BUY

TP: Rs 5,000 | ⮝ 21%

BAJAJ FINANCE | NBFC | 24 January 2020

BAF 2.0 – Revamped growth engine; initiate with BUY

We initiate coverage on Bajaj Finance (BAF) with BUY and a Mar'21 TP of Rs 5,000. Strong traction in consumer finance (~40% of loans) underpins a high-yield, high-churn book that aids faster repricing, while the SME and commercial lending businesses form sustainable scale builders. We estimate a 30% CAGR in NII over FY19-FY22, alongside non-linear fee income growth form a refined cross-sales engine. Higher fixed-rate borrowings and a prudent ALM strategy are expected to sustain spreads at ~9% and fuel a 37% earnings CAGR through FY22.

32% PBT

We are conservatively pegging 22% CAGR

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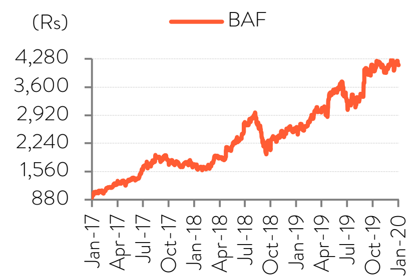
Add Housing finance to it with 15% ROE and lower cost of funds access via NHB

ALM + across 1 m to 5 yrs disciplined from last 8 years

Ticker/Price	BAF IN/Rs 4,126
Market cap	US$ 34.8bn
Shares o/s	602mn
3M ADV	US$ 66.2mn
52wk high/low	Rs 4,253/Rs 3,950
Promoter/FPI/DII	56%/22%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Boost it with corp tax cut + 200 new location penetration. Keep getting stronger

Consumer finance, cross-sell to remain key moats: Consumer finance will remain the customer acquisition engine for BAF, driving cross-sales of credit and fee-based products to vetted clients. We expect non-linear fee income growth (~3x over FY19-FY22) from the cross-sell franchise to largely cover for operating cost (~2x). A bulk of NII will thus flow into operating profit which is estimated to log a 33% CAGR through to FY22 vs. a 27% CAGR in AUM.

Sustainable scale builders and stable spreads: SME and commercial lending (together 24% of AUM) offer profitable and opportunistic credit plays that mitigate BAF's concentration in the top-10 cities. We expect a prudent liability mix and rural lending to help sustain spreads at ~9% over FY19-FY22 and model for a 150bps decline in C/I ratio over this period led by technology investments.

Well managed asset quality to drive return ratios: The use of technology and data analytics for prudent product positioning and cross-sales has kept credit risk at bay. Credit cost is expected to remain stable at ~200bps over the next three years, thus driving healthy ROE of 22%+.

Initiate with BUY: We have a Mar'21 TP of Rs 5,000 for BAF using a residual income model, assuming 12.8% CoE, 7.75% risk-free rate and 5% terminal growth.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	69,716	97,252	135,172	171,485	213,464
NII growth (%)	42.2	39.5	39.0	26.9	24.5
Adj. net profit (Rs mn)	24,964	39,950	61,728	82,232	102,432
EPS (Rs)	43.4	69.3	102.6	136.7	170.2
P/E (x)	95.1	59.6	40.2	30.2	24.2
P/BV (x)	15.0	12.1	7.4	6.1	5.0
ROA (%)	3.4	3.8	4.2	4.3	4.4
ROE (%)	20.1	22.5	23.2	22.1	22.6

Source: Company, BOBCAPS Research

this is where we need to think from

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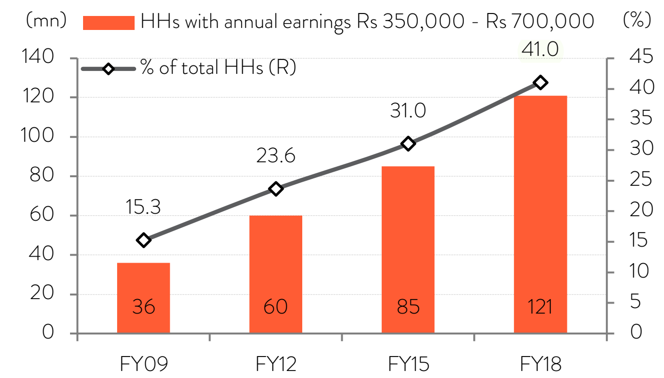
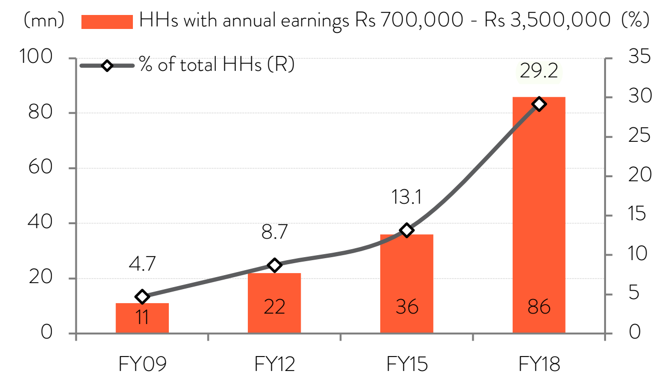


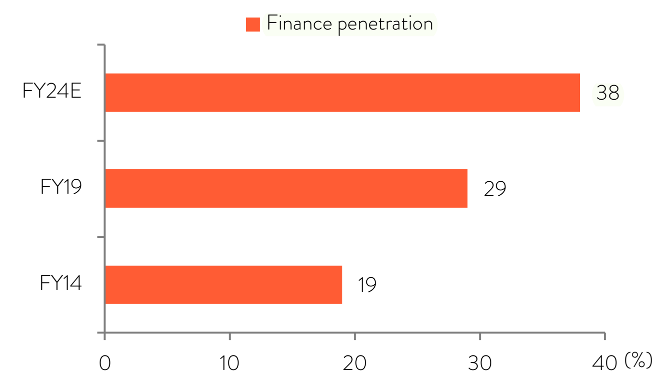
Source: Burger King RHP, BOBCAPS Research | HH – Households

FIG 2 – …TO DRIVE DISCRETIONARY SPENDING



Source: Burger King RHP, BOBCAPS Research

FIG 3 – FINANCE PENETRATION IN CONSUMER DURABLE PRODUCTS TO INCREASE…



Source: CRISIL, RBI, BOBCAPS Research

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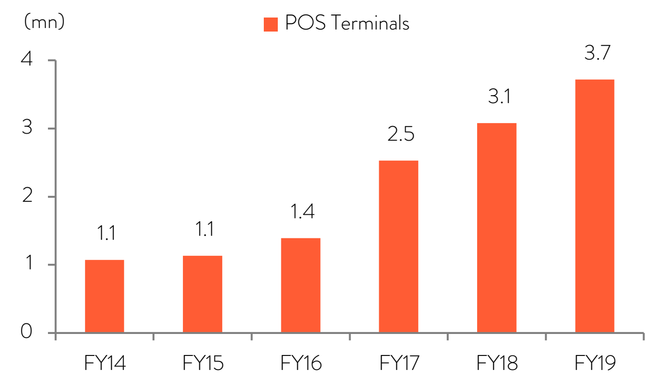
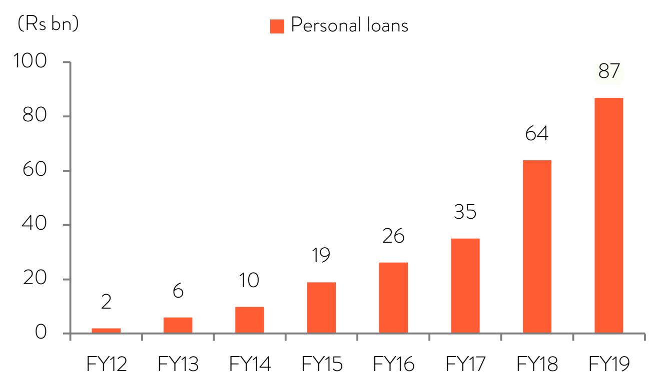


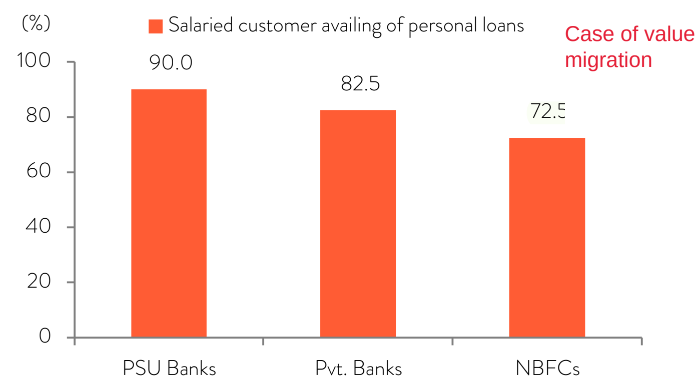
Source: CRISIL, RBI, BOBCAPS Research

FIG 5 – BAF'S PERSONAL LOANS OUTSTANDING UP ~46X DURING FY12-FY19



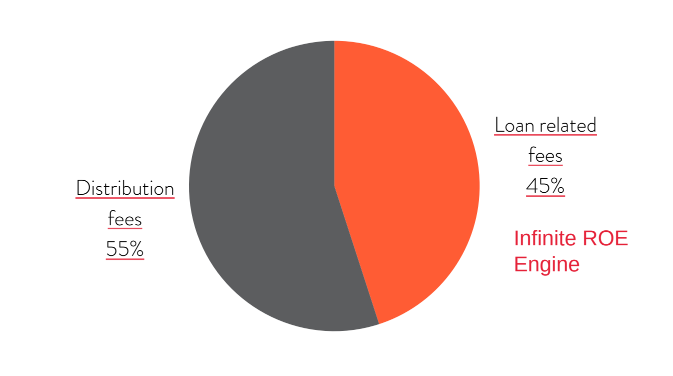
Source: Company, BOBCAPS Research

FIG 6 – PERSONAL LOANS PORTFOLIO OF NBFCs COMPARES WELL TO THAT OF PRIVATE BANKS



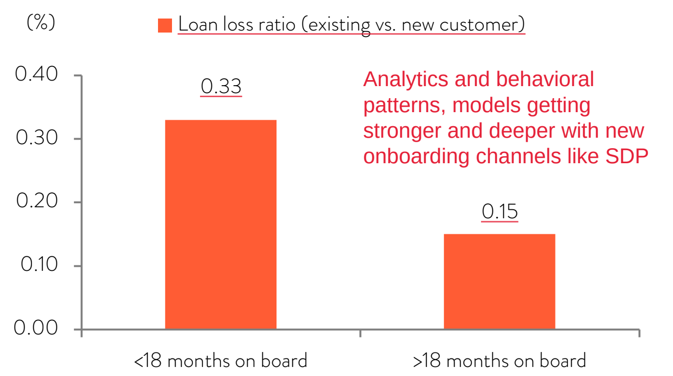
Source: Company, BOBCAPS Research

FIG 7 – BAF'S FEE INCOME EVENLY DIVIDED BETWEEN DISTRIBUTION AND LOAN-RELATED FEES



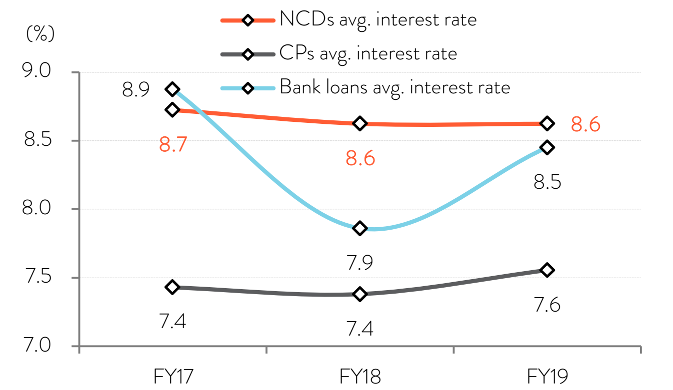
Source: Company, BOBCAPS Research

FIG 8 – BAF TARGETS 75% OF NEW LOAN ORIGINATION FROM EXISTING CUSTOMERS, LOWERING RISK



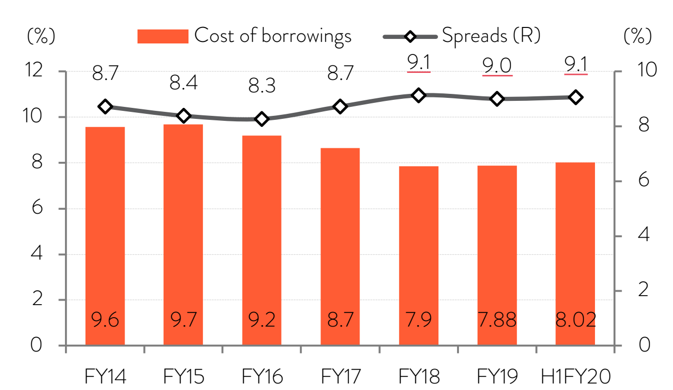
Source: Company, BOBCAPS Research

FIG 9 – PRICING OF DEBT THROUGH FY17-FY19 HAS BEEN LARGELY STABLE…



Source: Company, BOBCAPS Research

FIG 10 – …LEADING TO LOWER BORROWING COST AND HIGHER SPREADS



Source: Company, BOBCAPS Research

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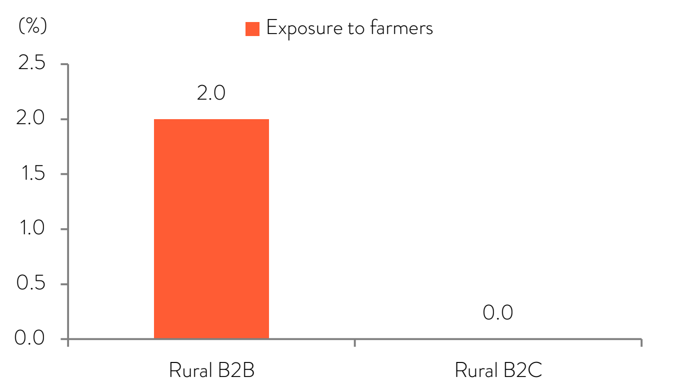

Source: Company, BOBCAPS Research

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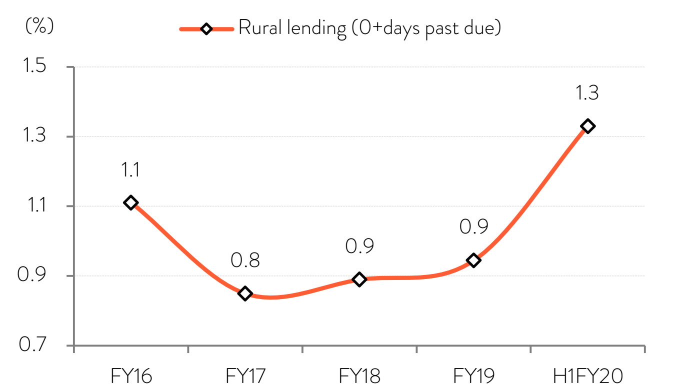
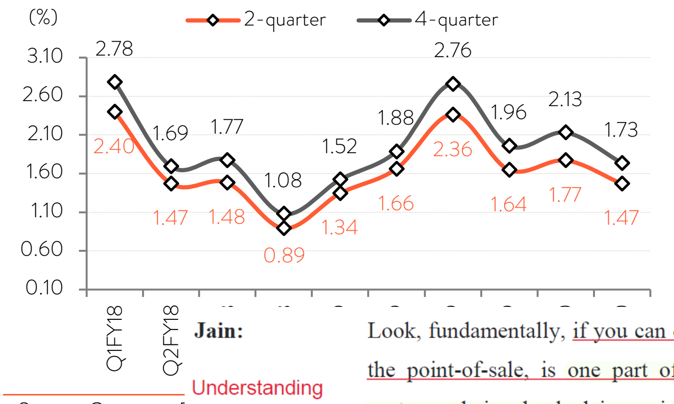


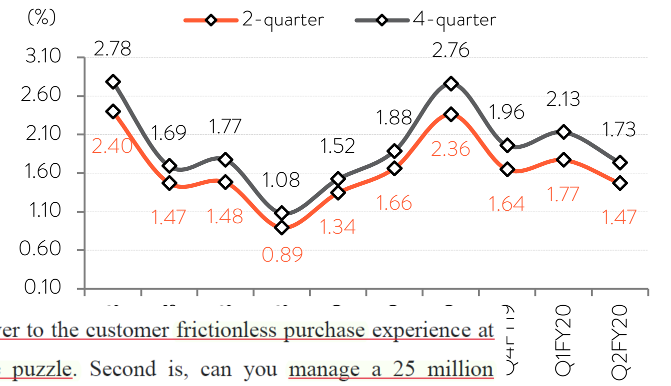
Source: Company, BOBCAPS Research

FIG 13 – NET SLIPPAGES DIPPING…



Source: Company, E

FIG 14 – …AND TREND IN WRITE-OFFS (WITH LAG EFFECT) CLEARLY SHOWS COLLECTION EFFICACY

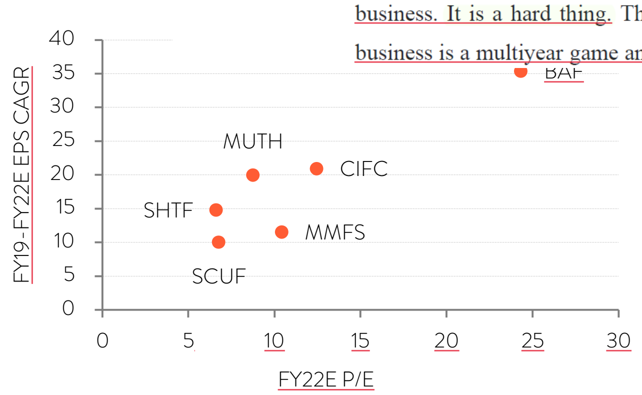


Jain:

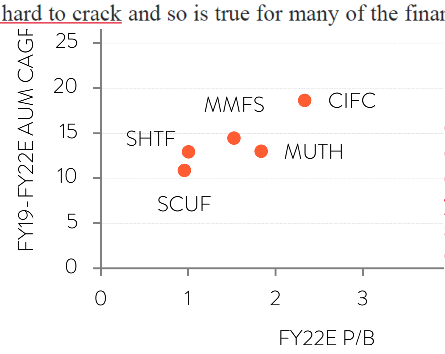
Understanding the dynamics of Business Model

Look, fundamentally, if you can deliver to the customer frictionless purchase experience at the point-of-sale, is one part of the puzzle. Second is, can you manage a 25 million customer being banked in a given month is the second part of the puzzle from a risk standpoint and can you collect from 10% to bounce in a given month at Rs.100 cost is the third part of the puzzle. If you can get all the 3 puzzles together, you can deliver the business. It is a hard thing. The purpose of an enterprise is to generate profitability. This business is a multiyear game and quite hard to crack and so is true for many of the financial

FIG 15 – BAF L



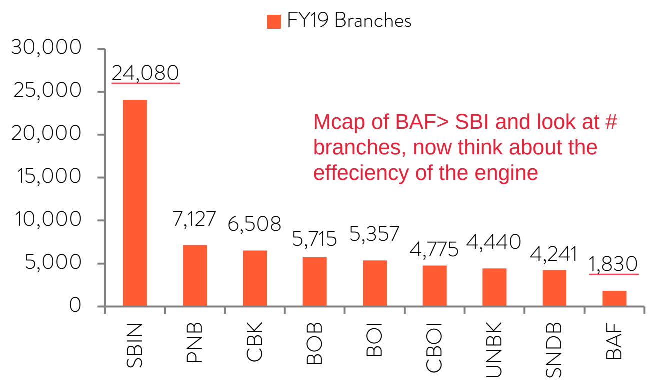
Source: Bloomberg, BOBCAPS Research | Note: Bloomberg consensus data for SHTF, MMFS, CIFC and SCUF | Price as of 23 Jan 2020



high but not sinful, impeccable franchise power, only 1.6% of total credit with such a robust engine, easily capture a great market in next 5 years further strengthening its data and oplev Moats, making it incrementally difficult for new players

Source: Bloomberg, BOBCAPS Research | Note: Bloomberg consensus data for SHTF, MMFS, CIFC and SCUF | Price as of 23 Jan 2020

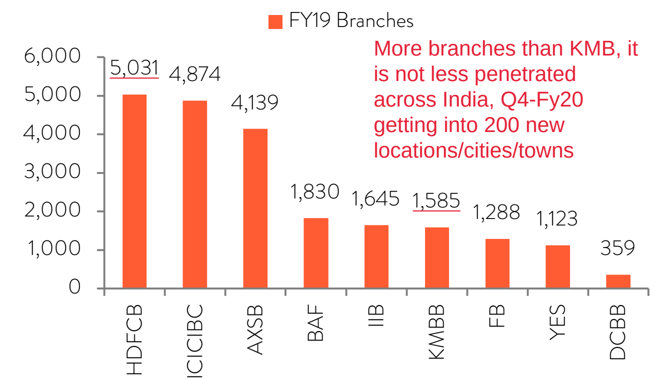
FIG 17 – BRANCH COMPARISON WITH PSU BANKS…



Mcap of BAF> SBI and look at # branches, now think about the effeciency of the engine

Source: Company, BOBCAPS Research

FIG 18 – …AND PRIVATE BANKS



More branches than KMB, it is not less penetrated across India, Q4-Fy20 getting into 200 new locations/cities/towns

Source: Company, BOBCAPS Research

Why don't they bank
- Promoter stake sale RBI Norms, they don't need to dilute capital as the engine and opportunity is so strong
- Weak section loans norms, lowering overall ROE and injecting bad blood, disturbing management focus
- Anyways they have 17% of borrowings as sticky deposits(retail forming 61% of overall deposits), will take it to 25% already operating as quassi-bank format on liabilities side, so why to give upside to govt agencies like LIC. U want it take if from market at market price

Investment summary

Consumer financing and cross-sell to remain key moats

Penetration through digital channels testifies the average age of the prospects tied to the franchisee here

Consumer financing business will remain the key moat for BAF, given the prospects arising from younger demographics and innovative credit outreach. This business will act as the funnel for customer acquisition, of which vetted customers will be cross-sold credit and fee-based products. The non-linear fee income growth (~3x over FY19-22E) will largely cover for opex (~2x during same period), thereby large proportion of NII (~30% FY19-22E CAGR) will flow into operating profit (~33% FY19-22E CAGR). This will augment the return ratios at similar levels of leverage.

SME and commercial financing form sustainable scale builders

This is true across its PF, and backed by their data driven approach to calibrate credit lines in real time often before the stress actually develops

SME financing and commercial lending offer high velocity, profitable and opportunistic credit plays, which mitigate top-10 cities concentration. Also, both portfolios are fairly granular, so that gives the company the flexibility to go slow on one segment or region, if either is not performing well on risk parameters.

