

Bajaj Finance (BAJFI)

₹ 2700

No major impact from Ind-As, sustained growth

- PAT without Ind-As adjustments for Q1 FY19 grew 69% to ₹ 1,018 crore from ₹ 602 crore in Q1 FY18. However, post adjustments, PAT grew 81% YoY to ₹ 834 crore. Due to Ind-As, net impact on reserves & surplus (post tax) was ₹ 612 crore, which is ~6.5% reduction in opening reserves & surplus
- Headline asset quality stayed steady QoQ. With expected credit loss the standard asset provisioning has gone up to 89 bps from 40 bps. Hence, provisions were up 41%QoQ to ₹ 327 crore from ₹ 231 crore. Total slippages for the quarter were ₹ 379 crore
- Consolidated AUM including housing grew 35% YoY to ₹ 93314 crore. It was largely led by rural & housing finance that doubled QoQ
- NII pre-adjustments increase was at 43% YoY to ₹ 2,904 crore from ₹ 2,042 crore in Q1FY18 led by AUM growth. Post adjusted NII grew 46% YoY to ₹ 2578 crore from ₹ 1761 crore. Operating leverage with opex to NII declining 300 bps QoQ came as a positive surprise
- Customer franchise as of June 30, 2018 increased 30% to 28.28 million from 21.69 million as of June 30, 2017. New loans acquired in Q1FY19 were up 49% to 5.63 million

Stronghold in consumer loans & diversified portfolio to sustain growth

Bajaj Finance (BFL) is one of the leading asset finance NBFCs. The USP of BFL is its stronghold in the consumer durable (CD) & lifestyle product financing business (~15% of the AUM). Further, it has a diversified loan portfolio with five heads viz. consumer finance (39% of loans), SME (33%) commercial (12.9%), rural (7.2%) and mortgage (7.8%). Such diversity has given BFL an edge in terms of AUM growth (>40% CAGR to ₹ 60194 crore in FY11-17) and asset quality with steady 1.2-1.6% GNPA in the past three years). PAT rose 40% CAGR in FY11-18 to ₹ 2646 crore (old GAAP). With Ind-As, factoring NII and provisions adjustment, in FY19-21E, we expect PAT traction to be strong at 35% CAGR to ₹ 6170 crore.

Expect AUM traction at 32% in FY19-21E led by consumer and housing

Strong AUM traction of 44% CAGR in FY11-15 to ₹ 32410 crore was mainly driven by the SME category increasing at 51% CAGR followed by the CF category, which rose at 41% CAGR. Within SME, it was the LAP (25% of overall AUM then) portfolio that saw high traction in FY11-15 while CD financing within the CF book saw 47% CAGR. Going ahead, we expect AUM growth at 32% CAGR to ₹ 181361 crore in FY19-21E, led by consumer, housing and rural.

Steady asset quality, strong margins with Ind-As reflect strength of model

BFL's GNPA ratio at 1.39% (₹ 1280 crore), as on Q1FY19, is better than some of its peers wherein the ratio is above 2.5%. With expected credit loss (ECL model), NPA provisions are lower but standard asset provisioning is higher at 89 bps. BFL earns highest margins of 10-11%. However, the management has guided on margin contraction from Q3FY18 onwards due to higher costs, partly offset by lower opex ratios.

Rich valuations to sustain; maintain BUY, revise target price higher

A strong performance in a volatile economic scenario (healthy return ratios - RoA at >3.5%, RoE at ~20% GNPA at <2%) maintained investor interest even at higher P/ABV multiple with strong growth momentum at 32% CAGR in AUM, PAT CAGR of 35% in FY19-21E to ₹ 6170 crore. BFL's premium valuations may sustain. We revise our target price higher to ₹ 3050 from ₹ 2400 earlier, rolling over to FY21E valuing the stock at ~28 FY21E EPS (5.8x FY21E ABV). We retain **BUY**.

Rating matrix	
Rating	Buy
Target	₹ 3050
Target Period	12 months
Potential Upside	13%

What's Changed?	
Target	Changed from ₹ 2400 to ₹ 3050
EPS FY20E	Changed from ₹ 85.8 to ₹ 80
EPS FY21E	Introduced at ₹ 106.4
Rating	Unchanged

Quarterly Performance					
	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
NII	2,530	1,751	44.5	2,221	13.9
PPP	1,624	1,018	59.6	1,375	18.1
Provisions	327	305	7.2	231	41.6
PAT	836	461	81.3	748	11.8

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
NII	8,127	10,966	14,472	18,972
PPP	4,879	6,709	8,851	11,550
PAT	2,497	3,420	4,637	6,170

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	59.5	44.7	33.1	24.9
Target P/E	68.5	51.5	38.1	28.7
P/ABV	9.6	7.8	6.3	5.1
Target P/ABV	11.1	9.0	7.2	5.9
RoE	16.6	17.2	19.6	22.0
RoA	2.9	3.2	3.4	3.6

Stock data	
Particulars	Amount
Market Capitalisation	₹ 157650 Crore
GNPA (Q1FY19)	₹ 1280 Crore
NNPA (Q1FY19)	₹ 396 Crore
NIM (Q1FY19) (calculated)	10.8
52 week H/L	2419/ 1421
Face Value	₹ 2
Net worth	₹ 9218 Crore
DII Holding (%)	8.6
FII Holding (%)	19.5

