

Execution machine robust as ever; ST challenges in the price; initiate with BUY

BFSI - NBFCs ▶ Initiating Coverage ▶ April 23, 2024

TARGET PRICE (Rs): 9,000

We initiate coverage on Bajaj Finance (BAF) with a BUY recommendation and Mar-25E TP of Rs9,000/sh (~23.4% upside), implying FY26E consolidated P/B of 5.1x. Our positive stance on the stock is underpinned by 3 factors: i) Flawless execution of strategic plans being BAF's biggest strength; its execution capabilities are as strong as ever. ii) Near-term challenges/concerns—such as RBI actions on EMI and E-com cards, Management succession & transition plans, and listing of the housing subsidiary—have already been identified, and a resolution for each is likely within the next one year. iii) Continuing with its immaculate 3i execution strategy (Invent, Innovate and Imitate), the company is well poised to deliver consol. AUM CAGR of ~25% and consol. PAT CAGR of 21.4%, over FY24-27E. BAF shares have materially underperformed in the past few years and, as the company continues to make good progress on its 'Long Range Strategy' (LRS 2028) in terms of advancing its customer franchise (83.6mn) and AUM (3.8-4% of retail credit/3-3.25% of overall credit), the recent correction (in last 2yr) in valuations provides an attractive entry point.

Bajaj Finance: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Net profits	114,571	146,199	183,914	220,781	261,798
AUM growths (%)	25.3	33.6	27.0	25.0	24.0
NII growths (%)	31.2	29.6	30.1	22.5	21.8
NIMs (%)	10.3	10.3	10.3	10.1	9.8
PPOP growth (%)	30.7	30.0	27.4	20.6	19.1
Adj. EPS (Rs)	190.5	239.2	297.5	357.2	423.6
Adj. EPS growth (%)	63.3	25.5	24.4	20.0	18.6
Adj. BV (INR)	899.7	1,239.6	1,476.4	1,777.0	2,133.6
Adj. BVPS growth (%)	24.1	37.8	19.1	20.4	20.1
RoA (%)	4.7	4.7	4.6	4.4	4.2
RoE (%)	23.4	22.5	22.0	22.0	21.7
P/E (x)	38.3	30.5	24.5	20.4	17.2
P/ABV (x)	8.11	5.88	4.94	4.10	3.42

Source: Company, Emkay Research

Execution machine as powerful as ever; resolution of niggling issues to be the re-rating catalyst

BAF's journey over the last one & a half decades has been a hallmark of near flawless execution of its 3i strategy (Invention, Innovation and Imitation) amid a number of external turbulences, shocks and disruptions, including Demonetization, GST, and Covid-19. Notwithstanding niggling issues in the past few years, BAF has continued to deliver growth (AUM and Customer Franchise) and profitability (RoA/RoE) in line with or better than its LRS and far superior than lending peers, despite reaching its current size and material exposure to mortgages. Regarding recent issues and overhangs, the company has addressed the deficiencies in processes that led to the RBI ban on E-com/EMI cards; the BHFL IPO is likely to come up within a year, and the recent Management reshuffle & hiring has granted clarity on Management succession and transition of MD Rajeev Jain.

We expect consolidated AUM and PAT to nearly double over FY24-27E

BAF has proactively added new product offerings in its already wide product portfolio. The newer product lines are likely to eventually post ~6-7% consol. AUM over coming 5 years, and offset any pressure on consol. yields resulting from the increasing mortgage in the AUM mix. At the consolidated level, we expect BAF to log AUM CAGR of 25% over FY24-27E, nearly doubling to Rs6.5trn, while noting PAT CAGR of 21.4% (improving to Rs262bn) by FY27E, with RoA seeing a marginal dip due to rising mortgage in AUM mix.

Recent underperformance of shares provides attractive entry point; initiate coverage on BAF with a BUY recommendation

BAF shares have materially underperformed the NIFTY50 over the last 2 years, amid RBI action on the company, anticipation around Management transition & succession, fear of entry of behemoths in consumer financing, and inclusion of Bajaj Housing Finance in the RBI's Upper Layer. With resolutions for most of these issues likely within the next one year, the correction in BAF shares provides an attractive entry point, given that the execution machine of the company is as effective as ever and that it is well on track to deliver its LRS targets (i.e. superior growth and profitability with regard to financial services). We initiate coverage on BAF with a BUY recommendation and Mar-25E TP of Rs9,000/share (23.4% upside), implying Mar-26E consolidated P/BV of 5.1x. We value standalone BAF at 5.6x FY26E P/BV and Bajaj Housing at 3x FY26E P/B. Key risks: new regulatory actions or prolonged duration of existing regulatory actions; transition to a bank structure; extreme increase in competitive intensity in key segments.

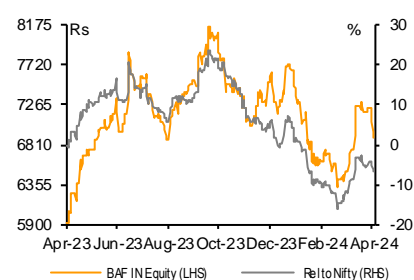
Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	23.4
CMP (22-Apr-24) (Rs)	7,292.2

Stock Data	Ticker
52-week High (Rs)	8,192
52-week Low (Rs)	5,877
Shares outstanding (mn)	619.0
Market-cap (Rs bn)	4,514
Market-cap (USD mn)	54,142
Net-debt, FY24E (Rs mn)	11,490
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	9,336.7
ADTV-3M (USD mn)	112.0
Free float (%)	-
Nifty-50	22,336
INR/USD	83.4
Shareholding, Mar-24	
Promoters (%)	54.7
FPIs/MFs (%)	17.2/17.8

Price Performance

(%)	1M	3M	12M
Absolute	7.9	(0.1)	22.8
Rel. to Nifty	6.7	(3.5)	(3.1)

1-Year share price trend (Rs)



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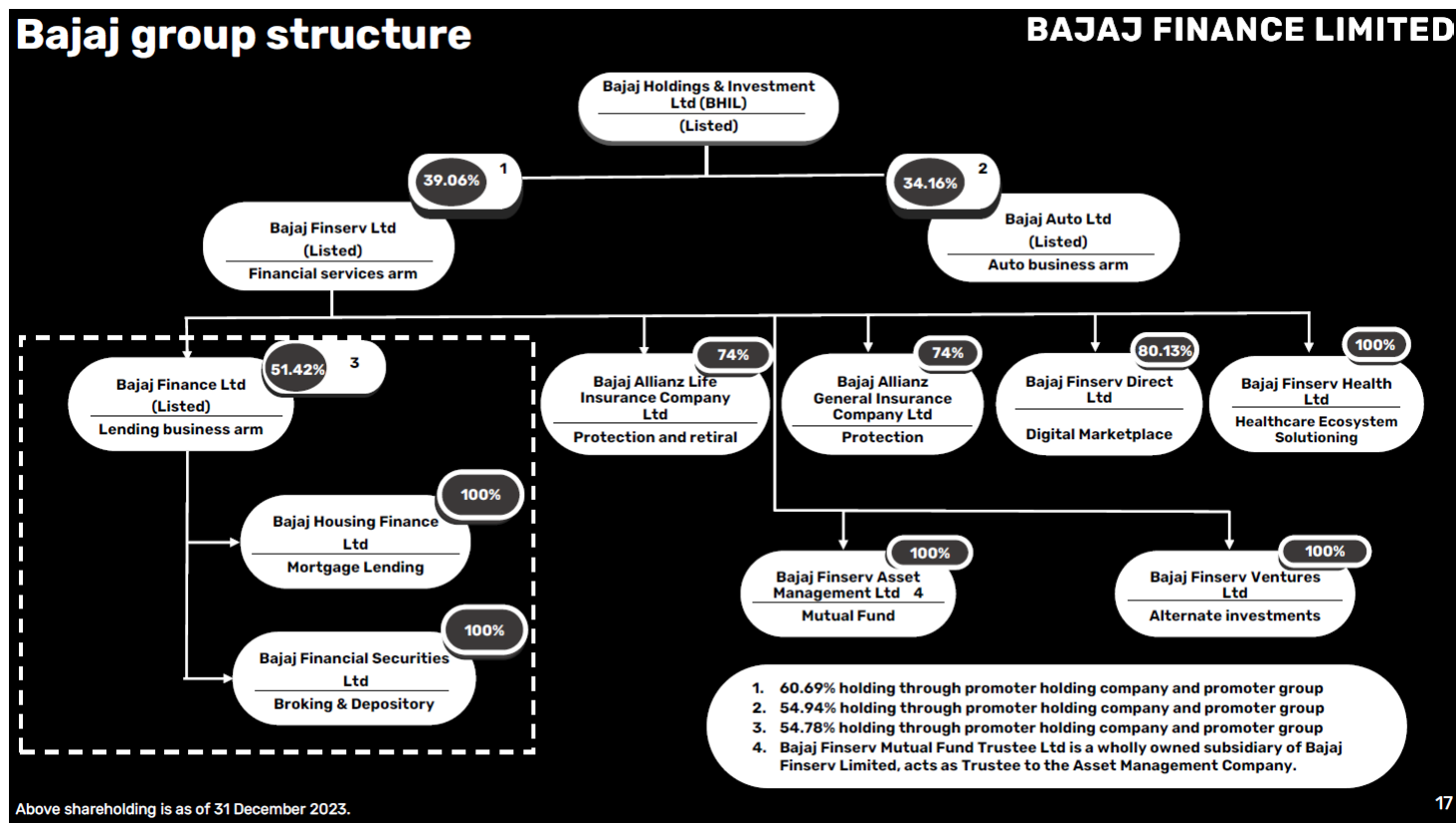
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Exhibit 1: Bajaj’s group structure



Source: Company

Exhibit 2: BAF – Valuation matrix

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			Adj. EPS (Rs)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
At current market price	7,292	23.4%	4,513.8	5.88	4.94	4.10	30.5	24.5	20.4	4.7	4.6	4.4	22.5	22.0	22.0	1,240	1,476	1,777	239	298	357
At target price	9,000			7.26	6.10	5.06	37.6	30.2	25.2	4.7	4.6	4.4	22.5	22.0	22.0						

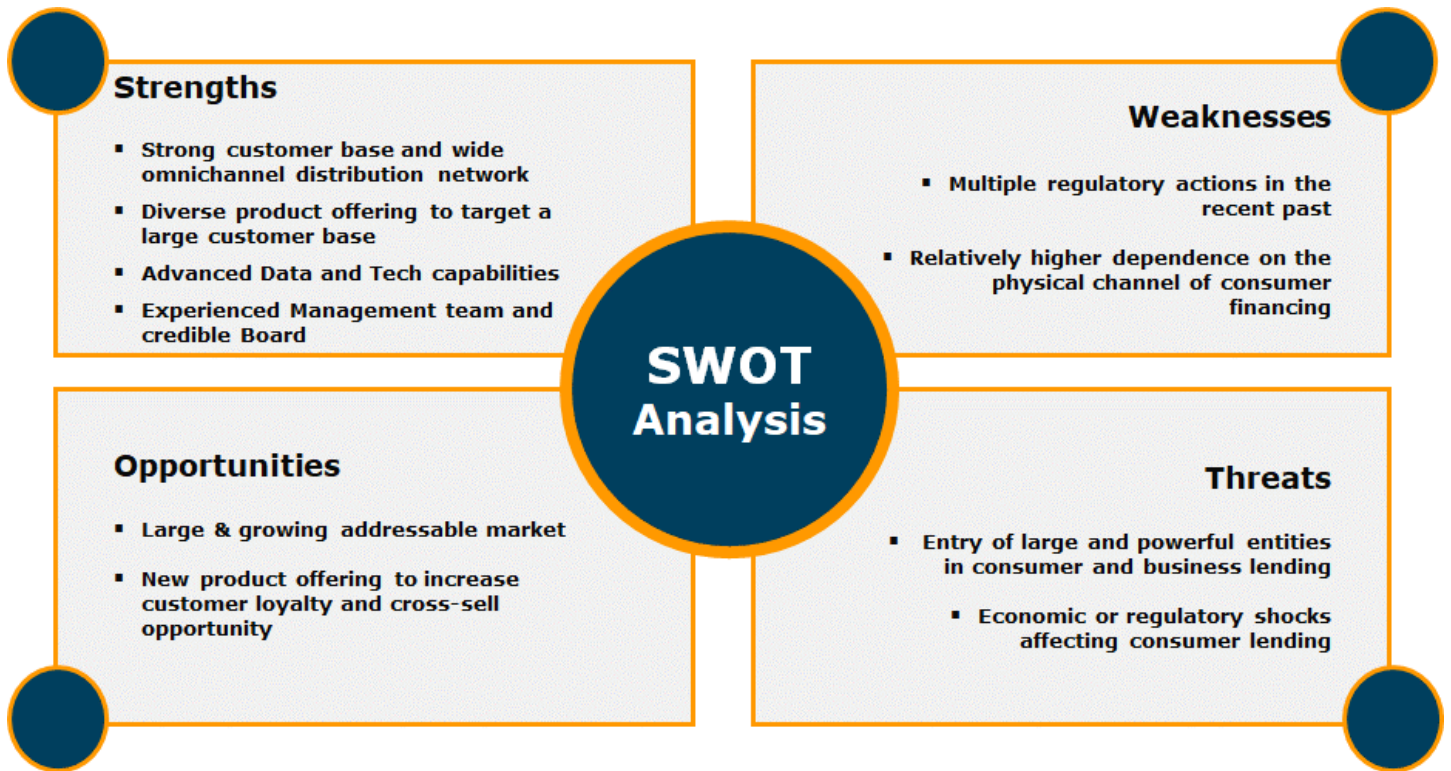
Source: Company, Emkay Research

Exhibit 3: Valuation matrix of coverage companies

Ticker	Rating	CMP (Rs/sh)	TP (Rs/sh)	Upside	Mkt. Cap (Rs mn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)		
						FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
CIFC	ADD	1,140	1,350	18.4%	958	4.9	4.1	3.4	28.1	22.8	18.5	2.6	2.5	2.5	20.1	19.8	20.4
MMFS	REDUCE	279	280	0.4%	345	1.9	1.8	1.6	19.1	16.0	13.0	1.7	1.7	1.8	10.2	11.4	13.0
SHFL	ADD	2,425	2,850	17.5%	911	1.9	1.6	1.4	12.6	9.8	8.1	3.0	3.3	3.4	15.9	17.9	18.7
LTFH	ADD	164	190	16.0%	408	1.7	1.6	1.4	16.5	13.1	10.5	2.4	2.8	3.1	11.0	12.6	14.2
PIEL	ADD	837	1,000	19.5%	188	0.7	0.7	0.7	15.5	9.3	7.5	1.5	2.2	2.3	4.9	7.7	9.1
POONAWAL	REDUCE	494	450	-8.8%	382	4.7	4.1	3.6	39.1	30.1	22.8	4.7	4.1	4.0	14.2	14.5	16.8
BAF	BUY	7,292	9,000	23.4%	4,514	5.9	4.9	4.10	30.5	24.5	20.4	4.7	4.6	4.4	22.5	22.0	22.0

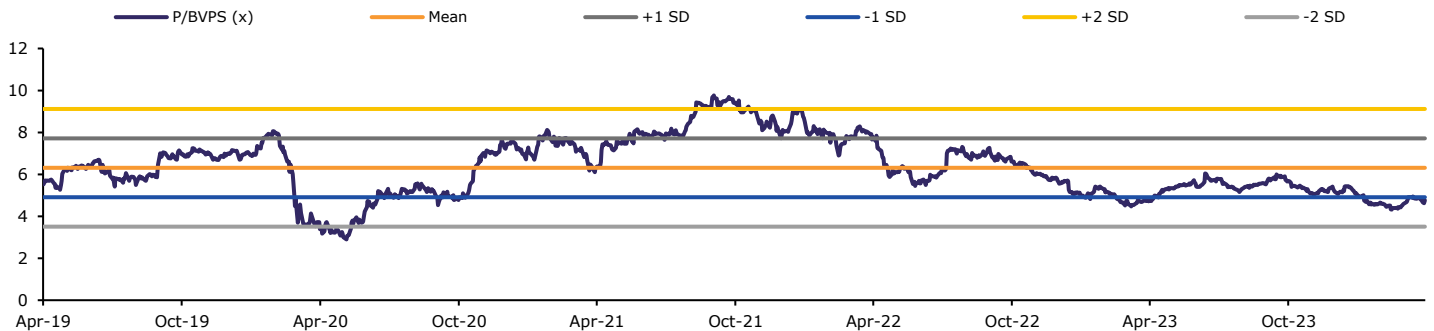
Source: Company, Emkay Research

Exhibit 4: SWOT analysis



Source: Company, Emkay Research

Exhibit 5: BAF is trading 1SD below its 5-year mean P/BV



Source: Company, Emkay Research

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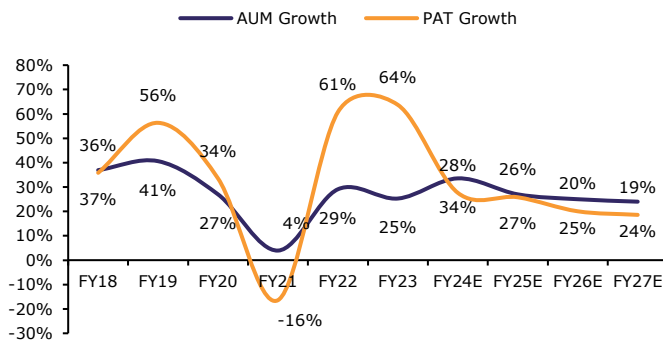
Investment thesis

We initiate coverage on Bajaj Finance (BAF) with a BUY recommendation and Mar-25E TP of Rs9,000/share (23.4% upside), implying FY26E consolidated P/B of 5.1x. Our positive stance on the stock is underpinned by three factors: 1) Flawless execution of its strategic plans is BAF’s biggest strength and its execution capabilities are as powerful as ever. 2) Management has listed the near-term challenges and concerns, such as RBI actions on EMI and E-com cards, Management succession & transition plans, and listing of its housing subsidiary, and resolution of each of these is likely within the coming year. 3) Abiding by the execution of its immaculate 3i strategy (Invent, Innovate and Imitate), the company is well poised to deliver consolidated AUM/PAT CAGR of 25%/21%, respectively, over FY24-27E. BAF shares have materially underperformed in recent years and, as the company continue to progress well towards its Long Range Strategy (LRS 2028) in terms of advancing its customer franchise (130-140 mn) and AUM (3.8-4% of retail credit/3-3.25% of overall credit), the recent year correction in valuations provides an attractive entry point.

Execution machine as robust as ever, evident from its track record

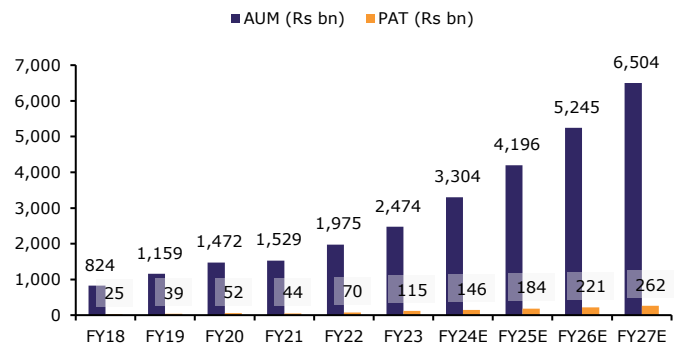
BAF’s near flawless execution of its business strategy over the last 1&1/2 decade has been its hallmark of success. It was such execution capability that delivered 38% AUM and 50% PAT CAGRs over FY09-24E and 30% AUM and 35% PAT CAGRs over FY14-24E amid a series of external shocks and disruptions, including demonetization in CY16, GST implementation in CY17, the NBFC credit crisis in CY18-19, and Covid-19 during CY20-21. The company has consistently been driven by the 3i approach of Invention, Innovation and Imitation, to augment its product offerings and expand its customer franchise on a sustained basis. Cross-selling and fee income have played a key role in the company’s journey so far and, maintaining a sustainable high yield to make up for opex and credit cost over the cycle and delivering strong RoA have remained its main strengths. Going forward, the company is expanding into various new product offerings that offer higher yield and will help it offset yield pressure on the consolidated portfolio which is seen emerging due to increased weight of mortgage offerings in the product mix.

Exhibit 6: Strong growth momentum to endure in the loan book and profitability



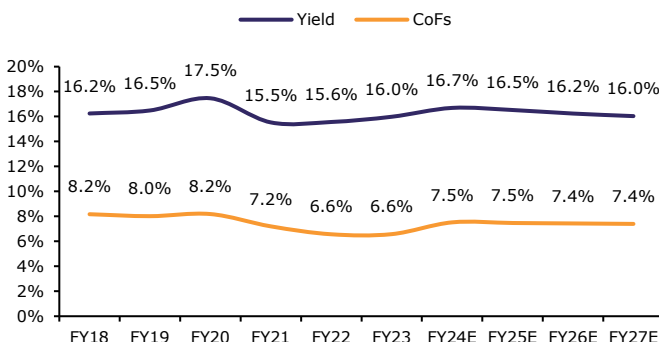
Source: Company, Emkay Research

Exhibit 7: We expect AUM to double in the next 3 years



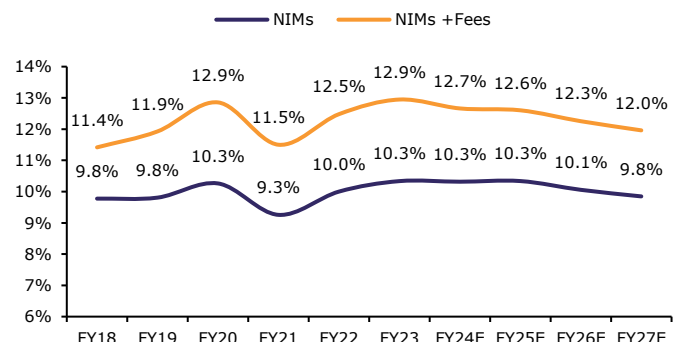
Source: Company, Emkay Research

Exhibit 8: CoFs to moderate over FY24-27E

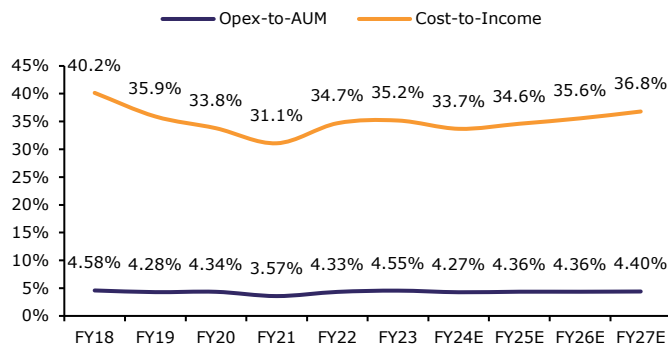


Source: Company, Emkay Research

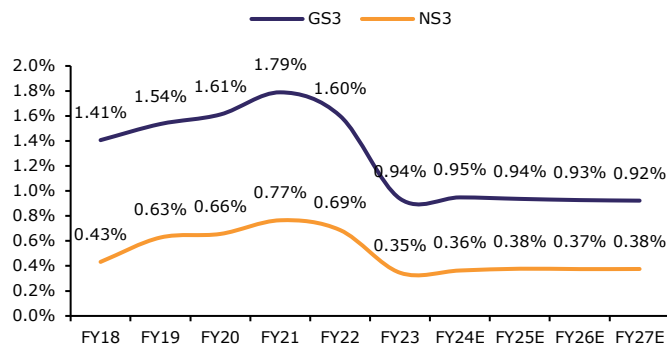
Exhibit 9: Some short-term pressure on NIMs on account of increasing mortgage book



Source: Company, Emkay Research

Exhibit 10: Branch addition and expanding geographical reach to keep cost slightly elevated in the near term

Source: Company, Emkay Research

Exhibit 11: Pristine asset quality with GNPA below 1% levels

Source: Company, Emkay Research

Resolution of multiple concerns in sight; some concerns exaggerated

Over the last few years, BAF has faced a host of concerns—some internal and a few external—that have reflected in the lackluster stock performance. Some key concerns are:

- Inclusion of Bajaj Housing in the RBI's Upper Layer for NBFCs, requiring it to be listed by Sep-25
- RBI's action on BAF, barring it from onboarding new customers for E-com/EMI cards
- RBI giving limited extension to the RBL-BAF co-branded card, till Dec-2024
- Speculations around continuity of Rajeev Jain as the MD & CEO, and the succession plan
- Anticipation of Jio Financial Services entering the consumer lending business
- Speculation around Bajaj Finance embracing a universal banking structure

The abovementioned concerns have acted as overhangs on Bajaj Finance shares, but the company's fundamental performance has remained broadly robust over the past years, with robust growth in AUM and profitability with sustained robust asset-quality. On a positive note, with passage of time, resolutions of such concerns have started to fall in place.

