

CMP : Rs.1406

Reco : HOLD

Target : Rs.1575

STOCK INFO

| | |
|-------------------------|------------|
| BSE | 500034 |
| NSE | BAJFINANCE |
| Bloomberg | BAF IN |
| Reuters | BJFN.BO |
| Sector | NBFC |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Mn) | 428 |
| Mkt Cap (Rs Mn) | 60,191 |
| 52w H/L (Rs) | 1432/641 |
| Avg Daily Vol (BSE+NSE) | 37,040 |

SHAREHOLDING PATTERN

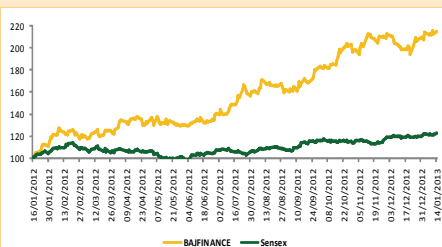
| | % |
|-------------------------------|------|
| <i>(as on 31st Dec. 2012)</i> | |
| Promoter | 62.0 |
| FII | 6.0 |
| DII | 12.6 |
| Others | 19.3 |

Source: BSE

| STOCK PERFORMANCE (%) | 1m | 3m | 12m |
|-----------------------|----|----|-----|
| BAJFINANCE | -2 | 2 | 99 |
| SENSEX | -4 | 1 | 16 |

Source: Capitaline, IndiaNivesh Research

BAJFINANCE v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Bajaj Finance Ltd (BFL) – Q3FY13 result update

Stellar performance continues... maintain HOLD with revised target price of Rs 1575....

- Asset under Management (AUM) growth remains robust at 52% yoy (10% qoq) attributed to healthy growth in consumer and SME segment while disbursements were up 12% yoy (20% qoq).
- NIMs (calc) surprised positively with more than expected expansion of 121 bps qoq due to higher disbursals in high yielding consumer segment resulting in yields expansion of 128 bps qoq. Net interest income was ahead of expectation at Rs 4.7 bn (vs Rs 4.5 bn est.).
- Asset quality was broadly stable at Net NPA of 0.2% as against 0.3% in Q3FY12. Provision coverage remains healthy at 80%.
- Net profit jumped by 33% yoy to Rs 1601 mn (vs Rs 1488 mn est.). Revising upwards our earnings estimates by 1% / 6% each for FY13E / FY14E to factor in higher than expected expansion in both loan book and margins.

Result Highlights:

Robust AUM growth:

AUM growth remains healthy at 52% yoy (10% qoq) to Rs 168 bn backed by robust growth in Consumer and SME financing. AUM of Consumer, SME and commercial financing business registered a growth of 43% yoy (16% qoq), 52% yoy (11% qoq) and 11% yoy (down 9% qoq) to Rs 69 bn, Rs 77.4 bn and Rs 22.1 bn respectively. Consumer business now constitutes 41% to total AUM as compared to 39% in Q2FY13. Disbursement growth was higher sequentially at 20% yoy to Rs 52 bn backed by robust disbursals of 40% qoq in consumer segment to Rs 29.5 bn due to festive season. Further disbursement under SME business was up 23% yoy (8% qoq) to Rs 15 bn while commercial segment was down 42% yoy (down 10% qoq) to Rs 7.3 bn due to company's conscious decision of selective disbursals in this segment. Further the clients acquired during Q3FY13 increased by 22% yoy to 0.83 mn as against 0.68 mn in Q3FY12. 2 & 3 wheeler penetration has increased to ~30% of Bajaj Auto's sales as against ~24% in FY12 and consumer electronics market share increased to ~14% in Q3FY13 as against 11% in FY11. Management is confident of maintaining healthy growth in Consumer and SME business with cautious view on commercial segment for FY13 and FY14.

