

BAJAJ FINANCE LIMITED

Industry
Bloomberg
BSE Code
NSE Code

NBFC
BAF IN
500034
BAJFINANCE

Wednesday, June 27, 2018

RATING	BOOK PROFIT
CMP	2366
Price Target	2362
Previous Target	
Potential Upside	

Stock Info

52wk Range H/L	2419/1316
Mkt Capital (Rs Cr)	136772
Free float (%)	41%
Avg. Vol 1M (,000)	1758
No. of Shares (Crore)	58
Promoters Pledged %	

Profitability Continue to Bouyant

Key Highlights

- ☑ Bajaj Finance (BAF) is one of the fastest growing NBFC with the AUM clocking a growth of 35% CAGR over FY12 to FY18 while earnings have also registered with 35% CAGR during the same period. Continuous expansion of network and reaching to the newer geographies have led to maintain the customer base of over 24 million which is one of the major strength for BAF to support the growth in its retail lending business.
- ☑ BAF is one of the leading players in consumer durable finance business and has been continuously gaining the market share on the back of strong distribution network. Customer acquisition supported by strong turnaround time and continuous investment in technology gives BAF an edge over its peers.
- ☑ New category expansion, geographic expansion and rural business expansion will drive AUM growth in near and medium term for B2B Sales Financing businesses.
- ☑ Bajaj Housing finance was incorporated in 3QFY18. Management has guided it is going to be 16000-18000 Cr balance sheet by FY19.

4Q FY18 Result:

BAJAJFIN reported healthy set of all round performance across the parameters. PAT grew at a staggering rate of 60% YoY and total net Income grew by 40% YoY on the back of strong 34% AUM growth. Operating profit grew at 40%, led to stable in Cost-Income to 42% in 4QFY18. Overall operating expenses grew by 40% YoY. Provision ratio to AUM has decreased this quarter from 1.97% to 1.40%. Gnps has improved to 1.48% from 1.67% a quarter back, Provision coverage ratio has grown at healthy rate from 68% to 75% in 4QFY18.

View and Valuation

Bajaj Finance (BAF) is one of the fastest growing NBFC with the AUM clocking a growth of 35% CAGR over FY13 to FY18. BAF is one of the leading players in consumer durable finance business and has been continuously gaining the market share on the back of strong distribution network. Going forward we expect with the scaling of all the business verticals, BAF is well poised to set 30%+ AUM CAGR basis over FY18 to FY20. We expect RoE to cross 21% and RoA of 3.8% mark by FY20. **We are positive on strong fundamentals of Bajaj Finance. The stock has achieved our target price and valuation has got stretched, hence we recommend to Book Profit. However long term investor may hold the stock or buy on declines.**

Key Risks to our rating and target

- ◆ Cost to income may elevate going ahead.
- ◆ AUM growth of below 30% will impact our earning asset.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	4030	5469	7671	10079	12975
PPP	2507	3636	5087	6880	9066
PAT	1279	1837	2647	3661	4825
NIM %	10.5	10.5	10.9	10.8	10.7
EPS (Rs)	239	34	46	63	83
EPS growth (%)	0.3	-0.9	0.4	0.4	0.3
ROE (%)	21.1	21.7	20.3	20.1	21.8
ROA (%)	3.2	3.3	3.6	3.8	3.9
BV	1368	176	286	344	422
P/B (X)	5.1	6.7	5.9	6.9	5.6
P/E (x)	29.0	35.0	36.7	37.2	28.2

Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com

SWETA PADHI

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4Q FY 18 Results
Beat expectation
Strong Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	2,665	3,150	3,086	3,540	3,535	32.6%	-0.2%	10,000	10,864	8.6%
Interest Exp.	984	1,078	1,144	1,171	1,192	21.2%	1.8%	3,803	3,998	5.1%
NII	1,477	1,837	1,709	2,097	2,053	39.0%	-2.1%	5,531	6,085	10.0%
Other Income	8	14	16	3	22	184.1%	744.7%	69	68	-0.9%
Total Income	1,485	1,851	1,725	2,100	2,075	39.7%	-1.2%	5,599	6,153	9.9%
Ope Exp.	710	876	875	949	992	39.7%	4.5%	2,630	2,919	11.0%
PPP	979	1,211	1,083	1,423	1,373	40.2%	-3.5%	3,636	4,016	10.4%
Provisions	290	286	228	247	274	-5.4%	11.0%	818	924	12.9%
PBT	690	925	856	1,176	1,099	59.4%	-6.5%	2,818	3,091	9.7%
Tax	241	323	299	409	378	57.2%	-7.6%	981	1,077	9.8%
Extraordinary	-	-	-	-	-					
Net Profit	449	602	557	767	721	60.5%	-5.9%	1,837	2,015	9.7%

Stable NIM

Total Net Income has been grown at 40% YOY, backed by strong AUM growth of 34%. Spread has fallen by 25 bps to 8.57% in 4qfy18. The yield on advances decreased by 16 bps yoy to 16.55% while the cost of funds has sequentially fallen by 41 bps yoy to 7.98% which has resulted in expansion of NIM at 10.47%. Despite interest rate hardening, we believe NIM is going remain stable going ahead in FY19, because of recent capital infusion and postive ALM .

Operational Efficiency

Cost to income ratio has remained stable at 42% yoy. Operating profit has grown at 40% YOY and Operating expenses has grown at 40% yoy .BAJAJFIN increase in operational efficiency has led to stability in cost to income ratio .Inspite of aggressive expansions in branches,continuous investment in people and process, it has maintained its cost to income ratio. Management has guided the distribution network to reach to 1550 by Mar 19.

Staggering Loan Book Growth

AUM grew at healthy pace of 8% QoQ on consolidated level. While on the standalone basis it grew by 33% YoY. Strong growth was supported by commercial lending which registered 49% YoY growth, consumer lending book grew by 35% and rural lending registered 96% YoY growth due to low base impact. Portfolio mix has SME significantly reduced from 43% to 35% within one year time frame while rural continue to gain momentum. Assets mix of commercial lending remains stable ,while SME and rural lending stands at 31% and 7%. Out of the total AUM, Mortgage stands at 20229 Cr at 4QFY18, with Bajaj Housing Finance Limited becoming a separate entity itself, the incremental mortgage is going to be registered in BHFL book .The mortgage book remainnig in the standalone book is going to get realised between 2 to 2.5 years down the line. However overall consolidated book loan growth is going to remain in the line.

Asset Quality

Asset Quality has improved with Gnpa decreasing to 1.48% from 1.68% yoy. NNPA has decreased to 38 bps from 44 bps YOY. Provision coverage ratio has increased to 75% from 68% qoq. 64 Cr of Lap and Home loan book is sold of to improve the asset quality of these books. Provision in percentage to AUM has decreased to 1.40% from 1.97%.

Concall

- ☑ 64 Cr of loan asset , LAP and Home loan portfolio is sold to reduce NPA.
- ☑ In 2-2.5 year Mortgage book in standalone basis will become negligible , and further incremental mortgage book will be accreted in Housing Finance Subsidiary.
- ☑ Management says it may invest 1000 Cr in Housing Subsidiary by oct this year
- ☑ Distribution reach to increase to 1550 by Mar 19.
- ☑ No plans to raise capital for next 3 years

Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	43.6	41.1	42.0	42.0	44.7	40.0	41.9	-0.08	1.92
Empl. Cost/ Tot. Exp. %	34.7	35.1	37.2	35.2	38.4	38.9	39.1	1.82	0.14
Other Exp/Tot. Exp. %	34.7	36.1	28.8	31.4	58.8	58.3	58.0	29.22	-0.27
Provision/PPP %	21.3	17.5	29.6	23.6	21.0	17.3	19.9	-9.63	2.60
Tax Rate %	34.9	34.6	34.9	34.9	34.9	34.8	34.4	-0.47	-0.40
Int Exp./Int Inc. (%)	43.9	38.8	40.0	37.0	40.1	35.8	36.7	-3.24	0.91
PPP/ Net Income %	56.4	58.9	58.0	58.0	55.3	60.0	58.1	0.08	-1.92
PAT/ Net Income %	28.9	31.8	26.6	28.9	28.4	32.3	30.5	3.89	-1.83
NII Growth % (YoY)	36.4	26.5	45.5	43.2	39.6	35.6	39.0	-6.50	3.42
PPP Growth YoY %	40.8	33.5	51.7	45.7	36.2	38.2	40.2	-11.52	2.03
PAT Growth %	45.9	36.0	42.6	42.0	36.6	38.0	60.5	17.90	22.56

