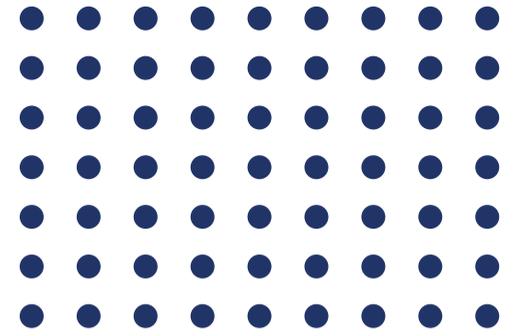




LAKEWATER
Nurturing Visions and Values



BAJAJ FINANCE -

THE NORTHERN STAR
AMIDST NBFCs





LAKEWATER
Nurturing Visions and Values

Introduction

Here are some common myths surrounding family run businesses.

“It is impossible for a family business to run successfully for more than two generations”.

“Family business means bad decisions, conservative outlook and slow progress”.

“Most family run businesses are led badly and are under-governed”.

Each of the statement above has been proven wrong by the family businesses running in India like the Ambani’s or the Birla’s . However, the **Bajaj Group** is not to be left behind. The multinational conglomerate was found by Jamnalal Bajaj in 1926 and will complete a century of its significant existence in the coming few years with its legacy.

Incorporation

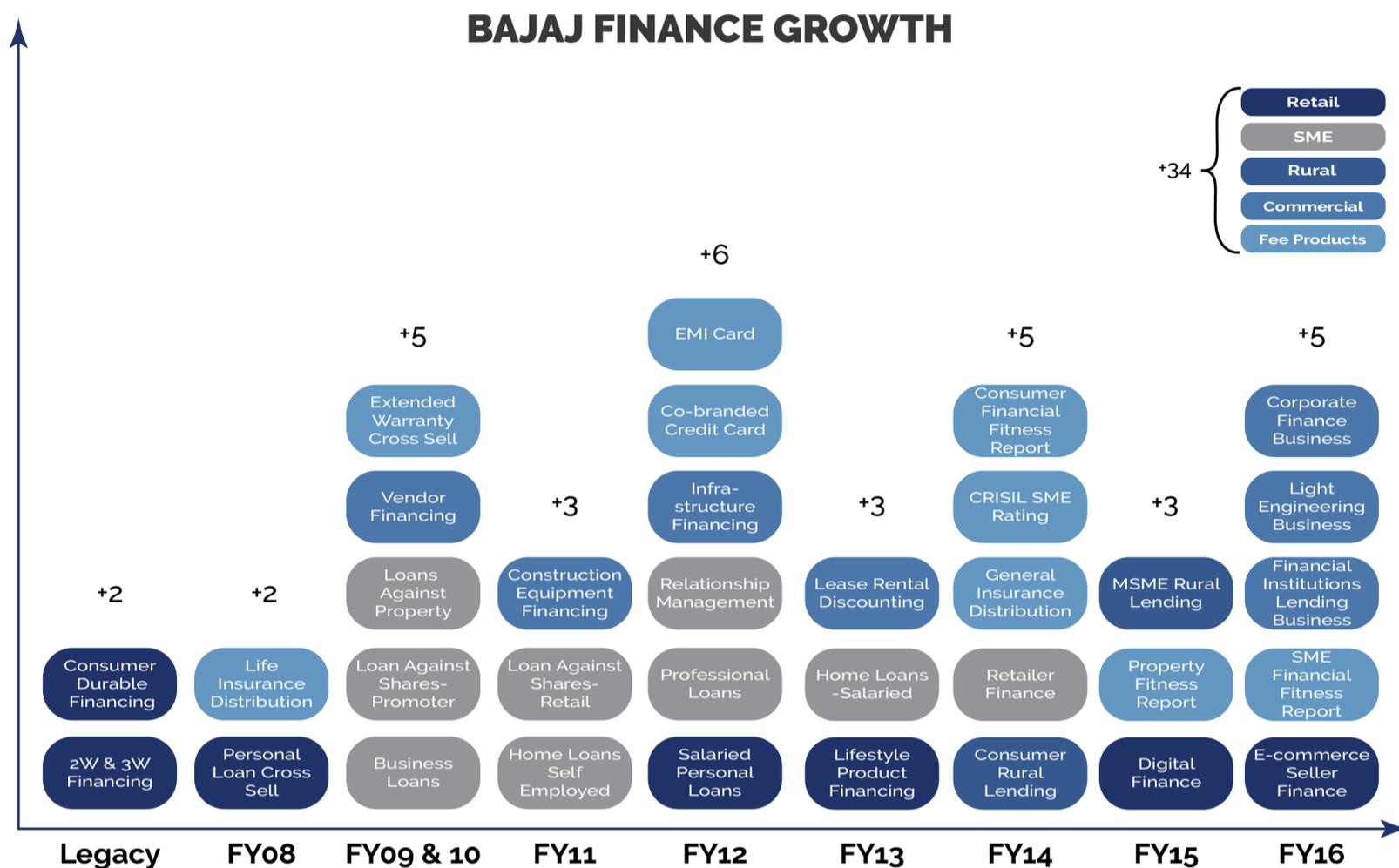
The multinational conglomerate company, Bajaj group is currently one of the reputed business houses of India. Today, three of Bajaj group firms – Bajaj Finance, Bajaj Auto and Bajaj Finserv, rank among 35 most valuable companies in the country. It is successfully riding on the able shoulders of the members of the **fourth** generation, **Sanjiv Bajaj and Rajiv Bajaj**. Rahul Bajaj has smoothly transferred his power to his sons and demarcated their interest. Bajaj Auto is headed by Rajiv Bajaj, while Sanjiv Bajaj leads the financial services company, Bajaj Finance.

