



Bajaj Finance Limited

STOCK INFO. BSE Sensex:19,982	BLOOMBERG BAF IN
S&P CNX:5,980	REUTERS CODE BJFN.BO

24 December 2010

BUY*Initiating Coverage***₹700**

We recommend BUY on Bajaj Finance Limited (BFL) with a 12 months target price of ₹918/share.

INVESTMENT ARGUMENTS:

- **Consumer Finance key to growth**
- **Earning Visibility**
- **High credit rating**

Consumer Finance key to growth

BFL is a play on rising consumer spending in India, which is expected to grow multifold on rising disposable income. It has metamorphosed itself from Bajaj Auto's finance arm to a diversified NBFC, where its loan book from Bajaj Auto is expected to reduce from current levels of ~30% to 23% by FY12. The company has expanded its presence primarily from two-wheeler financing to consumer durables, SME loans and other Secured loans. It has plans also to foray into infrastructure financing. Diversification into other secured assets business will likely enhance quality of loan book.

Earnings Visibility

High yield consumer durable financing business and secured loans business is expected to show CAGR of 42% and 100% respectively during FY10-FY12E. Total disbursement and loan book will exhibit CAGR of ~50% during the same period, which provides reasonable visibility to BFL's earnings.

High credit rating

BFL credit rating of FAAA/Stable from CRISIL is the highest in whole industry. This helps the firm to reduce its borrowing costs. Balance sheet of BFL is well capitalised and tenure for the majority of borrowings is more than 2 years, which will help contain cost of funding in case of rising short term rates.

Valuation and View

We believe BFL is the best bet in the NBFC space in the wake of high disbursement growth, foray into new business areas, improving asset quality and resulting RoE expansion. The stock is currently trading at 13x/11x of FY11E/FY12E earnings and 2x/1.7x of FY11E/FY12E adjusted book value, which is at around 25-40% discount to valuations of industry leaders. However, our earnings estimates are fairly conservative as compared to consensus view by ~20% in FY12E. Favourable interest rate scenario and business mix improvement provide upside risk to our estimates. Therefore, we recommend BUY with 12 months target price of ₹918 (2.3x P/ABV FY12E, 34% upside).

(Consolidated*)	(₹ CRORES)		
Y/E MARCH	FY10	FY11E	FY12E
NII (₹ Cr.)	679	904	1,179
OP (₹ Cr.)	395	518	660
NP (₹ Cr.)	89	196	234
EPS (₹)	24	54	64
EPS Growth (%)	164	119	20
BV/Share(₹)	315	353	399
P/E (x)	28.2	12.9	10.8
Div yld (%)	0.9	1.9	2.3
P/BV (x)	2.2	2.0	1.7
RoE (%)	8.0	16.0	17.0
RoA (%)	2.8	3.7	3.0

*All calculations based on 23rd Dec closing @ 690

STOCK DATA

52-W High/Low Range (₹)	839/283
Major Shareholders (in %, as of Sep 2010)	
Promoter	55.2
Non Promoter Corp Holding	19.3
Public & Others	25.5
Average Daily Turnover(6 months)	
Volume	130,060
Value (₹ cr)	8.5
1/6/12 Month Rel. Performance (%)	-11/30/95
Month Abs. Performance (%)	-11/43/115

KEY FINANCIALS

Shares Outstanding (Crs)	3.7
Market Price (₹)	700
Market Cap. (₹ bn.)	25.9
Market Cap. (US\$ mn)	561
Past 3 yrs. NP Growth (%)	24%

Maximum Buy Price : ₹730

CONCERNS:**Interest rate risk**

BFL's average duration of its borrowings remain healthy at more than 2 years. However, spike in short term interest rates may increase BFL's cost of funds on incremental borrowings required to grow its loan portfolio, which can temper margins in the short term.

General economic conditions - Strong linkage to NBFC business

NBFC business is strongly linked to general economic condition and any kind of distress on the same will have undesirable consequences on the business prospects of the company.

Half Yearly Performance

₹ CRORES	HY E SEP-09	HY E SEP-10	% Y/Y
Interest Income	408	616	51
Interest Expenses	88	156	78
Net Interest Income	320	460	44
Other Income	2	7	363
Net Income	322	467	45
Operating Expenses	154	196	28
Operating Income	168	271	61
Loan Losses & Provisions	112	122	9
PBT	56	149	167
Tax	19	49	161
PAT	37	100	170

Source: Capitaline/Company

PEER COMPARISON	STFC(*)	M&M FIN.	DEWAN HSG.	BAJ FIN.
NII (₹Cr)	2062	1595	499	1179
PAT (₹Cr)	1583	546	347	234
EPS (₹)	70	57	33	64
ABV (₹)	271	287	168	399
P/E (x)	11.0	12.4	8.1	10.8
P/ABV (x)	2.8	2.5	1.6	1.7
CAR (%)	15	16	16	16
RoA (%)	5.3	4.0	2.0	3.0
RoE (%)	28.5	23.2	20.7	17.0

(*) Shriram Transport Finance Co. Ltd.

