

Bajaj Finance

Refer to important disclosures at the end of this report

The consumption juggernaut

- Bajaj Finance (BAF) demonstrated stellar performance again, with consol. AUM growth of ~41% yoy to Rs1,159bn, backed by consumer/rural/mortgages, while PAT grew ~57.4% yoy to Rs11.8bn with stable spreads and better operating leverage (~35.3%).
- 'New-to-Bajaj' customer growth was impressive at ~35.9% yoy to ~1.92mn customers, with a total franchise of ~34.5mn customers. New loans booked grew ~53% yoy to ~5.8mn, of which ~67% were contributed by existing customers, indicating the deep customer penetration of BAF.
- We reiterate our theme around BAF being a pure-play India consumption story with a diversified product line and expanding geographies. We assume an AUM CAGR of ~36% and an EPS CAGR of ~34% over FY19-21E, backed by a solid cross-selling franchise.
- We maintain our estimates and reiterate Buy with a TP of Rs 3,665 (P/B 6.7x FY21E and P/E 29.3x FY21E). We are not building any capital issuances; dilution of Rs80bn during FY21E is fair assumption, easing premium valuations. Maintain OW in our EAP - NBFCs.

Deeper customer penetration and product diversification to offset any probable consumption slowdown

Despite intensifying competition and a high base, we believe that now is the time when cross-selling kicks in for BAF. BAF's top-notch data analytics and growing product basket enable it to make available new products to its large existing customer base of ~34.5mn. This growth should come at a lower credit cost, thus expanding return metrics. BAF's in-class, incentive-driven, specialized and deeply penetrated collection and recovery system has driven our thesis on the company's ability to maintain low credit costs while increasing its asset base. In our view, BAF could see some margin compressions over the next two years, predominantly on account of the expansion of the low-yielding housing book. We see this as its management's positive intent to diversify risks and manage them better. In addition, the NIM compression is not expected to reduce PBT margins as operational leverage kicks in.

The asset-quality profile remained stable sequentially, with gross stage-3 assets at 1.54% (including the ILFS exposure) and provision coverage of ~60%. The liability franchise remains fairly diversified with deposits contributing ~13% of consol. borrowings.

Outlook and valuation

Although BAF currently trades at rich valuations (P/B 5.7x FY21E), we understand that its aggressive growth requires a capital infusion over the next 12-24 months, driving valuations down. We assume AUM CAGR of ~36% and EPS CAGR of ~34% over FY19-21E, backed by a solid cross-selling franchise. Key risks include a substantial build-up of consumer leverage and a prolonged rural distress scenario.

Please see our sector EAP (Page 8): [Emkay Alpha Portfolio – BFSI-NBFCs](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net income	61,885	81,429	118,782	155,672	202,061
Net profit	18,364	24,964	39,950	54,588	72,234
EPS (Rs)	33.7	43.9	69.3	94.6	125.2
ABV (Rs)	171.3	273.6	328.9	412.0	523.6
RoA (%)	3.3	3.4	3.8	3.7	3.6
RoE (%)	21.6	19.6	22.5	24.6	25.7
PE (x)	92.4	70.8	44.9	32.9	24.8
P/ABV	18.2	11.4	9.5	7.5	5.9

Source: Company, Emkay Research

CMP	Target Price
Rs 3,110 as of (May 16, 2019)	Rs 3,665 (▲) 12 months
Rating	Upside
BUY (■)	17.9 %

Change in Estimates

EPS Chg FY20E/FY21E (%)	11/14
Target Price change (%)	1.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY20E	FY21E
Emkay	94.6	125.2
Consensus	88.0	115.5
Mean Consensus TP (12M)	Rs 2,945	

Stock Details

Bloomberg Code	BAF IN
Face Value (Rs)	2
Shares outstanding (mn)	578
52 Week H/L	3,165 / 1,873
M Cap (Rs bn/USD bn)	1,797 / 25.68
Daily Avg Volume (nos.)	1,309,682
Daily Avg Turnover (US\$ mn)	54.1

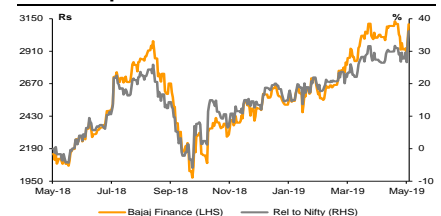
Shareholding Pattern Mar '19

Promoters	55.2%
FIIs	20.7%
DIIs	8.5%
Public and Others	15.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	21	29	62
Rel. to Nifty	7	16	23	55

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. Estimates (Q4FY19)