Price performance (%)				
Return %	1M	3M	6M	12M
Bajaj Finance	6.5	16.9	26.6	38.0
Shriram Transport	-3.2	-1.8	-19.7	-25.8
MMFS	-5.9	-12.3	-10.9	0.0
Shriram City Union	-10.5	-7.8	-18.5	-26.0

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Variance analysis- consolidated

	Q1FY19	Q1FY19E	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	Comments
NII	2,530	2,653	1,751	44.5	2,221	13.9	NII was higher owing to strong growth in advances
NIM (%) (calculated)	10.8	10.7	10.15	66 bps	10.5	36 bps	Due to Ind-As adjustments, calculated margins are varying than past
Other Income	49	254	10	375.5	48	0.4	
Net Total Income	2,578	2,907	1,761	46.4	2,269	13.6	
Staff cost	447	473	317	41.1	404	10.8	
Other Operating Expenses	507	782	426	18.8	491	3.3	Opex has surprised positively as Ind-As adjustment has led to lower opex led by amortisation and some reduction in housing business expenses
Opex to NII(%)	37.7	47.3	42.5	-11.2	40.3	-6.3	
PPP	1,624	1,652	1,018	59.6	1,375	18.1	Robust operational performance continues Provisioning on NPAs went down under Ind-As due to more stringent provisioning policy
Provision	327	315	305	7.2	231	41.6	followed by BFL earlier. However, standard assets provision moved up from 40 bps to 89 bps
PBT	1,297	1,337	713	82.0	1,144	13.4	
Tax Outgo	461	468	252	83.3	397	16.4	
PAT	836	869	461	81.3	748	11.8	PAT without Ind-As adjustments for Q1FY19 grew 69% to ₹ 1,018 crore from ₹ 602 crore in Q1 FY18
Key Metrics							
GNPA	1,280	1,342	815	57.1	841	52.2	Slippages were higher at ₹ 379 crore
NNPA	396	426	254	55.7	216	83.2	The provision coverage ratio is marginally lower at 69%
AUM	93,314	94,093	68,883	35.5	84,033	11.0	Consolidated AUM including housing witnessed growth of 35% YoY to ₹ 93314 crore, marginally lower than our estimate. It was largely led by housing finance, which doubled QoQ. Standalone AUM growth was a bit lower at 25% YoY to ₹ 86042 crore. Consumer B2C finance grew 47% YoY to ₹ 11808 while consumer B2B segment is slowing at 27% YoY growth

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Net Interest Income	9,961	10,966	10.1	13,364	14,472	8.3	
Pre Provision Profit	6,635	6,709	1.1	9,066	8,851	-2.4	
NIM(%) (calculated)	10.5	11.5	101 bps	10.8	11.5	74 bps	As non interest income is re-adjusted to net Interest income, these margins look higher
PAT	3,568	3,420	-4.1	4,974	4,637	-6.8	
ABV per share (₹)	353.7	340.3	-3.8	442.4	422.2	-4.5	

Source: Company, ICICI Direct Research

Assumptions

	FY17E		FY18		Current		Earlier	
	FY17E	FY18	FY19E	FY20E	FY21E	FY19E	FY20E	
Credit growth (%)	33.3	35.2	33.4	33.0	31.0	33.4	33.0	
Borrowings Growth (%)	33.0	25.0	32.0	32.8	33.3	30.5	31.8	
NIM Calculated (%)	10.2	11.3	11.5	11.5	11.4	10.5	10.8	
Cost to income ratio (%)	41.4	40.1	39.0	39.0	39.3	41.1	39.6	
GNPA (₹ crore)	982.4	1,141.0	1,643.0	2,248.3	2,854.5	1,643.0	2,248.3	
NNPA (₹ crore)	255.4	216.0	535.9	898.7	1,185.1	535.9	898.7	

Source: Company, ICICI Direct Research

Ind-As adjustments

Exhibit 1: Ind-As implementation- impact on Q1FY19 and FY18 PBT and PAT

Particulars	Q1 FY19	Q1 FY18	Growth	FY18	(₹ in crore)
Profit before tax as per previous GAAP	1,562	925	69%	4,096	Remarks
Ind AS adjustments increasing / (decreasing) profit :					
Adoption of Effective Interest Rate (EIR) for financial assets recognised at amortised cost	(221)	(186)		(197)	On account of amortisation of upfront fees, interest subsidy and acquisition cost
Adoption of Effective Interest Rate (EIR) for financial liabilities recognised at amortised cost	8	5		13	On account of amortisation of cost incurred on raising of funds through borrowings & deposits
Expected Credit Loss	(37)	(13)		9	New way of measuring the loan losses in P&L. Lifetime loan loss provisioning has been done for loans < 12 months.
Fair value of stock options as per Ind AS 102	(17)	(9)		(45)	Required to be recognised through P&L
Actuarial loss on employee defined benefit plan recognised in 'Other comprehensive income' as per Ind AS 19	-	-		8	Gain / (losses) on actuarial valuation of retirement benefits to employees
Gain/ (losses) on fair valuation of financial assets at fair value through profit and loss	2	(9)		(41)	MTM gain/(losses) on investments recognised in P&L or transferred to other comprehensive income
Net profit before tax as per Ind AS	1,297	713	82%	3,843	
Tax expense (including current tax and deferred tax)	(461)	(252)		(1,347)	
Net profit after tax as per Ind AS	836	461	81%	2,496	FY18 saw an impact of 6.65% on PAT due to Ind AS transition
Net profit after tax as per previous GAAP	1,018	602	69%	2,674	

