Bajaj Finance Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	6511	4879	33.45%	6312	3.15%	23823	17386	37.02%
PBT	1205	1726	-30.19%	1999	-39.72%	6808	6035	12.81%
PAT	892	1114	-19.93%	1488	-40.05%	4881	3890	25.48%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	7227	5294	36.51%	7019	2.96%	26374	18487	42.66%
PBT	1278	1812	-29.47%	2170	-41.11%	7322	6179	18.50%
PAT	948	1176	-19.39%	1614	-41.26%	5264	3995	31.76%

Detailed Results:

1. The company had a good Q4 with consolidated revenue growth of 36.5% YoY. PAT was down 19% YoY in Q4 mainly on account of extra provision of Rs 900 Cr for COVID-19. Adjusting for this provision, PAT growth for Q4 would be up 38% YoY.
2. FY20 was a good year for the company with revenue growth of 43% YoY and PAT growth of almost 32% YoY.
3. Consolidated AUM for the company has grown 27% YoY. Without the 10 days of inactivity in Q4 due to lockdown, AUM growth would have been around 31% YoY.
4. CRAR was at 25% which is amongst the highest in NBFCs in India.
5. The company's surplus liquidity as of 15th May 2020 was at Rs 20,900 Cr.
6. New loans booked in Q4 rose 3% YoY only due to low acquisition in the last 10 days due to lockdown.
7. Net interest income for Q4 was up 38% YoY to Rs 4684 Cr. The same figure rose 42% YoY for FY20.
8. Total Opex to net interest income came down to 31% in Q4FY20 vs 34.4% in Q4FY19. The same figure was at 33.5% for FY20 vs 35.3% for FY19.
9. GNPA was at 1.61% while NNPA was at 0.65%. The company also maintained a PCR of 60%.
10. The company gave out an interim dividend of Rs 10 per share in February.

11. The breakup of growth in consolidated loan book is as follows:
    1. Consumer B2B: 17% YoY
    2. Consumer B2C: 36% YoY
    3. Rural Lending: 44% YoY
    4. SME Lending: 23% YoY
    5. Commercial Lending: -7% YoY
    6. Mortgage lending: 36% YoY
12. The deposits book saw a growth of 62% YoY in FY20.
13. In the standalone business, AUM grew 18% YoY while net interest income for FY20 grew 39% YoY.
14. Bajaj Housing Finance had a stellar year with AUM growth of 86% YoY and growth in net interest income of 119% YoY. PAT growth for this subsidiary was at 283% YoY. The entity maintained a CAR of 25.15%.
15. The company is said to have tightened underwriting and LTV norms across all businesses till July.
16. The company has resumed B2B lending in green and orange zones and has refrained from lending in any other category until the lockdown is lifted.
17. B2B in rural has also been opened. Rural B2c is expected to be opened soon.
18. The mix of retail to corporate in the company's deposit book is 67:33. The company has reduced its retail deposit rate by 25 bps in May.
19. The total provisioning in Q4 was at Rs 1419 Cr out of which Rs 129 Cr was for recalibration of ECL model, Rs 900 Cr for effects of COVID on overall business and Rs 390 Cr for 2 large identified stressed accounts.
20. The company has offered moratorium to all of its non-NPA customers and has taken the decision of not providing moratorium to any customers that are more than 60 days overdue.
21. ROA for Q4 was at 0.7% while ROE was at 2.9%. removing the impact of COVID provision, ROA and ROE would be 1.2% and 5% respectively.
22. The company added 213 new locations in Q4 bringing its total up to 2392.
23. The book value of the company share was at Rs 538 per share.

