



BAJAJ FINANCE

Date: 11-May-2020

OVERVIEW

Recommendation: Accumulate with a target of 5250

Valuation: Fairly valued

Current Market Price: 2030

Time Horizon: 4 – 5 years

About Company:

The parent company of Bajaj Finance is Bajaj Finserv Limited. Bajaj Finance is one of the most diversified non-banking financial companies and also the largest financier of consumer durables in India. Mainly deals in -

Consumer Finance – Durable Finance, EMI Card, Gold Loan, Home Loan, Retailer Finance, E-Commerce, Personal Loan, 2 and 3 Wheeler Finance, Retail EMI etc.

Small and Medium Enterprises Finance – Lease Rental Discounting, Working Capital Loans, Developer Finance, Business Loan, Loan against Shares, Loan against Property

Commercial Lending – Vendor Financing, Loans against Securities, Corporate Finance, Warehouse Financing, Light Engineering Finance, Financial Institutions Lending

Investment – Fixed Deposit, Mutual Funds



Pros –

- Increasing profits every quarter for the past 4 quarters
- It is a company with Zero Promoter Pledge
- Consistent growth of the Assets Under Management in the past few years
- FII/FPI Institutions are increasing their shareholding
- Efficient management of assets leading to an increased Return on Assets for the past few years.

Cons-

- Inefficient use of capital to generate profits (Liquidity Crunch)
- Increase in provisions in the recent results
- Decrease in promoter holding



ECONOMIC MOAT

Company History: 1987

Company Management:

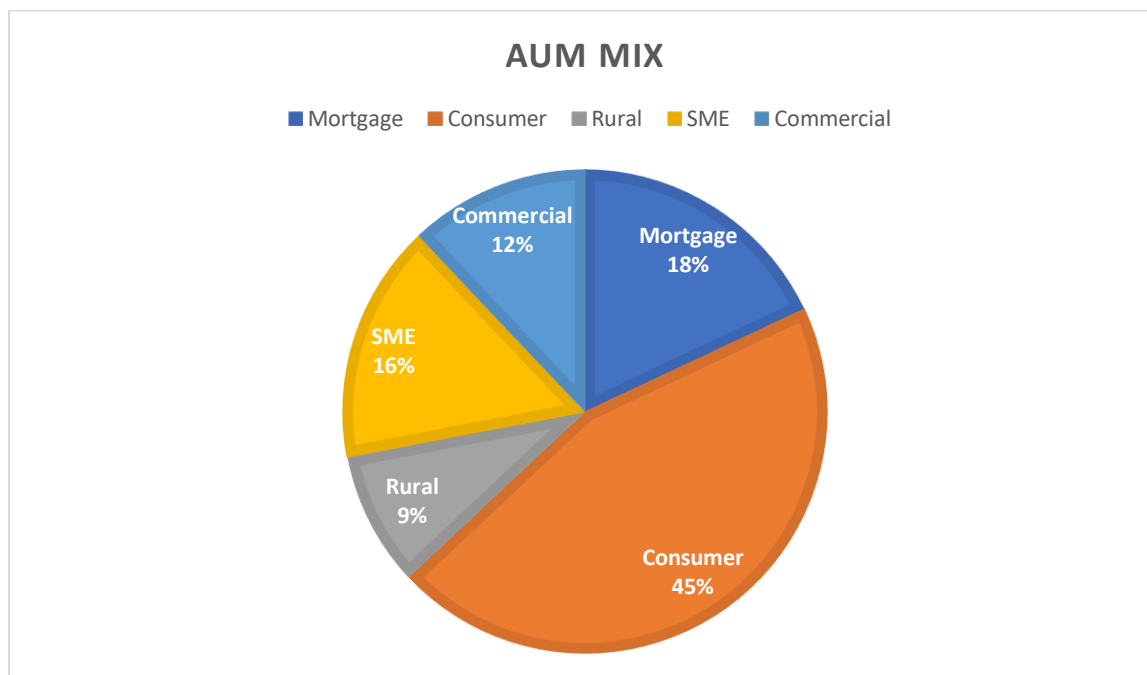
MD: Rajeev Jain

CEO: Sanjiv Bajaj

Chairman: Rahul Bajaj

COMPETITIVE MOAT OF BAJAJ FINANCE LIMITED

The competitive MOAT of Bajaj Finance Limited is consumer durable financing. The Company came out with an app-based model inclusive of EMI facility. It has a tie up with a number of manufacturers in various segments like mobile phones, TV's, refrigerator's etc. It is the largest lender in the consumer durable's market.



