

11 December 2024

## Bajaj Finance

Version 3.0 to enable FINAL; maintaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.7,905

Share Price: Rs.6,932

**Bajaj Finance completed its long-range strategy (LRS) 2025-29 meet last week and released an investor presentation. Its targets are lofty; however, with impeccable execution skills, we believe the same are achievable. We retain a Buy rating on the company's best-in-class execution skills, robust customers and strong tech architecture. The correction in the stock price offers an attractive entry point. At our TP, the stock would trade at 4.4x FY26e and 3.6x FY27e consolidated BV.**

**Summary of LRS.** The company introduced its LRS for 2025-29. Customers are estimated to increase to ~200m, with doubling of market share in retail credit at 4-5%. This would translate to a 23-25% long-term credit growth outlook. The RoE would remain at 20-22%. In its 1.0 and 2.0 versions, the company achieved its targets. This superior execution ability gives it confidence to achieve high growth, along with large-scale profitability targets.

**FINAL and new megatrends.** There are 18 identified megatrends that are live/on track and seven megatrends that are work-in-progress. The three new megatrends that management has added to its earlier ones include a) green finance in products, b) multi-cloud and c) zero trust in technology. The company targets Rs20bn green finance in FY26, while it invests deep to implement critical security policies and phase 1 for multi-cloud orchestration. It targets AI for improving cross-sell, productivity and enhancing risk management.

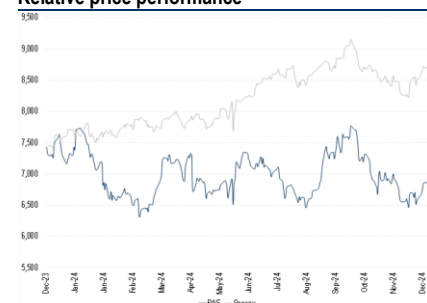
**Valuation.** At the CMP, the stock trades at 3.9x/3.2x FY26e/27e BV. At our TP, the stock would trade at 4.4x FY26e consolidated BV. It has traded at higher valuations in the past. **Risks:** Key-man risk, regulatory changes.

Key data	BAF IN / BJFN.BO
52-week high / low	Rs.7,830 / 6,190
Sensex / Nifty	81,510 / 24,610
3-m average volume	\$100.9m
Market cap	Rs.4,299bn / \$50,659m
Shares outstanding	620m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	54.7	54.7	54.7
- of which, Pledged			
Free float	45.3	45.3	45.3
- Foreign institutions	20.8	21.1	20.6
- Domestic institutions	15.1	14.3	14.4
- Public	9.4	9.9	10.4

Estimates revision (%)	FY25e	FY26e
NII	(0.4)	(0.8)
PPOP	(0.6)	(1.1)
PAT	(5.0)	(5.4)

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income (Rs m)	2,73,314	3,48,487	4,33,513	5,41,622	6,75,884
PPoP (Rs m)	1,87,176	2,39,326	2,97,192	3,72,380	4,65,809
Provisions (Rs m)	31,897	46,307	76,321	88,921	1,05,921
PAT (Rs m)	1,15,078	1,44,511	1,63,003	2,09,193	2,65,597
EPS (Rs.)	190	234	263	336	426
NIM (%)	11.5	10.9	10.4	10.3	10.4
Cost-to-income	35.1	34.0	33.8	33.3	32.9
RoE (%)	23.5	22.0	19.4	20.7	21.6
RoA (%)	4.7	4.4	3.8	3.9	4.0
AUM growth (%)	25.3	29.9	26.5	25.9	26.0
GNPA (%)	1.5	1.4	1.4	1.4	1.5
CRAR	26.6	26.0	24.0	23.2	23.0
P/E (x)	34.8	28.3	25.2	19.7	15.5
P/BV (x)	7.4	5.3	4.5	3.7	3.0
P/ABV (x)	7.5	5.4	4.6	3.8	3.1

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Consol Income statement (Rs m)**

