

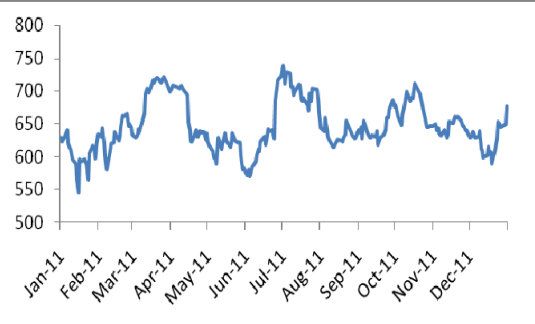
Bajaj Finance Limited

Recommendation	BUY
CMP (19/01/2012)	Rs.676
Target Price	Rs.806
Sector	NBFC

Stock Details

BSE Code	500034
NSE Code	BAJFINANCE
Bloomberg Code	BAF IN
Market Cap (Rs cr)	2,465
Free Float (%)	40.00
52- wk HI/Lo (Rs)	780/523.90
Avg. volume BSE (Quarterly)	2454
Face Value (Rs)	10
Dividend (FY 11)	100%
Shares o/s (Cr)	3.66

Relative Performance	1Mth	3Mth	1Yr
Bajaj Finance	7.5%	0.24%	7.39%
Sensex	6.97%	-3.71%	-13.31%



Shareholding Pattern		31 st Dec 11
Promoters Holding		56.07%
Institutional (Incl. FII)		18.56%
Corporate Bodies		6.69%
Public & others		18.68%

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Year	Net Sales (Rs cr)	Growth (%)	PBP (Rs cr)	PAT (Rs crs)	Margin (%)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 10A	608	76.1%	395	89	12.5	24.4	27.70	308.0	2.19	8.0%
FY 11A	906	49.0%	575	247	24.0%	67.4	10.03	362.0	1.87	19.7%
FY 12E	1,188	31.2%	754	382	28.9%	96.3	7.02	461.4	1.46	24.3%
FY 13E	1,407	18.4%	917	473	30.2%	110.9	6.10	560.0	1.21	22.2%

Results ahead of expectations

Bajaj Finance (BFL) reported net profit of Rs 120 crs (57.1% YoY) in Q3FY12 above expectations. Loan losses and provisions for Q3FY12 declined 18.7% QoQ and 20.3% YoY to Rs 35.8 crs indicating strong credit book. Disbursements sustained the strong uptrend, rising by 67.6% YoY. Gross NPAs declined by 33 bps on QoQ basis to 1.28% and net NPAs declined by 8 bps on QoQ basis to 0.25% thereby indicating an improvement in the company's asset quality.

➤ Strong growth in Net Interest Income

The growth in interest expended outpaced the growth in interest income resulting from short term credit tightening. Despite this Net Interest Income increased 35.7% YoY and 22.4% QoQ to Rs 348 crs in Q3FY12 resulting from strong growth in disbursements (67.6% YoY). The benign competitive environment has helped the company to pass on the increased cost to the customers across the product categories without any stress. Other operating income showed an increase of 19.1% QoQ and 75.2% YoY to Rs 48.1 crs.

➤ Disbursements continue to witness robust growth

Disbursements increased at a robust pace of 67.6% YoY to Rs 4,649 crs driven by strong traction in consumer and SME segment. Loan book increased by 65.0% YoY to Rs 11,052 crs. Going forward, Management has mentioned that Q4FY12 will witness some slowdown as Q3FY12 is a seasonally good quarter.

➤ Strong growth in asset under management

Asset under management grew by 65.0% YoY and 10.0% on QoQ basis at Rs 11,052 crs. Management expects its AUM to grow 71.7% YoY to Rs 13,000 crs by FY12E and reach around Rs 16,000 crs by FY13E. Number of new customer acquired stood at 684,000 in Q3FY12 vs. 491,000 during Q3FY11, a growth of 39%.

➤ Improvement in asset quality

Gross NPAs declined by 33 bps on QoQ basis to 1.28% and net NPAs declined by 8 bps on QoQ basis to 0.25% thereby indicating an improvement in the company's asset quality.

Valuation & Recommendation

Driven by higher disbursement and focus on secured segments BFL is well positioned to deliver sustainable and profitable growth which is scalable with lower risk. BFL is currently trading at a very attractive valuation amongst the NBFC business space. We believe present valuations of 1.46x FY12E ABV and 7.02x FY12E earnings are extremely attractive given the strong earnings trajectory. We recommend BUY on the stock with a target price of Rs 806.



