

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

Bajaj Finance Limited

Credit cost key monitorable

NIM decline and elevated credit cost exert pressure on RoA; cost growth has been well-regulated

BAF's 2% miss on PAT versus our estimate was essentially driven by higher-than-anticipated credit cost, as the co.'s NII/PPOP was better than our expectation. Credit cost was elevated at annualized 2% owing to lower collection efficiencies in the regular and initial delinquency buckets, which drove significant flows into Stage-2 assets (increased 21.5% qoq, and the rise was across products). GNPL/NNPL ratios were stable qoq and yoy. NIM compression in Q1 FY25 over Q4 FY24 was 23 bps, with 13 bps contributed by cost of funds and 10 bps by AUM composition (higher growth in secured consumer and SME/commercial lending).

Consolidated AUM growth stood at 7.1% qoq/31.1% yoy. Except in Rural B2C segment (grew 2.5% qoq/5.3% yoy), the growth was strong in all other products including Urban B2C (grew 8.4% qoq/30.6% yoy). More recently introduced secured products like Gold Loans and Car Loans have been witnessing significant scale-up. Though RBI lifted restrictions on sanction/disbursal of loans under 'eCOM' and 'Insta EMI Card' on 2nd May, BAF resumed disbursal of loans in these segments and issuance of EMI cards in a staggered manner. BHL AUM grew 31% yoy with much stronger growth in LRD (41% yoy) and Developer Finance (75% yoy). Overall disbursements of BHL grew by 16% yoy.

Consolidated PPOP for BAF grew by robust 25% yoy, notwithstanding the NIM compression, aided by a well-regulated opex growth (has been in early twenties v/s AUM growth in early thirties). Annualized RoA/RoE for Q1 FY25 were 4.6%/20%.

Commentary on growth and margins on expected lines; credit cost expected to moderate in H2

Basis trends in asset quality, demand, competition, and execution (distribution), BAF continues to expect AUM growth at 26-28% for FY25. Even the Rural B2C portfolio is estimated to grow by double digits during the year. With expectations of CoF peaking by August and AUM composition pivot towards secured assets stabilizing by Sept-Oct, the management expects NIM to stabilize from H2 FY25. BAF has retained credit cost estimate of 1.75%-1.85% for the year as of now while acknowledging the presence of upside risks. Underlying expectation here is that credit cost in H2 FY25 can meaningfully come-off with Bounce Rates in June-July having improved and with augmentation of collection infrastructure.

Retain BUY on supportive valuation and expectations of earnings growth improving from H2 FY25

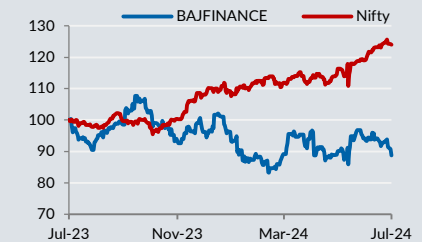
We have pruned FY25/26 estimates largely on assuming slightly higher credit cost. We expect BAF to deliver 24% earnings growth on 26% AUM growth over FY24-26 with avg RoA/RoE of 4.1%/21%. The stock is trading below its long-term mean valuation and there stands a possibility for re-rating over the next 6-12 months with persistence of strong growth, improvement in credit cost and turnaround in NIM cycle. BAF has exhibited resilience in growth and profitability through various phases of competition, credit cycles and liquidity conditions.

Reco	: BUY
CMP	: Rs 6,727
Target Price	: Rs 8,300
Potential Return	: +23.4%

Stock data (as on July 23, 2024)

Nifty	24,479
52 Week h/l (Rs)	8192 / 6188
Market cap (Rs/USD mn)	4257837 / 50893
Outstanding Shares (mn)	618
6m Avg t/o (Rs mn):	8,580
Div. yield (%):	0.5
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

Stock performance



	1M	3M	1Y
Absolute return	-5.7%	-7.3%	-11.3%

Shareholding pattern

Promoter	54.7%
FII+DII	35.0%
Others	10.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	8,300	8,600

Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	233.8	272.2	360.9
EPS (Old)	233.8	279.7	358.1
% Change	-	-2.7%	0.8%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	3,62,578	4,44,107	5,61,292
PPOP	2,39,326	2,96,205	3,80,851
Net profit	1,44,512	1,68,232	2,23,049
Growth (%)	25.6	16.4	32.6
EPS (Rs)	233.8	272.2	360.9
ABVPS (Rs)	1,221.2	1,447.2	1,760.8
P/E (x)	28.8	24.7	18.6
P/ABV (x)	5.5	4.6	3.8
ROE (%)	22.1	20.1	22.1
ROA (%)	4.4	4.0	4.2

