

Bajaj Finance Ltd.



RESULT UPDATE

20th July, 2018

Bajaj Finance Ltd.

Firing on all fronts

CMP INR 2720	Target INR 2800	Potential Upside 3%	Market Cap (INR Mn) 1,572,834	Recommendation BUY	Sector BFSI
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Result highlights

AUM at INR 933 bn grew by 35% (in-line with expectations), led by SME lending which grew by 42% yoy, followed by the consumer book which grew by 35%. Although growth in rural book was highest at 75%, however it came on a low base. NII at INR 25.8 bn grew by 46.4% yoy/13.6% qoq, translating into spread of 11.6% for the quarter. The management expects some NIM pressure in Q3/Q4. Operational expenses grew by 28.3% yoy to INR 9.5 bn, resulting in PPOP of INR 16.2 bn, +60% yoy/18% qoq. The company cited continuous improvement efforts and certain other measures like carving out the housing finance company as some of the key factor driving operational performance. Provisioning expense at INR 3.3 bn translated into credit costs of 1.4% for the quarter, -37 bps yoy/+30 bps qoq. The company moved to IND-AS Q1FY19 onwards which impacted credit costs. While provisioning on NPAs reduced, that on standard assets increased (from 40 bps to 89 bps) as a result of customers lying in stage 2 which attracted nil provisioning earlier. PAT at INR 8.4 bn grew by 81% yoy/12% qoq. On the asset quality front, GNPA/NNPAs at 1.39%/0.44% were down 9 bps/ up 6 bps qoq. PCR, under IND-AS stood at 68.3%.

MARKET DATA

Shares outs (Mn)	577
EquityCap (INR Mn)	1156
Mkt Cap (INR Mn)	1572834
52 Wk H/L (INR)	2536/1508
Volume Avg (3m K)	1447
Face Value (INR)	2
Bloomberg Code	BAF IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	31,335	43,666	61,736	88,077	1,23,775	1,65,364
Pre-provision profits	17,620	25,074	36,355	51,414	74,184	1,00,372
Net Profit	9,183	12,785	18,363	26,741	40,133	54,661
EPS (Rs.)	183	237	33	46	69	95
BVPS (Rs.)	957	1,360	175	286	348	433
P/E (x)	29.8	33.7	41.1	58.9	39.3	28.8
P/BV (x)	5.7	5.9	7.9	9.5	7.8	6.3

Source: Company, KRChoksey Research

Strong AUM growth to start the fiscal, expect 36% CAGR over FY18-20

Consolidated AUM at INR 933.1 bn grew by 35% yoy, led by 35% growth in consumer durables, 42% growth in SME, 32% growth in commercial, 75% growth in rural and 27% growth in mortgage. With the transfer still fresh, BHFL is expected to see robust growth from next year onwards, as the management expands to new cities and towns. The SME portfolio has seen good growth post pull-back by the management over the last few quarter. With GST-implementation and demonetisation related stress subsiding, SME could start delivering sustained growth provided the current trends sustain. Overall, the customer franchise stood at 29.3 mn customers, +30% yoy. During the quarter, the company acquired 2.07 mn new customers. New loans booked during the quarter stood at 5.63 mn, up 49% yoy. Given Bajaj Finance's dominance positioning and its distribution channel, we are factoring in 36% in AUM over FY18-20E.

Number of levers drive opex/avg AUM to 15 quarter low

Opex/avg AUM at 5.8% stood at a 15-quarter. The company cited various factors behind the operational improvement but also guided for a more conservative opex/NII of 40% as against 37% in Q1FY19. Post mortgage business restructuring, the company has been able to save INR 50 mn on annualized basis. Besides, hiring freeze and other measures taken in Nov'17 have also contributed to operating leverage during the quarter.

Healthy spreads could compress in near-future

Company reported spreads of 11.6% (vs. 11.7% in Q4FY18), partly supported by 30 bps reduction in CoF and capital raise carried out last year. Being in a rising rates environment, the company has guided for margin pressure in Q3/4. However, focus on managing ALM judiciously stays intact.

