

# Bajaj Finance

BSE SENSEX

27,977

S&amp;P CNX

8,591

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Bloomberg	BAF IN
Equity Shares (m)	53.3
M.Cap.(INR b)/(USD b)	525.2 / 7.8
52-Week Range (INR)	9,990/4,678
1, 6, 12 Rel. Per (%)	24 / 52 / 91
Avg Val, INR m	568
Free float (%)	42.7

## Financials & Valuations (INR b)

Y/E March	2016	2017E	2018E
NII	40.3	54.6	69.8
PPP	25.1	35.9	46.9
PAT	12.8	18.5	23.7
EPS (INR)	238.8	345.9	442.0
EPS Gr. (%)	33.4	44.9	27.8
BV/Sh. (INR)	1,368	1,663	2,040
RoA onAUM (%)	3.2	3.5	3.4
RoE (%)	21.1	22.8	23.9
P/E (x)	41.3	28.5	22.3
P/BV (x)	7.2	5.9	4.8

**CMP: INR9,853**
**TP: INR10,712 (+9%)**
**Buy**

## AUM growth robust at 40% YoY; lower operating cost drives PAT beat

- Bajaj Finance's (BAF) 1QFY17 PAT stood at INR4.24b, up 54% YoY (12% beat). Better-than-expected growth in AUM, stable margins and lower-than-expected operating expenses led to the impressive PAT beat.
- AUM continued its robust growth trajectory, up 40% YoY (12% QoQ) to INR496b, driven by 47% YoY growth in the consumer finance business and a sharp uptick in growth (74% YoY) in the commercial business. The rural business too grew more than 3x on a YoY basis. The SME segment grew at a lower rate of 20%, largely led by muted growth in LAP book. In our view, this is a good strategy by management as the LAP segment is beginning to heat up.
- Asset quality remained healthy, with GNPLs (120dpd) at 1.47%. On a 150dpd basis, GNPA increased only 2bp sequentially to 1.25%. Provision coverage remained more than adequate at 73%. The company made additional provision of INR191m for the mortgage portfolio during the quarter.
- Due to strong growth in NII, the cost-to-income ratio decreased sharply from 46.3% in 1QFY16 and 43.9% in 4QFY16 to 41.4% in 1QFY17.
- **Other highlights:** 1) 2W/3W business is witnessing some traction; 2) the share of customers acquired through cross-sell in the quarter was around 60%, compared to an average of 40-45%.
- **Valuation and view:** BAF, a dominant player in the consumer durable financing segment, continues to reap the benefits of healthy consumer demand. It continues to increase its market share in the consumer business, though a higher share of incremental growth could be driven by the low-yield mortgage business, which could pressurize margins. We upgrade our FY17/18 PAT estimates by 2%/7%. The stock is trading at 5.9x/4.8x FY17/18E BV. We value the stock at INR10,712 based on the RI model, implying PBV of 5.3x FY18E. Maintain **Buy**.

## Quarterly Performance

Y/E March	(INR Million)									
	FY16				FY17				FY16	FY17E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Income from operations	15,716	15,921	19,717	18,212	21,659	23,392	25,965	22,838	69,566	93,854
Other Operating Income	746	878	897	957	1,205	1,229	1,229	1,101	3,477	4,764
<b>Operating Income</b>	<b>16,462</b>	<b>16,799</b>	<b>20,614</b>	<b>19,168</b>	<b>22,864</b>	<b>24,621</b>	<b>27,194</b>	<b>23,939</b>	<b>73,043</b>	<b>98,618</b>
YoY Growth (%)	32.4	36.3	39.6	34.1	38.9	46.6	31.9	24.9	35.7	35.0
Interest expenses	6,771	6,947	7,493	8,058	8,833	9,540	10,589	10,340	29,269	39,302
<b>Net Income</b>	<b>9,692</b>	<b>9,853</b>	<b>13,121</b>	<b>11,110</b>	<b>14,031</b>	<b>15,081</b>	<b>16,605</b>	<b>13,599</b>	<b>43,775</b>	<b>59,315</b>
YoY Growth (%)	30.3	43.3	48.4	35.9	44.8	53.1	26.6	22.4	39.7	35.5
Other income	96	206	83	406	147	200	250	304	792	901
<b>Total Income</b>	<b>9,788</b>	<b>10,059</b>	<b>13,203</b>	<b>11,516</b>	<b>14,178</b>	<b>15,281</b>	<b>16,855</b>	<b>13,903</b>	<b>44,566</b>	<b>60,216</b>
Operating Expenses	4,531	4,411	5,490	5,061	5,865	6,280	6,400	5,801	19,492	24,346
<b>Operating Profit</b>	<b>5,257</b>	<b>5,648</b>	<b>7,714</b>	<b>6,455</b>	<b>8,312</b>	<b>9,001</b>	<b>10,455</b>	<b>8,102</b>	<b>24,283</b>	<b>34,969</b>
YoY Growth (%)	30.3	49.1	54.0	40.9	58.1	59.4	35.5	25.5	42.4	44.0
Provisions and Cont.	1,033	1,368	1,462	1,565	1,797	1,900	1,800	2,092	5,429	7,589
<b>Profit before Tax</b>	<b>4,224</b>	<b>4,280</b>	<b>6,252</b>	<b>4,890</b>	<b>6,515</b>	<b>7,101</b>	<b>8,655</b>	<b>6,010</b>	<b>18,854</b>	<b>27,380</b>
Tax Provisions	1,468	1,486	2,167	1,740	2,275	2,450	2,986	2,046	6,861	9,757
<b>Net Profit</b>	<b>2,756</b>	<b>2,794</b>	<b>4,085</b>	<b>3,150</b>	<b>4,240</b>	<b>4,651</b>	<b>5,669</b>	<b>3,964</b>	<b>12,785</b>	<b>18,524</b>
YoY Growth (%)	30.4	41.7	58.1	36.4	53.8	66.5	38.8	25.8	42.4	44.9
Loan Growth (%)	32.0	35.6	41.0	36.5	39.5	38.0	34.0	38.0	38.8	38.0
Borrowings Growth (%)	34.7	30.0	37.2	38.7	40.5	39.0	36.0	42.1	38.7	42.1
Cost to Income Ratio (%)	46.3	43.9	41.6	43.9	41.4	41.1	38.0	41.7	44.5	41.0
Tax Rate (%)	34.8	34.7	34.7	35.6	34.9	34.5	34.5	34.0	34.1	35.1