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	17.1	18.4	16.7	18.1	16.2	17.6	16.6	-0.16	-1.05
Cost Of Funds	9.2	8.9	8.4	8.4	8.6	8.5	8.0	-0.41	-0.47
Spreads	7.9	9.4	8.3	9.7	7.6	9.1	8.6	0.25	-0.58
NIM	9.6	11.3	10.0	11.4	9.7	11.3	10.5	0.44	-0.82

Exhibit: Yield and Cost

Stable Margins

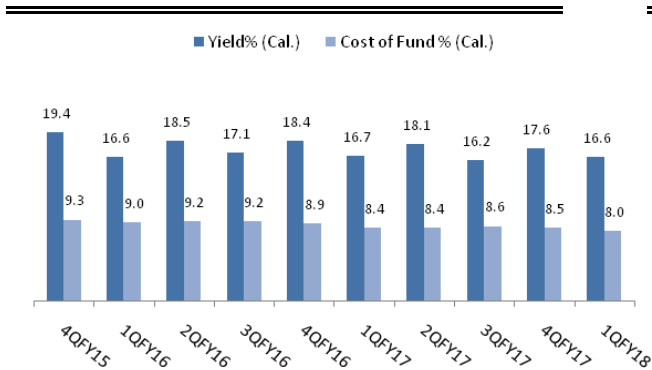
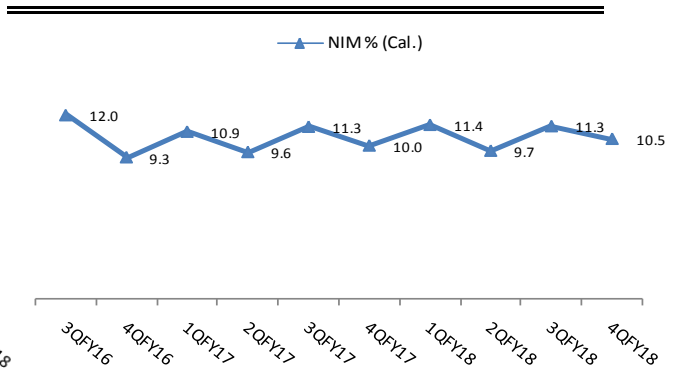


Exhibit: Net Interest Margin

NIM are under pressure



Asset & Borrowings Growth Trend

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
AUM	44229	49608	52332	57605	60194	68883	72139	76384	80444
Growth YoY %	36	40	38	33	36	39	38	33	34
Borrowings	37025	40155	43128	44531	49250	53569	52891	57901	61567
Growth YoY %	39	41	43	30	33	33	23	30	25

Customer Franchise

Cross Sell Franchise (Lacs)	85	92	98	103	110	122	132	144	154
Total Franchise (Lacs)	161	172	180	192	201	217	230	248	262