Well protected spreads and astute focus on opex

this is across till 5yr buckets SIR

this will further bring down Opex to AUM costs

Prudent liability mix strategy, positive ALM mismatch in one-year bucket and rural lending will meaningfully help sustain spreads (~9% over FY19-22E). Operating profits will grow faster than AUM growth (~27% FY19-22E CAGR) due to the higher contribution from cross-sell and fee-based products and the ~150bp decline (FY19-22E) in C/I ratio led by technology investments over the years.

Mortgage business to add scale

another fulcrum to be explored

This is the best part, average ticket size imparting granularity and high velocity sales of units herein backed as collateral with LTV ~60%. Realty price insulated over loan tenure

In-house loan sourcing, cross-sell opportunity to existing customers (they have ~Rs 5tn of mortgages as per management) and operating in sweet spot of ticket size at ~Rs 3.5-4mn are key growth drivers for BHFL near to medium term growth.

Well-managed asset quality to drive return ratios

Using technology and data analytics, for prudent product positioning and cross-sell has kept credit risk at bay. A well-oiled collection machinery ensures keeping credit costs ~200bp, thus driving healthy RoEs of 22%+.

Robust collections at minimal costs. Deep network developed over time

KUDOS! Aspect touched by none other

Characteristics of the Bajaj Finance customer

A usual BPO employee, just graduate today earns at least 5-6 lacs per annum and is very aspirational, they want to boast the best gadgets, dine out passes and also understand the importance of CIBIL and Aadhar linked bueREAU databases

Currently u have 44M out of total 830M just 5%, just reflect (think for 2 mins in silence) on the impeccable robust engine and the opportunity that lies in front of it

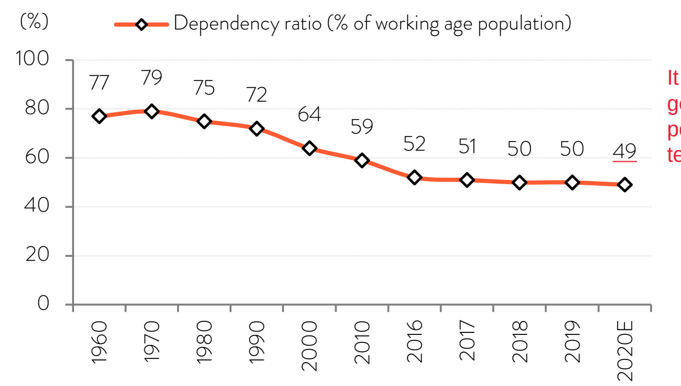
BAF's management has frequently highlighted that it focuses on the mass affluent segment. We set out to understand who this customer is and how this target market will shape up in the medium term.

The 7 consumption desires of Millennials and Gen Z

BAF defines mass affluent as incomes above Rs 350,000 in rural areas and Rs 500,000 in urban areas. With ~440mn millennials and ~390mn Gen Z (born after 2000) teens and children, the sheer size of India's youth paves the way for its consumer story to be one of the world's most compelling in the next 20 years.

The size of India's young population is contributing to a decline in dependency ratio – defined as the ratio of dependent population size to working-age population size (15 to 64 years of age). The country's working age population has increased from 36% in FY00 to 49.8% in FY18.

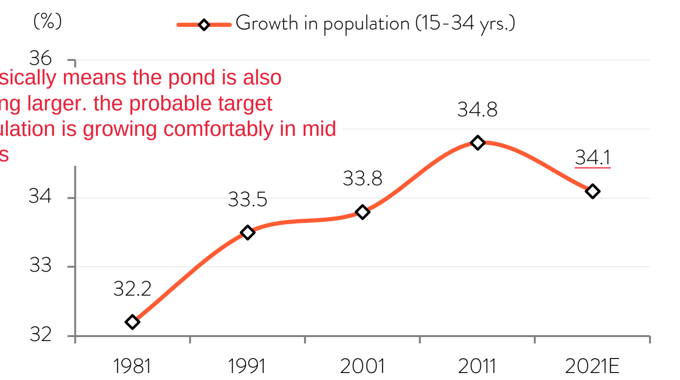
FIG 19 – DEPENDENCY RATIO DECLINING…



Source: MOSPI, Census of 2011, BOBCAPS Research

FIG 20 – …DUE TO SUSTAINED GROWTH IN YOUNG POPULATION

It basically means the pond is also getting larger. the probable target population is growing comfortably in mid teens



Source: MOSPI, Census of 2011, BOBCAPS Research

Even getting into Medical(appollo tie up), Travel, lifestyle and what not.

On liability side what a marvelous product SDP IS

This trend is expected to fuel rising income levels per household as well as higher levels of discretionary expenditure. Consequently, spends on premium products will rise, leading to higher expenditure in various categories, including food and beverages, apparel and accessories, luxury products and consumer durables.

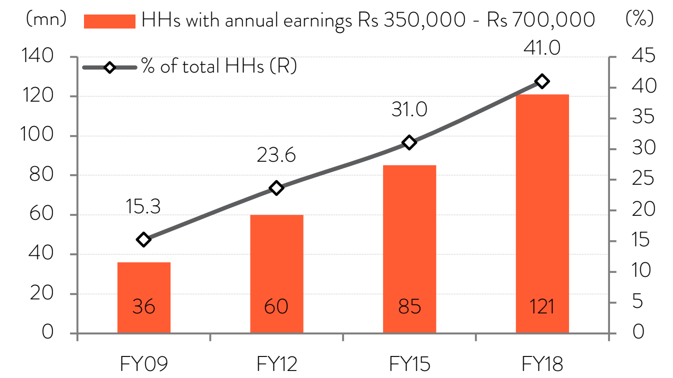
As per industry sources, the seven consumption desires of millennials and Gen Z Indians can be encapsulated as follows: (1) looking better, (2) eating better, (3) better home, (4) mobility/connectivity, (5) travelling, (6) wellbeing (health/ education), and (7) luxury.

and growing it aloof of interest rate variations (SDP). float generation to be deployed at higher rates with incremental granularity and larger access to customer data and behavioral profiles for cross sell

Fixed deposit book has crossed the Rs. 20,000 Crore mark, which is 76% growth. 61% of our book is retail, pure retail, with average deposit of Rs.3 lakhs and average tenure of 35 months. We launched SDP (Systematic Deposit Plan) to further utilize our retail deposit program. We continue to work towards growing this part of our balance sheet.

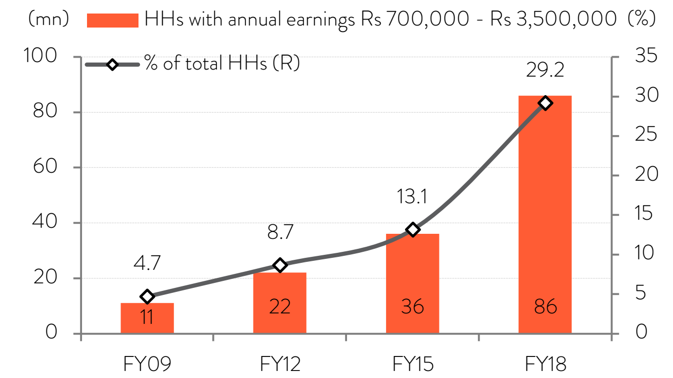
NIM was strong, fees and commission continued to be strong. Operating expenses came down to 34% versus 35% in a year ago.

FIG 21 – GROWING MIDDLE CLASS...



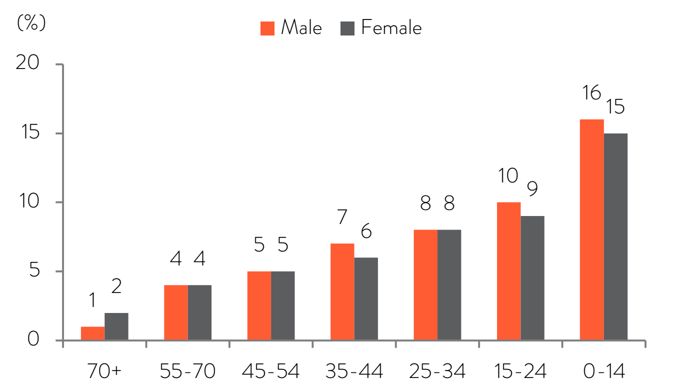
Source: Burger King RHP, BOBCAPS Research

FIG 22 – ...TO DRIVE UP DISCRETIONARY SPENDING



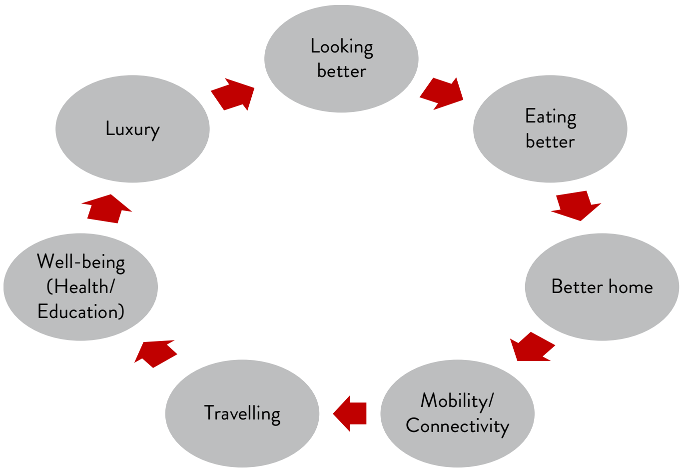
Source: Burger King RHP, BOBCAPS Research

FIG 23 – RISING WORKFORCE PARTICIPATION OF MILLENNIALS AND GEN Z...



Source: Census of 2011, MOSPI, BOBCAPS Research

FIG 24 – ...AND THEIR 7 KEY DESIRES FOR CONSUMPTION



Source: Industry, BOBCAPS Research

Investment rationale

Continued traction in consumer financing

BAF's consumer financing business registered a healthy 38% CAGR over FY11-FY19 to reach an AUM of Rs 450bn and currently contributes 40% of the loan book. The company offers high-churn, short-tenor and high-IRR products – a mix that facilitates faster repricing of the back book, especially amid rising interest rates.

Command price and are not susceptible to loss of market share

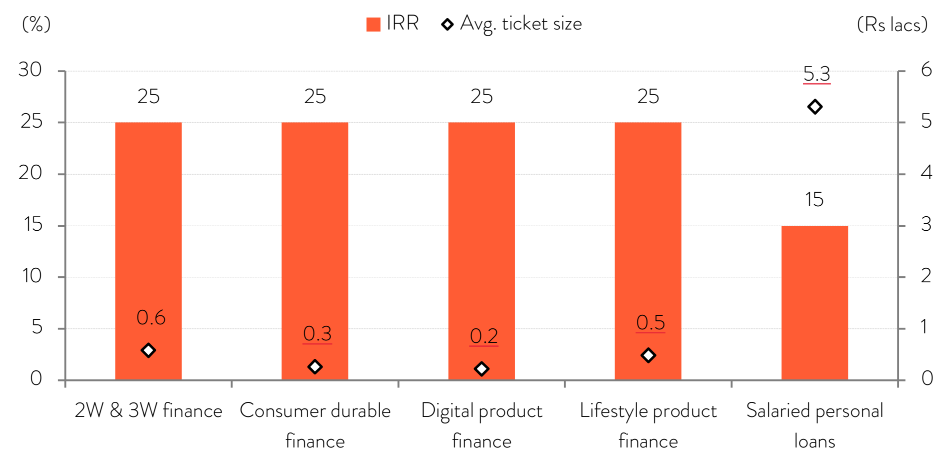
Why it is difficult for someone without a scale advantage to crack the nut here. Without a significant scale the costs and the risks itself will ruin a new entrant

Although opex for credit acquisition is higher in granular consumer loans, this is offset by robust product IRR of 24-25% and scale-led operating leverage. We expect consumer financing to be a primary growth driver for BAF, aiding a 27% CAGR in the company's overall loan book over FY19-FY22.

BEST CASE SCENARIO - LETHAL COMBO

FIG 25 – CONSUMER FINANCING LOANS ARE GRANULAR WITH HIGH IRRs

Awesome granular ticket sizes



Source: Company, BOBCAPS Research

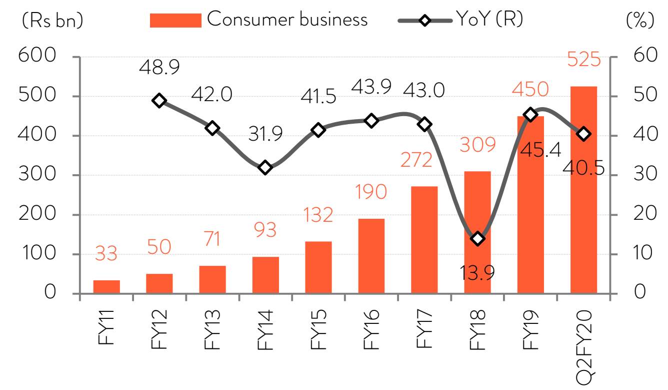
Strong growth trajectory

Consumer financing AUM at Rs 450bn as of FY19 from Rs 33bn in FY11

These models dont get built up or mature in a month or a year, it takes a comitted delibrate, dedicated effort to really set up these models over a long period of time. PE or P/B is an optical illusion/mirage for a franchise this horse power

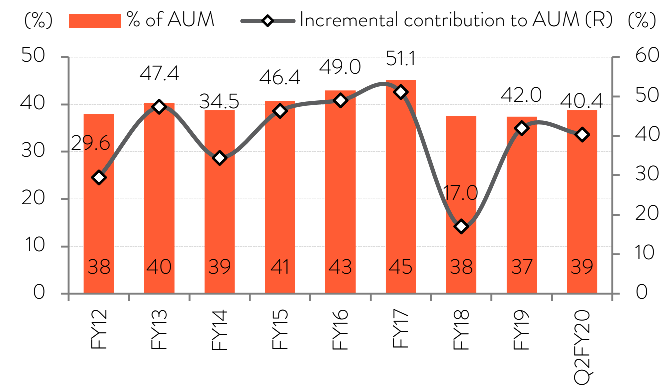
Over the past decade, BAF has established a strong position in the under-penetrated consumer financing segment by strategically adding product lines, targeting affluent customers and underwriting risk via technology platforms. Banks were vacating this space post-GFC, which gave the company an opportunity to make a mark. During FY11-FY19, the business registered a healthy 38% CAGR to reach an AUM of Rs 450bn. FY18 was an aberration with 14% YoY growth due to the after-effects of demonetisation and GST rollout.

FIG 26 – CONSUMER FINANCING GREW ~13X DURING FY11-FY19…



Source: Company, BOBCAPS Research

FIG 27 – …CONTRIBUTING ~40% OF INCREMENTAL AUM IN FY19



Source: Company, BOBCAPS Research

BAF currently caters to ~40mn customers and offers vehicle (two- & three-wheelers), consumer durable, digital/lifestyle product and salaried personal loans. Notably, two-third of new customers have a strong credit history (CIBIL scores of >750), implying significantly low credit loss probability, while a third are new to credit entirely. Consumer financing thus serves as a robust funnel for customer acquisition, facilitating cross-sales of the company's credit and fee-based products.

CRoss Sell opp. will not be double but multiples of this growth

We estimate a near doubling in customer base to 75mn over 3-4 years aided by (a) favourable demographics and increasing finance penetration, (b) high-value sales of consumer durables, and (c) the company's innovative credit outreach in the form of affordable EMI schemes and technology-led client mining. We thus forecast a robust 27% AUM CAGR in the business over FY19-FY22.

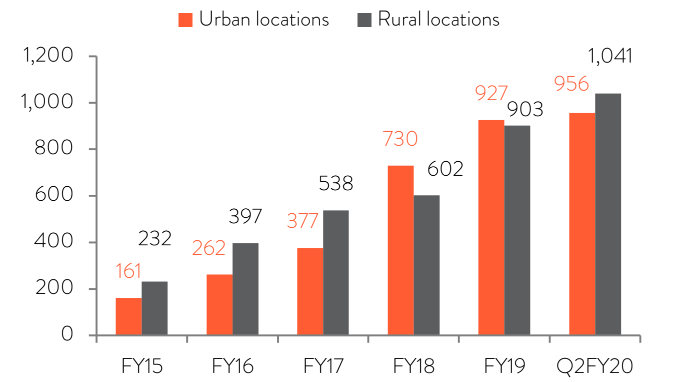
Firm focus on consumer durable, digital & lifestyle product financing

Focus on volume over value paying off

BAF's strategy is to ensure deeper penetration in its well-performing product categories. Consequently, its in-store presence in consumer durables (~2x), digital products (~4x) and lifestyle retail points-of-sale (~2x) increased considerably over FY17-FY19. The number of consumer durable loan contracts doubled to 12.7mn over this period, underlining a clear thrust on volumes over value.

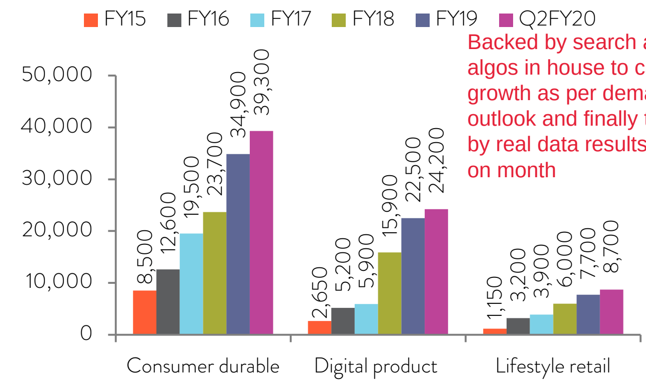
Not only cracking the digital side of puzzle, but supporting it with physical outreach, reflect the mortage, builders loan sanctioning & regular check on use of the money disbursed then backed by this physical reach. Op. Lev this will bring to franchise

FIG 28 – URBAN BRANCHES GREW~6X AND RURAL BRANCHES ~4X DURING FY15-FY19



Source: Company, BOBCAPS Research

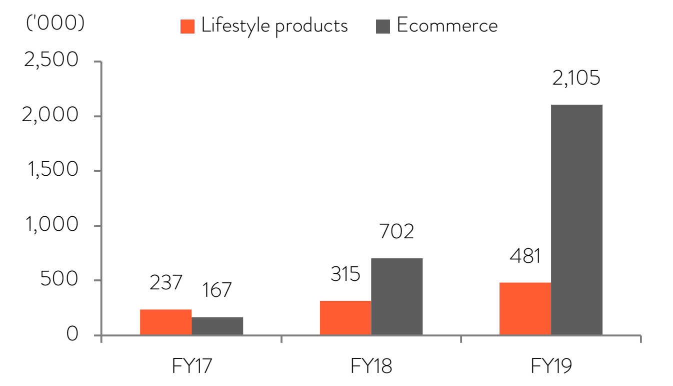
FIG 29 – WIDER IN-STORE PRESENCE INDICATES CLEAR FOCUS ON VOLUME GROWTH



Backed by search ad words algos in house to calibrate growth as per demand outlook and finally testified by real data results Month on month

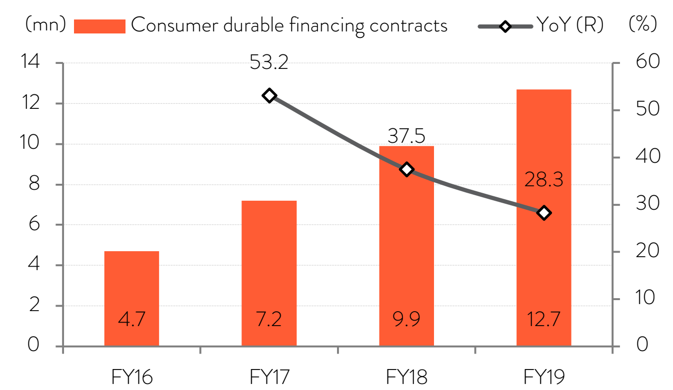
Source: Company, BOBCAPS Research

FIG 30 – LIFESTYLE/ECOMMERCE LOAN TRANSACTIONS GREW ~2X/~13X DURING FY17-FY19…



Source: Company, BOBCAPS Research

FIG 31 – …AND CONSUMER DURABLE LOAN CONTRACTS GREW ~2X IN THE SAME PERIOD



Source: Company, BOBCAPS Research

Expanding to 200 new cities/towns in Q4-2020 alone which is nearly 10% of current size

Consumer durables to be a key growth driver

With ~60% market share, NBFCs continue to dominate consumer durable disbursements as these largely involve point-of-sale (POS) financing, i.e., loans are normally processed at the retail outlet or showroom (for televisions, kitchen appliances, etc.). Customers prefer the convenience of on-the-spot EMI schemes while making a purchase rather than approaching banks for a loan.

450 bn. with BAF

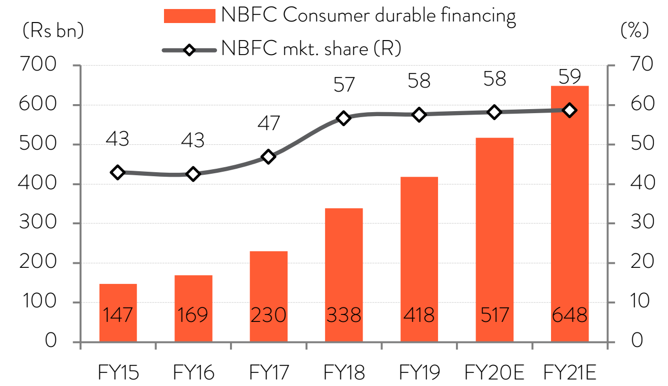
Loan disbursal by NBFCs towards consumer durables is estimated at Rs 517bn as of FY20 and has clocked a brisk ~29% CAGR over FY15-FY20. BAF has ~70% market share among NBFCs in this space.

SOLE PROPERITOR

Let's just think a moment to compete with an engine like this you really need scale, outreach, collections efficiency, risk framework and after you have this then you need to think about poaching its customer(s). it is a herculean task specially if you add to it an element of impeccable trustworthy and honest/transparent management

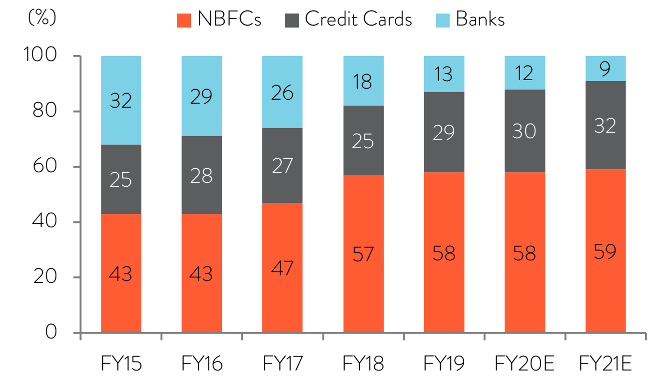
This is backed by disciplined ALM, very prudent capital raise and allocation, agile and granular PF, diligent liability mix.

