



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

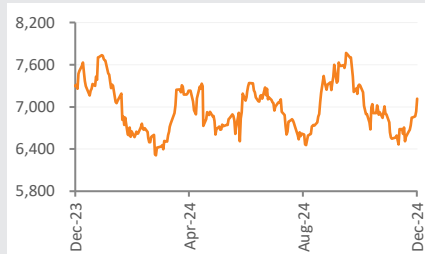
Company details

Market cap:	Rs. 4,40,462 cr
52-week high/low:	Rs. 7,830 / 6,190
NSE volume: (No of shares)	11 lakh
BSE code:	500034
NSE code:	BAJFINANCE
Free float: (No of shares)	28.1 cr

Shareholding (%)

Promoters	54.7
FII	20.8
DII	15.0
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	-3.1	-0.3	-2.2
Relative to Sensex	2.4	-3.1	-6.9	-18.7

Mirae Asset Sharekhan Research, Bloomberg

Bajaj Finance Ltd

Building a strong & sustainable franchise

NBFC	Sharekhan code: BAJFINANCE
Reco/View: Buy	CMP: Rs. 7,116 Price Target: Rs. 9,500
↑ Upgrade	↔ Maintain ↓ Downgrade

Summary

- BAF unveiled a new long-range strategy for FY25-29 and is reasonably confident. AI integration would drive gains on opex and credit costs.
- It also identified three new megatrends – Green finance on product front, multi-cloud and zero trust on tech front– and now has 28 megatrends that it will be working on.
- Company aims to build leadership in personal loans, gold loans, MFI and two-wheeler loans. It is confident to deliver 20-22% RoE.
- Stock trades at 4.5x/3.8x/3.2x its FY2025E/FY2026E/FY2027 ABV. We maintain a buy rating on Bajaj Finance Ltd. (BAF) with a PT of Rs. 9,500.

Bajaj Finance announced its long-range strategies (LRS-3, FY2025 to FY2029) after seeing exponential growth in LRS-1 (2008-2016) and LRS-2 (2017 to 2024). It is expected to remain a dominant NBFC expanding its share in the total credit to 3.2-3.5% by FY2029 from 2.1% in H1FY2025. The company also aims to widen its customer base to 200 mn by FY2029 and build a leadership position in personal loans, gold loans, MFI and two-wheeler loans. At the same time, opex is likely to decline in the medium term led by deep AI integration, which will also help improve revenues driven by cross sales and better customer engagement. Besides, it will also support to reduce credit costs. Profitability has also remained strong at 20% over the past 10 years. PAT growth is expected to remain strong at 22-23% in the cycle, translating into a 20-22% RoE versus 19.4% in H1FY25. The company is well diversified NBFC and can offset the impact of unsecured loans with other levers. Asset quality and credit cost would normalise in the medium term.

Growth prospects: BAF expects AUM growth at 27% for FY2025 (29% in H1FY2025) and 25-26% over the medium term (2-5 years) as per its LRS-3. The growth will be driven by acquisition of the clients, launch of new product lines and cross sales. As per the Long-Range Strategies (LRS), management plans to acquire 2.0x customers from 92.1 million in H1FY2025 to 200 million in FY2029. In terms of, product lines, management aims to build leadership in personal loans, gold loans, MFI and two-wheeler loans. Company is a large player in personal loans with ~ 7% market share. Growth in auto loans will go with monitoring low credit cost. Full integration of artificial intelligence will help it increase cross-sales revenue and leverage on the database of account aggregators. It will also improve productivity, faster and better credit assessment which will reduce the operating costs and credit cost.

Return ratios: Profitability has also remained strong at 20% over the past 10 years and is expected to remain strong at 22-23% in the medium term. RoE is expected to be 20-22% in the cycle, improving from 19.4% in H1FY2025. As it is a well-diversified NBFC, it can manage return ratios and can offset impact of higher credit cost in the short term.

