



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING
Updated Feb 08, 2022 **26.21**

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

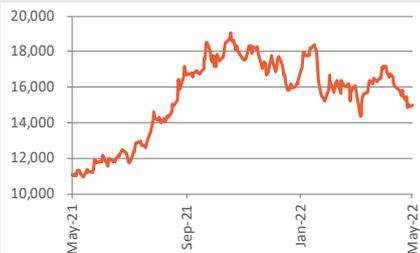
Company details

Market cap:	Rs. 2,37,249 cr
52-week high/low:	Rs. 19,320/10,710
NSE volume: (No of shares)	2.8 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	6.2 cr

Shareholding (%)

Promoters	60.8
FII	8.5
DII	7.0
Others	23.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.0	-6.0	-14.6	35.5
Relative to Sensex	-7.0	-2.7	-9.9	18.5

Sharekhan Research, Bloomberg

NBFC

Sharekhan code: BAJAJFINSV

Reco/View: Buy



CMP: Rs. 14,957

Price Target: 20,264



Upgrade



Maintain



Downgrade

Summary

- Bajaj Finserv (BFS) reported consolidated PAT of Rs. 1,346 crore, an increase of ~38% y-o-y, aided by strong revenue from operations. For FY2022, PAT grew by 2% y-o-y to Rs. 4,557 crore.
- Revenue grew strong by ~23% y-o-y in Q4FY2022. It was primarily aided by strong growth in lending business and robust performance in life premium offtake.
- Management opined that business conditions improved significantly in Q4FY2022. However, lower sales of automobiles due to supply chain problems affected the general insurance business, but overall business environment was conducive and all businesses performed well.
- We maintain our Buy rating on the stock with an unchanged SOTP-based PT of Rs. 20,264.

Bajaj Finserv (BFS, the holding company) reported a strong growth of ~38% y-o-y and 7% q-o-q in PAT to Rs. 1,346 crore. PAT included unrealised MTM losses on equity investments measured at fair value through profit and loss of Bajaj Allianz Life Insurance (BALIC) and Bajaj Alliance General Insurance (BAGIC) of Rs. 91 crore in Q4FY2022 versus Rs. 4 crore in Q4FY2021. Revenue from operations increased by ~23% y-o-y (up ~7% q-o-q) to Rs. 18,862 crore in Q4FY2022. Bajaj Finance's (BAF) consolidated asset under management (AUM) stood at Rs. 1.97 trillion, up ~29% y-o-y/~9% q-o-q. The company's life insurance business (BALIC) reported gross premium income of Rs. 5,719 crore, an increase of ~27% y-o-y. Its new business premium grew by 36% y-o-y and ~30% q-o-q, primarily driven by individual rated new business premium (up 36% y-o-y), while group protection business grew modestly by 1% y-o-y. General Insurance (BAGIC), gross written premium, increased by 18% y-o-y and ~12% q-o-q in Q4FY2022. Claim ratio increased to 68.8% in Q4FY2022 versus 64.3% in Q4FY2021, mainly due to increased severity of non-Covid health claims.

Key positives

- In life insurance, individual rated new business of the company rose by 36% y-o-y versus 9% y-o-y growth for private players.
- The company's annuity product continued to perform well, contributing 9% in Q4FY2022 and 11% in FY2022.

Key negatives

- PAT was lower at Rs. 48 crore versus Rs. 88 crore in Q3FY2022 for life insurance business. This was due to lower investment income and higher new business strain on account of higher business growth.
- Claim ratio for general insurance was higher in Q4FY2022 on account of increased severity of non-Covid health claims.

Management Commentary

- As per management, BAGIC continued to maintain its market share and recorded the highest-ever gross written premium and PAT.
- It seeks to grow the preferred segments such as private cars, two wheelers, commercial lines, and retail health going ahead; however, it remains cautious on group health.
- For BAGIC, overall, in FY2022, motor growth stood at 2.5% y-o-y and was lower than the industry's growth of 4.0% y-o-y, and commercial lines (fire, engineering, marine, and liability) continued to perform well with 16.5% y-o-y growth against the industry's growth of 12.6% y-o-y in FY2022.

