

Bajaj Finance | BUY

Keeps getting better

Bajaj Finance (BAF) reported 1QFY19 net profit of INR 8.35bn as per IndAS, up 81% YoY. As per IGAAP, net profit was up 69% YoY at INR 10.18bn. AUM growth remained strong at 35% YoY (39% YoY excluding short term IPO financing), driven by consumer, rural and commercial segments. Customer acquisition remained healthy, with the company acquiring 2.1 million new customers (up 33% YoY) in 1QFY19. Margins increased 70bps YoY to 11.6% on a 40bps YoY decline in funding costs. Asset quality trends improved, with the gross NPL ratio improving to 1.39% YoY with coverage ratio at 69%. Credit costs were down at 153bps YoY. BAF remains well-positioned to deliver sustainable profitable growth going forward. We value the company at 6.5x Mar'20 BV (implied PE 30x), implying a Mar'19 TP of INR 2,700. We maintain BUY.

- Strong AUM growth:** AUM growth remained strong at 35% YoY (39% YoY excluding short term IPO financing) driven by the consumer (35% YoY), rural (75% YoY), commercial (32% YoY) segments. SME segment growth accelerated to 31% YoY as the negative impact of GST is likely over. We expect AUM CAGR of 36% over FY18-20E driven by: i) deeper penetration – the company entered 153 locations (current total - 1486 locations); this is slated to increase to 1500 by FY19 (as per management); ii) customer acquisition, which remained strong with 2.1 million new customers (33% YoY) in 1QFY19 49% YoY growth in new loans booked in the past 12 months; iii) acceleration in rural – with SME recovering and rural still being a small portion of its portfolio, these two segments could accelerate; and iv) home loans, which we believe would be the key growth segment for BAF going ahead, as its current market share is under 0.7%.
- Strong asset quality trends across product categories:** Asset quality trends improved, with the gross NPL ratio improving 10bps sequentially to 1.39% in 1QFY19. The company saw improvement in consumer durable/LAP/home loans' 30+DPD portfolio declining 42/22/45bps YoY to 0.53% /0.22%/0.47%, respectively. On a sequential basis, 2 wheeler portfolio witnessed marginal deterioration in 30+DPD. Credit costs improved 41bps YoY to 154bps. Coverage stood at 69%. We have factored credit costs (provisions/AUM) of 140bps over FY18-20E.
- Operating leverage and cost saving in mortgage business led to a decline in Opex/NII to 37%:** BAF witnessed a decline in Opex/NII by 500 bps YoY primarily due to a) benefits of operating leverage b) restructuring in mortgage business led to INR 120-150mn of cost saving. Consequently, cost/assets also went down 13bps qoq and 19bps YoY to 4.2%.
- Margins rose 70bps YoY to 11.6%:** Margins (NII/AUM) increased 70bps YoY to 11.6%, on a 40bps YoY drop in funding costs. We expect NII CAGR of 37% over FY18-20E.
- Forecast earnings CAGR of 39% YoY, Maintain BUY with TP of INR 2,700:** We expect earnings CAGR of 39% over FY18-20E, driven by robust AUM growth (36% CAGR) and improvement in opex and credit costs. We expect healthy return ratios with RoA/RoE of 3.7%/24% by FY20E; we value BAF at 6.5x Mar'20 BV (implied PE of 30x), implying a Mar'19 TP of INR 2,700.



Karan Singh CFA FRM

karan.uberai@jmfl.com | Tel: (91 22) 66303082

Nikhil Walecha

nikhil.walecha@jmfl.com | Tel: (91 22) 66303027

Bunny Babjee

bunny.babjee@jmfl.com | Tel: (91 22) 66303263

Sameer Bhise

sameer.bhise@jmfl.com | Tel: (91 22) 66303489

Jayant Kharote

jayant.kharote@jmfl.com | Tel: (91 22) 66303099

S Parameswaran

S.Parameswaran@jmfl.com | Tel: (91 22) 66303075

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,700
Upside/(Downside)	8.5%
Previous Price Target	2,400
Change	12.5%

Key Data – BAF IN

Current Market Price	INR2,489
Market cap (bn)	INR1,438.3/US\$21
Free Float	37%
Shares in issue (mn)	535.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,936.3/US\$42
52-week range	2,523/1,507
Sensex/Nifty	36,373/10,980
INR/US\$	68.6

