

CMP : Rs.939

Reco : BUY

Target : Rs.1,125

STOCK INFO

BSE	500034
NSE	BAJFINANCE
Bloomberg	BAF IN
Reuters	BJFN.BO
Sector	NBFC
Face Value (Rs)	10
Equity Capital (Rs Mn)	413
Mkt Cap (Rs Mn)	38,799
52w H/L (Rs)	951/585
Avg Daily Vol (BSE+NSE)	34,211

SHAREHOLDING PATTERN

	%
<i>(as on 30th Jun. 2012)</i>	
Promoter	61.1
FII	5.6
DII	12.1
Others	21.3

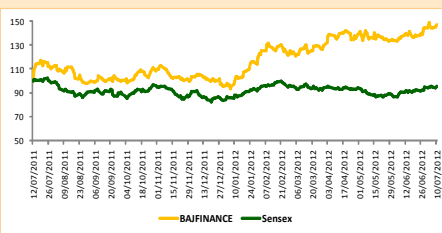
Source: BSE

STOCK PERFORMANCE (%) 1m 3m 12m

BAJFINANCE	8	7	50
SENSEX	5	2	-5

Source: Capitaline, IndiaNivesh Research

BAJFINANCE v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Company Background

Bajaj Finance Ltd (BFL) is a Non Banking Financing Company (NBFC) promoted by Bajaj auto group in 1987. BFL is the highest diversified NBFC which includes 3 segments namely consumer finance, SME and Commercial business with 9 product lines of Consumer durables financing, 2 & 3 wheeler financing, personal loan cross sell, Mortgage, Small business loan, Loan against securities, Construction equipment, Infrastructure and Vendor financing. BFL has strong network of over 4400 distribution partners and dealers across the country.

Investment Rationale

Robust growth with diversified business mix, AUM jumped by 5x in 3 yrs: BFL has taken the benefit of strong rural retail credit demand by way of using its product expertise, new innovations and parental advantage. AUM of BFL has grown impressively by 73% CAGR in FY09-12 to Rs 131 bn with disbursement growth of 86% CAGR over the same period to Rs 158 bn. In Q4FY12, AUM grew by 73% yoy and growth was broad based across all the three segments viz Consumers grew by 49% yoy, SME by 72% and Commercial by 165% in Q4FY12. We are expecting AUM to grow at CAGR of 22% for FY12-14E. In Q4FY12, Disbursements growth was also equally robust at 84% yoy to Rs 42 bn. Again the growth was broad based in all the three segments of Consumer (44% yoy), SME (80% yoy) and Commercial (105% yoy). We are building in disbursement growth of 27% CAGR for FY12-14E.

Sustainable NIMs, Highest amongst Peers.... Net Interest Income grew by 54% in FY09-12, likely to grow at 30% over FY12-14E: Although NIMs have come down drastically from 15.6% in FY11 to 12.1% in FY12 yet it remains highest in the industry. NIMs compression was majorly because of increase in cost of funds by 120 bps yoy to 8.8% in FY12. Yield on Funds is amongst highest at 19.3% as compared to 15-16% of peers. Net interest income has jumped by 38% yoy in FY12 to Rs 12.5 bn attributed to Interest income growth of 56% yoy to Rs 20 bn and interest expense by 98% yoy to Rs 7.5 bn. We expect NIMs to remain stable for FY13E at 12% and Net interest income growth of 30% for FY12-14E.

No fret on Asset quality... Retained top position in the segment: BFL's strategy of focusing on affluent customers in consumer business and HNIs for Small business has shown an incredible result in maintaining its lower to moderate risk-return profile with consistent volume growth. Net NPA has come down from 2.2% in FY10 to 0.8% in FY11 and touched five year low of 0.12% in FY12. Provision coverage improved further to 89% as compared to 81% in Q3FY12. We are expecting asset quality to remain stable for FY13E with marginal increase of ~5 bps in Net NPA. Accordingly we are building in the credit cost of 1.6% for FY13E as compared to 1.5% for FY12.

Compelling Valuation Initiate with strong BUY

BFL is best placed NBFC with diversified product mix across the segments with impressive growth in AUM backed by healthy disbursements. BFL is continuously delivering best performance in terms of operating metrics, healthy asset quality and superior return profile. Although the margins have compressed but we believe this is bottom in terms of NIMs and likely to improve in FY14E. Further we are not worried on asset quality front and expect it to remain stable yet we are factoring in the credit cost of 1.6% for both FY13E and FY14E. Although the stock is trading at all time highs, we believe the current valuations of 1.6x and 1.3x for FY13E and FY14E ABV are compelling due to its higher ROA and ROE profile. We initiate coverage with BUY on BFL with the target price of Rs 1,125 implying the P/ABV of 1.9x for FY13E.

Financial Highlights

(Rs mn)	NII	PAT	EPS (Rs)	ROA (%)	ROE (%)	BV (Rs)	ABV (Rs)	P/E (x)	P/BV (x)	P/ABV (x)
FY11	9059	2470	67	3.8	19.7	371	354	10.4	1.9	2.0
FY12	12480	4064	98	3.8	24.0	492	488	8.3	1.7	1.7
FY13E	16894	5251	127	3.8	23.3	598	592	7.4	1.6	1.6
FY14E	20955	6358	154	3.7	23.1	733	725	6.1	1.3	1.3

Source: Company; IndiaNivesh Research

Financials

Income Statement (Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Interest Earned	8097	12838	19963	27781	33775
Interest Expended	2017	3780	7483	10887	12820
Net Interest Income	6080	9059	12480	16894	20955
Other Income	1065	1223	1757	1937	2088
Net Income	7145	10282	14236	18831	23043
Total Income	9162	14061	21719	29717	35863
Total Expenses	3196	4537	6670	8796	10705
Pre Provision Profit	3949	5745	7566	10035	12338
Provisions	2606	2046	1544	2198	2849
Profit before tax	1343	3699	6022	7837	9489
Tax	449	1229	1958	2586	3131
Profit after tax	894	2470	4064	5251	6358

Source: Company; IndiaNivesh Research

Balance Sheet (Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity	366	366	413	413	413
Reserves and Surplus	11159	13215	19923	24288	29877
Net Worth	11525	13581	20336	24701	30290
Borrowings	32268	67086	102260	125849	151476
Other Liabilities & Provisions	2137	4204	6063	6058	7137
Total Liabilities	45930	84871	128659	156608	188904
Assets					
Assets on Finance	40318	72720	122830	150761	182044
Investments	3018	56	55	1118	1359
Net Block	505	1026	1388	1874	2342
Other Assets	2090	11069	4386	2856	3159
Total Assets	45930	84871	128659	156608	188904

Source: Company; IndiaNivesh Research

Note: Variation in investments is due to reclassifications

Valuation Ratios	FY10	FY11	FY12	FY13E	FY14E
Earning Per Share (Rs)	24	67	98	127	154
Book Value Per Share (Rs)	315	371	492	598	733
Adj Book Value Per Share (Rs)	276	354	488	592	725
Dividend Per Share (Rs)	6.0	10.0	12.0	14.0	16.0
P/E (x)	13.0	10.4	8.3	7.4	6.1
P/BV (x)	1.0	1.9	1.7	1.6	1.3
P/ABV (x)	1.2	2.0	1.7	1.6	1.3
Mcap/Total Income (x)	1.3	1.8	1.6	1.3	1.1
Growth Y-o-Y (%)					
Assets on Finance	70.1	80.4	68.9	22.7	20.7
Asset Under Management	58.8	87.8	73.1	23.1	20.4
Disbursements	87.1	105.8	67.4	29.5	24.5
Borrowings	100.2	107.9	52.4	23.1	20.4
Balance Sheet	52.3	84.8	51.6	21.7	20.6
Net Interest Income	76.1	49.0	37.8	35.4	24.0
Other Income	18.5	14.8	43.6	10.2	7.8
Net Profit	163.2	175.5	62.8	30.1	21.1
Return Ratios (%)					
Return on Avg Equity	8.0	19.7	24.0	23.3	23.1
Return on Avg Total Asset	2.3	3.8	3.8	3.8	3.7
Return on Avg Asset Under Finance	2.8	4.4	4.2	3.8	3.8
Return on Avg Asset Under Mgmt	2.7	4.3	3.9	3.6	3.6
Yield / Margin (%)					
Yield on Funds	24.6	22.1	19.3	19.0	19.0
Cost of Funds	8.3	7.6	8.8	9.5	9.2
Interest Spread	16.3	14.5	10.5	9.5	9.8
Net Interest Margin	18.5	15.6	12.1	11.6	11.8
Net Profit Margin	9.8	17.6	18.7	17.7	17.7
Dividend Yield	1.9	1.4	1.5	1.5	1.7
Other Ratios (%)					
Cost / Income	44.7	44.1	46.9	46.7	46.5
Interest Expense / Interest Income	24.9	29.4	37.5	39.2	38.0
Net Interest Income / Net Income	85.1	88.1	87.7	89.7	90.9
CAR	25.9	20.0	17.5	19.5	19.8
Tier I	25.9	16.8	15.0	17.5	17.8
Provision Coverage Ratio	55.0	79.0	89.0	86.5	85.0
Net NPA	2.20	0.80	0.12	0.15	0.17

Source: Company; IndiaNivesh Research

Investment Rationale

Robust growth with diversified business mix, AUM jumped by 5x in 3 yrs:

AUM / Disb. increased by 5x / 6x since FY09

BFL has taken the benefit of strong rural retail credit demand by way of using its product expertise, new innovations and parental advantage. Consistently from last 3 years, BFL is showing a stellar performance in all its three segments due to large untapped rural market, improving affordability resulting in increasing housing and consumer durables demand.

AUM of BFL has grown impressively by 73% CAGR in FY09-12 to Rs 131 bn with disbursement growth of 86% CAGR over the same period to Rs 158 bn. AUM grew by 5x since FY09 and Disbursements by 6x. In Q4FY12, AUM grew by 73% yoy and growth was broad based across all the three segments viz Consumers grew by 49% yoy, SME by 72% and Commercial by 165% in Q4FY12.

AUM/Disbursement (Rs mn)	% of total	Q4FY12	Q4FY11	% YoY	Q3FY12	% QoQ	FY12	FY11	% YoY
Asset under management	100.0	131070	75730	73.1	119190	10.0	131070	75730	73.1
Consumer	38.0	49790	33430	48.9	48100	3.5	49790	33430	48.9
SME business	43.5	57010	33130	72.1	51080	11.6	57010	33130	72.1
Commercial	18.5	24270	9170	164.7	20010	21.3	24270	9170	164.7
Disbursement	100.0	42080	22870	84.0	46490	-9.5	157970	92350	71.1
Consumer	39.7	16720	11640	43.6	21490	-22.2	70400	46780	50.5
SME Business	30.2	12700	7060	79.9	12400	2.4	44110	27170	62.3
Commercial	30.1	12660	6170	105.2	12600	0.5	43460	20400	113.0

Source: Company, IndiaNivesh Research

Fresh Loans Disbursement ('000)	FY09	FY10	FY11	FY12
Sales Finance	352	515	1038	1542
2 Wheeler	219	378	522	654
Small Business	4	5	9	25
Total	574	897	1560	2221

We are expecting AUM to grow at CAGR of 22% for FY12-14E backed by 1) consistent growth in consumer segment specifically for consumer durables demand in summer in Q1FY13 and due to festive season of diwali and dasera in Q2FY13. Further the company is likely to maintain its market share in consumer durables due to its strong relationships with dealers and manufacturers. 2) 2 & 3 wheelers likely to remain intact due to strong parental advantage of Bajaj Auto sales (~25% of two wheeler sales is financed by BFL). 3) SME segment also likely to remain healthy on back of Mortgage and business loans.

