

3QFY24: Tailwinds and Headwinds

For 3QFY24, BAF's profit of Rs36bn, +22% YoY was tad ahead of est. Strong AUM growth of 35% & better NIMs aided 29% rise in NII. However, asset quality disappointed due to slippage in personal loans (mgt sees as transient) & in 2W/3W loans (that may be new normal). Embargo on EMI-card stays & BAF may submit revised standards to RBI in 4Q; we watch progress here & in credit card. Mr. Jain stays as MD & Mr. Saha is new Dy. MD. We trim est. by 1-2%; Buy stays.

Strong and broad-based asset growth drive topline. BAF continued to see strong AUM growth of 35% during 3Q and it was broad-based across segments with consumer, commercial, SME & LAS growing at faster pace (+30%) whereas it has slowed in rural B2C segment (up 16%) due to weaker collections / rural stress. Momentum in these segments and ramp-up of new segments like car financing, LAP, gold loans, tractor finance will aid growth of 28-30% into FY25-26 as well. In the MFI segment, mgt is taking more calibrated approach, which reflects challenges & newness of segment to BAF.

Asset quality - transient & durable issues. The key disappointment in results was in higher credit costs emanating from urban personal loan and 2/3 wheeler loans, which added to pressure from rural personal loan segment. However, management emphasised that issues in urban personal loan segment seem transient (probably linked to festivals/ holidays/ elections) that have affected collections. Hence, they expect trends to improve and this does not reflect broad stress in their portfolio. Still they raised credit cost guidance toward 1.75-1.85% of AUMs (up by 15-20bps) on the back of normalisation of credit cost in 2/3 wheeler segment and others. We have factored these in our forecasts leading to a slight cut to our earnings estimates. BAF carries ~Rs6bn of overlay provisions (0.2% of AUMs).

Mgt Rejig with Mr. Jain firmly in charge; progress on RBI's embargoes to be watched: Mr. Rajeev Jain clarified that he remains in charge of strategy & execution at BAF & subs. BAF has elevated Mr. Anup Saha to Dy. MD (was ED) along with 3 new COOs from internal senior managers. Mr. Sethi (ED) has resigned and, we feel, may pursue some entrepreneurial ambitions. On the embargoes on issuance of cards (imposed by RBI/ suo-motto), mgt clarified that they may soon submit corrections & enhancement of disclosures to RBI to see permission to restart card issuance. The partnership with RBL on credit card has got only 1yr extension from RBI & they plan to sort deficiencies to get longer extension.

Trim earnings; Buy call stays: We trim earnings forecasts by 1-2% to factor higher credit costs and see 25% Cagr in profit over FY24-26. BAF trades at 4.8x FY25 adj. PB & 24x PE, which seems reasonable. We maintain our BUY call with revised price target of Rs9,400 (9,470 earlier) based on 5.3x Mar-26 PB for core lending business and value of stakes in subsidiaries.

TARGET ESTIMATE CHANGE	
RATING	BUY
PRICE	INR7,187.50*
PRICE TARGET % TO PT	↓ INR9,400 (INR9,470) +31%
52W HIGH-LOW	INR8,190.00 - INR5,487.25
FLOAT (%) ADV MM (USD)	46.6% 108.83
MARKET CAP	INR4.3T \$52.0B
TICKER	BAF IN
*Prior trading day's closing price unless otherwise noted.	

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	NA	NA
EPS	NM	-2%	NA	NA

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	↑239.77
PREV	238.59				

Exhibit 1 - Bajaj Finance: Key Metrics

Key Metrics	FY22	FY23	FY24E	FY25E	FY26E
AUM (Rsbn)	1,975	2,474	3,294	4,287	5,487
AUM growth (% YoY)	29%	25%	33%	30%	28%
Net Profit (Rsbn)	70	115	144	179	226
EPS (Rs)	117	191	240	297	376
ROA (%)	3.7%	4.7%	4.5%	4.3%	4.2%
ROE (%)	17%	23%	22%	21%	22%
P/E (x)	62	38	30	24	19
P/BV (x)	9.9	8.0	5.7	4.7	3.9

Source: Company Data, Jefferies

(FY Mar)	2023A	2024E	2025E	2026E
Operating Profit (B)	187.2	239.7	305.9	388.9
Net Profit (B)	115.1	144.2	178.6	226.2
ROAA	4.72%	4.55%	4.31%	4.24%
ROAE	23.5%	22.2%	21.4%	22.3%

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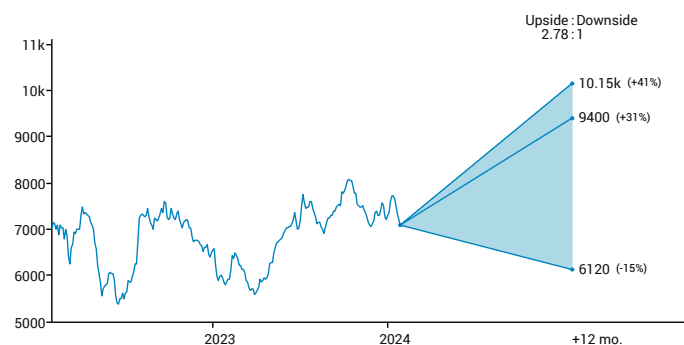
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The Long View: Bajaj Finance

Investment Thesis / Where We Differ

- Strong loan book growth, driven by a higher-yielding consumer durable loan book, rural financing, etc.
- Strong new customer acquisition and fast-growing cross-sell base franchise.
- Stable margins and asset quality.

