

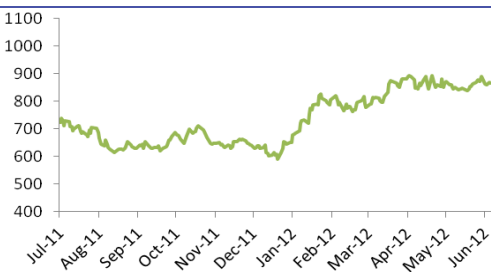
Bajaj Finance Limited

Recommendation	BUY
CMP (18/07/2012)	Rs.988
Target Price	Rs.1,170
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)	2,629
Face Value (Rs)	10
Dividend (FY 12)	120%
Shares o/s (Cr)	4.13

Relative Performance	1Mth	3Mth	1Yr
Bajaj Finance	12.7%	9.4%	34.6%
Sensex	2.4%	-1.7%	-7.6%



Shareholding Pattern	30 th June 12
Promoters Holding	61.1%
Institutional (Incl. FII)	17.65%
Corporate Bodies	5.64%
Public & others	15.6%

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Riding high on growth

Bajaj Finance (BFL) reported net profit of Rs 138.7 cr (52.4% YoY) in Q1FY13 exceeding the expectations. Loan losses and provisions for Q1FY13 declined 20.6% QoQ and 6.4% YoY. Asset quality remained healthy during the quarter with gross NPA declining by 6 bps and Net NPA declining by 2 bps.

➤ Net interest income witnesses robust growth

Net Interest Income increased 47.2% YoY and 18.7% QoQ to Rs 403 cr in Q1FY13 resulting from the strong growth in disbursements. The benign competitive environment coupled with stable demand helped the company to protect its margins despite a tough economic scenario.

➤ Growth momentum in disbursements continues

Disbursements continued to witness momentum with a growth of 12.4% QoQ and 31.8% YoY to Rs 4,728 cr. The company's Consumer business segment benefited mainly due to high replacement demand for ACs, benign competition and high entry barriers. The company's SME business continued to grow in a healthy manner due to company's sharp focus on customer segmentation. Construction equipment business declined due to the company's cautious stance on the sector as a whole.

➤ Strong growth in asset under management

Asset under management grew by 60.5% YoY and 10.5% on QoQ basis at Rs 14,485 cr. Management expects its Assets Under Management (AUM) to grow 25-30% in FY13E. Number of new customer acquired stood at 752,231 in Q1FY13 vs. 543,092 in Q1FY12, a growth of 38.5%.

➤ Continues to maintain best in class asset quality

Gross NPAs declined by 6 bps on QoQ basis to 1.1% and net NPAs declined by 2 bps on QoQ basis to 0.1% thereby indicating an improvement in the company's asset quality. The asset quality across all business except Construction Equipment remained steady in Q1FY13.

Valuation & Recommendation

We had recommended BFL on 13th July 2011 at Rs 686 with an initial target price of Rs 806 which was achieved. We further upgraded the target price to Rs 1,022 in our Q4FY12 update dated 18th May 2012 and the stock is currently trading near our target price generating 47.2% return over the period.

As BFL commands market leadership we believe that it will demand premium valuations going forward. Moreover, the gap between the valuations of Bajaj Finance as compared with the larger players in the NBFC space has been narrowing resulting from the steady and consistent performance of the company. Consequently, we have revised our target multiple for the stock from 1.8x to 2x on FY13E ABV (which is in line with its peer group) and arrive at a target price of Rs 1,170 indicating further upside of 18% from current levels.

At CMP the stock is trading at 1.69x FY13E ABV and 1.38x FY14E ABV and 7.98x FY13E and 6.52x FY14E EPS.

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	246.96	24.0%	67.42	14.65	362	2.73	19.7%
FY 12A	1,250	38.0%	757	406.4	28.5%	107.52	9.19	518	1.91	24.0%
FY 13E	1,543	23.4%	961	527.95	30.0%	123.84	7.98	585	1.69	23.0%
FY14E	1,844	19.5%	1,165	645.9	30.7%	151.52	6.52	715	1.38	22.8%



Net interest income witnesses robust growth

Net Interest Income increased 47.2% YoY and 18.7% QoQ to Rs 403 cr in Q1FY13 resulting from the strong growth in disbursements both on QoQ and YoY basis as Q1 is a seasonally strong quarter. The growth in disbursements stood at 12.4% QoQ and 31.8% YoY to Rs 4,728 cr in Q1FY13. The benign competitive environment coupled with stable demand helped the company to protect its margins despite a tough economic scenario. However, other operating income witnessed a flattish growth on YoY basis (+2.9% YoY) and declined 23.9% on QoQ basis to Rs 34.3 cr in Q1FY13.

