BUY

CMP: **INR 7,176** Target Price: **INR 8,500** ▲ 18%

ICICI Securities

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07 April 2024

India | Equity Research | Initiating Coverage

Bajaj Finance

Financial Services

Standing the test of time – planning, execution and resilience

Bajaj Finance (Bajaj) is the only NBFC in India that prioritises customer 'ownership' over mere 'lending'. Providing financial solutions to India's burgeoning aspirational middle class forms the crux of Bajaj's unique business model, which will allow the business to showcase >25% growth in AUM and RoE in the near future. The company sports the lowest cost of delivery (cost of funds + cost to assets) among NBFCs, which is backed by a strong cross-sell/up-sell engine (cross-sell customer base at >60% of total) and robust digital infrastructure – arm in arm, these form the bedrock of Bajaj's leadership now and going ahead too in the NBFC space. We initiate coverage with a **BUY** and TP of INR 8,500 (SoTP), valuing standalone business at 5x FY26E BVPS and INR 830 towards housing subs. We model ~29% AUM CAGR and expect ~19-20% RoE over FY24-26E.

Healthy customer acquisition run-rate to march on – omni-channel presence a strong enabler…

A noteworthy aspect about Bajaj's customer acquisition journey is its prominence at every conceivable point-of-sale, be it a brick-and-mortar establishment or digital purchases through mobile application and e-commerce platforms. Its value-add services such as Insta EMI card, Bajaj App, Bajaj Mall, QRs at merchant etc. reflect its nimbleness towards adapting with evolving customer preferences for purchases. Its total customer base stands at 80.4mn, as on Dec'23, and it expects to build a total customer franchise of 110-120mn by FY27E.

…will help deliver >25% AUM growth over FY24-FY26E

Historical trends suggest a direct correlation between Bajaj's overall AUM growth and new customer acquisition – between FY13–23, total customer franchise grew by 31% CAGR while overall AUM grew by 27% CAGR. The same also held true during the pandemic where the AUM CAGR dipped to 12.4% in FY20-22 (vs 31% in FY13-20), followed by the drop in customer acquisitions CAGR to 16% in FY20-22 (vs 37% in FY13-20). On a quarterly basis, Bajaj at present adds ~3.5mn customers; should it maintain pace, total customer franchise shall reach ~84mn by Mar'24. The company has shared its vision of reaching 110-120mn customers by FY27E, implying new customer addition of 10mn each year till FY27 – in-line with its new customer addition run-rate during FY23-9MFY24. With its strengthening cross-sell franchise and higher product per customer for 24 Month on Books (MoB) customers (1.4 lending products for 12 MOB customers vs. 2.1 product for 24 MOB customers), we model 29% AUM CAGR over FY24-26E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	2,01,866	2,68,904	3,38,565	4,09,850
PAT (INR mn)	1,02,998	1,26,300	1,50,297	1,75,653
EPS (INR)	170.4	204.5	243.3	284.4
% Chg YoY	62.0	20.0	19.0	16.9
P/E (x)	42.1	35.1	29.5	25.2
P/BV (x)	8.4	6.2	5.3	4.5
Gross Stage - 3 (%)	1.2	1.3	1.3	1.4
RoA (%)	5.4	5.0	4.7	4.5
RoE (%)	22.0	20.6	19.4	19.2

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Market Data

Market Cap (INR)	4,442bn
Market Cap (USD)	53,317mn
Bloomberg Code	BAF IN
Reuters Code	BJFN.BO
52-week Range (INR)	8,192 /5,705
Free Float (%)	45.0
ADTV-3M (mn) (USD)	117.5

Price Performance (%)	3m	6m	12m
Absolute	(6.9)	(8.6)	24.5
Relative to Sensex	(10.0)	(21.7)	0.2

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Valuation

Bajaj has demonstrated superior execution and showcased a commendable growth journey through the past decade. The company's AUM CAGR at 27% between FY13-FY23 stands on the pillars of: 1) robust customer acquisitions (31% CAGR in FY13-23); 2) effective cross-selling (>60% of new loans book from existing customers on steady-state basis); and 3) pristine asset quality (10-year average GNPA of ~1.5%). Bajaj strives to grow its customer base to 110-120mn by FY27, which the company envisages will be its primary growth propellant. In this direction, Bajaj's strategy will encompass an omni-channel presence, being present in every points of sale (physical stores, application, website and e-commerce). That said, Bajaj will yet maintain an array of diversified product offerings to ensure sustainability in healthy customer acquisitions and retention, thereby promoting overall growth.

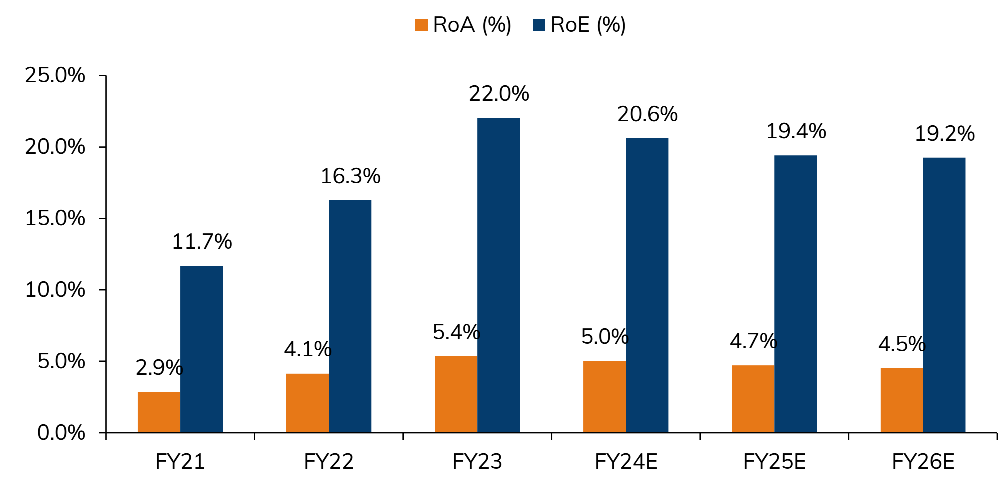
Bajaj's diversified lending profile coupled with its customer-centric model and focus on cross-selling has helped it achieve an optimal balance of risk and profitability to deliver a sustainable business. The company is striving to consolidate its position as a leading payments and financial services company in India and continues to be resilient and adaptive to changing technology. Bajaj's focus on targeted offerings for its customers, operational efficiency and strong asset quality management has paved the way for the company to deliver profitable growth

For 9MFY24, Bajaj has delivered RoA of 5.0% and RoE of 20.5%; for FY23, it has delivered RoA of 5.4% and RoE of 22%; and for FY24, we expect Bajaj to report RoA of 5%, and thereby, RoE of 20.6%.

We initiate coverage on Bajaj with a **BUY** rating and a target price of INR 8,500, valuing standalone business at ~5x FY26E ABV and adding ~INR 830 for Bajaj Housing. Our target multiple of ~5x for standalone business is premised on: 1) new customer addition of ~3.5mn per quarter (in-line with FY23-9MFY24 run rate) resulting in AUM CAGR of 29% in FY24-FY26E; 2) steady NIMs at 11.5%-12% in FY24-FY26E supported by strong parentage and 'AAA' credit rating, with other income generated through third-party products further supporting the top-line; and 3) likely credit costs at ~200bps with steady gross NPAs.

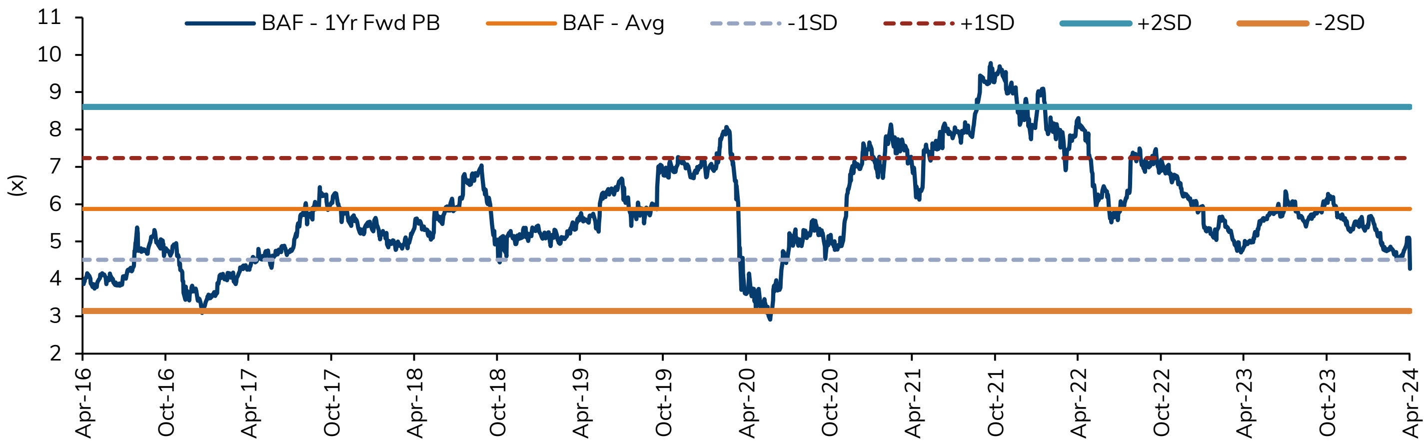
On balance, we expect RoA trajectory of 4.5-5% in FY24-FY26E and RoE of 19-20% during the same period.

Exhibit 1: RoA to settle above 4.5% despite moderation in other income due to partial offset by operating leverage



Source: Company data, I-Sec research

Exhibit 2: Historically, Bajaj has been trading at quite a premium owing to its superior growth profile



Source: Company data, Bloomberg, I-Sec research

Pioneered 'check-out financing' – successfully leveraging first-mover advantage

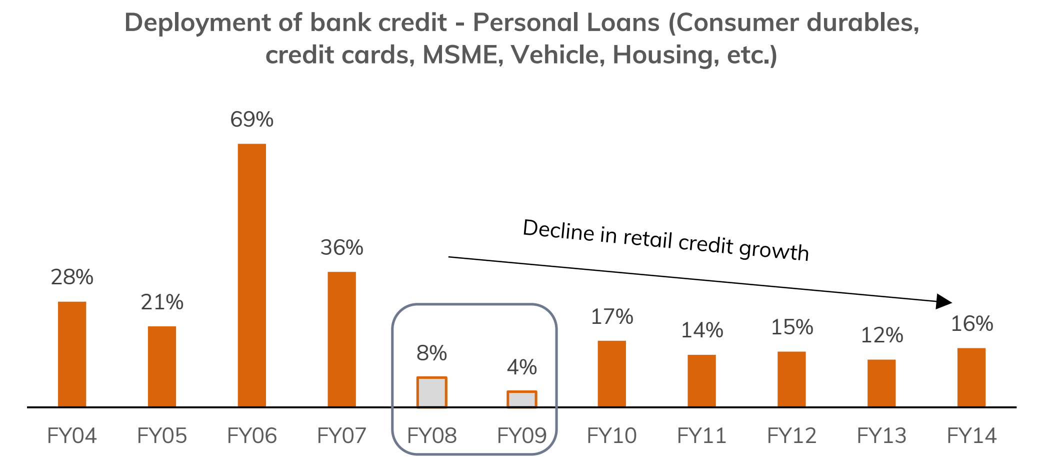
Bajaj Finance, which started its lending journey as a captive financier for Bajaj Auto, entered the non-captive consumer financing space in FY06. This product segment has kept the spotlight as one of its initial product offerings, along with two-wheeler loans. The consumer durables business, which grew at a 14-year CAGR of 35% (FY09-FY23), remained the largest customer acquisition engine for the company; later, it focused on leveraging existing customer base by cross-selling/up-selling.

We observe, the following elements, in summary, have helped Bajaj mark its leadership in this business:

Category creator – took advantage of benign competition during GFC

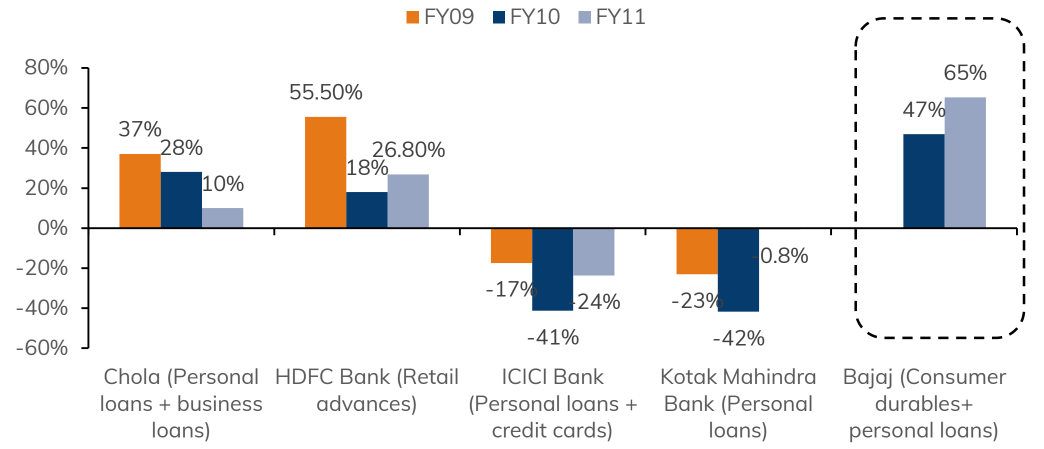
During the global financial crisis (GFC) in FY08-09, most of the players grew averse to expanding their retail segment amid increasing delinquencies, specifically in the unsecured segment. During this time, while competition languished, Bajaj rose to the occasion. It took advantage of the benign competition that ensued and continued expanding its consumer durables segment through increased investments in technology and risk management, therefore, gaining the first-mover advantage.

Exhibit 3: Growth in retail loans declined for banks after GFC…



Source: Company data, I-Sec research

Exhibit 4: ...resulting in declining share of personal loans/credit cards/retail loans in large banks/NBFCs; while Bajaj continued to grow



Source: Company data, I-Sec research

A unique business model...

Through customer durables financing, Bajaj created a business model like no other. The company essentially acquires customers at points of sales by offering a zero to low-cost EMI option. The loan is offered through the subvention scheme, which helps Bajaj generate higher returns despite no interest being attached to the EMIs. Let us understand how the company earns money despite charging 0% interest on the EMI –

- ***Income from retailers through discounted price:*** Bajaj has tied up with large retailers across the country. These include both the offline stores (Croma, Reliance Retail, Vijay Sales, Samsung, Sony, etc.) as well as e-commerce platforms (Flipkart, Amazon, etc.). These retailers take a haircut on their margins and share it with Bajaj, as they get increased sales volume due to 0% EMI financing option.
- ***Income from borrowers through processing fee and late payment charge:*** Bajaj charges 1.5%-4% of the processing fee on the amount sanctioned to the borrower. Additionally, should the customer delay in making payments, the company further charges 42% p.a. in the form of penal charges, which further adds to the company's income.

Exhibit 5: Unique business model

Source: Company data, I-Sec research

Exhibit 6: Illustration of Bajaj's business model

Cost of item	***INR 1,00,000***
Discount by store to Bajaj	*INR 10,000 (Assumed at 10%)*
Amount paid by Bajaj to store	*INR 90,000*
0% EMI on INR 1 lakh loan for 5 months	*INR 20,000*
Processing fee charged	*INR 1800*
Total return	*INR 11,800 (Gain on discounted price received through EMI + processing fees)*
Annualised return	*~28.0%*

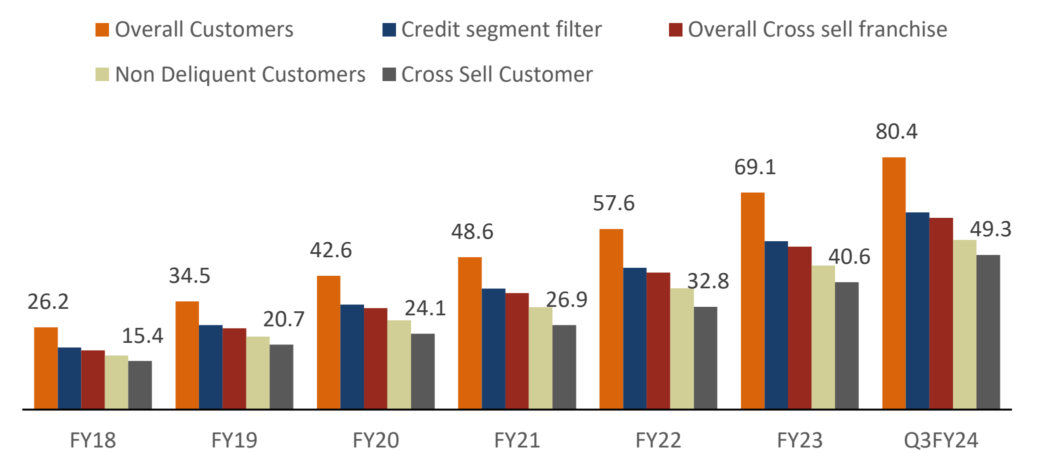
Source: Company data, I-Sec research

...based on cross-selling and customer retention

Bajaj's success is defined by its ability to cross-sell products to existing customers. The consumer durable segment acts as the initial touch point for acquiring customers at a lower ticket size. From this point, the repayment record of these customers is further analysed; accordingly, the same customers are subsequently offered larger ticket size loans in the form of other products such as personal loans, mortgage loans, business loans, etc.

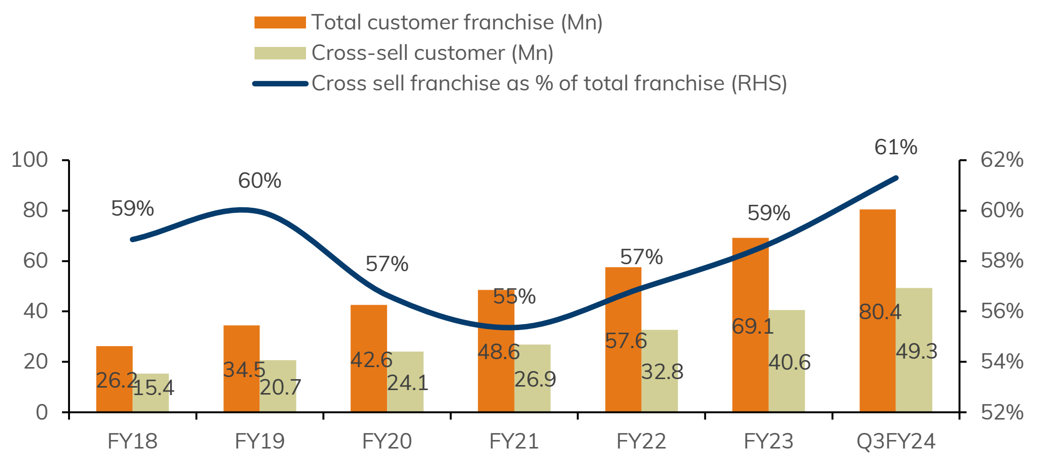
On an average, every year, ~55%-60% of the total customers were leveraged through cross-selling opportunities.

Exhibit 7: Consumer durables, a cross-selling catalyst



Source: Company data, I-Sec research

Exhibit 8: 55%-60% of the total customer franchise constituted cross-sell franchise



Source: Company data, I-Sec research

Increasing cross-sell franchise – a result of superior data analytical capabilities…

Data analytics and technology has been at the core of Bajaj's business model and transformation journey.

In addition to checking the usual credit worthiness of its first-time borrowers, basis parameters such as bureau score, repayment record, income levels and KYC, Bajaj's extensive store/manufacturer network allows it to get access to a large database of customers.

With a customer franchise of ~80mn strong – the company leverages the data of these customers to run predictive models based on machine learning. It looks for a customer's propensity to purchase and runs behavioural analysis to suggest appropriate product offerings to customers.

The analysis also helps Bajaj process subsequent loans with a quicker TAT, as most of the data on the customer has already been analysed by the company. For instance, while the TAT of initial consumer durable loan is 30–45 minutes, the TAT for a cross-sell personal loan product would likely be a mere 5–10 minutes.

…and innovative product offerings to retain customers

Through such rigorous data analytics, over the years, Bajaj has been able to build an ecosystem of multiple product offerings spanning a variety of asset classes and services. Additionally, due to the ease of availing the product and lower TAT, the company has made it hard for the customer to switch to other financiers. This is evident in the 61% of new loans booked being from its existing customer base. Additionally, on an average, 87% of the non-delinquent customers who were eligible for cross-sell franchise have actually taken other loans from Bajaj.

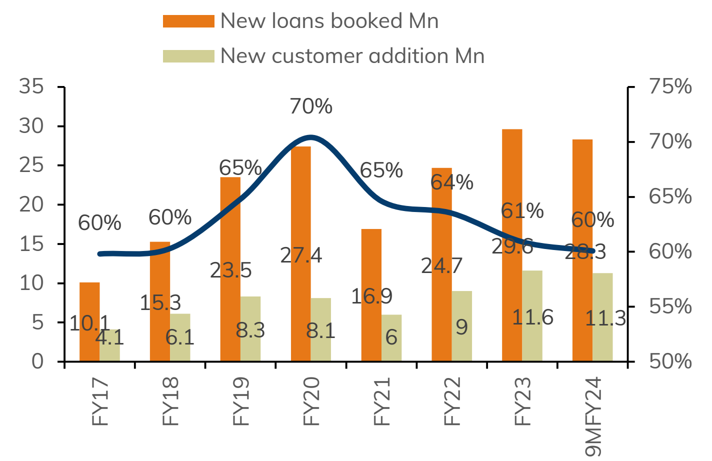
Exhibit 9: Large ecosystem of unique product offerings

Legacy	FY08-F11	FY12-FY15	FY16-FY19	FY20-FY23	9MFY24
2W/3W	Life Insurance Distribution	Salaried personal loans	E-commerce - seller finance	Flexi personal loan	Emerging corporate lending
Consumer Durable financing	Personal loans cross sell	Professional loans	SME financial fitness report	Loan to pharma companies	Large corporate lending
	Business loans	Relationship management	Financial institutions lending	Health EMI Card	Tractor financing
	Loans against shares – promoter	Infrastructure financing	Light engineering business	Bajaj Pay - UPI, PPI, EMI card and credit card	Microfinance
	Loans against property	Co-branded credit card	Corporate finance business	Medical equipment financing	New car financing
	Vendor financing	EMI Card	Urban gold loans	Hybrid Flexi Loans	
	Extended warranty cross sell	Lifestyle product financing	Rural - Business loans	Affordable housing	
	Home loans - self employed	Home loans - salaried	Rural - Professional loans	Used car financing - Partnership with Cars24	
	Loans against shares – retail	Lease rental discounting	Rural – LAP	QR based solutions	
	Construction equipment financing	Consumer rural lending	Rural - Personal loans	Two-wheeler financing across all manufacturers	
		Retailer finance	Rural - Consumer durables	Co-branded card (DBS)	
		General insurance distribution	Rural - Personal loans cross sell	LAP for MSME clients	
		CRISIL SME rating	Rural - Digital products finance	Bajaj + : Mobile financing business	
		Consumer financial fitness report	Mutual funds		
		Digital finance	Warehouse receipt financing		
		Property fitness report	IPO Financing		

Legacy	FY08-F11	FY12-FY15	FY16-FY19	FY20-FY23	9MFY24
		MSME rural lending	Retail and corporate deposits		
			Co-branded card (RBL)		
			Life care financing		
			Used car financing Secured enterprise loans (small ticket size mortgage backed loans) Fixed deposits schemes in rural business Speciality chemicals loans		

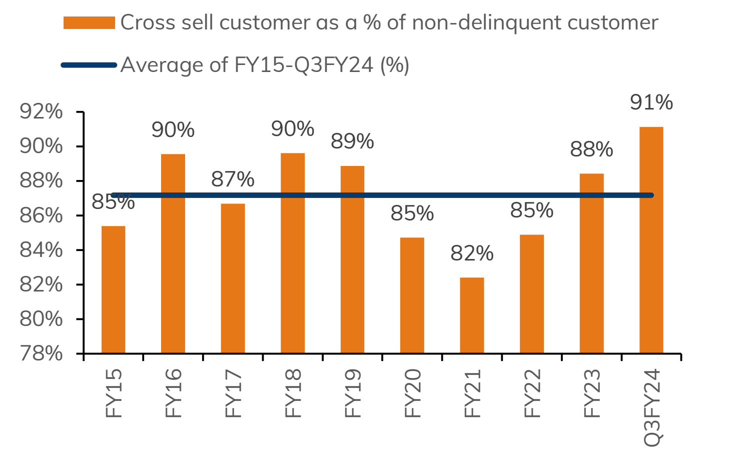
Source: Company data, I-Sec research

Exhibit 10: 60% of new loans booked were from existing customers



Source: Company data, I-Sec research

Exhibit 11: Cross-sell franchise formed ~87% of non-delinquent customers on an average



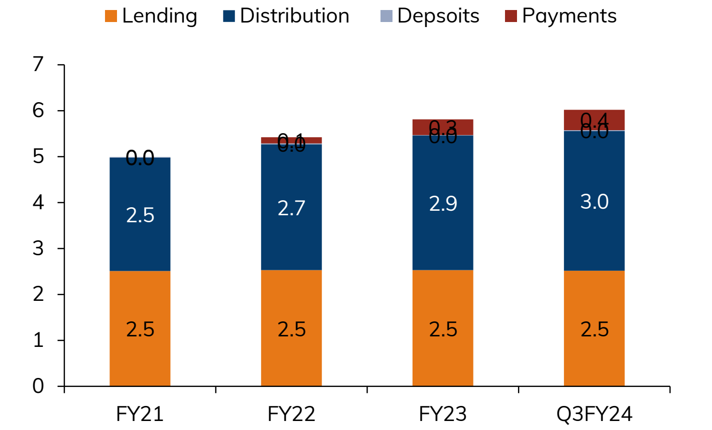
Source: Company data, I-Sec research

Rise in PPC from 5.0 in FY21 to 6.0 in Q3FY24

Bajaj's efficient cross-selling and increased customer life-cycle can also be traced from its successful attempt at gradually increasing the products per customer (PPC) over the last few years. The company's had 5.0 products per customer in FY21 which increased to 6.0 in Q3FY24. Even if we look at the metric on a MoB-basis, a customer who has been with the company for 24 months had 6.7 PPC vs. 5.9 PPC for 18 months and 5.27 for 12 months, respectively.

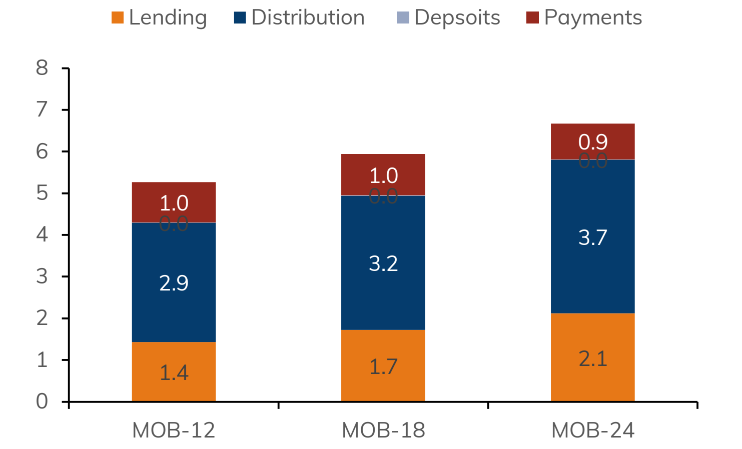
Notably, the company has been seeing an improving trend in its distribution business comprising of co-branded cards (with RBL & DBS), insurance, extended warranty, comprehensive asset care and financial fitness reports.

