

Current	Previous
CMP : Rs.4,323	
Rating : BUY	Rating : HOLD
Target : Rs.5,500	Target : Rs.3,418

STOCK INFO

BSE	500034
NSE	BAJFINANCE
Bloomberg	BAFIN
Reuters	BJFN.BO
Sector	NBFC
Face Value (Rs)	10
Equity Capital (Rs Mn)	502
Mkt Cap (Rs Mn)	216,778
52w H/L (Rs)	4492/1460
Avg Daily Vol (BSE+NSE)	41,947

SHAREHOLDING PATTERN

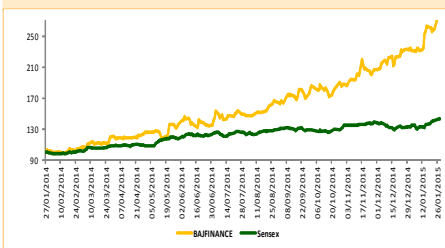
	%
(as on Dec. 2014)	
Institutions	19.4
Others, Incl Public	19.0
Promoters	61.6

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
BAJFINANCE	25	54	180
SENSEX	9	10	43

Source: Capitaline, IndiaNivesh Research

BAJFINANCE v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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Outperformance likely to continue... upgrade to BUY with upwards revised target price to Rs 5,500

BFL continues to remain preferred pick for investors led by strong business growth, safer business model with lowest NPAs in industry and limited investment options in financial space. We believe sharp move in stock price is mainly led by continuous foreign flow in markets specifically in businesses which continues to do well in terms of overall business metrics. Within the financial space, we believe private sector banks and NBFCs qualifies for the said investment purpose. However since investment options to foreign investors are very limited as foreign investment limit in most of the private sector banks is either close to allowable limit or already breached the limit, Bajaj Finance in NBFC space qualifies for both strong company fundamentals and also in terms of scope for further foreign investments.

BFL continues to perform well on overall business metrics with Asset Under Management growth of 57% CAGR in FY09-14. As a result, AUM has grown 12.1x since FY09 which remains best in the industry. This growth is mainly due to company's presence in segments which continues to remain unaffected by recent slowdown in the economy. Penetration level in Consumer financing specially consumer durables financing, digital product financing and two wheeler financing continue to increase. Also cross selling of other products and SME financing (Mortgage and LAP) remains the other key growth drivers. Further BFL continues its growth trajectory in Q3FY15 as well with AUM growth 37% yoy to Rs 308 bn led by strong demand for consumer financing in festive season. Growth in SME Financing (which includes Mortgage, Loan against property Small Business Loan and Loan Against securities) for BFL also remains strong at 46% yoy in Q3FY15.

NIMs (calc) for BFL is best in the industry at 11.2% in FY14 which has improved marginally to 11.7% in Q3FY15 due to seasonality of higher disbursements in high yielding consumer segment on back of festive season. Bank Borrowings for BFL has come down significantly 56% in FY14 to 47% in Q3FY15 mainly due to cost differentials between bank and market borrowings.

Asset quality of BFL also remains strong and best in the industry at Gross NPA of 1.5% and Net NPA of 0.49%. Further there is no impact on BFL on back of change in regulations by RBI of higher standard asset provisioning and early recognition of NPAs. BFL already follows substantially stringent policy on provisioning which was higher than RBI norms applicable for NBFCs. BFL continues to provide 0.4% on all standard assets as against earlier regulatory requirement of 0.25% and inline with current regulatory requirement of 0.4%. BFL recognize NPAs on 90 days overdue as against earlier regulatory requirement of 180 days and current requirement of 90 days. On capital adequacy front as well, BFL remains best with CAR of 18.7% and Tier I capital of 14.7% in Q3FY15.