Rs mn	Actual	Estimate (Emkay)	Consensus estimate (Emkay)	% variation		Comments
				Emkay	Consensus	
Net income	33,953	32,966	32,632	3.0%	4.0%	In line with estimates
PPOP	22,209	19,328	NA	14.9%	NA	Better NIMs and lower opex
PAT	11,761	10,350	10,923	13.6%	7.7%	Better NIMs and lower opex

Source: Company, Emkay Research

Exhibit 2: Quarterly financials

Rs mn	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Total income	22,637	25,777	27,290	31,992	33,953	50.0%	6.1%	81,429	118,782	45.9%
Operating expenses	8,929	9,536	9,799	11,128	11,744	31.5%	5.5%	32,690	41,977	28.4%
Operating profit	13,708	16,241	17,491	20,864	22,209	62.0%	6.4%	48,739	76,805	57.6%
Provisions	2,272	3,268	3,146	4,508	4,093	80.1%	-9.2%	10,305	15,014	45.7%
% of operating profit	16.6%	20.1%	18.0%	21.6%	18.4%			21.1%	19.5%	
Profit before tax	11,436	12,973	14,345	16,357	18,116	58.4%	10.8%	38,434	61,792	60.8%
Tax	3,966	4,615	5,110	5,761	6,356	60.2%	10.3%	13,471	21,842	62.1%
Tax rate (%)	34.7%	35.6%	35.6%	35.2%	35.1%			35.0%	35.3%	
Profit after tax	7,470	8,359	9,235	10,596	11,761	57.4%	11.0%	24,964	39,950	60.0%
Gross NPL (%)	1.4%	1.4%	1.5%	1.6%	1.5%			1.4%	1.5%	
Net NPL (%)	0.4%	0.4%	0.5%	0.6%	0.6%			0.4%	0.6%	
Provision coverage ratio (%)	69.5%	68.3%	64.4%	60.0%	59.1%			69.5%	59.1%	
AUMs	824,220	912,870	980,130	1,075,080	1,158,880	40.6%	7.8%	824,220	1,158,880	40.6%
Borrowings	615,670	674,250	738,220	808,620	974,488	58.3%	20.5%	615,670	974,488	58.3%

Source: Company, Emkay Research

Management call takeaways

Growth and market positioning

- Tie-up with RBL has sold 1mn cards. May tie up with another partner as well going forward in order to achieve the goal of being the largest card provider in the country.
- Set to go live with its broking business by 15 June 2019. This will enhance the LAS book.
- Consumption outlook is certainly slower than that in November. Consumption patterns appear patchy. However, customer share of the wallet is still very low.
- Will evaluate a banking license as the need for it arises in the future.

Asset-quality profile

- Making deep investments in risk infrastructure and data analytics to manage risk with increasing book size.
- Mortgage assets of BFL (Standalone) of ~ Rs 170bn to wind down in two years. All mortgage assets thereafter to be housed in Bajaj Housing.
- Currently, mortgage market share is ~1.5%. Goal is to achieve 10-15% market share in next five years.
- Mortgage pool to form 35-38% of the book in the future.
- Is going to have only salaried home loans. No home loans for self-employed.
- ILFS exposure has deteriorated the quality of the LAP book.
- Size of the developer book is ~ INR12bn. BAF enters post plinth level once all the approvals are sought.

Liability and liquidity scenario

- Received a rating of BBB- from S&P for its ECB Programme.

Exhibit 3: Revision in earnings estimates

Y/e Mar (Rs m)	FY20E			FY21E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net operating income	148,550	155,672	4.8%	189,016	202,061	6.9%
PPOP	94,495	102,015	8.0%	122,233	134,816	10.3%
PAT	49,061	54,588	11.3%	63,258	72,234	14.2%
EPS (Rs)	85.3	94.6	10.9%	110.0	125.2	13.9%
BV (Rs)	430	428	-0.4%	535	546	2.0%