Exhibit: AUM Growth %

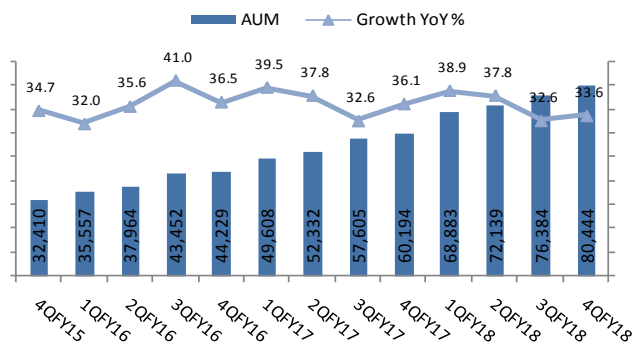
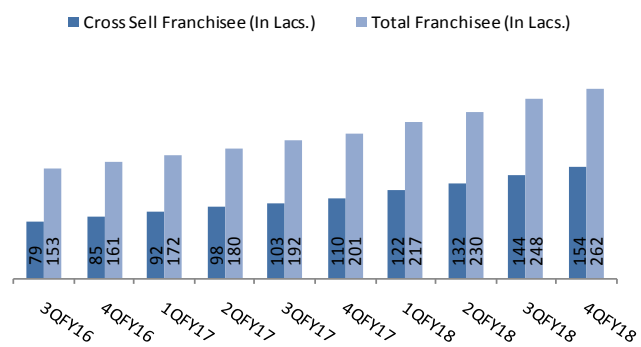


Exhibit: Total Customer Franchise



Asset Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Consumer Lending	43	44	46	47	45	46	47	47	46
SME lending	42	40	39	37	36	34	33	32	31
Commercial Lending	12	12	12	12	14	15	13	14	15
Rural Lending	3	3	4	4	5	6	6	7	7

Borrowing Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Banks	48	45	38	37	35	32	30	32	31
Non convertible	38	36	38	38	40	43	47	46	43
Fixed deposits	6	3	7	7	8	10	10	11	12
Tier 2 debt	3	7	8	9	7	7	7	7	6
Commercial paper	4	8	8	8	9	7	5	3	6
Others	1	1	1	1	1	1	1	1	2

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	808	820	982	1,136	1,187	1,254	1,164	18%	-7%
GNPA %	1.6	1.5	1.7	1.7	1.7	1.7	1.5	-0.2	-0.19
NNPA (Rs in Cr)	218	217	255	352	356	397	297	16%	-25%
NNPA %	0.4	0.4	0.4	0.5	0.5	0.5	0.4	-0.06	-0.15
Specific PCR %	73.0	74.0	74.0	69.0	70.0	68.0	75.0	1.00	7.00

Exhibit: Asset Quality

Stable assets quality

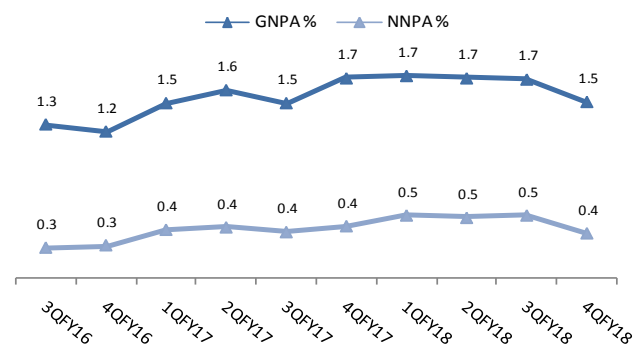
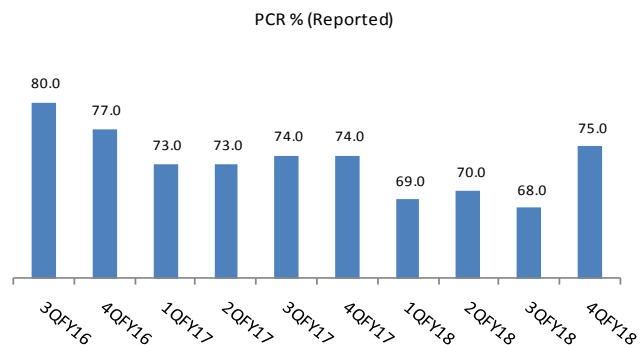