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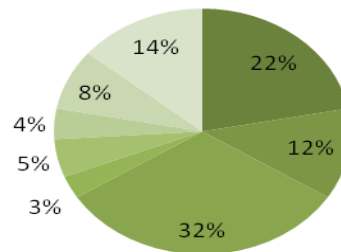
Strong growth in Net Interest Income

Net Interest Income increased 35.7% YoY and 22.4% QoQ to Rs 348 crs in Q2FY12 resulting from strong growth in disbursements (67.6% YoY). The benign competitive environment has helped the company to pass on the increased cost to the customers across the product categories without any stress. Other operating income showed an increase of 19.1% QoQ and 75.2% YoY to Rs 48.1 crs.

Disbursements continue to witness robust growth

Disbursements increased at a robust pace of 67.6% YoY to Rs 4,649 crs. Strong traction was seen in the consumer durable business despite slowing sales in the festive season during the quarter. The company's SME business (Mortgages, Business Loans and Loans against securities) continued to grow in a healthy manner, except loan against shares which was impacted due to market volatility. Construction equipment financing disbursements were flat in the quarter resulting from the cautious outlook adopted by the company. Infrastructure financing disbursement stood at Rs 429 crs during the quarter. Owing to strong disbursements, loan book (receivables under financing activity) increased by 65.0% YoY to Rs 11,052 crs.

Break up of disbursements



- 2-3 wheelers
- Mortgages
- Infrastructure financing
- Construction equipment
- Consumer durables
- Loan against securities
- Vendor financing
- Small business and personal loans

Source: Company data, Nirmal Bang Research

Going forward, Management has mentioned that Q4FY12 will witness some slowdown as Q3FY12 is a seasonally good quarter for the company.

Disbursements	Q3FY12	Q3FY11	YoY
Consumer durables	2149	1452	48.0%
SME business	1240	740	68.0%
Commercial	1260	582	116%
Total disbursements	4649	2774	68.0%

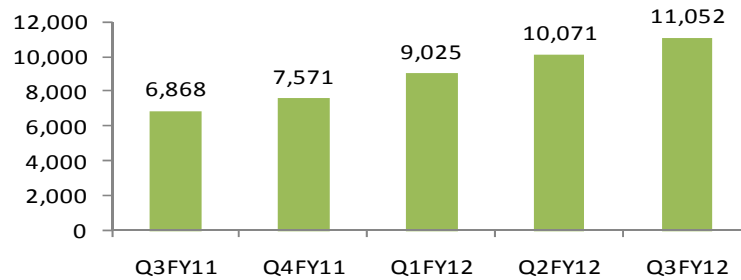
Source: Company data, Nirmal Bang Research

Strong growth in asset under management

Asset under management grew by 65.0% YoY and 10.0% on QoQ basis at Rs 11,052 crs. Management expects its Assets Under Management (AUM) to grow 71.7% YoY to Rs 13,000 crs by FY12E and reach around Rs 16,000 crs by FY13E. Number of new customer acquired stood at 684,000 in Q3FY12 vs. 491,000 during Q3FY11, a growth of 39%.

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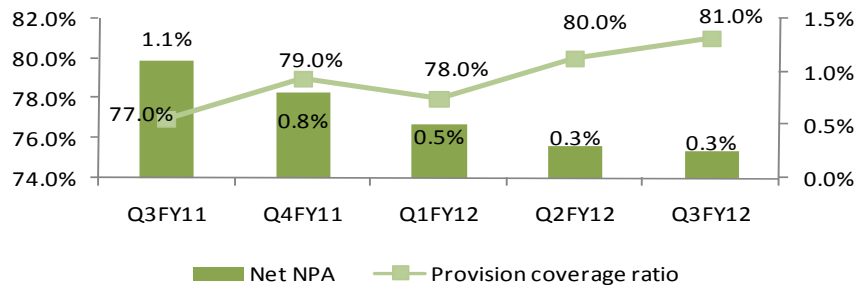
Assets Under Management



Source: Company data, Nirmal Bang Research

Improvement in asset quality

Gross NPAs declined by 33 bps on QoQ basis to 1.28% and net NPAs declined by 8 bps on QoQ basis to 0.25% thereby indicating an improvement in the company’s asset quality. Net NPAs stood at the lowest level in last 5 years. Provisions declined 18.7% on QoQ basis and 20.3% YoY basis to Rs 35.8 crs on back of strong credit performance. The provision coverage ratio remained healthy at 81% in Q3FY12 as against 77% in Q1FY12.



Source: Company data, Nirmal Bang Research

Cost to income ratios are fairly stable

Operating expenses increased by 46.6% YoY and 19.6% QoQ to Rs 183.1 crs in Q3FY12. Marketing and other commission increased 23.8% QoQ and 49.0% YoY to Rs 23.9 crs whereas other expenditure increased 35.3% QoQ and 47.1% on YoY basis to Rs 58 crs. Despite the increase in operating expenses, the cost to income ratio was fairly stable at 46.2% broadly in the historical range. Going forward, the cost to income ratio of BFL is expected to decline as we believe that the investments made on technology and employees will start yielding results. Management intends to bring it down to 41%-42% levels by FY13.

