



BAJAJ FINANCE LIMITED

Buy Range ₹7,250 – 7,350

Target ₹8,300 – 8,400

Recommendation Buy

Highlights

- Bajaj Finance Ltd. (BAF) is one of the **leading and diversified financial services provider** in India. For more than three decades, BAF has been serving customers from mass-affluent and middle-class population segments in India and reported strong **AUM growth of 30% CAGR over FY13-23**. Key drivers for such robust performance delivered consistently over the many years have been its strong presence across the country coupled with large sales force, wide portfolio of products, large scale cross-sell across product categories, innovation in offerings, technology driven infrastructure and brand value created over the years.
- Bajaj Finance remains the largest financier to **Bajaj Auto** for both 2W and 3W segment. In FY23, it financed over 713,400 Bajaj Auto two-wheelers, thus growing by 12% YoY while number of three-wheelers financed grew 78% YoY to 128,100, **constituting 40% and 44%** of Bajaj Auto's domestic two and three-wheeler sales respectively.
- Under long term strategy, BAF decided to enter into new lines of financing which also includes **new car financing** as one of the key product. BAF's decision to enter into **Tractor financing** segment would aid the company's rural lending portfolio expansion plans.
- **Omni-channel strategy** concept was articulated during 2019, under which BAF planned to set up such a system which would provide flexibility to customer to **shift between online and offline channels** seamlessly. Omni-channel strategy has six domains 1.Geographic expansion 2.Bajaj Finserv App 3.Bajaj Finserv website 4.Payments 5.Productivity Apps 6.Customer data platform (CDP).
- RBI imposed restrictions on sanctioning and disbursement of loans under '**Insta EMI Cards**' and '**eCOM**' till further notice. It may take few days (could be in the range of 45-90 days) for the ban to get lift, which would mean BAF could potentially loose out to 450k to 900k new loan origination volumes.
- BAF's wholly owned subsidiary Bajaj Housing Finance Ltd. was classified as **upper-layer NBFC** in Sept. 2022. According to NBFC regulatory framework, post such classification, the entity has to **get listed within three years**, which in this case comes as Sept. 2025.
- In the month of November, BAF completed its fund infusion transaction raising **₹88bn via QIP and ₹12bn from promoter** group Bajaj Finserv Ltd. total amounting to ₹100bn. Management has guided that these funds would largely be deployed to fund growth in new lines of business like Car and Tractor Financing, Micro Financing and Flexi on QR.
- Given relative underperformance over last few months, Bajaj Finance Ltd. currently **trading at 4.8x 1-Yr Fwd P/Bk multiple, lower than its 10 – Yr long term average of 6.2x (BBG Est.)**. While BAF has strong business fundamentals, robust medium-term growth strategy, best-in-class operational metrics, it is also available at attractive valuations.
- While there exists some investor concerns over the entry of Reliance Jio into financial services industry, impact of RBI's embargo on eCOM and Insta EMI card sourcing through digital channels, application for banking license, sustainability of strong AUM growth and any impact of change in management, these factors unlikely to alter fundamentals of the company in any notable way over the medium term.
- **At CMP of ₹7,293, Bajaj Finance Ltd. is trading at 4.8x FY25e P/Adj. BV multiple. As, it is trading below its 10-Yr Avg. P/Bk multiple of 6.2x (BBG Est.), current valuation looks attractive. Valuing the stock at 5.5x FY25E P/Bk target multiple, we arrive at Target Price of ₹8,400 per share providing an upside potential of 15%. Thus, we recommend to BUY this stock at current levels.**

Bajaj Finance Ltd.

Company Background

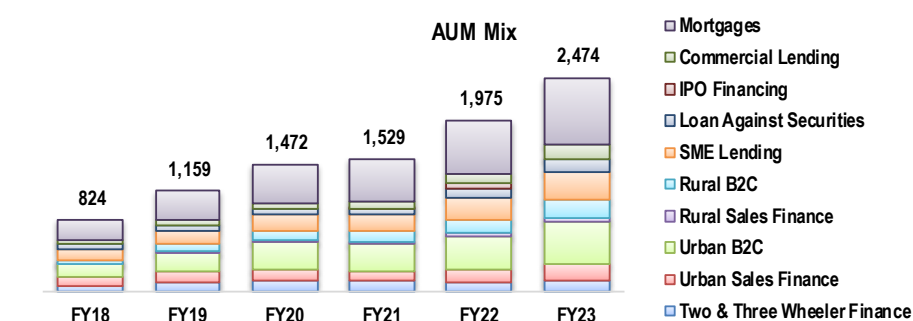
Bajaj Finance Ltd. (BAF) is one of the leading and diversified financial services provider in India. It has been serving customers from mass-affluent and middle-class population segments in India, for more than three decades and reported a strong AUM growth of 30% CAGR over FY13-23. Key drivers for such robust performance delivered consistently over the many years have been its strong presence across the country coupled with large sales force, wide portfolio of products, large scale cross-sell across product categories, innovation in offerings, technology driven infrastructure and brand value created over the years.

Some of the segments such as small business lending, commercial financing and mortgages enabled the company to build scale, on the other hand other key segments like personal loans, consumer durable product financing and auto financing (2W and 3W finance) underpinned its profitability improvement. Maintaining the right product mix while being present in many lending segments, company's portfolio composition is shifted more towards secured lending constituting ~53% of overall AUM as on end-Q2FY24.

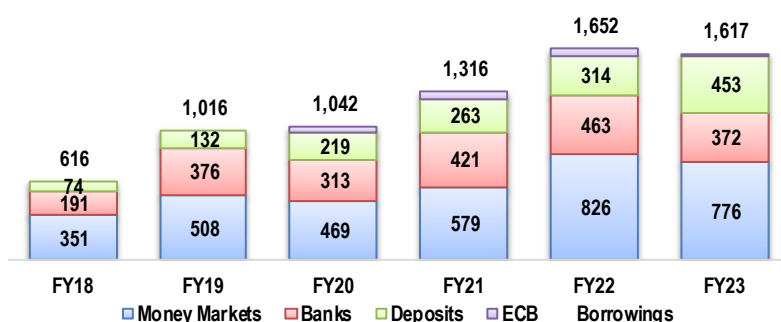
In an ever-evolving lending industry, BAF has been always been at the forefront in adoption of digital advancement and hence to introduce end-to-end digitization into the system, it has put in place Omni channel strategy which integrates all the products and services for its customers. The motive behind this strategy is to enable customers to shift between online and offline channels swiftly. It has a strong physical presence at 3,733 locations across the country with more than 60% branches situated in rural/smaller towns and villages. At the same time, it has a strong digital presence through Bajaj Finserv App which has 44.7mn users and website platform with over 219mn customer visits during FY23 resulting in disbursement of over ₹50bn.

While BAF's AUM is larger than many of private and public banks, its best-in-class asset quality with GNPA and NNPA coming at 0.91% and 0.31% respectively by end-H1FY24 is sheer function of robust risk management practices and systems developed over the years and evolved to handle volatile economic environment amidst inflationary trends and rising interest rates. Additionally, large scale operations also enables the company enjoy benefits of operating leverage which results in BAF operating at one of the lowest OPEX to NII ratios in the industry.

In September 2022, wholly owned subsidiary Bajaj Housing Finance Ltd (BHFL) was classified as Upper Layer NBFC by RBI, which provides home loan and allied products focusing dedicatedly on retail individual customers as well as corporate and developer portfolio to increase granularity of the portfolio



Borrowing Mix



Source: Company, Way2Wealth Research

Important Data

Nifty	21,000
Sensex	69,930
Key Stock Data	
CMP (₹)	7,293
Market Cap (₹ tn)	~4.50
52W High/Low	8,192.00/5,485.70
Shares o/s (crs)	61.8
Daily Vol. (3M NSE Avg.)	35640
BSE Code	500034
NSE Code	BAJFINANCE
Bloomberg Code	BAF:IN

Shareholding Pattern (%) – Sep'23

Promoter	55.87
FII's	17.01
FII's	16.52
Public & Others	10.60

Financials

Particulars	FY23	FY24	FY25
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	39	31	22
P/Adj BV	8.2	5.9	4.8

Source: Company, Way2Wealth Research

Relative Performance

Return (%)	1Yr	3Yr	5Yr
Bajaj Finance	12%	51%	194%
Nifty 50	13%	55%	99%
Sensex	12%	52%	99%

Source: Company, Way2Wealth Research

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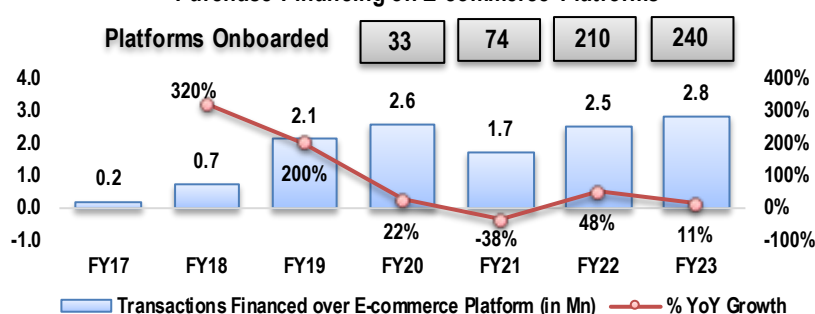
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INVESTMENT RATIONALE

1. BAF Product Portfolio Expansion

- (i) Consolidated Assets Under Management have grown at 30% CAGR over FY13-FY23 to ₹2,474bn with mortgage loans constituting the highest 33% share followed by Urban B2C (21%) and SME lending (13%) segments.
- (ii) **Consumer Loans:** Over the years, BAF has maintained its market leading position as the largest domestic financier of discretionary spends across consumer durable categories such as electronics, furniture, and digital products. Specifically for E-commerce platforms, it added 55 online partners in FY23 taking overall franchise to about 240 active partners through which it finances existing EMI card customers for their purchases through these e-commerce platforms and recorded 2.82 mn transactions.

