

CMP: ₹ 12950

Target: ₹ 13500 (4%)

Target Period: 12 months

July 22, 2021

**HOLD**

## Elevated provisioning, higher claims impact PAT...

**About the stock:** Bajaj Finserv (Finserv) is a financial conglomerate with a holding in the financing business (Bajaj Finance), life insurance (Bajaj Life Insurance) and general insurance (Bajaj General Insurance) business.

- Consistent, faster business growth and profitability remains in focus

**Q1FY22 Results:** Earnings impacted by elevated provision & claims in Q1FY22.

- Consolidated revenue de-grew ~2% YoY; PAT declined 31% YoY
- AUM grew 15% YoY to ₹ 159057 crore; elevated provision impacted PAT
- GWP increased 9% YoY to ₹ 2494 crore; Covid led to higher claim at 75.9%
- Life premium grew 48% YoY to ₹ 2516 crore; PAT impacted by Covid claim

**What should investors do?** Bajaj Finserv's share price has grown by ~3.8x over the past five years (from ~₹ 2600 in July 2016 to ₹ 12705 in July 2021).

- We maintain our HOLD rating on the stock

**Target Price and Valuation:** We value Finserv at ~31x FY23 EPS to arrive at revised TP of ₹13500 per share from ₹11500 earlier.

### Key triggers for future price performance:

- Expect 20%, 22% AUM growth for FY22E, FY23E, PAT growth of 30%, 45%, respectively
- Expect asset quality to stabilise post unlock by Q4FY22
- Robust premium growth & selective product mix to aid business growth & earnings in life & general insurance business
- Higher Covid claims claim remain a near term overhang

**Alternate Stock Idea:** Apart from BAF, in BFSI our coverage we also like HDFC Ltd.

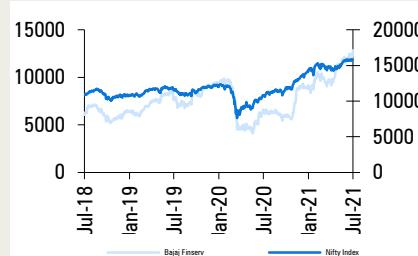
- HDFC Ltd is a leading housing finance company with loan size of ~₹ 4.98 lakh crore with presence in life insurance, banking, AMC via its subsidiaries
- **BUY** with target price of ₹ 3100



| Particulars           |                |
|-----------------------|----------------|
| Particular            | Amount         |
| Market Capitalization | ₹ 207279 crore |
| Net worth             | ₹ 36600 crore  |
| 52 week H/L (₹)       | 13114 /5401    |
| Face value            | ₹ 5            |
| DII Holding (%)       | 6.0            |
| FII Holding (%)       | 9.6            |

| Shareholding pattern |        |        |        |        |        |
|----------------------|--------|--------|--------|--------|--------|
| (in %)               | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 |
| Promoter             | 60.8   | 60.8   | 60.8   | 60.8   | 60.8   |
| FII                  | 8.0    | 7.7    | 8.8    | 9.1    | 9.6    |
| DII                  | 6.4    | 6.8    | 6.1    | 6.1    | 6.0    |
| Others               | 24.9   | 24.7   | 24.4   | 24.0   | 23.7   |

### Price Chart



### Recent Event & Key risks

- Consolidated PAT fell 31% YoY due to elevated provision & higher claims
- **Key Risk:** Probability of third wave could impact asset quality & claims

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### Key Financial Summary

| ₹ crore | FY19     | FY20     | FY21     | 2 Year CAGR (FY19-FY21) | FY22E    | FY23E    | 2 year CAGR (FY21-23E) |
|---------|----------|----------|----------|-------------------------|----------|----------|------------------------|
| Revenue | 42,608.2 | 54,351.5 | 60,591.6 | 19%                     | 63,498.7 | 73,498.0 | 10%                    |
| PAT     | 3133.5   | 2269.0   | 4470.5   | 19%                     | 4775.9   | 7009.5   | 24%                    |
| EPS (₹) | 198.0    | 269.7    | 235.6    |                         | 300.1    | 440.5    |                        |
| BV (₹)  | 1498.4   | 2026.3   | 2260.2   |                         | 2558.6   | 2997.3   |                        |
| P/E     | 65.4     | 48.0     | 55.0     |                         | 43.1     | 29.4     |                        |
| P/BV    | 8.6      | 6.4      | 5.7      |                         | 5.1      | 4.3      |                        |
| RoA     | 1.8      | 1.9      | 1.2      |                         | 1.3      | 1.7      |                        |
| RoE     | 14.1     | 15.3     | 11.0     |                         | 12.5     | 15.9     |                        |