Source: Company, ICICI Direct Research

Exhibit 2: Ind As impact on networth

IND AS impact on Networth	₹ crore
Opening Reserves & Surplus balance as per previous GAAP	9,491
Ind AS adjustments increasing / (decreasing) Reserves & Surplus (Pre tax):	
Adoption of Effective Interest Rate (EIR) -	
Impact on the reserve on account of amortisation of upfront incurred on raising of borrowings & deposits	-797
Primarily on account of increased ECL provisioning on standard	79
Unrecognised MTM gain on investments as of 31 March 2017	-270
	46
Total impact on Reserves & Surplus (Pre Tax)	-943
Net Deferred tax on above	331
Net impact on Reserves & Surplus (Post tax)- Approximately 6.5% reduction in opening Reserves & Surplus	-612
Opening Reserves & Surplus balance as per previous Ind AS	8,879

Source: Company, ICICI Direct Research

Company Analysis

Overall book expected to grow at 32% CAGR over FY19-21E

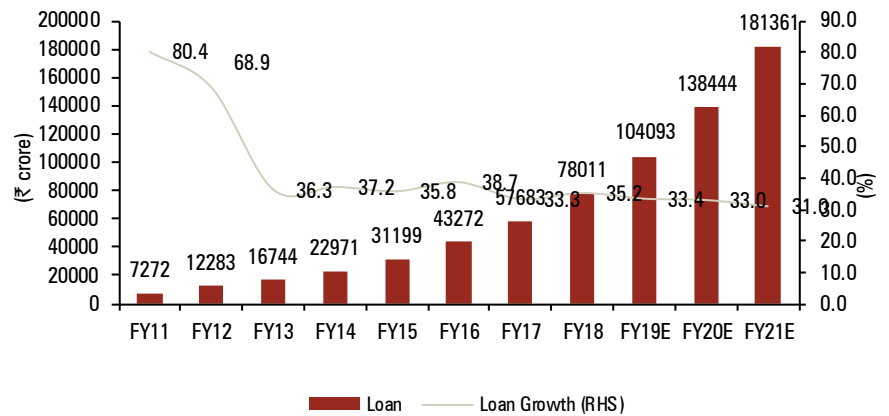
BFL has a diversified loan portfolio. Further, the company has a leadership position in under penetrated & growing segments like CD financing, lifestyle product financing, two-wheeler financing, LAP, etc. which account for ~50% of its portfolio. These factors have allowed BFL to clock strong AUM CAGR of >40% in FY11-17 to ₹ 60194 crore. This has happened despite a weak economic environment in the past few years.

Of the total AUM, BFL places about 4-5% for securitisation for better asset-liability management. As on FY17, of the total AUM of ₹ 60194 crore, about ₹ 2511 crore was the off book or securitised amount. The balance ₹ 57683 crore is advances outstanding in the balance sheet as on FY17. Off book is ₹ 3410 crore on total AUM of ₹ 93314 crore as on Q3FY18. Growth was strong at 35% YoY in Q1FY19. During Q1, BFL provided 5.63 million new loans vs. 4.54 million QoQ.

Going ahead, we expect overall advances traction at 32% CAGR in FY19-21E to ₹ 181361 crore driven by CF and housing segment.

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Exhibit 3: Credit (AUM – securitised amount) growth to stay healthy ahead



Source: Company, ICICI Direct Research

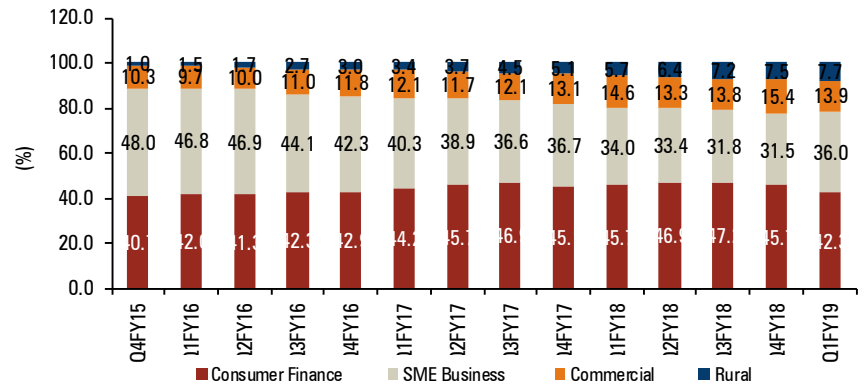
Consumer business and other numbers are reclassified due to Ind-As.

Exhibit 4: Credit (AUM – securitised amount) growth to stay healthy ahead

₹ crore	Q1FY19		Q1FY18	
	Absolute growth	Variation in %	Absolute growth	Variation in %
Consumer B2B Businesses	19131	15114	4017	27
Consumer B2C Businesses	17321	11808	5513	47
Rural Business	6674	3821	2853	75
SME Business	12133	8571	3562	42
Commercial Lending	12008	9118	2890	32
Mortgages standalone - LAP	18918	20513	1595	-8
Mortgages Housing subsidiary	7129	0	7129	100
Total AUM	93314	68945	24369	0.35

Source: Company, ICICI Direct Research

Exhibit 5: Consumer finance dominates loan mix (standalone excluding housing finance subsidiary)



Source: Company, ICICI Direct Research, Due to reclassification Q1FY19 not comparable

Stronghold in CD financing & diversified nature of book

Bajaj Finance is an “asset finance” NBFC. The lending book can be broadly diversified into four categories viz. consumer finance (CF), SME finance, commercial finance and rural finance.