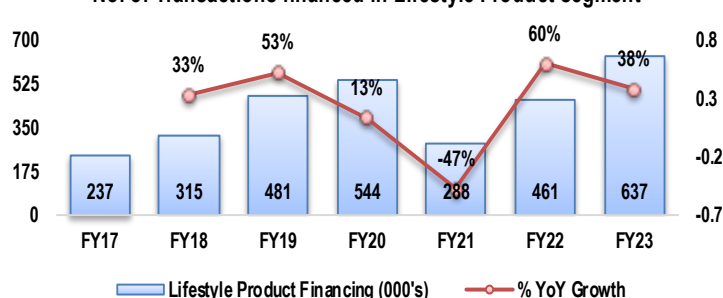
Purchase Financing on E-commerce Platforms



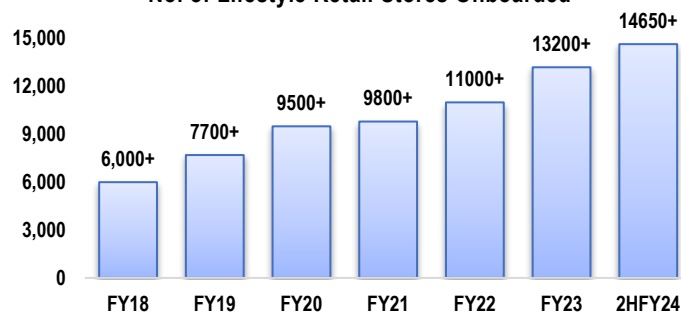
Source: Company, Way2Wealth Research

- (iii) **Lifestyle Product Financing:** The company finances discretionary spends with high ticket size products and services. To capture large opportunity presented by rapidly growing lifestyle financing segment, BAF is tying-up with more and more retail stores, which are approaching 15,000 number mark. Growing base of stores is driving significant increase in number of transactions being financed which stood at 637,000 in FY23, doubled in last six years.

No. of Transactions financed in Lifestyle Product segment



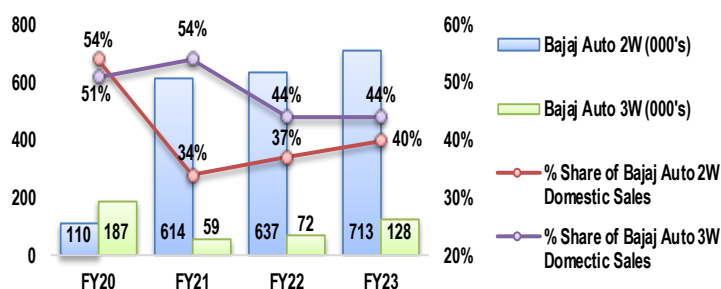
No. of Lifestyle Retail Stores Onboarded



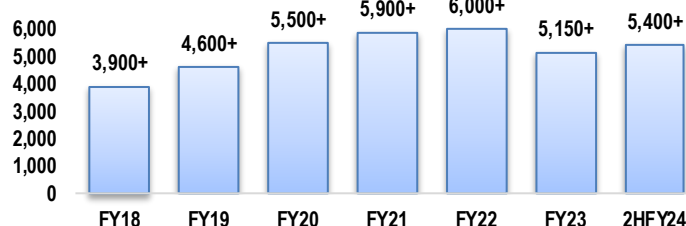
Source: Company, Way2Wealth Research

- (iv) **Bajaj Auto Finance:** Bajaj Finance remains the largest financier to Bajaj Auto for both 2W and 3W segment. In FY23, it financed over 713,400 Bajaj Auto two-wheelers, thus growing by 12% YoY while number of three-wheelers financed grew 78% YoY to 128,100. This constituted 40% and 44% of Bajaj Auto's domestic two and three-wheeler sales respectively. Such growth comes on the back of increased financing per dealer as the company reduced its association with Bajaj Auto dealers to a notable extent during FY23.

Auto Finance - Bajaj Auto 2W & 3W Segment



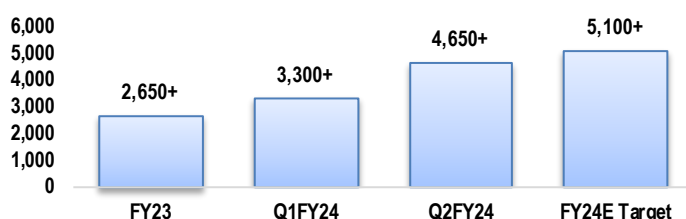
No. of Bajaj Auto Dealers, sub-dealer & ASSC onboarded



Source: Company, Way2Wealth Research

- (v) **Non-Bajaj Auto Financing:** Post IL&FS crisis, BAF's exposure to Bajaj Auto increased significantly breaching 50% mark. In order to diversify Auto Loan segment's portfolio mix, BAF commenced financing two-wheelers of Non-Bajaj Auto producers from June 2022. Banking on its best-in-class point of sales lending solutions offering instant, frictionless, and paperless lending, BAF aims to expand non-Bajaj Auto dealership network to 20 major and 227 small cities and onboard 2,500 additional dealers in FY24. The company is already on the track to exceed this guided target as the number of active dealer tied up are over 4,650 by end-H1FY24.

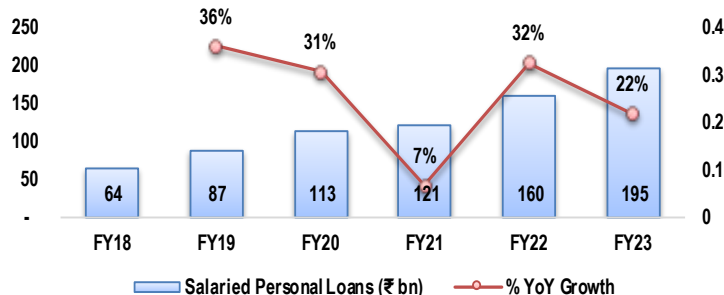
No. of Non-Bajaj Auto Dealers, Sub-dealers & ASSC onboarded



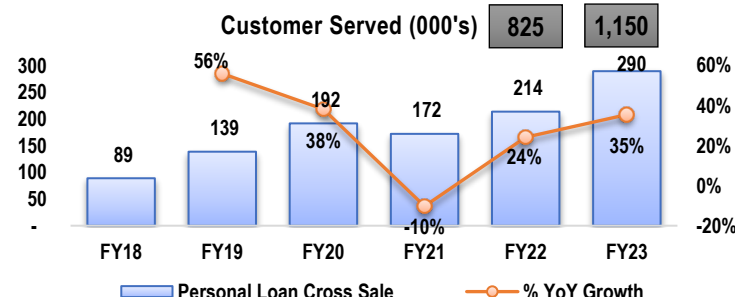
Source: Company, Way2Wealth Research

- (vi) **Salaried Personal Loan:** Personal loan segment can be classified into two categories – Personal Loan Cross Sale (PLCS) and Salaried Personal Loans (SPL). Under PLCS, BAF offers pre-approved loans to existing customers. During FY23, offering lending to nearly 1.2mn customers, AUM witnessed 35% YoY growth to ₹290bn. Focus is on Investments in data analytics as this segment has large dependence on risk analytics application. Under SPL category, BAF offers personal loans to affluent salaried customer with annual gross income of over ₹500,000. To improve customer experience in this segment, BAF re-designed loan origination and underwriting processes which enabled the company to post robust 22% YoY growth in AUM to ₹195bn.

Salaried Personal Loan Financing



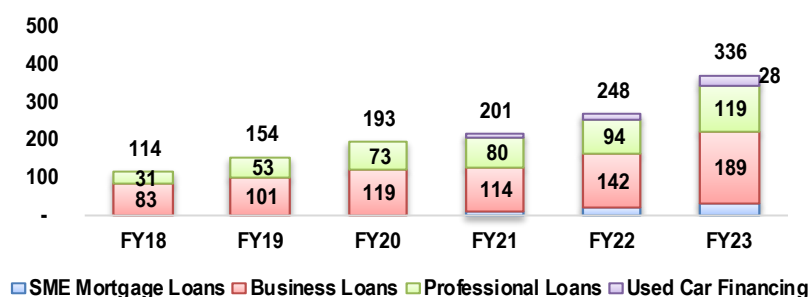
Personal Loan Cross Sale



Source: Company, Way2Wealth Research

- (vii) **SME lending:** Business is categorized into three key segments (i) Loans to Businesses (ii) Loans to Professionals (iii) Used Car Finance. **Loans to Businesses:** BAF offers unsecured working capital loans to SME especially affluent SMEs having average sales of ₹100-120mn and with established financials and good borrowing track record. Offering this solution across 1,800 locations, during FY23 AUM grew at 33% YoY ₹189bn. **Loans to Professionals:** Loan of secured as well as unsecured nature are offered to self-employed professionals such as doctors, chartered accounts and other professional. Loan book of this segment under unsecured lending grew 27% YoY to ₹119bn. **Used Car Financing:** BAF offers secured SME loans against residential / commercial property and used four-wheeler. In order to strengthen its presence in this market, it has expanded distribution network 50 locations by end-FY23 and also tied-up with CARS24, resulting in ~136% YoY AUM growth to ₹28bn.