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Mixed performance

- Consolidated topline de-grew ~2% YoY to ₹ 13949 crore, due to muted performance in lending business and higher re-insurance ceded
- Elevated provisioning in lending business and higher Covid claims impacted earnings, which de-grew 31% YoY to ₹ 833 crore
- In general insurance, GWP rose 9% YoY to ₹ 2494 crore. Growth in two-wheeler, four-wheeler remained strong at 23%, 10.3% YoY, respectively. Retail health and commercial lines business rose 30.8% & 14% YoY, respectively. However, CV segment stayed stressed with 2.8% de-growth
- On claims, frequency in motor OD claims remained slower compared to Q1FY21. Motor TP claims settlement stayed moderate owing to lockdown. Covid claims witnessed a surge with 82% of claims in FY21 recorded in Q1FY22; pre-tax Covid claims of ₹ 283 crore vs. ₹ 14 crore in Q1FY21
- In life insurance business, GWP grew 48% YoY to ₹ 2516 crore, with higher traction seen in annuity and group protection business. Demand for Ulip remained steady while retail protection has slowed a bit
- In group protection and retail side, stress was observed with a surge of claims in May & June 2021. On the retail side, the company received over 1600+ claims pertaining to Covid-19 worth ₹117 crore (on gross basis)
- The company reserves (net of reinsurance recovery) were at ₹ 304 crore (vs. ₹ 98 crore as of March 31, 2021) for probable Covid-19 claims
- Bajaj Finserv board approved investment of ₹ 342 crore (₹ 284 crore is to be invested by Bajaj Finance) in Bajaj Finserv Direct Ltd, wholly owned subsidiary, engaged in business of distribution of financial products through digital marketplace

### Peer comparison

Exhibit 1: Peer Comparison

| Sector / Company            | CMP    |        |        | M Cap  |       | EPS (₹) |       |      | P/E (x) |       | P/ABV (x) |       |       | RoE (%) |       |       |
|-----------------------------|--------|--------|--------|--------|-------|---------|-------|------|---------|-------|-----------|-------|-------|---------|-------|-------|
|                             | (₹)    | TP(₹)  | Rating | (₹ bn) | FY21  | FY22E   | FY23E | FY21 | FY22E   | FY23E | FY21      | FY22E | FY23E | FY21    | FY22E | FY23E |
| LIC Housing Finance (LICHF) | 454    | 475    | Hold   | 229    | 58.9  | 65.3    | 76.0  | 7.7  | 6.9     | 6.0   | 1.4       | 1.2   | 1.1   | 15.4    | 15.1  | 15.9  |
| HDFC (HDFC)                 | 2,480  | 3,100  | Buy    | 4,440  | 59.8  | 75.6    | 87.7  | 41.5 | 32.8    | 28.3  | 4.1       | 3.9   | 3.7   | 11.1    | 12.3  | 13.5  |
| Bajaj Finserv (BAFINS)      | 12,950 | 13,500 | Hold   | 2,027  | 235.6 | 300.1   | 440.5 | 55.0 | 43.1    | 29.4  | 5.7       | 5.1   | 4.3   | 11.0    | 12.5  | 15.9  |
| Bajaj Finance (BAJFI)       | 5,937  | 6,900  | Buy    | 3,584  | 73.5  | 102.9   | 131.7 | 80.8 | 57.7    | 45.1  | 10.0      | 8.7   | 6.7   | 12.1    | 15.6  | 16.3  |
| Mahindra & Mahindra Finance | 155    | 160    | Reduce | 190    | 2.7   | 7.2     | 10.4  | 57.0 | 21.6    | 14.9  | 1.7       | 1.4   | 1.2   | 2.6     | 5.7   | 7.3   |

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

| Business                        | Basis           | Stake (%) | Business | Value of stake | Value/<br>share after 25%<br>discount (₹) |
|---------------------------------|-----------------|-----------|----------|----------------|---|
|                                 |                 |           | Value    | (₹ crore)      |   |
| Bajaj Allianz Life Insurance    | 1.8x FY23E EV   | 74        | 31642    | 23380          | 1087                                      |
| Bajaj Allianz General Insurance | 28x PAT         | 74        | 57302    | 42403          | 1972                                      |
| Bajaj Finance                   | 7.8x FY23E BVPS | 53        | 425040   | 223784         | 10432                                     |
| Windmill                        | ₹4 per mw       | 100       | 260      | 143            | 8   |
| <b>Total</b>                    |                 |           |          | <b>13500</b>   |   |

Source: Company, ICICI Direct Research

We remain positive on a revival in business growth, digital capabilities and operational efficiency in finance as well as insurance business.