Bajaj Finance Ltd. which was previously known as Bajaj Auto Finance was founded in 1987. The company falls under the Specialty Finance Industry, its sub-industry being the Consumer Finance sector.

It was after 11 years in auto finance market, that the company chose to launch its IPO and was listed in the market. As a new century began, the company expanded and ventured into durables of finance sector, and then into property loans too. And in 2010, it changed its name to **Bajaj Finance Limited**.

Bajaj Finance Limited is a Non-Banking Financial Company and is a subsidiary of Bajaj Finserv and holds 57.28% stake in it. BFL is a deposit taking NBFC (Non-Banking Financial Company), dealing with Consumer Finance, Small and Medium Enterprises and Commercial Lending, and Wealth Management.

Ever since, its incorporation its growing brick and brick and is now one of the **largest** NBFC in India.



Source : Bajaj Finserv

The Company – Bajaj Finance Ltd.

In one of our previous blogs (<https://www.lakewateradvisors.com/nbfcs-indias-growth-counterpart/>), we had expressed our positive sentiments regarding NBFC in spite of the economic headwinds and slow growth of the economy that was happening before we got hit by Covid-19.

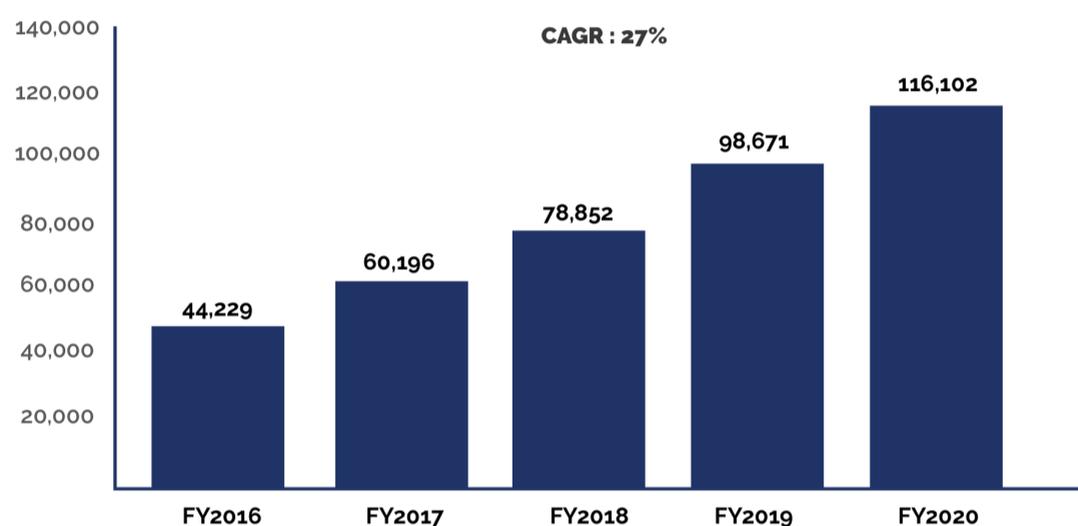
Importance of NBFC was recognized by our Prime Minister before Corona Phase and certain policy announcements like Credit Guarantee Fund Trust for Micro and Small Enterprises Scheme were carried out to promote it.