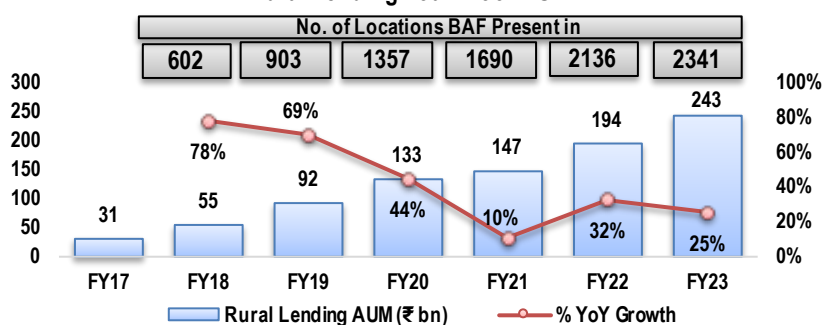
SME Finance Book Mix



Source: Company, Way2Wealth Research

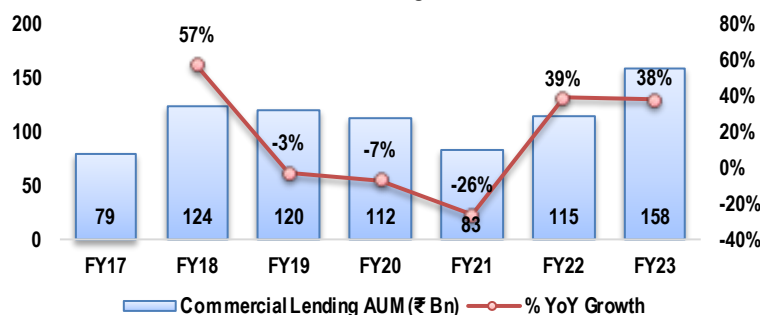
- (viii) **Rural Lending:** BFL offers wide array of products to customers in rural markets including consumer sales finance, personal loans, gold loan, two-wheeler loan, etc. In order to deepen rural presence, company expanded rural footprint at 206 new locations during FY23. Driven by such strengthening of distribution network, overall rural lending book grew by 25% YoY to ₹243bn, constituting 80% book of Rural B2C and remaining 20% of Rural Sales Finance.

Rural Lending Loan Book AUM



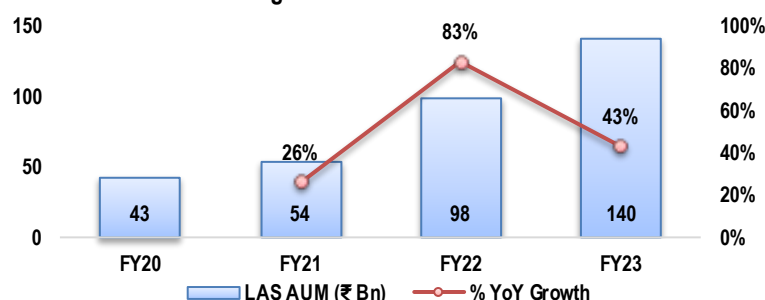
Source: Company, Way2Wealth Research

- (ix) **Commercial Lending:** To avoid any kind of sectoral concentration risk, BAF caters to corporates from across the sectors such as auto component manufacturers, light engineering industry, financial institutions, specialty chemical, pharma, packaging and other mid-market companies. BFL remains focused on deepening client relationships and offering value add products and services in the form of working and growth capital loans. Additionally, supported by strategy to acquire quality corporate clients, overall commercial financing book grew 38% YoY to ₹158bn.

Commercial Financing Loan Book AUM


Source: Company, Way2Wealth Research

- (x) **Loan against securities:** Under this segment, BAF offers medium-term and short-term financing against shares, bonds, mutual funds, insurance policies and deposits from retail, high net-worth individuals (HNIs) and promoter categories. These solutions are made available at nearly 22 locations through physical branches as well as through digital channels and grew at strong 43% YoY to ₹140bn.

Loan Against Securities Loan Book


Source: Company, Way2Wealth Research

- (xi) **New Lines of Business:** BAF has announced its plans to enter into new lines of credit which include (i) New Car Financing (ii) Emerging Corp Loans (iii) Micro Finance (iv) Flexi on QR (v) Tractor Financing, etc.

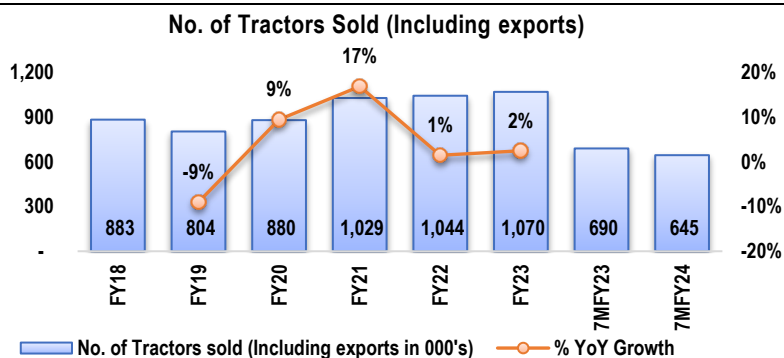
New Car Financing: Under long term strategy, BAF decided to enter into new lines of financing under which it also includes new car financing as one of the key product. New car financing business has already been commenced at around 85 locations across India. The NBFC vehicle financing AUM is expected to clock growth of 13-14% in FY2024, compared to the estimated 12% growth in FY2023, according to CRISIL. The market growth would largely be driven by robust 4W demand and new launches in cars and utility vehicles. While, domestic vehicle lending industry is largely shifting towards implementation of digitization and driven by partnerships which enables the industry players to gain a competitive edge over others, BAF is well placed to gain market share on the back of its strong distribution network and deeper penetration in the rural market.

Segment-wise Automobile Sales in India (in Nos.)

Segments	FY19	FY20	FY21	FY22	FY23
Passenger vehicles (PVs)	33,77,389	27,73,519	27,11,457	30,69,523	38,90,114
Commercial vehicles (CVs)	10,07,311	7,17,593	5,68,559	7,16,566	9,62,468
Three-wheelers (3W)	7,01,005	6,37,065	2,19,446	2,61,385	4,88,768
Three-wheelers (3W)	2,11,79,847	1,74,16,432	1,51,20,783	1,35,70,008	1,58,62,087
Quadracycles				124	725
Total	2,62,65,552	2,15,44,609	1,86,20,245	1,76,17,606	2,12,04,162

Source: SIAM

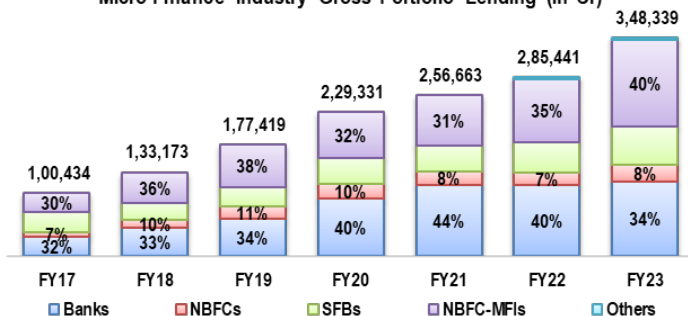
Tractor Financing: BAF's decision to enter into Tractor Financing segment would enable the company to increase its AUM in rural lending at the same time expand its product portfolio by offering an important product of agriculture financing ecosystem. Over past five years, tractor sales have grown at 4% CAGR rate reaching 1,069,853 units in FY23. This growth has largely been driven by healthy monsoons, improved farm cash flows across regions, better crop realizations and prices, and the government's focus on procurement. Heightened consumer sentiments on the back of expectations of buoyant rural markets likely to support the sectoral tailwinds in auto finance.



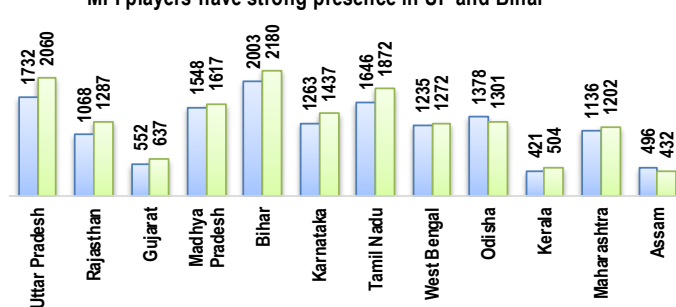
Source: M&M Finance AR, TMA

Micro Finance Business: Foray into Micro Financing segment can open up large opportunities for BAF to further strengthen its rural portfolio. During the month of September, a pilot project has already been launched covering 12 villages in UP and Karnataka, while plans are to expand it to 100 locations by end-FY25 and at another 200 location during FY25. According to MFIN data, gross lending portfolio of micro finance industry stood at ₹3,483bn during FY23. Largest service provider to this industry were NBFC-MFIs constituting 40% share on the back of their ability to establish deeper penetrations followed by bank contributing 34%. Nearly 16% market share is garnered by Bandhan Bank alone followed by CREDAG. Bihar witnessed higher disbursement of ₹129bn during FY23 while Tamil Nadu leads the charts in terms of CAGR growth over FY18-23 at 25%.