Risk/Reward - 12 Month View



Base Case, INR9400, +31%

- Loan growth at 29% over FY24-26E.
- NIMs on AUM of 9.9% in FY24-26E.
- Credit cost at 1.7% over FY24-26E.
- Price Target Rs9,400 with standalone entity valued at 5.3x Mar-26E PB.

Upside Scenario, INR10150, +41%

- Loan growth at 31% over FY24-26E.
- NIMs on AUM around 10.1% over FY24-26E.
- Credit cost at 1.5% in FY24-26E.
- Price Target Rs10,150 with standalone entity valued at 6.5x Mar-26E PB.

Downside Scenario, INR6120, -15%

- Loan growth at 27% over FY24-25E.
- NIMs on AUM around 9.6% over FY24-26E.
- Credit cost at 1.8% over FY24-26E.
- Price Target Rs6,120 with standalone entity valued at 3.9x Mar-26E PB.

Sustainability Matters

Top Material Issues: (1) Incorporation of ESG into credit analysis, (2) Responsible Finance, (3) Lending / Selling Practices and (4) Customer Privacy & Data Security.

Company Targets: (1) Bajaj Finance plans to open 50 financial inclusion branches in rural and backward areas in FY2023. (2) Increasingly enable livelihood of individuals through products like SME lending, 3w financing etc. Increase financing for affordable homes through housing finance subsidiary. (3) Focus on reducing consumption of papers through digital initiatives like digital agreements, digital KYC, digital communication etc.

Questions to the Management: (1) How do you plan to participate in the +US\$12tn green funding gap in India? What is the share of company's revenues from sectors promoting socio economic causes, and from non-metro & non-tier 1 locations? (2) What steps is the Company taking to ensure strong data security and customer privacy, given the increasing share of digital transactions? (3) What steps is the Company taking to promote gender diversity at different levels? What are initiatives towards employee training/ reskilling?

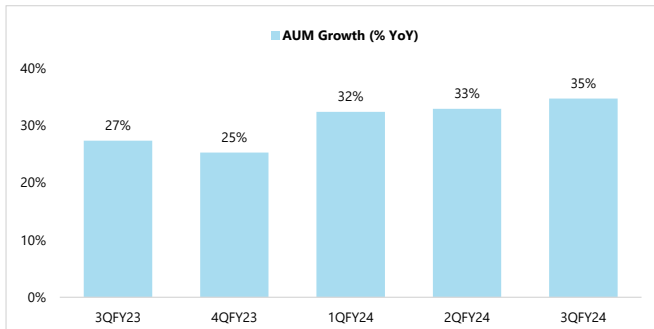
Catalysts

- Stronger-than-expected growth in consumer durable and rural financing business.
- Further improvement in operating efficiencies and reduction in cost ratios.
- Increasing competition from banks, lower market share in online consumer product sale financing could be key risks in the longer term.

Exhibit 2 - Bajaj Finance: 3QFY24 Results Summary (Consolidated)