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Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Operating Income	1,60,987	1,49,262	7.9	1,24,978	28.8
Interest expended	(56,839)	(52,171)	8.9	(41,025)	38.5
Net Interest Income	1,04,148	97,091	7.3	83,953	24.1
Other Income	36	58	(36.9)	27	33.3
Total Income	1,04,185	97,149	7.2	83,980	24.1
Operating expenses	(34,709)	(33,028)	5.1	(28,544)	21.6
PPOP	69,475	64,121	8.4	55,437	25.3
Provisions	(16,847)	(13,100)	28.6	(9,953)	69.3
PBT	52,628	51,021	3.2	45,484	15.7
Tax	(13,534)	(12,806)	5.7	(11,143)	21.5
Reported PAT	39,120	38,245	2.3	34,369	13.8

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
AUM	35,41,920	33,06,150	7.1	27,00,970	31.1
Consumer B2B -Auto Fin.	1,96,890	1,97,420	(0.3)	1,47,360	33.6
Consumer B2B -Sales Fin.	2,69,750	2,34,480	15.0	2,23,210	20.9
Consumer B2C	7,16,280	6,60,930	8.4	5,48,450	30.6
Rural Business	2,56,020	2,38,160	7.5	2,27,000	12.8
SME Business	4,07,910	3,84,700	6.0	3,15,690	29.2
Securities Lending	2,20,430	2,20,380	0.0	1,62,380	35.7
Commercial Lending	2,35,890	2,20,060	7.2	1,80,640	30.6
Mortgages	10,96,710	10,33,160	6.2	8,30,900	32.0
Others	1,42,040	1,16,860	21.5	65,340	117.4

Source: Company, YES Sec

Exhibit 3: Customer Franchise

(mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Franchise	88.1	83.6	1.0	73.0	20.7
Non-Delinquent Customers	63.0	56.7	11.0	48.9	28.8
Cross sell franchise	55.1	50.8	8.7	44.3	24.6
New to BAF	4.5	3.2	38.4	3.8	16.4
New loans booked	11.0	7.9	39.4	9.9	10.4
EMI Cards in force	45.6	41.0	11.2	41.6	9.6

Source: Company, YES Sec

Exhibit 4: GNPA trend

GNPA - (%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Consumer B2B-Auto Fin.	3.4	3.0	0.4	3.9	(0.5)
Consumer B2B-Sales Fin	0.5	0.6	(0.0)	0.4	0.2
Consumer B2C	1.0	1.0	(0.0)	0.9	0.1
Rural B2B	0.4	0.5	(0.1)	0.4	0.0
Rural B2C	1.1	1.1	(0.0)	0.9	0.2
SME	1.4	1.3	0.0	1.2	0.2
Mortgages	0.5	0.5	-	0.6	(0.1)

Source: Company, YES Sec

Exhibit 5: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Op Income / Average AUM*	19.5	18.6	0.9	19.3	0.2
Interest Expense / Average AUM*	6.9	6.5	0.4	6.3	0.5
NII / Average AUM*	12.6	12.1	0.5	13.0	(0.4)
Cost to Income	33.3	34.0	(0.7)	34.0	(0.7)
Provisions / Average AUM	2.0	1.6	0.4	1.5	0.5
RoE	19.9	20.5	(0.6)	24.5	(4.6)
RoA	4.6	4.8	(0.2)	5.4	(0.8)
CAR	21.7	22.5	(0.9)	24.6	(3.0)
Tier-1	20.7	21.5	(0.8)	23.0	(2.3)
Gross NPA	0.9	0.9	0.0	0.9	(0.0)
Net NPA	0.4	0.4	0.0	0.3	0.1
PCR	56.0	57.0	(1.0)	65.0	(9.0)

Source: Company, YES Sec; *Calculated

Exhibit 6: PCR trend

PCR - (%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Consumer B2B-Auto Fin.	47.0	48.0	(1.0)	51.0	(4.0)
Consumer B2B-Sales Fin	82.0	82.0	-	79.0	3.0
Consumer B2C	56.0	56.0	-	75.0	(19.0)
Rural B2B	82.0	83.0	(1.0)	80.0	2.0
Rural B2C	72.0	73.0	(1.0)	70.0	2.0
SME	58.0	57.0	1.0	75.0	(17.0)
Mortgages	54.0	58.0	(4.0)	58.0	(4.0)