Asset quality & credit cost: BAF's asset quality has been one of the finest in the industry. GNPA's were slightly higher at 1.06% as of September 30, 2024 from 0.86% in June 30, 2024 caused by unsecured segments such as rural B2C, SME and sales finance. Credit cost guidance has been increased to 2.05% for FY2025 versus 1.75-1.85% earlier but it would normalise in the medium term along with asset quality.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 9,500: AUM growth is expected to be robust and operating costs would reduce, while credit costs normalise in the medium term. Return ratios would also be stable. As per LRS-3, the company is expected to build strong base of customers to 200 million by FY2029 which will aid cross sales in the long run. We are confident on strong sustainable earnings growth and longevity of the franchise and retain our Buy rating with an unchanged PT of Rs. 9,500. At CMP, the stock trades at 4.5x/ 3.8x/ 3.2x its FY2025E/ FY2026E/ FY2027E BV.

Key Risks

Intensifying competition in retail lending space; Asset quality risk in retail unsecured segment, higher delinquency in new segments; Regulatory headwinds.

Valuation (Consolidated)

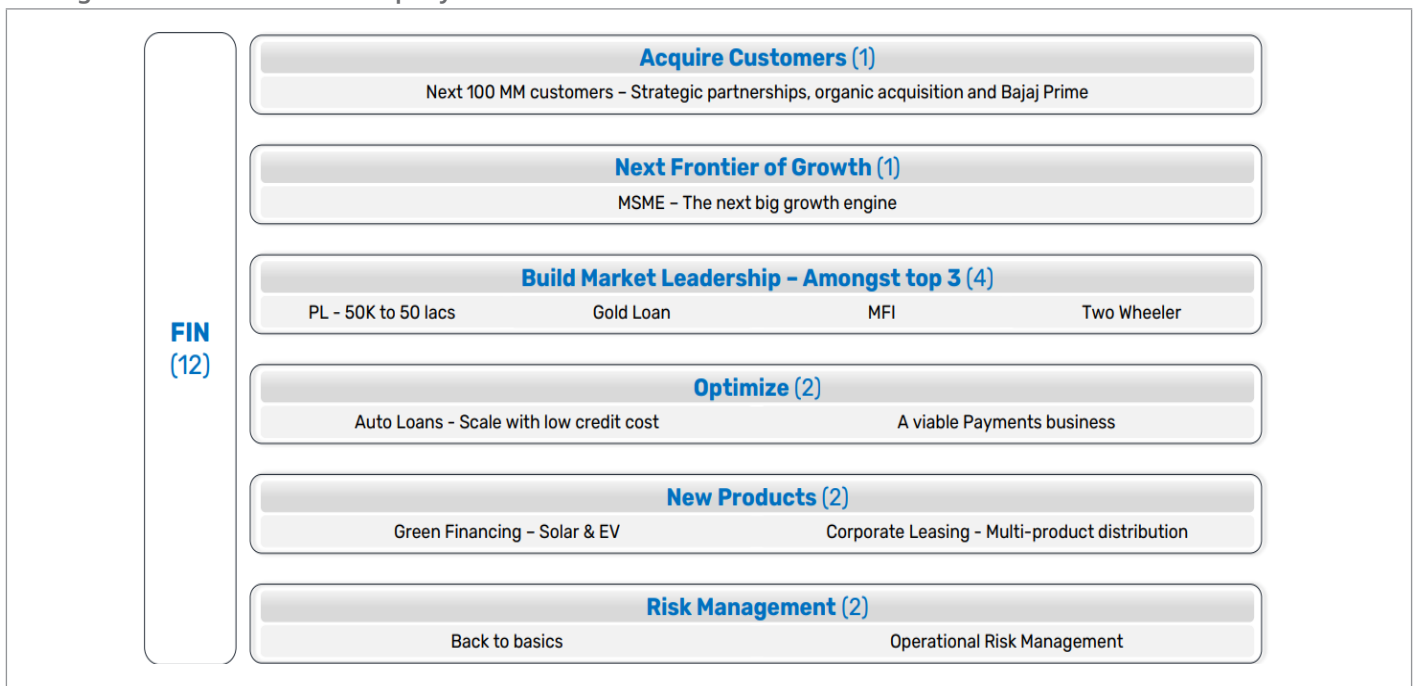
Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	22,990	29,584	36,756	46,036	57,798
PAT	11,508	14,451	16,879	21,026	26,265
EPS (Rs)	190	235	275	342	427
RoA (%)	4.7%	4.4%	4.0%	3.9%	4.0%
RoE (%)	23%	22%	20%	20%	21%
P/E (x)	37.5	30.3	25.9	20.8	16.7
P/BV (x)	7.9	5.7	4.5	3.8	3.2

