

Date	Report / Update	Report Price (₹)	Buy Range (₹)	Target Price (₹)
12-Dec-23	Quick Insight	7,293	7,250 – 7,350	8,300 – 8,400



BAJAJ FINANCE LIMITED

Bajaj Finance Ltd.

3QFY24 Quarterly Result Highlight

Bajaj Finance Ltd. (BAF) posted mixed set of 3QFY24 results as NII and PAT came in-line with expectations while slip in asset quality surprised the street on the negative side. Interest income grew +31% YoY / +6% QoQ to ₹142bn, however, interest expense rose +45% YoY / +7% QoQ to ₹49bn. Thus, NII grew at a slower pace of +25% YoY / +5% QoQ to ₹93bn with reported NIMs falling 11 bps QoQ. Operating expenses were controlled well by BAF growing by +22% YoY / +5% QoQ to ₹32bn, resultantly PPOP was up +27% YoY / +5% QoQ to ₹61bn. Provisions during the quarter were high at ₹12bn up +48% YoY / +16% QoQ and credit cost rising to 160 bps as against 147 bps in Q2FY24. PAT was up +22% YoY / +2% QoQ to ₹36bn.

INVESTMENT RATIONALE

- **Assets Under Management** – In 3QFY24, BAF registered a strong AUM growth of +35% YoY / +7% QoQ to ₹3,110bn, thus surpassing ₹3tn mark for the first time. Strong festive demand resulted in growth of +64% YoY / +17% QoQ in 2W & 3W segment to ₹194bn. Additionally, urban B2C witnessed strong traction growing 29% YoY / 6% QoQ to ₹617bn. In-line with management's cautious view, rural B2C segment grew at 16% YoY / 3% QoQ to ₹214bn. Corporate loans witnessed resilient growth with commercial lending growing 39% YoY / 6% QoQ to ₹207bn and mortgage loan book grew at 31% YoY / 6% QoQ to ₹965bn.
- **New Product Portfolio** – New product portfolio showed healthy performance with new auto loans being offered at ~85-90 locations generating ₹2-2.5bn monthly disbursements. Additionally, 2W (Non-Bajaj) lending is now made available at 250 new locations, at monthly run-rate of 25,000-27,000 loan Accounts with 50-55% existing customers.
- **Deposits** - In 3QFY24, deposits stood at ₹580bn growing 35% YoY and contributing 22% of consol. borrowings.
- **Net Interest Margin** – Product yields moderated slightly by ~9 bps to 16.66% while cost of funds increased by ~10 bps to 7.5% in Q3FY24. As a result, calculated NIM fell by ~26bps to 12.37%. Management has guided for further decline in NIM during Q4FY24.
- **Operating Expense** – BAF well maintained increase in operating expenses during the quarter, with the fall in Opex to NII ratio restricted to ~20 bps during Q3FY24 to 32.1%. During the quarter, BAF opened 158 branches with focus on UP, Bihar and North-East.
- **Asset Quality** – Asset quality during the quarter deteriorated with GNPA and NNPA rising 4 bps and 6 bps QoQ to 0.95% and 0.37% in Q3FY24. Slip in asset quality was primarily on account of elevated delinquencies in Rural B2C segment and lower collection efficiency in Urban B2C segment. For the quarter, credit cost came at a higher level of 169bps up from 156bps in Q2FY24.
- **Long Range Strategy** – In order to strengthen LRS, BAF has added two aspects to it which will focus on increasing the customer's wallet share by offering all products and services in a seamless manner and enhancing customer satisfaction score and products per customer (PPC). Under this strategy, the company aims to grow the franchise to 130-140mn by FY28 and cross-sell franchise to 80-90mn.
- **Return Ratio** – During the quarter, return ratios slightly moderated with ROA and ROE falling 24 bps and 215 bps sequentially to 4.9% and 22.0% respectively.