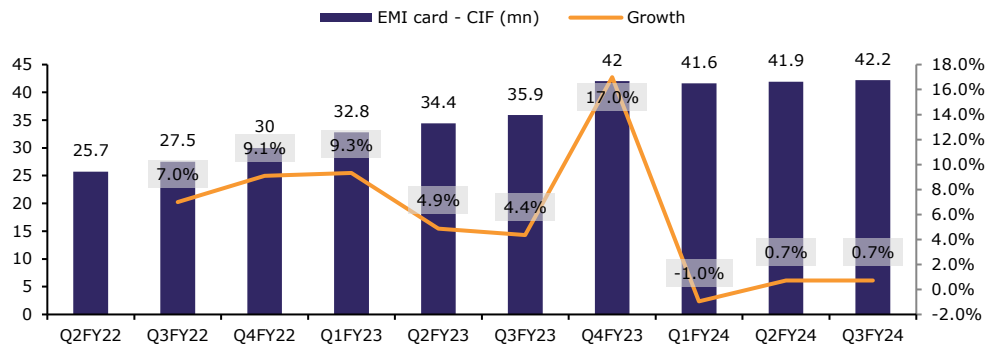
Listing of BHFL

Per media reports, BAF has started to work on the IPO and listing of Bajaj Housing (BHFL) within the coming next year. The BHFL board will be considering the company's compliance to upper layer NBFC regulations in its board meeting, scheduled on 24-Apr-2024. The proposed listing will help discover BHFL's fair market value, likely at a discount to standalone BAF valuation or consolidated BAF valuation. However, the impact of any holding company discount on BAF's ownership of BHFL will be negated by: i) relatively lower valuation of BHFL in BAF's SOTP; ii) standalone BAF getting a higher multiple than its current consolidated multiple.

Embargo on eCOM and Insta card

RBI action on BAF, asking the company to stop onboarding new customers as well as halt disbursements in its EMI and E-com cards, came as a material negative for BAF. This had lesser repercussions on its AUM growth, but a relatively higher impact on fee income and profitability. Management has communicated that it has addressed the deficiencies, including the ones in KFS, and are hopeful of the ban lifting soon. Going by RBI's recent track record in similar financial services entities, of time taken in lifting such bans, it could still take a couple of quarters before this happens, in our view.

Exhibit 12: Cards in force impacted in Q3 due to embargo on Insta EMI card

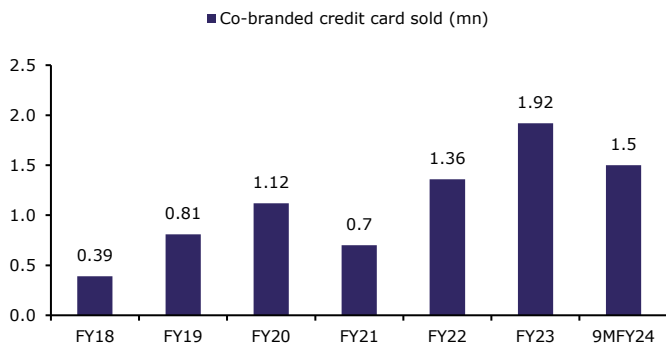


Source: Company, Emkay Research

Co-branded credit card partnership

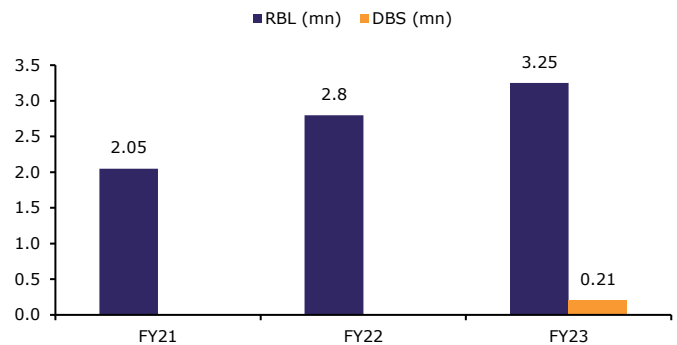
The RBL-Bajaj FinServ co-branded credit card has seen huge success. The RBI decision on allowing only a 1-year extension for this partnership in Dec-23, till Dec-24, came as a negative surprise for both partners, who have been trying to reduce their dependency on this partnership since the last few years; however, it remains the dominant factor in their card business, with the partnership accounting for ~60-65% of RBL’s total cards in force and nearly ~95% of BAF’s total co-branded credit cards. Continuation of this partnership beyond Dec-24 will certainly be positive for BAF, as long as the company does not get its own credit card license (which seems likely to happen in the near future, in our view).

Exhibit 13: BAF registered a 6% YoY growth in 9MFY24



Source: Company, Emkay Research

Exhibit 14: BAF currently has RBL and DBS as partners for its co-branded credit card business



Source: Company, Emkay Research

Succession plan already in place

Rajeev Jain has led Bajaj Finance in the company’s incredible journey over the last decade and a half. So, it is not unusual to link BAF’s fate with Mr Jain’s career plans. And the last few years have seen enough media speculation regarding his plan to move out of BAF. What, however, is being overlooked is that Rajeev Jain’s unmatched leadership qualities are reflected in his method of nurturing talent and creating a second line of Management that ensures a bright future for BAF. In the previous quarter, BAF’s board announced a rejig of the top management led by elevation of Anup Saha as the Deputy Managing Director and of Deepak Bagati, Sandeep Jain, and Anurag Chottani as the Chief Operating Officers. These appointments, along with the strong line of functional and segmental leaders ensure that BAF holds the right leadership, to help achieve the LRS 2028 targets even after Rajeev Jain steps down.

New powerful competitor: MOAT of BAF and opportunity size allay concerns

Ever since Reliance announced demerging its financial services business under the Jio Financial Services (JFS) umbrella, there have been sustained speculations around business segments in financial services that it will venture into. Given the large customer base of Jio's telecom services and Reliance's massive presence in the offline & online retail space, consumer financing (starting with consumer durable financing and Personal Loans) along with SME loans was expected to be the preferred area of interest for JFS. Undeniably, JFS has a huge balance sheet and massive equity capital to start with. However, in its journey over the last 1.5 decades, BAF has seen competition from a host of players, including banks, and hence competition from JFS should not be seen as an exception. BAF's biggest MOAT has been its rich customer data, its data analytics and technological ability to take advantage of the customer data in terms of risk selection, pricing and cross-selling. This competitive advantage is here to stay for some time and gives BAF a sustained edge. Additionally, Equity Capital is necessary to scale up a lending business, but having equity capital will not expedite scaling up the lending business that can grow at its own pace, depending on customer acquisition and loan demand. Being part of a group that runs a retail business and having a Consumer Durables OEM, JFS will face some resistance in offline and online retail outside Reliance Retail outlets. Overall, market concerns about JFS giving competition to BAF are exaggerated, as competition is inherent to BAF's business and the addressable market continues to grow; also, scaling up of JFS will happen only gradually and its >Rs1trillion net-worth should not be a cause for worry.

New competitor, not a concern

One concern that has always been an overhang on BAF is that at some point the company will need to embrace a universal bank structure, given its size and customer base. This concern is not totally unfounded as, being an ~85mn customer franchise with ~60mn active customers, BAF's customer footprint is far bigger than that of most private banks, even if BAF's share in the overall Bank and NBFC credit is lower, at ~2%. Management continues to believe that given its aspiration of only ~3% share in system credit in its LR 2028 plans, it should continue with the NBFC structure. Additionally, the scale-base regulations for NBFCs leading to harmonization of regulations of NBFCs with that of banks requires a lower push for an NBFC converting into a bank. Nonetheless, BAF converting into a bank involves an impact of CRR, SLR and PSL requirements, along with some elevation in operating expenditure on account of branch expansion, but its transformation into a bank-like structure will benefit the Cost-Of-Fund. Overall, there will be net drag on RoA due to its conversion, but simultaneously, financial leverage can be improved, which will partly offset the RoA-dilution impact on RoE. Finally, given the regulatory harmonization and creation of top layer and upper layer of NBFCs, BAF converting into a bank in the next few years is unlikely, in our view.

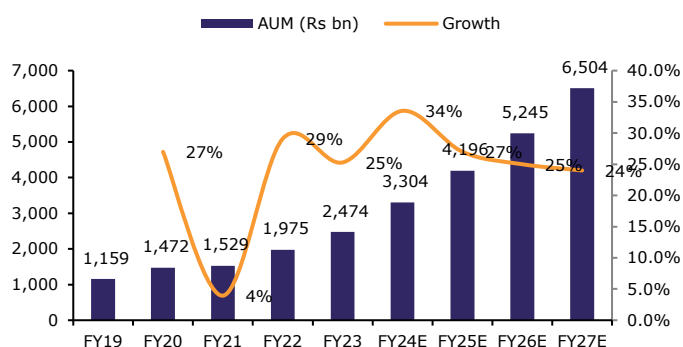
We expect AUM to double and PAT to grow 80% over FY24-27E

BAF has established a track record of gaining share in system credit by outgrowing the system ~2x in the last 10 years, and has maintained such stupendous growth despite its now reasonably huge size. Per its LRS 2028 target, it aspires to continue outgrowing the system-wide retail/the overall credit growth. Further to its ambitious target, the company has expanded its product offerings by venturing into newer areas, such as Gold Finance, Microfinance, New & Used PVs, and 2Ws outside captive. Such products are expected to aid growth as well as asset yields that will see some pressure with the share of BHFL (or mortgage) in consolidated AUM increasing. As regards BHFL, the company will be able to grow developer finance and Lease Rental Discounting (LRD) books, to keep yields at a healthy aggregate level, where Prime Housing loan will entail lower yields.

As far as any worries—regarding BAF's diversification into newer segments that are somewhat unrelated to its core offerings—are concerned, these are not that material, in our view, as: 1) the ramp up in these segments (Gold Loan, MFI, etc) is likely to be gradual and, even after 5 years from now, these segments put together will not contribute more than 6-7% of AUM; 2) with customer franchise already standing above 80mn, these newer products need to be added to keep up the pace of customer franchise expansion; 3) it can be argued that BAF is not an inventor or even innovator, but it can play to be the smart imitator in these segments; and 4) it has got the right set of people to lead each of these businesses, and BAF's execution record adds to our belief that it will be successful in these ventures.

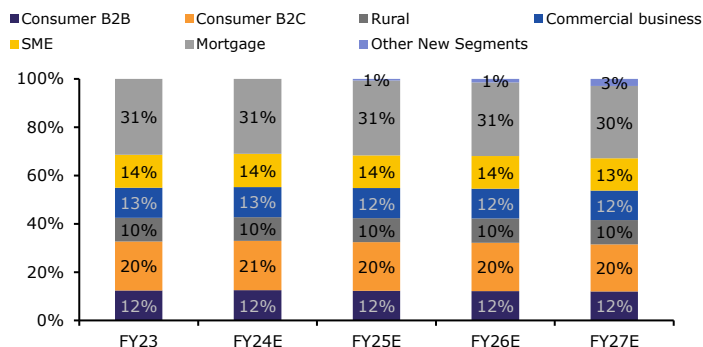
On net, we expect BAF to deliver 25% consolidated AUM CAGR over FY24-27E, resulting in doubling of AUM to Rs6.5trn by FY27E. Yield and NIM will moderate gradually, owing to product mix changes; however, this yield moderation and NIM + Fee compression will be partly offset by opex and credit cost reduction. We expect BAF to deliver consolidated PAT CAGR of 21% over FY24-27E, leading to FY27E PAT of Rs262bn.

Exhibit 15: AUM to double by FY27E



Source: Company, Emkay Research

Exhibit 16: AUM mix to remain broadly unchanged



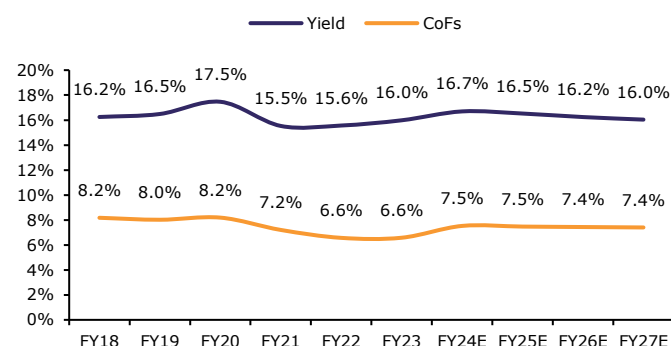
Source: Company, Emkay Research

Exhibit 17: Segment AUM growth – We expect new segments and mortgages to grow at a faster pace compared with other segments

Product/Segment	FY23	FY24E	FY25E	FY26E	FY27E
Consumer B2B	21.6%	34.4%	25.0%	23.5%	23.0%
Consumer B2C	29.2%	35.2%	24.5%	24.4%	20.9%
Rural	24.9%	32.1%	30.9%	26.3%	24.0%
Commercial business	40.4%	33.6%	26.0%	24.0%	23.0%
SME	35.2%	33.9%	25.6%	24.8%	22.0%
Mortgage	26.0%	31.8%	27.0%	23.0%	22.0%
Other New Segments			445.5%	160.0%	142.3%

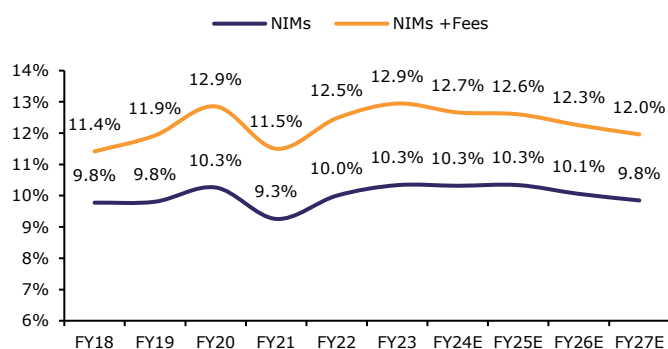
Source: Company, Emkay Research

Exhibit 18: CoFs to remain broadly stable and see marginal reduction over our forecast period



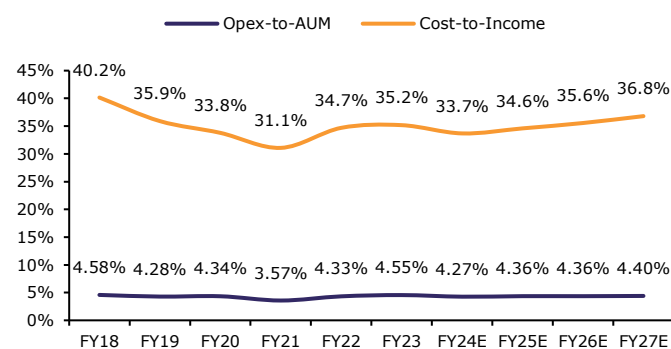
Source: Company, Emkay Research

Exhibit 19: NIM to hover at around 10%



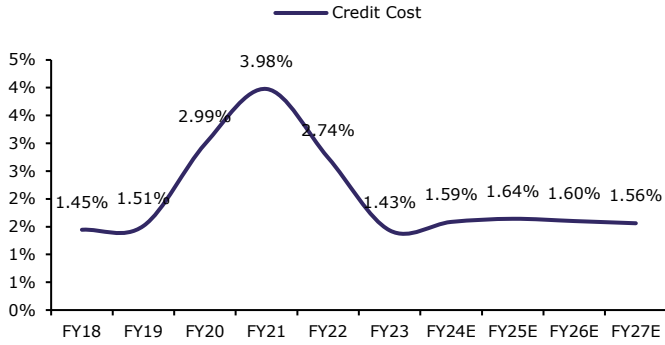
Source: Company, Emkay Research

Exhibit 20: Given continued expansion, we estimate a marginal increase in opex



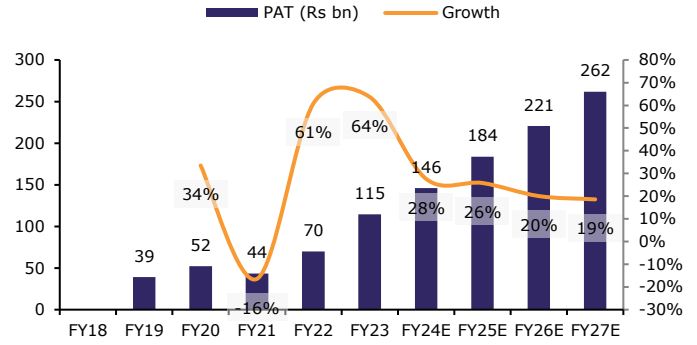
Source: Company, Emkay Research

Exhibit 21: Credit cost to remain range bound and remain well near the guided range of ~1.8%



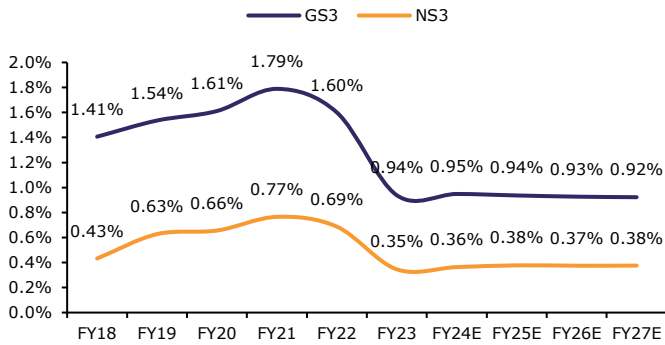
Source: Company, Emkay Research

Exhibit 22: We expect the strong PAT growth to continue



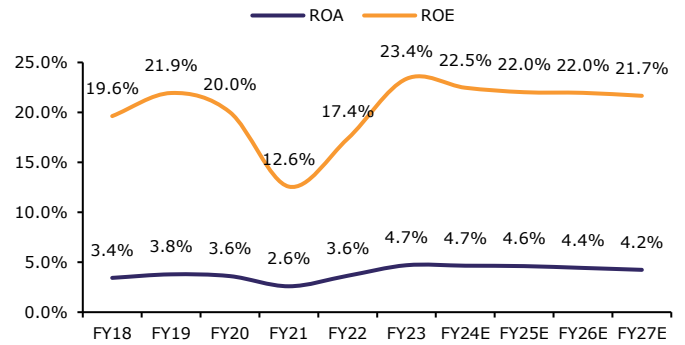
Source: Company, Emkay Research

Exhibit 23: Stable-to-improving asset quality



Source: Company, Emkay Research

Exhibit 24: We expect BAF to continue delivering ROE above 20% during our forecast period



Source: Company, Emkay Research

Current valuation provides attractive entry point; initiate with BUY

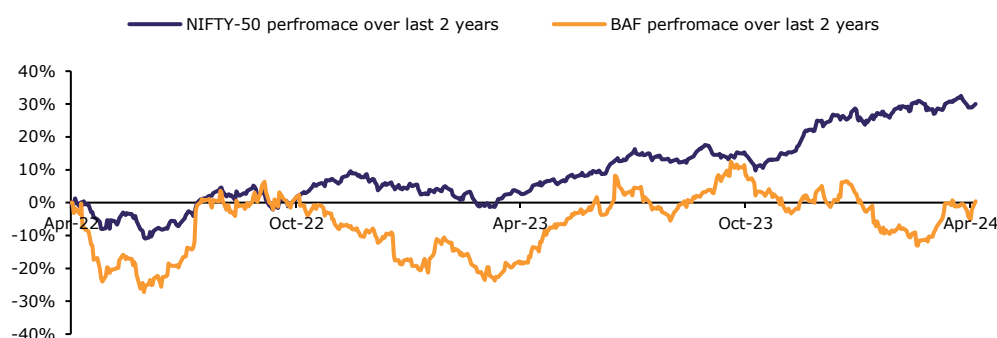
BAF shares have materially underperformed in the last 2 years despite the sustained robust operating and financial performance delivery reflecting in the company’s superior growth and profitability. The underperformance of BAF shares has largely been on account of a number of regulatory actions and concerns, and also due to some developments in the competitive landscape – with speculations around JFS’s entry into consumer lending. The underperformance has resulted in BAF shares to trade 1σ below its average 1Y forward P/BV for the last 10 years. With resolutions of some regulatory concerns in sight, clarity around Management transition, and sustained strength in growth, we expect BAF shares to see re-rating over the medium term.

Exhibit 25: Share performance over the last 24 months

	1M	3M	6M	9M	12M	18M	24M
Bajaj Finance	7.9%	3.1%	-6.5%	-3.8%	22.8%	1.4%	2.6%
NIFTY 50	1.1%	5.2%	15.8%	13.1%	26.7%	27.1%	30.1%

Source: Company, Emkay Research

Exhibit 26: BAFs share performance over the last 2 years vs NIFTY50 performance



Source: Company, Emkay Research; Note: # Period starting 18-Oct-21

Exhibit 27: One year forward P/BV trend



Source: Company, Emkay Research

We initiate coverage on BAF with a BUY recommendation and Mar-25E TP of Rs9,000/share (>23% upside), implying consolidated FY26E P/BV of 5.1x. We value Standalone BAF at FY26E P/BV of 5.6x and BHFL at FY26E P/B of 3x. Our TP of Rs9,000/share implies FY26E consolidated P/E of 5.1x.

Exhibit 28: BAF – SOTP-based valuation

Net worth (Rs mn)	FY26E	ROA	ROE	PAT CAGR (FY24-27E)	P/B (x)	M-Cap estimate	Price per share (Rs)
Bajaj Finance (SA)	990,287	4.9%	20.6%	20.3%			
Adj Net worth Bajaj Finance (SA)	895,007	5.0%	23.0%	20.3%	5.6	4,967,291	8,036
Bajaj Housing	199,030	2.7%	17.2%	29.6%	3.0	595,650	964
No of Shares (mn)	618						
Total						5,562,941	9,000

Source: Company, Emkay Research; Note: BAF's Standalone net-worth has been adjusted for the book value of investments in BHFL

BAF's standalone RoE of 23% and PAT CAGR of >20% justify the premium valuations in an environment where there are not many large banks or NBFCs offering higher RoE and sustainable high growth. The P/B multiple of a housing subsidiary is supported by the strong growth it is expected to see over the next few years. In the scenario of BHFL's listing, even if it lists at these valuations and if we were to incorporate a 20% holding-company discount, the impact at Rs192 per share (~2%) is not material to our TP.

Exhibit 29: BAF offers superior growth and profitability among large lenders

FY26E	M-Cap (Rs bn)	Loan Book growth (%) - FY24-26E	PAT Growth (%) - FY24-26E	ROA (%)	ROE (%)	P/BV (x)
AXIS	3,321	15.5	16.9	1.81	17.28	1.45
HDFCB	11,749	12.3	16.6	1.96	16.82	1.86
ICICIB	7,635	17.6	12.4	2.21	17.64	2.06
Kotak	3,555	17	9.8	2.33	13.88	2.17
BAF	4,514	26.0	22.9	4.43	21.96	4.10

Source: Company, Emkay Research

Key risks

Over years and decades, BAF has continuously diversified its revenue and profitability sources by augmenting product offerings and distribution channels. The increasing diversification reduces product or channel risks. However, operating in the financial services space, the business remains exposed to regulatory developments. Key risks for BAF are: 1) prolonged ban on EMI/Ecom card disbursements; 2) no renewal of the RBL Bank co-branded credit card in Dec-24; 3) asked to transform into a universal bank; 4) economic slowdown driving growth moderation and an adverse credit cycle.

The growth drivers for Bajaj Finance

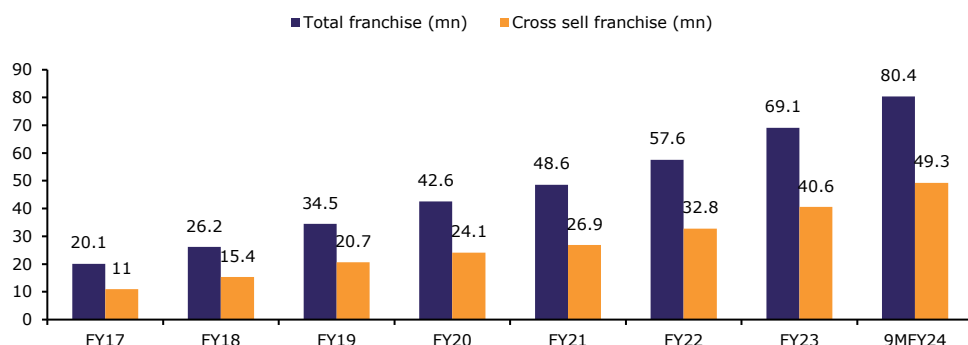
Diversified and growing business model

Bajaj Finance (BAF) is part of the Bajaj Group, which was founded in 1926 and is one of the oldest and most trusted retail business houses in India. Company is one of the leading financial services names in the non-banking financial space.

