NIRMAL BANG
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Bajaj Finance Limited

Recommendation	HOLD
CMP (19/10/2012)	Rs.1,270
Target Price	Rs.1,424
Sector	NBFC

Stock Details	
BSE Code	500034
NSE Code	BAJFINANCE
Bloomberg Code	BAF IN
Market Cap (Rs cr)	4,015
Free Float (%)	38.9
52- wk HI/Lo (Rs)	1010/585
Avg. volume BSE (Quarterly)	2,950
Face Value (Rs)	10
Dividend (FY 12)	120%
Shares o/s (Crs)	4.13

Relative Performance	1Mth	3Mth	1Yr
Bajaj Finance	16.7%	30.5%	90.1%
Sensex	1.6%	9.4%	10.0%

Shareholding Pattern	30th Sep 12
Promoters Holding	60.95%
Institutional (Incl. FII)	17.51%
Corporate Bodies	5.56%
Public & others	15.98%

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Maintains growth momentum; adopts pro-active approach

Bajaj Finance (BFL) reported net profit of Rs 128.5 cr (47.1% YoY) in Q2FY13 driven by growth across consumer and SME business. Management has adopted cautious approach towards infra and construction lending as it is deteriorating the overall asset portfolio of the company. Despite this asset quality remained fairly stable during the quarter with gross NPA at 1.1% and net NPA at 0.2%. Sensing some stress on the portfolio, the company has provided accelerated provisions worth Rs 14 cr during the quarter. Other operating income witnessed traction during the quarter leading to growth in total income. Moreover, the company witnessed an improvement in cost to income ratio both QoQ and YoY. ***Going forward, we believe that Bajaj Finance will continue to show a strong growth trajectory; Management has already guided for 30-35% growth. With control over NPAs, targeting a wider access and strong growth in the book, Bajaj Finance is all set to command premium valuations going forward.***

At CMP the stock is trading at 2.17x FY13E and 1.78x FY14E ABV and 9.58x FY13E and 7.75x FY14E EPS. ***We roll over to FY14E estimates and arrive at a target price of Rs 1,424 (P/ABV multiple of 2x) indicating further potential upside of 12% from current levels. We recommend to HOLD the stock and use any decline to accumulate the stock for a target price of Rs 1,424.***

- Net Interest Income increased 37.6% YoY to Rs 391 cr in Q2FY13 resulting from the strong growth in disbursements on YoY basis.
- Other operating income witnessed an increase of 45.0% QoQ and 23.2% YoY to Rs 49.7 cr in Q2FY13. The main drivers for the other operating income are insurance, credit card business, EMI cards, general insurance (tie up with Bajaj Allianz) etc which added up to a decent growth.
- The growth in disbursements stood at 29.3% YoY to Rs 4,334 cr in Q2FY13. Q2 is generally not a strong quarter (Q1 and Q3 are seasonally strong) and therefore the company witnessed decline of 3.1% QoQ on net interest income and 8.3% QoQ decline on the disbursement front.
- Management expects the overall loan book to witness 30-35% growth for FY13E with more focus on secured businesses.
- Asset under management grew by 52.6% YoY and 6.1% on QoQ basis at Rs 15,370 cr. Management expects its Assets Under Management (AUM) to reach around Rs 17,500-18,000 cr by FY13E (increasing the target from Rs 16,000 cr earlier).
- The asset quality across all business except Construction Equipment remained steady in Q2FY13. Construction Equipment book's receivables portfolio deteriorated sharply in line with sharp deterioration in industry performance. One account worth Rs 45 cr has been referred to CDR out of the construction equipment business.
- In Q2FY13, the company provided accelerated provision of Rs 14 cr as against Rs 5 cr in Q2FY12. Excluding the accelerated provision, loan loss provisioning stood at Rs 39 cr.

Year	NII (Rs crs)	Growth (%)	PBP (Rs cr)	PAT (Rs crs)	Margin (%)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 11A	906	49.0%	575	247	24.0%	67.4	18.84	362	3.51	19.7%
FY 12A	1,250	38.0%	757	406	28.5%	107.5	11.81	518	2.45	24.0%
FY 13E	1,662	32.9%	1,032	565	30.4%	132.6	9.58	585	2.17	24.5%
FY14E	1,991	19.8%	1,257	698	31.3%	163.8	7.75	712	1.78	24.1%

Net interest income remains reasonably strong

Net Interest Income increased 37.6% YoY to Rs 391 cr in Q2FY13 resulting from the strong growth in disbursements on YoY basis. The growth in disbursements stood at 29.3% YoY to Rs 4,334 cr in Q2FY13. Q2 is generally not a strong quarter for the company as compared to Q1 (Q1 and Q3 are seasonally strong quarter for the company) and therefore the company witnessed decline of 3.1% QoQ on net interest income and 8.3% QoQ decline on the disbursement front.