Source: Company; Mirae Asset Sharekhan estimates

Key Take Aways (KTAs)

- ♦ **Strong AUM growth:** AUM growth is expected at 27% in FY2025 and 25-26% over the medium term (2-5 years), driven by acquisition of the clients, launch of new product lines and making cross sales.
- ♦ **Share in Total credit is likely to go up:** The company's share in total credit is expected to expand to 3.2-3.5% by FY2029 from 2.1% in H1FY2025.
- ♦ **Customer base is expected to be 2.0x :** Company's customer base is expected to reach to 200 million by FY2029 from 92.1 million in H1FY2025 due to building on strategic partnerships and organic acquisition.
- ♦ **Product Strategies:** The management will also focus on product portfolio, they aims to build leadership in personal loans, gold loans, MFI and 2Ws. The company is a large player in personal loans with about 7% market share .
- ♦ **Return Ratio to improve:** The company will deliver 20-22% ROE over the cycle.
- ♦ **Integration of artificial intelligence:** is expected to reduce opex and credit cost. It will also help to increase cross sale and leverage on account aggregators.

Strategies - BFL 3.0 - A FINAI Company



Source: Company; Mirae Asset Sharekhan Research

Strategies - BFL 3.0 - A FINAI Company

AI (20)	AI for Revenue (2)		
	Conversational AI for sell - 3X conversion rate	Conversational AI for Cross sell - 3X conversion rate	
	AI to Reduce cost (6)		
	FTE productivity - 1.5X Field, 2X HO	PSF productivity - 15% increase	Reduce sales Contact center
	Reduce DMS contact center	Ops & Service co-pilot & auto-pilot	Technology co-pilot & auto-pilot
	AI for Design & Engagement (3)		
	Conversation driven search	Interactive multi-modal AI assistant	Conversational AI in business journey
	AI for Risk (2)		
	Data 3.0 - Unstructured to structured data	Augmented Risk Intelligence for B2B (Responsible and explainable AI)	
	AI for Credit (1)		
Underwriting AI co-pilot - Image, note summary, screening & validation			
AI for Productivity (3)			
AI enabled Loan Origination System	AI enabled engagement and training	AI enabled Sales, DMS & Dealer Management - Interactive reports, summary and help desk	
AI for Controllership (3)			
Operations & Service QA co-pilot & auto-pilot	Audit - co-pilot & auto-pilot	Technology & Platform compliance co-pilot & auto-pilot	