Bajaj Finance Limited

Income Statement (Rs cr)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Net Interest Income	347.5	256.1	35.7%	284.0	22.4%
Non interest income	48.9	28.7	70.3%	42.0	16.5%
Total Income	396.4	284.8	39.2%	326.0	21.6%
Total operating expenses	183.1	124.9	46.6%	153.0	19.6%
Operating profit	213.3	159.9	33.4%	172.9	23.3%
Provisions	35.8	44.9	(20.3%)	44.1	(18.7%)
Profit before tax	177.5	115.0	54.3%	128.9	37.7%
Tax	57.5	38.6	48.8%	41.5	38.5%
Profit after tax	120.0	76.4	57.1%	87.4	37.3%
EPS	32.8	20.9	57.2%	23.9	37.2%

Source: Company data

- Net Profit has shown a growth of 57.1% YoY at Rs 120 crs as compared to Rs 76.4 crs in Q2FY12 mainly due to 20.3% QoQ decline in provisioning expense at Rs 35.8 crs vs 44.9 crs.
- EPS for Q3FY12 stood at Rs 32.8 while for Q3FY11, it was Rs 20.9.
- Capital Adequacy Ratio stands at 14.7% as on December 2011.

Valuation and Recommendation

Driven by higher disbursements and focus on secured segments, BFL is well positioned to deliver sustainable and profitable growth which is scalable with lower risk.

BFL is currently trading at a very attractive valuation amongst the NBFC business space. We believe valuations of 1.46x and 1.21x FY12E ABV and 7.02x and 6.1x FY12E and FY13E earnings are extremely attractive given the strong earnings trajectory. We recommend BUY on the stock with a target price of Rs 806.

Bajaj Finance Limited

Financials

Profitability (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Interest earned	810	1,284	1,898	2,293
Interest expended	202	378	710	886
Net interest income	608	906	1,188	1,407
Non interest income	106	122	135	160
Total income	714	1,028	1,323	1,567
Marketing exp	51	103	131	150
Staff costs	99	145	177	201
Other Op Exp	169	206	261	298
Profit before prov	395	575	754	917
Provisions	261	205	184	212
Profit before tax	134	370	570	706
Taxes	45	123	188	233
Net profit	89	247	382	473
Quarterly (Rs. Crs)	Mar.11	June.11	Sep.11	Dec.11
Net interest income	236	274	284	348
Non interest income	40	35	42	49
Total income	276	309	326	396
Operating expenses	133	140	153	183
Operating profit	144	169	173	213
Provisions	38	34	44	36
Profit before tax	106	135	129	178
Taxes	35	44	42	58
Net profit	71	91	87	120
Profitability Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Cost / Income Ratio	44.7%	44.1%	43.0%	41.4%
Net profit margin	12.5%	24.0%	28.9%	30.2%
RONW	8.0%	19.7%	24.3%	22.2%
Return on Assets	2.3%	3.7%	3.7%	3.5%
Growth Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Advances growth	69.8%	80.6%	52.9%	20.0%
NII growth	76.1%	49.0%	31.2%	18.4%
PAT growth	163.6%	176.3%	54.6%	23.8%
Pre prov profit growth	84.0%	45.5%	31.2%	21.7%
Non interest inc growth	18.5%	14.8%	10.0%	18.9%
Balance Sheet (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Secured Loans	2,079	4,647	7,002	8,312
Unsecured Loans	1,147	2,062	3,001	3,562
Total Loans	3,227	6,709	10,003	11,874
Other liabilities	443	451	484	520
Equity capital	37	37	37	43
Warrants money	0	0	98	0
Reserves and surplus	1,116	1,321	1,648	2,430
Net worth	1,153	1,358	1,782	2,473
Total liab and equity	4,823	8,518	12,269	14,866
Cash and bank bal	23	432	262	555
Investments	302	445	481	519
Receivables	4,026	7,270	11,115	13,341
Fixed assets	50	103	113	124
Other assets	422	268	299	326
Total assets	4,823	8,518	12,269	14,866
Key Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Yield Ratios				
Avg Yield on Assets	23.9%	21.7%	19.9%	18.1%
Cost of Int Bearing Liab	8.3%	7.6%	8.5%	8.1%
NIM/ Spread	15.5%	14.1%	11.4%	10.0%
Gross NPA	4.7%	3.7%	1.4%	1.3%
Net NPA	2.16%	0.80%	0.34%	0.33%
Valuation Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
EPS	24.4	67.4	96.3	110.9
BVPS	315	371	486	580
Adj BVPS	308	362	461	560
DPS	6	10	12	15
Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
P/E	27.70	10.03	7.02	6.10
P/BV	2.15	1.82	1.39	1.17
P/ABV	2.19	1.87	1.46	1.21

Source: Company data, Nirmal Bang Research



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