

Bajaj Finance Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	5848	6316	-7.41%	5787	1.05%	17536	17319	1.25%
PBT	1422	1999	-28.86%	1186	19.90%	3791	5603	-32.34%
PAT	1049	1488	-29.50%	877	19.61%	2795	3990	-29.95%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	6658	7024	-5.21%	6520	2.12%	19828	19155	3.51%
PBT	1555	2170	-28.34%	1305	19.16%	4170	6044	-31.01%
PAT	1146	1614	-29.00%	965	18.76%	3073	4316	-28.80%

Detailed Results:

- The company had a down Q3 with consolidated revenue decline of 5% YoY. PAT was down 29% YoY in Q3.
- Consolidated AUM for the company has fallen 1% YoY. The Company estimates disbursement levels to go up to 85-100% of FY20.
- Loan disbursement was at 81% of last year's levels.
- In Q3, urban consumption businesses (B2B) were at 86%, rural consumption business (B2B) at 100%, credit card origination was at 102%, e-commerce was at 107% and auto finance business was at 62% of last year's volumes.
- The Company acquired 2.19 MM new customers in the current quarter. Total customer franchise stood at 46.31 MM as of 31 Dec 2020, a growth of 15% YoY. The cross-sell franchise stood at 25.25 MM growing 8% YoY.
- Existing customers contributed to 64% of new loans booked during Q3 FY21.
- The company has received RBI approval for the issuance of a co-branded credit card in association with DBS Bank (India) Limited.
- NII was at Rs 4296 Cr vs 4535 Cr last year in Q3. This was mainly caused by interest reversal of Rs 450 Cr versus Rs 83 Cr in Q3 FY20 and cost of surplus liquidity of Rs 213 Cr against Rs 83 Cr in Q3 FY20.
- As of 31st Dec 2020, the Company had a consolidated liquidity buffer of Rs 14,347 Cr representing 11.6% of borrowing.
- Consolidated cost of funds was at 7.78% and is expected to go down to 7.5% by March 2021.
- Deposits book stood at Rs 23,777 Cr, a growth of 18% YoY. It accounted for 19% of total assets.

12. The Retail: Corporate mix stood at 76:24 in Q3 FY21 as against 61:39 in Q3FY20.
13. Opex declined by 9% YoY. Total Opex to net interest income came down to 32.3% in Q3FY21 vs 33.8% in Q3FY20.
14. Loan losses and provisions for Q3 FY21 was Rs 1,352 Cr as against Rs 831 Cr in Q3 FY20. The company also took a one-time principal write-off of Rs 1,970 Cr on account of COVID-19 related stress. The Company holds management overlay provision of Rs 800 Cr as of 31 Dec 2020 for COVID-19 related stress.
15. The company has accounted for additional losses on account of COVID-19 in FY22.
16. FY22 onwards, the company expects loan losses and provisions to revert to pre-COVID-19 levels of 160-170 bps of average assets.
17. The company estimates residual credit costs in Q4 at Rs 1,200-1,250 Cr bringing the total credit cost in FY21 to Rs 5,925-5,975 Cr.
18. Consolidated PBT for Q3 contracted by 28% YoY due to increase in loan loss provisions by Rs 520 Cr, interest reversals by Rs 367 Cr, and cost of additional liquidity by Rs 130 Cr vs Q3 last year.
19. CRAR remains at 28.18% while Tier-1 capital was at 24.73%. The Company has adequate capital to meet its next 3 years' growth aspiration.
20. GNPA was at 0.55% while NNPA was at 0.19% according to the Supreme Court directive. The company also maintained a PCR of 65%.
21. The breakup of growth in the consolidated loan book is as follows:
 1. Auto Finance: -4% YoY
 2. Sales Finance: -27% YoY
 3. Consumer B2C: -1% YoY
 4. Rural Sales Finance: -10% YoY
 5. Rural B2C: 10% YoY
 6. SME Lending: 1% YoY
 7. Securities Lending: -22% YoY
 8. Commercial Lending: 15% YoY
 9. Mortgage lending: 6% YoY
22. Bajaj Housing Finance had a good quarter with AUM growth of 18% YoY and a rise in net interest income of 15% YoY. PAT declined 24% YoY for this subsidiary due to higher provisioning. The entity's Opex to NII improved to 26.4% in Q3FY21 vs 33.7% in Q3FY20.
23. Bajaj Financial Securities Ltd (BFinsec) made a net profit of Rs 0.7 Cr in Q3 FY21.

Investor Conference Call Highlights:

1. The core AUM growth in Q3 was Rs 8000 Cr which was short of the normal growth rate of Rs 9000-9500 Cr per quarter which is expected to be back by Q4.
2. The AUM growth in mortgage space was smaller despite disbursement at 90% of last year's levels as there was significant portfolio attrition caused by pricing actions by competitors.
3. The Pro-forma GNPA and NNPA were at 2.86% and 1.22% respectively. Other auto finance, all other segments are expected to come back to pre-covid NPA levels in Q4.
4. The omnichannel framework for the complete online loan generation is expected to be completed by May 2021.
5. The company will launch Bajaj Pay for consumers sometime in Q4. It will be providing the Bajaj Pay for its existing network of 103,000 merchants initially and will be aiming to double the volumes in this space in the medium term.

6. Within a single app ecosystem, the customer will be able to access 5 proprietary marketplaces that Bajaj Finance is looking to create. These will include the company's EMI Store, insurance marketplace, broking app, and many other financial services all rolled into a single app ecosystem across electronics, insurance, investments, and health. The EMI store is expected to go live in the next 30 days for existing customers.
7. The first phase is expected to be launched in July, the second in August and the third will be done by end of Sep.
8. H2 of FY22 is expected to be devoted to focusing on sharpening and refining this new offering.
9. The management believes that this new app ecosystem development can act as a watershed moment for the company and take them from 46 million customers today to 75-100 million customers. The prime strategy here will be to enhance customer experience (both pre and post purchase) and reducing operational friction.
10. The company is also moving to make 100% of calls by collection agents to be recorded for current level of 35-40%.
11. The company is not converting any existing loans to flexi now after Q2. All new flexi loans will be from fresh origination.
12. The segment that saw the biggest write-offs was auto finance particularly 3 wheeler finance.
13. The company has restarted retail EMI cards focusing on an average ticket size of INR 15,000.
14. The company will bring back higher ticket sizes once the Bajaj Pay for merchants is launched.
15. The company is also offering retail fixed deposits at 6.6%.
16. The management has stated that the bigger impact in the next 2 quarters will come from the productivity apps that the company has created rather than the consumer app.
17. The Bajaj Pay app will be using Open loop universal QR infrastructure for customers to use universal QR and UPI infrastructure to allow the customer to use a single interface for credit card, UPI, EMI card, or other payment mechanism depending on the network.
18. This pay app will integrate directly into the B2B business.
19. The credit card offering with DBS is expected to be launched by July. The management maintains that this development will not cannibalize the tie-up with RBL bank.

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 current quarter was dull for the company with revenues and AUM growth flat YoY while profits fell due to increased provisions. But the current cautious stance of the company is commendable with it deciding to frontload potential losses and focussing on building an omnichannel framework and app ecosystem with its sights at the next evolutionary phase of commerce in India. It remains to be seen whether there are any further disruptions in place from the evolving situation from COVID-19 in India and whether the company's worst fears regarding credit losses come to exist. 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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