

Bajaj Finance

Refer to important disclosures at the end of this report

Mid-quarter update – lockdowns impacting growth and asset quality

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|---|----------------------------------|
| CMP | Target Price |
| Rs 5,993 as of (June 4, 2021) | Rs 5,400 (■) 12 months |
| Rating | Upside |
| HOLD (■) | (9.9) % |

- After reporting a healthy performance in Q4FY21, management of Bajaj Finance (BAF) in a mid-quarter update indicated some adverse impact of Covid-19-related fresh lockdowns on business during Q1FY22.
- The company expects a milder impact on its financials.
 - BAF remained open for business across all categories during Q1FY22; however, B2B and Auto Finance businesses were most affected due to strict lockdowns in majority of states. These businesses delivered 70% of their planned volumes in Apr'21 and their volumes dropped to 40% in May'21.
 - Other lines of business were less impacted in Apr'21 and delivered 85% of planned disbursements. BAF leveraged its digital capabilities to remain largely functional in May'21 and delivered 60% of planned disbursements. With expected reopening, Jun'21 should be much better.
 - The company estimates an impact of Rs40-50bn to its AUM for FY22 on account of the disruption caused by the second wave. BAF has taken several actions to reduce its expenses and cost of funds to partially mitigate the financial impact.
 - Due to the second wave, the bounce rate has increased ~8% in Q1FY22 over Q4FY21. However, the company has already invested in the collection infrastructure to be capable of catering to 25-30% higher volumes across portfolios.
 - BAF estimates its NPAs during H1FY22 to be higher and assumes an incremental credit cost of Rs11-13bn for FY22E on account of disruption caused by the second wave. The expectation is that economic activity will normalize by Jul'22.
- We have been highlighting our concerns over BAF's retail business model, which remains more vulnerable due to its higher dependence on consumer loans and a seasonally strong first quarter (Q1). We remained equally concerned over elevated write-offs (Rs20bn in Q4, Rs23.4bn in Q3) and restructured book (Rs17.4bn) placed under stage 2 assets last year.
- We moderated our growth numbers post Q4 earnings along with keeping relatively higher credit costs for FY22. We maintain our estimates intact for now and continue with our cautious stance on the company, considering persistency of lockdowns in few large states as well as likely fear of a third wave in coming months. We also expect a surge in the restructured portfolio post fresh guidelines from the RBI last month. We have a Hold rating (EW in EAP) on the stock with a TP of Rs5,400 (~6.5x FY23E ABV).
- In the last quarter, management revealed a business transformation journey by creating a seamless credit experience and announcing an integrated payment solution. Since the process is due in Jul-Aug'21, we await more clarity over the same.

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

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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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