

BUY

TP: Rs 9,605 | ▲ 33%

BAJAJ FINANCE

| NBFC

| 16 November 2023

Impact of RBI strictures likely to be marginal

- RBI has instructed BAF to stop disbursing loans under two digital products, the 'Insta EMI Card' and 'eCOM'
- Disbursement could dip marginally by 1.1-1.5% of AUM assuming the embargo continues for three months
- We keep estimates unchanged pending further developments; maintain BUY with TP of Rs 9,605

Mohit Mangal

research@bobcaps.in

RBI bars two digital products: In a negative surprise, the central bank has instructed BAF to stop approving and disbursing loans under two products, the Insta EMI Card and eCOM, citing a failure to follow digital lending norms pertaining to key fact statements (KFS). KFS include loan-related information such as annualised interest rate and recovery mechanisms. Insta EMI (equated monthly installment) cards allow for pre-approved sanctions up to Rs 0.2mn for online and offline purchases whereas eCOM comprises flexi personal and unsecured business loans.

Ban comes after peak disbursal period: The embargo after the Diwali festival holidays is a positive as loan volumes typically peak during the festive season. Further, management anticipates a swift resolution of the compliance matters.

Affected products marginal: BAF has issued 0.68mn EMI cards digitally during Q2FY24 (1.34mn in H1FY24). EMI cards in force as of Sep'23 were at 41.9mn, of which 4.2mn were acquired digitally. Similarly, 0.35mn B2B loans were booked via the digital mode in Q2 (0.76mn in H1), forming only 4% of new loans booked. The eCOM prohibition is believed to apply to digital loans offered on e-commerce platforms, including Bajaj Mall which had volumes of 0.59mn in Q2 (1.42mn in H1).

AUM impact likely to be minimal but could hurt client acquisition: Per our estimates, BAF's average monthly digital loan volumes totalled ~360,000 in H1 (~125,000 in EMI, ~235,000 in eCOM), and this business could be hit by the ban going forward. In the absence of disclosed disbursal statistics, we estimate a monthly negative impact of Rs 10.8bn assuming loan ticket size of Rs 30,000, which rises to Rs 14.4bn on ticket size of Rs 40,000. Assuming a three-month embargo, disbursals could fall by mere 1.1-1.5% of BAF's AUM as of Sep'23 but client acquisition could take a hit.

Retain BUY: While we do not rule out an impact on AUM and profitability from the RBI's strictures, we await further clarity before revisiting our estimates. We continue to value the standalone business at 6.3x FY25E ABV, a 15% premium to the 10Y average, translating to Rs 9,125 for standalone operations. Adding Rs 477/sh for subsidiaries, we have an unchanged SOTP-based TP of Rs 9,605 that offers 33% upside. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BAF IN/Rs 7,224
Market cap	US\$ 16.7bn
Free float	44%
3M ADV	US\$ 81.9mn
52wk high/low	Rs 8,192/Rs 5,486
Promoter/FPI/DII	56%/20%/13%

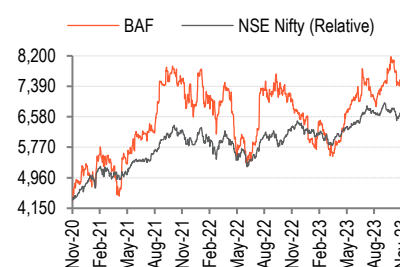
Source: NSE | Price as of 15 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	2,29,903	2,88,302	3,77,689
NII growth (%)	31.2	25.4	31.0
Adj. net profit (Rs mn)	1,15,077	1,45,282	1,91,734
EPS (Rs)	189.6	235.0	310.1
Consensus EPS (Rs)	189.6	235.0	299.0
P/E (x)	38.1	30.7	23.3
P/BV (x)	8.1	5.9	4.8
ROA (%)	4.7	4.5	4.5
ROE (%)	23.5	22.4	22.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	1,38,894	1,75,235	2,29,903	2,88,302	3,77,689
NII growth (%)	2.9	26.2	31.2	25.4	31.0
Non-interest income	33,797	43,708	58,555	74,158	96,837
Total income	1,72,691	2,18,944	2,88,458	3,62,460	4,74,526
Operating expenses	53,082	75,872	1,01,300	1,23,039	1,57,378
PPOP	1,19,608	1,43,072	1,87,158	2,39,421	3,17,148
PPOP growth (%)	6.3	19.6	30.8	27.9	32.5
Provisions	59,686	48,034	31,897	45,193	60,819
PBT	59,923	95,038	1,55,262	1,94,228	2,56,329
Tax	15,724	24,756	40,202	48,945	64,595
Reported net profit	44,198	70,282	1,15,077	1,45,282	1,91,734
Adjustments	0	0	0	0	0
Adjusted net profit	44,198	70,282	1,15,077	1,45,282	1,91,734