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net Interest Income	273,314	348,487	433,513	541,622	675,884
Growth (%)	27.8	27.5	24.4	24.9	24.8
Non-interest Income	15,148	14,068	15,475	17,022	18,725
<b>Total income</b>	<b>288,462</b>	<b>362,555</b>	<b>448,988</b>	<b>558,645</b>	<b>694,609</b>
Total inc. growth (%)	32.2	25.7	23.8	24.4	24.3
Operating expenses	101,286	123,229	151,796	186,264	228,799
of which, emp. benefit exp.	50,494	63,960	80,590	1,01,543	1,27,944
<b>PPoP</b>	<b>187,176</b>	<b>239,326</b>	<b>297,192</b>	<b>372,380</b>	<b>465,809</b>
PPoP growth (%)	30.4	27.9	24.2	25.3	25.1
Provisions	31,897	46,307	76,321	88,921	105,921
<b>PBT</b>	<b>155,279</b>	<b>193,019</b>	<b>220,871</b>	<b>283,459</b>	<b>359,888</b>
Tax	40,202	48,584	57,868	74,266	94,291
<b>PAT</b>	<b>115,078</b>	<b>144,511</b>	<b>163,003</b>	<b>209,193</b>	<b>265,597</b>
PAT growth (%)	63.7	25.6	12.9	28.3	27.0

Source: Company, Anand Rathi Research

**Fig 2 – Consol Balance sheet (Rs m)**

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	1,209	1,236	1,240	1,244	1,248
Other equity	542,511	765,718	912,600	1,105,621	1,354,995
<b>Net worth</b>	<b>543,720</b>	<b>766,954</b>	<b>913,840</b>	<b>1,106,865</b>	<b>1,356,243</b>
Borrowings	2,130,602	2,897,679	3,800,665	4,841,462	5,938,158
Growth (%)	28.9	36.0	31.2	27.4	22.7
Other liabilities	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,752,263</b>	<b>3,757,415</b>	<b>4,714,505</b>	<b>5,948,327</b>	<b>7,294,401</b>
Cash & Cash equiv.	43,045	1,06,240	99,269	1,18,159	83,207
Investments	227,518	308,807	386,008	482,510	579,012
Loans	2,422,689	3,262,933	4,176,554	5,262,459	6,525,449
Growth (%)	26.6	34.7	28.0	26.0	24.0
Other assets	59,010	79,436	52,673	85,199	1,06,733
<b>Total Assets</b>	<b>2,752,263</b>	<b>3,757,416</b>	<b>4,714,505</b>	<b>5,948,327</b>	<b>7,294,401</b>
<b>AUM</b>	<b>2,473,790</b>	<b>3,213,125</b>	<b>4,065,752</b>	<b>5,117,978</b>	<b>6,450,005</b>
<b>RWA</b>	<b>2,301,555</b>	<b>3,328,192</b>	<b>4,343,617</b>	<b>5,472,957</b>	<b>6,786,467</b>

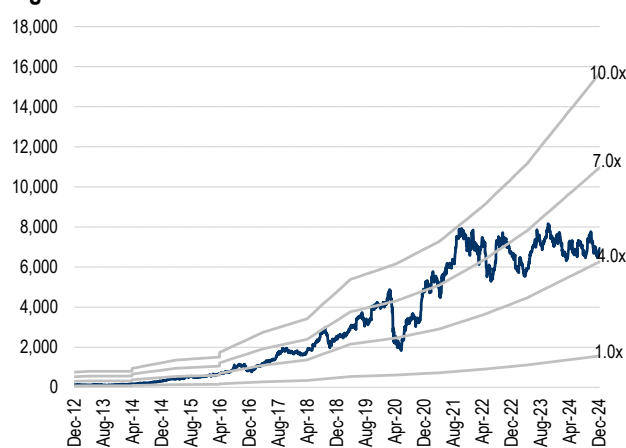
Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis (%)**

