

## Long term outlook positive...

**About the stock:** Bajaj Finance is a dominant player in the consumer finance space while it also has made a foray into various other lending segments like housing, SME lending, etc, as and when opportunities have come in.

- Consumer business forms ~35% of overall consolidated AUM
- Bajaj Finance maintained strong operating metrics over various credit and rate cycles leading to >18% RoE and >3% RoA consistently

**Rationale:** Strategy to expand digital offerings to aid business growth.

- Launched the wallet business in July 2021 and aims to on-board ~2.5 crore customers by FY23. Currently, it is adding ~10 lakh wallets per month
- Adequate capital at 28.5%, focus on technology and rebound in customer acquisition trend is seen boding well for future growth
- Expect asset quality to stabilise from H2FY22 onwards with faster recovery with gradual unlocking

**What should investors do?** Bajaj Finance's share price has grown by ~7.2x over the past five years (from ~₹ 1100 levels in September 2016 to ~₹ 7800 levels in September 2021). Factoring in management agility towards product development and process modification to suit the situation.

- We maintain our BUY rating on the stock

**Target Price and Valuation:** We remain positive and factoring in high NIMs with risk adjusted growth we value the stock at ~10x P/ABV on FY23E and revise our target price to ₹ 8950 from ₹ 6900 earlier. Premium valuations stay.

**Key triggers for future price performance:**

- Transition towards fin-tech from being a pure lender to propel valuations
- RoE is seen returning to ~15% and RoA at >3%
- A leaner operating model and robust growth guidance

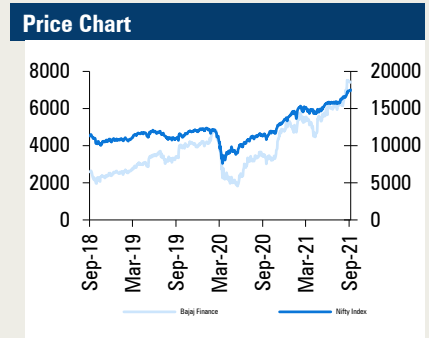
**Alternate Stock Idea:** Apart from BAF, in our BFSI coverage we also like HDFC Ltd.

- HDFC Ltd is a leading housing finance company in India with a loan size of ~₹ 4.98 lakh crore. The company also has a presence in other financial services segments like life insurance, banking, AMC, etc, via its subsidiaries
- BUY with a target price of ₹ 3100



Particulars	
Particulars	Amount
Market Capitalisation	₹ 473149 crore
52 week H/L	7890/ 3008
Face Value	₹ 2
Net worth	₹ 37020 Crore
DII Holding (%)	9.3
FII Holding (%)	24.0

Shareholding pattern						
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	
Promoter	56.2	56.1	56.1	56.1	56.0	56.0
FII	21.2	21.3	23.9	24.1	24.0	
DII	10.1	10.7	9.1	9.1	9.3	
Others	12.5	11.9	10.9	10.7	10.6	



- Recent Event & Key risks**
- The management expects to bring down GNPA to 1.7-1.8% in FY22
  - **Key Risk:** (I) Extended pandemic could hurt asset quality (II) Delay in business growth revival could impact profitability

**Research Analyst**

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Sameer Sawant  
sameer.sawant@icicisecurities.com

## Key Financial Summary

₹ Crore	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII (₹ crore)	11864	16901	17254	33%	19202	23425	17%
PPP (₹ crore)	7681	11252	11961	35%	12204	15277	13%
PAT (₹ crore)	3995	5264	4420	25%	5740	8359	38%
ABV (₹)	313	534	596		673	887	
P/E	112	87	106		82	57	
P/ABV	24.8	14.6	13.1		11.6	8.8	
RoA	3.0	2.8	2.2		3.1	3.6	
RoE	22.4	20.2	12.1		14.5	16.9	

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Interest Earned	26373.8	26668.1	29773.5	36363.6
Interest Expended	9473.2	9414.0	10571.1	12938.4
Net Interest Income	16900.6	17254.1	19202.4	23425.2
Growth (%)	42.5	2.1	11.3	22.0
Non Interest Income	11.8	15.0	18.4	22.6
Operating Income	16912.4	17269.1	19220.8	23447.8
Employee cost	2290.9	2498.7	2556.1	3118.5
Other operating Exp.	3369.9	2809.5	4460.9	5052.6
Operating Profit	11251.6	11960.8	12203.7	15276.8
Provisions	3929.5	5968.6	4498.7	4056.4
PBT	7322.1	5992.3	7705.0	11220.3
Taxes	2058.4	1572.4	1964.8	2861.2
Net Profit	5,263.8	4,419.8	5,740.2	8,359.1
Growth (%)	31.8	-16.0	29.9	45.6
EPS (₹)	89.5	73.5	95.4	135.8

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Valuation</b>				
No. of shares (crore)	60.0	60.2	60.2	61.6
EPS (₹)	89.5	73.5	95.4	135.8
BV (₹)	549	615	701	932
ABV (₹)	534	596	673	887
P/E	87	106	82	57
P/BV	14.2	12.7	11.1	8.3
P/ABV	14.6	13.1	11.6	8.8
<b>Yields &amp; Margins (%)</b>				
Net Interest Margins	12.0	10.5	10.3	10.3
Yield on assets	18.7	16.2	16.0	16.0
Avg. cost on funds	8.3	7.4	7.5	7.7
Yield on average advance	20.8	18.5	18.6	18.9
<b>Quality and Efficiency (%)</b>				
Cost to income ratio	33.5	30.7	36.5	34.8
Cost to assets ratio	3.0	2.7	3.7	3.6
GNPA	1.6	1.8	2.6	2.9
NNPA	0.7	0.8	0.9	1.3
ROE	20.2	12.1	14.5	16.9
ROA	2.8	2.2	3.1	3.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>				
Capital	120.0	120.3	120.3	123.1
Reserves and Surplus	32207.6	36798.1	42033.0	56595.0
Networth	32327.6	36918.4	42153.3	56718.1
Borrowings	125664.6	127746.8	153296.2	183955.4
Other Liabilities & Provisic	6399.2	6861.7	9352.9	12789.9
Total	1,64,391.4	1,71,526.9	2,04,802.3	2,53,463.4
<b>Application of Funds</b>				
Fixed Assets	1097.3	1363.5	1499.8	1649.8
Investments	17543.9	18396.9	17845.0	17309.7
Advances	141376.1	146686.9	173139.3	210773.1
Other Assets	4374.2	5079.6	12318.2	23730.9
Total	1,64,391.4	1,71,526.9	2,04,802.3	2,53,463.4

Source: Company, ICICI Direct Research

Exhibit 4: Growth ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total assets	29.9	4.3	19.4	23.8
Advances	25.7	3.8	18.0	21.7
Borrowings	23.7	1.7	20.0	20.0
Net interest income	42.5	2.1	11.3	22.0
Operating Income	42.4	2.1	11.3	22.0
Operating expenses	34.9	-16.6	32.2	16.4
Operating profit	46.5	6.3	2.0	25.2
Net profit	31.8	-16.0	29.9	45.6
Net worth	64.1	14.2	14.2	34.6
EPS	29.0	-17.9	29.9	42.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

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