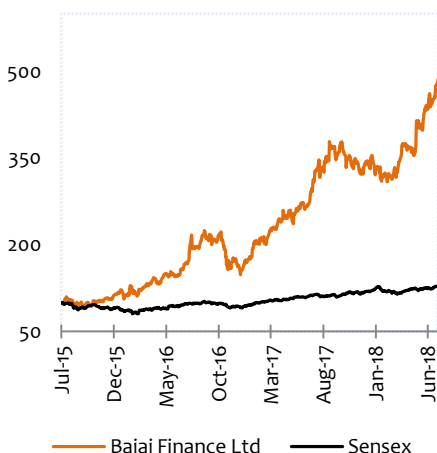
Asset quality improves

GNPAs at 1.39% were down 9 bps qoq, NNPAAs at 0.44% were up 6 bps. PCR, under IND-AS, stood at 68%. Except rural, the company witnessed asset quality improvement across all the segments. Credit costs for the quarter stood at 1.3%, down ~10 bps qoq. Provisioning expense during the quarter was impacted by higher provisioning on the standard book wherein stage 2 accounts need to be provisioned as against nil provisioning earlier (increased from 40 bps to 89 bps). We are factoring in declining credit costs over FY19/20.

Valuation

Bajaj Finance has continued to deliver best-in-class performance – growth numbers and asset quality better than peers. Digital initiatives along with distribution expansion undertaken over the years should yield greater dividends going forward. We expect earnings to growth at 43% over FY18-20E and ROE to improve to 24% by FY20. **We value Bajaj Finance at INR 2800 per share, based on 6.5x FY20E BVPS. We maintain BUY.**

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	36496
NIFTY	11010

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	55.14	55.14	55.28
FIIIs	20.05	19.46	20.41
DIIIs	8.8	8.98	8.13
Others	16.02	16.43	16.19
Total	100	100	100

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Other key highlights:

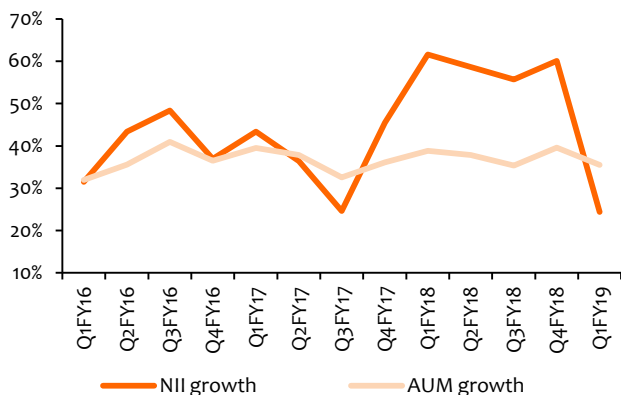
-The company, through Bajaj Securities, plans to offer broking/demat services to existing clients under LAS. Approval from the board has been received for this. Upfront investment required for setting up the tech for demat/broking services is negligible and will add to the ROE of LAS segment.

-The company is still trying to understand commodity/warehousing finance after having invested in it over the last couple of years. The company would like to grow it steadily. The current portfolio stands at INR 1.3 bn.

Segmental asset quality – GNPA (90-dpd)	Q1FY19	Q4FY18	Q3FY18	Q2FY18
Consumer	2.1%	2.1%	2.1%	2.2%
SME	1.3%	1.3%	1.6%	1.7%
Commercial	0%	0.0%	0.0%	0.0%
Rural	1.2%	1.2%	1.1%	0.8%
Total	1.4%	1.5%	1.7%	1.7%

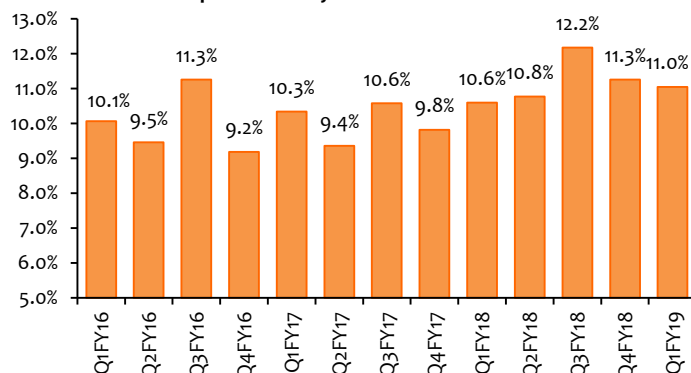
Source: Company, KRChoksey Research

Strong growth momentum continues...



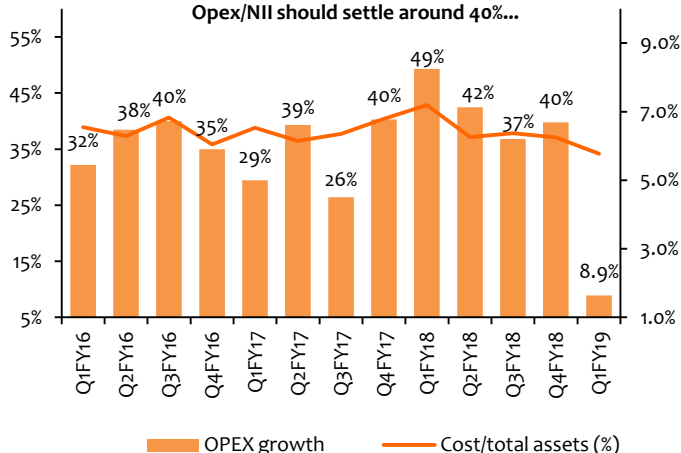
Source: Company, KRChoksey Research

NIM compression likely in near future..



