

All eyes are on Bajaj Finance's digital goals

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Bajaj Finance Ltd has been a market darling for long and this has driven its valuations sky-high. However, after hitting a 52-week high of ₹8,050 on 18 October, its shares have lost 23.5%. In the year so far, they are down 12%, a bit more than the 10.4% drop in the Nifty Financial Services index. The fall is also attributable to the weakness in the broader market because the ongoing geopolitical tensions, but Bajaj Finance's rich valuations aren't helping either.

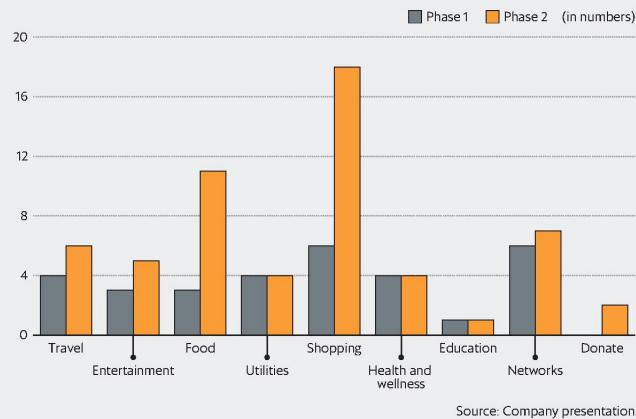
Bajaj Finance's valuations are not exactly cheap despite the recent fall in its stock price. Jefferies India Pvt. Ltd said the company's valuations have been benchmarked to price-to-earnings as it better reflects the earnings trajectory. Bloomberg data shows Bajaj Finance's shares trade at 35 times estimated earnings for FY23. Based on Jefferies' FY23 estimates, Bajaj Finance stock trades at 7.2 times the adjusted book value

"The whole market is undergoing a de-rating in terms of valuation and Bajaj Finance was and has been trading at a premium valuation. Also, foreign institutional investors own the stock in huge quantities. In times of volatile and weak market conditions, such stocks come under selling pressure," said Deepak Jasani, head of retail research at HDFC Securities. This does not cast any doubt on the company's performance as it has exhibited improvement over the years, Jasani said.

In the December quarter, operating metrics such as gross and net non-performing asset (NPA) ratios improved sequentially and reached pre-covid levels. Also, the new loans booked in Q3 returned to levels observed before the outbreak of covid. This momentum may continue. Further, analysts at Jefferies expect credit costs to moderate from FY23, which would aid earnings. "The recent covid wave has had minimal impact on credit costs/cost of collections and we expect the normalised credit costs

Spreading its wings

Bajaj Finance aims to expand its engagement stack to 58 partners in Phase 2 of digital transformation project from 31 in Phase 1.



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to move towards the 1.8-1.9% level," said Jefferies' analysts in a report 6 March.

Additionally, Bajaj Finance's new digital platform will aid growth as it channels its efforts to expand reach. The company can capitalise on its strengths in the offline channel of being a key financier in categories such as consumer durables and transition revenue-generating customers to the digital platform.

Agreed, competition is fierce in the

Bajaj Finance has a strong presence in offering financial services and products, but is a laggard in leisure categories such as food, entertainment, and travel where the fintech companies have an appealing presence. Bajaj Finance intends to expand its engagement stack in phase 2 by adding more partners.

"Incrementally, we would closely track Bajaj Finance's new-to-Bajaj additions (partnerships) through the digital route

and its share in overall user additions. We expect Bajaj Finance to generate assets under management compound annual growth rate (CAGR) of 27% over FY21-24E with PAT CAGR of 45% and RoE of 23% by FY24E," said analysts at JM Financial

Institutional Securities Ltd in a report on 4 March.

Investors would monitor if Bajaj Finance delivers on this transformation. Any disappointments will be a dampener for the stock. Increased competition in lending is also a risk. "The company could see a rise in slippages/NPA if the income generation at personal level faces a sustainable setback," Jasani pointed out.

ON A NEW PATH

BAJAJ Finance's new digital platform will aid growth as it channels efforts to expand reach

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THE second phase of the digital transformation will focus on customer experience

EMI-financing segment for consumer durables. However, analysts aren't as concerned about risk of loss of market-share/pricing pressure yet.

As such, the second phase of Bajaj Finance's digital transformation is expected to focus on enhancing customer experience by introducing new features, building on existing functionalities and diversifying into non-financial sectors.