## Exhibit 3: Variance Analysis

|                              | Q1FY22  | Q1FY22E | Q1FY21   | YoY (%) | Q4FY21   | QoQ (%) | Comments  |
|------------------------------|---------|---------|----------|---------|----------|---------|---|
| General Insurance            | 2494.4  | 2495.1  | 2,289.1  | 9.0     | 2,787.4  | -10.5   | Partial lockdown kept premium growth slower                         |
| Life Insurance               | 2515.5  | 2617.5  | 1,699.7  | 48.0    | 4,501    | -44.1   | Growth in individual and group NBP propelled life insurance premium |
| Net premium earned           | 5009.8  | 5112.6  | 3,988.8  | 25.6    | 7,288.7  | -31.3   |   |
| Investment and other income  | 2311.9  | 2126.5  | 3,667    | -37.0   | 1,837    | 25.8    |   |
| Reinsurance Ceded            | 261.5   | 306.8   | 294      | -11.1   | 590      | -55.7   |   |
| Reserve for unexpired risk   | -215.1  | 100.0   | -280     | -23.2   | -71      | 201.6   |   |
| Total Insurance              | 7275.3  | 6832.3  | 7,641.3  | -4.8    | 8,606.9  | -15.5   |   |
| Retail financing             | 6743.0  | 7103.5  | 6,650    | 1.4     | 6,855    | -1.6    | Healthy AUM impacted by elevated slippages                          |
| Windmill                     | 5.0     | 8.0     | 7.8      | -36.7   | 2.4      | 108.9   |   |
| Investment and others        | 83.8    | 80.0    | 42       | 101.4   | 312      | -73.1   |   |
| Total                        | 13949.5 | 13846.2 | 14,192   | -1.7    | 15,387   | -9.3    |   |
| Interest and Finance Charges | 2190.5  | 664.6   | 2,395.2  | -8.5    | 2,147.4  | 2.0     |   |
| Other Exp                    | 9991.9  | 10863.1 | 9,228.7  | 8.3     | 10,880.0 | -8.2    |   |
| Total Expenses               | 12182.4 | 11527.8 | 11,623.9 | 4.8     | 13,027.5 | -6.5    |   |
| PBT                          | 1767.1  | 2318.5  | 2,568.1  | -31.2   | 2,359.8  | -25.1   |   |
| PAT                          | 832.8   | 1043.3  | 1,215.2  | -31.5   | 980.4    | -15.1   | Elevated provisioning & higher claims impacted earnings momentum    |

Source: Company, ICICI Direct Research

## Exhibit 4: Change in estimates

| ₹ Crore      | FY22E    |          |          | FY23E    |          |          | % Change |
|--------------|----------|----------|----------|----------|----------|----------|----------|
|              | Old      | New      | % Change | Old      | New      | % Change |          |
| Total Income | 62136.1  | 63,498.7 | 2.2      | 73536.0  | 73,498.0 | -0.1     |          |
| PBT          | 11,679.3 | 10,758.2 | -7.9     | 14,816.9 | 15,135.5 | 2.2      |          |
| PAT          | 5,287.7  | 4,775.9  | -9.7     | 6,822.4  | 7,009.5  | 2.7      |          |
| ABV (₹)      | 2,590.7  | 2,558.6  | -1.2     | 3,017.7  | 2,997.3  | -0.7     |          |

Source: Company, ICICI Direct Research

## Exhibit 5: Assumption

|                               | Current |      |       | Earlier |       |       |  |
|-------------------------------|---------|------|-------|---------|-------|-------|--|
|                               | FY20    | FY21 | FY22E | FY23E   | FY22E | FY23E |  |
| Commercial Finance growth (%) | 25.7    | 3.8  | 18.0  | 21.7    | 18.0  | 21.7  |  |
| Life Ins Premium growth (%)   | 10.1    | 15.4 | 23.7  | 14.0    | 23.7  | 14.0  |  |
| General Ins GWP growth (%)    | 15.6    | 5.0  | 10.5  | 12.0    | 11.0  | 12.0  |  |