The above chart shows us the Assets Under Management ix of Bajaj Finance Limited and it is symbolic of its spread across the consumer durable market.

The Company also has a strong geographic presence which enables it to have a strong distribution network and therefore has a competitive edge over other companies.

Geographic Presence	31 March,2018	31st December, 2019
URBAN	730	986
RURAL	602	1193
Of which rural lending branches	219	445
Of which rural lending franchise	383	748
Overall Presence	1332	2179

Year on Year the Company expands its reach and is able to cater to majority of the population in the country with its diversified products. It has made its space in the Rural as well which by itself is commendable as most of the Companies would not tap into that area.



TAKE ON BAJAJ FINANCE

- Bajaj Finance Limited is a trusted brand with strong brand equity. The Company has constantly worked on making improvements in their product features and digital technologies in order to maintain a competitive edge.
- Despite the slowing demand, ROA and ROE sustained its momentum and this shows the operating efficiencies of the Company. AUM grew by 35% to Rs. 145,200 crore as of 31 December, 2019 which will result in better investments. The new loans booked also grew by 13% for which the existing customers contributed 68%.
- Due to the lockdown, the Company recorded a loss of Rs.4750 Cr loss in AUM and this has completely slowed the growth in AUM.
- There was also a growth witnessed in the customer franchise for which the Company is known and also has a competitive edge. It stood at 40.38MM as of Dec, 2019.
- The Company has a resilient business model which enables consistent growth of ROA over the years and also develop the customer franchise.
- The Company pays close attention to growing their income and thereby it went up by 52% in the last quarter.
- They possess an effective management which acts as a driving force in bringing about efficiency within the organisation.
- The impact of Covid-19 has been quite harsh on the Company's share price as it fell to a 52-week low of 1915 INR, however currently it has improved.
- Meanwhile, the loan losses and provisions have also gone up by 65% as the Company made a provision of \$12 MM for one of the loans raising the total provisions to \$105MM



FUTURE OUTLOOK OF BAJAJ FINANCE

- The unsecured consumer finance business models would become challenging in the current pandemic environment. At the current early stage of Covid-19 outbreak in India, it is uncertain to project how long the physical restrictions from the government would last beyond the 21-days imposed lockdown. At this stage, it would be conservative to assume that first quarter of FY2021 would be a near complete economic freeze and a crawling recovery post that
- the strong growth that the company was clocking over the past few years is not coming back for at least six months now

