

26 April 2024

India | Equity Research | Q4FY24 results review

Bajaj Finance

Financial Services

AUM growth to remain robust at 26-28% in FY25E, but NIM compression to keep earnings muted in H1FY25E

Bajaj Finance's (Bajaj) Q4FY24 financial performance was mixed as AUM growth, new customer acquisition, asset quality and operating efficiencies continued to trend as envisaged; continued stress in rural B2C and 21bps QoQ NIM contraction were dampeners. While management maintained its AUM growth guidance at 26-28% in FY25E, likely NIM compression in H1FY25E and revised credit cost to 1.85% vs. 1.7% pre-covid is likely to keep earnings under pressure during H1FY25E. However, management sounded confident about sustaining RoA/RoE at ~4.7%/~20% in FY25E. Bajaj's resilient business model, built on strong customer acquisition engines and cross-sell, augurs well for the business to maintain leadership in the NBFC space. We retain BUY; TP unchanged at INR 8,500, valuing the standalone business at 5x FY26E BVPS and INR 830 towards housing subs.

Healthy customer acquisition sustained in FY24; expects new customer addition of 12-14mn in FY25E

Its prominence at every conceivable point-of-sale, be it a brick-and-mortar establishment or digital purchases through mobile application and e-commerce platforms drove strong 3.23mn new customer acquisition during Q4FY24 and 14.5mn during FY24. Total customer franchise stands at 83.6mn and cross-sell franchise at 50.8mn, as on Mar'24. With continued investment towards franchise build up, it expects new customer addition of 12-14mn and AUM growth at 26-28% in FY25E.

Q4FY24 financial performance

Consolidated PAT during Q4FY24 grew by 5% QoQ to INR38.2bn, marginally lower than AUM growth at 6% QoQ. PAT were lower by 4% due to regulatory restriction on sanctions and disbursal in eCOM and Insta EMI card. NIM contraction of 21bps QoQ kept NII growth at 5% QoQ. While credit cost declined sequentially to 1.6% vs. 1.7% QoQ, the same is higher than historical average of 1.5-1.6% pre-covid. Management attributes this to continued stress in rural B2C. As a result, management calibrated growth strategy in rural B2C and also incrementally focuses on scaling secured products in near term. Asset quality further improved with GNPL declining to 0.85% in Q4FY24 vs 0.95% in Q3FY24. Overall, it delivered RoA at 4.84% and RoE at 20.5% during Q4FY24.

Financial Summary

Y/E 2024 (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	2,01,866	2,69,393	3,26,018	4,05,730
PAT (INR mn)	1,02,998	1,26,441	1,53,004	1,88,649
EPS (INR)	170.4	204.6	247.6	305.3
% Chg YoY	62.0	20.1	21.0	23.3
P/E (x)	42.8	35.7	29.5	23.9
P/BV (x)	8.6	6.3	5.3	4.5
Gross Stage - 3 (%)	1.2	1.1	1.1	1.2
RoA (%)	5.4	4.9	4.9	5.2
RoE (%)	22.0	20.5	19.5	20.3

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Market Data

Market Cap (INR)	4,516bn
Market Cap (USD)	54,202mn
Bloomberg Code	BAF IN Equity
Reuters Code	BJFN.BO
52-week Range (INR)	8,192 /5,929
Free Float (%)	45.0
ADTV-3M (mn) (USD)	111.3

Price Performance (%)	3m	6m	12m
Absolute	3.0	(5.2)	20.1
Relative to Sensex	(2.2)	(21.3)	(3.6)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4)	(1)
EPS	2	7

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Proactive measures to strengthen operational control

Embargo on new customer acquisition under eCOM and Insta EMI card impacted PBT by 4% during Q4FY24 and also new loans booked by 0.8mn during Q4FY24. In order to achieve business normalcy as soon as possible, it has made all required changes suggested by regulator under 'eCOM' and 'Insta EMI Card' customer acquisition process. Further, it has formally requested RBI for review and removal of these restrictions and to ensure compliance in form and spirit, in addition to digital lending products, it has implemented KFS for all lending products effective 31 Mar'24 and made it available in 20 vernacular languages.

