

Revival in finance segment; outlook stays optimistic

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

Q3FY22 Results: Robust pick up in lending business; insurance remains slow.

- Consolidated revenue grew ~10.4% YoY; PAT declined 2.6% YoY
- AUM up 26% YoY to ₹ 181250 crore; PAT up 85% YoY led by low provision
- GWP declined 13% YoY to ₹ 2959 crore; PAT steady YoY at ₹ 304 crore
- Robust growth at 30% YoY in life premium; high opex impacted PAT

What should investors do? Bajaj Finserv's share price has grown by ~5.2x over the past five years (from ~₹ 3170 in January 2017 to ₹ 16333 in January 2022).

- We maintain our BUY rating on the stock

Target Price and Valuation: Rolling valuation to FY24E and increasing discount to 15%, we value Finserv at ~39x FY24E EPS and assign target price at ₹ 20000/ share.

Key triggers for future price performance:

- Lending on cusp of accelerated growth aiding earnings momentum ahead
- Agility to switch from online to offline model to propel valuations
- Product launch & selective product mix to aid premium growth & earnings in life & general insurance business
- Healthy traction in all businesses to drive consolidated revenue & earnings

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 ~₹ 5 lakh crore with presence in life insurance, banking, AMC via its subsidiaries
- BUY with target price of ₹ 3350



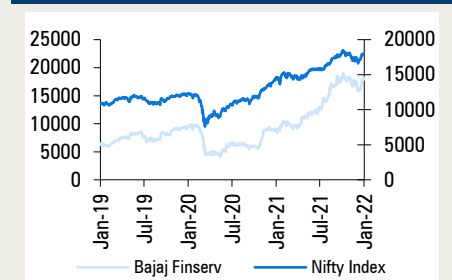
Particulars

Particular	Amount
Market Capitalization	₹ 259920 crore
Net worth	₹ 39011 crore
52 week H/L (₹)	19319 /8637
Face value	₹ 5
DII Holding (%)	6.8
FII Holding (%)	8.8

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.8	60.8	60.8	60.8	60.8
FII	8.8	9.1	9.6	8.9	8.8
DII	6.1	6.1	6.0	6.6	6.8
Others	24.4	24.0	23.7	23.7	23.7

Price Chart



Recent Event & Key risks

- Consolidated topline up ~10.4% YoY, led by revival in finance bus
- Key Risk:** 1) Unsecured book remains vulnerable to NPA shocks, 2) Higher crop business remains risk

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Key Financial Summary

₹ crore	FY19	FY20	FY21	2 Year CAGR (FY19-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-23E)
Revenue	42,608.2	54,351.5	60,591.6	19%	66,524.9	79,039.7	94,006.9	16%
PAT	3133.5	2269.0	4470.5	19%	4247.0	6663.3	8290.1	23%
EPS (₹)	198.0	269.7	235.6		266.9	418.8	521.0	
BV (₹)	1498.4	2026.3	2260.2		2525.3	2942.3	3461.6	
P/E	82.5	60.6	69.3		61.2	39.0	31.3	
P/BV	10.9	8.1	7.2		6.5	5.6	4.7	
RoA	1.8	1.9	1.2		1.1	1.5	1.6	
RoE	14.1	15.3	11.0		11.2	15.3	16.3	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Healthy revival in all businesses

