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### 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 July 8, 2022 **26.55**

**Medium Risk**

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

Source: Morningstar

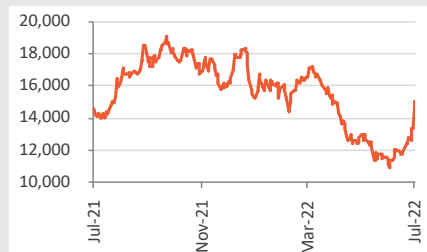
### Company details

Market cap:	Rs. 238,841 cr
52-week high/low:	Rs. 19,320/10,777
NSE volume: (No of shares)	3.2 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	6.2 cr

### Shareholding (%)

Promoters	60.8
FII	7.4
DII	7.7
Others	24.2

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	35.5	1.0	-4.0	3.1
Relative to Sensex	26.9	0.0	-3.3	-6.2

Sharekhan Research, Bloomberg

## Bajaj Finserv

### All-round Q1; strong growth ahead

NBFC	Sharekhan code: BAJAJFINSV		
Reco/View: Buy	↔	CMP: Rs. 15,055	Price Target: Rs. 17,800 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

### Summary

- Consolidated PAT stood at Rs. 1,309 crore, rising ~57% y-o-y, but declining ~3% q-o-q, driven by robust earnings clocked by subsidiary Bajaj Finance.
- PAT included MTM loss of Rs. 283 crore versus MTM gain of Rs. 25 crore in Q1FY22. Revenue increased by ~14% y-o-y (but fell ~16% q-o-q).
- Management believes that business conditions improved significantly in Q1FY23. Life insurance subsidiary, BALIC continued to perform better, beating industry growth in individual-rated new business premiums.
- We maintain a Buy on the stock with a revised SOTP-based PT of Rs. 17,800.

Bajaj Finserv (BFS, the holding company) reported a healthy growth of Rs. 1,309 crore, up ~57% y-o-y and down ~3% q-o-q, driven by robust earnings by its wholly owned subsidiary Bajaj Finance. PAT included unrealised MTM losses of Rs. 283 crore on equity investments (measured at fair value through profit and loss of BALIC and BAGIC) versus an MTM gain of Rs. 25 crore in Q1FY23. The MTM loss stood at Rs.91 crore in Q4FY22. Revenue rose ~14% y-o-y (was down by ~16% q-o-q). Bajaj Finance (BAF) consolidated asset under management (AUM) stood at Rs. 204,018 crore, increased by 28% y-o-y in Q1FY23. This included the AUM of Bajaj Housing Finance (BHFL) of Rs. 57,425 crore which grew by 40% y-o-y. The company's life insurance business (BALIC) reported a gross premium income of Rs. 4,369 crore, an increase of ~74% y-o-y (down by ~24% q-o-q). New business premium doubled to Rs. 2,917 crore in Q1FY23 as compared to Q1FY22, primarily driven by individual-rated new business premium (up by 81% y-o-y), while group protection business too grew strongly by 76% y-o-y. General Insurance (BAGIC), gross written premiums increased by 25% y-o-y and declined by ~6% q-o-q in Q1FY23. Claim ratio increased to 77.9% in Q1FY23 versus 75.9% in Q1FY22, mainly due to a rise in severity of motor and health segments. The board of the company has approved sub-division of equity shares of face value of Rs. 5 each to Re 1 each and issue of one fully paid bonus equity share of face value of Re 1 each against one equity share of the face value of Re. 1, each which is subject to shareholders' approval.

### Key positives

- Market share (in terms of individual-rated new business premium) of BALIC increased to 8.3% in Q1FY23.
- Protection business rose strongly 76% y-o-y.

### Key negatives

- Combined ratio was higher at 104.6% in Q1FY23 versus 103.4% in Q1FY22, on account of higher claims ratio.
- Claims ratio increased to 77.9% in Q1FY23 versus 75.9% in Q1FY22, mainly due to increase in severity of motor and health segments.

### Management Commentary

- Management maintained that BALIC's growth in terms of individual-rated new business premium was higher than the industry growth. The growth was driven by all the company's distribution channels.
- Net new business margin stood at 11.1% in Q1FY23 versus 4.2% in Q1FY22, hence double-digit margin in a seasonally lower quarter.
- BALIC signed up new corporate agency channels with City Union Bank (CUB) and Development Bank of Singapore (DBS) and the management foresees its contribution to commence from Q3 onwards.
- These tie ups would enable BALIC to diversify across its channels. Agency, institutional business and BALIC direct contributed to 43%, 49% and 8% respectively in Q1FY23 (in IRNB terms).