Other operating income witnessed an increase of 45.0% QoQ and 23.2% YoY to Rs 49.7 cr in Q2FY13. The main drivers for the other operating income are insurance, credit card business, EMI cards, general insurance (tie up with Bajaj Allianz) etc which added up to a decent growth in other operating income.

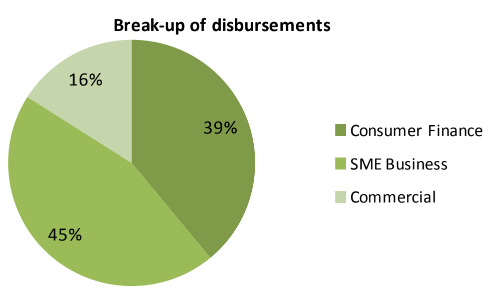
Growth continues in Consumer and SME business

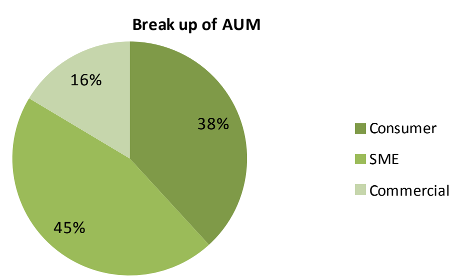
Disbursements continued to witness momentum on YoY basis with a growth of 29.3% YoY to Rs 4,334 cr. Consumer business increased 33.2% YoY to Rs 2112 cr and the SME business increased by 67.0% YoY to Rs 1411 cr. In the consumer business, the company improved its market share from 11% in FY12 to 12.5% in H1FY13. Going forward, the company remains quite confident about the consumer business given the high entry barriers. Bajaj Finance plans to add 9 new locations for consumer electronic business which we believe will provide wider access to the company and thereby help to maintain its growth momentum.

However, the commercial business (construction equipment) of the company witnessed a YoY decline of 11.9% to Rs 811 cr. Infra commercial businesses showed de-growth reflecting the overall stress in the market and company's negative outlook on the sector. Construction Equipment business disbursals declined by 61% on YoY basis. Infrastructure loan growth has been flat in H1FY13. The company did not witness any new sanctions in infra financing business in Q2FY13 as well. However, vendor financing is witnessing good traction, and management targets book of Rs 950-1000 cr in FY13E.

The company's SME business (Mortgages, Business Loans and Loans against securities) continued to grow in a healthy manner (+67.0% YoY) due to company's sharp focus on customer segmentation. The company is operating currently in 31 cities and plans to expand the business in 5 new locations in Q3FY13. Moreover, the company is unveiling its Hub and Spoke sourcing strategy and plans to add 12 new spokes in Q3FY13.

Owing to strong disbursements, loan book (receivables under financing activity) increased by 57.7% YoY to Rs 13,750 crs.





Source: Company data, Nirmal Bang Research

In the new business segment of lifestyle financing the company is operating in cities with around 600 retailers and targets 35% of the existing customers. Management is expanding the reach to around 17 cities by FY13E.

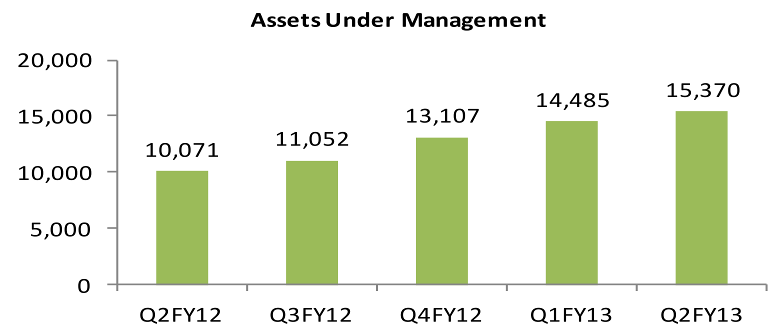
Management expects the overall loan book to witness 30-35% growth for FY13E with more focus on secured businesses.

Disbursements	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Consumer durables	2,112	1,586	33.2%	2,426	(12.9%)
SME business	1,411	845	67.0%	1,528	(7.7%)
Commercial	811	921	-11.9%	774	4.8%
Total disbursements	4,334	3,588	20.8%	4,728	(8.3%)

Source: Company data, Nirmal Bang Research

Robust growth in AUM; target revised upwards

Asset under management grew by 52.6% YoY and 6.1% on QoQ basis at Rs 15,370 cr. Management expects its Assets Under Management (AUM) to reach around Rs 17,500-18,000 cr by FY13E (increasing the target from Rs 16,000 cr earlier). Number of new customer acquired stood at 600,792 in Q1FY13 vs. 491,695 in Q1FY12, a growth of 22.0%.

