

## Healthy quarter; 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

**Q4FY22 Results:** Pick-up in lending AUM & premium accretion aided topline

- Consolidated revenue grew ~22.6% YoY; PAT up 37.3% YoY
- AUM up 29% YoY to ₹ 197452 crore; PAT jump led by lower provision
- GWP declined 18% YoY to ₹ 3300 crore; PAT lower at ₹ 248 crore
- Robust growth at 30% YoY in life premium; new business strain impact PAT

**What should investors do?** Bajaj Finserv's share price has grown by over~5x in the past five years (from ~₹ 3170 in January 2017 to ₹ 14772 in May 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** Given a pick-up in finance business and anticipated healthy growth in insurance segment, we remain positive. Increasing discount to 20%, we value Finserv at ~36x FY24E EPS and lower our target price from ₹ 20000 earlier to ₹ 18900/share.

**Key triggers for future price performance:**

- Digital transformation with robust customer additions and wallets to boost profitability factoring initial cashbacks as part of opex, no impact on profit
- Product launch and selective product mix to aid premium growth and earnings in the life and general insurance business
- Healthy traction in all businesses to drive consolidated revenue & earnings

**Alternate Stock Idea:** Besides Finserv, 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 a presence in life insurance, banking, AMC via its subsidiaries
- BUY with a target price of ₹ 3350



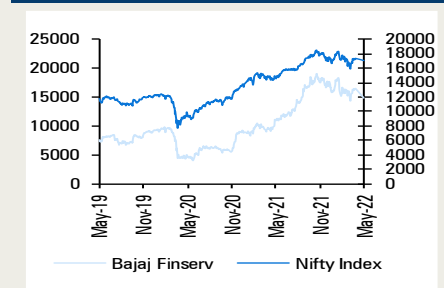
### Particulars

Particular	Amount
Market Capitalization	₹ 237265 crore
Net worth	₹ 46246 crore
52 week H/L (₹)	19319 /10710
Face value	₹ 5
DII Holding (%)	7.0
FII Holding (%)	8.5

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.8	60.8	60.8	60.8	60.8
FII	9.1	9.6	8.9	8.8	8.5
DII	6.1	6.0	6.6	6.8	7.0
Others	24.0	23.7	23.7	23.7	23.8

### Price Chart



### Recent Event & Key risks

- Consolidated topline up ~22.6% YoY
- Key Risk:** 1) Elevated opex could impact return ratios, 2) Higher crop business remains risk

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### Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue	42,608.2	54,351.5	60,591.6	68,439.0	17%	80,430.0	99,842.3	21%
PAT	3133.5	2269.0	4470.5	4556.8	13%	6624.5	8448.7	36%
EPS (₹)	198.0	269.7	176.2	708.4		416.3	531.0	
BV (₹)	1498.4	2026.3	2199.7	2906.3		3320.9	3850.1	
P/E	75.0	55.1	84.3	21.0		35.7	28.0	
P/BV	9.9	7.3	6.8	5.1		4.5	3.9	
RoA	1.8	1.9	1.1	2.7		1.1	1.2	
RoE	14.1	15.3	8.3	27.7		13.4	14.8	

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Pick-up in AUM & premium accretion aid topline

- Consolidated topline growth came in healthy at ~22.6% YoY to ₹ 18862 crore, owing to strong revival in lending business and healthy performance in life insurance premium offtake. Lower provisioning in lending business was partially offset by lower profitability in insurance business, thus leading to consolidated earnings at ₹ 1346 crore; up 37.3% YoY
- AUM growth at 29% YoY to ₹ 197452 crore, coupled with steady margins and lower provision led to robust growth in earnings
- Continuing with customer first strategy and new product launches to provide better experience and gain market share
- In general insurance, GWP increased 18% YoY to ₹ 3300 crore, including ₹ 429 crore of crop and government business compared to ₹ 96 crore in Q4FY21. Excluding crop and government, GDPI growth at 6%, attributable to fire (11%), engineering (16%), marine (23%) and liability (33%)
- On claims, significant reduction was seen in Covid claims, though non-Covid health claims and higher crop claims in Kharif season kept overall claims higher at 68.8% in Q4FY22
- In the life insurance business, GWP grew 27% YoY to ₹ 5719 crore, with higher traction seen in annuity business. NBP margin increased from 12.3% in FY21 to 14.2% in FY22. Product mix: Par, Non-Par Savings, Ulip, Protection, Annuity (20%, 33%, 36%, 2%, 9%, respectively)
- BALIC will use new launches, customer addition and upscaling i.e. selling more products to existing customer. Geography enlargement is also under process
- Reserves for probable future Covid-19 claims at ₹ 62.6 crore
- Expects first set of schemes to be launched in the mutual fund business by H2FY23E
- Credit life business had a base effect in Q4FY22. This is on account of Q4FY21 witnessing a surge in credit demand due to opening up of markets