NBFC will grow owing to its stand in retail finance, growth in public deposits, instrumental reach in rural Micro Finance Institutions and most importantly government support. However, the extension of moratorium of loans is hurting NBFC, especially the smaller ones. RBI should restructure it, so that there is no substantial impact on NBFC. Lakewater still believes that NBFC will keep its ball rolling and especially Bajaj Finance.



Due to BFL's healthy structure, the company is placed better than most of the other NBFC companies to capitalise the opportunity that the Government would provide. Currently, it is present in **2,392** locations and is one of the leading NBFC in India with standalone AUM of Rs **116,102** crore. As on 31st March'20, BFL's capital-to-risk weighted asset ratio (CRAR) is **25.01%**. This makes it well capitalised and makes it one of most capitalised NBFC.

BFL's Standalone AUM (₹ In Crore)

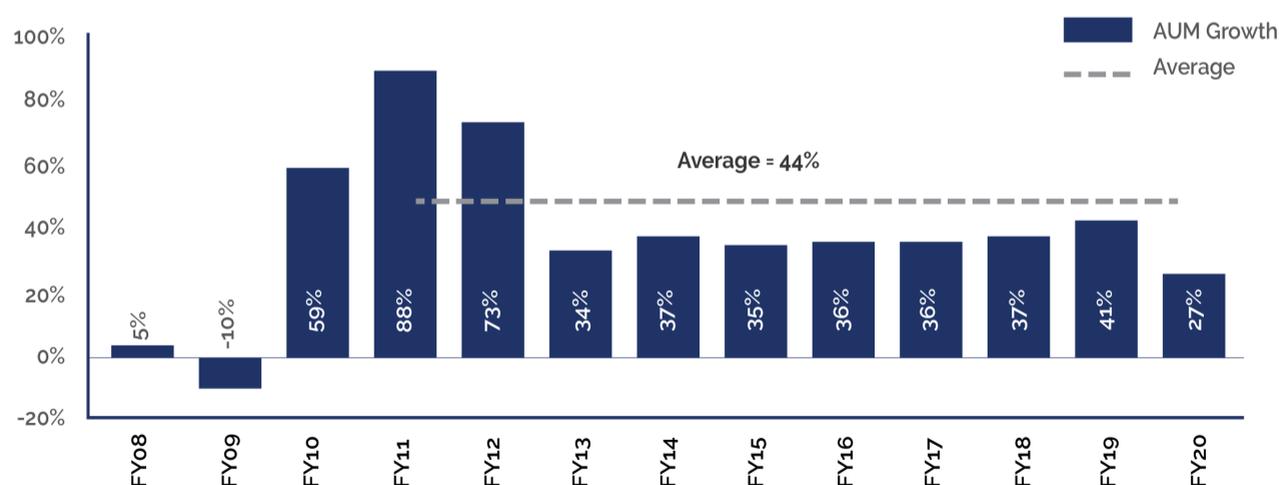


FY2019 and FY2020 AUM are as per Ind AS, FY2018 AUM has been recast as per Ind AS, while FY2016 and FY2017 AUM numbers are as per erstwhile IGAAP.

Source : Bajaj Finance Annual Report 2020

Consistently, Bajaj Finance has been generating growth in AUM and has average of **44%** over a decade. This speaks about its intensity and ability. Even, there has been a strong growth in EPS over the last 10 years with an average of 51%.

