

Bajaj Finance Limited (BFL) is one of the leading non-banking financial companies (NBFC) in India and is part of the illustrious Bajaj group. Though BFL started as the captive financier to two and three wheelers manufactured by Bajaj Auto, the company entered various other lending segments and became one of the significant players in the retail asset-financing industry. BFL's diversified product suite now comprises >19 product lines divided broadly into four categories like consumer, SME, commercial and rural. The company is the largest financier of two-wheelers and consumer durables in India.

### Key Events

**Robust AUM accretion (36% CAGR over FY12-17) backed by consumer financing segment:**

BFL continues to perform well on overall business metrics with Assets under management (AUM) growth of 36% CAGR over FY12-17. As a result, AUM has grown 4.6x since FY12 which remains best in the industry. AUM continued to grow at a robust pace of 38% YoY mainly led by 42% YoY growth in consumer business in H1FY18. Notably, consumer durable business serves as a customer acquisition engine and is strategic for other lines of business. Further, BFL was amongst the largest new loan acquirers (over 1 crore loan accounts) in FY17.

**Strong Operating Performance:**

Net interest income (NII) and net profit showed robust traction with 43% YoY and 39% YoY increase in H1FY18 on the back of 19bps YoY improvement in net interest margin (NIM) to 11.3%.

**Pristine asset quality:**

BFL continues to enjoy one of the best asset quality among the peer group. Despite migration to 90-dpd (days past due) non-performing assets (NPA) recognition, asset quality remained largely stable sequentially in Q2FY18. Gross/Net NPA ratios increased by 2/2 bps QoQ to 1.7%/0.5%. Focus on affluent segment, enhanced usage of credit bureau, product rationalization and strong risk management framework have ensured best-in-class asset quality, even in the riskier segments.

**Superior Return ratios:**

BFL has delivered strong business and earnings growth driven by expanding product portfolio and increase in market share in key business segments. Moreover, return ratios (RoA – 3.0%+ and RoE – 20%+) have consistently remained strong over the last five years on the back of better-than-expected portfolio behavior and shift in loan book mix.

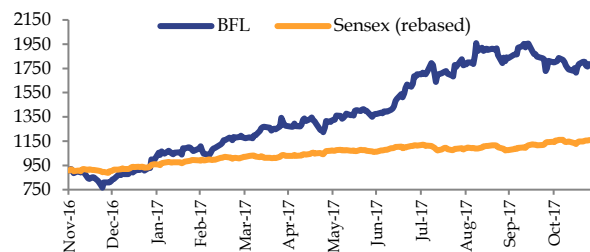
### Market Data

<b>CMP (Rs.)</b>	<b>1,754</b>
Face Value (Rs.)	2
52 week H/L (Rs.)	1,989/762
Adj. all time High (Rs.)	1,877
Decline from 52WH (%)	11.8
Rise from 52WL (%)	130.2
Beta	0.9
Mkt. Cap (Rs.Cr)	101,137
Enterprise Value (Rs.Cr)	-

### Fiscal Year Ended

	FY15	FY16	FY17
<b>NII (Rs.cr)</b>	3,134	4,367	6,174
<b>PPP (Rs.cr)</b>	1,742	2,507	3,636
<b>PAT (Rs.Cr)</b>	898	1,279	1,837
<b>EPS (Rs.)</b>	18.0	23.9	33.6
<b>P/E (x)</b>	97.7	73.5	52.2
<b>P/ABV (x)</b>	18.8	12.9	10.3
<b>ROA (%)</b>	3.1	3.2	3.3

### One year Price Chart



Shareholding	Sep-17	Jun-17	Diff.
<b>Promoters (%)</b>	55.3	57.9	(2.7)
<b>Public (%)</b>	44.7	42.1	2.7
<b>Others (%)</b>	-	-	-