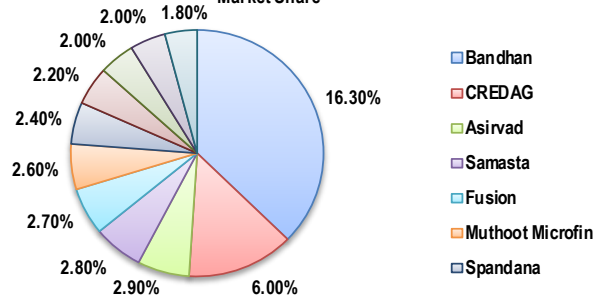
Micro-Finance Industry Gross Portfolio Lending (in Cr)



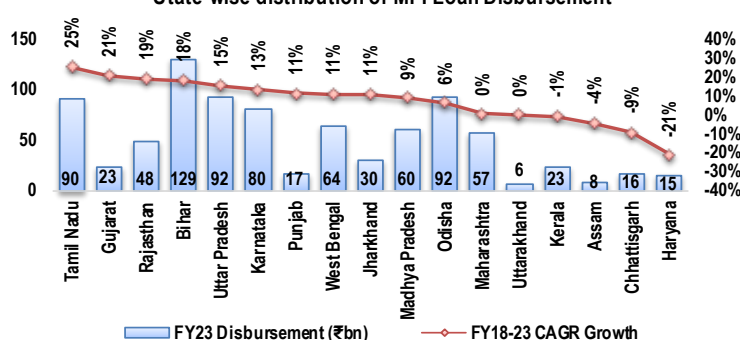
MFI players have strong presence in UP and Bihar



Microfinance Industry Playerwise Market Share



State-wise distribution of MFI Loan Disbursement



Source: MFIN, Way2Wealth Research

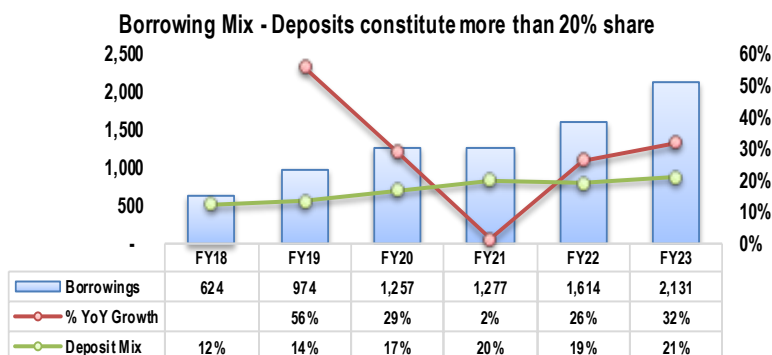
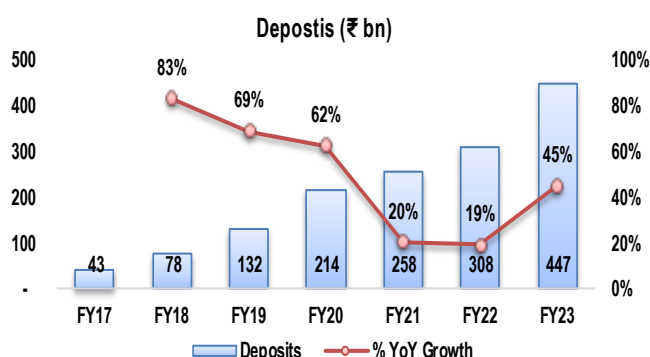
New Lines of Lending

Legacy	FY08-10	FY11-13	FY14-16	FY17-19	FY20-22	FY23	Expected
2W & 3W Financing	Personal Loan Cross-sell (FY08)	Home loans - Self-employed (FY11)	General Insurance distribution (FY14)	Co-branded Card (RBL Bank) (FY17)	Health EMI Card (FY20)	Merchant QR	New Car Financing
Consumer Durable Financing	Life Insurance Distribution (FY08)	Loan against securities - Retail (FY11)	Crisil SME rating (FY14)	Developer Finance (FY17)	IPO Financing (FY20)		Emerging Corp loans
	Loan Against Property (FY09/10)	SME Cross-sell (FY12)	Financial fitness report (FY14)	Warehouse receipt financing (FY17)	ESOP Financing (FY20)		Micro Finance
	Loan Against Shares (FY09/10)	Loans to professionals (FY12)	Rural lending (FY14)	Digital EMI Card (FY18)	Medical Equipment Financing (FY21)		B2B on QR and EDC
	Business Loans (FY09/10)	EMI Card (FY12)	Digital Finance (FY15)	Used car financing (FY19)	Digital Deposit sourcing platform (FY21)		Flexi on QR
	Vendor Financing (FY09/10)	Salaried Personal Loans (FY12)	Property fitness report (FY15)	Secured enterprise loans (FY19)	Strategic tie-up with CARS-24 for end to end digital financing (FY22)		Rewards platform
	Extended Warranty Cross-sell (FY09/10)	Home loans - Salaried (FY13)	MSME rural lending (FY15)	Specialty Chemicals lending (FY19)	Co-branded Card (DBS Bank) (FY22)		Tractor Financing
		Lease rental discounting (FY13)	Urban Gold loans (FY16)		Bajaj Pay (PPI, UPI and BBPS) (FY22)		
		Lifestyle product financing (FY13)	SME financial fitness report (FY16)				
			Financial institutions lending business (FY16)				
			Light engineering financing (FY16)				
			Corporate finance (FY16)				
			E-commerce seller finance (FY16)				

Source: Company, Way2Wealth Research

2. Deposits and Liability Profile

Launch of Bajaj Finserv App in FY23 would certainly support digital sourcing of retail deposits, which remains a prime area of focus for BAF, growth in retail and corporate deposits continues through traditional physical channel at a robust pace with overall deposit book growing at 45% YoY to ₹447bn and contributing 21% to borrowings (consol). BAF's liability franchise remains well diversified with consol. borrowings mix of Money Markets: Banks: Deposits: ECB in ratio of 46%: 32%: 21%: 1%.

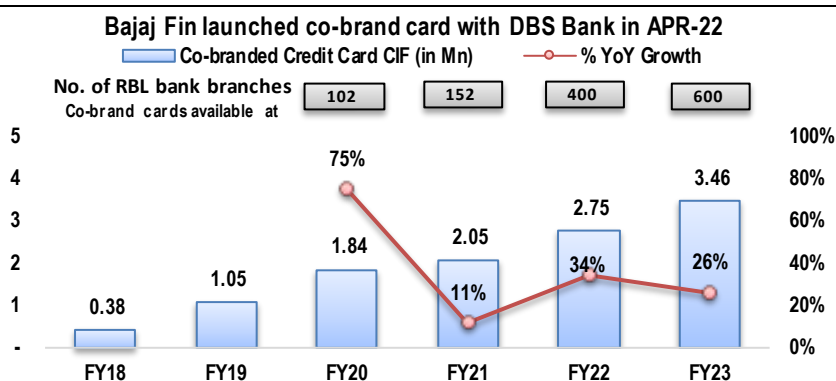


Source: Company, Way2Wealth Research

3. Co-branded Credit Cards

In partnership with the RBL Bank, BFL's co-branded credit card business continued to grow well in FY2023. These credit cards are now offered across 600+ locations in India. The number of cards-in-force stood at over 3.25 mn as on end-FY23, registering a growth of 19% over the previous year.

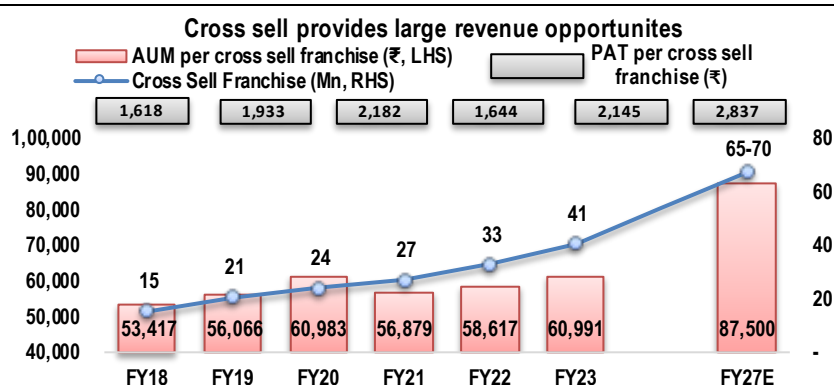
In addition to RBL bank, the Company has received approval from the RBI to issue co-branded credit cards in association with DBS Bank India Ltd. The Company launched co-branded credit card with DBS Bank on 05 April 2022 and now offers these cards across over 80 locations in India. The number of cards-in-force stood at over 0.21 mn as on end-FY23.



Source: Company, Way2Wealth Research

4. Cross Sell Opportunity

BAF is registered with Insurance Regulatory and Development Authority of India (IRDAI) as a corporate agent for distribution of life, health, and general insurance products across nine insurance partners. IRDAI has recently amended the Corporate Agency guidelines to enable corporate agents to work with more insurers and thereby offer greater product solutions and options to customers. BAF has developed a small ticket insurance product (called 'pocket insurance') working with various insurance companies to cater to specific insurance needs of customers.



