

BAJAJ FINANCE

BANKS & FINANCIAL SERVICES

HOLD

Target Price: Rs 1,750

Stable on most fronts

Bajaj Finance's (BAF) Q2FY18 PAT at Rs 5.6 bn (+37% YoY) was marginally below street and our estimates. AUM growth was strong at 38% YoY driven by consumer and commercial lending segments while rural business also continued its strong momentum albeit on a small base. Asset quality remained manageable with GNPA's/NNPA's at 1.7%/ 0.5%.

NIM declined to 12.5% and the impact of QIP was not completely captured, as the funds were raised towards end of Q2. BAF is witnessing good festive season related demand from semi-urban/rural areas. We believe growth trajectory for BAF will remain intact on accelerated shift from unorganized to organized market and expect +30% CAGR over FY17-FY19E.

CMP : Rs 1,889
Potential Upside : -7%

MARKET DATA

No. of Shares : 576 mn
Free Float : 42%
Market Cap : Rs 1,089 bn
52-week High / Low : Rs 1,989 / Rs 762
Avg. Daily vol. (6mth) : 1.1 mn shares
Bloomberg Code : BAF IB Equity
Promoters Holding : 58%
FII / DII : 19% / 6%

Q2FY18 highlights: (a) Disbursement growth was strong at ~38% YoY largely driven by consumer business (primarily CD and personal loans); (b) Management maintained its cautious stance on SME for it believes that the structural impact of GST will weigh heavy on the segment over next 2-3 quarters before the growth picks up; (c) One-time provision of Rs 300 mn was created in anticipation of the impact that demonetization/ GST might have on the portfolio. BAF has o/s general provision of Rs 3.5 bn as of Q2; and (d) Tier I ratio increased to ~20% as BAF raised Rs 4.5 bn via QIP in Q2.

Maintain HOLD with revised TP of Rs 1,750: We believe multiple operating levers and new growth avenues will ensure strong performance by BAF. We raise our FY18/19 PAT estimates by 4-5% to factor higher AUM growth and the recent QIP. Consequently, we raise our TP to Rs 1,750 (Rs 1,500 earlier) with a target multiple of 5.3x P/ABV. At CMP, BAF trades at expensive valuation of 5.7x FY19E P/ABV of Rs 330. **Maintain HOLD.**

Financial summary (Standalone)

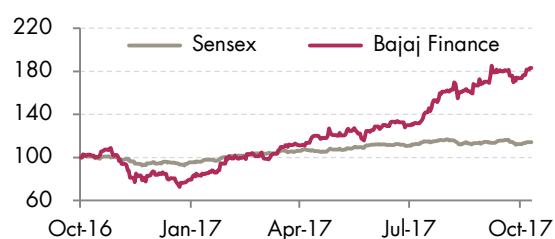
Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs bn)	13	18	27	34
EPS (Rs)	24	34	46	58
EPS chg (%)	33.0	40.7	38.4	25.2
Book value (Rs)	139	176	286	338
Adj. BV (Rs)	137	172	281	330
PE (x)	79.1	56.2	40.6	32.4
P/ABV (x)	13.8	11.0	6.7	5.7
RoE (%)	20.9	21.6	20.6	18.7
RoA (%)	3.2	3.3	3.6	3.5
Net NPA (%)	0.3	0.4	0.6	0.6

Source: Company, Axis Capital

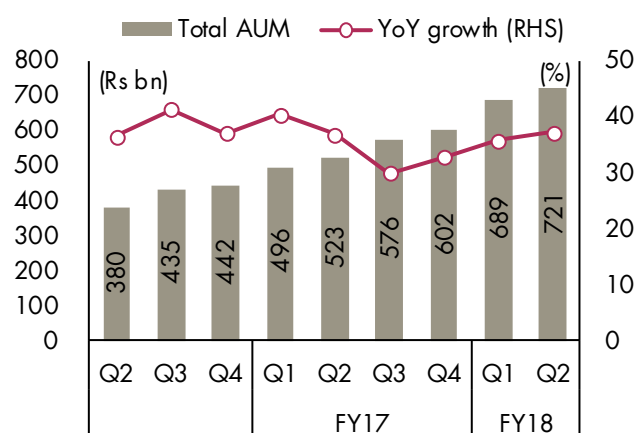
Key drivers (%)