AUM growth to continue aided by cross-sell and customer acquisition

Consolidated AUM growth remained robust at 34% YoY and 6% QoQ during Q4FY24 driven by 4% QoQ growth in new loans booked to 7.87mn with new customer acquisition of 3.23mn and despite restrictions on sanction and disbursement of loans under 'eCOM' and 'Insta EMI Card'. New loans booked were lower by ~0.8mn in Q4FY24 and 1.2mn in FY24. Segment-wise, growth was driven by strong traction in newly launched products like gold loans (up 64% YoY), car loans (up 156% YoY) and sustained growth momentum in all legacy products except rural B2C (up only 6% YoY).

Management further indicated that it would be cautiously growing Rural B2C business and incrementally it focuses on scaling secured products like New car loans, LAP and Tractor financing. While it refrains from giving any timeline on when disbursement restriction on eCOM and Insta EMI card will be lifted, it sounded confident of delivering overall AUM growth at 26-28% in FY25E.

Credit cost to remain at 1.75%-1.85% in FY25E

Credit cost for the full year FY24 remained at 1.63% (after utilizing management overlay of ~INR3bn) largely led by continued stress in rural B2C. While overall asset quality metrics continued to remain robust, management is guiding at marginally higher credit cost at 1.75%-1.85% in FY25E vs. pre-covid level of ~1.6%. Revised norms for NPL recognition (daily NPL tagging) and stress in Rural B2C are the primary reason for likely higher credit cost in FY25E. We note that total rural B2C exposure stood at only 5% as on Mar'24 (7% in FY23), and hence the same less likely to pose upside risk to credit cost guidance. As on Mar'24, it carries management and macro-economic provision overlay of INR3bn (~10bps of consolidated AUM). It utilised INR 1.2bn towards strengthening ECL model and released INR1.6bn towards loan losses during FY24.

Rise in funding cost to result in NIM contraction during H1FY25E

NIM contracted 21bps QoQ during Q4FY24 largely due to 10bps QoQ increase in cost of funds during Q4FY24 and the same implies ~10bps contraction in asset yields during the same period. For the full year FY24, NIM moderated due to higher cost of funds and gradual shift in AUM composition towards secured assets. With likely shift in AUM mix towards secured products and further increase in cost of funds over next two-three months, it expects further 30-40bps of NIM moderation over the next two quarters from current levels.

Key risks: 1) Prolonged regulatory challenges with respect to eCom and Insta EMI cards; and 2) deterioration in AUM growth

Exhibit 1: Bajaj Finance - Sum of the parts value

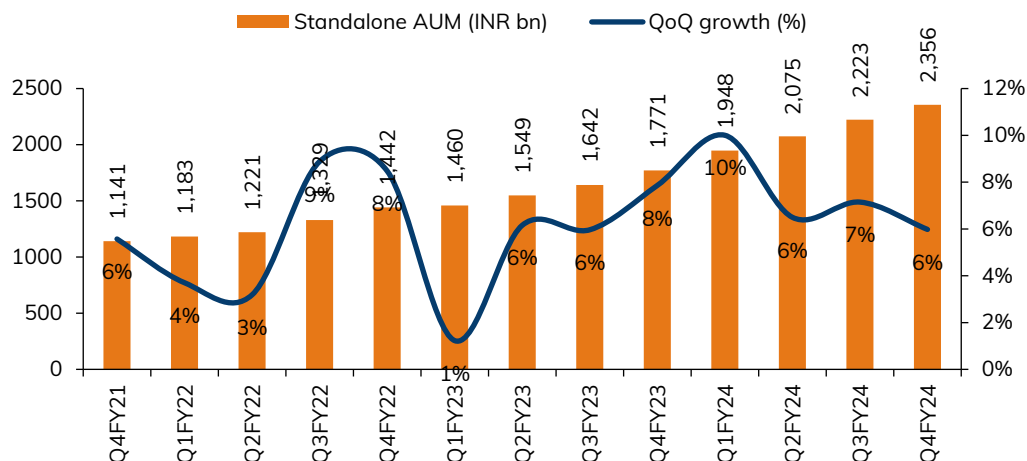
SOTP	FY26E NW (INR bn)	Multiple (x)	Value (INR bn)	Value per share (INR)
Bajaj Finance (standalone)	935	5	4,742	7,670
Bajaj Housing (100% subsidiary)	184	3	515	830
SOTP				8,500