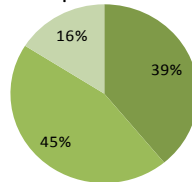
Growth momentum in disbursements continues

Disbursements continued to witness momentum with a growth of 12.4% QoQ and 31.8% YoY to Rs 4,728 cr. The company's Consumer business increased 45.1% QoQ and 48.4% YoY registering a strong growth for the company. The consumer segment benefited mainly due to high replacement demand for ACs, benign competition and high entry barriers. The market share of the company improved from 11% in FY12 to 12.5% in Q1FY13.

The company's SME business (Mortgages, Business Loans and Loans against securities) continued to grow in a healthy manner (+20.3% QoQ and 45.0% YoY) due to company's sharp focus on customer segmentation. The company is now among the top 4 new loan originators in loans against property and business loans in India.

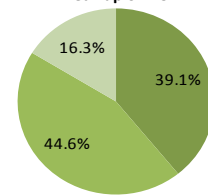
Construction equipment business declined 38.9% QoQ and 13.9% YoY to Rs 774 cr due to the company's cautious stance on the sector as a whole. The company did not witness any new sanctions in infra financing business in Q1FY13 whereas for vendor financing it was a stable quarter. However, Management continues to have confidence in the vendor financing space resulting from its focus on the top 50 Bajaj Auto Vendors. Owing to strong disbursements, loan book (receivables under financing activity) increased by 61% YoY to Rs 13,750 crs.

Break-up of disbursements



■ Consumer Finance ■ SME Business ■ Commercial

Break up of AUM



■ Consumer ■ SME ■ Commercial

Source: Company data, Nirmal Bang Research

In the new business segment of lifestyle financing the company disbursed around Rs 25 cr. Management targets disbursements of Rs 250 crs in FY13 from lifestyle financing. Moreover, Management also expects to increase its credit cards segment to 100,000 cards per year by FY13E.

Management expects the overall loan book to witness 25-30% growth for FY13E with more focus on secured businesses. Furthermore, Management mentioned that if the company is able to sustain the growth levels in Q2FY13, the overall growth target **"can be revised further upwards"**.

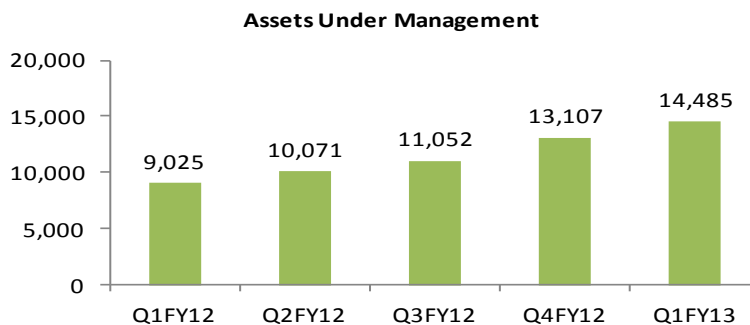
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Disbursements	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)
Consumer durables	2426	1635	48.4%	1672	45%
SME business	1528	1054	45.0%	1270	20%
Commercial	774	899	-13.9%	1266	-39%
Total disbursements	4728	3588	31.8%	4208	12%

Source: Company data, Nirmal Bang Research

Strong growth in asset under management

Asset under management grew by 60.5% YoY and 10.5% on QoQ basis at Rs 14,485 cr. Management expects its Assets Under Management (AUM) to reach around Rs 16,000 crs by FY13E. Number of new customer acquired stood at 752,231 in Q1FY13 vs. 543,092 in Q1FY12, a growth of 38.5%.

