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## The NBFC Sector – Can a generational leap of Technology help dominate the Market?

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**Summary:** This is a research note on 3 leading NBFC firms, Bajaj Finance, Jio Financial Services and L&T Finance Holdings. We profile the firms in terms of their structure, business segments, share price history and key financial parameters. Next we capture their key Qualitative Aspects and do a SWOT analysis of them, to help investors understand these firms better. This report is for educational purposes. We do not set any price targets nor make any company specific recommendations. [See Index of Report](#)

Introduction .....	1
Price History of last one year .....	2
Comparison of Financial Parameters.....	3
Business Segments .....	4
Qualitative Notes .....	5
SWOT Analysis .....	6
Conclusion.....	7
Disclaimer .....	7

### Introduction

In this note, we examine three large players from the Indian NBFC Industry.

#### Brief Profiles - Bajaj Finance Ltd.

CMP ₹ 6,760



- Bajaj Finance (BFL) was started in 1987 as a vehicle financing firm and is now is one of the largest and most diversified loans NBFCs in India. BFL is mainly engaged in the business of lending, and has a portfolio across retail, SME and commercial customers with a presence in urban and rural India. It also accepts public and corporate deposits. BFL has two wholly owned subsidiaries, Bajaj Housing Finance and Bajaj Financial Securities, through which it offers home loans and brokerage services & lending.
- Bajaj Finserv Ltd. is the holding company for the financial services businesses of the Bajaj group. It holds 51.42% stake in BFL. Bajaj Finserv offers general & life insurance, and advisory and investment planning services through subsidiaries Bajaj Allianz General Insurance, Bajaj Allianz Life Insurance, and BFL.
- Leadership in BFL is Sanjiv Bajaj (Chairman), Rajeev Jain (MD&CEO) and Sandeep Jain (CFO).

#### Jio Financial Services

CMP ₹ 345



- Jio Financial Services (JFS) was started as Reliance Strategic Investments in 1999, but JFS was incorporated in Jul'23. It is a systemically important Non-Deposit taking NBFC (NBFC-ND-SI) registered with RBI. It is a holding company and operates through its consumer-facing subsidiaries namely Jio Finance Ltd., Jio Insurance Broking, Jio Payment Solutions and a JV, Jio Payments Bank. For its asset management business, JFS has entered into a JV with BlackRock with an initial investment of US\$ 150 m.
- JFS was demerged from Reliance Industries and listed in July'23. Shares were awarded in a ratio 1:1, so for every share held of Reliance, the holder received one share of JFS.
- Management - KV Kamath (Chairman), Hitesh Kumar Sethia (MD&CEO), and Abhishek Pathak (CFO).

**L&T Finance Holdings** **CMP ₹ 155**

- L&T Finance Holdings (LTF) offers a diverse range of financial products and services such as Farm equipment finance, Two-wheeler finance, Micro Loans, Consumer loans, home loans, Loans against property (LAP), Real estate finance, infra finance, Infra Debt Fund and other services.
- It is registered with RBI as a Systemically Important Non- Deposit Accepting Core Investment Company (NBFC-CIC). LTF has operational presence across India and is headquartered in Mumbai, Mah.
- LTF is now in the process to change the name from L&T Finance Holdings to L&T Finance.
- The promoter is L&T Ltd. LTF successfully completed the merger of subsidiaries, L&T Finance, L&T Infra Credit and L&T Mutual Fund Trustee with itself. This will simplify operations and save costs.
- Management - Sudipta Roy (MD&CEO), Sachinn Joshi (CFO) and S. N. Subrahmanyam (Chairperson).

**Price History of last one year**



**Fig 1.1 - Bajaj Finance above and Fig 1.2 - Jio Financial Services, Company listed in Aug'23**



	Share Price Movements	Bajaj Finance	Jio Finance	L&T Finance
6 mnths		-11.6%	47.5%	18.8%
1 yr		20.1%	-	76.8%
5 yr		135.0%	-	9.7%

**Fig 1.3 Share Price Movements**

- In 6 months JFS has seen the largest price gain, next was JFS, while BFL was negative.
- In one year LTF has outperformed due to 1) mergers bringing significant improvements in business structure. The merger was completed by Dec'23; 2) it plans to raise ₹ 1.01 lakh cr. through NCDs 3) a

focus on retail loans with lower NPA and 4) appointment of new MD/CEO Sudipta Roy.

- Over a 5 year period BFL is the leader.



Fig 1.4 - LTF

## Comparison of Financial Parameters

We analyse the key ratios and financial data for these 3 firms. See table and analyses below.