Exhibit: Provisions

Healthy PCR



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	50	50	50	54	109	115	116	116
>> Equity Capital	50	50	50	54	109	115	116	116
>> Preference Capital								
Reserves & Surplus	3,317	3,941	4,750	7,271	9,491	16,403	19,787	24,265
Networth	3,367	3,991	4,800	7,325	9,600	16,518	19,902	24,381
Change (%)	67.3	18.5	20.3	52.6	31.1	72.1	20.5	22.5
Total Borrowing	13,133	19,750	26,690	37,025	49,250	61,567	81,063	107,028
Change (%)	28.4	50.4	35.1	38.7	33.0	25.0	31.7	32.0
Provisions	157	236	319	885	1,295	1,310	1,702	2,141
Other Liability	1,164	641	1,002	1,739	3,579	4,234	5,715	7,010
Total Liabilities	17,821	24,618	32,811	46,973	63,725	83,629	108,382	140,560
Investments	5	28	332	1,034	4,075	3,660	3,530	4,384
Loans	17,065	23,375	31,632	43,831	58,239	78,348	102,592	133,369
Change (%)	35.7	37.0	35.3	38.6	32.9	34.5	30.9	30.0
Fixed Assets	176	220	249	287	361	465	580	712
Other Assets	159	218	378	492	693	927	1,088	1,345
Cash Balances	416	777	220	1,329	357	229	586	742
Total Assets	17,821	24,618	32,811	46,973	63,725	83,629	108,375	140,553

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	2,925	3,789	5,120	6,957	9,272	12,255	15,777	20,703
Interest expended	1,206	1,573	2,248	2,927	3,803	4,585	5,698	7,729
Net Interest Income	1,719	2,215	2,872	4,030	5,469	7,671	10,079	12,975
Change (%)	37.5	28.9	29.6	40.3	35.7	40.3	31.4	28.7
Other Income	187	285	298	427	731	1,074	1,550	2,037
Change (%)	6.2	52.6	4.7	43.2	71.2	46.9	44.3	31.5
Total Net Income	1,906	2,500	3,170	4,457	6,200	8,744	11,628	15,012
Change (%)	34	31	27	41	39	41	33	29
Operating Expenses	852	1,151	1,429	1,949	2,564	3,658	4,748	5,946
Change (%)	27	35	24	36	32	43	30	25
Employee Expenses	245	341	451	630	932	1,401	1,721	2,025
Change (%)	28.8	39.0	32.3	39.7	48.0	50.4	22.8	17.6
Other Expenses	607	810	978	1,320	1,633	2,257	3,027	3,921
Pre-provisioning Profit	1,053	1,349	1,741	2,507	3,636	5,087	6,880	9,066
Change (%)	39.2	28.1	29.1	44.0	45.0	39.9	35.3	31.8
Provisions	182	258	385	543	818	1,030	1,265	1,665
Change (%)	17.7	41.8	49.2	41.2	50.7	25.9	22.8	31.6
PBT	872	1,091	1,357	1,965	2,818	4,056	5,615	7,401
Tax	280	372	459	686	981	1,410	1,954	2,575
Profit After Tax	591	719	898	1,279	1,837	2,647	3,661	4,825
Change (%)	45.5	21.6	24.8	42.4	43.6	44.1	38.3	31.8
Adjusted Profit	591	719	898	1,279	1,837	2,647	3,661	4,825
Change (%)	45.5	21.6	24.8	42.4	43.6	44.1	38.3	31.8

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	17,517	24,061	32,410	44,229	60,194	80,444	105,382	136,996
Off Book AUM	773	1,090	1,211	1,473	3,362	4,022	5,269	6,850
AUM Growth (%)	33.6	37.4	34.7	36.5	36.1	33.6	31.0	30.0
Borrowing Growth (%)	28.4	50.4	35.1	38.7	33.0	25.0	31.7	32.0
Loan to Borrowing Ratio (%)	1.3	1.2	1.2	1.2	1.2	1.3	1.3	1.2
CRAR (%)	22.0	19.1	18.0	19.5	20.3	24.7	21.4	19.9
>> Tier 1 (%)	18.7	16.6	14.2	16.1	14.6	19.7	17.8	16.8
>> Tier 2 (%)	3.3	3.0	3.8	3.4	5.7	5.0	3.6	3.1
Debt-Equity ratio	3.9	4.9	5.6	5.1	5.1	3.7	4.1	4.4