	Q3'17	Q4'17	Q1'18	Q2'18
NIM	13.6	12.9	13.7	12.5
AUM growth	33	36	39	38
Net NPA	0.4	0.4	0.5	0.5

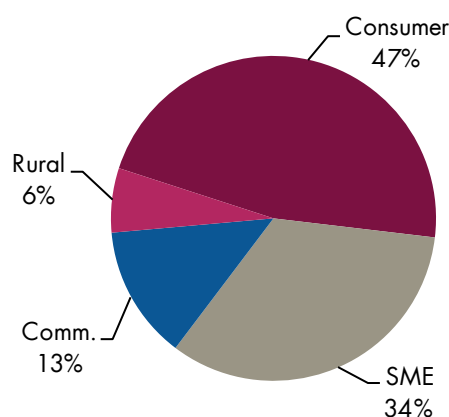
Price performance



Q2FY18 in graphs...

Exhibit 1: Trend in AUM growth


Source: Company, Axis Capital

Exhibit 2: Loan book composition as of Q2FY18


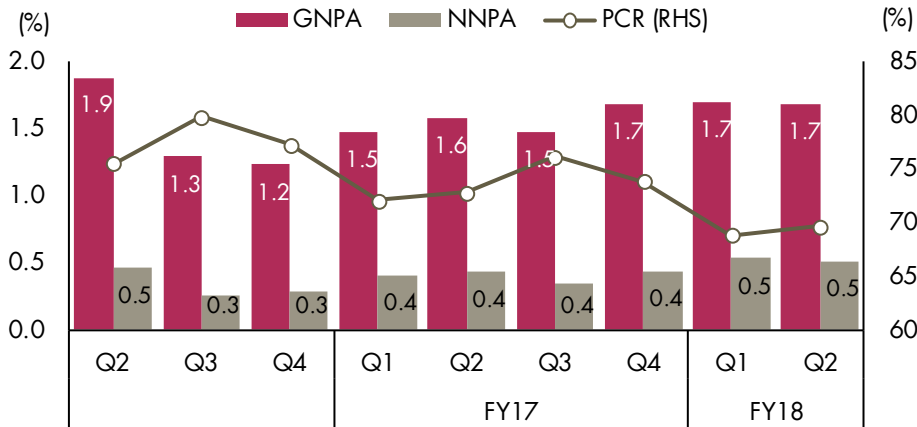
Source: Company, Axis Capital

Exhibit 3: AUM break-up

AUM (Rs bn)	Q2FY18	Q2FY17	YoY	Q1FY18	QoQ
Consumer Biz.					
2W/3W Finance	54	45	20.9	52	3.5
CD Finance	80	69	15.3	80	0.3
Digital product finance	16	10	63.3	12	27.4
Lifestyle finance	5	4	20.5	5	(1.4)
PL cross sell	76	49	54.3	70	9.4
Salaried PL	43	29	44.5	39	9.9
HL - Salaried	37	21	76.3	33	12.9
BFS Direct (HL, PL)	18	8	110.0	16	10.3
REMI & Ecom	8	4	88.1	6	30.5
SME Biz.					
BL	62	51	23.2	60	4.0
Professional loans	23	14	65.2	21	14.1
LAP	86	85	0.7	86	0.2
HL - Self employed	40	33	23.7	40	1.4
SME cross sell	22	21	5.7	23	(4.3)
Commercial Biz.					
LAS	54	31	74.1	61	(11.7)
Commercial lending	35	26	35.5	34	3.3
Infra lending	-	3	-	-	-
Rural lending	46	19	137.3	39	18.0