E: MOSL Estimates

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Exhibit 1: Quarterly Performance v/s Estimates (INR m)**

Y/E March	1QFY17E	1QFY17A	Var (%)	Comments
Income from operations	20,397	21,659	6	
Other Operating Income	1,129	1,205	7	
<b>Operating Income</b>	<b>21,526</b>	<b>22,864</b>	<b>6</b>	
YoY Growth (%)	30.8	38.9		
Interest expenses	8,703	8,833	1	
<b>Net Income</b>	<b>12,823</b>	<b>14,031</b>	<b>9</b>	<b>Strong AUM growth of 40% YoY led to NII beat</b>
YoY Growth (%)	32.3	44.8		
Other income	210	147		
<b>Total Income</b>	<b>13,033</b>	<b>14,178</b>		
Operating Expenses	5,380	5,865	9	<b>Cost Income came in much better than expectations</b>
<b>Operating Profit</b>	<b>7,653</b>	<b>8,312</b>	<b>9</b>	
YoY Growth (%)	45.6	58.1		
Provisions and Cont.	1,850	1,797	-3	
<b>Profit before Tax</b>	<b>5,803</b>	<b>6,515</b>	<b>12</b>	
Tax Provisions	2,002	2,275	14	Tax rate in line
<b>Net Profit</b>	<b>3,801</b>	<b>4,240</b>	<b>12</b>	<b>Strong NII growth and lower opex led to PAT beat</b>
YoY Growth (%)	37.9	53.8		
Loan Growth (%)	32.0	39.5		
Borrowings Growth (%)	32.0	40.5		
Cost to Income Ratio (%)	43.9	41.4		
Tax Rate (%)	34.5	34.9		

E: MOSL Estimates

**AUM growth continues its robust trajectory at +40%**

- AUM growth continued its robust trajectory(+40% YoY, 12% QoQ) and touched INR496b driven by 47% YoY growth in the consumer finance business and an sharp uptick in growth (74% YoY) growth in the commercial business. The rural business grew more than 3x on a YoY basis to INR16.9b.
- However, the SME segment grew at lower rate of 20%, largely led by muted growth in LAP book. Given the cautious outlook in LAP segment, BAF has stopped sourcing LAP and home loans via distributors and is only giving loans to its existing credit tested customers. We believe this is a good strategy by management as the LAP segment is beginning to heat up.

**NIM improved 60bp YoY to 12.0%; Asset quality stable; PCR at 73%**

- Margins have sustained despite a declining interest rate scenario due to a higher share of high-yielding fixed-rate consumer financing business and lower share of LAP business.
- The company has moved its NPA recognition policy from 150dpd to 120dpd. Thus the YoY numbers are not comparable. On a 150dpd basis, asset quality remained stable with GNPLs at 1.25%, up only 2bp sequentially. The company made an additional provision of INR191m for the mortgage portfolio during the quarter. PCR remained robust at 73%.

**Conference call highlights****Growth guidance:**

- Continues to guide for 20-25% growth in AUM and PAT over the medium term
- FY17 C/I expected to 40-41%. (38-40% in 3-5 years). Improved on back of operating leverage and reduction in dealer commission, which reduced on back of direct to consumer focus.

**Businesses:**

- **Dental financing:** Have tied up with more than 450 clinics, and expect to continue to witness strong traction
- **Urban Gold loans:** Started Urban gold loans recently and expect this product to be distributed from all branches in the next three years
- **EMI Card:** Launched retail EMI card on June 1. The market size stands at INR1.5tn. The business could potentially be twice that of consumer durables. The company tied up with Future Group for this product.
- **Digital product financing:** Mobile phone financing comprises 1/3<sup>rd</sup> of this portfolio. Growth is very strong, and so is the market opportunity. This business could be twice that of consumer durables.
- **LAP:** Expect growth in LAP to pick up in 2H. The company has moved to the direct-to-consumer model due to declining loan yields coupled with increasing broker commissions. As a result, growth has been subdued, but should rebound from 2HFY17 off a low base. In addition, the average ticket size should come down from current INR15m to INR9-10m as the LRD book runs off.
- **Salaried Personal Loans:** The Company has been pulling back and moving towards a direct-to-consumer model. Share of direct loans was only 35% nine months back. It has increased to 55% now and should increase to 75% by end-FY17. The business is done in 70 cities as compared to only 25 cities three years ago.
- **Business Loans:** The dynamics of the business changes from city to city. The top 15 cities require different credit models, different organizational structures from the other cities. The lending is generally unsecured in nature with an average tenure of 18-24 months and an average ticket size of INR1.4-1.5m. In the Top 50 cities, 45% of sourcing is from DSAs while for the other cities, all sourcing is done in-house.
- **Professional Loans:** There has been good traction in this segment. The idea is to acquire the customer with a professional loan and then cross-sell home loan/LAP to him.
- **Consumer durables:** Business did well on back of good AC sales, thanks to prolonged summer. CD business does traditionally well in 1Q and 3Q. 1Q on the back of summer (AC/cooler sales) and 3Q due to festive sales.
- **Digital financing** segment has the potential to be 2X of the consumer durable segment, as the replacement cycle is short much shorter for digital products.
- **Lifestyle financing** – 33% volume comes from dental segment.( reach of 860 clinics)
- **Retail EMI** financing could be 2X of CD in 5-7 years.
- **Home loans:** 55% of the business is direct. Expects to close FY17 with 75% direct business. Expects growth to be back by 3Q on back of base effect.
- **EMI card** business contribute 55% of the retail book.
- **Business loans:** 45% loans from direct channels in the top 50 cities. Beyond top 50 cities, DSAs are not effective and thus in these areas book is mostly direct. Business loans is most granular business after CD.
- **Vehicle financing:** 3W growth is on back of lower base.