Exhibit 12: Products per customer at 6.0 in Dec'23 vs. 5.0 in FY21; distribution business driving the improvement



Source: Company data, I-Sec research

Exhibit 13: PPC increasing with the vintage



Source: Company data, I-Sec research

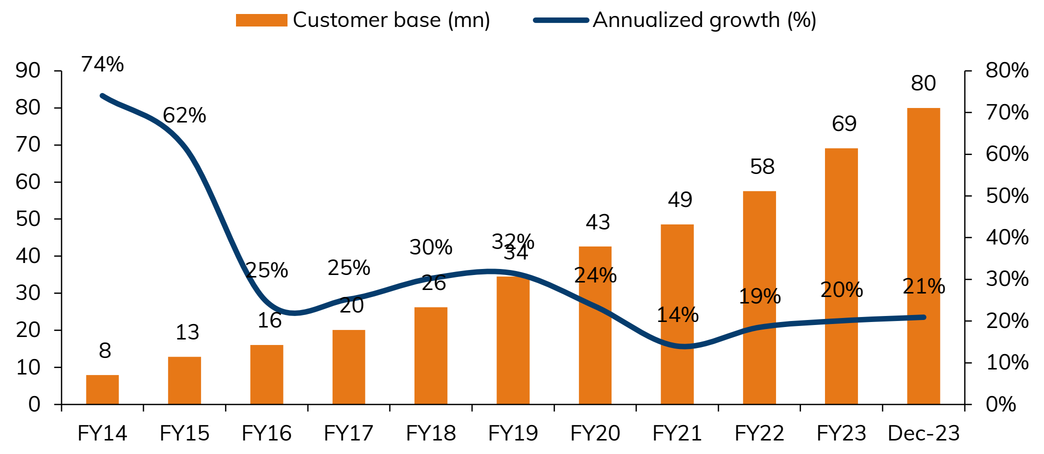
Deep distribution network heaves customer acquisition – vital to historical and future success story

Consumer financing – a start to lasting relationships with customers

Consumer financing (consumer electronics/lifestyle/digital) works as the starting point for Bajaj's customer acquisition funnel. The company's extensive customer base acquired at the first point of contact is then further leveraged to cross-sell a battery of product offerings. Therefore, Bajaj's customer acquisition strategy is the root of its ability to succeed in the industry.

Through the last decade, the company has remained resilient in growing its customer franchise, despite multiple headwinds in the form of demonetisation, GST, IL&FS and Covid-19. It reported a 31% CAGR in its total customer franchise in FY13-FY23.

Exhibit 14: Customer base at 10x of what it was in FY14

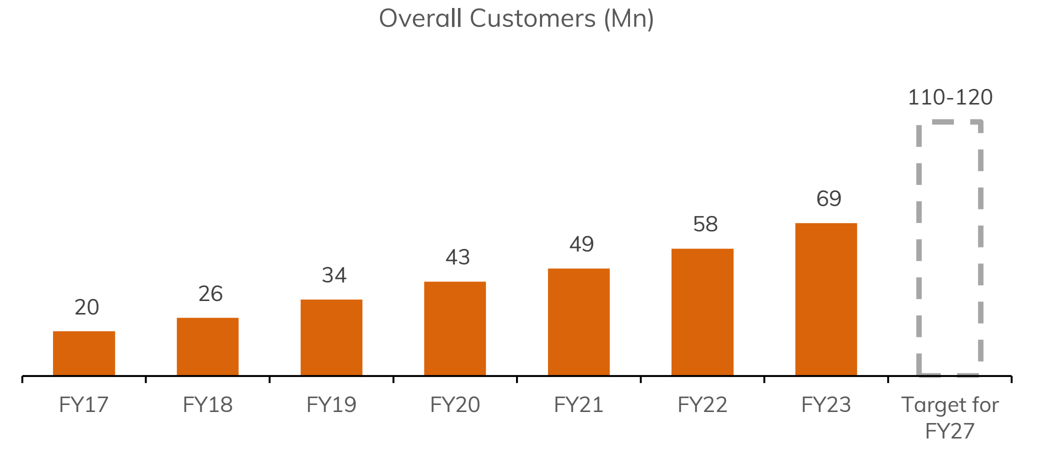


Source: Company data, I-Sec research

Well-entrenched distribution network to pave the way towards 110-120mn customers by FY27E

Bajaj in its five-year Long Range Strategy (LRS) has articulated its plans to achieve a customer base of 110-120mn; presently 80mn. In order to deliver on this goal, the company's strategy will encompass geographical expansion, operational capability enhancements, product innovations and new product variants.

Exhibit 15: Bajaj envisages 110-120mn customers by FY27



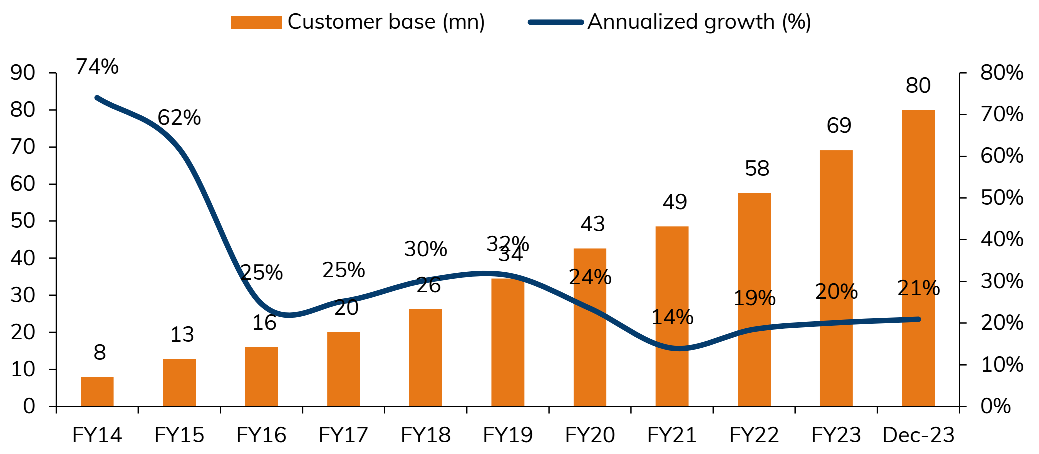
Source: Company data, I-Sec research

Before we dive into what will drive the customer acquisitions going forward, it is imperative to understand how the company has done so in the past.

While Bajaj's growth is a result of a multitude of factors, we believe that its superior customer franchise (~80mn customers, as of Dec'23) and deep distribution network (~1,90,600-plus store network, as of Dec'23) have been instrumental in delivering >25% growth in the past; we believe that the same will hold true in the future also.

Bajaj's consistency in maintaining its yearly customer growth rate of 20%-30% (FY15-FY23 CAGR of 23%) is evidence that the company has had a customer-led growth journey. This figure did take a blow during the Covid-19 pandemic, owing to low demand. However, post the pandemic's second-wave, customer growth found legs and picked up pace with an average yearly rate of 20%.

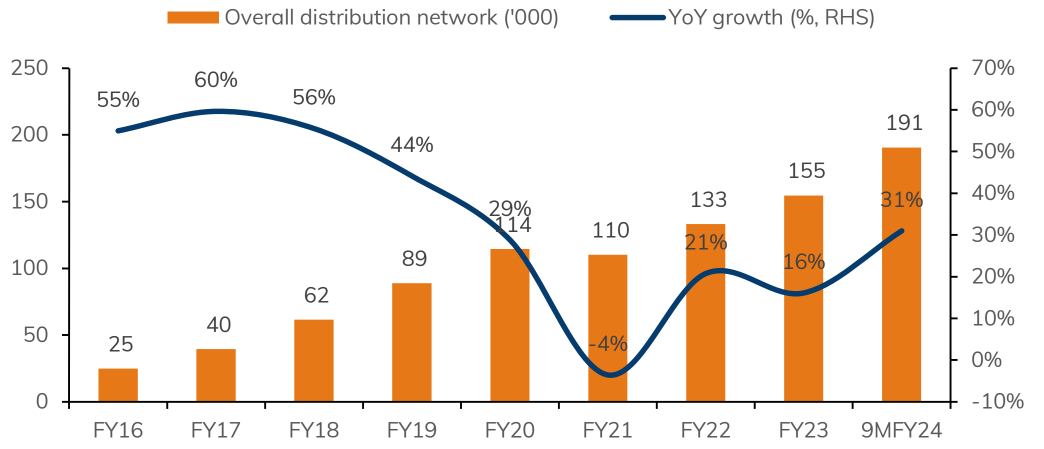
Exhibit 16: Bajaj's customer-led growth journey – overall customer franchise growing at 31% CAGR in FY13-FY23



Source: Company data, I-Sec research

Even in terms of the distribution network, the company's growth trajectory has been tremendous – growing at a 33% CAGR between FY15-FY23.

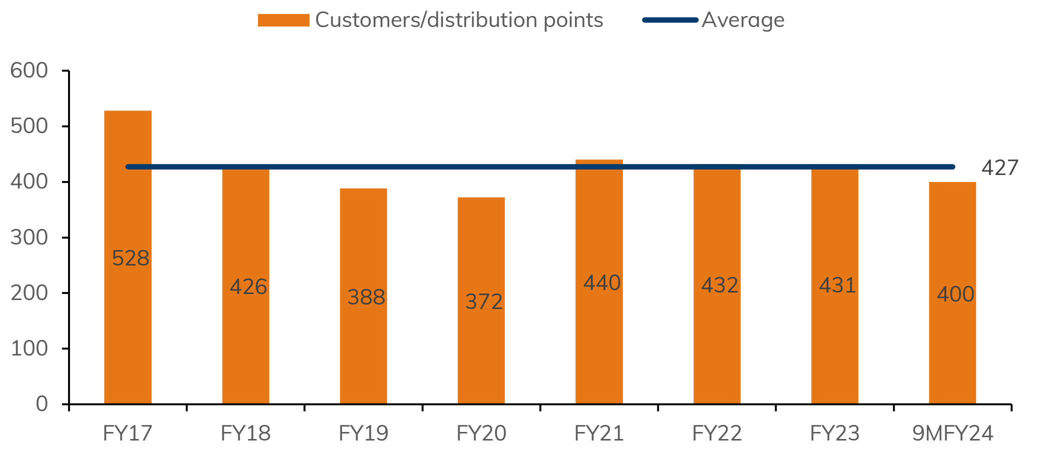
Exhibit 17: Distribution network grew at 8-year CAGR of 33%, as company touched 190,600-plus retail stores



Source: Company data, I-Sec research

Interestingly, we observe that on a steady-state basis, the company has maintained around ~400 customers at each of its distribution points in the past.

Exhibit 18: Bajaj consistently maintaining ~400 customers per distribution point

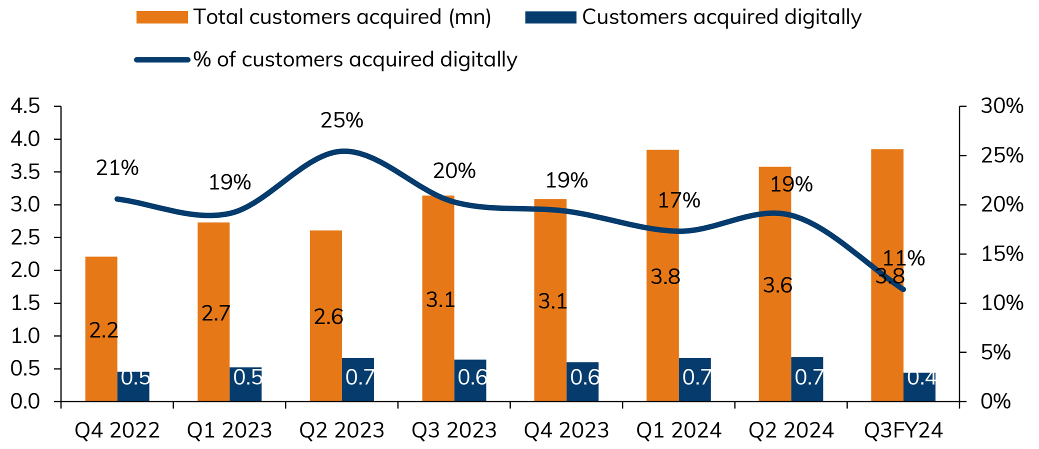


Source: Company data, I-Sec research

However, with its recent strategy on going digital, Bajaj has also started acquiring customers through its app/web platform, which is led by EMI card acquisitions.

On a quarterly basis, of the total customer additions, ~20% of its customers were acquired digitally in the past. That said, digital acquisitions dropped to 11% in Q3FY24, owing to RBIs ban on e-commerce and Insta EMI card acquisitions. Nevertheless, management has been incorporating changes in its processes to be fully-compliant on the same and expects to submit its report to the RBI shortly.

Exhibit 19: On an average, ~20% customers were acquired digitally; dropped to 11% post RBI's ban in Insta EMI cards

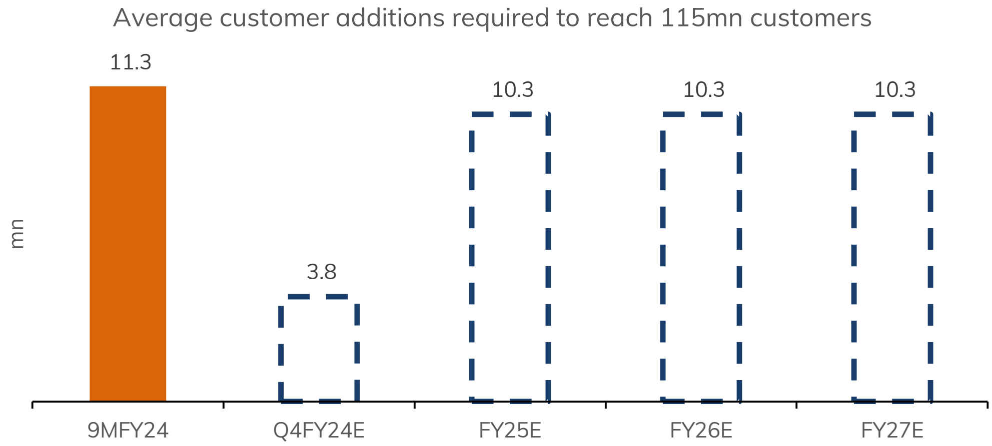


Source: Company data, I-Sec research

At a quarterly run-rate of 3.7mn customer additions in 9MFY24, the company has already reached the customer base of ~80mn, as of Dec'23. Considering a similar run-rate for Q4FY24, the company can reach ~84mn customers by end-FY24.

Furthermore, in order to reach 110-120mn customers in FY27, the company will need to add 10mn customers in each of the financial year from FY25-FY27. As per our scenario analysis, we believe that the company might even surpass its FY27 target of 110-120mn customers.

Exhibit 20: 80mn customers reached in 9MFY24; ~10mn customer additions/year needed to achieve 110–120mn FY27 target



Source: Company data, I-Sec research

Management also plans to take the digital customer acquisitions to 50% in the next two–three years. However, given the recent uncertainty around the Instant EMI card acquisitions post the RBI ban, the ability to achieve this target remains to be seen. Nevertheless, as per our analysis, considering the different scenarios on the digital acquisitions front, Bajaj still has the ability to surpass the 110-120mn customers target by FY27.

Exhibit 21: Scenario 1 – Assuming 400 customers per store per year and digital acquisitions reaching 50% by FY27E – Bajaj will need to increase distribution centres by 6%-9% per year against the 5-year average of 23%

	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24	Q4FY24E	FY25E	FY26E	FY27E
Total customer franchise (mn)	**26.2**	**34.5**	**42.6**	**48.6**	**57.6**	**69.1**	**80.4**	**84.2**	**94.4**	**104.7**	**115**
Additions per year (mn)	6.1	8.3	8.1	6.0	9.0	11.6	11.3	3.8	10.3	10.3	10.3
Distribution channels ('000)	62	89	114	110	133	155	191	198	216	231	244
Channel additions per year ('000)	24	27	26	-4	23	21	36	43	18	15	13
Channel additions per year (%)	62%	44%	29%	-4%	21%	16%	31%	28%	9%	7%	6%
Digital EMI cards in force (mn)						3.6	4.5	5.1	8.1	12.3	17.4
Digital acquisitions through EMI card (mn)						2.4	1.8	0.6	3.1	4.1	5.1
Digital acquisitions as a % of customer additions						21%	16%	15%	30%	40%	50%
Non-digital/non-bajaj mall customers (mn)	26	34	43	49	58	66	76	79	86	92	98
Customers per store (x)	426	388	372	440	432	424	398	400	400	400	400

Source: Company data, I-Sec research

Exhibit 22: Scenario 2 – Assuming 400 customers per store per year and digital acquisitions being stable across years – Bajaj will need to increase distribution centres by 9%-11% per year against the 5-year average of 23%

	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24	Q4FY24E	FY25E	FY26E	FY27E
Total customer franchise (mn)	**26.2**	**34.5**	**42.6**	**48.6**	**57.6**	**69.1**	**80.4**	**84.2**	**94.4**	**104.7**	**115**
Additions per year (mn)	6.1	8.3	8.1	6.0	9.0	11.6	11.3	3.8	10.3	10.3	10.3
Distribution channels ('000)	62	89	114	110	133	155	191	198	220	241	263
Channel additions per year ('000)	24	27	26	-4	23	21	36	43	22	22	22
Channel additions per year (%)	62%	44%	29%	-4%	21%	16%	31%	28%	11%	10%	9%
Digital EMI cards in force (mn)						3.6	4.5	5.1	6.6	8.1	9.7
Digital acquisitions through EMI card (mn)						2.4	1.8	0.6	1.5	1.5	1.5
Digital acquisitions as a % of customer additions						21%	16%	15%	15%	15%	15%
Non-digital/non-bajaj mall customers (mn)	26	34	43	49	58	66	76	79	88	97	105
Customers per store (x)	426	388	372	440	432	424	398	400	400	400	400

Source: Company data, I-Sec research

As illustrated in the two scenarios above (Exhibits 21 and 22), considering a status quo in Bajaj's customers per store, the company can reach the 110-120mn target by growing store count by 6%-11% per year against the 5-year average of 23%.

Nevertheless, while the store additions have been at >20% in the past, we believe that going forward, growth in distribution channel will likely normalise after a sharp rebound in the channel growth post-covid (15%–30% growth in channels in FY22–9MFY24 vs. 4% decline in FY21). Assuming that growth in distribution channels normalises to 15%, on a steady-state basis, Bajaj can beat the 120mn customers mark by FY27E.

Exhibit 23: Assuming steady-state channel growth of 15%, Bajaj can surpass 120mn customers by FY27

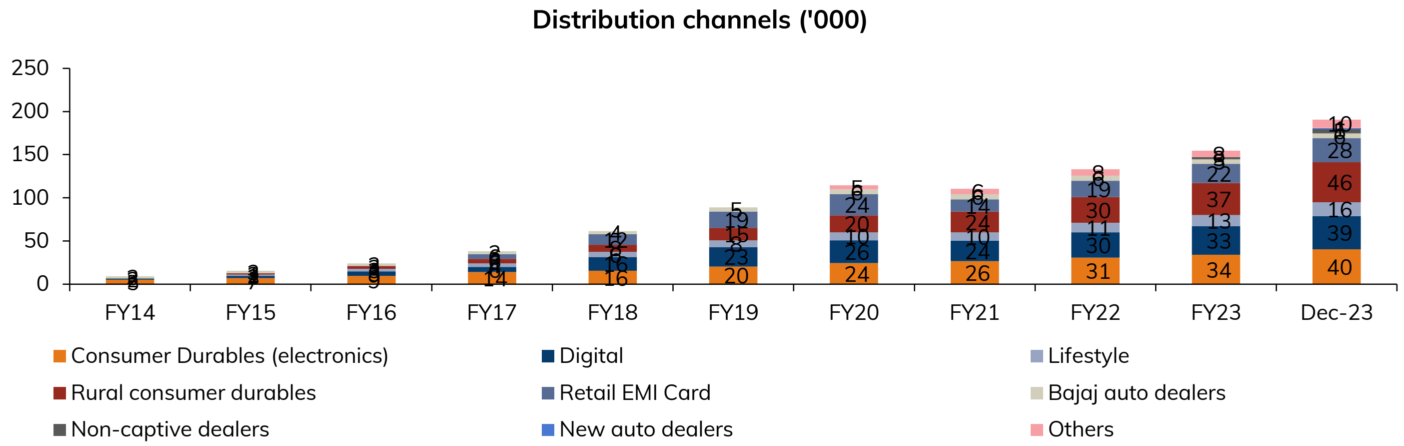
	FY18	FY19	FY20	FY21	FY22	FY23	9MFY24	Q4FY24E	FY25E	FY26E	FY27E
Total customer franchise	**26.2**	**34.5**	**42.6**	**48.6**	**57.6**	**69.1**	**80.4**	**81**	**93**	**107**	**123**
Additions per year	6.1	8.3	8.1	6.0	9.0	11.6	11.3	11.9	12.2	14.0	16.1
Distribution channels ('000)	62	89	114	110	133	155	191	203	233	268	308
Channel additions per year ('000)	24	27	26	-4	23	21	36	48	30	35	40
Channel additions per year (%)	62%	44%	29%	-4%	21%	16%	31%	31%	15%	15%	15%
Customers per store								400	400	400	400

Source: Company data, I-Sec research

Strong distribution network of 190,600+ across categories fuelling growth in customer base

Bajaj has been the early adopter in the consumer durables financing business and has been rapidly growing its distribution, bearing in mind the evolving needs of the market place. Growth in Bajaj's large customer base has stemmed from a combination of the changing market needs and the company's ability to keep up with market trends. In-line with this, Bajaj has been able to build a strong distribution network across categories. The company's network of touch points has grown from 9,100 in FY14 to 190,600 in Q3FY24 – spread across various categories, namely, consumer durables (electronics), lifestyle stores, digital stores, rural consumer durables, retail EMI card stores and auto dealers.

Exhibit 24: Customer growth following channel growth's footsteps, which grew at 10-year CAGR of 36%



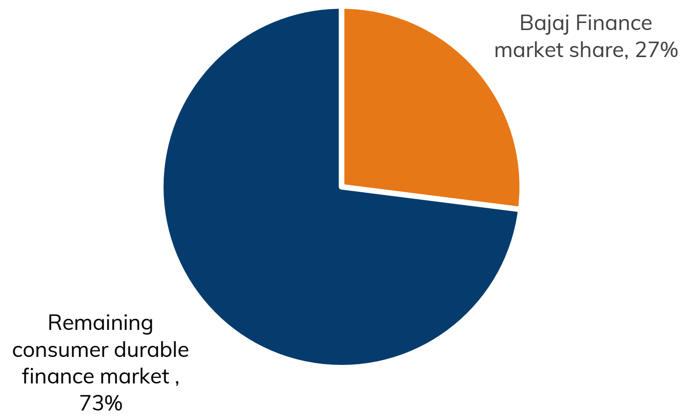
Source: I-Sec research, Company data

Early entry to organised retail, Bajaj has cornered a quarter of consumer durable financing market share

Bajaj started consumer financing in 2007 by funding mobile phones and gradually moved up the ladder to finance larger electronic appliances. Over the last 15 years, Bajaj has created a unique market for itself, wherein it only finances large value items (television, refrigerator, washing machines, mobile phones, etc.), with mobile financing being the principal product. As a result of its early mover advantage, Bajaj commands >1/4th market share in the consumer durable financing segment. (Source: CRISIL Research, Company data)

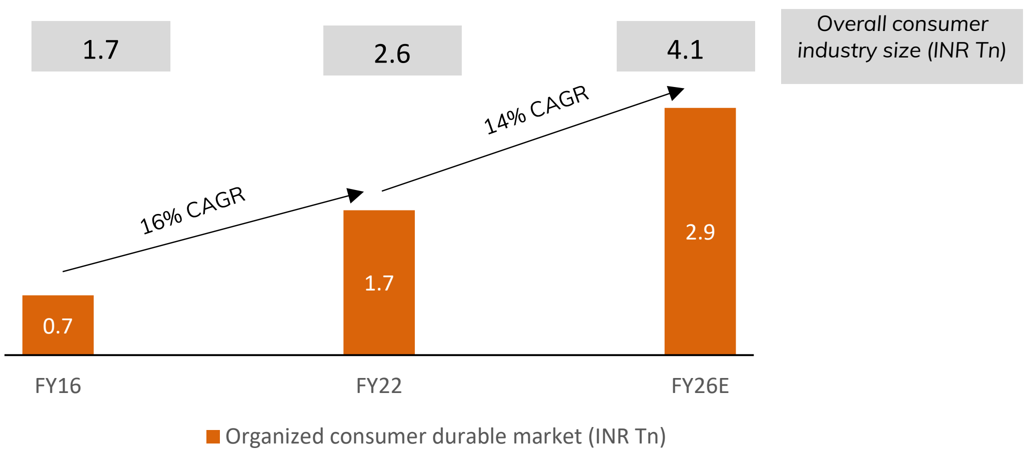
Given the type of loan offerings, Bajaj serves mass affluent customers who usually purchase products from larger organised retail stores. Organised retail has been on a rise in the last few years, growing at a CAGR of 16% between FY16-FY22 with large household appliances, mobiles and personal computers occupying more than 90% of the share in the overall durables market.

