

Healthy quarter; growth 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

Q1FY23 Results: Pick-up in lending AUM & premium accretion aided top line

- Consolidated revenue grew ~14% YoY; PAT up 57% YoY
- AUM up 28% YoY to ₹ 204018 crore; PAT jump led by lower provision
- GWP declined 25% YoY to ₹ 3119 crore; PAT up at ₹ 411 crore
- Robust growth at 74% YoY in life premium; PAT up 48% YoY to ₹ 124 crore

What should investors do? Bajaj Finserv's share price has grown by over~3x in the past five years (from ~₹ 5308 in August 2017 to ₹ 15007 in July 2022).

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

Target Price and Valuation: Pick-up in lending AUM, and anticipated healthy growth in insurance segment coupled with focus on digitization remains positive. We value Finserv at ~31x FY24E EPS and lower our target price from ₹ 18900 earlier to ₹ 17600/share.

Key triggers for future price performance:

- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR to ₹3.8 – 4 lakh crore by FY25) to boost profitability
- Product launch and selective product mix to aid premium growth; focus on claims and opex to aid earnings in 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 ~₹ 5.7 lakh crore with a presence in life insurance, banking, AMC via its subsidiaries
- BUY with a target price of ₹ 2800



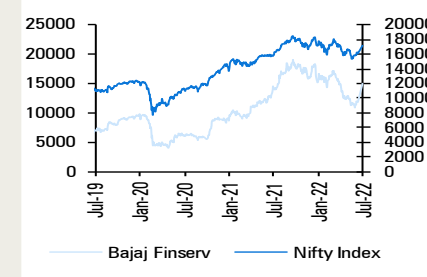
Particulars

Particular	Amount
Market Capitalization	₹ 239547 crore
Net worth	₹ 40638 crore
52 week H/L (₹)	19319 / 10777
Face value	₹ 5
DII Holding (%)	7.7
FII Holding (%)	7.4

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.8	60.8	60.8	60.8	60.8
FII	9.6	8.9	8.8	8.5	7.4
DII	6.0	6.6	6.8	7.0	7.7
Others	23.7	23.7	23.7	23.8	24.1

Price Chart



Recent Event & Key risks

- Consolidated topline up ~14% YoY
- Key Risk:** 1) Elevated opex could impact return ratios, 2) Claims ratios trajectory in retail products

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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%	82,436.5	1,03,741.4	23%
PAT	3133.5	2269.0	4470.5	4556.8	13%	6858.4	8992.2	40%
EPS (₹)	198.0	269.7	176.2	263.5		431.0	565.1	
BV (₹)	1498.4	2026.3	2199.7	2529.3		2958.6	3522.0	
P/E	75.9	55.8	85.4	57.1		34.9	26.6	
P/BV	10.0	7.4	6.8	5.9		5.1	4.3	
RoA	1.8	1.9	1.1	1.4		1.6	1.5	
RoE	14.1	15.3	8.3	11.1		15.7	17.4	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Robust performance by lending business; premium accretion aided earnings

- Consolidated top line growth came at ~14% YoY to ₹ 15889 crore, led by healthy revival in lending business and healthy performance in life insurance premium. Lower provisioning in lending business leading to consolidated earnings at ₹ 1309 crore; up 57.2% YoY.
- AUM growth at 28.3% YoY to ₹ 204018 crore, coupled with steady margins and lower provision led to robust growth in earnings
- Gross written premium in general insurance increased 25% YoY to ₹ 3119 crore. BAGIC wrote government health insurance ~ ₹ 108 crore in Q1FY23. Motor business grew at 23% with 2 wheeler growth at 35%, CV at 35% & 4 wheeler at 15%. Commercial lines business growth remained healthy at 18.1% with 18% growth in Fire segment, 32% in Marine segment and 16% in Liability segment.
- Claim ratio increased YoY at 77.9% vs 75.9% in Q1FY22, largely on account of higher severity (impact of inflation) in motor and health segments. Led by higher claims, combined ratio (total expenses for an insurer to premium) came at 104.6% in Q1FY23, leading to underwriting loss at ₹ 61 crore.
- Combined ratio for the general insurance industry should remain elevated due to claims affected by elevated inflation, though the same wasn't factored in the rise in premium rates.
- Life insurance gross written premium grew 74% YoY to ₹ 4369 crore. NBP doubled YoY to ₹ 2917 crore. Product mix - Par, Non-Par Savings, ULIP, Protection, Annuity retail mix stood at 19%, 31%, 38%, 3%, 9%. NBM (New Business Margin) came in healthy at 11.1% in Q1FY23 vs 4.2% in Q1FY22.
- PAT for life insurance business grew 48% YoY at ₹ 124 crore vs ₹ 84 crore in Q1FY22, mainly on account of lower Covid-19 reserves & death claims, partially offset by reversal of income tax provision basis favorable CIT (Appeal) order of ₹161 Cr in Q1 FY22. AUM grew 8% YoY to ₹ 83072 crore.
- New Corporate Agency tie-up undertaken with City Union Bank (CUB) & Development Bank of Singapore (DBS)