In the four broad categories, CF book as on FY18 was at ₹ 36730 crore, comprising 46% of total AUM of ₹ 80444 crore. Within the CF book, CD financing & lifestyle product financing book were at ₹ 8000 crore and ₹ 2845 crore, respectively, as on Q2FY18. Apart from these, the CF book includes two and three wheeler finance, personal loans and home loans to salaried individuals.

Exhibit 6: Break-up of consumer finance (CF) book

AUM (₹ Crore)	FY14	FY15	FY16	Q3FY17	FY17	Q1FY18	Q2FY18
2W & 3W finance	3593	3324	3773	4961	5057	5215	5398
Consumer durable finance	2531	4163	5556	7258	6594	7974	8000
Lifestyle finance	174	498	1016	1495	1529	2334	2845
Digital Product	NA	312	637	1002	1038	1217	1551
Non Digital Product	NA	186	379	493	491	513	506
Personal loans	2577	4303	6762	9442	10321	11641	12762
Personal loans Cross Sell	NA	2412	4004	5891	6490	7363	8060.5
Salaried Personal Loans	NA	1891	2758	3552	3831	4278	4701.5
Home Loans (Salaried)	453	839	1621	2791	3176	3669	4133.5
Total CF AUM	9,328	13,127	18,728	25,947	26,677	30,833	33,139

Source: Company, ICICI Direct Research; Break up not available now as the company has stopped publishing this data

We expect share of the CF division in consolidated AUM mix to increase and stay ~40% mainly led by CD financing & lifestyle financing segment. Personal loans and two-wheeler also continues to grow stronger.

BFL’s SME was the largest category of the four broad categories and comprising ~48% of the total AUM as on FY15. It was at ₹ 15620 crore as on FY15 and ₹ 25320 crore as on FY18. It includes small business loans, loan against property (LAP), home loans to self-employed & SME cross sale. LAP comprises the highest part in SME financing and comprises ~13% of overall AUM as on FY18.

Exhibit 7: Break-up of SME book

AUM (₹ Crore)	FY14	FY15	FY16	Q3FY17	FY17	Q1FY18	Q2FY18
Loans	2033	3084	5421	7056	7374	8047	8577
Business Loans	NA	2461	4,309	5,483	5,640	5,990	6,229
Professional Loans	NA	623	1,112	1,573	1,734	2,057	2,348
Loan against property	6907	8232	8,332	8,575	8,423	8,582	8,596
Home loans (Self Employed)	2351	3071	3,233	3,817	3,946	4,371	4,467
SME cross sell	718	1233	1,887	2,261	2,250	2,349	2,248
Total SME AUM	12,009	15,620	18,873	21,709	21,993	23,349	23,888

Source: Company, ICICI Direct Research; Break up not available as the company has stopped publishing this data

Since FY11, the LAP book witnessed robust growth of 38% CAGR to ₹ 8232 crore. Of late, traction in the LAP portfolio has slowed (proportion dipped to 13% as on FY18 from 28.7% in FY14) owing to enhanced competitive pressures, higher commission payouts and ongoing focus on direct lending over intermediaries.

In the commercial category, it provides finance in the construction equipment (CE) and infrastructure space. Apart from these, BFL also offers wholesale lending products covering short, medium and long term needs of auto component vendors in India. The proportion of commercial segment was at 13% as on FY17 and 15% as on FY18. There has been a continuous run down in the book related to CE and infra financing. These segments witnessed asset quality pressures. Hence, BFL reduced its exposure.

Exhibit 8: Break-up of commercial lending category

AUM (₹ Crore)	FY14	FY15	FY16	Q3FY17	FY17	Q1FY18	Q2FY18
Construction equip. finance	448	188	158	639	896	1290	1604
Vendor Financing	862	1146	2161	2927	3271	3368	3479
Infrastructure lending	523	418	311	298	301	0	0
Loan against securities	841	1578	2659	3511	3984	6127	5408
Total Commercial AUM	2,674	3,330	5,289	7,375	8,452	10,785	10,491

Source: Company, ICICI Direct Research; Break up not available as the company has stopped publishing this data

In the rural eco system, BFL is a highly diversified lender. The company is currently present in CD financing, asset backed financing, gold loans, personal loans, etc. BFL functions through a hub & spoke model. The company operates its rural business in Maharashtra, Gujarat and Karnataka.

Exhibit 9: Rural proportion to rise further, going ahead

AUM (₹ Crore)	FY14	FY15	FY16	FY17	Q1FY1	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Rural financing	50	333	1339	3072	3916	4622	5497	6019	6674
% of Total AUM	0.21	1.03	3.03	5.10	5.69	6.41	7.20	7.48	7.76

Source: Company, ICICI Direct Research

In rural areas, BFL is currently present in CD financing, asset backed financing, gold loans, personal loans, etc. Owing to its small size, the segment has witnessed sharp traction with the loan book increasing to ₹ 6019 crore in FY18 from ₹ 50 crore in FY14

As business commenced in FY13, the book size is small and witnessed sharp traction. AUM increased to ₹ 6019 crore in FY17 from ₹ 50 crore in FY14. Recently, the company also launched its MSME lending business in rural areas. We expect the rural portfolio to continue to witness sharp traction, going ahead.