Source: Company data, I-Sec research

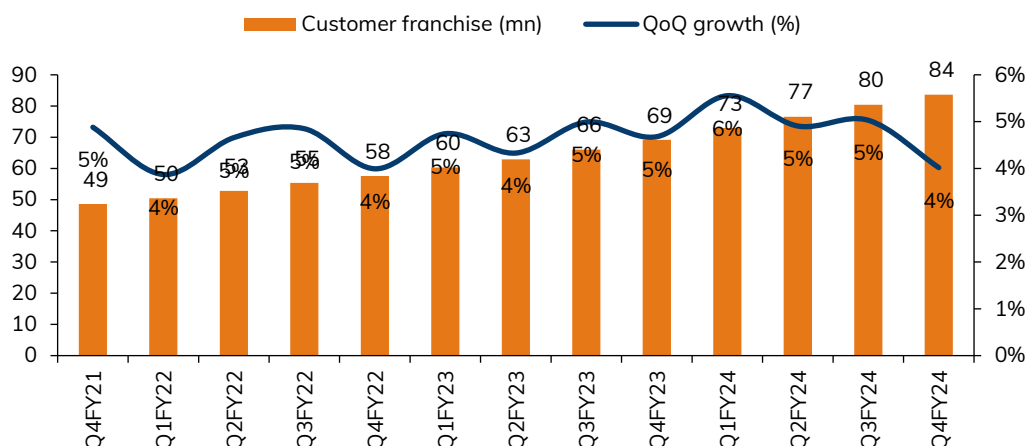
Exhibit 2: Q4FY24 result review (standalone)

	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ
Income statement (INR mn)					
Net interest Income	73,400	56,693	29.5%	69,724	5.3%
Add: Other Income	15,636	14,346	9.0%	15,129	3.4%
Total Net income	89,036	71,039	25.3%	84,853	4.9%
Less: Operating expenses	30,597	24,715	23.8%	29,465	3.8%
-Employee benefit expense	15,035	12,168	23.6%	15,272	-1.6%
-Depreciation & amortization	1,787	1,225	45.8%	1,619	10.4%
-Other expense	13,775	11,322	21.7%	12,574	9.6%
Pre-provisioning profit	58,440	46,323	26.2%	55,388	5.5%
Less: Provisions & write-offs	12,775	8,026	59.2%	12,475	2.4%
PBT	45,665	38,298	19.2%	42,913	6.4%
Less: Taxes	11,646	9,924	17.3%	11,139	4.5%
PAT	34,019	28,374	19.9%	31,774	7.1%
Balance sheet key items (INR mn)					
AUM	23,55,810	17,70,860	33.0%	22,22,890	6.0%
Networth	7,20,105	5,14,931	39.8%	6,84,639	5.2%
Borrowings	22,03,787	16,16,846	36.3%	19,99,146	10.2%
Asset Quality					
Gross NPA	1.1%	1.0%	5 bps	1.2%	-13 bps
Net NPA	0.5%	0.4%	3 bps	0.5%	0 bps
Credit cost (annualised)	2.2%	1.9%	35 bps	2.3%	-10 bps
Key ratios (annualised and calculated)					
Yield on AUM	19.6%	19.4%	15 bps	19.7%	-15 bps
Cost of funds	7.3%	6.8%	59 bps	7.4%	-4 bps
NIMs on AUM	12.8%	13.3%	-47 bps	13.0%	-16 bps
Cost to income	34.4%	34.8%	-43 bps	34.7%	-37 bps
Opex to AUM	5.3%	5.8%	-45 bps	5.5%	-14 bps
Annualized RoAAUF	5.7%	6.6%	-83 bps	5.7%	1 bps
Annualized RoAE	19.4%	22.7%	-331 bps	20.4%	-104 bps
Debt to Equity (times)	3.1	3.1	-2.5%	2.9	4.8%
CAR	22.5%	25.0%	-245 bps	23.9%	-135 bps