Source: Company, Way2Wealth Research

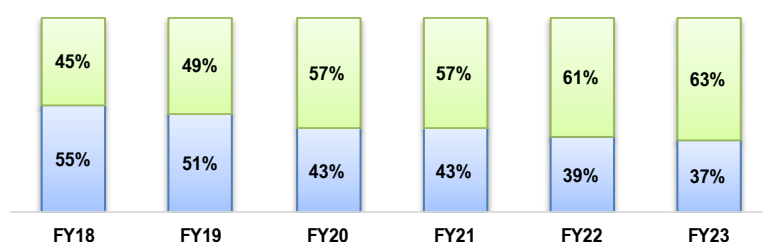
5. Omni-channel Strategy

- This concept was articulated during 2019, under which BAF planned to set up such a system which would provide flexibility to customer to shift between online and offline channels seamlessly.
- Omni-channel strategy has six domains 1.Geographic expansion 2.Bajaj Finserv App 3.Bajaj Finserv website 4.Payments 5.Productivity Apps 6.Customer data platform (CDP).

- (iii) The Company's strategy is to be an 'omnipresent' financial services company dominant across all vectors of consumer presence covering physical, app, web, social and virtual.
- (iv) **Bajaj Finserv App:** It provided end-to-end digital loans without the need to visit the branch physically.
- (v) **Bajaj Finserv website:** In FY23, BAF revamped user interface to enhance digital journey and overall experience which generated 219 mn customer visits and enabled loan disbursals worth ₹50bn.
- (vi) **Productivity Apps:** Introduced Sales One app, Debt Management Service One app, Merchant One app and Partner One app.
- (vii) **Customer Data Platform:** Implemented in Q2FY22, this channel enables customer communications, call governance and multi-lingual architecture. BAF has eight regional call centers which enables multi-lingual sales and service support.
- (viii) **Geographic expansion:** During FY23, 229 branches were opened largely in UP, Bihar and North-East India. FY24 and FY25 will also see opening up of 110 branches each largely in the UP, Bihar and North-East India.

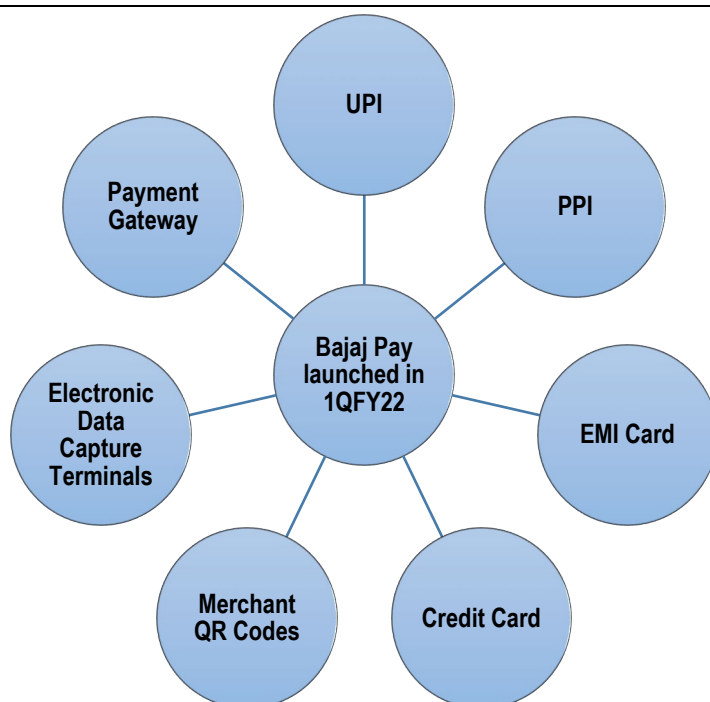
BAF focusing on deeper penetration in domestic markets

Urban Branches Rural Branches



Source: Company, Way2Wealth Research

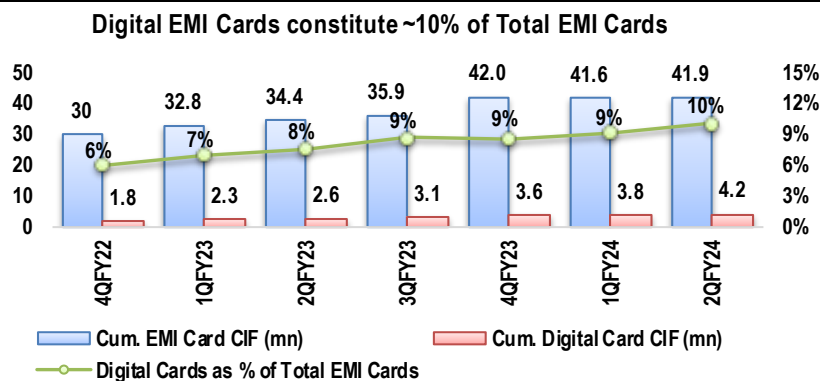
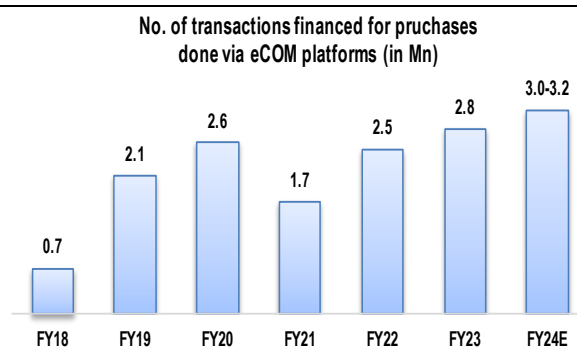
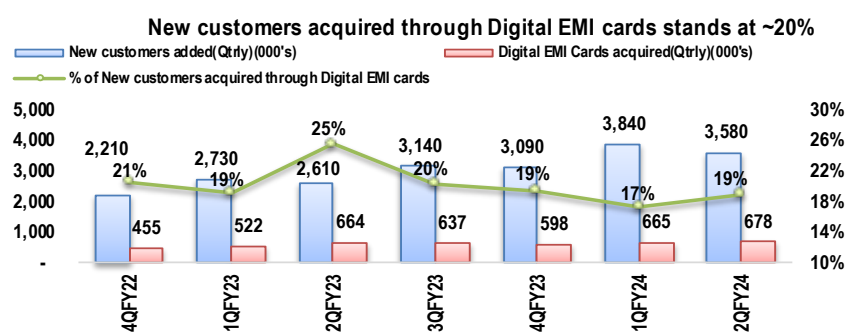
- (ix) **Payments:** In Q1FY22, BAF launched Bajaj Pay, Omni channel payment gateway for customers and merchants.



Source: Company, Way2Wealth Research

6. RBI restricts lending via 2 digital products – 'eCOM' & 'Insta EMI Card'

- RBI imposed restrictions on sanctioning and disbursement of loans under 'Insta EMI Cards' and 'eCOM' category till further notice.
- This sanction was issued due to non-adherence to RBI's digital lending guidelines related to non-issuance of Key Fact Statement (KFS).
- This non-adherence could likely be account of non-classification of loans as 'digital loans' which if classified otherwise would require issuance of KFS highlighting key lending parameters such as effective interest rate, recovery mechanism, etc.
- It may take few days (could be in the range of 45-90 days) for the ban to get lift, which would mean BAF could potentially loose out to 450,000 to 900,000 new loan origination volumes assuming a quarterly run-rate of 10,000 new customer acquisition cumulatively for eCOM and Insta EMI Cards through digital channel.
- While the management expects this central bank's action to not impact the business severely, the street is estimating a loss of disbursements between ₹15bn to ₹50bn, which could result in 0.5%-1.7% decline in disbursements based on Q2FY24 AUM.

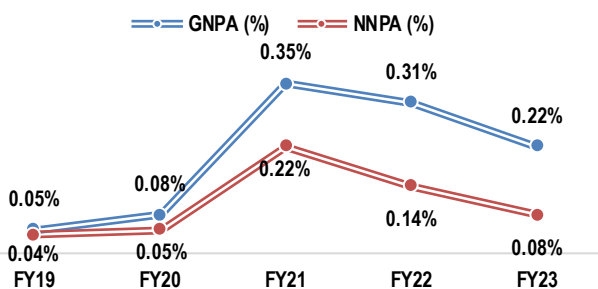


Source: Company, Way2Wealth Research

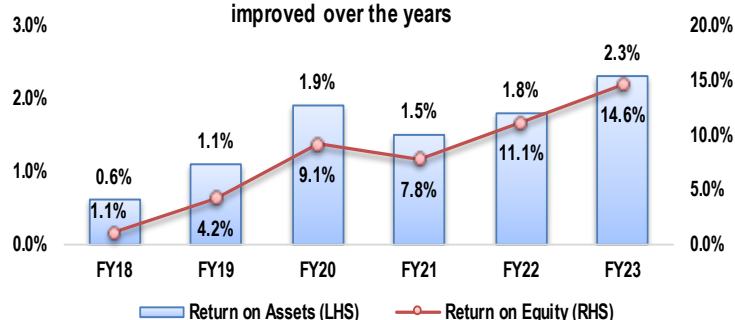
7. Bajaj Housing Finance Ltd (BHFL)

- BAF wholly owned subsidiary Bajaj Housing Finance Ltd. was classified as upper-layer NBFC in Sept. 2022. According to NBFC regulatory framework, post such classification, the entity has to be listed within three years, which in this case comes as Sept 2025.
- Focusing on portfolio diversification, BAF has well developed its other lines of housing finance businesses such as LRD, Developer loans and rural mortgage financing resulting in share of housing loan falling from 80% in FY18 to 59% in FY23.
- BHFL's individual housing loans constitute around 62% of overall portfolio and 95% of these loans are distributed to salaried customers and self-employed professionals in-line with the strategy to build low-risk portfolio. Resultantly, it exhibits one of the best-in-class asset quality with GNPA and NNPA falling to 0.22% and 0.08% levels respectively in FY23.