Investor Conference Call Highlights:

1. The company has frozen all hires till September 2020. The management has instituted measures to reduce fixed opex by 22-24% in the last 3 months. This also includes freeze in branch expansion.
2. The management has stated that although growth is a primary focus for the company, it will not be hastily chasing growth even in tough conditions like at present. Instead it will try and stay prudent and The company has frozen all hires until September 2020. The management has

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3. The management has stated that although growth is a primary focus for the company, it will not be hastily chasing growth even in tough conditions like at present. Instead, it will try and stay prudent and get ready to resume its high growth trajectory as soon as possible.
4. The management has stated that although some amount of recovery can be expected from the stressed assets of ILFS and Karvy, the company has decided to write it off so that there isn't much uncertainty arising from these accounts. Furthermore, whatever recovery comes from these accounts, it can be used to boost COVID provisions or even add on profits at a later date.
5. The management has clarified that the company will indeed roll out its systematic deposit plan product on 1st It was supposed to be released earlier but got delayed due to the lockdown.
6. The company has indeed formed various scenarios for estimating the impact on credit costs from COVID-19 and these scenarios are not fixed and are dependent on various factors like whether RBI extends the loan moratorium (which it did a week after this call was done). Thus the management has refrained from providing any specific guidance on how it expects credit costs to go in the future.
7. The management has stated that there should no impact on the company's books due to the suspension of the IBC process as the company does not have any clients under this.
8. The management has stated that the company should be able to ensure robust fee income by utilizing cross-sell opportunities or by creating new products through data mining. The company has in fact developed its etch infrastructure to be able to allow for multi-card infrastructure so that it can facilitate different cards for different cards to be used for different purposes for the same customer. Although this has not been fully developed yet, there remains significant room for growth for the company using this mechanism.
9. The management has stated that it is not correct to compare repayment behaviour for banks and non-banks as the customer set, behavioural characteristics, and nature of these repayments may not be comparable. Furthermore, these data vary a lot across all the players in the banking industry so it cannot be used as representative for such comparisons.
10. The management has stated that it will not comment on behavioural change from COVID-19 as it is still too early to gauge customer preferences when the lockdown has not been fully lifted yet and things have not come to normalcy.
11. The management has stated that it will not be focussing on disbursement growth right now. The fundamental focus for the company will be how to reopen its entire branch network properly and bring back business to the pre-COVID level safely while managing the risks arising from the new business and economic environment.
12. The management reiterates that the primary focus areas for the company immediately post COVID will be managing the Balance Sheet, preserving capital, managing Opex and boosting collections. As long as the company can stay resilient in tough times, it can resume its growth momentum once things come back to normal.

13. In the auto finance business, PCR is at 54%. The management made the decision to write off NPAs directly instead or carrying it on the books in 2 and 3 wheeler segment because there are higher delinquencies in this segment. Thus PCR comes down automatically.
14. The cost of funds for the company in Q4 was at 8.76% with liquidity drag.
15. The company already has a proprietary structure where the company works with an agency and fully outsources the collection operations. Under this structure, the company has a bottom-up structure where the division of collection codes in each geography depends on the characteristics of that particular area. For example, Mumbai has more than 48 different codes which is greater than the number pf pin codes in the city. This model has worked well for the company and the company will build and enhance it further going forward.
16. The company's current CP book is less than Rs 2000 Cr. This represents an opportunity for the company to reduce the cost of funds by raising more funds through the short term CP route.
17. The ECB borrowing issued by the company in April was for $75 million at a rate of 7.2%. It is a 3-year program that is fully hedged for both principal and interest.
18. The management has stated that the company has provided adequate support for its collection agencies so that staffing requirements remain adequate and things can bounce back fast once the economy opens up again.
19. The interest rate charged during the moratorium will be the same as specified in the customer statement.

Analyst's View:

Bajaj Finance is one of the fastest-growing NBFCs in India today. The company has done well to maintain its status as a growth company and has had a stellar year in FY20. But the economic shock and disruption from COVID-19 have forced the company to alter its path and focus on the balance sheet resilience and managing Opex while the economic environment remains tough. The company has indeed been agile and decisive to take quick decisions as to which businesses to open and which to keep on hold in the current environment. It remains to be seen what second-order effects will the COVID-19 disruption have on the NBFC space and how Bajaj Finance navigates through the trying times ahead. 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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