Price Performance

%	1M	6M	12M
Absolute	10.9	49.9	64.6
Relative*	8.4	45.3	43.5

* To the BSE Sensex

Financial Summary		(INR mn)			
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Profit	12,785	18,366	26,741	38,279	51,634
Net Profit (YoY) (%)	42.4%	43.6%	45.6%	43.1%	34.9%
Assets (YoY) (%)	41.6%	37.2%	36.3%	35.3%	34.3%
ROA (%)	3.2%	3.3%	3.6%	3.7%	3.8%
ROE (%)	20.9%	21.6%	21.1%	21.9%	24.0%
EPS	23.9	33.6	46.5	66.6	89.8
EPS (YoY) (%)	33.0%	40.7%	38.4%	43.1%	34.9%
P/E (x)	104.3	74.1	53.5	37.4	27.7
BV	139	176	274	334	414
BV (YoY) (%)	44.5%	26.6%	55.9%	21.9%	24.2%
P/BV (x)	17.95	14.18	9.09	7.46	6.01

Source: Company data, JM Financial. Note: Valuations as of 18/Jul/2018

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JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

BAF – 1QFY19 trends

Exhibit 1. BAF: 1QFY19 summary

Earnings Table (INR mn)	1Q'18	4Q'18	1Q'19	YoY (%)	QoQ(%)
Net Interest Income	17,600	22,645	25,728	46.2%	13.6%
Total Non-interest Income	10	48	49	375.5%	0.4%
Total Income	17,610	22,693	25,777	46.4%	13.6%
Employees Cost	3,169	4,035	4,471	41.1%	10.8%
Other Expenditure	4,263	4,906	5,065	18.8%	3.2%
Total Operating Expenses	7,433	8,941	9,536	28.3%	6.7%
Operating Profit (PPP)	10,177	13,752	16,241	59.6%	18.1%
Provisions & Write Offs	3,051	2,311	3,268	7.1%	41.4%
PBT	7,126	11,442	12,973	82.1%	13.4%
Tax	2,517	3,966	4,615	83.3%	16.3%
Reported Profit	4,609	7,475	8,359	81.4%	11.8%
AUM (INR mn)	6,88,830	8,40,330	9,33,140	35.5%	11.0%
Ratios Analysis (%)					
Cost to Income (%)	42.2%	39.4%	37.0%	-5.2%	-2.4%
Effective Tax Rate (%)	35.3%	34.7%	35.6%	0.2%	0.9%
Credit Quality					
Gross NPAs (90 days overdue) (INR Mn.)	11,360	11,640	12,800	12.7%	10.0%
Net NPAs (90 days overdue) (INR Mn.)	3,520	2,970	4,000	13.6%	34.7%
Gross NPA (90 days overdue) (%)	1.70%	1.48%	1.39%	-31bps	-9bps
Net NPA (90 days overdue) (%)	0.53%	0.38%	0.44%	-9bps	+6bps
Coverage Ratio (90 days overdue) (%)	69.0%	75.0%	68.8%	-26bps	-625bps
Capital Adequacy (%)					
Tier I (%)	14.2%	19.7%	17.9%	3.7%	-1.8%
CAR (%)	20.2%	24.7%	23.0%	2.9%	-1.7%
Du-pont Analysis (%)					
NII / Avg. Assets (%)	10.3%	10.9%	11.2%	0.9%	0.4%
Non-Interest Inc. / Assets (%)	0.01%	0.02%	0.02%	0.0%	0.0%
Op. Cost / Assets (%)	4.3%	4.3%	4.2%	-0.2%	-0.1%
PPP / Assets (%)	6.0%	6.6%	7.1%	1.1%	0.5%
Provisions / Assets (%)	1.8%	1.1%	1.4%	-0.4%	0.3%
Reported ROA (%)	2.7%	3.6%	3.6%	1.0%	0.1%

Source: Company, JM Financial

- Bajaj Finance (BAF) reported 1QFY19 net profit of INR 8.35bn as per IndAS, up 81% YoY. As per IGAAP, net profit was up 69% YoY at INR 10.18bn. We have shown reconciliation of IGAAP to IndAS in Exhibit 2.

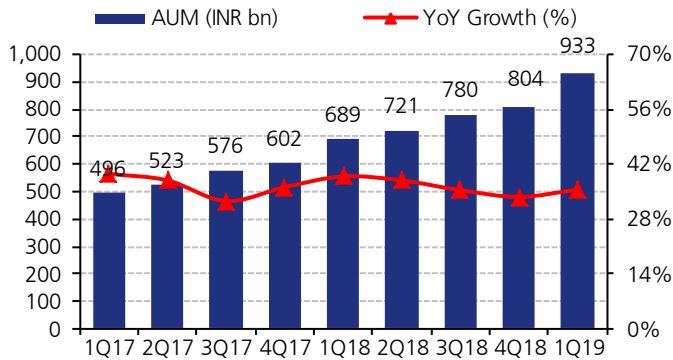
Exhibit 2. Reconciliation of consol PAT – IGAAP to IndAS