FIG 32 – EASE OF TRANSACTIONS…



Source: CRISIL, Company, BOBCAPS Research

FIG 33 – …TO HELP NBFCs MAINTAIN MARKET SHARE IN CONSUMER DURABLE FINANCING



already have RBL co-branded cards and Mobikwik Digiwallet growing at 30% CAGR minimum

Source: CRISIL, Company, BOBCAPS Research

India's CD industry 9%
Increase in next 5 years, just Imagine the size

Finance penetration in India's consumer durables industry is estimated to increase from 29% in FY19 to 38% in the next five years, as per a CRISIL study. Currently, easy finance schemes available at interest-free EMI help push up durable category sales and entice customers into buying aspirational premium products. As all consumer durable financiers including banks offer such schemes, we believe aggressive expansion by lenders in terms of point-of-sale (POS) infrastructure and a presence in more product segments are among the primary drivers that will increase finance penetration.

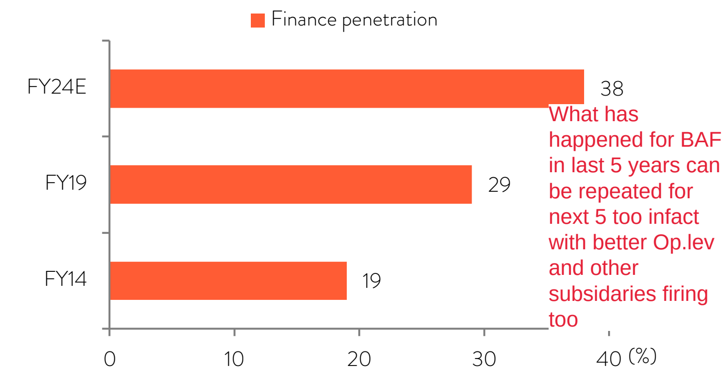
NBFCs offer zero-interest finance by charging interest to the manufacturer or dealer. Interest cost on loans is distributed across three levels – manufacturer, dealer and customer. The charge varies depending on the product, EMI financing option and the sourcing dealer. A majority of the interest cost is typically borne by the manufacturer (subvention of close to 5% of the product price).

Existing member identification (EMI) card is another offering by NBFCs that has supported the consumer durable financing business by creating customer stickiness. These cards come with a credit limit and offer zero down-payment options and other promotional offers to customers.

Rajeev Jain: Yes. On B2B we track one metric, What is my share of manufacturer subvention? That number has remained very steady. So, let us take the noise out and let us talk money. My share of manufacturer subvention pool has remained across electronics, mobile, very, very steady. That is point number one.

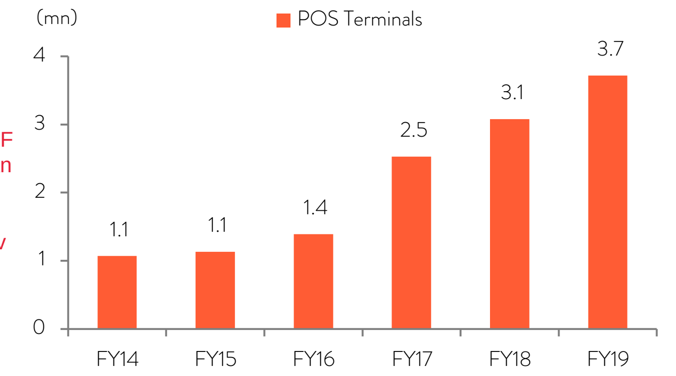
Not losing share on B2B consumer finance

FIG 34 – FINANCE PENETRATION IN CONSUMER DURABLE PRODUCTS TO INCREASE…



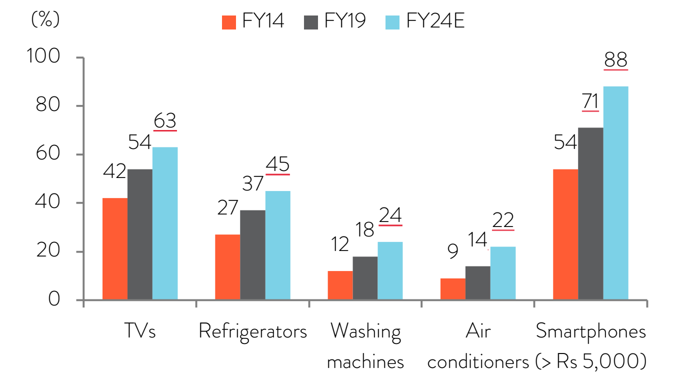
Source: CRISIL, RBI, BOBCAPS Research

FIG 35 – …DUE TO GROWING INFRASTRUCTURE FOR DIGITAL PAYMENTS & GEOGRAPHICAL EXPANSION



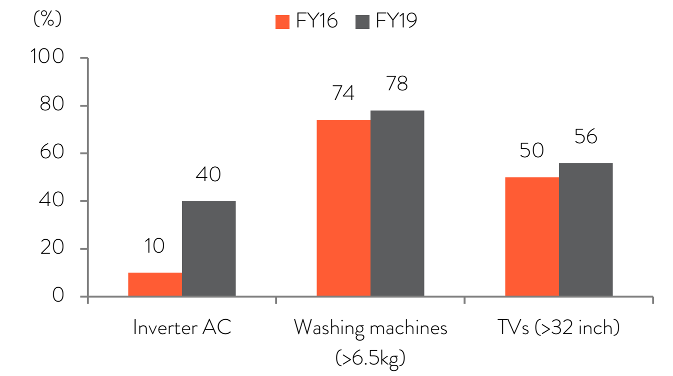
Source: CRISIL, RBI, BOBCAPS Research

FIG 36 – PENETRATION TO IMPROVE ACROSS PRODUCTS…



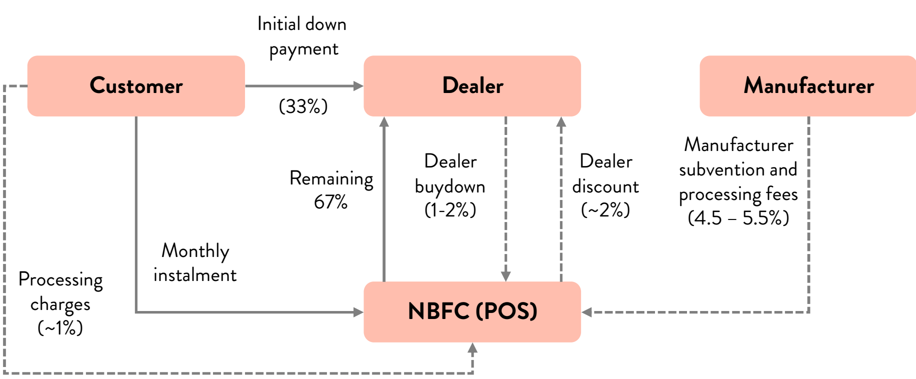
Source: CRISIL, RBI, BOBCAPS Research

FIG 37 – …AS BUYER PREFERENCE FOR HIGH-VALUE PRODUCTS MOVES UP



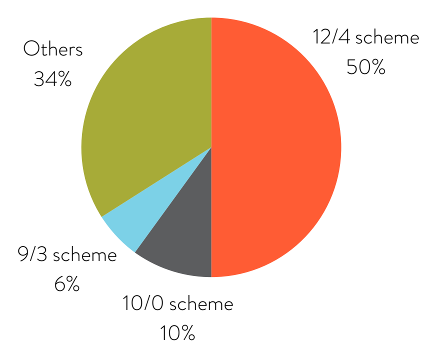
Source: CRISIL, RBI, BOBCAPS Research

FIG 38 – POS FINANCING THROUGH NBFCs



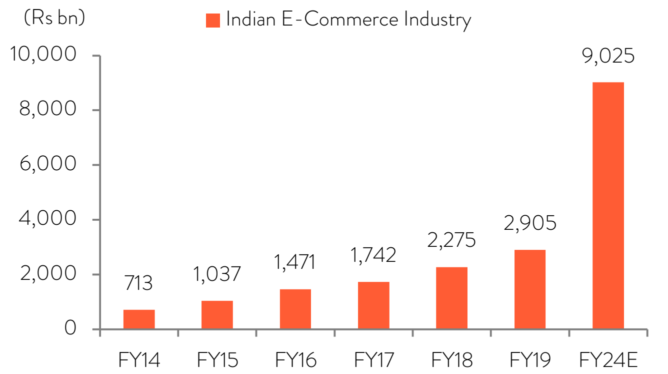
Source: Company, BOBCAPS Research

FIG 39 – SPLIT OF SCHEMES OFFERED BY NBFCs



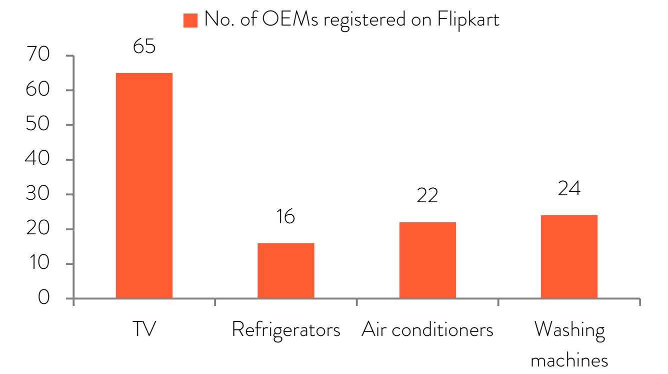
Source: Company, BOBCAPS Research

FIG 40 – GEOGRAPHICAL DIVERSIFICATION OF E-COMMERCE TO FUEL 23-28% CAGR OVER FY19-FY24E



Source: CRISIL, Company, BOBCAPS Research

FIG 41 – OEMs CONTINUE TO OFFER SUBVENTION ON CONSUMER DURABLES TO STAVE OFF RIVALS



Source: Flipkart, BOBCAPS Research

Sensible slowdown in 2W and 3W financing

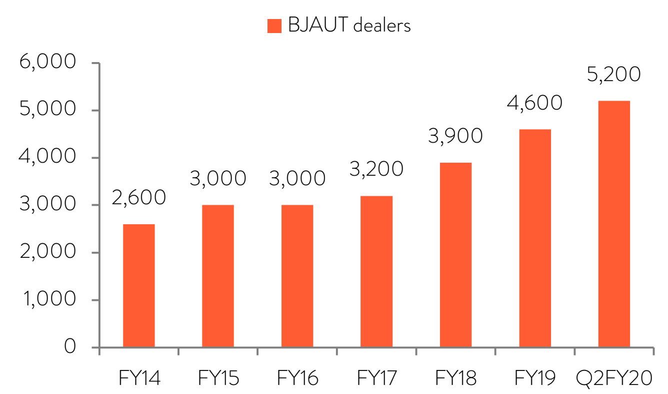
Curently only 13% ofAdvances

Slowed auto loan channel expansion due to defaults and risk concentration

High yield business with 24-25% yield. Residual value of acquired assets is ~45%

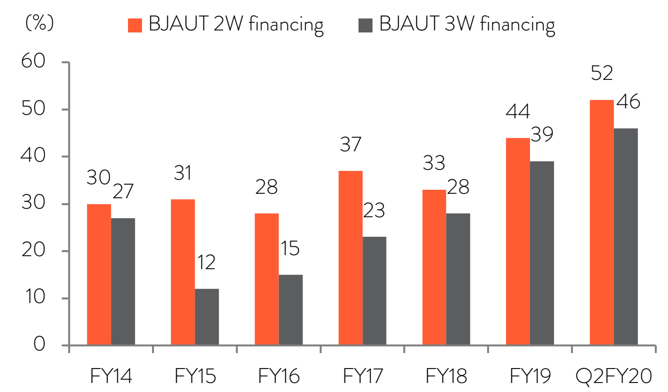
Though BAF started as a captive auto financier for Bajaj Auto's (BJAUT) two-wheelers (2W) and three-wheelers (3W), management deliberately slowed down channel expansion during FY14-FY17 due to the higher delinquencies during the period. Thereafter, BAF increased the tally of BJAUT dealer relationships by 60% to 5,200 in Q2FY20, along with financing 52% of the company's 2Ws and 46% of 3Ws, thus gaining market share in the latter's financing pie. Risk concentration in 2W and 3W financing has reduced to 9% of AUM in Q2FY20 from 15% in FY14.

FIG 42 – SLOWER GROWTH IN BJAUT DEALERSHIPS...



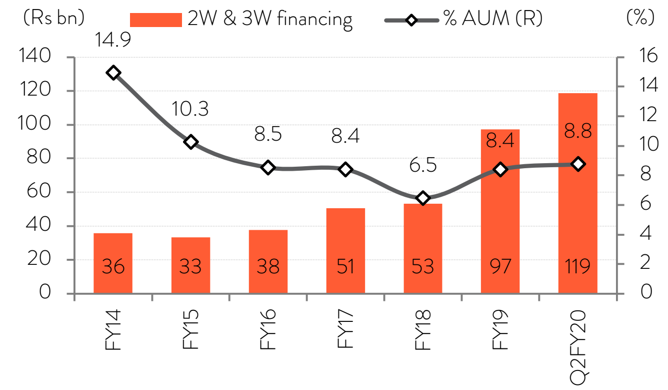
Source: Company, BOBCAPS Research

FIG 43 – ...BUT MARKET SHARE GAINS IN BJAUT FINANCING PIE



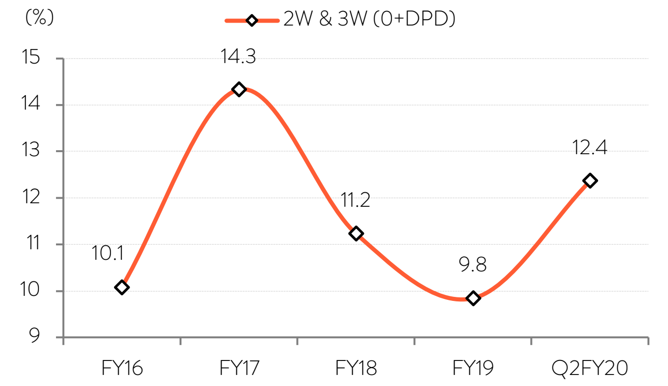
Source: Company, BOBCAPS Research

FIG 44 – 2W AND 3W FINANCING CONTRIBUTED ONLY ~9% OF AUM IN Q2FY20



Source: Company, BOBCAPS Research

FIG 45 – UPTICK IN DELINQUENCIES DUE TO SECULAR ECONOMIC SLOWDOWN



Source: Company, BOBCAPS Research

Personal loans – reliable customer acquisition engine

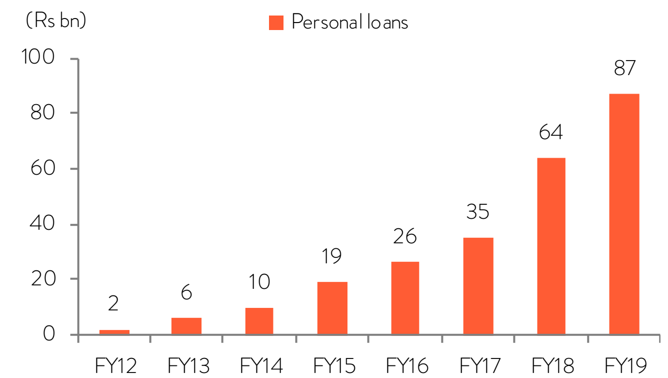
You just cannot do it without a very robust risk metrics

To diversify its consumer finance offerings, BAF launched personal loans for the salaried class in FY12. The business targets affluent salaried employees above a threshold income range and has logged a 46-fold rise in outstanding personal loans over FY12-FY19, from Rs 2bn to Rs 87bn.

BAF sources customers via direct selling agents (DSA), an in-house sales team and through the online portal of group company Bajaj Finserv Direct (BFDL). It was among the early entrants into online loans and offers eligible customers loan approvals for sums up to Rs 1.5mn within 15 minutes. We expect personal loans to remain a strong credit funnel for BAF in the near term.

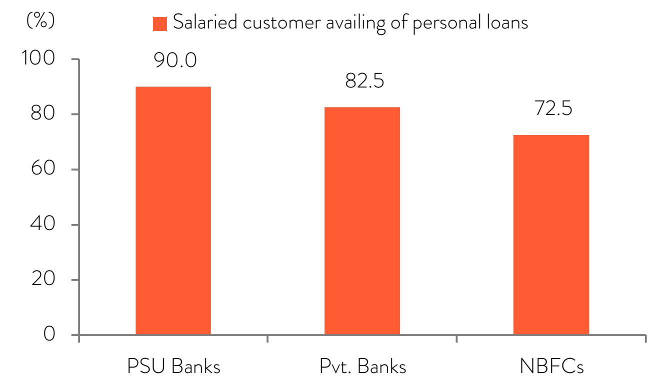
FIG 46 – BAF's PERSONAL LOANS O/S HAS GROWN ~46X DURING FY12-FY19

Value Migration



Source: Company, BOBCAPS Research

FIG 47 – PERSONAL LOAN PORTFOLIO OF NBFCs COMPARES WELL TO THAT OF PRIVATE BANKS



Source: Company, BOBCAPS Research

Not just the fee income but its granularity is the real Moat that outlines the stickiness. 16M Ccards means those many people paying fee, 27 Mn loans, means that many people paying processing fee, granularity mitigates event based risk, Infinite ROE engine getting more stronger

Look 3 fold increase in X sell leads to 5X fee growth. These are the hidden levers investors need to reflect upon. Valuation is thus an art

how will anyone compete in this case. MOAT just keeps on getting stronger with each passing day

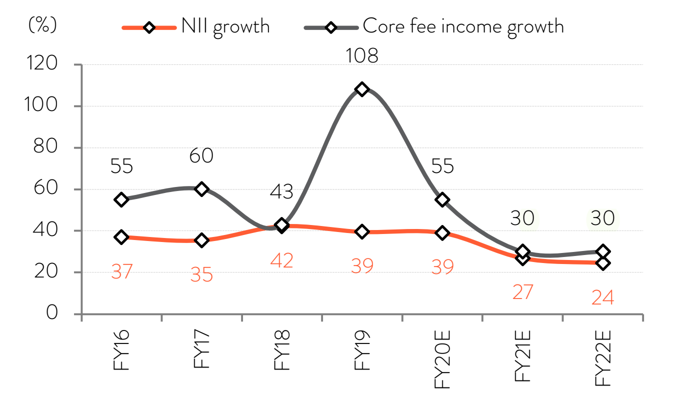
Cross-sell franchise to drive fee income

BAF has a successful cross-sales franchise that increases customer engagement, drives high-velocity, small-ticket lending and generates granular fee income. Over FY16-FY19, the company has seen a three-fold rise in cross-sell customer pool to ~21mn, aiding ~5x fee income growth over this period.

This single line below is the sacred shloka of BAF success, which can not be capture in PE or P/B

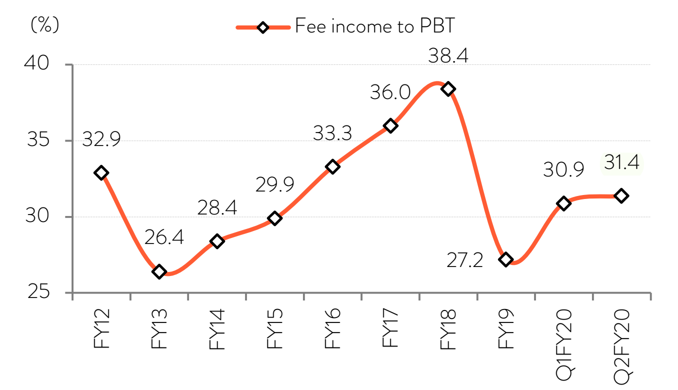
Opex is negligible to sell to existing customers and credit loss is one-third that of new customers. Management thus expects the fee income-to-PBT ratio to increase to 38-40% in the near term from 31% at present. This non-linear growth will largely cover operating costs, allowing a large proportion of NII to flow into operating profit.

FIG 48 – CORE FEE INCOME GROWTH



Source: Company, BOBCAPS Research

FIG 49 – MANAGEMENT EXPECTS TO INCREASE FEE INCOME-TO-PBT RATIO TO ~38% IN NEAR TERM



Source: Company, BOBCAPS Research

Technology supporting cross-sell franchise

https://www.financialexpress.com/industry/bajaj-finance-hires-111-from-iits/1793553/

https://www.youtube.com/watch?v=c4ic3wk5BOc

BAF has invested ~Rs 13bn on technology and processes over FY15-FY19. Domain specialist teams within each business vertical and the use of data analytics help churn the franchise effectively and deepen engagements with existing customers. Simultaneously, geographical and product expansion has led to a tripling of the cross-sell customer pool to ~21mn over FY16-FY19.

1300 Cr. in technology on a last Fy book of 1.2 L Cr.

I haven't seen even the best core technology companies spent that much.

They hired 111 IIT engineers in last few months . an IIT engineer with an average annual package of 45 lacs amount to 50 Cr. of spend for these many IIT engineers per year. To really build something great a gestation period of 3 years, this single recruitment will cost company around 150 ~ 200 cr. Incl increments annually. Reflects how serious are they for their business. How committed is the board and the management to the mission of the company. How they want to be on the top of the game. They have not outsourced the platforms development to accenture or TCS or SAP(even) , they are investing deep, really deep. The very next day of Corp rate tax cut they increased salaries of all employees by 5%. How many companies in India did that.