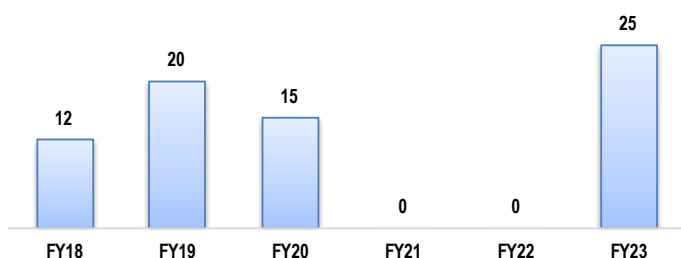
Asset Quality improved notably from FY21 levels and remains best-in-class



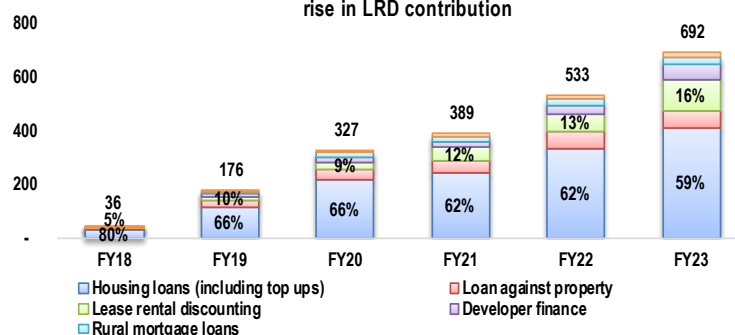
Return ratios have consistently improved over the years



BAF has by now infused ₹75bn in BHFL



With increase in loan book granularity, HL mix fell significantly with rise in LRD contribution



Source: Company, Way2Wealth Research

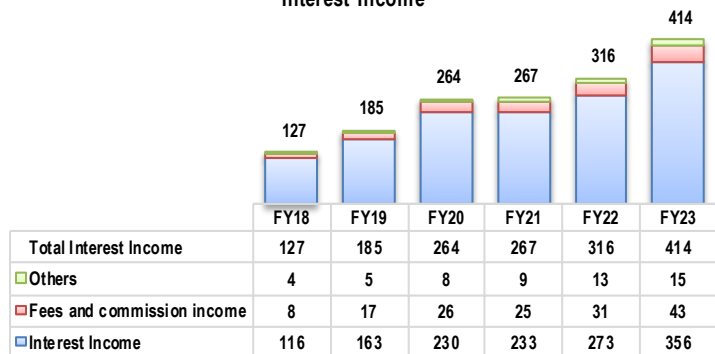
BHFL's current performance is well above management's long-term guidance

Financial Metrics	FY23	Long-term Guidance
AUM Growth	30%	26-28%
Profit Growth	77%	28-30%
GNPA	0.22%	0.6%-0.8%
NNPA	0.08%	0.3%-0.4%
RoA	2.3%	1.7%-2.0%
RoE	14.6%	13%-15%

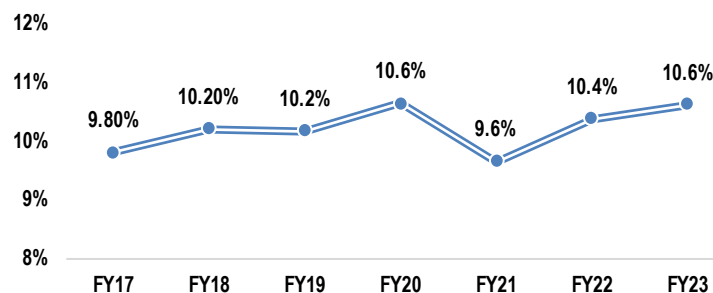
8. Interest Income, Other income and Net Interest Income

Total interest income over FY18-23 period has grown at CAGR 27% to ₹414bn on account of 25% CAGR growth in interest income and supported by 40% CAGR rise in fees and commission income. Favorable product mix has been the key driver for NIM expansion over last few years, however, it could remain under pressure in near term.

Interest Income



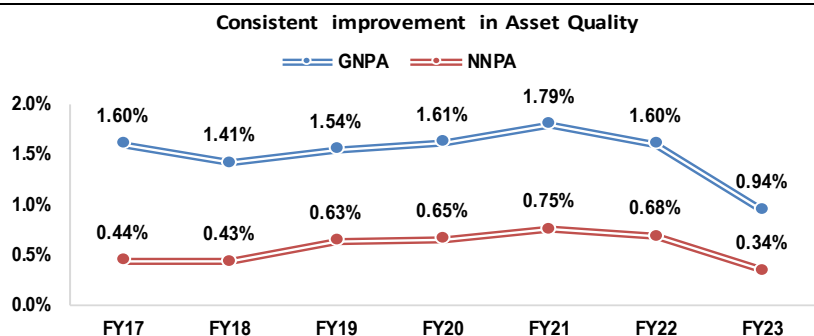
Favourable portfolio mix driving NIM Expansion



Source: Company, Way2Wealth Research

9. Asset Quality Profile

BAF has developed robust risk management practices evolved over the years, enabling the company to maintain best-in-class asset quality profile. GNPA and NNPA fell to historically lower levels of ~0.87% and ~0.31% in Q1FY24. Credit cost is also stable at ~1.4-1.5% level for last some quarters.

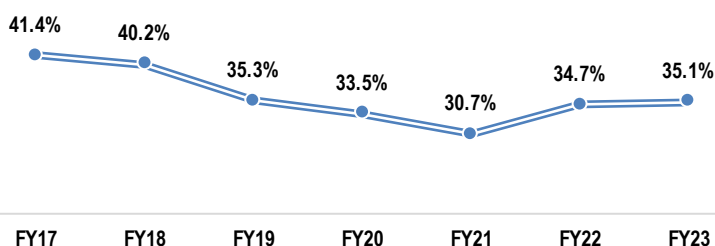


Source: Company, Way2Wealth Research

10. Operational Parameters

- In FY23, operating expenses to NII ratio increased slightly to 35%, on the back of company's continuous investment in distribution network expansion and digital initiatives such as omni-channel strategy.
- While BAF's investment in technological advancement may continue for some time, with growing base, operating leverage would start kicking in from coming few quarters.
- Resultantly, operating leverage on account of moderation in digital and technological investment and economies of scale would likely result in further improvement of opex-to-NII ratio over the medium term.

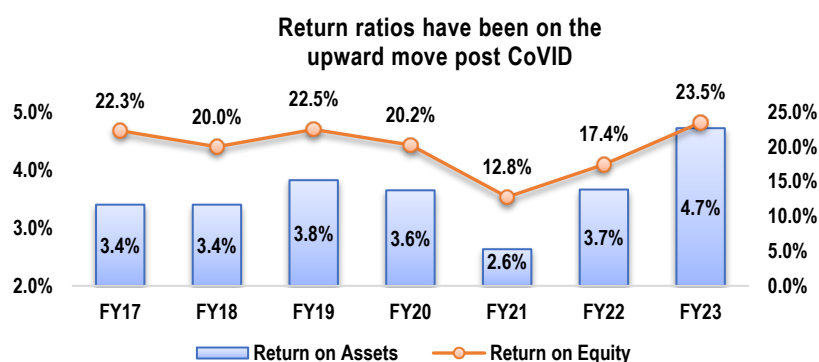
**Operating leverage drives
Opex-NII ratio contraction**



Source: Company, Way2Wealth Research

11. Fund Infusion

- On November 9th, BAF completed its fund infusion transaction raising ₹88bn via QIP and ₹12bn from promoter group Bajaj Finserv Ltd. total amounting to ₹100bn. Management has guided that these funds would largely be deployed to fund growth in new lines of business like Car and Tractor Financing, Micro Financing and Flexi on QR.
- This fund infusion came at the right time just before RBI's action of increase in risk weights of unsecured lending, enabling the company to utilize these fund for additional capital if required.
- While strong business growth and robust operating metrics have driven return ratios expansion so far and are likely to improve further based on underlying assumption of effective deployment of funds.