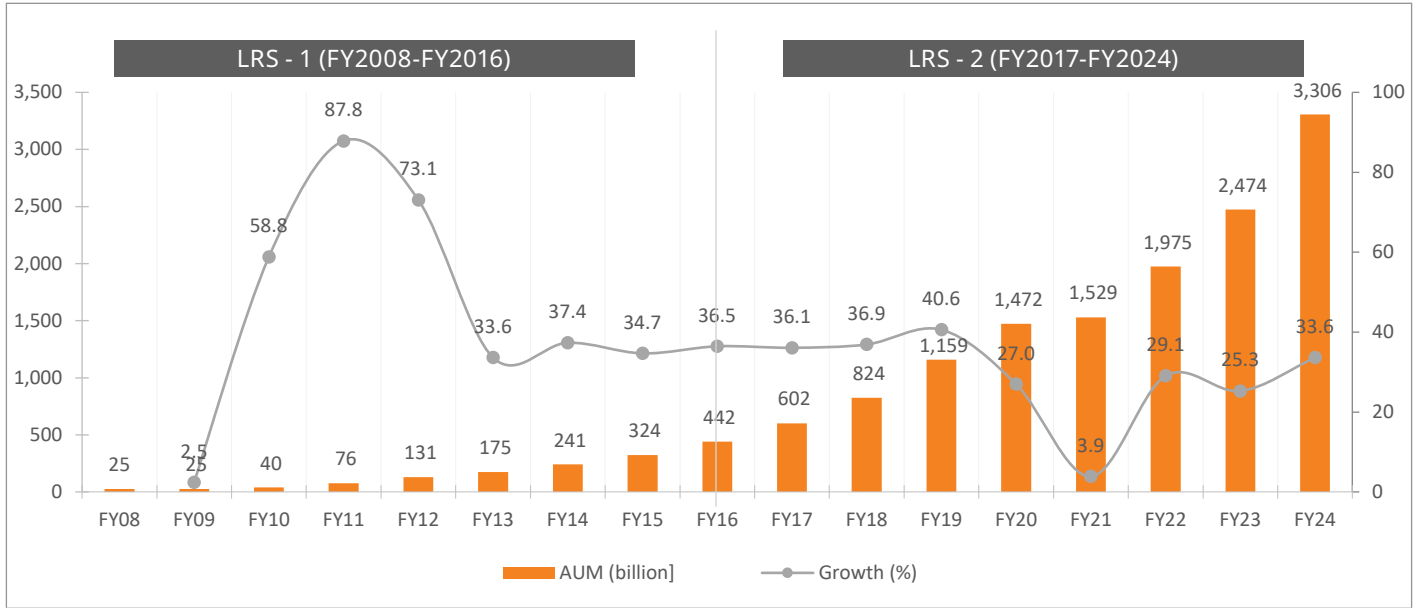
Source: Company; Mirae Asset Sharekhan Research

LRS Outcomes

Sr No	Basic Construct	6M FY25	LRS FY28	LRS FY29
1	Customer Franchise (MM)	92.1	130-140	190-210
2	Cross-sell Franchise (MM)	57.7	80-90	115-125
3	India payments GMV	0.27%	1.25-1.5%	0.4-0.5%
4	Share of total credit	2.11%	3-3.25%	3.2-3.5%
5	Share of retail credit	2.67%	3.8-4.0%	3.8-4.2%
6	Location Presence	4,245	5,200-5,500	5,200-5,500
7	App - Net installs (MM)	61.7	120-150	150-170
8	Web - Visitors (MM)	277	1,500-1,800	3,500-4,500
9	Return on Equity	19.4%	20-22%	20-22%
10	AUM per cross sell franchise (₹)	64.8K	90-95K	80-85K
11	PAT per cross sell franchise (₹)	1,374	3.8-3.9K	3.8-4.0K
12	Product Per Customer (PPC)	6.15	6-7	6-7

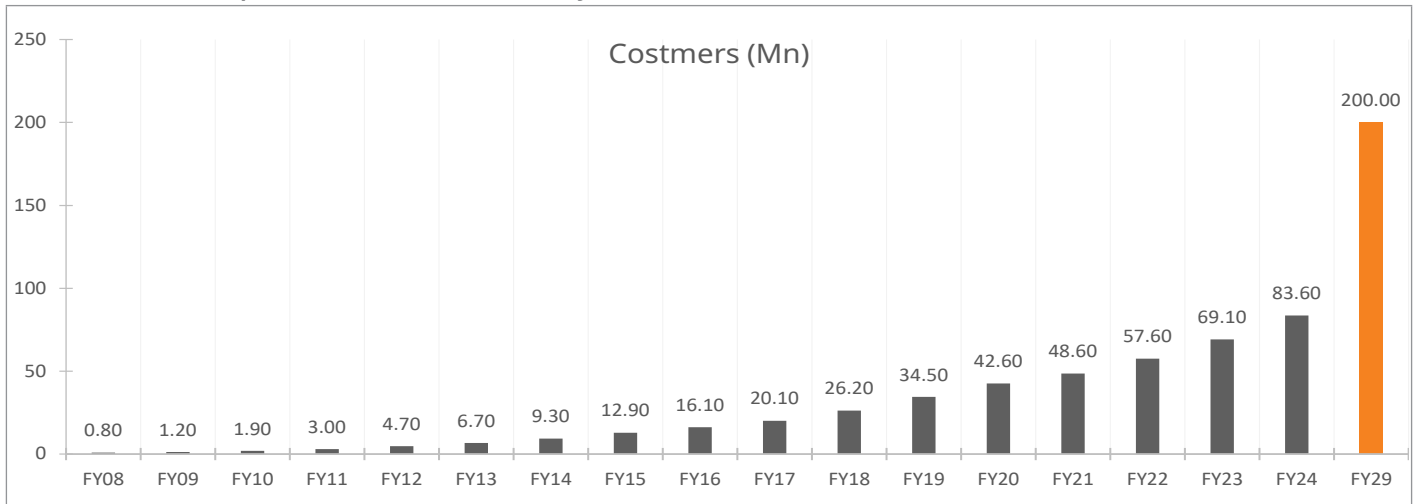
Source: Company; Mirae Asset Sharekhan Research