AUM Growth



Source : Company Data, Morgan Stanley Research.

Note : Average AUM growth has been computed from F11 onwards



LAKEWATER
Nurturing Visions and Values

Bajaj Finance has shown tremendous growth in the last 5 years and FY2020 to record a growth in terms of New Loans, AUM, PAT, et al. Despite the lockdown in one of the crucial weeks which escalates the growth.

<i>New Loans</i>	<i>Increased by 17%</i>
<i>Customer Franchise</i>	<i>Increased by 24%</i>
<i>AUM</i>	<i>Increased by 27%</i>
<i>PAT</i>	<i>Increased by 32%</i>
<i>Net Interest Income</i>	<i>Increased by 42%</i>

Source: Bajaj Finance Annual Report, 2020

The first quarter of FY21 showed the obvious profit downfall due to the Covid pandemic and consequent lockdown. June 30 recorded 19.40% year-on-year fall in consolidated net profit. However, there was an increase in AUM year-on-year. The company also increased contingency provision for Covid-19 during this quarter to Rs 2,350 crore.

<i>Bajaj Finance</i>	<i>Figures in Rs</i>	<i>%change (YoY)</i>
<i>Profit</i>	<i>962.32 crore</i>	<i>-19.40</i>
<i>AUM</i>	<i>1,38,055 crore</i>	<i>+7</i>
<i>NII</i>	<i>4,152 crore</i>	<i>+12</i>

Source: Bajaj Finance Annual Report, 2020

Even though, the last quarter posted weak growth metrics, Lakewater strongly believes it's just a phase and bullish on it. Furthermore, we believe that there are certain opportunities that can be booked and revive the growth again. We shall discuss this in one of our segments later.



Spread of Bajaj Finance

Bajaj Finance has a strong leadership position and is omni present in both offline and online industry. With focus in geographic diversity and customer additions, Bajaj Finance's granularity and pricing power is being aided. Large customer base and geographic diversity has also help it to diversify risk, which helps it to maintain the high velocity that comes with such a business.