Particulars	Bajaj Finance	Jio Finance	L&T Finance
Sales (₹ in cr.)	41,398	45	12,775
EBITDA (₹ in cr.)	16,009	49	7,632
Profits (₹ in cr.)	11,508	31	1,532
Market Cap (₹ in cr.)	4,07,318	2,23,540	36,575
PE (x)	29.5	730.0	16.7
Price to Book Value	6.80	9.25	1.69
3 Yr CAGR Sales (%)	16.0	-	-3.0
3 Yr CAGR Profit (%)	30.0	-	-8.0
EBITDA Margin (%)	69.00	118.52	62.91
Net Profit Margin (%)	27.80	75.00	12.02
EPS ₹	226.0	60.46	9.13
Gross NPA (%)	0.95	-	3.00
Net NPA (%)	0.37	-	1.00
Cost of Funds (%)	7.76	-	7.46
ROCE (%)	11.80	0.04	7.56
ROE (%)	23.50	0.02	6.41
Capital Adequacy Ratio	25.00	-	24.52
Credit Rating (Crisil)	AAA	AAA	AAA

Fig 2.1 Benchmarking

Annual data is for FY23

- Operationally, BFL is the largest of the three, next is LTF and smallest is JFS. In fact JFS is a startup, with minimal operations as of FY23, but growing fast in FY24.
- Valuation wise, JFS commands an abnormally high PE of 730 and P/B of 9.25. Next highest is BFL and lowest valuations are for LTF. This may be because of the recent JFS listing and the interest that the company had received, as part of the Mukesh Ambani Reliance group.
- EPS is highest for BFL, with least Gross & Net NPA which is positive. Margins too are high for BFL.
- ROCE & ROE is highest for BFL and JIO being lowest.
- With its large operations, BFL is seeing a higher cost of funds, a sole negative in this comparison.
- BFL & LTF got a recent credit upgrades which can help lower the cost of funds.

- These figures indicate that JFL is like a startup with high market expectations, BFL has high valuations like that of a market leader, while LTF has low valuations relative to its operations, and is in a price discovery phase after the recent merger.
- **Customer Base:** BFL has the highest customer base in NBFCs with 7.3 cr., and it has a target of 10 cr.
- In comparison, JFS is just getting started. However, Reliance Retail has a customer base of 24.9 cr. and Reliance JIO telecom business has 44.8 cr. subscribers. Through its Jio Mart network it also caters to 2 million merchants who source FMCG for Reliance Retail and 3 Million merchants for Reliance new commerce platform. This is almost 6 X of BFL customer base. However it is to be seen how many, and how fast, they will become JFS customers.
- Insurance sector has a penetration of just 4%, mutual funds (Asset to GDP) is 16% while global avg. is 74%. And credit card penetration is just 5%. JFS is expected to enter mutual funds, insurance and credit cards with huge data base and AI technology to create contextual products. It is expected that the Reliance group is building an ecosystem for financial inclusion with underpenetrated sectors of the market.

**Business Segments**

- **Bajaj Finance** - BFL derives highest % in Assets under Management (AUM) from Mortgages business and least in rural sales finance. It’s the largest financier for Bajaj Auto. Through its promoter company Bajaj Finserv it provides services like Life and general insurance, retail financing and investments. Recently BFL posted significant 26% YoY increase in loans AUM, reaching ₹ 3,10,000 cr. in Q3FY24. BFL customer franchise also witnessed a big rise, with the number of customers increasing to 8.04 cr. in Q3 FY24 from 6.6 cr. in Q3 FY23. See Fig 3.1 Assets Under Management.