- Consolidated topline grew ~10.4% YoY to ₹ 17620 crore, owing to strong revival in lending business and healthy accretion in life insurance premium. Consolidated PAT at ₹ 1256 crore; down 2.6% YoY, due to muted profitability in insurance business
- AUM growth at 26.3% YoY to ₹ 181250 crore, coupled with steady margins and lower provision led to 85% YoY growth in earnings to ₹ 2125 crore
- In general insurance, GWP declined 13% YoY to ₹ 2959 crore, led by lower crop (₹ 214 crore) & government health business (₹ 15 crore). Two wheeler business muted while CV witnessed signs of improvement. Retail health was slower due to base effect led by sales of Corona Kavach
- On claims, significant reduction was seen in Covid claims, though non-Covid health claims and motor OD claim frequency are back to pre-Covid level. Heavy rainfall in Uttarakhand & Tamil Nadu had a negative impact. Thus, claim ratio increased to 69.6% in Q3FY22
- In life insurance business, GWP grew 30% YoY to ₹ 4079 crore, with higher traction seen in annuity and unit linked business. NBP margin increased from 11% to 12.6% (annualised) on YoY basis. Ticket size increased from ₹ 61033 in Q3FY21 to ₹ 84810 in Q3FY22
- On the retail side, the company received over 550+ claims pertaining to Covid-19 worth ₹ 27 crore (₹ 146 crore in Q2FY22, ₹ 117 crore in Q1FY22)
- The company reserves (net of reinsurance recovery) were at ₹ 93 crore (₹ 105 crore as of September 2021, ₹ 304 crore as of June 2021) for probable Covid-19 claims

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC (HDFC)	2,592	3,350	Buy	4,694	59.8	74.9	82.9	43.4	34.6	31.3	4.3	4.1	3.9	11.1	12.2	12.8
Bajaj Finserv (BAFINS)	16,333	20,000	Buy	2,599	235.6	266.9	418.8	69.3	61.2	39.0	7.2	6.5	5.6	11.0	11.2	15.3
Bajaj Finance (BAJFI)	7,373	9,500	Buy	4,450	73.6	107.4	146.5	100.2	68.7	50.3	12.4	11.1	8.2	12.8	16.2	17.6
M & M Finance (MAHFIN)	155	160	Reduce	192	2.7	3.4	12.5	57.0	45.8	12.4	1.6	1.7	1.4	2.6	2.8	9.7
SBI Cards (SBICARD)	851	1,200	Buy	802	10.5	15.1	23.7	81.2	56.2	35.8	13.3	11.2	9.0	16.9	20.7	26.8
Muthoot Finance (MUTFIN)	1,431	1,920	Buy	574	8.0	9.5	12.0	179.6	150.1	118.9	3.9	3.2	2.7	27.8	25.0	26.0

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/share after 85% discount (₹)
BALIC	1.8x FY24E EV	74	36488	26961	1440
BAGIC	28x FY24E PAT	74	53503	39592	2115
Bajaj Finance	8.4x FY24E BVPS	53	585200	308108	16436
Windmill	₹4 per mw	100	260	143	8
Total					20000

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
General Insurance	2959.5	3527.7	3,392.0	-12.8	5,034.6	-41.2	Lower crop and govt health business impacted growth
Life Insurance	4079.7	4028.2	3,147.0	29.6	3,813	7.0	Growth in individual and group NBP propelled life insurance premium
Net premium earned	7039.2	7555.8	6,539.0	7.6	8,847.7	-20.4	
Investment and other income	2104.5	2330.6	3,659	-42.5	3,208	-34.4	
Reinsurance Ceded	466.8	302.2	491	-5.0	710	-34.3	
Reserve for unexpired risk	-479.2	100.0	305	-257.2	1,060	-145.2	
Total Insurance	9156.1	9484.2	9,401.9	-2.6	10,285.5	-11.0	
Retail financing	8535.1	8294.5	6,655	28.2	7,732	10.4	Pick up in AUM growth supported top-line
Windmill	6.3	4.0	3.9	61.9	10.3	-39.3	
Investment and others	358.7	80.0	79	352.1	427	-16.1	
Total	17619.6	17655.3	15,961	10.4	18,008	-2.2	
Interest and Finance Charges	2444.5	664.6	2,258.4	8.2	2,381.9	2.6	
Other Exp	11926.1	13910.2	10,922.8	9.2	12,834.1	-7.1	
Total Expenses	14370.6	14574.9	13,181.3	9.0	15,216.0	-5.6	
PBT	3249.0	3080.4	2,779.5	16.9	2,792.3	16.4	
PAT	1255.8	1386.2	1,290.3	-2.7	1,122.1	11.9	Lower provisioning contributed to PAT, partially offset by higher expense in life insurance business