Further, BAF is among the largest NBFCs, in terms of AUM on a consolidated basis, and the most profitable/most diversified NBFC in India, with offerings spanning lending, deposits, insurance, payments, and broking & demat solutions.

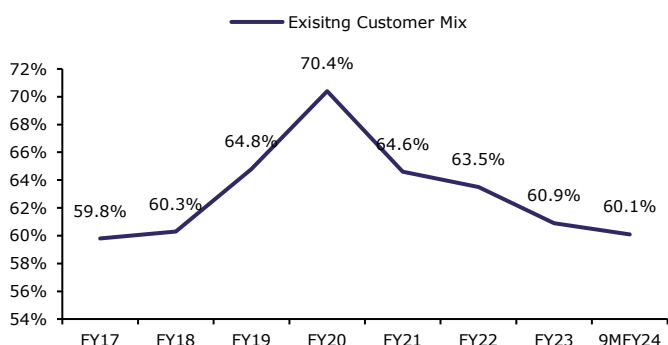
Company’s business model is focused on acquiring a large number of mass-affluent customers (i.e. customers who represent bigger wallets and larger cross-sell opportunities); such customers are viewed as a less risk-averse group and offer multiple loans & services on a cross-sell basis to meet their financial service needs. Majority of Company’s new loans are booked by existing customers.

Exhibit 30: Existing customer mix as of 9MFY24 stood at 60.1%



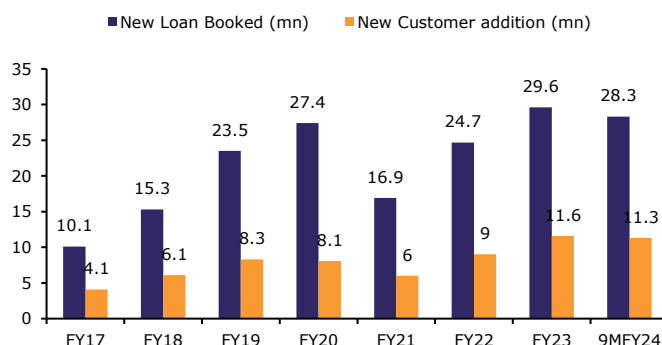
Source: Company, Emkay Research

Exhibit 31: Leveraging the existing customer ecosystem



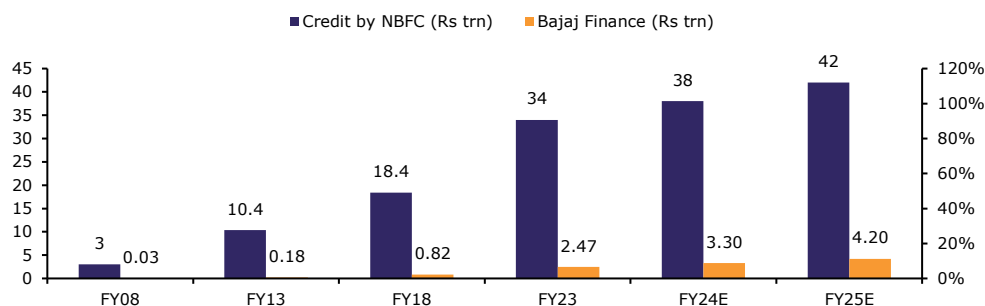
Source: Company, Emkay Research

Exhibit 32: New customer additions increasing the overall customer franchise

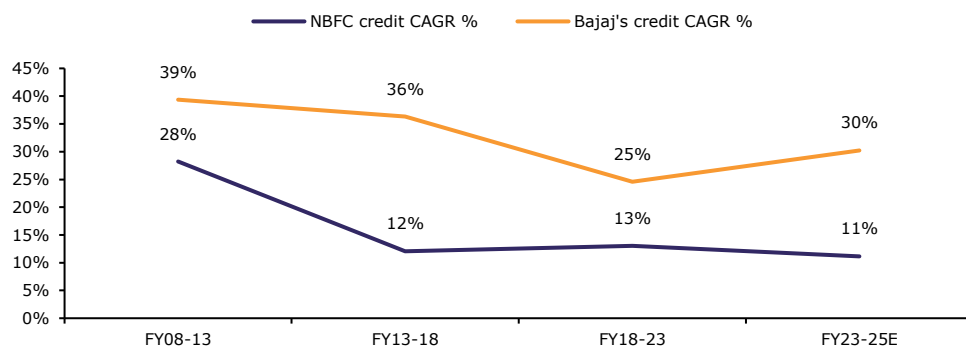


Source: Company, Emkay Research

Within its Long Range Strategy (LRS), BAF aims to secure a position among the top-5 players in each product line – a goal it has been steadily advancing towards. With its historical growth trajectory consistently outpacing the industry’s, we anticipate BAF to capture approximately 10% of the NBFC credit market share. As of 9MFY24, BAF already commands a market share of 1.94% in the overall credit market and of 2.46% in the retail credit segment.

Exhibit 33: Bajaj's journey, from Rs33bn to Rs4.2trn

Source: Company, RBI, CRISIL, Emkay Research

Exhibit 34: Bajaj's growth has always been superior to the industry's

Source: Company, RBI, CRISIL, Emkay Research

Invent, Innovate and Imitate; to become a financier in all customer segments

Through its evolution, BAF has consistently adapted its product lineup to meet growing demands, thereby enhancing revenue streams and market penetration. Over 9MFY24, the company rolled out new car financing services across 85 locations nationwide, currently yielding a monthly revenue of around Rs2billion. Moreover, the company diversified its offerings to encompass MFI lending in 100 locations, Tractor Financing, and Emerging Corporate Lending. In FY23, BAF entered the realm of merchant QR code payments, while FY22 saw strategic collaborations with online vehicle marketplace 'Cars24' for digital financing and with DBS Bank for distributing co-branded credit cards. It also debuted the 'Bajaj Pay' online payments interface. Looking forward, Management plans to introduce various products over the next two years, including CV financing in Q1FY25, while expanding its touchpoints.

Exhibit 35: Continuous addition of new product to the overall product offerings

New Business guideline	Status/Expected launch time
Tractor Financing	Live
Emerging corporate	Live
Auto Financing	Live
CV Financing	WIP/ Q4FY24
EMI at POS on QR and EDC	WIP / Q4FY24
Flexi on QR	WIP / Q4FY24
Insta PL card	WIP / Q4FY24
Rewards as a platform	WIP / Q1FY25
Social as a platform	WIP / Q4FY24

Source: Company, Emkay Research

One Stop solution for all financing needs

The company has forged a diversified business model, placing significant emphasis on customer acquisition and offering an extensive array of loan and service options, including payment solutions, to cater to its customers' varied financial needs. Its customer base is diverse, spanning various sectors like Consumer Lending (Sales Finance), Personal Loans, SME Lending, Commercial Lending, Rural Lending, Loan against Securities, and Mortgage, encompassing both rural and urban areas. This approach enables the company to uphold a well-diversified asset mix across distinct customer segments and geographic regions, presenting a mix of secured and unsecured products. Since April 1, 2020, the company has introduced numerous new products, services, payment solutions, and partnerships, including payment solutions such as UPI, PPI, Bajaj Pay Wallets, EMI cards, and others, a co-branded credit card developed in partnership with DBS Bank India, financing options for two-wheeler purchases from manufacturers other than Bajaj Auto, loans against property tailored for borrowers under the SME Lending vertical, the introduction of the Bajaj Finserv Credit Suraksha Program (Bajaj+) to broaden customer outreach in the mobile financing segment, financing alternatives for acquiring new passenger cars, and provision of loans to microfinance customers.

Exhibit 36: Product or service available for every customer segment

Legacy	FY08-10	FY11-13	FY14-16	FY17-19	FY20-22	FY23-24 (9M)	FY24-25 (expected)
Consumer Durable Financing	Insurance Distribution (FY08)	Construction Equipment Financing (FY11)	Digital Product Financing (FY14)	Retail/ Corporate Term-Deposits (FY17)	IPO Financing (FY20)	DBS Co-branded Credit Card (FY23)	CV Financing
2-W & 3-W Financing	Personal Loan Cross-sell (FY08)	LAS- Retail (FY11)	Financial fitness (FY14)	Warehouse Receipt Financing (FY17)	ESOP Financing (FY20)	2W vehicle financing	EMI at POS on QR and EDC
	Extended Warranty Cross-Sell (FY09/10)	HL – Self-employed (FY11)	General Insurance Distribution (FY14)	Co-Branded Retail Card (RBL Bank) (FY17)	Health EMI Card (FY20)	for all manufacturers - Non captive (FY23)	Flexi on QR
	Vendor Financing Term Loans & Purchase Order Financing (FY09/10)	Loan to professional (FY12)	Rural lending (FY14)	Lifecare Financing (FY18)	Medical Equipment Financing (FY21)	Merchant QR (FY23)	Insta PL card
	LAP (FY09/10)	Existing Member Identification Card (FY12)	MSME Rural (FY15)	Used Car Financing (FY19)	PPI - Prepaid instruments (FY22)	Bajaj +, a variant in mobile financing business (FY24)	Rewards platform
	LAS (FY09/10)	Co-branded credit card (FY12)	Property Fitness Report (FY15)	Specialty Chemical Loans (FY19)	Bharat bill payment system (FY22)	New Car Financing (FY24)	Social platform
	Unsecured Working capital TL (FY09/10)	Infrastructure financing (FY12)	CRISIL SME Rating (FY14)	Secured Enterprise Loan (FY19)	UPI (FY22)	Emerging corporate loan business (FY24)	
		SME cross-sell (FY12)	Urban Gold Loans (FY16)		Affordable Housing Loans (FY22)	MFI (FY24)	
		Salaried PL (FY12)	E-Commerce - Consumer Finance (FY16)			Tractor Financing (FY24)	
		Lease Rental Discounting (FY13)	EMI Card - Retail spends (FY16)				
		HL - Salaried (FY13)					
		Lifestyle Product Financing (FY13)					
		Lifestyle Product Financing (FY13)					

Source: Company, Emkay Research

Long Range Strategy

Near-term and longer-term strategy

BAF has adopted a highly disciplined approach to long-term strategic planning through a rolling five-year LRS (Long Range Strategic plan). This strategy is crafted after thorough analysis of macroeconomic factors, industry outlook, and emerging technology and business trends. The company has recently revealed its LRS for FY28, which outlines plans for launching new products and variants, fostering product innovation, expanding into new geographical regions, and further enhancing operational capabilities to sustain robust growth.

Key strategies of LRS:

- Aim to rank as one of the top-5 players in every product line and execute 9 new product initiatives through the LRS period, with 4 already launched and others slated for imminent release.
- Maintain ongoing geographical expansion efforts and targets ensuring the availability of all products in every location consistently. Digital/App – Increase monthly downloads of the App, from 5mn to 10mn, and generate a 1bn organic traffic on the web platform.
- On subsidiaries, targets BAF being the dominant leader in respective industries and contributing 12-15% of retail mortgages and 50-60% of broking accounts

Exhibit 37: Evolving long range strategies

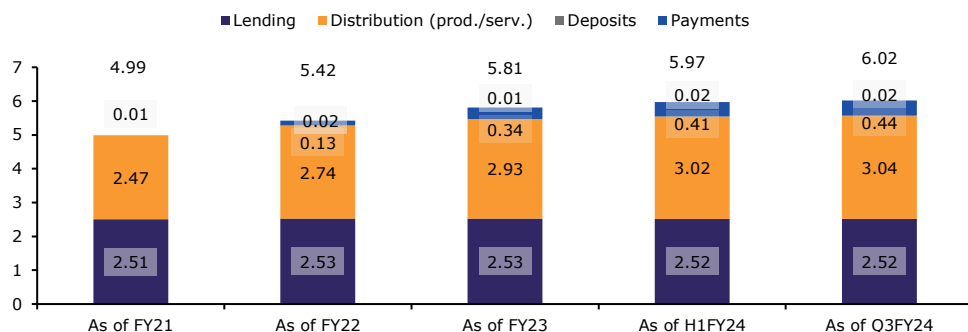
Sl no.	Basic Construct	93FY24	FY27 LRS	FY28 LRS
1	Customer Franchise (mn)	80.41	110-120	130-140
2	Cross-sell Franchise (mn)	49.28	65-70	80-90
3	India payments GMV	0.14%	1-1.25%	1.25-1.5%
4	Share of total credit	1.94%	2.5-2.75%	3-3.25%
5	Share of retail credit	2.46%	3.5-3.75%	3.8-4%
6	Location presence	4,092	4,300-4,500	5,200-5,500
7	App - Net Installs (mn)	49.19	70-80	120-150
8	Web - Visitors (mn)	318	1,100-1,200	1,500-1,800
9	Return on Equity	22.30%	20-22%	20-22%
10	AUM per cross sell franchise	63,120	85-90k	90-95k
11	PAT per Cross-sell Franchise	2,156	3.5-3.7k	3.8-3.9k
12	Product Per customer	6.03	NA	6-7

Source: Company

Customer Acquisition Engine

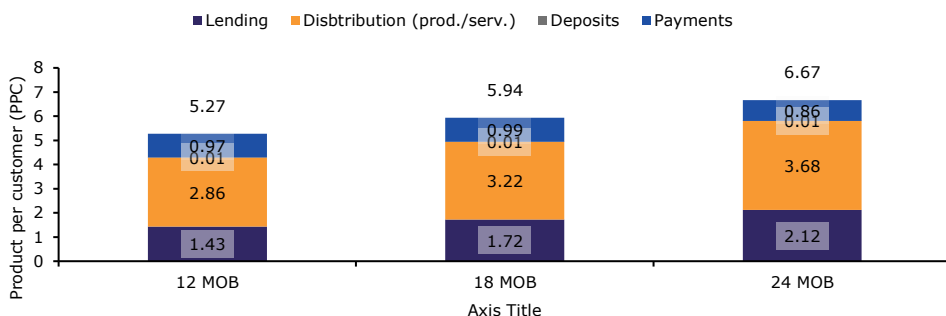
BAF's growth is attributed to various factors, among which its omnichannel network, robust geographic presence, and extensive distribution reach play pivotal roles. In FY24 alone, BAF acquired approximately 14.5 million new customers, expanding its overall customer franchise to around 83.64 million compared with 69.14 million in FY23. In addition to enlarging its customer base, the company focuses on cross-selling its products and services to its vast clientele. It has consistently increased its product per customer ratio, with an average of 5.27 products/services availed by a customer in the last 12 months and 6.67 products/services availed by a customer in the last 24 months (1.4 lending products for 12 MOB customers vs. 2.1 product for 24 MOB customers).

Exhibit 38: Strong cross-sell model supporting growth, with increasing product per consumer (PPC)



Source: Company, Emkay Research

Exhibit 39: Leveraging existing customer data base to increase customer wallet share

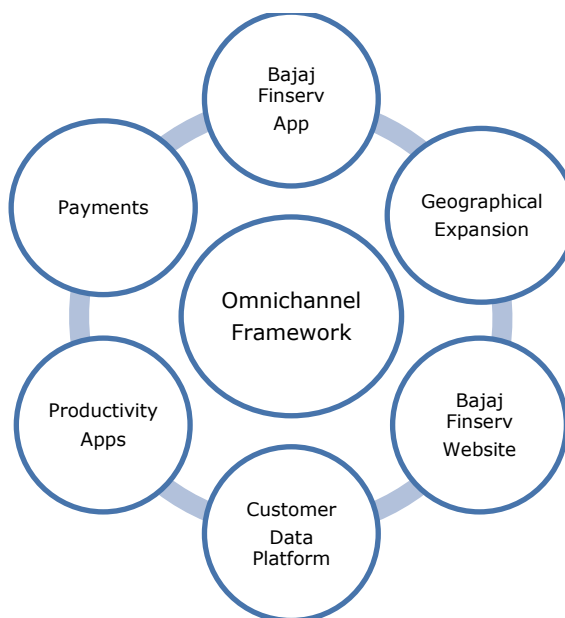


Source: Company, Emkay Research

Omnichannel Framework

BAF, recognized as a trailblazer in the realm of digitization, has undertaken a significant evolution from its conventional 'Physical' operational model to a more dynamic 'Phygital' paradigm in recent years. Now the company is ambitiously pursuing a complete digital transformation. At the core of its strategic shift lies the implementation of the innovative 'Omnichannel Framework'. This framework serves as a pivotal tool in enabling customers to seamlessly navigate between offline and online platforms. Spanning six fundamental domains, including geographical expansion, the Bajaj Finserv app, the Bajaj Finserv website, payments infrastructure, productivity applications, and a sophisticated customer data platform, this framework embodies BAF's commitment to delivering unparalleled convenience and accessibility to its diverse clientele.

Exhibit 40: Strong Omnichannel presence to boost growth

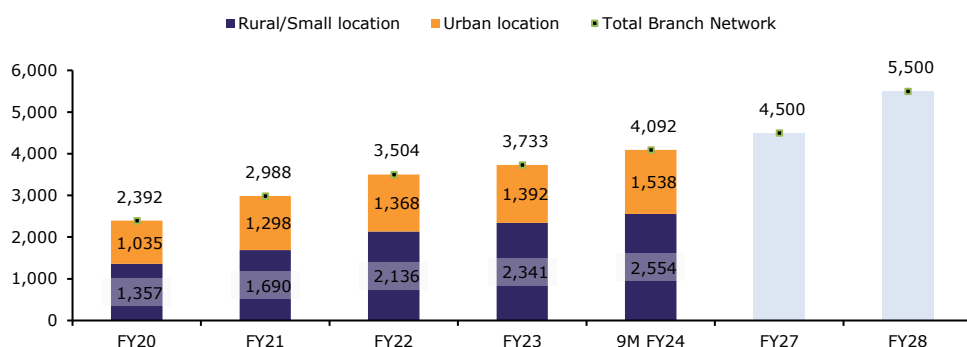


Source: Company, Emkay Research

Physical approach – Extensive branch network

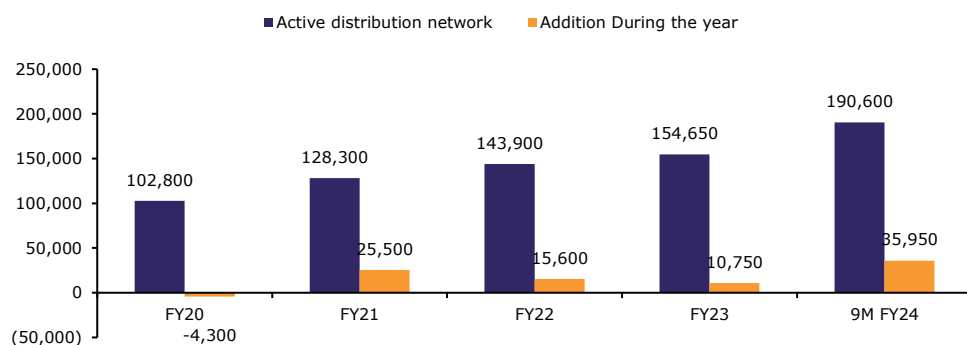
Over the years, BAF has strategically invested in developing an extensive distribution network, boasting of over 190,600 active outlets, which include consumer durables stores, digital and lifestyle outlets, retail spend stores, auto dealerships (both Bajaj and non-Bajaj), and Direct Selling Agents (DSAs), spread across more than 4,000 locations. With consistent investments in this area, the company has steadily expanded its reach. Since FY20, BAF has been adding 200-400 new locations annually, allowing it to deepen its presence in operational states. Aligned with its long-term strategy, BAF aims to further expand its network to 4,300-4,500 locations by FY27, up from the current 4,092. Moreover, the company is actively venturing into new territories where its presence is not yet prominent. Recognizing the vast untapped potential of the rural market, Bajaj has been expanding its geographical footprint in small towns and villages, leveraging its rural lending products. This expansion is evident in the company's increasing share of rural locations, rising from 57% in FY20 to 62% in 9MFY24.

Exhibit 41: Wide spread branch network; still expanding



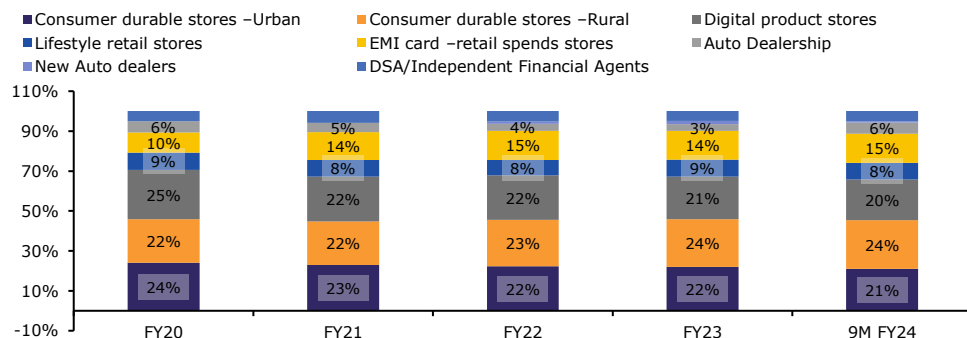
Source: Company, Emkay Research

Exhibit 42: Strong distribution network and increasing additions every year



Source: Company, Emkay Research

Exhibit 43: Consumer Durables is the prime customer acquisition channel



Source: Company, Emkay Research

The Digital way continues to be the crucial pillar of growth

Bajaj Finserv App

The Bajaj Finserv App is integral to BAF's omnichannel strategy, offering customers a unified platform to engage with their ecosystem. Designed for a seamless experience, it facilitates access to loans, investments, deposits, and insurance products, providing an end-to-end journey. With a comprehensive payments stack including wallets, UPI, and Bharat Bill Pay Service, it streamlines the checkout process. Further, it is anticipated to improve customer service and function as a marketplace for financing electronics and distributing insurance, investment, and health products.

In 9MFY24, the app facilitated BAF in acquiring more than 342k EMI card customers, disbursing over Rs85billion of personal loans, acquiring over 206k credit cards, and enabling over 5.8million flexi-loan transactions. Additionally in FY23, the app ranked among the top five financial services apps in Asia on Google PlayStore.

Exhibit 44: The Bajaj Finserv App plays a vital role in customer acquisition

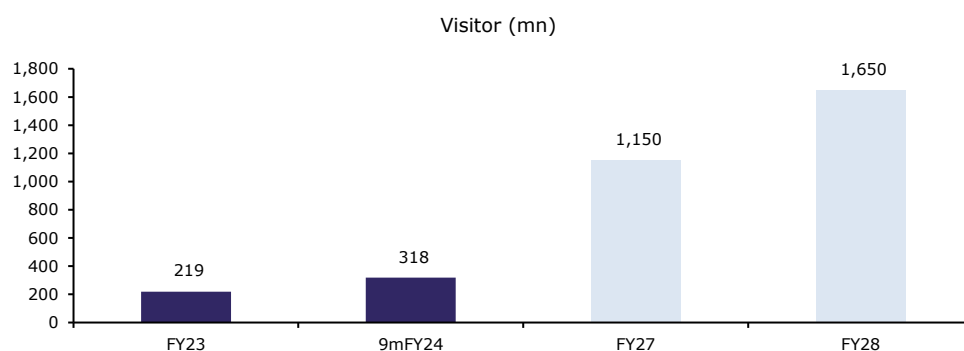
App business metrics	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
EMI card Acquired ('000)	69	100	100	99	123	130	89
Credit card acquisition ('000)	30.0	47.8	59.2	72.0	77.0	69.9	59.8
Personal loan disbursed (Rs bn)	21.1	23.9	23.0	26.1	27.6	29.1	28.6
Flexi loan transactions (mn)	0.9	1.0	1.5	1.6	1.7	2.0	2.2
DMS receipts (mn)	0.6	0.8	0.9	1.0	1.0	1.1	1.2

Source: Company, Emkay Research

Bajaj Finserv website

The Bajaj Finserv website acts as a vital driver of customer traffic, business volumes, and service provision. In line with the 'Web = App' strategy, a comprehensive transformation of the web platform has been initiated to elevate the web experience. This overhaul involves revamping the user interface and user experience to ensure uniformity across both, the application and the website, facilitating seamless transitions for customers between platforms. Moreover, investments have been directed towards expanding the search ecosystem, laying a robust foundation to accommodate significant web traffic over the medium term. These strategic investments have yielded tangible results, with BAF witnessing approximately 318 million customer visits in Q3FY24, with plans to scale up further, to 1.1-1.2billion by FY27.

