

Bajaj Finance

BSE Sensex
79,803

S&P CNX
24,131

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BAJAJ FINANCE LIMITED

Stock Info

Bloomberg	BAF IN
Equity Shares (m)	619
M.Cap.(INRb)/(USDb)	4070.5 / 48.2
52-Week Range (INR)	7830 / 6188
1, 6, 12 Rel. Per (%)	-5/-10/-28
12M Avg Val (INR M)	8737
Free float (%)	45.3

Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
Net Income	450	564	703
PPP	300	378	475
PAT	165	212	272
EPS (INR)	266	343	440
EPS Gr. (%)	14	29	28
BV/Sh. (INR)	1,581	1,879	2,264

Ratios

NIM (%)	9.8	9.9	9.9
C/I ratio (%)	33.4	32.9	32.4
RoA (%)	3.9	4.0	4.1
RoE (%)	18.9	19.8	21.2
Payout (%)	15.0	13.1	12.4

Valuations

P/E (x)	24.7	19.2	15.0
P/BV (x)	4.2	3.5	2.9
Div. Yield (%)	0.6	0.7	0.8

CMP: INR6,577 TP: INR7,250 (+10%) Neutral

Exits co-branded credit card distribution; minimal impact on earnings

Bajaj Finance (BAF) has decided to exit the co-branded credit card distribution business. RBL Bank (RBK) announced that the bank and BAF have mutually agreed to terminate their co-branded credit card partnership. This would also imply that BAF will potentially terminate its co-branded card partnership with DBS Bank (DBS). What is puzzling is that BAF, which had once articulated its aspirations to become one of the largest card issuers in the country, has now decided to exit the co-branded card distribution entirely.

- BAF had earlier reported that it had a total of ~4m co-branded credit cards in force (CIF) as of Sep'24. This included ~3.4m RBK co-branded CIF and ~0.6m DBS co-branded CIF. With BAF's decision to exit the co-branded card distribution business, it will stop incremental sourcing of co-branded credit cards and cease new customer on-boarding on the platform of the co-branded cards.
- Under these co-branded credit card partnerships, BAF received an upfront fee on sourcing/origination and trail fee income (shared in a certain fee income) on interchange fees and annual card fees. In terms of impact from the termination of this partnership, BAF will no longer receive an upfront fee on co-branded credit card origination. However, trail fee income mentioned above will continue on the co-branded cards in force so long as the cards are in good standing and remain active until the next card renewal, when they will be replaced with the respective bank's credit card.
- According to our calculations, we estimate BAF's fee income to decline INR470m and ~INR1.4b in FY25 and FY26, respectively, as a direct impact of no upfront fee on card originations. **This translates into ~0.2% and ~0.4% of the PPOP in FY25/FY26, respectively** (Refer to Exhibit 8). Income from the trail fee stream will continue to accrue for at least the next 2-3 years as there is no sunset clause in place for the sharing of trail fee income.
- **We do not expect any material impact on the profitability of BAF (from its decision to exit the co-branded card distribution business), given that the company will continue to get its share of future revenues from its existing credit card franchise. Moreover, we believe that the company, as in the past, will deploy these resources in some other business segments/revenue streams to continue to augment its fee income stream.**

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	54.7	54.7	55.9
DII	15.1	14.3	13.1
FII	20.9	21.2	20.5
Others	9.4	9.8	10.5

FII includes depository receipts

Stock Performance (one-year)**Valuation and view**

While BAF's decision has come as a surprise, it is crucial to consider the role played by RBI in influencing RBK-BAF's decision to terminate the co-branded partnership. While the valuations are attractive at 3.5x P/BV and 19x FY26E P/E, we do not anticipate any significant upside catalysts until it successfully navigates the asset quality challenges in its B2C loan book and makes concerted efforts to improve the proportion of secured loans in its loan mix. Maintain Neutral with a TP of INR7,250 (3.5x Sep'26E P/BV).