Well diversified funding, strong parentage, credit rating enable lower CoF

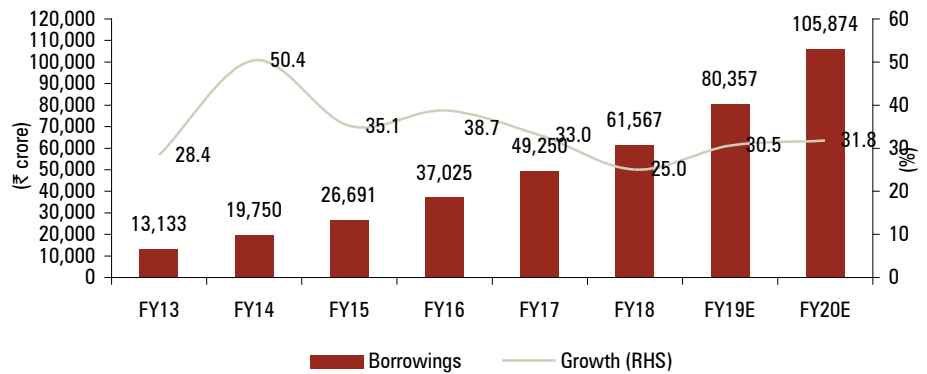
The borrowings of BFL as on FY18 were at ₹ 61567 crore. The borrowings are well diversified with NCDs proportion the highest at 51% followed by banks at 31% and CPs/FDs at 18%. This is owing to strong parentage and credit rating (consistently holding AA+/stable and LAA+ stable rating from Crisil and Icra over the last seven years, with a positive outlook. Further, the fixed deposit scheme has been rated FAAA/Stable by Crisil and MAAA/stable by Icra). The company is able to raise funds at competitive rates from various sources.

Borrowings are well diversified into bank term loans, NCDs and CPs/FDs

Further, at regular intervals, the company was able to raise funds via QIP, which also helps reduce its cost of borrowings. In 2015, BFL raised ~₹ 1800 crore via allotment of warrants to promoters and equity to QIBs.

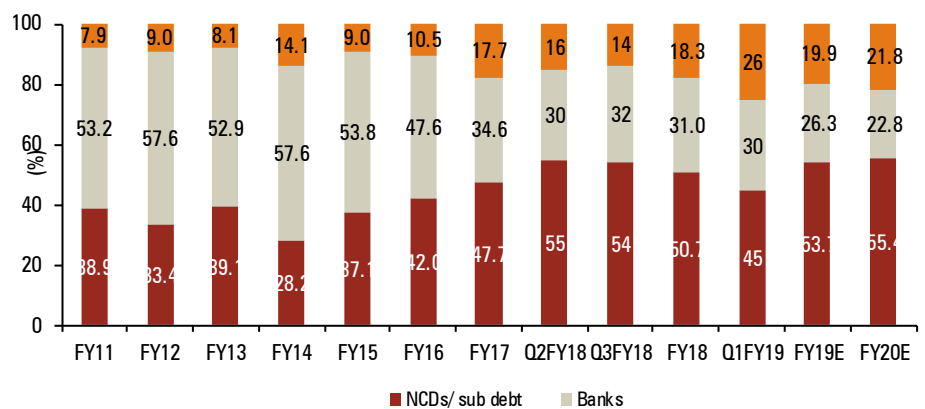
In FY18, the company raised ₹ 4500 crore through QIP. Deposits are growing strong for Bajaj Finance and are at ₹ 9427 crore from ₹ 7569 crore now forming 14% of borrowings.

Exhibit 10: Trend in borrowings



Source: Company, ICICI Direct Research

Exhibit 11: Trend in resource mix



Source: Company, ICICI Direct Research

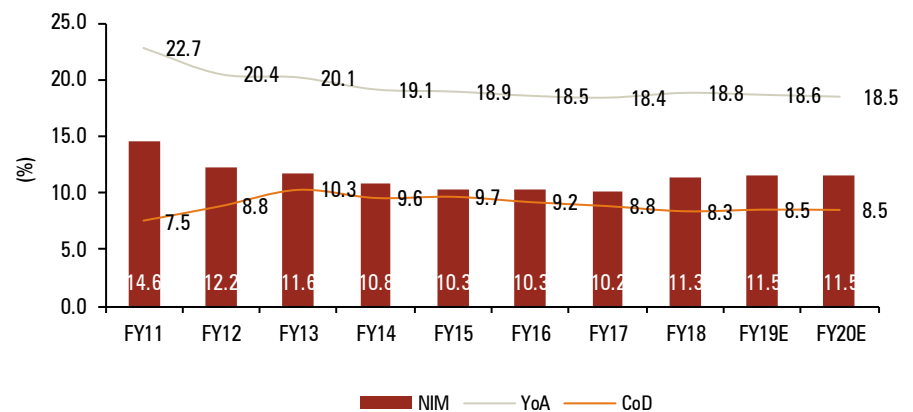
The margins of BFL are one of the highest among its peers. Its margins during FY18 were at ~10%. Such high margins were on the back of its strong blended yields of >17% and competitive CoF, which helped the company earn overall spread of ~10%

Margins one of the highest; to sustain at healthy levels, going ahead

The margins of Bajaj Finance are one of the highest among its peers. Its margins during FY18 were at ~10%. Such high margins were on the back of strong blended yields of >17% and competitive CoF, which helps the company to earn overall spread of ~10%. Yields in the consumer financing category are high.

