

Bajaj Finance Q2FY21

Financial Results & Highlights

Brief Introduction:

Bajaj Finance is engaged in the business of lending. BFL has a diversified lending portfolio across retail, SME and commercial customers with a significant presence in urban and rural India. It also accepts public and corporate deposits and offers variety of financial services products to its customers.

| Standalone Financials (In Crs) | | | | | | | | |
|----------------------------------|--------|--------|---------|--------|--------|--------|--------|---------|
| | Q2FY21 | Q2FY20 | YoY % | Q1FY21 | QoQ % | H1FY21 | H1FY20 | YoY |
| Sales | 5790 | 5698 | 1.61% | 5902 | -1.90% | 11692 | 11003 | 6.26% |
| PBT | 1186 | 1860 | -36.24% | 1184 | 0.17% | 2370 | 3604 | -34.24% |
| PAT | 877 | 1377 | -36.31% | 870 | 0.80% | 1746 | 2501 | -30.19% |
| Consolidated Financials (In Crs) | | | | | | | | |
| | Q2FY21 | Q2FY20 | YoY % | Q1FY21 | QoQ % | H1FY21 | H1FY20 | YoY |
| Sales | 6523 | 6323 | 3.16% | 6650 | -1.91% | 13173 | 12131 | 8.59% |
| PBT | 1305 | 2022 | -35.46% | 1310 | -0.38% | 2615 | 3874 | -32.50% |
| PAT | 965 | 1506 | -35.92% | 962 | 0.31% | 1927 | 2702 | -28.68% |

Detailed Results:

1. The company had a flat Q2 with consolidated revenue growth of 3% YoY. PAT was down 36% YoY in Q2.
2. The company has made an extra contingent expected loss provision of Rs 1450 Cr on account of COVID-19. This brings the total provisioning up to Rs 2350 Cr.
3. Consolidated AUM for the company has grown 1% YoY. The Company estimates AUM growth for FY21 at 6-7%.
4. The Company booked 3.62 MM new loans during Q2 FY21 as against 6.47 MM in Q2 FY20.
5. In Sep '20, urban consumption businesses (B2B) were at 72%, rural consumption business (B2B) at 91%, credit card origination was at 73%, e-commerce was at 75% and auto finance business was at 54% of last year's volumes.
6. In Sep '20, total loan disbursements were at 62% of last year's volumes.
7. The Company acquired 1.22 MM new customers in the current quarter. Total customer franchise stood at 44.11 MM as of 30 September 2020, a growth of 14% YoY. The cross-sell franchise stood at 23.87 MM.
8. Existing customers contributed to 66% of new loans booked during Q2 FY21.

9. In Q2 FY21, the Company has converted ₹1,750 crores of term loans into Flexi loans to provide customers the flexibility of lower repayment and higher prepayment.
10. As of 20 October 2020, the Company had a consolidated liquidity buffer of ₹24,775 Cr and SLR investments of Rs. 2,582 Cr.
11. Deposits book stood at ₹21,669 Cr, a growth of 23% YoY. It accounted for 17% of total assets.
12. The Retail: Corporate mix stood at 75: 25 in Q2 FY21 as against 56: 44 in Q2FY20.
13. NII grew by 4% but opex declined by 16%. Total Opex to net interest income came down to 27.8% in Q2FY21 vs 34.6% in Q2FY20.
14. During the quarter, the Company has further increased its provisioning coverage for stage 1 and 2 assets by ₹1,370 Cr taking it to ₹5,099 Cr as of 30 September 2020.
15. Against 15.7% of the moratorium book in June 2020, stage 2 (1 and 2 installments overdue) book as of 30 September 2020 stood at 8.0% versus 2.3% in Q2FY20.
16. The Company has taken a loan loss provision of ₹3,386 Cr against its credit cost estimate of ₹6,000-6,300 Cr for FY21.
17. Consolidated PBT for Q2 contracted by 35% YoY due to additional provisions of Rs 1370 Cr.
18. CRAR remains at 26.6% while Tier-1 capital was at 23%.
19. GNPA was at 1.03% while NNPA was at 0.37%. The company also maintained a PCR of 64%.
20. The breakup of growth in the consolidated loan book is as follows:
 1. Auto Finance: 7% YoY
 2. Sales Finance: -42% YoY
 3. Consumer B2C: 5% YoY
 4. Rural Sales Finance: -19% YoY
 5. Rural B2C: 15% YoY
 6. SME Lending: 2% YoY
 7. Securities Lending: -26% YoY
 8. Commercial Lending: 5% YoY
 9. Mortgage lending: 14% YoY
21. Bajaj Housing Finance had a mixed quarter with AUM growth of 30% YoY and a decline in net interest income of 6% YoY. PAT declined 36% YoY for this subsidiary. The entity's Opex to NII improved to 28.2% in Q2FY21 vs 33.3% in Q2FY20.
22. Bajaj Financial Securities Ltd (BFinsec) made a net profit of ₹2 Cr in Q2 FY21.