Important Data

Nifty	21,854
Sensex	72,086
Key Stock Data	
CMP (₹)	6,848
Market Cap (₹ tn)	~4.23
52W High/Low	8,192.00/5,485.70
Shares o/s (crs)	61.8
Daily Vol. (3M NSE Avg.)	48649
BSE Code	400034
NSE Code	BAJFINANCE
Bloomberg Code	BAF:IN

Shareholding Pattern (%) – Dec'23

Promoter	54.80
FII	17.60
FII	17.40
Public & Others	10.30

Financials

Particulars	FY23	FY24E	FY25E
Net Int. Inc.	288	353	488
Net Int. Mar.	10.6%	10.2%	10.8%
Operating Expenses	101	118	162
Core Profit	187	235	326
Provisions	32	45	55
PBT	155	190	271
Tax	40	48	69
PAT	115	141	202
EPS	190	233	332
ABV	896	1,239	1,526
P/E	36	29	21
P/Adj BV	7.6	5.5	4.5

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1Yr	3Yr	5Yr
Bajaj Finance	12%	24%	153%
Nifty 50	23%	47%	100%
Sensex	18%	42%	97%

Source: Company, Way2Wealth Research

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- **New Customer Acquisition** – New customer additions rose 33% YoY to 11.3 mn for 9MFY24. Existing customer mix fell ~130 bps YoY to 60.1% while cross sell franchise grew 28% YoY to 49.3 mn over the same period.
- **Regulatory developments** – ‘Insta EMI and eCOM’ – Compliance related to digital signature and vernacular description are still pending which will be submitted within next few weeks. Timeline guidance not provided. **Credit Card** – BAF will work with RBL bank to iron out deficiencies and will apply for renewal of license before one year itself.
- **Senior management changes** – Mr. Anup Saha has been re-designated as Deputy MD. Mr. Deepak Bagati (President, Debt Management Services), Mr. Sandeep Jain (CFO) and Mr. Anurag Chottani (CIO), have all be given additional responsibility as COO to look after diverse business functionalities and will be reporting to Mr. Saha.

Outlook and View

Bajaj Finance Ltd. posted mixed bag quarterly result, however, loan book growth stood strong, despite incorporating the impact of loss of business due to RBI's ban on digital products. BAF's ability to maintain 30%+ quarterly loan book growth run-rate in FY24 so far despite growing competitive intensity highlights the robust franchise developed by the company over the years. With new product introduction, this growth is likely to continue at current rate for coming years as well. The adverse impact of RBI's embargo on new customer acquisition through digital channels could be a temporary phenomenon and loan growth could accelerate once it is lifted. Additionally, sectoral headwinds in terms of pressure on NIMs due to rise in cost of fund could fade away in couple of quarters with improvement in crunched liquidity situation. Through announcement of top level management changes, the company has tried to resolve one of the street's concern over one-man risk, and would definitely help in better resource management of BAF's expanding business prospects.

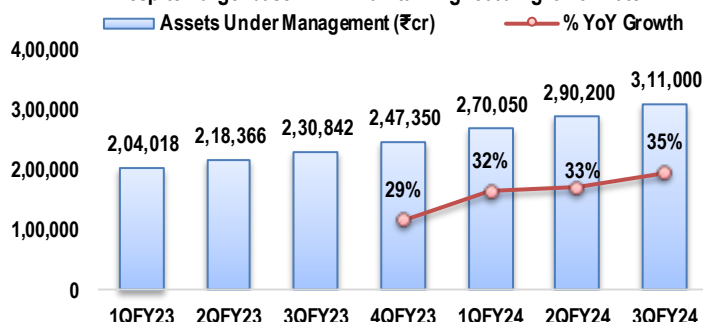
Given the company's underperformance for a considerable timeframe and reasonable valuation makes it a top candidate in the rebound story amid a richly valued stock market. **At CMP ₹6,848, the stock is trading at 4.5x FY25e P/B value and we maintain our BUY rating with TP of ₹8,500.**