INRm	1Q18	FY18	1Q19	YoY change
PBT - IGAAP	9,250	40,960	15,620	69%
EIR for financial assets at amortised costs	(1,860)	(1,970)	(2,210)	
EIR for financial liabilities at amortised costs	50	130	80	
Expected Credit Loss	(130)	90	(370)	
Fair value of stock options as per Ind AS 102	(90)	(450)	(170)	
Actuarial loss on employee defined benefit plan recognised in OCI IndAS 19	-	80	-	
Gain/ (losses) on fair valuation of financial assets at FVTPL	(90)	(410)	20	
PBT - IndAS	7,130	38,430	12,970	82%
Less: Tax	(2,520)	(13,470)	(4,610)	
PAT - IndAS	4,610	24,960	8,360	81%
PAT - IGAAP	6,020	26,740	10,180	69%
Total IndAS impact	(2,120)	(2,530)	(2,650)	
% PBT IndAS	-29.7%	-6.6%	-20.4%	
% PBT IGAAP	-22.9%	-6.2%	-17.0%	

Source: Company, JM Financial

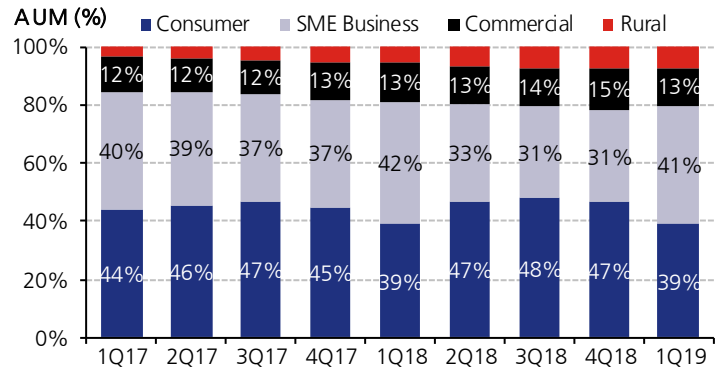
- AUM growth remained robust at 35% YoY driven by all the segments: consumer (35% YoY), rural (75% YoY), commercial (32% YoY) and SME (31% YoY). Customer acquisition remained strong as the company acquired 2 mn customers (33% YoY/47% QoQ) in 1QFY19 and booked 5.6mn new loans (49% YoY) during the quarter.