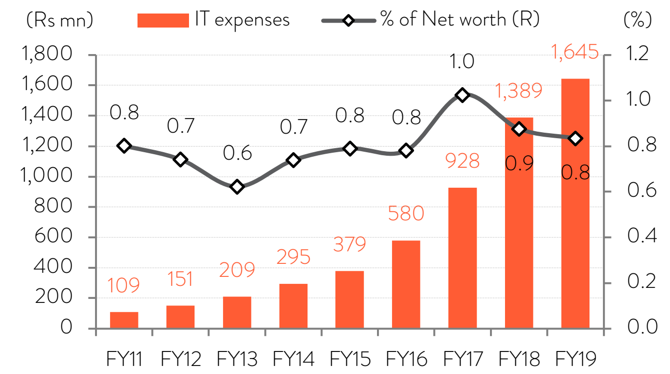
How many IITians does Amazon hires each year or for that matter even Infy or TCS. They are really investing very deep in state of the art robust platforms/people for future and in essence creating frictionless impeccable robust platforms

A typical lala will think oh i am already on 1.26 l Cr advances. Market is slow this year and proably next year too. Why to invest 200 Odd crore on getting a bunch of IITians, let me improve bottom line by saving this cost, but here than will come the real difference between a LALA and a MARKET LEADER really taking a very long term view and preparing itself

Best Chart which says so so much about BAF

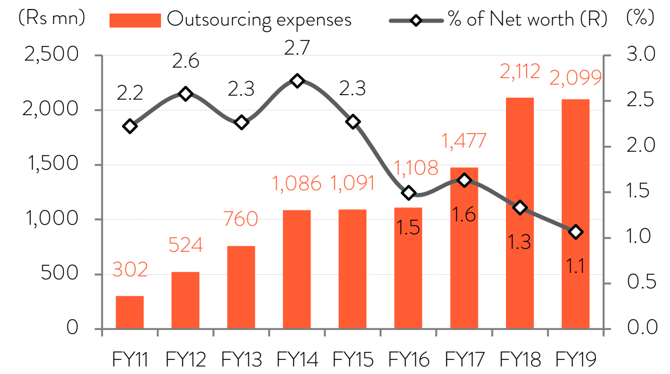
Mundane tasks outsourced, while focusing on real value drivers inhouse. Claps again

FIG 50 – TECHNOLOGY INVESTMENT OF ~RS 6BN OVER FY11-FY19



Source: Company, BOBCAPS Research

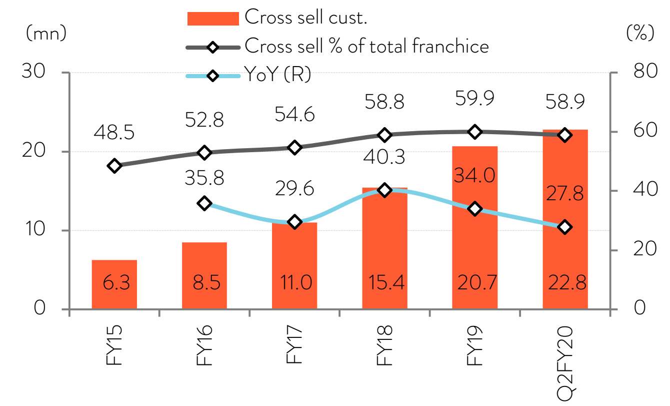
FIG 51 – MID- AND BACK-OFFICE FUNCTIONS OUTSOURCED TO SAVE COSTS



Source: Company, BOBCAPS Research

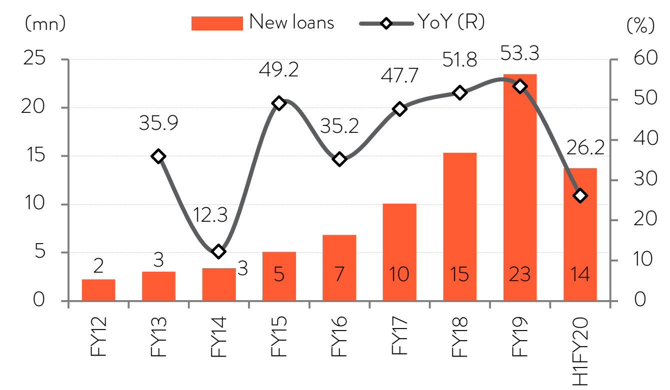
evident results of these IT Investments

FIG 52 – TECH. AND PROCESS INVESTMENTS HAVE EXPANDED THE CROSS-SELL FRANCHISE…



Source: Company, BOBCAPS Research

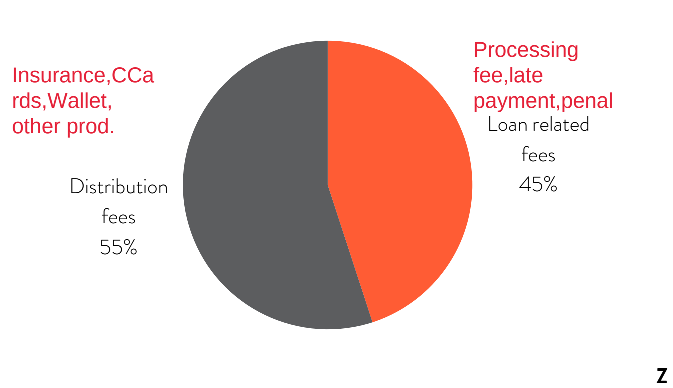
FIG 53 – …THOUGH NEW LOAN ACQUISITION HAS SLOWED DURING CURRENT SECULAR SLOWDOWN



Source: Company, BOBCAPS Research

The company markets personal loans, EMI cards and co-branded credit cards to its consumer finance clientele and aims to have ~75% of new loan originations from existing customers in near term. As most credit products offered by BAF are for consumer products, we believe the acquisition of new customers is also paramount – the company has done well on this front, logging a robust customer acquisition CAGR of 47% over FY15-FY19.

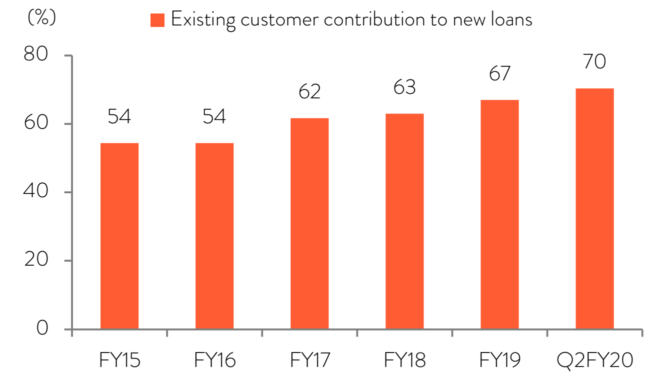
FIG 54 – BAF'S FEE INCOME IS EVENLY DIVIDED BETWEEN DISTRIBUTION AND LOAN-RELATED FEES



Source: Company, BOBCAPS Research

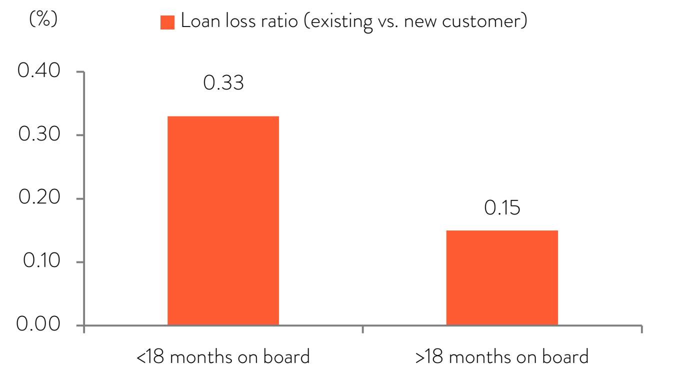
FIG 55 – BAF AIMS TO HAVE ~75% OF NEW LOAN ORIGINATIONS FROM EXISTING CUSTOMERS

Tighter
NPA control



Source: Company, BOBCAPS Research

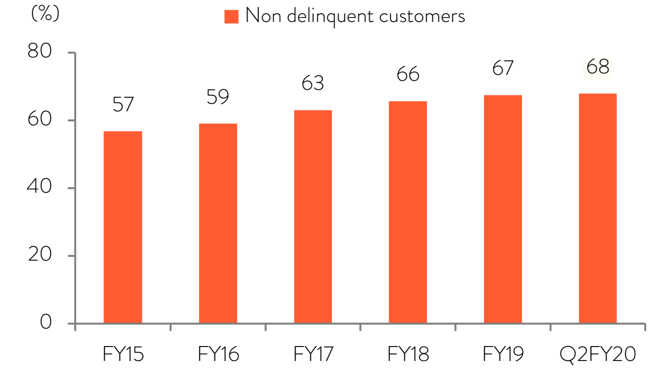
FIG 56 – LOAN LOSSES LOWER ON EXISTING VETTED CUSTOMERS…



Source: Company, BOBCAPS Research

Behavioral trend analysis and models developed
over time showing mature outcomes

FIG 57 – …AS NON-DELINQUENT POOL HAS INCREASED DRIVEN BY TECH INVESTMENTS



Source: Company, BOBCAPS Research

EMI card spends – emerging component of fee income

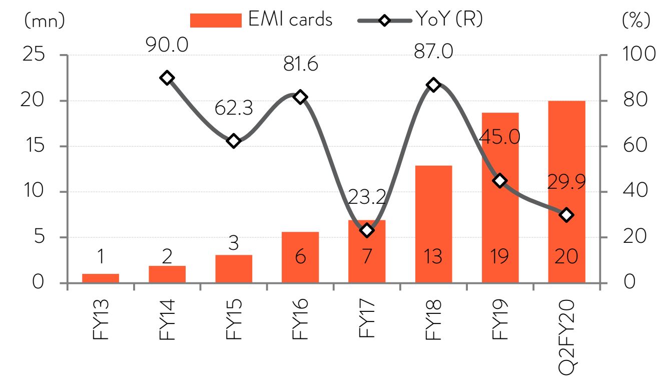
EMI cards offer easy instalment options for small-ticket purchases

increasing afford ability for
millennials

BAF started offering existing member identification (EMI) cards ranging from Rs 5,000 to Rs 80,000 for a variety of purchases to vetted customers in FY11. Active EMI card volumes grew ~6x during FY15-FY19. Given that these cards offer easy instalment options to customers for small-ticket purchases such as fashion, travel, insurance and small appliances, the business is driving granular fee income. In FY18, the company extended its loan offerings in the healthcare segment to both elective and non-elective procedures, following this up with the recent launch of a healthcare EMI card.

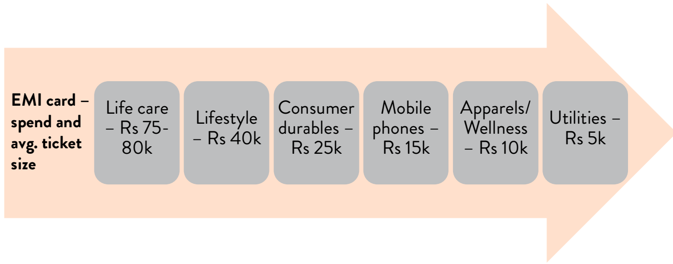
One of a kind new and thoughtful categories
creation backed by sold data research and
projections then managed granularly on MoM
basis

FIG 58 – EMI CARDS GREW ~6X DURING FY15-FY19



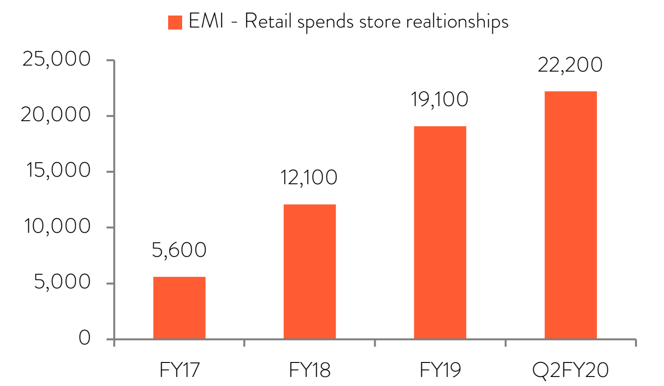
Source: Company, BOBCAPS Research

FIG 59 – PRODUCT AND TICKET SIZE HIERARCHY FOR EMI CARDS



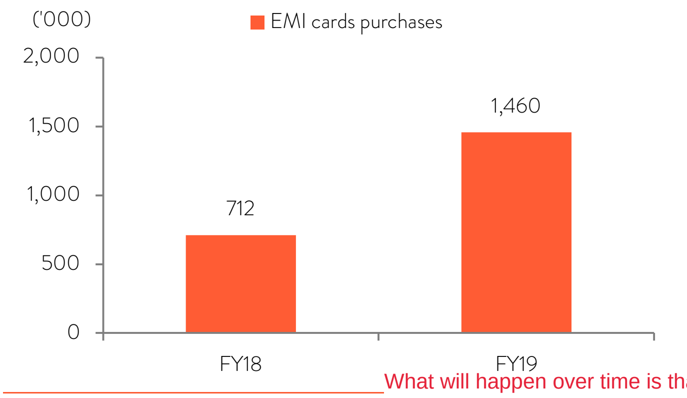
Source: Company, BOBCAPS Research

FIG 60 – EMI RETAIL STORE RELATIONSHIPS GREW ~3X DURING FY17-FY19



Source: Company, BOBCAPS Research

FIG 61 – NUMBER OF PURCHASES USING EMI CARD INCREASED ~2X DURING FY18-FY19



Source: Company, BOBCAPS Research

What will happen over time is that seeing the growth many guys will start lending without backed by a robust risk framework, which in time will make more failures and in case easily help BAF gain more market

Personal loans cross-sell – promising risk-reward

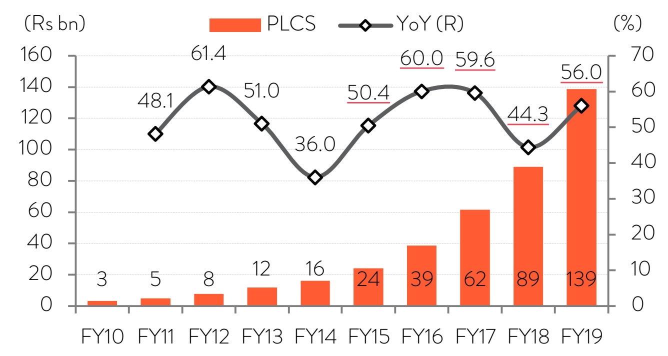
Opex on PLCS negligible and credit loss low

This is only possible when
- You have reached a scale to roll out effectively and have robust risk and collection mechanisms
- You have ample and robust data driven models to do customer segregation, models that have matured over life cycles
- a Single txn with BAF and a loan cycle valued across 4000 parameters for each customer. Such deep is the analysis
- Not so easy that anyone can come in tomorrow and replicate the same. If tried bound to loose a lot of money

Personal loans cross-sell (PLCS) is offered to existing salaried and self-employed customers with timely repayment track records. Opex to offer the PLCS product is negligible and the credit loss is a third of that incurred for new customers. This points to a sustainable risk-reward equation.

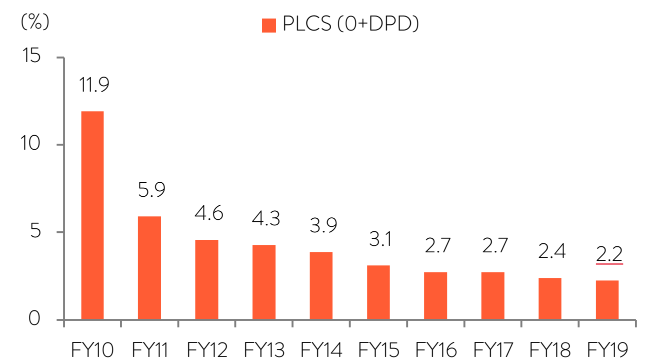
1300 Cr. spent in IT in Action showing results

FIG 62 – PERSONAL LOANS CROSS-SELL GREW ~6X OVER FY15-FY19…



Source: Company, BOBCAPS Research

FIG 63 – ….AND INCREASED USE OF DATA ANALYTICS LED TO LOWER DELINQUENCY



Source: Company, BOBCAPS Research

These two charts depict the MOAT galiringly obvious

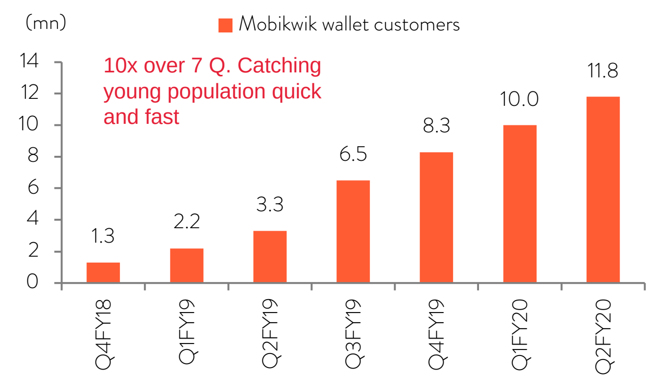
Mobikwik wallet – gateway to high velocity transactions

on Playstore you have a vanila Mobikwik App and a BAF Mobikwik app.

Intelligent leveraging partner technology

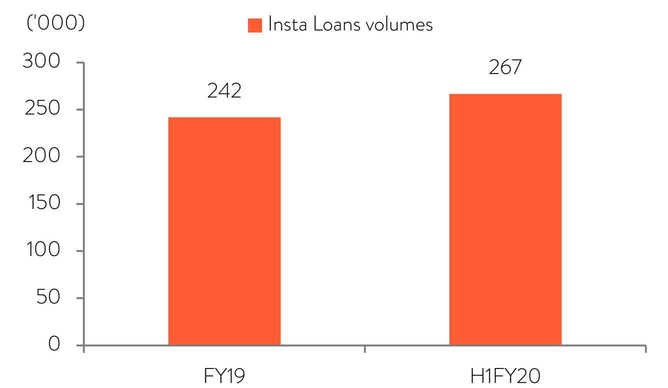
BAF made a strategic investment in Mobikwik in Q2FY18, enabling it to offer small-ticket, high velocity credit products. It also launched digitised EMI cards for existing and new wallet customers, decreasing issuance costs. In FY19, the company started a pilot project of "insta" pre-approved loans worth Rs 5,000 and Rs 10,000 to wallet customers. We believe this will create a pool of sticky, granular fee income as users can now conveniently fund their small-ticket purchases.

FIG 64 – DIGITISED EMI CARDS ADDING TO WALLET CUSTOMER VOLUMES



Source: Company, BOBCAPS Research

FIG 65 – SMALL INSTA LOANS TO RAISE CUSTOMER STICKINESS AND GROW GRANULAR FEE INCOME



Source: Company, BOBCAPS Research

Co-branded credit cards – large source of fee income

Again granular Fee Income + leveraging partner network and technology

As regulations do not permit BAF to offer standalone credit cards, it has a co-branded offering with RBL Bank for existing customers. Under this arrangement, BAF earns 100% of the sourcing fee. This book is now maturing and has a vintage of ~2.5 years.

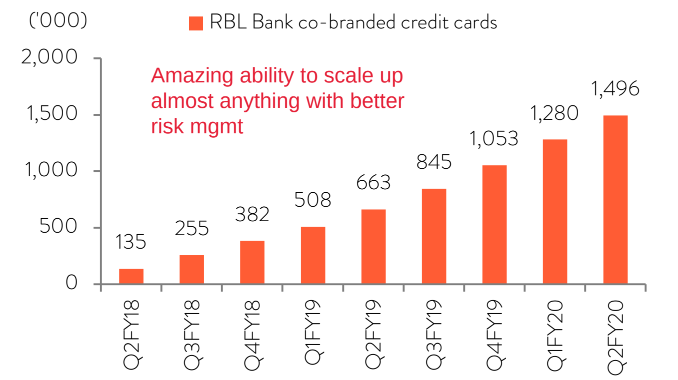
Getting Stronger day-by-day and behaving better on risk

BAF works closely with credit bureaus to understand how the portfolio behaves and consequently has credit losses lower than the top-4 credit card originators, as per management. The company has a run-rate of ~100,000 new card acquisitions per month and aims to be among the top-3 card issuers by FY24.

We believe risk-reward will be favourable for BAF-sourced RBL credit cards as these are targeted solely at vetted customers with a strong repayment history, wherein BAF only retains the fee income.

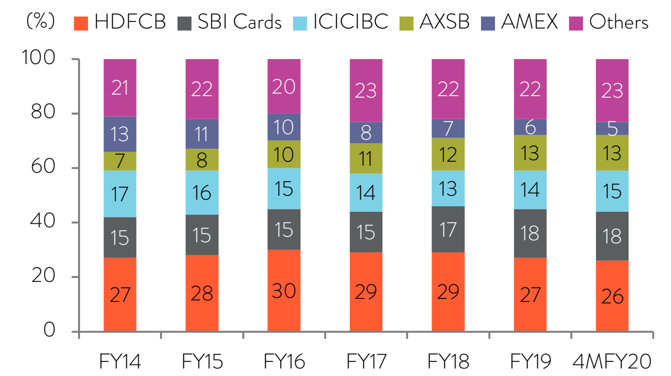
1300 Cr. IT Investment at work, Best customers Franchisee at work

FIG 66 – NUMBER OF CREDIT CARDS UP ~11X IN TWO YEARS



Source: Company, BOBCAPS Research

FIG 67 – TOP-5 CREDIT CARD ORIGINATORS HAVE ~80% MARKET SHARE



Source: Company, BOBCAPS Research

SME, commercial loans – sustainable scale builders

Also add to it now the BHFL which mgmt sees as important scale builder with low cost access to funds and delivering a ROE of 15% for long term

BAF derives ~40% of its business in the top-10 cities and anticipates higher risk here due to the migratory population and heightened competition from banks and fintech companies. SME financing (13% of consolidated AUM) and commercial lending (10%) offer high-volume, profitable and opportunistic credit plays with a wide footprint, mitigating the geographic concentration. Also, both portfolios are fairly granular, giving the company the flexibility to go slow on one segment or region, depending on risk parameters.

Adding Muscle to franchise

SME lending has doubled over Q1FY18 to FY19 to Rs 158bn after BAF hived off the secured lending business to Bajaj Housing (BHFL). Commercial lending has clocked a healthy 23% CAGR during FY17-FY19, though the company has gone slow in some segments during the present credit slowdown.

SME financing – judicious diversification

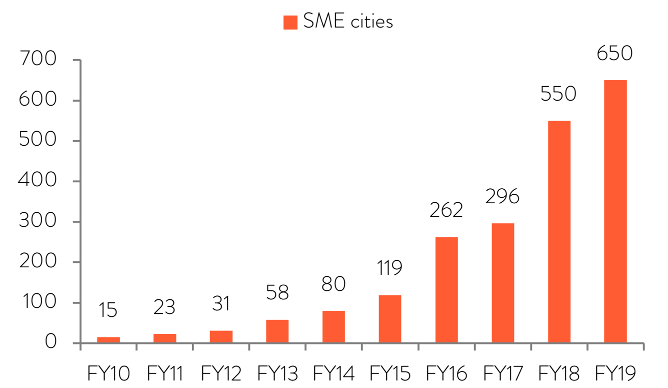
Offers business loans to SMEs and professional loans through unsecured lending

Doctors, Lawyers and CAs with established track record

BAF's longstanding strategy has been to focus on affluent SME customers with an average turnover of Rs 120mn, established financials and a robust borrowing track record. The SME lending business offers secured loans (average Rs 1mn ticket size) and unsecured loans (Rs 1.2mn) to customers, and has grown 2x to Rs 158bn over the past two years.

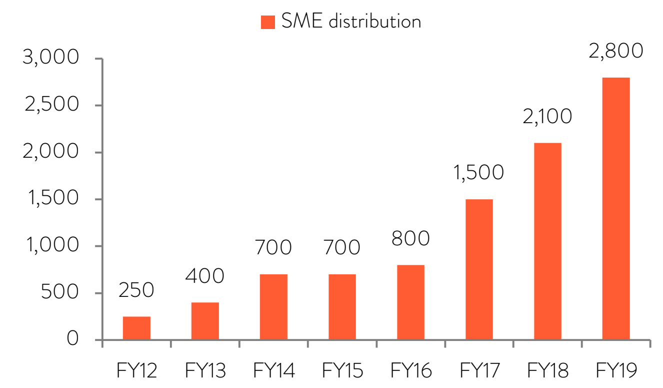
Till Jan'18, secured lending was through three product offerings: (a) loans against property (LAP), (b) lease rental discounting, and (c) home loans for the self-employed. Thereafter, incremental loan sourcing in these three categories as well as developer financing was taken over by mortgage arm Bajaj Housing Finance (BHFL). Unsecured lending is via two product offerings: (a) business loans to SMEs & to the self-employed, and (b) professional loans.