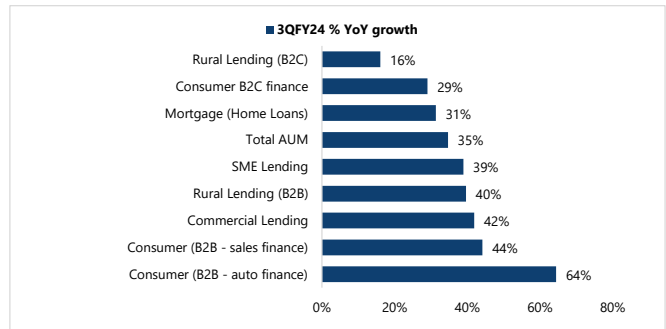
Particular, Rsm	3QFY23	2QFY24	3QFY24	YoY%	QoQ%
Income Statement					
Income from Operations	92,734	117,340	125,233	35%	7%
Interest Cost	33,512	45,371	48,680	45%	7%
Net Interest Income	59,222	71,970	76,553	29%	6%
Other Income	15,126	16,479	16,443	9%	0%
- Fee income	11,073	13,119	12,905	17%	-2%
- Recovery of financial assets written off	2,629	2,368	2,585	-2%	9%
- Mic. Other income	1,424	991	953	-33%	-4%
Total Income	74,347	88,448	92,996	25%	5%
Expenses	25,818	30,100	31,557	22%	5%
- Employee Expenses	12,856	15,875	16,618	29%	5%
- Other Expenses	12,962	14,225	14,940	15%	5%
Pre-provision operating profit	48,529	58,348	61,439	27%	5%
Loan Loss Provision	8,413	10,771	12,484	48%	16%
Profit before tax	40,116	47,578	48,955	22%	3%
Tax	10,387	12,070	12,566	21%	4%
Profit after tax	29,729	35,508	36,390	22%	2%
Balance Sheet (Rsbm)					
Asset Under Finance	2,254	2,857	3,064	36%	7%
Asset under Mgmt	2,308	2,903	3,110	35%	7%
- Consumer	766	977	1,056	38%	8%
- SME	298	387	414	39%	7%
- Commercial	281	365	399	42%	9%
- Rural	229	264	276	21%	4%
- Mortgage	735	909	965	31%	6%
Deposits	430	548	580	35%	6%
Asset Quality					
Gross Stage 3 (%)	1.1%	0.9%	1.0%	-19bps	4bps
Net stage 3 (%)	0.4%	0.3%	0.4%	-4bps	6bps
ECL on stage 3 assets (%)	64%	66%	61%	-316bps	-500bps
Ratios					
NIM (calculated)	10.8%	10.4%	10.3%	-47bps	-11bps
ROA	5.4%	5.2%	4.9%	-53bps	-30bps
Cost-to-income ratio	35%	34%	34%	-79bps	-10bps
Provisions (% of avg. loans)	1.5%	1.6%	1.7%	15bps	12bps
Total Capital Adequacy (%)	25%	23%	24%	-127bps	68bps
- of which Tier I CAR	23%	22%	23%	-48bps	92bps

Exhibit 3 - Broad based AUM growth; Moderation in rural B2C loans due to weaker collections



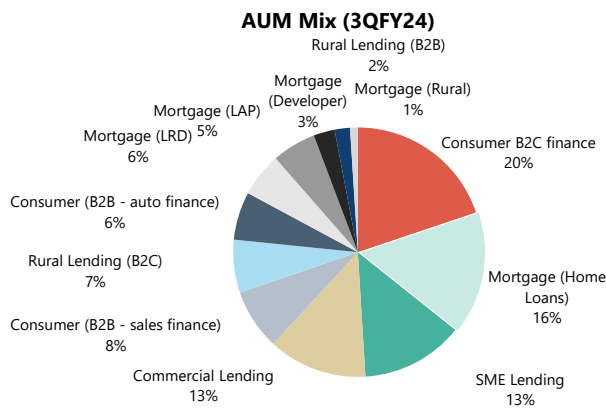
Source: Company Data, Jefferies

Exhibit 4 - Consumer, commercial and LAS leading growth while rural B2C lagged



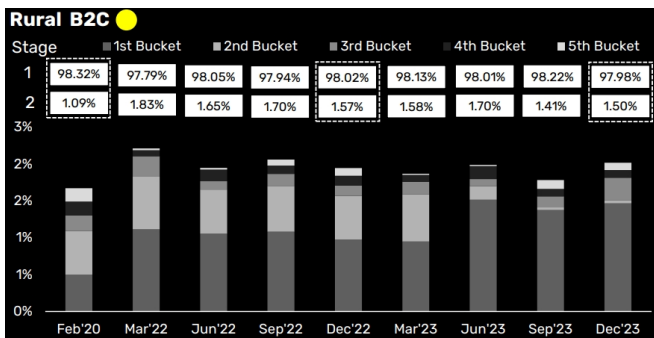
Source: Company Data, Jefferies

Exhibit 5 - Diversified loan book (Dec-23)



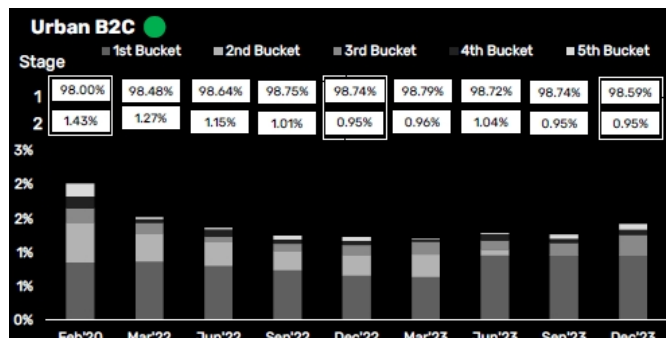
Source: Company Data, Jefferies

Exhibit 6 - BAF stays cautious in Rural B2C segment and is growing this much slower at 16% vs. overall growth of 35% YoY