| Loan/Disbursement (Rs mn) | % of total | Q3FY12 | Q3FY11 | % YoY | Q2FY12 | % QoQ |
|-------------------------------|--------------|---------------|---------------|-------------|---------------|-------------|
| Asset under management | 100.0 | 168440 | 110520 | 52.4 | 153700 | 9.6 |
| AUM - Consumer | 40.9 | 68950 | 48100 | 43.3 | 59700 | 15.5 |
| AUM - SME business | 45.9 | 77380 | 51080 | 51.5 | 69770 | 10.9 |
| AUM - Commercial | 13.1 | 22110 | 20010 | 10.5 | 24230 | -8.7 |
| Disbursement | 100.0 | 52000 | 46490 | 11.9 | 43340 | 20.0 |
| Disbursement - Consumer | 56.7 | 29480 | 21490 | 37.2 | 21120 | 39.6 |
| Disbursement - SME Business | 29.3 | 15210 | 12400 | 22.7 | 14110 | 7.8 |
| Disbursement - Commercial | 14.1 | 7310 | 12600 | -42.0 | 8110 | -9.9 |

Source: Company, IndiaNivesh Research

NIMs surprised positively:

NIMs (calc) surprised positively with more than expected expansion of 121 bps qoq to 11.7% due to 1) decline in cost of funds (calc) of 5 bps qoq to 10% and 2) expansion in yield (calc) of 128 bps to 19.7% on back of impressive growth in high yielding consumer segment. Net interest income growth was ahead of our expectation at 35% yoy (20% qoq) to Rs 4.7 bn.

Bajaj Finance Ltd (BFL) (contd...)

| Yields/Costs/Margins (%) | Q3FY12 | Q3FY11 | YoY bps | Q2FY12 | QoQ bps |
|--------------------------|--------|--------|---------|--------|---------|
| NIM | 11.7 | 13.3 | -157 | 10.5 | 121 |
| Yield on funds | 19.7 | 21.0 | -135 | 18.4 | 128 |
| Cost of funds | 10.0 | 9.5 | 49 | 10.1 | -5 |

Source: Calculated numbers

Asset quality broadly stable:

Asset quality of BFL was broadly stable at 0.2% Net NPA as against 0.3% in Q3FY12 and 1% Gross NPA as against 1.3% in Q3FY12. Further provisioning expense has increased from Rs 358 mn in Q3FY12 to Rs 513 mn (up 43% yoy) in Q3FY13. Provision coverage ratio continues to remain healthy at 80%.

| Gross/Net NPA (Rs mn) | Q3FY12 | Q3FY11 | YoY bps | Q2FY12 | QoQ bps |
|-----------------------|--------|--------|---------|--------|---------|
| Gross NPA | 1.0 | 1.3 | -28 | 1.1 | -10 |
| Net NPA | 0.2 | 0.3 | -10 | 0.2 | 0 |
| Provision Coverage | 80 | 81 | -100 | 80 | 0 |

Source: Company, IndiaNivesh Research

Strong capital Adequacy:

Capital adequacy of BFL remains strong at 17.5% with tier I capital of 14.5% for Q3FY13. During Q3FY13, Bajaj Finserv (promoter) has exercised the option to convert 1.3 mn warrants to equity shares at a premium of Rs 641 per share. Further the board has approved to issue 6.7 mn shares on right basis of 3 shares for every 19 shares held at Rs 1100 per shares totaling Rs 7.4 bn.