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	1,203	1,207	1,209	89,209	1,01,209
Reserves & surplus	3,67,981	4,35,920	5,42,511	6,66,001	8,28,975
Net worth	3,69,184	4,37,127	5,43,720	7,55,210	9,30,184
Debt securities	5,45,021	7,62,231	8,68,452	11,60,657	14,91,238
Borrowings	7,71,314	8,90,089	12,98,453	17,35,338	22,29,600
Other liab. & provisions	29,185	35,618	41,662	58,099	73,902
Total liab. & equities	17,14,704	21,25,064	27,52,287	37,09,304	47,24,925
Cash & bank balance	21,643	36,803	43,045	1,11,404	1,06,729
Investments	1,83,969	1,22,455	2,27,518	3,01,571	3,87,465
Advances	14,66,869	19,14,233	24,22,689	32,26,495	41,45,472
Fixed & Other assets	42,223	51,573	59,034	69,835	85,259
Total assets	17,14,704	21,25,064	27,52,287	37,09,304	47,24,925
Total debt growth (%)	10.0	39.9	13.9	33.6	28.5
Advances growth (%)	3.8	30.5	26.6	33.2	28.5

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	73.7	116.8	189.6	235.0	310.1
Dividend per share	10.0	20.0	30.0	35.2	46.5
Book value per share	615.4	726.6	895.7	1,221.4	1,504.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	98.1	61.8	38.1	30.7	23.3
P/BV	11.7	9.9	8.1	5.9	4.8
Dividend yield (%)	0.1	0.3	0.4	0.5	0.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	8.3	9.1	9.4	8.9	9.0
Non-interest income	2.0	2.3	2.4	2.3	2.3
Operating expenses	3.2	4.0	4.2	3.8	3.7
Provisions	3.6	2.5	1.3	1.4	1.4
ROA	2.6	3.7	4.7	4.5	4.5
Leverage (x)	4.9	4.8	5.0	5.0	5.0
ROE	12.8	17.4	23.5	22.4	22.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Net interest income	2.9	26.2	31.2	25.4	31.0
Pre-provisioning profit	6.3	19.6	30.8	27.9	32.5
EPS	(15.8)	58.6	62.3	24.0	32.0
Profitability & Return ratios (%)					
Net interest margin	9.6	10.4	10.6	10.2	10.2
Fees / Avg. assets	1.5	1.6	1.8	1.8	1.8
Cost-Income	30.7	34.7	35.1	33.9	33.2
ROE	12.8	17.4	23.5	22.4	22.8
ROA	2.6	3.7	4.7	4.5	4.5
Asset quality (%)					
GNPA	1.8	1.6	0.9	1.0	1.3
NNPA	0.8	0.7	0.3	0.4	0.6
Slippage ratio	5.3	4.1	1.9	2.4	2.5
Credit cost	4.1	2.8	1.5	1.6	1.7
Provision coverage	58.0	58.0	64.0	61.3	57.0
Ratios (%)					
Loans to Total debt	111.1	115.5	111.5	111.1	111.1
CAR	28.3	27.2	25.0	23.4	23.7
Tier-1	25.1	24.8	23.2	21.5	21.9

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

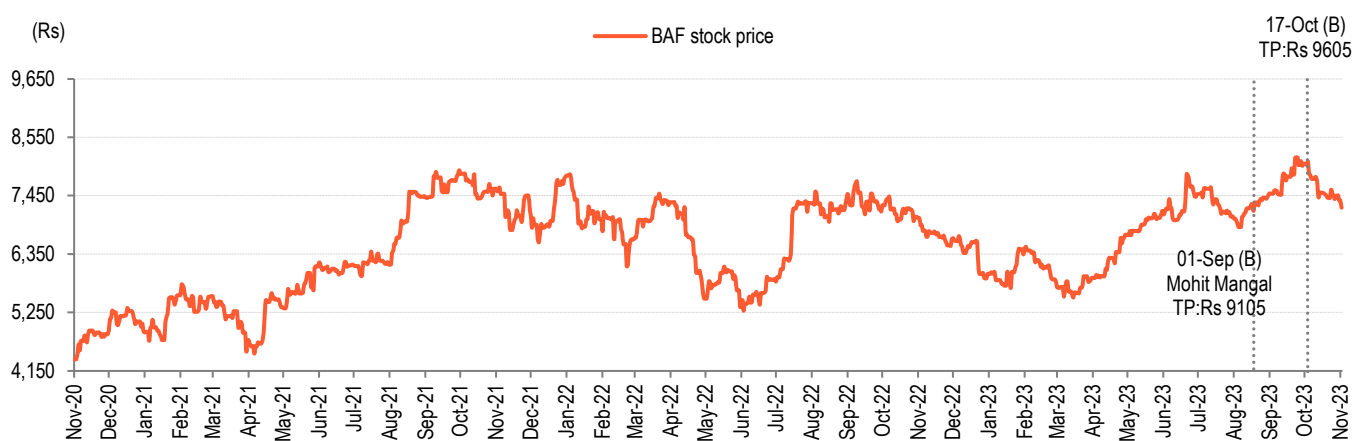
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ FINANCE (BAF IN)



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

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