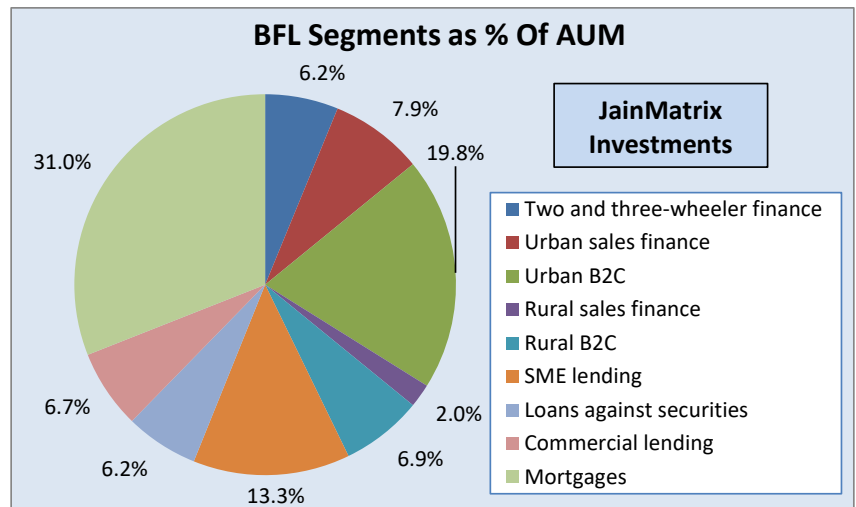


Fig 3.1 Segments of BFL

**Jio Finance -**

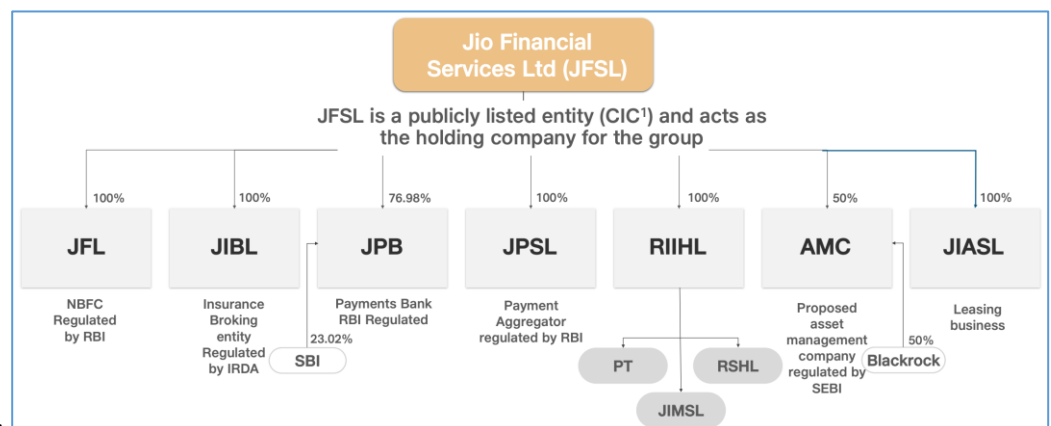


Fig 3.2 Proposed Segments

- JFS is the holding company for subsidiaries that will cover insurance, payment bank & aggregator, asset management and leasing. JFSL have partnered with 27 insurance companies across General & Life segments. Soft launch of Debit Card, pilot launch of Jio Voice box and apps for merchants launched.
- Short forms: JIBL – Jio Insurance Broking, JPB – Jio Payments Bank, JPSP – Jio Payment Solutions, RIIHL – Reliance Industrial Investments and Holdings, JIASL – Jio Information Aggregator Services, PT – Petroleum Trust, RSHL – Reliance Strategic Holdings, JIMSL – Jio Infrastructure Management Services.

**L&T Finance** - Retail Business comprises of Farmer finance, rural and urban business finance and SME finance. Wholesale Business includes Infra & Real estate finance.

LTF Business segment wise	% Of Total Book
Retail Business	75.00%
Wholesale Business	25.00%

**Fig 3.3 – LTF Loan Segments**

- The wholesale book reduced from ₹ 43,257 cr. in FY22 to ₹ 19,840 cr. in FY23. In Real Estate finance there have been no incremental sanctions and disbursements in the past 3 years. The retail book grew from ₹ 45,084 cr. to ₹ 61,053 cr. in same period.

## Qualitative Notes

**Industry** - Recently RBI has released a circular regarding 15 NBFCs in upper layer classification under Scale Based Regulations (SBR). This includes Bajaj Finance, LTF and Tata Sons etc. NBFCs have witnessed significant growth in size and interconnectedness in recent years.

- SBR framework encompasses various aspects of NBFC regulation, including capital requirements, governance standards, and prudential regulation. Once an NBFC is classified in the upper layer, it becomes subject to enhanced regulatory requirements for at least five years, even if it fails to meet the criteria in subsequent years.
- NBFC sector are subjected to various regulatory changes and it's important for NBFC abide by law.

**Bajaj Finance** - Fundamentally BFL is a nimble firm with a presence in 9 segments (Fig 4.1) for loan products. It is rapidly able to sense segment wise rises and falls, and redeploy capacity to tap opportunities.