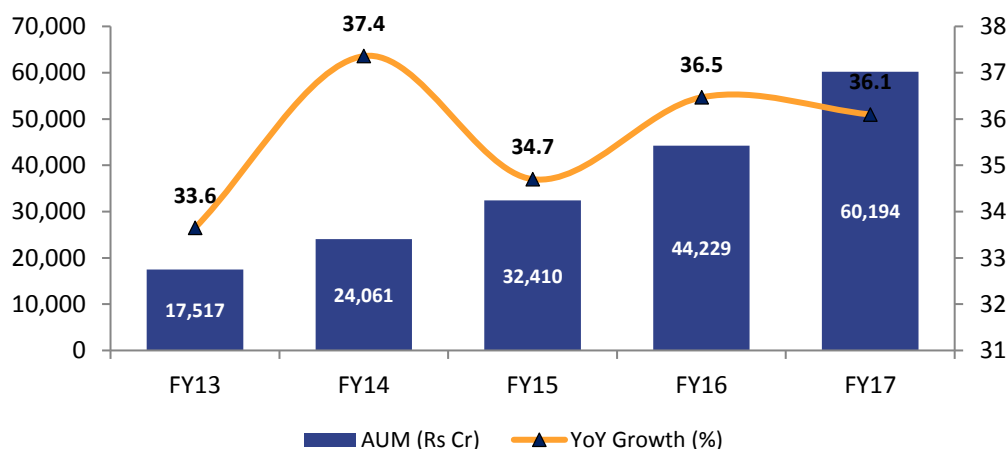
## Bajaj Finance Limited - Company Overview

Bajaj Finance Limited (BFL) is one of the leading non-banking financial companies (NBFC) in India and is part of the illustrious Bajaj group. Though BFL started as the captive financier to two and three wheelers manufactured by Bajaj Auto, the company entered various other lending segments and became one of the significant players in the retail asset-financing industry. BFL's diversified product suite now comprises >19 product lines divided broadly into four categories like consumer, SME, commercial and rural. The company is the largest financier of two-wheelers and consumer durables in India.

## Robust AUM accretion backed by consumer financing segment

BFL continues to perform well on overall business metrics with Assets under management (AUM) growth of 36% CAGR over FY12-17. As a result, AUM has grown 4.6x since FY12 which remains best in the industry. AUM continued to grow at a robust pace of 38% YoY mainly led by 42% YoY growth in consumer business in H1FY18. Notably, it contributed ~70% of the incremental growth. As a result, the share of consumer business in total AUM increased by 120 bps YoY to 47%. Within the consumer segment, the company saw strong disbursements growth across all categories except 2W & 3W finance (↓4% YoY). Customer acquisition also remained strong as the company acquired 1.3 mn customers (60% YoY) in Q2FY18. Commercial portfolio (12% of the total AUM) grew by 57% YoY on the back of 74% YoY growth in loan against securities. Rural business also continued with its strong growth momentum (↑137% YoY) albeit on a smaller base. Rural portfolio now forms 6% of the total AUM as against 4% in H1FY17. However, SME business (13% of the total AUM) grew at a much slower pace of 15% YoY as the company is taking a cautious stance on the SME lending segment due to its hyper-competitive nature in the current environment.

### AUM grew at a CAGR of 36% over FY12-17



Source: Company, In-house research

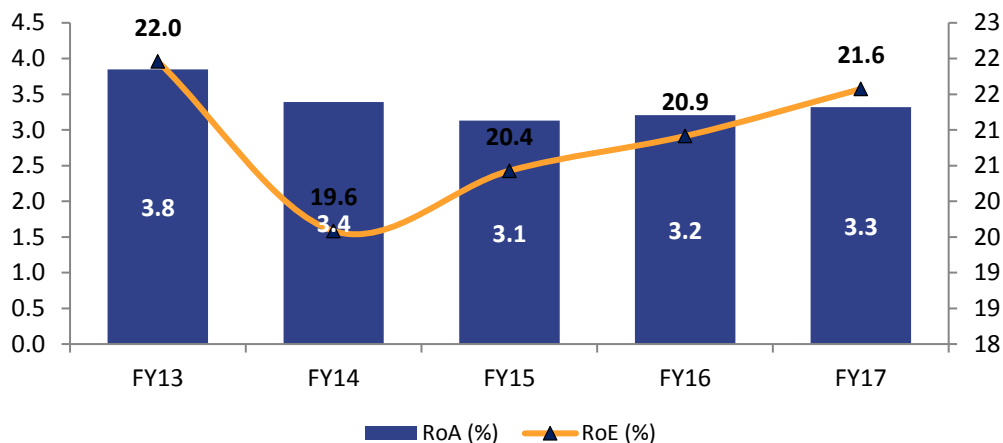
## Borrowing mix shifted towards market borrowing

BFL has a diversified borrowing mix across banks, bonds, short-term commercial papers (CPs) and fixed deposits (FDs). This helps it to keep borrowing cost under check. BFL has been replacing bank borrowing with market borrowing over the last three years as former is more expensive as compared to raising money through bonds. As a result, the proportion of bank loans declined to 30% of total borrowings as of H1FY18 as compared to 58% as of FY14. Notably, share of fixed deposits (FDs) has been gradually rising and constitutes 10% of liabilities as of H1FY18 as compared with only 1% as of FY14.