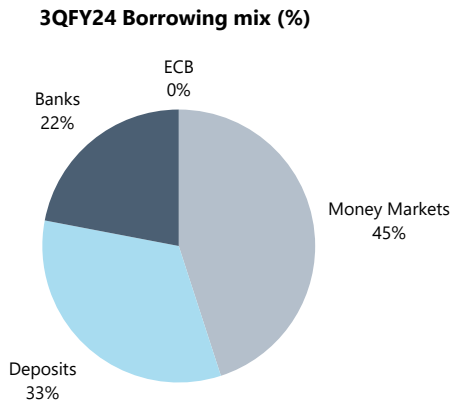
Source: Company Data, Jefferies

Exhibit 7 - Urban B2C saw lower collection efficiency but rise in slippages may be transient



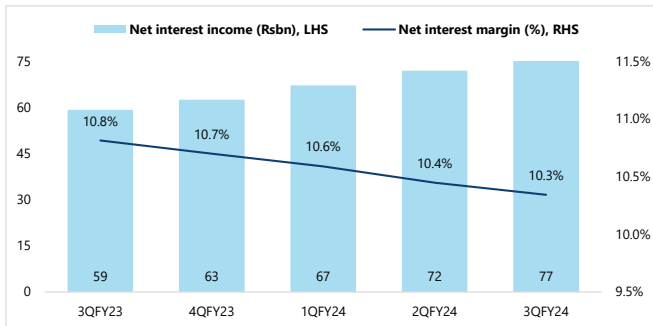
Source: Company Data, Jefferies

Exhibit 8 - BAF has a well diversified borrowing mix



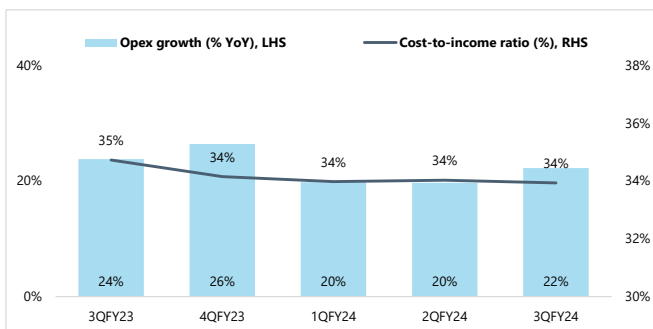
Source: Company Data, Jefferies

Exhibit 9 - NII growth ahead of expectations, aided by strong loan growth, and better margin trends



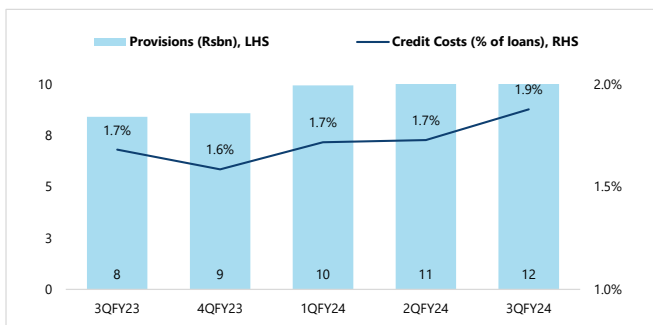
Source: Company Data, Jefferies

Exhibit 11 - Scope for operating leverage exists over 2-3yrs



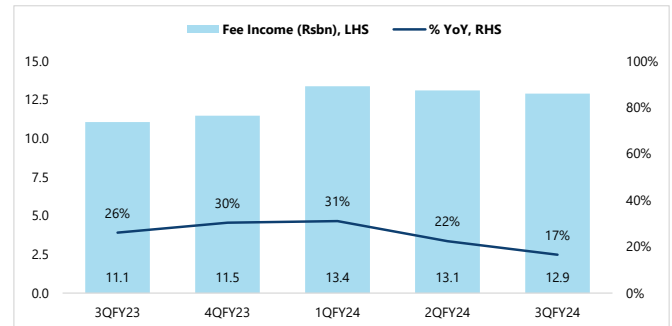
Source: Company Data, Jefferies

Exhibit 13 - Higher credit costs emanating from urban personal loan and 2/3 wheeler loans was key disappointment



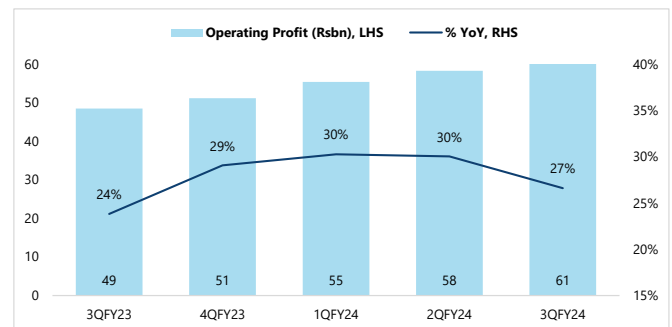
Source: Company Data, Jefferies

Exhibit 10 - Fee growth moderated in 3Q to 17%, as RBI embargo impacted commissions since middle of Nov-23 (c.45 days)