Source: Company, ICICI Direct Research

## Financial summary

| Exhibit 6: Profit and loss statement |       |       |       |                  |
|--------------------------------------|-------|-------|-------|------------------|
| (Year-end March)                     | FY20  | FY21  | FY22E | ₹ crore<br>FY23E |
| Revenue                              |       |       |       |                  |
| <i>Life Insurance</i>                | 9753  | 12025 | 13926 | 15882            |
| <i>General Insurance</i>             | 12833 | 12624 | 14889 | 16676            |
| Total                                | 22586 | 24649 | 28816 | 32559            |
| Less: Reinsurance ceded              | 1056  | 1797  | 2330  | 2581             |
| Reserve for unexpired risk           | 180   | 432   | 744   | 834              |
| Net Insurance Premium Earned         | 21349 | 22420 | 25741 | 29144            |
| Investment and other income          | 6791  | 11756 | 8391  | 8431             |
| Total Insurance Income               | 28140 | 34176 | 34132 | 37575            |
| Investment and others                | 904   | 480   | 528   | 581              |
| Retail financing                     | 26386 | 26683 | 29792 | 36386            |
| Windmill                             | 39    | 24    | 30    | 37               |
| Total                                | 55469 | 61363 | 64482 | 74580            |
| Less: Inter-segment revenue          | 1118  | 772   | 983   | 1082             |
| Total revenue                        | 54351 | 60592 | 63499 | 73498            |
| Pre-tax profit                       |       |       |       |                  |
| <i>General Insurance</i>             | 1033  | 2392  | 2262  | 2819             |
| <i>Life Insurance</i>                | 39    | 1383  | 1041  | 1368             |
| Total Insurance                      | 1072  | 3776  | 3303  | 4188             |
| Retail financing                     | 7442  | 6387  | 7705  | 11220            |
| Investments & others                 | -234  | -305  | -264  | -291             |
| Windmill                             | 20    | 5     | 14    | 18               |
| Total PBIT                           | 8300  | 9862  | 10758 | 15135            |
| Less: Interest                       | -234  | -96   | -264  | -291             |
| Profit before tax                    | 8301  | 9862  | 10758 | 15135            |
| Tax                                  | -2308 | -2495 | -2798 | -3050            |
| Net profit before minority           | 5994  | 7367  | 7960  | 12085            |
| Minority and deferred tax adjustment | 2624  | 2897  | 3184  | 5076             |
| Net profit                           | 2269  | 4470  | 4776  | 7009             |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance Sheet              |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|
| (Year-end March)                      | FY20   | FY21   | FY22E  | FY23E  |
| Sources of Funds                      |        |        |        |        |
| Shareholders' Funds                   | 32242  | 35830  | 40712  | 47693  |
| - Share capital                       | 80     | 80     | 80     | 80     |
| - Reserves & Surplus                  | 32162  | 35750  | 40632  | 47614  |
| Policy liabilities                    | 58772  | 75230  | 68775  | 85132  |
| Loan funds                            | 122465 | 124014 | 173139 | 210773 |
| Deferred tax liability (net)          | 80     | 320    | 326    | 333    |
| Current liabilities                   | 75071  | 44624  | 67751  | 64364  |
| Provisions                            | 176    | 226    | 235    | 245    |
| Total liabilities                     | 251384 | 280164 | 385466 | 450023 |
| Applications of Funds                 |        |        |        |        |
| Fixed assets                          | 1615   | 1565   | 2387   | 2602   |
| Goodwill on investments in associates | 689    | 689    | 689    | 689    |
| Investments                           | 27714  | 33609  | 17845  | 17310  |
| Policyholders' Investments            | 64108  | 80072  | 72061  | 86902  |
| Deferred Tax Assets (net)             | 885    | 946    | 976    | 1025   |
| Current assets                        | 14997  | 163284 | 118368 | 130722 |
| - Receivable under financing activity | 141376 | 146687 | 173139 | 210773 |
| Misc Expenditure                      | 0      | 0      | 0      | 0      |
| Total Assets                          | 251384 | 280164 | 385466 | 450023 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key Ratio |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| (Year-end March)     | FY20    | FY21    | FY22E   | FY23E   |
| CMP                  | 12950.0 | 12950.0 | 12950.0 | 12950.0 |
| No. of shares in mn  | 159.1   | 159.1   | 159.1   | 159.1   |
| EPS                  | 269.7   | 235.6   | 300.1   | 440.5   |
| BV                   | 2026.3  | 2260.2  | 2558.6  | 2997.3  |
| RoA                  | 1.9     | 1.2     | 1.3     | 1.7     |
| RoE                  | 15.3    | 11.0    | 12.5    | 15.9    |
| P/BV                 | 6.4     | 5.7     | 5.1     | 4.3     |
| P/E                  | 48.0    | 55.0    | 43.1    | 29.4    |

| (Year-end March) - Growth ratios | FY20 | FY21 | FY22E | FY23E |
|----------------------------------|------|------|-------|-------|
| Gross Written Premium            |      |      |       |       |
| - Life                           | 10.1 | 15.4 | 23.7  | 14.0  |
| - General                        | 16   | 5    | 11    | 12    |
| Loan book Bajaj Finance          | 26   | 4    | 18    | 22    |
| Consol Networth                  | 35   | 12   | 13    | 17    |
| Consol Revenues                  | 30   | 20   | 12    | 16    |
| Consol PAT                       | 36   | -13  | 27    | 47    |
| Consol Effective Tax rate        | 25   | 25   | 26    | 20    |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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