

Oct 23, 2024

RESULT REPORT Q2 FY25 | Sector: Financials

# Bajaj Finance Limited

## Stabilization of credit cost in H2 FY25 would be key

### A marginal miss in PAT driven by elevation of credit cost

BAF delivered a small miss on our consolidated PAT estimate mainly due to increase in the credit cost run-rate. Higher provisioning (2.1% v/s 2% in Q1) was driven by significant increase in Stage 3 assets across products, which needs to be seen in the context of material increase in Stage 2 assets during Q1 FY25 which was partially driven by macro disruptions (elections, heatwave, etc.). In Q2 FY25, the Stage 2 assets have witnessed a meaningful decline across most products implying that bounce rates are stabilizing.

Unlike in the preceding quarter, there was only a marginal decline in NIM in Q2 FY25. Cost of funds rose by only 3 bps and the AUM yield was largely stable despite the composition shift towards secured consumer and SME/commercial lending. Consolidated AUM growth stood at 5.6% qoq/28.8% yoy. Except in Rural B2C segment (grew 10% yoy), the growth was healthy-to-strong in all other products including Urban B2C (33% yoy). More recently introduced secured products like Gold Loans and Car Loans have been witnessing significant scale-up. BHL AUM grew 27% yoy with much stronger growth in Developer Finance (56% yoy) and LRD (28% yoy). Overall disbursements of BHL were marginally lower yoy. Consolidated PPOP for BAF grew by robust 25% yoy, aided by a well-regulated opex growth. Annualized RoA/RoE for Q1 FY25 were 4.5%/19%.

### BAF expects stabilization of credit cost and NIM and continuance of growth in H2 FY25

Management expects credit cost to have peaked and estimates it to gradually moderate from Q4 FY25. This belief is underpinned by 1) stabilization of bounce rates (reflected in Stage 2 recovery), 2) augmentation of collection capacity to stem forward flow, 3) risk/underwriting actions taken and pruning of exposures and 4) pivoting of AUM composition towards secured products. In the mainstay product of Personal Loans, the disbursement contribution of the customers having 3 or more live unsecured loans has been brought down to 9-10% (was 12-14% a few quarters before and 8-9% pre-Covid). With no material change in overall growth approach, BAF expects to deliver 27-28% AUM growth in current year. Growth in Rural B2C segment is expected to further normalize to 12-14% over coming quarters. NIM is estimated to be stable in the near term and marginally improve in the medium term as the rate cut cycle plays out.

### Retain BUY on supportive valuation and expectations of earnings growth improving from FY26

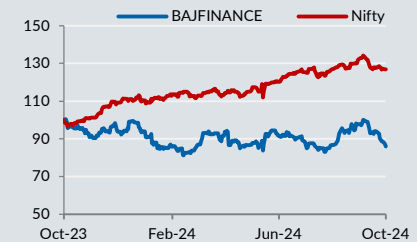
We cut FY25/26 earnings by 2%/5% mainly on increasing the credit cost assumption. Given that flows into the early buckets have stabilized, incremental risk on current credit cost and growth expectations appears low. On consolidated basis, we expect BAF to deliver 22-24% earnings growth on 24-25% AUM growth over FY24-27 with avg RoA/RoE of 4%/21%. BAF has exhibited resilience in growth and profitability through various phases of competition, credit cycles and liquidity conditions. Stock is trading at palatable valuation (16x PE and 3.1x P/BV on FY27) and further indications of credit cost stabilization would re-rate BAF.

Reco	: BUY
CMP	: Rs 6,678
Target Price	: Rs 7,950
Potential Return	: +19.0%

#### Stock data (as on Oct 22, 2024)

Nifty	24,472
52 Week h/l (Rs)	7885 / 6188
Market cap (Rs/USD mn)	4195105 / 49910
Outstanding Shares (mn)	619
6m Avg t/o (Rs mn):	8,689
Div. yield (%):	0.5
Bloomberg code:	BAF IN
NSE code:	BAJFINANCE

#### Stock performance



	1M	3M	1Y
Absolute return	-11.9%	-3.0%	-14.0%

#### Shareholding pattern

Promoter	54.7%
FII+DII	35.4%
Others	9.8%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	7,950	8,300

#### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	267.3	345.7	431.0
EPS (Old)	272.2	360.9	-
% Change	-1.8%	-4.2%	-

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	4,48,347	5,60,112	6,87,033
PPOP	3,00,445	3,78,192	4,65,091
Net profit	1,65,188	2,13,623	2,66,338
Growth (%)	14.3	29.3	24.7
EPS (Rs)	267.3	345.7	431.0
ABVPS (Rs)	1,442.3	1,741.0	2,123.6
P/E (x)	25.0	19.3	15.5
P/ABV (x)	4.6	3.8	3.1
ROE (%)	19.7	21.3	21.9
ROA (%)	3.9	4.1	4.1