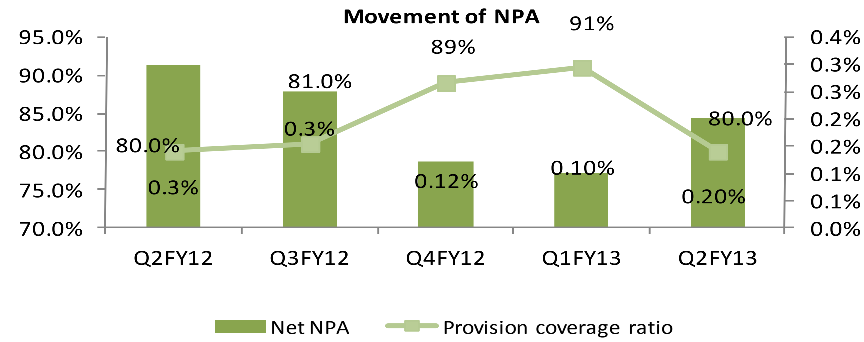


Source: Company data, Nirmal Bang Research

Some stress visible; Adopts pro-active approach

Gross NPAs and Net NPAs remained stable at 1.1% and 0.2% respectively. The asset quality across all business except Construction Equipment remained steady in Q2FY13. However, Construction Equipment book's receivables portfolio deteriorated sharply in line with sharp deterioration in industry performance. The deterioration in asset quality was due to the construction equipment segment and there is no stress prevalent in other business of the company. One account worth Rs 45 cr has been referred to CDR out of the construction equipment business.

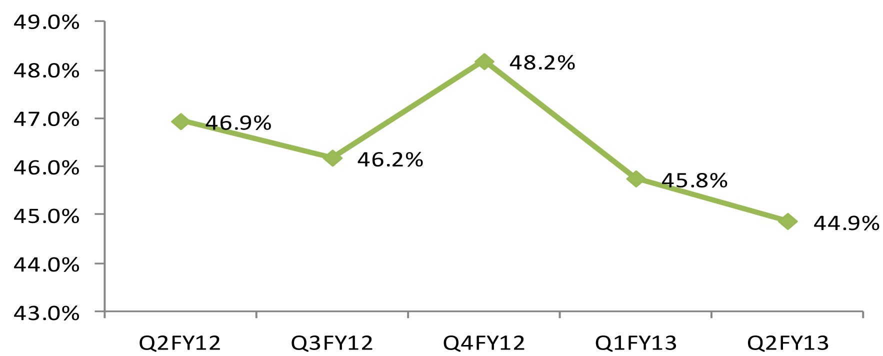
Provisions increased 66.6% on QoQ basis and 21.1% on YoY basis to Rs 53.4 crs. In Q2FY13, the company provided accelerated provision of Rs 14 cr as against Rs 5 cr in Q2FY12. Excluding the accelerated provision, loan loss provisioning stood at Rs 39 cr The company has taken a proactive approach in compliance with the Usha Thorat Committee guidelines which if implemented will require the company to maintain additional provision of around Rs 24-27 cr. Out of this Rs 14 cr has been provided and Management expects to provide the remaining in Q4FY13. Provision coverage ratio in Q2FY13 stood at 80% against the same level in Q2FY12.



Source: Company data, Nirmal Bang Research

Cost to income ratios expected to remain elevated

Operating expenses increased by 29.5% YoY whereas declined 1.4% QoQ to Rs 198 crs in Q2FY13. Marketing expenses increased 6.9% YoY whereas recovery expenses increased 36.3% YoY. However, as the growth in total income outpaced the growth in operating expenses the cost to income ratio improved from 45.8% in Q1FY13 and 46.9% in Q2FY12 to 44.9% in Q2FY13. Going forward, with the continuous investments being made by the company in new technologies and employees along with increasing its penetration across regions by opening new locations, cost to income ratio is expected to remain on the higher side in FY13E.



Income Statement (Rs cr)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Net Interest Income	**390.9**	**284.0**	**37.6%**	**403.4**	**(3.1%)**
Non interest income	50.8	42.0	21.1%	36.1	41.0%
Total Income	441.7	326.0	35.5%	439.5	0.5%
Total operating expenses	198.3	153.0	29.5%	201.1	(1.4%)
Operating profit	**243.5**	**172.9**	**40.8%**	**238.4**	**2.1%**
Provisions	53.4	44.1	21.1%	32.0	66.8%
Profit before tax	190.1	128.9	47.5%	206.4	(7.9%)
Tax	61.6	41.5	48.3%	67.7	(9.1%)
Profit after tax	**128.5**	**87.4**	**47.1%**	**138.7**	**(7.3%)**
EPS	31.1	23.9	30.5%	33.6	(7.3%)

Source: Company data, Nirmal Bang Research

- Net Profit has shown a growth of 30.5% YoY at Rs 128.5 crs in Q2FY13 as compared to Rs 87.4 cr in Q2FY12 mainly due to increase in net interest income.
- EPS for Q2FY13 stood at Rs 31.1 while for Q2FY12, it was Rs 23.9.
- Capital Adequacy Ratio stands at 17.7% as on September 2012.