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)	2,379	2,800	Buy	4,316	66.7	75.8	84.3	101.0	35.7	31.4	28.2	23.6	3.9	3.6	3.5	3.3	12.3	12.0	12.6	14.5
Bajaj Finserv (BAFINS)	15,039	17,600	Buy	2,395	176.2	263.5	431.0	565.1	85.4	57.1	34.9	26.6	6.8	5.9	5.1	4.3	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7,208	8,500	Buy	4,364	73.6	116.7	168.5	221.7	98.0	61.8	42.8	32.5	12.1	10.2	8.6	6.4	12.8	17.4	21.0	21.6
Muthoot Finance (MUTFIN)	1,021	1,300	Buy	409	8.0	9.5	12.0	13.0	128.2	107.1	84.8	78.3	2.8	2.4	2.0	1.7	27.8	23.5	22.9	23.1

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	38076	28135	1432
BAGIC	30x FY24E PAT	74	52476	38832	1977
Bajaj Finance	8.4x FY24E BVPS	52	523600	274838	14183
Windmill	₹4 per mw	100	260	143	8
Total					17600

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
General Insurance	3119.0	2943.3	2,494.4	25.0	3,299.8	-5.5	Excluding crop & government business, premium accretion remained healthy
Life Insurance	4369.0	3521.7	2,515.5	73.7	5,719	-23.6	Individual business accretion robust
Net premium earned	7488.0	6465.0	5,009.8	49.5	9,018.5	-17.0	
Investment and other income	554.1	2251.1	2,312	-76.0	1,966	-71.8	
Reinsurance Ceded	1307.4	258.6	261	400.0	746	75.3	
Reserve for unexpired risk	50.6	-100.0	-215	-123.5	-125	-140.6	
Total Insurance	6684.2	8557.6	7,275.3	-8.1	10,363.9	-35.5	
Retail financing	9282.7	9081.4	6,743	37.7	8,630	7.6	Led by strong revival in lending business
Windmill	8.0	5.0	5.0	60.8	7.8	1.9	
Investment and others	463.2	80.0	84	452.9	126	268.6	
Total	15,889	17542.3	13,949	13.9	18,862	-15.8	
Interest and Finance Charges	2,563.8	664.6	2,190.5	17.0	2,481.3	3.3	
Other Exp	9,730.9	13350.6	9,991.9	-2.6	12,918.1	-24.7	
Total Expenses	12,294.8	14015.2	12,182.4	0.9	15,399.5	-20.2	
PBT	3,593.9	3527.1	1,767.1	103.4	3,462.2	3.8	
PAT	1,309.4	1345.9	832.8	57.2	1,346.1	-2.7	Lower provisioning in lending 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	82,436.5	-1.5	98,497.4	1,03,741.4	5.3
PBT	29,385.7	16,020.6	-45.5	33,526.1	21,030.3	-37.3
PAT	13,519.1	6,858.4	-49.3	15,536.2	8,992.2	-42.1
ABV (₹)	3,748.7	2,958.6	-21.1	4,723.4	3,522.0	-25.4