The company's AUM growth is expected to grow by 25-26% over the next five years (Rs. Cr.)



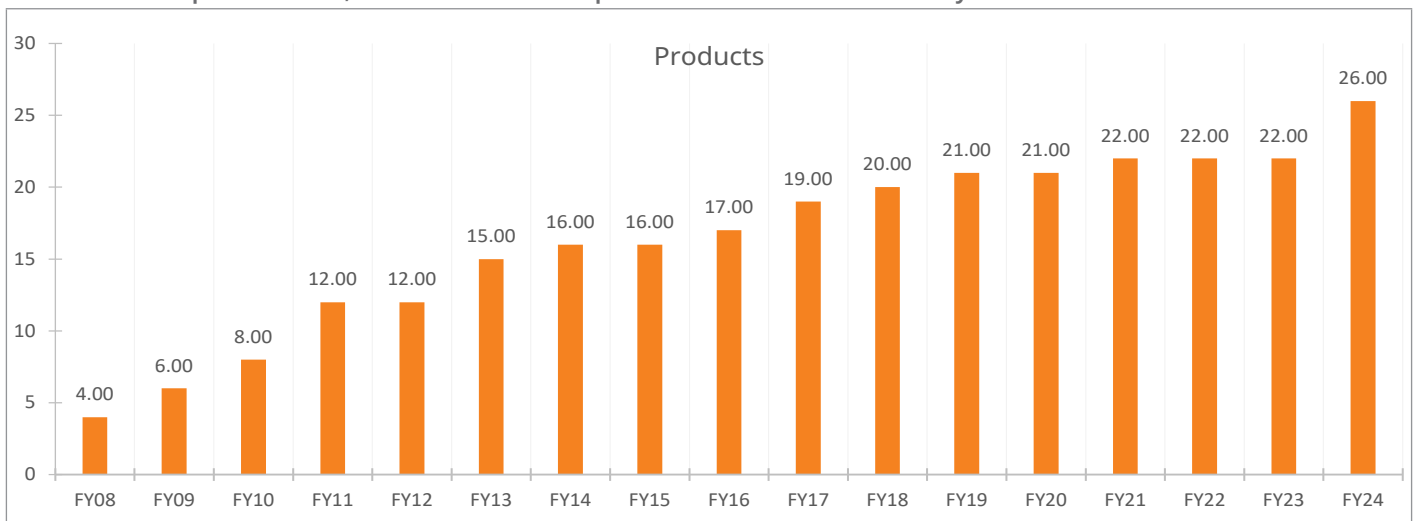
Source: Company; Mirae Asset Sharekhan Research

Customer base is expected to reach 200 million by FY2029, more than 2.0x from current level