In the past few years, margins witnessed a slide owing to a change in loan mix towards lower yielding segments as BFL's strategy was to go for scale and secured products like in the SME category (such as LAP). This impacted the yield, to some extent, but also helped maintain steady asset quality. The LAP portfolio, where yields are ~11-12%, increased at 38% CAGR in FY11-15. Margins at 10% in FY18 will be seen moderating with cost of funds rising and low yielding housing finance gaining traction.

Exhibit 12: Margins to remain strong



Source: Company, ICICI Direct Research

The company has entered into an agreement with One Mobikwik Systems Pvt Ltd (Mobikwik) on August 8, 2017, and invested ₹ 225 crore in the equity shares and cumulatively compulsorily convertible preference shares of Mobikwik. This is a strategic investment helping to increase business from existing customers.

Asset quality remains at acceptable levels; expect to stay steady

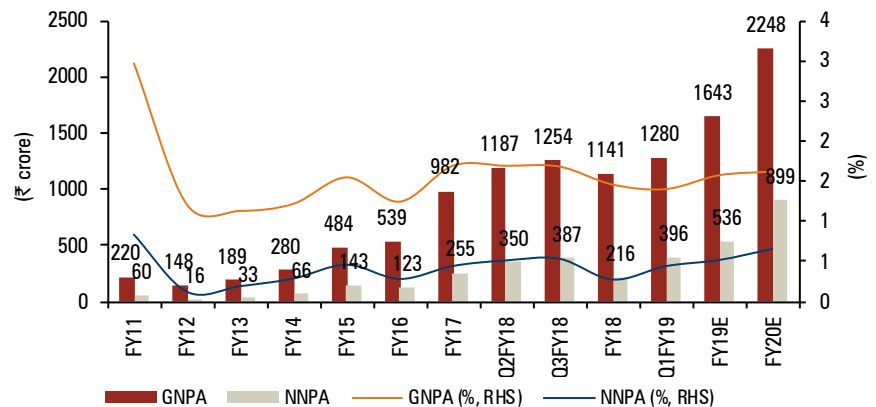
Bajaj Finance's gross NPA ratio at 1.5% (₹ 1141 crore), as on FY18, is relatively better than some of its peers especially considering the weak economic environment of the past two or three years. The asset quality has improved sharply over the last five or six years. The GNPA ratio was at 16.6%, 7.6% in FY09, FY10, respectively. This was owing to high stress in the two-wheeler financing and computer financing business then.

Post such a setback in asset quality, BFL focused on improving its risk management process and framework. This included product rationalisation like exiting the computer financing business, focusing on safer products like LAP and mortgages during the weak economy of FY11-14, increased use of Cibil scores, focusing on repeat customers with good repayment pattern and on affluent & mass affluent customers.

These efforts yielded large gains with improvement in asset quality as the absolute GNPA declined from ₹ 416 crore in FY09 to ₹ 148 crore by FY12 before increasing to ₹ 1141 crore by FY17. However, the loan book size is much larger now than in FY09.

BFL's asset quality has improved sharply over the last five or six years. The GNPA ratio was at 16.6%, 7.6% during FY09, FY10, respectively. As on FY18, the GNPA ratio is at 1.5%

Exhibit 13: Asset quality expected to stay at acceptable levels, going ahead



Source: Company, ICICI Direct Research

The credit cost (i.e. provisions as percentage of loans) also declined from 8.1% of advances in FY10 to 1.2% by FY13 and 1.6% as on FY16. In FY18, loan loss provisions to AUM stood at 1.23%.

Headline asset quality stayed steady QoQ with GNPA ratio at 1.39% a dip of 5 bps and NNPA ratio rose 16% to 0.44% from 0.28%. The provision coverage ratio improved dipped to 69% from 75% QoQ but with a rise from Q3FY18 of 68%, as Q4 was an exceptional quarter. The company has moved to Ind-As with expected credit loss on the basis of the standard asset provisioning has gone up to 89 bps from 40 bps. Accordingly, provisions were up 41%QoQ to ₹ 327 crore from ₹ 231 crore. Total slippages for the quarter were ₹ 379 crore.

Going ahead, we expect the GNPA ratio to increase a bit in FY18-20E. However, these levels are still acceptable and better than peers. The company has begun to report GNPA on 90 days overdue from Q1FY18 wherein the GNPA ratio was at 1.7%.

Outlook and valuation

In the past four years, investors have taken a keen interest in BFL as reflected in the sharp rise in its stock price since September, 2013. The stock performance has surpassed its peers. It is currently trading at 6x FY19E ABV for a RoA of 3.7% and RoE of ~20%. The two year forward multiple increased from 1x to >5x currently post September 2013. We believe the reason for such strong interest is owing to its leadership position in the short duration, lower ticket size, CD financing and lifestyle product financing business along with the diversified nature of its loan portfolio. This has allowed BFL to register strong AUM growth of >40% CAGR in the past four years to ₹ 80444 crore as on FY18 with asset quality staying under control (GNPA ratio at 1.5%). PAT in FY11-18 rose at a robust pace of 40% CAGR to ₹ 2646 crore as on FY18.