Valuation

BFL continues to remain preferred pick for investors led by strong business growth, safer business model with lowest NPAs in industry and limited investment options in financial space. We believe BFL deserves premium valuation compared to other NBFCs and private sector banks due to reasons stated above and better return profile with ROE / ROA of 21% / 3% for FY17E. We have built in 25% AUM CAGR FY15-17E leading to 23-25% growth in Net interest income and Net profit. At CMP of Rs 4,323, the stock is trading at P/ABV of 3.7x and 3.2x for FY16E and FY17E respectively. We upgrade BFL to buy from hold with upwards revised target price of Rs 5,500, 4x FY17E ABV.

(We have initiated BUY on BFL on 24th April 2012 at Rs 847 with target price of Rs 1,040 and initiated coverage on 12th July 2013 with strong BUY rating on the stock at Rs 939 with target price of Rs 1,125. Further we have upgraded the target price continuously to Rs 3418 on 15th January 2015. All our earlier targets on BFL was achieved yielding returns of 410% (based on yesterday's closing price) since 24th April 2012).

Income Statement (Rs Mn)	FY14	FY15E	FY16E	FY17E
Interest Earned	37886	51506	66156	81588
Interest Expended	15732	22670	29205	36279
Net Interest Income	22153	28836	36950	45309
Other Income	2848	3011	3289	3555
Net Income	25001	31847	40240	48864
Total Income	40733	54517	69445	85143
Total Expenses	11511	14532	18292	22249
Pre Provision Profit	13490	17315	21948	26616
Provisions	2578	3550	4683	5841
Profit before tax	10912	13765	17264	20775
Tax	3722	4703	5898	7098
Net Profit	7190	9062	11366	13678

Source: IndiaNivesh Research

Balance Sheet (Rs Mn)	FY14	FY15E	FY16E	FY17E
Liabilities				
Equity	498	502	502	502
Reserves and Surplus	39411	48925	59227	70413
Net Worth	39909	49426	59729	70915
Borrowings	197496	262181	333024	410133
Other Liabilities & Provisions	7220	11378	13059	14359
Total Liabilities	244625	322985	405812	495408
Assets				
Assets on Finance	229710	308914	391085	481049
Investments	282	282	282	282
Net Block	2199	2419	2660	2926
Other Assets	12434	11370	11784	11150
Total Assets	244625	322985	405812	495408

Source: IndiaNivesh Research

Valuation Ratios	FY14	FY15E	FY16E	FY17E
Earning Per Share (Rs)	145	181	227	273
Book Value Per Share (Rs)	802	986	1191	1414
Adj Book Value Per Share (Rs)	783	956	1153	1367
Dividend Per Share (Rs)	16.1	17.1	18.1	19.1
P/E (x)	31.1	24.9	19.9	16.5
P/BV (x)	5.6	4.6	3.8	3.2
P/ABV (x)	5.8	4.7	3.9	3.3

Growth Y-o-Y (%)				
Asset Under Management	37.4	33.9	26.9	23.0
Borrowings	50.4	32.8	27.0	23.2
Balance Sheet	38.1	32.0	25.6	22.1
Net Interest Income	28.9	30.2	28.1	22.6
Other Income	52.6	5.7	9.2	8.1
Net Profit	25.2	26.1	25.4	20.3

Return Ratios (%)				
ROAE	19.6	20.3	20.8	20.9
ROAA	3.4	3.2	3.1	3.0

Yield / Margin (%)				
Yield on Funds	18.2	18.3	18.1	17.9
Cost of Funds	9.6	9.9	9.8	9.8
Interest Spread	8.7	8.4	8.3	8.1
Net Interest Margin	10.7	10.2	10.1	9.9
Net Profit Margin	17.7	16.6	16.4	16.1
Dividend Yield	0.4	0.4	0.4	0.4

Other Ratios (%)				
Cost / Income	46.0	45.6	45.5	45.5
Provision Coverage Ratio	75.1	65.2	65.2	65.2
Net NPA	0.3	0.5	0.5	0.5

Source: IndiaNivesh Research