Investor Conference Call Highlights:

1. Opex for Q2 was down Rs 224 Cr out of which Rs 120 Cr is permanent cost reduction.
2. The management wants to act cautiously in current times and is willing to front-load losses and backload income so that once normalcy comes back, the company will have additional momentum to grow.
3. Around 70% of the total OEM subvention share used to be Bajaj Finance. This number has gone down to 60-63% but is expected to rise back to previous levels in the near future.
4. The company is focussing on a primary transformation and has created a frame called 3-in-1 where fundamentally in 3 clicks, a customer should be able to do away with financial service products across loan, insurance, mutual fund, cards, etc.
5. Total outstanding Flexi loans is around Rs 43,000 Cr. This is across mortgages to personal loans to gold loans, each part of the company portfolio is covered in this figure. Flexi loans are offered only in B2C loans.
6. BHFL is focused on going back to pre-COVID growth levels by March-April 2021. It currently relies entirely on bank funding and once it completes 3 years of existence, it will have access to money market funding which should aid the entity in its growth quest.
7. The management expects Opex to NII to go above 30% for the rest of the year ahead but overall Opex to NII for FY21 should remain below 30%.
8. The company is still waiting for clarification from the Govt of India on the issue of interest on interest and how to handle it going forward.
9. The company aims to become among the top 3,4 in the country in the credit card business. It already has a strategic and important partnership with RBL and may require an additional such partnership to attain its goals.
10. The situation in 2 wheeler and 3 wheeler loans is very different as 3 wheelers customers will only see demand coming back once point-to-point transport necessity comes back. Till then, the company has no option but to provide restructuring options to those customers.
11. The cross-sell opportunity for the 23 million is available for card business, mortgage business, personal loan business, insurance business, all businesses. It is harder to estimate the opportunity for just a few segments alone.
12. Out of the 23 million, the company is ready to give personal loans to 11.2 million.
13. The management firmly believes that as the franchise grows, e-commerce will also grow along with it.
14. On a rolling basis, annually, 10% of eligible customers land up taking personal loans. This number is expected to multiply as 3-in-1 financial services come into place.
15. The management states that fresh customers default at a much lower rate as they mature into the cycle, depending on what type of loan their bounce rate increases.

Analyst's View:

Bajaj Finance is one of the fastest-growing NBFCs in India today. The company has done well to bounce back quickly from the post-COVID situation and has seen good traction across most categories. The company has done well to convert many of its term loans to Flexi loans, increasing customer convenience, and earning fee income along the way. It has also remained conservative by taking the decision to front-load losses and backload income. It remains to be seen whether there are any further disruptions in place from the evolving situation from COVID-19 in India and how it will impact the company's operations. Nonetheless, given the company's strong market position, the management drive to derive new opportunities through the use of data and technology, and its strong balance sheet position, Bajaj Finance remains a pivotal NBFC stock for all Indian investors.

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