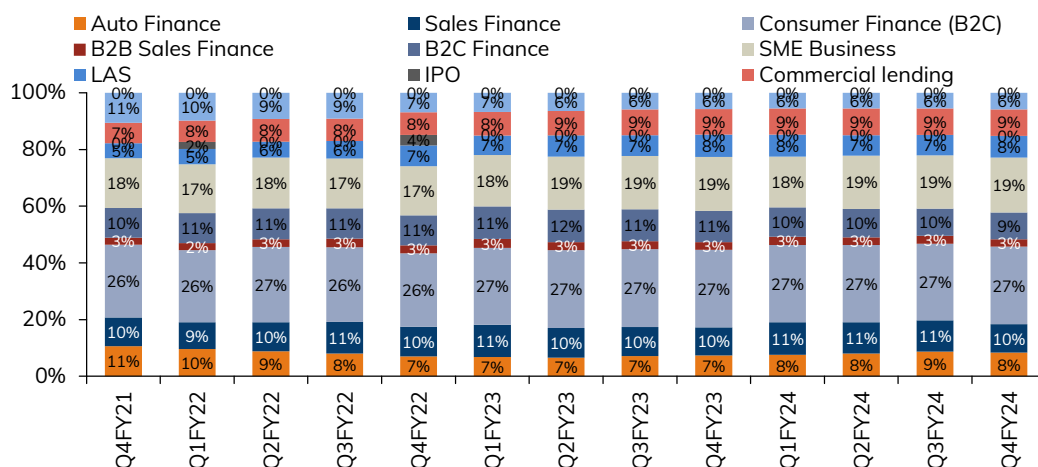
Source: Company data, I-Sec research

Exhibit 3: AUM grew 6% QoQ...

