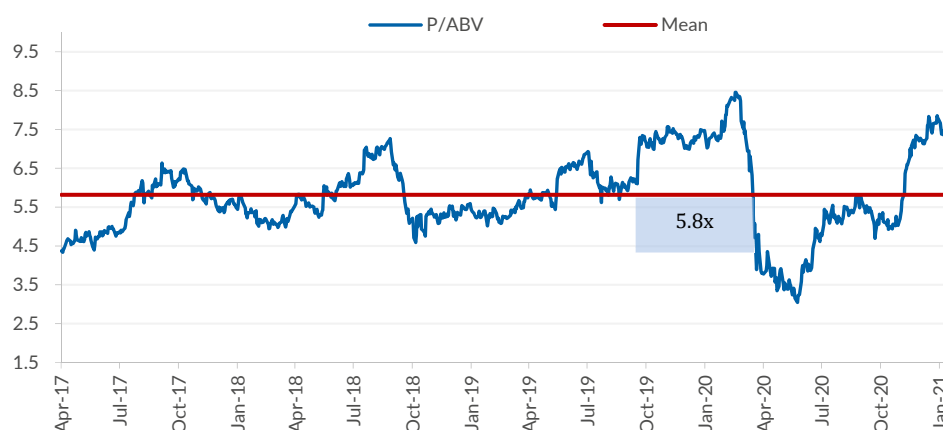
Source: Company, YES Sec - Research; \*Calculated

**Exhibit 5: GNPA trend**

GNPA - (%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
Consumer B2B-Auto Fin.	3.2	4.5	(1.3)	5.7	(2.5)
Consumer B2B-Sales Fin	0.1	0.3	(0.3)	0.9	(0.9)
Consumer B2C	0.3	0.8	(0.5)	1.3	(1.1)
Rural B2B	0.0	0.1	(0.1)	0.6	(0.6)
Rural B2C	0.3	0.9	(0.6)	1.3	(1.0)
SME	0.5	1.1	(0.6)	1.4	(0.9)
Commercial Lending	-	0.0	(0.0)	0.6	(0.6)
Mortgages	0.3	0.6	(0.3)	1.4	(1.1)

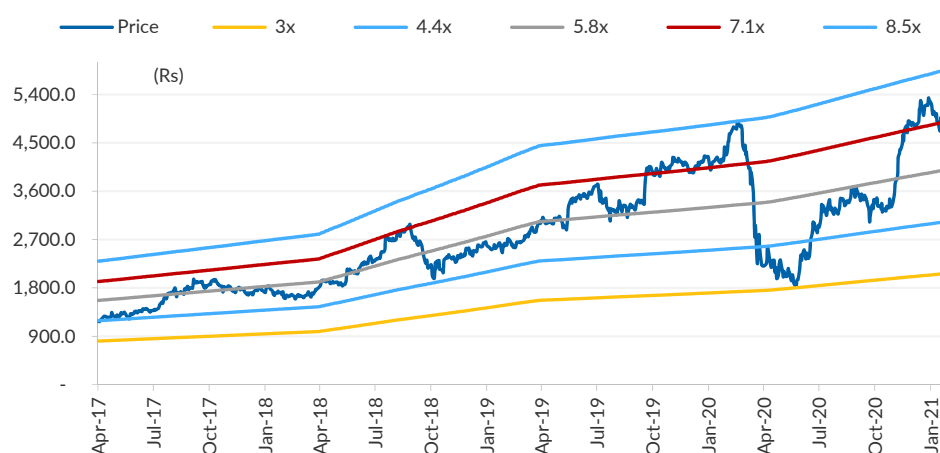
Source: Company, YES Sec - Research

**Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean**



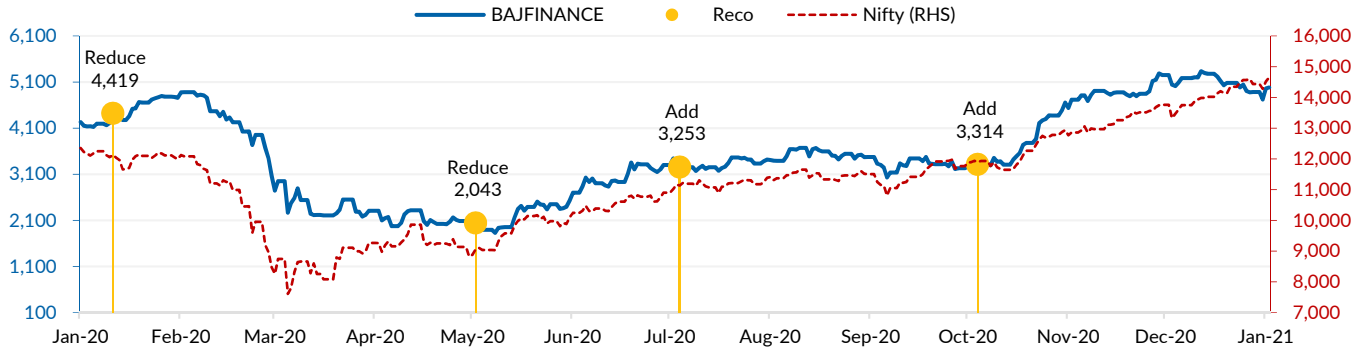
Source: Company, YES Sec - Research

**Exhibit 7: 1-yr rolling P/ABV band**



Source: Company, YES Sec - Research

## Recommendation Tracker



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### YES Securities (India) Limited

**Registered Address:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India

Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

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**Details of Compliance Officer:** Vaibhav Purohit (For Broking / Research / Investment Adviser): Email: [compliance@ysil.in](mailto:compliance@ysil.in) / Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking): Email: [dhanraj.uchil@ysil.in](mailto:dhanraj.uchil@ysil.in) / Contact No.: 022-33479684

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