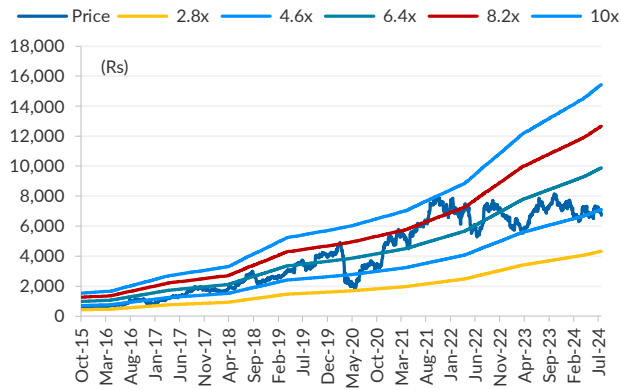
Source: Company, YES Sec

Exhibit 7: ECL Summary

(Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Stage 1 & 2 assets					
Gross Stage 1 & 2 assets	2,675,230	2,877,560	30,83,330	32,85,180	35,20,390
ECL Provision Stage 1 & 2	30,540	29,050	30,790	34,350	37,010
Net Stage 1 & 2 assets	2,644,690	2,848,510	30,52,540	32,50,830	34,83,380
Coverage ratio (%)	1.1	1.0	1.0	1.0	1.1
Stage 3 assets					
Gross Stage 3 assets	23,480	26,450	29,630	28,160	30,540
ECL Provision Stage 3	15,210	17,470	18,280	16,060	17,120
Net Stage 3 assets	8,270	8,980	11,350	12,100	13,420
Coverage ratio (%)	64.8	66.0	61.7	57.0	56.1

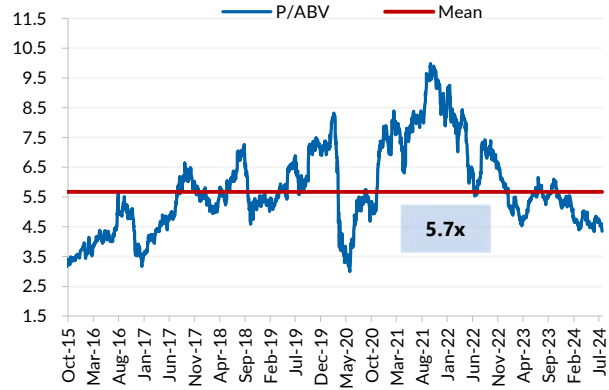
Source: Company, YES Sec

Exhibit 8: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 9: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Equity and Liabilities					
Equity Share Capital	1,207	1,209	1,236	1,236	1,236
Other Equity	4,35,920	5,42,511	7,65,718	9,08,642	11,06,384
Share-holders fund	4,37,127	5,43,720	7,66,954	9,09,878	11,07,620
Financial Liabilities	16,79,935	22,00,952	29,80,210	37,77,577	47,13,992
Deposits	3,07,995	4,46,656	6,01,509	7,57,902	9,70,114
Trade payables	16,511	20,955	28,307	34,677	42,479
Debt Securities	7,62,231	8,68,452	11,79,995	14,98,594	18,58,257
Borrowings (Excl. Debt Sec.)	5,43,636	8,15,494	11,16,175	14,17,542	17,57,752
Subordinated Liabilities	38,458	36,303	35,779	45,439	56,345
Other Financial Liabilities	11,104	13,093	18,444	23,424	29,045
Non-Financial Liabilities	7,992	7,615	10,253	12,569	15,414
Current tax liabilities (net)	1,001	1,392	1,086	1,358	1,698
Provisions	1,669	2,704	4,219	5,274	6,592
Other non-financial liabilities	5,322	3,518	4,948	5,937	7,125
Total Liabilities + Equity	21,25,054	27,52,287	37,57,416	47,00,024	58,37,026
Assets					
Financial Assets	20,94,584	27,15,935	37,09,912	46,50,759	57,85,824
Cash and Cash Equivalents	34,072	15,508	40,345	32,039	49,325
Bank balances	2,731	27,538	65,895	65,895	65,895
Trade Receivables	12,659	12,997	17,335	20,802	24,962
Other Receivables	1,219	1,489	278	348	435
Loans	19,14,233	24,22,689	32,62,933	41,43,925	51,79,906
Investments	1,22,455	2,27,518	3,08,807	3,70,568	4,44,681
Other Financial Assets	7,215	8,196	14,319	17,183	20,619
Non- Financial Assets	30,470	36,351	47,504	49,265	51,202
Current tax assets (net)	1,683	1,814	2,909	3,491	4,189
Deferred tax assets (net)	9,511	9,371	10,174	10,174	10,174
Property, plant and equipment	12,826	16,766	23,583	24,762	26,000
Goodwill	33	33	33	33	33
Other Intangible assets	4,646	7,076	9,318	9,318	9,318
Other non-financial assets	1,771	1,292	1,487	1,487	1,487
Total Assets	21,25,054	27,52,287	37,57,416	47,00,024	58,37,026