Valuation

BFL continues to deliver impressive performance on all fronts with better than expected AUM growth in consumer and SME segment due to festive season. Asset quality continues to remain best in the industry with healthy provisioning coverage. NIMs surprised positively with more than expected expansion due to decline in cost of funds and strong growth in high yielding consumer business. We have increased our earnings estimates by 1% / 5% for FY13E / FY14E to factor in the higher than expected expansion in both loan book and margins. At CMP of Rs 1406, the stock is trading at P/ABV of 2.4x and 1.9x for FY13E and FY14E respectively. We continue to maintain HOLD on the stock with the revised target price of Rs 1575 implying 2.1x FY14E ABV. (We have initiated BUY on BFL on 24th April 2012 at Rs 847 with target price of Rs 1040 and initiated coverage on 12th July 2012 with strong BUY rating on the stock at Rs 939 with target price of Rs 1125. Further we have upgraded the target price to Rs 1435 implying 2x FY13E ABV).

| Revisit to estimates (mn) | FY13E | | FY14E | |
|---------------------------|-------|-------|-------|-------|
| | Old | New | Old | New |
| Net Interest Income | 18273 | 17571 | 23846 | 23890 |
| Net Income | 19968 | 19239 | 25742 | 25809 |
| Pre Provision Profit | 10618 | 10676 | 13715 | 14403 |
| Profit before tax | 8701 | 8708 | 11072 | 11647 |
| Net Profit | 5849 | 5883 | 7442 | 7868 |

Source: IndiaNivesh Research

Bajaj Finance Ltd (BFL) (contd...)

| Rs mn | Q3FY12 | Q3FY11 | % YoY | Q2FY12 | % QoQ | 9MFY12 | 9MFY11 | % YoY |
|-----------------------------|--------|--------|-------|--------|-------|--------|---------|-------|
| Interest Income | 7917 | 5547 | 42.7 | 6858 | 15.4 | 21445 | 14224 | 50.8 |
| Interest Expense | 3209 | 2046 | 56.8 | 2947 | 8.9 | 8792 | 5143 | 71.0 |
| Net Interest Income | 4708 | 3501 | 34.5 | 3911 | 20.4 | 12653 | 9081 | 39.3 |
| Other Income | 366 | 488 | -25.2 | 508 | -28.1 | 1234 | 1262 | -2.2 |
| Net Income | 5074 | 3990 | 27.2 | 4419 | 14.8 | 13887 | 10343 | 34.3 |
| Total Income | 8282 | 6036 | 37.2 | 7367 | 12.4 | 22679 | 15486 | 46.4 |
| Total Expenditure | 2195 | 1857 | 18.2 | 1983 | 10.7 | 6187 | 4793 | 29.1 |
| Pre provisioning profit | 2879 | 2133 | 35.0 | 2437 | 18.2 | 6831 | 4777 | 43.0 |
| Provisions & Write Offs | 513 | 358 | 43.4 | 534 | -3.9 | 1367 | 1141 | 19.9 |
| Profit Before tax | 2366 | 1775 | 33.3 | 1903 | 24.3 | 5464 | 3636 | 50.3 |
| Tax | 765 | 575 | 33.1 | 616 | 24.3 | 2057 | 1428 | 44.1 |
| Net Profit | 1601 | 1200 | 33.4 | 1287 | 24.4 | 3406 | 2208 | 54.3 |
| EPS (Rs) | 37.4 | 32.8 | 14.2 | 31.2 | 20.0 | 102.1 | 81.4005 | 25.4 |
| Asset under management | 168440 | 110520 | 52.4 | 153700 | 9.6 | 168440 | 110520 | 52.4 |
| AUM - Consumer | 68950 | 48100 | 43.3 | 59700 | 15.5 | 68950 | 48100 | 43.3 |
| AUM - SME business | 77380 | 51080 | 51.5 | 69770 | 10.9 | 77380 | 51080 | 51.5 |
| AUM - Commercial | 22110 | 20010 | 10.5 | 24230 | -8.7 | 22110 | 20010 | 10.5 |
| Disbursement | 52000 | 46490 | 11.9 | 43340 | 20.0 | 142620 | 115890 | 23.1 |
| Disbursement - Consumer | 29480 | 21490 | 37.2 | 21120 | 39.6 | 74860 | 53700 | 39.4 |
| Disbursement - SME Business | 15210 | 12400 | 22.7 | 14110 | 7.8 | 44600 | 31390 | 42.1 |
| Disbursement - Commercial | 7310 | 12600 | -42.0 | 8110 | -9.9 | 23160 | 30800 | -25 |