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#### MANUJ OBEROI, Associate

## Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Operating Income	1,70,903	1,60,987	6.2	1,33,783	27.7
Interest expended	(61,493)	(56,839)	8.2	(45,371)	35.5
Net Interest Income	1,09,410	1,04,148	5.1	88,412	23.7
Other Income	51	36	41.2	35	47.3
Total Income	1,09,461	1,04,185	5.1	88,447	23.8
Operating expenses	(36,390)	(34,709)	4.8	(30,100)	20.9
PPOP	73,071	69,475	5.2	58,347	25.2
Provisions	(19,091)	(16,847)	13.3	(10,771)	77.2
PBT	53,980	52,628	2.6	47,576	13.5
Tax	(13,877)	(13,534)	2.5	(12,070)	15.0
Reported PAT	40,137	39,120	2.6	35,508	13.0

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
AUM	37,39,240	35,41,920	5.6	29,02,640	28.8
Consumer B2B -Auto Fin.	1,89,600	1,96,890	(3.7)	1,65,480	14.6
Consumer B2B -Sales Fin.	2,71,690	2,69,750	0.7	2,29,730	18.3
Consumer B2C	7,72,390	7,16,280	7.8	5,81,780	32.8
Rural Business	2,60,950	2,56,020	1.9	2,64,140	(1.2)
SME Business	4,43,820	4,07,910	8.8	3,86,730	14.8
Securities Lending	2,33,590	2,20,430	6.0	1,69,860	37.5
Commercial Lending	2,46,150	2,35,890	4.3	1,95,580	25.9
Mortgages	11,58,360	10,96,710	5.6	9,09,340	27.4
Others	37,39,240	35,41,920	5.6	29,02,640	28.8

Source: Company, YES Sec

## Exhibit 3: Customer Franchise

(mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total Franchise	92.1	88.1	1.0	76.6	20.3
Non-Delinquent Customers	65.8	63.0	4.5	51.3	28.3
Cross sell franchise	57.7	55.1	4.6	46.7	23.6
New to BAF	4.0	4.5	(11.0)	3.6	11.2
New loans booked	9.7	11.0	(11.7)	8.5	13.6
EMI Cards in force	55.3	45.6	21.3	41.9	32.0

Source: Company, YES Sec

## Exhibit 4: GNPA trend

GNPA - (%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
Consumer B2B-Auto Fin.	4.0	3.4	0.6	3.1	0.9
Consumer B2B-Sales Fin	0.8	0.5	0.3	0.6	0.2
Consumer B2C	1.4	1.0	0.4	1.2	0.2
Rural B2B	0.8	0.4	0.4	0.6	0.2
Rural B2C	1.7	1.1	0.6	1.3	0.5
SME	1.6	1.4	0.3	1.3	0.4
Mortgages	0.5	0.5	0.0	0.5	0.0

Source: Company, YES Sec

## Exhibit 5: Key Ratios

(%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
Op Income / Average AUM*	18.8	18.8	(0.0)	19.1	(0.3)
Interest Expense / Average AUM*	6.8	6.6	0.1	6.5	0.3
NII / Average AUM*	12.0	12.2	(0.1)	12.6	(0.6)
Cost to Income	33.2	33.3	(0.1)	34.0	(0.8)
Provisions / Average AUM	2.1	2.0	0.1	1.5	0.6
RoE	19.1	19.9	(0.8)	24.1	(5.0)
RoA	4.5	4.6	(0.1)	5.2	(0.7)
CAR	21.7	21.7	0.0	23.2	(1.5)
Tier-1	20.9	20.7	0.2	21.9	(1.0)
Gross NPA	1.1	0.9	0.2	0.9	0.2
Net NPA	0.5	0.4	0.1	0.3	0.2
PCR	57.0	56.0	1.0	66.0	(9.0)

Source: Company, YES Sec; \*Calculated

## Exhibit 6: PCR trend

PCR - (%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
Consumer B2B-Auto Fin.	48.0	47.0	1.0	50.0	(2.0)
Consumer B2B-Sales Fin	82.0	82.0	-	79.0	3.0
Consumer B2C	59.0	56.0	3.0	75.0	(16.0)
Rural B2B	82.0	82.0	-	80.0	2.0
Rural B2C	72.0	72.0	-	71.0	1.0
SME	61.0	58.0	3.0	74.0	(13.0)
Mortgages	46.0	54.0	(8.0)	56.0	(10.0)