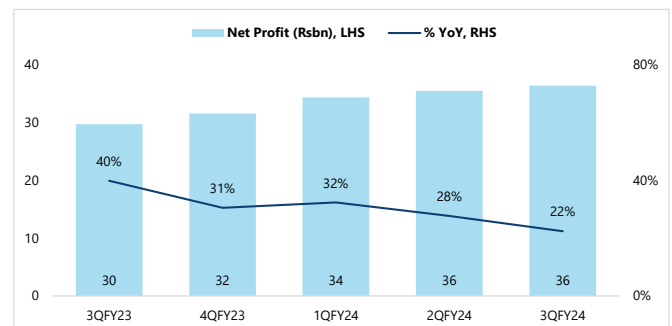
Source: Company Data, Jefferies

Exhibit 12 - Healthy growth in operating profit with higher NII being offset by tad higher opex



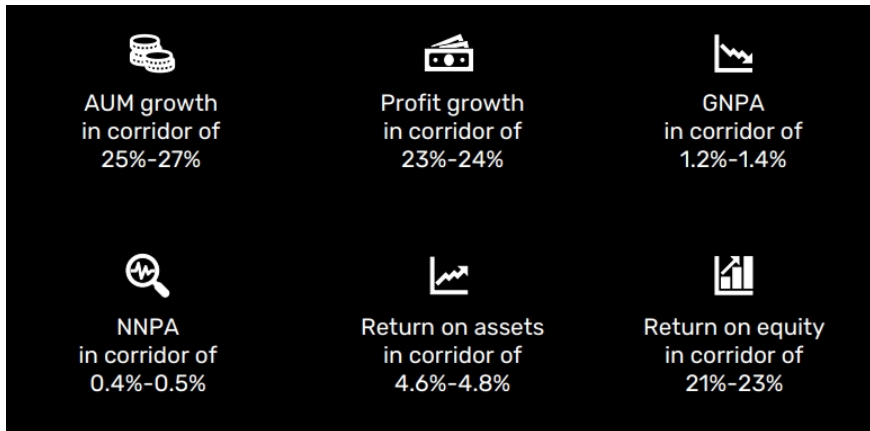
Source: Company Data, Jefferies

Exhibit 14 - Healthy growth in profit to support premium valuations



Source: Company Data, Jefferies

Exhibit 15 - BAF is confident of meeting its long range guidance



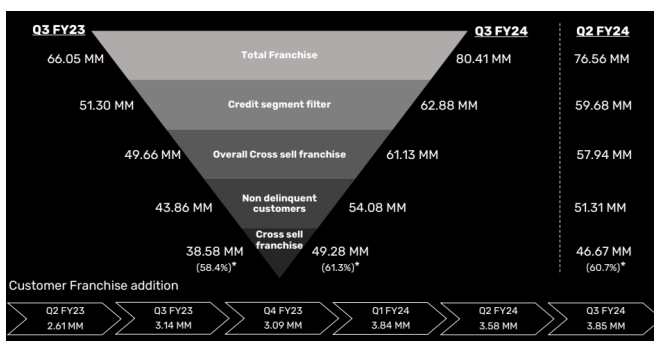
Source: Company Data, Jefferies

Exhibit 16 - Customer franchise continues to grow at a solid pace

Customer Franchise	3QFY22	3QFY23	2QFY24	3QFY24	3yr change	% QoQ	% YoY
Total franchise (m)	55.4	66.1	76.6	80.4	45%	5%	22%
Cross sell franchise (m)	31.3	38.6	46.7	49.3	58%	6%	28%
Cross sell franchise (% of total franchise)	56%	58%	61%	61%	482bps	33bps	288bps