## Superior Return ratios

BFL has delivered strong business and earnings growth driven by expanding product portfolio and increase in market share in key business segments. Moreover, return ratios (RoA – 3.0%+ and RoE – 20%+) have consistently remained strong over the last five years on the back of better-than-expected portfolio behavior and shift in loan book mix.

### Superior return ratios over FY12-17



Source: Company, In-house research

## Pristine asset quality

BFL continues to enjoy one of the best asset quality among the peer group. Despite migration to 90-dpd (days past due) non-performing assets (NPA) recognition, asset quality remained largely stable sequentially in Q2FY18. Gross/Net NPA ratios increased by 2/2 bps QoQ to 1.7%/0.5%. Provision coverage ratio (PCR) also improved by 100 bps to 70.0% which provides further comfort. Focus on affluent segment, enhanced usage of credit bureau, product rationalization and strong risk management framework have ensured best-in-class asset quality, even in the riskier segments. Notably, there is no impact on BFL due to change in regulations by the RBI related to higher standard asset provisioning and early recognition of NPAs. BFL already follows substantially stringent policy on provisioning which was higher than RBI norms applicable for NBFCs.

## Financial Performance

NII showed robust traction with 41% YoY increase in Q2FY18 on the back of 19bps YoY improvement in net interest margin (NIM) to 11.0%. Provisions also increased at a faster pace of 38% YoY as the management made an accelerated provision of Rs300mn against some of the stressed accounts. Net profit increased by 37% YoY. Assets under management (AUM) continued to grow at a robust pace of 38% YoY mainly led by 42% YoY growth in consumer business. Notably, it contributed ~70% of the incremental growth in Q2FY18. As a result, the share of consumer business in total AUM increased by 120 bps YoY to 47%. Customer acquisition also remained strong as the company acquired 1.3 mn customers (60% YoY) in Q2FY18. BFL continues to maintain one of the best asset quality among the peer group. Despite migration to 90-dpd (days past due) non-performing assets (NPA) recognition, asset quality remained largely stable sequentially. Gross/Net NPA ratios increased by 2/2 bps QoQ to 1.7%/0.5%. Provision coverage ratio (PCR) also improved by 100 bps to 70.0%. BFL raised Rs4,500cr of equity capital through QIP route in Q2FY18 which helped it to boost capital adequacy ratio (CAR) by 527 bps QoQ to 25.4% with Tier I ratio of 19.9% (↑566 bps QoQ).

### Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Capital	50	54	109
Reserves and Surplus	4,750	7,373	9,491
Borrowings	26,655	37,025	49,250
Provisions	319	885	1,295
Other Liabilities	1,006	1,637	3,580
<b>Total Liabilities</b>	<b>32,780</b>	<b>46,973</b>	<b>63,725</b>
Fixed Assets	249	287	361
Investments	332	1,034	4,075
Advances	31,199	43,272	57,683
Other Assets	770	1,051	1,249
Cash & Bank Balances	229	1,329	357
<b>Total Assets</b>	<b>32,780</b>	<b>46,973</b>	<b>63,725</b>

### Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	5,382	7,294	9,977
Interest Expense	2,248	2,927	3,803
<b>Net Interest Income</b>	<b>3,134</b>	<b>4,367</b>	<b>6,174</b>
Non Interest Income	36	40	26
<b>Net Income</b>	<b>3,170</b>	<b>4,407</b>	<b>6,200</b>
Operating Expenses	1,428	1,899	2,564
<b>Total Income</b>	<b>5,418</b>	<b>7,333</b>	<b>10,003</b>
Total Expenditure	3,677	4,826	6,368
<b>Pre Provisioning Profit</b>	<b>1,742</b>	<b>2,507</b>	<b>3,636</b>
Provisions	385	543	818
<b>Profit Before Tax</b>	<b>1,357</b>	<b>1,965</b>	<b>2,818</b>
Tax	459	686	981
<b>Net Profit</b>	<b>898</b>	<b>1,279</b>	<b>1,837</b>

### Key Ratios (Standalone)

	FY15	FY16	FY17
P/E	97.7	73.5	52.2
P/BV	18.3	12.7	10.0
P/ABV	18.8	12.9	10.3
Dividend Yield (%)	0.1	0.1	0.2
CAR (%)	18.0	19.5	20.3
Gross NPA (%)	1.5	1.2	1.7
Net NPA (%)	0.5	0.3	0.4
NIM (%)	11.1	11.4	11.8
RoE (%)	20.4	20.9	21.6
RoA (%)	3.1	3.2	3.3



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