

Sector: Banks & Finance
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 9,106	
Price Target: Rs. 9,900	↑

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 144,913 cr
52-week high/low:	Rs. 9,280/5,619
NSE volume: (No of shares)	3.3 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.3 cr

Shareholding (%)

Promoters	60.7
FII	8.5
DII	5.7
Others	25.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.5	31.3	13.7	58.9
Relative to Sensex	10.2	19.4	9.0	36.4

Sharekhan Research, Bloomberg

We view Bajaj Finserv (BFIN) as a play on fast growing consumer finance, and the high growth potential/underpenetrated insurance business in India. Its three subsidiaries, namely the lending arm of Bajaj Finance (BAF), and the insurance subsidiaries are strong domain leaders in their own respective fields and together shaping up as an attractive business franchise.

All BAF segments contributed to its growth viz. rural (up 55% y-o-y), SME (up 34% y-o-y), Consumer (up 41% y-o-y) and mortgages (was up 43% y-o-y) even as the commercial segment lagged (with relatively slower growth of 14% y-o-y) indicating tightened credit standards. We believe that in the present environment, BAF stands out with its granular loan book, a well diversified pan-India presence (over 102,400+ touch points) and a proven track record of maintaining attractive asset quality.

Its Insurance arms, Bajaj Allianz General Insurance (BAGIC) has Industry leading combined ratios consistently over time (BAGIC's Combined Ratio stood at 96.7% for FY19) with well diversified delivery channels. Bajaj Allianz Life Insurance (BALIC) too has over the years developed deep, pan India distribution reach with presence over 590 locations with a diversified distribution mix and is among top 5 private sector Life insurers in India (on new business in FY19 basis).

Overall, we believe positive developments in the life insurance business, healthy operating metrics in general insurance and consistency of financing segment performance add to form an attractive business franchisee. We have introduced FY22E estimates for the Insurance business to arrive at SOTP value of BFIN. We maintain our Buy rating on the stock with revised price target (PT) of Rs. 9,900.

Our Call

Valuation: Bajaj Finserv has consistently clocked strong performance in its lending business over a period of time, while BAGIC has one of the best operating metrics in the general insurance space. The Long-term outlook for the life insurance business has brightened with large banking partner joining hands for distribution. We believe these positives make Bajaj Finserv an attractive franchise for the long term. We have introduced FY22E estimates for the insurance business to arrive at SOTP value of BFIN. We maintain our Buy rating on the stock with revised price target (PT) of Rs. 9,900

Key Risks

Unfavourable outcomes from exposure to downgraded investments may impact performance.

SOTP Valuation

Particulars	Holding	Rs cr Value per share
Life Insurance	74.0%	2,748
General Insurance	74.0%	1,007
Bajaj Finance	54.8%	6145
Investments		
Total		9,900

Source: Company; Sharekhan estimates

Continues to ride on strong business traction and fundamentals of all key subsidiaries

Bajaj Finserv's performance has been strong over the last few years, and even during the recent Q2 FY20 results the profit growth has been robust for its lending subsidiary, while the operating parameters continue to be robust for the Insurance subsidiaries. The financial services arm, Bajaj Finance (BAF) which contributes ~70% of the consol. PAT is an important value contributor and continues to post strong results yet again.

Not only that, BAF continues to enjoy best in class credit ratings (AAA/Stable by CRISIL, ICRA etc) with strong asset quality (Net NPA stood at only 0.65% as on Q2 FY20) which indicates the strength of the business model. While there were some positive one-off effects in the insurance arm profits (combination of capital gains, provision write-backs and lower corporate tax rate etc) the underlying business parameters remain robust.

Bajaj Allianz General Insurance (BAGIC) witnessed strong growth in gross written premium (GWP), including the crop business, which increased by 57.4% y-o-y and is now the second largest private general insurer in India as of FY19 in terms of Gross Premium. Bajaj Allianz Life Insurance (BALIC) has over the years has developed deep, pan India distribution reach with presence over 590 locations with a diversified distribution mix. The recently signed corporate agency agreement with Axis Bank, we expect will strengthen its distribution network and increase its reach further going forward.

About company

Bajaj Finserv (BFS) is a diversified financial services group with a pan-India presence in life insurance, general insurance, and lending. It is the holding company for Bajaj Finance Ltd (BFL) and BFS' shareholding in BFL (Bajaj Finance Ltd.) was 54.81%. It also holds 74% each in Bajaj Allianz General Insurance (BAGIC, 2nd largest private general insurer in India as of FY19 in terms of Gross Premium) and Bajaj Allianz Life Insurance (BALIC, among top 5 Pvt sector Life insurers in India on new business in FY19).

Investment theme

Bajaj Finserv is a financial conglomerate having presence in the financing business (vehicle finance, consumer finance and distribution) via Bajaj Finance (BFL) and is among the top players in the life insurance (BALIC) and general insurance (BAGIC) segments. We expect BFL to maintain its loan book trajectory as well as profitability and margins, augmented by its unique business model, strong infrastructure which will be the key support for present valuations of Bajaj Finserv. Even though near term challenges (mostly structural) persist for BAGIC and BALIC, we find their healthy operating metrics and profitability positive. The insurance arms are focusing well on strengthening distribution channel and profitability and are likely to emerge as attractive businesses over time.

Key Risks

Unfavourable outcomes from exposure to downgraded investments may impact performance.

Additional Data

Key management personnel

Mr. Sanjiv Bajaj	Managing Director & CEO
S Sreenivasan	CFO
V. Rajagopalan	President - Legal
Mr. Ganesh Mohan	Group Head – Strategy
Mr. Ajay Sathe	Head – Group Risk Management
Rajeev Jain	Managing Director – Bajaj Finance Limited

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	39.16
2	Jamnalal Sons Pvt Ltd	9.6
3	Jaya Hind Industries Ltd	3.85
4	Maharashtra Scooters Ltd	2.34
5	Life Insurance Corp of India	2.16
6	Bajaj Sevashram Pvt Ltd	1.48
7	Bachhraj & Co Pvt Ltd	1.24
8	NIRAJ BAJAJ	1.15
9	Bajaj Rahul Kumar	1.04
10	BlackRock Inc	1.01

Source: Bloomberg

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