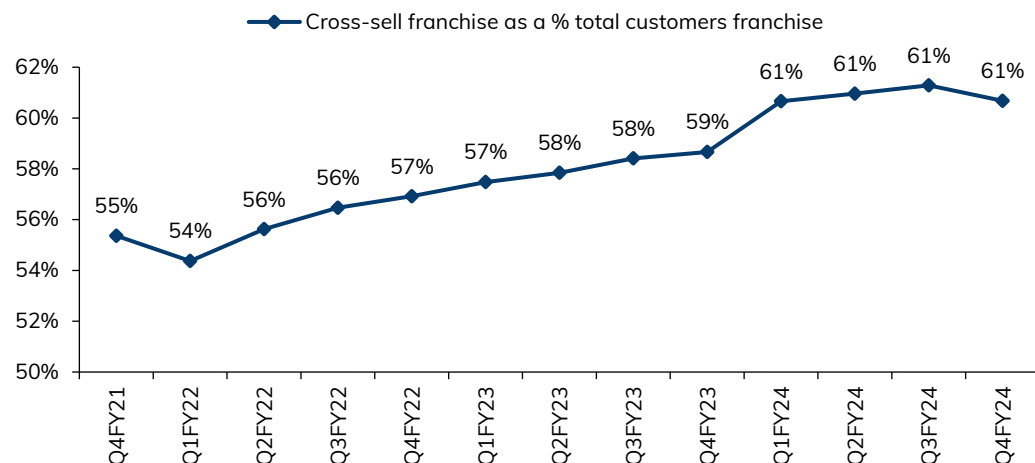
Source: Company data, I-Sec research

Exhibit 4: ...led by strong customer acquisitions

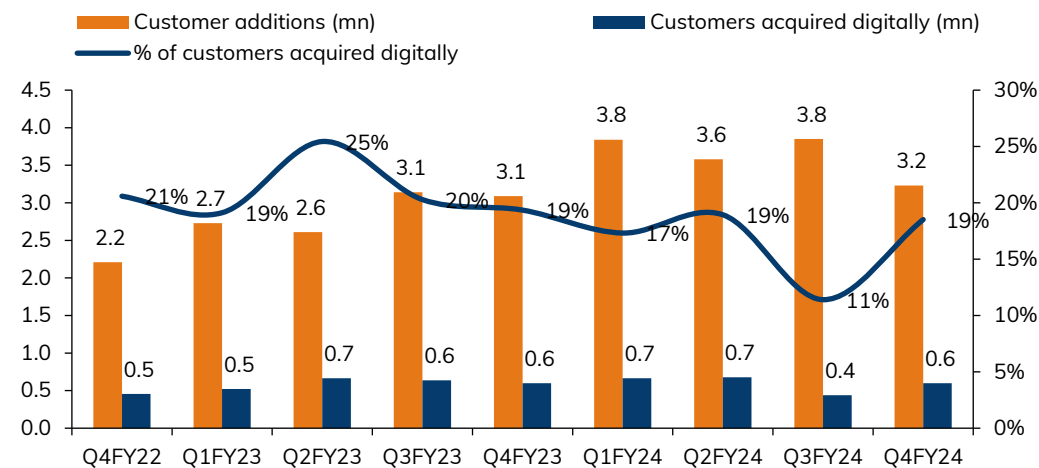
Source: Company data, I-Sec research

Exhibit 5: Well-diversified product mix provide cross-sell opportunities

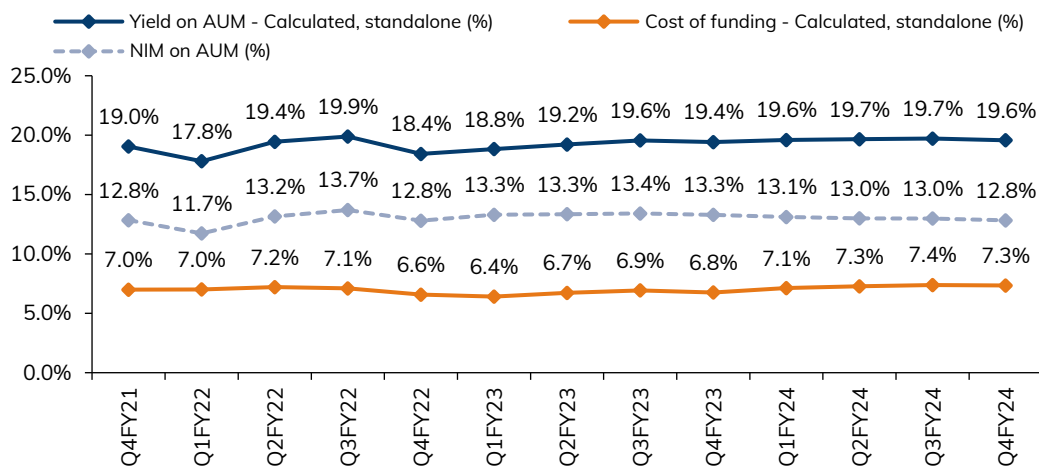
Source: Company data, I-Sec research

Exhibit 6: Cross-sell at ~60% augurs well for sustainable growth momentum


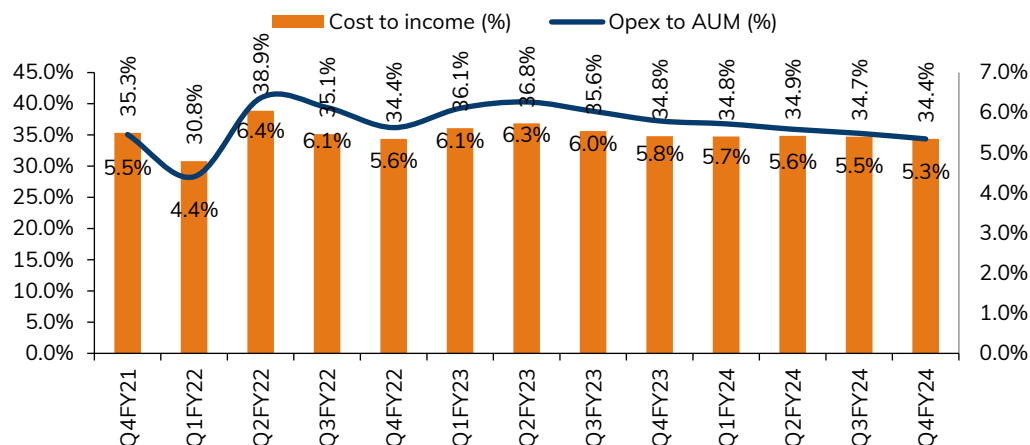