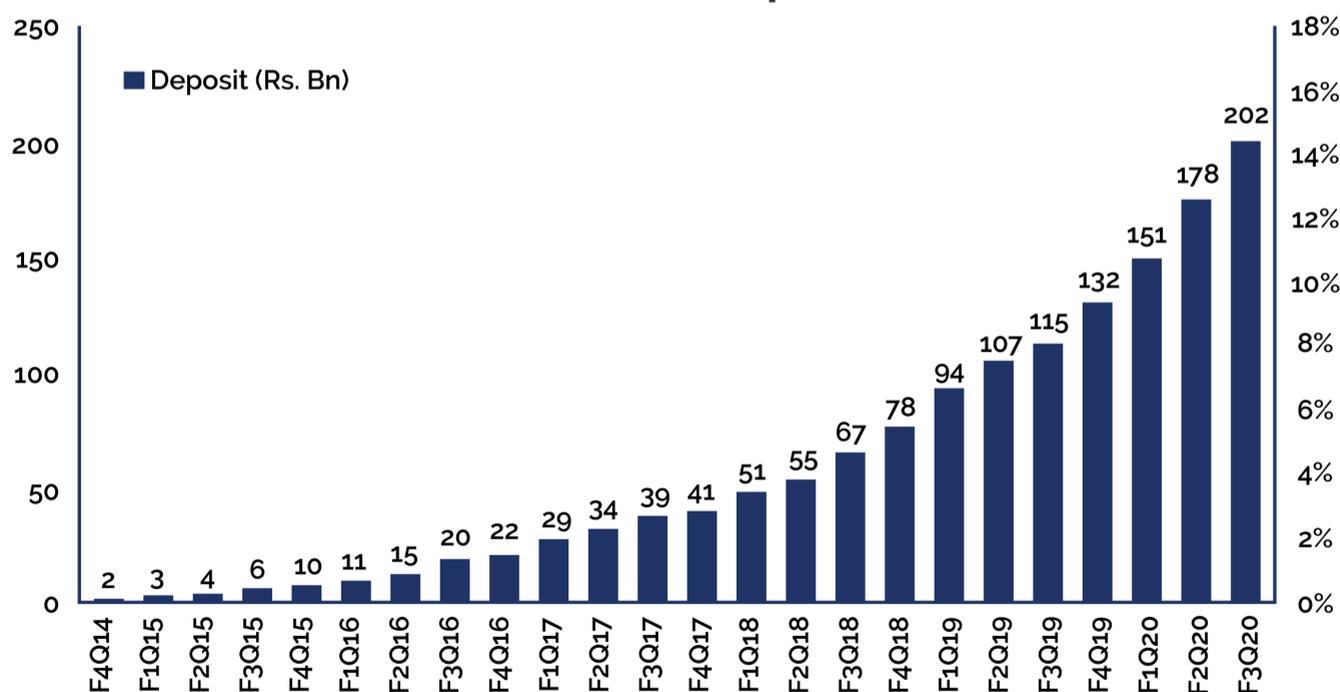
Bajaj Finance Eco-System

Customer Sourcing	Lending	Payments	E-Commerce
<ul style="list-style-type: none"> • 107k+ Retail touch points • Bajaj Auto / BALIC / BAGIC customers • Mobikwik wallet • RBL Bank co-branded credit card • Partner Channels 	<ul style="list-style-type: none"> • New products to existing customers • Pre-approved offers to current/prospective customers • Cross sell to dealer network 	<ul style="list-style-type: none"> • Mobikwik Wallet (13.5mn active wallet users) • RBL Co-branded credit card (1.66mn cards in force) • Retail EMI (RMI) Card network (20.5mn cards in force) 	<ul style="list-style-type: none"> • Bajaj Finserv EMI Lending portal - leveraging relationships with OEMs (60-70% coverage), dealers, existing + prospective customers through a closed loop network

Source : Company data, HSBC

Further, Bajaj Finance is one of the few NBFC that has access to deposit and built up a substantial scale. It is expected that deposits will be ~20% of its funding in Q4 of FY2020. This upward slope clearly depicts its strong execution and its presence of brand.

Growth of Deposits



Source : Company Data, Morgan Stanley Research.



LAKEWATER
Nurturing Visions and Values

Opportunities

Home quarantined, discretionary purchases refrained, job layoffs, have embarked worst fears for Bajaj Finance. However, the growth rally is a bit delayed than shrugged off. Bajaj Finance is here to stay. The strong management is already trying it's best keeping a check on its asset quality and seeing results.

Let's discuss further on how the momentum shall be started:

- **New Demands**

Looking at the job layoff, discretionary spending is questionable. However, again looking at the current scenario, certain spending will be treated as essential and not discretionary. It is believed that Covid-19 will open new avenues of demand as trends are changing.

1. Corporates are looking to go forward with Work from Home.
2. Change in spending pattern. Spending are more in-house related. Like, there is an increase in usage of Electronic Appliances to reduce burden.
3. Online training. This is leading to demand for electronic devices.

- **No-cost EMI**

No-cost EMIs as always been a stimulating factor. And in this slowdown phase, this will furthermore act as a catalyst for the manufactures. No-cost EMIs has helped in financial penetration over the last few years.

Presence of Offline Distribution Network

Distribution network	FY15	FY16	FY17	FY18	FY19	9MFY20
Consumer durable stores - Urban	7,000	9,400	14,000	15,500	20,400	23,300
Consumer durable stores - Rural	1,500	3,200	5,500	8,200	14,500	17,900
Digital product stores	2,650	5,200	5,900	15,900	22,500	25,300
Lifestyle retail stores	1,150	3,200	3,900	6,000	7,700	9,000
Retail EMI card spends stores	-	-	5,600	12,100	19,100	22,800
Bajaj Auto dealers & authorized service centres	3,000	3,000	3,200	3,900	4,600	5,300
Rural authorized sales & services centres	-	-	-	380	-	-
Direct sales agents	700	800	1,500	2,100	2,800	3,500
Total	16,000	24,800	39,600	64,300	91,700	107,100

Source : Company Data, HSBC.