Our Call

Valuation – Maintain Buy with an SOTP-based PT of Rs. 20,264. We believe healthy traction in all businesses would drive consolidated revenue and earnings for BFS. BAF stands well poised to deliver robust AUM growth of 22% over FY2022 through FY2024E with prudent provisioning, high capitalisation, and strong balance sheet. BAF is well capitalised with conservative leverage and both BALIC and BAGIC have healthy solvency ratios and strong operating metrics, along with strong structural tailwinds to provide growth opportunities for them in the long term.

Key Risks

Any slowdown in consumer finance growth may pose a risk to the company's earnings growth and profitability.

SOTP Valuation

Particulars	Holding	Rationale	Value per share	Rs cr
BALIC	74%	2.3x FY24E EV		1,701
BAGIC	74%	30x FY24E PAT		2,093
Bajaj Finance	52%	8.5x FY24E BVPS		18,708
Windmill	100%			10
Less: Holding Co Discount	10%			2,251
Total				20,264

Source: Company; Sharekhan estimates

Key result highlights from Concall

- ◆ **Bajaj Finance (BAF):** BAF reported consolidated PAT of Rs. 2,420 crore, up 80% y-o-y and 14% q-o-q in Q4FY2022, primarily because of robust growth in net interest income (NII) and other income. NII grew by ~30% y-o-y (up ~2% q-o-q). Other income rose by 54% y-o-y. GNPA and NNPA declined by ~14 bps q-o-q and ~10 bps q-o-q to 1.6% and 0.68%, respectively, in Q4FY2022. Consolidated AUM at Rs. 1.97 trillion increased ~29% y-o-y/~9% q-o-q, which added Rs. 14,700 crore worth of loans sequentially. AUM composition remained steady, with all segments registering double-digit growth except for auto finance business.
- ◆ **BAGIC:** General insurance's (BAGIC), gross written premium increased by 18% y-o-y and 12% q-o-q to Rs. 3,300 crore. It wrote crop and government health insurance of Rs. 429 crore in Q4FY2022 versus Rs. 96 crore in Q4FY2021. Its net premium earned increased by 10% y-o-y and 3% q-o-q. Claim ratio for general insurance was higher in Q4FY2022 because of increased severity of non-Covid health claims and higher crop claims in Kharif season of FY2022; although it maintained its market share. In FY2022, overall motor growth stood at 2.5% y-o-y and was lower than the industry's growth of 4.0% y-o-y. Commercial lines (fire, engineering, marine, and liability) continued to perform well with 16.5% y-o-y growth against industry's growth of 12.6% y-o-y in FY2022. Combined ratio increased to 98.3% in 4QFY2022 versus 96.6% in Q4FY2021.
- ◆ **BALIC:** The company's life insurance business (BALIC) reported gross premium income of Rs. 5,719 crore, an increase of ~27% y-o-y. Its new business premium grew by 36% y-o-y and ~36% q-o-q, primarily driven by individual-rated new business premium (up 36% y-o-y), while group protection business grew modestly by 1% y-o-y. Product mix in terms of by individual-rated new business premium stands at Par (20%), Non-Par Savings (33%), ULIP (36%), Protection (2%), Annuity (9%). Management stated that its launch of Guaranteed Pension Goal annuity product in Q4FY2021 has been received well and contributed to 11% of the product mix in FY2022.