**Capital Raise:**

- Raised INR9.72b in Tier 2 capital in July. Management estimates that there will not be need for more capital until end-FY18.

**Asset quality / Provisioning:**

- Provisioning without one-off is still at 50% growth; this is on back of robust growth in CD business. As the tenure is lower in this segment company provides aggressively and provides nearly 100% for 90dpd, which is not the case for other loans. Thus provisions grew at a faster clip.
- 30% of total delinquencies come from 2W-3W customers.

**Borrowing:**

- With liquidity deficit situation improving in the last few months, bond yields have come off, and the impact could be there in 2QFY17
- Retail and corporate deposit likely to contribute 20% in 3-5 years.

**Others:**

- **Other income:** No one-offs. INR 130mn from fee products.
- EMI cards are not given to 2W loan customers as many 2W customers are from far flung areas where propensity to buy on EMI is lower. However, company looks to cross sell other products to these segment of customers.
- **LAP remains hyper-competitive, but the competitive intensity seems to be moderating. However, the company is more comfortable with its own portfolio on back of direct model and asset quality comfort.**
- Credit bureau hit rate (score 750 and above) reduces by 10% points once we move beyond 15 top cities. At top 75% cities it is just 15-20%. BAF is willing to give loans to customers who don't have a credit history based on its own analytics and credit score card, but not to people who has bad CIBIL score.
- Approx. 45% of new to BAF customers are with no credit history.
- **AUM Mix:** Over the next 1-3 years, management believes that the AUM mix will be as follows – Consumer: 35%, SME: 45%, Commercial: 13% and Rural: 7%. As a result of lower share from consumer financing business, margins are expected to decline. However, opex and credit costs shall also decline.
- **Cost to income ratio:** The C/I ratio is expected to decline to 41-42% for FY17. Over the medium term, it could go down to 38-40%. However, the company has to invest to upgrade its technology to handle to significant increase in the number of customers over the years.

### Valuation and view

- BAF is trading at 4.8x FY18 P/B. In our view premium to peers can be justified on various counts.
- **Diversified and de-risked portfolio – a key strength of business model:** BAF has also ensured that it has a diverse set of growth drivers in the portfolio versus peers. **A diverse portfolio comprising of profit maximizers and scale builders helps reduce cyclicalities in growth and assets quality.**
- **Cross Sell expert:** A well-diversified credit portfolio, focus on cross selling, customer acquisition, and systematic expansion in delivery channels both physical and virtual, selective distribution of products through these channels are likely to sustain robust growth in AUM. These, along with its small market share are likely to help sustain 30% CAGR in AUM over next 3 years.
- **Market share gains:** BAF is the largest consumer durables and lifestyle financier in the country and has been continuously gaining market share in these businesses. Continuous market share gain and strong distribution has created entry barriers for competitors. One of the key strengths that BAF has built over time is a quick turnaround time unmatched by most other retail financiers. Thus, other than purchases on credit cards of banks, there are very few other competitors that BAF sees in the consumer durables business, which enables it with pricing power.
- **Well-managed asset quality and tested management capabilities:** Despite lower growth and pressure on asset quality witnessed for peer group; BAF continues to clock healthy growth and has one of the best asset quality among the peer group. Management has not only demonstrated its ability to gain market share in segments, but has been alert to potential asset quality risks as well. It has withdrawn from certain segments like construction equipment, 3W financing and slowed down on LAP in a timely manner.
- **Timely investment in automation and technology:** BAF has been proactive in making timely investments in technology and automation which over a period of time will help reducing operating cost and reduce delivery cost.
- BAF continues to increase its market share in consumer business, as it has almost monopoly in some of the business like lifestyle financing; however higher share of incremental growth will be driven by low yielding mortgage business which will exert some pressure on yields, however superior blended margins, focused fee income strategy and low credit cost will keep core profitability strong.
- We value BAF based on residual income model assuming earnings CAGR of 12% by FY35E,  $R_f=7.70\%$ ,  $\beta=0.75$ , risk premium of 5% and terminal growth rate of 5.5%. We expect net profit to grow at CAGR of 36% over FY16-18E and RoEs to touch 24% by FY18E. The stock is currently trading at 5.9x/4.8x FY17/18E BV. We value the stock at a target price of INR10,712 (implying 5.3x FY18E BV). **Buy**