Exhibit 25: Bajaj occupies a quarter of the market in consumer durable finance



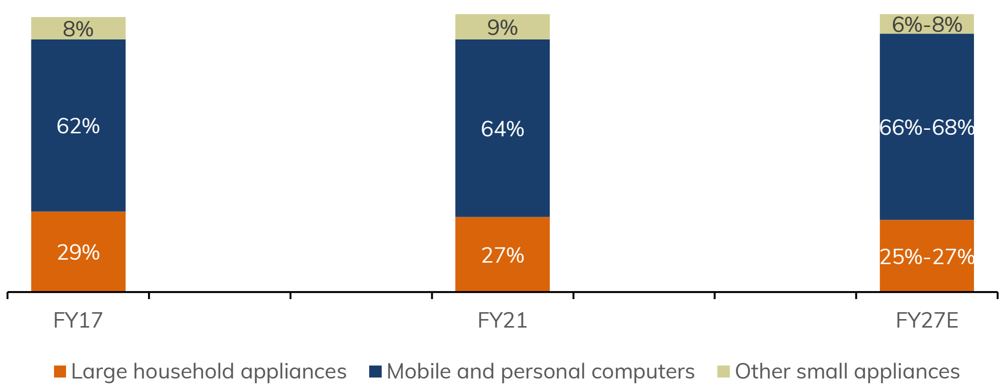
Source: CRISIL Research, Company data

Exhibit 26: Organised consumer retail to reach INR 3trn in FY26E



Source: CRISIL Research

Exhibit 27: Large household appliances/mobile phones contribute 90% of the market

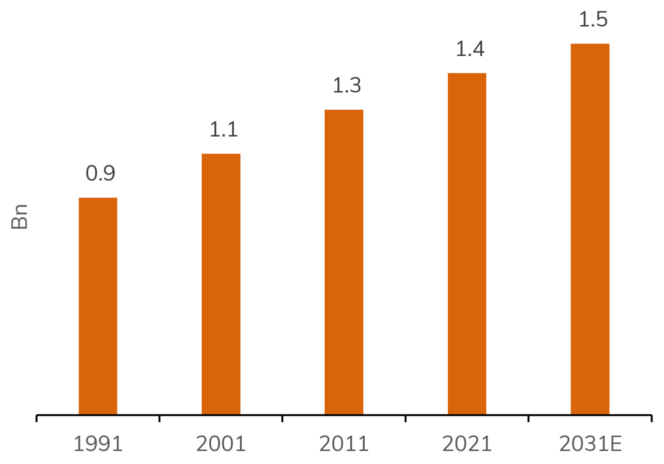


Source: CRISIL Research

Favourable demographics

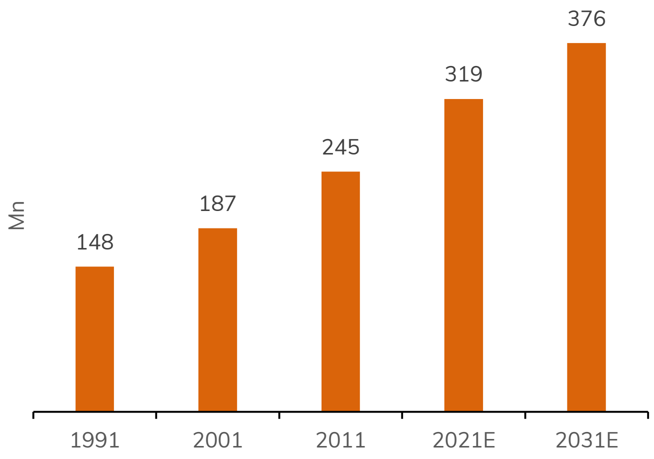
The rise in organised retail has been driven by the changing demographics at a macro level with growth in youth population and number of working women in conjunction with a rise in income levels and urbanisation. Furthermore, increased digitisation is resulting in higher adoption of smartphones, which is a crucial factor aiding the organised retail segment, and in turn enabling Bajaj's growth.

Exhibit 28: Indian population to reach ~1.5bn by FY31…



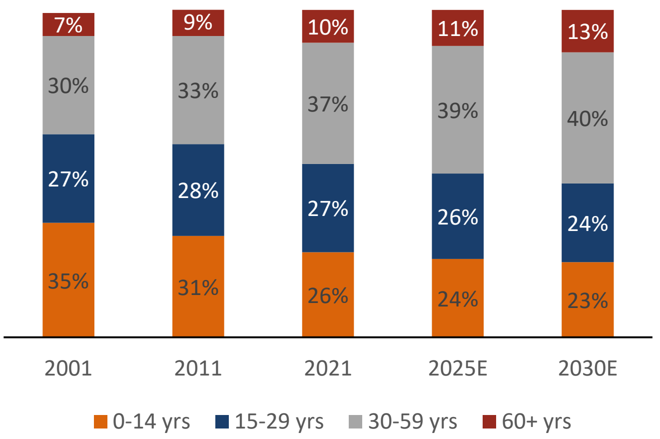
Source: CRISIL Research

Exhibit 29: …number of households increasing to ~376mn



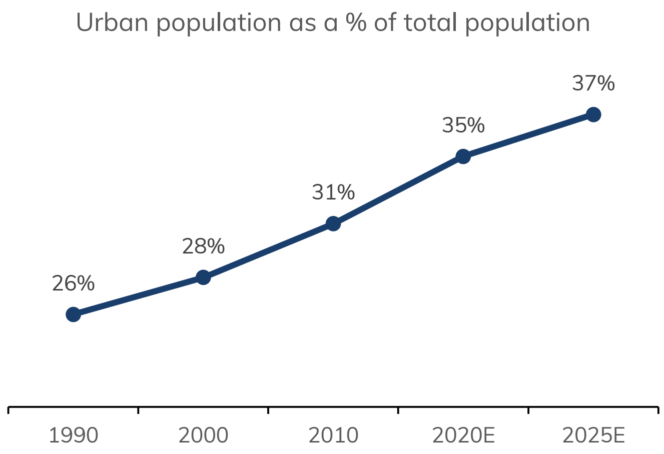
Source: CRISIL Research

Exhibit 30: 64% of population likely to fall under the age group of 15-59 years



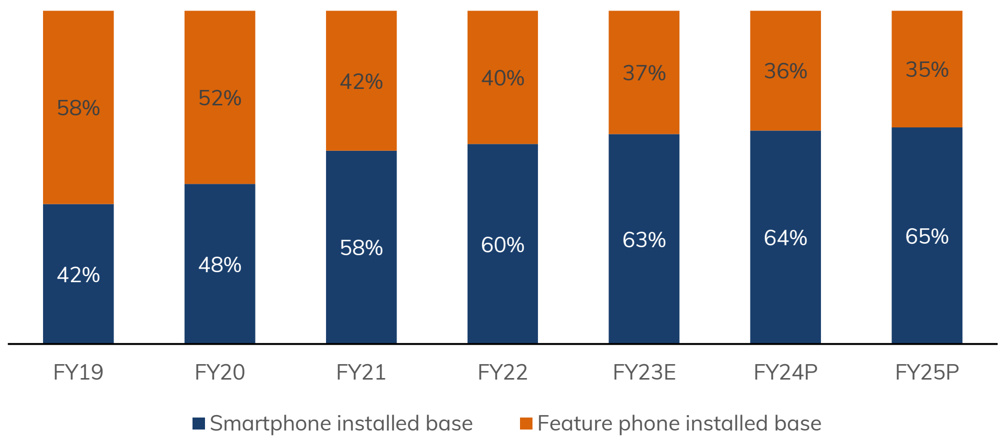
Source: CRISIL Research

Exhibit 31: Urban population likely to reach ~37% in FY25



Source: CRISIL Research

Exhibit 32: Rise in tech-savvy younger users to lift adoption of smartphones



Source: CRISIL Research

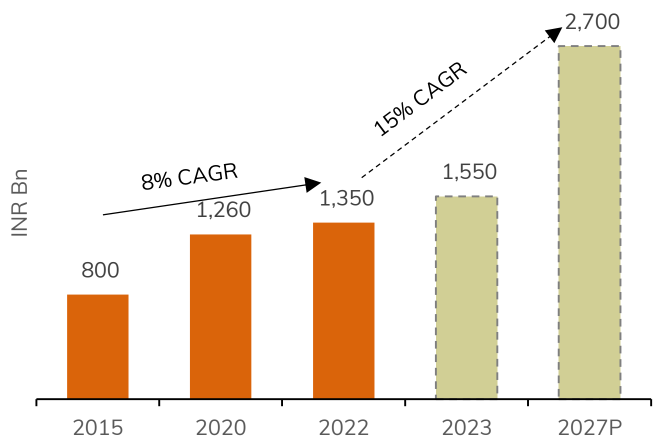
Adaptability to the ever changing market needs

Adaptability to the ever changing market needs has been one of the strongest points of Bajaj. Bajaj's checkout financing story, which started with the offline retail stores of electrical appliances and other electronics items, is now a blend of financing options under different product segments including electronics, large appliances, lifestyle products (furniture and home furnishings) and digital products.

Since FY15, with the changing market dynamics such as the boom in organised furniture market and digital products, the company also forayed into financing purchases in these segments.

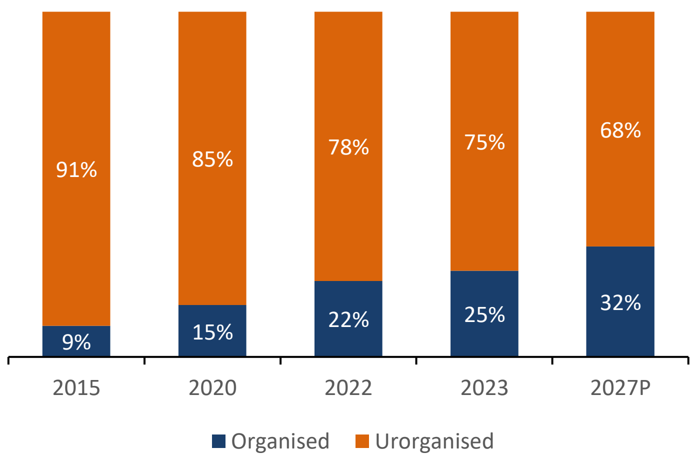
As per Technopak analysis, the retail furniture market is expected to reach INR 2.7trn by 2027. In-line with the growing industry trend in these segments, Bajaj has also been expanding its network coverage with its lifestyle stores (furniture and furnishings) with the same growing at a 36% CAGR over FY15-FY23.

Exhibit 33: Retail furniture market grew at 8% CAGR in FY15-22…



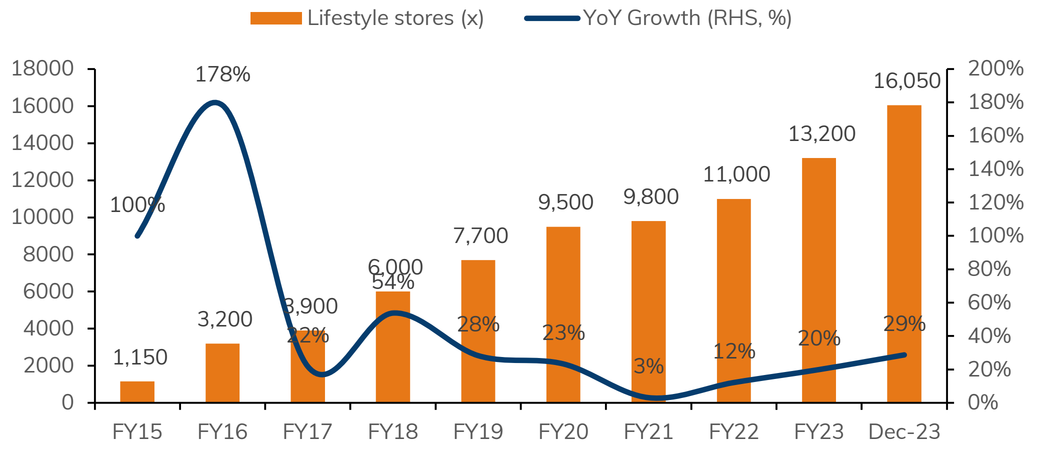
Source: Technopak Analysis

Exhibit 34: …with organised retail furniture share increasing to 22% in FY22 (vs. 9% in FY15)



Source: Technopak Analysis

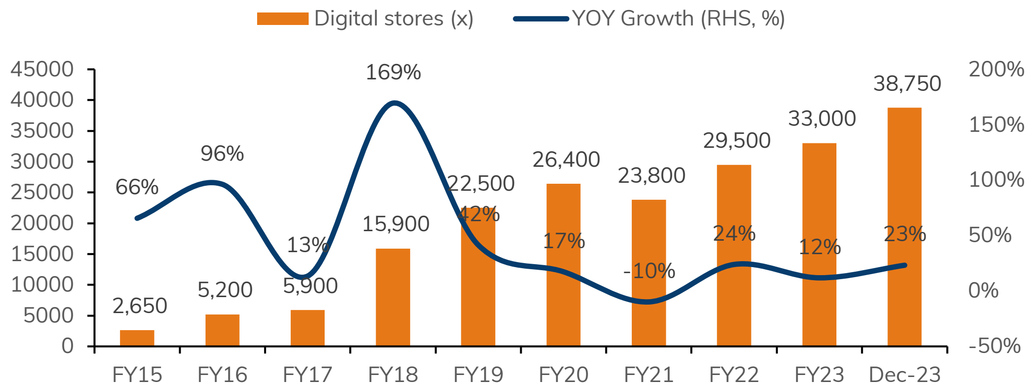
Exhibit 35: Bajaj's lifestyle store network grew at 36% CAGR in FY15-FY23



Source: Company data, I-Sec research

Similarly, as the demand for digital products started increasing post-FY15, with more speciality stores coming into the picture, Bajaj started tying up with large retailers such as Samsung, Apple, Sony, Dell, etc. to enhance its digital product finance offering. It has been consistently adding digital stores to its overall network ever since. Bajaj's overall digital network grew at 37% CAGR in the last eight years (FY15-FY23).

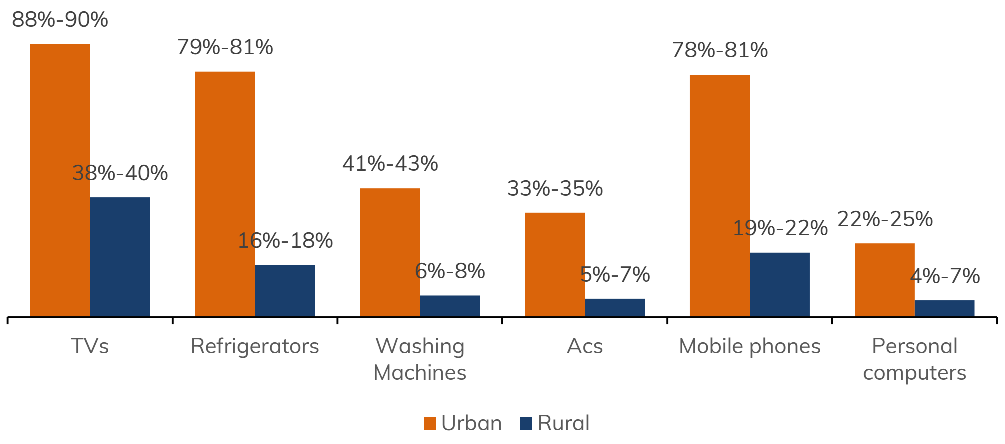
Exhibit 36: Bajaj digital store network grew at 37% CAGR in 2015-2023



Source: Company data, I-Sec research

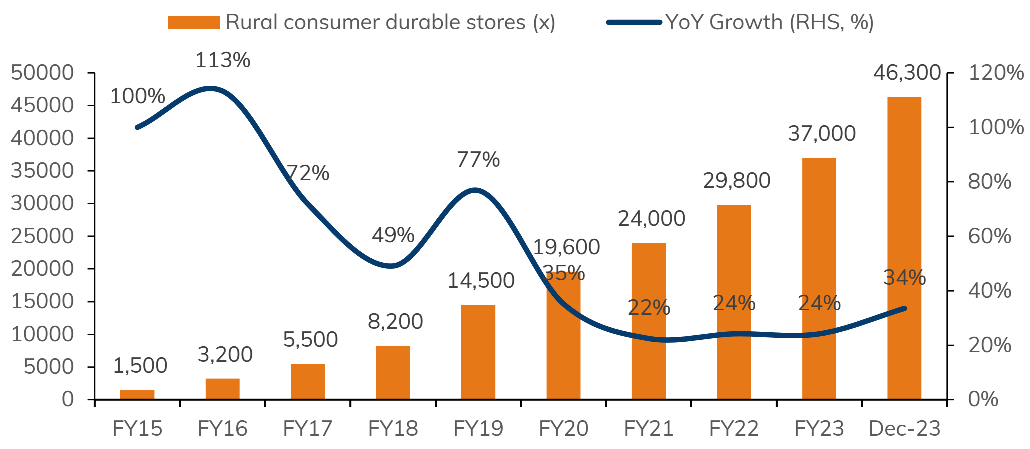
In addition to the above, even in terms of geographical coverage, with rural areas becoming more accessible yet being largely underserved, the company even extended its consumer durable segment to such areas. This has further helped tap into the market at a larger scale.

Exhibit 37: Low rural household penetration for consumer durables, as of FY22



Source: CRISIL Research

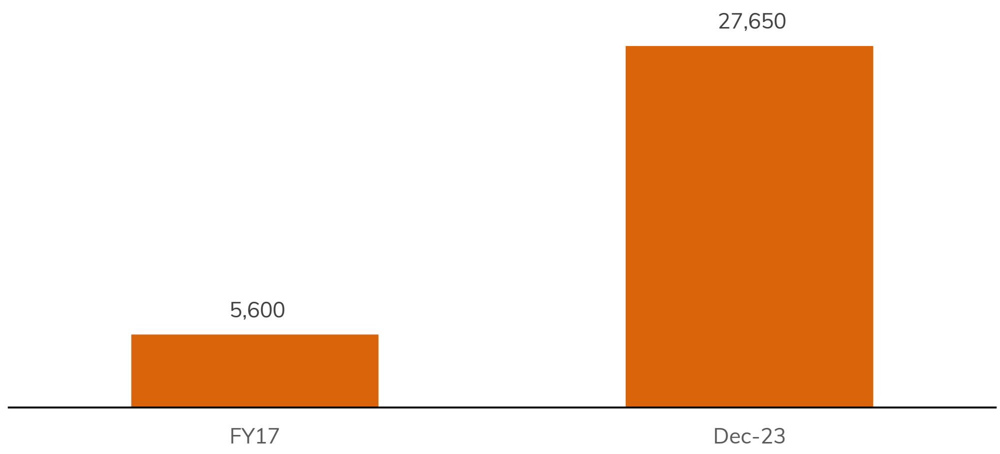
Exhibit 38: Bajaj's aggressive FY15-FY23 ~49% CAGR rural store network growth



Source: Company data, I-Sec research

Furthermore, Bajaj started with an EMI Card (Existing Membership Identification) in FY12, which was a unique and innovative offering at the time. The card, which started as a product that could be swiped at its offline stores, allowed existing customers with a good repayment background to obtain incremental consumer durable loans with the facility of instant credit. The company developed a network of 24,400 unique stores where the customers can avail the facility of EMI credit.

Exhibit 39: Retail EMI stores became ~5x in the past 6-7 years

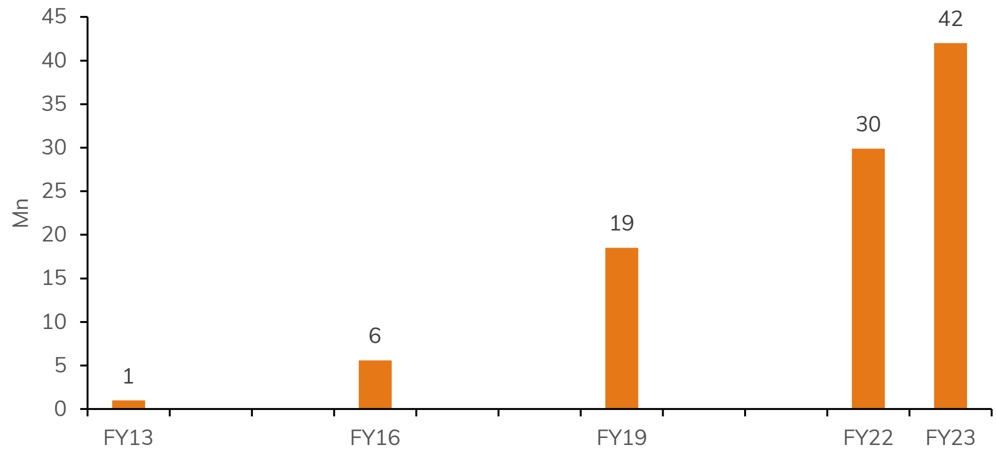


Source: I-Sec research, Company data

From FY18 onwards, the company enhanced this product offering by bringing in digitised EMI cards and financed its EMI card customers for their purchases on the e-commerce platforms.

This has further helped the company to significantly increase the cards in forces from 1mn in FY13 to 42mn in FY23.

Exhibit 40: EMI cards in force increased 42x in the past 10 years ending FY23



Source: I-Sec research, Company data

E-commerce and instant EMI cards driving digital acquisitions; RBI ban a temporary setback

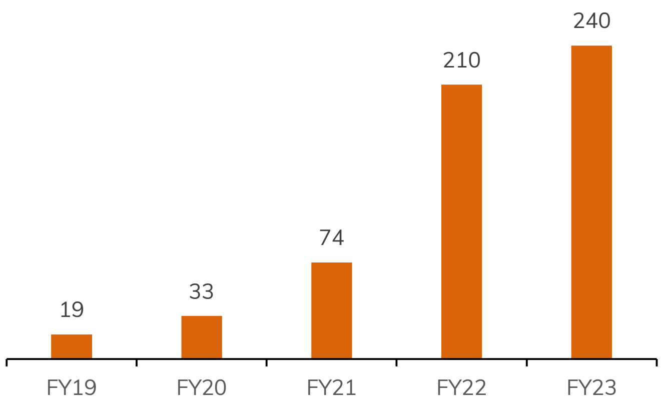
As we have discussed earlier, Bajaj's extensive distribution network acts as a key enabler for its customer acquisitions and it will continue to do so in the future also. However, with the increasing digitisation and tech-savvy younger population, online channels will play an important role in future acquisitions of Bajaj.

Moving along with the digital economy, Bajaj came up with e-commerce financing for both sellers as well as buyers in FY16. As part, Bajaj had tied up with large players such as Flipkart and Snapdeal (at that time). The financing under this segment was done though the EMI cards provided to the existing customer.

From Q4FY22, the company also started issuing digital EMI cards (Insta-EMI cards) to the new customers.

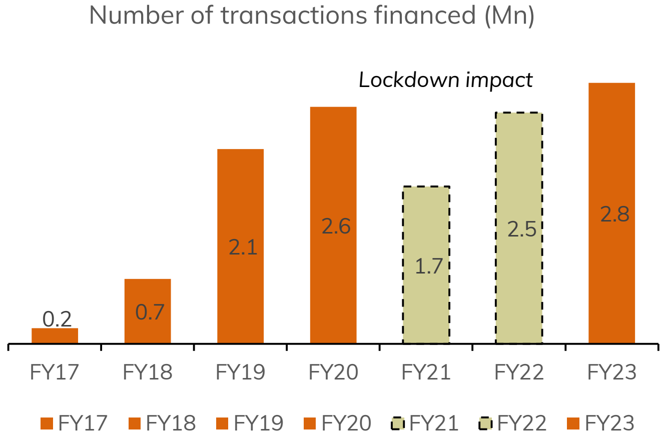
Over the years, the company has been consistently investing in this segment with the number of online partners increasing from 19 in FY19 to 240 in FY23 and about 2.8mn of transactions financed as of FY23 (a CAGR of 60% from FY17).

Exhibit 41: Tie-ups with 240 e-commerce partners



Source: Company data, I-Sec research

Exhibit 42: Financed 2.8mn transactions in FY23



Source: Company data, I-Sec research

Even at the industrial level, the organised retail segment has evolved over the last three decades with the same gradually moving from the traditional brick and mortar format to the online format.

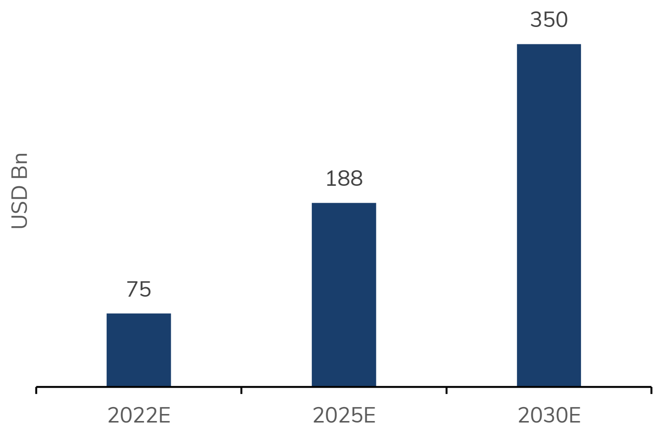
Exhibit 43: Evolution of organised retail to e-commerce/online formats in 2015-22

	Pre-1990s	1990-2005	2005-2015	2015-2022
Total retail market size	INR 2trn (1990)	INR 13trn (2005)	INR 39trn (2015)	INR 70-72trn (2022)
Organized retail penetration (at the end of the period)	Negligible	~4%	~8.5%	~10%
Formats	Speciality stores	Supermarkets, hyper markets, departmental stores	Vertical wise speciality stores	Vertical wise speciality stores; ecommerce
Penetration of malls	Negligible	Moderate	High	High
Evolution	Dominant presence of domestic and regional players	International players such as Nike and Reebok enter	Entry of large corporate houses such as Reliance, Tata and global players such as Amazon	Entry of organised players into online format
FDI	No	Yes	Yes	Yes
Competition	Negligible	Moderate	High	High

Source: CRISIL research

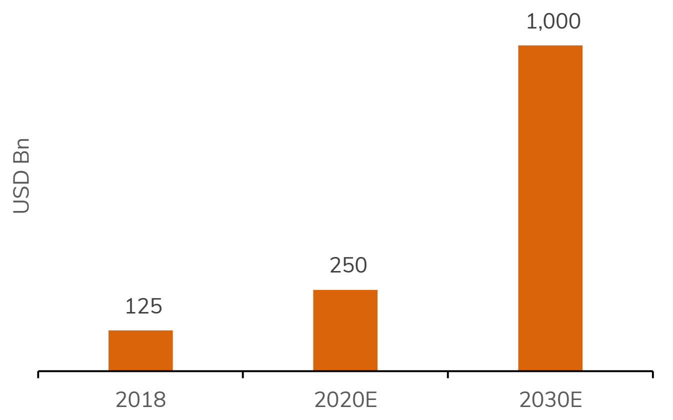
As per IBEF data, the e-commerce market, which is around USD 75bn, is expected to reach USD 350bn by 2030, with internet economy expected to reach USD 1trn at the same time.

Exhibit 44: E-commerce expected to reach USD 350bn in 2030…



Source: IBEF

Exhibit 45: …with India's internet economy reaching USD 1trn

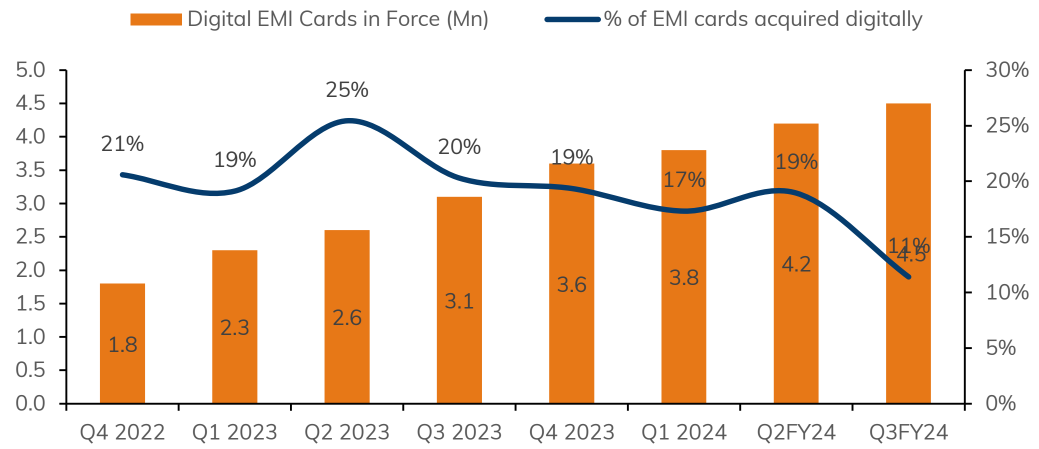


Source: IBEF

Given Bajaj's gradual increased presence in e-commerce platforms and that it has also been issuing EMI cards to new customers, the digital acquisitions as part of overall customer acquisitions have been ~20% in the past.