FIG 68 – RAPID SME BRANCH EXPANSION IN RECENT YEARS



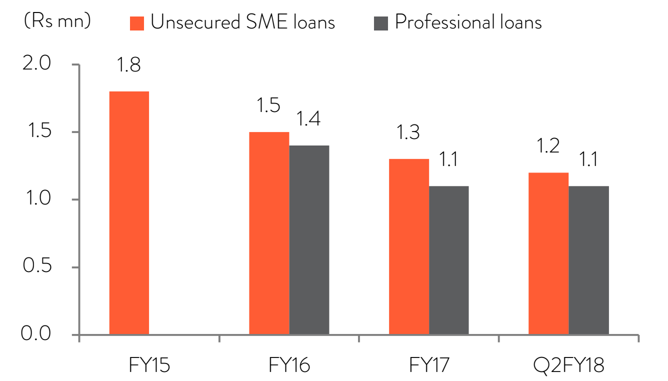
Source: Company, BOBCAPS Research

FIG 69 – DSA OUTREACH FOR SME LENDING UP 11X SINCE FY12



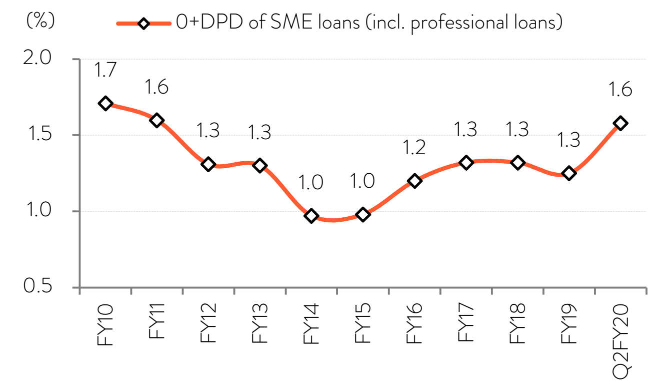
Source: Company, BOBCAPS Research

FIG 70 – INCREASING GRANULARITY IN TICKET SIZE



Source: Company, BOBCAPS Research

FIG 71 – DELINQUENCIES FOR SME LENDING INCHING UP, BUT STILL MANAGEABLE

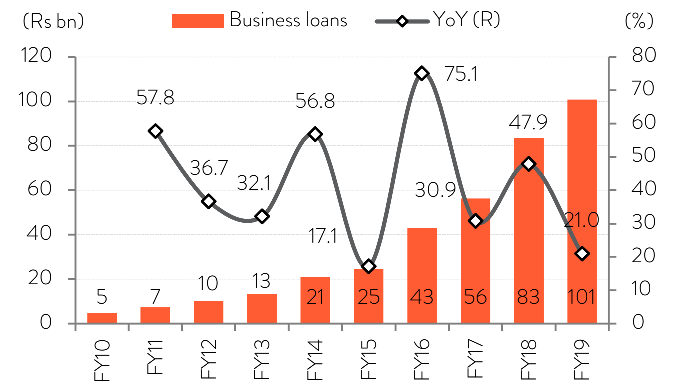


Source: Company, BOBCAPS Research

- **Business loans help spread portfolio concentration risk:** Business loan AUM has grown ~4x to Rs 101bn over FY15-FY19 as BAF expanded its SME lending footprint from 119 cities to 650 over this period. This segment helps diversify portfolio concentration risk beyond the intensely competitive top-40 markets and deliver a lower cost of loan acquisition.
- **Professional loans help ease macro risks with low opex:** BAF carved out professional loans targeted at chartered accountants, doctors and engineers as a separate business structure in Q4FY15. Segmental AUM has grown ~9x to Rs 53bn over FY15-FY19 aided by geographic expansion and analytics-

based credit outreach. Loans are directly disbursed to eligible customers and hence entail low cost of customer acquisition. This client segment is largely independent of macro events, limiting the probability of credit loss.

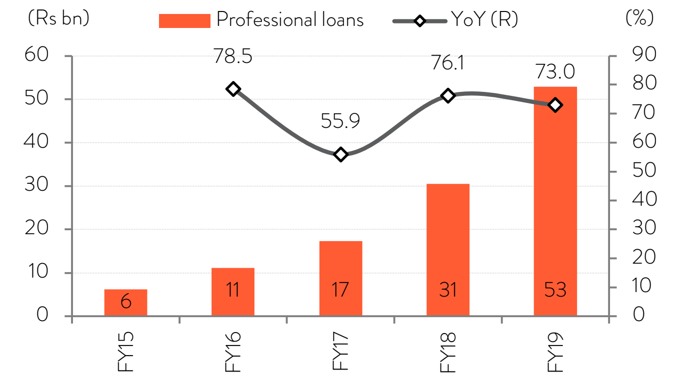
FIG 72 – BUSINESS LOANS HAVE GROWN 20X DURING FY10-FY19



Source: Company, BOBCAPS Research

FIG 73 – PROFESSIONAL LOANS GREW ~9X OVER FY15-FY19

Risk adjusted ability to scale up



Source: Company, BOBCAPS Research

Commercial financing – high growth, profitable business

Commercial loan offerings
(i) loan against securities (LAS)
(ii) financial institution group (FIG) lending
(iii) warehouse receipt financing
(iv) working and growth capital to auto component manufacturers
(v) loans to the light engineering industry
(vi) loans to specialty chemical industry verticals

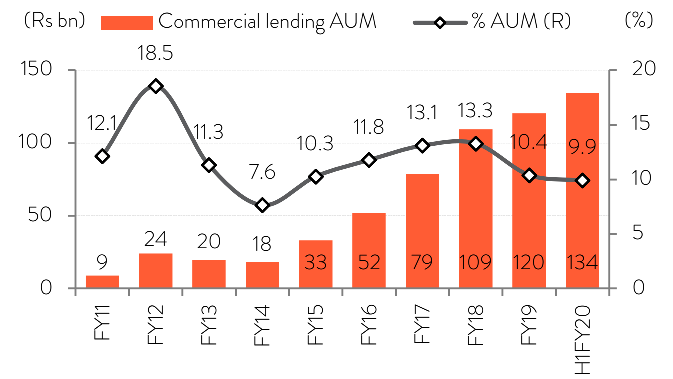
Source: Company, BOBCaps

Commercial lending AUM grew ~4x to Rs 120bn during FY15-FY19 and now forms ~10% of consolidated AUM. The product offerings are short-, medium- and long-term financing to mid-market corporates. BAF also offers structured collateralised products against marketable securities or mortgages.

The company ensures that commercial lending is an opportunistic, profitable business (average ~11% IRR) that avoids concentration risks. For instance, loans to auto-component manufacturers only have ~40% share from BJAUT vendors. BAF also decided to wind down its warehouse receipt financing business from Apr'19, attributing this to stress witnessed in the agrarian sector and the lack of a sustainable profit model.

Data driven AGILITY to scale down, no PSL norm of banks to lend to weaker section acts as a plus here

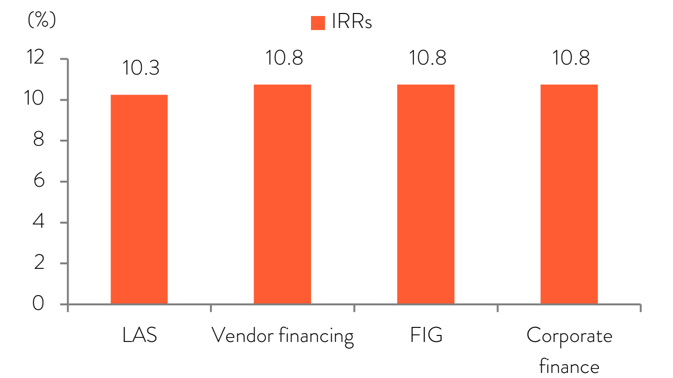
FIG 74 – COMMERCIAL LENDING GREW ~15X DURING FY10-H1FY20



Source: Company, BOBCAPS Research

FIG 75 – HEALTHY IRR ACROSS PRODUCT OFFERINGS

Only ones with healthy IRR stay



Source: Company, BOBCAPS Research

Rural financing to generate higher yields

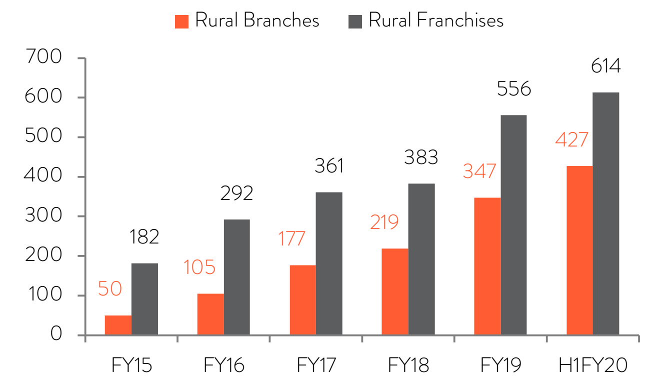
Rural lending forms 8% of consolidated AUM

BAF launched the rural lending business in FY14, offering consumer durable, lifestyle and personal loans, SME and gold loans, and fixed deposits. Rural lending has grown ~7x during FY16-FY19 to reach an AUM of Rs 92bn and now contributes 8% of consolidated AUM vs. 3% in FY15. Although consumer durable ticket sizes are 10% lower than urban branches, the yields are 100-150bps higher. This offsets the impact of high customer acquisition cost and credit losses.

Expanding hub-and-spoke model

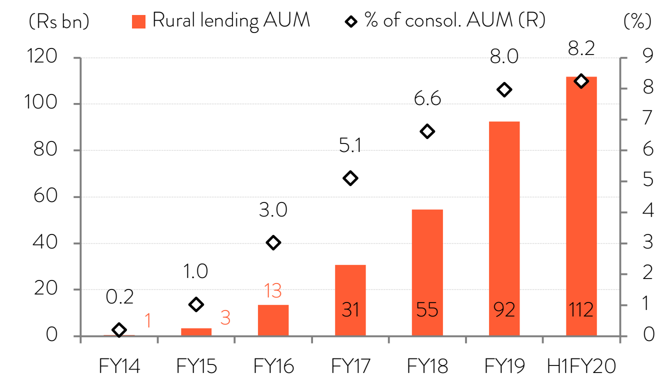
BAF uses a hub-and-spoke model to source customers. As of H1FY20, its rural business is spread in over 1,000 locations across 13 states and union territories in India through 16,400+ store relationships. Management expects to increase the rural presence to 2,500 locations in 4-5 years and extend its distribution reach to 16-17 states in a calibrated manner.

FIG 76 – RAPID GROWTH IN RURAL HUBS (LENDING BRANCHES) & SPOKES (FRANCHISES)



Source: Company, BOBCAPS Research

FIG 77 – RURAL LENDING HAS GROWN ~8X SINCE FY16

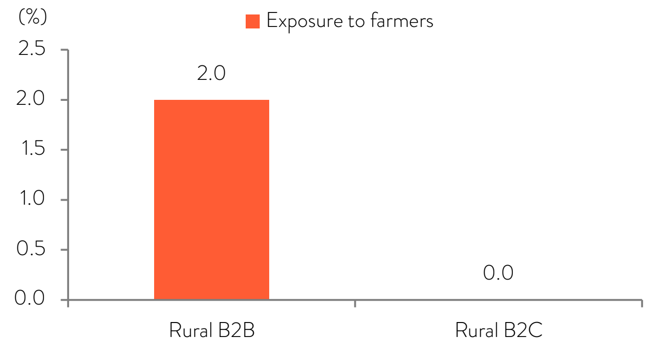


Source: Company, BOBCAPS Research

Prudent approach curbs delinquencies

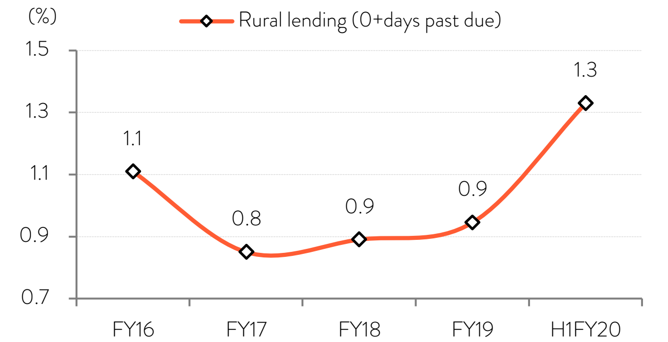
Management has prudently chosen to stay away from farmer loans while judiciously selecting rural locations to build its presence. Though the EMI bounce rates are higher, collection efficiency is better than in urban locations – reflected in benign delinquencies in the rural business (0+dpd 1.3% as of H1FY20).

FIG 78 – EXPOSURE TO FARMERS IS MINISCULE



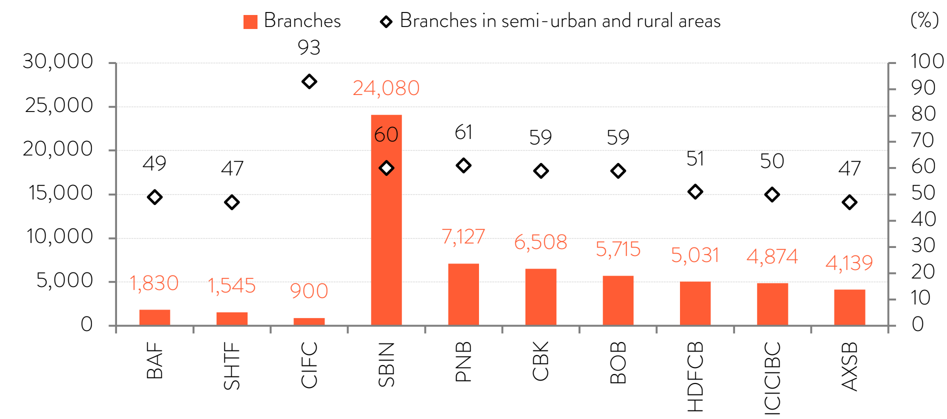
Source: Company, BOBCAPS Research

FIG 79 – DELINQUENCIES LOOK BENIGN



Source: Company, BOBCAPS Research

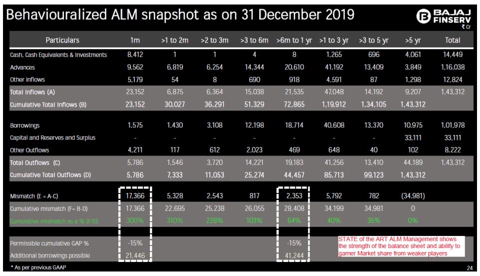
FIG 80 – PROPORTION OF SEMI-URBAN AND RURAL BRANCHES, FY19



Source: Company, BOBCAPS Research

Judicious borrowing approach to support margins

+ve ALM across 1M- 5Y



Behaviouralized ALM snapshot as on 31 December 2019

₹ Cr

Particulars	1m	>1 to 2m	>2 to 3m	>3 to 6m	>6m to 1 yr	>1 to 3 yr	>3 to 5 yr	>5 yr	Total
Cash, Cash Equivalents & Investments	8,412	1	1	4	8	1,265	696	4,061	14,449
Advances	9,562	6,819	6,254	14,344	20,610	41,192	13,409	3,849	1,16,038
Other Inflows	5,179	54	8	690	918	4,591	87	1,298	12,824
Total Inflows (A)	23,152	6,875	6,364	15,038	21,535	47,048	14,192	9,207	1,43,312
Cumulative Total Inflows (B)	23,152	30,027	36,291	51,329	72,865	1,19,912	1,34,105	1,43,312	
Borrowings	1,575	1,430	3,108	12,198	18,714	40,608	13,370	10,975	1,01,978
Capital and Reserves and Surplus	-	-	-	-	-	-	-	33,111	33,111
Other Outflows	4,211	117	612	2,023	469	648	40	102	8,222
Total Outflows (C)	5,786	1,546	3,720	14,221	19,183	41,256	13,410	44,189	1,43,312
Cumulative Total Outflows (D)	5,786	7,333	11,053	25,274	44,457	85,713	99,123	1,43,312	
Mismatch (E = A-C)	17,366	5,328	2,543	817	2,353	5,792	782	(34,981)	
Cumulative mismatch (F= B-D)	17,366	22,695	25,238	26,055	28,408	34,199	34,981	0	
Cumulative mismatch as a % (F/D)	300%	310%	228%	103%	64%	40%	35%	0%	
Permissible cumulative GAP %	-15%				-15%				
Additional borrowings possible	21,446				41,244				

STATE of the ART ALM Management shows the strength of the balance sheet and ability to garner Market share from weaker players

* As per previous GAAP

24

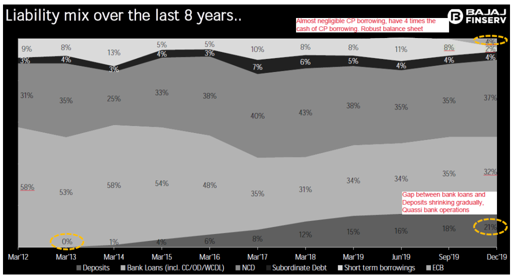
Stable credit rating, positive asset-liability mismatch (ALM) in the less than one-year bucket and a favourable borrowing mix have helped cut borrowing cost by ~120bps over FY16-FY19. This in turn has kept spreads stable at 8.5-9%. The rural financing foray also augurs well for margins as yields are 100-150bps higher than urban branches. We expect spreads to remain at ~9% levels during FY19-FY22 backed by benign debt market pricing of BAF's papers and the company's ability to increase its deposit profile.

Higher fixed-rate borrowing led to steady spreads

Backed with increasing ratio of Deposits to borrowings to 17%

BAF has incrementally replaced its debt mix with fixed-rate instruments, taking advantage of the falling rate environment and its stable credit rating profile over FY16-FY19. Cost of borrowings has declined ~120bps over FY16-FY19. With an incremental focus on financing high-yield, high-churn digital and lifestyle products, the back-book repricing has been faster than liability repricing – this has manifested in stable-to-improving spreads over FY16-FY19, ranging from 8.5-9.0%.

Cost of borrowings has fallen ~120bps over FY16-FY19



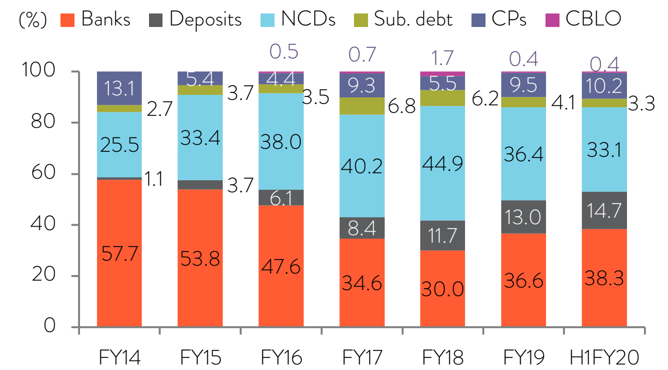
SAme model they are deploying in deposits now to aloof them from interest rate commitments by introducing SDP, wherein customers can park excess funds at real time interest rates without any penal fee as in a RD with a bank (in case of missing installment) garnering deposits and data and customer insights for cross sell all at same time

FIG 81 – CREDIT RATINGS STABLE THROUGH FY16-FY19

	FY16	FY17	FY18	FY19
NCD	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Sub. Debt	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
LT Bank Rating	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
ST Bank Rating	IND A1+	IND A1+	IND A1+	IND A1+

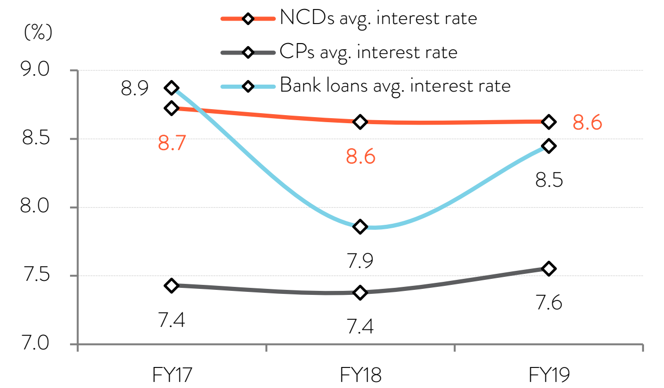
Source: India Ratings, Company, BOBCAPS Research

FIG 82 – FUNDING MIX MOVING TOWARDS FIXED RATE INSTRUMENTS



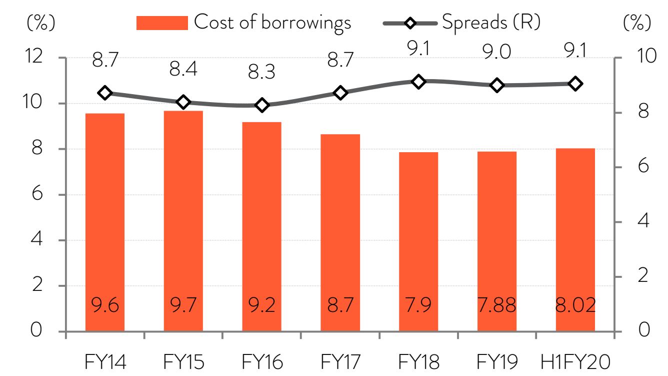
Source: Company, BOBCAPS Research

FIG 83 – PRICING OF DEBT THROUGH FY17-FY19 HAS BEEN LARGELY STABLE…



Source: Company, BOBCAPS Research

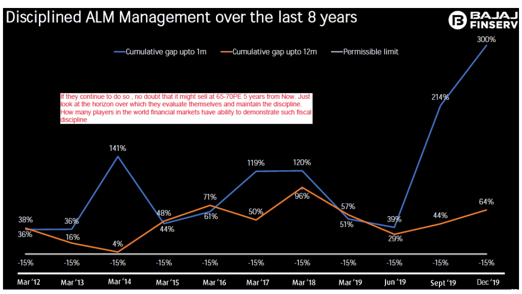
FIG 84 – …LEADING TO LOWER COST OF BORROWINGS AND HIGHER SPREADS



Source: Company, BOBCAPS Research

Astute asset-liability management

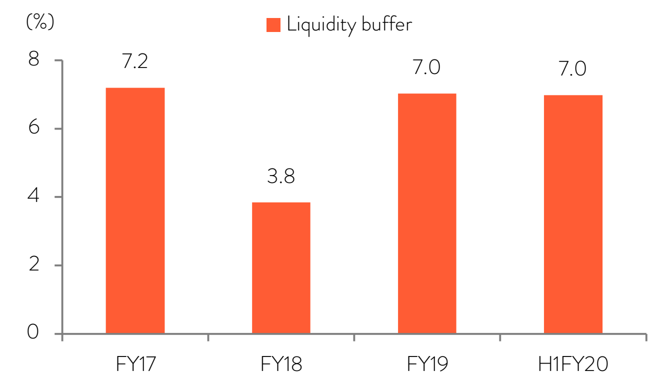
Liquidity buffer of 7% helped manage liquidity risk



BAF has a prudent asset-liability management (ALM) strategy of raising long-term debt and maintaining a judicious mix of borrowings between banks, money markets and deposits. The company maintained a liquidity buffer of 7% in H1FY20, which helped it to manage liquidity risk. Consequently, the increase in cost of funds over FY19 was only 14bps on a calculated basis. We define liquidity buffer as cash & equivalents plus investments (excl. investment in subsidiaries) divided by total assets.