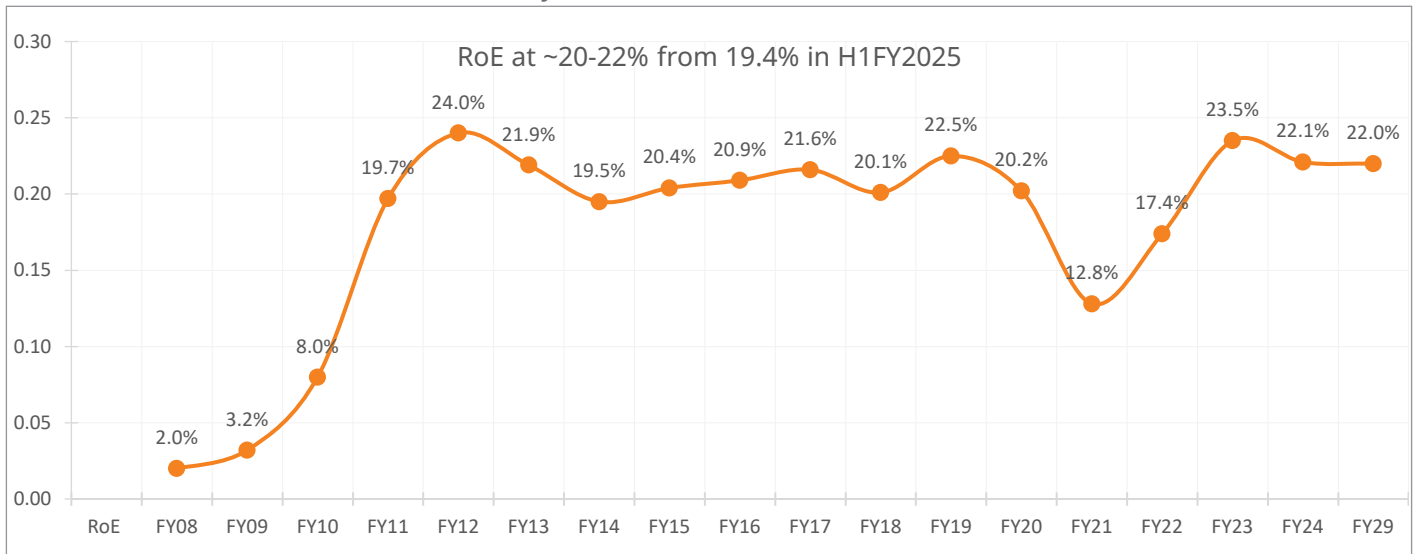
Source: Company; Mirae Asset Sharekhan Research

Well diversified product lines, new launches are expected over the next four -five years



Source: Company; Mirae Asset Sharekhan Research

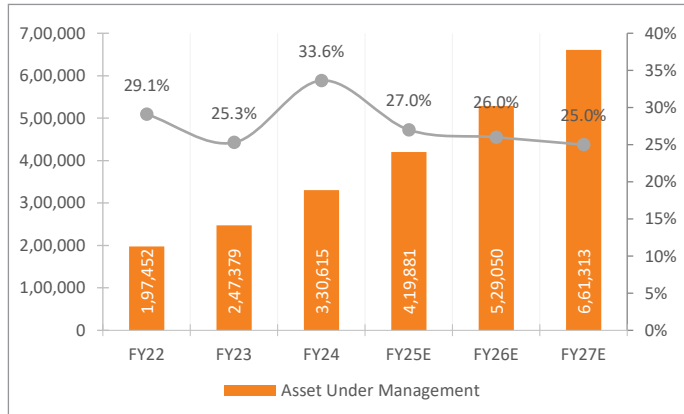
Sustainable RoE above 20% over the next five years