However, in Nov'23, RBI had announced a ban on the issuance of loans through e-commerce and Insta-EMI card on account of non-compliance in digital lending guidelines, specifically with respect to the non-issuance of Key Fact Statements (KFS). As a result, the company's digital acquisitions were impacted and dropped to 11% in Q3FY24. While the overall business impact of the same remained low, with only 7-8% of the loans booked in Q3FY24 being impacted, management has been making changes in its processes to be fully-compliant in the matter and expects to submit a report to the RBI shortly.

Exhibit 46: Digital EMI cards contributed ~20%; however, RBI ban brings the share down to 11% in Q3FY24



Source: Company data, I-Sec research

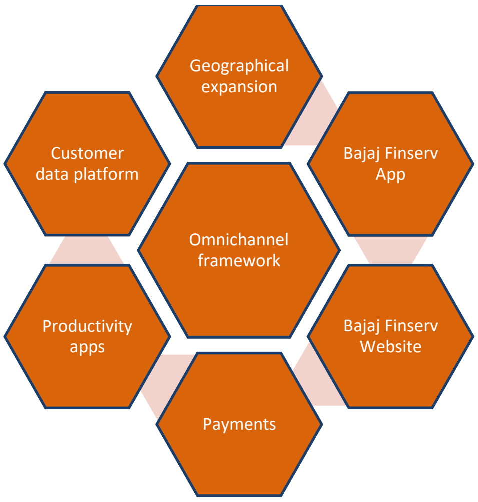
Omni-channel framework to enhance customer acquisition/retention

Bajaj, being one of the early adopters of digitisation, has moved from a 'Physical' to a 'Phygital' model over the last few years. Now, it has embarked on a journey to become completely 'Digital'.

Integral to its business transformation strategy, Bajaj adopted the '*Omni-channel Framework*'. The given model started in 2019/20 and had a four-year timeline. But, the onset of the pandemic gave the company the opportunity to expedite the transition to digital platforms and its transformation process.

The omni-channel strategy simply allows the customer to move between offline and online and vice-versa in a frictionless manner. It has six domains: 1) Geographical expansion. 2) Bajaj Finserv app. 3) Bajaj Finserv website. 4) Payments. 5) Productivity apps. 6) Customer data platform.

Exhibit 47: Omni-channel framework



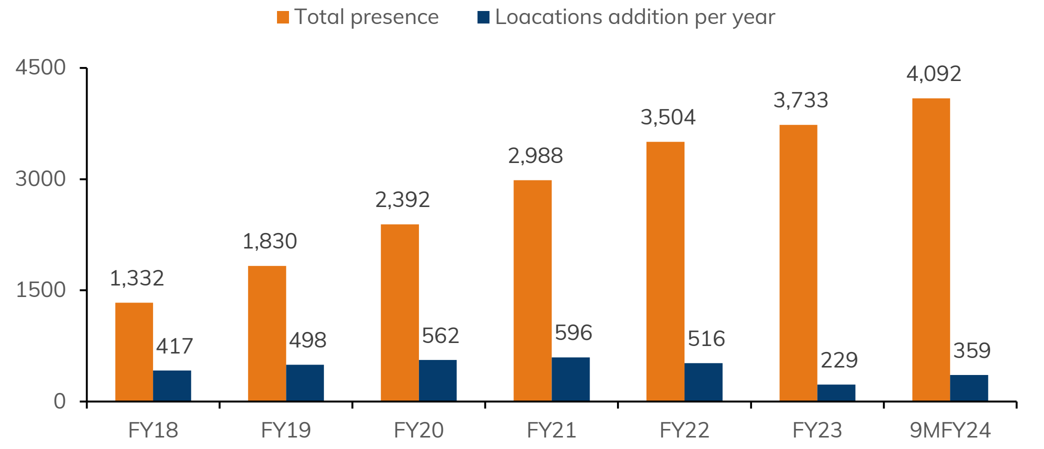
Source: Company data, I-Sec research

Geographical expansion

Bajaj, through its intensive investments across the years, has built a wide distribution network comprising of 190,600+ consumer durables store (including digital, lifestyle and rural), auto dealers (Bajaj and non-Bajaj) and DSAs, spread across 4,000+ locations.

Bajaj has been regularly making steady investments in this area. In last 5 years, the company has consistently added 300-600 locations every year, which has helped it to go deeper into the states in which it operates. As per the company's long-range strategy, it plans to reach 4,300-4,500 locations by FY27 from 4,092 currently.

Exhibit 48: 300-600 locations added per year in last 5 years, with total locations growing at a 5-year CAGR 23%

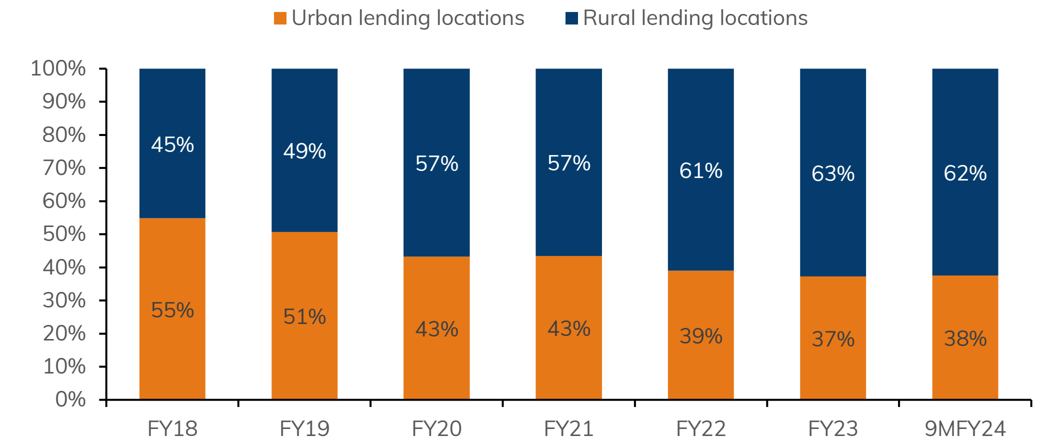


Source: Company data, I-Sec research

The company has also been expanding into the newer territories where it is not widely present. In FY23, Bajaj expanded its presence in 229 new locations – primarily across UP, Bihar and north-east India. While the company continues to increase its presence in the newer states, annualised growth in these locations slipped in FY23/9MFY24 to 7%/13% vs. 4Y-CAGR of 27% in FY18-FY22, as the company continued to make all its products available in the existing locations.

With a large untapped rural market, Bajaj has been increasing its geographical footprint in small-towns and villages, through its rural lending products, as is evident in the share of rural locations increasing from 45% in FY18 to 62% in 9MFY24.

Exhibit 49: >60% of rural presence, as of Dec'23 vs. 45% in FY18



Source: Company data, I-Sec research

Bajaj Finserv app

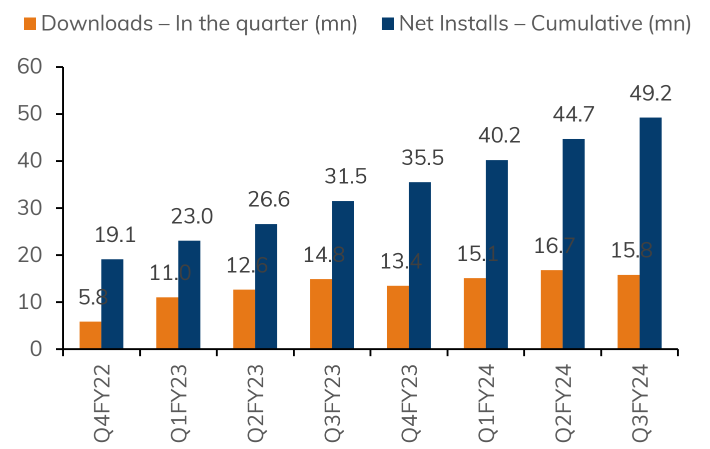
Bajaj Finserv app is the company's in-house customer application that was launched in FY22 as a step towards becoming a digital organization. Phase-1 of the application went live in FY22 and phase-2 in FY23. App helped in acquiring 368k EMI card customers in FY23.

Certain noteworthy points with respect to the application include:

- In-app programs: The app plays an important role in ensuring higher customer satisfaction as it acts as a one-stop solution for all customer needs. It has multiple in-app programs that lets the customer purchase any product or service directly through the Bajaj Finserv app itself. The customer may make purchases with all of Bajaj's online tie-ups – some renowned applications include, Yatra, EaseMyTrip, Pharmeasy – as in-app purchases from within the Bajaj Finserv app itself.

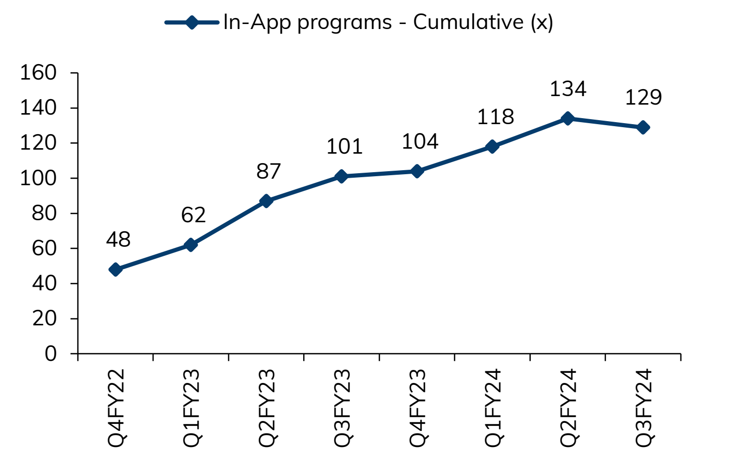
- Bajaj Finserv Mall: This is an online marketplace within the Bajaj Finserv app. It gives the customer an option to purchase consumer durables using the Bajaj EMI card. Bajaj also offers this option to non-Bajaj customers, which further helps in customer acquisitions.
- End-to end journey for cross-selling: The application provides an end-to-end seamless experience to existing customers of Bajaj who wish to apply for loans in different categories – home loan, LAP, loan against securities, business loan, professional loan and used car loan. The app helped in disbursing over INR 90bn of personal loans, acquiring over 209k credit cards, and enabling over 4.9mn flexi-loan transactions in FY23. In addition to the above, the company also offers fee-based products on the application such as insurance and mutual funds.
- The app also provides multiple payment options to the customers such as wallets, UPI, Bharat Bill Pay, etc.

Exhibit 50: Quarterly downloads increased 6% YoY in Q3FY24 taking cumulative installs to 49.2mn



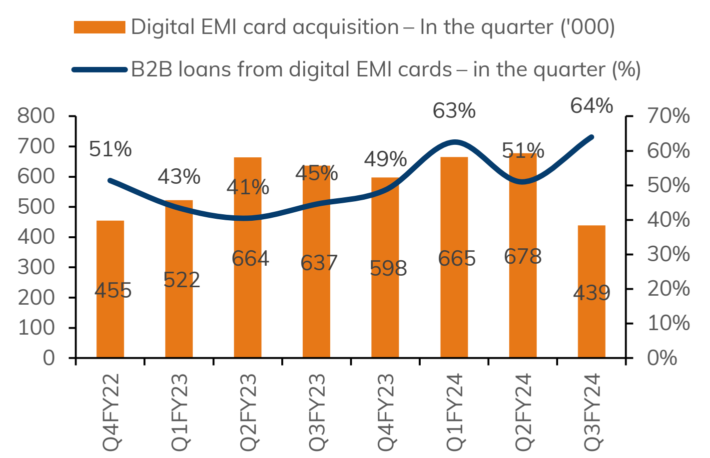
Source: Company data, I-Sec research

Exhibit 51: In-app programs reached 2.7x since inception to 129



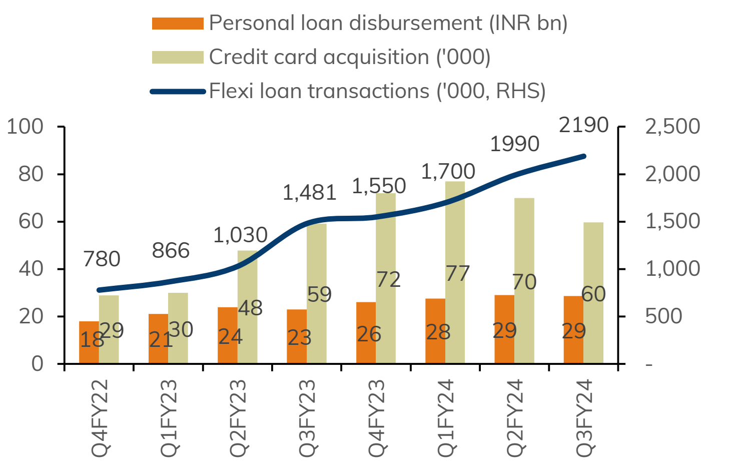
Source: Company data, I-Sec research

Exhibit 52: 64% of digital EMI card acquisition were towards B2B loans in Q3FY24



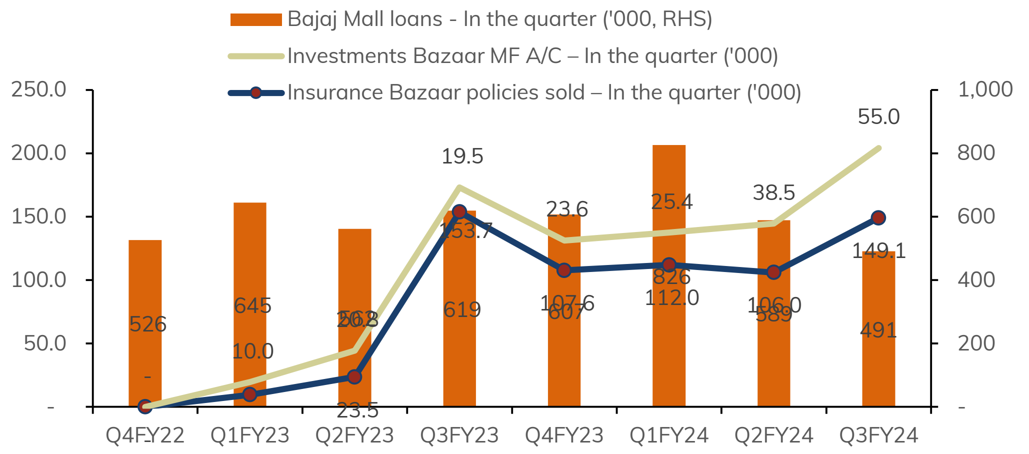
Source: Company data, I-Sec research

Exhibit 53: App further helped in personal loans, flexi loans and credit cards business



Source: Company data, I-Sec research

Exhibit 54: Online marketplace enhances customer experience through Bajaj Mall and fee-based products



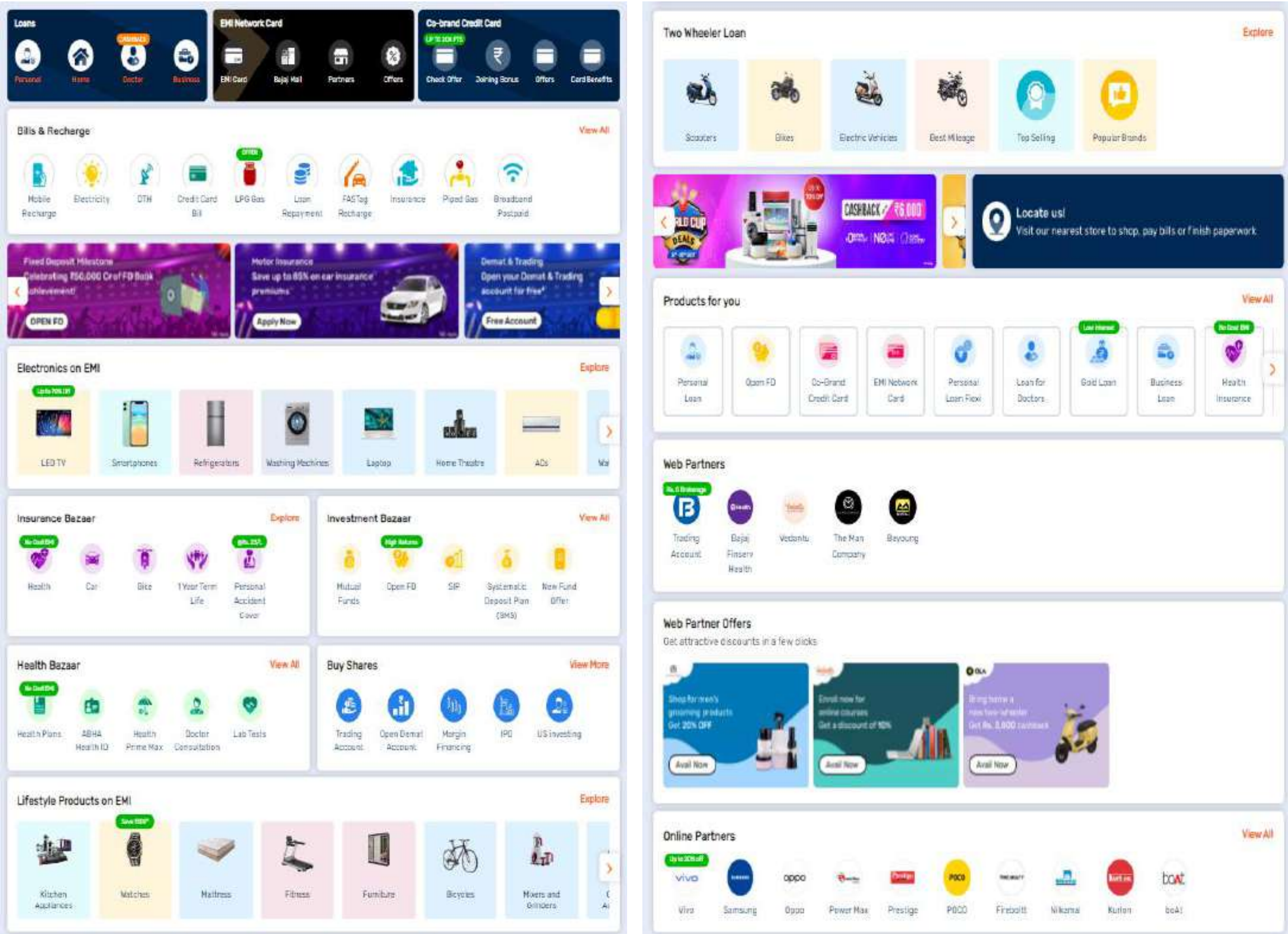
Source: Company data, I-Sec research

By creating a comprehensive customer app with in-app programs and Bajaj Finserv Mall in place, Bajaj has brought its entire ecosystem of e-retailers under the umbrella of a single app, wherein the customer can purchase all the products while simultaneously availing financing facilities from Bajaj on a single platform.

Bajaj Finserv website

Similar to Bajaj Finserv app, Bajaj Finserv website also plays an important role in ensuring a smooth customer journey. In FY23, the company revamped its website as part of 'Web=App' strategy and completely transformed its website's user interface and user experience. As a result, customers can initiate their journey on any of the platforms without any disruptions. Through continuous investments to lay a strong foundation for its website, Bajaj has been able to reel in about 219mn customer visits and disburse over INR 50bn in FY23.

Exhibit 55: Snapshot of all-in-one Bajaj Finserv app/website



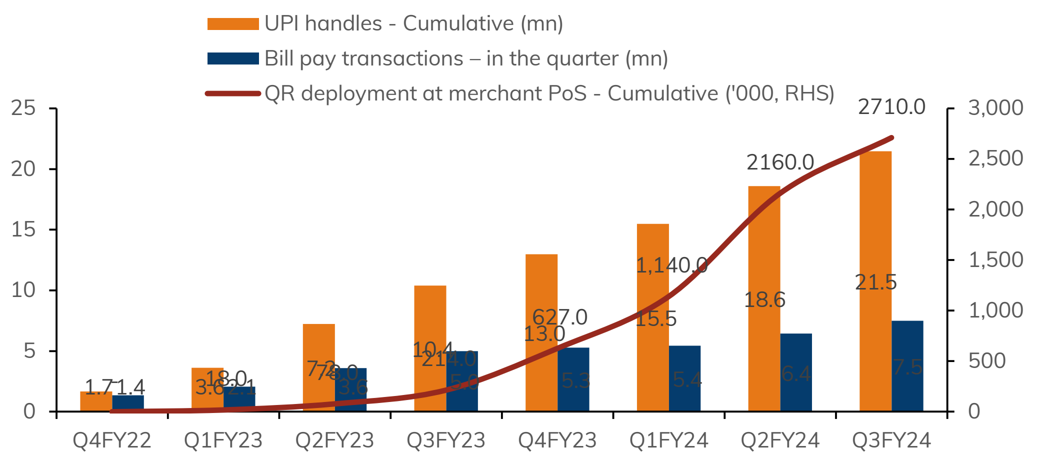
Source: Company data, I-Sec research

Payments

Bajaj initiated its payments business in FY21 by introducing UPI and PPI services. In the last two years, the company has built a full service payments business with robust payments stack consisting of wallets, UPI, Bharat Bill Pay Service and single payment checkout gateway. In addition to this, the company has also deployed QRs across all merchants. The payment options have enabled higher engagement between customers and merchants, which further ensures higher customer retention.

Through UPI, QR deployment at merchant PoS and rewards program the company plans scale its payment business. As of Dec'23, the company had 21.5mn UPI handles, 2.7mn QRs deployed at merchant PoS and 111mn cumulative rewards issued to the customers/merchants.

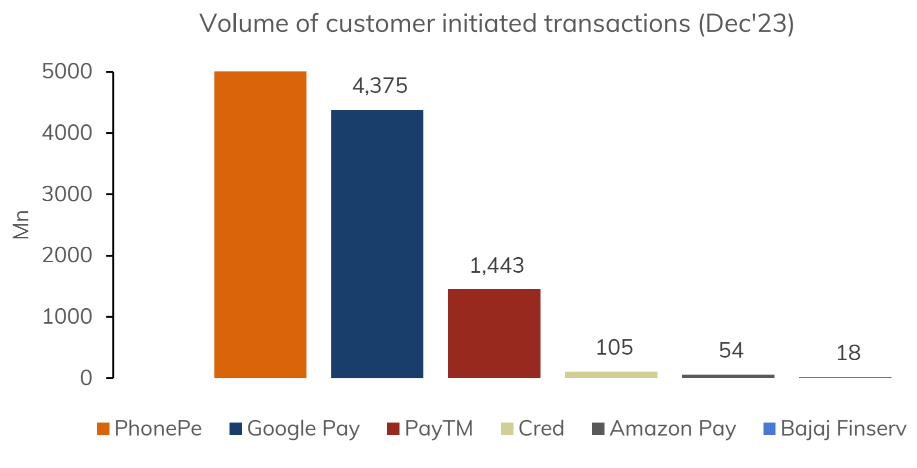
Exhibit 56: Payments business scaling up



Source: Company data, I-Sec research

While the company has been scaling up its payment business over the last few quarters, being a recent entrant to the payments business, Bajaj is as yet a small player.

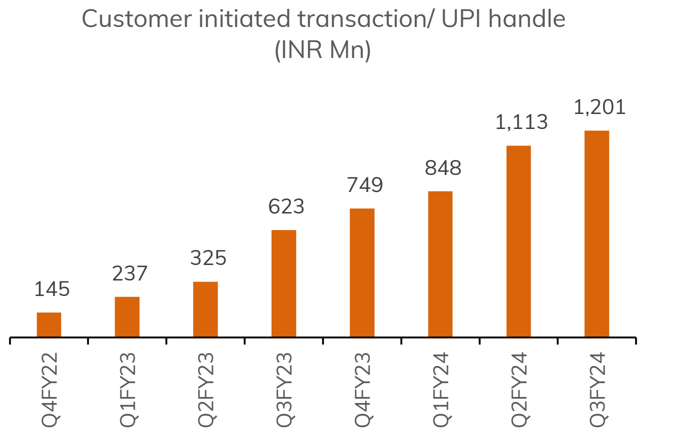
Exhibit 57: Bajaj remained a small player in the overall payment ecosystem



Source: NPCI , I-Sec research

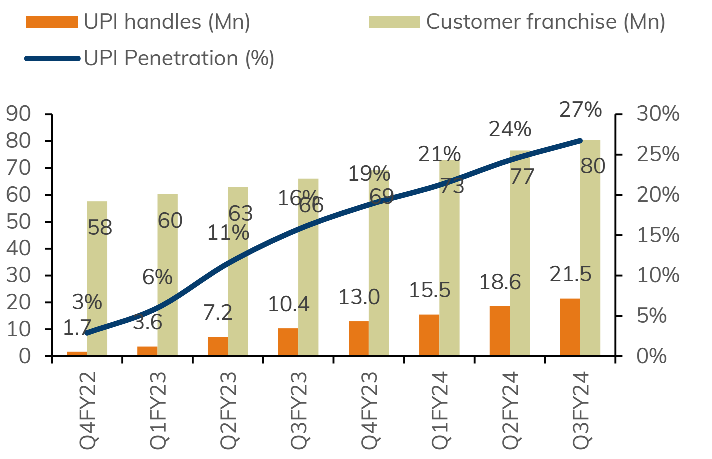
Nevertheless, over the last 4-5 quarters, the value of customer-initiated transactions per UPI handle for Bajaj Finserv has been consistently increasing, which validates increased usage of UPI by customers. Additionally, given that Bajaj Finserv is new to payments, as of Dec'23, there were only 21.5mn UPI handles against its customer franchise of 80mn, which means there is a large gap that can be filled from the existing customer base itself.

Exhibit 58: Customer initiated transactional value/UPI handle increased 8x in last eight quarters



Source: Company data, I-Sec research

Exhibit 59: UPI penetration within the existing customer base remained low at ~27%



Source: Company data, I-Sec research

Productivity apps

In order to ensure better efficiencies across sales staff, collections staff, merchants and partners, the company has developed 4 productivity apps within its ecosystem: (a) Sales One App (b) DMS One App (c) Merchant One App and (d) Partner One App.

- Sales One App enables the sales team in effective lead management and services. Additionally, it also offers other features such as daily planner, daily check-ins, interactive dashboards and reports, sales calculator and merchant on boarding, which makes it more efficient for the sales team to fulfil its responsibilities. As of FY23, the app had 100% adoption amongst the sales team.

- DMS One App is used for debt management services and carries features such as mobile receipting, agency allocation, meeting calendars, call management and recording, repossession module, settlement workflow and letters, performance reports and others. The app also has the option to take debt management and customer service related trainings. In FY23, about 45k agents were live on the app. Furthermore, the app had processed about 18mn receipts in the same fiscal.

- Merchant One App enables merchants with capabilities such as self-onboarding, QR issuance and business dashboards. The app went live with onboarding journey, lifecycle management of merchants and multi-QR linking. As of FY23, over 627k merchants were on boarded through the app.