**Exhibit 2: Upgrade estimate to factor in higher growth and stable margins**

INR B	Old Est.		New Est.		% Chg	
	FY17	FY18	FY17	FY18	FY17	FY18
NII	58	72	59	76	2	5
Other Income	1	1	1	1	0	0
<b>Total Income</b>	<b>59</b>	<b>73</b>	<b>60</b>	<b>77</b>	<b>2</b>	<b>5</b>
Operating Expenses	24	29	24	30	2	2
<b>Operating Profits</b>	<b>35</b>	<b>44</b>	<b>36</b>	<b>47</b>	<b>2</b>	<b>6</b>
Provisions	8	10	8	11	0	4
<b>PBT</b>	<b>28</b>	<b>34</b>	<b>28</b>	<b>36</b>	<b>2</b>	<b>7</b>
Tax	10	12	10	12	2	7
<b>PAT</b>	<b>18</b>	<b>22</b>	<b>19</b>	<b>24</b>	<b>2</b>	<b>7</b>
Loans	572	732	572	766	0	5
Borrowings	498	644	503	682	1	6
Credit Cost	1.4	1.5	1.3	1.4	-5	-7
<b>RoA</b>	<b>3.4</b>	<b>3.3</b>	<b>3.5</b>	<b>3.4</b>	<b>2</b>	<b>4</b>
<b>RoE</b>	<b>22.4</b>	<b>22.5</b>	<b>22.8</b>	<b>23.9</b>	<b>2</b>	<b>6</b>

Source: MOSL

## Exhibit 3: Quarterly Snapshot

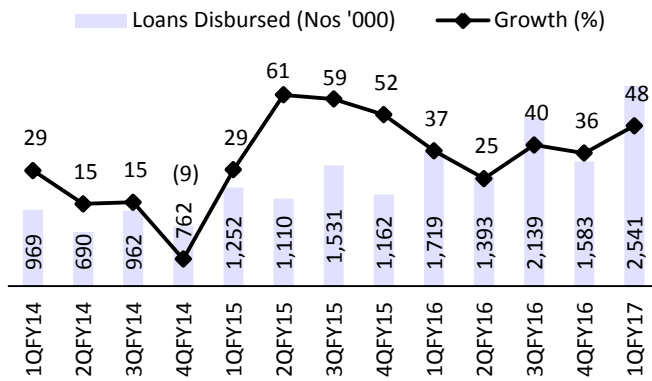
	FY15				FY16				FY17	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
<b>Profit and Loss (INR m)</b>											
<b>Total Income</b>	<b>12,436</b>	<b>12,322</b>	<b>14,766</b>	<b>14,294</b>	<b>16,462</b>	<b>16,799</b>	<b>20,614</b>	<b>19,168</b>	<b>22,864</b>	<b>19</b>	<b>39</b>
Income from operations	11,801	11,703	14,164	13,532	15,716	15,921	19,717	18,212	21,659	19	38
Other Operating Income	635	620	601	762	746	878	897	957	1,205	26	62
<b>Interest Expenses</b>	<b>4,996</b>	<b>5,445</b>	<b>5,924</b>	<b>6,118</b>	<b>6,771</b>	<b>6,947</b>	<b>7,493</b>	<b>8,058</b>	<b>8,833</b>	<b>10</b>	<b>30</b>
<b>Net Income</b>	<b>7,440</b>	<b>6,878</b>	<b>8,842</b>	<b>8,176</b>	<b>9,692</b>	<b>9,853</b>	<b>13,121</b>	<b>11,110</b>	<b>14,031</b>	<b>26</b>	<b>45</b>
Other Income	24	96	88	156	96	206	83	406	147	-64	52
<b>Operating Expenses</b>	<b>3,428</b>	<b>3,186</b>	<b>3,921</b>	<b>3,749</b>	<b>4,531</b>	<b>4,411</b>	<b>5,490</b>	<b>5,061</b>	<b>5,865</b>	<b>16</b>	<b>29</b>
Employee	1,078	1,059	1,198	1,172	1,446	1,498	1,705	1,647	2,018	23	40
Others	2,350	2,127	2,723	2,577	3,085	2,913	3,784	3,414	3,847	13	25
<b>Operating Profits</b>	<b>4,035</b>	<b>3,788</b>	<b>5,009</b>	<b>4,583</b>	<b>5,257</b>	<b>5,648</b>	<b>7,714</b>	<b>6,455</b>	<b>8,312</b>	<b>29</b>	<b>58</b>
Provisions	829	800	1,079	1,138	1,033	1,368	1,462	1,565	1,797	15	74
<b>PBT</b>	<b>3,206</b>	<b>2,987</b>	<b>3,931</b>	<b>3,446</b>	<b>4,224</b>	<b>4,280</b>	<b>6,252</b>	<b>4,890</b>	<b>6,515</b>	<b>33</b>	<b>54</b>
Taxes	1,092	1,016	1,347	1,136	1,468	1,486	2,167	1,740	2,275	31	55
<b>Reported PAT</b>	<b>2,114</b>	<b>1,972</b>	<b>2,584</b>	<b>2,310</b>	<b>2,756</b>	<b>2,794</b>	<b>4,085</b>	<b>3,150</b>	<b>4,240</b>	<b>35</b>	<b>54</b>
<b>Asset Quality</b>											
GNPA (INR m)	2,898	3,772	4,429	4,711	5,762	6,098	5,387	5,328	7,045	32	22
NNPA (INR m)	692	1,284	1,447	1,404	1,875	1,680	1,086	1,213	1,965	62	5
GNPAs(%)	1.1	1.4	1.5	1.5	1.7	1.7	1.3	1.2	1.5		
NNPAs(%)	0.3	0.5	0.5	0.5	0.6	0.5	0.3	0.3	0.4		
PCR (%)	76.0	67.0	68.0	71.0	68.0	73.0	80.0	77.0	73.0		
<b>Ratios (%)</b>											
Cost to Income	45.9	45.7	43.9	45.0	46.3	43.9	41.6	43.9	41.4		
Tax Rate	34.1	34.0	34.3	33.0	34.8	34.7	34.7	35.6	34.9		
CAR	18.0	19.3	18.7	18.0	20.7	20.5	19.5	19.5	17.8		
<i>Tier I</i>	<i>15.2</i>	<i>15.1</i>	<i>14.7</i>	<i>14.2</i>	<i>17.4</i>	<i>17.3</i>	<i>16.1</i>	<i>16.1</i>	<i>14.8</i>		
RoA (not annualised)	0.9	0.7	0.9	0.7	0.9	0.8	1.0	0.8	0.9		
RoE (not annualised)	5.1	4.6	5.6	4.8	4.9	4.2	5.8	4.3	5.5		
<b>Key Details (INR m)</b>											
AUM	269,430	280,040	308,220	324,100	355,570	379,640	434,520	442,290	496,080	12	40
On book Loans	256,420	267,510	295,280	311,990	340,950	365,150	417,600	433,144	479,230	11	41
Off book Loans	13,010	12,530	12,940	12,110	14,620	14,490	16,920	9,146	16,850	84	15
<b>AUM Mix (%)</b>											
Consumer Finance	40	40	38	41	42	41	42	43	44		
SME Business	53	54	55	48	47	47	44	42	40		
Commercial	7	6	6	10	10	10	11	12	12		
Rural	0	1	1	1	1	2	3	3	3		