Source: Company, Way2Wealth Research

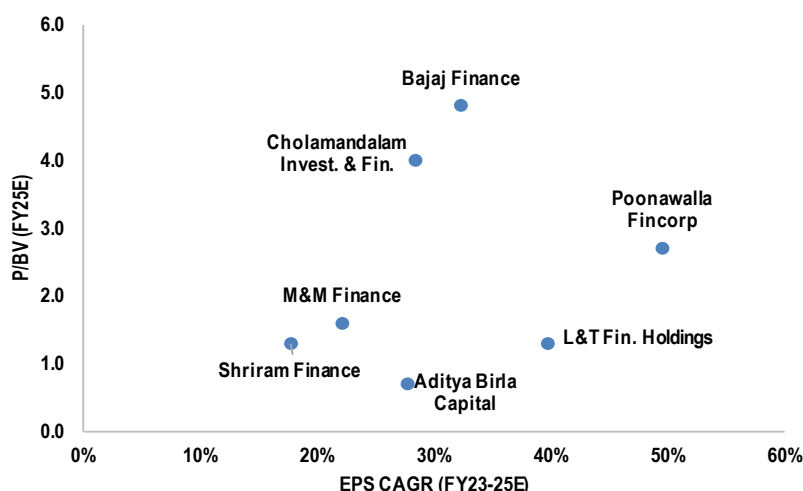
12. Investor Concerns

- (i) **Will Jio Financial Services capture Bajaj Finance's market share:** JFS has large consumer base already available through group's other allied subsidiaries. While, Jio Telcom's boasts on its diversified subscriber base penetrating deeper into domestic markets, most of other retail businesses are concentrated in Tier I and Tier II cities. However, BAF has already expanded beyond top 100 cities, wherein the competition is less intensified and diverse product portfolio provides edge over peers. Additionally, technological investments may enable JFS to expand its presence rapidly only in digitally driven businesses such as payments, asset management and insurance broking, but developing phygital network for lending business would certainly demand longer time horizon. Resultantly, JFS's foray unlikely to impact in a big way BAF's dominance in the domestic lending industry any time soon.
- (ii) **Does management transition has any impact on growth prospects:** Rajiv Jain has been heading BAF business since 2008 and has successfully navigated the largest domestic NBFC through several up-down cycles, but his appointment is up for renewal in March 2025. Whether continue in the same profile or shift to more a strategic role but he is likely to remain associated with the company. As a result, management transition would be smooth and the business would continue on its growth trajectory under his guidance.
- (iii) **Is bank conversion on the cards:** With HDFC merging with HDFC Bank, banks looking for AAA rated NBFCs to deploy their exposure to NBFCs, would have BAF as their preferred choice. Additionally, in attempt to increase granularity, introduction of tractor finance and MFI business would certainly increase priority sector lending portfolio over the years. As BAF would wait for its LRS to fructify and new business lines to stabilize, it is unlikely to consider applying for banking license any time soon as also guided by the management.
- (iv) **Can strong credit growth momentum be sustained:** Although new players foraying into the lending space has certainly increased competitive intensity in last few years, BAF's focus on enhancing geographic reach for deeper penetration (aim to open branches in ~5000 cities from existing ~4000 cities) and portfolio expansion through new product introductions (car and tractor finance, micro finance and emerging corporate finance) etc., would act as strong growth levers for next 3-4 years.

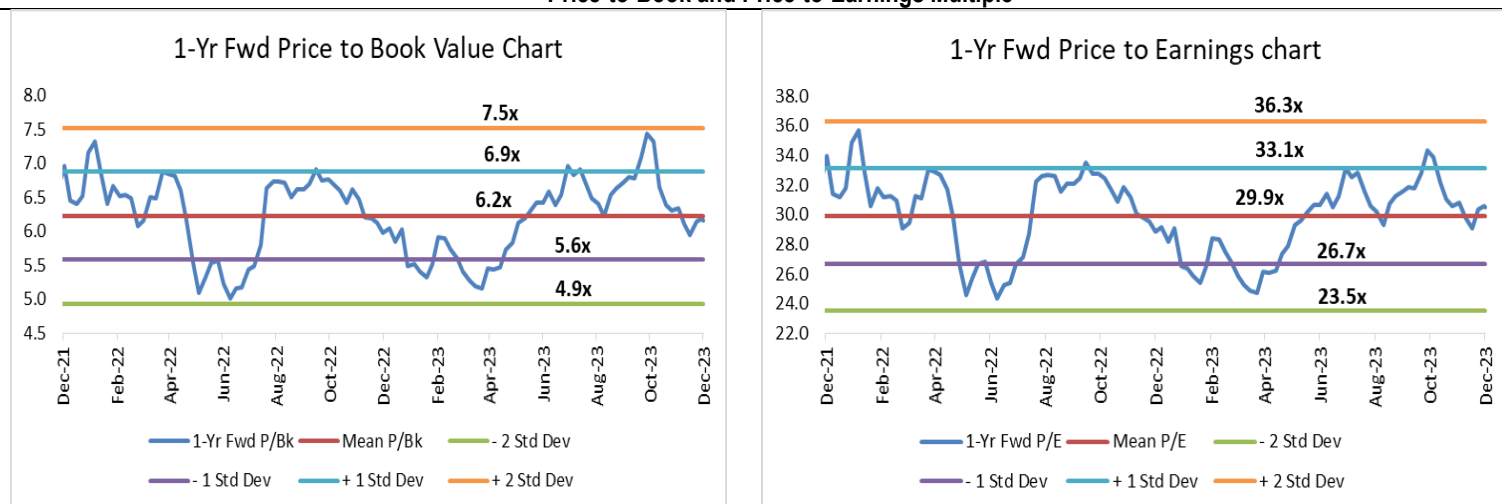
13. Attractive Valuations

- (i) Given relative underperformance over last few months, Bajaj Finance Ltd. currently trading at 4.8x 1-Yr Fwd P/Bk multiple, lower than its 10-Yr long term average of 6.2x.
- (ii) While BAF has strong business fundamentals, robust medium-term growth strategy, best-in-class operational metrics, it is also available at attractive valuations.

NBFC Universe Relative Valuation (EPS CAGR Vs. P/Bk ratio)



Price-to-Book and Price-to-Earnings Multiple



Source: Company, Way2Wealth Research

2QFY24 Performance

Bajaj Finance Ltd. posted all-round performance in 2QFY24.

- BAF's AUM grew 33%YoY / 7% QoQ to ₹2,903bn supported by the contribution coming in from 2W-3W vehicle financing. Rural lending witnessed muted growth during the quarter.
- NII was up 30% YoY/ 7% QoQ to ₹72bn albeit at a slower pace compared to AUM growth, primarily on account of NIM compression. Management expects further NIM moderation of ~30bps in FY24.
- Opex-to-NII ratio remains stable sequentially at ~34% while the company added branches at 104 new locations and added 14,000 distribution points
- Asset quality remained largely stable with GNPA and NNPA coming in at 0.9% and 0.3% respectively and PCR improved to 66%.
- Robust operating metrics along with stable asset quality based lower provisioning resulted in profitability improvement and PAT grew 28% YoY/ 3% QoQ to ₹35.5bn.
- Recent capital infusion of ₹88bn via QIP and ₹12bn through preferential allotment by promoter group Bajaj Finserv Ltd would bolster company's growth trajectory.

2QFY24 Performance

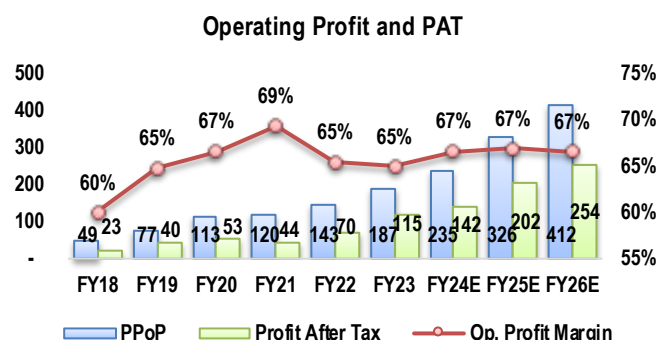
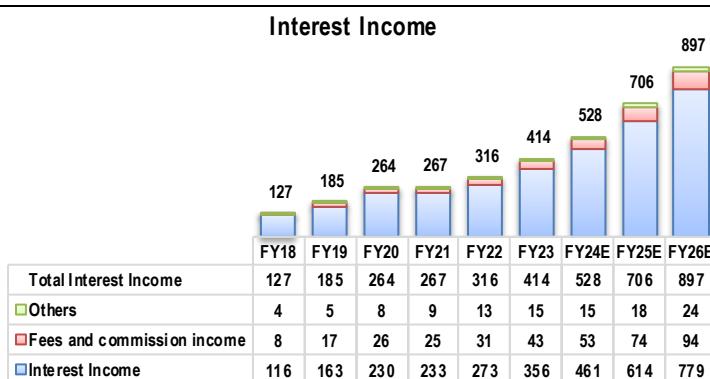
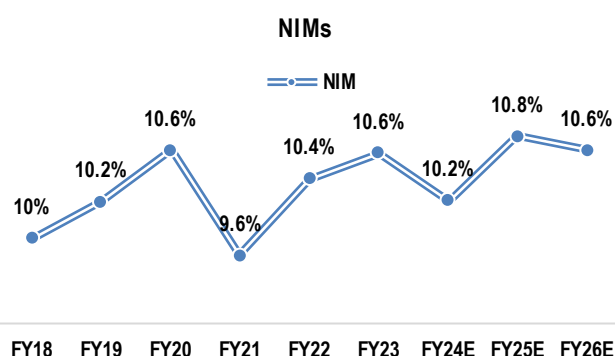
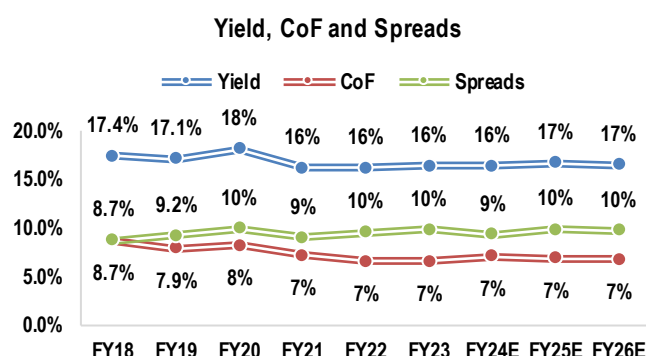
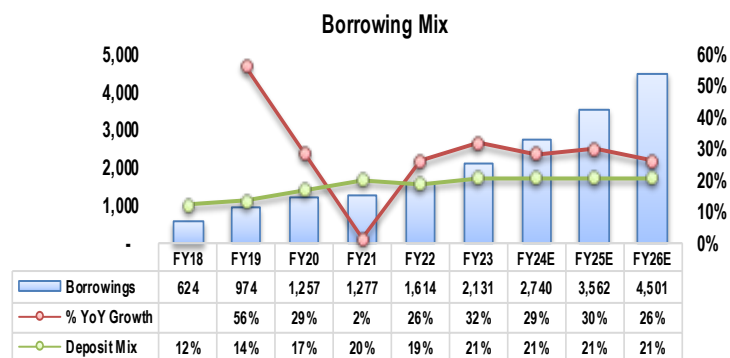
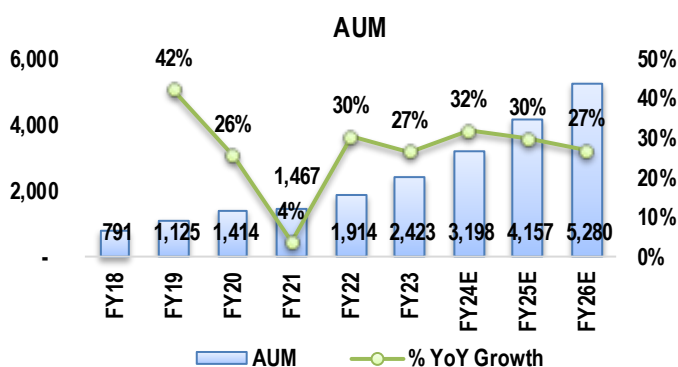
Particulars	Q2FY24	Q2FY23	% YoY Chng	Q1FY24	% QoQ Chng	1HFY24	1HFY23	% YoY Chng
Interest Income	117	85	38%	108	8%	178	164	8%
Fees and commission income	13	11	22%	13	-2%	22	21	4%
Other operating income	3	4	-15%	3	-2%	8	7	8%
Interest Income	134	100	34%	125	7%	208	193	8%
Interest Expense	45	30	53%	41	11%	63	56	13%
Net Interest Income	88	70	26%	84	5%	144	136	6%
Other income	0	0	-15%	0	28%	0	0	2%
Core Income	88	70	26%	84	5%	144	136	6%
Fees and commission expense	5	5	-2%	5	1%	9	9	0%
Employee benefits expense	16	12	28%	15	6%	25	24	4%
Other expenses	9	8	21%	9	7%	16	15	6%
Total expenses	30	25	20%	29	5%	51	49	4%
Operating Profit	58	45	30%	55	5%	93	87	7%
Provisions and Contingencies	11	7	47%	10	8%	16	15	6%
Share of profit/(loss) from associate	0	-		0		0	-	
Profit before tax	48	38	27%	46	5%	78	73	7%
Tax Expense	12	10	24%	11	8%	20	19	7%
Profit after tax	36	28	28%	34	3%	58	54	7%
Earnings per share	59	46	28%	57	3%	95	89	7%