## 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	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC (HDFC)	2,257	3,350	Buy	4,093	59.8	72.5	83.7	96.0	37.8	31.1	27.0	23.5	3.7	3.6	3.4	3.3	11.1	11.8	13.0	14.2
Bajaj Finserv (BAFINS)	14,852	18,900	Buy	2,359	176.2	708.4	416.3	531.0	84.3	21.0	35.7	28.0	6.8	5.1	4.5	3.9	8.3	27.7	13.4	14.8
Bajaj Finance (BAJFI)	6,605	9,500	Buy	3,999	73.6	116.5	158.7	201.4	89.8	56.7	41.6	32.8	11.1	9.4	7.8	5.9	12.8	17.4	19.9	20.0
SBI Cards (SBICARD)	820	1,000	Buy	773	10.5	14.9	23.5	33.8	78.3	54.9	35.0	24.2	12.8	10.7	8.6	6.3	16.9	23.0	26.0	27.9
Muthoot Finance (MUTFIN)	1,261	1,700	Buy	506	8.0	9.5	12.0	13.0	158.3	132.3	104.7	96.7	3.4	3.0	2.4	2.0	27.8	24.6	24.1	24.3

Source: Company, ICICI Direct Research

### Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 80% discount (₹)
BALIC	1.8x FY24E EV	74	37807	27935	1404
BAGIC	28x FY24E PAT	74	54952	40665	2044
Bajaj Finance	8.4x FY24E BVPS	52	585200	307171	15444
Windmill	₹4 per mw	100	260	143	8
<b>Total</b>					<b>18900</b>

Source: Company, ICICI Direct Research

**Exhibit 3: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
General Insurance	3299.8	2954.7	2,787.4	18.4	2,959.5	11.5	Excluding crop & government business, premium accretion remained healthy
Life Insurance	5718.7	5941.7	4,501.3	27.0	4,080	40.2	
Net premium earned	9018.5	8896.4	7,288.7	23.7	7,039.2	28.1	
Investment and other income	1966.5	2235.1	1,837	7.0	2,105	-6.6	
Reinsurance Ceded	745.8	444.8	590	26.3	467	59.8	
Reserve for unexpired risk	-124.7	100.0	-71	74.9	-479	-74.0	
Total Insurance	10363.9	10586.7	8,606.9	20.4	9,156.1	13.2	
Retail financing	8630.3	9039.0	6,855	25.9	8,535	1.1	
Windmill	7.8	2.4	2.4	229.5	6.3	24.4	Led by strong revival in lending business
Investment and others	125.7	80.0	312	-59.7	359	-65.0	
Total	18861.7	19482.2	15,387	22.6	17,620	7.0	
Interest and Finance Charges	2481.3	664.6	2,147.4	15.5	2,444.5	1.5	
Other Exp	12918.1	15412.0	10,880.0	18.7	11,926.1	8.3	
Total Expenses	15399.5	16076.7	13,027.5	18.2	14,370.6	7.2	
PBT	3462.2	3405.5	2,359.8	46.7	3,249.0	6.6	
PAT	1346.1	1299.5	980.4	37.3	1,255.8	7.2	Lower provisioning in lending business partially offset by lower profitability in insurance business

Source: Company, ICICI Direct Research

**Exhibit 4: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Total Income	83,658.7	80,430.0	-3.9	98,497.4	99,842.3	1.4
PBT	29,385.7	15,462.2	-47.4	33,526.1	19,879.2	-40.7
PAT	13,519.1	6,624.5	-51.0	15,536.2	8,448.7	-45.6
ABV (₹)	3,748.7	3,320.9	-11.4	4,723.4	3,850.1	-18.5