Source: Company, MOSL



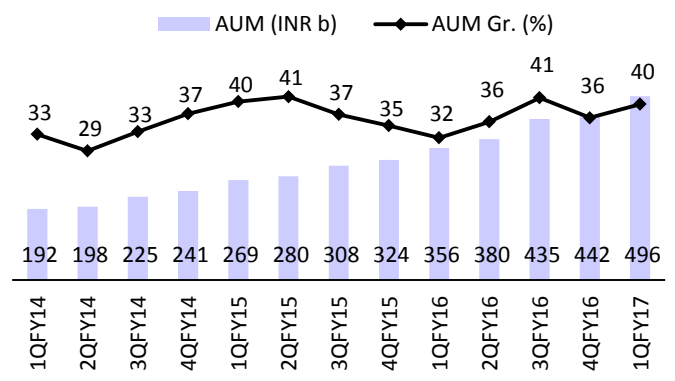
## Story in charts

**Exhibit 4: Nos. of loan disb. grew at healthy 48% YoY**



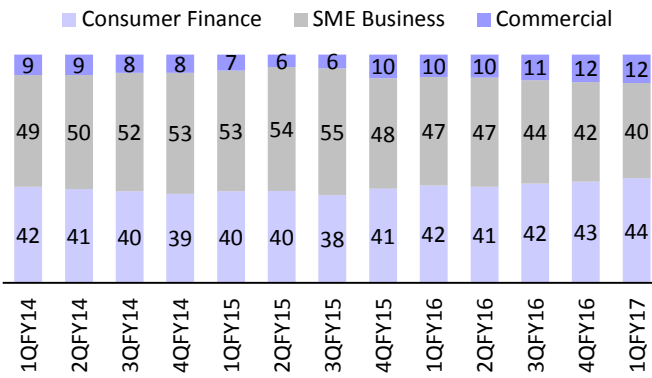
Source: MOSL, Company

**Exhibit 5: AUM growth continues to remain strong**



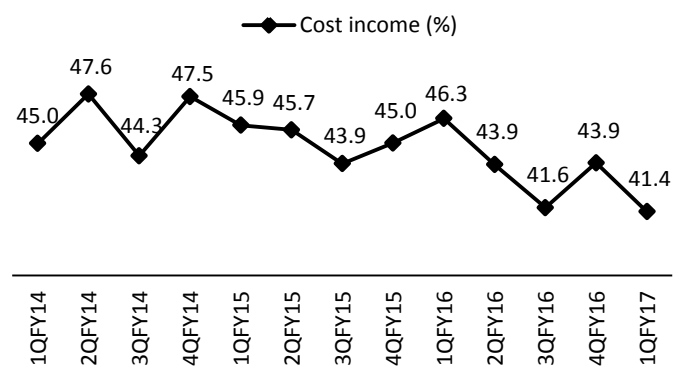
Source: MOSL, Company

**Exhibit 6: AUM mix: SME now accounts for 40% only**



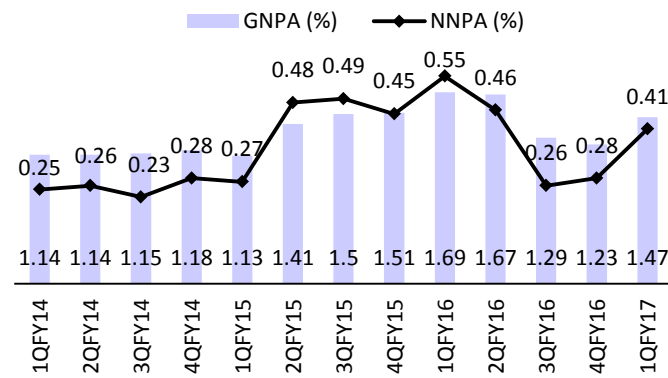
Source: MOSL, Company

**Exhibit 7: Cost/income ratio on a downward trajectory**



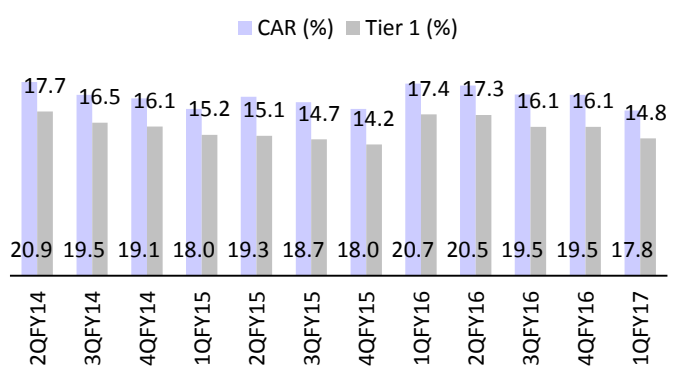
Source: MOSL, Company

**Exhibit 8: NPL performance remain best among peers**



Source: MOSL, Company

**Exhibit 9: Well capitalized**



Source: MOSL, Company



## Exhibit 10: Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USD\$)	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
ICICI* <sup>*</sup>	Buy	269	23.7	18.1	20.8	11.1	8.4	145	159	1.30	1.09	1.19	1.22	11.1	11.8
HDFCB	Buy	1,247	47.8	58.4	70.2	21.3	17.7	332	386	3.75	3.23	1.90	1.89	18.9	19.6
AXSB	Buy	538	19.4	31.8	37.4	16.9	14.4	243	274	2.21	1.97	1.32	1.31	13.8	14.4
KMB*	Buy	765	21.3	26.8	34.0	28.6	22.5	207	240	3.69	3.19	1.61	1.82	14.2	15.4
YES	Buy	1,183	7.5	78.9	97.3	15.0	12.2	391	468	3.03	2.53	1.81	1.83	22.0	22.7
IIB	Buy	1,157	10.4	50.5	63.8	22.9	18.1	334	389	3.46	2.97	1.92	1.96	16.2	17.6
IDFC Bk	Buy	51	2.6	3.0	4.1	17.1	12.3	42	46	1.20	1.12	1.09	1.12	7.2	9.4
FB	Neutral	66	1.7	3.9	4.7	16.9	14.1	50	54	1.32	1.23	0.67	0.67	8.0	9.0
DCBB	Buy	100	0.4	7.4	8.6	13.6	11.7	69	78	1.45	1.29	0.98	0.93	11.3	11.7
JKBK	Neutral	69	0.5	17.6	21.2	3.9	3.2	146	162	0.47	0.42	0.99	1.05	12.7	13.7
SIB	Buy	22	0.4	3.1	3.7	7.1	5.9	30	33	0.73	0.67	0.61	0.64	10.7	11.7
<b>Private Aggregate</b>		<b>135.8</b>				<b>19.7</b>	<b>16.5</b>			<b>2.64</b>	<b>2.34</b>				
SBIN (cons)*	Buy	230	27.0	19.3	24.3	11.9	9.4	240	259	1.01	0.93	0.49	0.54	8.3	9.7
PNB	Neutral	130	3.9	15.7	19.9	8.3	6.5	200	220	0.65	0.59	0.44	0.50	8.2	9.5
BOI	Neutral	110	1.4	9.3	23.5	11.9	4.7	337	356	0.33	0.31	0.12	0.27	2.8	6.8