- Recently RBI barred BFL from issuing new loans under eCOM and Insta EMI card due to deficiencies in adhering to guidelines. BFL is complying with these directions and resolving the issues.
- BFL have recently completed a QIP placement of shares. The QIP raised ₹ 8,800 cr. by issuing over 1.21 cr. shares priced at ₹ 7,270. It is the largest QIP ever conducted by a NBFC in India, and investors were from sovereign wealth funds, foreign long-only funds, large domestic MFs, and insurance firms.
- BFL is on a large technology upgradation cycle integrating its website, applications and backend to provide fast, common and safe access. Loans online are processed fast, and BFL has excellent data.
- BFL with strong brand value and extensive network remains a leader in NBFC space and holds just 2% of total loans share in India. This indicates its growth potential.
- Maruti Suzuki and BFL have signed a MOU where to provide "tailor-made auto retail financing solutions" for Maruti customers. This can drive volumes for BFL as it has a large market share in PVs.
- BFL stock has been range-bound for 2 years (₹ 5,500–8,000) inspite of good fundamentals and growth. But this can be seen as a Time correction after a sharp post covid price recovery, (May'20 to Sep'21).

**L&T Finance** - LTF got a penalty of ₹2.50 cr. for non-compliance with specific provisions for NBFCs from RBI. It also failed to provide notice of changes in loan terms and conditions when charging an annualized interest rate higher than what was communicated at the time of sanction.

- LTF has strong management. It was affected by its poor asset quality loans on real estate sector and currently they are focused on cleaning up and reducing NPAs. GS3 (Loans overdue > 90 Days) has improved from 4.21% to 3.21% QoQ in FY24 and NS3 has improved from 1.72% to 0.81% QoQ in FY24.

- Retail book grew at 31% YOY and is > 90% of total and achieved 2026 target, 2 year in advance.
- LTF has completed its merger with its three subsidiaries. This will lead to the creation of a simplified 'Single Lending Entity', housing all lending businesses under one operating NBFC.
- LTF announced the launch of its new Super Bike Loans on 19<sup>th</sup> March, at interest rates from 5.99% with a tenure of up to 60 months. LTF Board will raise up to ₹ 1.01 lakh cr. via NCDs in few tranches.
- It also announced a financing agreement with the Japan International Cooperation Agency for \$125 million, aimed at enhancing financial access in India's rural and peri-urban areas, with a special focus on women borrowers. Similar \$125 million loan sourced from the (ADB) in November marking a concerted effort to support underserved communities.

**Jio Finance** - The recent success in Retail and Telecom have raised the perception of Reliance for success in consumer businesses as a disruptive value leader who delivers at scale. Investors have high confidence.

- Reliance is known for its strong brand and project execution, and is now focused on the NBFC space. Jio emerged #2 in market cap surpassing Cholamandalam Finance with demerger, even before starting its loan business. But JFS can in future access the distribution of 18,446 stores of Reliance stores, 500 Reliance digital shops and 44.8 cr. customer base of its telecom business.
- Management and structures are being set up. JFS and BlackRock have applied for a MF licence with the regulator. BlackRock & JFS agreed in Jul'23 to form a 50:50 JV with a USD 150 million investment each to enter the asset management business in India. Jio BlackRock combines JFS knowledge and resources with BlackRock's scale and investment expertise to deliver affordable, innovative investment solutions to millions of investors in India.
- Jio Payments is set to enter what has been the domain of Paytm and PhonePe of the sandbox segment. Seen as a payments and audio verification device, Jio is all set to venture into the sandbox play across retail merchants.

### SWOT Analysis

In this section we capture in brief the key aspects for each of the 3 companies.