Source: Company, ICICI Direct Research

**Exhibit 5: Assumption**

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Commercial Finance growth (%)	24.4	21.6	22.5	20.3
Life Ins Premium growth (%)	1.3	22.9	23.3	22.2
General Ins GWP growth (%)	42.0	14.0	12.0	12.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 6: Profit and loss statement						
(Year-end March)	₹ crore					
	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue						
Life Insurance	8856	9753	12025	13788	17175	21110
General Insurance	11100	12833	12624	16127	18016	20539
Total	19956	22586	24649	29915	35191	41648
Less: Reinsurance ceded	2279	1056	1797	2185	2787	3024
Reserve for unexpired risk	111	180	432	241	901	1027
Net Insurance Premium Earned	17566	21349	22420	27490	31504	37598
Investment and other income	6660	6791	11756	9591	11402	15760
Total Insurance Income	24226	28140	34176	37081	42906	53357
Investment and others	459	904	480	996	1008	1210
Retail financing	18502	26386	26683	31640	37562	46424
Windmill	76	39	24	29	36	41
Total	43262	55469	61363	69746	81512	101032
Less: Inter-segment revenue	654	1118	772	1307	1082	1190
Total revenue	42608	54351	60592	68439	80430	99842
Pre-tax profit						
General Insurance	1254	1033	2392	1736	2296	2611
Life Insurance	772	39	1383	43	1014	1410
Total Insurance	2026	1072	3776	1778	3309	4021
Retail financing	6180	7442	6387	10000	12951	16816
Investments & others	-157	-234	-305	-514	-807	-968
Windmill	20	20	5	6	9	10
Total PBIT	8070	8300	9862	11271	15462	19879
Less: Interest	-157	-234	-305	-360	-807	-968
Profit before tax	8070	8301	9862	11270	15462	19879
Tax	-2781	-2308	-2495	-2957	-2844	-2982
Net profit before minority	5288	5994	7367	8313	12618	16897
Minority and deferred tax adjustment	2155	2624	2897	3757	5994	8449
Net profit	3134	2269	4470	4557	6625	8449

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
CMP	14852.0	14852.0	14852.0	14852.0	14852.0	14852.0
No. of shares in mn	159.1	159.1	159.1	159.1	159.1	159.1
EPS	198.0	269.7	176.2	708.4	416.3	531.0
BV	1498.4	2026.3	2199.7	2906.3	3320.9	3850.1
RoA	1.8	1.9	1.1	2.7	1.1	1.2
RoE	14.1	15.3	8.3	27.7	13.4	14.8
P/BV	9.9	7.3	6.8	5.1	4.5	3.9
P/E	75.0	55.1	84.3	21.0	35.7	28.0

(Year-end March) - Growth ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross Written Premium						
- Life	16.9	10.1	23.3	40.9	1.3	22.9
- General	17	16	-2	0	42	14
Loan book Bajaj Finance	38	26	4	30	24	22
Consol Network	15	35	9	32	14	16
Consol Revenues	12	30	22	23	14	24
Consol PAT	19	36	-35	302	-41	28
Consol Effective Tax rate	33	25	30	18	18	15

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Shareholders' Funds	2384	32242	35830	46246	52842	61263
- Share capital	80	80	80	80	80	80
- Reserves & Surplus	23762	32162	35750	46166	52763	61184
Policy liabilities	21814	58772	75230	73318	103988	136713
Loan funds	101588	122465	124014	191423	238216	289789
Defered tax liability (net)	7	80	320	326	333	339
Current liabilities	22801	75071	44624	207411	197040	187188
Provisions	944	176	226	235	245	255
Total liabilities	208784	251384	280164	561338	644534	739596
Applications of Funds						
Fixed assets	2560	1615	1565	3805	4163	4231
Goodwill on investments in associati	689	689	689	689	689	689
Investments	34484	27714	33609	12246	11878	11522
Policyholders' Investments	47092	64108	80072	80737	109957	140308
Deferred Tax Assets (net)	462	885	946	993	1043	1095
Current assets	10984	14997	163284	271445	278587	291962
- Receivable under financing activity	112513	141376	146687	191423	238216	289789
Misc Expenditure	0	0	0	0	0	0
Total Assets	208784	251384	280164	561338	644534	739596

Source: Company, ICICI Direct Research

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