BAF and RBK co-branded credit cards partnership: Size and scale

- Over the last few months, new RBK co-branded credit card originations were averaging ~35-40K per month and BAF would have sourced 250K-300K RBK co-branded credit cards in 1HFY25.
- RBK shared that if the acquisition pay-out on credit cards on a blended basis was "X", it was paying 0.75x to BAF for card origination. In addition, RBK also gave a small trail payout based on transactions (interchange fees) and annual fees on credit cards.
- For RBK, its outstanding credit card receivables had ~50-55% from the BAF co-branded credit card portfolio.

Co-branded card partnership: Why is the partnership terminated?

- RBK and BAF discussed the nuances of this co-brand partnership over the last month and concluded that the synergies have undergone a significant change over a period of time. BAF and RBK mutually agreed to terminate the co-branded credit card partnership.
- The termination of this partnership was initiated by BAF, and RBK was comfortable with this decision considering the volumes had already significantly declined over the past year.
- RBK also shared that BAF has intimated its decision to exit from the co-branded card distribution business. BAF is exiting this category altogether and the announcement made by RBK was consequent to this decision.
- RBK sought to reduce the quantum of newer credit cards sourced through this partnership. At some point, sourcing <30K credit cards no longer made sense for BAF, leading to a mutual agreement to end the partnership.

Way ahead for RBK's co-branded credit card portfolio

- RBK shared that its BAF co-branded credit card (CC) portfolio had exhibited inferior asset quality compared to its directly sourced CC portfolio. However, the leading indicators are improving and RBK expects this portfolio to exhibit continuous improvement in 3Q/4QFY25 and exhibit normalized portfolio metrics by 1QFY26.
- Existing RBK and BAF co-branded credit cards will not undergo any change and the portfolio of ~3.4m credit cards in force under this partnership will continue to be serviced. Upon the renewal of these co-branded cards, customers will only be issued an RBK-branded credit card.
- RBK will handle all aspects of this credit card pool, including customer service, portfolio management, and collections, ensuring no impact on customers.

Snippets from BAF's conference calls: Commentary on co-branded credit cards partnerships and its strategic focus on scaling this up**2QFY21**

- BAF aims to become one of the largest card issuers in the country. It has partnered with RBK and plans to explore another partnership in the future.

3QFY21

- BAF receives RBI approval for the issuance of co-branded credit cards with DBS. RBK continues to remain a strategic partner.

17 September, 2021 (2QFY22)**BAF conference call hosted by a sell-side broker – Audio recording was made publicly available**

- BAF already has a four-year partnership with RBK and is building a partnership with DBS with a 10-year horizon. It will have enough and more to satisfy both the proprietary channel as well as the partnerships.

4QFY22

- BAF will seek clarifications from RBI and then decide if it wants to do credit cards from its own balance sheet.
- BAF remains committed to co-lending partnerships with both RBK and DBS.

1QFY23

- BAF has a deep strategic partnership with RBK and remains committed to the partnership.
- It has kicked off the DBS partnership and is currently originating around 9K-10K new credit cards per month under this partnership; it expects to exit with 30-40K credit card originations per month.

2QFY24

- RBK is a strategic partner with 4.8m co-branded credit cards (over the lifetime) and 3.5m active cards under this co-branded partnership.

3QFY24

- RBI has granted a one-year renewal for the RBK-BAF co-branded credit cards partnership.
- RBI has communicated that it has observed some deficiencies in the co-branded credit cards. BAF will work with RBK to get these deficiencies ironed out.

2QFY25

- Fee income was lower QoQ because of the transfer of the collections activity to RBK (in the co-branded credit cards).

Exhibit 1: Fee income streams of BAF

BAF - Fee income (INR m)	FY21	FY22	FY23	FY24
Service and administrative charges	13,138	11,616	15,534	17,728
Fees on value-added services	3,697	4,494	5,046	6,532
Foreclosure income	1,446	2,269	3,191	4,396
Distribution income	6,125	11,992	19,152	22,991
Brokerage income	118	296	506	1,025
Total fee and commission income	24,524	30,667	43,429	52,672
Fee income as % of average assets				
Service and administrative charges	0.8	0.6	0.6	0.5
Fees on value-added services	0.2	0.2	0.2	0.2
Foreclosure income	0.1	0.1	0.1	0.1
Distribution income	0.4	0.6	0.8	0.7
Brokerage income	0.0	0.0	0.0	0.0
Total fee and commission income (as % of avg. assets)	1.5	1.6	1.8	1.6

