

Bajaj Finance

ADD

Consumption growth continues to surprise, so do earnings CMP: Rs677 Target Price: Rs715

- Q2FY12 numbers beat estimates, driven by higher disbursal and other income; management remains positive
- EPS revised by -2.0%/-12.2% to Rs88.4/Rs88.1 for FY12/FY13, factoring in full conversion of warrants
- Maintain Add with revised price target of Rs715 (Rs705 earlier)

Bajaj Finance Ltd (BFL) beat estimates, driven by higher disbursements, better than estimated NIM and higher other-income from penal interests, debt recovery etc. Management maintains cautiously positive guidance despite higher interest rates – attributed to higher wages driving discretionary spending. Big picture guidance stands at 3x book growth over next three years. Capital issuance via QIP is also in pipeline to support growth. While profit levels have been tweaked marginally, EPS estimates are down 2.0%/12.2% for FY12/13, factoring in full warrant conversion. We maintain Add rating with revised price target of Rs715 (from Rs705).

Credit card business, EMI cards to support revenue momentum: BFL has tied up with Standard Chartered Bank to offer premium cards to its customers, arguably those with better credit history. This provides the bank a good source of fee income. Apart from that, BFL has started doling out prepaid EMI cards that should help the company lock in customers and maintain lower delinquency levels on that portion of incremental lending. Both these mechanism should support revenue momentum.

Increase business growth estimates: We have tweaked our loan growth estimates for both FY12 and FY13 by 0.6% and -0.5%, given strong disbursal momentum seen in Q2FY12 and no consumption slowdown yet. Disbursements goes up by ~11% for both the years.

Improve on margin for FY12/FY13: We believe interest rate cycle does not have many legs to northwards from here. As BFL's liability side is well protected with larger tenure financing, we believe NIM could surprise on the upside. We spruce our NIM estimates by 30bps/10bps to 11.6%/10.1% for FY12/FY13 respectively.

Capital raising in the pipeline: Management is looking at better market pricing opportunities to raise the balance of capital. Parent, Bajaj Finserv, has already paid up 25% for its 6mn warrants at Rs651 per share. The fresh capital size is ~48% of current shareholder's equity. While management strived hard to explain the capital needs, we believe the quantum is way too large to support projected asset growth.

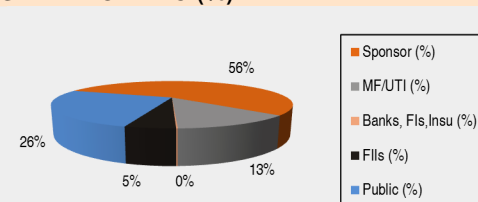
Valuation: We value the stock at 1.45x Q2FY13E adjusted book of Rs491 per share. While fresh capital issuance in pipeline, it is likely that stock may not underperform the financial service industry. However, we remain unconvinced of the quantum of capital and its deployment. Till more clarity emerges, we maintain Add rating on the stock.

KEY DATA

| | |
|-------------------|--------------------|
| Bloomberg | BAF IN |
| Reuters | BAF.BO |
| 52-wk H/L (Rs) | 839/524 |
| 6-m avg trd value | US\$0.6mn |
| Market cap | Rs24.8bn/US\$0.5bn |
| Shares o/s | 36.6mn |
| Face value | Rs10 |

Source: Bloomberg

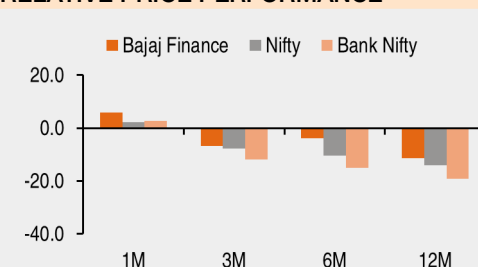
SHAREHOLDING (%)



Source: CMIE

As of 30 September 2011

RELATIVE PRICE PERFORMANCE



Source: Bloomberg

Key financials

| Y/E Mar | FY11 | FY12E | FY13E |
|---------------------|-------|--------|--------|
| Net interest income | 9,059 | 11,081 | 11,205 |
| EPS (Rs) | 67 | 88 | 88 |
| NIM | 14.57 | 11.56 | 10.07 |
| RoE | 19.2 | 21.2 | 18.0 |
| P/E (x) | 10.1 | 7.7 | 7.7 |
| P/adj. BV (x) | 1.8 | 1.5 | 1.3 |

Source: Company, BRICS Research

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Q2FY12 earnings summary

Strong NII growth: NII growth was 31.2% yoy and 3.76% qoq, driven by 62% yoy loan growth although NIMs contracted 320bps yoy and 120bps qoq.

Provisioning expense under control: Provision costs were well controlled and were largely in line with estimates. We have been strong advocates of the fact that BFL had invested in building strong backend processing and customer segmentation that would lead to lower asset quality issues.