- Partner One App, which is yet to go live in FY24, is designed for the sales agents and will help them with lead management, transaction tracking, customer assist, partner growth, query resolutions, training, and knowledge centre.

Customer Data Platform (CDP)

It enables multi-channel orchestration, customer communication, call governance with an integrated multidialler, multi-lingual architecture. BFL now has eight regional call centres to deliver multi-lingual sales and service support to its customers.

Lastly, new product launches to further fuel the growth

In-line with the 5-years LRS, the company has announced the probable timelines of its new products and innovations which are expected be launched in next 2 years.

Exhibit 60: Expected product launches in next two years

Product	Probable timelines
New cars finance - (Q2FY24)	Live
Emerging corporate loans business (Q3FY24)	Live
Microfinance (Q4FY24)	Live
B2B on QR and EDC - Q4FY24	Q4FY24
Flexi on QR (Q4FY24)	Q4FY24
Rewards platform (Q4FY24)	Q4FY24
Financing for purchase of tractor (Q1FY25)	Q1FY25
Social platform (Q2FY25)	Q2FY25

Source: Company data, I-Sec research

Channel check takeaways – Strong pricing power and quick TAT sets Bajaj apart

As part of our channel checks, we interacted with multiple large retailers to get a better understanding on how Bajaj stands out in comparison to its peers. Few of the key takeaways from our conversation with the retailers are as follows –

- Customers prefer Bajaj over other financiers due to faster processing time, EMI card offerings, more post-sale offers and low processing fee.
- While Bajaj's documentation and KYC process only takes 5-10 minutes, the overall turnaround time for processing the loan is 30-45 minutes. This, as compared to other players is much lower. One of the large players take as much as 1 to 1.5 hours to disburse the loan. While the documentation requirement is same for most of the players, however, some of the players take additional time to get the final approval. This factor plays a key role in customer acquisition, especially during the peak hours, where ease, transparency and seamlessness become all more important as compared to other factors.
- The faster processing time also benefits the retailers as they are able to sell higher volumes in less time. Consequently, one of the large retailers also mentioned that they encourage customers to take loan from Bajaj only, as the customer satisfaction will ensure repeat purchases from the store.
- Bajaj also offers an EMI card on the first purchase at a small fee of INR530, which can then later be used for future purchases. One of the key highlights of the EMI card is that the customer will not be required to go through the entire loan process again and the turnaround time for the customer will be much lower as compared to the first time purchase. As per the financier at the store, the loan processing time through EMI card can be as low as 10 minutes.
- We also noted that the EMI card offering was not provided by all the financiers. Since few of the financiers were banks, they rather give the option of credit card EMIs. However, the processing fee charged under the credit card EMIs were higher than that of Bajaj.
- Bajaj offers product and brand wise schemes and even the processing fee/EMI is decided based on the type of product and the brand that the customer is buying. In most of the cases, Bajaj's processing fee is lower than that of other players' basis the agreement signed between Bajaj and the large brands such as LG, Samsung, Sony, etc.
- The relation with the large brands also ensured future sales offerings to the customers in the form of 'first EMI waive off', 'discounts on a particular brand/product', 'free gifts', etc., which further helps Bajaj in retaining the customers.

In order to set out a better comparison across peers, we also tried to find out how the EMI and the processing fee differs across the players if a particular product of a particular brand is purchased by the customer at a store. The below table illustrates the differences in the charges such as down payment, processing fee, EMI and tenure if a same refrigerator is financed by different financiers –

Exhibit 61: Comparison amongst players for buying a refrigerator worth INR15000

	Bajaj	Player1	Player 2
Down payment (INR)	5,268	3,880	4,550
-*Of which, processing fee (INR)*	268	880	550
-processing fee as a % of product value	1.8%	5.9%	3.7%
Tenure	8 months	8 months	8 months
EMI (INR)	1,250	1,500	1,375
Turnaround time	~35 minutes for new customers & <10 minutes for repeat customers	~1 hour and 10 minutes	~35-40 minutes

Source: Company data, I-Sec research

As it can be seen in the above table, for a same product, Bajaj charges the lowest processing fee amongst its peers. While the down payment for Bajaj remained highest, however, with the 0% EMI, the instalment remained lowest for Bajaj. Furthermore, with high down payment, Bajaj is able to recover most of the amount from the first payment itself, thereby ensuring lower risk of default from the customer.

We further noticed that for few large brands, Bajaj even charged zero processing fee, which was not the case with other players in the store.

Financial Outlook

AUM growth to continue aided by cross-sell and customer acquisition

Bajaj, in its five-year Long Range Strategy (LRS), has articulated its plans to reach the 110-120mn customer base by FY27 from the existing customer base of 80mn. In order to deliver the desired growth, the strategy will revolve around geographical expansion, enhancement of operational capabilities, product innovations and new product variants. We believe that the increasing geographical expansion, higher demand for online retail, Bajaj's strategy to become an omnipresent financial services company and its continued efforts towards new products and innovations will play a key role in achieving this target.

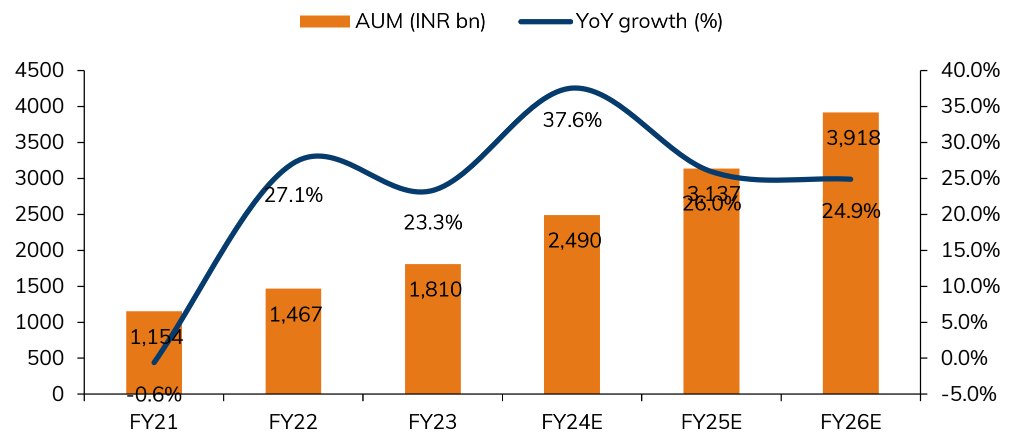
Bajaj's consistency in maintaining yearly customer growth rate of 20%-30% (FY15-FY23 CAGR of 23%) is evidence that the company has had a customer-led growth journey in the past. While there was some impact on the customer growth during the pandemic owing to low demand, however, post the second-wave of Covid-19, the customer growth again started to pick-up with the average yearly rate of 20%.

We believe that at the existing average run-rate of 400 customers per store, in order to reach its target of 110-120mn customers, Bajaj will need it expand its distribution channels by only 9-10% - the ask rate is lower than the historical trend of the average 23% growth in distribution between FY13-23. Even if the company grows its distribution network at a steady-state rate of 15%, it can easily cross the 120mn mark by FY27E.

Bajaj's success is defined by its ability to cross-sell its products to existing customers. The consumer durable segment acts as the initial touch point for acquiring customers at a lower ticket size. From this point, the repayment record of these customers is further analysed and accordingly the same customers are subsequently offered larger ticket size loans in the form of other products such as personal loans, mortgage loans, business loans, etc. On an average, every year about 55%-60% of the total customers were leveraged through cross-sell opportunity.

Going ahead, we anticipate that Bajaj AUM is likely to grow at >25% CAGR over FY23-FY26E aided by growth in both secured as well as unsecured portfolio. Its customer base is likely to expand to 110-120mn by FY27E from 80mn as of Q3FY24-end.

Exhibit 62: Expect AUM CAGR at >25% for FY23-FY26E



Source: Company data, I-Sec research

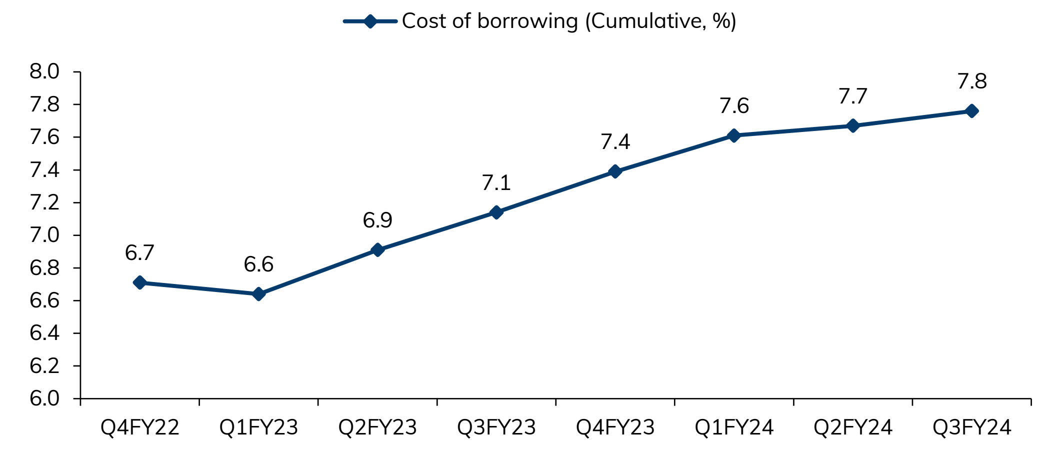
Rise in funding cost limited from hereon; expect stable yields

As at Q2FY24-end, 69.0% of its borrowings and 57.6% of its loans were on fixed interest rates, while 31.0% of its borrowings and 42.4% of its loans were on floating interest rates. Floating interest loans mainly comprise of mortgage, commercial balance sheet and LAS. On the fixed component of loans, Bajaj has limited scope for increasing yields given the current competition dynamics.

On the funding side, pressure continues and cost of funds (consolidated) has rose from 7.04% as of FY23 to 7.76% in Q3FY24 and is now close to Mar'21 levels of 7.84%. Bajaj is currently seeing replacement of old money which were borrowed 2/3 years ago at a relatively lower price. These borrowings are up for renewal/maturity now at a much higher cost (than earlier) which has resulted in the spike in cost of funds. With most of the repricing expected to be completed by Q4FY24, we expect relatively lesser rise in cost of funds in FY25E as well as FY26E.

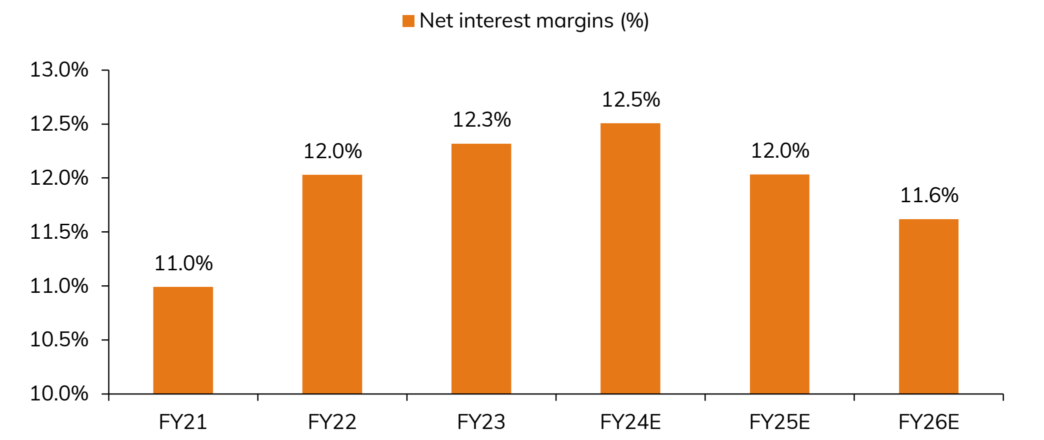
We expect margins to see a moderate decline (30-40bps) in FY25 as well as FY26 from current levels. However, operating leverage is likely to partially offset the compression in margins.

Exhibit 63: Quarterly cost of funds (consolidated) rose to 7.76% in Dec'23 vs 6.7% in Q4FY22



Source: Company data, I-Sec research

Exhibit 64: NIMs to settle at 11.5-12% in FY24E-FY26E

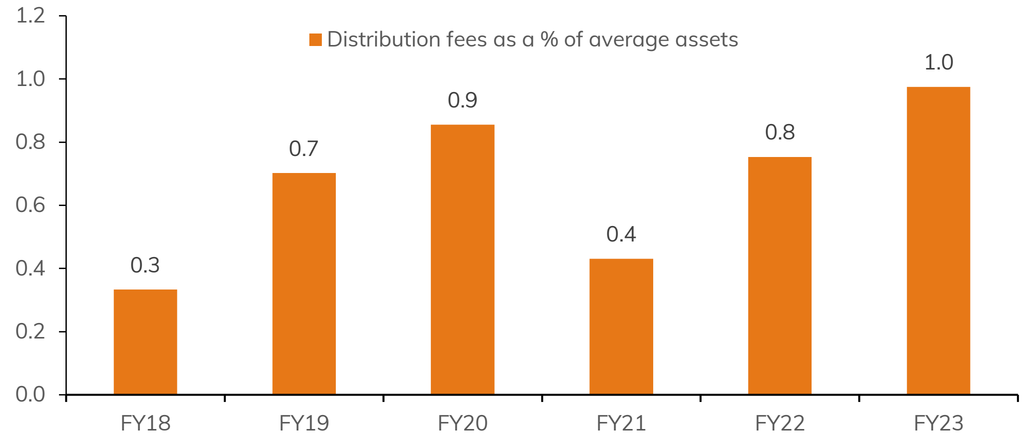


Source: Company data, I-Sec research

Distribution income and recovery from bad debts, a significant pie of overall fee income

Distribution fees in overall fee pool has been inching up and is now sizeable. Rapid expansion in co-branded cards has been primary factor driving higher distribution income. Co-branded card partnerships and products have enabled Bajaj to provide value added services to its customers and grow its fee-based income. For the past two years ending Mar'23, distribution fees have constituted 40-45% of overall fee income. Hence, RBL Bajaj tie-up holds a pivotal role in the overall fee income for Bajaj. As of 31 Dec'23, total co-branded credit cards in force stood at 3.98mn.

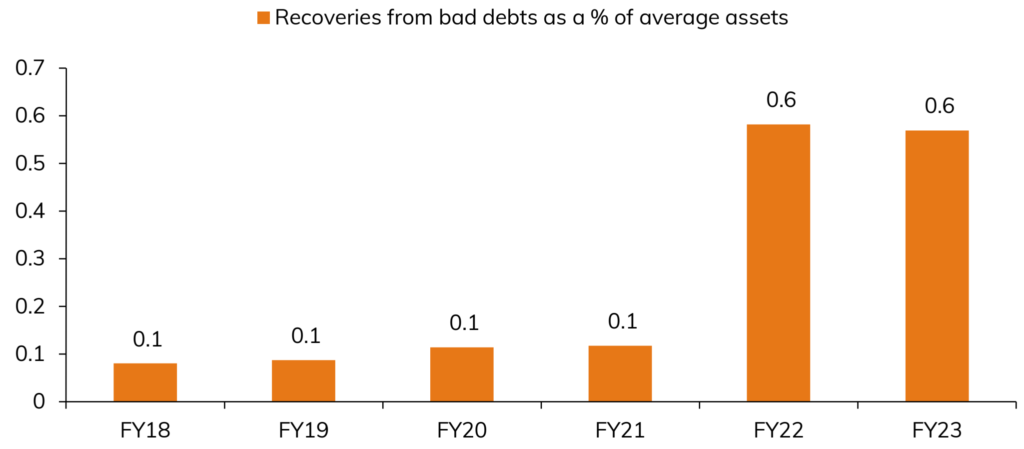
Exhibit 65: Distribution fee income as a % of average assets from FY18-FY23



As per media article (Link), RBI has granted an extension until December 21, 2024, while Bajaj had sought a longer extension for its credit card ties with RBL Bank. Hence, if the extension does not go through, then distribution fee income for RBL could see a sizeable decline.

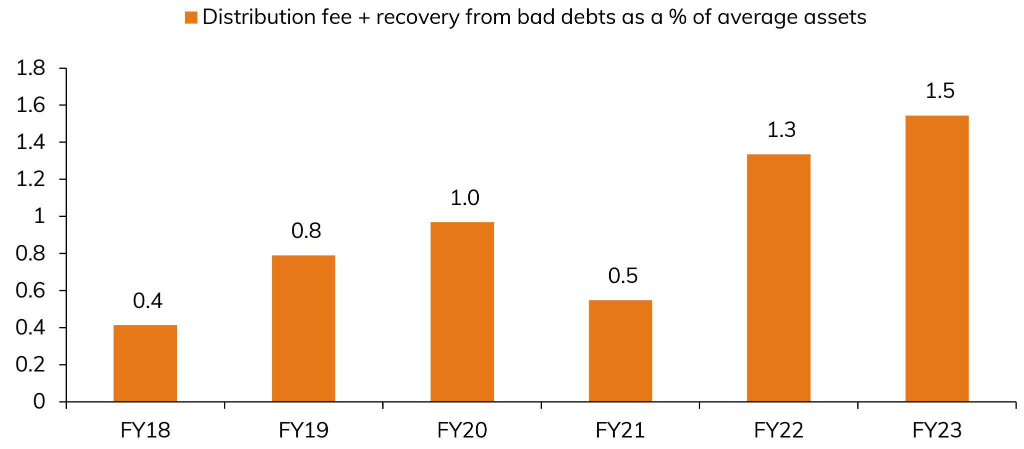
Secondly, recovery from bad debts has averaged at ~INR10bn for FY22 as well as FY23 vs. its run-rate of ~INR1-2bn in pre-covid years. Write-offs were elevated during the covid period owing to rise in GNPA and hence we have seen the subsequent rise in recoveries from written-off pool post covid. However, with normalising delinquencies level, we believe large recoveries are unlikely to repeat beyond FY24.

Exhibit 66: Recovery from bad debts as a % of average assets from FY18-FY23



Source: Company data, I-Sec research

Exhibit 67: Distribution fee income + Recovery from bad debts as a % of average assets from FY18-FY23



Source: Company data, I-Sec research

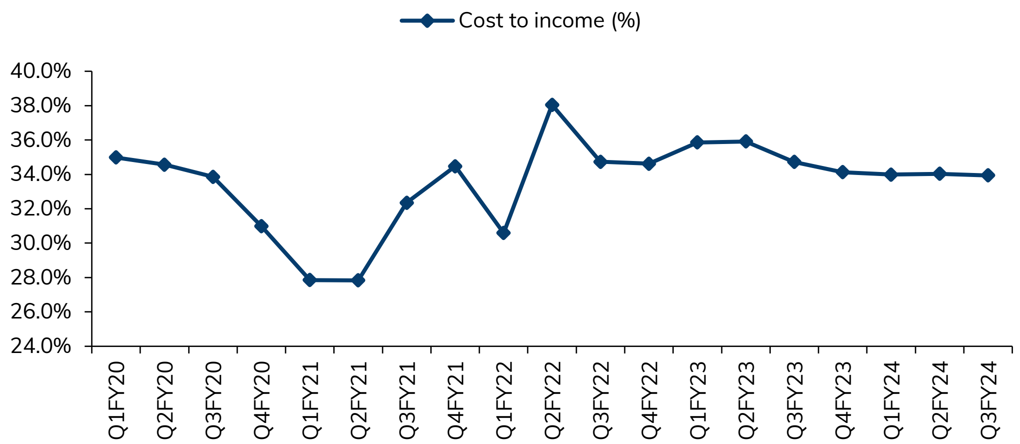
Operating leverage to help contain opex to assets

Bajaj's key strength lies in effective customer mining – post the customer acquisition via consumer financing & 2W loans, it focuses on customer retention and gets into product-life cycle management. Its digital infrastructure ensures customers are offered right product in most seamless manner and with best pricing. The same reflects in product per customer (PPC) rising from 4.99 in FY21 to 6.02 in Q3FY24 and company has a target range of 6-7 PPC by FY28. As at December 31, 2023, out of its total served customers of 80.4mn, it has identified 61.6mn as overall cross-sell franchise for its lending as well as deposits/payments products.

Rising PPC results in dual benefits for the company – 1) negligible incremental customer acquisition cost for the portion of AUM driven by cross-sell; and 2) improves core fee income pool by cross-selling non-lending products like co-branded credit cards, insurance, mutual funds, roking etc. Relatively higher fee income than peers and lower cost for incremental AUM growth (via cross-sell) have enabled Bajaj in sustaining one of the lowest operating cost ratios within Retail focused NBFCs.

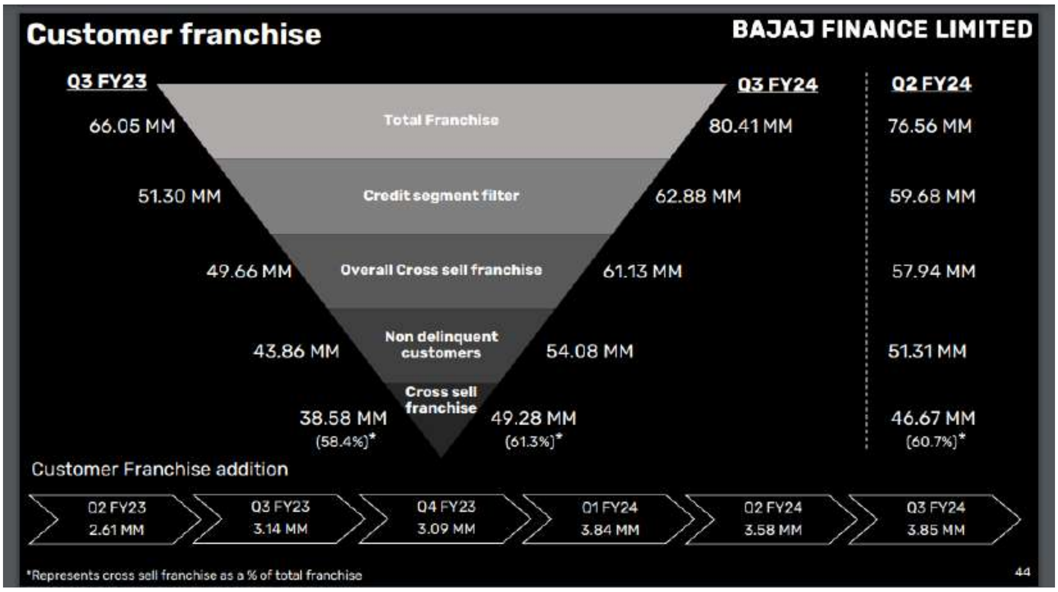
Overall, in Q3, opex to total income came in at 33.9%. Bajaj is working to enhance operating efficiencies by implementing a host of Gen AI capabilities and other digital initiatives to ensure that it can continue this downward trend in opex to net total income and thereby improve operating leverage.

Exhibit 68: Opex to total income coming down post the franchise build-up in FY22



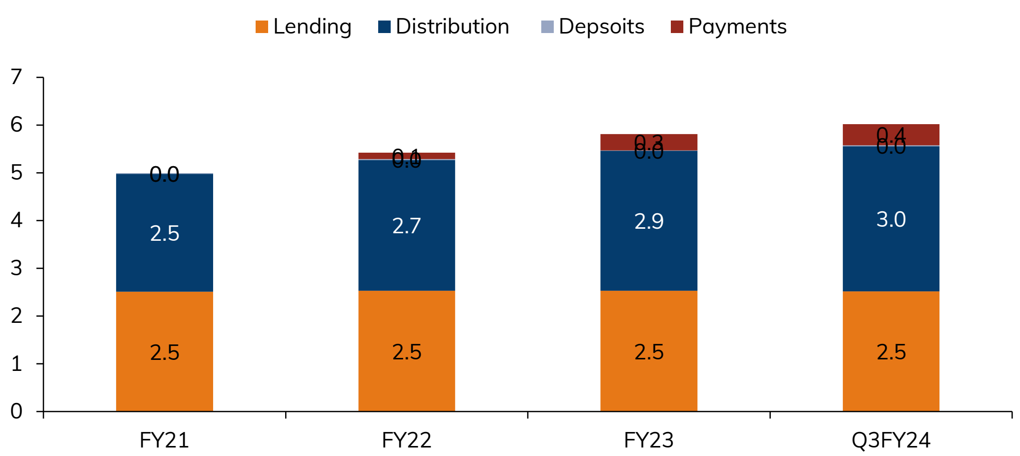
Source: Company data, I-Sec research

Exhibit 69: Leveraging on customer franchise to generate cross-sell opportunities



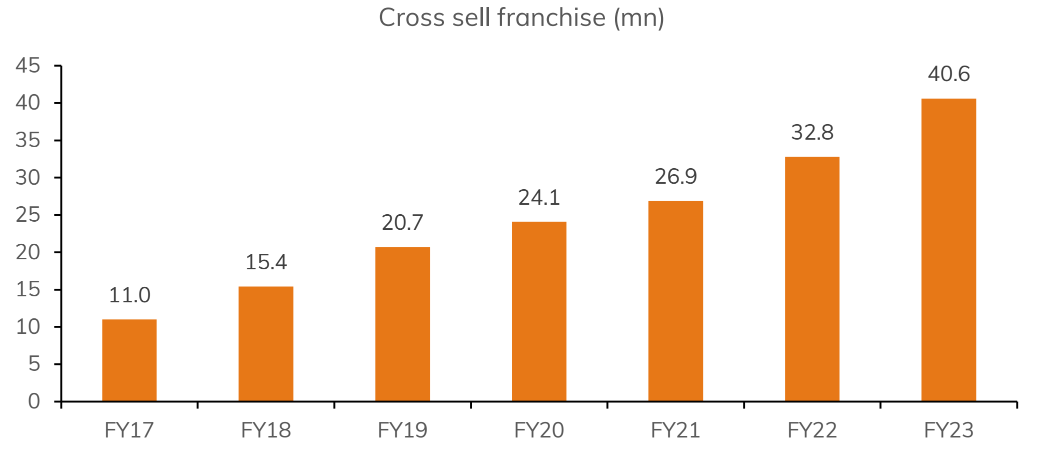
Source: Company data, I-Sec research

Exhibit 70: PPC up from 5.02 in FY21 to 6.02 as of Q3FY24



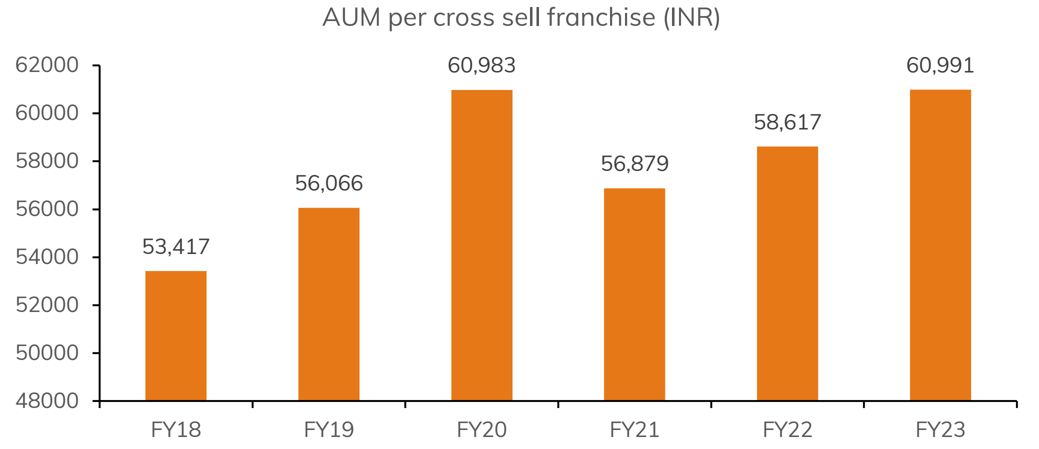
Source: Company data, I-Sec research

Exhibit 71: On an average, every year about 55%-60% of the total customers were leveraged through cross-sell opportunity