Source: Company, MOFSL

Exhibit 2: BAF's co-branded credit cards in force across RBK and DBS

RBK - Number of cards in force	FY21	FY22	FY23	FY24	1HFY25
Co-branded Credit Cards CIF (in '000)	2,050	2,800	3,460	4,080	4,000
out of which,					
RBK co-branded CIF	2800	3250	3,630	3,400	
YoY growth			16.1	11.7	-6.3
RBK card net additions (in '000)			450	380	-230
DBS co-branded CIF	0	210	450	600	
YoY growth				114	33
DBS card net additions (in '000)			210	240	150

Source: Company, MOFSL

Exhibit 3: New card origination run-rate in RBK partnership declined significantly

	Sep'23	Sep'24
New RBK co-brand card originations (in '000)	126	37

Source: Company, MOFSL

Exhibit 4: Sizing of upfront fee pool on new card originations

	FY25E	FY26E
RBK card - new origination (monthly) [in '000]	35	30
RBK card - new origination (annual) [In '000]	420	360
DBS card - new origination (monthly) [in '000]	27	30
DBS card - new origination (annual) [In '000]	324	360
Total new origination (monthly) [in '000]	62	60
Total new origination (annual) [in '000]	744	720
Upfront fee on new card origination (MOFSLe) [in INR]	1,900	1,900
Total income from upfront fees on new card origination (INR m)	1,414	1,368

Source: Company, MOFSL

Exhibit 5: Sizing of trail income from the sharing of interchange fees on co-branded credit cards

Computation of trail income on interchange fee		FY24	
RBK credit spends (INR b)		794	
Proportion of RBK CC book from BAF's co-branded card portfolio		50%	
RBK credit spends in BAF's co-branded portfolio (INR b)		397	
Interchange fee		1.7%	
Revenue from interchange fee in BAF's co-branded card portfolio (INR b)		6.8	
Scenario analysis basis sharing of interchange fee (INR b) (BAF : RBK)		BAF	RBK
20:80		1.4	5.4
30:70		2.0	4.7
40:60		2.7	4.1

Source: Company, MOFSL

Exhibit 6: Sizing of trail income from sharing of annual fees in co-branded credit cards

BAF co-branded CIF - Annual fees based income		FY24	
Blended annual fees (INR)		999	
Cards in force (In '000)		4,000	
Total fee income from annual fees (INR b)		4.0	
Proportion where the annual fee is not waived		80%	
Total fee income from annual fees post fee waiver (INR b)		3.2	
Scenario analysis on sharing of annual fees [INR b] (BAF : Co-brand partner)		BAF	RBK
20:80		0.6	2.6
30:70		1.0	2.2
40:60		1.3	1.9

Source: Company, MOFSL

Exhibit 7: Fee income under the co-branded credit card portfolio

BAF's fee income from co-branded portfolio (INR b)		FY25E	FY26E
Fee income - new card originations		1.4	1.4
Fee income - sharing of interchange fees		2.7	3.1
Fee income - sharing of annual fees		1.3	1.5
Total		5.4	5.9

Source: Company, MOFSL

Exhibit 8: Impact on profitability from the termination of co-branded partnerships

Impact on BAF's PL (INR m) (FY25 impact pro-rated for Dec'24-Mar'25)		FY25E	FY26E
Fee income - new card originations		471	1,368
Fee income - sharing of interchange fees		Insignificant impact	Insignificant impact
Fee income - sharing of annual fees		Insignificant impact	Insignificant impact
Earnings Impact		FY25E	FY26E
as % of fee income		0.7	1.8
as % of total income		0.1	0.2
as % of PPOP		0.2	0.4
as % of PBT		0.2	0.5

Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)								INR m
Y/E MARCH	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	2,29,704	2,33,034	2,72,698	3,55,502	4,83,066	6,16,968	7,83,134	9,86,841
Interest Expended	94,732	94,140	97,482	1,25,599	1,87,247	2,52,558	3,10,506	3,87,728
Net Interest Income	1,34,972	1,38,894	1,75,215	2,29,903	2,95,819	3,64,410	4,72,627	5,99,113
Change (%)	38.8	2.9	26.2	31.2	28.7	23.2	29.7	26.8
Other Operating Income	34,034	33,647	43,627	58,472	66,629	85,305	91,001	1,03,308
Other Income	118	150	80	83	130	169	212	264
Net Income	1,69,124	1,72,691	2,18,922	2,88,458	3,62,578	4,49,884	5,63,840	7,02,686
Change (%)	42.4	2.1	26.8	31.8	25.7	24.1	25.3	24.6
Operating Expenses	56,608	53,082	75,850	1,01,300	1,23,252	1,50,177	1,85,372	2,27,676
Operating Profits	1,12,516	1,19,608	1,43,072	1,87,158	2,39,326	2,99,707	3,78,468	4,75,010
Change (%)	46.5	6.3	19.6	30.8	27.9	25.2	26.3	25.5
Provisions and W/Offs	39,295	59,686	48,034	31,897	46,307	78,074	94,733	1,10,801
PBT	73,221	59,923	95,038	1,55,279	1,93,019	2,21,633	2,83,735	3,64,208
Tax	20,584	15,724	24,756	40,202	48,584	56,738	71,501	91,781
Tax Rate (%)	28.1	26.2	26.0	25.9	25.2	25.6	25.2	25.2
PAT	52,638	44,198	70,282	1,15,077	1,44,435	1,64,895	2,12,234	2,72,428
Change (%)	31.8	-16.0	59.0	63.7	25.5	14.2	28.7	28.4
Proposed Dividend	7,254	6,026	6,036	18,570	22,284	24,654	27,697	33,863

Balance Sheet (Consolidated)								INR m
Y/E MARCH	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	1,200	1,203	1,207	1,209	1,236	1,239	1,239	1,239
Reserves & Surplus (Ex OCI)	3,22,951	3,69,179	4,36,643	5,43,349	7,65,198	9,78,382	11,62,919	14,01,484
Net Worth	3,24,150	3,70,382	4,37,850	5,44,558	7,66,434	9,79,621	11,64,158	14,02,724
OCI	-874	-1,198	-723	-839	519	519	519	519
Net Worth (Including OCI)	3,23,276	3,69,184	4,37,127	5,43,720	7,66,954	9,80,140	11,64,678	14,03,243
Change (%)	64.1	14.2	18.4	24.4	41.1	27.8	18.8	20.5
Borrowings	12,98,064	13,16,335	16,52,549	21,67,399	29,34,052	36,68,761	46,66,978	58,83,439
Change (%)	27.8	1.4	25.5	31.2	35.4	25.0	27.2	26.1
Other liabilities	22,573	29,185	35,378	41,168	56,411	64,872	74,603	85,793
Total Liabilities	16,43,914	17,14,704	21,25,054	27,52,287	37,57,416	47,13,773	59,06,258	73,72,475
Investments	1,75,439	1,83,969	1,22,455	2,27,518	3,08,807	3,24,247	3,40,459	3,57,482
Change (%)	104.0	4.9	-33.4	85.8	35.7	5.0	5.0	5.0
Loans	14,27,989	14,66,869	19,14,233	24,22,689	32,62,933	41,92,869	53,45,908	67,62,574
Change (%)	25.6	2.7	30.5	26.6	34.7	28.5	27.5	26.5
Other assets	40,485	63,866	88,366	1,02,079	1,85,677	1,96,657	2,19,891	2,52,419
Total Assets	16,43,914	17,14,704	21,25,054	27,52,287	37,57,416	47,13,773	59,06,258	73,72,475