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM (%)	11.5	10.9	10.4	10.3	10.4
Cost-to-income (%)	35.1	34.0	33.8	33.3	32.9
Credit cost (%)	1.5	1.6	2.1	1.9	1.8
RoA (%)	4.7	4.4	3.8	3.9	4.0
RoE (%)	23.5	22.0	19.4	20.7	21.6
GNPA (%)	1.5	1.4	1.4	1.4	1.5
NNPA (%)	0.7	0.6	0.7	0.7	0.7
RWA / Assets (%)	83.6	88.6	92.1	92.0	93.0
CRAR (%)	26.6	26.0	24.0	23.2	23.0
Tier 1 (%)	23.6	23.0	21.0	20.2	20.0
EPS (Rs)	190	234	263	336	426
BVPS (Rs)	900	1,241	1,474	1,780	2,173
ABVPS (Rs)	886	1,224	1,452	1,751	2,136
Dividend yield (%)	0.3	0.4	0.4	0.4	0.4
P/E (x)	34.8	28.3	25.2	19.7	15.5
P/B (x)	7.4	5.3	4.5	3.7	3.0
P/ABV (x)	7.5	5.4	4.6	3.8	3.1

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-book band**



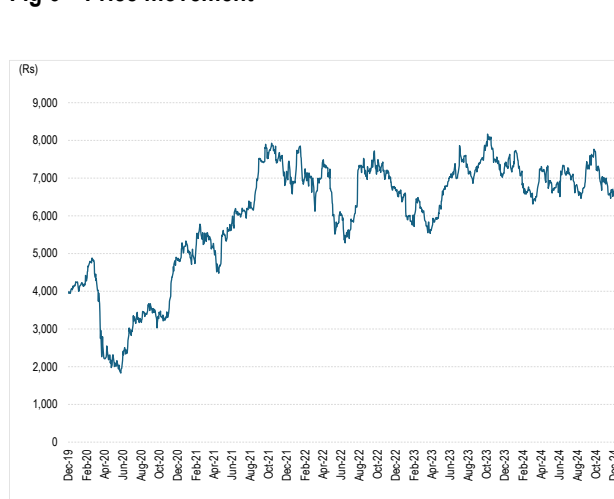
Source: Bloomberg

**Fig 5 – One-year-forward price-to-book-value**



Source: Bloomberg

**Fig 6 – Price movement**



Source: Bloomberg

## Flash update summery

### LRS FY25-29

The long-range strategy (LRS) framework has been central to the company's growth. It aims to achieve:

- **Customers** to grow from 92.1m (FY25) to 190m-210m by FY29.
- **AUM per cross-sell franchise:** The target is Rs80,000-85,000 by FY29, to ensure depth of customer engagement.
- **Payments GMV** to expand from 0.27% market share in FY25 to 0.4-0.5% by FY29, a significant step in its payments play.
- **Market presence** to increase from 4,245 locations (FY25) to over 5,200 by FY29.
- **RoE** to be maintained at a healthy 20-22%, signalling profitability alongside scale.

### LRS FY24-28 (35 strategy updates)

The company made substantial progress in its LRS 2024-28 goals, with 28 strategies live/on track and seven work-in-progress.

- **Products (nine strategies):** Four are live, including “Zero Identity Mismatch” and “All Products in All Locations,” while initiatives like “Postpaid” and “Bajaj+” are in progress.
- **Horizontals (15):** 14 are live, including consumer app penetration and expanded broking capabilities, with only one pending.
- **Platforms (seven):** Six strategies are live, such as DIY services and organic traffic growth, with work underway on zero downtime initiatives.
- **Geography and subsidiaries (four):** All strategies in these categories are live, including regional penetration and diversified product offerings.

### Megatrends update

The company is actively pursuing 25 megatrends identified for transformation, with 18 live/on track and seven work-in-progress.

- **Live/on track:** Key successes include account aggregator (AA) adoption (targeting 30m consents by FY25) and generative AI (Rs150cr cost-savings expected in FY26).
- **Work-in-progress:** Efforts continue on digital currency (CBDC), “Insurance for All,” and UPI as an open architecture.
- **New additions for 2025-29:** Green Finance, Multi-cloud, and Zero Trust Security have been added, bringing the total to 28.