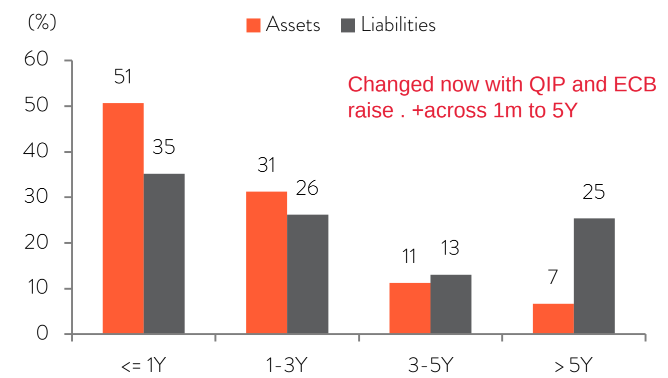
BAF's assets maturing in H2FY20 are worth Rs 214bn, more than its liabilities maturing during the same period, thus exhibiting a positive gap in ALM for the next one year. We believe this will lead to stable-to-improving spreads and return ratios in FY20, with spreads projected to hold at ~9% levels over FY19-FY22.

FIG 85 – LIQUIDITY BUFFER OF 7% IN FY19



Source: Company, BOBCAPS Research

FIG 86 – POSITIVE MISMATCH IN ONE-YEAR MATURITY BUCKET (AS OF H1FY20)



Changed now with QIP and ECB raise . +across 1m to 5Y

Source: Company, BOBCAPS Research

Mortgage business to gain scale in medium term

Got it. So, at a fundamental level we as a company take all kinds of risk that is our business we are in the business of risk management Kuntal we do not take liquidity risk which means in general we run liability book longer then our asset book and it is by design we run that. But we also run reasonably a robust alco process which ensures that we are able to see things early and try and keep course correcting based on our view. So, as I earlier said, we are already seeing

And we run a longer maturity book, liability maturity book then, asset maturity book turning around because we have the advantage to answer your question specifically we have the advantage that we have five months loans to actually three months loans in but that is a small portfolio let us say five months loans to 12 year loans but 12 years on a behavioral as maturity you could say that they essentially play out in four years - five years because we deal in affluent customers and super affluent customer the large part of the book will not exceed three years - three and half years including the mortgage business. So, we play within that, turnaround the shift turnaround can happen in eight months to nine months' time reasonably between seven months and nine months' time to start to represent in the cost of funds so, that

Post hive-off into a separate entity in FY18, Bajaj Housing Finance (BHFL) will have (a) access to a lower cost of funds, (b) a dedicated team to focus on the large Rs 20tn market (which is likely to expand at 15% p.a.), and (c) the opportunity to lever the business 9-10x. We expect BHFL to achieve a book size of Rs 1.2tn (CAGR of 22%) and market share of 3% by FY24.

will be still very small in 2024, decade long opportunity

Return ratios set to improve

Can be a great lever seeing the sorry state of underwriting and fitness reports by reputed regulators. Consistently raised by Uday Kotak

BAF launched the mortgage product in FY09 with LAP products. In subsequent years, it entered into home loans for self-employed and salaried customers, lease rental discounting loans and construction financing. BAF now also offers fee-based products such as 'property fitness reports' and 'property search'.

In FY16, the company changed its home loan origination strategy from a DSA basis to in-house origination. This has resulted in lower cost of customer acquisition, higher retention, and better credit quality. Management expects BHFL to deliver 14-15% ROE in the near term. With scale, operating leverage will also play out in this business (though a few years away), thereby meaningfully contributing to return ratios.

Strong growth outlook

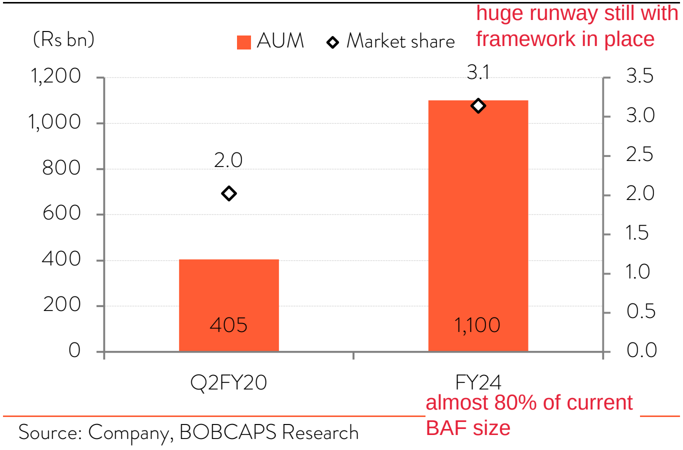
89% of HL book skewed towards salaried individuals and 65% of total book towards home loans

Average ticket size of 40 Lacs with 70% LTV pretty much insulates from realty risks, as these assets are fast moving in slowdown. Avg. borrower age is also 39 years with loan tenure of 18 yrs < avg. life expectancy covering loan pretty much

Atul Jain, who had set up the successful rural lending business, heads BHFL. As of H1FY20, mortgages contribute 30% of BAF's consolidated AUM, which we estimate will grow to 35% by FY24 on a conservative basis. In-house loan sourcing, cross-sell opportunity to existing customers (who have ~Rs 5tn of mortgages as per management) and popular ticket-size loans of Rs 3.5mn-4mn will act as key growth drivers for BHFL in the near-to-medium term.

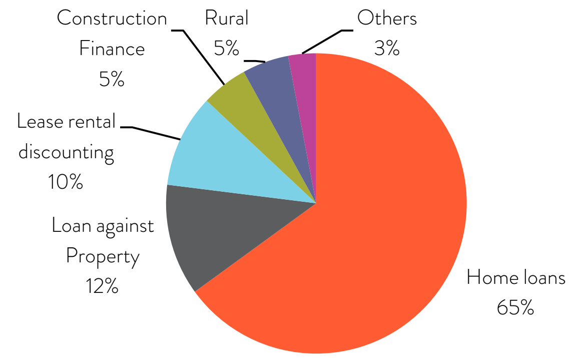
LAP LTV is 46% backed by collateral

FIG 87 – ~3% MARKET SHARE BY FY24 DOES NOT SEEM A BIG ASK FOR BHFL



Source: Company, BOBCAPS Research

FIG 88 – AUM SPLIT, H1FY20



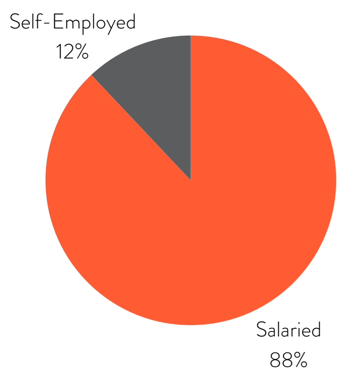
Source: Company, BOBCAPS Research

FIG 89 – BHFL PRODUCT LANDSCAPE AS OF H1FY20

	HL	LAP	LRD	CF
Avg. ticket size (Rs mn)	3.9	2.8	250	200
Yield (%)	9.5	11.5	NA	12
LTV (%)	70	~50	NA	NA
Locations	Top-40	Top-30	Top-8	Top-8

Source: Company, BOBCAPS Research

FIG 90 – CLEAR FOCUS ON SALARIED CUSTOMERS



Source: Company, BOBCAPS Research

BFL is not a NBFC which simply studies the market, creates the categories, allocates budgets and monitors the collections. Instead it is a live and proactive mechanism which continually tends to evolve and adjust its allocations, categories, diversifications and non-continuance in non-performing categories along the period. WE have at times in past seen it cutting its exposure consciously in certain categories e.g. LAP against high value real estates in demonetization period, capping the per client ticket size or even selling out stressed categories loan etc.

Its approach is more data driven and governed by credit performance rather than by mere expectations and planning. They have at times even for sacrificing growth opted out of certain high-risk portfolios to ensure longevity of returns and growth. This is the reason even in tougher times it is confident of higher collection and virtually no impairment to their collections ability.

Sunil Trirumalay: Right. And so that mean that you are confident that you know whatever end customer base you are not really worried about in all credit rating at this point?

Rajeev Jain: No. To make a point, I am guided by data. Data changes we will change. As I said earlier, difficult to make assumptions at this point of time on good and bad because we run portfolios on an active basis, we pull back and push forward on an active basis. So in a way on 9th of November I do not have much to do because every month we look at the portfolios as a team guided by data take decision as a team so, not driven by event alone.

Sunil Trirumalay: Okay, helpful. Also wanted some clarification, so when RBI came up with the allowance that for 60 days of non-payment and you cannot, may not consider as an NPA does it matter at all to you I mean, if I look at the two-wheeler business on…

Rajeev Jain: 92% of the portfolio, no; in the 8% of the portfolio we may take a decision that is only by end of December. In 92% reasonable clear the answer is no, we are not going to use it. In 8% of the

Financial review

Expect 27% AUM CAGR over FY19-FY22

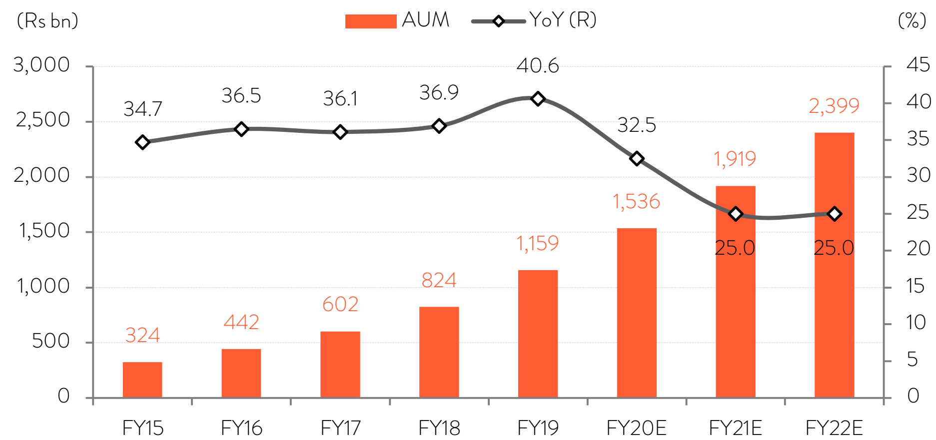
Technology + Data driven + Mgmt. focus + fiscal discipline led throughput

We expect higher finance penetration across consumer products coupled with geographical expansion to drive value and volume growth for BAF's consumer financing division. Further, technology-led throughput should help the business scale up rapidly, with scorecard-based decision-making now possible within minutes.

Commercial and SME lending offer both secured and unsecured credit products, which can be scaled up or down depending on risk metrics for end users and regions. Rural financing offers a cushion against any renegotiations by OEMs on loan subvention schemes, as yields are 100-150bps higher than urban areas. Lastly, mortgages offer the opportunity to build scale, led by in-house sourcing and favourable ticket size. Given these factors we forecast a 27% AUM CAGR for BAF during FY19-FY22.

At a fundamental level, we make changes in the way we conduct and run our business every month. We have a segmentation view. Other than that, we are driven by data across granular portfolio reviews which fundamentally determine, and we use a scalpel rather than a cleaver. Rather than a cleaver, we use a scalpel. That ensures that business does not get impacted and which means momentum does not get impacted and we take out risk. I don't have a structural view on this could go wrong. Structural view can be areas like leverage, as a previous response that I was giving to the question. That we take up separately because that is more horizontal in nature. If there we find any issue, then we go out and act on that basis.

FIG 91 – WE EXPECT ~27% CAGR IN AUM OVER FY19-FY22E



Source: Company, BOBCAPS Research

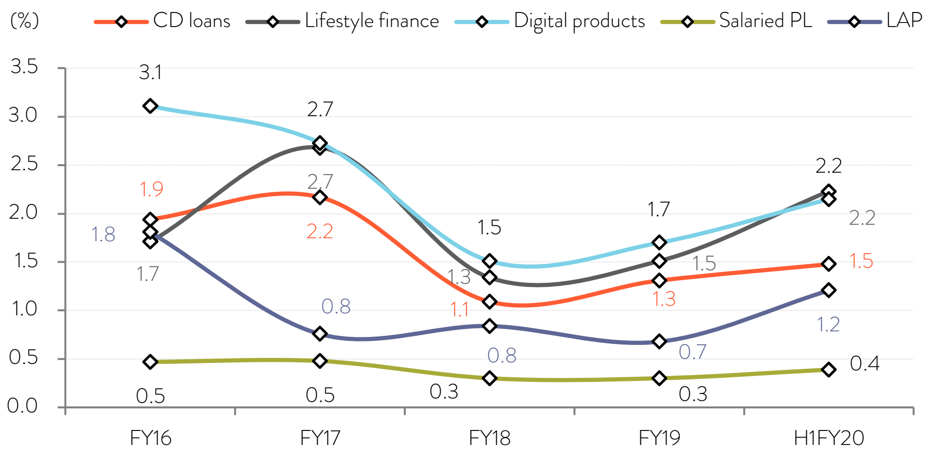
Out of 20000 people, Approximately 4500 work in collections across the country, you have to remember one thing that only 8%, 9% default, there will always be more people in business because one is to do work on 8% and another is to work on 100% that is point number one. Point number two as I said to be specific it is 4500 people. Point number three, we do track as a company how many days we take to collect from the clients who default, which is 8%, 9%. In general, if i take last five, six quarter view, once the demonetisation washed away in June 2017 that number has remained steady between 15 and 16 days we used to collect on an average every month, it is an internal metric we track every month just to give you texture. Third order point, we fundamentally have very rigorous capacity across collections, whether it is done through call centers or through physical or through agencies, it is sophisticated rigorously disciplined and followed through. You get that right with underlying metric being detailed into it unless and until demonetization like event happens. Fourth order point, five years ago only 5% of our clients paid through digital, today anywhere between 21% to 23% of our clients pay through digital. That has ensured that we can continue to manage growth without adding people correspondingly in a linear manner and we want to take that 21%, 23% number, in a five year horizon, to anywhere around between 40% and 45% for two reasons, it is better for the customers and it gives us the suspension, which is required to continue to grow the business and third it would bring down cost dramatically.

Asset quality to remain healthy

BAF's credit costs have been range-bound at 130-160bps over the past seven years, thus driving healthy ROE of 22%+. Net slippages ratio (with a four-quarter lag) has averaged at ~200bps over the last 10 quarters, reflecting the efficacy of collections. Strict monitoring of asset quality metrics, a diversified product suite that allows for flexibility in loan exposure, and use of technology & data analytics for prudent product positioning lowers credit loss probability. We expect asset quality to remain benign, with credit cost (incl. Karvy exposure) of ~200bps over FY20-FY22 vs. the average of ~230bps during FY10-FY19.

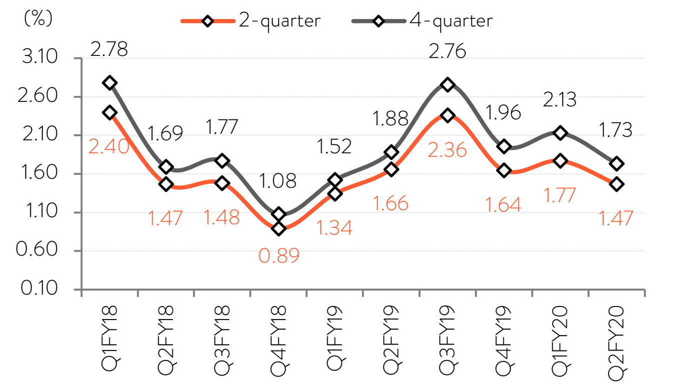
Yes. Kuntal, Fundamentally, in the AF business, when we repossess an asset, in general, over the last 13 years, our experience is we realized between 40% and 45% of the value of the asset, okay? Irrespective, actually, of whether it is an entry-level buy or a premium buy. So, the numbers is a function of what the repossessed stock is and what is a sale. So that is why the numbers remain a little, a little volatile in a corridor of 55% to 60%. Payments bank are not allowed to lend. The payments bank are virtually only debit banks, there is no credit. So, it is not allowed at all. Logically, I do not know then how did somebody take a payment bank and believe that they can build a business, but that is for those who opted to apply for a payments bank and become one. On IL&FS. We are working closely with the management; the RFP was issued to sell the buildings. They have received 8 to 10 bids. They have given time till early February to open the bids, and the process is on. We have a Rs. 60 Crores provision on the account. We have Rs.30 Crores lying in the escrow as well and the account is significantly over collateralized. Even at the rate the bids are received, we should be in the money. Having said that, in the last 10 days, if you are tracking, we have filed the affidavit against the NCLT distribution. So, there is some legal noise there. We are tracking that closely, is all I would say. Tanglin, from whatever we hear from public domain and working with a company, we do believe strongly that our account could get resolved in the next 30 days. We have taken a provision in the current quarter just as a matter of prudence rather than anything else. Karvy, we will draw a line. I have said in the investor deck, we have taken Rs.85 Crores exposure, we will draw either way, the company has demonstrated its intent to pay us back and has given us a security. The value of the security is a function of who the buyer is. They are looking to sell. We think next 60 days are critical on the account and we would have drawn a line under it by March 31. Does that answer the three questions?

FIG 92 – DATA ANALYTICS EVIDENT IN BENIGN 0+ DPD ACROSS SEGMENTS



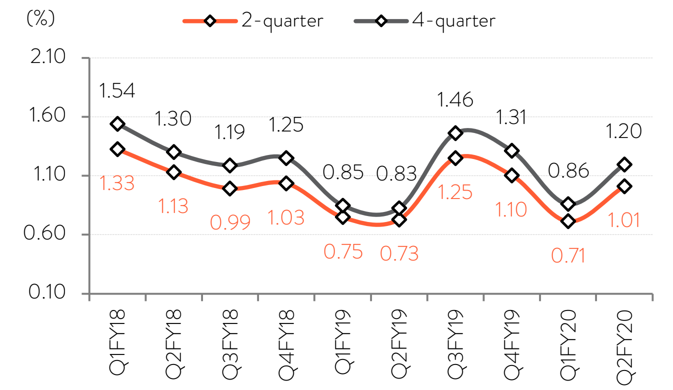
Source: Company, BOBCAPS Research

FIG 93 – NET SLIPPAGES LOW…



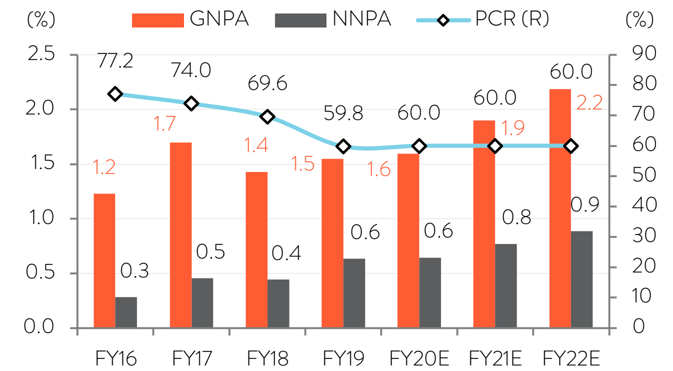
Source: Company, BOBCAPS Research

FIG 94 – …AND LOW WRITE-OFFS (WITH LAG EFFECT) SHOW THE EFFICACY OF COLLECTIONS



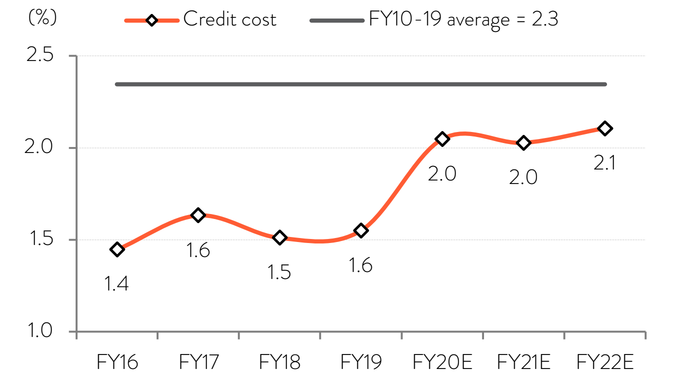
Source: Company, BOBCAPS Research

FIG 95 – WE EXPECT ASSET QUALITY TO REMAIN BENIGN



Source: Company, BOBCAPS Research

FIG 96 – DESPITE BEING CONSERVATIVE ON CREDIT COST, IT IS STILL BELOW THE 10Y AVERAGE



Source: Company, BOBCAPS Research

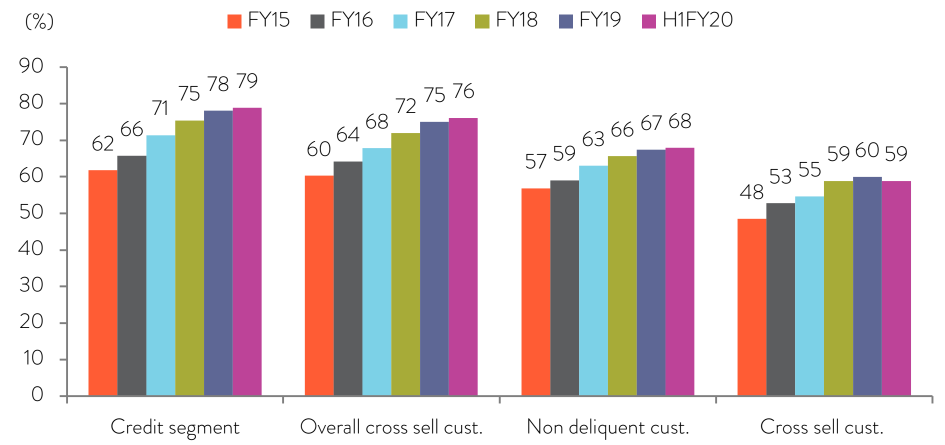
Low opex and credit cost to drive earnings

BAF caters to ~40mn customers, which we expect will nearly double to 75mn over 3-4 years. Leveraging this large customer base, the company deploys in-depth data analytics, bureau scrubs and database provider alliances to cross-sell personal loans, EMI cards and co-branded credit cards. The company's cross-sell franchise earns high fee income at negligible operating cost, with limited credit loss (~0.33% that of new customers).