Exhibit 45: BAF expects the number of visitors on its website to increase



Source: Company, Emkay Research

Payments

Over the past two years, BAF has made significant strides in expanding its payments business. It commenced this expansion by introducing UPI and PPI services in FY21, followed by the development of a comprehensive payments stack that encompasses wallets, UPI, Bharat Bill Pay Service, and a single payment checkout gateway. Additionally, the company has adopted QR code technology across all its merchant platforms. These diverse payment options have not only enhanced interaction between customers and merchants but also contributed to higher customer retention rates. BAF aims to further grow its payment business through initiatives such as UPI adoption, QR deployment at merchant points of sale (PoS), and the implementation of a rewards program. As of December 2023, the company has achieved notable milestones, boasting of 21.5 million UPI handles, 2.7 million QRs deployed at merchant PoS, and a total of approximately 112 million cumulative rewards issued to customers and merchants. Further, Bajaj Finserv has successfully established a full-service payments business across all issuance and acquiring formats. In FY23 alone, customers conducted 15.92 million bill payment transactions using Bajaj's bill pay service, and the company deployed over 627,000 merchant QRs (Bajaj Pay QR).

Exhibit 46: Strong continuous focus on the payments business

App Payment Matrix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
UPI handles -Cumulative	3.61	7.23	10.39	12.98	15.48	18.6	21.48
Bill pay transactions (Qtrly)	2.06	3.59	5	5.27	5.44	6.43	7.49
QRs at merchant PoS – Cumulative	0.02	0.08	0.21	0.63	1.14	2.16	2.71
Rewards issued (Qtrly)	4.8	9.1	17.3	13.5	18.1	22.1	25.4

Source: Company, Emkay Research

Productivity apps:

Bajaj employs four productivity applications throughout its ecosystem, enabling the organization to leverage underlying platforms and deliver a unified experience for all stakeholders, ranging from sales to debt management.

- The Sales One App provides sales teams with a range of capabilities, including lead management, performance management dashboards, customer service tools, a sales helpline, and training resources.
- The Debt Management App offers debt management teams various capabilities such as mobile receipting, agency allocation, a repossession module, settlement workflows, call management and recording functionalities, as well as customer service-related training modules.
- The Merchant One App equips merchants with features such as self-onboarding, QR issuance, and access to business dashboards.
- The Partner One App provides sales agents with capabilities like lead management, case booking, transaction tracking, customer assistance, insights into partner growth, query resolutions, access to training resources, and a knowledge center.

Customer Data Platform:

BAF's customer data platform plays a pivotal role in facilitating the omnichannel experience by enabling multi-channel orchestration and customer communication. It also ensures call governance through an integrated multi-dialer and multilingual architecture. The company has transitioned from a centralized service call center to five regional call centers, to provide multilingual sales and service support to customers. Monitoring the key outcomes of the omnichannel strategy allows BAF to assess the growth momentum across various geographies and digital metrics.

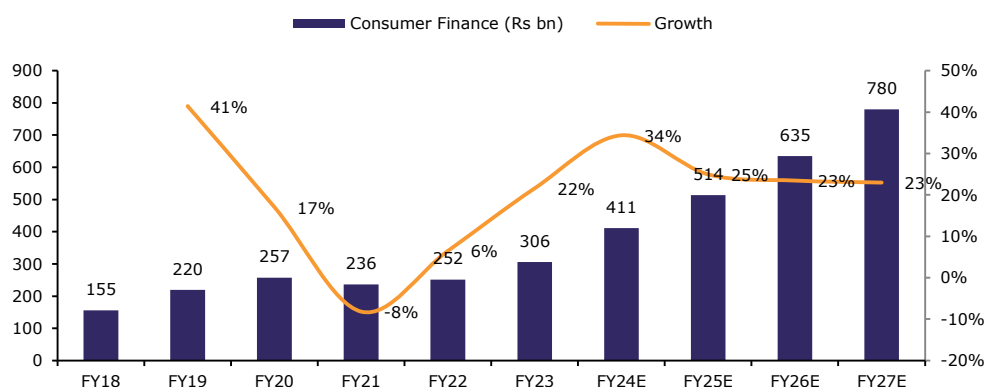
Bajaj Finance: Established track record of profitable growth BAF’s diverse product offering

BAF has achieved a robust 23% AUM CAGR, reaching Rs3.3trillion, from FY19 to FY24, while expanding its customer accounts to 80.4 million by Q3FY24, from 34 million. Aligned with its guidance of 25-27% long-term growth, our AUM CAGR stands at Rs 5.25trn over FY24-26E. This growth trajectory is driven by strong performance across various segments, including consumer loans (42.4% of AUM), mortgage (31.4% of AUM), SME (12.2% of AUM), commercial lending (12.5% of AUM), and Other New-segment (1.5% of AUM). BAF is further diversifying its portfolio by venturing into new sectors such as car financing, microfinance, Tractor financing (CV Finance WIP), and emerging corporate domains.

Consumer Lending

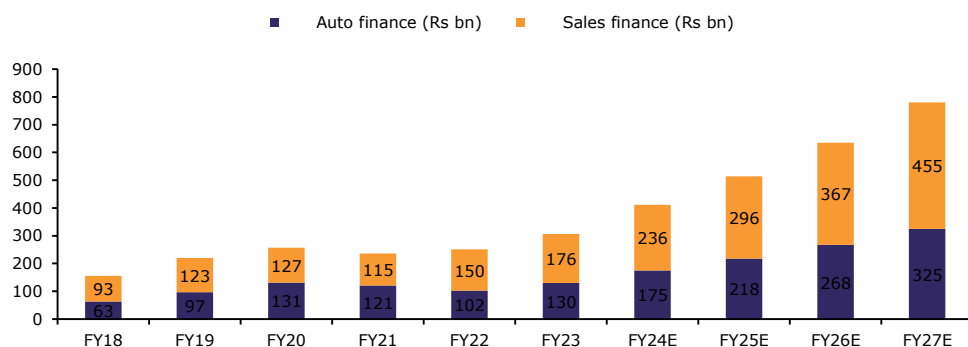
Consumer lending is BAF’s biggest business, having logged 21% CAGR between FY18 and FY23, and has reached ~Rs 1trn, equating to 34% of AUM in 9MFY24. The Consumer Lending vertical encompasses two sub-verticals: i) Two- and Three-Wheeler Finance, and ii) Urban Sales Finance. The products offered within the Consumer Lending vertical are characterized by low-ticket, high-volume offerings. BAF is one of the largest lenders for personal loans, consumer electronics, digital products, and lifestyle items in India. As of 9MFY24, the Consumer Lending vertical demonstrated a geographic presence spanning 1,538 locations, with over 134.7k active distribution points of sale nationwide.

Exhibit 47: BAF maintains strong dominance in the consumer lending segment



Source: Company, Emkay Research

Exhibit 48: In Q3FY24, Sales Finance forms 56% of the AUM of Consumer Finance and 7% of the overall AUM

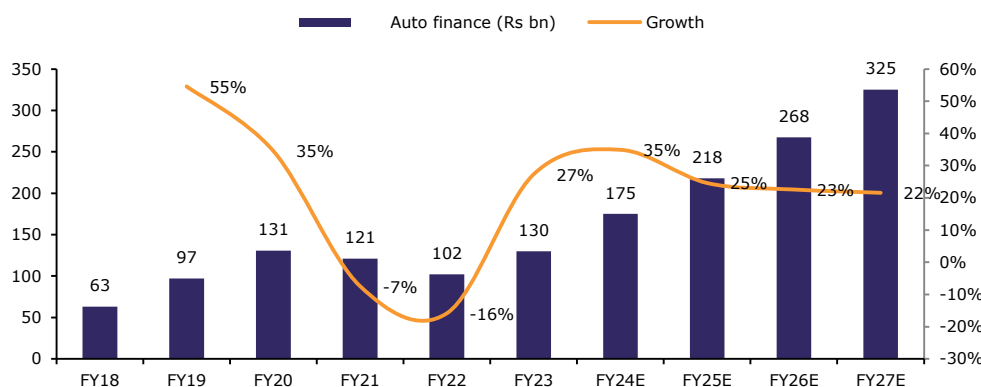


Source: Company, Emkay Research

Two- and Three-Wheeler Finance

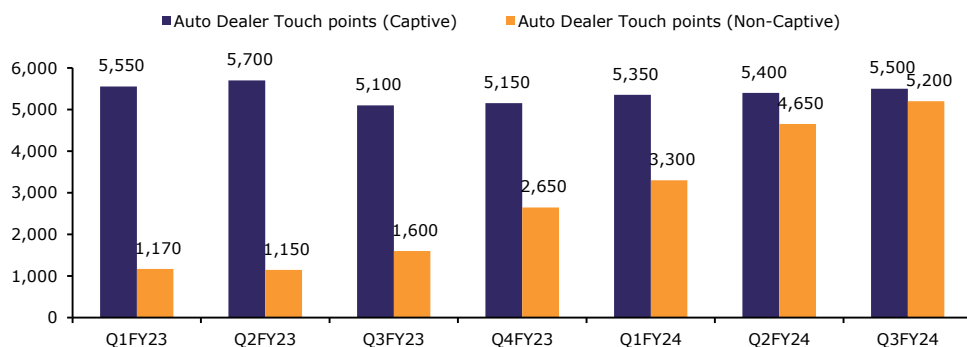
BAF offers financing for the purchase of new two-wheelers and three-wheelers manufactured by Bajaj Auto, a service it has provided since the company's inception. On July 6, 2023, it broadened its financing options to cover purchases of two-wheelers from manufacturers other than Bajaj Auto. Most of the leads for two-wheeler and three-wheeler financing come from Bajaj Auto's dealerships, sub-dealerships, and authorized service centers. It sources the non-captive business through field teams and digital channels like the Bajaj Finserv App, its website, and two-wheeler marketplace. Its point-of-sales lending solutions, offering instant, seamless, and paperless experiences have helped it establish presence in non-Bajaj Auto dealerships. With partnerships with leading two-wheeler manufacturers and retailers, it has built a robust distribution network. As of 9MFY24, it had agreements with over 5,500 Bajaj Auto dealerships, sub-dealers, and authorized sales & service centers ("ASSC"), as well as 5,200 Non-Bajaj Auto dealerships, sub-dealerships, and ASSC for the distribution of two-wheeler and three-wheeler loans.

Exhibit 49: Strong AUM growth supported by BAF's entry into non-captive 2W financing



Source: Company, Emkay Research

Exhibit 50: Increasing the number of non-captive dealer touch points

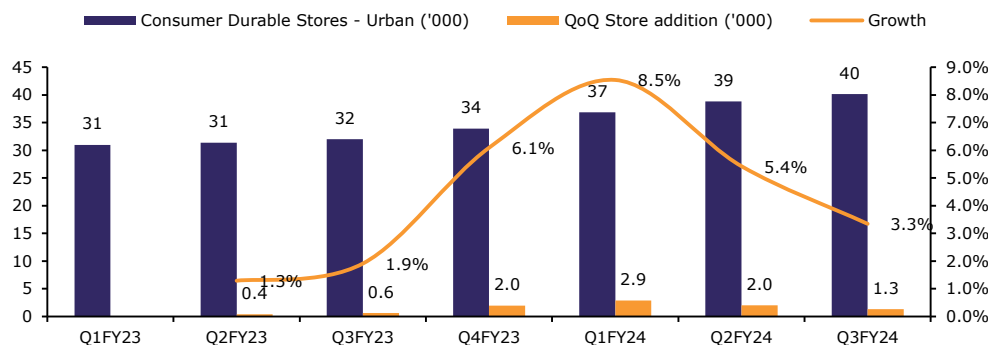


Source: Company, Emkay Research

Urban Finance

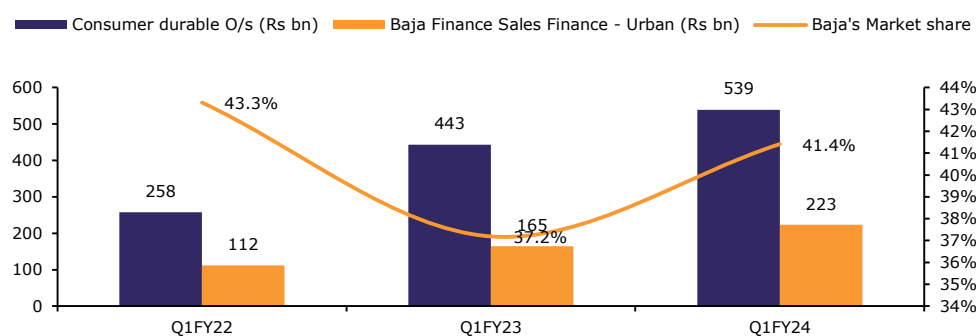
Consumer financing (consumer electronics/lifestyle/digital) works as the starting point for Bajaj's customer acquisition funnel. BAF's urban business can be divided into two categories: a) B2B lending (sales finance), which finances consumer durables, digital equipment and furniture, among other lifestyle goods; and b) B2C lending, which provides loans to salaried, self-employed and professional.

Exhibit 51: BAF has strong presence across outlets, resulting in a robust, growing customer franchise



Source: Company, Emkay Research

Exhibit 52: BAF holds leading market share in consumer durable financing



Source: Company, CRIF, Emkay Research

Urban B2B:

Consumer durables loans (Urban): Provide financing for the acquisition of consumer durables, including television sets, air conditioners, refrigerators, washing machines, and various other household electronic appliances

Digital product loans: BAF offers loans for purchasing digital products like mobile phones, tablets, laptops, and other electronic devices. Additionally, it introduced the Bajaj Finserv Credit Suraksha Program (Bajaj+) to expand coverage to customers accessing credit for the first time in this segment.

Lifestyle product loans: Company offers financing options for lifestyle products, including furniture, professional education, cameras, kitchen appliances, and fitness equipment.

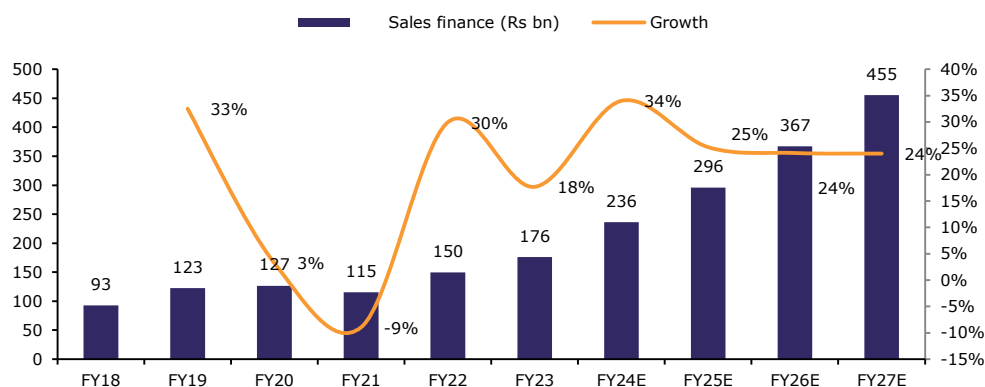
Lifecare financing: Provides financing choices for elective medical procedures, known as lifecare financing. As of H1FY24, the average amount for this category stood at ~Rs50k.

Retail spends financing: BAF offers financing for a range of retail items, from small appliances to travel and insurance. This option is exclusively available to existing EMI Card holders, who can access these loans at over 16k lifestyle retail stores as of Dec-23. The introduction of Bajaj Pay QR has enabled BAF to introduce Bajaj EMI acceptance via QR Code, allowing existing EMI Card customers to conveniently convert transactions into EMIs by scanning the Bajaj Pay QR codes at selected retailer outlets using the Bajaj Finserv App. This initiative enhances customer convenience and flexibility in managing purchases.

E-commerce (consumer finance): The company has agreements with major e-commerce players to address the financing needs of its existing EMI Card holders for their purchases made with these partners.

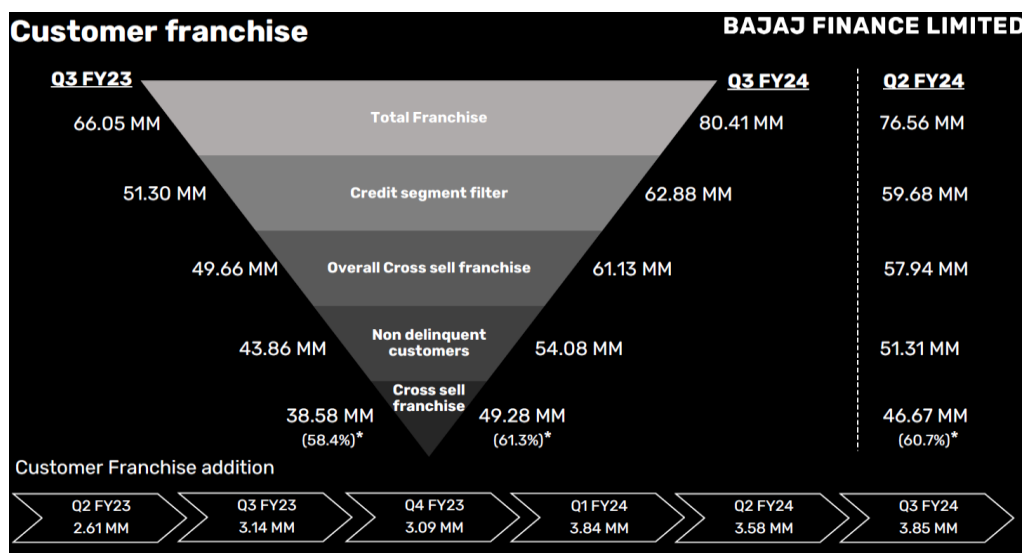
Retailer finance: Provides financing option to retailers to fulfill their working capital needs. Retailer finance is accessible to retailers of varying sizes who have an established dealer relationship with the company and meet the minimum credit criteria. Moreover, potential customers are also identified from the outlets of these retailers.

Exhibit 53: We expect the growth trend to endure, as BAF is committed to increasing its presence and thus fueling growth



Source: Company, Emkay Research

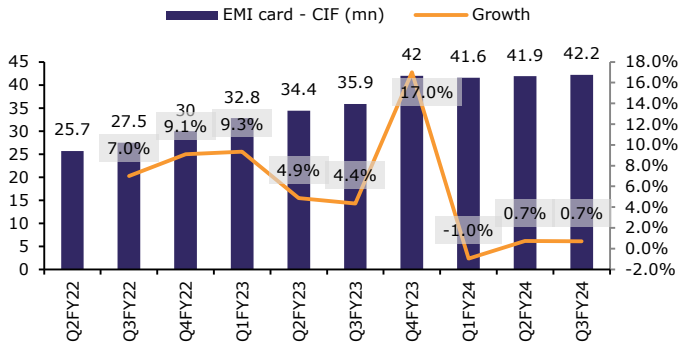
Exhibit 54: Customer franchise stood at 83.64mn in Q4FY24, despite the embargo on its E-com and Insta EMI cards



Source: Company

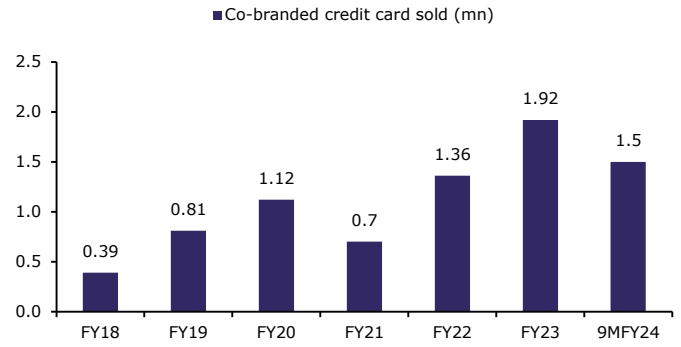
Urban Sales Finance products are obtained through an exclusive sales force and tele-calling agents, including company employees. These products, like consumer durable loans, lifestyle product loans, and digital product loans, mainly originate from various sales stores, including large format retail stores, modern retail stores, small retail stores, and main product manufacturers. Collaborations with leading consumer durable manufacturers and retailers bolster the distribution network. E-commerce consumer finance is available on merchants' websites for EMI card customers, and business is sourced through channels like 'Bajaj Mall', the Bajaj Finserv website, and the Bajaj Finserv App. Multiple customer interaction channels, such as online interfaces on the Bajaj Finserv website and App, and call centers, are employed. EMI Cards are provided to eligible customers for Urban Sales Finance, obtained by applying online or in-store, along with a fee. Such cards enable access to incremental loans based on customers' repayment track record, with all pertinent details stored in a comprehensive database.

Exhibit 55: Growth impacted due to the embargo on Insta EMI transaction



Source: Company, Emkay Research

Exhibit 56: Tie-up with RBL and DBS Bank



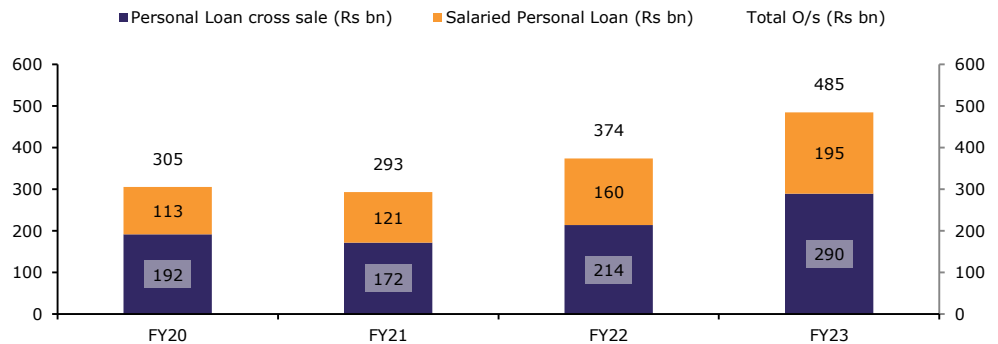
Source: Company, Emkay Research

Urban B2C

Personal Loans:

BAF ranks among the top personal loan lenders in India, commanding approximately 5% of the overall personal loan market share in Q1FY24. It extends personal loans to existing salaried and self-employed customers with commendable repayment histories, to meet their short and medium-term financial needs. Additionally, BAF provides personal loans to well-to-do salaried individuals for similar requirements. Within these loans, BAF offers a flexible variant along with the standard term loan option.

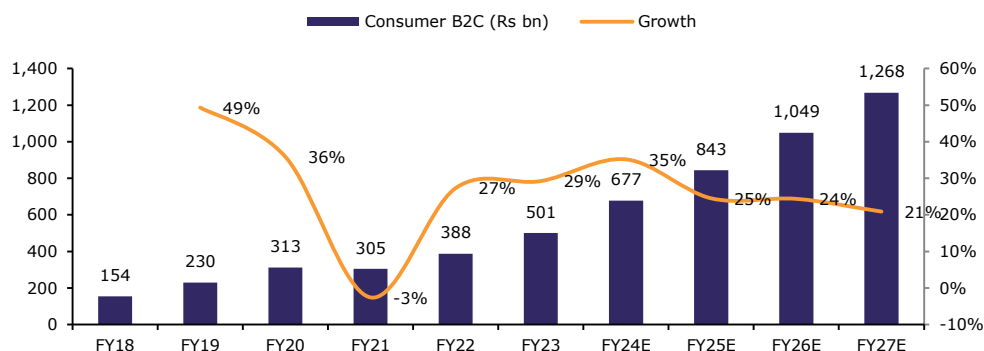
Exhibit 57: Increasing share of salaried PL, thus reducing the overall risk



Source: Company, Emkay Research

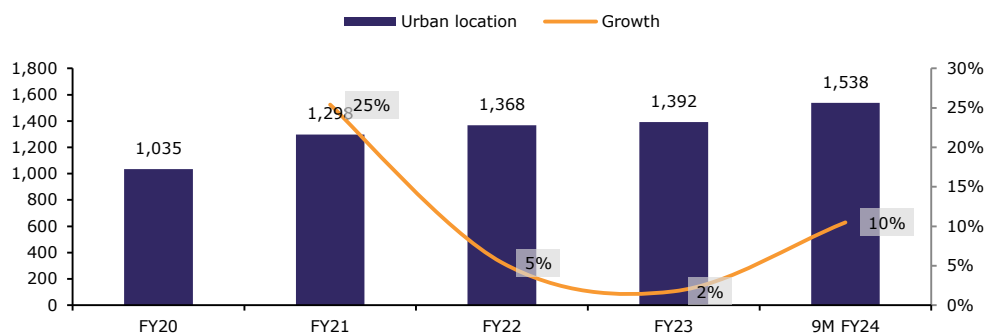
In the personal loans cross-sell segment, pre-approved offers are generated based on customer repayment history, credit bureau performance, and internal policies, securely stored in the ICORS (central offer repository system) system. Such offers are accessible across multiple platforms like CDP (Customer Data Platform), Salesforce CRM, the Bajaj Finserv App, website, and others. Communication of offers to customers happens through various channels via the CDP system. Customers interested in loan fulfilment can proceed digitally or through call centre and field sales team. Salaried personal loan customers are sourced through various channels, including the Bajaj Finserv App, website, direct agents, and sales teams, with leads processed for fulfilment via call centres or field teams.