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Commercial Finance growth (%)	113.5	23.1	22.5	20.3
Life Ins Premium growth (%)	23.9	21.5	23.3	22.2
General Ins GWP growth (%)	22.0	18.0	12.0	12.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement						
	₹ crore					
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue						
Life Insurance	8856	9753	12025	16127	19983	24279
General Insurance	11100	12833	12624	13689	16701	19707
Total	19956	22586	24649	29816	36683	43985
Less: Reinsurance ceded	2279	1056	1797	2185	2177	2499
Reserve for unexpired risk	111	180	432	241	835	985
Net Insurance Premium Earned	17566	21349	22420	27490	33671	40501
Investment and other income	6660	6791	11756	9591	9860	13776
Total Insurance Income	24226	28140	34176	37081	43532	54277
Investment and others	459	904	480	996	1394	1672
Retail financing	18502	26386	26683	31640	38558	48941
Windmill	76	39	24	29	35	41
Total	43262	55469	61363	69746	83518	104931
Less: Inter-segment revenue	654	1118	772	1307	1082	1190
Total revenue	42608	54351	60592	68439	82437	103741
Pre-tax profit						
General Insurance	1254	1033	2392	1736	2339	2465
Life Insurance	772	39	1383	43	1036	1384
Total Insurance	2026	1072	3776	1778	3375	3849
Retail financing	6180	7442	6387	10000	13752	18509
Investments & others	-157	-234	-305	-514	-1115	-1338
Windmill	20	20	5	6	9	10
Total PBIT	8070	8300	9862	11271	16021	21030
Less: Interest	-157	-234	-305	-514	-1115	-1338
Profit before tax	8070	8301	9862	11270	16021	21030
Tax	-2781	-2308	-2495	-2957	-2957	-3046
Net profit before minority	5288	5994	7367	8313	13064	17984
Minority and deferred tax adjustment	2155	2624	2897	3757	6205	8992
Net profit	3134	2269	4470	4557	6858	8992

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
CMP	15039.0	15039.0	15039.0	15039.0	15039.0	15039.0
No. of shares in mn	159.1	159.1	159.1	159.1	159.1	159.1
EPS	198.0	269.7	176.2	263.5	431.0	565.1
BV	1498.4	2026.3	2199.7	2529.3	2958.6	3522.0
RoA	1.8	1.9	1.1	1.4	1.6	1.5
RoE	14.1	15.3	8.3	11.1	15.7	17.4
P/BV	10.0	7.4	6.8	5.9	5.1	4.3
P/E	75.9	55.8	85.4	57.1	34.9	26.6

(Year-end March) - Growth ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross Written Premium						
- Life	16.9	10.1	23.3	34.1	23.9	21.5
- General	17	16	-2	8	22	18
Loan book Bajaj Finance	38	0	0	0	113	23
Consol Network	15	35	9	15	17	19
Consol Revenues	12	30	22	14	26	26
Consol PAT	19	36	-35	50	64	31
Consol Effective Tax rate	33	25	30	27	18	14

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	40247	47077	56042
- Share capital	80	80	80	80	80	80
- Reserves & Surplus	23762	32162	35750	40167	46998	55962
Policy liabilities	21814	58772	75230	31483	96643	130381
Loan funds	101588	122465	124014	71506	240200	295624
Deferred tax liability (net)	7	80	320	3370	3437	3506
Current liabilities	22801	75071	44624	120559	114531	108804
Provisions	944	176	226	234	243	253
Total liabilities	208784	251384	280164	333719	546950	652259
Applications of Funds						
Fixed assets	2108	2285	1565	2332	3352	4236
Goodwill on investments in associati	689	689	689	689	689	689
Investments	34484	36141	33609	19600	12368	12739
Policyholders' Investments	47092	46491	80072	98645	127730	164417
Deferred Tax Assets (net)	462	485	509	534	946	993
Current assets	11436	52781	163721	99404	161665	173561
- Receivable under financing activity	112513	112513	112513	112513	240200	295624
Misc Expenditure	0	0	0	0	0	0
Total Assets	208784	251384	280164	333719	546950	652259

Source: Company, ICICI Direct Research

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