Results - Bajaj Finserv

Particulars	Rs cr				
	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
Income from operations	18,862	15,387	17,587	22.6	7.2
Other income		0	33		
Total Income from operations	18,862	15,387	17,620	22.6	7.0
Expenses	14,665	11,768	13,297	24.6	10.3
Employee benefits expenses	1,912	1,460	1,767	30.9	8.2
Finance costs	2,481	2,147	2,445	15.5	1.5
Fees and commission expense	1,042	840	905	24.1	15.3
Claims paid	5,137	3,861	4,318	33.0	19.0
Reinsurance ceded	1,525	1,092	1,554	39.6	-1.9
Net change in insurance l investment contract liabilities	1,247	1,327	1,046	-6.0	19.2
Depreciation, amortisation and impairment	149	135	143	10.4	4.4
Other expenses	1,171	905	1,120	29.4	4.5
Provisions	734	1,261	1,074	-41.8	-31.6
Impairment of financial instruments - lending assets	702	1,231	1,051	-43.0	-33.3
Impairment of financial instruments - investments	33	30	22	9.4	45.4
Profit before tax	3,462	2,359	3,249	46.8	6.6
Share in PAT of invst in associates	0	0	-0	-94.4	-111.1
Tax	929	613	890	51.4	4.4
PAT	1,346	979	1,256	37.5	7.2

Source: Company; Sharekhan Research

Results - Bajaj Finance (Consolidated)

Particulars	Rs cr				
	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
Interest Income	6,034	7,262	7,366	22.1	1.4
Interest Expenses	2,196	2,535	2,563	16.7	1.1
Net Interest Income	3,839	4,728	4,803	25.1	1.6
Other Income	821	1,273	1,264	54.1	(0.7)
Net Operating Income (NII as reported by BAF)	4,659	6,001	6,068	30.2	1.1
Employee Expenses	768	1,016	1,020	32.8	0.4
Non-employee expenses	838	1,066	1,080	29.0	1.4
Operating Expenses	1,606	2,081	2,101	30.8	0.9
Pre-Provisioning Profit (PPoP)	3,053	3,919	3,967	29.9	1.2
Provisions & Writeoffs	1,231	1,051	702	(43.0)	(33.3)
PBT	1,823	2,868	3,265	79.2	13.9
Tax	476	743	846	77.7	13.9
Tax Rate (%)	26.1	25.9	25.9	-21 bps	1 bps
PAT	1,347	2,125	2,420	79.7	13.8

Source: Company; Sharekhan Research

Bajaj Allianz General Insurance

Particulars	Rs cr				
	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
Gross Written Premium	3,300	2,787	2,959	18.4	11.5
Net Earned Premium	1,988	1,794	1,930	10.8	3.0
Underwriting Result	9	6	5	50.0	80.0
Investment & other Income	327	353	402	-7.4	-18.7
Profit before tax	336	359	407	-6.4	-17.4
Profit after tax	248	273	304	-9.2	-18.4

Source: Company; Sharekhan Research

Bajaj Allianz Life Insurance

Particulars	Rs cr				
	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
Gross written premium	5,719	4,501	4,079	27.1	40.2
New business premium	3,236	2,493	2,377	29.8	36.1
Renewal premium	2,483	2,008	1,702	23.7	45.9
Profit / (Loss) after tax	48	234	88	-79.5	-45.5

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Structural tailwinds to support

We believe retail players have a large market to grow. FY2022 indicates pick-up in credit off take, especially in the retail and consumer segments, as credit growth is being pegged at 7.5-8%. Leading indicators depict recovery in economic activity, which will be positive. Risk metrics of new volumes originated across businesses are now tracking better than pre-COVID-19 levels. We believe retail and consumer lending segments have a long structural growth runway available to them, as India's credit delivery diversifies and penetration increases. In this backdrop, aided by a strong demographic advantage, we believe nimble NBFCs and private banks can co-exist and grow for the foreseeable future as the market expands. The insurance industry demonstrated its resiliency during the pandemic. Demand for market-linked ULIPs etc. is recovering along while strong demand for protection, health, and non-PAR segments. While the resurgence of COVID-19 cases clouds the medium term, we believe tailwinds such as a large protection gap and expanding per capita income are key long-term growth drivers for the sector. India has a high protection gap; and credit protection product is still at an early stage and has the potential to grow multi-fold as the penetration of retail loans improves in the country. Hence, we believe the insurance sector has a huge growth potential in India. In this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity.