BOB	Buy	156	5.5	14.7	18.7	10.6	8.3	159	173	0.98	0.90	0.48	0.54	9.6	11.2
CBK	Neutral	254	2.1	33.1	42.4	7.7	6.0	505	537	0.50	0.47	0.31	0.36	6.7	8.1
UNBK	Buy	132	1.4	26.8	36.7	4.9	3.6	318	351	0.41	0.37	0.43	0.53	8.7	11.0
OBC	Neutral	116	0.6	22.1	27.9	5.2	4.2	473	494	0.25	0.23	0.28	0.32	4.8	5.8
INBK	UR	153	1.1	22.2	29.1	6.9	5.3	298	320	0.51	0.48	0.49	0.56	7.7	9.4
ANDB	Buy	61	1.9	2.9	8.2	20.6	7.4	129	136	0.47	0.45	0.15	0.39	2.3	6.2
<b>Public Aggregate</b>		<b>44.8</b>				<b>11.8</b>	<b>8.7</b>			<b>0.76</b>	<b>0.71</b>				
<b>Banks Aggregate</b>		<b>180.6</b>				<b>16.9</b>	<b>13.5</b>			<b>1.64</b>	<b>1.50</b>				
HDFC*	Buy	1,380	33.0	40.1	46.3	24.2	19.4	194	221	4.64	3.75	1.89	2.10	20.0	22.1
LICHF	Buy	518	4.0	39.5	47.3	13.1	10.9	213	251	2.43	2.07	1.49	1.51	20.1	20.9
IHFL	Buy	742	4.7	68.2	84.0	10.9	8.8	280	315	2.65	2.36	3.84	3.78	23.4	28.2
GRHF	Buy	292	1.6	8.3	10.7	35.1	27.4	28	35	10.28	8.27	2.33	2.34	32.4	33.5
REPCO	Buy	828	0.8	30.3	39.0	27.3	21.2	179	214	4.61	3.87	2.14	2.17	18.2	19.8
DEWH	Buy	225	1.0	29.7	36.4	7.6	6.2	194	221	1.16	1.02	1.19	1.21	16.2	17.5
<b>Housing Finance</b>		<b>45.1</b>				<b>21.3</b>	<b>18.0</b>			<b>4.30</b>	<b>3.80</b>				
RECL	Neutral	216	3.2	59.2	68.6	3.6	3.1	336	389	0.64	0.56	2.63	2.55	18.9	18.9
POWF	Neutral	222	4.4	46.8	49.1	4.7	4.5	72	107	3.09	2.08	2.69	2.35	85.1	55.0
<b>Infra Finance</b>		<b>7.7</b>				<b>4.2</b>	<b>3.8</b>			<b>1.20</b>	<b>0.97</b>				
SHTF	Buy	1,198	4.1	75.5	94.2	15.9	12.7	507	581	2.36	2.06	2.17	2.27	15.7	17.1
MMFS	Buy	321	2.7	15.5	18.8	20.7	17.0	119	133	2.69	2.42	2.14	2.26	13.7	15.0
BAF	Buy	9,853	8.0	308.1	380.8	32.0	25.9	1,631	1,956	6.04	5.04	3.14	3.02	20.6	21.2
MUTH	Buy	278	1.7	24.9	32.0	11.2	8.7	157	177	1.77	1.57	3.29	3.47	16.7	19.2
SKSM	Buy	864	1.7	48.8	52.5	17.7	16.5	157	210	5.49	4.12	6.30	4.48	36.7	28.6
<b>Asset Finance</b>		<b>18.2</b>				<b>20.6</b>	<b>16.8</b>			<b>3.31</b>	<b>2.99</b>				
<b>NBFC Aggregate</b>		<b>71.0</b>				<b>14.7</b>	<b>12.7</b>			<b>3.17</b>	<b>2.74</b>				
<b>Financials</b>		<b>251.6</b>				<b>16.2</b>	<b>13.3</b>			<b>1.90</b>	<b>1.72</b>				

