

16 May 2012

Bajaj Finance

Lower share of consumer loans to hit margins; Sell

Rating: **Sell**

Target Price: ₹712

Share Price: ₹847

Bajaj Finance's net profit grew 53% yoy, driven by strong AUM growth, up 73% yoy. On the high base, we expect loan growth to moderate and margins to further decline in FY13/14 because of the altered loan mix. On the lower profit-growth expectations over FY13/14, we maintain a Sell.

- **Robust loan growth; likely to moderate.** AUM grew 73.1% yoy (10% qoq) to ₹131.1bn, driven by strong growth in loans against property and vendor finance. We expect the loan growth to ease in FY13/14 due to the high base and slower economic growth.
- **NIM declines ~312bps yoy.** NIM fell 312bps due to a change in product mix (the proportion of higher-yielding consumer loans fell to 38%, from 44.1% a year ago) and the rise in borrowing costs. With the mounting share of infrastructure loans and loans against property, we expect NIM to be flat in FY13/14.
- **Asset quality robust, unlikely to be sustainable.** In 4QFY12, asset quality was robust, with GNPA at 1.2%, the lowest in the last 12 quarters. NPA coverage improved to 89%, the highest-ever registered by the NBFC. Loan-loss provisioning was (at 0.3% of AUM) one of the lowest since FY09. We expect NPA provisioning to rise over FY13/14, given the slower economy and high proportion of unsecured assets.
- **Valuation.** Slower loan growth, flat margins and higher credit costs are expected to lead to lower profitability in FY13/14 than in FY12. We expect the RoA to slip 30bps over FY12-14. We maintain a Sell. At our price target of ₹712, the stock would trade at FY12e and FY13e PBV of 1.9x and 1.6x, respectively. **Risks:** Higher-than-expected loan growth and lower-than-expected delinquencies.

Key data	BAF IN / BJFN.BO
52-week high / low	₹916 / ₹552
Sensex / Nifty	16030 / 4858
3-m average volume	US\$0.4m
Market cap	₹35bn / US\$0.65bn
Shares outstanding	41.3m

Shareholding pattern (%)	Mar-12	Dec-11	Sep-11
Promoters	61.1	56.1	56.1
- of which, pledged	-	-	-
Free float	38.9	43.9	43.9
- Foreign institutions	4.9	5.0	5.0
- Domestic institutions	12.0	13.5	13.5
- Public	22.0	25.4	25.4

Financials (YE: Mar)	FY13e	FY14e
Net interest income (₹m)	17,954	22,024
Net profit (₹m)	4,704	5,743
EPS (₹)	128.4	156.8
Growth (%)	16.0	22.1
PE (x)	6.6	5.4
PABV (x)	1.6	1.3
RoE (%)	24.4	23.9
RoA (%)	3.7	3.7
Dividend yield (%)	1.5	1.6
Net NPA (%)	1.2	1.2

Source: Anand Rathi Research

Quarterly results (YE: Mar)	4QFY11	4QFY12	% yoy	FY11	FY12	% yoy
Net interest income (₹m)	2,360	3,399	44.0	9,059	12,454	37.5
Non-interest income (₹m)	402	495	22.9	1,223	1,757	43.6
Operating expenses (₹m)	1,323	1,878	41.9	4,533	6,644	46.6
Cost-to-income (%)	47.9	48.2	34bps	44.1	46.8	267 bps
Pre-provisioning profit (₹m)	1,439	2,016	40.3	5,749	7,566	31.6
Provisions (₹m)	377	403	7.1	2,046	1,544	(24.5)
PBT (₹m)	1,063	1,612	52.2	3,703	6,022	62.7
Tax (₹m)	353	530	50.2	1,233	1,958	58.8
PAT (₹m)	710	1,083	53.2	2,470	4,064	64.6
EPS (₹)	19.4	29.6	52.4	67.5	110.8	64.1

Source: Company, Anand Rathi Research

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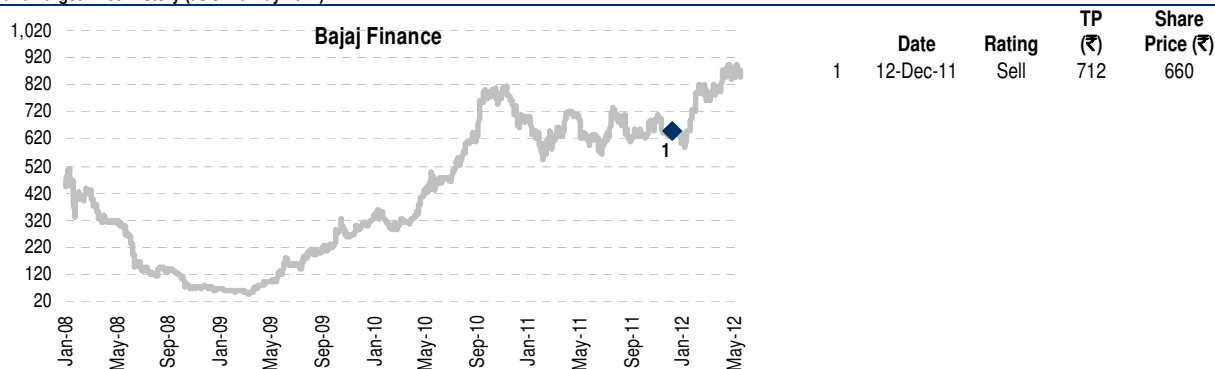
Appendix 1

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