LAKEWATER
Nurturing Visions and Values

- **Consumer Business**

The market scenario is unknown, due to this lockdown-unlock phase. However, what is known is that revival of consumption demand is pivotal. Due to job layoffs, the recovery shall be slower, but it is expected that government shall focus on the major population, the bottom of the pyramid.

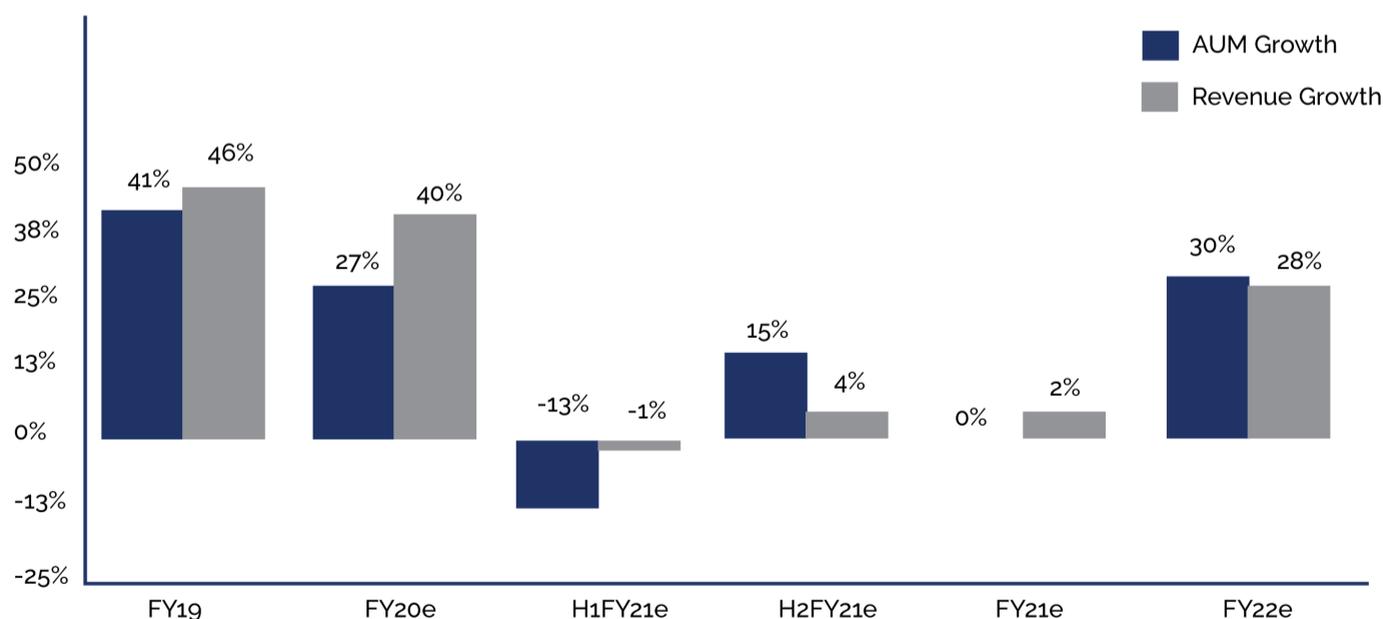
Corporate demand may still take time to revive and surely, consumer business is better position than others. And Bajaj Finance being a player in retail (consumer + SME) segment should build a profitable scale post this crisis.

- **Mediator-Catalyst**

The financiers and manufacturers can work together to tweak and develop products in order to stimulate consumer demands. Given Bajaj Finance's strong position, it has healthy relationship with manufacturers and effective business model in the small ticket consumer loan segment. Along with this, BFL has the pricing power owing to its dominant position and reach. We believe that it will be able to curb this opportunity and emerge stronger in consumer financing space post the current situation.

It has underperformed in FY2020 and FY2021 will be a tough year, but a sharp elevation is expected in FY2022. And as they say, nothing lasts forever. The AUM under moratorium has already been reduced to 15.5% in June from 27% in April.