\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adj. for investments in subs. Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR Million)		
Y/E MARCH	2012	2013	2014	2015	2016	2017E	2018E	2019E
Interest Income	19,963	29,248	37,896	51,200	69,566	93,854	123,175	160,680
Interest Expended	7,462	12,057	15,732	22,483	29,269	39,302	53,325	71,187
<b>Net Interest Income</b>	<b>12,501</b>	<b>17,191</b>	<b>22,163</b>	<b>28,717</b>	<b>40,297</b>	<b>54,552</b>	<b>69,850</b>	<b>89,493</b>
Change (%)	36.9	37.5	28.9	29.6	40.3	35.4	28.0	28.1
Other Operating Income	1,668	1,689	2,429	2,618	3,477	4,764	5,955	7,146
Other Income	89	177	419	364	792	901	951	951
<b>Net Income</b>	<b>14,257</b>	<b>19,057</b>	<b>25,011</b>	<b>31,699</b>	<b>44,566</b>	<b>60,216</b>	<b>76,756</b>	<b>97,590</b>
Change (%)	37.7	33.7	31.2	26.7	40.6	35.1	27.5	27.1
Operating Expenses	6,691	8,523	11,511	14,284	19,492	24,346	29,811	35,865
<b>Operating Income</b>	<b>7,566</b>	<b>10,534</b>	<b>13,500</b>	<b>17,415</b>	<b>25,074</b>	<b>35,870</b>	<b>46,944</b>	<b>61,725</b>
Change (%)	31.7	39.2	28.2	29.0	44.0	43.1	30.9	31.5
Provisions and W/Offs	1,544	1,818	2,588	3,846	5,429	7,589	10,812	13,055
<b>PBT</b>	<b>6,022</b>	<b>8,716</b>	<b>10,912</b>	<b>13,569</b>	<b>19,646</b>	<b>28,281</b>	<b>36,132</b>	<b>48,670</b>
Tax	1,958	2,803	3,722	4,591	6,861	9,757	12,466	16,791
Tax Rate (%)	32.5	32.2	34.1	33.8	34.9	34.5	34.5	34.5
<b>PAT</b>	<b>4,064</b>	<b>5,913</b>	<b>7,190</b>	<b>8,979</b>	<b>12,785</b>	<b>18,524</b>	<b>23,667</b>	<b>31,879</b>
Change (%)	64.6	45.5	21.6	24.9	42.4	44.9	27.8	34.7
Proposed Dividend	496	747	802	903	377	2,316	2,958	3,985

Balance Sheet						(INR Million)		
Y/E MARCH	2012	2013	2014	2015	2016	2017E	2018E	2019E
Capital	413	495	498	502	536	536	536	536
Reserves & Surplus	19,923	33,173	39,411	47,497	72,711	88,526	108,731	135,948
<b>Net Worth</b>	<b>20,336</b>	<b>33,668</b>	<b>39,909</b>	<b>47,999</b>	<b>73,246</b>	<b>89,061</b>	<b>109,267</b>	<b>136,483</b>
<b>Borrowings</b>	<b>102,264</b>	<b>133,490</b>	<b>197,496</b>	<b>266,908</b>	<b>370,247</b>	<b>503,141</b>	<b>681,870</b>	<b>900,068</b>
Change (%)	52.4	30.5	47.9	35.1	38.7	35.9	35.5	32.0
<b>Other liabilities &amp; provisions</b>	<b>6,667</b>	<b>11,051</b>	<b>8,776</b>	<b>13,206</b>	<b>6,903</b>	<b>8,284</b>	<b>9,941</b>	<b>11,929</b>
<b>Total Liabilities</b>	<b>129,267</b>	<b>178,209</b>	<b>246,180</b>	<b>328,112</b>	<b>450,397</b>	<b>600,486</b>	<b>801,077</b>	<b>1,048,481</b>
Investments	55	53	282	3,323	10,341	11,375	12,285	13,268
Change (%)	-2.3	-4.0	436.3	1,077.9	211.2	10.0	8.0	8.0
<b>Advances</b>	<b>122,831</b>	<b>167,440</b>	<b>229,710</b>	<b>311,995</b>	<b>433,144</b>	<b>571,751</b>	<b>766,146</b>	<b>1,011,312</b>
Change (%)	68.9	36.3	37.2	35.8	38.8	32.0	34.0	32.0
Net Fixed Assets	1,388	1,762	2,199	2,492	2,870	2,880	2,890	2,900
Other assets	4,993	8,957	13,990	10,303	18,210	14,481	19,757	21,001
<b>Total Assets</b>	<b>129,267</b>	<b>178,211</b>	<b>246,180</b>	<b>328,112</b>	<b>464,565</b>	<b>600,486</b>	<b>801,077</b>	<b>1,048,481</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E MARCH	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Spreads Analysis (%)</b>								
Yield on Advances	20.4	20.2	19.1	18.9	18.7	17.8	17.7	17.5
Cost of borrowings	8.8	10.2	9.5	9.7	9.2	9.0	9.0	9.0
Interest Spread	11.6	9.9	9.6	9.2	9.5	8.8	8.7	8.5
Net Interest Margin	12.2	11.7	10.8	10.4	10.6	10.6	10.3	9.9