In Q4FY12, Disbursements growth was also equally robust at 84% yoy to Rs 42 bn. Again the growth was broad based in all the three segments of Consumer (44% yoy), SME (80% yoy) and Commercial (105% yoy). Fresh loan disbursed in FY12 is increased to 2.2 mn as compared to 1.6 mn in FY11 and 0.9 mn in FY10. We are building in disbursement growth of 27% CAGR for FY12-14E.

Product	Duration (months)	Yields (%)	% of total assets	Customer Profile	Credit Quality (%)
Two & Three wheelers	8-12 & 12-36	23	22.2	MC	89.3
Consumer Durables	8-12 & 12-36	26	10.4	Mass Affl. & Affl.	97.8
Personal Loan Cross Sell	8-12 & 12-36	28	6.4	Mass Affl. & Affl.	95.4
Salaried Loan	12-36 & 36-180	16	1.5	Mass Affl. & Affl.	98.6
Mortgage	12-36 & 36-180	13	29.3	Mass Affl. & Affl. & HNW	99.9
Business Loans	12-36 & 36-180	18	7.9	Mass Affl. & Affl. & HNW	98.6
Loan against Securities	12-36 & 36-180	12	3.5	Mass Affl. & Affl. & HNW	100.0
Construction Equipment Finance	12-36	13	7.5	HNW	98.6
Infrastructure Finance	12-36	13	6.0	HNW	98.6
Vendor Financing	12-36	13	5.3	HNW	98.6

Source: Company, IndiaNivesh Research

Note: 1) MC-Mass clients, Mass Affl. - Mass Affluent, Affl. - Affluent, HNW - High Net worth.

2) Yields are approx.

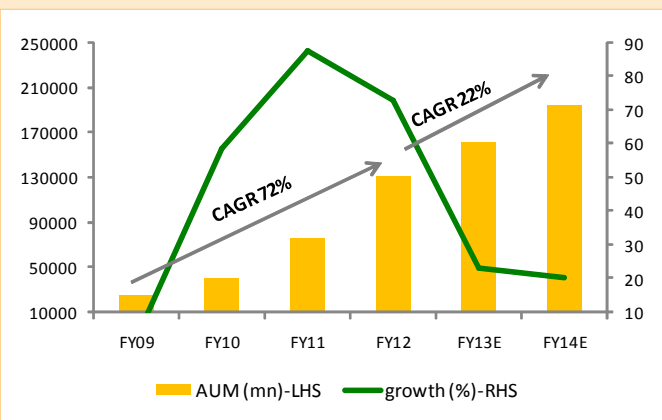
3) Credit quality is for 1st bucket indicating prompt payments

Assets on Finance were up 69% yoy in FY12 with CAGR of 73% in FY09-12 to Rs 123 bn. All the segments have shown an impressive growth and with in the segments mortgage and vendor financing has registered a growth of 81% and 99% respectively. We are expecting Asset on finance growth of 22% CAGR for FY12-14E.

Assets on Finance (Rs mn)	% of total	FY12	FY11	% YoY
Two & Three wheelers	22.2	27270	19530	39.6
Consumer Durables	10.4	12820	8930	43.6
Personal Loan Cross Sell	6.4	7810	4970	57.1
Salaried Loan	1.5	1890	0	NMF
Mortgage	29.3	36050	19960	80.6
Business Loans	7.9	9670	7080	36.6
Loan against Securities	3.5	4290	3080	39.3
Construction Equipment Finance	7.5	9220	5910	56.0
Infrastructure Finance	6.0	7330	0	NMF
Vendor Financing	5.3	6480	3260	98.8

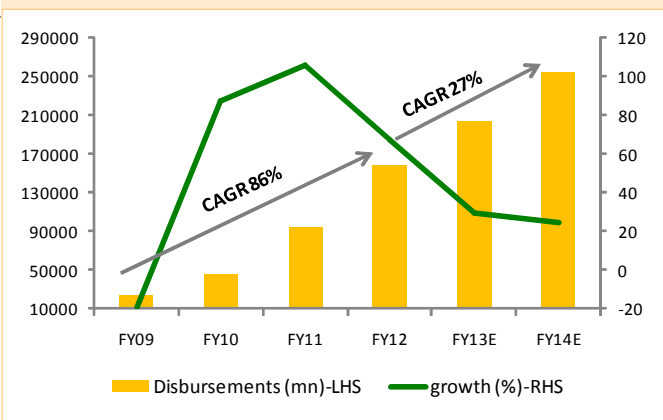
Source: Company, IndiaNivesh Research

AUM (mn) and Growth (%)



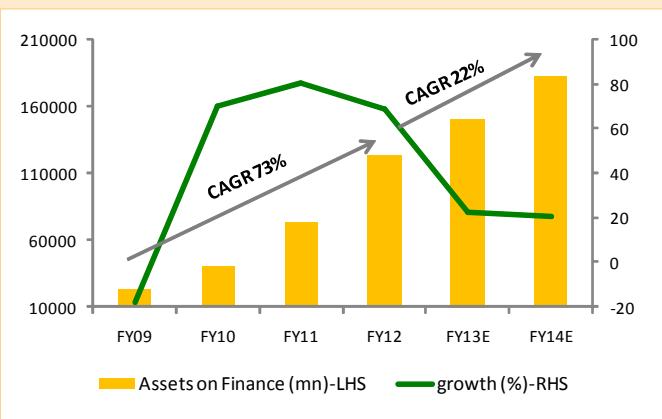
Source: Company, IndiaNivesh Research

Disbursements (mn) and Growth (%)



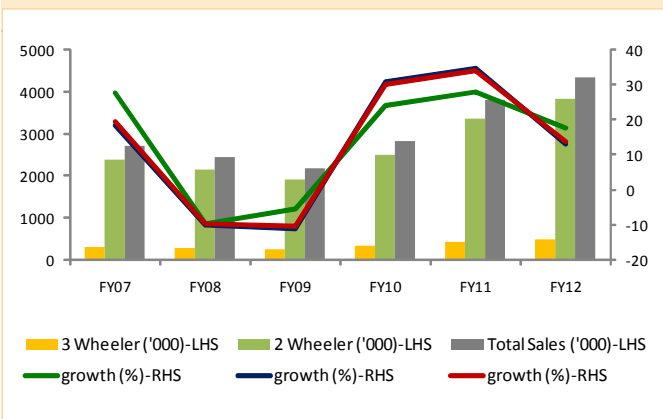
Source: Company, IndiaNivesh Research

Assets on Finance (mn) and Growth (%)



Source: Company, IndiaNivesh Research

Bajaj Auto Sales ('000) and Growth (%)



Source: Company, IndiaNivesh Research

We are impressed by these unique selling ideas....

Direct Cash Collection model playing well

Introduction of Direct Cash Collection model:

BFL, after the strong understanding of rural market, has invented the model called direct cash collection model for the people who have ability to afford and can service the loan but don't have banking facilities or habits. This model is only focused in rural and semi urban areas. Under this model, BFL appoints their agents on commission basis for collecting the repayments in cash mode. This model has been working successfully from last three years and 45% of the customers acquired in FY12 for 2 & 3 wheeler loans were under this model.

Disbursals in just 3 mins.

Turnaround time of just 3 mins for consumer durables, tie up with all major dealers:

BFL has leveraged its investment in technology by reducing the turnaround time for disbursement of consumer loans to just 3 minutes. Dealers calls BFL, BFL does the credit check of the customer and returns call to dealer in 3 minutes. Further BFL has tied up with almost all major dealers and manufacturers of consumer durables. BFL now finances 25% of LCD and Plasma televisions sold in the country.

25% of total LCDs & Plasma TVs are financed by BFL

Innovative product offering, Cross selling for those who have consistent track record:

BFL has launched a card as an identity for existing consumer durable customers for faster future transactions. BFL now gives an option to apply for an EMI (Existing Member Identification) card to the new consumer durable customer. Under EMI, the customer can 'Swipe, Sign and Go' ie swipe the card, sign the documents and go with the product. This is first application for selling a loan product in the country with least turnaround time as system reflects the history of customer within few seconds. Further this EMI is also used by company for cross selling its other products.

No pre payment for mortgage, added new product as well:

Since inception of mortgage loans, BFL has not charged any pre payment charges or any other charges to the customers. In FY12, BFL has launched new product called Flexisaver for SME customers with flexibility to 'draw when they want' and 'pay when they want' with no extra charges.

Sustainable NIMs, Highest amongst Peers.... Net Interest Income grew by 54% in FY09-12, likely to grow at 30% over FY12-14E:

NIMs to remain stable with positive bias

Although NIMs have come down from 15.6% in FY11 to 12.1% in FY12 yet it remains highest in the industry. NIMs compression was majorly because of increase in cost of funds by 120 bps yoy to 8.8% in FY12. Yield on Funds is amongst highest at 19.3% as compared to 15-16% of peers. NIMs for Q4FY12 have come down by 196 bps to 11.3% and yields by 84 bps to 19%. Cost of funds continues to spike up by 190 bps yoy to 9.7% in Q4FY12.

Yields/Costs/Margins (%)	Q4FY12	Q4FY11	YoY bps	Q3FY12	QoQ bps	FY12	FY11	YoY bps
Yield on funds	19.0	19.8	-84	21.0	-201	19.3	22.1	-282
Cost of funds	9.7	7.7	190	9.5	10	8.8	7.6	123
NIM	11.3	13.2	-196	13.3	-201	12.1	15.6	-354

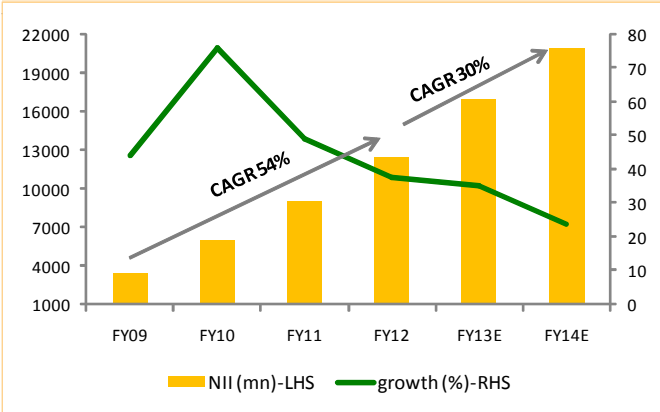
Source: Calculated based on average balance, IndiaNivesh Research

	Shriram Transport Finance			M & M Finance			Bajaj Finance		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Yields on Funds	17.0	16.0	14.9	15.9	15.2	15.5	24.6	22.1	19.3
Cost of Funds	11.3	12.0	11.4	8.5	8.1	8.6	8.3	7.6	8.8
NIM	8.6	8.9	8.4	10.7	10.1	9.2	18.5	15.6	12.1

Source: Calculated based on average balance, IndiaNivesh Research

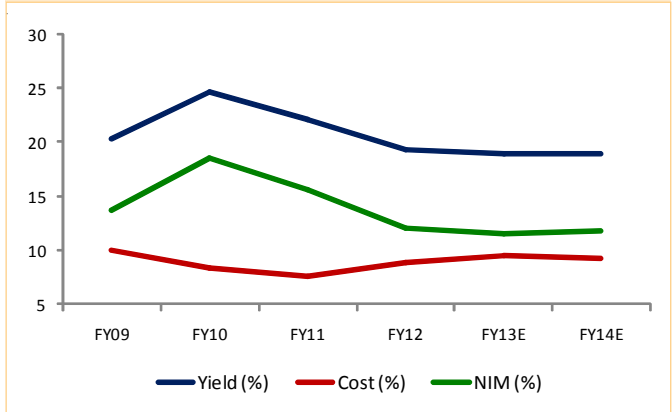
Net interest income has jumped by 38% yoy in FY12 to Rs 12.5 bn attributed to Interest income growth of 56% yoy to Rs 20 bn and interest expense by 98% yoy to Rs 7.5 bn. Although the share of high yielding segment of consumer is likely to go up due to long summers and festive season in H1FY13 yet we are conservatively factoring in the product mix at current rate of 40:41:19 for Consumer:SME:Commercial for FY13E resulting in stable NIMs of 12% and Net interest income growth of 30% for FY12-14E.