Source: Company data, I-Sec research

Exhibit 7: Digital acquisitions impacted post embargo on eCom and InstaEMI cards


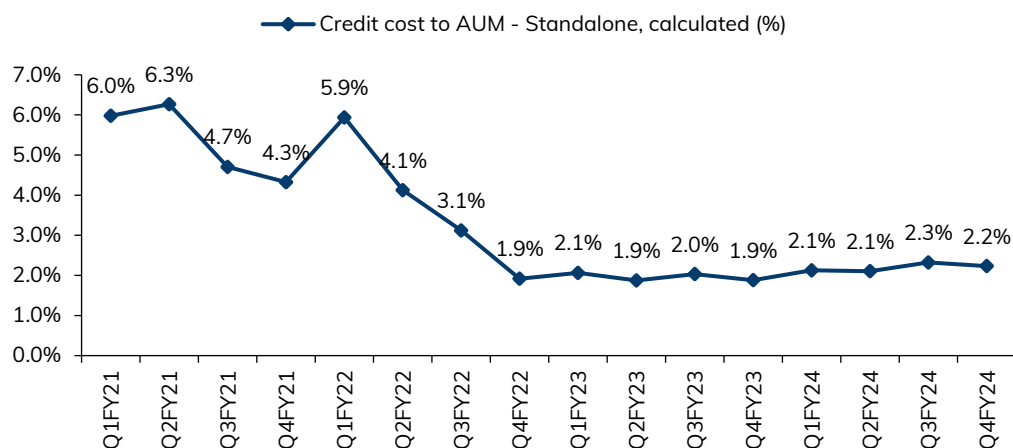
Source: Company data, I-Sec research

Exhibit 8: Rising funding costs led to contraction in NIMs


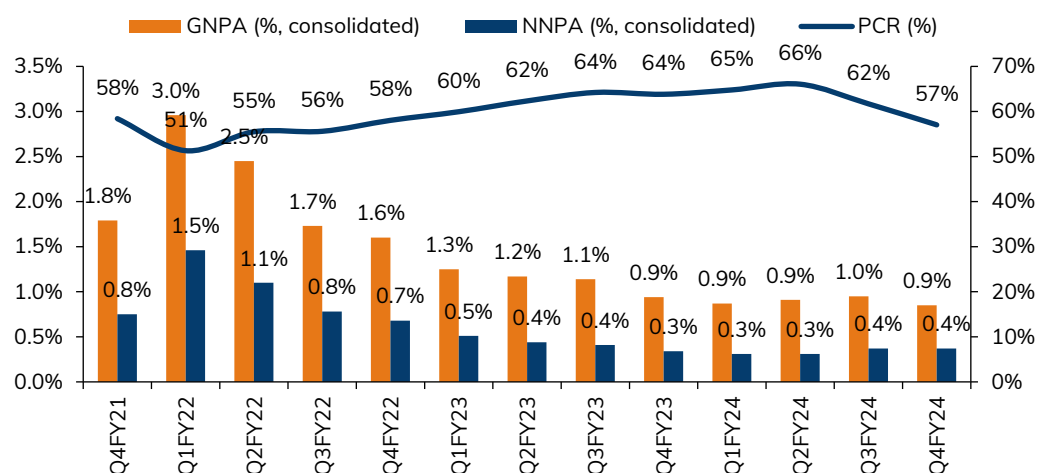
Source: Company data, I-Sec research

Exhibit 9: Steady operating leverage

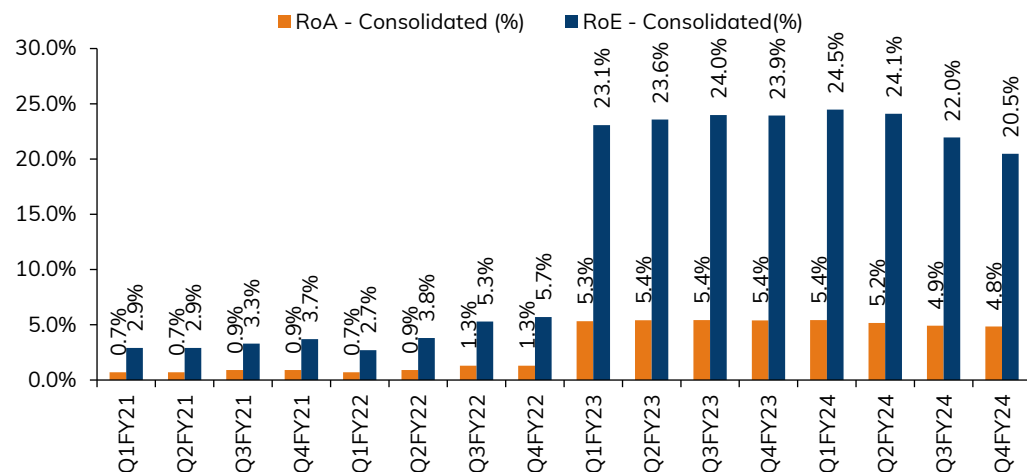
Source: Company data, I-Sec research

Exhibit 10: Marginal decline in credit costs...