Exhibit 58: Strong growth to endure, as BAF continues to increase its presence



Source: Company, Emkay Research

Exhibit 59: Increasing presence across geographies



Source: Company, Emkay Research

Rural Lending

Rural Sales Finance:

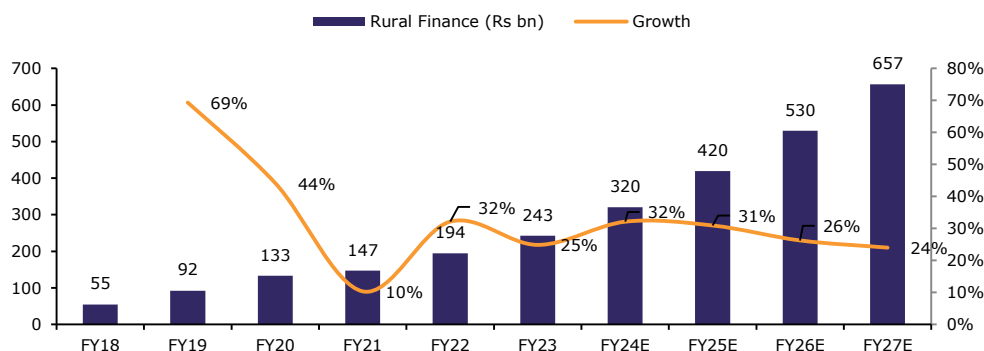
Rural sales finance consists of loans for consumer durables, digital products, and lifestyle items tailored for salaried and self-employed individuals residing in small towns, rural areas, or upcountry locations in India, along with rural two-wheeler financing.

Rural B2C Business:

Rural B2C business consists of personal loan cross-selling, salaried personal loans, loans for professionals, and gold loan lending tailored for individuals in small towns or various locations across India.

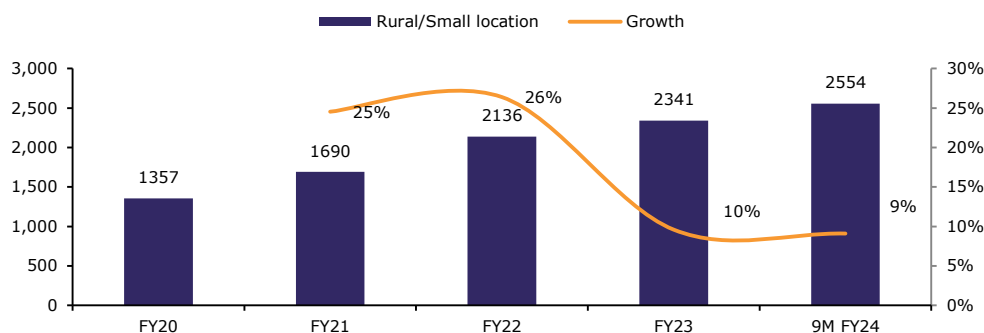
In Company’s Rural Lending vertical, customer acquisition is facilitated via various channels, including branches, authorized sales and service centers, a call center, and direct sales agents. Loans for consumer durables, digital products, and lifestyle goods primarily originate at sales outlets in rural areas. Company adopts a hub & spoke model for operations in the Rural Lending vertical. Transitioning into a strategic business unit, its gold loan services operate on a branch manager model, with around 514 standalone gold loan branches, as of H1FY24.

Exhibit 60: We expect AUM to grow above 20% during our forecast period



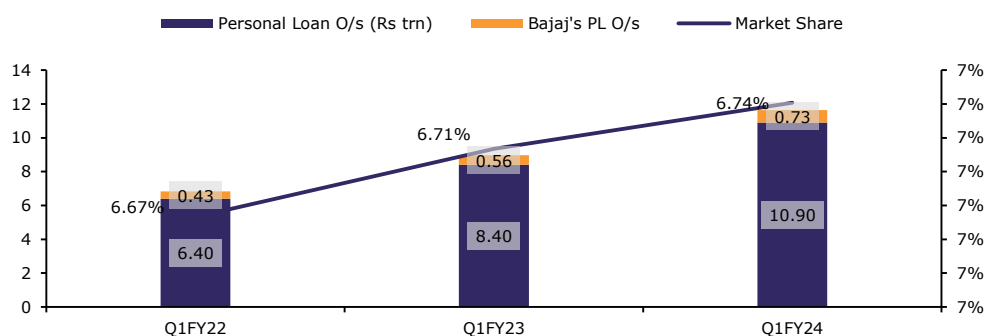
Source: Company, Emkay Research

Exhibit 61: More branch additions in Rural versus Urban



Source: Company, Emkay Research

Exhibit 62: BAF holds ~6.7% market share in the personal loan segment

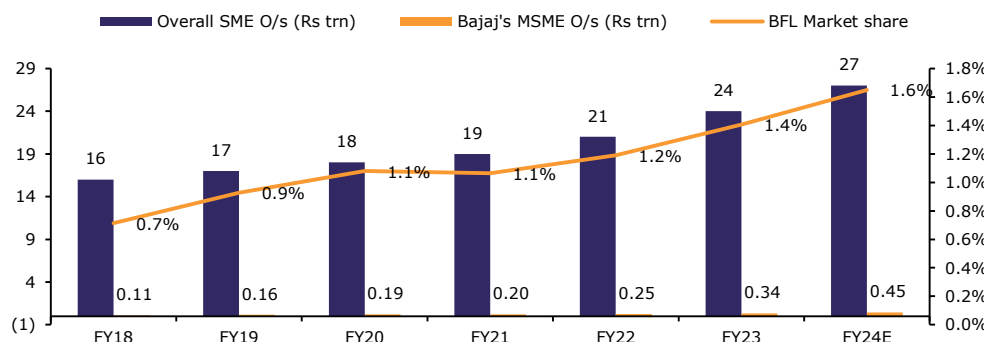


Source: Company, CRIF, Emkay Research; # Standalone PL O/s (B2C – Urban & Rural + Gold Finance)

SME Lending

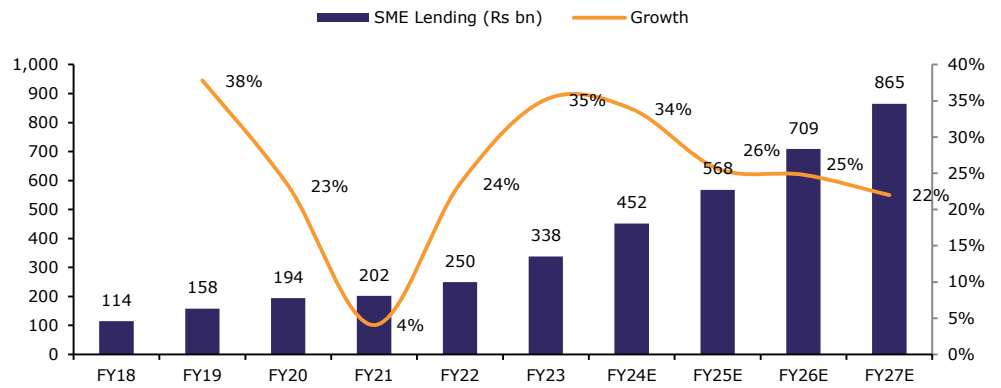
BAF offers a wide range of loans, both secured and unsecured, to SMEs, MSMEs, and professionals, including working capital loans and term facilities. Secured loans are backed by various types of assets, such as residential and commercial properties, as well as used four-wheelers. Within the SME Lending vertical, there are multiple categories of loans available, including unsecured and secured working capital loans, loans for self-employed individuals and professionals, secured loans, financing for used and new cars (started in FY24), and medical equipment financing. Acquisition of SME lending customers occurs through various channels, including direct sales agents, the company's exclusive sales force, and digital platforms like the Bajaj Finserv App and Bajaj Finserv website. As part of its LRS strategy, BAF has implemented the Account Aggregator facility for its SME business, which grants consent-based access to customers' banking transactions. This initiative enhances underwriting decisions and enables the company to refine its product offerings and credit monitoring processes. In FY2023, BAF entered into a tie-up agreements with used car dealership platform for providing end-to-end digital financing experience for customers transacting on platform by providing used car finance loans.

Exhibit 63: BAF gaining market share in the MSME segment



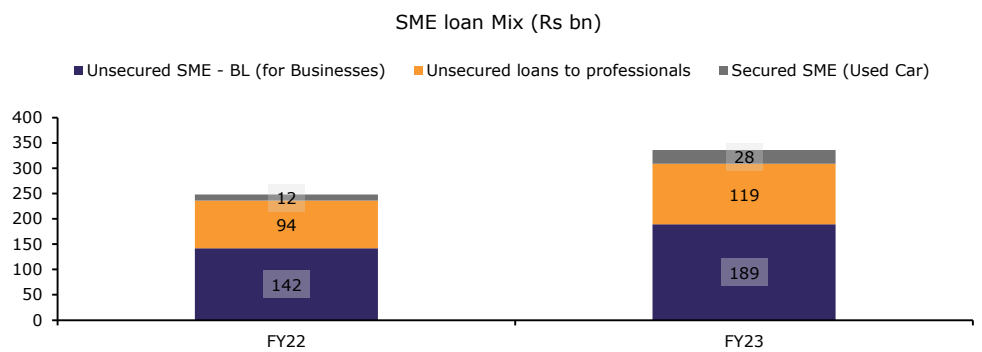
Source: Company, Emkay Research

Exhibit 64: SME AUM expected to reach Rs699bn by FY27E



Source: Company, Emkay Research

Exhibit 65: Increasing trend across product offerings in the SME segment

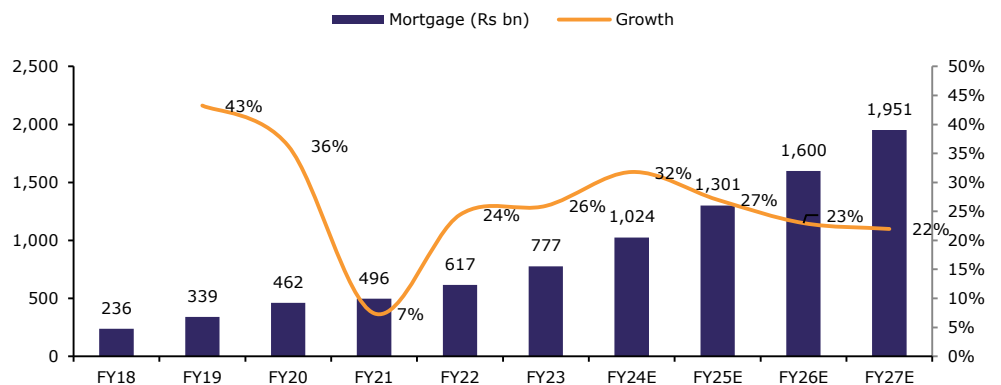


Source: Company, Emkay Research

Mortgage Lending

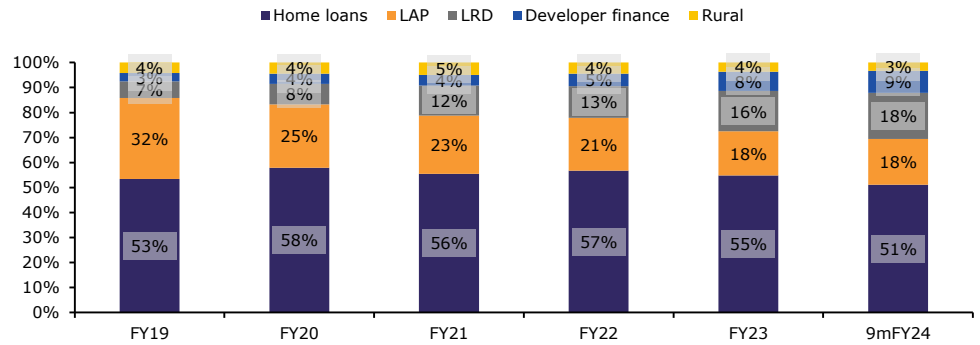
Company’s mortgage offerings are tailored to address all aspects of a customer’s mortgage needs, encompassing various products such as home loans, loans against property, lease rental discounting, developer financing, and rural mortgage loans. BHFL primarily offers these products, with a significant emphasis on retail individual housing and a diversified portfolio that includes corporate and developer exposures.

Exhibit 66: The overall Mortgage portfolio primarily comprises of the BHFL portfolio



Source: Company, Emkay Research

Exhibit 67: Home loan will continue to dominate the overall mortgage AUM

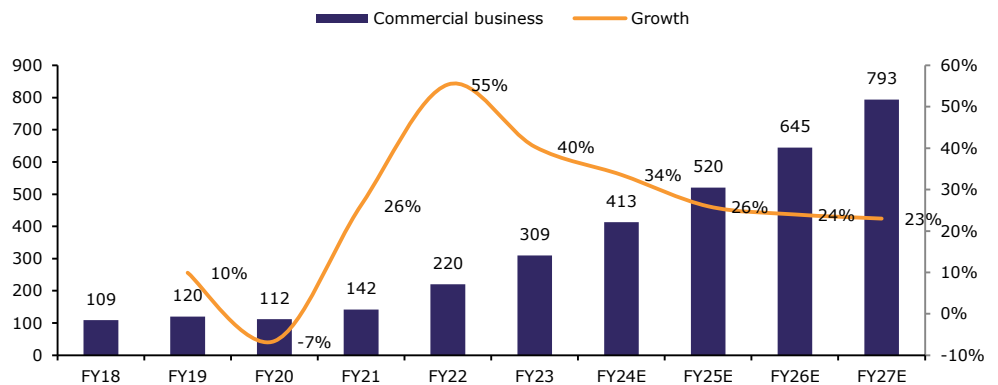


Source: Company, Emkay Research

Commercial Lending

BAF's commercial lending division provides loans to a diverse range of sectors, including auto component manufacturing, light engineering, financial institutions, specialty chemicals, pharmaceuticals, packaging, and mid-market enterprises. With a focus on acquiring top-tier corporate clients, the company emphasizes relationship building and offers value-added services such as working and growth capital loans. Supported by experienced relationship bankers in major Indian cities, its commercial lending operations adhere to a rigorous underwriting process overseen by seasoned credit analysts. Detailed product programs are implemented, and thorough checks (due diligence) are conducted on customer profiles and repayment capacity. Risk mitigation strategies include collateral and personal guarantees from promoters, along with comprehensive appraisals, to gain a holistic understanding of clients. Ongoing portfolio monitoring ensures adherence to statutory requirements, tracks management changes, assesses credit ratings, conducts periodic performance reviews, and analyzes industry trends.

Exhibit 68: We expect growth in the commercial business segment to continue in a risk calibrated manner

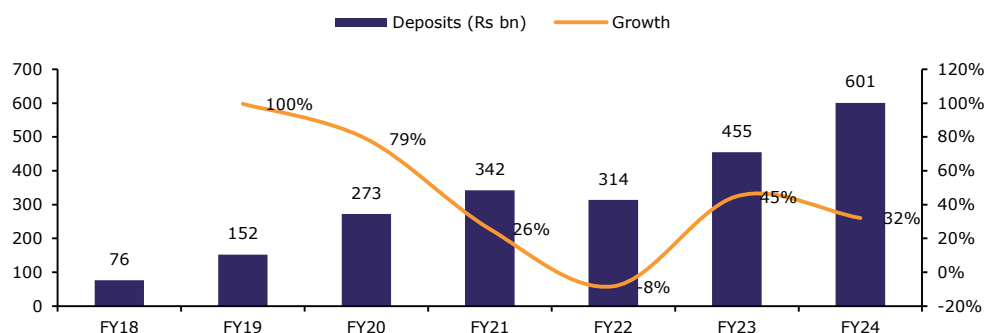


Source: Company, Emkay Research

Deposits

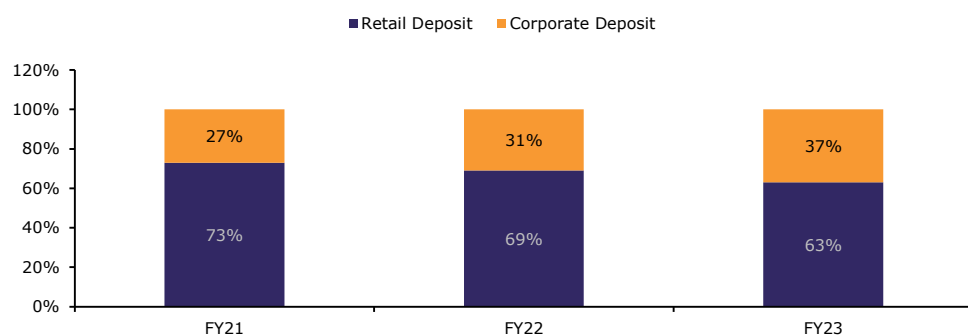
BAF accepts deposits from both, retail and corporate clients, with its deposit book reaching Rs60billion as of March-23. This represents year-on-year growth of 32% and accounts for 22% of consolidated borrowings. The company aims to increase this share to 25%. As part of its growth strategy, BAF is focused on expanding both retail and corporate deposits, while also enhancing its emphasis on digitally originating retail deposits. In FY23, deposits contributed to 63% of the total deposits.

Exhibit 69: Company aims to increase its Deposits growth going ahead



Source: Company, Emkay Research

Exhibit 70: Retail deposits continue to have dominating share in overall deposits

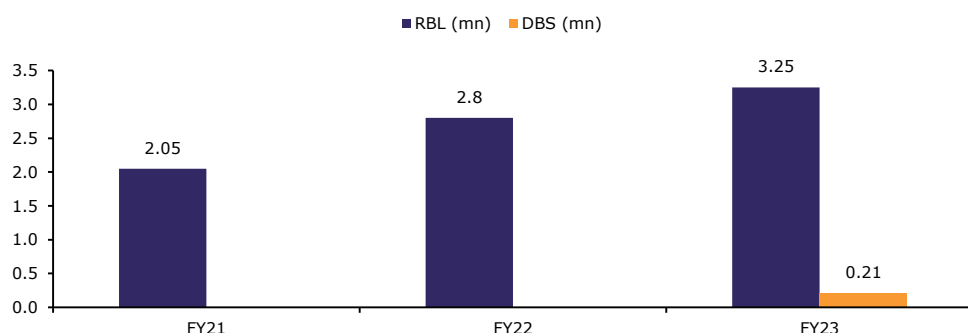


Source: Company, Emkay Research

Partnerships and Services

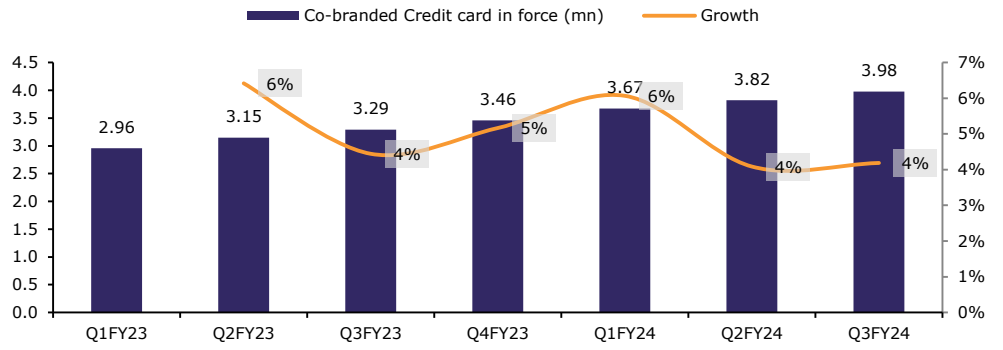
Through partnerships with diverse financial service providers, BAF delivers an array of products to its customers. These offerings encompass the distribution of various life, general, health, and pocket insurance products. Additionally, BAF extends comprehensive asset care products and services, EMI Cards, co-branded credit cards with RBL Bank and DBS Bank, customized credit reports termed financial fitness reports, which evaluate a customer’s credit score and analyze crucial financial parameters for both, salaried and self-employed individuals, and Health EMI cards. Such collaborations play a pivotal role in reducing BAF's loan origination costs.

Exhibit 71: BAF focusing on the DBS card, after RBI action against RBL credit card, and currently operates in 80 locations



Source: Company, Emkay Research; Note: # The RBI has granted 1-year renewal for a co-branded credit card partnership with RBL Bank

Exhibit 72: Currently, BAF has tie-ups with RBL and DBS for co-branded credit cards



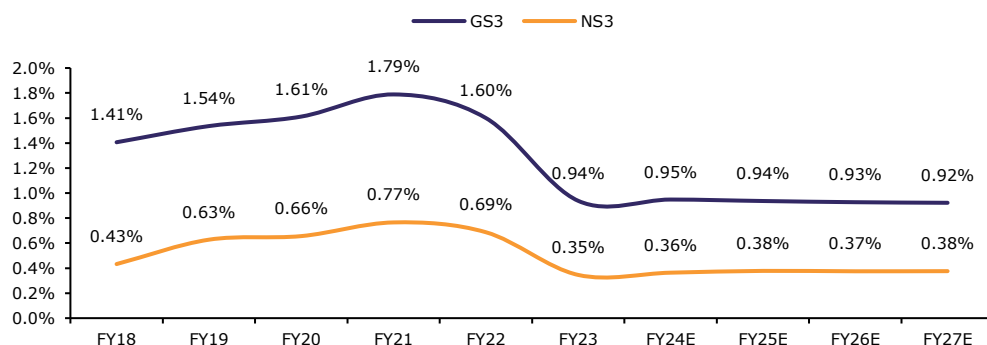
Source: Company, Emkay Research

Asset Quality and NPA trends

The asset quality of NBFCs is affected by diverse factors, including the economic cycle, the targeted customer segment, geographical exposure, and local events. Within the NBFC sector, different asset classes often display varied behavior. Despite such challenges, BAF has consistently upheld exemplary asset quality standards. Over the past decade, its GNPA has remained within the range of 1.1% to 1.8% of advances, underscoring a robust operational ecosystem supported by rigorous risk management practices.

We recognize that BAF's introduction of new products, such as the planned microfinance loans, carries risks to asset quality. However, we do not anticipate a significant threat in the medium term, given the company's strong track record in risk management and the relatively small proportion of new businesses in the total AUM.