NII (mn) and Growth (%)



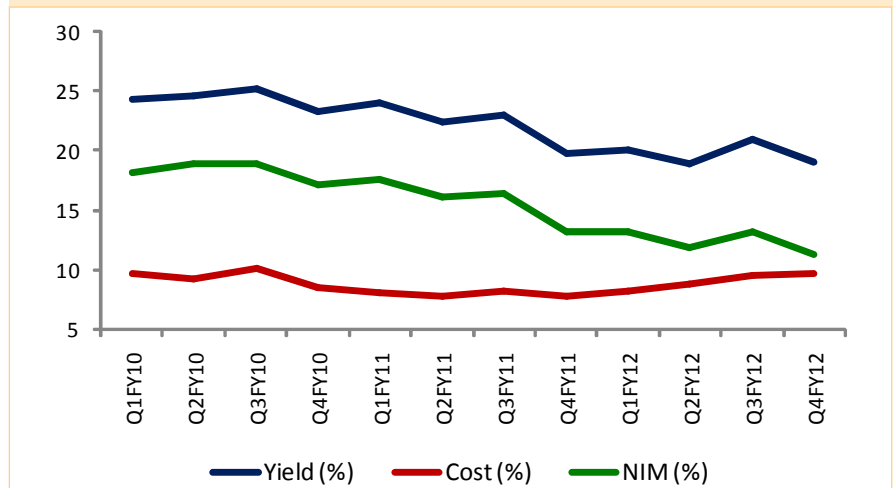
Source: Company; IndiaNivesh Research

Yield / Cost / NIM (%)



Source: Company; IndiaNivesh Research

Yield / Cost / NIM (%)



Source: Company; IndiaNivesh Research

Despite continuous hike in interest rates, cost of funds was down in FY11

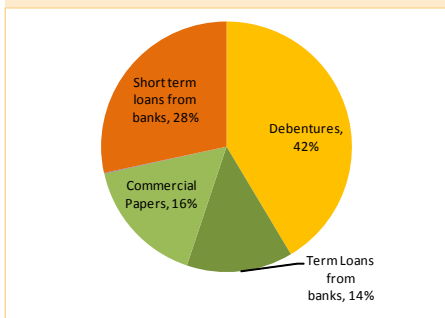
Longer tenure Borrowings helped maintaining cost till FY11, bank borrowings increased in FY12:

Despite continuous hike in interest rates, BFL was successful in maintaining the cost of funds at lowest level. Infact in FY11, when cost of funds for all the financials (including banks and NBFCs) was going up, BFL's cost of funds declined by 70 bps yoy to 7.6%. This was mainly because of efficient Asset liability management by borrowing higher tenure borrowings when the interest rates were lower. However in FY12, the cost of funds increased to 8.8% as new borrowing is done at higher rates than before. Given that FY12 was the peak of interest rates, BFL consciously decided to increase bank borrowings rather than raising long term debentures at higher rates. We believe BFL's strategy of relying on short term bank borrowings is positive for NIMs over longer term. Outstanding borrowings now stand at Rs 102 bn, up 52% yoy from FY11. Further Rs 38 bn (37% of total borrowings which includes both short and long term) of its liabilities is set to reprise in FY13 and 57% of total outstanding borrowings are from banks in the form short and long term loans.

Borrowings (mn)	FY10	FY11	FY12	% YoY
Debentures	13640	27452	34134	24.3
Term Loans from banks	4500	16250	40170	147.2
Commercial Papers	5400	5250	9200	75.2
Public deposits	26	21	16	-24.4
Short term loans from banks	9340	19489	18746	-3.8

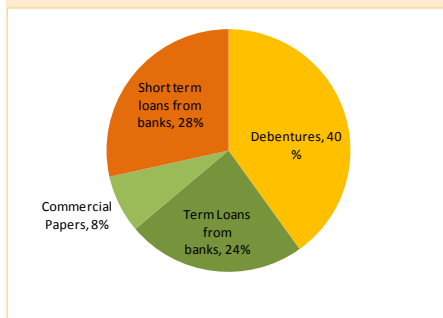
Source: Company, IndiaNivesh Research

Borrowings - FY10



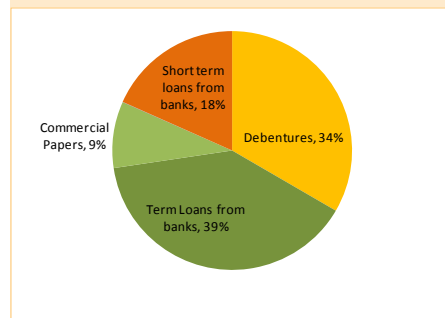
Source: Company; IndiaNivesh Research

Borrowings - FY11



Source: Company; IndiaNivesh Research

Borrowings - FY12



Source: Company; IndiaNivesh Research

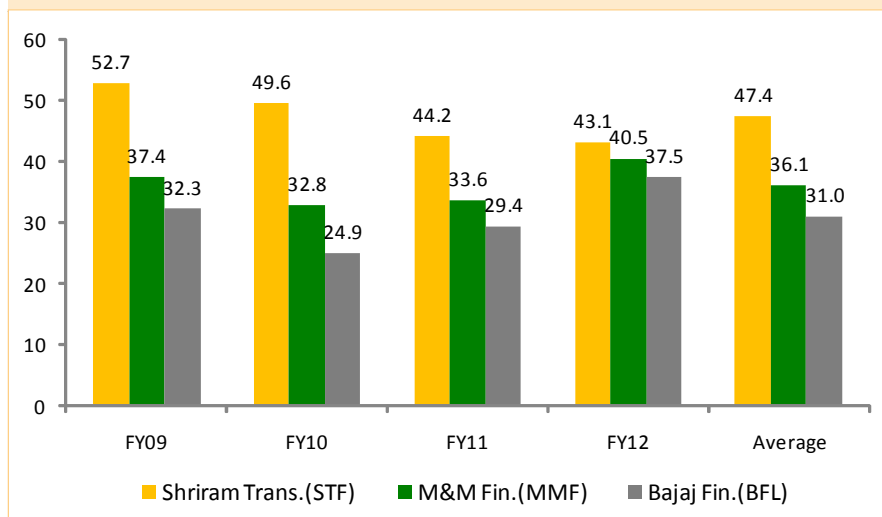
What are we trying to conclude over here???

...Interest expense to interest income ratio is lowest for BFL:

Interest expense to interest income ratio indicates the amount of rupee interest spent as against rupee interest received. Interestingly even at the peak of interest rates in FY12, BFL has lowest interest expense to interest income ratio of 38% which shows either the company has successfully passed every rate hike to the customer or maintaining its interest expense by managing its borrowing profile. STF is operating at interest expense to interest income ratio of 43% and MMF at 41%. However if we look at the last 3 years average, BFL's interest expense to interest income ratio is much lower at 31% vs 47% / 36% for STF / MMF.

Lowest amongst peers

Interest Expense to Interest Income (%)

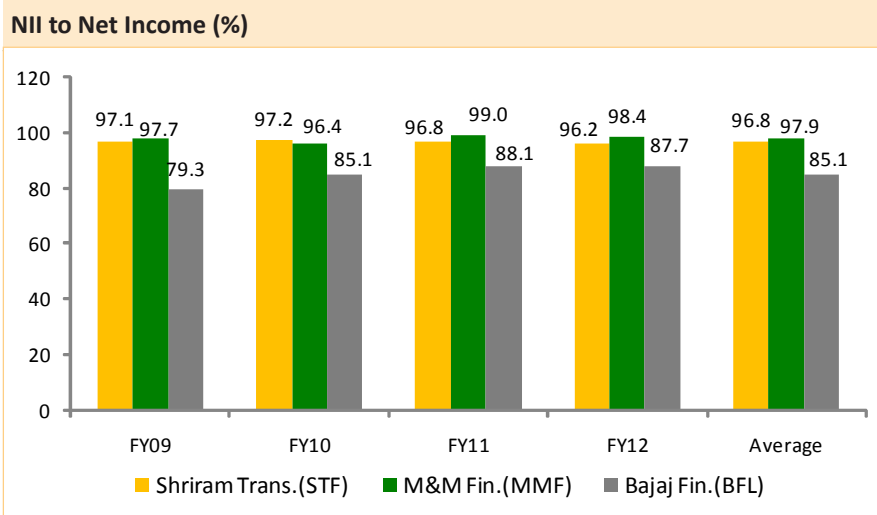


Source: Company; IndiaNivesh Research

BFL earns healthy other income comparatively

...Net interest income to Net income is lowest for BFL:

BFL's Net interest income as a percentage of total net income is 88% indicating that 12% of total net income is earned by way of other income. STF is having net interest income to total net income ratio of 96% and MMF is 98% which means interest income is the major source of income for the both of them. However BFL earns healthy other income by way of credit card, processing fees and insurance distribution. Average net interest income to net income ratio for BFL is 85% and that of STF / MMF at 97% / 98%.



Source: Company; IndiaNivesh Research

Net NPA touched five year low of 0.12%

No fret on Asset quality... Retained top position in the segment:

BFL's strategy of focusing on affluent customers in consumer business and HNIs for Small business has shown an incredible result in maintaining its lower to moderate risk-return profile with consistent volume growth. Net NPA has come down from 2.2% in FY10 to 0.8% in FY11 and touched five year low of 0.12% in FY12. Provision coverage improved to 89% as compared to 81% in Q3FY12 which is mainly due to excess provisioning of Rs 146 mn for Q4FY12 and Rs 200 bn for FY12 (which is in excess of regulatory requirements).

Excess provisioning drives more comfort

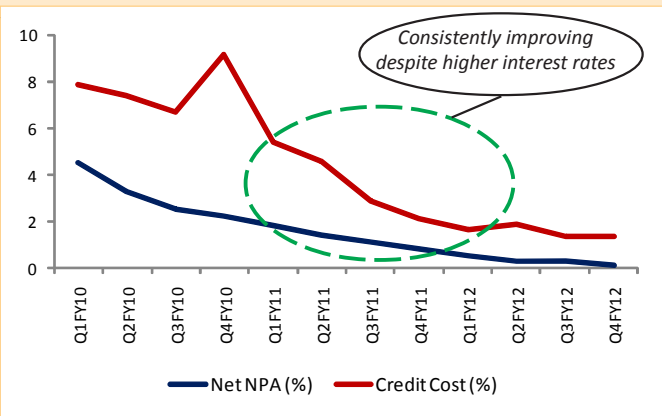
Asset Quality (%)	Q4FY12	Q4FY11	YoY bps	Q3FY12	QoQ bps
Secured portfolio as % of total	85.0	83.0	200	85.0	0
Gross NPA	1.16	1.80	-64	1.28	-12
Net NPA	0.12	0.80	-68	0.25	-13
Provision Coverage	89.0	79.0	1000	81.0	800

85% assets are secured

Source: Company, IndiaNivesh Research

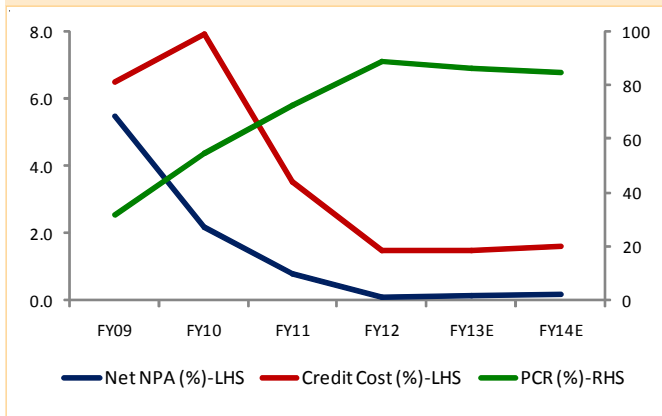
Secured portfolio now constitute 85% as compared to 83% in Q4FY11 indicating the asset quality to remain healthy going forward. We are expecting asset quality to remain stable for FY13E with marginal increase of ~5 bps in Net NPA. Accordingly we are building in the credit cost of 1.6% for FY13E as compared to 1.5% for FY12.