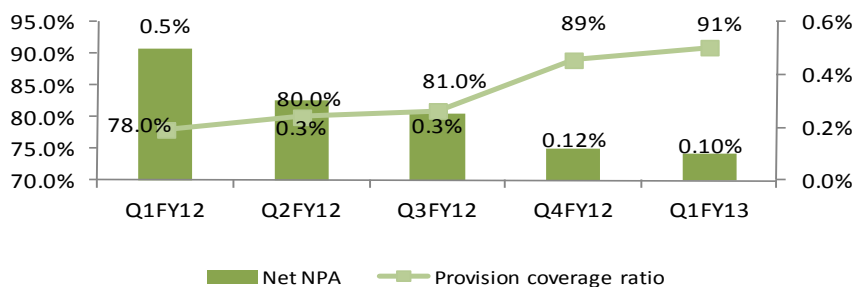


Source: Company data, Nirmal Bang Research

Continues to maintain best in class asset quality

Gross NPAs declined by 6 bps on QoQ basis to 1.1% and net NPAs declined by 2 bps on QoQ basis to 0.1% thereby indicating an improvement in the company’s asset quality. Net NPAs stood at the lowest level in last 5 years. The asset quality across all business except Construction Equipment remained steady in Q1FY13. However, Construction Equipment book’s receivables portfolio deteriorated 150 bps sequentially.

Provisions declined 20.6% on QoQ basis and 6.4% on YoY basis to Rs 32 crs. The company’s provision coverage ratio in Q1FY13 stood at 91% against 78% in Q1FY12.

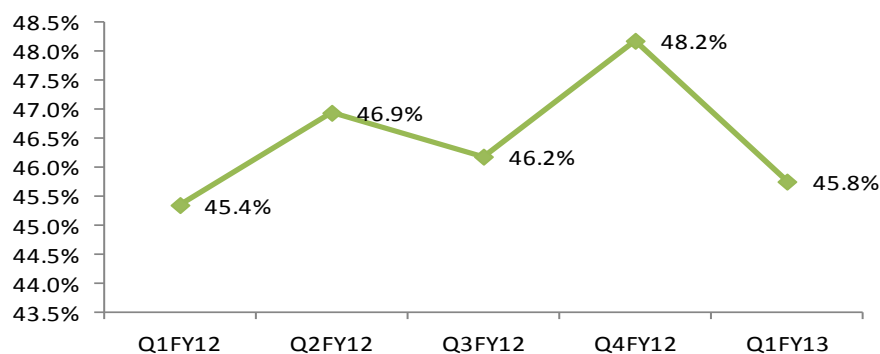


Source: Company data, Nirmal Bang Research

Bajaj Finance Limited

Cost to income ratios expected to remain elevated

Operating expenses increased by 43.3% YoY and 7.2% QoQ to Rs 201 crs in Q4FY12. Marketing expenses increased 35.2% YoY whereas recovery expenses increased 93.2% YoY. However, as the growth in total income outpaced the growth in operating expenses the cost to income ratio improved from 48.2% in Q4FY12 and 45.4% in Q1FY12 to 45.8% in Q1FY13. Going forward, with the continuous investments being made by the company in new technologies and employees resulting from entry in different new segments like lifestyle financing, cost to income ratio is expected to remain on the higher side in FY13E.



Income Statement (Rs cr)	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)
Net Interest Income	403.4	274.0	47.2%	339.9	18.7%
Non interest income	36.1	35.4	1.8%	49.5	(27.1%)
Total Income	439.5	309.4	42.0%	389.3	12.9%
Total operating expenses	201.1	140.3	43.3%	187.6	7.2%
Operating profit	238.4	169.1	41.0%	201.7	18.2%
Provisions	32.0	34.2	(6.5%)	40.3	(20.6%)
Profit before tax	206.4	134.9	53.0%	161.4	27.9%
Tax	67.7	43.8	54.5%	53.0	27.8%
Profit after tax	138.7	91.0	52.3%	108.4	27.9%
EPS	33.6	24.9	35.1%	26.2	27.9%

Source: Company data, Nirmal Bang Research

Bajaj Finance Limited

- Net Profit has shown a growth of 52.4% YoY at Rs 138.7 crs in Q1FY13 as compared to Rs 91 crs in Q1FY12 mainly due to increase in net interest income and lower provisions.
- EPS for Q1FY13 stood at Rs 33.6 while for Q1FY12, it was Rs 24.9.
- Capital Adequacy Ratio stands at 16.8% as on June 2012 with Tier I ratio at 14.5%.
- The company intends to raise Rs 750 crs via QIP in FY13E.