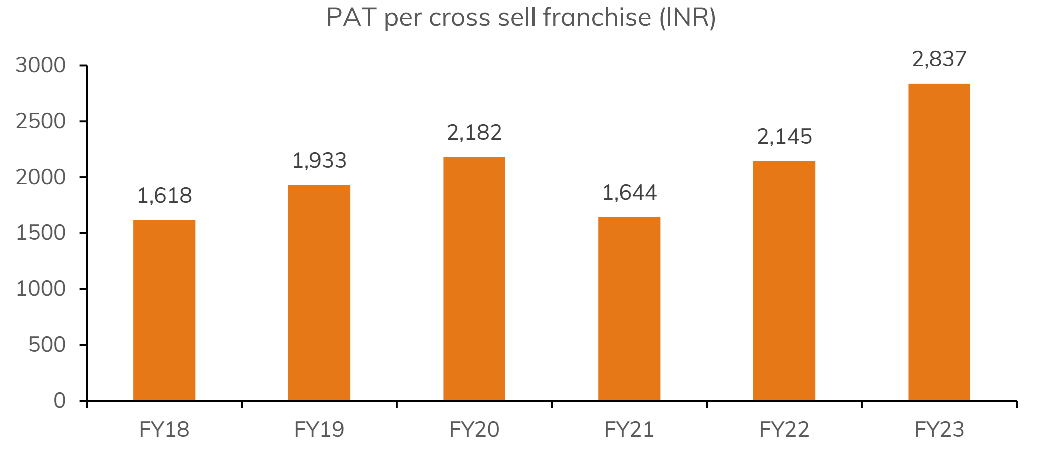
Source: Company data, I-Sec research

Exhibit 72: AUM per cross sell franchise now back to FY20 levels after a dip during covid period



Source: Company data, I-Sec research

Exhibit 73: PAT per cross-sell franchise now back to highs after a dip during covid



Source: Company data, I-Sec research

Pristine asset quality to continue; credit cost to hover around 200bps

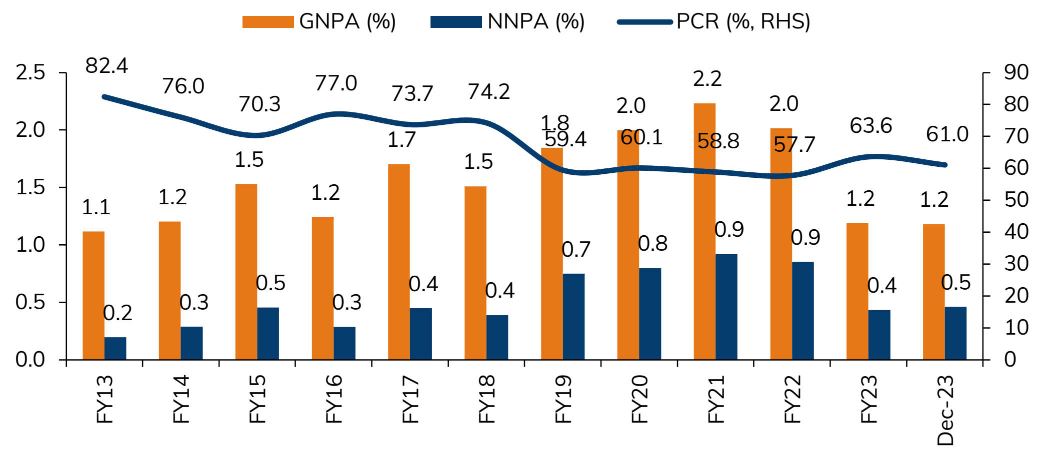
As of Dec'23, 48% of Bajaj's portfolio is unsecured, followed by 18% SME lending, 16% of the commercial/wholesale book, 8% of vehicle loans and 10% mortgage. While the unsecured portfolio and commercial segment are prone to relatively higher credit risk, the vehicle segment is subject to economic cyclicality. In such situations, mortgage book of the company act as a stabiliser lowering the impact on asset quality.

Bajaj's consistency in maintaining pristine asset quality metrics is evidence of its ability to sustainably grow whilst managing the portfolio risk in a prudent manner with comfortable credit costs. If we see a decade long history of asset quality, the gross NPAs of Bajaj (barring covid) have remained range bound at 1.0%-1.8% with PCR levels in the range of 60%-80%.

During the pandemic, the credit costs reached 3%-4%, however, similar trend was observed industry-wide. We note that the rise in the credit costs was also the result of prudent provisioning and write-offs which the company did in the pandemic in order to better manage its book. The company's write-offs as a % opening AUM, which has been maintained at 1-2% in normal scenarios, increased sharply to 3.8% in FY21, while the PCR was maintained adequately at 58%-60%.

Going ahead, we expect gross NPAs to settle at 1.3%/1.3% in FY25E/FY26E from 1.2% currently, with credit cost settling at ~200bps on a steady-state-basis over FY24-FY26E.

Exhibit 74: Consistent portfolio quality since last 10 years



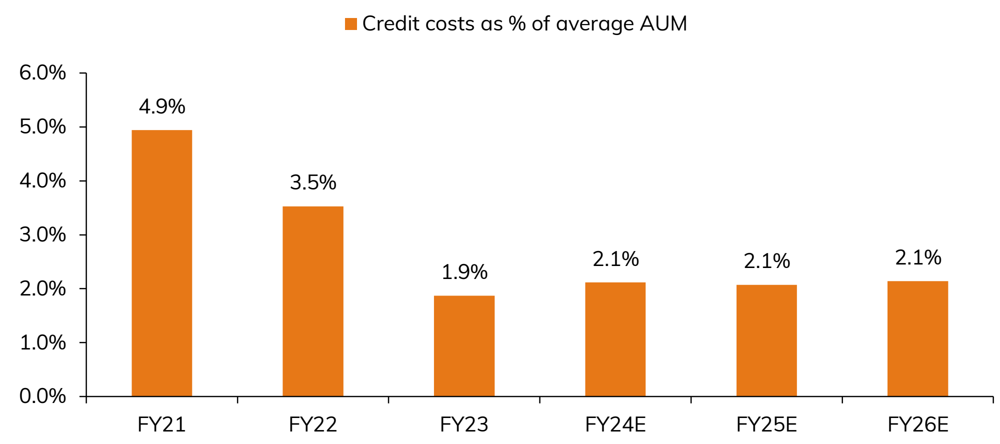
Source: Company data, I-Sec research

Exhibit 75: Resilient segmental asset quality; GNPA remaining <3% during the pandemic

	Q2FY 19	Q4FY 19	Q2FY 20	Q4FY 20	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22	Q4FY 22	Q2FY 23	Q4FY 23	Q2FY 24	Q3FY 24
Consumer Finance (B2B)															
-Auto Finance	5.8	5.1	5.6	6.5	4.5	11.5	9.3	19.2	16.0	11.0	11.0	8.0	4.8	3.1	2.8
-Sales Finance	1.1	1.1	1.1	1.3	0.3	1.9	1.1	1.1	0.6	0.3	2.8	0.5	0.4	0.6	0.7
Consumer Finance (B2C)	1.7	1.4	1.5	1.6	0.8	3.3	1.7	2.8	2.1	1.3	1.0	0.9	0.9	1.2	1.3
Rural Finance															
-B2B Sales Finance	0.8	0.9	1.2	0.6	0.1	2.1	1.1	1.4	1.1	0.2	0.2	0.5	0.4	0.6	0.7
-B2C Finance	1.4	1.5	1.4	0.5	0.9	3.6	1.7	2.9	3.1	2.6	1.2	1.2	1.0	1.3	1.3
SME Business	1.9	1.5	1.5	1.7	1.1	2.3	0.9	2.2	1.7	1.4	1.4	1.5	1.2	1.3	1.3
Commercial															
-LAS				-		-	-	-	0.0	0.1	0.0	0.0	0.0	0.0	0.0
-IPO										-	-	-			
-Commercial lending		0.6	0.6	0.0	0.0	-	-	-	0.5	0.4	0.4	0.3	0.3	0.3	0.3
Mortgages (includes BHFL)	0.8	1.2	1.2	0.5	0.6	1.0	0.9	0.9	1.0	1.0	0.9	0.7	0.6	0.5	0.5
Others	-	-	-	-	-	-	-	-	-	-	-	-			
Total	**1.5**	**1.5**	**1.6**	**1.6**	**1.0**	**2.9**	**1.8**	**3.0**	**2.5**	**1.7**	**1.6**	**1.2**	**0.9**	**0.9**	**1.0**

Source: Company data, I-Sec research

Exhibit 76: Credit costs to average at ~200bps for FY25E as well as FY26E



Source: Company data, I-Sec research

Strong growth in co-branded cards aiding healthy growth in distribution fees

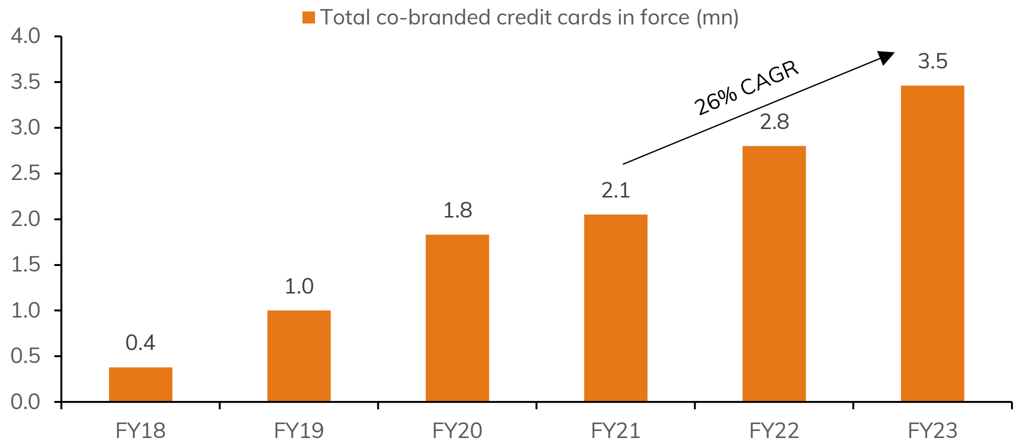
Co-branded credit cards evolved over the years…

In partnership with the RBL Bank (RBL), Bajaj's co-branded credit card business has grown at 26% CAGR over the past two years ending FY23. Since inception of this partnership in Nov'16, it has grown leaps and bounds and Bajaj now offers credit cards across 600+ locations in the country.

In addition to RBL, Bajaj has received approval from the RBI to issue co-branded credit cards in association with DBS Bank. RBL had launched a co-branded credit card with DBS Bank in Apr'22 and now offers these cards across over 80 locations in India.

Its co-branded credit cards have many customer-friendly features, including no-cost EMI options at point of sale, accelerated rewards for high savings and a feature of no interest on cash withdrawals for up to 50 days. As of December 31, 2023, total co-branded credit cards in force stood at 3.98mn.

Exhibit 77: Co-branded credit cards grew at 26% CAGR over last 2 years



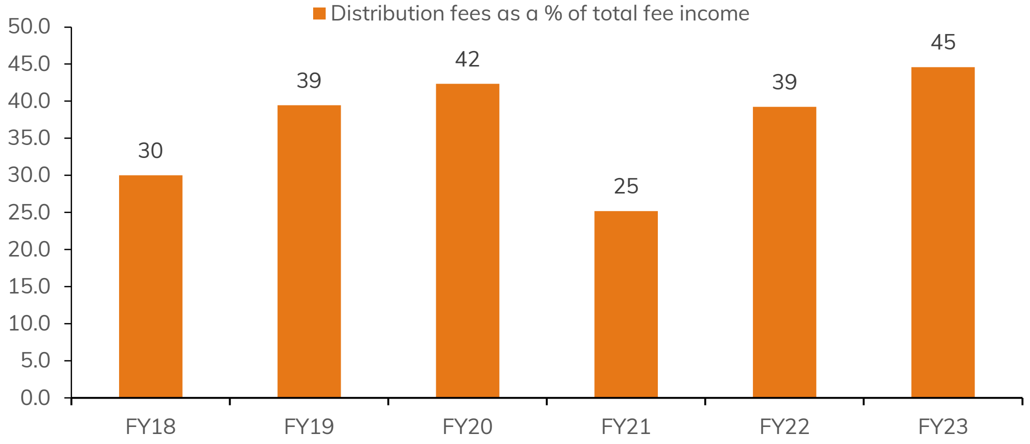
Source: Company data, I-Sec research

…with distribution income forming 40%-45% of overall fee income, since two years

Except distribution income, company's entire revenue is linked to growth in its loan book across lending verticals. Distribution income is earned by distribution of services and products of other entities under distribution arrangements. Distribution of co-branded credit cards in association with RBL Bank and DBS Bank, and partnerships with various financial service providers to distribute life and health insurance products, extended warranty, comprehensive asset care and financial fitness reports are forming part of distribution fees.

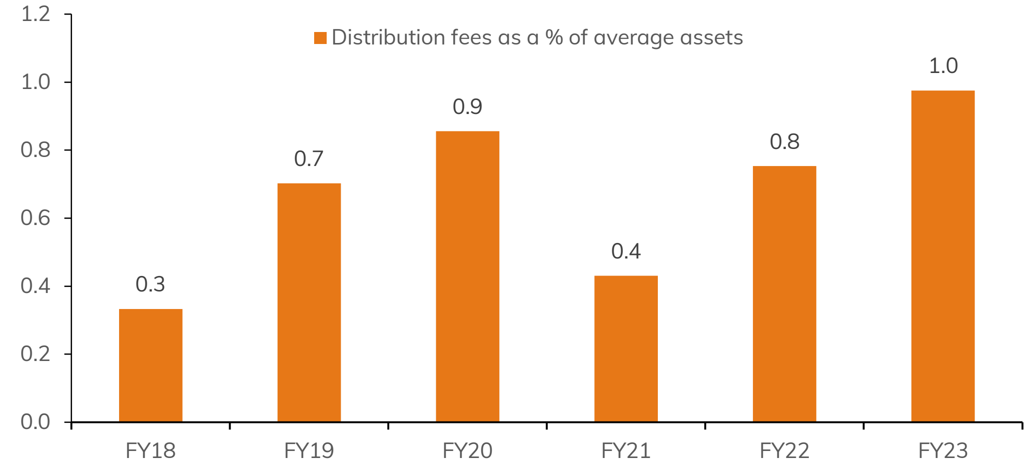
These partnerships and products have enabled the company to provide value added services to its customers and grow its fee-based income. For the past two years ending Mar'23, distribution fees have constituted 40-45% of overall fee income. Hence, the RBL-Bajaj tie-up holds a pivotal role in the overall fee income for Bajaj.

Exhibit 78: Distribution income forms 40-45% of overall fee income



Source: Company data, I-Sec research

Exhibit 79: ~1% of RoA contributed by distribution fees in FY23



Source: Company data, I-Sec research

RoA likely to settle near 4.5-5%, with RoE at 19-20%

Bajaj has built a distinctly diversified business model, thereby becoming a one-stop shop for all the financial needs of a customer. A strong customer acquisition engine and proven track record of successfully leveraging its existing customer base via cross-selling sets Bajaj apart from other retail financiers. We believe that its diversified product portfolio, combined with its extensive customer base, cross-selling focus and conservative policy in maintaining capital adequacy positions will aid the company to grow at significantly higher rates than the industry. It is focused on continuous innovation to transform customer experience, create sustainable and profitable growth opportunities and deliver a sustainable RoA and RoE in the long term.

For 9MFY24, Bajaj has delivered RoA of 6.0% and RoE of 20.6% and for FY23, it has delivered RoA of 5.4% and RoE of 22.0%. For FY24, we expect Bajaj to report RoA of 5.0% and thereby RoE of 20.6%.

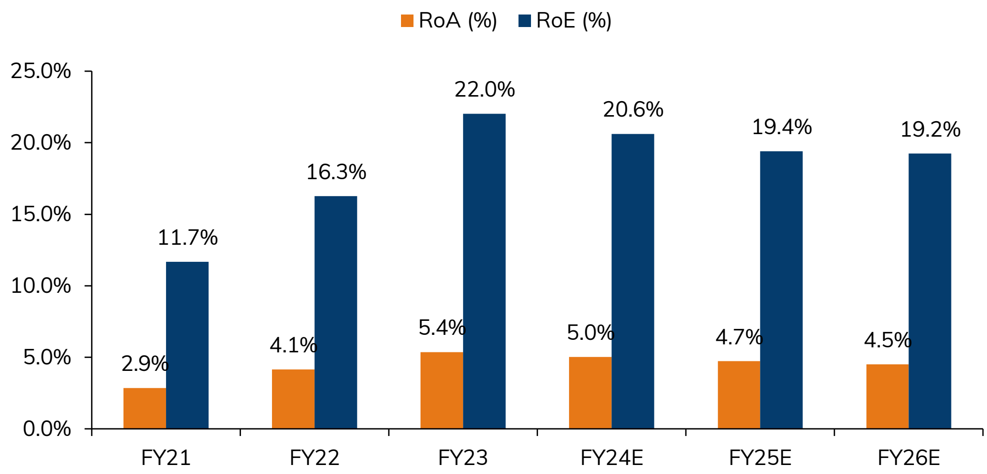
However, we expect normalisation in other income going ahead, especially in recovery from bad debts which was exceptionally high at 60bps of assets in FY22 and FY23 vs. its pre-covid run-rate of 10bps. Apart from this, we see some moderation in margins and credit cost, while operating leverage shall partially offset headwinds towards margin and credit cost. Overall, we expect Bajaj's RoA to likely settle in a steady-state range of 4.5%–4.7% for FY25E as well as FY26E. This will translate into RoE of 19.4%/19.2% for FY25E / FY26E. We thereby believe that, standalone, Bajaj can trade at a multiple of >5x FY26E ABV. This leads to a target price of INR 8,500, after adding INR 830 towards subsidiaries, implying ~18% upside from current levels.

Exhibit 80: SoTP valuation suggests TP of INR 8,500 implying ~18% upside

SoTP	FY26E NW (INR bn)	Multiple (x)	Value (INR bn)	Value per share (INR)
Bajaj Finance (standalone)	912	5	4,739	7,670
Bajaj Housing (100% subsidiary)	172	3	515	830
SoTP				**8,500**

Source: Company data, I-Sec research

Exhibit 81: RoA to settle above 4.5% despite moderation in other income due to partial offset by operating leverage



Source: Company data, I-Sec research

Regulatory tightening – a temporary setback

Bajaj has faced headwinds recently as RBI took tightening measures with respect to: 1) increasing risk weights for personal loans; 2) banning issuance of loans through e-commerce and Insta EMI card; and 3) allowing only a one-year extension for co-branded cards with RBL.

However, we believe that the given actions, albeit a move towards better compliance and processes, are few minor setbacks and would not have a significant bearing on the performance of the company. Notably, none of the RBI actions were punitive in nature and the company has already been taking steps towards the RBI's directive and has expressed its willingness to comply.

Exhibit 82: Regulatory actions affecting Bajaj

Date	Action	Details	Impact and corrective measures	Link
Nov-23	Tightening norms for consumer loans amid rise in unsecured lending	i) RBI asked institutions to **increase risk weights with respect to consumer credit exposure of commercial banks by 25 per cent to 125 per cent** ii) Consumer credit here includes - personal loans and unsecured business loans - but excludes - housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery and microfinance/SHG loans. iii) Credit card receivables of scheduled commercial banks, which attract a risk weight of 125 per cent, has been hiked to 150 per cent while NBFCs' risk weights have been hiked by 25 per cent to 125 per cent. iv) All top-up loans extended against movable assets which are depreciating in nature, to be treated as unsecured loans for credit appraisal.	(i) Post the directive, the company saw a 290bps impact on its CRAR which stood at 23.9% as of December 31, 2023. (ii) With risk weights increased, the company is unlikely to see any impact on the growth. (iii) While the rise in risk weights led to increased incremental cost of borrowing, the company passed this on to the customers with 20-30bps increase in lending rates across all products.	Link
Nov-23	Ban on issuance of loans through e-Commerce and Insta-EMI card	i) Non-compliance with digital lending guidelines, particularly the **non-issuance of Key Fact Statements (KFS)** to the borrowers ii) Existing loans under the eCOM and Insta EMI Card products will continue to be serviced as per the original terms and conditions. While new customers will not be able to avail loans under these products, existing customers will not be affected.	(i) Limited financial impact. Loans booked under e-com and instant EMI constituted only 7-8% of the overall loans booked in Q3FY24. (ii) The company sent KFS to its entire active customer base. (iii) Further, it conducted comprehensive review of digital lending guidelines and KFS and is now pending with two areas – digital signature and vernacular in 20 different languages, post which it will be fully compliant. The company plans to file for compliance in the near term.	Link
Dec-23	Concerns over regulatory compliance and deficiencies in RBL Bank and Bajaj Finserv co-branded cards	**(iv) RBI granted one-year extension to the partnership against 2-years sought by Bajaj.**		Link

Conversion to bank? We posit possible implications

We have worked out a hypothetical scenario on what could be the impact on Bajaj's profitability, should it choose to convert into a bank. From a statutory requirement perspective, Bajaj would need to comply with CRR, SLR and PSL requirements upon conversion. Based on our analysis of the same, we believe that RoA impact (pre-tax) could be to the extent of 50bps to comply with statutory requirements. However, in case of the latest merger of non-bank with bank, RBI has given a moratorium period of three years for complying with the PSL requirements; hence, we expect something similar could happen with Bajaj in case of a conversion.

Exhibit 83: CRR, SLR and PSL could cumulatively have an impact of ~50bp on RoA

Particulars	% of assets
CRR impact	0.2
SLR impact	0.1
PSL impact	0.2
Total regulatory impact	**0.5**

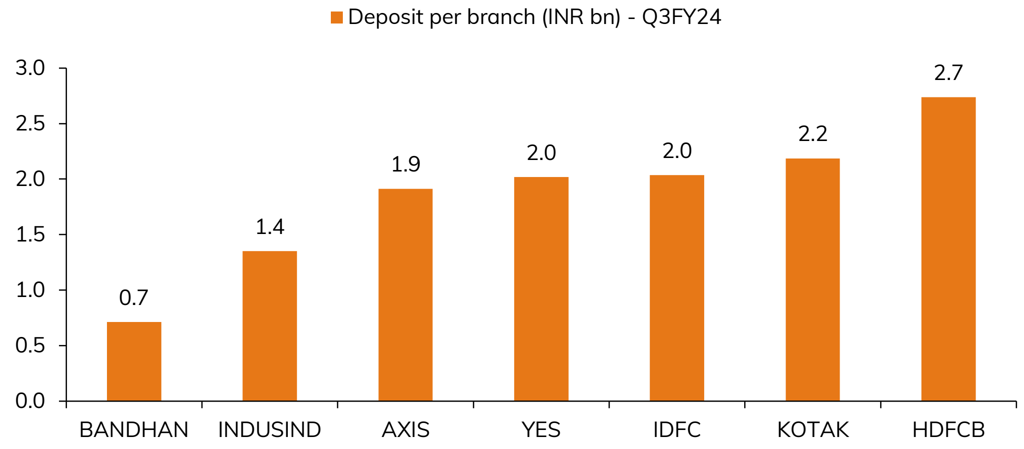
Source: Company data, I-Sec research

Note: We have assumed certain parameters for the above calculation as follows:
1) *CRR negative carry at ~15%*
2) *SLR negative carry at ~10%*
3) *Rural sales finance and Rural B2C loans considered to be PSL compliant*
4) *Gradual funding cost benefit assumed at 1% on conversion to bank*

The above analysis is based on various assumptions, but it gives a basic sense of what could be the potential challenge area for the company, which it could work upon, if there is a case of conversion to bank, sometime in future.

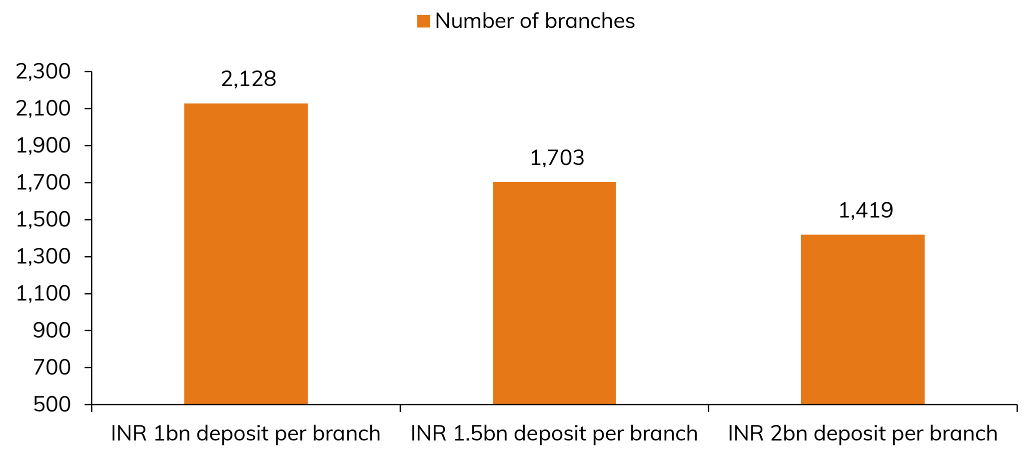
On opex front, on an average, mid-sized private banks have deposits per branch in the range of INR 1-1.5bn. Hence, considering similar run-rate of deposits per branch for Bajaj once they mature, it would need to setup around 1,400-2,100 branches initially, which could require an investment of ~INR 14-21bn, if we consider branch set-up cost of INR10mn per branch. This should take care of its borrowings (to be converted to deposits at a later stage), which is currently ~ INR 2.1trn at the consolidated level.