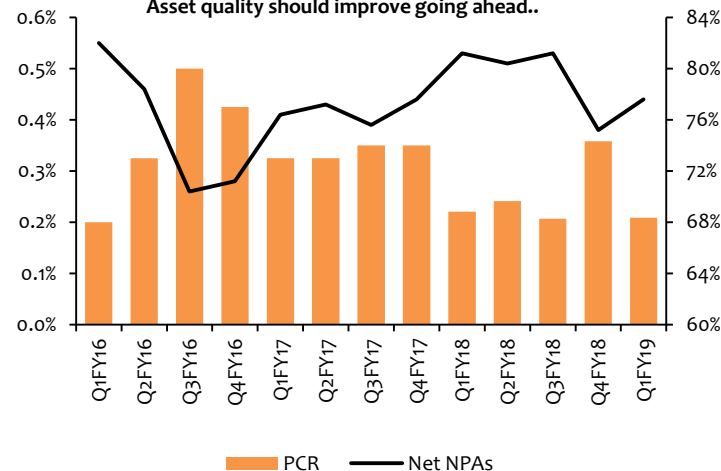
Source: Company, KRChoksey Research

Opex/NII should settle around 40%...



Source: Company, KRChoksey Research

Asset quality should improve going ahead..



Source: Company, KRChoksey Research

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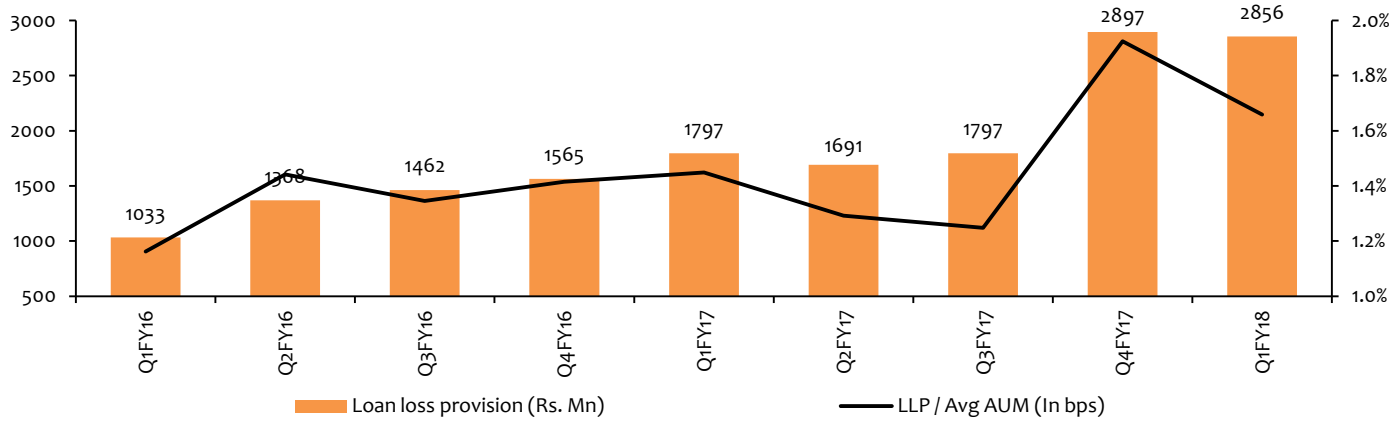
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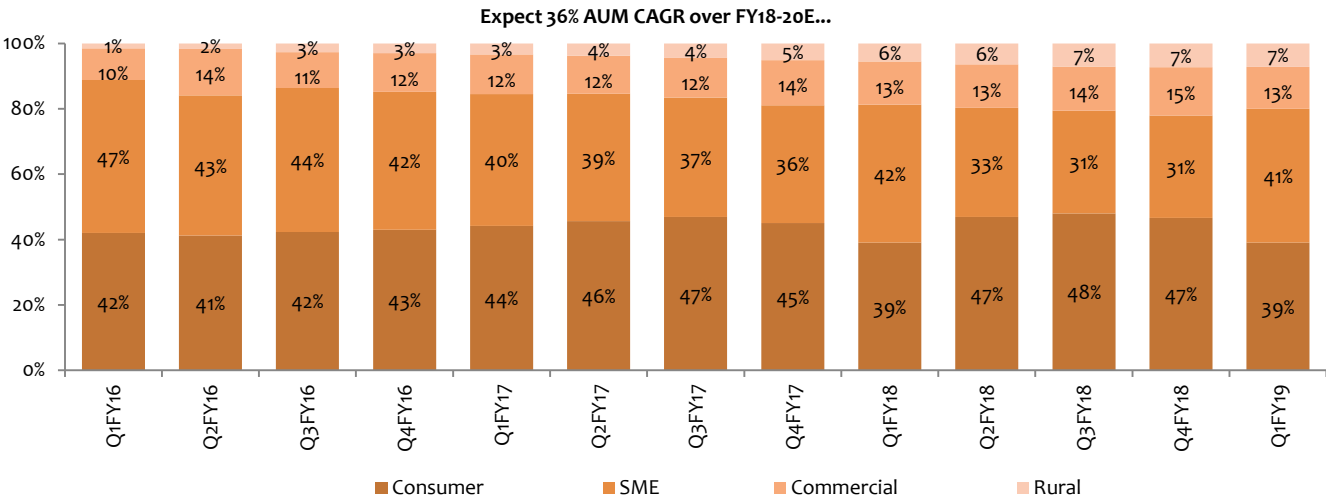
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Provisioning during the quarter was impacted due to transition to IND-AS; standard provisioning was higher