Exhibit 3. BAF: Trend in AUM growth



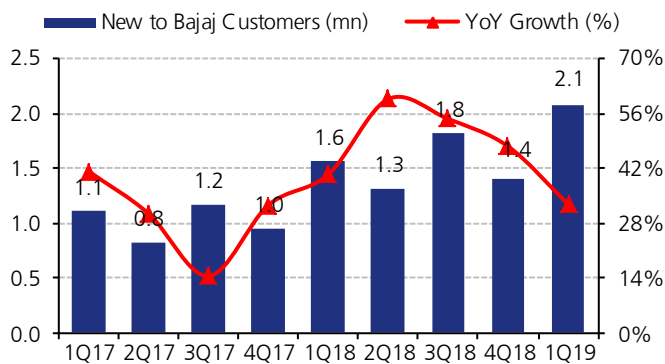
Source: Company, JM Financial

Exhibit 4. BAF: Trend in AUM composition



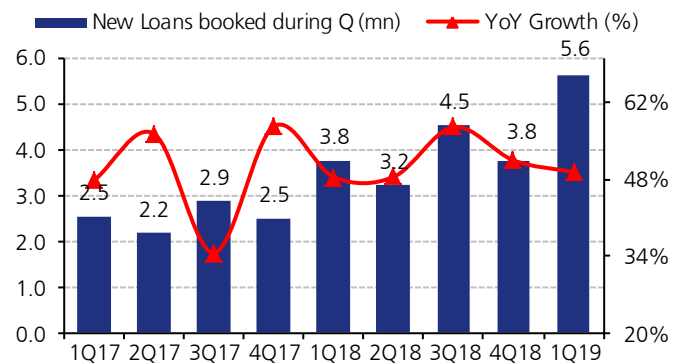
Source: Company, JM Financial

Exhibit 5. New to Bajaj customers



Source: Company, JM Financial

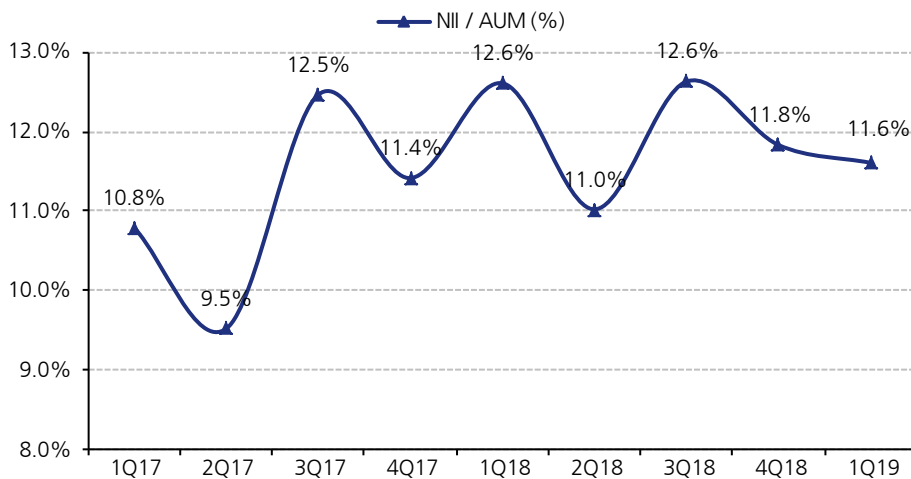
Exhibit 6. New loans booked



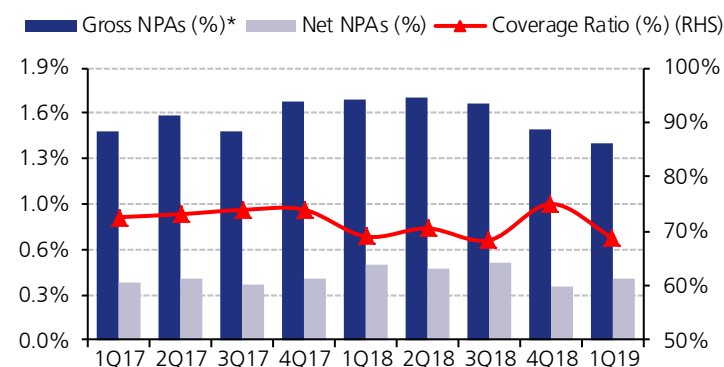
Source: Company, JM Financial

- Margins (NII/AUM) increased 70bps YoY to 11.6%, on a 40bps YoY drop in funding costs.

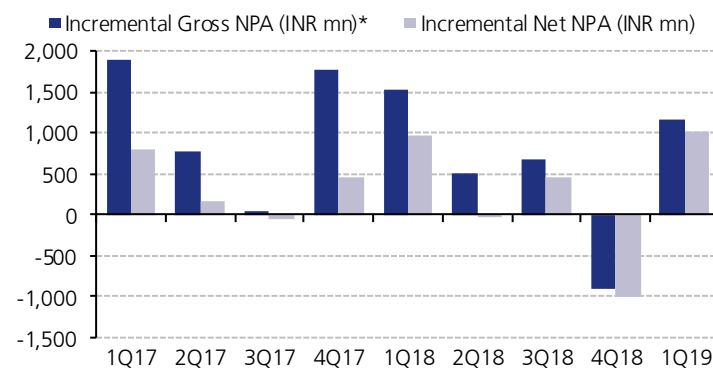
Exhibit 7. BAF: Trend in calculated margins (%)



Source: Company, JM Financial

Exhibit 8. BAF: Trend in asset quality (%)

Source: Company, JM Financial, * NPL numbers are based on 150DPD from 1Q16-1Q17; 120DPD in 1Q17-4Q17 and 90DPD from 1Q18 onwards

Exhibit 9. BAF: Trend in asset quality (%)

Source: Company, JM Financial

Exhibit 10. Asset quality

Rs mn	GNPL (%)			NNPL (%)			Coverage ratio (%)		
	3Q18	4Q18	1Q19	3Q18	4Q18	1Q19	3Q18	4Q18	1Q19
Consumer Business	2.1%	2.1%	2.3%	0.6%	0.6%	0.7%	70.9%	73.1%	69.5%
SME Business	1.8%	1.3%	0.9%	0.6%	0.3%	0.3%	65.2%	81.6%	71.8%
Commercial Business	0.03%	0.03%	0.0%	0.03%	0.00%	0.0%	33.3%	50.0%	na
Rural Business	1.1%	1.2%	1.3%	0.0%	0.4%	0.6%	58.3%	62.9%	51.6%
Total	1.7%	1.5%	1.4%	0.0%	0.4%	0.4%	68.3%	74.5%	68.8%