E: MOFSL Estimates

Financials and valuations

Ratios	(%)							
Y/E MARCH	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)								
Yield on Advances	17.9	16.1	16.1	16.4	17.0	16.6	16.4	16.3
Cost of borrowings	8.2	7.2	6.6	6.6	7.3	7.7	7.5	7.4
Interest Spread	9.7	8.9	9.6	9.8	9.7	8.9	9.0	9.0
Net Interest Margin	10.5	9.6	10.4	10.6	10.4	9.8	9.9	9.9
Profitability Ratios (%)								
Cost/Income	33.5	30.7	34.6	35.1	34.0	33.4	32.9	32.4
Empl. Cost/Op. Exps.	45.0	47.0	47.3	49.9	51.9	53.7	55.2	56.6
RoE	20.2	12.7	17.4	23.4	22.0	18.9	19.8	21.2
RoA	3.6	2.6	3.7	4.7	4.4	3.9	4.0	4.1
Asset Quality (%)								
GNPA (INR m)	23,626	27,304	31,331	23,125	27,373	49,057	79,688	1,16,703
NNPA (INR m)	9,373	11,354	13,144	8,361	11,816	21,095	31,875	43,180
GNPA %	1.6	1.8	1.6	0.9	0.8	1.2	1.5	1.7
NNPA %	0.7	0.8	0.7	0.3	0.4	0.5	0.6	0.6
PCR %	60.3	58.4	58.0	63.8	56.8	57.0	60.0	63.0
Total Provisions/loans %	2.9	3.0	2.6	2.0	1.8	1.9	2.206	2.5
Capitalisation (%)								
CAR	25.0	28.3	27.2	25.0	22.8	21.7	21.2	0.0
Tier I	21.3	25.1	24.8	23.2	21.6	20.8	20.5	0.0
Tier II	3.7	3.2	2.5	1.8	1.2	0.9	0.7	0.0
Average Leverage on Assets (x)	5.5	4.8	4.8	5.0	5.0	4.9	5.0	5.2
Valuation								
Book Value (INR)	540	616	726	901	1,240	1,581	1,879	2,264
Price-BV (x)	12.2	10.7	9.1	7.3	5.3	4.2	3.5	2.9
Adjusted BV (INR)	529	602	711	891	1,227	1,557	1,843	2,215
Price-ABV (x)	12.4	10.9	9.3	7.4	5.4	4.2	3.6	3.0
EPS (INR)	88	73	116	190	234	266	343	440
EPS Growth (%)	26.7	-16.3	58.6	63.4	22.8	13.9	28.7	28.4
Price-Earnings (x)	75.0	89.5	56.5	34.5	28.1	24.7	19.2	15.0
OPS (INR)	188	199	237	310	387	484	611	767
OPS Growth (%)	40.9	6.0	19.3	30.6	25.1	24.9	26.3	25.5
Price-OP (x)	35.1	33.1	27.7	21.2	17.0	13.6	10.8	8.6
Dividend per Share (INR)	10.0	10.0	20.0	30.0	36.0	39.8	44.7	54.7
Dividend Yield (%)	0.2	0.2	0.3	0.5	0.5	0.6	0.7	0.8
E: MOSL Estimates								
Du-Pont - Y/E March								
Interest Income	15.9	13.9	14.2	14.6	14.8	14.6	14.7	14.9
Interest Expended	6.6	5.6	5.1	5.2	5.8	6.0	5.8	5.8
Net Interest Income	9.4	8.3	9.1	9.4	9.1	8.6	8.9	9.0
Other Operating Income	2.4	2.0	2.3	2.4	2.0	2.0	1.7	1.6
Net Income	11.7	10.3	11.4	11.8	11.1	10.6	10.6	10.6
Operating Expenses	3.9	3.2	4.0	4.2	3.8	3.5	3.5	3.4
Operating Income	7.8	7.1	7.5	7.7	7.4	7.1	7.1	7.2
Provisions/write offs	2.7	3.6	2.5	1.3	1.4	1.8	1.8	1.7
PBT	5.1	3.6	5.0	6.4	5.9	5.2	5.3	5.5
Tax	1.4	0.9	1.3	1.6	1.5	1.3	1.3	1.4
Reported PAT	3.6	2.6	3.7	4.7	4.4	3.9	4.0	4.1
Leverage	5.5	4.8	4.8	5.0	5.0	4.9	5.0	5.2
RoE	20.2	12.7	17.4	23.4	22.0	18.9	19.8	21.2

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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