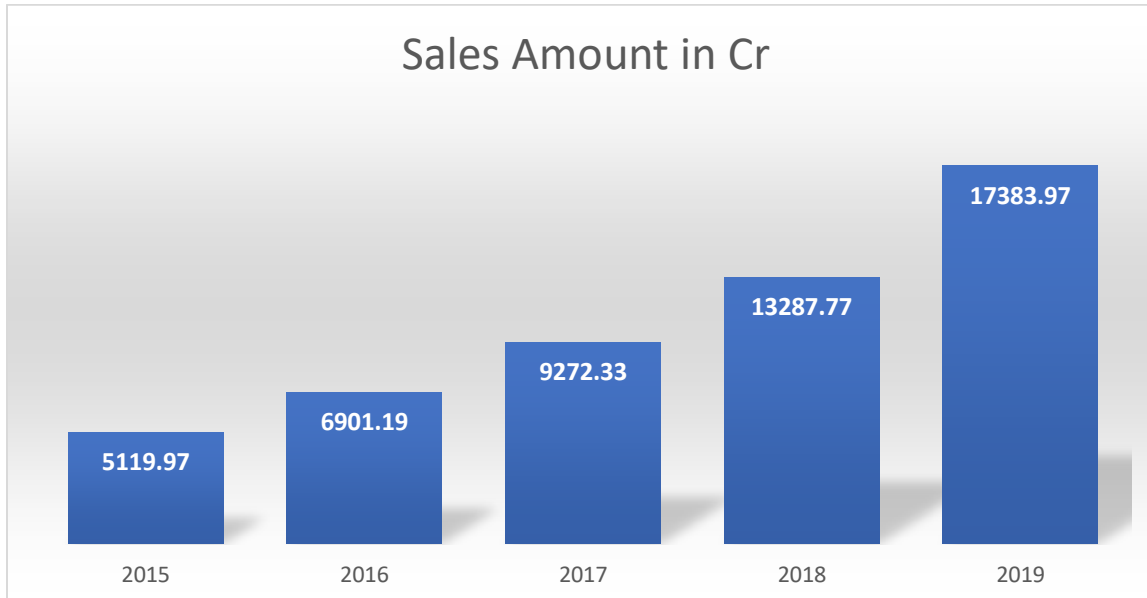
ECONOMIC AND INDUSTRY ANALYSIS

- With the onset of the corona virus pandemic in the country, the economic performance has fallen down and it has affected most companies, Bajaj Finance also being one of them.
- The rupee fell 0.55% to a new record low of 76.86 against the US dollar while the equity indices have lost over 30% since January.
- RBI Governor said that the economy has come to a standstill during lockdown, however, 3.2% of GDP has been injected into the economy in order to tackle to liquidity situation. IMF expects India to post a sharp turnaround in FY22 with a 7.4% growth.
- NBFC sector has been one of the most affected and in order to tackle the liquidity situation, TLTRO 2 and refinancing through NABARD, NHB would provide aid and help ease the condition.
- The loans given by the NBFC's to the Real Estate industry would not be considered as NPA even on non-repayment for a period of 1 year. This could affect the NBFC's as there would now be a delay in repayment of loan amount.