Source: Company, Axis Capital

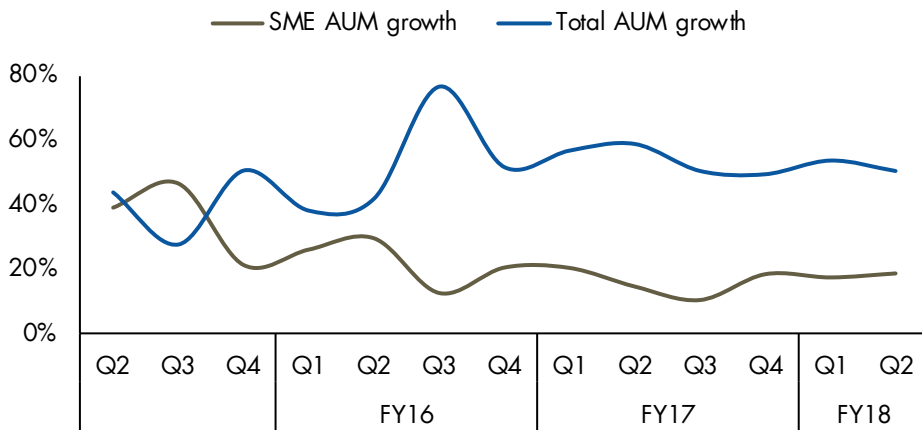
Exhibit 4: Headline asset quality was largely stable



On asset quality front, management is cautious on two & three wheeler loans and small business loan portfolio

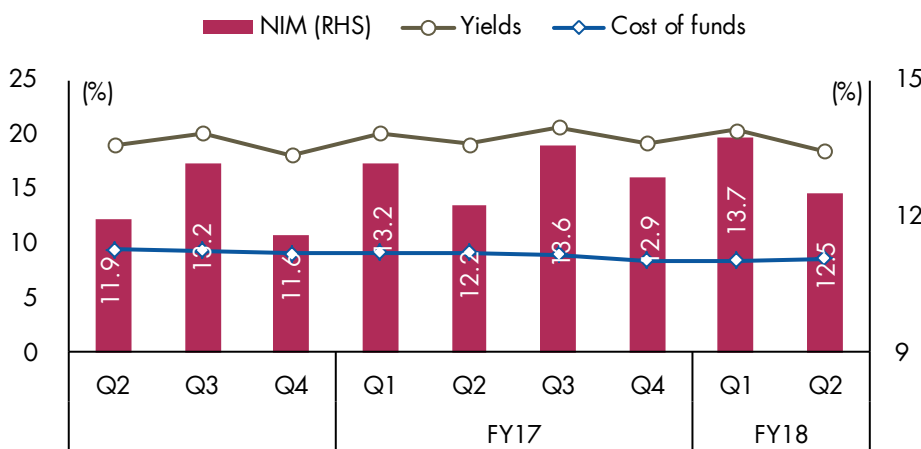
Source: Company, Axis Capital

Exhibit 5: SME loan growth lower than other loans since FY16 due to cautious stance



