

**BUY**

TP: Rs 9,105 | ▲ 14%

**BAJAJ FINANCE**

| NBFC

| 04 October 2023

**Making strides**

- Early data from BAF shows 33% YoY growth in H1 AUM, tracking above the full-year guided range of 29-31%
- Continued strong AUM growth could trigger our bull case and fuel above-expected profits
- Strong AUM growth, solid execution and seasoned management should help fend off competition; maintain BUY, TP Rs 9,105

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**Robust AUM growth:** BAF has posted 33% YoY (7% QoQ) growth in AUM to Rs 2.9tn as of Q2FY24 – a positive surprise when compared with the guided range of 29-31% and our estimate of 29% for full-year FY24. AUM increased by Rs 428bn in H1FY24 vs. Rs 208bn in H1FY23. Deposits grew 39% YoY to Rs 548bn and the consolidated net liquidity surplus was strong at Rs 114bn. The company's proposal to raise capital through a qualified institutional placement (QIP) and/or a preferential issue will be placed before the board tomorrow and will serve as an indicator of growth potential.

**Potential to trigger our bull case:** In our recent [initiation report on BAF](#), we had highlighted that in the bull case, the company could post a 33.5% AUM CAGR over FY23-FY25 as compared to 28% in the base case. Should the bull case be triggered, BAF could post above-expected profits over our forecast period.

**Strong volumes and customer acquisition:** The company's customer franchise stood at 76.6mn at end-Q2FY24 vs. 62.9mn in Q2FY23. It added 3.6mn customers during the quarter and 7.4mn in H1FY24, in line with its earlier guidance of 12-13mn additions during FY24. New loans booked during Q2 grew by 26% YoY to 8.5mn as compared to 6.8mn in Q2FY23.

**Maintain BUY:** We remain bullish on BAF and believe its robust AUM growth, diverse business model, efficient execution and seasoned leadership team will enable it to withstand growing competition and to manage asset quality risks in new ventures such as microfinance. We continue to value the standalone business at 6.6x FY25E ABV (Rs 8,619/sh), a 20% premium to the long-term average, and add Rs 482/sh for housing arm BHFL (2x FY25E BV) and Rs 4/sh for securities subsidiary BFSL (15x FY25E EPS) to arrive at our SOTP-based TP of Rs 9,105. BUY.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

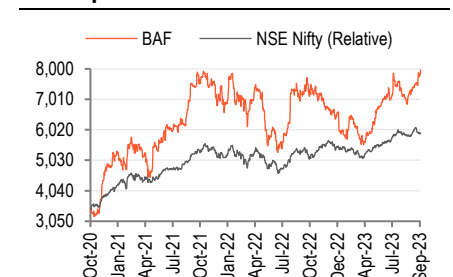
Ticker/Price	BAF IN/Rs 7,968
Market cap	US\$ 18.4bn
Free float	44%
3M ADV	US\$ 88.7mn
52wk high/low	Rs 8,000/Rs 5,486
Promoter/FPI/DII	56%/20%/13%

Source: NSE | Price as of 3 Oct 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
NII (Rs mn)	2,29,903	2,85,451	3,63,124
NII growth (%)	31.2	24.2	27.2
Adj. net profit (Rs mn)	1,15,077	1,44,966	1,85,079
EPS (Rs)	189.6	238.7	304.8
Consensus EPS (Rs)	189.6	233.0	290.0
P/E (x)	42.0	33.4	26.1
P/BV (x)	8.9	7.3	5.9
ROA (%)	4.7	4.6	4.6
ROE (%)	23.5	23.9	24.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net interest income</b>	<b>1,38,894</b>	<b>1,75,235</b>	<b>2,29,903</b>	<b>2,85,451</b>	<b>3,63,124</b>
NilI growth (%)	2.9	26.2	31.2	24.2	27.2
Non-interest income	33,797	43,708	58,555	73,289	94,063
Total income	1,72,691	2,18,944	2,88,458	3,58,740	4,57,187
Operating expenses	53,082	75,872	1,01,300	1,20,512	1,51,193
PPOP	1,19,608	1,43,072	1,87,158	2,38,228	3,05,995
PPOP growth (%)	6.3	19.6	30.8	27.3	28.4
Provisions	59,686	48,034	31,897	44,424	58,564
PBT	59,923	95,038	1,55,262	1,93,804	2,47,431
Tax	15,724	24,756	40,202	48,839	62,353
<b>Reported net profit</b>	<b>44,198</b>	<b>70,282</b>	<b>1,15,077</b>	<b>1,44,966</b>	<b>1,85,079</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>44,198</b>	<b>70,282</b>	<b>1,15,077</b>	<b>1,44,966</b>	<b>1,85,079</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	1,203	1,207	1,209	1,209	1,209
Reserves & surplus	3,67,981	4,35,920	5,42,511	6,65,732	8,23,048
Net worth	3,69,184	4,37,127	5,43,720	6,66,940	8,24,257
Debt securities	5,45,021	7,62,231	8,68,452	11,26,056	14,27,511
Borrowings	7,71,314	8,90,089	12,98,453	16,83,604	21,34,320
Other liab. & provisions	29,185	35,618	41,662	57,060	71,989
<b>Total liab. &amp; equities</b>	<b>17,14,704</b>	<b>21,25,064</b>	<b>27,52,287</b>	<b>35,33,661</b>	<b>44,58,077</b>
Cash & bank balance	21,643	36,803	43,045	40,282	33,790
Investments	1,83,969	1,22,455	2,27,518	2,93,775	3,72,421
Advances	14,66,869	19,14,233	24,22,689	31,30,306	39,68,317
Fixed & Other assets	42,223	51,573	59,034	69,298	83,549
<b>Total assets</b>	<b>17,14,704</b>	<b>21,25,064</b>	<b>27,52,287</b>	<b>35,33,661</b>	<b>44,58,077</b>
Total debt growth (%)	10.0	39.9	13.9	29.7	26.8
Advances growth (%)	3.8	30.5	26.6	29.2	26.8