### Profitability Ratios (%)

RoE	24.0	21.9	19.5	20.4	21.1	22.8	23.9	25.9
RoA	3.8	3.8	3.4	3.1	3.2	3.5	3.4	3.4
RoA on AUM		3.9	3.5	3.2	3.3	3.6	3.5	3.7
Int. Expended/Int.Earned	37.4	41.2	41.5	43.9	42.1	41.9	43.3	44.3
Secur. Inc./Net Income	11.7	8.9	9.7	8.3	7.8	7.9	7.8	7.3

### Efficiency Ratios (%)

Op. Exps./Net Income	46.9	44.7	46.0	45.1	43.7	40.4	38.8	36.8
Empl. Cost/Op. Exps.	28.4	28.8	29.6	31.6	32.3	34.1	34.8	35.3

### Asset-Liability Profile (%)

Loans/Borrowings Ratio	120.1	125.4	116.3	116.9	117.0	113.6	112.4	112.4
Net NPAs to Adv.	0.1	0.2	0.3	0.5	0.3	0.4	0.5	0.0
CAR	17.5	22.0	21.0	18.0	19.5	17.0	17.5	19.5
Tier 1	15.0	18.7	18.0	14.2	16.1	14.0	13.0	16.0

### Valuation

Book Value (INR)	487	680	802	957	1,368	1,663	2,040	2,549
Price-BV (x)	20.2	14.5	12.3	10.3	7.2	5.9	4.8	3.9
Adjusted BV (INR)	486.0	677.4	798	947	1,360	1,663	2,040	2,549
Price-ABV (x)	20.3	14.5	12.4	10.4	7.2	5.9	4.8	3.9
EPS (INR)	98.4	119.4	144.5	179.0	238.8	345.9	442.0	595.3
EPS Growth (%)	45.9	21.3	21.1	23.9	33.4	44.9	27.8	34.7
Price-Earnings (x)	100.2	82.5	68.2	55.0	41.3	28.5	22.3	16.6
OPS (INR)	183.1	212.6	271.4	347.3	468.2	669.8	876.6	1,152.7
OPS Growth (%)	16.8	16.1	27.6	28.0	34.8	43.1	30.9	31.5
Price-OP (x)	53.8	46.3	36.3	28.4	21.0	14.7	11.2	8.5
Dividend per Share (INR)	12.0	15.1	16.1	18.0	7.0	43.2	55.2	74.4
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.1	0.4	0.6	0.8

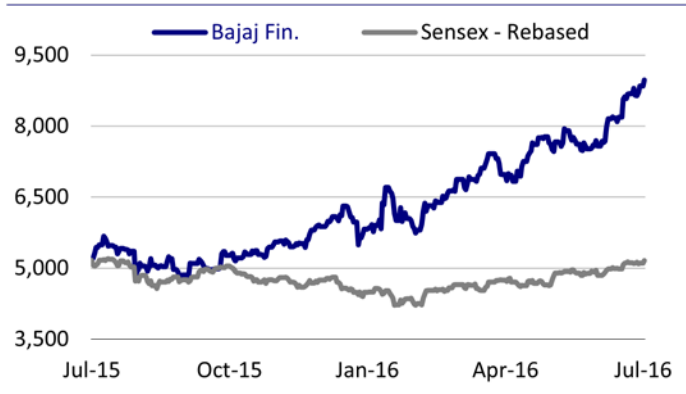
E: MOSL Estimates

## Corporate profile: Bajaj Finance

### Company description

Bajaj Finance is a subsidiary of Bajaj Finserv, which holds 57% into the company. The company has transformed itself from a captive auto financier offering two wheeler loans for Bajaj Auto to a one of the most successful well diversified retail NBFCs. The company operates in over ten business segments across consumer, SME and commercial businesses and is market leader in consumer durable and two wheeler financing (18% market share), lifestyle financing and is a large player in loan against property segment (15% market share).

### Exhibit 11: Sensex rebased



### Exhibit 12: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	57.4	57.4	57.6
DII	5.5	6.1	5.8
FII	20.1	18.9	18.1
Others	17.1	17.6	18.5

Note: FII Includes depository receipts

### Exhibit 13: Top holders

Holder Name	% Holding
Maharashtra Scooters Limited	3.5
Government Of Singapore	2.7
Smallcap World Fund,Inc	1.1

### Exhibit 14: Top management

Name	Designation
Rahul Bajaj	Chairman
Nanoo Pamnani	Vice Chairman
Sanjiv Bajaj	Vice Chairman
Rajeev Jain	Managing Director
Anant Damle	Company Secretary

### Exhibit 15: Directors

Name	Name
Rahul Bajaj	D S Mehta*
Nanoo Pamnani*	Dipak Poddar*
Sanjiv Bajaj	Gita Piramal*
Rajeev Jain	Omkar Goswami*
Madhur Bajaj	Rajendra Lakhotia*
Rajiv Bajaj	Ranjan Sanghi*
D J Balaji Rao*	

\*Independent

### Exhibit 16: Auditors

Name	Type
Dalal & Shah LLP	Statutory
Shyamprasad D Limaye	Secretarial Audit

### Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	345.9	309.3	11.9
FY18	442.0	396.6	11.4





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