

Background & Business

Headquartered in Pune, Bajaj Finance Limited (BAF) is one of the leading non-banking financial companies (NBFCs) in India and is part of the illustrious Bajaj group. BAF is a subsidiary of Bajaj Finserv (an associate company of Bajaj Holdings & Investments Ltd). Incorporated in 1987, BAF started as the captive two and three wheelers financier for Bajaj Auto. Over the years, it has transformed itself into a diversified lender and has become one of the significant players in the retail asset-financing industry. BAF's diversified product suite now comprises 19 product lines divided broadly into four verticals namely, a) Consumer Finance, b) SME Business, c) Commercial Finance and d) Rural Finance.

From : 31-03-2017
 To : 31-05-2019
 Performance : 196%
 Recommendation : OPEN

Investment Thesis

- 1) **Promoter pedigree** – Bajaj Finance is part of the illustrious Bajaj Group and is promoted by Bajaj Finserv, which holds 54.99% stake in the company. Bajaj Finance is strategically important to the Bajaj group, the company gets significant financial, managerial and operational support from its parent, Bajaj Finserv.
- 2) **Diversified NBFC** - Bajaj Finance, which started as a captive financing arm of its erstwhile holding company, Bajaj Auto, has successfully transformed into a diversified NBFC with presence in high growth retail segments. As on March 2019, assets under management (AUM) grew by 41% (year-on-year) to Rs.1,158 billion and consists primarily of consumer finance (39%), mortgages (29%), SME business loans (14%), commercial loans (10%) and rural finance (8%).
- 3) **Conservative balance sheet management policy** - Bajaj Finance has positive ALM spread for short duration maturities and has been able to maintain spreads by effectively raising funds from diversified sources. Further, as a policy the company maintains leverage below 7-xs at any point in time.
- 4) **Strong earnings growth** – Quarter after quarter, Bajaj Finance continues to post stellar performance on all parameters, defying sectoral trend. AUM growth remains strong across segments despite challenging market environment. Operational efficiency and stable asset quality have led the company to post strong growth in net profits. Going forward, growth is likely to be driven by product expansion, geographical expansion by penetrating tier II and III cities and increasing customer wallet share.



Outlook

Despite the slowdown in the NBFC sector due to tightening of liquidity, BAF continues its growth trajectory driven by its granular product portfolio, strong customer franchise and geographical expansion. With its strong and well balanced ALM and parentage, liquidity does not remain a constraint for the company. Going forward, growth will continue to be driven by product and geographical expansion. BAF remains our preferred pick in the retail NBFC space given its growth potential, stable asset quality and operational efficiency.