Source: Company data, I-Sec research

Exhibit 11: ...supported by reduction in gross NPA

Source: Company data, I-Sec research

Exhibit 12: RoA sustained at ~4.8% with RoE at >20%

Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	55.9	54.8	54.7
Institutional investors	33.6	34.9	35.0
MFs and others	9.1	9.8	9.6
FIs/Banks	0.9	0.9	0.0
Insurance	2.9	2.9	3.6
FIIIs	20.7	21.3	21.9
Others	10.5	10.3	10.3

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending 2024)

	FY23A	FY24A	FY25E	FY26E
Interest Income	2,94,719	4,07,828	5,04,375	6,08,027
Interest Expenses	(92,852)	(1,38,434)	(1,78,357)	(2,02,297)
Net Interest Income (NII)	2,01,866	2,69,393	3,26,018	4,05,730
Other Income	62,155	61,632	70,887	81,528
Total Income (net of interest expenses)	2,64,021	3,31,025	3,96,905	4,87,258
Employee benefit expenses	(45,637)	(58,495)	(76,879)	(91,479)
Depreciation and amortization	(4,438)	(6,291)	(6,870)	(8,514)
Fee and commission expenses	(19,344)	(19,591)	(23,936)	(29,664)
Other operating expenses	(25,021)	(30,396)	(35,346)	(41,557)
Total Operating Expense	(94,440)	(1,14,773)	(1,43,032)	(1,71,213)
Pre Provisioning Profits (PPoP)	1,69,581	2,16,253	2,53,873	3,16,045
Provisions and write offs	(30,665)	(45,722)	(47,518)	(61,616)
Profit before tax (PBT)	1,38,916	1,70,531	2,06,356	2,54,430
Total tax expenses	(35,918)	(44,090)	(53,352)	(65,781)
Profit after tax (PAT)	1,02,998	1,26,441	1,53,004	1,88,649

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending 2024)

	FY23A	FY24A	FY25E	FY26E
Share capital	1,209	1,236	1,236	1,236
Reserves & surplus	5,13,722	7,18,869	8,48,976	10,09,392
Shareholders' funds	5,14,931	7,20,105	8,50,212	10,10,628
Borrowings	16,16,846	22,03,787	24,00,958	29,22,647
Provisions & Other Liabilities	33,470	42,253	46,478	51,126
Total Liabilities and Stakeholder's Equity	21,65,248	29,66,145	32,97,648	39,84,401
Cash and balance with RBI	33,195	94,323	46,204	47,544
Fixed assets	22,264	31,025	34,128	37,540
Loans	17,90,971	24,33,344	30,21,724	37,27,890
Investments	2,87,379	3,71,534	1,56,082	1,27,965
Deferred tax assets (net)	9,190	9,267	10,194	11,213
Other Assets	22,249	26,652	29,317	32,249
Total Assets	21,65,248	29,66,145	32,97,648	39,84,401