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Total Income	65543.1	66,524.9	1.5	77487.9	79,039.7	2.0	94,006.9
PBT	11,066.2	10,605.7	-4.2	14,254.6	14,956.4	4.9	18,082.7
PAT	4,626.1	4,247.0	-8.2	6,503.0	6,663.3	2.5	8,290.1
ABV (₹)	2,549.1	2,525.3	-0.9	2,956.1	2,942.3	-0.5	3,461.6

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
Commercial Finance growth (%)	3.8	24.3	22.5	20.3	18.0	21.7	
Life Ins Premium growth (%)	15.4	36.9	21.0	20.7	23.7	14.0	
General Ins GWP growth (%)	5.0	0.5	12.0	12.0	10.5	12.0	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Revenue				
<i>Life Insurance</i>	12025	15404	18642	22503
<i>General Insurance</i>	12624	13542	15167	16987
Total	24649	28946	33809	39490
Less: Reinsurance ceded	1797	1845	1928	1996
Reserve for unexpired risk	432	677	758	849
Net Insurance Premium Earned	22420	26424	31123	36644
Investment and other income	11756	9440	10639	12032
Total Insurance Income	34176	35863	41762	48676
Investment and others	480	720	864	1037
Retail financing	26683	30895	37458	45437
Windmill	24	30	37	47
Total	61363	67508	80122	95197
Less: Inter-segment revenue	772	983	1082	1190
Total revenue	60592	66525	79040	94007
Pre-tax profit				
<i>General Insurance</i>	2392	1905	2244	2632
<i>Life Insurance</i>	1383	321	1026	1441
Total Insurance	3776	2226	3271	4073
Retail financing	6387	8734	12109	14517
Investments & others	-305	-360	-432	-519
Windmill	5	6	9	12
Total PBIT	9862	10606	14956	18083
Less: Interest	-96	-360	-432	-519
Profit before tax	9862	10606	14956	18083
Tax	-2495	-2592	-2841	-3010
Net profit before minority	7367	8013	12115	15073
Minority and deferred tax adjustments	2897	3766	5452	6783
Net profit	4470	4247	6663	8290

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Sources of Funds				
Shareholders' Funds	35830	40183	46818	55081
- Share capital	80	80	80	80
- Reserves & Surplus	35750	40103	46739	55001
Policy liabilities	75230	70105	88986	111641
Loan funds	124014	182343	223341	268759
Deferred tax liability (net)	320	326	333	339
Current liabilities	44624	67751	64364	61145
Provisions	226	235	245	255
Total liabilities	280164	396201	466956	549456
Applications of Funds				
Fixed assets	1565	4209	4606	4677
Goodwill on investments in associates	689	689	689	689
Investments	33609	15637	15168	14713
Policyholders' Investments	80072	73199	90173	111031
Deferred Tax Assets (net)	946	976	1025	1076
Current assets	163284	119147	131953	148510
- Receivable under financing activity	146687	182343	223341	268759
Misc Expenditure	0	0	0	0
Total Assets	280164	396201	466956	549456

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio				
(Year-end March)	FY21	FY22E	FY23E	FY24E
CMP	16333.0	16333.0	16333.0	16333.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	235.6	266.9	418.8	521.0
BV	2260.2	2525.3	2942.3	3461.6
RoA	1.2	1.1	1.5	1.6
RoE	11.0	11.2	15.3	16.3
P/BV	7.2	6.5	5.6	4.7
P/E	69.3	61.2	39.0	31.3

(Year-end March) - Growth ratios	FY21	FY22E	FY23E	FY24E
Gross Written Premium				
- Life	15.4	36.9	21.0	20.7
- General	5	0	12	12
Loan book Bajaj Finance	4	24	22	20
Consol Network	12	12	17	18
Consol Revenues	20	18	19	19
Consol PAT	-13	13	57	24
Consol Effective Tax rate	25	24	19	17

Source: Company, ICICI Direct Research

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