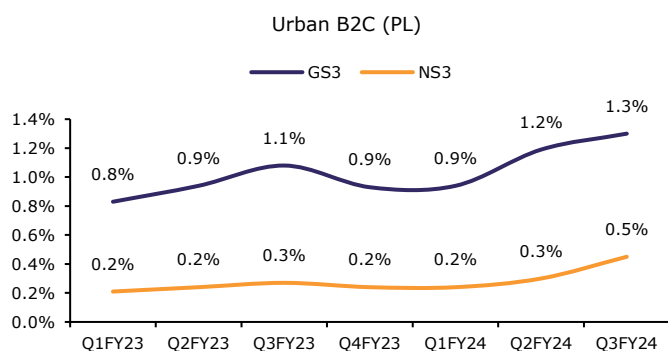
Exhibit 73: Stable-to-improving asset quality



Source: Company, Emkay Research

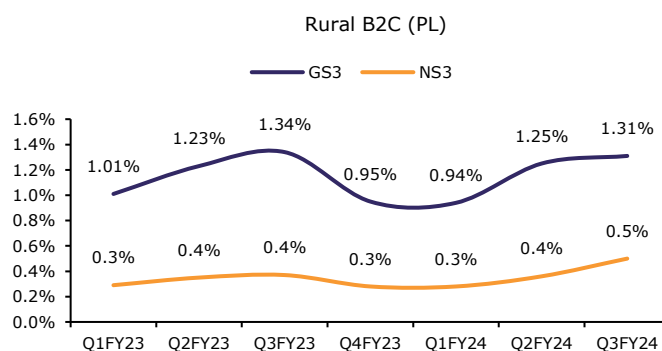
Product-wise GNPA/NNPA

Exhibit 74: Robust asset-quality trend – Personal loan in Urban



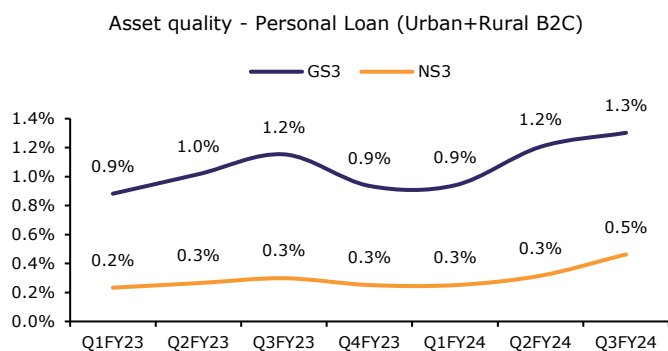
Source: Company, Emkay Research

Exhibit 75: Stable asset-quality trend – Personal Loan in Rural



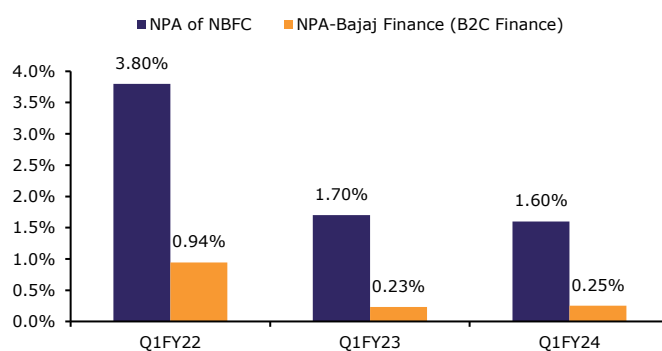
Source: Company, Emkay Research; #includes Gold Finance

Exhibit 76: Overall asset quality – Personal Loan



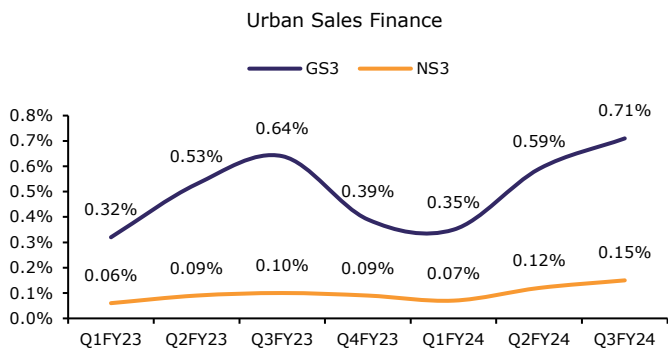
Source: Company, Emkay Research; # Rural B2C includes Gold Finance

Exhibit 77: BAF's asset quality has been better than the overall industry trend



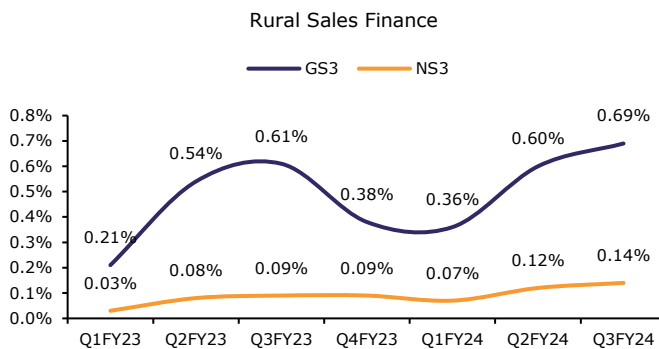
Source: Company, Emkay Research; # Rural B2C includes Gold Finance

Exhibit 78: Asset quality trend – Consumer Durables loans in Urban



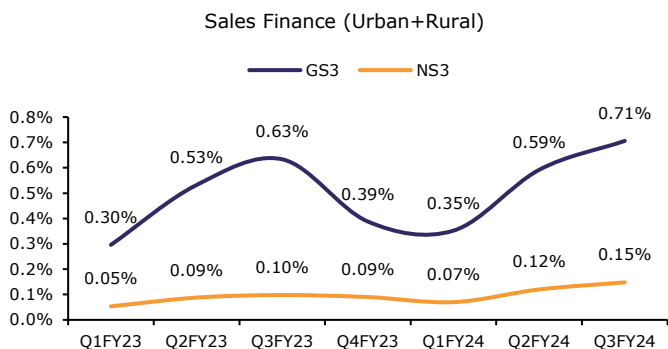
Source: Company, Emkay Research

Exhibit 79: Asset quality trend – Consumer Durables loans in Rural



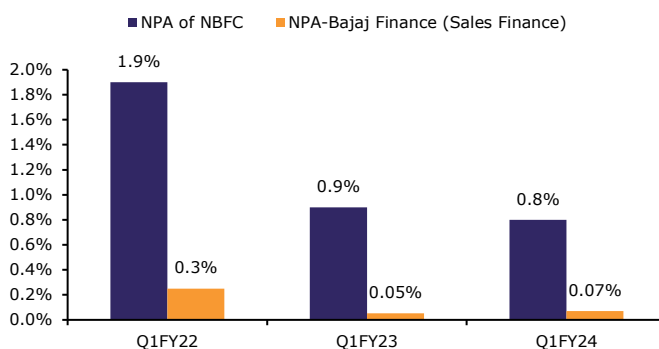
Source: Company, Emkay Research

Exhibit 80: Stable asset quality trend



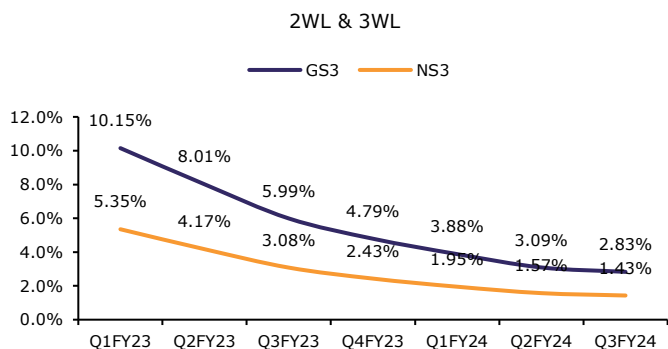
Source: Company, Emkay Research

Exhibit 81: Superior customer selection and collection infra have been helping BAF maintain strong asset quality.



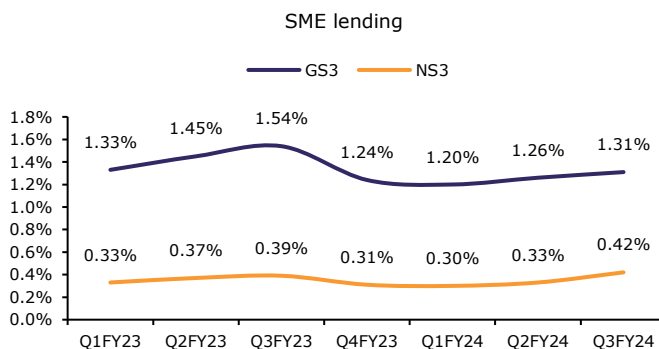
Source: Company, Emkay Research

Exhibit 82: Improving overall asset quality



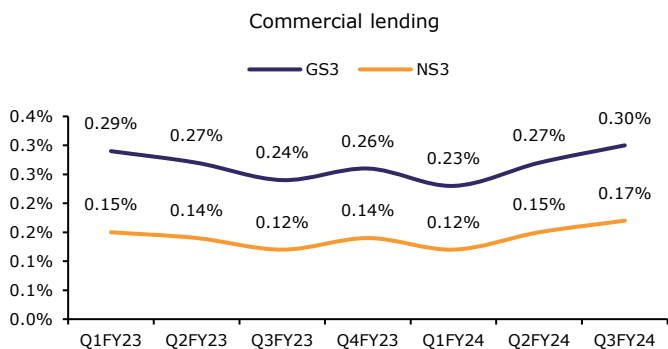
Source: Company, Emkay Research

Exhibit 83: Asset quality remains stable over the past 12M



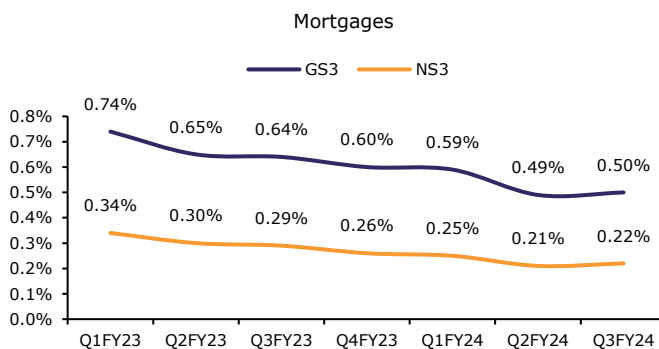
Source: Company, Emkay Research

Exhibit 84: Asset quality stays within a comfortable range, despite some margin increase in recent quarters



Source: Company, Emkay Research

Exhibit 85: Mortgage asset quality continues to improve

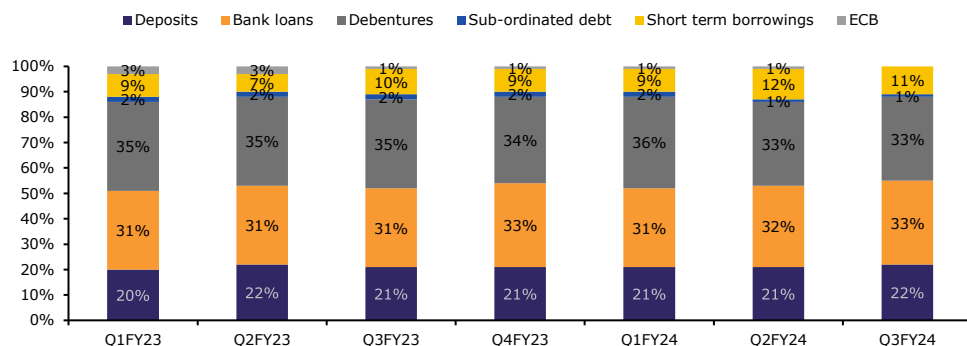


Source: Company, Emkay Research

Diverse borrowing mix – Low dependence on a single source of funding

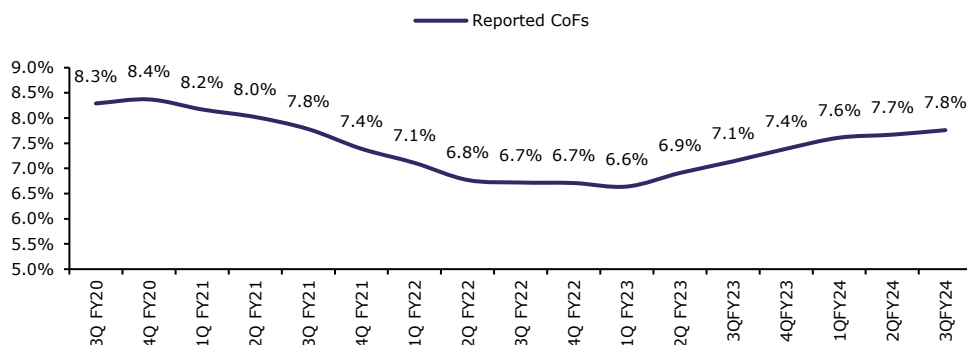
BAF has a well-diversified borrowing mix and maintains focus on diversification in the borrowing mix, with higher share of capital market instruments and securitization, among others, thus keeping its cost of funds stable. Amid recent measures by the RBI, increase in risk weight for bank exposure should have minimal-to-low impact on the overall cost of borrowing, as BAF is less contingent on bank borrowing and optimizes its liability mix by increasing the share of deposit to 25% from the current 22%.

Exhibit 86: Diverse funding option available for an optimal mix



Source: Company, Emkay Research

Exhibit 87: Cost of funds to stabilize and see some moderation going forward



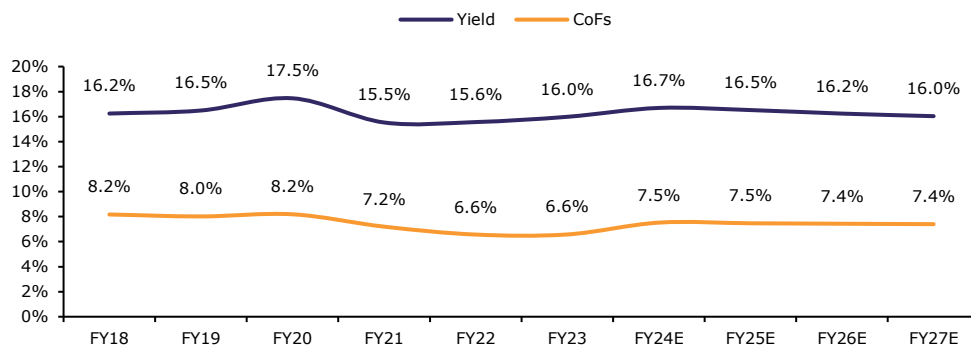
Source: Company, Emkay Research

Margins and Profitability

Increasing high-yielding product offerings and stable cost of funds to improve yields

BAF consistently provides products with higher yields. The addition of new offerings like MFI, Used Car Finance, Commercial Vehicle Financing, Gold Finance, etc. is not expected to diminish its overall yield. Further, given BAF's well-diversified borrowing mix, there should not be any significant increase in the Cost of Borrowing. We expect yields to experience some moderation as the proportion of the non-fixed portfolio grows. However, we anticipate CoF to remain stable at 7.4%, thus putting some pressure on margins, which are expected to see some moderation over FY24-27E.

Exhibit 88: Yields and CoFs to remain stable over FY24E-27E

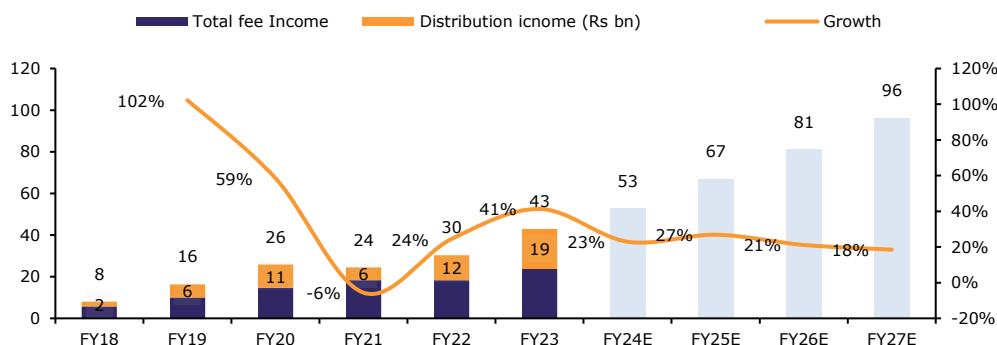


Source: Company, Emkay Research

Fee Income

Fee income is a key component of BAF’s strategy and has seen 39% CAGR over FY18-23, outpacing the company’s ~25% AUM CAGR over the same period and climbing, from 1% of AUM to 1.8% at ~Rs43bn, primarily because of the Distribution fee that has been inching up and is now a sizeable portion of the Fee income. Rapid expansion in co-branded cards has been largely driving the higher distribution income. Co-branded card partnerships and products have enabled BAF to provide value-added services to its customers and grow its fee-based income. Apart from Distribution income, Recoveries against financial assets have seen strong growth during FY22-23, as write-offs were elevated during the Covid period owing to rise in GNPA; hence, we have seen a subsequent rise in recoveries from the written-off pool post-Covid. However, with normalizing levels of delinquencies, we believe large recoveries are unlikely to be a repeat phenomenon beyond FY24.

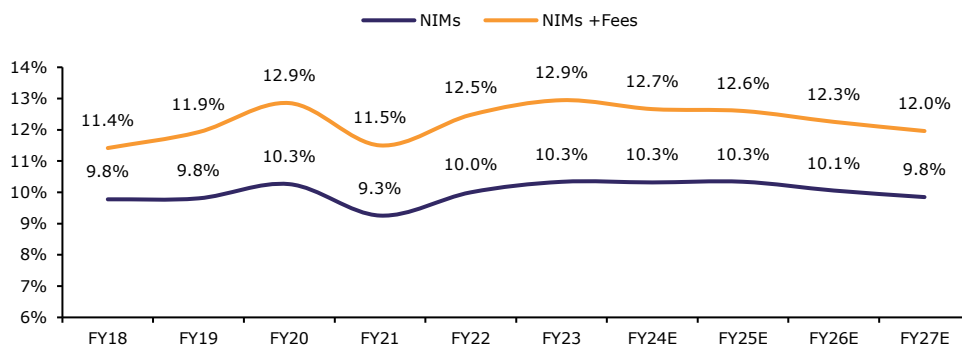
Exhibit 89: Distribution income attributes to 45% of the overall fee income



Source: Company, Emkay Research

Thus, anticipating a slight moderation in yields and stable Cost of Funds (CoFs), we foresee pressure on NIMs, which may moderate to 10.1% by FY27E. Consequently, we expect NIMs+Fee income to also undergo moderation, declining from the current 12.4% (Q3FY24) to 12.3% by FY27E. Our projection accounts for the evolving market dynamics and the anticipated impact on the company’s net interest income and fee-based income components over the forecast period.

Exhibit 90: Margins to see some moderation on account of increasing share of non-fixed rate lending

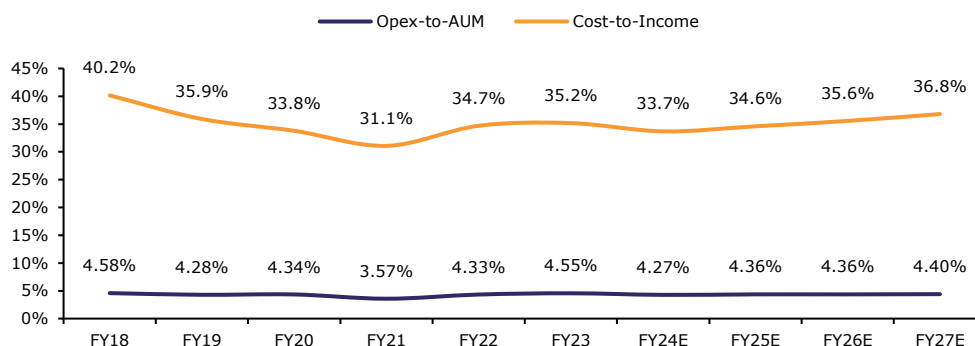


Source: Company, Emkay Research

Operating Expense

We expect the Opex-to-AUM ratio to remain largely consistent through our forecast period, stabilizing at around 4.4% by FY27E. With BAF’s robust focus on digitalization and its expanding branch network, we anticipate a slight uptick in the company’s investment in technology and manpower addition, leading to a marginal increase in its cost-to-income ratio.

Exhibit 91: Opex-to-AUM to remain broadly stable

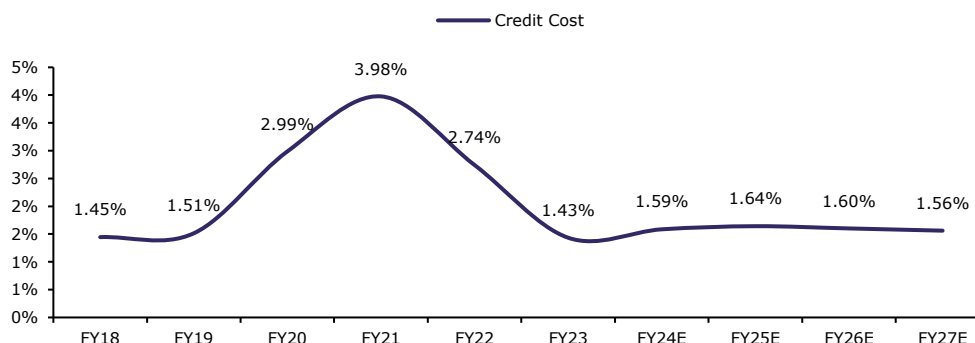


Source: Company, Emkay Research

Credit cost and Asset Quality

Bajaj’s consistent success in maintaining exceptional asset-quality metrics underscores its ability to achieve sustainable growth while prudently managing portfolio risks, resulting in favorable credit costs. As BAF expands its product range to include more secured offerings, such as Gold loans and Commercial Vehicles, we reckon a decrease in credit costs during FY24-27E, that would stabilize at around 1.5%.

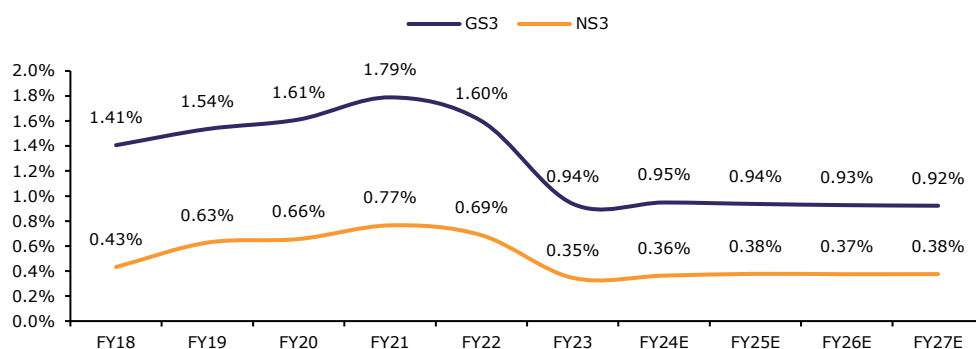
Exhibit 92: Stable-to-improving asset quality resulting in improving credit cost



Source: Company, Emkay Research

On the asset quality front, BAF has effectively managed its Gross Non-Performing Assets (GNPA) within the 1.1-1.8% range, achieving 0.95% in Q3FY24. Given its experienced Management team and disciplined approach, we expect GNPA to remain comfortably stable at around 1% and Net Non-Performing Assets (NNPAs) at 0.4% by FY27E, despite the planned expansion into higher-risk segments.

Exhibit 93: Asset quality to see further improvement over FY24E-27E

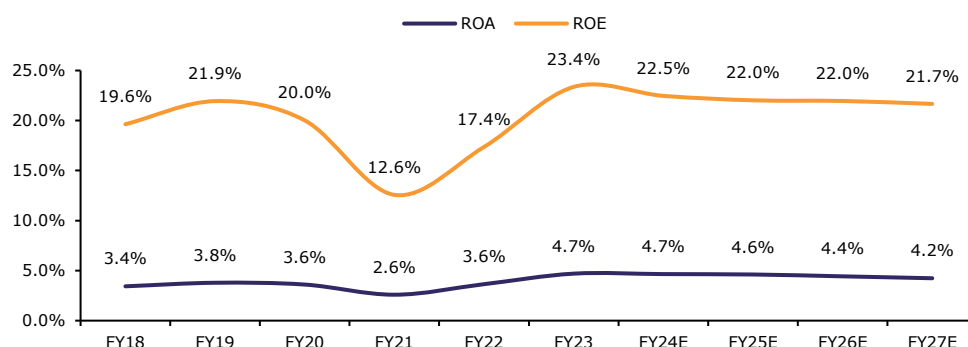


Source: Company, Emkay Research

Sustainable Profitability

BAF’s diversified business model offers comprehensive financial solutions, distinguishing itself through robust customer acquisition and successful cross-selling strategies in the retail finance sector. Leveraging its broad customer base and diverse product portfolio, along with conservative capital adequacy, BAF aims for growth rates surpassing industry standards. With ongoing innovation enhancing customer experience and identifying sustainable growth opportunities, BAF targets long-term profitability and consistent return on assets (RoA) and on equity (RoE). Despite the projected yield moderation, normalization of other income, and marginal declines in margins and credit costs, we anticipate RoA to persist above 4% by FY27E, resulting in an RoE of 21.2%, in line with its guided range of 20-22%.