Source: Company, JM Financial

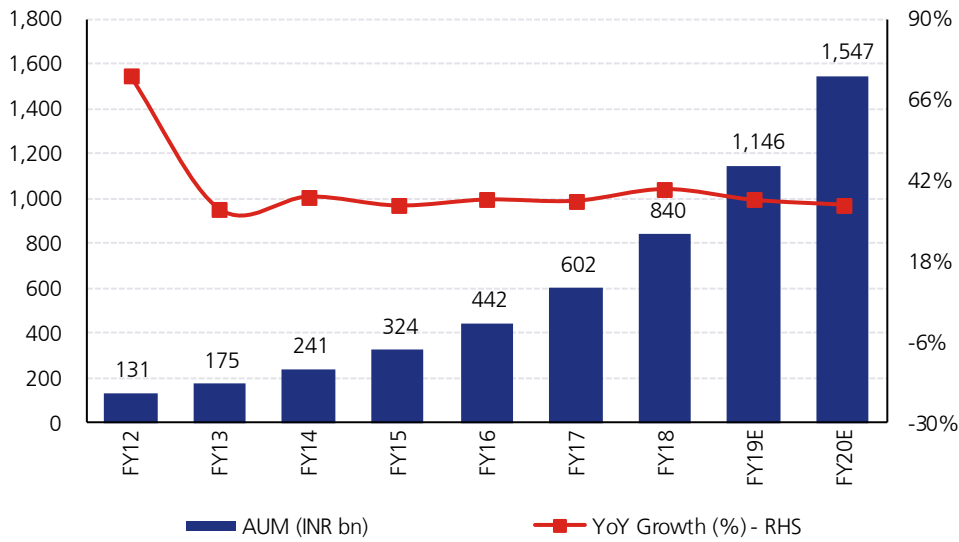
Exhibit 11. Credit quality – 30+DPD

Credit Quality -30+dpd	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	YoY%	QoQ%
Consumer durable	1.3%	1.2%	1.4%	1.0%	0.8%	0.7%	0.7%	0.5%	-0.4%	-0.1%
Digital product finance	2.38%	2.19%	1.72%	1.3%	0.7%	0.6%	0.9%	0.9%	-0.4%	0.0%
Lifestyle Finance	1.61%	1.67%	1.70%	1.7%	0.9%	0.8%	0.8%	0.8%	-0.9%	0.0%
Two wheeler	4.9%	7.0%	6.8%	7.0%	7.1%	6.2%	5.6%	6.0%	-1.0%	0.4%
Personal loan cross sell	1.47%	1.21%	1.38%	1.5%	1.5%	1.4%	1.3%	1.3%	-0.2%	0.0%
Small Business loan	0.84%	0.50%	0.92%	1.0%	0.9%	1.0%	1.0%	0.8%	-0.2%	-0.1%
Home loan	0.89%	0.50%	0.90%	0.9%	0.9%	0.8%	0.2%	0.5%	-0.5%	0.3%
Loan against property	0.49%	0.57%	0.72%	0.9%	1.4%	1.6%	0.8%	0.7%	-0.2%	-0.1%
Rural Lending	0.96%	0.76%	0.65%	0.6%	0.5%	0.6%	0.6%	0.6%	0.0%	0.0%

Source: Company, JM Financial

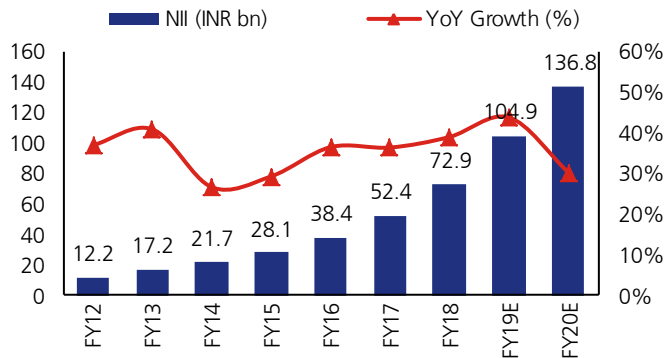
BAF – Annual trends

Exhibit 12. BAF: Trend in loans (INR bn)