Assets Under Managemet (₹ bn)	Q3FY24	Q3FY23	% YoY Chng	Q2FY24	% QoQ Chng	% AUM Mix (Q3FY24)
2W & 3W Finance	194	118	64%	165	17%	6%
Urban Sales Finance	245	170	44%	230	7%	8%
Urban B2C	617	478	29%	582	6%	20%
Rural Sales Finance	62	44	40%	55	11%	2%
Rural B2C	214	185	16%	209	3%	7%
SME Lending	414	298	39%	387	7%	13%
Loans Against Securities	192	133	45%	170	13%	6%
Commercial Lending	207	148	39%	196	6%	7%
Mortgages	965	735	31%	909	6%	31%
Total	3,110	2,308	35%	2,903	7%	100%

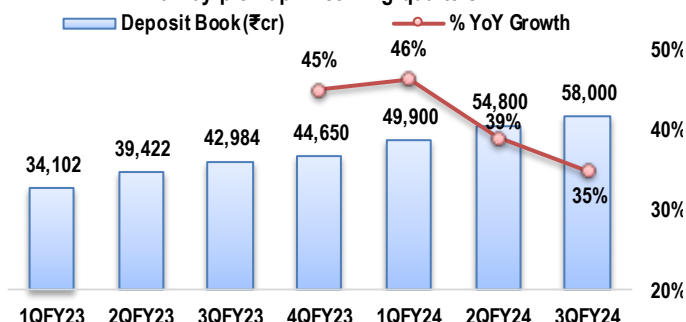
Source: Company, Way2Wealth Research

Financials in Chart

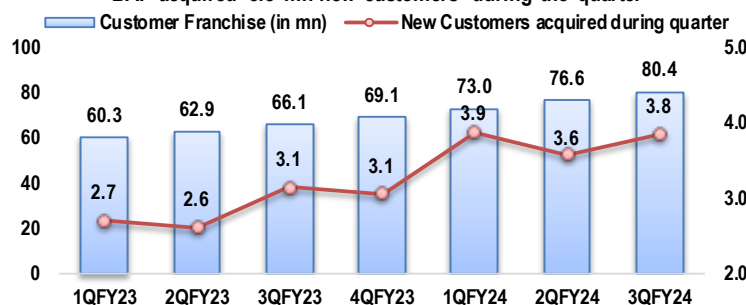
BAF crosses 3 Lk Cr AUM mark;
Despite large base BAF maintaining 30%+ growth rate



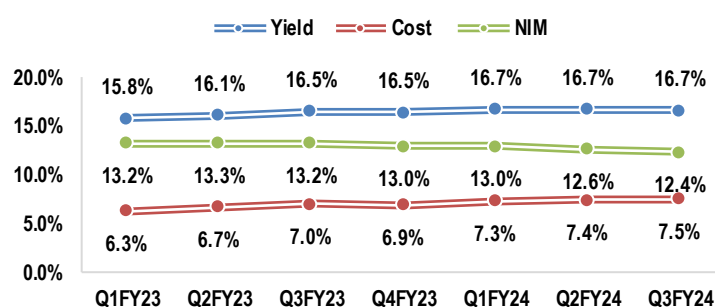
While deposit growth moderates amid festive season,
it may pick up in coming quarters



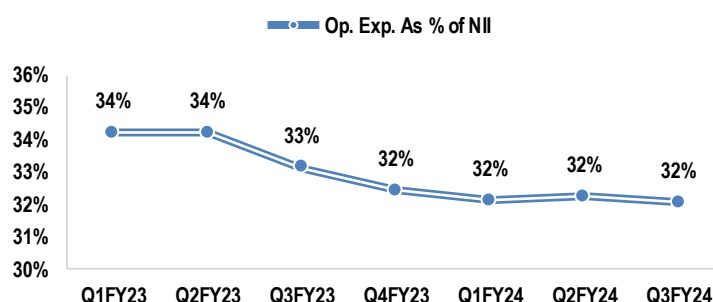
Amid fears of slow customer acquisition,
BAF acquired 3.8 mn new customers during the quarter