STRONGLY AGREE

We think the street is underestimating BAF's cross-sell franchise and thereby fee income potential. We highlight our expectations of non-linear fee income growth vs. AUM growth, which we believe will largely offset operating expense and allow a large part of NII (~30% CAGR FY19-FY22) to flow into operating profit (~33% CAGR).

FIG 97 – CROSS-SELL OPPORTUNITIES AUGMENTS OPERATING LEVERAGE



Source: Company, BOBCAPS Research

MS AZURE

Outsource the mundane and focus on the value drivers

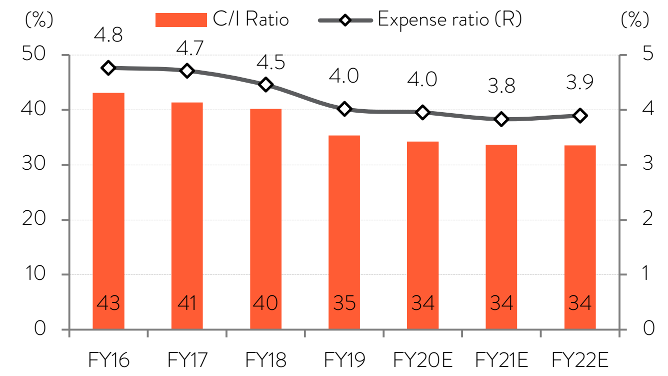
About 70% of BAF's technology runs on cloud infrastructure, POS staff are temporary, the mid- and back-office are outsourced to BPOs, and a dedicated financial planning analysis (FPA) wing works to rein in costs. The FPA team has a target of achieving cost savings of Rs 2.5bn in FY20. Given the large technology investments over the years, we are optimistic of a further decline in Cost/Income ratio from 35% currently to 34% by FY22.

Can go even lower than tat due to Op. lev

We expect operating leverage to play out as the business has attained scale in the top-10 cities. Technology-led throughput and increasing reliance on existing customers for new loan originations will have a salutary effect on both opex and credit costs. Though we forecast a ~150bps decline in C/I ratio, we think this metric holds the potential to surprise positively.

STRONGLY AGREE

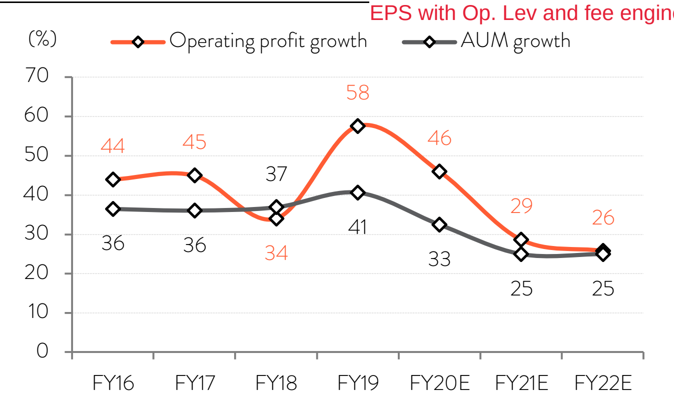
FIG 98 – WE BELIEVE OPEX CAN FALL FURTHER DUE TO TECHNOLOGY INVESTMENTS OVER THE YEARS



Source: Company, BOBCAPS Research

FIG 99 – OPERATING PROFIT GROWTH TO BE IN SYNC WITH AUM GROWTH

Even more than AUM will flow to EPS with Op. Lev and fee engines

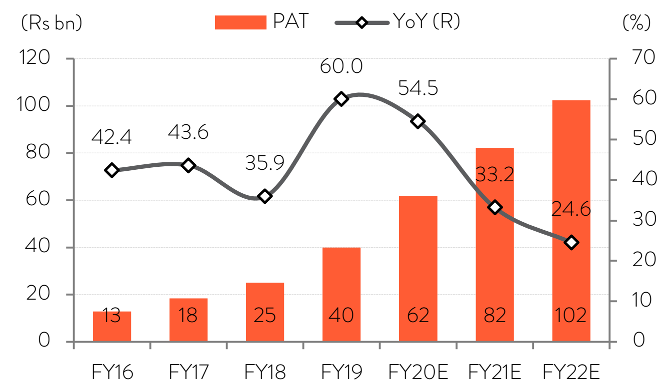


Source: Company, BOBCAPS Research

It will surprise on this also, this is conservative

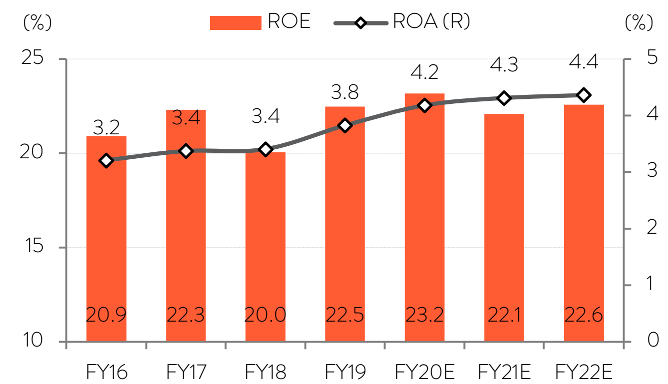
With credit cost of ~200bps expected during FY19-FY22, we forecast a 37% earnings CAGR for the company. Given the non-linearity of fee income, we argue for a case of ROE improving at current levels (i.e. 5-5.5x) of leverage.

FIG 100 – WE EXPECT PAT CAGR OF 37% IN FY19-FY22E



Source: Company, BOBCAPS Research

FIG 101 – BAF REMAINS A LOW-LEVERED PLAY



Source: Company, BOBCAPS Research

Management profile

FIG 102 – BAF'S MANAGEMENT

Name	Profile
Nanoo Pamnani Vice-Chairman	Nanoo Pamnani was earlier associated with Citibank, where he began his career, from 1967 to 2006 and held various leadership positions. Prior to joining BAF, he was the Director for Citibank, N.A., Asia Pacific Group, based in Singapore. He has over 42 years of experience in the banking, auto and financial services sectors. He holds a Bachelor's degree in Arts (Honors) and a Bachelor's degree in Economics from London School of Economics.
Rajeev Jain Managing Director	Rajeev Jain was earlier associated with American International Group (AIG) as Deputy CEO of its Consumer Finance business. Before that, he was with American Express for over eight years and ended his stint as Head of Personal and Small Business Lending in India. He is a Management graduate from T A Pai Management Institute, Manipal, with a Bachelor's degree in Commerce.
Atul Jain CEO, BHFL	Atul Jain holds an MBA in Finance and has over 19 years of work experience in the financial sector. He started his career in investment banking and thereafter practiced as an independent financial consultant, engaged in debt syndication and capital structuring. He has been associated with BAF for nine years and has been the key driver in the collections vertical for the last five years.
Sandeep Jain Chief Financial Officer	Sandeep Jain joined BAF in 2008 and has been an integral part of the company's growth and evolution journey from a mono-line auto finance company to a diversified financial services business. He joined BAF in the management accounting unit and since then has served various roles in the company that include FP&A, Strategic Planning, Executive Assistant to CEO, Investor Engagement and Head of Management accounting unit. Sandeep is a rank holder Chartered Accountant from ICAI with a Bachelor's degree in Commerce.
Anup Saha President – Consumer Business	Anup Saha has worked with ICICI Bank for 14 years in different roles, the last being Senior General Manager and Group Product Head – Retail Home Loan, Vehicle Loans, Developer Funding, Retail and Rural Collections. Anup has also served on the board of ICICI Bank HFC and TU CIBIL and has spearheaded the bank's sales CRM and Big Data transformation projects. Prior to ICICI Bank, Anup worked with GE Capital International Services (GECIS). An alumnus of IIT Kharagpur and IIM Lucknow, Anup brings with him more than 24 years of diverse management experience.
Deepak Bagati Executive Vice President & Group Business Head – SME	Deepak Bagati is responsible for managing and growing SME business verticals such as Business Loans, Loans against Property, Professional Business, Self-employed Home Loans, Developer Finance, and Relationship Management Business. He has extensive work experience in the services industry, spread across printing solutions, reprographics, rating firms, supply chain management and lending. He was associated with Yes Bank as Zonal Head for the unsecured business before joining BAF. He has also worked with HDFC Bank, ONICRA, Mahindra & Mahindra and Modi Xerox. He is an Engineering graduate with a degree in Industrial Electronics.
Ashish Panchal President – Rural, Insurance & Liabilities and Chief of Staff	Ashish Panchal is responsible for managing and growing the Rural Lending and Insurance business and as Chief of Staff, is also responsible for driving corporate strategy, as well as managing retail and corporate liabilities. He has rich and diverse work experience across manufacturing, FMCG and retail banking. Within retail banking, he has worked with marquee international firms such as Citi, SCB and Barclays across a range of functions, at times in start-up situations. Previous to joining BAF, Ashish was with Barclays Bank as the Head of Acquisition and Portfolio Actions, Credit Cards. Ashish is a Mechanical Engineering graduate from Walchand Institute of Technology and has completed his Management education from the Jamnalal Bajaj Institute of Management Studies.

Peer comparison

FIG 103 – AUM AND PAT COMPARISON

Company	FY19 AUM (Rs bn)	FY15-19 AUM CAGR (%)	FY19 PAT (Rs bn)	FY15-19 PAT CAGR (%)	FY19 net worth (Rs bn)
Bajaj Finance	1,159	38	39.9	44	197
Shriram Transport Finance	1,045	15	25.6	20	158
Mahindra Finance	671	16	15.6	17	104
Cholamandalam Investment & Fin	543	21	11.9	29	62
Aditya Birla Finance	517	31	8.7	34	73
Shriram City Union Finance	296	15	10.0	15	63
Muthoot Finance	349	14	19.7	26	98

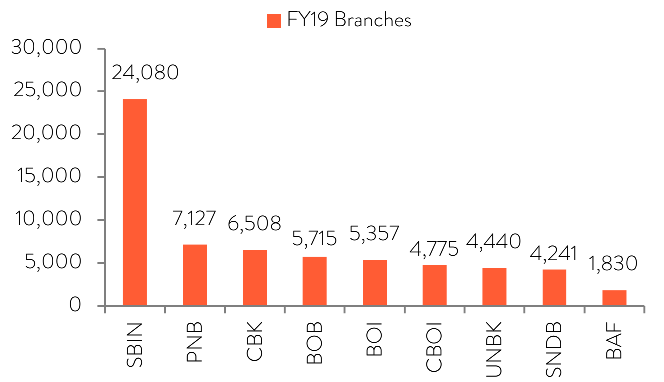
Source: Company, BOBCAPS Research

FIG 104 – DUPONT ANALYSIS AS OF FY19

Company	Yield on advances	Cost of funds	NIMs	Non-interest income	Opex	Credit cost	RoA	Leverage	RoE
Bajaj Finance	16.9	7.9	10.0	2.0	4.0	1.4	3.8	5.9	22.5
Shriram Transport Finance	16.0	8.8	7.8	0.0	1.9	2.4	2.5	6.8	17.0
Mahindra Finance	16.0	8.9	8.5	0.1	3.1	1.1	2.6	6.1	15.8
Cholamandalam Investment & Fin	13.4	8.1	5.9	1.3	2.5	0.6	2.4	8.8	21.1
Aditya Birla Finance	11.8	8.2	4.9	0.5	1.7	0.4	1.8	7.1	12.9
Shriram City Union Finance	21.5	9.0	12.7	0.4	5.6	2.6	3.5	4.8	16.9
Muthoot Finance	21.0	9.3	14.0	0.4	4.5	0.1	5.7	3.9	22.4

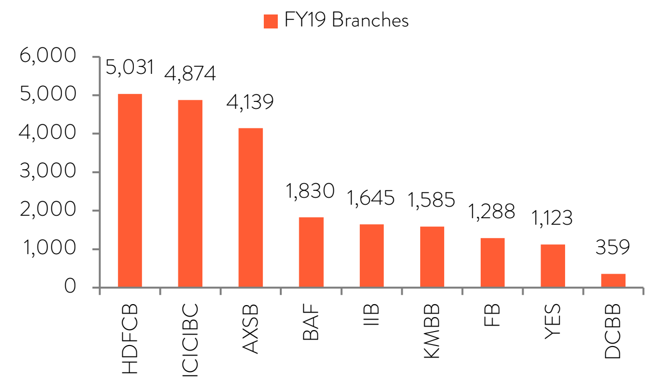
Source: Company, BOBCAPS Research

FIG 105 – BRANCH COMPARISON WITH PSU BANKS…



Source: Company, BOBCAPS Research

FIG 106 – …AND PRIVATE BANKS



Source: Company, BOBCAPS Research

Valuation methodology

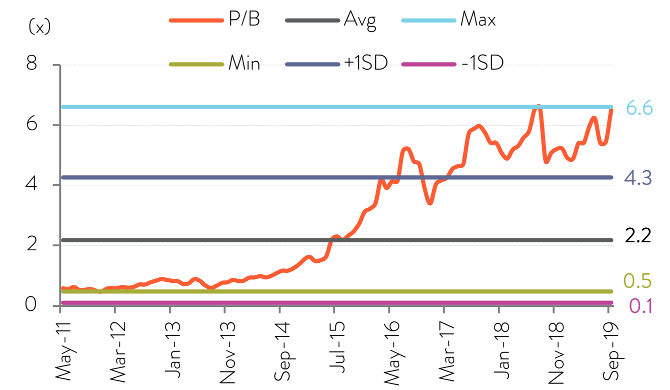
BAF is trading at 7.4x/6.1x FY20E/FY21E BV for an estimated ROE of 23.2%/ 22.1%. We value the stock based on a residual income model that yields a Mar'21 target price of Rs 5,000. Our assumptions include: cost of equity of 12.8%, risk-free rate of 7.75%, risk premium of 5%, and long-term growth rate of 5%. Initiate coverage with BUY.

FIG 107 – VALUATION ASSUMPTIONS

Valuations assumptions	
Cost of Equity (%)	12.8
Risk-free rate (%)	7.75
Risk premium (%)	5.0
Long-term growth rate (%)	5.0

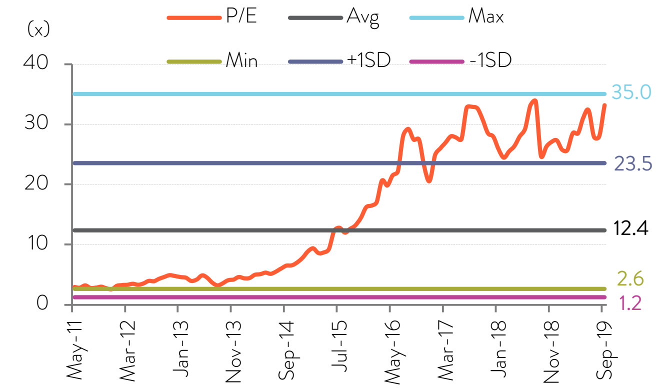
Source: BOBCAPS Research

FIG 108 – ONE YEAR FORWARD P/B



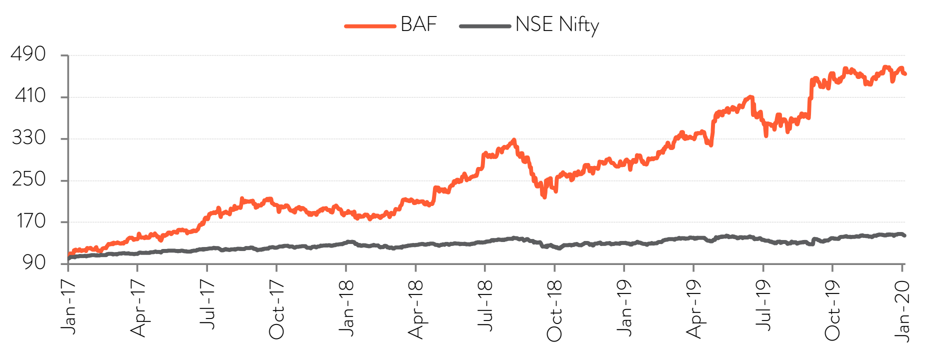
Source: Bloomberg, BOBCAPS Research

FIG 109 – ONE YEAR FORWARD P/E



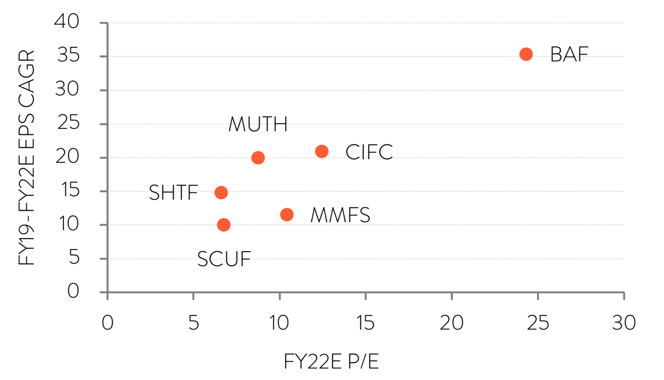
Source: Bloomberg, BOBCAPS Research

FIG 110 – RELATIVE STOCK PERFORMANCE



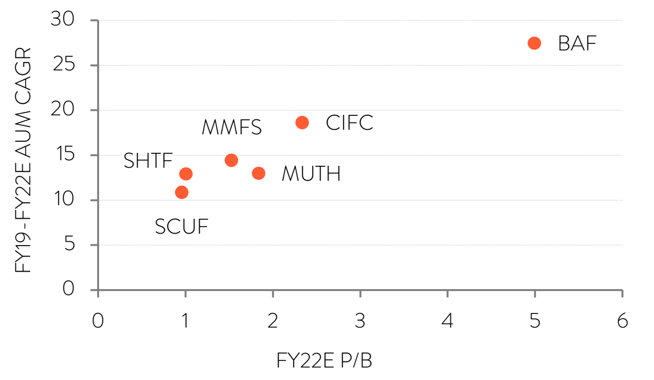
Source: NSE

FIG 111 – BAF LEADS SELECT PEERS ON P/E...



Source: Bloomberg, BOBCAPS Research | Note: Bloomberg consensus data for SHTF, MMFS, CIFC and SCUF | Price as of 23 Jan 2020

FIG 112 – ...AND P/B VALUATION METRICS



Source: Bloomberg, BOBCAPS Research | Note: Bloomberg consensus data for SHTF, MMFS, CIFC and SCUF | Price as of 23 Jan 2020

Key risks

- Moving into smaller geographic locations could expose BAF to a high proportion of new-to-credit customers, who may not have disciplined banking behaviour.
- Risk of renegotiations by OEMs could hamper subvention income and thereby the high IRRs enjoyed in consumer financing.
- Growing competition from banks and financial technology players in the retail lending space is another key risk.

If really it is then it is a hard nut to crack this segment and compete against BFAL

Rajeev Jain: I do not want to be arrogant. But I would summarize it as more noise than substance.

services business. Maybe, if I take an example, on the other hand, where we have taken as long to start to generate profitability and create scale is a gold loan part of the business. To me, three years ago, it was an easy business and I today appreciate and respect that how hard it is to build the business. That does not mean we have become a large competitor, but we will be at it, and we have finally cracked it and we are scaling the business. So, what I am to the gold loan business, I look at it as lots of competitors are to us in the point-of-sale business, nothing wrong or right about it. It is just a matter of time, maturity and commitment to building the business. Does that sound philosophical or does it answer your query?

Thehravv in thought process reflects deep commitment on what ought is set to be built upon

See the core benefit fundamentally remains who is reducing friction, number one; number two, who has risk management understanding; and number three, in the process, who has customers. All these 3 are, in general, a response to both your questions.

If you look at Q2 data of ours, we did 6.5 million loans. Let's say, safe to assume 6 million loans came from point-of-sale. Fundamentally, somebody to be able to underwrite -- 70% of those 6 million loans came from existing customers. Existing customers being defined as ready to do business with a line. So it's a set of many things, Anuj, that fundamentally create a moat or a heft at the point-of-sale business. So 70% -- let me convert the point into to demonstrate the heft point, 70% of overall

Almost like a Cash Line for equity investor

financing market in consumer electronics, we help move. This is manufacturer subvention data. So it is not data from -- 15% of mobile phones sold in India -- or 30% of electronics sold in India we move; 15% of mobile -- smartphones sold in India, we move. So -- 8% to 10% of organized furniture market, we move. So if we are moving those kind of volumes and velocity in 2,000 cities across millions of customers in a given month, at one level means we have developed ability to reduce friction, manage velocity and the earlier 4 points that I made.

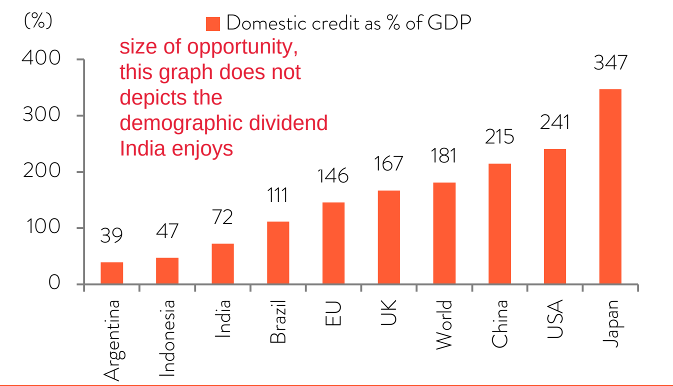
Digital lending is -- wallet -- in general, to an earlier question as well or whether it's Google Pay or Apple Pay, wallet is a railroad infrastructure. Gives you velocity of data that becomes a variable or a set of variables for you to build risk model, for which you need to have risk understanding. So just because the Google Pay and Apple Pay -- yes, Apple Pay is not here, they have input data variables emerging as a result of you using the railroad without having understanding of the risk, need not convert into a proposition on which -- based on which you would do lending. So they are 2 different things. Payments platforms are -- need not fully result into a risk business or a lending business. Not that they cannot be, but they are 2 distinct businesses. As long as they are run distinctly for the same consumer, there is an opportunity. But to believe that you have the railroad on which you will just -- as a result of which you will be able to do lending, is misplaced.