Growth of AUM



Source : Company Data, Morgan Stanley Research Estimates



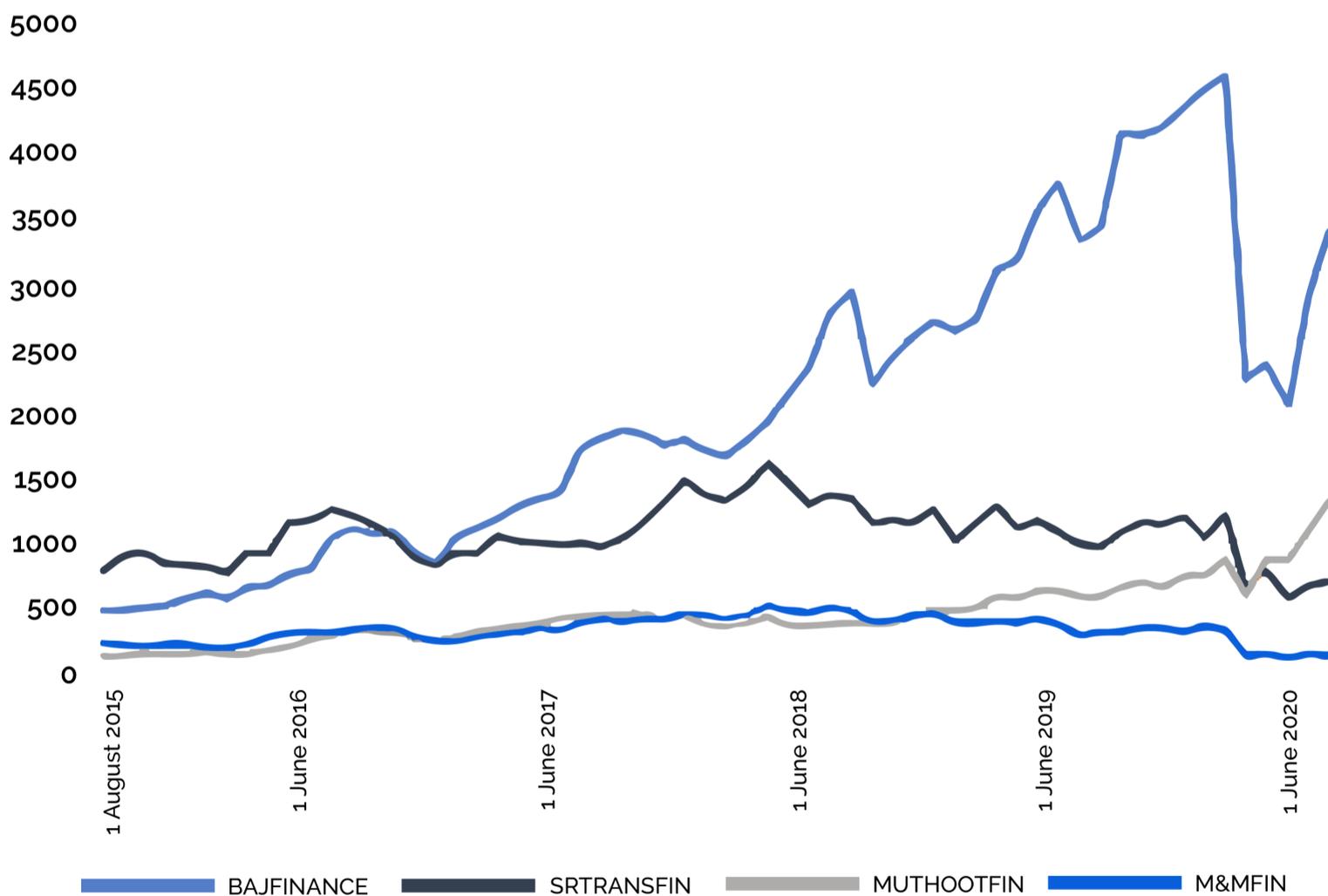
LAKEWATER
Nurturing Visions and Values

Competitors

Bajaj Finance is no exception to the companies that got hit by pandemic. Yet, we have a strong believe that it's up there. With capital adequacy ratio of ~25%, Bajaj Finance has strongest Balance Sheet among other NBFC. Even the cost of fund is lower than its peers as the leverage ratio is between 4-5.