Exhibit 84: Deposit per branch varying from ~INR 1-1.5bn per branch to as high as ~INR 2-2.5bn for large well established banks



Source: Company data, I-Sec research,

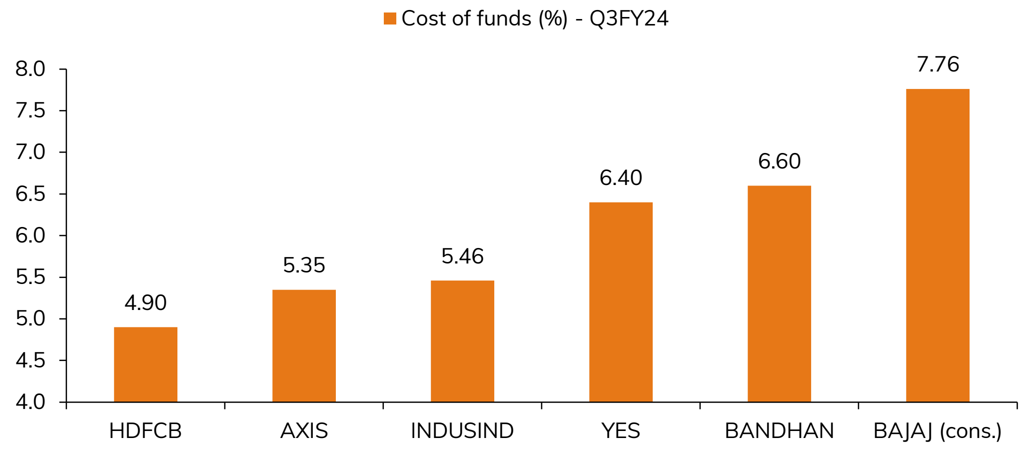
Exhibit 85: To replace its existing non deposit borrowings with deposits, Bajaj would need to deploy ~1,500-2,000 branches considering per branch deposit run-rate of INR 1-1.5bn



Source: Company data, I-Sec research,

Bajaj's reported consolidated cost of funds for Q3FY24 was 7.76%, which is significantly higher than most of the large and mid-size private sector banks. Hence, Bajaj could also benefit a little on the funding cost front, but only after the heavy lifting of initial branch opex.

Exhibit 86: Cost of funds could fall gradually for Bajaj in case of conversion to bank



Source: Company data, I-Sec research,

Key risks

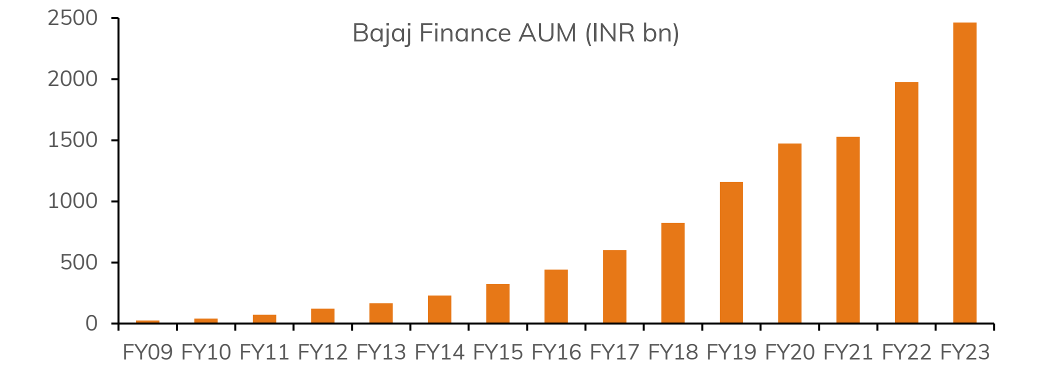
- Prolonged regulatory challenges with respect to consumer lending, e-commerce/EMI cards and co-branded cards may adversely impact its business and financial performance.
- In case of conversion to bank, the company's profitability might be impacted whilst meeting CRR, SLR and PSL requirements.
- RBI has granted an extension until 21 Dec'24, while Bajaj had sought a longer extension for its credit card ties with RBL Bank. Hence, if the extension does not go through, then distribution fee income for RBL could see a sizeable decline.
- The company has grown rapidly in the past and its ability to sustain the growth rate and financial performance will be a key monitorable.
- Inability to attract and retain relationships with the distribution channels and customers, impacting the overall growth targets of the company.

Peer benchmarking: How Bajaj compares

First acquires customer and then engages cross-sell: Key to success vs. peers

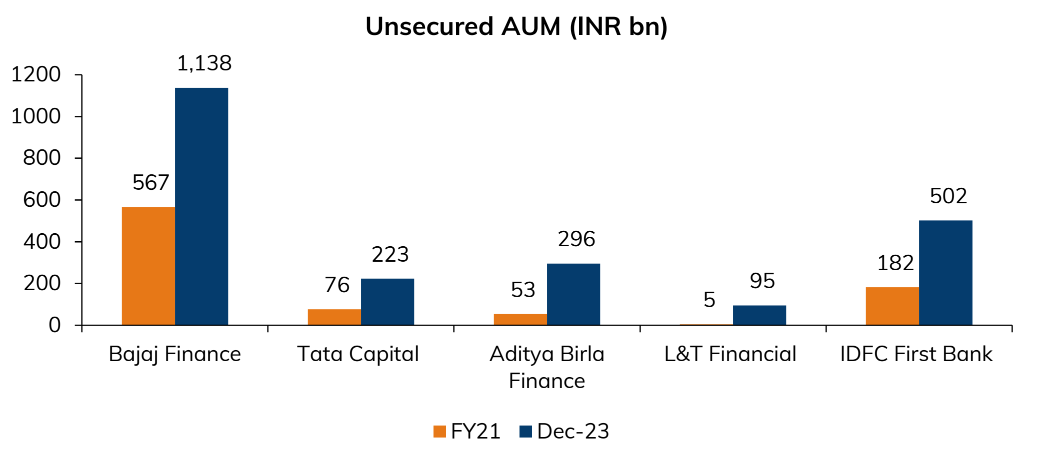
We note that a few players have entered this high yielding unsecured lending business and tried to create a space for themselves, but most have failed to scale. Bajaj succeeded. Its unique customer acquisition strategy, cross-selling to the existing customer base and coming up with new products to suit customer needs has been the key differentiator that has helped the company build its success story. Bajaj has grown its unsecured AUM at a CAGR of 30% over FY21-9MFY24.

Exhibit 87: Phenomenal AUM growth over the years



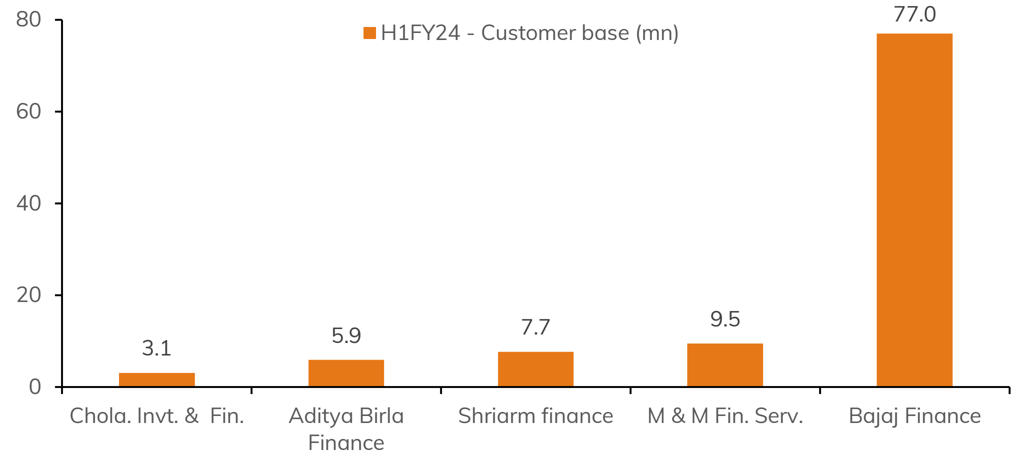
Source: Company data, I-Sec research

Exhibit 88: Bajaj's unsecured AUM base much higher vs. peers



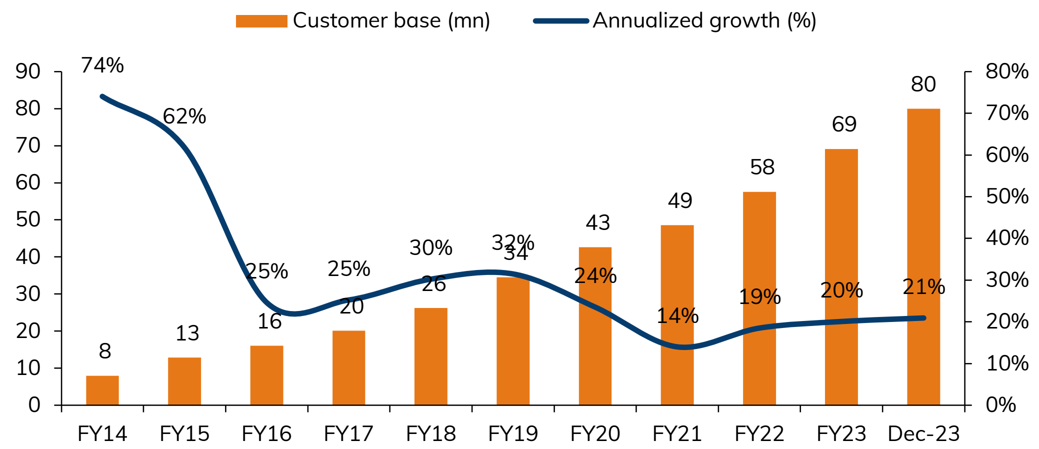
Source: Company data, I-Sec research

Exhibit 89: Way ahead of peers in customer base and this is moving up steadily



Source: Company data, I-Sec research

Exhibit 90: Customer base now ~10x of what it was in FY14



Source: Company data, I-Sec research

Moreover, apart from unsecured, Bajaj has also expanded its foray into low-yielding and less risky mortgage. This helps it balance asset quality in challenging times, and has clearly worked in Bajaj's favour in times of adversity like covid etc.

Exhibit 91: Advance mix of peers – as of Sep'23

	Bajaj Finance Limited	Tata Capital Financial Services Limited	Shriram Finance Limited	Cholamandalam Investment and Finance Company Limited	Aditya Birla Finance Limited	Mahindra & Mahindra Financial Services Limited
SME lending	13%	N.A.	11%	3%	10%	5%
Consumer lending	8%	N.A.	-	7%	21%	-
Commercial lending	7%	N.A.	-	1%	-	-
Rural lending	9%	N.A.	-	-	-	-
Mortgages	31%	N.A.	-	29%	-	-
Retail lending	20%	N.A.	4%	-	-	-
Corporate lending	-	N.A.	-	-	31%	-
Vehicle loans	6%	N.A.	82%	60%	-	88%
Others	6%	N.A.	3%	-	39%	7%

Note: N.A – Not Available; Mahindra & Mahindra Financial Services Limited is on standalone basis

Source: CRISIL MI&A

Robust business model likely to help Bajaj flourish despite intensifying competition

Going forwards, more players in the consumer-facing businesses with a repository of data (such as payment service providers and e-commerce companies) are expected to test the waters in the lending businesses (particularly lending via digital mode) and thereby intensify competition.

Incumbent traditional lenders are also expected to widen their scope via leveraging the networks of their partners and/or the digital ecosystem to cross-sell products to existing customers, tap into customers of other lenders, and also cater to new-to-credit customers.

However, we believe, Bajaj's consistent track record of delivering growth and strong financial performance across business and economic cycles is evidence of a robust business model that is built on its diversified loan book, sustainable business practices, prudent risk management and resilience. We view this as a differentiating factor that will aid the company to continue growing in a profitable manner. Bajaj has seen continuous transformation in product features and adoption of digital technologies to maintain its competitive edge. Bajaj's diversified lending profile coupled with its customer centric model and focus on cross-sell has helped them to achieve an optimal balance of risk and profitability to deliver a sustainable business.

Exhibit 92: The pedigree of the 'Bajaj' brand: widely recognised as a trusted retail brand and has strong brand equity

	AUM (INR bn - FY23)	AUM CAGR (FY19-FY23)	Deposits (INR bn - FY23)	Deposits CAGR (FY19-FY23)	Disbursements (INR bn - FY23)	PAT (INR bn - FY23)	PAT CAGR (FY19-FY23)	Shareholder Equity (INR bn - FY23)
Bajaj Finance Limited	2,474	21%	447	36%	2,724	115	30%	544
Tata Capital Financial Services Limited	719	12%	N.A	N.A	513	14	34%	103
Shriram Finance Limited	1,857	15%	361	37%	1,118	60	24%	435
Cholamandalam Investment and Finance Company Limited	1,065	18%	N.A	N.A	665	27	22%	143
Aditya Birla Finance Limited	806	12%	N.A	N.A	492	16	17%	114
Mahindra & Mahindra Financial Services Limited	996	10%	55	-1%	495	21	3%	187

Note: N.A – Not Applicable

Source: CRISIL MI&A

Bajaj has successfully navigated challenging credit cycles (demonetisation, GST, liquidity crisis, covid) over the years and maintained its profitability, which illustrates its resilient business model. The company aims to consolidate its position as a leading payments and financial services company in India and remain resilient and adaptive to changing technology. Its focus on targeted offerings for customers, operational efficiency and strong asset quality management has enabled the company to deliver profitable growth, as shown below:

Exhibit 93: Profitability parameters – FY23

	Yield on advances (%)	NIMs (%)	Non-interest income (%)	Cost of funds (%)	Opex (%)	Credit cost (%)	ROAA (%)	ROAE (%)	Leverage (times)
Bajaj Finance Limited	16.0	9.4	0.6	6.6	4.2	1.3	4.7	23.5	3.2
Tata Capital Financial Services Limited	11.5	5.1	0.7	6.2	2.6	0.7	2.0	15.3	7.0
Shriram Finance Limited	19.0	9.2	0.6	9.3	2.9	2.4	3.4	17.3	2.9
Cholamandalam Investment and Finance Company Limited	13.2	6.5	0.3	6.9	3.0	0.9	2.7	20.4	6.8
Aditya Birla Finance Limited	11.5	5.6	0.1	6.6	2.0	1.3	2.2	14.6	6.2
Mahindra & Mahindra Financial Services Limited	14.5	7.3	0.7	7.1	4.0	1.3	2.2	11.6	4.1

Source: CRISIL MI&A

Exhibit 94: Capitalisation and asset quality – H1FY24

	Capital adequacy ratio	Provision Coverage Ratio	Tier-1 capital	Gross NPA ratio	Net NPA ratio
Bajaj Finance Limited	23.2%	65.9%	21.9%	0.9%	0.3%
Tata Capital Financial Services Limited	NA	78.9%	NA	1.9%	0.4%
Shriram Finance Limited	22.2%	51.6%	21.1%	5.8%	2.8%
Cholamandalam Investment and Finance Company Limited	16.6%	47.3%	14.6%	4.1%	2.6%
Aditya Birla Finance Limited	16.3%	47.7%	13.8%	2.6%	1.4%
Mahindra & Mahindra Financial Services Limited	18.7%	60.5%	16.7%	4.3%	1.7%

Note: NA: Not Available

Source: CRISIL MI&A

We believe that, in addition to the company's diversified sources of borrowings, its disciplined ALM and liquidity risk management framework has enabled it to overcome severe market liquidity crisis and volatile interest rates in previous years and recent challenges posed by the pandemic and inflationary trends.

Exhibit 95: Funding mix of players – H1FY24

Players	Bonds/ NCDs	Loans from banks and FIs	Deposits	Commercial paper	ECBs	Others
Bajaj Finance Limited	33%	32%	21%	12%	1%	1%
Tata Capital Financial Services Limited	N.A	N.A	N.A	N.A	N.A	N.A
Shriram Finance Limited	24%	26%	25%	1%	7%	18%
Cholamandalam Investment and Finance Company Limited	14%	54%	N.A	7%	3%	22%
Aditya Birla Finance Limited	25%	53%	N.A	9%	3%	10%
Mahindra & Mahindra Financial Services Limited	30%	45%	7%	9%^	3%	6%

Note: (*) Funding mix is on a Standalone basis, (^) Commercial Paper includes intercorporate deposits and Treasury Bills Repurchase, N.A: Not Applicable

Source: Company Reports, CRISIL MI&A

Strong distribution reach enabling it to expand customer base rapidly

Its omni-channel network, strong geographic presence and distribution reach enables it to acquire a large volume of customers every year. They have served a total of 80.4mn customers as at 31 Dec'23. In FY23, FY22 and FY21, Bajaj added 11.mn, 9mn and 6mn new customers, respectively, growing its total customer franchise from 48.6mn as at FY21-end to 80.4mn as at December 31, 2023.

Exhibit 96: Peers' distribution footprint – FY23 and H1FY24

	States and UTs		Customers		Branches	
	FY23	H1FY24	FY23	H1FY24	FY23	H1FY24
Bajaj Finance Limited	34	34	69.10 mn	77.00 mn	3,733*	3,934*
Tata Capital Financial Services Limited	N.A	N.A	N.A	N.A	N.A	N.A
Shriram Finance Limited	30	30	7.32 mn	7.71 mn	2,922	2,975
Cholamandalam Investment and Finance Company Limited	34	34	2.50 mn	3.09 mn	1,191	1,267
Aditya Birla Finance Limited	25	N.A	5.70 mn	5.90 mn	323	375
Mahindra & Mahindra Financial Services Limited	34	34	9.00 mn	9.50 mn	1,386	1,368

Note: N.A – Not Available (*) Indicates locations

Source: CRISIL MI&A

Adopting new technologies and staying apace in the digital world

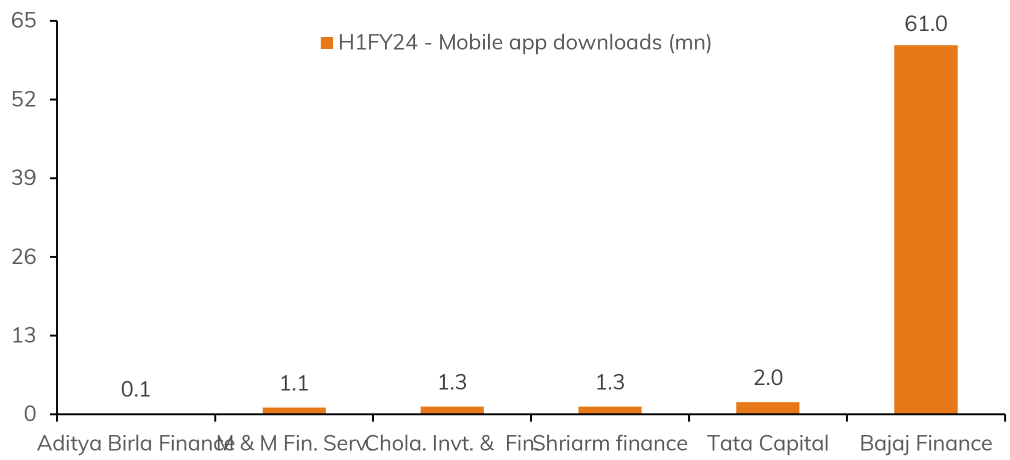
We believe that data, analytics and technology are core enabling drivers of its transformational journey. Bajaj builds and deploy analytical models across functions such as cross-sell, customer acquisition, propensity management, risk management, debt management, and customer service.

Customer insights, advanced analytics and investment in upcoming technologies seem to have enabled the company to offer more personalised loan products and services on its digital platforms, which helps it get more eye balls from its customers.

Over the last few years, Bajaj moved from 'Physical' to 'Phygital' model in a seamless manner, with it being one of the early adopters of digitization. Now, the company has embarked upon its journey to become completely 'Digital'. As part of its business transformation strategy, Bajaj adopted the *'Omni-channel Framework'*. While the given model started in 2019/20 and had a four-year timeline, with the onset of pandemic, the company seized the opportunity to transition to digital platforms and expedited the transformation process.

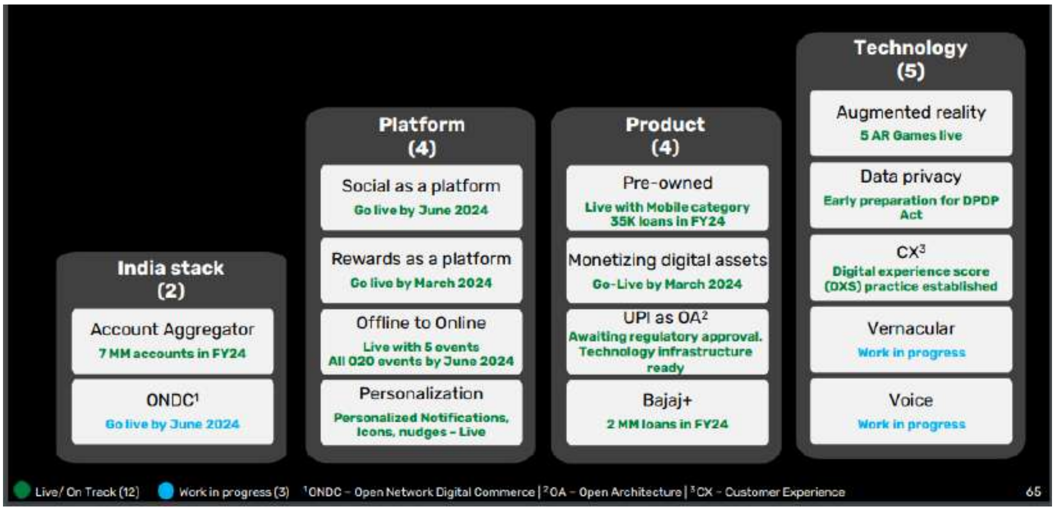
Omni-channel strategy will simply allow the customer to move between offline and online and vice-versa in a frictionless manner. This has six domains: 1) Geographical expansion. 2) Bajaj Finserv app. 3) Bajaj Finserv website. 4) Payments. 5) Productivity apps. 6) Customer data platform.

Exhibit 97: Digitisation speaks for Bajaj – highest mobile app downloads vs. peers



Source: Company data, I-Sec research

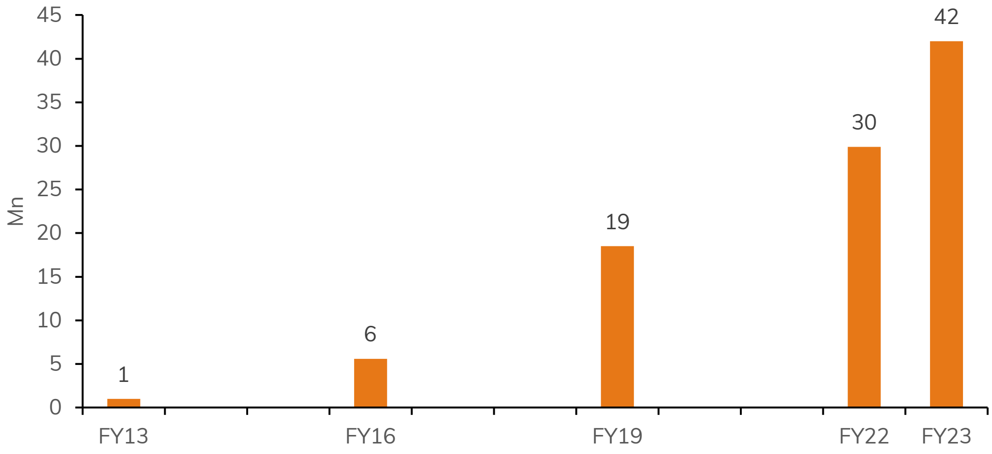
Exhibit 98: 2023-27 megatrends update – good progress on 12 megatrends and 3 are work in progress



Source: Company data, I-Sec research

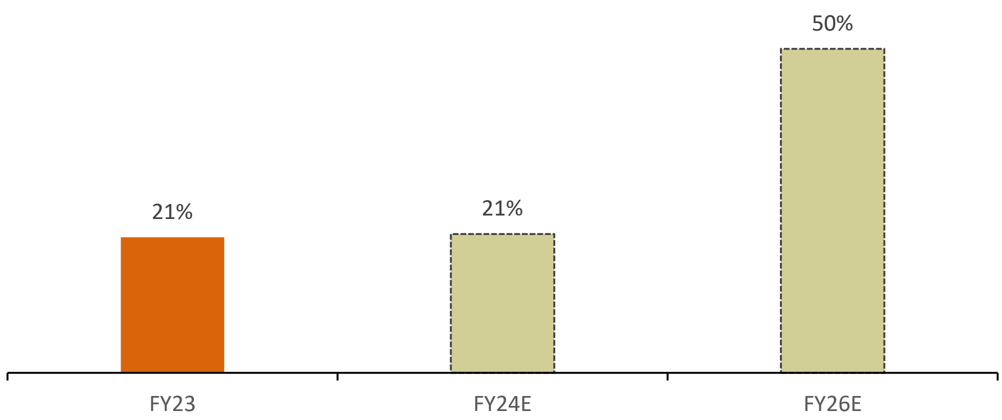
Its EMI card franchise facilitates Bajaj's existing customers to avail incremental loans based on their past repayment track record, and as at 30 Sep'23 its EMI Card franchise comprised 41.9mn cards in force. EMI Card makes it easy for holders to obtain new loans and helps reduce loan origination costs. Existing customers contributed to 59.8%/60.9%/63.5%/64.6% of new loans booked by volume for H1FY24/FY23/FY22/FY21.

Exhibit 99: EMI cards in force increased 42x in last 10 years



Source: Company data, I-Sec research

Exhibit 100: Management expects 50% customer acquisition via digital medium by FY26 vs. 21% in FY23



Source: Company data, I-Sec research

Key managerial personnel

Name	Designation	Background
Rajeev Jain	Managing Director	Mr Rajeev is a management graduate and has more than 30 years of experience in the consumer lending industry. He has been associated with our Company for over a decade. In his previous assignments, he has worked with Countrywide Consumer Financial Services Limited, ANZ Grindlays Bank, American Express and AIG. He has several years of experience in managing diverse consumer lending businesses viz., auto loans, durables loans, personal loans and credit cards.
Sandeep Jain	Chief Financial Officer	Mr Sandeep joined the company in August, 2008, and was appointed as the Chief Financial Officer effective Feb'16. He holds a bachelor's degree in commerce from Nagpur University and is an associate member of the Institute of Chartered Accountants of India. Prior to joining the company, he was associated with Bajaj Auto Limited as Assistant Manager (Internal Audit). He has an experience of 17 years in the area of finance.
Fakhari Sarjan	Chief Risk Officer	Mr Fakhari is responsible for managing risk, risk analytics and underwriting of the company. He has been associated with the company since Nov'18. He has a bachelor's degree in mechanical engineering from College of Engineering, Pune and a recognition of participation in strategic management in banking program from INSEAD. He also holds a postgraduate diploma in management from Indian Institute of Management Society, Lucknow. Previously, he has been associated with Barclaycard, Barclays Bank PLC.
Anup Saha	Deputy Managing Director	Mr Anup brings more than 28 years of diverse management experience across sales, product risk, collection, and business intelligence to deliver growth through performance and transformation of the company. He joined Bajaj in 2017 to lead its consumer finance portfolio business and currently heads the retail business lines of the company, including urban consumer durable loans, personal loans, co-branded credit cards, MSME, rural loans, FDs, insurance and payments.
Anupam Sirbhaiya	Chief Human Resources and Administrative Officer	Mr Anupam is responsible for people policies, practices and their management for all on-roll employees of the company as well as office infrastructure development, facilities management, safety and employee services that facilitate employees' serve their official duties along with all labour law related compliances. He has been associated with Bajaj Finserv group since 2016. He holds a postgraduate diploma in business management from XLRI, Jamshedpur. Previously, he has been associated with Center for Creative Leadership India as managing director.
Deepak Bagati	President – Debt Management Services	Mr Deepak is responsible for managing the Debt Management Services vertical, helping the company gain a competitive edge in the industry. He has an extensive work experience in the services industry spread across printing solutions, reprographics, rating firms, supply chain management, and lending. He joined Bajaj from Yes Bank, where he was the Zonal Head for the unsecured business. Before this, he worked with HDFC Bank, Onicra, Mahindra & Mahindra, and Modi Xerox.
Deepak Reddy	President – Rural businesses, FD & Investments, Insurance, Services and Distribution	Mr Deepak has managed multiple roles in his career span of over 27 years, which include lending businesses, sales & distribution, product management, and human resources. He has worked with American Express, Standard Chartered Bank, and Onida before joining the Bajaj Group.