Net NPA / Credit Cost (%)



Source: Company; IndiaNivesh Research

Net NPA / Credit Cost / PCR (%)



Source: Company; IndiaNivesh Research

Strong traction in ROE/ROA led by Net profit growth of 129% CAGR in FY09-12, likely to grow by 25% over FY12-14E:

129% CAGR in net profit stands remarkable

ROE / ROA has touched a high of 24% / 3.8% in FY12 on back of Net profit growth of 65% yoy to Rs 4060 mn and 129% CAGR in FY08-12. This is led by 1) higher Net interest income growth 2) increasing efficiency and 3) improving asset quality and hence lower provisioning expense. We are expecting Net profit to grow by 30% for FY13E and 25% for FY12-14E with ROE and ROA of 23% and 3.8% respectively.

(%)	FY09	FY10	FY11	FY12	FY13E	FY14E
Net Interest Income	10.0	16.0	13.6	11.7	11.9	12.1
Other Income	2.6	2.8	1.8	1.6	1.4	1.2
Net Income	12.6	18.8	15.4	13.3	13.3	13.3
Operating Exp	6.4	8.4	6.8	6.2	6.2	6.2
Pre Provision profit	6.2	10.4	8.6	7.1	7.1	7.1
Provision	4.7	6.8	3.1	1.4	1.6	1.6
ROAA	1.0	2.3	3.7	3.8	3.8	3.7
Avg total Assets / Avg equity (x)	3.2	3.4	5.3	6.3	6.3	6.3
ROAE	3.2	8.0	19.7	24.0	23.3	23.1
Avg total assets (mn)	34604	38047	66583	106731	141417	172756
Avg Equity (mn)	10761	11206	12553	16958	22518	27496

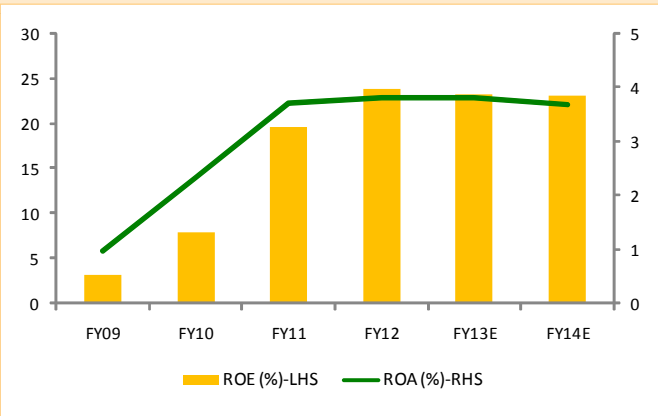
Source: Capitaline, IndiaNivesh Research

Relative Dupont Analysis

(%)	Shriram Transport Finance (STF)			Bajaj Finance (BFL)			M & M Finance (MMF)		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Net Interest Income	9.9	9.9	9.6	16.0	13.9	11.7	12.3	11.4	10.2
Other Income	0.3	0.3	0.4	2.8	1.9	1.6	0.5	0.1	0.2
Net Income	10.1	10.3	10.0	18.8	15.7	13.3	12.8	11.5	10.4
Operating Exp	2.4	2.2	2.1	8.4	6.9	6.2	3.9	4.0	3.7
Pre Provision profit	7.7	8.1	7.9	10.4	8.8	7.1	8.9	7.5	6.7
Provision	1.8	1.8	2.3	6.8	3.1	1.4	2.6	1.4	1.0
ROAA	4.1	4.2	3.7	2.3	3.8	3.8	4.1	4.0	3.8
Avg total Assets / Avg equity (x)	8.0	6.7	6.2	3.4	5.2	6.3	5.2	5.4	5.9
ROAE	32.4	28.1	23.1	8.0	19.7	24.0	21.5	22.0	22.8

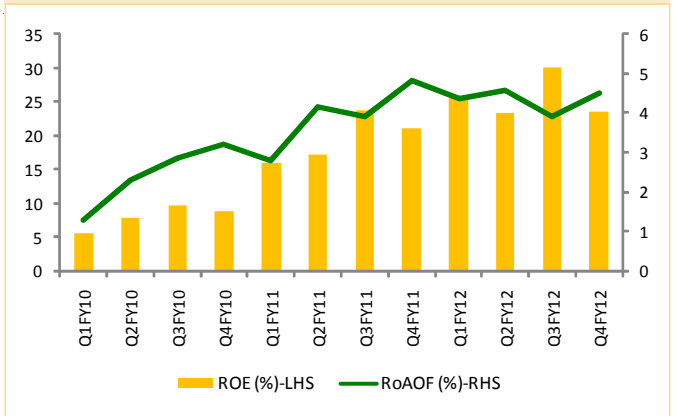
Source: Capitaline, IndiaNivesh Research

ROE / ROA (%)



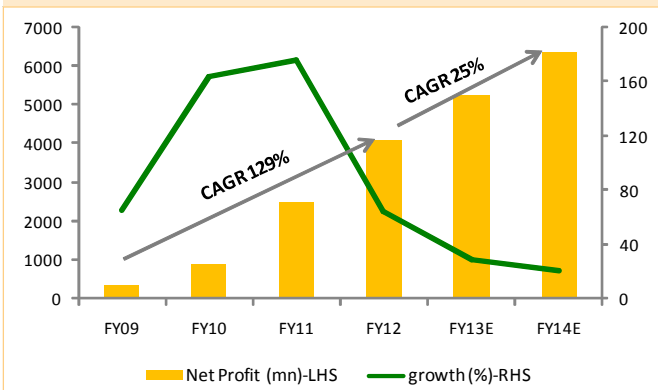
Source: Company; IndiaNivesh Research

ROE / RoAOF (%)



Source: Company; IndiaNivesh Research
Note: RoAOF-Return on Asset on Finance

Net Profit (mn) / Growth (%)

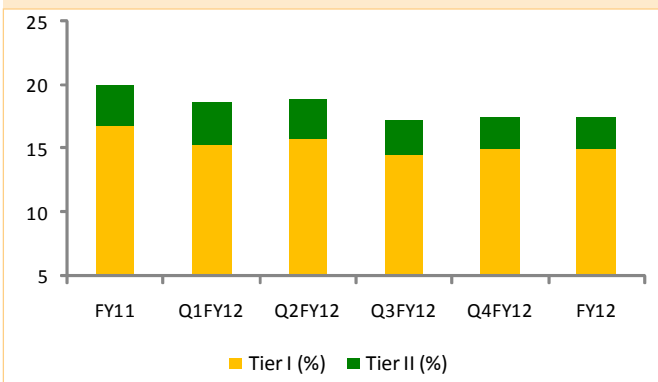


Source: Company; IndiaNivesh Research

Healthy Capital adequacy:

Capital adequacy remains strong at 17.5% with Tier capital of 15% vs 17.3% and 14.5% in Q3FY12. With regards to the SEBI regulations, BFL has issued 6 mn warrants at Rs 651 per share holding right to convert it to the same number of equity shared to promoter, Bajaj Finserv Ltd. Further, in Q4FY12, Bajaj Finserv Ltd. has converted these warrants into equity shares to the extent of 4.7 mn at an exercise price of Rs 651 and paid 75% of it i.e. Rs 488 per share totaling Rs 2.3 bn. This capital will be utilized for meeting the funding needs of the company. Further BFL is planning to raise Rs 7.5 bn from QIP in H2FY13 which will be further deployed for future growth.

Tier I and Tier II (%)



Source: Company; IndiaNivesh Research

Why BFL over other NBFCs???.... Peer comparison leaves many positives....

We have tried addressing this by doing the detailed comparative analysis of BFL with its closest peers - Shriram Transport Finance (STF) and Mahindra & Mahindra Finance (MMF).

Unique business model, diversified product portfolio is key strength:

BFL's unique business model has impressed us by way of new selling ideas like direct cash collection model, turnaround time of just 3 mins for consumer durables, tie up with major dealers and manufacturers in consumer segment, cross selling with the help of EMI (Existing Member Identification) card and new offering in mortgage loans.

Table shows that BFL has the most diversified product mix in peer group which helps maintaining risk return profile with healthy margins.

Present in almost all major segments

Product Mix	M&M Fin.	Shriram Trans.	Bajaj Fin.
Consumer Durables	✗	✗	✓
Commercial Vehicle	✓	✓	✓
Two & Three wheelers	✓	✓	✓
Tractor	✓	✓	✗
Housing	✓	✗	✓
Construction Equipment	✓	✓	✓
Loan Against Gold/Securities	✓	✗	✓
Infrastructure Financing	✗	✗	✓
Vendor Financing	✗	✗	✓
Insurance/MF Distribution	✓	✗	✓
Credit Card	✗	✓	✓

Source: Company, IndiaNivesh Research

Beating the industry growth by considerable margins: BFL's AUM growth was 3.5x and 2x higher than that of MMF and STF in FY09-12 respectively. AUM of BFL grew by 73% CAGR in FY09-12 vs 21% / 34% of STF / MMF. Despite challenging business environment in FY11 and FY12, BFL has been able to deliver AUM growth of 73% yoy in FY12 as compared to 11% / 36% by STF / MMF. Disbursement growth was also equally strong at 86% CAGR in FY09-12 vs 19% of STF and 46% of MMF. FY12 disbursements were up 67% yoy vs 35% / -2% of MMF / STF.

Growth Y-o-Y (%)	Shriram Transport Finance (STF)			M & M Finance (MMF)			Bajaj Finance (BFL)		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
AUM	28.4	24.2	11.1	25.8	41.0	36.2	58.8	87.8	73.1
Disbursements	27.0	35.4	-2.0	41.9	61.7	35.3	87.1	105.8	67.4
Assets on Finance	18.7	10.2	10.8	22.7	42.3	38.1	70.1	80.4	68.9
Networth	111.5	27.6	22.2	17.7	44.2	18.5	5.9	17.8	49.7
Balance Sheet	48.6	17.2	13.1	21.9	48.9	35.7	52.3	84.8	51.6
Borrowings	-8.2	7.7	16.3	25.0	50.0	66.5	100.2	107.9	52.4
Net Interest Income	28.6	30.9	10.9	20.4	26.7	26.3	76.1	49.0	37.8
Other Income	24.0	46.7	34.4	91.7	-65.4	104.5	18.5	14.8	43.6
Net Profit	49.9	34.0	2.2	59.8	35.1	33.9	163.7	176.2	64.6

Source: Capitaline, IndiaNivesh Research

Yield / Margin (%)	Shriram Transport Finance (STF)			M & M Finance (MMF)			Bajaj Finance (BFL)		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Yields on Funds	17.0	16.0	14.9	15.9	15.2	15.5	24.6	22.1	19.3
Cost of Funds	11.3	12.0	11.4	8.5	8.1	8.6	8.3	7.6	8.8
Spread	5.7	3.9	3.5	7.3	7.1	6.9	16.3	14.5	10.5
NIM	8.6	8.9	8.4	10.7	10.1	9.2	18.5	15.6	12.1
Return Ratios (%)									
Return on Total Assets	4.1	4.2	3.7	4.1	4.0	3.8	2.3	3.8	3.8
Return on AUM	3.5	3.8	3.3	3.6	3.6	3.5	2.7	4.3	3.9
Return on AOF	5.6	6.5	6.0	4.2	4.3	4.1	2.8	4.4	4.2
Return on Equity	32.4	28.1	23.1	21.5	22.0	22.8	8.0	19.7	24.0
Other Ratios (%)									
Cost / Income	24.1	21.2	21.2	30.5	34.8	35.4	44.7	44.1	46.9
Interest Expense / Interest Income	49.6	44.2	43.1	32.8	33.6	40.5	24.9	29.4	37.5
Net Interest Income / Net Income	97.2	96.8	96.2	96.4	99.0	98.4	85.1	88.1	87.7
CAR	21.4	24.9	24.3	18.5	20.3	18.0	25.9	20.0	17.5
Provision Coverage Ratio	75.6	85.9	85.9	86.4	86.4	78.0	55.0	79.0	89.0
Net NPA	0.7	0.4	0.4	0.9	0.6	0.7	2.2	0.8	0.1

Source: Capitaline, IndiaNivesh Research

Note: AUM - Asset Under Management, AOF - Asset On Finance, Yields & NIM includes income from securitisation

ROA healthy for all 3, but Return on AUM is highest for BFL:

BFL's ROA is inline with industry at 3.8%. However if we consider the return earned on total assets under management, BFL remains the top performer with return on total asset under management of 3.9%. STF's and MMF's return on total asset under management is 3.3% and 3.5%. This deviation is mainly because of higher off balance sheet asset. We preferred looking at return on total asset under management is because Income statement of these NBFCs also considers the income earned from off balance sheet items like securitization and balance sheet total asset reflects on balance sheet exposure only.