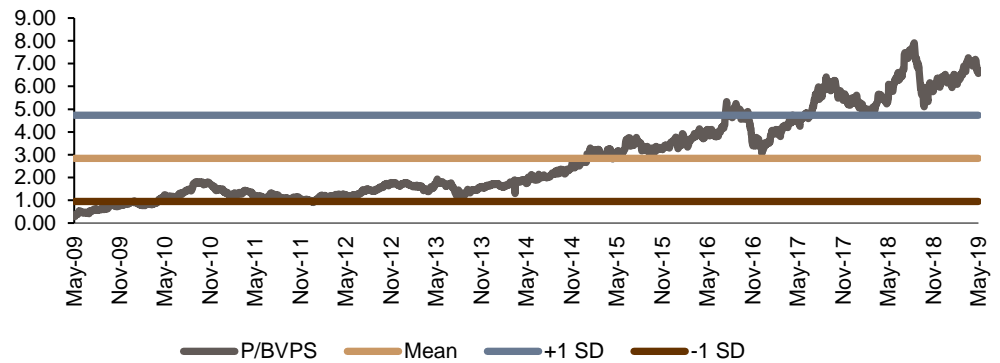
Source: Company, Emkay Research

Exhibit 4: Key assumptions

(in %)	FY19E	FY20E	FY21E
AUM growth	40.6%	37.5%	35.0%
Borrowings growth	91.8%	94.0%	94.0%
Yield on average loans	16.1%	16.0%	15.5%
Cost of average int. liabilities	7.7%	7.8%	7.6%

