

## Bajaj Finance Limited

Recommendation	BUY
CMP (16/05/2013)	Rs.1,476
Target Price	Rs.1,638
Sector	NBFC

Stock Details	
BSE Code	500034
NSE Code	BAJFINANCE
Bloomberg Code	BAF IN
Market Cap (Rs cr)	7,347
Free Float (%)	37.93
52- wk HI/Lo (Rs)	1491/787
Avg. volume NSE+BSE (Quarterly)	40,447
Face Value (Rs)	10
Dividend (FY 13)	150%
Shares o/s (Crs)	4.96

Relative Performance	1Mth	3Mth	1Yr
Bajaj Finance	28.8%	14.4%	71.9%
Sensex	8.1%	4.0%	24.0%



Shareholding Pattern		31 <sup>st</sup> March 13
Promoters Holding		62.07%
Institutional (Incl. FII)		18.14%
Corporate Bodies		7.29%
Public & others		12.5%

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Year	NII (Rs crs)	Growth (%)	PBP (Rs cr)	PAT (Rs crs)	Margin (%)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 12A	1,250	38.0%	757	406	28.5%	107.5	13.73	530	2.78	24.0%
FY 13A	1,719	37.5%	1,053	591	31.0%	134.9	10.94	662	2.23	21.9%
FY14E	2,231	29.8%	1,376	743	30.5%	149.8	9.85	780	1.89	20.1%
FY15E	2,736	22.6%	1,698	928	31.2%	187.2	7.89	925	1.60	21.0%

**Growth story continues; still more steam left**

Bajaj Finance (BFL) reported net profit of Rs 163.8 cr (+51.1% YoY) in Q4FY13 driven by strong growth across SME and consumer business. Overall disbursement growth remained healthy at 21.3% YoY for FY13. However, net interest income declined sequentially and was marginally below estimates owing to the higher composition of the lower yielding SME product. The overall share of the SME segment increased to 48% in Q4FY13 as compared to 46% in Q3FY13. Cost to income ratio continued to witness improvement driven by operating leverage. The asset quality remained fairly stable with gross NPA at 1.09% and net NPA at 0.19%. However, there was one SME client which attributed to marginal increase in Gross NPA. Barring this, asset quality across segments remained fairly under control.

Going forward, Management has indicated for growth of 25%+ for FY14E. Margins may witness some compression owing to increasing mix of SME in the overall portfolio. Lower credit costs and operating leverage will be the key to strong performance going forward.

BFL continues to enjoy pricing power resulting from the benign competition and healthy asset quality. BFL has been consistently delivering healthy performance which is commendable given the current environment. With control over NPAs, wider access and strong growth in the book, Bajaj Finance will continue to strengthen its position as a retail finance company. We expect profitability to grow at 25.3% CAGR over FY13-FY15E.

**Demonstrating strong business model and excellent execution capability of the management, the stock has been an outperformer in the last one year generating a return of 71.9%. At CMP the stock is trading at 1.89x FY14E and 1.6x FY15E ABV and 9.85x FY14E and 7.89x FY15E EPS. Considering the recent run up in the stock we recommend our investors to HOLD the stock with a target price of Rs 1,638 indicating further potential upside of 11% from current levels. Any decline can be used as an opportunity to BUY the stock as our long term outlook remains positive.**

- AUM grew by 33.6% YoY and 4.0% on QoQ basis at Rs 16,844 cr.
- Capital adequacy ratio increased to 21.95%, with tier I ratio of 18.7% after the capital infusion which will aid in growth trajectory for the company.
- Disbursement in the Lifestyle financing business stood at Rs 240 cr and is expected to reach Rs 500 cr in FY14E.
- Disbursements in the SME segment remain robust with growth across all business; working capital and loan against property products.
- The company has tied up with Apple for selling its iPhone product.
- The company did assignment of Rs 330 cr in Q4FY13
- Management has indicated that Bajaj Finance would be applying for banking license and would be converting into a bank.
- The company has declared dividend of Rs 15 per share translating into a dividend yield of 1%.