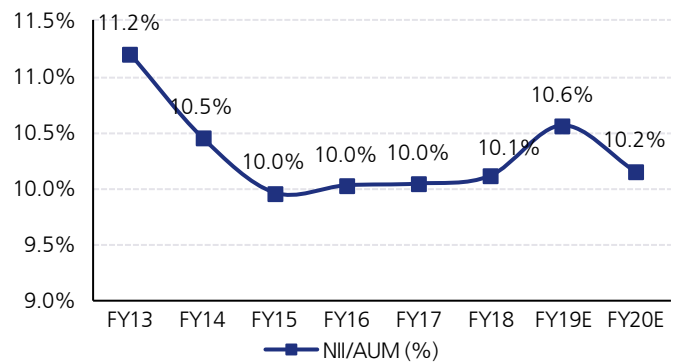
Source: Company, JM Financial

Exhibit 13. BAF: Trend in NII



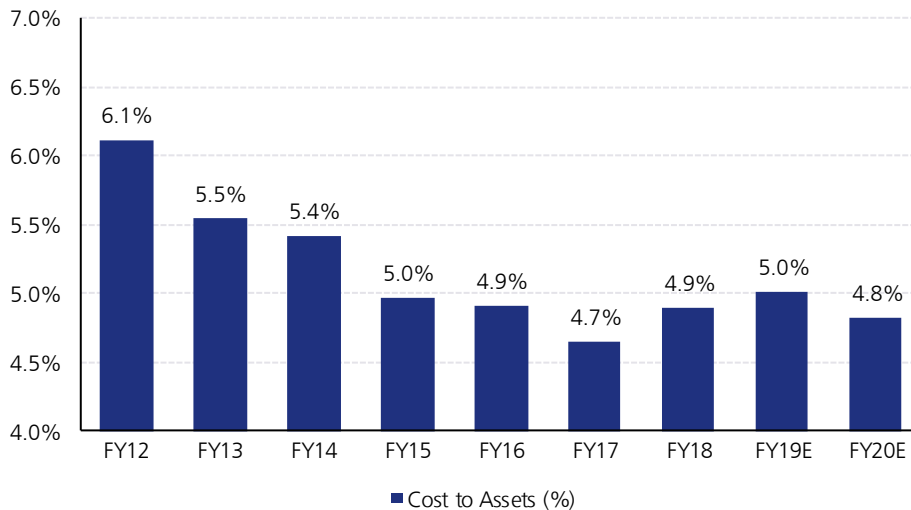
Source: Company, JM Financial

Exhibit 14. BAF: Trend in margins



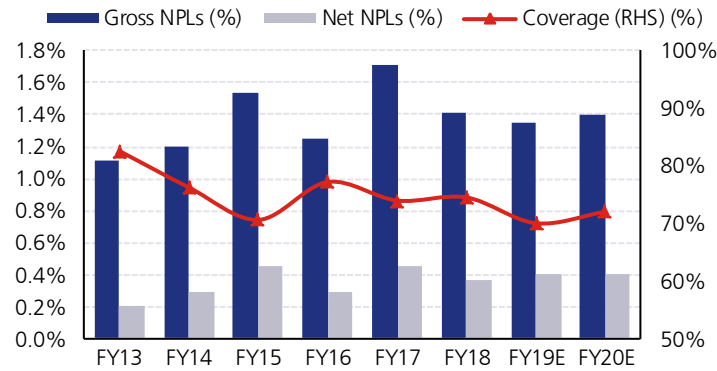
Source: Company, JM Financial

Exhibit 15. BAF: Trend in cost-to-assets (%)



