

Bajaj Finance Ltd

- ✧ AUM growth accelerated on the back of robust traction in disbursement
- ✧ Revise asset growth expectations for FY15/16 upwards; mix to move towards SME Financing
- ✧ NIM mirrors disbursement mix change sequentially but to remain under pressure in the near term
- ✧ Asset quality intact; credit cost to ease in FY15/16
- ✧ Still room for incremental valuation re-rating; Retain BUY

Result table

(Rs mn)	Q1 FY15	Q4 FY14	% qoq	Q1 FY14	% yoy
Total Operating Income	12,436	10,711	16.1	9,283	34.0
Interest Expenses	(4,996)	(4,501)	11.0	(3,314)	50.7
Net Interest Income	7,440	6,211	19.8	5,969	24.6
Other income	24	239	(90.2)	41	(42.8)
Total Income	7,463	6,450	15.7	6,010	24.2
Operating expenses	(3,428)	(3,060)	12.0	(2,703)	26.8
Provisions	(829)	(622)	33.4	(639)	29.8
PBT	3,206	2,768	15.8	2,669	20.1
Tax	(1,092)	(947)	15.4	(911)	19.9
Reported PAT	2,114	1,821	16.1	1,757	20.3

(Rs mn)	Q1 FY15	Q4 FY14	% qoq	Q1 FY14	% yoy
AUF	256.4	229.7	11.6	185.1	38.6
Consumer	102.6	89.6	14.5	77.7	32.0
SME	135.9	121.7	11.6	90.7	49.9
Commercial	17.9	18.4	(2.3)	16.7	7.8
Disbursement	92.7	70.4	31.6	62.5	48.3
Consumer	50.5	31.8	58.9	34.4	47.0
SME	32.8	30.2	8.6	21.3	54.3
Commercial	8.9	8.4	4.9	6.9	28.7

Key Ratios	Q1 FY15	Q4 FY14	chg qoq	Q1 FY14	chg yoy
Op Inc as % of Avg AUF	20.5	19.3	1.2	21.1	(0.6)
Int Exp as % of Avg AUF	8.2	8.1	0.1	7.5	0.7
NII as % of Avg AUF	12.2	11.2	1.1	13.5	(1.3)
Cost to Income (%)	45.9	47.5	(1.5)	45.0	1.0
Prov as % of Avg AUF	1.4	1.1	0.2	1.4	(0.1)
RoE (%)	20.4	18.4	2.0	20.4	-
RoA (%)	3.6	3.2	0.4	4.0	(0.4)
CAR (%)	18.0	19.1	(1.1)	21.5	(3.5)
Tier-1 (%)	15.2	16.1	(0.9)	18.1	(2.9)
Gross NPA (%)	1.1	1.2	(0.1)	1.1	(0.0)
Net NPA (%)	0.3	0.3	(0.0)	0.3	0.0
PCR (%)	76.0	76.0	-	78.0	(2.0)

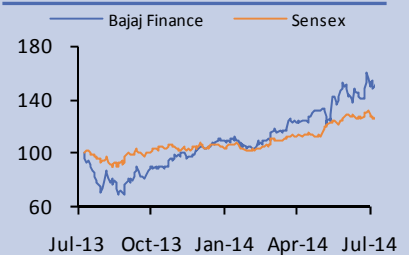
Source: Company, India Infoline Research

Rating: BUY
Target: Rs2,561
CMP: Rs2,200
Upside: 16.4%

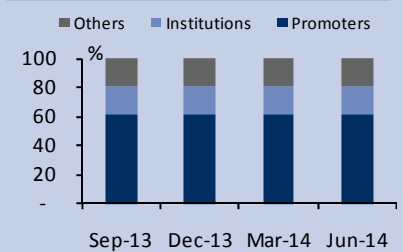
Sector: Banking
Sector view: Positive
 Sensex: 25590
 52 Week h/l (Rs): 2370/965
 Market cap (Rscr): 11,031
 6m Avg vol ('000Nos): 45.9
 Bloomberg code: BAF IN
 BSE code: 500034
 NSE code: BAJFINANCE
 FV (Rs): 10

Price as on July 17, 2014

Share price trend



Share holding pattern



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July 17, 2014

AUM growth continued to accelerate on the back of robust disbursement growth

Bajaj Finance's AUM growth stood much higher than our estimate at 40% yoy and also represented growth acceleration from 37% yoy in the previous quarter. The strong asset growth performance was driven by sustained robust traction in disbursements which grew by 48% yoy. Sequentially, disbursement growth strengthened across all the three business segments - Consumer Financing (47% yoy v/s 38% yoy), SME Financing (54% yoy v/s 44% yoy) and Commercial Financing (29% yoy v/s 18% yoy).