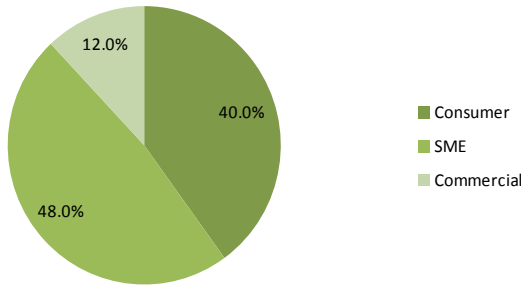
## Bajaj Finance Limited

Income Statement (Rs cr)	Q4FY13	Q4FY12	YoY (%)	Q3FY13	QoQ (%)	Comments	FY13	FY12	YoY (%)
AUM	17,517	13,107	33.6%	16,844	4.0%	Asset under management grew by 33.6% YoY and 4.0% on QoQ basis. Management expects 25% growth in AUM going forward.	17,517	13,107	33.6%
Customers acquired	622,000	502,000	23.9%				2,808,000	2,221,000	26.4%
Disbursements	5,106	4,208	21.3%	5,200	(1.8%)	Overall disbursements grew 21.3% YoY largely driven by SME segment, which grew 66% YoY and consumer durables which increased 37.4% YoY.	19,367	15,797	22.6%
Consumer Durables	2,298	1,672	37.4%	2,948	(22.0%)		9,783	7,040	39.0%
SME business	2,113	1,270	66.4%	1,521	38.9%		6,573	4,411	49.0%
Commercial	695	1,266	-45.1%	731	(4.9%)		3,011	4,346	-30.7%
Net Interest Income	453.8	339.9	33.5%	470.8	(3.6%)	Net interest income declined sequentially led by seasonal decline in yields. Going forward, the benefit of declining interest rates will be offset by declining yields on the relatively de-risked consumer & SME portfolio.	1,719	1,250	37.5%
Non interest income	63.2	49.5	27.7%	36.6	72.8%		186.6	175.7	6.2%
Total Income	517.0	389.3	32.8%	507.4	1.9%		1,906	1,426	33.7%
Total operating expenses	233.6	187.6	24.5%	219.5	6.4%		852.4	669.1	27.4%
Cost to income ratio	45.2%	48.2%		43.3%		Operating expenses increased by 24.5% YoY and 6.4% QoQ to Rs 219.5 crs in Q3FY13. Cost to income ratio improved from 48.2% in Q4FY12 to 45.2% in Q4FY13. Going forward, management expects operating leverage to continue resulting in improvement in cost to income ratio.	44.7%	46.9%	
Operating profit	283.4	201.7	40.5%	287.9	(1.6%)		1,053	757	39.2%
Provisions	45.0	40.3	11.7%	51.3	(12.3%)		181.7	154.4	17.7%
Profit before tax	238.4	161.4	47.7%	236.6	0.7%		871.4	602.2	44.7%
Tax	74.6	53.0	40.8%	76.5	(2.5%)		280.3	195.8	43.2%
Profit after tax	163.8	108.4	51.1%	160.1	2.3%		591.1	406.4	45.4%
EPS	32.9	26.2	25.4%	37.4	(12.0%)		119.2	107.5	10.9%
Gross NPA	1.09%	1.16%		1.0%		Although GNPA's increased by 9 bps sequentially to 1.09%, it was largely on account of a single account in the SME segment. Improvement was witnessed across all major businesses with controlled credit costs	1.09%	1.16%	
Net NPA	0.19%	0.12%		0.2%			0.19%	0.12%	
Provision coverage ratio	82.7%	89.0%		80.0%			82.7%	89.0%	
Capital Adequacy Ratio	22.0%	17.5%		17.5%			22.0%	17.5%	

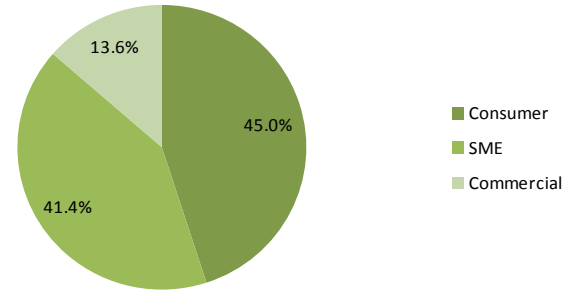
Source: Company data, Nirmal Bang Research

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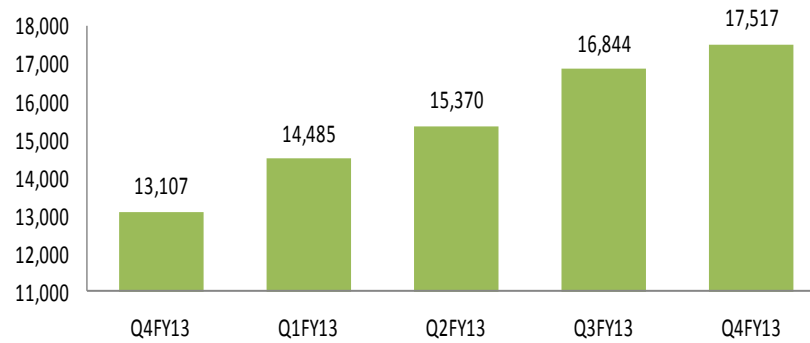
Break up of AUM