Exhibit 94: We expect BAF to continue delivering ROE at above 20%



Source: Company, Emkay Research

Peer Comparison

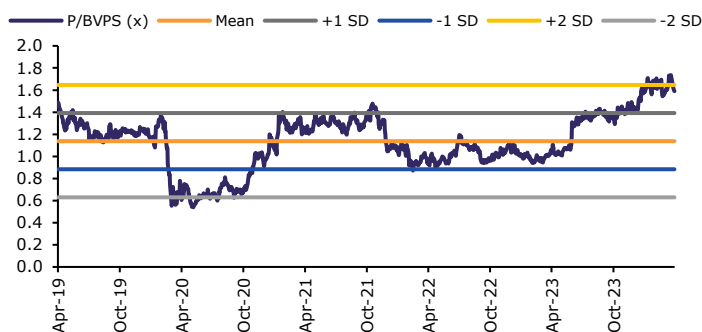
Exhibit 95: BAF has superior NIMs and asset quality versus peers

As of Q3FY24	AUM (Rs mn)	Yield (%)	CoF (%)	NIM (%)	Credit Cost (%)	GS3 (%)	NS3 (%)	ROA (%)	ROE (%)
Bajaj Finance	3,109,680	16.70	7.76	10.20	1.66	0.95	0.37	4.90	22.00
Tata Capital Financial Services	1,491,650	12.7*	7.6*	6.20	0.30	1.60	0.40	2.40	18.10
Shriram Finance	2,142,335	19.00	8.96	8.99	2.15	5.66	2.72	3.11	15.54
Cholamandalam Investment and Finance	1,337,940	14.30	8.04	7.40	1.11	2.82	1.55	3.30	19.80
Aditya Birla Finance	986,010	13.67	6.76	6.91	1.52	2.59	1.31	2.48	17.60
Mahindra & Mahindra Financial Services	933,920	12.90	7.80	6.70	1.90	4.00	1.52	1.50	8.80

Source: Company, Emkay Research; Note: *Data as of H1FY24

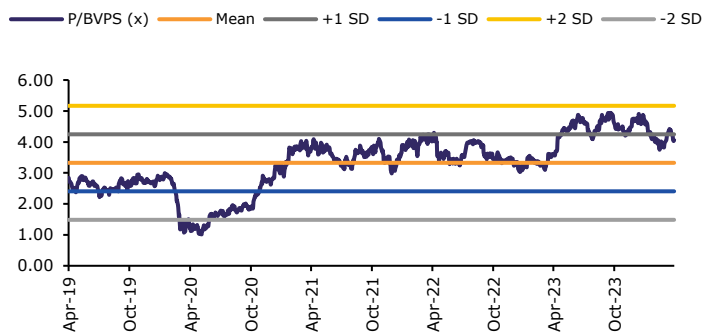
One-year forward P/BV of close comparable NBFCs

Exhibit 96: One-year forward P/BV – SHFL



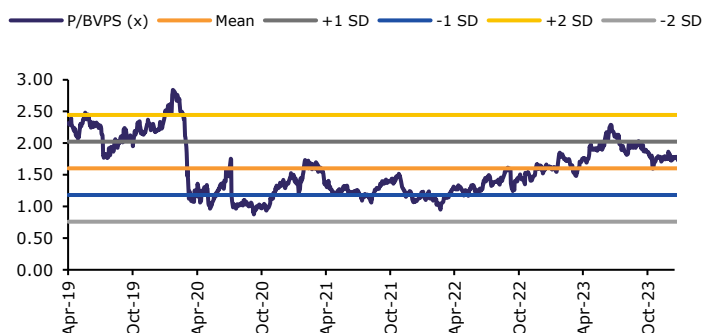
Source: Company, Emkay Research

Exhibit 97: One-year forward P/BV – CIFC



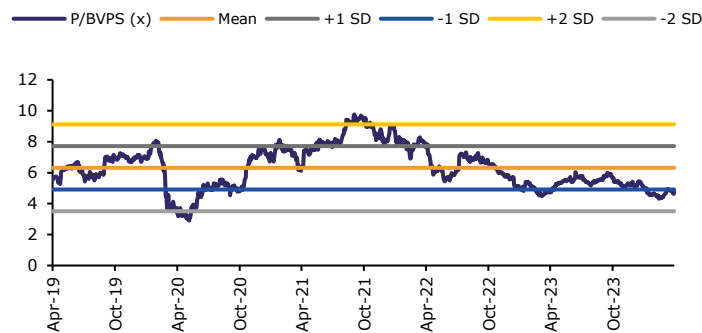
Source: Company, Emkay Research

Exhibit 98: One-year forward P/BV – MMFS



Source: Company, Emkay Research

Exhibit 99: One-year forward P/BV – BAF



Source: Company, Emkay Research

Key Risks

- Extended regulatory hurdles in consumer lending, particularly in the areas of ecommerce/EMI cards and co-branded cards, could potentially exert adverse effects on the company's business operations and financial performance. These challenges may necessitate additional compliance measures, potentially leading to increased operational costs and constraints on revenue generation.
- The potential decline in asset quality coupled with increased delinquency rates, particularly in emerging segments like Micro Finance Institutions (MFI), may pose significant challenges to the company's profitability and hinder its overall growth trajectory. Such factors could lead to elevated provisioning requirements and higher credit costs in our view, consequently impacting the bottom line and constraining the company's expansion efforts.
- In case of its conversion into a bank, BAF would be subjected to heightened regulatory scrutiny, which may potentially impact its profitability. Meeting requirements such as Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), and Priority Sector Lending (PSL) obligations would impose additional financial burdens, affecting the company's bottom line. This transition would necessitate significant adjustments in the company's operational and financial strategies to ensure compliance with the stringent regulatory framework of the banking sector.
- The company's rapid expansion in previous years has drawn attention to its future viability and financial health, underscoring the need for close monitoring. Further, difficulties in nurturing and maintaining relationships with distribution channels and customers could pose obstacles to achieving its broader growth goals.

Key Managerial Personnel

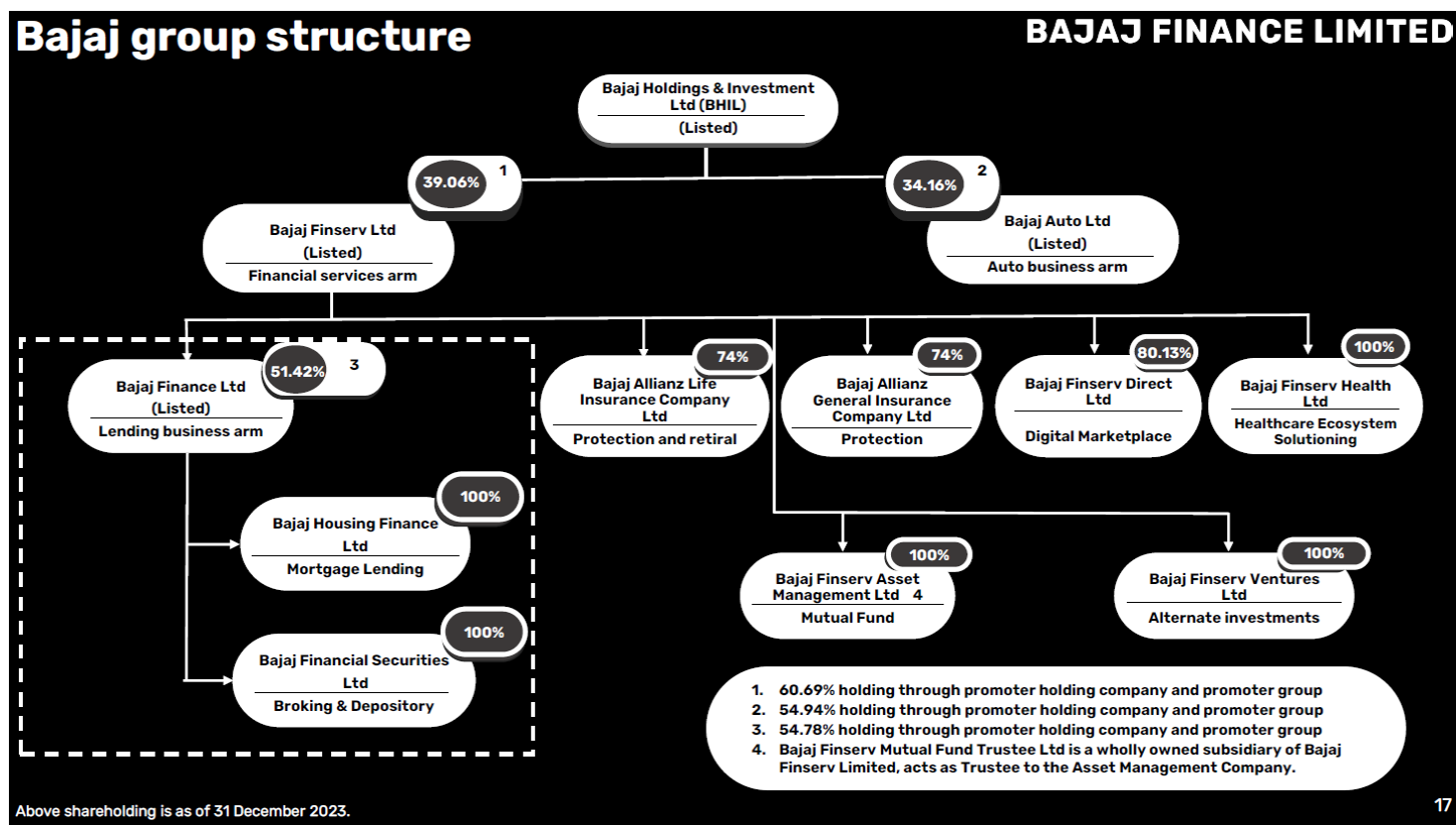
Exhibit 100: Key Management

Key Personal	Position	Profile
Sanjiv Bajaj	Chairman	Sanjiv Bajaj serves as the Chairman of BAF and holds positions on the boards of various group operating companies. Additionally, he is a board member of the Indian School of Business (ISB), Allianz SE, and the International Technology Advisory Panel (ITAP) of the Monetary Authority of Singapore (MAS). He also serves on the Regional Stewardship Board for India and South Asia 2019-2020 of the World Economic Forum. Mr Bajaj has previously served as the President of the Confederation of Indian Industry (2022-23) and as a member of the steering committee appointed by the Indian government for B20 during India's G20 presidency. He holds a bachelor's degree in Mechanical Engineering from the University of Pune, a master's in Manufacturing Systems Engineering from the University of Warwick, UK, and an MBA from Harvard Business School, USA.
Rajeev Jain	Managing Director	As a management graduate, Rajeev Jain possesses over 30 years of experience in the consumer lending industry. He has been with the company for over a decade, having previously worked with Countrywide Consumer Financial Services, ANZ Grindlays Bank, American Express, and AIG. Through his career, he has amassed extensive experience in overseeing various consumer lending businesses, including auto loans, durable loans, personal loans, and credit cards.
Sandeep Jain	Chief Financial Officer	Sandeep Jain became a part of the company in August 2008 and assumed the role of Chief Financial Officer in February 2016. He holds a bachelor's degree in commerce from Nagpur University and is an associate member of the Institute of Chartered Accountants of India. Before joining the company, he served as an Assistant Manager (Internal Audit) at Bajaj Auto. With 17 years of experience in finance, he brings a wealth of expertise to his current position.
Fakhari Sarjan	Chief Risk Officer	Fakhari Sarjan oversees risk management, risk analytics, and underwriting within the company. He has been with the organization since November 2018. Holding a bachelor's degree in mechanical engineering from the College of Engineering, Pune, he also earned recognition for participating in a strategic management in banking program from INSEAD. Additionally, he holds a postgraduate diploma in management from the Indian Institute of Management Society, Lucknow. Previously, he held positions at Barclaycard and Barclays Bank PLC
Anup Saha	Deputy Managing Director	With over 28 years of varied management experience spanning sales, product risk, collection, and business intelligence, Anup Saha is adept at driving growth through performance and transformation initiatives within the company. He joined BAF in 2017 to spearhead its consumer finance portfolio business, and presently oversees retail business lines that encompass urban consumer durable loans, personal loans, co-branded credit cards, MSME, rural loans, FDs, insurance, and payments.
Anupam Sirbhaiya	Chief Human Resources and Administrative Officer	Anupam Sirbhaiya oversees people policies, practices, and their management for all on-roll employees of the company, along with office infrastructure development, facilities management, safety, and employee services to facilitate their official duties and ensure compliance with labor laws. He has been with the Bajaj Finserv group since 2016. He holds a postgraduate diploma in business management from XLRI, Jamshedpur. Previously, he served as the managing director at the Center for Creative Leadership India.
Deepak Bagati	President – Debt Management Services	Deepak Bagati oversees the Debt Management Services vertical, aiming to enhance the company's competitive position in the industry. With extensive experience spanning various sectors such as printing solutions, reprographics, rating firms, supply chain management, and lending, he brings valuable insights to his role. He joined BAF from Yes Bank, where he served as the Zonal Head for the unsecured business. Prior to that, he held positions at HDFC Bank, Onicra, Mahindra & Mahindra, and Modi Xerox.
Deepak Reddy	President – Rural businesses, FD & Investments, Insurance, Services and Distribution	Throughout his career spanning over 27 years, Deepak Reddy has held various roles encompassing lending businesses, sales and distribution, product management, and human resources. Prior to joining the Bajaj Group, he gained experience at renowned organizations such as American Express, Standard Chartered Bank, and Onida.

Source: Company, Emkay Research

Organizational Structure

Exhibit 101: The Bajaj Group’s organizational structure



Source: Company

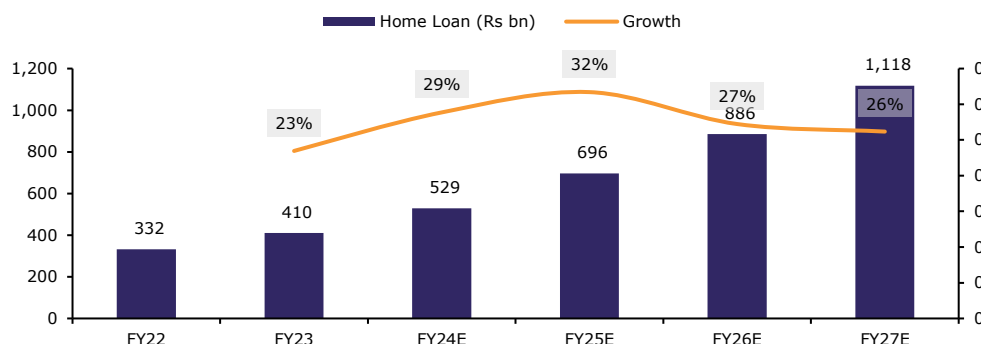
Bajaj Housing:

Bajaj Housing Finance (BHFL) was established in September 2015 as a non-deposit taking housing finance company registered with the National Housing Bank (NHB), officially launching its lending operations in July 2017. BHFL offers a diverse array of products, including home loans, loans against property, lease rental discounting, and developer financing. In addition, it runs a specialized vertical catering to rural and MSME customers, providing tailored home loans and loans against property. As one of the country's largest and most diversified housing finance companies, BHFL prioritizes scaling across all its portfolios, with a particular focus on retail individual housing, while maintaining granularity in its corporate and developer portfolio. The company is committed to delivering seamless processes and ensuring consistent customer experiences. To sustain its growth trajectory, BHFL is actively investing in geographic expansion through its micro-market strategy and bolstering its operational infrastructure. In 2022, BHFL was classified as an NBFC-UL based on RBI's scale-based regulation, and it is expected to be mandatorily listed by Sep-2025, following its classification in the upper layer.

The BHFL product suite:

Home Loans: BHFL provides home loans to mass-affluent, salaried professionals and self-employed individuals for both, 'ready to move in' and 'under construction' properties across 84 locations in India. BHFL implements a micro-market strategy utilizing both direct-to-customer and indirect channels, with ATS of Rs5.1mn and overall LTV at ~70%.

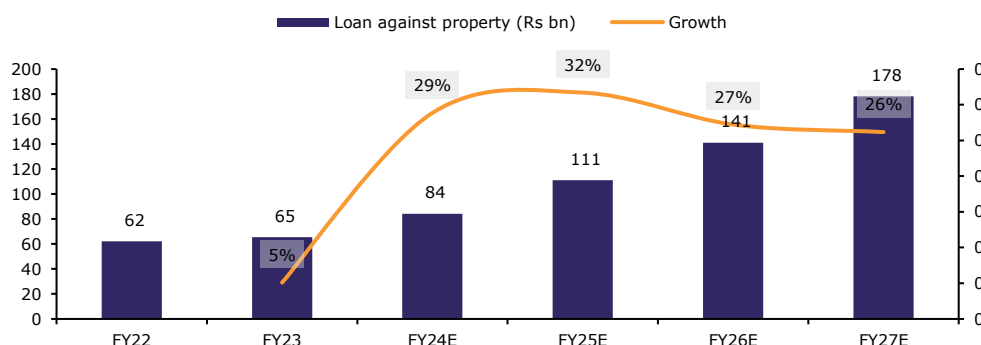
Exhibit 102: Eighty nine percent of the customers belong to the salaried class



Source: Company, Emkay Research

Loans against property: BHFL provides Loan Against Property (LAP) to SMEs, MSMEs, self-employed individuals, and professionals, leveraging both – the direct-to-customer channels and intermediaries. The LAP business operates in 47 locations across India, with an average loan value of Rs7.1mn. As of now, LAP business AUM stands at Rs79.18bn, reflecting a 15% year-on-year growth.

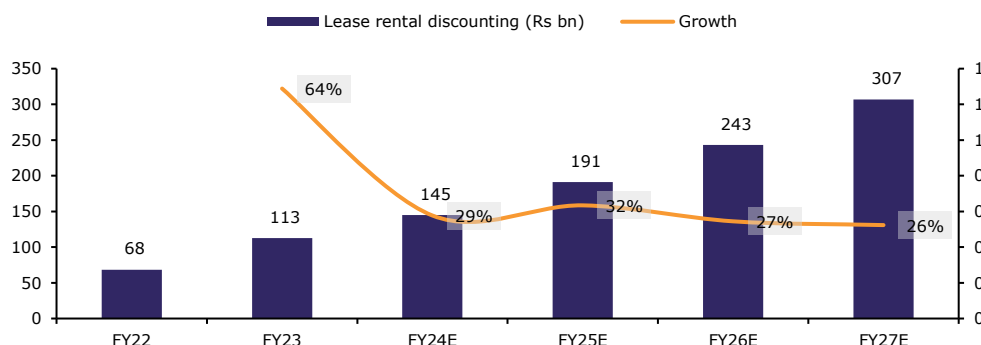
Exhibit 103: LAP constitutes ~9% of the overall BHFL AUM



Source: Company, Emkay Research

Lease Rental Discounting: BHFL provides financing solutions to high-net-worth individuals (HNIs) and developers for their lease rental discounting (lessees are majorly Fortune 500 companies) requirements, offering loan amounts ranging from Rs100mn to Rs5.5bn. This involves providing financing based on the lease rental cash-flows of commercial properties occupied by prominent lessees under long-term lease contracts. Additionally, BHFL offers construction finance for commercial properties to existing LRD customers, as well as warehousing LRD. Such products are available across 14 locations in India, with plans for further expansion. As of December 2023, the business segment’s AUM amounted to Rs166.96bn, reflecting a remarkable growth of 70% compared with Q3FY23.

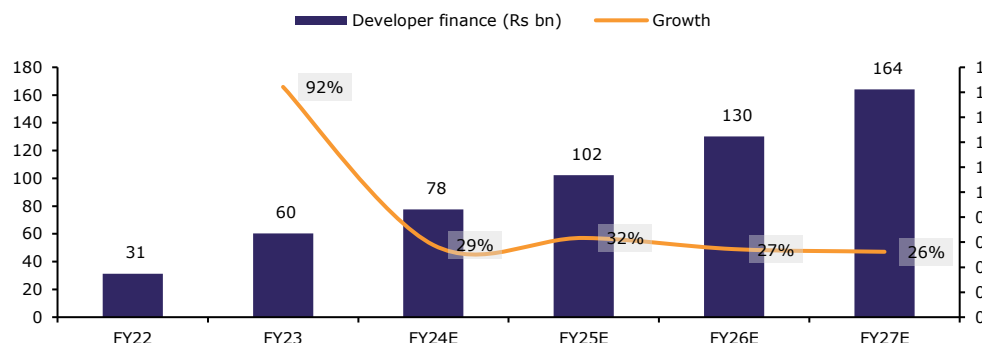
Exhibit 104: BAF provides financing based on lease rental cash-flows of commercial properties occupied by prominent lessees under long-term lease contracts



Source: Company, Emkay Research

Developer Loans: BHFL provides construction and inventory finance to developers renowned for their consistent track record of punctual project completion and loan repayments, with an average loan value of Rs380million. Presently operational in 13 locations, the company aims to broaden its footprint by adding more locations. Such partnerships with developers also facilitate BHFL in attracting low-risk retail home loan customers from projects developed by these developers. The AUM for this segment witnessed a remarkable 74% year-on-year growth, reaching Rs85.6billion as of December 2023.

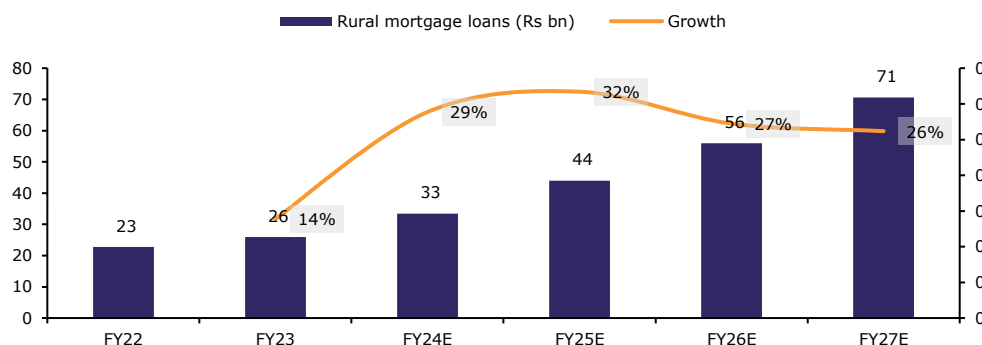
Exhibit 105: BHFL provides construction and inventory finance to developers



Source: Company, Emkay Research

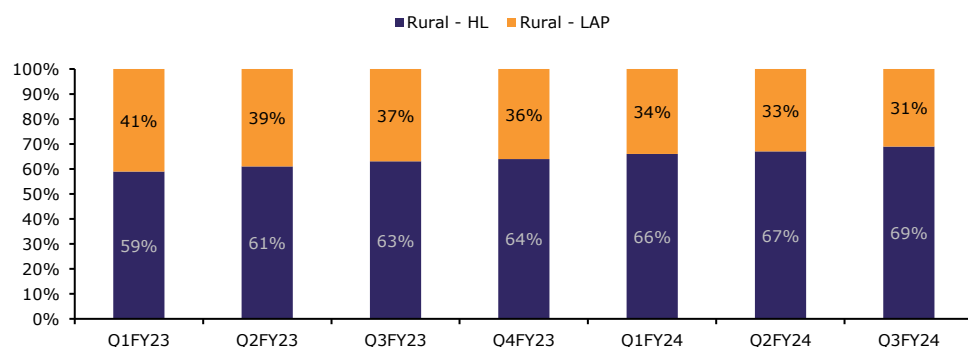
Rural Mortgage Loans: BHFL provides home loans and loans against property to both, salaried and self-employed individuals in 110 upcountry HUB locations. Their rural mortgages business operates with an average loan value of Rs1.8million, aiding BHFL in expanding its geographical presence and diversifying its portfolio. As of December 2023, BHFL reported an AUM of Rs29.7billion, marking a 19% year-on-year growth.

Exhibit 106: BHFL’s rural mortgages business lends support in expanding its geographical presence and diversifying its portfolio



Source: Company, Emkay Research

Exhibit 107: Increasing share of HL in Rural mortgage



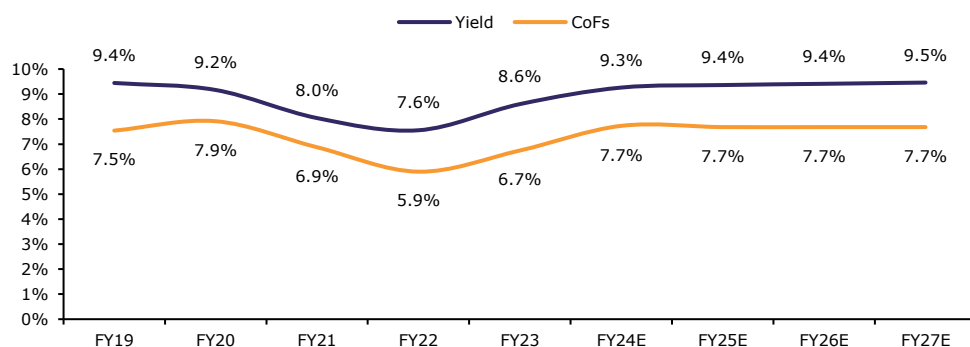
Source: Company, Emkay Research

Partnerships and Services: Through collaborations with diverse financial service providers, BHFL offers a range of products & services to its customers, including life insurance, general insurance, health insurance, online primary healthcare assistance services, and other financial offerings.

Margin improvement on account of stable cost and improved product mix

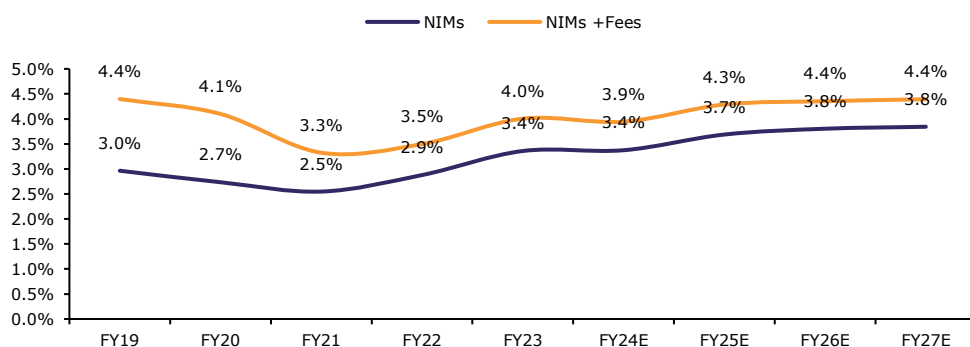
BHFL's core focus is on the salaried segment for its home loans, representing a significant portion of its home loan portfolio at 89%. While this segment typically yields lower returns due to intense competition from banks, BHFL however maintains a diversified product range. This includes offerings such as loans against property (LAP), lease rental discounting, developer finance, and rural mortgages. Such products cater to diverse customer segments and loan sizes, presenting ample growth opportunities across various sectors. Despite lower yields from the salaried segment, BHFL is committed to maintaining overall yield levels at desired rates, with gradual enhancements over time. Moreover, CoF is expected to remain steady at around 7.7%, facilitating an overall margin expansion of 50 basis points.