Note: All figures on expected results of FY12 based on MOSL estimates

Financials and Valuation

Income statement						(₹ Cr)
Y/E March	FY08	FY09	FY10	FY11E	FY12E	
Interest Income	486	584	880	1,267	1,757	
Interest Expenses	170	164	202	364	577	
Net Interest Income	316	420	679	904	1,179	
<i>Change (%)</i>	15	33	62	33	31	
Other Income	17	15	36	20	40	
Net Income	332	435	715	924	1,219	
<i>Change (%)</i>	17	31	64	29	32	
Operating Expenses	193	220	320	406	559	
Operating Income	139	215	395	518	660	
<i>Change (%)</i>	-9	54	84	31	28	
Loan Losses & Provisions	109	164	261	222	306	
PROFIT BEFORE TAX	30	51	134	296	354	
Tax	9	17	45	100	119	
<i>Tax Rate (%)</i>	31	34	33	34	34	
PAT	21	34	89	196	234	
<i>Change (%)</i>	-56	65	164	119	20	

Balance Sheet						(₹ Cr)
Y/E March	FY08	FY09	FY10	FY11E	FY12E	
Capital	37	37	37	37	37	
Reserves & Surplus	1,027	1,052	1,116	1,256	1,423	
Net Worth	1,063	1,089	1,153	1,292	1,459	
Borrowings	1,664	1,611	3,227	5,271	7,561	
<i>Change (%)</i>	3	-3	100	63	43	
Total Liabilities	2,727	2,700	4,379	6,563	9,020	
Investments	327	274	302	202	202	
<i>Change (%)</i>	901	-16	10	-33	0	
Advances	2,893	2,370	4,026	6,523	9,003	
<i>Change (%)</i>	6	-18	70	62	38	
Net Fixed Assets	14	20	50	84	100	
Net Current Assets	-534	-15	-68	-296	-354	
Total Assets	2,727	2,700	4,379	6,563	9,020	

E: MOSL Estimates

Ratio

Y/E March	FY08	FY09	FY10	FY11E	FY12E
Spread Analysis (%)					
<i>Yield on Advances</i>	17	22	28	24	23
<i>Cost of Borrowings</i>	10	10	8	9	9
<i>Interest Spread (Net Interest Margin)</i>	7	12	19.2	15.5	13.6

Profitability Ratios (%)

RoE	2	3	8	16	17
RoA	1.0	1.0	3.0	3.7	3.0
RoTA	0.8	1.0	3.0	3.6	3.0
Return on avg loans	0.7	1.3	2.8	3.7	3.0
Int. Expanded/Int. Earned	35	28	23	29	33

Efficiency Ratios (%)

<i>Operating Expenses to Net Income</i>	58	51	45	44	46
<i>Emp. Cost / Operating Expenses</i>	26	32	31	35	37
<i>Loan Losses to NII</i>	35	39	38	25	26

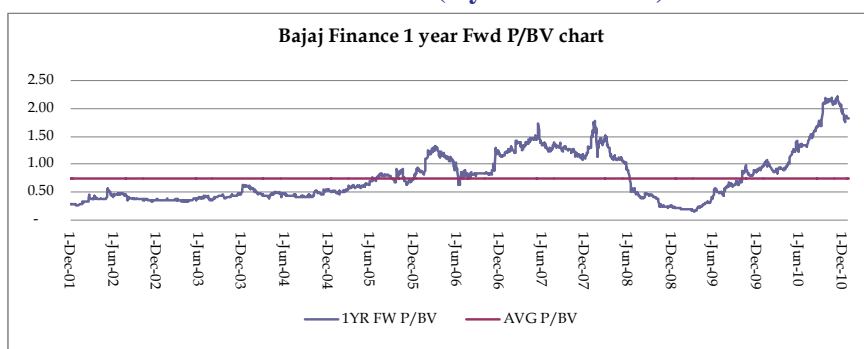
Asset-Liability Profile (%)

<i>Loans/Borrowings Ratio</i>	171	161	132	124	121
<i>Loan Losses to Advances</i>	3.0	3.8	6.9	6.5	3.4
CAR	36.8	45.9	28.6	19.8	16.2

Valuation*

Y/E March	FY08	FY09	FY10	FY11E	FY12E
Book Value (₹)	291	297	315	353	399
BV Growth (%)	3	2	6	22	34
Price-BV (x)	2.4	2.3	2.2	2.0	1.7
OPS (₹)	53	60	87	111	153
OPS Growth (%)	42	14	45	27	38
Price-OP (x)	13	11	8	6	5
EPS (₹)	6	9	24	54	64
EPS Growth (%)	-58	65	164	119	20
Price-Earnings (x)	123	74	28	13	11
Dividend per share	1	2	6	13	16
Dividend Yield (%)	0.1	0.3	0.9	1.9	2.3

*All calculations based on 23rd Dec closing @ 690

Bajaj Finance Limited Valuation Chart (1 year fwd P/BV)

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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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