Lowest Net NPAs and highest PCR amongst 3: Albeit continuous hike in interest rates, BFL was successful in maintaining its credit quality with lowest Net NPA of 0.1% vs 0.4% and 0.7% of STF and MMF respectively. Provision coverage ratio of BFL improved from 79% in FY11 to 89% in FY12 and now stands highest amongst peer group.

Cost to income is relatively higher, is offset by lower provisioning: Only metrics where BFL taking the back seat is the cost to income ratio, stands at 47%, whereas STF's cost to income is much lower at 21% and MMF's at 35%. However we are not worried on expense front as impact on Net profit is offset by maintaining asset quality with lower provisioning expense.

Highest NIMs despite spike in interest rates: BFL's NIMs is highest at 12% as compared to 8.4% and 9.2% of STF and MMF respectively. This is mainly because ~40% of assets are high yielding segment of consumer durables which yields ~25%. Interestingly when interest rates were in upward trend in FY11, BFL's cost of funds has come down by 70 bps, attributed to longer duration borrowings at comparatively lower interest rates.

	Shriram Transport Finance (STF)					M & M Finance (MMF)					Bajaj Finance (BFL)				
	FY09	FY10	FY11	FY12	% CAGR	FY09	FY10	FY11	FY12	% CAGR	FY09	FY10	FY11	FY12	% CAGR
Interest Income	36557	44075	52087	56735	15.8	13648	15308	19644	27677	26.6	5095	8097	12838	19963	57.6
Interest Expense	19279	21862	23008	24473	8.3	5099	5017	6602	11203	30.0	1644	2017	3780	7483	65.7
Net Interest Income	17278	22213	29079	32261	23.1	8550	10290	13041	16474	24.4	3452	6080	9059	12480	53.5
Other Income	525	651	955	1284	34.7	198	380	132	269	10.7	899	1065	1223	1757	25.0
Net Income	17802	22864	30034	33545	23.5	8748	10671	13173	16743	24.2	4350	7145	10282	14236	48.5
Operating Expense	5539	5512	6373	7114	8.7	2668	3250	4581	5920	30.4	2204	3196	4537	6670	44.6
Pre Provisioning Profit	12264	17352	23661	26431	29.2	6080	7421	8592	10823	21.2	2146	3949	5745	7566	52.2
Provisions	3058	4069	5171	7622	35.6	2824	2215	1567	1570	-17.8	1636	2606	2046	1544	-1.9
Profit Before Tax	9206	13284	18489	18809	26.9	3256	5206	7025	9253	41.6	510	1343	3699	6022	127.7
Tax	3082	4107	6191	6235	26.5	1111	1779	2393	3051	40.0	171	449	1229	1958	125.4
Net Profit	6124	9177	12299	12575	27.1	2145	3427	4631	6201	42.5	339	894	2470	4064	128.9
AUM	226787	291223	361826	402159	21.0	85430	107489	151610	206429	34.2	25390	40320	75730	131070	72.8
Disbursements	115654	146836	198837	194859	19.0	62810	89154	144199	195043	45.9	24510	45850	94350	157970	86.1
Assets on Finance	151191	179423	197690	219019	13.1	72549	89024	126692	174963	34.1	23704	40318	72720	122830	73.0
Networth	18164	38424	49044	59923	48.9	14679	17274	24901	29510	26.2	10887	11525	13581	20336	23.2
Balance Sheet	181444	269559	315955	357193	25.3	75396	91910	136830	185616	35.0	30164	45930	84871	128659	62.2
Borrowings	201190	184600	198740	231220	4.7	52202	65250	97846	162870	46.1	16114	32268	67086	102260	85.1

Source: Capitaline, IndiaNivesh Research

NII CAGR of BFL @ 54% vs 24% / 23% for MMF / STF: Net interest income growth was robust at 54% CAGR in FY09-12 as against 23-24% of STF and MMF. NII was up 360% in last three years vs 190% of other 2. FY12 NII growth of BFL was up 38% yoy and that of STF and MMF were 11% and 26% respectively.

Net profit up 129% during FY09-12

Net profit grew by 12x since FY08 vs 3x / 2x for MMF / STF... ROE touched 24%: BFL is best positioned in terms of ROE with stellar performance on bottom line front. ROE of BFL has improved from low of 8% in FY10 to high of 24% in FY12. During the same period STF's ROE has come down from 32% to 23% and that of MMF's improved to 23% from 22%. This was on back of jump in BFL's Net profit of 65% yoy and 129% CAGR in FY09-12. STF's Net profit grew by 27% and MMF's by 43% CAGR over the same period.

DuPont Analysis (%)	Shriram Transport Finance			M & M Finance			Bajaj Finance		
	FY10	FY11	FY12	FY10	FY11	FY12	FY10	FY11	FY12
Net Interest Income	9.9	9.9	9.6	12.3	11.4	10.2	16.0	13.6	11.7
Other Income	0.3	0.3	0.4	0.5	0.1	0.2	2.8	1.8	1.6
Net Income	10.1	10.3	10.0	12.8	11.5	10.4	18.8	15.4	13.3
Operating Exp	2.4	2.2	2.1	3.9	4.0	3.7	8.4	6.8	6.2
Pre Provision profit	7.7	8.1	7.9	8.9	7.5	6.7	10.4	8.6	7.1
Provision	1.8	1.8	2.3	2.6	1.4	1.0	6.8	3.1	1.4
ROAA	4.1	4.2	3.7	4.1	4.0	3.8	2.3	3.7	3.8
Avg total Assets / Avg equity (x)	8.0	6.7	6.2	5.2	5.4	5.9	3.4	5.3	6.3
ROAE	32.4	28.1	23.1	21.5	22.0	22.8	8.0	19.7	24.0
Avg total assets (mn)	225502	292757	336574	83653	114370	161223	38047	66583	106731
Avg Equity (mn)	28294	43734	54484	15977	21088	27206	11206	12553	16958

Source: Capitaline, IndiaNivesh Research

Impressive growth story, healthy return profile and diversified business model deserves higher multiple: With introduction of new products and diversified business mix, BFL has been able to outperform the industry growth along with consistent improvement in both asset quality and return profile. Further with ROE of 22%, ROA of 2.9% and Net profit of Rs 4-5 bn, SCU is trading at P/ABV of 1.8x. MMF, the closest peer is having similar ROE of 23%, ROA of 3.7% and Net profit of Rs 7-6 bn, is trading at P/ABV of 2x. We believe BFL is comparatively well placed on all metrics with attractive valuations of 1.6x ABV. Hence prefer BFL over other NBFCs.

Prefer BFL over other NBFCs

	M&M Fin. (MMF)		Shriram Trans.(STF)		Shriram City Un.(SCU)		Bajaj Fin.(BFL)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Net Profit (mn)	7586	8850	15510	16533	4248	5252	5251	6358
ROE (%)	23.0	22.5	22.9	21.6	22.4	22.3	23.3	23.1
ROA (%)	3.7	3.5	3.6	3.9	2.9	2.9	3.8	3.7
EPS (Rs)	71	89	64	73	80	97	127	154
BV (Rs)	345	406	333	380	390	480	598	733
P/E (x)	9.8	7.8	8.8	7.7	8.5	7.0	7.4	6.1
P/BV (x)	2.0	1.7	1.7	1.5	1.7	1.4	1.6	1.3
P/ABV (x)	2.0	1.7	1.8	1.6	1.8	1.5	1.6	1.3

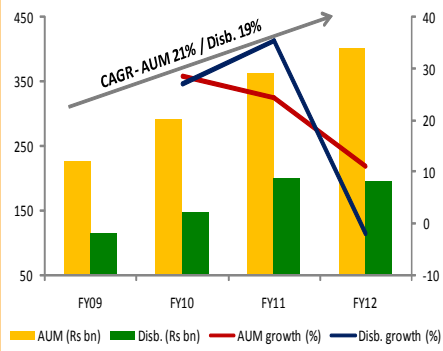
Source: Bloomberg, IndiaNivesh Research

Shriram Transport Fin.

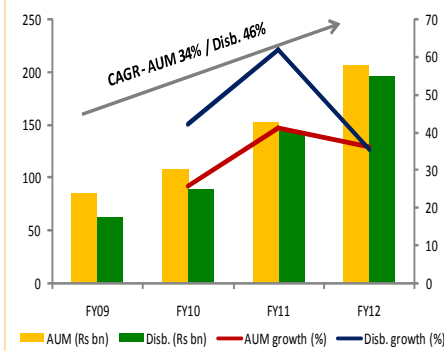
M&M Fin.

Bajaj Fin.

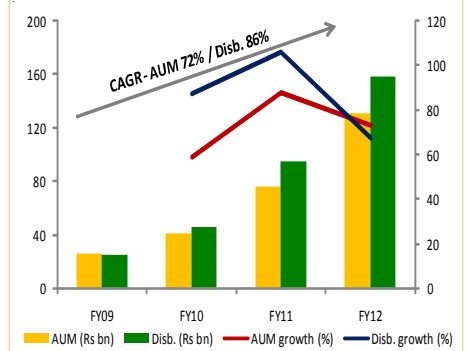
AUM / Disb. (bn) and Growth (%)



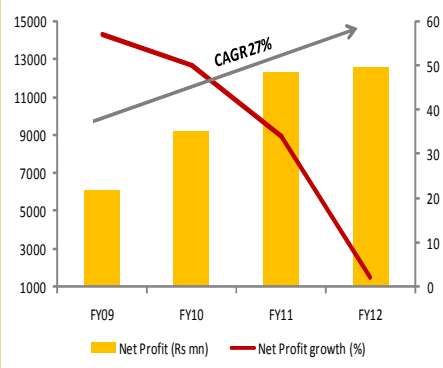
AUM / Disb. (bn) and Growth (%)



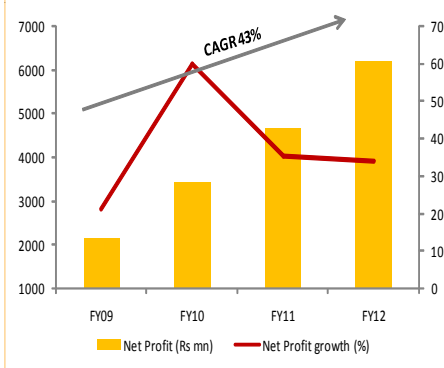
AUM / Disb. (bn) and Growth (%)



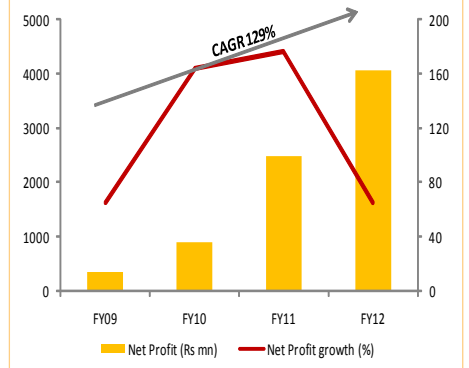
Net Profit (mn) and Growth (%)