Exhibit 108: Overall yield supported by optimal product mix



Source: Company, Emkay Research

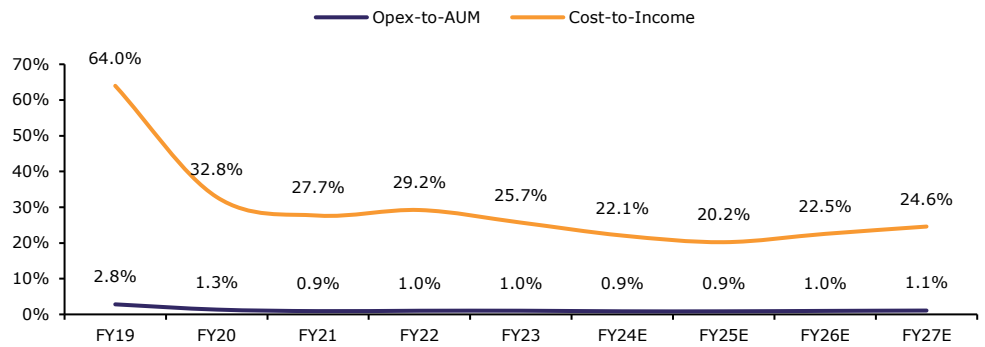
Exhibit 109: NIM to improve on account of increasing AUM share of high-yield product



Source: Company, Emkay Research

Anticipated operating expenses are poised to stay elevated as the company maintains its growth-oriented strategy and expands its branch network in coming years. Additionally, there is a possibility of increased customer acquisition costs following BHFL's listing. We project the Opex-to-AUM to rise to 1.1% by FY27E, from the current 0.8% (as of Q3FY24), while the cost-to-income is expected to slightly increase to 24.6% from 23% now (Q3FY24).

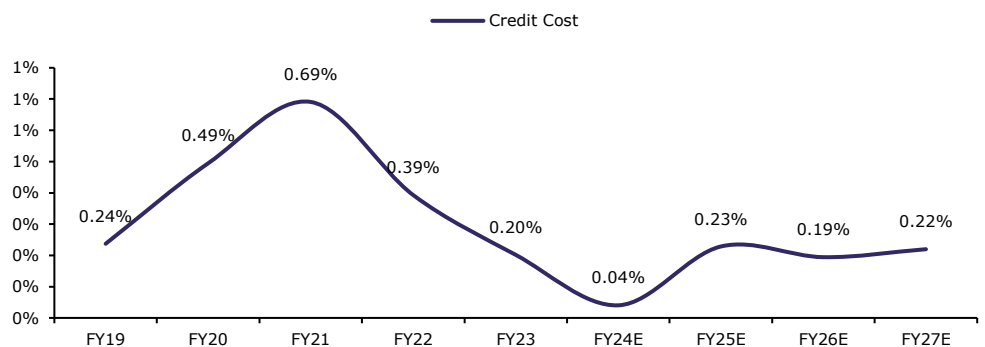
Exhibit 110: Opex-to-AUM to witness marginal increase over the forecast period, led by increased branch network and manpower addition



Source: Company, Emkay Research

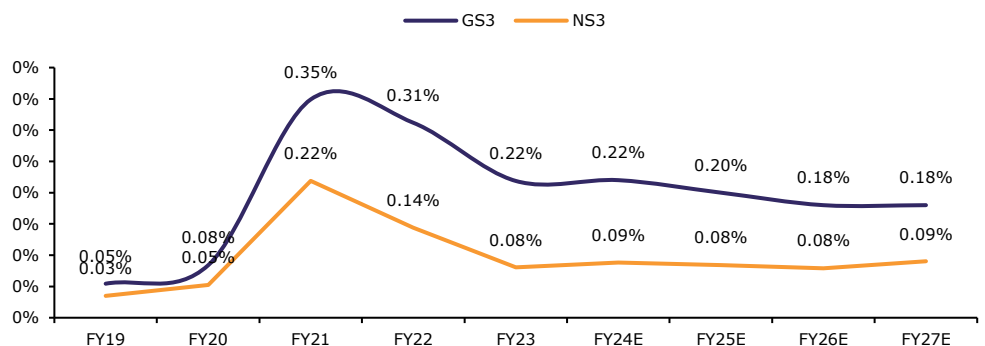
Credit costs and asset quality are poised to remain robust, primarily due to BHFL's focus on offering loans backed by a property collateral. We believe that the credit cost will continue to stay below 25 basis points through FY27E. Further, GNPA's and NNPA's are both projected to remain stable, with GNPA's hovering at around 0.2% and NNPA's at around 0.1% over same period.

Exhibit 111: Credit cost to remain firm on account of stable asset quality



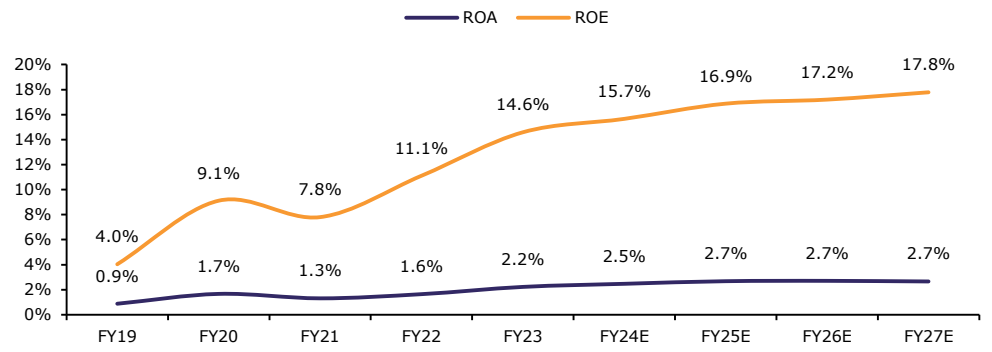
Source: Company, Emkay Research

Exhibit 112: Improving asset quality



Source: Company, Emkay Research

We anticipate an enhancement in BHFL's profitability due to several factors. These include improvement in NIM and lower credit costs resulting from the company's strong asset quality. Consequently, we project RoE improvement to 17.8%.

Exhibit 113: ROE/ROE expansion led by improving margins and stable asset quality

Source: Company, Emkay Research

Bajaj Securities

Bajaj Financial Securities (BFSL), a wholly-owned subsidiary of BAF, initiated its operational activities in August 2019, providing a comprehensive range of investment products and services to its clientele. Through 9MFY24, BFSL has broadened its geographical footprint, increasing its presence to 35 locations from 26. The company caters to retail and HNI clients, offering an array of services including demat, broking, margin trade financing, and financing for offer for sale. BFSL facilitates 'spread financing' through BAF for its customers and extends various financing solutions, such as IPO finance for new equity listings and ESOP finance for employee stock option plans, thus leveraging BAF's resources and expertise.

In the competitive landscape of financial broking, HNI Broking has demonstrated a strategic commitment to delivering tailored solutions to the UHNI and HNI client segments. With core focus on nurturing client relationships, the company has seen significant growth in its Margin Trade Financing book, reaching a notable Rs29.2bn as of Q3FY24. Expanding its reach, HNI Broking has established a presence in 35 locations by Dec-23 and added 15,500 new UHNI/HNI clients during 9MFY24, bringing its total client base to 38,000 as of Dec-23. Such expansion, coupled with a growing loan book, signifies BFSL's ability to effectively cater to the sophisticated needs of its discerning clientele.

On the other hand, Retail Broking has strategically focused on broadening its market presence and enhancing client engagement. By adding over 76,000 trading and demat accounts in 9MFY24, with a targeted approach towards clients inclined towards active trading, the company has seen its retail client base surge to 618,000 as of Dec-23. Additionally, Retail Broking has diversified its network by establishing over 1,100 online partners and affiliate accounts, and collaborating with over 120 Independent Business Advisors (IBAs). Its Margin Trade financing book has reached Rs2.48bn as of Q3FY24. The company is actively driving client activation on the BFSL platform, achieving monthly activation rate of 23%, indicating successful execution of its client acquisition and engagement strategies.

Over 9MFY24, BFSL registered strong AUM growth to Rs31.67bn, yielding NII of Rs740mn (>48% YoY). The company's broking income has grown 77% YoY to Rs830mn, driving a PAT of Rs340mn vs Rs60mn during 9MFY23.

Exhibit 114: Financial Snapshot – BAF – Standalone

Bajaj Finance - Standalone								
Financials (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Profit & Loss								
Interest income	206,681	204,191	237,286	301,418	406,359	518,861	636,514	776,135
Interest expense	78,576	74,464	75,731	92,852	136,146	171,543	214,700	265,042
Net interest income	128,106	129,727	161,555	208,566	270,213	347,318	421,814	511,093
Fee income	24,899	23,628	29,401	42,040	50,663	63,839	77,871	92,048
Non-operating income	6,781	7,644	12,028	13,408	11,610	13,583	16,929	20,920
Non-interest income	31,680	31,272	41,429	55,447	62,273	77,422	94,800	112,968
Total revenue	159,786	160,999	202,984	264,013	332,486	424,740	516,614	624,061
Employee expense	22,966	22,424	32,219	45,731	60,162	76,063	93,107	115,060
Depreciation	2,707	3,023	3,549	4,438	6,213	8,698	12,177	17,048
Other expense	27,981	24,711	35,131	44,365	48,552	67,914	84,643	104,600
Total Opex	53,653	50,158	70,899	94,534	114,927	152,675	189,927	236,709
Pre prov. optg. Profit (PPOP)	106,133	110,842	132,085	169,480	217,559	272,065	326,687	387,352
Loan loss provisions	38,052	57,213	46,221	30,665	45,494	59,191	72,938	87,889
Share of associates / exceptional	0	0	0	0	0	0	0	0
Profit before tax (PBT)	68,081	53,629	85,864	138,815	172,065	212,874	253,749	299,464
Taxes	19,270	14,074	22,359	35,918	44,221	54,708	65,214	76,962
PAT	48,811	39,555	63,505	102,897	127,844	158,165	188,536	222,502
Balance sheet								
Net worth	318,132	359,387	420,559	514,931	707,639	836,695	990,287	1,171,353
Paidup capital	1,200	1,203	1,207	1,209	1,235	1,235	1,235	1,235
Reserves	316,932	358,184	419,352	513,722	706,403	835,460	989,052	1,170,118
Borrowings	369,233	270,803	298,704	478,947	2,038,072	2,598,213	3,243,963	4,017,474
Others	692,670	752,646	960,898	1,171,369	33,470	33,470	33,470	33,470
Total Liabilities	1,380,036	1,382,836	1,680,161	2,165,248	2,779,181	3,468,378	4,267,721	5,222,297
Loans & Advances	1,134,171	1,130,899	1,442,763	1,790,971	2,363,289	2,959,483	3,671,811	4,521,206
Fixed Assets	10,162	9,724	11,898	15,520	17,072	18,779	20,657	22,722
Others	235,703	242,212	225,501	358,757	398,820	490,116	575,253	678,369
Total Assets	1,380,036	1,382,836	1,680,161	2,165,248	2,779,181	3,468,378	4,267,721	5,222,297
BVPS (Rs)	530	597	697	852	1,146	1,355	1,603	1,896
EPS (Rs)	83	66	105	170	207	256	305	360
AUM	1,161,020	1,154,170	1,467,430	1,809,990	2,411,920	3,021,178	3,750,247	4,617,786
GS3	2.0%	2.2%	2.0%	1.2%	1.2%	1.2%	1.2%	1.2%
NS3	0.8%	0.9%	0.8%	0.4%	0.5%	0.5%	0.5%	0.5%
Credit cost	3.99%	5.61%	4.15%	2.15%	2.16%	2.18%	2.15%	2.10%
DuPont analysis - Standalone								
(% of total ROA)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Interest income	16.8%	14.8%	15.5%	15.7%	16.4%	16.6%	16.5%	16.4%
Interest expense	6.4%	5.4%	4.9%	4.8%	5.5%	5.5%	5.6%	5.6%
Net interest income	10.4%	9.4%	10.5%	10.8%	10.9%	11.1%	10.9%	10.8%
Fee income	2.0%	1.7%	1.9%	2.2%	2.0%	2.0%	2.0%	1.9%
Other non-II	0.6%	0.6%	0.8%	0.7%	0.5%	0.4%	0.4%	0.4%
Total non-interest income	2.6%	2.3%	2.7%	2.9%	2.5%	2.5%	2.5%	2.4%
Total revenue	13.0%	11.7%	13.3%	13.7%	13.4%	13.6%	13.4%	13.2%
Total Opex	4.4%	3.6%	4.6%	4.9%	4.6%	4.9%	4.9%	5.0%
PPOP	8.6%	8.0%	8.6%	8.8%	8.8%	8.7%	8.4%	8.2%
Loan losses & Provision	3.1%	4.1%	3.0%	1.6%	1.8%	1.9%	1.9%	1.9%
PBT	5.5%	3.9%	5.6%	7.2%	7.0%	6.8%	6.6%	6.3%
Tax	1.6%	1.0%	1.5%	1.9%	1.8%	1.8%	1.7%	1.6%
RoA	4.0%	2.9%	4.1%	5.4%	5.2%	5.1%	4.9%	4.7%
ROE	19.0%	11.7%	16.3%	22.0%	20.9%	20.5%	20.6%	20.6%

Source: Company, Emkay Research

Exhibit 115: Financial snapshot – BHFL

Bajaj Housing Finance								
(Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Profit & Loss								
Interest income	23,031	28,774	34,818	52,692	73,356	96,735	125,612	159,921
Interest expense	16,160	19,659	21,553	32,113	46,632	58,627	74,839	94,957
Net interest income	6,871	9,116	13,264	20,579	26,724	38,108	50,773	64,964
Fee income	1,001	746	819	862	1,355	2,067	2,002	2,536
Non-operating income	2,431	2,032	2,035	3,100	3,169	4,134	5,340	6,762
Non-interest income	3,432	2,779	2,854	3,962	4,523	6,201	7,342	9,298
Total revenue	10,302	11,894	16,118	24,541	31,248	44,309	58,115	74,262
Employee expense	2,485	2,458	3,488	4,351	4,595	5,994	8,517	11,648
Depreciation	231	218	258	334	401	481	577	693
Other expense	668	615	963	1,620	1,901	2,480	4,005	5,917
Total Opex	3,384	3,290	4,709	6,306	6,897	8,956	13,098	18,258
Pre prov. optg. Profit (PPOP)	6,918	8,604	11,409	18,236	24,351	35,353	45,017	56,004
Loan loss provisions	1,243	2,472	1,811	1,235	319	2,362	2,593	3,715
Share of associates / exceptional								
Profit before tax (PBT)	5,675	6,132	9,599	17,001	24,032	32,992	42,423	52,289
Taxes	1,461	1,600	2,502	4,423	6,176	8,479	10,903	13,438
NPAT	4,213	4,532	7,096	12,578	17,856	24,513	31,521	38,851
Balance sheet								
Net worth	55,851	60,322	67,414	105,032	122,997	167,510	199,030	237,881
Paidup capital	48,833	48,833	48,833	67,122	67,231	77,231	77,231	77,231
Reserves	7,018	11,489	18,580	37,910	55,766	90,279	121,800	160,650
Borrowings	177,769	202,685	244,932	336,547	669,060	857,679	1,091,243	1,381,596
Others	80,104	115,576	172,926	204,963	6,100	6,415	6,762	7,143
Total Liabilities	313,724	378,584	485,271	646,541	798,157	1,031,604	1,297,035	1,626,620
Loans & Advances	279,754	334,189	464,821	621,139	766,870	996,305	1,268,032	1,599,502
Fixed Assets	778	643	781	849	934	1,028	1,130	1,243
Others	33,192	43,752	19,669	24,553	30,353	34,271	27,873	25,875
Total Assets	313,724	378,584	485,271	646,541	798,157	1,031,604	1,297,035	1,626,620
BVPS (Rs)	11	12	14	16	18	22	26	31
EPS (Rs)	1	1	1	2	3	3	4	5
AUM	327,050	388,710	533,220	692,280	892,080	1,174,902	1,494,854	1,886,138
GS3	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
NS3	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Credit cost	0.49%	0.69%	0.39%	0.20%	0.04%	0.23%	0.19%	0.22%
DuPont analysis - BHFL								
(% of total AUM)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E
Interest income	9.1%	8.3%	8.1%	9.3%	10.2%	10.6%	10.8%	10.9%
Interest expense	6.4%	5.7%	5.0%	5.7%	6.5%	6.4%	6.4%	6.5%
Net interest income	2.7%	2.6%	3.1%	3.6%	3.7%	4.2%	4.4%	4.4%
Fee income	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other non-II	1.0%	0.6%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%
Total non-interest income	1.4%	0.8%	0.7%	0.7%	0.6%	0.7%	0.6%	0.6%
Total revenue	4.1%	3.4%	3.7%	4.3%	4.3%	4.8%	5.0%	5.1%
Total Opex	1.3%	1.0%	1.1%	1.1%	1.0%	1.0%	1.1%	1.2%
PPOP	2.7%	2.5%	2.6%	3.2%	3.4%	3.9%	3.9%	3.8%
Loan losses & Provision	0.5%	0.7%	0.4%	0.2%	0.0%	0.3%	0.2%	0.3%
Share of associates / exceptional	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PBT	2.2%	1.8%	2.2%	3.0%	3.3%	3.6%	3.6%	3.6%
Tax	0.6%	0.5%	0.6%	0.8%	0.9%	0.9%	0.9%	0.9%
RoA	1.7%	1.3%	1.6%	2.2%	2.5%	2.7%	2.7%	2.7%
ROE	9.1%	7.8%	11.1%	14.6%	15.7%	16.9%	17.2%	17.8%

Source: Company, Emkay Research

Bajaj Finance: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Interest Income	355,502	482,263	619,651	766,666	942,043
Interest Expense	125,599	184,205	231,965	291,890	363,547
Net interest income	229,903	298,058	387,685	474,776	578,496
NII growth (%)	31.2	29.6	30.1	22.5	21.8
Non interest income	58,066	67,745	84,915	103,689	124,157
Total income	287,969	365,803	472,600	578,465	702,653
Operating expenses	101,300	123,218	163,493	205,718	258,567
PPOP	186,669	242,585	309,107	372,747	444,086
PPOP growth (%)	30.7	30.0	27.4	20.6	19.1
Provisions & contingencies	31,897	45,816	61,578	75,599	91,734
PBT	154,773	196,769	247,529	297,148	352,353
Extraordinary items	0	0	0	0	0
Tax expense	40,202	50,570	63,615	76,367	90,555
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	114,571	146,199	183,914	220,781	261,798
PAT growth (%)	63.7	27.6	25.8	20.0	18.6
Adjusted PAT	114,571	146,199	183,914	220,781	261,798
Diluted EPS (Rs)	189.6	239.2	297.5	357.2	423.6
Diluted EPS growth (%)	63.7	26.2	24.4	20.0	18.6
DPS (Rs)	30.0	37.4	47.1	56.5	67.0
Dividend payout (%)	0.2	0.2	0.2	0.2	0.2
Effective tax rate (%)	26.0	25.7	25.7	25.7	25.7
Net interest margins (%)	10.3	10.3	10.3	10.1	9.8
Cost-income ratio (%)	35.2	33.7	34.6	35.6	36.8
PAT/PPOP (%)	61.4	60.3	59.5	59.2	59.0
Shares outstanding (mn)	604.5	618.1	618.1	618.1	618.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	23,130	30,148	37,647	46,540	57,376
NNPL - Stage 3	8,370	11,490	15,099	18,707	23,239
GNPL ratio - Stage 3 (%)	0.9	0.9	0.9	0.9	0.9
NNPL ratio - Stage 3 (%)	0.3	0.4	0.4	0.4	0.4
ECL coverage - Stage 3 (%)	63.8	61.9	59.9	59.8	59.5
ECL coverage - 1 & 2 (%)	1.2	1.1	1.1	1.1	1.1
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	1.7	1.5	1.5	1.4	1.4
Total credit costs (%)	1.4	1.6	1.6	1.6	1.6
NNPA to networth (%)	1.5	1.5	1.7	1.7	1.8
Capital adequacy					
Total CAR (%)	25.0	27.0	25.9	25.1	24.4
Tier-1 (%)	23.2	25.2	24.1	23.3	22.7
Miscellaneous					
Total income growth (%)	31.7	27.0	29.2	22.4	21.5
Opex growth (%)	33.6	21.6	32.7	25.8	25.7
PPOP margin (%)	8.4	8.4	8.2	7.9	7.6
Credit costs-to-PPOP (%)	17.1	18.9	19.9	20.3	20.7
Loan-to-Assets (%)	88.0	88.4	88.9	89.3	89.5
Yield on loans (%)	16.0	16.7	16.5	16.2	16.0
Cost of funds (%)	6.6	7.5	7.5	7.4	7.4
Spread (%)	9.4	9.2	9.1	8.8	8.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Share capital	1,209	1,236	1,236	1,236	1,236
Reserves & surplus	542,511	756,516	911,321	1,097,158	1,317,521
Net worth	543,720	757,752	912,557	1,098,394	1,318,757
Borrowings	2,166,905	2,730,210	3,479,464	4,372,708	5,453,715
Other liabilities & prov.	41,662	45,828	50,411	55,452	60,997
Total liabilities & equity	2,752,287	3,533,790	4,442,432	5,526,554	6,833,470
Net loans	2,422,689	3,125,255	3,951,012	4,933,292	6,113,058
Investments	227,518	292,122	367,235	456,854	564,890
Cash, other balances	43,045	55,268	69,479	86,434	106,874
Interest earning assets	2,693,253	3,472,645	4,387,725	5,476,580	6,784,823
Fixed assets	16,766	18,006	19,806	21,787	23,966
Other assets	42,268	43,140	34,901	28,188	24,681
Total assets	2,752,287	3,533,790	4,442,432	5,526,554	6,833,470
BVPS (Rs)	899.7	1,239.6	1,476.4	1,777.0	2,133.6
Adj. BVPS (INR)	899.7	1,239.6	1,476.4	1,777.0	2,133.6
Gross loans	2,466,357	3,179,109	4,019,845	5,020,872	6,221,003
Total AUM	2,473,790	3,304,000	4,196,080	5,245,100	6,503,924
On balance sheet	2,466,357	3,179,109	4,019,845	5,020,872	6,221,003
Off balance sheet	7,433	124,891	176,235	224,228	282,921
Disbursements	0	0	0	0	0
Disbursements growth (%)	0.0	0.0	0.0	0.0	0.0
Loan growth (%)	26.6	29.0	26.4	24.9	23.9
AUM growth (%)	25.3	33.6	27.0	25.0	24.0
Borrowings growth (%)	31.1	26.0	27.4	25.7	24.7
Book value growth (%)	24.1	37.8	19.1	20.4	20.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24E	FY25E	FY26E	FY27E
P/E (x)	38.3	30.5	24.5	20.4	17.2
P/B (x)	8.1	5.9	4.9	4.1	3.4
P/ABV (x)	7.7	5.6	4.7	3.9	3.2
P/PPOP (x)	22.3	17.6	13.8	11.4	9.6
Dividend yield (%)	0.4	0.5	0.6	0.8	0.9
DuPont-RoE split (%)					
NII/avg AUM	10.3	10.3	10.3	10.1	9.8
Other income	2.6	2.3	2.3	2.2	2.1
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	2.3	2.0	2.2	2.2	2.2
Employee expense	2.3	2.3	2.2	2.2	2.2
PPOP	8.4	8.4	8.2	7.9	7.6
Provisions	1.4	1.6	1.6	1.6	1.6
Tax expense	1.8	1.8	1.7	1.6	1.5
RoAUM (%)	5.2	5.1	4.9	4.7	4.5
Leverage ratio (x)	4.5	4.4	4.5	4.7	4.9
RoE (%)	23.4	22.5	22.0	22.0	21.7
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	62,549	67,186	71,970	76,553	82,349
NIM (%)	10.5	10.4	10.3	10.2	10.3
PPOP	51,190	55,437	58,347	61,422	67,379
PAT	31,578	34,369	35,509	36,390	39,932
EPS (INR)	52.25	56.83	58.67	59.42	64.60

Source: Company, Emkay Research

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