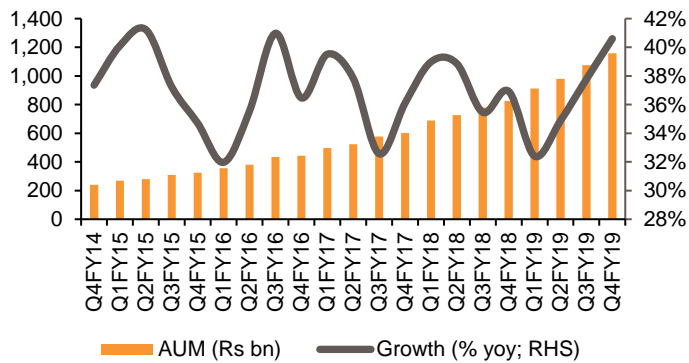
Source: Company, Emkay Research

Exhibit 5: The stock currently trades at 6.6x 1-year forward P/B



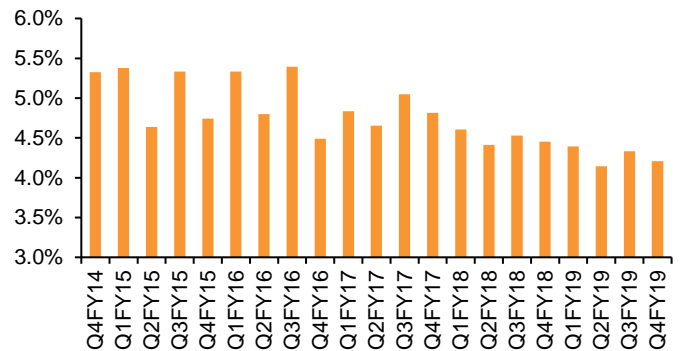
Source: Company, Emkay Research

Exhibit 6: Growth momentum remains healthy



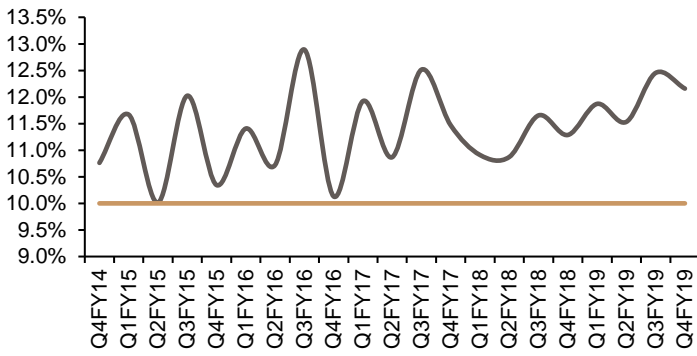
Source: Company, Emkay Research

Exhibit 7: Cost to Avg-AUM dips



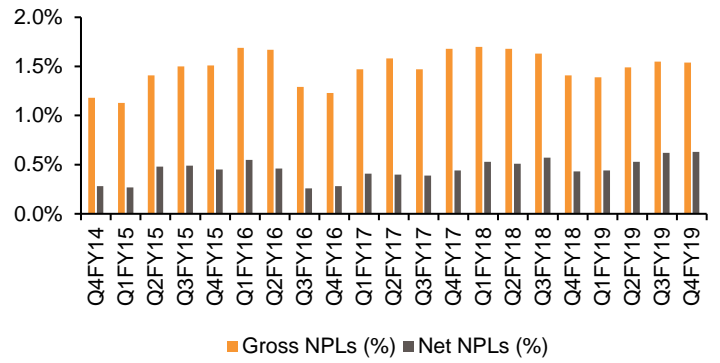
Source: Company, Emkay Research

Exhibit 8: NIMs stabilize



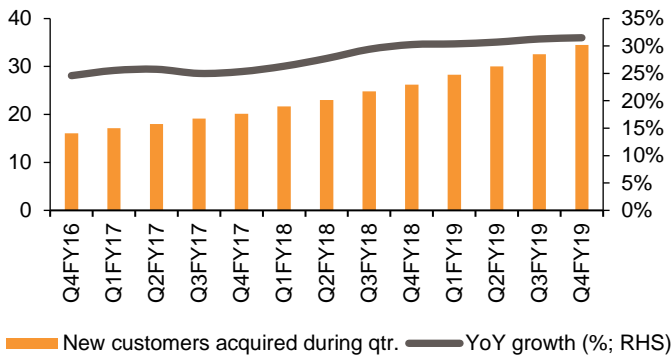
Source: Company, Emkay Research

Exhibit 9: Asset quality worsens on ILFS provisioning



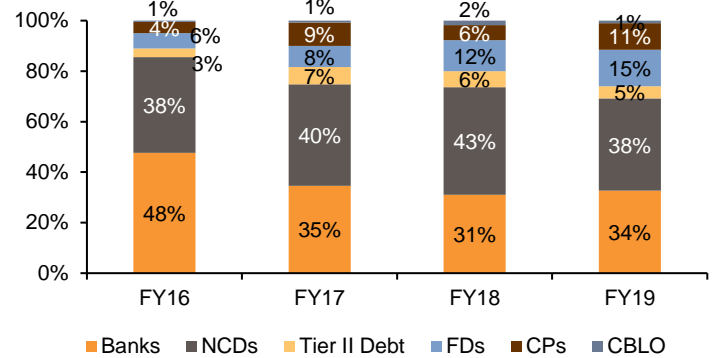
Source: Company, Emkay Research

Exhibit 10: Customer additions remain strong



Source: Company, Emkay Research

Exhibit 11: Borrowing mix



Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net interest income	51,203	69,716	97,252	131,937	170,467
Other income	10,682	11,713	21,530	23,736	31,594
Net income	61,885	81,429	118,782	155,672	202,061
Operating expenses	25,672	32,690	41,977	53,658	67,245
Pre provision profit	36,213	48,739	76,805	102,015	134,816
PPP excl treasury	36,213	48,739	76,805	102,015	134,816
Provisions	8,039	10,305	15,014	19,305	25,370
Profit before tax	28,174	38,434	61,792	82,709	109,446
Tax	9,810	13,471	21,842	28,121	37,212
Tax rate	35	35	35	34	34
Profit after tax	18,364	24,964	39,950	54,588	72,234

Balance Sheet

Y/E Year End (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity	1,094	1,150	1,154	1,154	1,154
Reserves	94,909	157,328	195,817	246,018	313,527
Net worth	96,003	158,478	196,970	247,171	314,681
Borrowings	492,495	679,802	1,032,595	1,445,428	1,961,438
Total liabilities	637,305	847,983	1,242,325	1,713,451	2,301,323
Cash and bank	3,261	3,397	3,487	33,801	37,616
Investments	40,728	31,427	86,023	108,407	137,301
Loans	582,440	800,244	1,138,633	1,555,245	2,108,581
Others	7,249	8,245	7,266	7,353	7,452
Total assets	637,305	847,983	1,242,325	1,713,451	2,301,323

Key Ratios (%)

Y/E Year End	FY17	FY18	FY19	FY20E	FY21E
NIM	9.8	9.8	9.8	9.6	9.1
RoA	3.3	3.4	3.8	3.7	3.6
RoAE	21.6	19.6	22.5	24.6	25.7
GNPA (%)	1.7	1.5	1.6	1.5	1.5
NNPA (%)	0.4	0.4	0.6	0.6	0.6

Per Share Data (Rs)	FY17	FY18	FY19	FY20E	FY21E
EPS	33.7	43.9	69.3	94.6	125.2
BVPS	176.0	278.8	341.5	428.5	545.5
ABVPS	171.3	273.6	328.9	412.0	523.6
DPS	3.6	4.0	6.0	6.5	7.0

Valuations (x)	FY17	FY18	FY19	FY20E	FY21E
PER	92.4	70.8	44.9	32.9	24.8
P/BV	17.7	11.2	9.1	7.3	5.7
P/ABV	18.2	11.4	9.5	7.5	5.9
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2

Source: Company, Emkay Research

Growth (%)	FY17	FY18	FY19	FY20E	FY21E
NII	34.7	36.2	39.5	35.7	29.2
PPOP	44.4	34.6	57.6	32.8	32.2
PAT	43.6	35.9	60.0	36.6	32.3
Loans	32.9	37.4	42.3	36.6	35.6