Source: Company; Mirae Asset Sharekhan Research

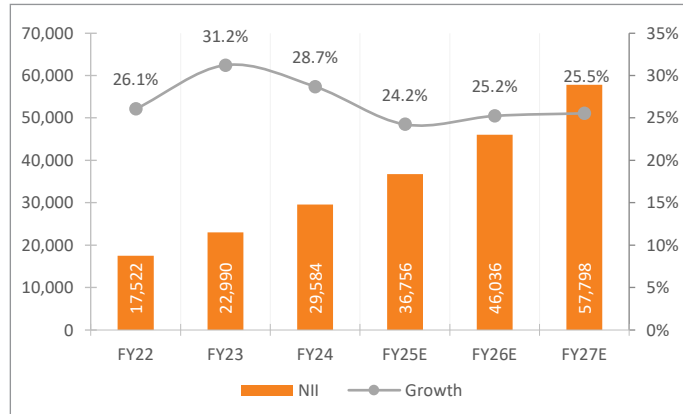
Financials in charts

AUM and Growth Trend



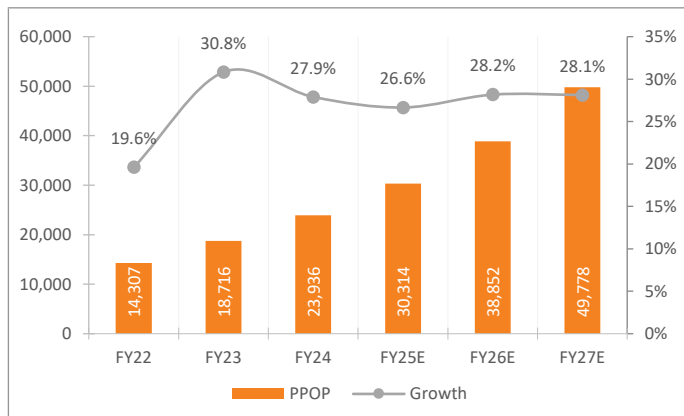
Source: Company; Mirae Asset Sharekhan Research

NII and Growth Trend



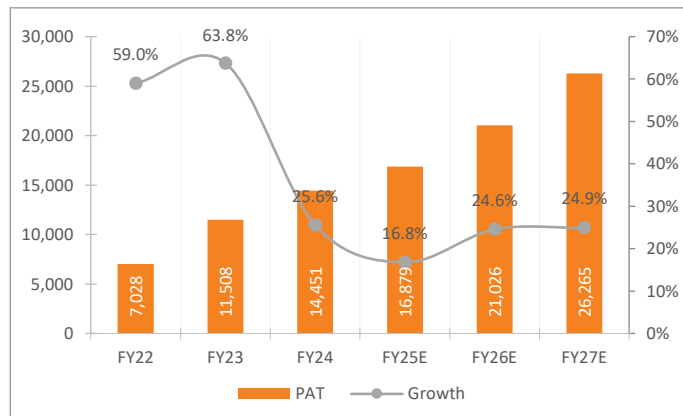
Source: Company; Mirae Asset Sharekhan Research

PPOP and Growth Trend



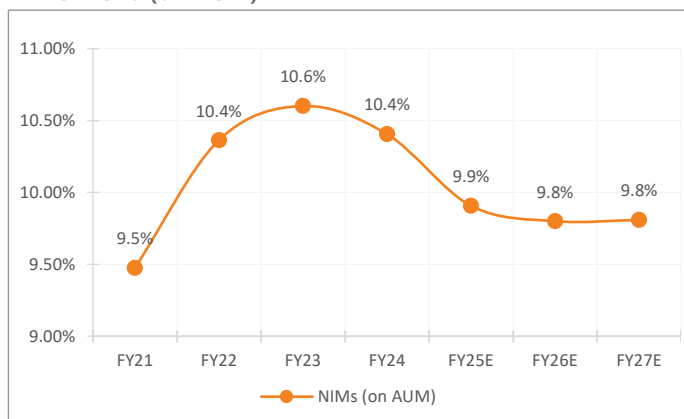
Source: Company; Mirae Asset Sharekhan Research

PAT and Growth Trend



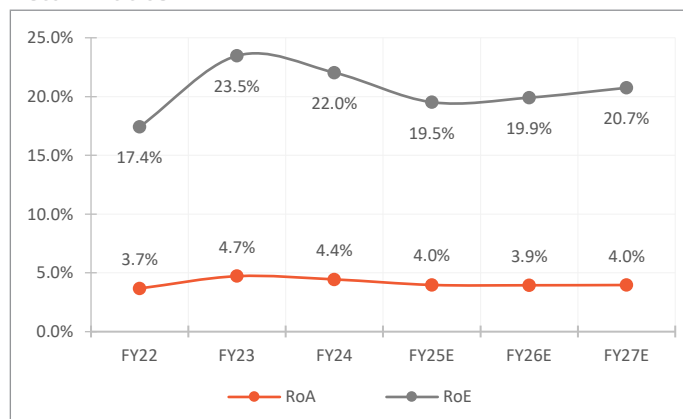
Source: Company; Mirae Asset Sharekhan Research