Improving asset quality: Gross NPA ratio improved to 1.6% from 5.4% in Q2FY11 and 2.1% in Q1FY12. Net NPA too improved to 110bps, while provision coverage was at 80%.

| Profit and loss | | | | | | | (Rs mn) |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Particulars | Q2FY12 | Q2FY12E | variance | Q2FY11 | yoy | Q1FY12 | qoq |
| Net interest income | 2,840 | 2,598 | 9.3% | 2,164 | 31.2% | 2,740 | 3.7% |
| Non interest income | 420 | 42 | 910.8% | 267 | 56.9% | 354 | 18.5% |
| Gross income | 3,260 | 2,640 | 23.5% | 2,432 | 34.1% | 3,094 | 5.4% |
| Operating expense | (1,530) | (1,163) | 31.6% | (1,034) | 48.1% | (1,405) | 8.9% |
| o/w depreciation | (34) | (28) | 21.2% | (29) | 15.6% | (28) | 23.6% |
| Operating profit | 1,729 | 1,477 | 17.1% | 1,398 | 23.7% | 1,688 | 2.4% |
| Provisions | (441) | (438) | 0.7% | (615) | -28.3% | (342) | 28.8% |
| PBT | 1,289 | 1,039 | 24.0% | 783 | 64.6% | 1,346 | -4.3% |
| Taxes | (415) | (343) | 21.1% | (255) | 62.5% | (438) | -5.3% |
| PAT | 874 | 696 | 25.5% | 528 | 65.6% | 908 | -3.8% |

Source: Company, BRICS Research

| Balance sheet | | | | | | | (Rs mn) |
|----------------------|---------------|---------------|--------------|---------------|--------------|---------------|--------------|
| Particulars | Q2FY12 | Q2FY12E | variance | Q2FY11 | yoy | Q1FY12 | qoq |
| Advances | 93,331 | 92,779 | 0.6% | 57,729 | 61.7% | 85,280 | 9.4% |
| Total assets | 101,253 | 97,855 | 3.5% | 66,251 | 52.8% | 89,370 | 13.3% |
| Borrowings | 79,722 | 77,389 | 3.0% | 46,106 | 72.9% | 69,600 | 14.5% |
| Shareholder's equity | 16,339 | 15,186 | 7.6% | 12,521 | 30.5% | 14,490 | 12.8% |
| Disbursals | 33,523 | 28,906 | 16.0% | 21,280 | 57.5% | 35,876 | -6.6% |

Source: Company, BRICS Research

Key ratios

| Particulars | Q2FY12 | Q2FY12E | variance | Q2FY11 | yoy | Q1FY12 | qoq |
|---------------------|--------|---------|----------|--------|-------|--------|--------|
| EPS (Rs, diluted) | 21.4 | 19.0 | 12.5% | 14.4 | 48.3% | 24.8 | -13.7% |
| BVPS (Rs, adjusted) | 414 | 406 | 1.9% | 328 | 26.3% | 389 | 6.5% |
| NIM (%) | 12.7% | 11.7% | 1.0% | 15.9% | -3.2% | 13.9% | -1.2% |
| Fund cost (%) | 9.0% | 8.7% | 0.3% | 7.4% | 1.5% | 8.3% | 0.6% |
| Expense ratio (%) | 46.9% | 44.1% | 2.9% | 42.5% | 4.4% | 45.4% | 1.5% |
| Credit cost (%) | 2.0% | 2.0% | 0.0% | 4.5% | -2.5% | 1.7% | 0.2% |
| RoA (%) | 3.7% | 3.0% | 0.7% | 3.5% | 0.2% | 4.2% | -0.5% |
| RoE (%) | 22.7% | 18.8% | 3.9% | 17.2% | 5.5% | 25.9% | -3.2% |
| Gross NPA (%) | 1.6% | 2.2% | -0.6% | 5.4% | -3.7% | 2.1% | -0.5% |
| Net NPA (%) | 0.3% | 0.5% | -0.2% | 1.4% | -1.1% | 0.5% | -0.1% |
| Provision coverage | 80.0% | 77.0% | 3.0% | 75.0% | 5.0% | 78.0% | 2.0% |

Source: Company, BRICS Research

| Disbursals breakup | | | | (Rs mn) | |
|-------------------------|---------------|---------------|------------|---------------|------------|
| | Q2FY12 | Q2FY11 | % yoy | Q1FY12 | % qoq |
| 2/3 wheeler | 6,550 | 4,720 | 39% | 5,660 | 16% |
| Durables + cross sell | 7,520 | 4,010 | 88% | 9,170 | -18% |
| PLSB | 3,620 | 2,510 | 44% | 3,640 | -1% |
| Secured assets | 15,830 | 10,050 | 58% | 17,410 | -9% |
| Others | 0 | 0 | | 0 | |
| Mortgage | 5,840 | 8,100 | -28% | 6,970 | -16% |
| Construction finance | 2,600 | 1,950 | 33% | 2,130 | 22% |
| LAS | 780 | 0 | | 1,450 | -46% |
| Vendor financing | 5,510 | 0 | | 5,360 | 3% |
| Infra loans | 1,100 | 0 | | 1,500 | -27% |
| Securitised | 0 | 0 | | 0 | |
| Total disbursals | 33,523 | 21,280 | 58% | 35,876 | -7% |