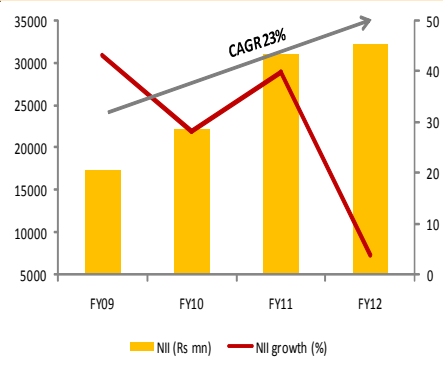
Net Profit (mn) and Growth (%)



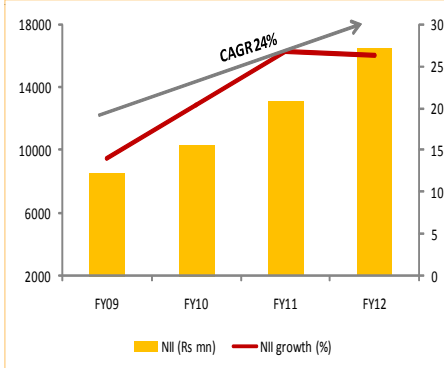
Net Profit (mn) and Growth (%)



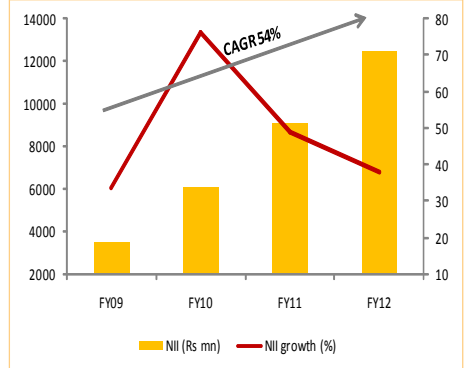
NII (mn) and Growth (%)



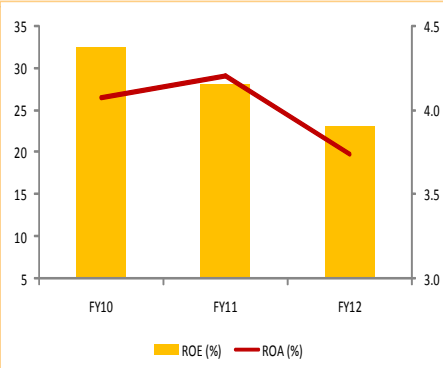
NII (mn) and Growth (%)



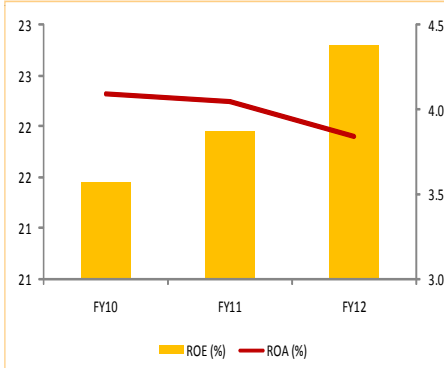
NII (mn) and Growth (%)



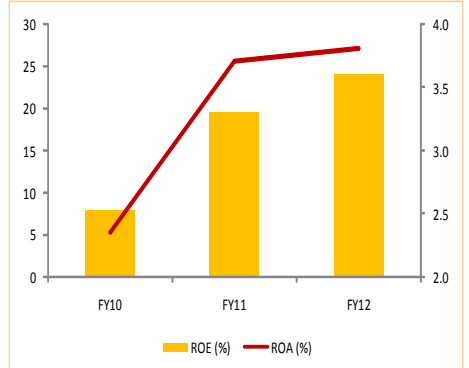
ROE / ROA (%)



ROE / ROA (%)



ROE / ROA (%)



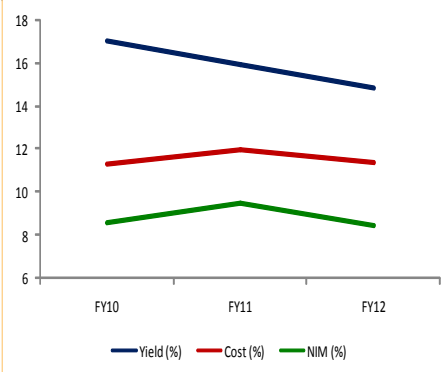
Source: Company; IndiaNivesh Research

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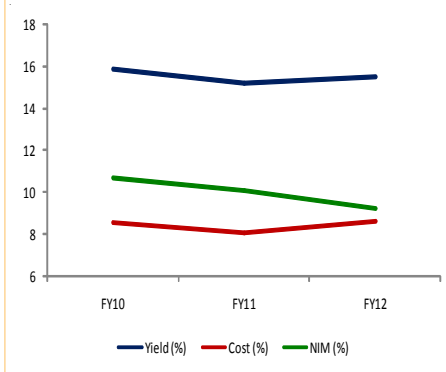
Shriram Transport Fin.

Yield / Cost / NIM (%)



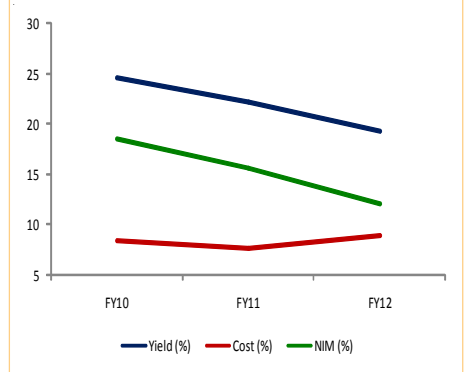
M&M Fin.

Yield / Cost / NIM (%)

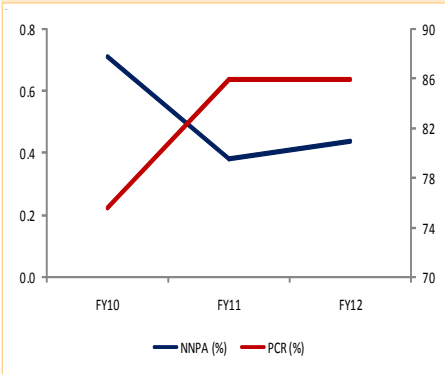


Bajaj Fin.

Yield / Cost / NIM (%)

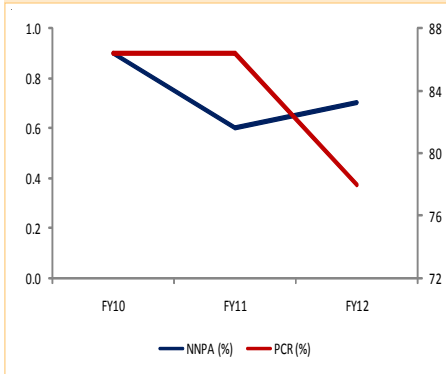


NNPA / PCR (%)



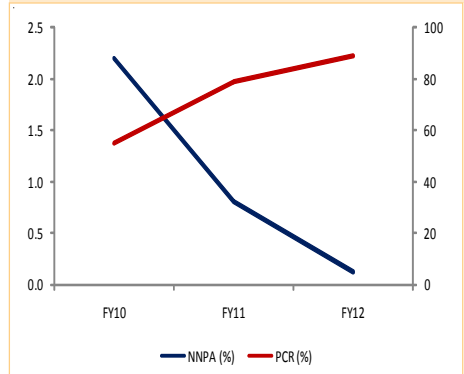
Source: Company; IndiaNivesh Research

NNPA / PCR (%)



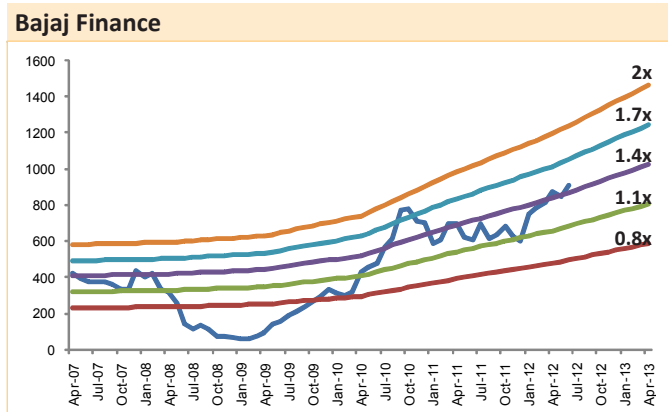
Source: Company; IndiaNivesh Research

NNPA / PCR (%)

