

BAJAJ FINANCE LTD

BFSI

12 JUN 2019

Quarterly Update

HOLD

Target Price : Rs 3592

CMP : Rs 3486
 Potential Upside : 3%
 Relative to Sector : Positive

MARKET DATA

No. of Shares : 58 Cr
 FV (Rs) : 2
 Market Cap (Rs Cr.) : 200985
 52-week High / Low : Rs 3,564 / Rs 1,912
 Avg. Daily vol. (6mth) : 15,80,511 shares
 Bloomberg Code : BAF IN
 Reuters Code : BJFN.BO
 BSE Code : 500034
 NSE Code : BAJFINANCE

Q4FY19: Outperformance sustained

Business momentum (AUM up 41% YoY) continued to be strong, driven by consumer/SME segments at 56/36%. Better pricing power, growth in high-yielding loans and controlled cost of funds led to sequential NIM improvement. Operating leverage has played a key role in achieving high profitability. Asset quality continues to remain stable while maintaining PCR at 59%. BAF had fully recognized IL&FS exposure of Rs 230cr.

BAF remains comfortable on liquidity front. It has maintained its robust growth trajectory, with deepening geographical penetration and increasing repeat business. Over the past two years, it has also enhanced its capabilities on two fronts - generating higher fee income and improving the deposit franchise. The latter would be a key driver for incremental liabilities over the next few years. While we remain positive on the stock, on the back of outstretched valuations we assign 'Hold' rating on the stock with a target price Rs 3592 (6.5x FY21E P/BV & ~30x FY21E P/E).

Key Highlights

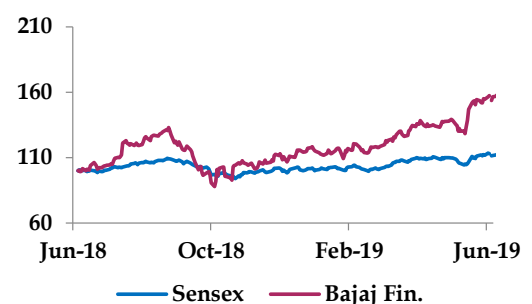
- AUM growth robust:** Consolidated AUM grew 41/5% YoY/QoQ driven by strong growth across segments, barring commercial lending (+10% YoY). The mix remained largely stable led by Consumer Finance (39%), Mortgage (29%), SME (14%), Commercial (10%) and Rural (8%). The liability mix stands at Banks (37%), Capital markets (50%) and Deposits (13%). Management plans to increase the share of deposits to 18-20% by FY20. While BAF indicated that the consumption outlook is weaker versus November 2018, the company will comfortably grow at ~35%, driven by category expansion, increase in geographical spread and rising share of wallet with existing customers.
- Operating performance improves:** Yields increased 140bp YoY (-20bp QoQ) to 18.8%, while cost of funds increased 10bp QoQ/YoY to 8.3%. NIM expanded 80bp YoY (-15bp QoQ) to 12%. Strong AUM growth and expansion in margins led to the strong growth in NII in the quarter. Strong growth in NII and operating leverage benefits are aiding the reduction in the cost-to-income ratio. C-I ratio has come down to ~34.6%. Management expects the ratio to stabilise at this level in the near term.

FINANCIAL SUMMARY (Consolidated)

Y/E	NII	PAT	EPS	EPS chg	Book	PE	P/BV	ROAE	ROAA
March	(Rs Cr)	(Rs Cr)		(%)	Value (Rs)	(x)	(x)	(%)	(%)
FY18	8,808	2,674	47.1	39.7	287.9	37.6	5.1	19.6	3.4
FY19P	11,878	3,995	68.8	46.1	341.5	50.7	9.2	22.5	3.8
FY20E	14,890	5,359	92.1	33.9	426.3	37.9	7.2	23.9	3.8
FY21E	19,650	7,087	118.6	28.9	552.5	29.4	5.3	24.9	3.9