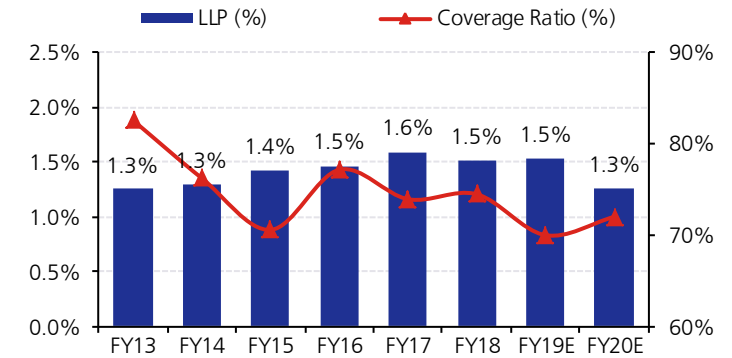
Source: Company, JM Financial

Exhibit 16. BAF: Trend in asset quality



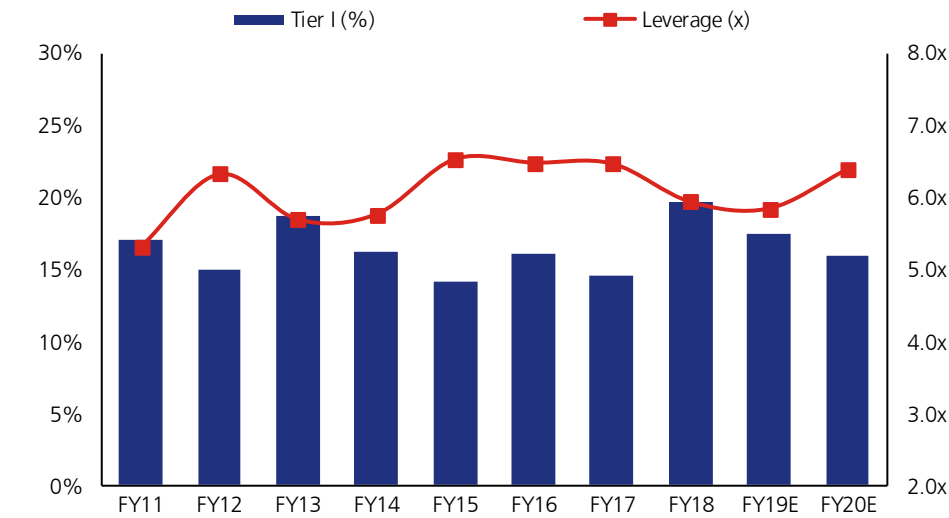
Source: Company, JM Financial

Exhibit 17. BAF: Trend in credit costs



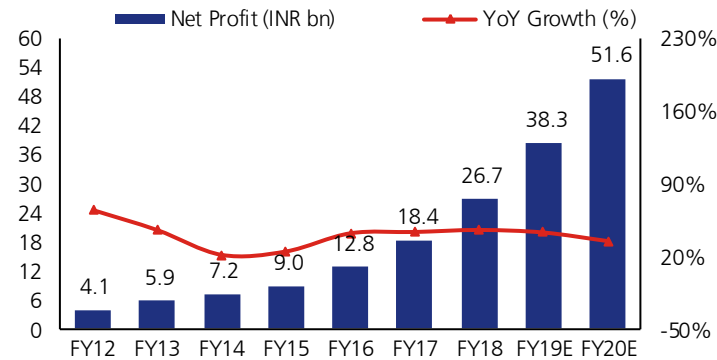
Source: Company, JM Financial

Exhibit 18. BAF: Trend in tier-I and leverage ratio (%)



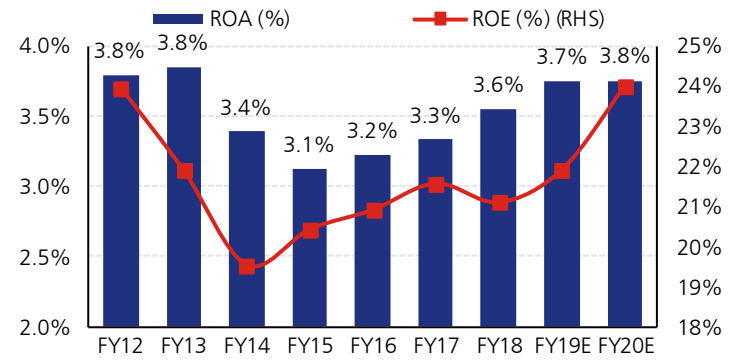
Source: Company, JM Financial

Exhibit 19. BAF: Trend in earnings growth



Source: Company, JM Financial

Exhibit 20. BAF: Trend in return ratios



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Interest Income (NII)	38,423	52,435	72,924	1,04,923	1,36,757
Non Interest Income	5,826	9,440	15,265	19,117	24,418
Total Income	44,249	61,875	88,189	1,24,039	1,61,175
Operating Expenses	19,492	25,642	36,902	51,249	66,474
Pre-provisioning Profits	24,757	36,233	51,287	72,790	94,700
Loan-Loss Provisions	1,635	3,908	3,252	14,792	16,468
Others Provisions	3,476	3,908	7,073	0	0
Total Provisions	5,111	8,058	10,325	14,792	16,468
PBT	19,646	28,175	40,962	57,998	78,233
Tax	6,861	9,810	14,221	19,719	26,599
PAT (Pre-Extra ordinaries)	12,785	18,366	26,741	38,279	51,634
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	12,785	18,366	26,741	38,279	51,634
Dividend	1,693	2,383	2,787	3,828	5,163
Retained Profits	11,093	15,983	23,954	34,451	46,470

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Equity Capital	536	1,094	1,150	1,150	1,150
Reserves & Surplus	73,731	94,909	1,56,306	1,90,757	2,37,227
Stock option outstanding	0	0	0	0	0
Borrowed Funds	3,70,247	4,92,497	6,44,813	9,41,426	12,83,164
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	20,052	48,746	65,974	41,105	55,185
Total Liabilities	4,64,565	6,37,246	8,68,243	11,74,439	15,76,727
Net Advances	4,27,560	5,68,320	8,16,001	11,12,793	15,01,676
Investments	10,341	40,747	31,460	36,722	43,549
Cash & Bank Balances	13,459	3,799	3,395	4,451	6,007
Loans and Advances	5,420	5,333	3,432	4,451	6,007
Other Current Assets	2,116	11,712	5,389	5,652	7,145
Fixed Assets	2,870	3,611	4,670	5,730	6,904
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	2,800	3,691	3,864	4,640	5,440
Total Assets	4,64,565	6,37,213	8,68,211	11,74,439	15,76,727

