

## Turns ex-split, bonus today...

**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

### Bajaj Finserv turns ex-split, bonus today:

- The company had made an announcement regarding stock split and bonus issue on July 28, 2022. The stock split and issue of bonus shares is in the ratio of 1:5 and 1:1, respectively, i.e. existing equity share with face value of ₹ 5 will be split into five equity shares with a face value of ₹ 1 and one new bonus equity share each for every one post-split equity shares
- Ex-split & bonus date is today and record date is September 14. Accordingly, the share price has been adjusted to opening price of ₹ 1757/share against closing price of ₹ 17158/share yesterday

**What should investors do?** Bajaj Finserv's share price has grown by over ~3x in the past five years.

- We revise our recommendation from BUY to **HOLD**

**Target Price and Valuation:** Pick-up in lending AUM and anticipated healthy growth in insurance segment coupled with focus on digitisation remain positives. However, holding company discount has narrowed with recent run up in stock price. Thus, we value Bajaj Finserv at ~33x FY24E EPS (factoring 10% discount) and revise our target price to ₹ 1850/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



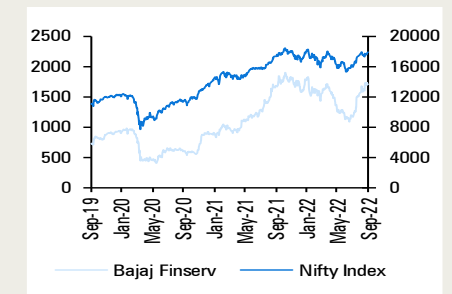
#### Particulars

| Particular            | Amount        |
|-----------------------|---------------|
| Market Capitalization | ₹ 284795crore |
| Net worth             | ₹ 40638 crore |
| 52 week H/L (₹)       | 1932/1077     |
| Face value            | ₹ 1           |
| 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

- Stock split and bonus issue of equity share in the ratio of 1:5 and 1:1 respectively
- Key Risk:** 1) Elevated opex may 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 (₹) | 39.6     | 53.9     | 35.2     | 52.7     |                         | 43.1     | 56.5       |                        |
| BV (₹)  | 299.7    | 405.3    | 439.9    | 505.9    |                         | 295.9    | 352.0      |                        |
| P/E     | 45.1     | 33.1     | 50.7     | 33.9     |                         | 41.4     | 31.6       |                        |
| P/BV    | 6.0      | 4.4      | 4.1      | 3.5      |                         | 6.0      | 5.1        |                        |
| 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       |                        |

## Financial summary

| Exhibit 1: 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 Eamed          | 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 3: Key Ratio |        |        |        |        |        |        |
|----------------------|--------|--------|--------|--------|--------|--------|
| (Year-end March)     | FY19   | FY20   | FY21   | FY22   | FY23E  | FY24E  |
| CMP                  | 1785.0 | 1785.0 | 1785.0 | 1785.0 | 1785.0 | 1785.0 |
| No. of shares in mn  | 795.6  | 795.6  | 795.6  | 795.6  | 1591.2 | 1591.2 |
| EPS                  | 39.6   | 53.9   | 35.2   | 52.7   | 43.1   | 56.5   |
| BV                   | 299.7  | 405.3  | 439.9  | 505.9  | 295.9  | 352.0  |
| 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                 | 6.0    | 4.4    | 4.1    | 3.5    | 6.0    | 5.1    |
| P/E                  | 45.1   | 33.1   | 50.7   | 33.9   | 41.4   | 31.6   |

| (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 2: Balance Sheet              |        |        |        |        |        |        |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
| (Year-end March)                      | FY19   | FY20   | FY21   | FY22   | FY23E  | FY24E  |
| Sources of Funds                      |        |        |        |        |        |        |
| Shareholders' Funds                   | 2384   | 32242  | 35830  | 40247  | 47077  | 56014  |
| - Share capital                       | 80     | 80     | 80     | 80     | 159    | 159    |
| - Reserves & Surplus                  | 23762  | 32162  | 35750  | 40167  | 46918  | 55855  |
| Policy liabilities                    | 21814  | 58772  | 75230  | 31483  | 96643  | 130381 |
| Loan funds                            | 101588 | 122465 | 124014 | 71506  | 240200 | 295624 |
| Defered 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 | 652231 |
| Applications of Funds                 |        |        |        |        |        |        |
| Fixed assets                          | 2108   | 2285   | 1565   | 2332   | 3352   | 4236   |
| Goodwill on investments in associat   | 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 | 173533 |
| - Receivable under financing activity | 112513 | 112513 | 112513 | 112513 | 240200 | 295624 |
| Total Assets                          | 208784 | 251384 | 280164 | 333719 | 546950 | 652231 |

Source: Company, ICICI Direct Research

| Exhibit 4: SOTP Valuation |                 |           |                |                          |                                     |
|---------------------------|-----------------|-----------|----------------|--------------------------|-------------------------------------|
| Business                  | Basis           | Stake (%) | Business Value | Value of stake (₹ crore) | Value/ share after 10% discount (₹) |
| BALIC                     | 1.8x FY24E EV   | 74        | 38076          | 28135                    | 150                                 |
| BAGIC                     | 30x FY24E PAT   | 74        | 52476          | 38832                    | 207                                 |
| Bajaj Finance             | 7.5x FY24E BVPS | 52        | 523600         | 274838                   | 1491                                |
| Windmill                  | ₹4 per mw       | 100       | 260            | 143                      | 1                                   |
| Total                     |                 |           |                |                          | 1850                                |

Source: Company, ICICI Direct Research

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