

# Stock Update

## Strong performance

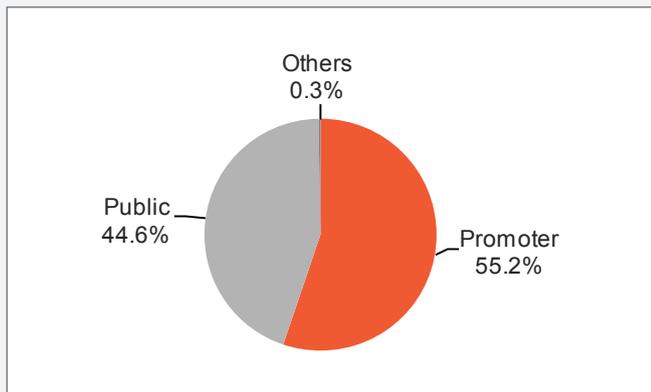
### Bajaj Finance

Reco: Buy | CMP: Rs2,083

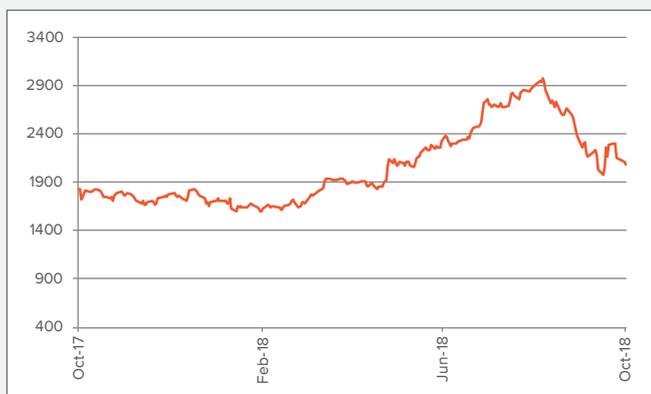
#### Company details

Price target:	Rs2,450
Market cap:	Rs120,437 cr
52-week high/low:	Rs2,995/1,514
NSE volume: (No of shares)	19.8 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Sharekhan code:	BAJFINANCE
Free float: (No of shares)	25.92 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-11.1	-22.3	12.7	14.8
Relative to Sensex	-4.0	-17.0	12.7	7.7

#### Key points

- ◆ **Operating performance enthuSES:** Bajaj Finance Limited (BFL) posted healthy operating performance with net interest income (NII; calc) growing by 37.6% y-o-y to Rs. 2,617 crore in Q2FY2019, even as non-interest income jumped by ~3x to Rs. 48 crore. Opex to NII came in strong, aided by continued focus on expanding the company's fee revenue pool along with better opex management. As a result of the same, opex-to-income ratio (C/I) for the quarter declined to 34.8% from 40.6% y-o-y.

Operating expenses were kept under control, which resulted in pre-provisioning profit increasing by 52.7% y-o-y. Net profit for the quarter grew by 55% y-o-y to Rs. 920 crore.

BFL has consistently maintained its strong credit rating, which helps it to maintain attractive CoF, thereby maintaining healthy NIM even in an adverse rate environment. The company has been diversifying its borrowing mix to bolster its margins and we believe deposit accretion will also be important in this regard.

- ◆ **Outlook:** BFL appears well set on a strong and sustainable growth path, after the worry from external/exogenous factors recedes. Despite a nascent rural financing book, positives such as an attractive repeat customer base in the core consumer book, a large SME customer base, a rapidly deepening asset offering profile and strong pricing power will help BFL maintain its growth and margins. While currently, management has guided its cautious stance on segments such as SME, we believe in the long term, the company looks well placed to generate 35+% AUM growth. The ability of BFL to create new product categories, leveraging its large customer base and proactive risk management track record are key positives to support valuations.

- ◆ **Valuation:** Currently, BFL is trading at valuations that prima facie appear rich. While company has strong positives such as a robust growth outlook, pricing power, impressive operating metrics and strong return ratios maintained over time (and likely to improve as asset-heavy business has shifted to BHFL) in its favour, we believe that since the current environment for NBFCs has turned challenging, the murky sector outlook is likely to be an overhang on BFL as well in the near term. We hence maintain our Buy rating on the stock with a revised price target (PT) of Rs. 2,450.

- ♦ **Healthy business growth, asset quality deteriorates slightly:** BFL saw healthy traction in loan growth, with assets under management (AUM) growth of 38% to Rs. 1,00,217. Growth was led by the consumer B2C (up 44% y-o-y), mortgage lending business (up 32% y-o-y) and commercial lending business (up 38% y-o-y) segments.

Notably, BFL continued to see strong customer traction, as it booked 5.26 million new loans during the quarter, taking its total customer franchise to 30.05 million, up 31% y-o-y. This will be positive for sustaining growth as well as generating cross-sell opportunities for BFL.

The existing mortgages portfolio of BFL (both core housing and LAP) will continue to run down gradually on its books, while all incremental sourcing and disbursements

will happen in Bajaj Housing Finance Limited (BHFL), which has expanded its AUM to Rs. 10,712 crore, owing to a low base.

During the quarter, BFL witnessed slight deterioration in its asset quality, as GNPA ratio increased by 10 BPS q-o-q to 1.49%, while net NPA ratio increased by 9 BPS to 0.53%. Notably, BFL has Rs. 225 crore of fund-based exposure to a large financial conglomerate (currently rated D), which is presently standard on BFL's books. BFL has so far provided 10% of this exposure.

The exposure, however, is backed by escrows on the rental income of the collateral property (which is finished). We believe the overhang of the above exposure is largely factored in by the market.

Particulars	Results					Rs cr
	Q2FY19	Q2FY18	YoY %	Q1FY19	QoQ %	
Interest income	4,045.4	3,042.1	33.0	3,791.3	6.7	
Interest expense	1,428.2	1,140.6	25.2	1,294.2	10.4	
Net interest income	2,617.2	1,901.5	37.6	2,497.2	4.8	
Non-interest income	48.0	15.5	209.9	4.9	890.5	
Net total income	2,665.2	1,917.0	39.0	2,502.0	6.5	
Operating expenses	926.6	778.7	19.0	884.6	4.8	
Pre-provisioning profit	1,738.6	1,138.4	52.7	1,617.4	7.5	
Provisions	309.9	220.0	40.9	321.1	-3.5	
Profit before tax	1,428.6	918.4	55.6	1,296.4	10.2	
Tax	508.4	324.8	56.5	462.6	9.9	
Profit after tax	920.3	593.6	55.0	833.7	10.4	
<b>Asset quality (%)</b>						
Gross NPA	1.49	1.68	-19 bps	1.39	10 bps	
Net NPA	0.53	0.51	2 bps	0.44	9 bps	
<b>Key items</b>						
Advances	96,682	69,144	39.8	89,904	7.5	
AUM	100,217	72,669	37.9	93,314	7.4	

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