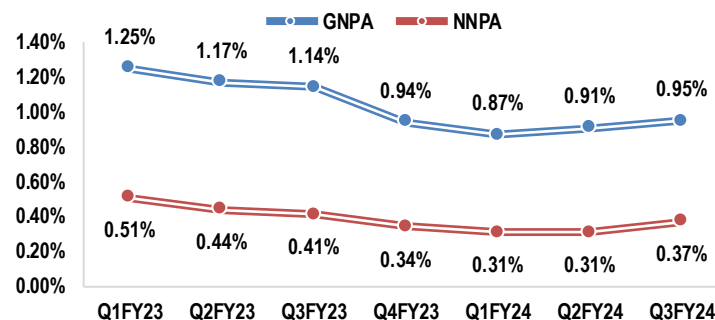
Margin Trends



Op. Exp. As % of NII



Marginal slip in Asset Quality



Source: Company, Way2Wealth Research

Quarterly Financials

(₹ bn)

Particulars (₹ bn)	Q3FY24	Q3FY23	% YoY Chng	Q2FY24	% QoQ Chng	9MFY24	9MFY23	% YoY Chng
Interest Income	125	93	35%	117	7%	351	257	36%
Fees and commission income	13	11	17%	13	-2%	39	32	23%
Other operating income	3	4	-14%	3	4%	10	11	-10%
Interest Income	142	108	31%	134	6%	400	300	33%
Interest Expense	49	34	45%	45	7%	135	90	51%
Net Interest Income	93	74	25%	88	5%	265	211	26%
Other income	0	0	184%	0	40%	0	0	49%
Core Income	93	74	25%	88	5%	265	211	26%
Fees and commission expense	5	5	2%	5	-1%	14	14	0%
Employee benefits expense	17	13	29%	16	5%	47	37	28%
Other expenses	10	8	23%	9	8%	29	24	21%
Total expenses	32	26	22%	30	5%	90	75	21%
Operating Profit	61	49	27%	58	5%	175	136	29%
Provisions and Contingencies	12	8	48%	11	16%	33	23	43%
Share of profit/(loss) from associate	0	0		0		0	0	
Profit before tax	49	40	22%	48	3%	142	113	26%
Tax Expense	13	10	21%	12	4%	36	29	23%
Profit after tax	36	30	22%	36	2%	106	83	27%
Earnings per share	59	49	21%	59	1%	175	138	27%

Source: Company, Way2Wealth

Financials

(₹ bn)

Particulars (in ₹ bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	273	356	461	614	779
Fees and commission income	31	43	53	74	94
Other operating income	13	15	15	18	24
Op. Interest Income	316	414	528	706	897
Interest Expense	98	126	175	218	277
Net Interest Income	219	288	353	488	620
Other income	0	0	0	0	0
Core Income	219	288	353	488	619
Fees and commission expense	18	19	22	30	39
Employee benefits expense	36	51	59	81	104
Other expenses	22	32	37	51	65
Total expenses	76	101	118	162	208
Operating Profit	143	187	235	326	412
Provisions and Contingencies	48	32	45	55	71
Share of profit/(loss) from associate	-	0	0	0	0
Profit before tax	95	155	190	271	341
Tax Expense	25	40	48	69	87
Profit after tax	70	115	141	202	254
Earnings per share	116	190	233	332	419
Dividend Per Share	20	30	35	45	55

Source: Company, Way2Wealth

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Disclosure of Interest Statement: Bajaj Finance Ltd. as on 05 February 2024

Name of the Security	Bajaj Finance Ltd.
Name of the analyst	Prasad Hase
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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