Source Company data, I-Sec research

Exhibit 17: Key Ratios

(Year ending 2024)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	18,09,990	24,48,260	30,47,608	37,63,223
On-book Loans	18,09,990	24,48,260	30,47,608	37,63,223
Growth (%):				
Total AUM (%)	23.3	35.3	24.5	23.5
Loan book (on balance sheet) (%)	23.3	35.3	24.5	23.5
Total Assets (%)	28.9	37.0	11.2	20.8
Net Interest Income (NII) (%)	28.0	33.5	21.0	24.5
Non-interest income (%)	37.4	(0.8)	15.0	15.0
Total Income (net of interest expenses) (%)	30.1	25.4	19.9	22.8
Operating Expenses (%)	33.2	21.5	24.6	19.7
Employee Cost (%)	41.6	28.2	31.4	19.0
Non-Employee Cost (%)	43.2	21.5	16.3	17.6
Pre provisioning operating profits (PPoP) (%)	28.4	27.5	17.4	24.5
Provisions (%)	(33.7)	49.1	3.9	29.7
PBT (%)	61.9	22.8	21.0	23.3
PAT (%)	62.3	22.8	21.0	23.3
EPS (%)	62.0	20.1	21.0	23.3
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	12.5	12.8	12.0	12.0
NIM on IEA (%)	12.1	12.3	11.6	11.8
NIM on AUM (%)	12.3	12.7	11.9	11.9
Yield on loan assets (%)	18.2	19.3	18.5	18.0
Yield on IEA (%)	17.6	18.6	17.9	17.6
Yield on AUM (%)	18.0	19.2	18.4	17.9
Cost of borrowings (%)	6.5	7.2	7.7	7.6
Interest Spreads (%)	11.7	12.1	10.7	10.4
Operating efficiencies				
Non interest income as % of total income	56.6	57.4	56.7	58.8
Cost to income ratio	35.8	34.7	36.0	35.1
Op.costs/avg assets (%)	4.9	4.5	4.6	4.7
Op.costs/avg AUM (%)	5.8	5.4	5.2	5.0
No of employees (estimate) (x)	40,369	47,482	53,733	60,318
No of branches (x)	3,733	4,139	4,480	4,810
Salaries as % of non-interest costs (%)	48.3	51.0	53.7	53.4
NII /employee (INR mn)	5.0	5.7	6.1	6.7
AUM/employee(INR mn)	44.8	51.6	56.7	62.4
AUM/ branch (INR mn)	484.9	591.5	680.3	782.3
Capital Structure				
Average gearing ratio (x)	3.1	3.1	2.8	2.9
Leverage (x)	4.2	4.1	3.9	3.9
CAR (%)	25.0	24.3	25.9	25.7
Tier 1 CAR (%)	23.2	24.3	25.9	25.7
RWA (estimate) - INR mn	19,88,901	27,83,893	30,78,539	36,99,740
RWA as a % of loan assets	111.1	114.4	101.9	99.2

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.1	1.1	1.2
NNPA (%)	0.4	0.5	0.5	0.5
GNPA (INR mn)	21,755	26,000	33,905	43,768
NNPA (INR mn)	7,866	11,262	14,410	18,164
Coverage ratio (%)	63.8	56.7	57.5	58.5
Credit Costs as a % of avg AUM (bps)	187	215	173	181
Credit Costs as a % of avg on book loans (bps)	187	215	173	181
Return ratios				
RoAA (%)	5.4	4.9	4.9	5.2
RoAE (%)	22.0	20.5	19.5	20.3
ROAAUM (%)	6.3	5.9	5.6	5.5
Valuation Ratios				
No of shares	604	618	618	618
No of shares (fully diluted)	604	618	618	618
ESOP Outstanding	-	-	-	-
EPS (INR)	170.4	204.6	247.6	305.3
EPS fully diluted (INR)	170.4	204.6	247.6	305.3
Price to Earnings (x)	42.8	35.7	29.5	23.9
Price to Earnings (fully diluted) (x)	42.8	35.7	29.5	23.9
Book Value (fully diluted)	852	1,165	1,376	1,635
Adjusted book value	842	1,152	1,358	1,613
Price to Book	8.6	6.3	5.3	4.5
Price to Adjusted Book	8.7	6.3	5.4	4.5

Source Company data, I-Sec research

Exhibit 18: Key Metrics

(Year ending 2024)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	19,22,704	25,65,696	31,31,896	36,41,024
Average Loans (INR mn)	16,16,867	21,12,158	27,27,534	33,74,807
Average Equity (INR mn)	4,67,745	6,17,518	7,85,158	9,30,420
Interest earned (%)	15.3	15.9	16.1	16.7
Interest expended (%)	4.8	5.4	5.7	5.6
Gross Interest Spread (%)	10.5	10.5	10.4	11.1
Credit cost (%)	1.6	1.8	1.5	1.7
Net Interest Spread (%)	8.9	8.7	8.9	9.5
Operating cost (%)	3.9	3.7	3.8	3.9
Lending spread (%)	5.0	5.0	5.1	5.6
Non interest income (%)	3.2	2.4	2.3	2.2
Operating Spread (%)	8.2	7.4	7.4	7.8
Tax rate (%)	25.9	25.9	25.9	25.9
ROAA (%)	5.4	4.9	4.9	5.2
Effective leverage (AA/ AE)	4.1	4.2	4.0	3.9
RoAE (%)	22.0	20.5	19.5	20.3

Source Company data, I-Sec research

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