Source: Company data, I-Sec research

Bajaj Housing – a low-risk sustainable business

Bajaj Housing Finance Limited (BHFL), which is a wholly-owned subsidiary of Bajaj, has been at the forefront of growth despite multiple challenges that the NBFC industry has seen in the form of the IL&FS crisis, real-estate slowdown, DHFL and the pandemic.

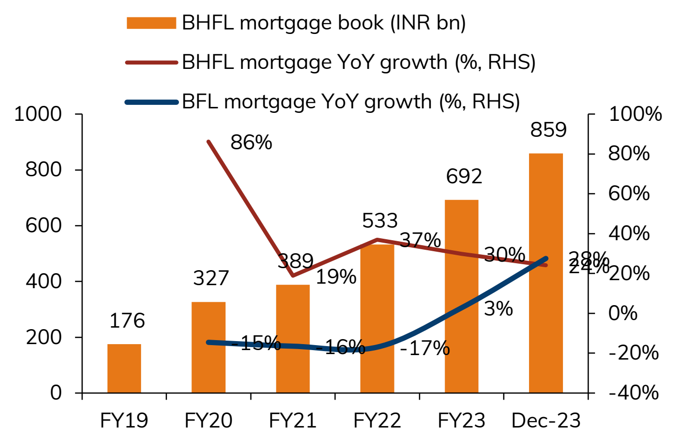
Strategic building of mortgage book since FY09 and formation of BHFL

Bajaj started with its mortgages business in FY09 with LAP and small business loans offerings; subsequently, it launched home loans in FY11/FY12 post-GFC, as there was strong revival in the housing segment during the time.

The company incorporated BHFL in FY18 as a separate entity for carrying out the mortgage business. BHFL formation was strategic as it provided: 1) low cost of borrowing benefit through NHB access; 2) opportunity to grow the mortgage business with high leverage; and 3) dedicated team for housing finance business. As part of its strategy, post-FY18, Bajaj started building its incremental mortgage book from BHFL itself. Notably, since the incorporation of BHFL, ~87% of the overall mortgage business is parked at BHFL. Bajaj continues to carry LAP to MSMEs from FY23 onwards at the standalone entity.

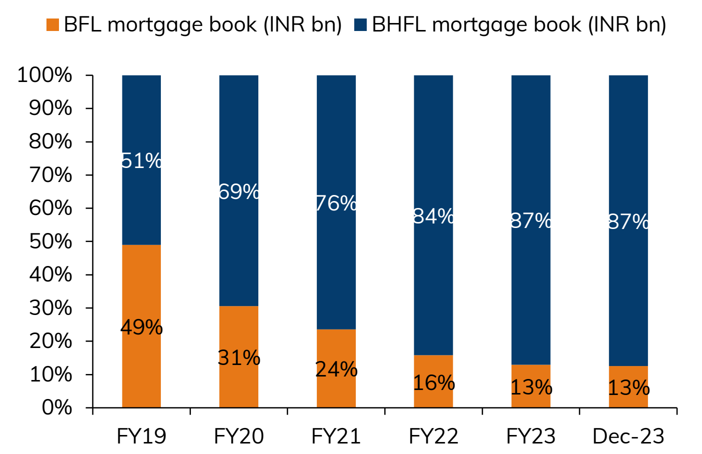
Consolidated mortgage AUM grew at 25% CAGR in FY19-9MFY24, with BHFL's book growing at a 40% CAGR during the same time period.

Exhibit 101: Robust CAGR of 40% for BHFL book in FY19-9MFY24



Source: Company data, I-Sec research

Exhibit 102: BHFL mortgage contributing 87% of the overall mortgage book



Source: Company data, I-Sec research

Diversified home-loan focussed business mix

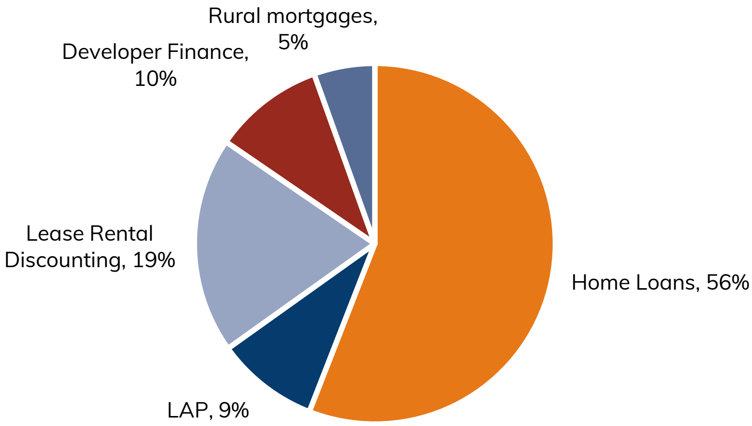
BHFL product suite is fairly diversified and comprises – home loans, LAP, lease rental discounting, developer finance and rural mortgages, spread across different customer segments and ticket sizes, thereby providing enough opportunity to grow across segments, whilst maintaining the portfolio quality. The company is also starting with affordable housing segment from Q4FY24 onwards, which will further add to the diversification as the company will also be serving the lower-ticket size segment.

Exhibit 103: BHFL product summary, as of Dec'23

Products	Target customer segment	Average ticket size	LTV	Salaried share
Home Loans	Mass affluent salaried customers with salary ranging between INR 1-2mn p.a. (avg. salary INR 1.3mn)	INR 5.1mn	70%	89%
LAP	Mass affluent SME customers	INR 7.1mn	44%	27%
Lease rental discounting	HNIs	INR 950mn	55%	
Rural Home	Rural MSMEs	INR 2.1mn	65%	
Rural LAP	Rural MSMEs	INR 1.4mn	42%	
Developer finance	Developers who have built minimum 0.75mn-1mn sq.ft. in past 7-10 years	INR 380mn		

Source: Company data, I-Sec research

Exhibit 104: Home loan constitutes 56% of the overall BHFL book

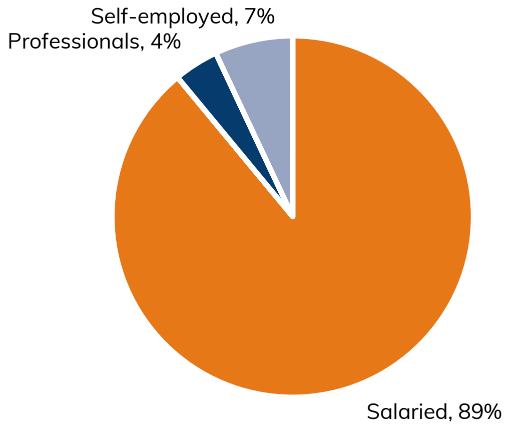


Source: Company data, I-Sec research

Low-risk business model with focus towards mass affluent salaried customers

BHFL's core strategy has been to build a low-risk sustainable balance sheet and therefore, the company has been largely focussing on mass-affluent salaried customers. The company's customer profile had an average age of 35-40 years, with average salary of INR 1-2mn p.a.

Exhibit 105: 89% of the HL portfolio came from salaried segment



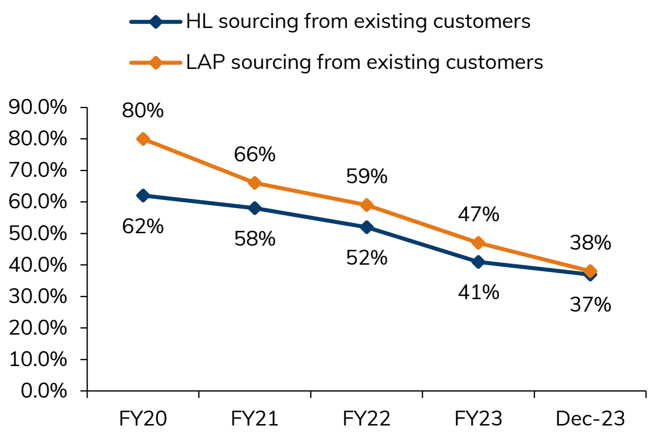
Source: Company data, I-Sec research

Direct sourcing – led by cross-sell and strong developer relations

BHFL's ability to tap into its large customer base at the parent level and establish relationships with large developers has helped it to sustainably grow over the last six years.

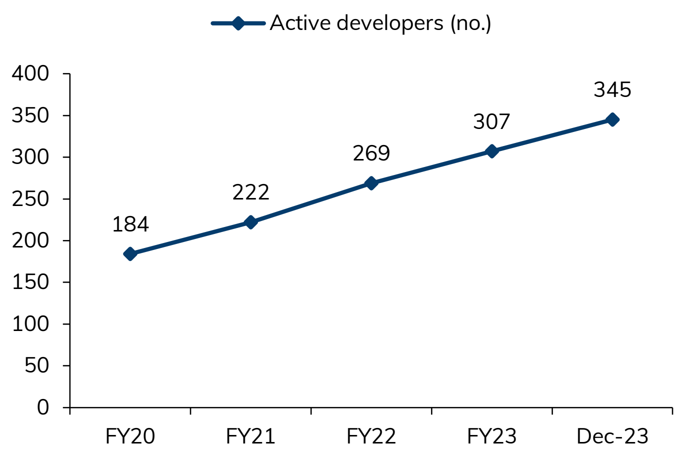
>35% of HL and LAP portfolio of BHFL came from the existing customer base of Bajaj. While the share of sourcing from existing customers has reduced over the years, the same was primarily led by increasing developer base, which helped it acquire retail customers for HL and LAP.

Exhibit 106: Leveraging cross-sell opportunities through large customer base at parent level…



Source: Company data, I-Sec research

Exhibit 107: Rising developer relations helping in higher retail acquisitions



Source: Company data, I-Sec research

Creating a niche within the HFC segment

BHFL has been one of the best performing companies amongst both large and affordable HFCs. The company's highest growth amongst peers at 40% CAGR for FY19-23, coupled with its lowest GNPAs at 0.25% reflects on its superior execution over the years. Notably, unlike its closest peers i.e. LIC Housing and PNB Housing, who also serve the prime salaried segment, the company's developer book remained unaffected, despite the real-estate slowdown, IL&FS crisis and the pandemic, indicating its strong underwriting practices in choosing the right developers.

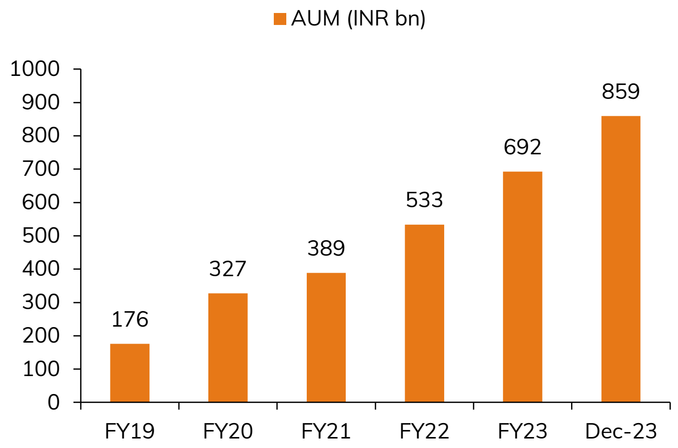
Exhibit 108: Competitive landscape

	Bajaj Housing	LIC Housing	PNB Housing	Aavas	Home First	Aptus	India Shelter
Products	➢ Home loan ➢ LAP ➢ Lease rental discounting ➢ Developer loan ➢ Rural mortgage ➢ Affordable housing	➢ Home loan ➢ LAP ➢ Developer loan	➢ Home loan ➢ LAP ➢ Affordable housing (HL+LAP) ➢ Developer loan	➢ Affordable home loan ➢ Affordable LAP	➢ Affordable home loan ➢ Affordable LAP	➢ Affordable home loan ➢ Affordable LAP ➢ Business loan	➢ Affordable home loan ➢ Affordable LAP
Primary customer segment	Mass affluent/ prime salaried	Prime salaried	Prime salaried	Self-employed	Salaried	Self-employed	Self-employed
Average ticket size	➢ HL - INR 5.1mn ➢ LAP – INR 7.1mn	INR 2.8mn	➢ HL - INR 2.9mn ➢ Non-HL – INR 3.1mn	➢ HL - INR 0.95mn ➢ Non-HL – INR 0.75mn	INR 1.14mn	INR 0.9mn	INR 1.0mn
AUM as of Dec'23 (INR bn)	859	2,812	685	160	90	84	56
AUM CAGR (FY19-23)	40%	9%	-6%	24%	31%	32%	39%
GNPA as of Dec'23 (%)	0.25%	4.26%	1.73%	1.09%	1.7%	1.19%	1.20%

Source: Company data, I-Sec research

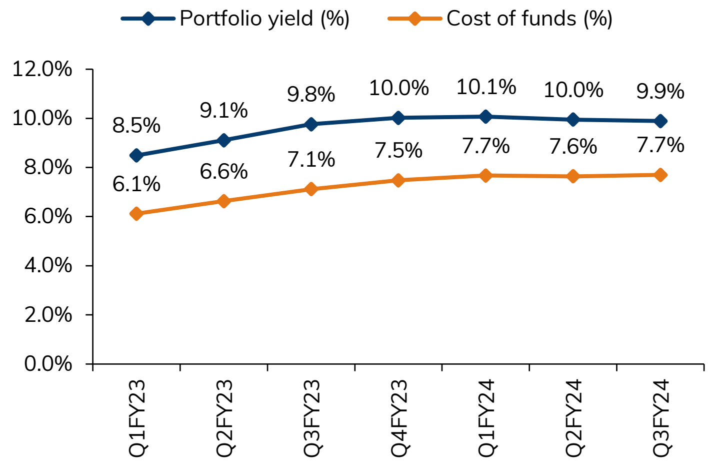
Steady performance across parameters…

Exhibit 109: AUM grew at a 40% CAGR in FY19-23



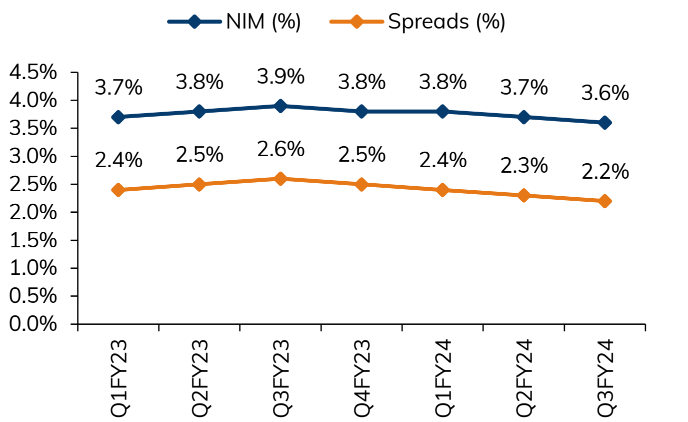
Source: Company data, I-Sec research

Exhibit 110: Portfolio yield up by 140bps and cost of borrowing up by 160bps since increasing rate cycle



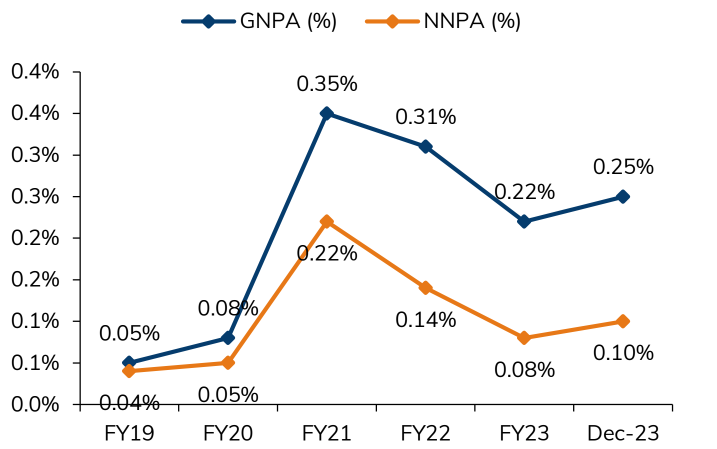
Source: Company data, I-Sec research

Exhibit 111: Spreads marginally declined by ~20bps from recent highs



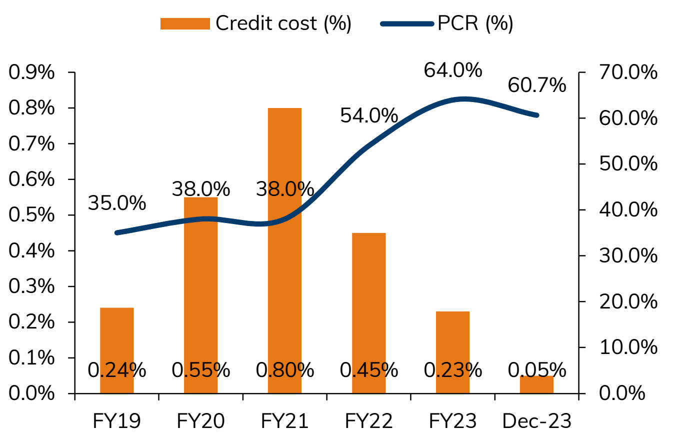
Source: Company data, I-Sec research

Exhibit 112: GNPAs consistently at <0.5% despite the pandemic



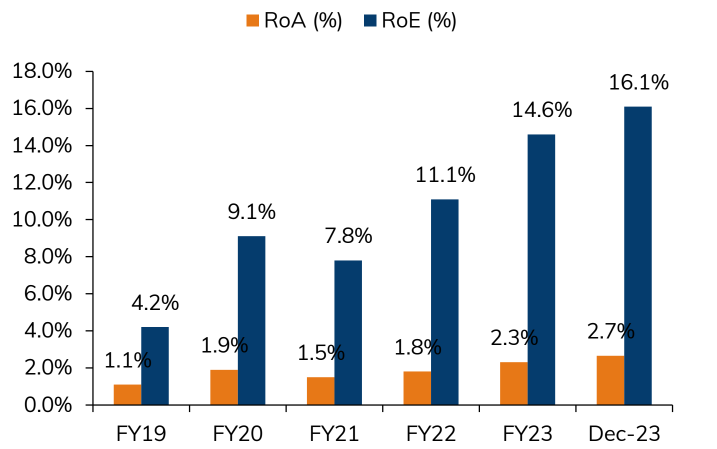
Source: Company data, I-Sec research

Exhibit 113: Credit cost remained less than <1% despite PCR of ~60%



Source: Company data, I-Sec research

Exhibit 114: Improving earnings trajectory with annualised RoE crossing 16% in 9MFY24



Source: Company data, I-Sec research

Exhibit 115: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	55.9	55.9	54.8
Institutional investors	33.0	33.6	34.9
MFs and others	9.2	9.1	9.8
FIs/Banks	0.9	0.9	0.9
Insurance	2.6	2.9	2.9
FIIs	20.3	20.7	21.3
Others	11.1	10.5	10.3

Source: Bloomberg

Exhibit 116: Price chart

Source: Bloomberg

Financial Summary (Standalone)

Exhibit 117: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Interest Income	2,94,719	4,05,276	5,19,058	6,40,178
Net gain on fair value changes	2,079	8,600	11,253	14,109
Interest Expenses	(92,852)	(1,36,373)	(1,80,493)	(2,30,328)
Net Interest Income (NII)	**2,01,866**	**2,68,904**	**3,38,565**	**4,09,850**
Other Income	62,155	62,741	69,433	80,434
Total Income (net of interest expenses)	**2,64,021**	**3,31,644**	**4,07,998**	**4,90,285**
Employee benefit expenses	(45,637)	(61,692)	(79,125)	(95,234)
Depreciation and amortization	(4,438)	(5,375)	(7,033)	(8,818)
Fee and commission expenses	(19,344)	(18,728)	(24,506)	(30,724)
Other operating expenses	(25,021)	(29,702)	(35,922)	(42,700)
Total Operating Expense	**(94,440)**	**(1,15,497)**	**(1,46,586)**	**(1,77,476)**
Pre Provisioning Profits (PPoP)	**1,69,581**	**2,16,147**	**2,61,411**	**3,12,809**
Provisions and write offs	(30,665)	(45,472)	(58,307)	(75,439)
Profit before tax (PBT)	**1,38,916**	**1,70,676**	**2,03,105**	**2,37,370**
Total tax expenses	(35,918)	(44,376)	(52,807)	(61,716)
Profit after tax (PAT)	**1,02,998**	**1,26,300**	**1,50,297**	**1,75,653**

Source Company data, I-Sec research

Exhibit 118: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Share capital	1,209	1,235	1,235	1,235
Reserves & surplus	5,13,722	7,09,095	8,36,902	9,86,275
Shareholders' funds	**5,14,931**	**7,10,330**	**8,38,137**	**9,87,510**
Borrowings	16,16,846	21,08,036	26,27,927	32,61,113
Provisions & Other Liabilities	33,470	36,817	40,499	44,548
Total Liabilities and Stakeholder's Equity	**21,65,248**	**28,55,183**	**35,06,563**	**42,93,172**
Cash and balance with RBI	33,195	50,334	47,553	49,496
Fixed assets	22,264	27,831	30,614	33,675
Loans	**17,90,971**	**24,61,484**	**30,97,653**	**38,65,187**
Investments	2,87,379	2,77,155	2,88,526	2,98,375
Deferred tax assets (net)	9,190	10,569	11,625	12,788
Other Assets	22,249	27,811	30,592	33,651
Total Assets	**21,65,248**	**28,55,183**	**35,06,563**	**42,93,172**

Source Company data, I-Sec research

Exhibit 119: Key Ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	18,09,990	24,90,024	31,36,626	39,17,677
Growth (%):				
Total AUM (%)	23.3	37.6	26.0	24.9
Loan book (on balance sheet) (%)	23.3	37.6	26.0	24.9
Total Assets (%)	28.9	31.9	22.8	22.4
Net Interest Income (NII) (%)	28.0	33.2	25.9	21.1
Non-interest income (%)	40.9	(9.9)	7.5	14.0
Total Income (net of interest expenses) (%)	30.1	25.6	23.0	20.2
Operating Expenses (%)	33.2	22.3	26.9	21.1
Employee Cost (%)	41.6	35.2	28.3	20.4
Non-Employee Cost (%)	43.2	18.7	20.9	18.9
Pre provisioning operating profits (PPoP) (%)	28.4	27.5	20.9	19.7
Provisions (%)	(33.7)	48.3	28.2	29.4
PBT (%)	61.9	22.9	19.0	16.9
PAT (%)	62.3	22.6	19.0	16.9
EPS (%)	62.0	20.0	19.0	16.9
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	12.5	12.6	12.2	11.8
NIM on IEA (%)	12.1	12.3	11.8	11.5
NIM on AUM (%)	12.3	12.5	12.0	11.6
Yield on loan assets (%)	18.2	19.1	18.7	18.4
Yield on IEA (%)	17.6	18.5	18.1	17.9
Yield on AUM (%)	18.0	18.9	18.5	18.1
Cost of borrowings (%)	6.5	7.3	7.6	7.8
Interest Spreads (%)	11.7	11.7	11.1	10.6
Operating efficiencies				
Non interest income as % of total income	56.6	57.5	57.5	56.9
Cost to income ratio	35.8	34.8	35.9	36.2
Op.costs/avg assets (%)	4.9	4.6	4.6	4.6
Op.costs/avg AUM (%)	5.8	5.4	5.2	5.0
No of employees (estimate) (x)	40,369	48,292	55,302	62,794
No of branches (x)	3,733	4,209	4,611	5,008
Salaries as % of non-interest costs (%)	48.3	53.4	54.0	53.7
NII /employee (INR mn)	5.0	5.6	6.1	6.5
AUM/employee(INR mn)	44.8	51.6	56.7	62.4
AUM/ branch (INR mn)	484.9	591.5	680.3	782.3
Capital Structure				
Average gearing ratio (x)	3.1	3.0	3.1	3.3
Leverage (x)	4.2	4.0	4.2	4.3
CAR (%)	25.0	24.8	24.0	23.2
Tier 1 CAR (%)	23.2	24.8	24.0	23.2
RWA (estimate) - INR mn	19,88,901	26,79,749	32,73,573	39,86,451
RWA as a % of loan assets	111.1	108.9	105.7	103.1

	FY23A	FY24E	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.3	1.3	1.4
NNPA (%)	0.4	0.4	0.4	0.4
GNPA (INR mn)	21,755	31,187	40,870	53,027
NNPA (INR mn)	7,866	10,965	13,961	17,583
Coverage ratio (%)	63.8	64.8	65.8	66.8
Credit Costs as a % of avg AUM (bps)	187	211	207	214
Credit Costs as a % of avg on book loans (bps)	187	211	207	214
Return ratios				
RoAA (%)	5.4	5.0	4.7	4.5
RoAE (%)	22.0	20.6	19.4	19.2
ROAAUM (%)	6.3	5.9	5.3	5.0
Valuation Ratios				
No of shares	604	618	618	618
No of shares (fully diluted)	604	618	618	618
ESOP Outstanding	-	-	-	-
EPS (INR)	170.4	204.5	243.3	284.4
EPS fully diluted (INR)	170.4	204.5	243.3	284.4
Price to Earnings (x)	42.1	35.1	29.5	25.2
Price to Earnings (fully diluted) (x)	42.1	35.1	29.5	25.2
Book Value (fully diluted)	852	1,150	1,357	1,599
Adjusted book value	842	1,137	1,340	1,577
Price to Book	8.4	6.2	5.3	4.5
Price to Adjusted Book	8.5	6.3	5.4	4.5

Source Company data, I-Sec research

Exhibit 120: Key Metrics

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	19,22,704	25,10,215	31,80,873	38,99,867
Average Loans (INR mn)	16,16,867	21,26,228	27,79,568	34,81,420
Average Equity (INR mn)	4,67,745	6,12,631	7,74,233	9,12,824
Interest earned (%)	15.3	16.1	16.3	16.4
Net gain on fair value changes (%)	0.1	0.3	0.4	0.4
Interest expended (%)	4.8	5.4	5.7	5.9
Gross Interest Spread (%)	**10.5**	**10.7**	**10.6**	**10.5**
Credit cost (%)	1.6	1.8	1.8	1.9
Net Interest Spread (%)	**8.9**	**8.9**	**8.8**	**8.6**
Operating cost (%)	3.9	3.9	3.8	3.8
Lending spread (%)	**5.0**	**5.0**	**5.0**	**4.8**
Non interest income (%)	3.1	2.2	1.8	1.7
Operating Spread (%)	**8.1**	**7.2**	**6.8**	**6.5**
Tax rate (%)	25.9	26.0	26.0	26.0
ROAA (%)	**5.4**	**5.0**	**4.7**	**4.5**
Effective leverage (AA/ AE)	4.1	4.1	4.1	4.3
RoAE (%)	**22.0**	**20.6**	**19.4**	**19.2**

Source Company data, I-Sec research

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