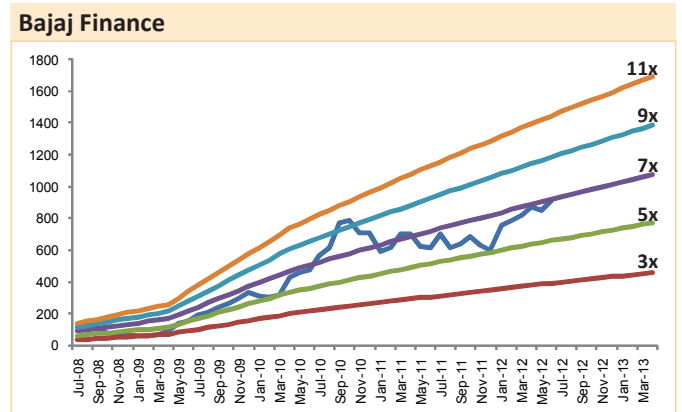


Source: Company; IndiaNivesh Research

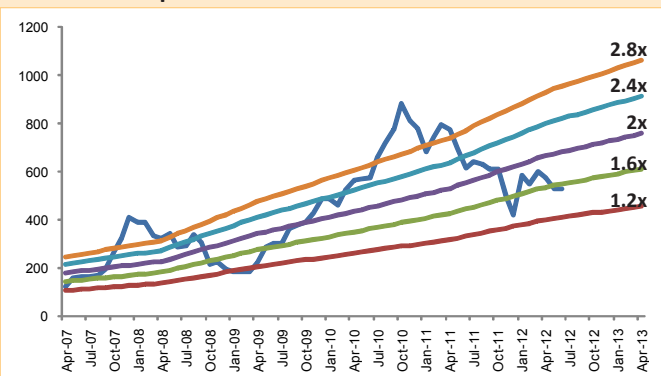
P/BV Band



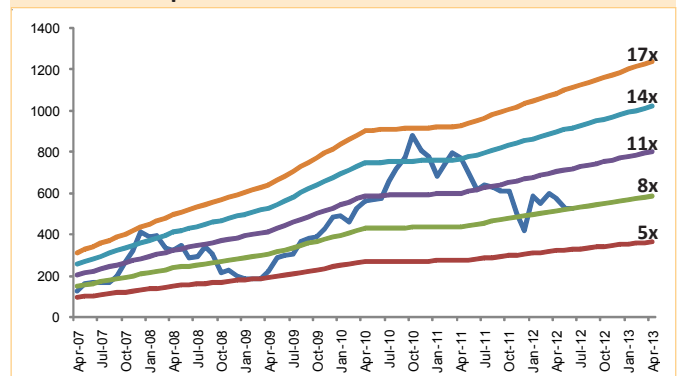
P/E Band



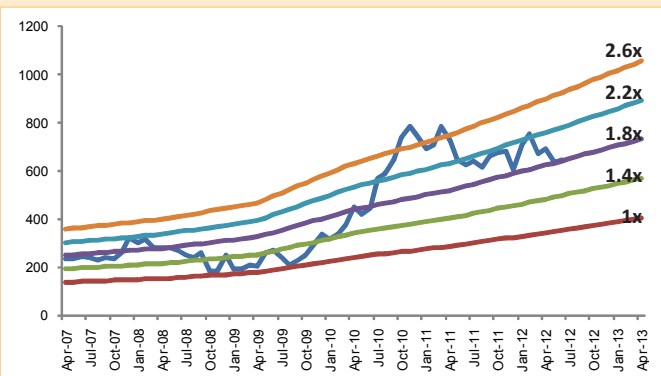
Shriram Transport Finance



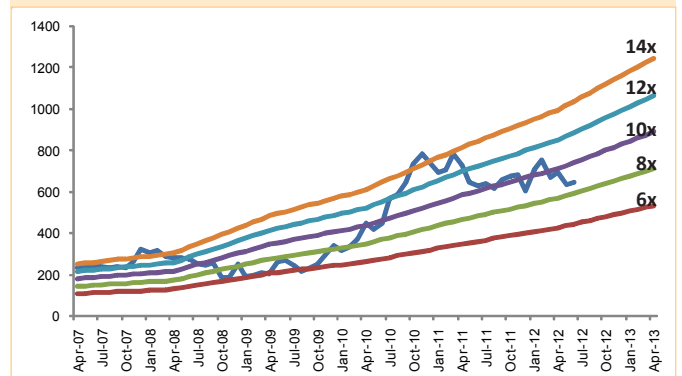
Shriram Transport Finance



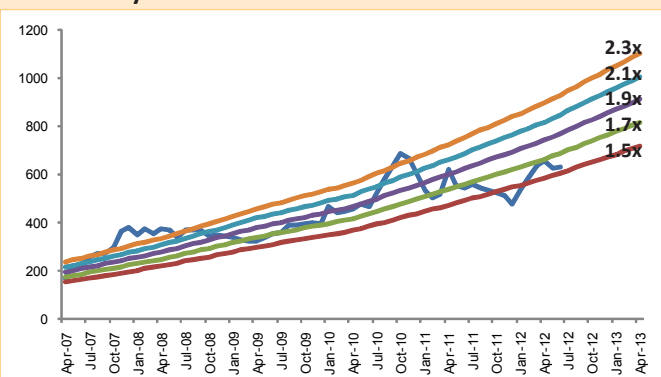
Mahindra & Mahindra Fin.



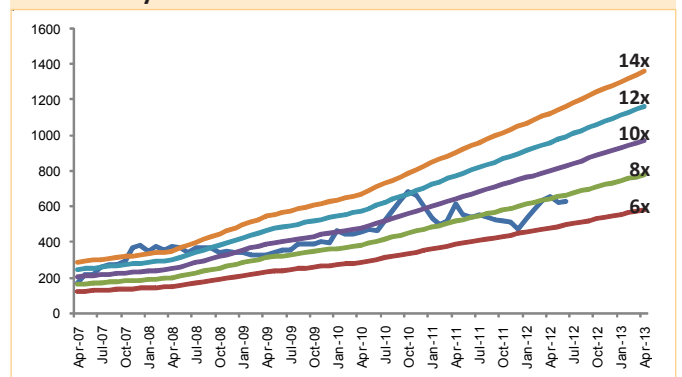
Mahindra & Mahindra Fin.



Shriram City Union



Shriram City Union



Source: Bloomberg; IndiaNivesh Research

Source: Bloomberg; IndiaNivesh Research

Risk & Concerns

Lower Disbursements or AUM growth than expected:

We are factoring in FY12-14E CAGR of 27% and 22% for Disbursements and AUM respectively. Any major variation from our assumptions will impact our numbers and hence profitability.

Major change in product or borrowing mix:

NIMs of BFL are highly correlated to product and borrowing mix. We have conservatively assumed the product mix at current level of 40:41:19 for Consumer:SME:Commercial for FY13E. Any major change in assumed mix will imply the impact on NIMs in either direction.

Any major impact on Asset quality:

We are not expecting any major deterioration in asset quality, however expect Net NPA to go up slightly by ~5 bps for FY13E. Accordingly we are building in the credit cost of 1.6% for FY13E as compared to 1.5% for FY12.

Q4FY12 Results Highlights

AUM growth was considerable at 73% yoy (10% QoQ) to Rs 131 bn led by all the three segments majorly SME and Commercial financing. AUM under Consumer, SME and Commercial financing jumped by 49%, 72% and 165% yoy respectively

Disbursement growth was also equally strong at 84% yoy to Rs 42 bn in Q4FY12. Disbursements in Consumer, SME and Commercial financing improved by 44%, 80% and 105% yoy respectively.

Net interest income grew by 41% yoy to Rs 3.9 bn however sequentially it was down by 2% in Q4FY12. Interest income was up by 58% yoy (3% QoQ) to Rs 6.2 bn while interest expense has almost doubled to Rs 2.3 bn (13% QoQ).

Net profit has increased to Rs 1 bn, up from Rs 710 mn in Q4FY11. Provisioning expense was up marginally by 7% yoy to Rs 403 mn.

Net NPA has touched five years low of 0.12% vs 0.25% Q3FY12. Provision coverage improved further to 89% as compared to 81% in Q3FY12 which is mainly due to excess provisioning of Rs 146 mn (which is in excess of regulatory requirements). Secured portfolio now constitutes 85% as compared to 83% in Q4FY11.

In Q4FY12, Bajaj Finserv (Promoter) has converted preferential warrants into equity shares to the extent of 4.7 mn at an exercise price of Rs 651 and paid 75% of it ie Rs 488 per share totaling Rs 2.3 bn. This capital will be utilized for meeting the funding needs of the company.

Rs mn	Q4FY12	Q4FY11	% YoY	Q3FY12	% QoQ	FY12	FY11	% YoY
Interest Income	6233	3946	58.0	6036	3.3	21719	14061	54.5
Interest Expense	2340	1184	97.7	2072	12.9	7509	3780	98.7
Net Interest Income	3893	2762	40.9	3964	-1.8	14210	10282	38.2
Total Expenditure	1878	1326	41.6	1831	2.6	6644	4537	46.5
Pre provisioning profit	2016	1436	40.3	2133	-5.5	7566	5745	31.7
Provisions & Write Offs	403	377	7.1	358	12.6	1544	2046	-24.5
Profit Before tax	1612	1060	52.2	1775	-9.1	6022	3699	62.8
Tax	530	349	51.6	575	-7.8	1958	1230	59.2
Net Profit	1083	710	52.5	1200	-9.8	4064	2470	64.6
EPS (Rs)	29.4	19.4	51.7	32.8	-10.2	110.8	67.5	64.3
Asset under management	131070	75730	73.1	119190	10.0	131070	75730	73.1
AUM - Consumer	49790	33430	48.9	48100	3.5	49790	33430	48.9
AUM - SME business	57010	33130	72.1	51080	11.6	57010	33130	72.1
AUM - Commercial	24270	9170	164.7	20010	21.3	24270	9170	164.7
Disbursement	42080	22870	84.0	46490	-9.5	157970	92350	71.1
Disbursement - Consumer	16720	11640	43.6	21490	-22.2	70400	46780	50.5
Disbursement - SME Business	12700	7060	79.9	12400	2.4	44110	27170	62.3
Disbursement - Commercial	12660	6170	105.2	12600	0.5	43460	20400	113.0

Key ratios	bps			bps	
NIM	11.3	13.2	-196	13.3	-201
Yield on funds	19.0	19.8	-84	21.0	-201
Cost of funds	9.7	7.7	190	9.5	10
ROA	3.6	4.0	-40	4.8	-120
ROE	22.8	21.2	160	30.0	-720
Cost to Income	48.2	48.0	22	46.2	204
Secured portfolio as % of total	85.0	83.0	200	85.0	0
Gross NPA	1.16	0.00	0	1.28	-12
Net NPA	0.12	0.80	-68	0.25	-13
Provision Coverage	89.0	79.0	1000	81.0	800
CAR	17.5	20.0	-249	17.3	21
Tier I	15.0	14.5	50	14.5	50

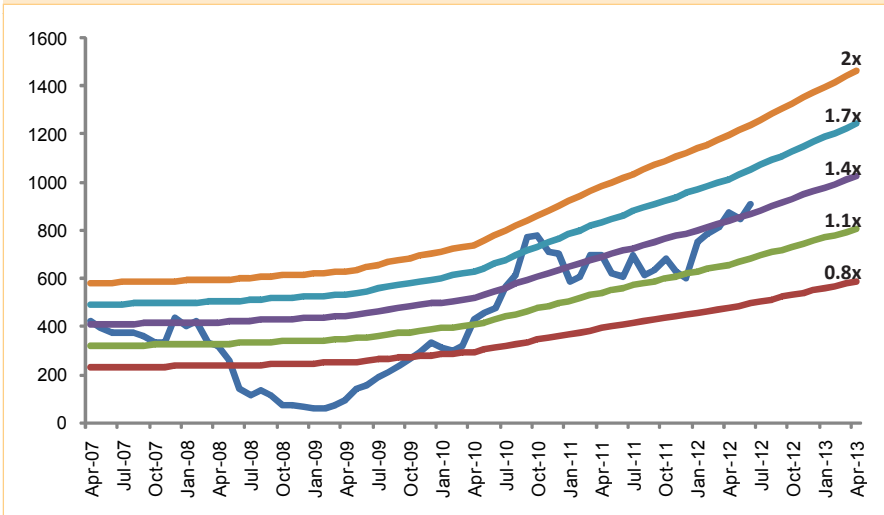
Source: Company, IndiaNivesh Research

Valuation

Compelling Valuation Initiate with strong BUY

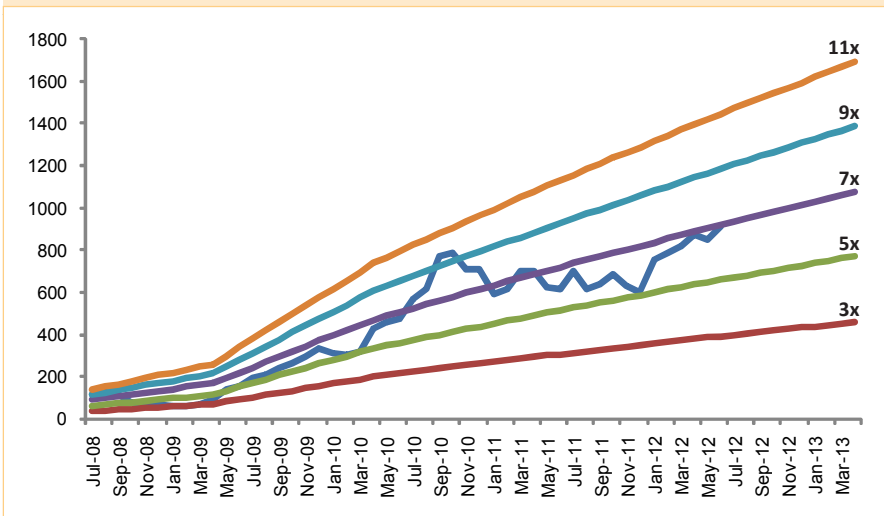
BFL is best placed NBFC with diversified product mix across the segments with impressive growth in AUM backed by healthy disbursements. BFL is continuously delivering best performance in terms of operating metrics, healthy asset quality and superior return profile. Although the margins have compressed but we believe this is bottom in terms of NIMs as 1) 38% of the borrowing will get reprised in FY13 at comparatively lower rates 2) incremental borrowings also add to this benefit further and 3) share of high yielding segment to remain at current levels. Further we are not worried on asset quality front as it is likely to remain stable yet we are factoring in the credit cost of 1.6% for both FY13E and FY14E. Although the stock is trading at all time highs, we believe the current valuations of 1.6x and 1.3x for FY13E and FY14E ABV are compelling due to its higher ROA and ROE profile. We initiate coverage with BUY on BFL with the target price of Rs 1,125 implying the P/ABV of 1.9x for FY13E.