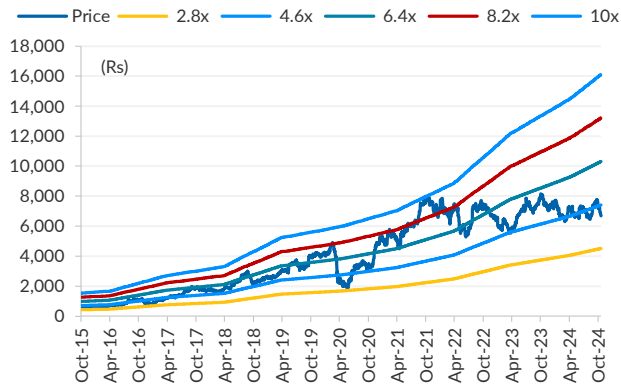
Source: Company, YES Sec

## Exhibit 7: ECL Summary

(Rs mn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
<b>Stage 1 &amp; 2 assets</b>					
Gross Stage 1 & 2 assets	2,877,560	30,83,330	32,85,180	35,20,390	36,93,850
ECL Provision Stage 1 & 2	29,050	30,790	34,350	37,010	35,890
Net Stage 1 & 2 assets	2,848,510	30,52,540	32,50,830	34,83,380	36,57,960
Coverage ratio (%)	1.0	1.0	1.0	1.1	1.0
<b>Stage 3 assets</b>					
Gross Stage 3 assets	26,450	29,630	28,160	30,540	39,530
ECL Provision Stage 3	17,470	18,280	16,060	17,120	22,570
Net Stage 3 assets	8,980	11,350	12,100	13,420	16,960
Coverage ratio (%)	66.0	61.7	57.0	56.1	57.1

Source: Company, YES Sec

**Exhibit 8: 1-yr rolling P/ABV band**



Source: Company, YES Sec

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



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity and Liabilities</b>					
Equity Share Capital	1,209	1,236	1,236	1,236	1,236
Other Equity	5,42,511	7,65,718	9,05,598	10,93,914	13,34,945
<b>Share-holders fund</b>	<b>5,43,720</b>	<b>7,66,954</b>	<b>9,06,834</b>	<b>10,95,150</b>	<b>13,36,181</b>
<b>Financial Liabilities</b>	<b>22,00,952</b>	<b>29,80,210</b>	<b>37,65,825</b>	<b>46,69,687</b>	<b>57,92,008</b>
Deposits	4,46,656	6,01,509	7,57,902	9,70,114	12,41,746
Trade payables	20,955	28,307	34,677	42,479	52,037
Debt Securities	8,68,452	11,79,995	14,92,694	18,36,014	22,58,297
Borrowings (Excl. Debt Sec.)	8,15,494	11,16,175	14,11,961	17,36,712	21,36,156
Subordinated Liabilities	36,303	35,779	45,260	55,670	68,475
Other Financial Liabilities	13,093	18,444	23,332	28,698	35,298
<b>Non-Financial Liabilities</b>	<b>7,615</b>	<b>10,253</b>	<b>12,569</b>	<b>15,414</b>	<b>18,912</b>
Current tax liabilities (net)	1,392	1,086	1,358	1,698	2,122
Provisions	2,704	4,219	5,274	6,592	8,240
Other non-financial liabilities	3,518	4,948	5,937	7,125	8,550
<b>Total Liabilities + Equity</b>	<b>27,52,287</b>	<b>37,57,416</b>	<b>46,85,229</b>	<b>57,80,251</b>	<b>71,47,101</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>27,15,935</b>	<b>37,09,912</b>	<b>46,35,963</b>	<b>57,29,049</b>	<b>70,93,761</b>
Cash and Cash Equivalents	15,508	40,345	33,558	54,220	92,393
Bank balances	27,538	65,895	65,895	65,895	65,895
Trade Receivables	12,997	17,335	20,802	24,962	29,955
Other Receivables	1,489	278	348	435	544
Loans	24,22,689	32,62,933	41,27,610	51,18,237	63,46,614
Investments	2,27,518	3,08,807	3,70,568	4,44,681	5,33,618
Other Financial Assets	8,196	14,319	17,183	20,619	24,743
<b>Non- Financial Assets</b>	<b>36,351</b>	<b>47,504</b>	<b>49,265</b>	<b>51,202</b>	<b>53,339</b>
Current tax assets (net)	1,814	2,909	3,491	4,189	5,027
Deferred tax assets (net)	9,371	10,174	10,174	10,174	10,174
Property, plant and equipment	16,766	23,583	24,762	26,000	27,301
Goodwill	33	33	33	33	33
Other Intangible assets	7,076	9,318	9,318	9,318	9,318
Other non-financial assets	1,292	1,487	1,487	1,487	1,487
<b>Total Assets</b>	<b>27,52,287</b>	<b>37,57,416</b>	<b>46,85,229</b>	<b>57,80,251</b>	<b>71,47,101</b>