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	73.7	116.8	189.6	238.7	304.8
Dividend per share	10.0	20.0	30.0	35.8	45.7
Book value per share	615.4	726.6	895.7	1,098.3	1,357.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	108.2	68.2	42.0	33.4	26.1
P/BV	12.9	11.0	8.9	7.3	5.9
Dividend yield (%)	0.1	0.3	0.4	0.4	0.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	8.3	9.1	9.4	9.1	9.1
Non-interest income	2.0	2.3	2.4	2.3	2.4
Operating expenses	3.2	4.0	4.2	3.8	3.8
Provisions	3.6	2.5	1.3	1.4	1.5
ROA	2.6	3.7	4.7	4.6	4.6
Leverage (x)	4.9	4.8	5.0	5.2	5.4
ROE	12.8	17.4	23.5	23.9	24.8

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Net interest income	2.9	26.2	31.2	24.2	27.2
Pre-provisioning profit	6.3	19.6	30.8	27.3	28.4
EPS	(15.8)	58.6	62.3	25.9	27.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	9.6	10.4	10.6	10.3	10.2
Fees / Avg. assets	1.5	1.6	1.8	1.8	1.9
Cost-Income	30.7	34.7	35.1	33.6	33.1
ROE	12.8	17.4	23.5	23.9	24.8
ROA	2.6	3.7	4.7	4.6	4.6
<b>Asset quality (%)</b>					
GNPA	1.8	1.6	0.9	1.0	1.3
NNPA	0.8	0.7	0.3	0.4	0.5
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	62.2	59.7
<b>Ratios (%)</b>					
Loans to Total debt	111.1	115.5	111.5	111.1	111.1
CAR	28.3	27.2	25.0	24.5	24.8
Tier-1	25.1	24.8	23.2	22.6	23.0

Source: Company, BOBCAPS Research

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

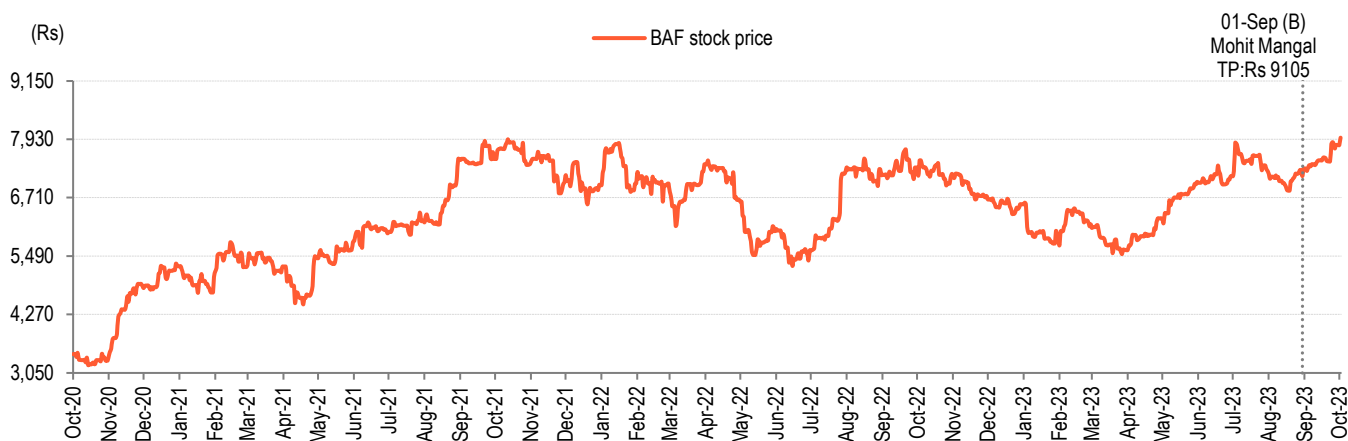
**HOLD** – Expected return from -6% to +15%

**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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