P/ABV Band



Source: IndiaNivesh Research

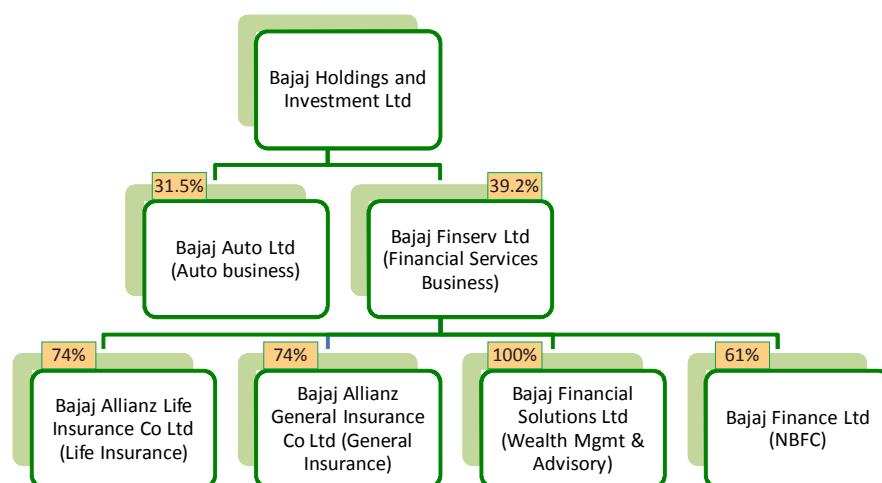
P/E Band



Source: IndiaNivesh Research

Company Background

Bajaj Finance Ltd (BFL) is a Non Banking Financing Company (NBFC) promoted by Bajaj auto group in 1987. BFL is the highest diversified NBFC which includes 3 segments namely consumer finance, SME and Commercial business with 9 product lines of Consumer durables financing, 2 & 3 wheeler financing, personal loan cross sell, Mortgage, Small business loan, Loan against securities, Construction equipment, Infrastructure and Vendor financing. BFL has strong network of over 4400 distribution partners and dealers across the country. BFL is the largest two wheeler and consumer durables lender in the country thereby financing ~24% of Bajaj Auto's two wheelers and ~9% of consumer durables industry. The company's Asset under Management (AUM) improved by 5x to Rs 131 bn from Rs 25 bn in FY09.



Source: Company Filings; IndiaNivesh Research

Management strategy is to focus on mass affluent customers in consumer businesses and affluent and HNI customers in small businesses with a balanced mix of 1) lower risk and returns products, for building scale and stability and 2) Moderate risk and return products, for profit maximization. Its Product Mix includes:

Two and three wheeler financing:

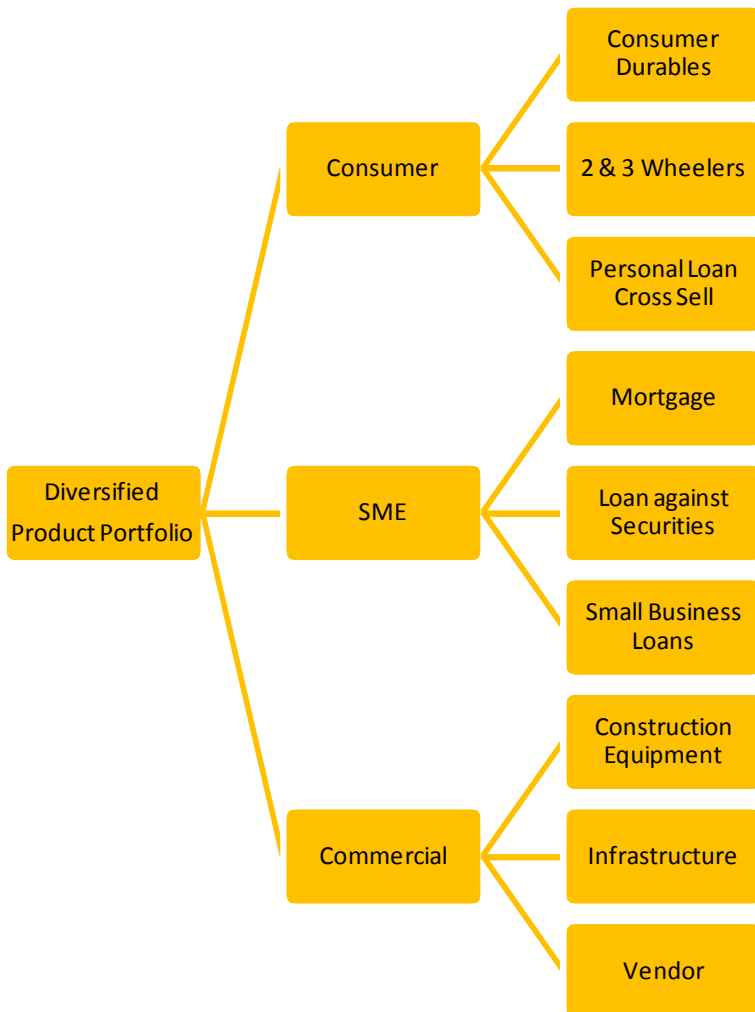
BFL is one of the largest two wheeler financing NBFC in India. BFL only finance two and three wheelers manufactured by Bajaj Auto with the help of 571 Bajaj Auto dealer and around 1700 sub dealers spread across the country. 24% of the Bajaj Auto's domestic two wheeler sales are financed by BFL. In FY12, the company has acquired 0.7 mn customers in this segment with deployment of Rs 26.7 bn.

Consumer durables financing:

BFL is also the largest consumer durable financing NBFC in India with market share of 9% in consumer durables loans. It has presence in top 79 cities with over 2500 points of sale in the country. It has tie up with all leading consumer durable manufacturers and dealers. Out of the total estimates sales of Rs 400 bn in FY12, BFL has financed Rs 36 bn. Further it finances 25% of total LCD and Plasma televisions sales in the country. In FY12, the company has acquired 1.5 mn customers and deployed Rs 35.8 bn in this segment, which is 58% growth over preceding year.

Personal loan cross sell and Salaried loans

Personal loan cross sell and salaried loan is the company's initiative of diversifying its consumer finance business based on existing customer's history and credentials. BFL does personal loan cross sell in top 81 cities and targets customers who has track record of timely repayments in two and/or three wheeler and/or consumer



Source: Company Filings; IndiaNivesh Research

durables loans. In salaried loan, BFL only targets affluent customer working with leading companies having salary above the internal norms set by BFL. In personal loan cross sell, it has disbursed Rs 5.9 bn (increase of 53% yoy) in FY12 and Rs 2.1 bn in salaried loans.

Co-Branded credit card

Credit card business is primarily responsible for generating fee income and does it again with affluent customers having sound repayment track record. BFL has launched branded credit cards in strategic partnership with Standard Chartered Bank.

Mortgage

BFL provides home loans and loan against mortgage of residential and commercial properties only to the affluent and high net worth customers. Presently, the company does mortgage financing in top 31 cities in the country. In FY12, Mortgage loan disbursements were up by 79% yoy to Rs 29.9 bn. This is the only low yielding segment for the company leaving the yields of ~13%.

Business loans

This segment primarily includes loans disbursed to small businessmen with careful due diligence. This business is unsecured in nature and operates in top 31 cities only. In FY12, BFL has deployed Rs 9 bn in business loan segment, up 36% yoy.

Construction equipment finance

This segment takes care of financing need of small, mid-sized and large contractors for the purchase of construction equipment. Construction equipment business is secured in nature as it is collateralized by asset. BFL operates this in top 23 cities and deployed Rs 9 bn in FY12.

Infrastructure finance

BFL offers the Project Finance, Corporate Finance and Mezzanine Debt to infrastructure companies or projects. The company has started this segment in FY11 and deployed Rs 9.8 bn in FY2012.

Vendor financing

Vendor financing business is focused on short to medium term financing of vendors of large auto manufacturers. BFL has deployed Rs 25 bn FY12 which includes short term disbursements of Rs 21.6 bn and medium term disbursements of Rs 3.2 bn.

Financials

Income Statement (Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Interest Earned	8097	12838	19963	27781	33775
Interest Expended	2017	3780	7483	10887	12820
Net Interest Income	6080	9059	12480	16894	20955
Other Income	1065	1223	1757	1937	2088
Net Income	7145	10282	14236	18831	23043
Total Income	9162	14061	21719	29717	35863
Total Expenses	3196	4537	6670	8796	10705
Pre Provision Profit	3949	5745	7566	10035	12338
Provisions	2606	2046	1544	2198	2849
Profit before tax	1343	3699	6022	7837	9489
Tax	449	1229	1958	2586	3131
Profit after tax	894	2470	4064	5251	6358

Source: Company; IndiaNivesh Research

Balance Sheet (Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity	366	366	413	413	413
Reserves and Surplus	11159	13215	19923	24288	29877
Net Worth	11525	13581	20336	24701	30290
Borrowings	32268	67086	102260	125849	151476
Other Liabilities & Provisions	2137	4204	6063	6058	7137
Total Liabilities	45930	84871	128659	156608	188904
Assets					
Assets on Finance	40318	72720	122830	150761	182044
Investments	3018	56	55	1118	1359
Net Block	505	1026	1388	1874	2342
Other Assets	2090	11069	4386	2856	3159
Total Assets	45930	84871	128659	156608	188904

Source: Company; IndiaNivesh Research

Note: Variation in investments is due to reclassifications

Valuation Ratios	FY10	FY11	FY12	FY13E	FY14E
Earning Per Share (Rs)	24	67	98	127	154
Book Value Per Share (Rs)	315	371	492	598	733
Adj Book Value Per Share (Rs)	276	354	488	592	725
Dividend Per Share (Rs)	6.0	10.0	12.0	14.0	16.0
P/E (x)	13.0	10.4	8.3	7.4	6.1
P/BV (x)	1.0	1.9	1.7	1.6	1.3
P/ABV (x)	1.2	2.0	1.7	1.6	1.3
Mcap/Total Income (x)	1.3	1.8	1.6	1.3	1.1
Growth Y-o-Y (%)					
Assets on Finance	70.1	80.4	68.9	22.7	20.7
Asset Under Management	58.8	87.8	73.1	23.1	20.4
Disbursements	87.1	105.8	67.4	29.5	24.5
Borrowings	100.2	107.9	52.4	23.1	20.4
Balance Sheet	52.3	84.8	51.6	21.7	20.6
Net Interest Income	76.1	49.0	37.8	35.4	24.0
Other Income	18.5	14.8	43.6	10.2	7.8
Net Profit	163.2	175.5	62.8	30.1	21.1
Return Ratios (%)					
Return on Avg Equity	8.0	19.7	24.0	23.3	23.1
Return on Avg Total Asset	2.3	3.8	3.8	3.8	3.7
Return on Avg Asset Under Finance	2.8	4.4	4.2	3.8	3.8
Return on Avg Asset Under Mgmt	2.7	4.3	3.9	3.6	3.6
Yield / Margin (%)					
Yield on Funds	24.6	22.1	19.3	19.0	19.0
Cost of Funds	8.3	7.6	8.8	9.5	9.2
Interest Spread	16.3	14.5	10.5	9.5	9.8
Net Interest Margin	18.5	15.6	12.1	11.6	11.8
Net Profit Margin	9.8	17.6	18.7	17.7	17.7
Dividend Yield	1.9	1.4	1.5	1.5	1.7
Other Ratios (%)					
Cost / Income	44.7	44.1	46.9	46.7	46.5
Interest Expense / Interest Income	24.9	29.4	37.5	39.2	38.0
Net Interest Income / Net Income	85.1	88.1	87.7	89.7	90.9
CAR	25.9	20.0	17.5	19.5	19.8
Tier I	25.9	16.8	15.0	17.5	17.8
Provision Coverage Ratio	55.0	79.0	89.0	86.5	85.0
Net NPA	2.20	0.80	0.12	0.15	0.17

Source: Company; IndiaNivesh Research

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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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