

Bajaj Finance: In the money

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Healthy loan growth momentum is expected to sustain

A few companies in the financial services space have turned multi-baggers in the last couple of years, thanks to their consistent and strong growth in earnings, backed by sound fundamentals. The stock price of Bajaj Finance has gone up over eight-fold over the last three years. A diversified non-banking finance company (NBFC), with focus on consumer, SME and commercial lending, Bajaj Finance has emerged a leader in most of its key segments.

The organisational restructuring it underwent in 2007, when it re-defined its core focus as consumer loans and small business financing, has paid off well. The company's assets under management (AUM) and earnings have grown by a robust 50 per cent and 68 per cent annually respectively, between 2008-09 and 2015-16.

The stock has re-rated sharply in the last two to three years, now trading at 5.7 times its one-year forward book from about three times last year.

Since our 'buy' call last November, the stock has doubled. While the sharp run-up may limit near-term upside, the company's long-term prospects remain sanguine. The stock's premium valuations are likely to hold up, thanks to the company's strong growth momentum, robust profitability, and good asset quality. The company recently announced a stock split (1:5) and a bonus (1:1), which should aid liquidity in the stock.

Investors with a two- to three-year horizon can buy the stock.

More steam

Bajaj Finance has been scaling up its business, diversifying into new segments and verticals, without losing its focus on profitability and asset quality.

Currently, the company's business spans consumer finance, SME, commercial lending and rural. Within consumer finance, the company offers two- and three-wheeler finance, consumer durable, digital product, lifestyle product finance, personal loans and salaried home loans. With upbeat consumer spends, this segment has been delivering strong growth, with all verticals firing.

Within the SME segment, while business loans continue to show good traction, loan against property and self-employed home loans slowed as the company moved to a 'direct to customer' model. The management is expecting growth to pick up in these segments in the second half of this fiscal.

As of June end, the company's assets under management stood at ₹49,608 crore, a growth of 40 per cent year-on-year.

Focus on cross-sell

The company's diverse portfolio offers good scope for cross selling of products to customers. The ability to mine the existing client base augurs well for profitability. Of the 2.5 million customers acquired in the June quarter, 1.1 million were new. According to the management, the cross-sell rate for the quarter was much higher at 60 per cent than the usual 40-odd per cent. As new verticals gain traction, it will open newer avenues for growth.

Over the next two to three years, the company plans to shift to a product mix of 35 per cent consumer loans (now 44 per cent), 45 per cent SME (40 per cent), 13 per cent commercial (12 per cent) and 7 per cent rural (3 per cent). This, the management believes, will lead to healthy returns.

Strong profitability

While on the one hand, robust offtake in loans and improving margins helped the company's net interest income (NII) grow, shifting to direct-to-customer model and operating leverage led to a fall in the cost to income ratio, boosting profitability. In the June quarter, NII grew a robust 45 per cent year-on-year, while cost to income fell from 46 per cent to 41 per cent. On a longer term perspective, the management expects cost to income to hover in the 38-40 per cent range, with the company's focus on technology and digitisation leading to operational leverage.

Under check

Bajaj Finance has been able to maintain steady asset quality. While its gross non-performing assets inched up sequentially in the June quarter, it was mainly due to the transition from 150-days NPA recognition to 120 days this fiscal as per the RBI's norms.

The net NPAs — gross NPAs less provision — stood at 0.41 per cent of total loans in the June quarter, higher than the 0.28 per cent in the March quarter.

The management has indicated some pressure in the self-employed home loans segment as some large accounts in the northern market became NPAs.

Overall, the company's return ratios remain healthy — return on assets at 3.6 per cent (annualised) and return on equity at 22 per cent (annualised).

It is also well capitalised to fund its growth with total capital adequacy ratio at 17.8 per cent in the June quarter.

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