Assets Quality Metrics

Gross NPA	183	271	471	538	982	1,164	1,602	2,212
Gross NAP (%)	1.1	1.2	1.5	1.2	1.7	1.5	1.6	1.7
Net NPA	31	65	137	123	255	297	400	531
Net NPA (%)	0.2	0.3	0.5	0.3	0.4	0.4	0.4	0.4
Specific Provision Coverage (%)	83.0	76.0	71.0	77.0	74.0	75.0	75.0	76.0
Provision/Average Advances (%)	1.2	1.2	1.4	1.4	1.6	1.5	1.4	1.4

Margin Metrics

Yield On Aum (%)	19.1	18.2	18.1	18.2	17.8	17.4	17.0	17.1
Cost Of Funds (%)	10.3	9.6	9.7	9.2	8.8	8.3	8.0	8.2
Spread (%)	8.8	8.7	8.5	9.0	8.9	9.2	9.0	8.9
NIM (%)	11.2	10.7	10.2	10.5	10.5	10.9	10.8	10.7

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	41	42	44	42	41	37	36	37
Other Income/NII (%)	11	13	10	11	13	14	15	16
Operating Profit/ Net Income (%)	55	54	55	56	59	58	59	60
Net Profit/Net Income (%)	31	29	28	29	30	30	31	32
Cost to Income (%)	45	46	45	44	41	42	41	40
Employee Exp/ Net Income (%)	13	14	14	14	15	16	15	13
Cost on Average Assets (%)	6	5	5	5	5	5	11	11
Provisions/PPP (%)	17	19	22	22	23	20	18	18
Tax Rate (%)	32	34	34	35	35	35	35	35

Valuation Ratio Metrics

EPS (Rs)	119	145	180	239	34	46	63	83
Change (%)	21.3	21.1	24.2	33.0	(85.9)	36.3	38.3	31.8
ROAE (%)	22.0	19.5	20.4	21.1	21.7	20.3	20.1	21.8
ROAA (%)	3.8	3.4	3.1	3.2	3.3	3.6	3.8	3.9
Dividend Payout (%)	14.7	13.0	12.0	12.6	12.9	10.5	9.5	8.6
Dividend yield (%)	13.0	8.9	4.4	1.0	0.3	0.2	0.2	0.3
Dividend Per Share	15.0	16.0	18.0	25.0	3.6	4.0	5.0	6.0
Book Value (Rs)	680	802	960	1,368	176	286	344	422
Change (%)	39.6	18.0	19.7	42.5	(87.2)	62.8	20.5	22.5
P/B (X)	1.7	2.2	4.3	5.1	6.7	5.9	6.0	4.9
P/E (X)	9.7	12.4	22.8	29.0	35.0	36.7	32.6	24.8

Financial Details
Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	17.9	17.8	17.4	16.8	16.6	16.4	16.6
Interest expended	7.4	7.8	7.3	6.9	6.2	5.9	6.2
Net Interest Income	10.4	10.0	10.1	9.9	10.4	10.5	10.4
Other Income	1.3	1.0	1.1	1.3	1.5	1.6	1.6
Total Income	11.8	11.0	11.2	11.2	11.9	12.1	12.1
Total Operating Expenses	5.4	5.0	4.9	4.6	5.0	4.9	4.8
>> Employee Expenses	1.6	1.6	1.6	1.7	1.9	1.8	1.6
>> Other Expenses	3.8	3.4	3.3	2.9	3.1	3.2	3.2
Operating Profit	6.4	6.1	6.3	6.6	6.9	7.2	7.3
Provisions	1.2	1.3	1.4	1.5	1.4	1.3	1.3
Others	-	-	-	-	-	-	-
PBT	5.1	4.7	4.9	5.1	5.5	5.8	5.9
Tax	1.8	1.6	1.7	1.8	1.9	2.0	2.1
PAT/RoA	3.4	3.1	3.2	3.3	3.6	3.8	3.9
>> Equity Multiplier (x)	5.8	6.5	6.6	6.5	5.6	5.3	5.6
RoE	19.5	20.4	21.1	21.7	20.3	20.1	21.8

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com. Registered Office Address: Shivam Chambers, 1st Floor, 53, Syed Amir Ali Avenue, Kolkata 700 091. Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-4054 1766.

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