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Income from Operations	3,16,405	4,13,974	5,49,695	6,93,193	8,55,564
Interest expense	(97,537)	(1,25,599)	(1,87,247)	(2,49,235)	(2,94,445)
Net interest income	2,18,868	2,88,375	3,62,448	4,43,957	5,61,120
Non-interest income	76	83	130	150	172
Total op income	2,18,944	2,88,458	3,62,578	4,44,107	5,61,292
Total op expenses	(75,872)	(1,01,300)	(1,23,252)	(1,47,902)	(1,80,441)
PPoP	1,43,072	1,87,158	2,39,326	2,96,205	3,80,851
Provisions	(48,034)	(31,897)	(46,307)	(71,385)	(82,774)
Profit before tax	95,038	1,55,262	1,93,019	2,24,820	2,98,077
Taxes	(24,756)	(40,202)	(48,584)	(56,588)	(75,027)
Net profit	70,282	1,15,060	1,44,435	1,68,232	2,23,049

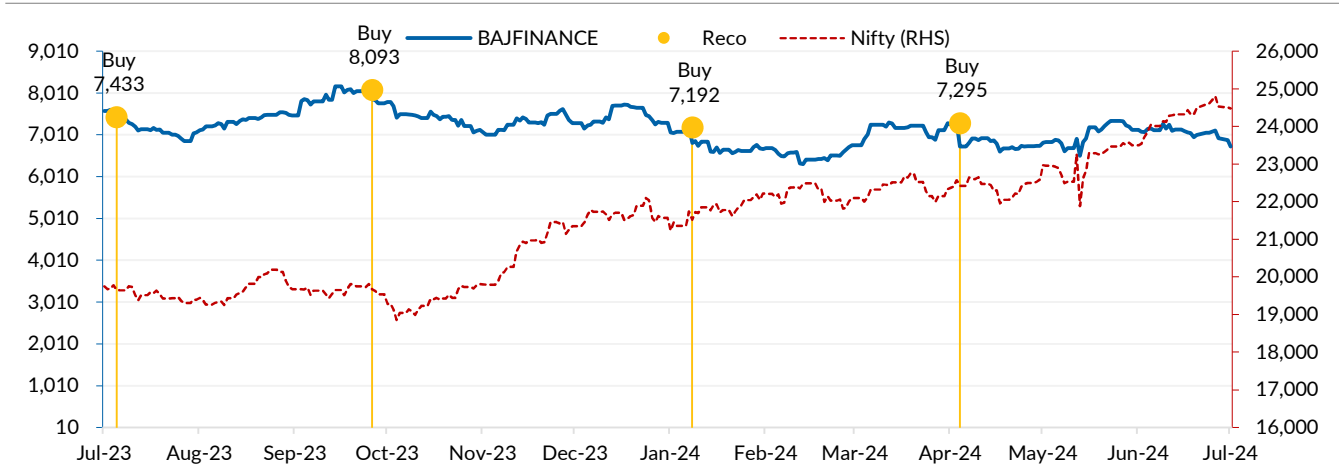
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	26.8	31.8	25.7	22.5	26.4
Total op income	26.8	31.7	25.7	22.5	26.4
Op profit (pre-provision)	19.6	30.8	27.9	23.8	28.6
Net profit	59.0	63.7	25.5	16.5	32.6
Advances	30.5	26.6	34.7	27.0	25.0
Total Borrowings	27.0	28.0	35.6	27.0	24.0
Total assets	23.9	29.5	36.5	25.1	24.2
Profitability Ratios (%)					
NIM	12.5	13.0	12.5	11.8	11.9
Return on Avg. Equity	17.4	23.5	22.1	20.1	22.1
Return on Avg. Assets	3.7	4.7	4.4	4.0	4.2
Per share ratios (Rs)					
EPS	116.5	190.4	233.8	272.2	360.9
Adj. BVPS	702.3	885.6	1,221.2	1,447.2	1,760.8
DPS	20.0	30.0	36.0	35.0	35.0
Other key ratios (%)					
Cost/Income	34.7	35.1	34.0	33.3	32.1
Tier-I capital	24.8	23.2	21.5	20.1	19.6
Gross NPLs/Loans	1.6	0.9	0.9	0.9	0.9
Credit Cost	2.7	1.4	1.6	1.9	1.8
Net NPLs/Net loans	0.7	0.3	0.4	0.4	0.4
Tax rate	26.0	25.9	25.2	25.2	25.2
Dividend yield	0.3	0.4	0.5	0.5	0.5

Source: Company, YES Sec

Recommendation Tracker



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Analyst signature

Analyst signature

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