FINANCIAL PERFORMANCE

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 Research

Financials in Chart



Source: Company, Way2Wealth Research

Risks

- NIM Compression** – Amid elevated interest rate scenario, NIM compression is visible and likely to continue over near term. However, if it continues for a prolonged period, it may have an impact on company's profitability significantly.
- Intensified competition may impact credit growth** – As the competition in NBFC space is increasing considerably, market share loss in segment could impact BAF's AUM growth trajectory.
- Regulatory Actions** – As lending industry remains one of the highly regulated, compliance to RBI guidelines needs to be strictly followed, and else any new regulatory embargo can significantly impact growth prospects of the company.

View

Bajaj Finance Ltd. has remained a bellwether NBFC servicing India's mass affluent and middle class population for more than three decades. Supported by its strong analytical capabilities, BAF has implemented right and timely changes in its operating practices and culture. To adopt to the newly evolving trends in lending, it decided to implement Omni-channel strategy which would enable customers to shift between online and offline channels swiftly.

BAF's 'acquire and cross-sell' strategy has remained a fundamental driver for improvement in many parameters such as its strong AUM growth, best-in-class GNPA and NNPA levels and lower operating ratios. While strengthening of traditional physical channels continue to be the key area of focus, continuous investment is being undertaken to develop newer digital channels for customer acquisition.

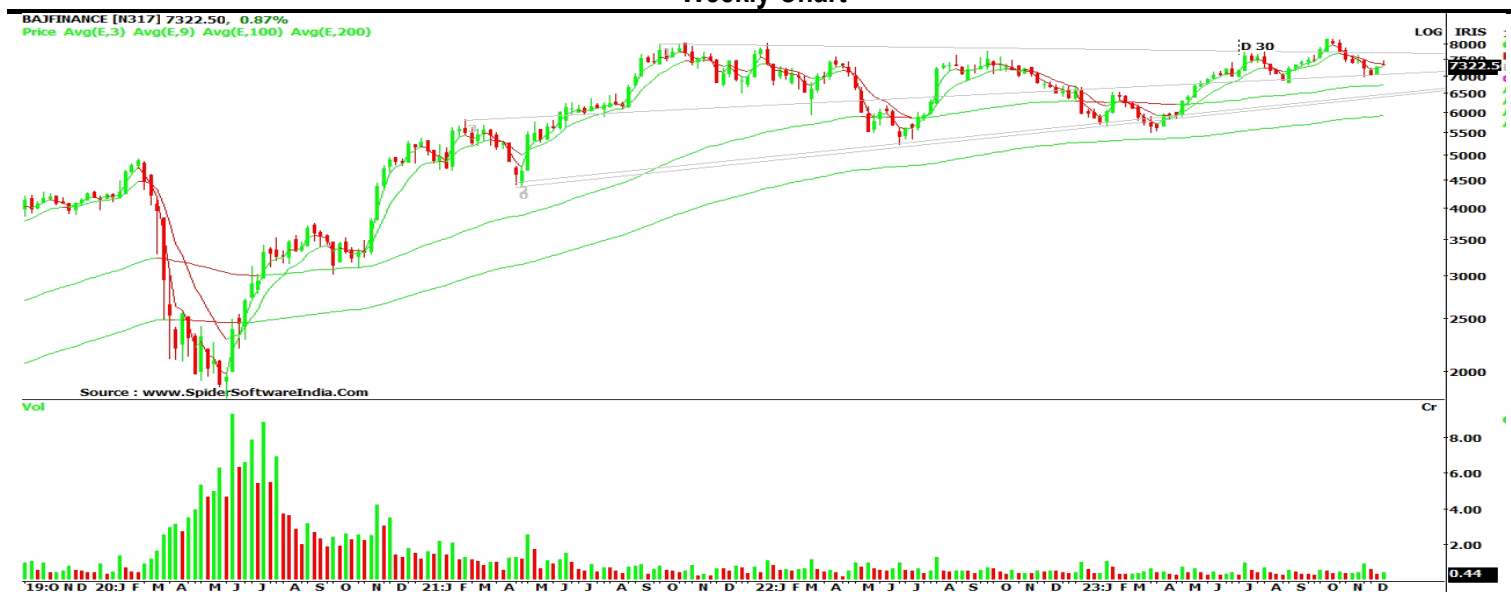
Amid ongoing unsecured lending saga, BAF remains cautious as it had already started witnessing stress in certain low ticket size pockets and in specific states/geographies of its B2C business markets. In a proactive manner, it has cut sourcing of unsecured lending in both urban and rural B2C markets and closely watching delinquency trends associated with it. Additionally, new lines of businesses such as 2W-3W, new car and tractor financing would lead to increase in secured lending mix.

While there exists some investor concerns over the entry of Reliance Jio into financial services business, impact of RBI's embargo on eCOM and Insta EMI card sourcing through digital channels, application for banking license, sustainability of strong AUM growth and any impact of changes in management, these factors unlikely to alter fundamentals of the company in any notable way over the medium term.

At CMP of ₹7,293, Bajaj Finance Ltd. is trading at 4.8x FY25e P/Adj. BV multiple. As, it is trading below its 10-Yr Avg. P/Bk multiple of 6.2x (BBG Est.), current valuation looks attractive. Valuing the stock at 5.5x FY25E P/Bk target multiple, we arrive at Target Price of ₹8,400 per share providing an upside potential of 15%. Thus, we recommend to BUY this stock at current levels.

TECHNICAL VIEW

Weekly Chart



BAJAJ FINANCE has been trading in upward sloping channel on the monthly chart suggesting that buyers are accumulating at lower levels. Also, the stock has trading above its short term 20 days (6857) & 50 days (5823) EMA indicating that the trend would remain positive. On the momentum indicators front, the daily MACD are showing rising trend indicating accumulation can be witnessed on buyer surface. Technically BAJAJ FNANCE is likely to remain positive in short to medium term scenario and the stock facing resistance at 7460/7650 levels. If the stock sustains above 7650 levels with steady volumes, we could see the stock testing 7900/8190 levels in short term to medium term scenario. On the downside, the stock is likely to take support at 7160 and 6930 levels.

Technical Indicators/Overlays

Bollinger Bands (Upper - Lower)	8130 - 6652
Short Term - 20 & 50 Days EMA	6857 & 5823
Long Term - 100 & 200 Days EMA	4873 & 2843
Annualised Volatility	32.1
ADX	22.6
MACD	400.99
RSI	56.78
Average True Range(ATR)	632.04
AD Line	84.24 Cr
Standard Deviation	661.22
Pivot Levels - R1, R2	7519 & 7648
Pivot Point	7331
Pivot Levels - S1, S2	7014 & 7202
ROC (%)	19.4

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Disclosure of Interest Statement: Bajaj Finance Ltd. as on 12th December 2023

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
Way2Wealth ownership of any stock related to the information contained	NIL
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Investment Banking relationship with company covered	NIL

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