### 3 New megatrends – definition and plan

The company has defined actionable plans for its new megatrends.

- **Green finance:**
- Leverage India's net-zero goals by financing solar and EV products.
- Targets Rs2,000cr in green finance disbursements by FY26, tapping into a Rs35lakh cr opportunity by 2030.

- **Zero trust security:**
- Implement a robust security framework built on “trust but verify.”
- Deliver comprehensive zero-trust policies over the next 18 months, ensuring enhanced digital resilience.
  - **Multi-cloud strategy:**
  - Transition to a cloud-agnostic architecture to enhance operational resilience.
  - Phase 1 includes migrating the top 40 applications within 18 months.

### **Technology and AI-first (24)**

Technology and AI are core to the company’s operational philosophy:

- **AI-first vision:** Deploy AI across all processes to improve efficiency, reduce costs and enhance customer engagement.
- **Emerging technologies:** Investments in blockchain, generative AI, and zero trust enable the company to stay ahead of industry disruptions.
- **Impact on operations:**
- AI-enabled processes are expected to reduce operational costs by 30%.
- Enhanced productivity (e.g., 1.5x improvement in field operations).
- Customer-centric tech: AI-driven solutions like personalized recommendations, conversational AI and dynamic risk assessments enhance customer satisfaction and loyalty.
- Sustainability: Deploying multi-cloud infrastructure to ensure scalability and energy efficiency.

### **BFL 3.0 – A FINAI company (detailed strategy analysis)**

The company’s vision for BFL 3.0 centers around becoming a FINAI (Finance + AI) company. This involves:

- **AI-driven customer acquisition:** Targeting the next 100m customers through organic growth, strategic partnerships, and Bajaj Prime.
- **Revenue growth:** AI-enabled systems for cross-sell and upsell to enhance customer lifetime value.
- **Cost optimization:** Generative AI to automate operations, improve loan origination systems, and streamline service delivery.
- **Risk management:** Deployment of augmented risk intelligence using responsible AI for underwriting and credit assessments.
- **Green financing:** Establish leadership in sustainable finance through innovative products like solar and EV loans.
- **AI in productivity:** Advanced AI solutions to improve sales, streamline workflows, and support decision-making across all functions.

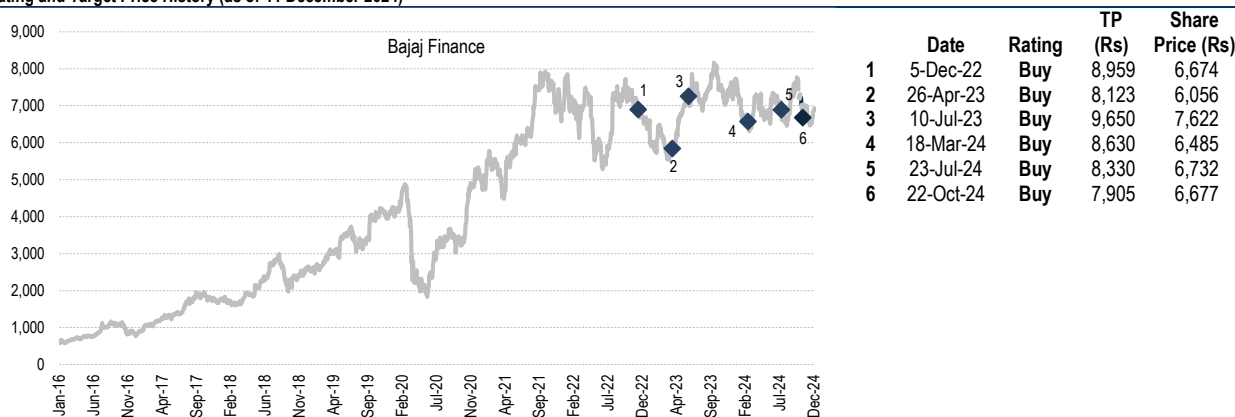
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