Source: Company Data, Jefferies

Exhibit 17 - Healthy growth in customer franchise



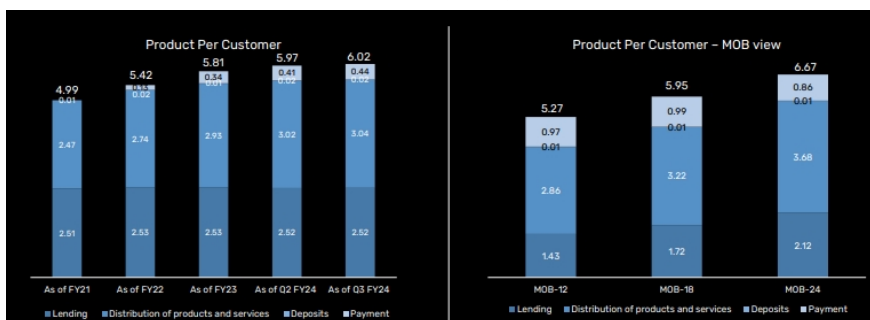
Source: Company Data, Jefferies

Exhibit 18 - Strong growth in distribution network

Active distribution	31 Dec 2020	31 Dec 2021	31 Dec 2022	31 Mar 2023	30 Jun 2023	30 Sep 2023	31 Dec 2023
Consumer durable stores - Urban	24,700+	29,500+	32,000+	33,950+	36,850+	38,850+	40,150+
Consumer durable stores - Rural	22,500+	27,900+	33,550+	37,000+	39,850+	43,350+	46,300+
Digital product stores	25,400+	28,800+	32,050+	33,000+	35,250+	37,100+	38,750+
Lifestyle retail stores	8,800+	10,800+	11,150+	13,200+	13,950+	14,650+	16,050+
EMI card - retail spends stores	10,400+	17,800+	20,950+	22,200+	24,400+	26,450+	27,650+
Bajaj Auto dealers, sub-dealers & ASSC	5,800+	6,000+	5,100+	5,150+	5,350+	5,400+	5,550+
Non-captive 2W dealers, sub-dealers & ASSC	-	-	1,600+	2,650+	3,300+	4,650+	5,200+
New Auto dealers	-	-	-	-	650+	1,750+	1,350+
DSA/Independent Financial Agents	5,200+	7,500+	7,500+	7,500+	7,500+	8,900+	9,600+
Overall active distribution network	1,02,800+	1,28,300+	1,43,900+	1,54,650+	1,67,100+	1,81,100+	1,90,600+
Net addition in the period	(4,300)	25,500	15,600	10,750	12,450	14,000	9,500

Source: Company Data, Jefferies

Exhibit 19 - Trends in product per customer (active or closed)



Source: Company Data, Jefferies

Exhibit 20 - Slight uptick in NPL ratios led by personal (urban B2C) & SME loans

Particulars	AUM 31 Dec 23	GNPA	NNPA	PCR (%)	₹ In Crore					
					GNPA %			NNPA %		
					31 Dec 22	30 Sep 23	31 Dec 23	31 Dec 22	30 Sep 23	31 Dec 23
Two & Three Wheeler Finance	19,384	564	281	50%	5.99%	3.09%	2.83%	3.08%	1.57%	1.43%
Urban Sales Finance	24,485	177	37	79%	0.64%	0.59%	0.71%	0.10%	0.12%	0.15%
Urban B2C	61,705	803	277	65%	1.08%	1.19%	1.30%	0.27%	0.30%	0.45%
Rural Sales Finance	6,166	43	9	80%	0.61%	0.60%	0.69%	0.09%	0.12%	0.14%
Rural B2C	21,426	288	108	62%	1.34%	1.25%	1.31%	0.37%	0.36%	0.50%
SME Lending	41,396	555	174	69%	1.54%	1.26%	1.31%	0.39%	0.33%	0.42%
Loan Against Securities	19,205	2	2	11%	0.01%	0.02%	0.01%	0.01%	0.02%	0.01%
Commercial Lending	20,672	62	35	44%	0.24%	0.27%	0.30%	0.12%	0.15%	0.17%
Mortgages	96,529	469	212	55%	0.64%	0.49%	0.50%	0.29%	0.21%	0.22%
Total	3,10,968	2,963	1,135	62%	1.14%	0.91%	0.95%	0.41%	0.31%	0.37%

Source: Company Data, Jefferies

Exhibit 21 - LRS Outcome - Current and aspiration in FY27 and FY28E

Sr. No.	Basic construct	9M FY24	FY27 LRS	FY28 LRS
1	Customer Franchise (MM)	80.41	110-120	130-140
2	Cross-sell Franchise (MM)	49.28	65-70	80-90
3	India payments GMV	0.14%	1-1.25%	1.25-1.5%
4	Share of total credit	1.94%	2.5-2.75%	3-3.25%
5	Share of retail credit	2.46%	3.5-3.75%	3.8-4%
6	Location presence	4,092	4,300-4,500	5,200-5,500
7	App - Net installs (MM)	49.19	70-80	120-150
8	Web - Visitors (MM)	318	1,100-1,200	1,500-1,800
9	Return on Equity	22.3%	20-22%	20-22%
10	AUM per cross sell franchise	63,102	85-90K	90-95K
11	PAT per cross sell franchise	2,156	3.5-3.7K	3.8-3.9K
12	Product Per Customer (PPC)	6.03	NA	6-7

Source: Company Data, Jefferies

Comments on senior management portfolio changes

Rajeev Jain will continue as MD and be actively involved in shaping the strategy of the various businesses of the company and its subsidiaries.

Anup Saha (previously Executive Director) will be re-designated as Deputy MD and will oversee all lines of business except LAS and commercial lending. He will report to MD & CEO and be assisted by 3 new Chief Operating Officers (COO).