Quarterly (Rs mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
NII	22,637	25,777	27,290	31,992	33,953
NIM(%)	11.2	11.6	11.3	12.2	12.0
PPOP	13,708	16,241	17,491	20,864	22,209
PAT	7,470	8,359	9,235	10,596	11,761
EPS (Rs)	12.99	14.53	16.02	18.38	20.39

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoters	55.1	55.1	55.2	55.2	55.2
FIIIs	19.5	20.1	20.1	20.1	20.7
DIIIs	9.0	8.8	8.6	8.8	8.5
Public and Others	16.4	16.0	16.1	15.9	15.7

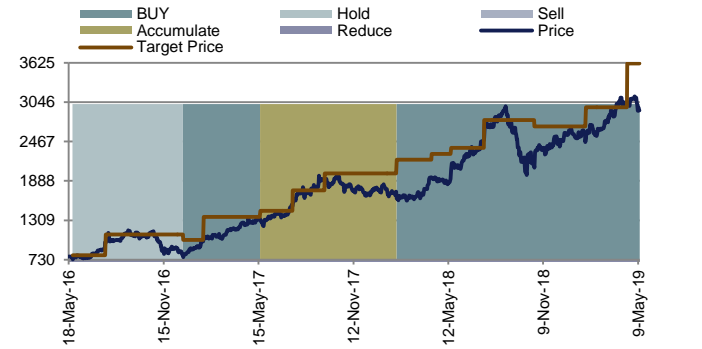
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Apr-19	3,014	3,618	12m	Buy	Jignesh Sial
15-Feb-19	2,561	2,971	12m	Buy	Jignesh Sial
29-Jan-19	2,516	2,971	12m	Buy	Jignesh Sial
23-Oct-18	2,083	2,690	12m	Buy	Jignesh Sial
19-Oct-18	2,141	2,785	12m	Buy	Jignesh Sial
26-Sep-18	2,316	2,785	12m	Buy	Jignesh Sial
24-Sep-18	2,261	2,785	12m	Buy	Jignesh Sial
19-Jul-18	2,520	2,785	12m	Buy	Jignesh Sial
29-May-18	2,077	2,375	12m	Buy	Jignesh Sial
17-May-18	2,067	2,375	12m	Buy	Jignesh Sial
10-Apr-18	1,926	2,284	12m	Buy	Jignesh Sial
2-Feb-18	1,629	2,200	12m	Buy	Umang Shah
16-Oct-17	1,886	2,000	12m	Accumulate	Umang Shah
18-Sep-17	1,912	2,000	12m	Accumulate	Umang Shah
19-Jul-17	1,542	1,750	12m	Accumulate	Umang Shah
18-May-17	1,315	1,450	12m	Accumulate	Umang Shah
30-Jan-17	1,055	1,360	12m	Buy	Umang Shah
22-Dec-16	765	1,020	12m	Buy	Umang Shah
27-Oct-16	1,105	1,100	12m	Hold	Umang Shah
6-Sep-16	1,127	1,100	12m	Hold	Umang Shah
27-Jul-16	979	1,100	12m	Hold	Umang Shah
25-May-16	734	792	12m	Hold	Umang Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – [Kindly refer the Disclaimer page](#), however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

Exhibit 12: EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.20	8.20	0%	0	100.00
Bajaj Finance	1.21	1.39	15%	18	17.00
Cholamandalam Investment	0.17	0.29	67%	12	3.50
Edelweiss Financial Services	0.14	0.04	-71%	-10	0.50
HDFC	5.62	5.82	4%	20	71.00
L&T Finance Holdings	0.14	0.04	-71%	-10	0.50
LIC Housing Finance	0.25	0.05	-80%	-20	0.60
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.20	0.29	41%	8	3.50
Muthoot Finance	0.10	0.10	0%	0	1.24
Reliance Nippon	0.02	0.02	20%	0	0.30
Shriram City Union Finance	0.06	0.00	-100%	-6	0.00
Shriram Transport Finance	0.27	0.15	-44%	-12	1.86
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Exhibit 13: Sector portfolio NAV

	Base		Current		
	1-Apr-19	15-May-19	3m	6m	12m
EAP - BFSI-NBFCs	100.0	97.1			
BSE200 Neutral Weighted Portfolio (ETF)	100.0	96.2			

*Performance measurement base date 1st April 2019

Source: Emkay Research

Please see our sector EAP: [Emkay Alpha Portfolio – India SMID](#)

Please see our sector EAP: [Emkay Alpha Portfolio – India](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 17 May 2019 01:10:16 (SGT)

Dissemination Date: 17 May 2019 01:11:16 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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