### Our Call

**Valuation: Maintain a Buy rating with a revised SOTP-based PT of Rs. 17,800:** We believe that healthy traction in all businesses would drive consolidated revenues and earnings for BFS. BAF stands well poised to deliver robust AUM growth of 24% 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 for the long term.

### Key Risks

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

### SOTP Valuation

Particulars	Holding	Rationale	Value per share
BALIC	74%	1.8x FY24E EV	1,600
BAGIC	74%	30x FY24E PAT	2,400
Bajaj Finance	52%	7x FY24E BVPS	15,767
Windmill	100%		10
Less: Holding Co Discount	10%		1,978
Total			17,800

Source: Company; Sharekhan estimates

## Key result highlights

**Bajaj Finance (BAF):** Q1FY23 are stellar, with consolidated PAT coming in at Rs. 2,596 crore versus our expectations of Rs. 2,182 crore, up ~159% y-o-y and ~7% q-o-q. This was primarily due to strong net interest income (NII) growth and lower provisions. NII grew by 48% y-o-y and ~10% q-o-q to Rs. 5,275 crore. Our estimated NII was at Rs. 5,102 crore. Other income rose by ~73% y-o-y and 8% q-o-q. Consolidated AUM stood at Rs. 2.04 trillion, up ~28% y-o-y/~3% q-o-q. Management plans to grow its AUM to Rs. 4 lakh crore by FY2025. AUM composition remained steady with all the segments registering double-digit growth except for auto finance business. The company continued to protect its margins with NIM expanding by 38 bps, even though competitive intensity remained high across products. The company has started increasing pricing of products from June 2022. GNPA's and NNPA's declined by ~35 bps q-o-q and ~18 bps q-o-q to 1.25% and 0.5%, respectively, in Q1FY2023. Provisions stood at Rs. 755 crore versus Rs. 702 crore in Q4FY2022 versus our estimate of Rs. 920 crore.

**Bajaj Allianz General Insurance (BAGIC):** General Insurance (BAGIC), gross written premium increased by 25% y-o-y and declined by ~6% q-o-q to Rs. 3,119 crore in Q1FY23. This was mainly contributed by motor (up 23% y-o-y) and the marine insurance segment (up 16% y-o-y). The company wrote government health insurance of Rs. 108 crore during the quarter. Its net premium earned was subdued by 2% y-o-y and decreased by ~7% q-o-q. Claims ratio for general insurance was higher (at 77.9% in Q1FY23 versus 75.9% in Q1FY22) on account of higher severity in motor and health segments. There was underwriting loss of Rs. 61 crore in Q1FY23 versus gain of Rs. 15 crore in Q1FY22. Combined ratio stood at 104.6% in Q1FY23 versus 103.4% in Q1FY22.

**Bajaj Allianz Life Insurance (BALIC):** The company's life insurance business (BALIC) reported a gross premium income of Rs. 4,369 crore, up ~74% y-o-y. Its new business premium doubled to Rs. 2,917 crore in Q1FY23 as compared to Rs. 1,296 crore in Q1FY22, primarily driven by individual rated new business premium (up by 81% y-o-y). Group protection new business grew strongly by 76% y-o-y in Q1FY23. Product mix in terms of by individual-rated new business premium stood at Par (19%), Non-Par Savings (31%), ULIP (38%), Protection (3%), Annuity (9%).

## Results

Particulars	Rs cr				
	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Income from operations	15,888	13,949	13.9	18,862	-15.8
Total Income from operations	15,888	13,949	13.9	18,862	-15.8
Expenses	11,526	10,402	10.8	14,665	-21.4
Employee benefits expenses	1,977	1,238	59.7	1,912	3.4
Finance costs	2,564	2,190	17.0	2,481	3.3
Fees and commission expense	913	590	54.7	1,042	-12.4
Claims paid	3,489	2,774	25.7	5,137	-32.1
Reinsurance ceded	1,273	923	37.9	1,525	-16.5
Depreciation, amortisation and impairment	157	132	19.0	149	5.3
Other expenses	1,244	792	57.1	1,171	6.3
Provisions	768	1,780	-56.9	734	4.6
Profit before tax	3,594	1,767	103.4	3,462	3.8
Share in PAT of invst in associates	0	0	-94.4	-0	-111.1
Tax	1,016	334	203.9	929	9.4
PAT	1,309	833	57.2	1,346	-2.7