1. Deepak Bagati, previously, President Debt Management Services
2. Sandeep Jain, previously, Chief Financial Officer (CFO) is promoted to COO & CFO
3. Anurag Chottani, previously, Chief Information Officer

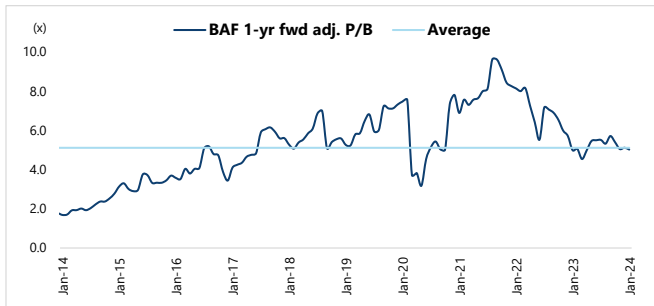
Lastly, Rakesh Bhatt, currently Executive Director has resigned for external opportunities. Rakesh will remain with the Company till 30 June 2024. After 30 June 2024, he will remain as an advisor to the company and will work with Managing Director.

Comments on RBI's restriction on EMI Cards

In compliance with RBI's order, BAF temporarily suspended sanction and disbursal of new 'eCOM' loans and loans on 'Insta EMI Card' effective November 16, 2023. Further, it also temporarily suspended sourcing and issuance of EMI cards to new customers and levy of annual renewal fees on existing EMI cards.

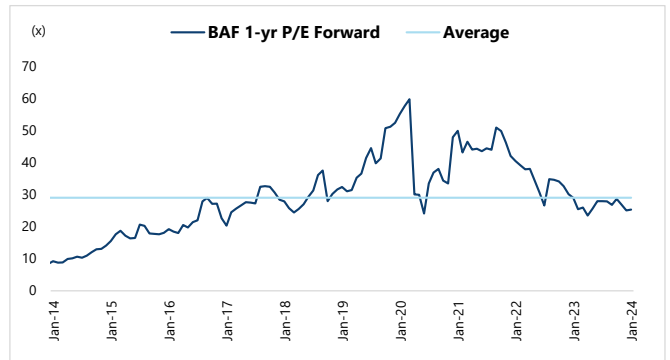
Since then, company has conducted a comprehensive review of Guidelines on Digital Lending and KFS and is implementing requisite corrective actions. It will ensure full compliance of the executive order to the satisfaction of RBI at the earliest and is committed to the highest standards of compliance and endeavours to provide seamless financial services to its customers.

Exhibit 22 - Stock is trading tad below long term P/B average



Source: FactSet, Company Data, Jefferies

Exhibit 23 - Stock is trading tad below LT average PE multiple



Source: FactSet, Company Data, Jefferies

Exhibit 24 - Bajaj Finance: P&L Statement

Income Statement (Rsm)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	272,698	355,502	474,016	609,867	773,814
Interest Expense	97,482	125,599	177,901	238,663	307,225
Net Interest Income	175,215	229,903	296,115	371,205	466,589
Other Income	43,707	58,555	66,491	84,234	104,426
Total Income	218,922	288,458	362,605	455,438	571,015
Operating Expenses	75,850	101,300	122,945	149,521	182,153
Employee Expense	35,897	50,591	64,757	77,708	93,250
Other Operating Expenses	39,953	50,708	58,188	71,813	88,903
Pre-provision Profit	143,072	187,158	239,660	305,918	388,862
Total provision	48,034	31,897	46,055	66,151	85,280
Profit Before Tax	95,038	155,262	193,606	239,767	303,581
Tax Expense	24,756	40,202	49,369	61,141	77,413
Profit After Tax	70,282	115,060	144,236	178,626	226,168
EPS	117	191	240	297	376

Source: Company Data, Jefferies

Exhibit 25 - Bajaj Finance: Balance Sheet

Balance Sheet (Rsm)	FY22	FY23	FY24E	FY25E	FY26E
Loans & Advances	1,914,233	2,422,689	3,193,760	4,156,320	5,319,274
Fixed Assets	17,504	27,145	28,338	29,592	30,908
Investments	122,455	227,518	266,159	313,534	378,994
Other Assets	34,058	31,889	42,965	128,115	136,198
Cash & Bank	36,803	43,045	57,323	74,600	95,473
Total Assets	2,125,054	2,752,286	3,588,546	4,702,162	5,960,847
Shareholder's Equity	437,127	543,720	757,072	913,079	1,111,234
Borrowings	1,652,319	2,166,905	2,776,723	3,717,502	4,757,672
Current Liabilities	35,608	41,662	54,751	71,582	91,942
Total Liabilities	2,125,054	2,752,287	3,588,546	4,702,162	5,960,847