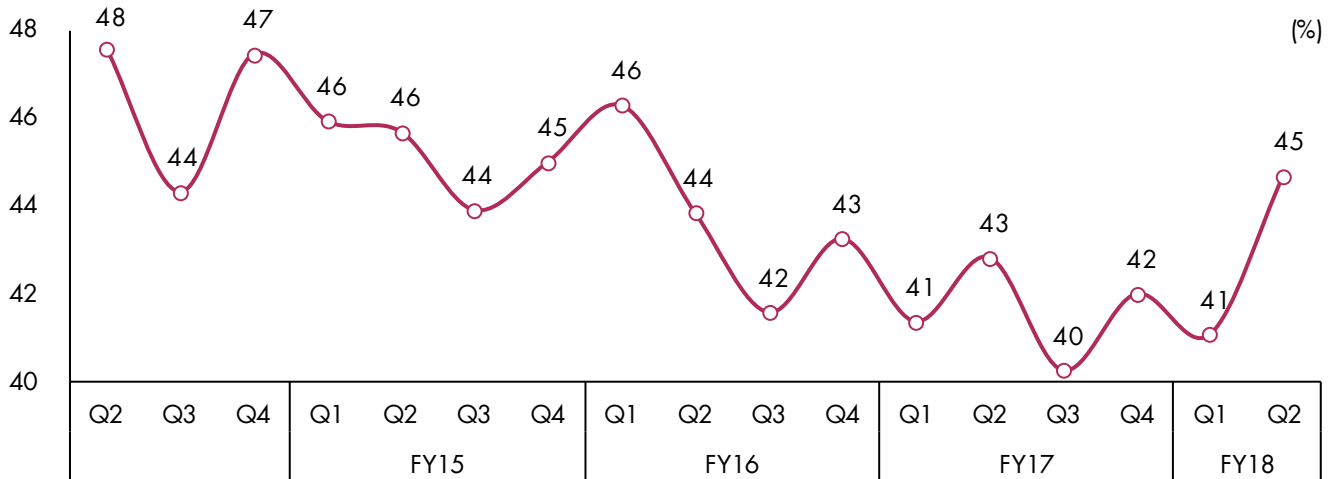
Source: Company, Axis Capital

Exhibit 6: Impact of QIP on margin will flow completely in Q3



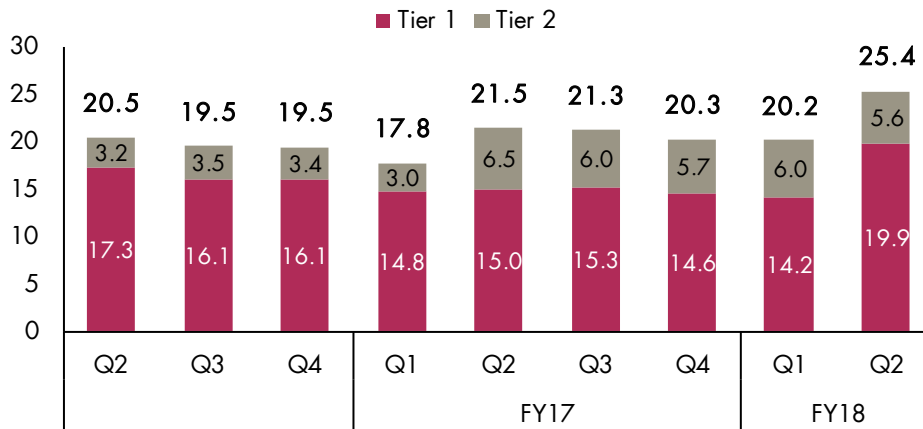
Source: Company, Axis Capital

Exhibit 7: Cost-income ratio has seasonal swings, but is structurally trending downward. May remain above 40% for some time