Source: Company, BRICS Research

Financial summary

Income statement (Rs mn)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|--|-------|--------|--------|--------|
| Net interest income | 6,080 | 9,059 | 11,081 | 11,205 |
| Growth (%) | 76.1 | 49.0 | 22.3 | 1.1 |
| Other income | 1,065 | 1,223 | 1,225 | 1,202 |
| Total income (net of interest expense) | 7,145 | 10,282 | 12,307 | 12,407 |
| Employee expenses | 994 | 1,447 | 1,679 | 1,592 |
| Other operating expenses | 76 | 119 | 132 | 147 |
| Operating expenses | 3,196 | 4,537 | 5,432 | 5,172 |
| Operating profit | 3,949 | 5,745 | 6,875 | 7,236 |
| Growth (%) | 84.0 | 45.5 | 19.7 | 5.2 |
| Provisions and contingencies | 2,606 | 2,046 | 1,733 | 1,776 |
| PBT | 1,343 | 3,699 | 5,142 | 5,460 |
| Provision for tax | 449 | 1,233 | 1,681 | 1,802 |
| PAT | 894 | 2,470 | 3,461 | 3,658 |
| Growth (%) | 163.6 | 176.2 | 40.2 | 5.7 |

Balance sheet (Rs mn)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|---------------|--------|--------|---------|---------|
| Total assets | 48,226 | 85,181 | 113,316 | 123,162 |
| Total equity | 11,525 | 13,581 | 17,462 | 19,555 |
| Advances | 40,258 | 72,701 | 103,402 | 114,225 |
| Deposits | — | — | — | — |
| CASA deposits | — | — | — | — |
| Borrowings | 32,268 | 67,086 | 90,662 | 98,415 |
| Investments | 3,018 | 4,453 | 4,008 | 4,008 |

Per share data and key ratios

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|--------------------------------|------|------|-------|-------|
| Diluted EPS (Rs) | 24 | 67 | 88 | 88 |
| RoAA (%) | 2.26 | 3.49 | 3.34 | 3.02 |
| RoAE (%) | 7.9 | 19.2 | 21.2 | 18.0 |
| BV / Share (Rs) | 322 | 382 | 465 | 543 |
| Adj. BV / Share (Rs) | 306 | 372 | 460 | 536 |
| Other income / Net revenue (%) | 14.9 | 11.9 | 10.0 | 9.7 |
| Cost / Income ratio (%) | 44.7 | 44.1 | 44.1 | 41.7 |
| Dividends / Share | 6.0 | 10.0 | 13.0 | 13.0 |
| Effective tax rate (%) | — | — | — | — |
| CASA ratio (%) | — | — | — | — |
| Credit / Deposit ratio (%) | — | — | — | — |

Yields and rates (%)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|-------------------|-------|-------|-------|-------|
| NIM/ Spread | 17.96 | 14.57 | 11.56 | 10.07 |
| Yield on advances | 23.9 | 20.7 | 19.0 | 18.3 |
| Cost of deposits | — | — | — | — |
| Cost of funds | 7.8 | 7.1 | 8.7 | 9.6 |

Capital ratios (%)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|------------------|------|------|-------|-------|
| Tier I | — | — | — | — |
| Total CRAR | — | — | — | — |
| Equity to assets | 4.2 | 6.3 | 6.9 | 6.3 |

Asset quality & credit metrics (%)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|---------------------------------|-------|-------|-------|-------|
| Gross NPA ratio | 4.68 | 3.70 | 1.20 | 1.57 |
| Net NPA ratio | 2.16 | 0.80 | 0.29 | 0.35 |
| Provisions / Loans | 7.70 | 3.29 | 1.81 | 1.60 |
| NPA coverage ratio (incl. AUCA) | 55.0 | 79.0 | 76.0 | 78.0 |
| NPA coverage ratio (excl. AUCA) | 55.0 | 79.0 | 76.0 | 78.0 |
| Absolute gross NPAs (Rs mn) | 1,933 | 2,770 | 1,249 | 1,817 |

Valuation ratios (x)

| Y/E 31 March | 2010 | 2011 | 2012E | 2013E |
|------------------|------|------|-------|-------|
| Price/ Book | 2.1 | 1.8 | 1.5 | 1.2 |
| Price/ Adj. Book | 2.2 | 1.8 | 1.5 | 1.3 |
| Price/ Earnings | 27.7 | 10.1 | 7.7 | 7.7 |

BRICS RECOMMENDATION SCALE

| | |
|----------------|--|
| BUY: | More than 15% upside |
| ADD: | Upside up to 15% (between 0% and 15%) |
| REDUCE: | Downside up to 15% (between 0% and –15%) |
| SELL: | More than 15% downside |

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