Break up of disbursement

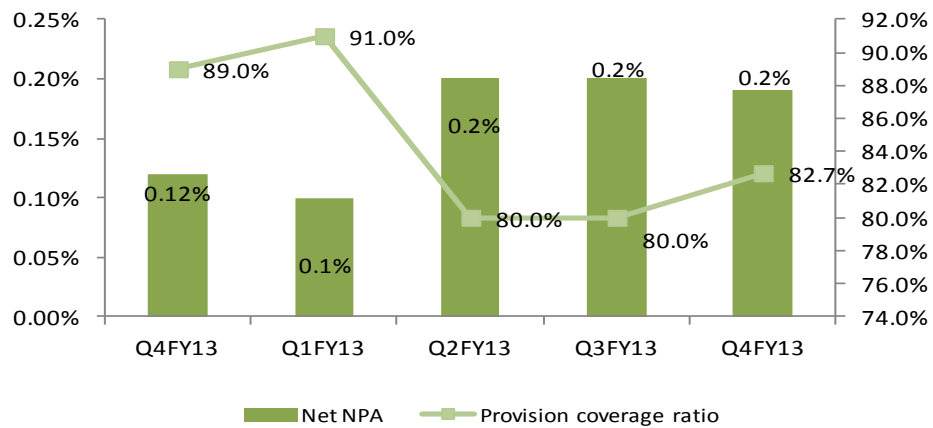


Asset Under Management



Source: Company data, Nirmal Bang Research

Movement of NPA



Source: Company data, Nirmal Bang Research

## Bajaj Finance Limited

## Financials

Profitability (Rs. Crs)	FY12	FY13	FY14E	FY15E	Balance Sheet (Rs. Crs)	FY12	FY13	FY14E	FY15E
Interest earned	1,996	2,925	3,609	4,337	Equity capital	41	50	50	50
Interest expended	746	1,206	1,378	1,600	Warrants money	21	0	0	0
<b>Net interest income</b>	<b>1,250</b>	<b>1,719</b>	<b>2,231</b>	<b>2,736</b>	Reserves and surplus	1,971	3,317	3,955	4,767
Non interest income	176	187	207	234	<b>Net worth</b>	<b>2,034</b>	<b>3,367</b>	<b>4,005</b>	<b>4,817</b>
<b>Total income</b>	<b>1,426</b>	<b>1,906</b>	<b>2,438</b>	<b>2,970</b>	Secured Loans	6,408	7,503	8,674	9,614
Marketing exp	167	183	234	288	Unsecured Loans	2,795	2,080	3,373	3,739
Staff costs	190	245	324	405	<b>Total Loans</b>	<b>9,202</b>	<b>9,583</b>	<b>12,047</b>	<b>13,353</b>
Other Op Exp	312	425	505	580	Curr Liab	1,632	4,764	5,909	8,614
<b>Profit before prov</b>	<b>757</b>	<b>1,053</b>	<b>1,376</b>	<b>1,698</b>	Long Term Liab	61	107	123	129
Provisions	154	182	240	278	<b>Total liab and equity</b>	<b>12,929</b>	<b>17,821</b>	<b>22,083</b>	<b>26,913</b>
Profit before tax	602	871	1,136	1,420	Cash and bank bal	60	416	430	485
Taxes	196	280	394	492	Investments	5	5	6	6
<b>Net profit</b>	<b>406</b>	<b>591</b>	<b>743</b>	<b>928</b>	Receivables	12,283	16,744	20,951	25,679
Quarterly (Rs. Crs)	June.12	Sep.12	Dec.12	Mar.13	Fixed assets	139	176	194	213
<b>Net interest income</b>	403	391	471	454	Other assets	301	303	318	334
Non interest income	36	51	37	63	Other Long Term Assets	141	177	185	195
<b>Total income</b>	439	442	507	517	<b>Total assets</b>	<b>12,929</b>	<b>17,821</b>	<b>22,083</b>	<b>26,913</b>
Operating expenses	201	198	219	234	Key Ratios	FY12	FY13	FY14E	FY15E
<b>Operating profit</b>	238	243	288	283	<b>Yield Ratios</b>				
Provisions	32	53	51	45	<b>Avg Yield on Assets</b>	20.4%	20.2%	19.2%	18.6%
Profit before tax	206	190	237	238	<b>Cost of Int Bearing Liab</b>	8.9%	12.8%	12.7%	12.6%
Taxes	68	62	77	75	NIM/ Spread	11.5%	7.3%	6.4%	6.0%
<b>Net profit</b>	139	129	160	164	Gross NPA	1.1%	1.3%	1.4%	1.4%
Profitability Ratios	FY12	FY13	FY14E	FY15E	Net NPA	0.12%	0.25%	0.30%	0.30%
Cost / Income Ratio	46.9%	44.7%	43.6%	42.8%	Per share data	FY12	FY13	FY14E	FY15E
Net profit margin	28.5%	31.0%	30.5%	31.2%	EPS	107.5	134.9	149.8	187.2
RONW	24.0%	21.9%	20.1%	21.0%	BVPS	538	679	808	972
Return on Assets	3.8%	3.8%	3.7%	3.8%	Adj BVPS	530	662	780	925
Growth Ratios	FY12	FY13	FY14E	FY15E	DPS	12	15	18	20
Advances growth	68.9%	36.3%	25.1%	22.6%	Valuation Ratios	FY12	FY13	FY14E	FY15E
NII growth	38.0%	37.5%	29.8%	22.6%	P/E	13.73	10.94	9.85	7.89
PAT growth	64.6%	45.4%	25.6%	24.9%	P/BV	2.74	2.17	1.83	1.52
Pre prov profit growth	31.7%	39.2%	30.7%	23.4%	P/ABV	2.78	2.23	1.89	1.60
Non interest inc growth	43.6%	6.2%	10.9%	12.8%					

Source: Company data, Nirmal Bang Research

## NOTES

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