Source: Company, JM Financial

Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Growth (YoY) (%)					
Borrowed funds	38.7%	33.0%	30.9%	46.0%	36.3%
Advances	37.0%	32.9%	43.6%	36.4%	34.9%
Total Assets	41.6%	37.2%	36.3%	35.3%	34.3%
NII	36.6%	36.5%	39.1%	43.9%	30.3%
Non-interest Income	67.0%	62.0%	61.7%	25.2%	27.7%
Operating Expenses	36.5%	31.6%	43.9%	38.9%	29.7%
Operating Profits	42.8%	46.4%	41.5%	41.9%	30.1%
Core Operating profit	41.9%	44.3%	40.8%	46.9%	30.9%
Provisions	35.7%	57.7%	28.1%	43.3%	11.3%
Reported PAT	42.4%	43.6%	45.6%	43.1%	34.9%
Yields / Margins (%)					
Interest Spread	8.20%	8.01%	8.05%	8.64%	8.49%
NIM	9.87%	9.76%	9.90%	10.43%	10.07%
Profitability (%)					
ROA	3.23%	3.33%	3.55%	3.75%	3.75%
ROE	20.9%	21.6%	21.1%	21.9%	24.0%
Cost to Income	44.1%	41.4%	41.8%	41.3%	41.2%
Asset quality (%)					
Gross NPA	1.25%	1.71%	1.41%	1.34%	1.40%
LLP	1.17%	1.41%	1.38%	1.53%	1.26%
Capital Adequacy (%)					
Tier I	16.06%	14.56%	19.68%	17.48%	15.97%
CAR	19.50%	20.30%	24.71%	21.94%	19.96%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
NII / Assets	9.69%	9.52%	9.69%	10.27%	9.94%
Other Income / Assets	1.47%	1.71%	2.03%	1.87%	1.78%
Total Income / Assets	11.16%	11.23%	11.72%	12.14%	11.72%
Cost / Assets	1.59%	1.69%	1.89%	2.04%	2.02%
PPP / Assets	6.25%	6.58%	6.81%	7.13%	6.88%
Provisions / Assets	1.29%	1.46%	1.37%	1.45%	1.20%
PBT / Assets	4.96%	5.11%	5.44%	5.68%	5.69%
Tax rate	34.9%	34.8%	34.7%	34.0%	34.0%
ROA	3.23%	3.33%	3.55%	3.75%	3.75%
Leverage	6.3	6.6	5.5	6.1	6.6
ROE	20.9%	21.6%	21.1%	21.9%	24.0%

Source: Company, JM Financial

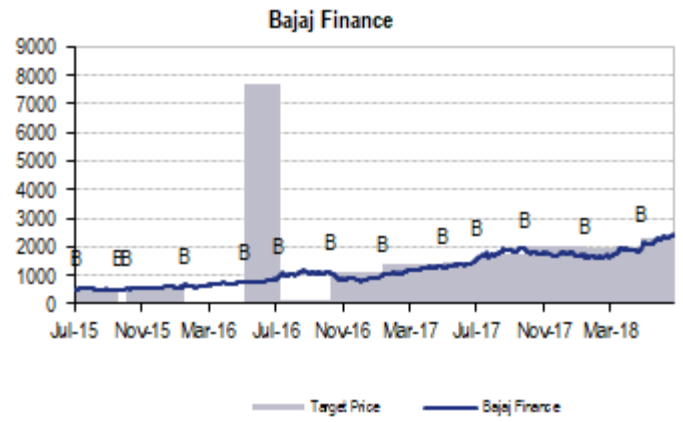
Valuations					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shares in Issue	535.5	546.9	575.2	575.2	575.2
EPS (INR)	23.9	33.6	46.5	66.6	89.8
EPS (YoY) (%)	33.0%	40.7%	38.4%	43.1%	34.9%
P/E (x)	104.3	74.1	53.5	37.4	27.7
BV (INR)	139	176	274	334	414
BV (YoY) (%)	44.5%	26.6%	55.9%	21.9%	24.2%
P/BV (x)	17.95	14.18	9.09	7.46	6.01
DPS (INR)	3.2	4.4	4.8	6.7	9.0
Div. yield (%)	0.1%	0.2%	0.2%	0.3%	0.4%

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
23-Jul-15	Buy	566	
6-Oct-15	Buy	56	-90.1
21-Oct-15	Buy	650	1055.1
3-Feb-16	Buy	71	-89.0
25-May-16	Buy	7,700	10679.8
26-Jul-16	Buy	112	-98.5
27-Oct-16	Buy	1,145	918.3
31-Jan-17	Buy	1,419	23.9
18-May-17	Buy	1,443	1.7
20-Jul-17	Buy	1,738	20.5
17-Oct-17	Buy	2,026	16.6
2-Feb-18	Buy	1,928	-4.8
17-May-18	Buy	UR	
17-May-18	Buy	2,304	

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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