Last year, while this was one of the top performers, its peer faced a drop amidst the crises of bad loans and defaults. It is out right favourite of international as well as domestic investors. Unlike other NBFC, Bajaj Finance has diversified its business has limited company's exposure. It is clearly demarcated from rest of the NBFCs in terms of Market Cap, AUM, clients and all other parameters. It has been a decade that it has high ROE business with active management. Its large customer base and inherent pricing power will help it rule the NBFC market.

Comparison of NBFCs in India





LAKEWATER
Nurturing Visions and Values

Nanoo Pamnani – The man who was substantial for meteoric rise

Before, we conclude, Lakewater pays homage to the veteran banker and would like to acknowledge his achievements. Nanoo Pamnani, was the Vice Chairman of the Company, Chairman of the Audit Committee and Risk Management Committee and mentor to all at Bajaj Finance. Just like an experienced sailor who charts the course of a ship and takes it to its destination skilfully, Late Mr. Pamnani held the reins of the company and brought about extraordinary success to it.

In the year 2008, Sanjiv Bajaj was about to lead the financial services business. He probably took the best decision in roping in Nanoo Pamnani, who had just retired from Citibank where he was the India head. The trio of Pamnani, and the two brothers have given a meteoric rise.

In a 2017 interview to Forbes, Sanjiv Bajaj says this about his guide and mentor, Nanoo Pamnani.

“Without him, we’d not be anywhere near where we are. Not just me, the team will tell you that”.

The death of the veteran banker is inevitable loss to Bajaj.

Conclusion

Bajaj Finance was a multibagger, until the Covid turmoil and loan moratorium took place. One of the most valued company hit its 52 weeks low of Rs 1,783.10 on 27th May. However, the stock is picking back its momentum and is in house of 3000 range again.

As the condition improves, Lakewater expects Bajaj Finance to cement its growth. In our previous report, we had stated that we are strong about NBFC. And in NBFC, we have bullish about Bajaj Finance. Valuation is attractive as it is continuously growing while facing challenges of NBFC segment. Bajaj Finance has a strong track record and will emerge as winner in NBFC, while the other player sinks. We expect that Bajaj Finance will be one of the fastest to recover in the financial sector.

The near-term volatility cannot be ruled out, but as we say market is about long-term player; Bajaj Finance is about long-term opportunity.



LAKEWATER
Nurturing Visions and Values

References

<https://www.thehindubusinessline.com/portfolio/stock-fundamental-analysis-india/bajaj-finance-in-the-money/article9226857.ece>

<https://www.bloomberg.com/profile/person/3342121>

<https://economictimes.indiatimes.com/markets/stocks/news/banker-extraordinaire-nanoo-pamnani-no-more/articleshow/74276525.cms>

<https://www.businesstoday.in/current/corporate/remembering-nanoo-pamnani-a-quintessential-banker/story/396813.html>

<https://www.magzter.com/article/Business/Forbes-India/Serving-Up-An-Ace>

<https://www.moneycontrol.com/news/business/companies/rahul-bajaj-has-shown-the-way-for-indian-business-family-patriarchs-5596151.html>

<https://economictimes.indiatimes.com/markets/stocks/earnings/->

[bajaj-finance-q1-results-profit-falls-19-yoy-to-rs-962-crore-firm-provides-further-rs-1450-crore-for-covid/articleshow/77080189.cms](https://economictimes.indiatimes.com/markets/stocks/earnings/-bajaj-finance-q1-results-profit-falls-19-yoy-to-rs-962-crore-firm-provides-further-rs-1450-crore-for-covid/articleshow/77080189.cms)

<https://www.livemint.com/market/mark-to-market/as-growth-goes-for-a-toss-for-bajaj-finance-in-q1-moratorium-brings-some-relief-1594091811578.html>

[1594091811578.html](https://www.livemint.com/market/mark-to-market/as-growth-goes-for-a-toss-for-bajaj-finance-in-q1-moratorium-brings-some-relief-1594091811578.html)

<https://in.finance.yahoo.com/>

<https://www.bajajfinserv.in/fy20-bajaj-finance-limited-annual-report.pdf>