Source: Company Data, Jefferies

Exhibit 26 - Bajaj Finance: Key Ratios

Year end 31st March	FY22	FY23	FY24E	FY25E	FY26E
EPS	117	191	240	297	376
Earnings growth (% YoY)	59%	63%	26%	24%	27%
Book Value Per Share	727	904	1,259	1,518	1,847
Adjusted BV/ Share	705	890	1,237	1,489	1,807
ROA	3.7%	4.7%	4.5%	4.3%	4.2%
ROE	17%	23%	22%	21%	22%
NIM on Book Loans	9.4%	9.6%	9.5%	9.2%	9.0%
GNPL (%)	1.6%	1.0%	1.1%	1.2%	1.3%
Net NPL (% of net loans)	0.7%	0.3%	0.4%	0.4%	0.5%
Coverage	58.0%	63.8%	61.0%	64.0%	64.0%
Tier I CAR	24.8%	23.2%	23.4%	21.6%	20.6%
CAR	27.2%	25.0%	25.0%	22.9%	21.6%
Cost to income	35%	35%	34%	33%	32%
Cost to Assets	4.0%	4.2%	3.9%	3.6%	3.4%
Loan (Rsbm)	1,914	2,423	3,194	4,156	5,319
Loan growth (% YoY)	30%	27%	32%	30%	28%
AUM (Rsbm)	1,975	2,474	3,294	4,287	5,487
AUM growth (% YoY)	29%	25%	33%	30%	28%
Equity/ Assets	21%	20%	21%	19%	19%
Provision/avg loans	2.8%	1.5%	1.6%	1.8%	1.8%
Yield on loans	14.6%	14.9%	15.3%	15.1%	15.0%
Cost of Funds	6.6%	6.6%	7.2%	7.4%	7.3%
P/E	62	38	30	24	19
P/B	9.9	8.0	5.7	4.7	3.9
P/ABV (x)	10.2	8.1	5.8	4.8	4.0
Dividend per Share (Rs)	20	30	38	47	59
Dividend Payout (% of PAT)	17%	16%	16%	16%	16%
Dividend Yield (%)	0.3%	0.4%	0.5%	0.6%	0.8%

Source: Company Data, Jefferies

Exhibit 27 - Bajaj Finance: SoTP Valuation

BAF SoTP Valuation (Mar-26)	% Stake	(Rsbn)	(Rs/share)	Valuation Methodology
Bajaj Housing Finance Ltd	100%	637	1,059	4.0x P/BV
Bajaj Financial Securities Limited	100%	8	14	14 P/E
Total Value of Subsidiaries		646	1,073	
Value of Bajaj Finance (Standalone)		5,010	8,328	5.4x P/BV
Value of Bajaj Finance (Consolidated)		5,655	9,401	
Price target (rounded off)		5,660	9,400	
Current Market Price			7,200	
Upside/(Downside) (%)			31%	

Source: Company Data, Jefferies

Company Description

Bajaj Finance

Bajaj Finance Limited is a diversified non-bank finance company with a wide portfolio of products across Consumer, SME and Commercial lending. Bajaj Finance is a pioneer in introducing interest-free EMI financing options in more than 50 categories, ranging from consumer durables to lifestyle products to groceries.

Company Valuation/Risks

Bajaj Finance

Our PT of Rs9,400 is based on SoTP valuation. Standalone entity is valued at 5.3x Mar-26E P/BV. Key risks to our valuation: slowdown in growth, higher-than-expected NIM compression, or asset quality deterioration. Upside can arise from stronger than expected growth in consumer durable and rural financing business, and further improvement in operating efficiencies and reduction in cost ratios.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

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The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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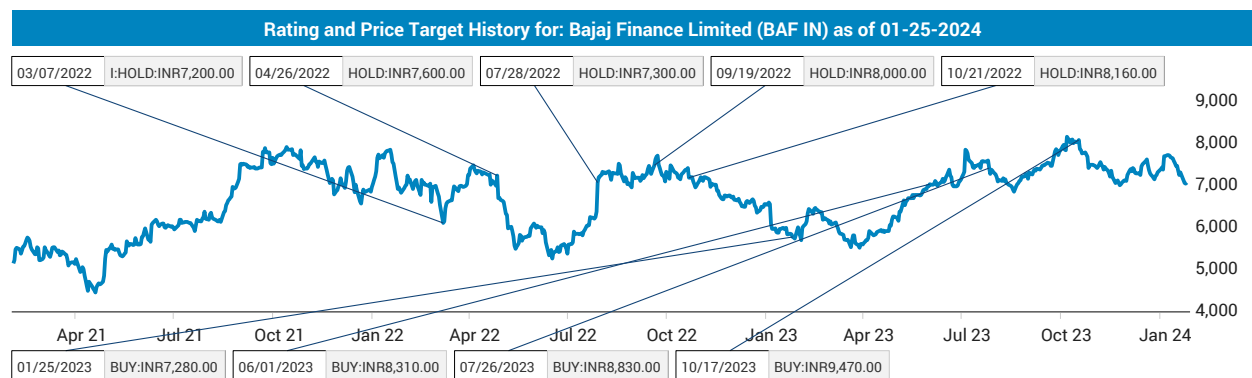
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Other Companies Mentioned in This Report

- Bajaj Finance Limited (BAF IN: INR7,187.50, BUY)



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B: Buy

H: Hold

UP: Underperform

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