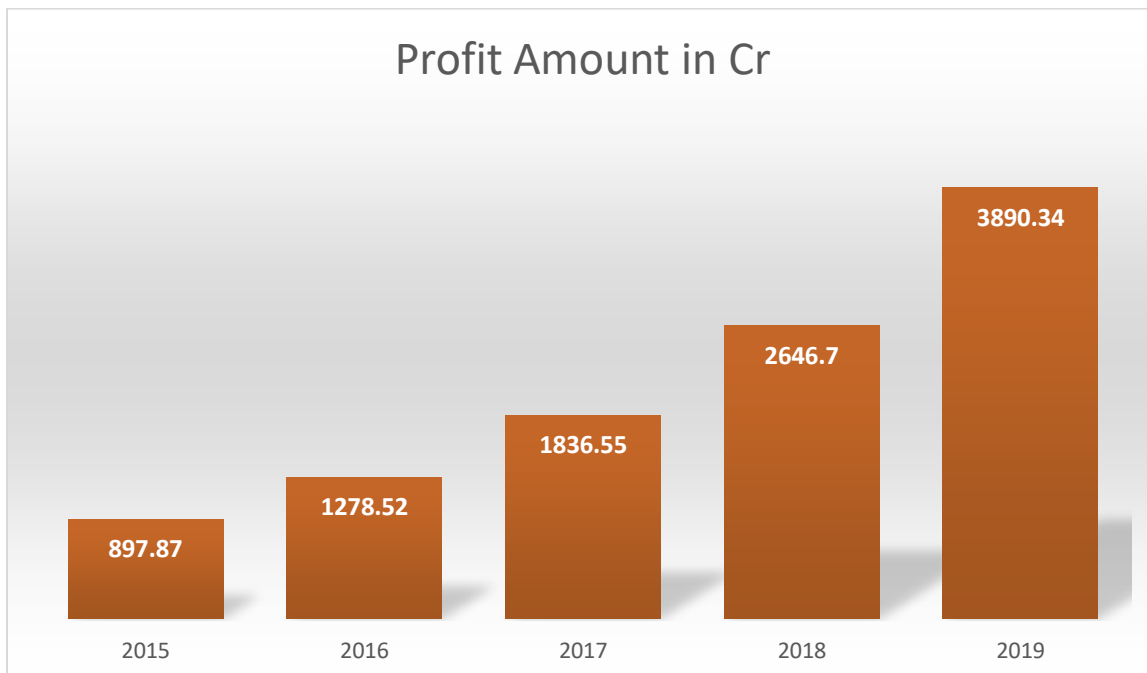


FINANCIAL HIGHLIGHTS

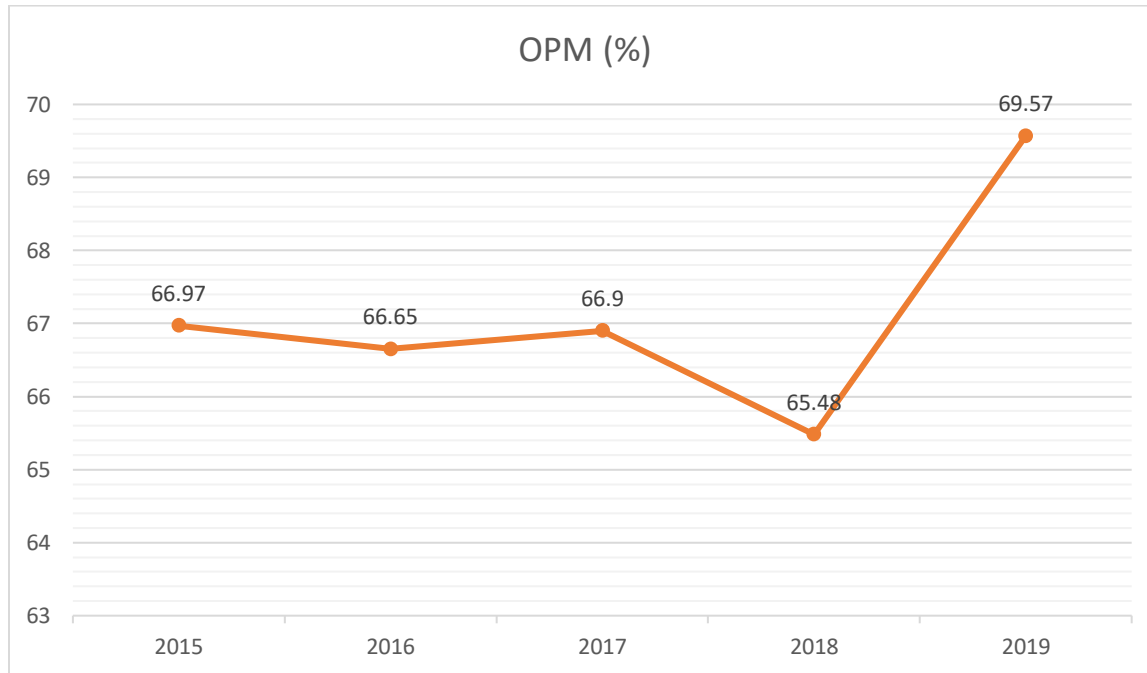
Sales Growth



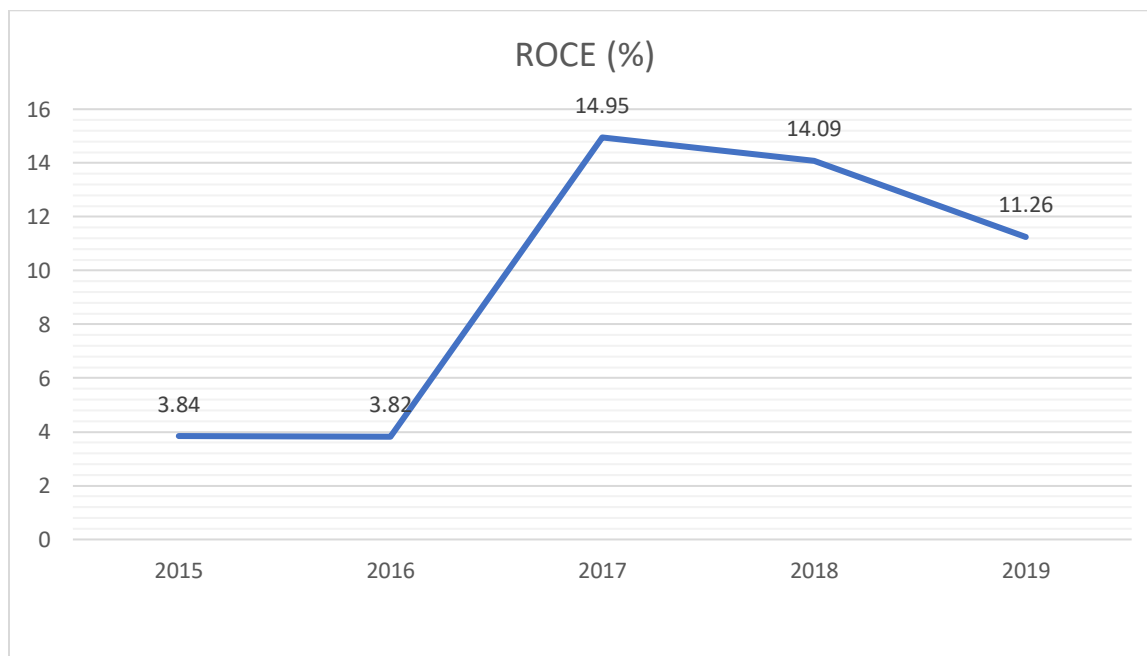
Profit Growth



Operating Profit Margin



Return on Capital Employed



Dividend Policy:

The Company has a good dividend track report and has been consistently declaring dividend for the past 5 years. For the year ending March 2019, the Company declared an equity dividend of 300% amounting to Rs.6 per share.



COMPETITOR ANALYSIS

Some of the major competitors of Bajaj Finance includes Muthoot Finance, Shriram Transport Finance Company.

Particulars	Bajaj Finance	Muthoot Finance	Shriram Transport Company
Market Cap (Rs.cr)	138881.87	28152.82	18544.26
Sales Turnover	17383.97	6878.21	15522.44
Operating Profit	12094.64	5353.33	11309.26
Net Profit	3890.34	1972.14	2563.99
EPS	84.81	67.4	133.31
Net Worth (as of Mar '19)	19563.63	9792.72	15836.29

The above table indicates competency between the three Companies on various parameters. It indicates that the market cap of Bajaj Finance is much higher than that of its competitors whereas when it comes to the net worth, there is not much of a difference especially between Bajaj Finance and Shriram Transport Finance Company. The Net Profit above is as of March 2019 and Shriram Transport Company is a close competitor. EPS (TTM) of the Company also is higher than that of Bajaj Finance Limited. However, Bajaj Finance remains an outperformer. The Covid-19 pandemic has been a blow to all the Companies as the prices have fallen tremendously.