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

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Particulars (INR Mn)					
Income Statement	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Income from operations	39,413	28,339	34,979	39.1%	12.7%
Interest expense	13,636	10,729	12,286	27.1%	11.0%
Net interest income	25,777	17,610	22,693	46.4%	13.6%
Total income	25,777	17,610	22,693	46.4%	13.6%
- Employee costs	4,471	3,169	4,035	41.1%	10.8%
- Depreciation	289	219	293	31.8%	-1.5%
- Other operating expenses	4,776	4,044	4,613	18.1%	3.5%
Operating expenses	9,536	7,433	8,941	28.3%	6.7%
Pre-provision profit	16,241	10,177	13,752	59.6%	18.1%
Provisions	3,268	3,051	2,311	7.1%	41.4%
Profit before tax	12,973	7,126	11,442	82.1%	13.4%
Tax expense	4,615	2,517	3,966	83.3%	16.3%
Net profit	8,359	4,609	7,475	81.4%	11.8%

Source: Company, KRChoksey Research

AUM characteristics	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
AUM - Business segment wise					
Consumer	3,64,520	2,69,220	3,91,610	35.4%	-6.9%
SME	1,21,330	85,710	25,480	41.6%	376.2%
Commercial	1,20,080	91,180	1,23,750	31.7%	-3.0%
Rural	66,740	38,210	61,310	74.7%	8.9%
Mortgage	2,60,470	2,05,130	2,38,180	27.0%	9.4%
Total	9,33,140	6,89,450	8,40,330	35.3%	11.0%
AUM - Business segment mix					
Consumer	39%	39%	47%	0.0%	-7.5%
SME	13%	12%	3%	0.6%	10.0%
Commercial	13%	13%	15%	-0.4%	-1.9%
Rural	7%	6%	7%	1.6%	-0.1%
Mortgage	28%	30%	28%	-1.8%	-0.4%
Total	100%	100%	100%		

Source: Company, KRChoksey Research

Operational efficiency	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Opex/NII	37.0%	42.2%	39.4%	-521	-240
Opex/AUM	4.1%	4.3%	4.3%	-22	-17

Source: Company, KRChoksey Research

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KEY FINANCIALS (INR Mn)						
Income Statement	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	53,818	72,934	99,773	1,34,420	1,88,176	2,53,327
Interest expense	22,483	29,269	38,037	46,343	64,401	87,964
NII	31,335	43,666	61,736	88,077	1,23,775	1,65,364
Non interest income	365	400	292	239	300	300
Operating revenues	31,700	44,066	62,027	88,316	1,24,075	1,65,664
Operating expenses	14,081	18,992	25,672	36,902	49,891	65,291
Pre-provision profits	17,620	25,074	36,355	51,414	74,184	1,00,372
Provisions	3,846	5,429	8,182	10,452	12,708	16,643
Profit before tax	13,774	19,646	28,173	40,962	61,476	83,729
Tax expense	4,591	6,861	9,810	14,221	21,343	29,069
Net profit	9,183	12,785	18,363	26,741	40,133	54,661