See the conceptual clarity in thought process of the management, variables or a just a platform won't give anyone a risk managed well oiled lending framework

Annexure

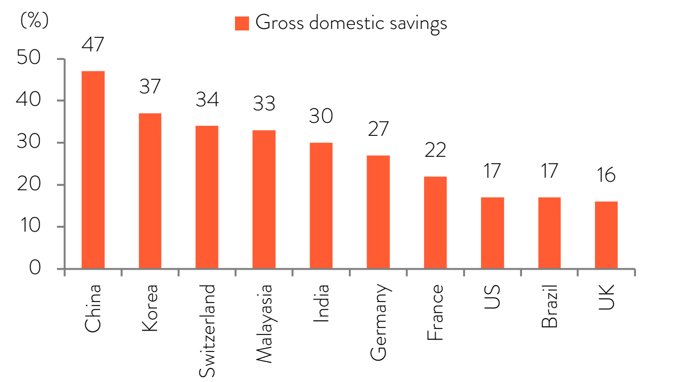
Retail industry landscape and drivers

FIG 1 – INDIA'S DOMESTIC CREDIT (AS % OF GDP) TO INCREASE



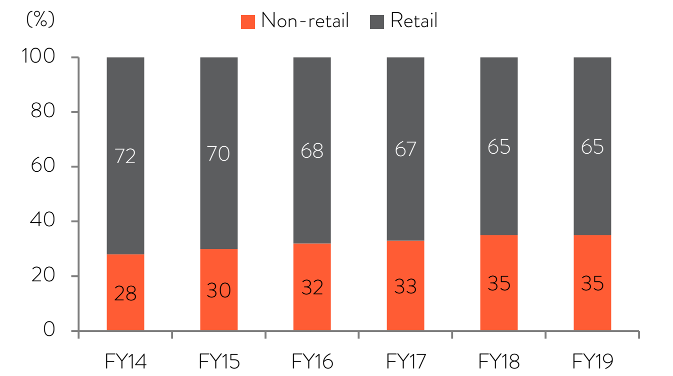
Source: Company, BOBCAPS Research | Note: US and Japan data for 2016, Other countries data for 2017

FIG 2 – GROSS DOMESTIC SAVINGS COMPARISON



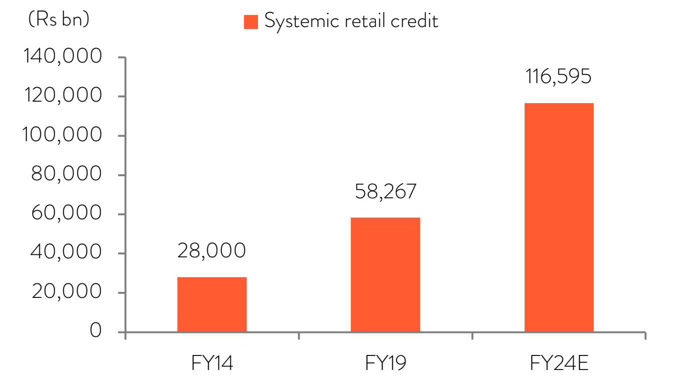
Source: Company, BOBCAPS Research | Note: Data as of 2017

FIG 3 – SYSTEMIC RETAIL CREDIT GROWING (RS 161TN AS OF FY19)



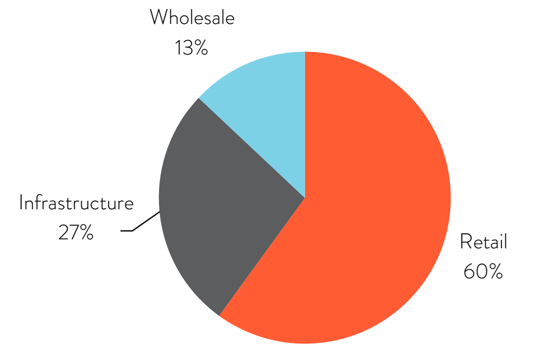
Source: Company, BOBCAPS Research

FIG 4 – SYSTEMIC RETAIL CREDIT TO GROW AT 15% CAGR OVER FY19-FY24E (CRISIL)



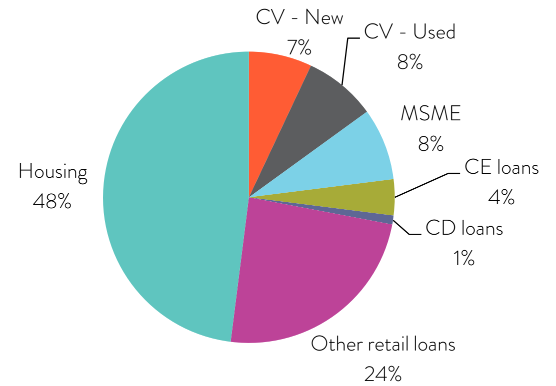
Source: CRISIL

FIG 5 – OVERALL NBFC CREDIT AT RS 29.3TN AS OF FY19…



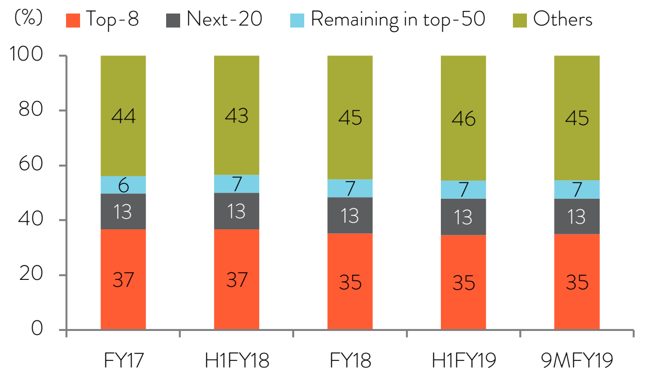
Source: Company, BOBCAPS Research

FIG 6 – …OF WHICH RETAIL LOANS COMPRISE RS 17.6TN (~60%)



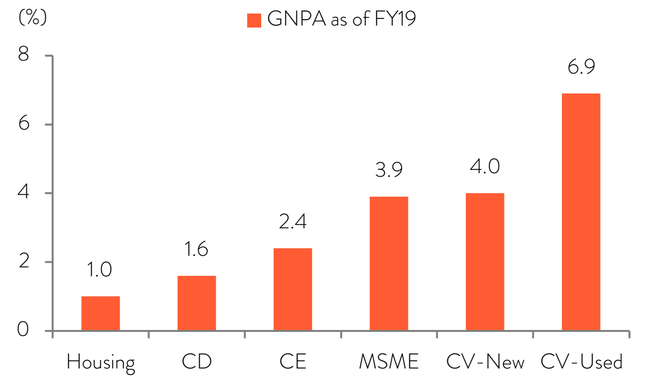
Source: Company, BOBCAPS Research

FIG 7 – RETAIL CREDIT LANDSCAPE ACROSS CITIES IN INDIA



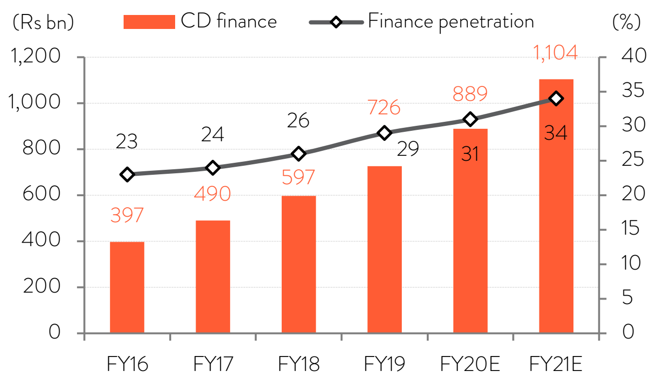
Source: Experian, Company, BOBCAPS Research

FIG 8 – DESPITE HIGH GROWTH IN RETAIL, ASSET QUALITY HAS BEEN STABLE



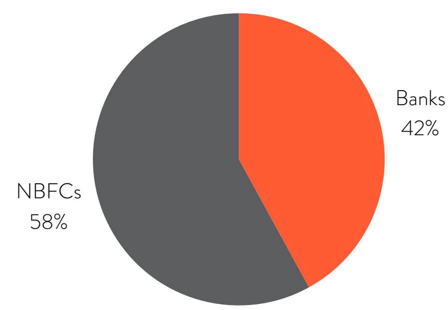
Source: CRISIL

FIG 9 – CONSUMER DURABLE FINANCE AND FINANCE PENETRATION GROWING RAPIDLY



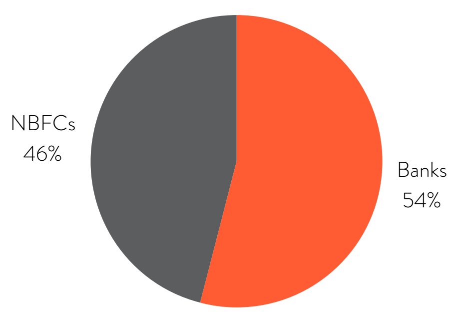
Source: CRISIL

FIG 10 – 2W FINANCING DISBURSEMENT TO GROW AT ~12% CAGR TO RS 552BN (FY19-FY24E: CRISIL)



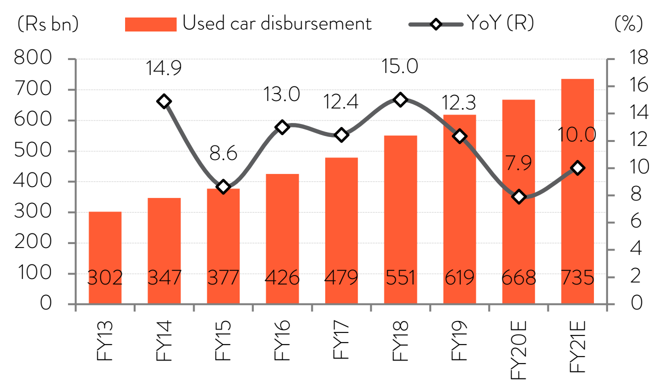
Source: CRISIL | Note: Data as of FY19

FIG 11 – 3W FINANCING DISBURSEMENT TO GROW AT ~6% CAGR TO RS 148BN (FY19-FY24E: CRISIL)



Source: CRISIL | Note: Data as of FY19

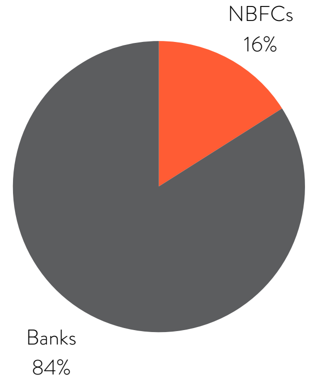
FIG 12 – USED CAR FINANCING MARKET TO GROW STEADILY



Source: CRISIL

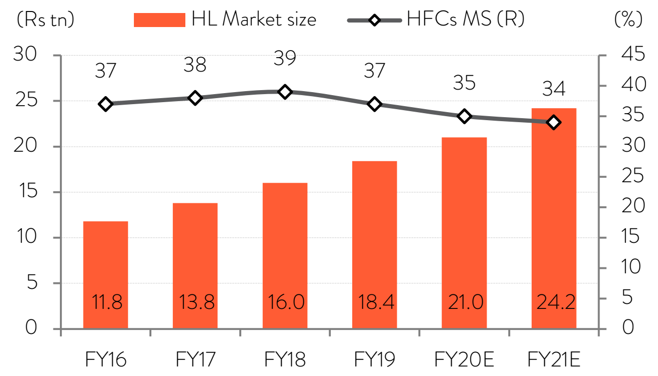
BAF can easily grow 1.5X market
with better risk mgmt

FIG 13 – PERSONAL LOAN BOOK TO GROW AT 22% CAGR TO RS 11.2TN (FY19-FY24E: CRISIL)



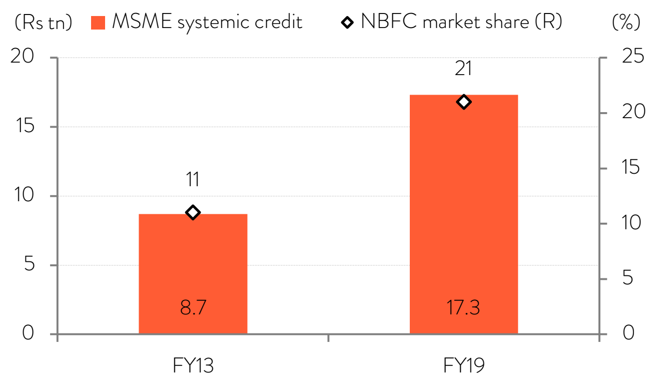
Source: CRISIL

FIG 14 – BANKS TO GAIN MARKET SHARE OVER FY19-FY21E (CRISIL)



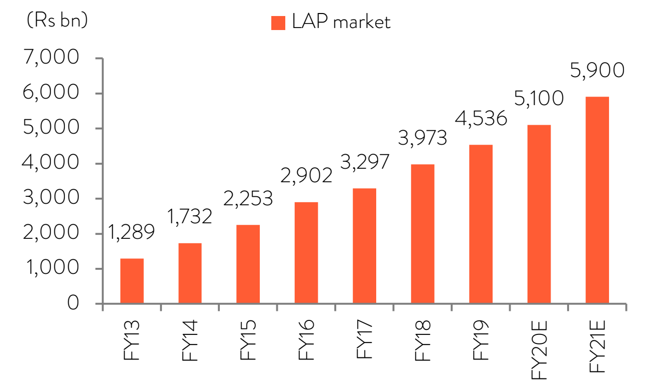
Source: CRISIL

FIG 15 – NBFC MARKET SHARE INCREASING IN MSME FINANCING



Source: CRISIL

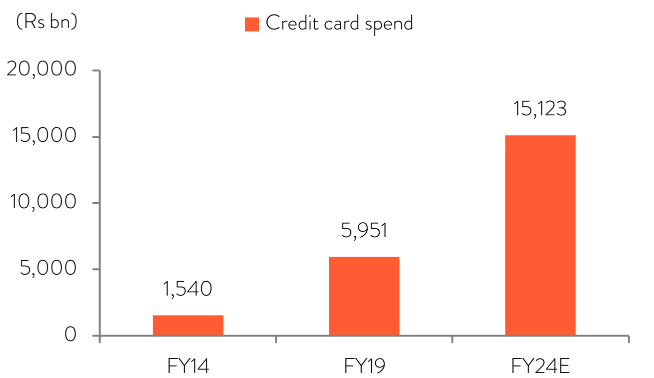
FIG 16 – LAP MARKET TO GROW AT ~14% CAGR DUE TO TEPID NBFC PARTICIPATION (FY19-FY21E: CRISIL)



Source: CRISIL

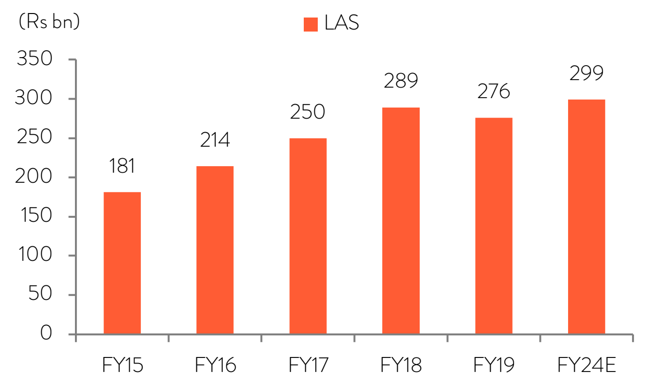
BAF growing base at 30% + per unit base
itself growing at 20% ~ 40% avg. growth

FIG 17 – CREDIT CARD SPEND TO GROW AT ~20% CAGR (FY19-FY24E: CRISIL)



Source: CRISIL

FIG 18 – LOAN AGAINST SHARES (LAS) TO REMAIN STATIC OVER FY19-FY24E (CRISIL)



Source: CRISIL

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	**69,716**	**97,252**	**135,172**	**171,485**	**213,464**
NII growth (%)	42.2	39.5	39.0	26.9	24.5
Non-interest income	11,713	21,530	35,358	45,955	59,728
Total income	81,429	118,782	170,530	217,440	273,192
Operating expenses	32,690	41,977	58,391	73,136	91,612
Operating profit	48,739	76,805	112,139	144,303	181,580
Operating profit growth (%)	34.1	57.6	46.0	28.7	25.8
Provisions	10,305	15,014	27,075	34,367	44,639
PBT	38,434	61,792	85,064	109,936	136,941
Tax	13,471	21,842	23,336	27,704	34,509
Reported net profit	**24,964**	**39,950**	**61,728**	**82,232**	**102,432**
Adjustments	0	0	0	0	0
Adjusted net profit	**24,964**	**39,950**	**61,728**	**82,232**	**102,432**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	1,150	1,154	1,203	1,203	1,203
Reserves & surplus	157,328	195,817	335,094	407,458	497,598
Net worth	158,478	196,970	336,297	408,662	498,801
Deposits	0	0	0	0	0
Borrowings	665,573	1,015,879	1,340,966	1,657,374	2,048,175
Other liabilities & provisions	23,932	29,476	33,897	38,981	44,829
Total liabilities and equities	**847,983**	**1,242,325**	**1,711,160**	**2,105,017**	**2,591,805**
Cash & bank balance	3,397	3,487	88,520	89,336	86,462
Investments	31,394	85,990	98,889	113,722	130,780
Advances	800,001	1,137,135	1,506,703	1,883,379	2,354,224
Fixed & Other assets	4,703	6,948	6,968	6,988	7,008
Total assets	**847,983**	**1,242,325**	**1,711,160**	**2,105,017**	**2,591,805**
Deposit growth (%)	NA	NA	NA	NA	NA
Advances growth (%)	41.8	42.1	32.5	25.0	25.0

Per Share

If market conservatively gives a 50 PE to this franchise in 22E, we can calculate the target price

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	43.4	69.3	102.6	136.7	170.2
Dividend per share	4.0	6.0	10.3	13.7	17.0
Book value per share	275.7	341.4	558.9	679.2	829.0

Source: Company, BOBCAPS Research

It is easier to write fantasies in excel, almost anything can be built but what is important is the thorough study and understanding of the smaller nuisances that establishes conviction in the business model and the degree of certainty which you can conservatively assign to those rates for the underlying business

My Conservative Estimate both on PE and EPS CAGR

Bajaj Finance

Year	EPS	Actual EPS	EPS CAGR (Conservative)	Last 7 Yr EPS CAGR - Percent	Current PE	Entry Price	Exit PE Ratios	Target Prices	5yr CAGR Return	Target Prices Actual Extrapolated	5yr CAGR Return Proposed
2020	87.8	**98.0**	23	38	55	4359	35	8,653	**14.7%**	**9,656**	**17.2%**
2021	108.0	**120.5**					**40**	9,890	**17.8%**	**11,036**	**20.4%**
2022	132.9	**148.3**					45	11,126	**20.6%**	**12,415**	**23.3%**
2023	163.4	**182.4**					50	12,362	**23.2%**	**13,795**	**25.9%**
2024	201.0	**224.3**									
2025	247.2	**275.9**									

Valuation Mirage: Optical illusion. Look how optically expensive ownership in FY18 changes to a conservative ownership in 4 yrs span. It's all in the ability of business to consistently deliver with a lon runway ahead and its MOATS getting stronger day by day

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	95.1	59.6	40.2	30.2	24.2
P/BV	15.0	12.1	7.4	6.1	5.0
Dividend yield (%)	0.1	0.1	0.2	0.3	0.4

Only reason why Investing is an ART and where humans still have an edge over number crunching machines performing 40M calculations in a single second and auto placing orders trying to decipher market ineffeciencies

STATE of an ART business to OWN for a very long time

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	9.5	9.3	9.2	9.0	9.1
Non-interest income	1.6	2.1	2.4	2.4	2.5
Operating expenses	4.5	4.0	4.0	3.8	3.9
Pre-provisioning profit	6.6	7.3	7.6	7.6	7.7
Provisions	1.4	1.4	1.8	1.8	1.9
PBT	5.2	5.9	5.8	5.8	5.8
Tax	1.8	2.1	1.6	1.5	1.5
ROA	3.4	3.8	4.2	4.3	4.4
Leverage (x)	5.9	5.9	5.5	5.1	5.2
ROE	20.1	22.5	23.2	22.1	22.6

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	42.2	39.5	39.0	26.9	24.5
Pre-provisioning profit	34.1	57.6	46.0	28.7	25.8
EPS	29.2	59.6	48.1	33.2	24.6
Profitability & Return ratios (%)					
Net interest margin	10.2	10.0	10.2	10.1	10.1
Fees / Avg. assets	1.1	1.6	1.8	1.8	1.9
Cost-Income	40.1	35.3	34.2	33.6	33.5
ROE	20.1	22.5	23.2	22.1	22.6
ROA	3.4	3.8	4.2	4.3	4.4
Asset quality (%)					
GNPA	1.4	1.5	1.6	1.8	2.1
NNPA	0.4	0.6	0.6	0.7	0.9
Provision coverage	69.6	59.8	60.0	60.0	60.0
Ratios (%)					
Credit-Deposit	0.0	0.0	0.0	0.0	0.0
Investment-Deposit	0.0	0.0	0.0	0.0	0.0
CAR	24.0	20.7	18.7	18.9	19.1
Tier-1	18.4	16.3	15.7	16.6	17.3

Source: Company, BOBCAPS Research

BY Bharat SHAH

The idea of growth is derived from the idea of the size of opportunity and the idea of sustainability of high growth is derived from the character of the opportunity, size of opportunity and vision and competence of the management. When the two get combined, it creates power of compounding. When a business grows well and sustains the growth over long period, it becomes a compounding machine or outstanding value creator.

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

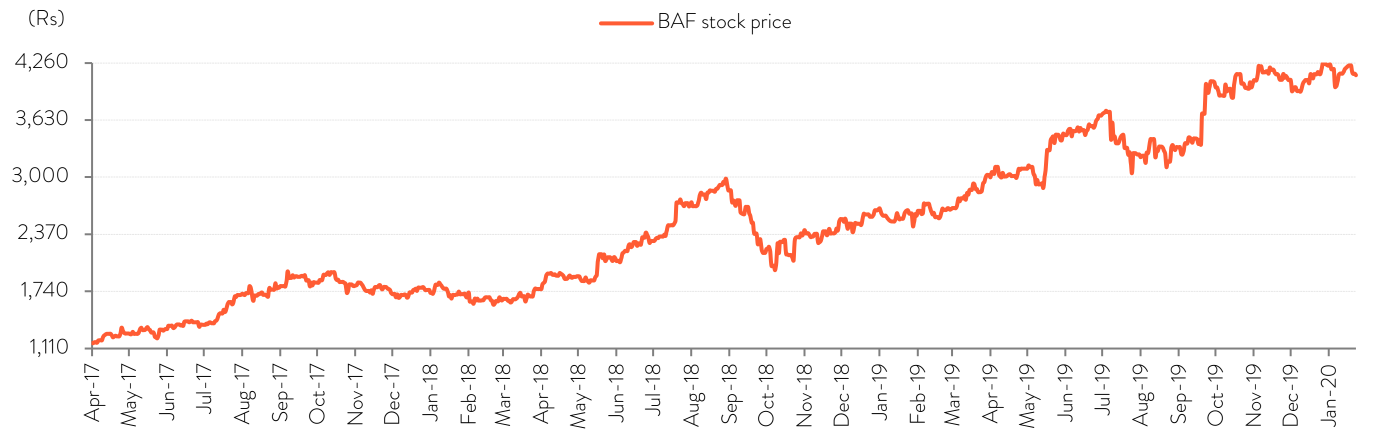
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: BAJAJ FINANCE (BAF IN)



B – Buy, A – Add, R – Reduce, S – Sell

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