VALUATIONS

Current Situation:

Share Price: 2308.15

Market Cap: 138881.87 Cr

Total Shares Outstanding: 60.17 Cr

Dividend Yield: 0.26%

EPS: 84.81

Book Value: 322.94

PE Ratio (TTM): 27.22

1 year Returns: 28.5%

Per Share Valuations:

Dividend Per Share: Rs.6

Free Cashflow Per Share: 0

Operating Cashflow Per Share:

Price/Free Cashflow Ratio: 26.5

Operating Revenue Per Share:

Operating Profit Per Share: Rs.34.68



Current Investment Per Share:

Non-Current Investment Per Share: 0

Other Valuation Parameters:

PBIDT Margin: 69.67%

PBIT Margin: 68.88%

PBT Margin: 34.71%

Net Profit Margin: 22.37%

Return on Equity: 19.88%

Return on Assets: 3.58%

Return on Capital Employed: 11.26

Targets

Recommendation Accumulate

Valuation: Target Valuation Of 3,15,910.44 Crores

Current Market Price ₹2030

Time Horizon: 4 -5 Years

Disclaimer: This Report Is Just An Analysis Of A Listed Company And I Hereby Confirm Everything Mentioned Above To Be True To My Knowledge. Please Contact Your Financial Advisor Before Acting On The Recommendation. The Author Or The Website Or Anyone Associated With It Is Not Responsible For Any Loss Incurred.



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