Source: Company, YES Sec

## Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	4,13,974	5,49,695	6,98,624	8,54,465	10,28,986
Interest expense	(1,25,599)	(1,87,247)	(2,50,459)	(2,94,563)	(3,42,194)
<b>Net interest income</b>	<b>2,88,375</b>	<b>3,62,448</b>	<b>4,48,165</b>	<b>5,59,902</b>	<b>6,86,792</b>
Non-interest income	83	130	182	210	241
Total op income	2,88,458	3,62,578	4,48,347	5,60,112	6,87,033
Total op expenses	(1,01,300)	(1,23,252)	(1,47,902)	(1,81,920)	(2,21,942)
<b>PPoP</b>	<b>1,87,158</b>	<b>2,39,326</b>	<b>3,00,445</b>	<b>3,78,192</b>	<b>4,65,091</b>
Provisions	(31,897)	(46,307)	(78,716)	(91,450)	(1,07,590)
Profit before tax	1,55,262	1,93,019	2,21,729	2,86,742	3,57,501
Taxes	(40,202)	(48,584)	(56,541)	(73,119)	(91,163)
<b>Net profit</b>	<b>1,15,060</b>	<b>1,44,435</b>	<b>1,65,188</b>	<b>2,13,623</b>	<b>2,66,338</b>

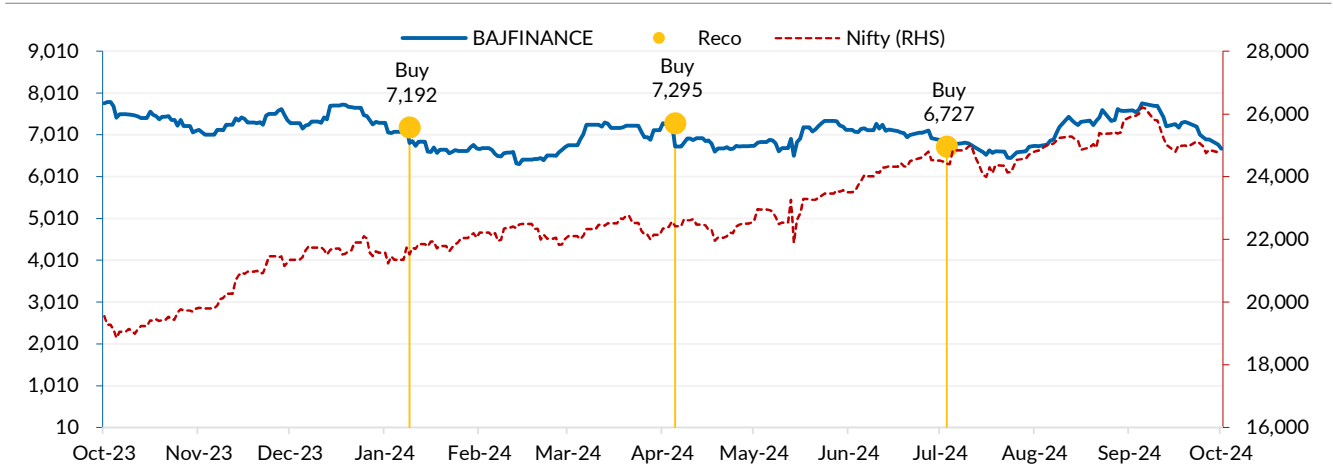
Source: Company, YES Sec

## Exhibit 12: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	31.8	25.7	23.6	24.9	22.7
Total op income	31.7	25.7	23.7	24.9	22.7
Op profit (pre-provision)	30.8	27.9	25.5	25.9	23.0
Net profit	63.7	25.5	14.4	29.3	24.7
Advances	26.6	34.7	26.5	24.0	24.0
Total Borrowings	28.0	35.6	26.5	23.0	23.0
Total assets	29.5	36.5	24.7	23.4	23.6
<b>Profitability Ratios (%)</b>					
NIM	13.0	12.5	12.0	12.0	11.8
Return on Avg. Equity	23.5	22.1	19.7	21.3	21.9
Return on Avg. Assets	4.7	4.4	3.9	4.1	4.1
<b>Per share ratios (Rs)</b>					
EPS	190.4	233.8	267.3	345.7	431.0
Adj. BVPS	885.6	1,221.2	1,442.3	1,741.0	2,123.6
DPS	30.0	36.0	35.0	35.0	35.0
<b>Other key ratios (%)</b>					
Cost/Income	35.1	34.0	33.0	32.5	32.3
Tier-I capital	23.2	21.5	20.1	19.6	19.3
Gross NPLs/Loans	0.9	0.9	0.9	0.9	0.9
Credit Cost	1.4	1.6	2.1	2.0	1.9
Net NPLs/Net loans	0.3	0.4	0.4	0.4	0.4
Tax rate	25.9	25.2	25.5	25.5	25.5
Dividend yield	0.4	0.5	0.5	0.5	0.5

Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

Analyst signature

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