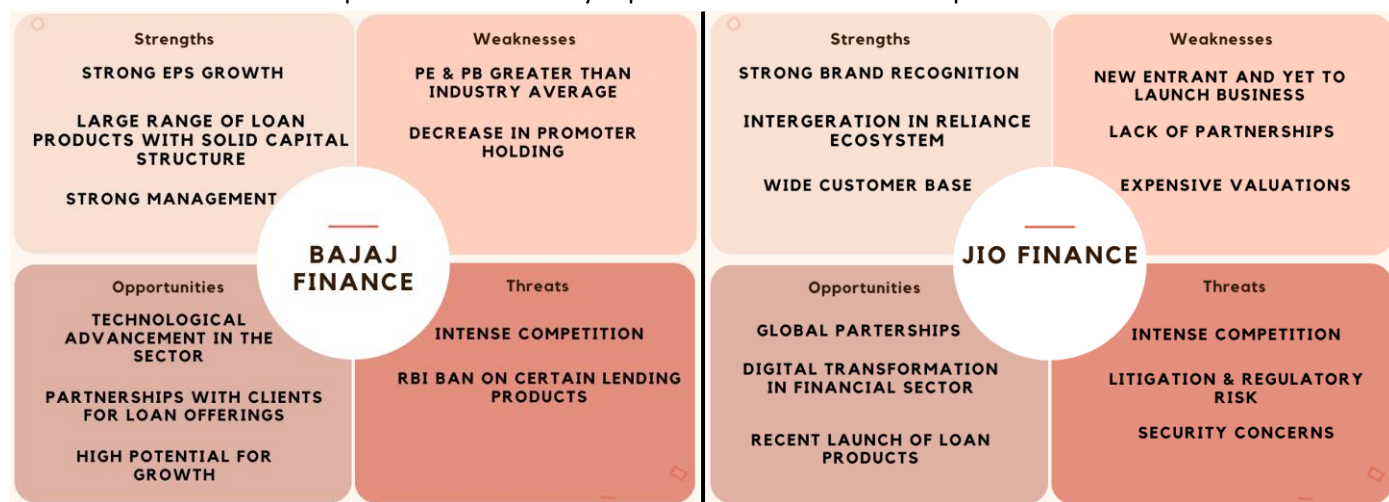


Fig 4.1 SWOT of BFL / Fig 4.2 SWOT of JFS

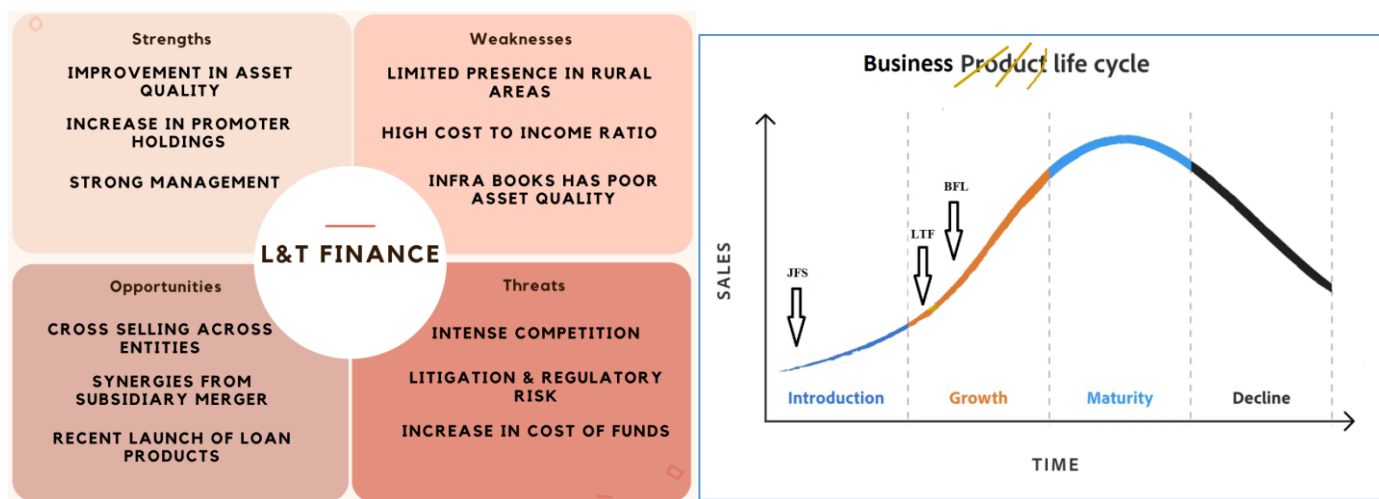


Fig 4.3 SWOT of LTF and Fig 4.4 – Business Life Cycle of NBFCs

## Conclusion

- With this analysis we can classify these companies in different buckets. See Business Life Cycle above.
- BFL is a market leader, operationally excellent and growing faster than industry. To continue the momentum it will need digital improvements, better distribution & penetration and better fund cost control. Innovation and new product launches are important too. If allowed by the regulator, a future conversion to a Bank will enhance the company perception and profile. The equity share capital of BFL is tiny compared to the balance sheet, so this should be enhanced through splits and bonuses.
- LTF can emerge as a retail focused powerhouse post merger. It is small today, and so has the potential to grow fast; it must improve NPA metrics over 2 years to industry standards. It is lower in the Business Life Cycle, see Fig 4.4.
- JFS is a start-up with good promoter credentials. It is growing very fast, but is at least 3-4 years away from justifying its current valuations. If it takes a M&A approach the growth can be faster, but riskier. In its favour are some very happy shareholders, who have gained from RIL's success over the last decade. The recent share price rise was impressive but price discovery will unfold over next 2 years.
- The NBFC space appears different from the Telecom and Retail sectors, as there are well entrenched players since decades, and competition is from 100s of Banks, NBFCs, other BFSI firms and MNCs. Can a generational leap of Technology help dominate the Market like in Telecom?

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