■ Company outlook – Subsidiaries' sound fundamentals will allow play on long-term opportunities

We believe, structurally, all of BFS's subsidiaries are well placed. BAF stands out with its strong balance sheet, comfortable liquidity, high credit ratings, and well-matched asset-liability management position. It is also well-capitalised and has a strong provision buffer that will help it cushion the impact on its balance sheet and profitability. BAF has a diversified financial services strategy seeking to optimise risk and profit and deliver a sustainable and superior RoE and RoA in the long term. It is focused on continuous innovation to transform customer experience to create growth opportunities. The insurance subsidiaries have a well-diversified product portfolio and multi-channel distribution supported by prudent underwriting, which augurs well for long-term sustainability and profits. Premium trajectory is encouraging, reflecting rapid normalisation aided by operational tweaks and agility in technology adoption. While near-term headwinds persist, sound fundamentals of business franchises are likely to sustain during these tough times.

■ Valuation – Maintain Buy with an SOTP-based PT of Rs. 20,264

We believe healthy traction in all businesses would drive consolidated revenue and earnings for BFS. BAF stands well poised to deliver robust AUM growth of 22% over FY2022 through FY2024E with prudent provisioning, high capitalisation, and strong balance sheet. BAF is well capitalised with conservative leverage and both BALIC and BAGIC have healthy solvency ratios and strong operating metrics, along with strong structural tailwinds to provide growth opportunities for them in the long term.

About the company

BFS is a diversified financial services group with pan-India presence in life insurance, general insurance, and lending. It is the holding company for Bajaj Finance Limited (BAF) and BFS's shareholding in BAF (Bajaj Finance Limited) was 52.65%. It also holds 74% each in BAGIC and Bajaj Allianz Life Insurance. Set up in 1987, BAF is a diversified company across lending (consumer, rural, SME, commercial, and mortgage space) and payments. Established in 2001, BAGIC is the second largest private general insurer in India in terms of gross premium and has consistently been most profitable among private players. BALIC, established in 2001, has a deep, pan-India distribution reach.

Investment theme

BFS is a financial conglomerate present in the financing business (vehicle finance, consumer finance, and distribution) via BAF and in the insurance space via its life insurance arms, BALIC, and non-life subsidiary, BAGIC. BAF is a dominant player in the consumer finance space. We expect BAF to maintain its loan book trajectory as well as profitability and margins in the long term, augmented by its unique business model and strong infrastructure, though near-term may be a recovery phase in terms of growth. Despite challenges, we believe the lending business is on a strong and improved footing. We believe insurance is an attractive space with a long-term growth potential. The insurance subsidiaries are strong entities in their own domain. Both BAGIC and BALIC have healthy operating metrics, high capital, and profitability ratios, which are long-term positives. The insurance arms are focusing on strengthening distribution channel and profitability and are likely to emerge as attractive businesses overtime, providing valuation support to BFS.

Key Risks

Any slowdown in consumer finance growth may pose a risk to earnings growth and profitability.

Additional Data

Key management personnel

Mr. Sanjiv Bajaj	Chairman and Managing Director
S Sreenivasan	CFO
V. Rajagopalan	President - Legal
Mr. Ganesh Mohan	Group Head – Strategy
Mr. Ajay Sathe	Group Head – Customer Experience
Rajeev Jain	Managing Director – Bajaj Finance Limited

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jamnalal Sons Pvt Ltd	9.6
2	Jaya Hind Industries Pvt Ltd	3.9
3	Maharashtra Scooters Ltd	2.3
4	Capital Group Cos Inc/The	1.9
5	Life Insurance Corp of India	1.5
6	Bajaj Sevashram Pvt Ltd	1.5
7	EUROPACIFIC Growth Fund	1.5
8	Axis Asset Management Co.	1.5
9	Bachhraj& Co Pvt Ltd	1.4
10	SBI Funds Management Pvt Ltd	1.2

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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