Source: Company, Sharekhan Research

**Results - Bajaj Finance (Consolidated)**

						Rs cr
Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)	
Interest Income	7,920	5,954	33.0	7,366	7.5	
Interest Expenses	2,645	2,254	17.4	2,563	3.2	
<b>Net Interest Income</b>	<b>5,275</b>	<b>3,701</b>	<b>42.5</b>	<b>4,803</b>	<b>9.8</b>	
Other Income	1,363	789	72.8	1,264	7.8	
<b>Net OI (NII as reported by BAF)</b>	<b>6,638</b>	<b>4,489</b>	<b>47.8</b>	<b>6,068</b>	<b>9.4</b>	
Employee Expenses	1,183	617	91.9	1,020	16.0	
Non-employee expenses	1,197	1,594	(24.9)	1,080	10.8	
<b>Operating Expenses</b>	<b>2,380</b>	<b>1,373</b>	<b>73.3</b>	<b>2,101</b>	<b>13.3</b>	
<b>Pre-Provisioning Profit (PPoP)</b>	<b>4,257</b>	<b>3,116</b>	<b>36.6</b>	<b>3,967</b>	<b>7.3</b>	
Provisions & Write-offs	755	1,750	(56.9)	702	7.6	
<b>PBT</b>	<b>3,503</b>	<b>1,366</b>	<b>156.5</b>	<b>3,265</b>	<b>7.3</b>	
Tax	907	363	149.4	846	7.2	
Tax Rate (%)	25.9	26.6	-	25.9	-	
<b>PAT</b>	<b>2,596</b>	<b>1,002</b>	<b>159.0</b>	<b>2,420</b>	<b>7.3</b>	

Source: Company, Sharekhan Research

**Bajaj Allianz General Insurance (BAGIC)**

						Rs cr
Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)	
Gross Written Premium	3,119	2,494	25.1	3,300	-5.5	
Net Earned Premium	1,852	1,815	2.0	1,988	-6.8	
Underwriting Result	-61	15	-506.7	9	-777.8	
Investment & other Income	612	470	30.2	327	87.2	
Profit before tax	551	485	13.6	336	64.0	
Profit after tax	411	362	13.5	248	65.7	

Source: Company, Sharekhan Research

**Bajaj Allianz Life Insurance (BALIC)**

						Rs cr
Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)	
Gross written premium	4,369	2,516	73.6	5,719	-23.6	
New business premium	2,917	1,296	125.1	3,236	-9.9	
Renewal premium	1,452	1,220	19.0	2,483	-41.5	
Profit / ( Loss ) after tax	124	84	47.6	48	158.3	

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Structural tailwinds to support

Leading indicators depict a recovery in economic activity in India, which is positive. So far, risk metrics of new volumes originated across businesses are now tracking better than pre-COVID-19 levels. We believe that 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. The demand for market-linked ULIPs etc has started to see recovery along while strong demand for protection, Health and non-PAR segments remained robust. While the resurgence of COVID-19 cases clouds the medium term, we believe the 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 products are still at an early stage and have 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 that structurally, all of BFS' subsidiaries are well placed to capture long-term growth opportunities. 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 as well and has a strong provision buffer that will help it cushion impact on balance sheet and profitability. BAF has a diversified financial services strategy seeking to optimise risk and profit, and is poised to 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 a 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 a Buy rating with a revised SOTP-based PT of Rs. 17,800

We believe that healthy traction in all businesses would drive consolidated revenues and earnings for BFS. BAF stands well poised to deliver robust AUM growth of 24% 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 for the long term.

## About company

Bajaj Finserv (BFS) is a diversified financial services group with a pan-India presence in life insurance, general insurance, and lending. It is the holding company for Bajaj Finance Ltd (BAF) and BFS' shareholding in BAF (Bajaj Finance Ltd.) was 52.65%. It also holds 74% each in Bajaj Allianz General Insurance (BAGIC) and Bajaj Allianz Life Insurance. Set up in 1987, BAF is a diversified company across lending (consumer, rural, SME, commercial & mortgage space) and payments. BAGIC established in 2001 is the 2nd largest private General insurer in India in terms of Gross Premium and has consistently most profitable amongst the private players. BALIC, established in 2001 has a deep, pan-India distribution reach.

## Investment theme

Bajaj Finserv is a financial conglomerate having presence in the financing business (vehicle finance, consumer finance and distribution) via Bajaj Finance (BAF) and in the Insurance space via its life insurance arms Bajaj Allianz Life (BALIC) and Non Life subsidiary Bajaj Allianz General insurance (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 lending business is on a strong and improved footing. We view 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

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jamnalal Sons Pvt Ltd	9.6
2	Jaya Hind Industries Pvt Ltd	3.9
3	Life Insurance Corp of India	3.1
4	Maharashtra Scooters Ltd	2.3
5	Bajaj Sevashram Pvt Ltd	1.5
6	Bajaj Nirajkumar Ramkrishnaji	1.4
7	Axis Asset Management Co.	1.4
8	EUROPACIFIC Growth Fund	1.3
9	Bachhraj& Co Pvt Ltd	1.3
10	SBI Funds Management Pvt Ltd	1.1

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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