Source: Company, KRChoksey Research

Balance Sheet						
Share capital	500	536	1,094	1,150	1,150	1,150
Reserve & Surplus	47,497	72,712	94,909	1,64,306	2,00,257	2,49,221
Shareholders' fund	47,997	73,247	96,003	1,65,457	2,01,407	2,50,371
Borrowings	2,66,546	3,70,246	4,92,495	6,44,813	8,70,497	11,75,171
Other liabilities & provisions	13,255	25,217	48,748	57,974	50,240	1,27,200
Total Liabilities	3,27,798	4,69,731	6,37,246	8,68,243	11,22,144	15,52,742
Advances	3,11,995	4,32,722	5,76,828	8,16,001	10,66,676	14,93,765
Investments	3,263	10,291	40,695	31,460	33,033	34,684
Fixed assets	2,492	2,870	3,626	4,669	5,136	5,650
Other assets	10,049	23,847	16,097	16,111	17,300	18,643
Total assets	3,27,798	4,69,731	6,37,246	8,68,241	11,22,144	15,52,742

Source: Company, KRChoksey Research

Bajaj Finance Ltd.

KEY PERFORMANCE INDICATORS	FY15	FY16	FY17	FY18E	FY19E	FY20E
Spread analysis						
Yield on loans (%)	18.1%	17.7%	17.5%	16.5%	17.4%	17.3%
Cost of borrowings (%)	9.7%	9.2%	8.8%	8.1%	8.5%	8.6%
Spread (%)	8.4%	8.5%	8.7%	8.4%	8.9%	8.7%
NIM (%)	10.0%	9.8%	9.5%	9.8%	10.5%	10.4%
Return ratios						
RoA	3.2%	3.2%	3.3%	3.6%	4.0%	4.1%
RoE	20.9%	21.1%	21.7%	20.5%	21.9%	24.2%
Efficiency ratios						
Cost to income ratio	47.9%	46.9%	45.9%	46.7%	48.3%	47.4%
Opex/Average assets (%)	4.9%	4.8%	4.6%	4.9%	5.0%	4.9%
Asset quality						
Gross NPAs	1.5%	1.2%	1.7%	1.4%	1.3%	1.2%
Net NPAs	0.5%	0.3%	0.4%	0.4%	0.3%	0.3%
Coverage ratio	71.0%	77.0%	74.0%	74.0%	74.0%	74.0%
Credit costs	1.4%	1.5%	1.6%	1.5%	1.4%	1.3%
Capital						
Tier I (%)	14.2%	16.1%	14.6%	19.7%	17.9%	16.1%
CAR (%)	18.0%	19.5%	20.3%	24.7%	22.9%	21.1%
Leverage (x)	6.8	6.4	6.6	5.2	5.6	6.2
Value per share data						
EPS (Rs.)	183	237	33	46	69	95
BVPS (Rs.)	957	1360	175	286	348	433
P/E (x)	29.8	33.7	41.1	58.9	39.3	28.8
P/B (x)	5.7	5.9	7.9	9.5	7.8	6.3
Earnings yield (%)	3.4%	3.0%	2.4%	1.7%	2.5%	3.5%
Growth ratios						
NII	27.5%	39.4%	41.4%	42.7%	40.5%	33.6%
PPOP	30.6%	42.3%	45.0%	41.4%	44.3%	35.3%
PAT	27.7%	39.2%	43.6%	45.6%	50.1%	36.2%
Loan book	35.8%	38.7%	33.3%	41.5%	30.7%	40.0%

Source: Company, KRChoksey Research

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Bajaj Finance Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Jul-18	2,720	2,800	BUY	Buy	More than 15%
18-May-18	2,067	2,346	ACCUMULATE		
05-Feb-18	1,592	2,184	BUY		
17-Oct-17	1,872	2,184	BUY	Accumulate	5% – 15%
20-July-17	1,560	1,650	ACCUMULATE		
04-Feb-16	6,361	6,705	ACCUMULATE	Hold	0 – 5%
21-Oct-15	5,306	5,585	ACCUMULATE		
23-July-15	5,139	5,450	ACCUMULATE	Reduce	-5% – 0
22-May-15	4,490	4,510	HOLD		
13-Apr-15	4,522	4,025	SELL		
15-Jan-15	3,766	3,685	REDUCE	Sell	Less than – 5%
7-Jan-15	3,426	3,086	SELL		
16-Oct-14	2,730	2,750	HOLD		
8-Oct-14	2,684	2,750	HOLD		

ANALYST CERTIFICATION:

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