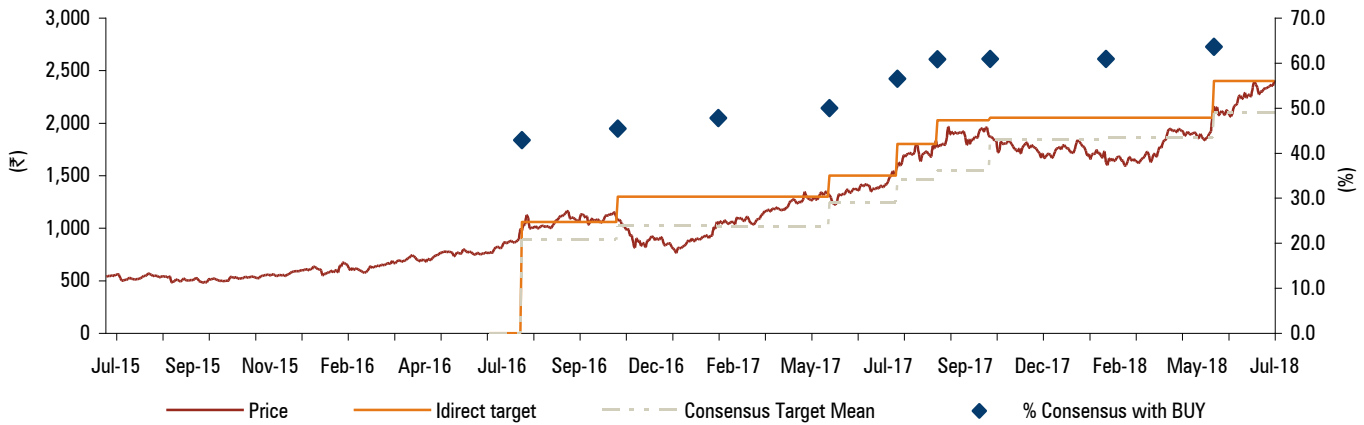
A strong performance in volatile economic scenario (healthy return ratios - RoA at >3.5%, RoE at ~20% GNPA at <2%) kept investor interest maintained even at higher P/ABV multiple. with strong growth momentum at 32% CAGR in AUM, PAT CAGR of 35% in FY19-21E to ₹ 6170 crore. BFL's premium valuations are expected to sustain. We revise our target price higher to ₹ 3050 from ₹ 2400 earlier, rolling over to FY21E valuing the stock at ~28 FY21E EPS (5.8x FY21E ABV). We maintain our **BUY** rating on the stock.

Exhibit 14: Valuation

	Nil (₹ cr)	Growth (%)	PAT (₹ cr)	Growth (%)	P/E (x)	ABV (₹)	P/ABV (x)	RoA (%)	RoE (%)
FY15	2,872	29.6	897	24.9	147.2	93.1	28.4	3.1	20.4
FY16	3,974	38.4	1,279	42.5	107.2	136.4	19.4	3.2	20.9
FY17	5,469	37.6	1,837	43.6	78.0	170.9	15.5	3.3	21.6
FY18	8,127	48.6	2,497	36.0	59.5	275.8	9.6	2.9	16.6
FY19E	10,966	34.9	3,420	36.9	44.7	340.3	7.8	3.2	17.2
FY20E	14,472	32.0	4,637	35.6	33.1	422.2	6.3	3.4	19.6

Source: Company, ICICI Direct Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
FY07	De-merger of erstwhile Bajaj Auto in 2007. The shareholding of Bajaj Auto in Bajaj Finance was vested with Bajaj Finserv, which is the financial services arm of the Bajaj Group
FY07	Induction of the new management personnel from leading multi national companies
FY08	Diversification of lending portfolio begins vs. earlier legacy business of two & three wheeler financing and consumer durable financing
FY08	Launch of personal loan cross sell business and Life insurance distribution business
FY09	Launch of vendor financing, loan against property and Loan against securities business
FY11	Launch of construction equipment financing business
FY12	Launch of loans to professionals, EMI card, infrastructure financing, SME cross sell and salaried personal loans
FY13	Launch of lifestyle product financing business
FY14	Launch of digital product financing and rural lending business
FY14	AUM crossed ₹ 24000 crore
Jun-15	Raises ₹ 1400 crore from QIBs and ₹ 408 crore via preferential allotment

Source: Company, ICICI Direct Research

Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bajaj Group of Industries	31-03-2018	58.56%	336.79M	0
2	GIC Private Limited	31-03-2018	3.83%	22.01M	-0.72M
3	Axis Asset Management Company Limited	31-03-2018	1.43%	8.20M	+0.79M
4	Aditya Birla Sun Life AMC Limited	31-03-2018	1.06%	6.07M	-0.72M
5	The Vanguard Group, Inc.	31-05-2018	1.05%	6.06M	+0.06M
6	SBI Funds Management Pvt. Ltd.	31-05-2018	1.05%	6.05M	+0.61M
7	UTI Asset Management Co. Ltd.	31-05-2018	0.91%	5.26M	+1.05M
8	BlackRock Institutional Trust Company, N.A.	30-06-2018	0.85%	4.89M	-0.30M
9	DSP BlackRock Investment Managers Pvt. Ltd.	31-05-2018	0.76%	4.37M	-0.08M
10	Motilal Oswal Asset Management Company Ltd.	31-05-2018	0.72%	4.12M	+0.13M

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Promoter	57.9	55.3	55.3	55.1	55.1
FII	18.6	21.2	20.4	19.5	19.5
DII	5.8	6.8	7.0	9.0	8.6
Others	17.6	16.7	17.3	16.4	16.8