| Key ratios | bps | | | bps | |
|--------------------|------|------|------|------|------|
| NIM | 11.7 | 13.3 | -157 | 10.5 | 121 |
| Yield on funds | 19.7 | 21.0 | -135 | 18.4 | 128 |
| Cost of funds | 10.0 | 9.5 | 49 | 10.1 | -5 |
| ROA | 4.0 | 4.8 | -80 | 3.6 | 40 |
| ROE | 26.4 | 30.0 | -360 | 23.2 | 320 |
| Cost to Income | 43.3 | 46.5 | -329 | 50.7 | -744 |
| Gross NPA | 1.00 | 1.28 | -28 | 1.10 | -10 |
| Net NPA | 0.20 | 0.30 | -10 | 0.20 | 0 |
| Provision Coverage | 80 | 81 | -100 | 80 | 0 |
| CAR | 17.5 | 17.3 | 20 | 17.7 | -20 |
| Tier I | 14.5 | 14.5 | 0 | 14.4 | 10 |

Source: Company, IndiaNivesh Research

Bajaj Finance Ltd (BFL) (contd...)

| Income Statement (Rs Mn) | FY10 | FY11 | FY12 | FY13E | FY14E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| Interest Earned | 8097 | 12838 | 19963 | 29777 | 40120 |
| Interest Expended | 2017 | 3780 | 7483 | 12206 | 16231 |
| Net Interest Income | 6080 | 9059 | 12480 | 17571 | 23890 |
| Other Income | 1065 | 1223 | 1757 | 1668 | 1919 |
| Net Income | 7145 | 10282 | 14236 | 19239 | 25809 |
| Total Income | 9162 | 14061 | 21719 | 31445 | 42040 |
| Total Expenses | 3196 | 4537 | 6670 | 8563 | 11406 |
| Pre Provision Profit | 3949 | 5745 | 7566 | 10676 | 14403 |
| Provisions | 2606 | 2046 | 1544 | 1968 | 2757 |
| Profit before tax | 1343 | 3699 | 6022 | 8708 | 11647 |
| Tax | 449 | 1229 | 1958 | 2826 | 3779 |
| Net Profit | 894 | 2470 | 4064 | 5883 | 7868 |

Source: IndiaNivesh Research

| Balance Sheet (Rs Mn) | FY10 | FY11 | FY12 | FY13E | FY14E |
|--------------------------------|--------------|--------------|---------------|---------------|---------------|
| Liabilities | | | | | |
| Equity | 366 | 366 | 413 | 429 | 429 |
| Reserves and Surplus | 11159 | 13215 | 19923 | 32571 | 39641 |
| Net Worth | 11525 | 13581 | 20336 | 32999 | 40070 |
| Borrowings | 32268 | 67086 | 102260 | 143877 | 190155 |
| Other Liabilities & Provisions | 2137 | 4204 | 6063 | 5990 | 8361 |
| Total Liabilities | 45930 | 84871 | 128659 | 182866 | 238586 |
| Assets | | | | | |
| Assets on Finance | 40318 | 72720 | 122830 | 175225 | 229669 |
| Investments | 3018 | 56 | 55 | 1269 | 1677 |
| Net Block | 505 | 1026 | 1388 | 1665 | 1915 |
| Other Assets | 2090 | 11069 | 4386 | 4707 | 5261 |
| Total Assets | 45930 | 84871 | 128659 | 182866 | 238522 |