Source: Company, Axis Securities, Consensus Estimates

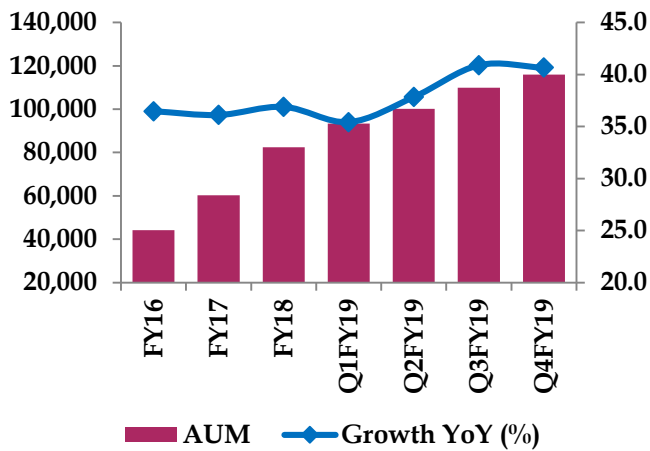
PRICE PERFORMANCE



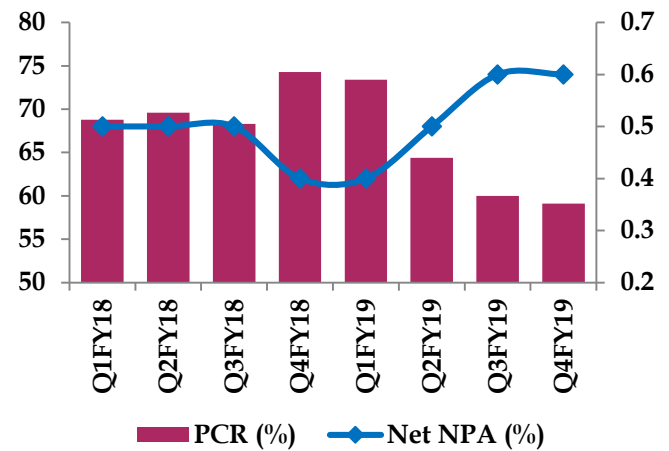
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- Asset quality maintained:** Asset quality was stable QoQ at 1.54%. Excluding the IL&FS exposure, GNPA stood at 1.34%, flat QoQ. Total slippages declined 15% QoQ to Rs590cr in Q4FY19. However, excluding IL&FS slippage, fresh slippages have increased ~25% QoQ.
- Outlook across segments:** BAF may look to add one more partner in the credit-card business, in the next 1-2 years, given that it aims to be among the top 3-4 card issuers in the next 3-4 years. In two-wheelers, BAF's market share in Bajaj Auto went up, to 45% (vs. 33-35% normally) due to a decline in competitive intensity by other NBFCs which are facing liquidity squeeze.
- HFC portfolio:** With the mortgage industry size being Rs2.1trillion, BAF targets reaching 8-10% market share in the long run, along with 14-15% RoE. It expects to maintain 8-9x leverage in its HFC portfolio. The HFC portfolio is expected to grow faster than the standalone company; thus, consolidated, steady-state RoA and RoE would be 3.5%/18-20% in the longer term. BAF will run down its mortgage business in the standalone entity over the next 2 years.

AUM growth at +40%



Asset quality maintained



Source: Company, Axis Securities

Results Update

(Rs.Cr.)	Quarterly Performance				
	Q4FY19	Q4FY18	% Change (YoY)	Q3FY19	% Change (QoQ)
Total Income	5,308	3,488	52.2	4,983	6.5
Interest Expenses	1,913	1,227	55.9	1,786	7.1
Net Income	3,395	2,260	50.2	3,197	6.2
Other Income	0.1	3.9	-97.9	2.3	-96.5
Operating Expenses	1,174	893	31.5	1,113	5.5
Employee	532	390	36.3	510	4.2
Others	643	503	27.9	602	6.7
Operating Profits	2,220	1,371	61.9	2,086	6.4
Provisions	409	227	80.1	451	-9.2
PBT	1,811	1,144	58.3	1,635	10.8
Taxes	636	397	60.3	576	10.3
Reported PAT	1,176	748	57.2	1,059	11.0
Asset Quality					
GNPA	1,733	1,171	48.0	1,652	4.9
NNPA	709	301	135.8	661	7.3
GNPA (%)	1.5	1.5		1.6	
NNPA (%)	0.6	0.4		0.6	
PCR (%)	59.1	74.3		60	
Cost-Income	34.6	39.4		34.8	
CAR	20.7	24.7		21.4	
Tier I	16.3	19.7		16.8	
AUM	1,15,900	82,400	40.7	1,09,900	5.5
AUM Mix (%)					
Consumer Finance	39	38		40	
SME Business	14	14		13	
Commercial	10	13		11	
Rural	8	7		8	
Mortgages	29	29		28	

Source: Company, Axis Securities

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