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
UTI Asset Management Co. Ltd.	+32.90M	+1.05M	Reliance Nippon Life Asset Management Limited	-28.92M	-0.86M
Axis Asset Management Company Limited	+21.49M	+0.79M	BlackRock Asset Management North Asia Limited	-24.11M	-0.77M
SBI Funds Management Pvt. Ltd.	+19.10M	+0.61M	Aditya Birla Sun Life AMC Limited	-19.55M	-0.72M
Matthews International Capital Management, L.L.C.	+13.88M	+0.51M	GIC Private Limited	-19.41M	-0.72M
HDFC Asset Management Co., Ltd.	+7.20M	+0.23M	CPP Investment Board	-11.10M	-0.41M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement (consolidated)				₹ crore
(Year-end March)	FY18	FY19E	FY20E	FY21E
Interest Earned	12748.0	17031.3	22481.4	29675.4
Interest Expended	4621.0	6065.1	8009.8	10703.9
Net Interest Income	8127.0	10966.2	14471.5	18971.5
Growth (%)	48.6	34.9	32.0	31.1
Other Income	23.8	28.3	36.3	46.0
Total Income	8150.8	10994.6	14507.8	19017.5
Operating Expenses	3271.6	4285.7	5657.1	7467.3
Opex to NII(%)	40.26	39.08	39.09	39.36
Operating Profit	4879.2	6708.9	8850.7	11550.2
Provisions	1034.9	1483.7	1755.2	2108.8
PBT	3844.3	5225.2	7095.5	9441.4
Taxes	1347.0	1805.3	2458.6	3271.4
Net Profit	2,497.3	3,419.9	4,636.9	6,169.9
Growth (%)	36.0	36.9	35.6	33.1
EPS (₹)	44.5	59.2	80.0	106.4

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Valuation				
No. of shares (crore)	57.5	58.0	58.0	58.0
EPS (₹)	44.5	59.2	80.0	106.4
BV (₹)	279.6	349.6	422.2	520.3
ABV (₹)	275.8	340.3	422.2	520.3
P/E	59.5	44.7	33.1	24.9
P/BV	9.5	7.6	6.3	5.1
P/ABV	9.6	7.8	6.3	5.1
Yields & Margins (%)				
Net Interest Margins	11.3	11.5	11.5	11.4
Yield on assets	17.7	17.9	17.9	17.9
Avg. cost on funds	6.8	6.8	6.9	7.0
Yield on average advances	18.8	18.7	18.5	18.6
Avg. Cost of Borrowings	8.3	8.5	8.5	8.5
Quality and Efficiency (%)				
Cost to income ratio	40.1	39.0	39.0	39.3
Cost to assets ratio	4.5	4.4	4.5	4.5
GNPA	1.4	1.6	1.6	1.6
NNPA	0.3	0.5	0.6	0.7
ROE	16.6	17.2	19.6	22.0
ROA	2.9	3.2	3.4	3.6

Source: Company, ICICI Direct Research

Balance sheet				₹ crore
(Year-end March)	FY18	FY19E	FY20E	FY21E
Sources of Funds				
Capital	115.0	115.9	115.9	115.9
Reserves and Surplus	15791.3	19896.0	24185.1	29868.1
Networth	15906.3	20011.9	24301.0	29984.0
Borrowings	61567.0	81293.6	107960.3	143956.6
Other Liabilities & Provisions	6155.7	8315.6	12092.3	16472.0
Total	83,629.0	109,621.1	144,353.6	190,412.6
Application of Funds				
Fixed Assets	1187.6	1199.5	1199.5	1559.3
Investments	3660.5	3697.1	3697.1	4066.8
Advances	78011.2	104092.9	138443.6	181361.1
Other Assets	541.0	216.4	194.7	175.3
Cash	228.7	415.2	818.7	3250.1
Total	83,629.0	109,621.1	144,353.6	190,412.6

Source: Company, ICICI Direct Research

Growth ratios				(% growth)
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total assets	30.3	32.0	31.7	31.9
Advances	35.2	33.4	33.0	31.0
Borrowings	25.0	32.0	32.8	33.3
Net interest income	48.6	34.9	32.0	31.1
Operating Income	31.5	34.9	32.0	31.1
Operating expenses	27.6	31.0	32.0	32.0
Operating profit	34.2	37.5	31.9	30.5
Net profit	36.0	36.9	35.6	33.1
Net worth	65.7	25.8	21.4	23.4
EPS	31.2	33.0	35.1	33.1

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (NBFC)

Sector / Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	
LIC Housing Finance (LICHF)	514	600	Hold	25,965	39.4	46.0	55.7	13.1	11.2	9.2	2.2	1.8	1.6	1.2	1.3	1.3	16.7	16.9	17.4	
Reliance Capital (RELCAP)	347	660	Buy	8,754	51.7	64.9	69.6	6.7	5.4	5.0	0.7	0.6	0.6	1.5	1.7	1.6	10.0	12.0	11.9	
CARE (CARE)	1,209	1,400	Hold	3,562	54.7	61.5	69.7	22.1	19.6	17.4	6.0	5.7	5.2	34.4	37.2	38.1	27.0	29.1	29.7	
Bajaj Finserv (BAFINS)	6,578	6,500	Buy	104,628	172.3	231.2	304.4	38.2	28.4	21.6	5.1	4.3	3.6	1.9	2.0	2.2	15.0	16.3	18.1	
Bajaj Finance (BAJFI)	2,700	3,050	Buy	152,981	47.2	61.8	85.8	57.2	43.7	31.5	9.4	7.6	6.1	3.6	3.7	4.0	20.3	19.1	21.5	

Source: Company, ICICI Direct Research

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