Within Consumer Financing (40% of AUF), the company was successful in offsetting the impact of sustained weakness in 2w/3w financing (number of 2w loans disbursed de-grew 14% yoy) by driving brisk growth in other products of consumer durable financing (loans disbursed grew 34% yoy), lifestyle financing (loans disbursed grew 200%+ yoy) and salaried personal loans (51% yoy disbursement growth). Robust growth in the non-2w/3w loans products continues to be driven by geographical expansion, new product additions and improving cross-sell traction. In the SME segment (53% of AUF), mortgage disbursements stood at Rs20bn representing a strong growth of 50% yoy supported by new investments in products, channels and geography over the past 12 months. Unsecured small business loans disbursements grew by 70% yoy aided by up-selling to existing customers and pick-up in traction in indentified customer segments such as Doctors. Within Commercial Financing segment, the company has decided to wind down its construction equipment financing business due to sustained poor profitability performance and not so encouraging outlook. With management averse to grow infra loan book, the entire disbursement growth in the Commercial Financing segment was driven by auto component finance piece.

Revise growth expectations for FY15/16 upwards; mix to move towards SME Financing

Buoyed by much stronger than expected disbursement growth performance over the past two quarters, we materially raise our asset growth assumptions for FY15/16 to 31%/29%. Notwithstanding impressive growth in client acquisitions and widening regional distribution, we expect assets growth in Consumer Financing segment (currently at 32% yoy) to moderate a bit going ahead on account of continued weakness in 2w/3w financing (Bajaj Auto's domestic volume growth is unlikely to revive significantly in the near term) and sustained sluggishness in consumption cycle which could impact growth of other products. In Commercial Financing business, asset growth would remain modest (currently at 8% yoy) due to run-down of construction equipment portfolio and risk aversion towards infra loans. In SME financing though asset growth could come-off a bit due to increasing base, it would still be robust at 35-45%.

NIM mirrors disbursement mix change sequentially but to remain under pressure in near term

Based on our computation, blended lending yield improved qoq by 120bps and was lower yoy by 60bps. While the sequential uptick is a seasonal phenomenon due to higher disbursement contribution of better-yielding Consumer Financing business, the yoy contraction in the blended yield is attributable to the shift in business mix towards SME Financing and declining contribution of high-yielding 2w/3w portfolio within the Consumer Financing segment. The cost of funding is estimated to have inched-up qoq and on yoy basis stood significantly higher. Consequently, while NIM improved over previous quarter due to seasonality, it has materially contracted on yoy basis. While margin will continue to face pressure from persistent AUM shift towards SME Financing, easing in funding cost could provide some relief in the longer term.

Asset quality intact; credit cost to ease in FY15/16

Overall asset quality was stable during the quarter with sustained strong credit performance in SME Financing and Consumer Financing segments. Infra portfolio within Commercial Financing continued to exhibit some stress. Company expects one account where exposure is ~Rs500mn to turn NPL in coming quarters against which accelerated provisioning is being done. Credit cost was higher on sequential basis at annualized 1.4%. Asset quality is expected to remain sanguine in coming quarters which should drive moderation in credit cost.

Still room for incremental valuation re-rating; Retain BUY

We estimate Bajaj Finance to deliver average RoA and RoE of 3.1% and 20% over FY14-16. Earnings growth in the aforesaid period is estimated at strong 27% pa. Company's valuation has re-rated materially since Q4 FY14 results from 1.6x to 2x FY16 P/ABV (as we had argued in our update). Given the superior projected earnings growth and profitability profile of Bajaj Finance, we believe that valuation could re-rate towards 2.3-2.4x over the medium term. Retain our positive stance on the company and upgrade 9-12 month target to Rs2,561.

Financial Summary

Y/e 31 Mar (Rs m)	FY13	FY14	FY15E	FY16E
Total operating income	19,057	25,001	30,305	38,670
yoy growth (%)	33.7	31.2	21.2	27.6
Operating profit (pre-prov)	10,534	13,490	16,031	20,971
Net profit	5,913	7,190	8,557	11,544
yoy growth (%)	45.5	21.6	19.0	34.9
EPS (Rs)	118.8	144.5	172.0	232.0
Adj.BVPS (Rs)	669.8	789.3	921.8	1,113.6
P/E (x)	18.4	15.2	12.7	9.4
P/BV (x)	3.3	2.8	2.4	2.0
ROE (%)	21.9	19.5	19.6	22.1
ROA (%)	3.85	3.39	3.0	3.2
Dividend yield (%)	0.7	0.7	0.9	1.1
CAR (%)	22.0	19.1	17.3	16.1

Source: Company, India Infoline Research

IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

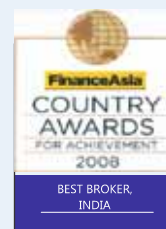
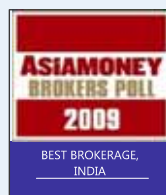
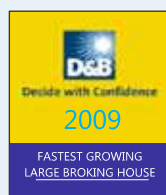
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IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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