Source: Company, Axis Capital

Exhibit 8: BAF raised Rs 4.5 bn via QIP in Q2, augmenting CAR

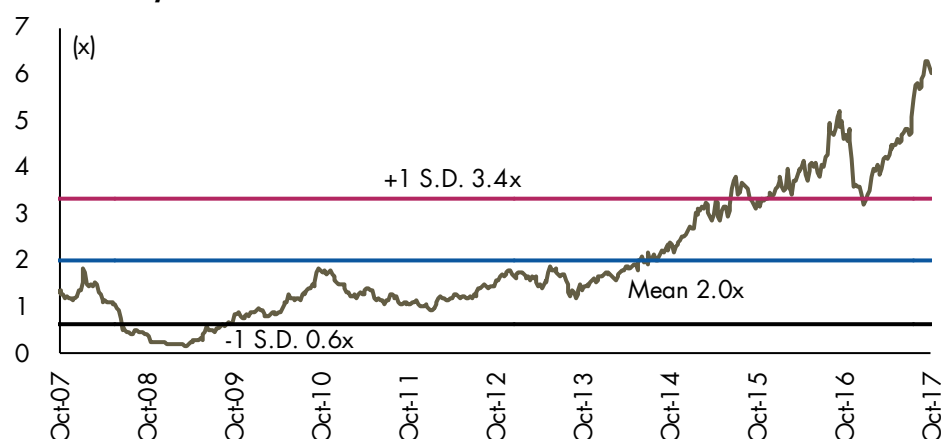


Source: Company, Axis Capital

Exhibit 9: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY18E	FY17	% Chg
Interest income	30,862	23,355	32	31,123	(1)	123,971	92,723	34
Interest expended	11,438	9,562	20	10,780	6	47,318	38,034	24
Net interest income	19,425	13,793	41	20,344	(5)	76,653	54,690	40
Non-interest income	161	56	188	140	15	8,101	7,310	11
Net income	19,586	13,849	41	20,484	(4)	84,754	61,999	37
Operating expenses	8,752	5,932	48	8,413	4	33,885	25,642	32
Operating profit	10,833	7,917	37	12,071	(10)	50,869	36,357	40
Provision & Contingencies	2,278	1,654	38	2,817	(19)	9,995	8,182	22
PBT	8,555	6,263	37	9,254	(8)	40,874	28,175	45
Tax	2,986	2,185	37	3,234	(8)	14,102	9,810	44
Net profit	5,569	4,078	37	6,020	(7)	26,773	18,366	46
Cost to income	44.7	42.8	186 bps	41.1	361 bps	40.0	41.4	(138)bps
Asset quality								
Gross NPAs (%)	1.7	1.6	10 bps	1.7	(2)bps	2.0	1.7	34 bps
Net NPAs (%)	0.5	0.4	8 bps	0.5	(2)bps	0.6	0.4	13 bps
Balance sheet (Rs bn)								
AUM	721	523	38	689	4.7	810	602	35

Source: Company, Axis Capital Note: For full year, margins and ratios are on calculated basis

Exhibit 10: 10 years P/ABV movement


Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	69	93	124	163
Interest expended	(29)	(38)	(47)	(60)
Net interest income	40	55	77	103
Non interest income	4	7	8	9
Net income	44	62	85	111
Operating expenses	(19)	(26)	(34)	(44)
Staff expenses	(6)	(9)	(13)	(18)
Other operating expenses	(13)	(16)	(21)	(26)
Operating profit	25	36	51	68
Provisions & contingencies	(5)	(8)	(10)	(16)
Pre-tax profit	20	28	41	51
Tax expense	(7)	(10)	(14)	(18)
Profit after tax	13	18	27	34
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	13	18	27	34

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	470	637	849	1,094
Cash & Balances with RBI	13	4	4	6
Investments	10	41	45	48
Advances	433	577	780	1,017
Fixed assets	3	4	4	4
Other assets	8	9	11	14
Total liabilities	470	637	849	1,094
Equity capital	1	1	1	1
Preference capital	-	-	-	-
Reserves & surplus	74	95	163	193
Networth	74	96	165	195
Borrowings	370	492	609	785
Deposits	-	-	-	-
Other liabilities & prov.	25	49	75	115

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	24	34	46	58
BV (Rs.)	139	176	286	338
Adj. BV (Rs.)	137	172	281	330
DPS (Rs.)	3	-	6	6
Dividend payout (%)	11	-	12	10
Yields & Margins (%)				
Yield on advances	18.5	18.4	18.3	18.1
Cost of deposit	-	-	-	-
Net interest margin	10.3	10.2	10.6	10.8
Asset quality (%)				
Gross NPAs	1.2	1.7	2.0	2.3
Net NPAs	0.3	0.4	0.6	0.6
Credit cost	1.5	1.6	1.5	1.8
Provisioning coverage	77.2	74.0	72.0	72.0
Capital (%)				
Tier-I	16.1	14.6	16.9	14.2
CAR	19.5	20.3	21.9	18.4
Efficiency (%)				
ROA	3.2	3.3	3.6	3.5
ROE	20.9	21.6	20.6	18.7
Cost to income	43	41	40	39
CASA	-	-	-	-
Effective tax rate	35	35	35	35
Growth (%)				
Net interest income	38	38	40	34
Fee income	-	-	-	-
Operating expenses	33	35	32	29
Profit after tax	42	44	46	25
Advances	39	33	35	30
Deposits	-	-	-	-
Total assets	43	36	33	29

Source: Company, Axis Capital

Note: Dividend for FY17 will reflect in FY18 due to change in reporting method as per schedule 3

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