Source: Deviation in Other assets and liabilities is due to reclassification, IndiaNivesh Research

| Valuation Ratios | FY10 | FY11 | FY12 | FY13E | FY14E |
|-------------------------------|------|------|------|-------|-------|
| Earning Per Share (Rs) | 24 | 67 | 98 | 137 | 183 |
| Book Value Per Share (Rs) | 315 | 371 | 492 | 770 | 935 |
| Adj Book Value Per Share (Rs) | 276 | 354 | 488 | 764 | 925 |
| Dividend Per Share (Rs) | 6.0 | 10.0 | 12.0 | 14.0 | 16.0 |
| P/E (x) | 13.0 | 10.4 | 8.3 | 10.3 | 7.7 |
| P/BV (x) | 1.0 | 1.9 | 1.7 | 1.8 | 1.5 |
| P/ABV (x) | 1.2 | 2.0 | 1.7 | 1.8 | 1.5 |
| Mcap/Total Income (x) | 1.3 | 1.8 | 1.6 | 1.9 | 1.4 |

| Growth Y-o-Y (%) | FY10 | FY11 | FY12 | FY13E | FY14E |
|------------------------|-------|-------|------|-------|-------|
| Assets on Finance | 70.1 | 80.4 | 68.9 | 42.7 | 31.1 |
| Asset Under Management | 58.8 | 87.8 | 73.1 | 38.3 | 32.2 |
| Disbursements | 87.1 | 105.8 | 67.4 | 23.5 | 23.5 |
| Borrowings | 100.2 | 107.9 | 52.4 | 40.7 | 32.2 |
| Balance Sheet | 52.3 | 84.8 | 51.6 | 42.1 | 30.4 |
| Net Interest Income | 76.1 | 49.0 | 37.8 | 40.8 | 36.0 |
| Other Income | 18.5 | 14.8 | 43.6 | -5.0 | 15.1 |
| Net Profit | 163.2 | 175.5 | 62.8 | 44.6 | 33.7 |

| Return Ratios (%) | FY10 | FY11 | FY12 | FY13E | FY14E |
|-----------------------------------|------|------|------|-------|-------|
| Return on Avg Equity | 8.0 | 19.7 | 24.0 | 22.1 | 21.5 |
| Return on Avg Total Asset | 2.3 | 3.8 | 3.8 | 3.8 | 3.7 |
| Return on Avg Asset Under Finance | 2.8 | 4.4 | 4.2 | 3.9 | 3.9 |
| Return on Avg Asset Under Mgmt | 2.7 | 4.3 | 3.9 | 3.8 | 3.7 |

| Yield / Margin (%) | FY10 | FY11 | FY12 | FY13E | FY14E |
|---------------------|------|------|------|-------|-------|
| Yield on Funds | 24.6 | 22.1 | 19.3 | 19.1 | 19.1 |
| Cost of Funds | 8.3 | 7.6 | 8.8 | 9.9 | 9.7 |
| Interest Spread | 16.3 | 14.5 | 10.5 | 9.1 | 9.3 |
| Net Interest Margin | 18.5 | 15.6 | 12.1 | 11.3 | 11.4 |
| Net Profit Margin | 9.8 | 17.6 | 18.7 | 18.7 | 18.7 |
| Dividend Yield | 1.9 | 1.4 | 1.5 | 1.0 | 1.1 |

| Other Ratios (%) | FY10 | FY11 | FY12 | FY13E | FY14E |
|------------------------------------|------|------|------|-------|-------|
| Cost / Income | 44.7 | 44.1 | 46.9 | 44.5 | 44.2 |
| Interest Expense / Interest Income | 24.9 | 29.4 | 37.5 | 41.0 | 40.5 |
| Net Interest Income / Net Income | 85.1 | 88.1 | 87.7 | 91.3 | 92.6 |
| CAR | 25.9 | 20.0 | 17.5 | 21.8 | 20.2 |
| Tier I | 25.9 | 16.8 | 15.0 | 20.0 | 18.6 |
| Provision Coverage Ratio | 55.0 | 79.0 | 89.0 | 85.2 | 83.6 |
| Net NPA | 2.2 | 0.8 | 0.1 | 0.2 | 0.2 |

Source: IndiaNivesh Research



Trust.....we earn it.

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