Valuation and Recommendation

Bajaj Finance continues to enjoy pricing power resulting from the benign competition and healthy asset quality. The company has been consistently delivering healthy performance which is commendable given the current environment. BFL is well positioned to deliver sustainable and profitable growth which is scalable with lower risk.

With control over NPAs, targeting a wider access and strong growth in the book, Bajaj Finance is all set to command premium valuations going forward. We roll over to FY14E estimates and arrive at a target price of Rs 1,424 (P/ABV multiple of 2x) indicating further upside of 12% from current levels.

At CMP the stock is trading at 2.17x FY13E ABV and 1.78x FY14E ABV and 9.58x FY13E and 7.75x FY14E EPS. ***We recommend to HOLD the stock and use any decline to accumulate the stock for a target price of Rs 1,424.***

Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	1,284	1,996	2,643	3,250
Interest expended	378	746	981	1,259
Net interest income	**906**	**1,250**	**1,662**	**1,991**
Non interest income	122	176	200	240
Total income	**1,028**	**1,426**	**1,862**	**2,231**
Marketing exp	103	167	201	237
Staff costs	145	190	242	290
Other Op Exp	206	312	387	447
Profit before prov	**575**	**757**	**1,032**	**1,257**
Provisions	205	154	188	215
Profit before tax	370	602	844	1,042
Taxes	123	196	278	344
Net profit	**247**	**406**	**565**	**698**
Quarterly (Rs. Crs)	**Dec.11**	**Mar.12**	**June.12**	**Sep.12**
Net interest income	348	340	403	391
Non interest income	49	50	36	51
Total income	396	389	439	442
Operating expenses	183	188	201	198
Operating profit	213	202	238	243
Provisions	36	40	32	53
Profit before tax	177	161	206	190
Taxes	57	53	68	62
Net profit	120	108	139	129
Profitability Ratios	**FY11**	**FY12**	**FY13E**	**FY14E**
Cost / Income Ratio	44.1%	46.9%	44.6%	43.6%
Net profit margin	24.0%	28.5%	30.4%	31.3%
RONW	19.7%	24.0%	24.5%	24.1%
Return on Assets	3.7%	3.8%	3.8%	3.6%
Growth Ratios	**FY11**	**FY12**	**FY13E**	**FY14E**
Advances growth	80.6%	68.9%	33.6%	27.5%
NII growth	49.0%	38.0%	32.9%	19.8%
PAT growth	176.3%	64.6%	39.0%	23.6%
Pre prov profit growth	45.5%	31.7%	36.4%	21.8%
Non interest inc growth	14.8%	43.6%	13.8%	20.0%

Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Equity capital	37	41	43	43
Warrants money	0	21	0	0
Reserves and surplus	1,321	1,971	2,545	3,154
Net worth	**1,358**	**2,034**	**2,588**	**3,197**
Secured Loans	2,854	6,408	8,751	11,274
Unsecured Loans	2,469	2,795	3,751	4,832
Total Loans	**5,323**	**9,202**	**12,502**	**16,106**
Curr Liab	**1,806**	**1,630**	**1,878**	**2,163**
Long Term Liab	**35**	**61**	**70**	**80**
Total liab and equity	**8,522**	**12,927**	**17,037**	**21,546**
Cash and bank bal	872	60	10	-31
Investments	6	5	6	6
Receivables	7,272	12,283	16,407	20,917
Fixed assets	103	139	153	168
Other assets	151	298	313	328
Other Long Term Assets	119	142	149	157
Total assets	**8,522**	**12,927**	**17,037**	**21,546**

Key Ratios	FY11	FY12	FY13E	FY14E
Yield Ratios				
Avg Yield on Assets	22.7%	20.4%	18.4%	17.4%
Cost of Int Bearing Liab	7.6%	8.9%	9.0%	8.8%
NIM/ Spread	15.1%	11.5%	9.4%	8.6%
Gross NPA	3.7%	1.1%	1.2%	1.3%
Net NPA	0.80%	0.12%	0.20%	0.25%
Per share data	**FY11**	**FY12**	**FY13E**	**FY14E**
EPS	67.4	107.5	132.6	163.8
BVPS	371	538	607	750
Adj BVPS	362	518	585	712
DPS	10	12	15	18
Valuation Ratios	**FY11**	**FY12**	**FY13E**	**FY14E**
P/E	18.84	11.81	9.58	7.75
P/BV	3.43	2.36	2.09	1.69
P/ABV	3.51	2.45	2.17	1.78

Source: Company data, Nirmal Bang Research

NOTES

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