NIMs Trend (on AUM)



Source: Company; Mirae Asset Sharekhan Research

Return Ratios



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Large opportunity pool

NBFCs have become important constituents of India's financial sector and have been recording higher credit growth than scheduled commercial banks (SCBs) over the past few years. They continue to leverage their superior understanding of regional dynamics and customised products and services to expedite financial inclusion. Lower transaction costs, innovative products, quick decision making, customer orientation and prompt service standards have typically differentiated NBFCs from banks. Considering the reach and expanse of NBFCs, these are well-suited to bridge the financing gap in a large country like India. Systemically-important NBFCs have demonstrated agility, innovation, and frugality to provide formal financial services to millions of Indians.

■ Company Outlook – Remain constructive on franchise

BAF continues to derive benefits from a diverse loan portfolio, wide distribution network, effective execution and a strong management team. BAF has significantly strengthened its technology, digital platforms, and product offerings. The company is reasonably confident that earnings growth is expected to gradually converge with asset growth led by moderation in credit costs and stability in NIMs in FY26 and outlook for H2FY25 is better than H1. The management is expected to increase the customer base of 200 million by FY2029 from 92 million in H1FY2025, which opens a good opportunity for the cross sales in the long term.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 9,500

AUM growth is expected to be robust and operating costs would reduce, while credit costs normalise in the medium term. Return ratios would also be stable. As per LRS-3, the company is expected to build strong base of customers to 200 million by FY2029 which will aid cross sales in the long run. We are confident on strong sustainable earnings growth and longevity of the franchise and retain our Buy rating with an unchanged PT of Rs. 9,500. At CMP, the stock trades at 4.5x/ 3.8x/ 3.2x its FY2025E/ FY2026E/ FY2027E BV.

Peer Comparison

Particulars	CMP	MCAP	P/E(x)		P/BV(x)		RoA (%)		RoE (%)	
	Rs/Share	(Rs Cr)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Bajaj Finance	7,116	440,462	25.9x	20.8x	4.5x	3.8x	3.9%	4.0%	20%	20%
Cholamandalam Investment and Financ	1,348	113,365	25.9x	18.8x	4.7x	3.7x	2.5%	2.7%	20.2%	22.7%

Source: Company, Mirae Asset Sharekhan estimates

About company

BAF is one of India's largest and well-diversified NBFC. The company provides loans for two wheelers, consumer durables, housing, SME & MSME businesses etc. BAF undertook business and organisational restructuring in FY2008 and re-defined small business loans and consumer financing as its key niches. BAF has an AUM of Rs 3.3tn at end FY24, serves more than 83.6 million clients and offers a wide range of lending services to retail, SME and commercial customers across urban and rural India. BAF continues to be the largest consumer durables lenders in India. As a business entity, BAF continues to deliver steady performance and superior asset-quality performance.

Investment theme

BAF enjoys a dominant position in the retail finance space. BAF's dominance in the market is seen in its consistent growth and steady operational performance that has been maintained by the company across cycles. Superior asset quality is indicative of the company's high focus on risk management and robust credit underwriting capability and collections.

Key Risks

Intensifying competition in retail lending space could weigh on company performance. NPA risk in retail unsecured segment, higher delinquency in new segments, economic slowdown risk which can impact growth and assets quality, regulatory headwinds related to upper layer NBFC.

Additional Data

Key management personnel

Mr. Rajeev Jain	Managing Director
Mr. Anup Saha	Deputy MD
Mr. Sandeep Jain	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Finserv Ltd	51.34
2	Republic of Singapore	3.08
3	Maharashtra Scooters Ltd	3.07
4	SBI Funds Management Ltd	2.61
5	Life Insurance Corp of India	2.49
6	Blackrock Inc	1.67
7	Vanguard Group Inc/The	1.64
8	Axis Asset Management Co Ltd/India	1.13
9	FMR LLC	1.06
10	UTI Asset Management Co Ltd	1.04

Source: Bloomberg (Old data)

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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