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.

Given the market leadership which the company commands we believe that the stock will demand premium valuations going forward. Moreover, the gap between the valuations of Bajaj Finance as compared with the larger players in the NBFC space has been narrowing resulting from the steady and consistent performance of the company. Based on this we have revised our target multiple for the stock from 1.8x to 2x on FY13E Book Value (which is in line with its peer group) and arrive at a target price of Rs 1,170 indicating potential upside of 18% from current levels.

We believe present valuations of 1.69x FY13E ABV and 1.38x FY14E ABV and 7.98x FY13E and 6.52x FY14E EPS are extremely attractive given the strong earnings trajectory. We recommend **BUY** on the stock with a target price of Rs 1,170

Bajaj Finance Limited

Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E	Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	1,284	1,996	2,480	2,992	Equity capital	37	41	43	43
Interest expended	378	746	937	1,148	Warrants money	0	21	0	0
Net interest income	906	1,250	1,543	1,844	Reserves and surplus	1,321	1,971	2,508	3,064
Non interest income	122	176	219	261	Net worth	1,358	2,034	2,551	3,107
Total income	1,028	1,426	1,762	2,105	Secured Loans	2,854	6,408	8,396	10,388
Marketing exp	103	167	197	233	Unsecured Loans	2,469	2,795	3,598	4,452
Staff costs	145	190	240	288	Total Loans	5,323	9,202	11,994	14,840
Other Op Exp	206	312	364	419	Curr Liab	1,806	1,630	1,878	2,163
Profit before prov	575	757	961	1,165	Long Term Liab	35	61	70	80
Provisions	205	154	173	201	Total liab and equity	8,522	12,927	16,492	20,190
Profit before tax	370	602	788	964	Cash and bank bal	872	60	132	258
Taxes	123	196	260	318	Investments	6	5	6	6
Net profit	247	406	528	646	Receivables	7,272	12,283	15,740	19,272
Quarterly (Rs. Crs)	Sep.11	Dec.11	Mar.12	June.12	Fixed assets	103	139	153	168
Net interest income	284	348	340	403	Other assets	151	298	313	328
Non interest income	42	49	50	36	Other Long Term Assets	119	142	149	157
Total income	326	396	389	439	Total assets	8,522	12,927	16,492	20,190
Operating expenses	153	183	188	201	Key Ratios	FY11	FY12	FY13E	FY14E
Operating profit	173	213	202	238	Yield Ratios				
Provisions	44	36	40	32	Avg Yield on Assets	22.7%	20.4%	17.7%	17.1%
Profit before tax	129	177	161	206	Cost of Int Bearing Liab	7.6%	8.9%	8.8%	8.6%
Taxes	42	57	53	68	NIM/ Spread	15.1%	11.5%	8.9%	8.5%
Net profit	87	120	108	139	Gross NPA	3.7%	1.1%	1.1%	1.2%
Profitability Ratios	FY11	FY12	FY13E	FY14E	Net NPA	0.80%	0.12%	0.13%	0.14%
Cost / Income Ratio	44.1%	46.9%	45.5%	44.7%	Per share data	FY11	FY12	FY13E	FY14E
Net profit margin	24.0%	28.5%	30.0%	30.7%	EPS	67.4	107.5	123.8	151.5
RONW	19.7%	24.0%	23.0%	22.8%	BVPS	371	538	598	729
Return on Assets	3.7%	3.8%	3.6%	3.5%	Adj BVPS	362	518	585	715
Growth Ratios	FY11	FY12	FY13E	FY14E	DPS	10	12	15	18
Advances growth	80.6%	68.9%	28.1%	22.4%	Valuation Ratios	FY11	FY12	FY13E	FY14E
NII growth	49.0%	38.0%	23.4%	19.5%	P/E	14.65	9.19	7.98	6.52
PAT growth	176.3%	64.6%	29.9%	22.3%	P/BV	2.66	1.84	1.65	1.36
Pre prov profit growth	45.5%	31.7%	27.0%	21.2%	P/ABV	2.73	1.91	1.69	1.38
Non interest inc growth	14.8%	43.6%	24.7%	19.0%					

Source: Company data, Nirmal Bang Research

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