



**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** **26.55**  
Updated Jul 08, 2022

**Medium Risk**

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

Source: Morningstar

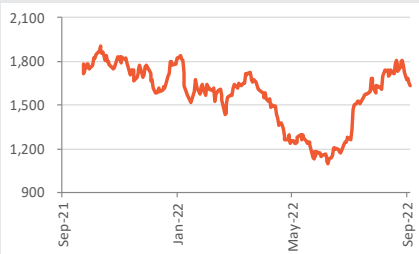
**Company details**

Market cap:	Rs. 2,67,912 cr
52-week high/low:	Rs. 1,932 / 1,077
NSE volume: (No of shares)	12.97 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	60.5 cr

**Shareholding (%)**

Promoters	60.8
FII	7.4
DII	7.7
Others	24.1

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-0.8	53.9	-1.4	-5.5
Relative to Sensex	2.7	45.6	0.7	-2.6

Sharekhan Research, Bloomberg

**Bajaj Finserv Ltd**  
**Strong outlook of subsidiaries**

<b>NBFC</b>	<b>Sharekhan code: BAJAJFINSV</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 1,682</b>	<b>Price Target: Rs. 1,950</b> ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 1,950. We believe Bajaj Finserv is an attractive play in the expanding consumer finance space along with capturing value in both life and general insurance businesses.
- Its lending arm, Bajaj Finance Limited (BFL) is a dominant player in retail lending with a large customer franchise of 60.3 million customers. Healthy momentum in customer acquisition and strong cross-selling ability (34.7 mn) would likely support its business growth. BFL expects to double its AUM by FY2025.
- Its insurance subsidiaries, BALIC and BAGIC are performing well, with strong GWP growth, NBP traction in BALIC with focus on better product mix, and robust underwriting in BAGIC, reflected in healthy combined ratios, all of which is likely to bode well for the company.
- Healthy traction in all businesses is expected to drive strong earnings growth going ahead.

**Bajaj Finserv has three key subsidiaries, namely Bajaj Finance Limited (BFL), Bajaj Allianz Life Insurance Co. (BALIC), and Bajaj Allianz General Insurance Co. (BAGIC). BFL is an attractive play in the expanding consumer retail finance space, while BALIC and BAGIC are capturing value in life and general insurance businesses, respectively. We believe these businesses have structural tailwinds, which are likely to sustain over the long term and, in turn, build a strong business franchise. We believe strong AUM growth and credit cost normalisation at BFL is expected to drive robust earnings growth as the macro environment is improving. The company's insurance business is also witnessing strong traction, led by well-diversified product portfolio and multi-channel distribution network. We believe healthy outlook for all businesses is likely to lead to strong earnings growth for Bajaj Finserv going ahead.**

- **Bajaj Finance on strong footing:** BFL stands out with its strong balance sheet, comfortable liquidity position, is well-capitalised, and is poised to deliver superior profitability with a 40% PAT CAGR over FY2022-FY2024E and sector-leading ROA/ROE of 4.8%/23% in FY2024E. Moreover, digital transformation undertaken and omni-channel strategy are likely to bode well for its growth objectives along with operational efficiencies going ahead. The company exhibited its strong ability to navigate through the economic down cycle, led by prudent and agile management team, robust risk management framework, and diverse product offering strategy.
- **Strong outlook across insurance businesses likely to benefit Bajaj Finserv:** The insurance subsidiaries have a well-diversified product portfolio and multi-channel distribution, which is helping to continuously gain market share along with prudent underwriting, which augurs well for long-term sustainability of the business franchise and healthy earnings trajectory. BALIC's market share increased from 3.3% in FY2021 to 4.2% in FY2022 on IRNBP basis; and within the private sector industry, its market share grew from 5.5% in FY2021 to 6.7% in FY2022. BAGIC continues to be among the profitable general insurers vs. its peers of comparable size. Its combined ratio of 99.6% in FY2022 is the best in the industry along with strong solvency margin of 344%.

**Our Call**

**Valuation – Maintain Buy with a revised SOTP-based PT of Rs. 1,950:** Bajaj Finserv has been reporting steady performance, led by strong performance from BFL. The company is actively working on digital initiatives that will help Bajaj Finserv achieve the next growth stage, emphasizing continuous innovation. General insurance premium growth has shown a sequential improvement with an uptick in almost all the segments. The life insurance business is growing stronger due to focus on product mix and innovation. We believe strong growth in the lending business and improving growth momentum for both the insurance businesses will likely act as a positive trigger for strong consolidated earnings going forward.

**Key Risks**

Deterioration in the performance of its subsidiaries may pose a risk to earnings growth and profitability.

**SOTP Valuation**

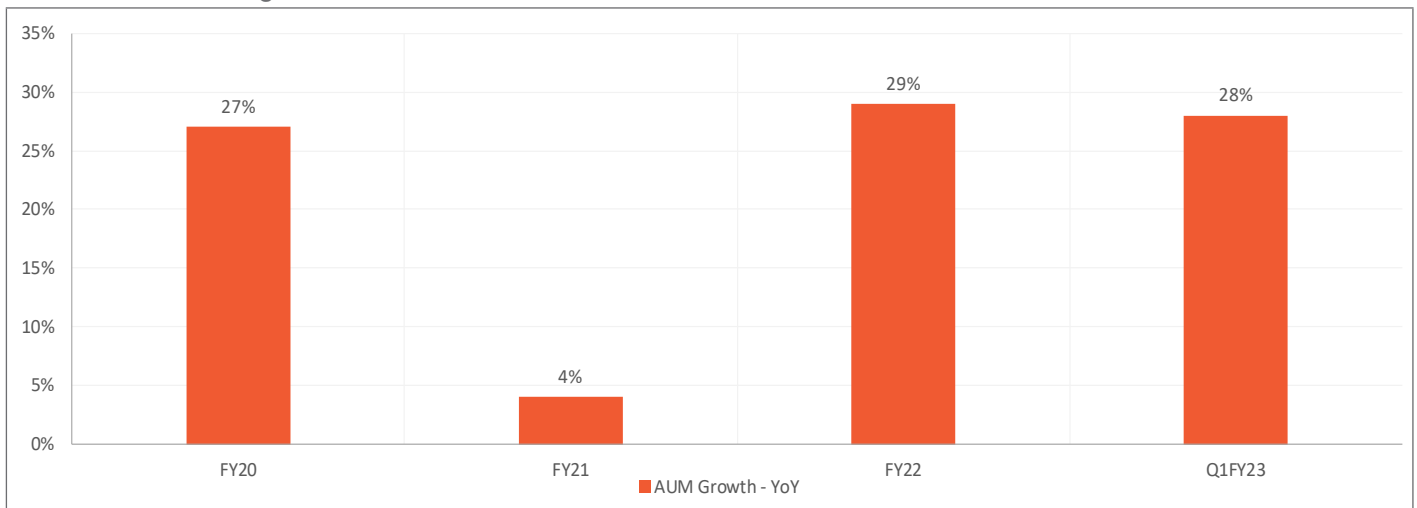
Particulars	Holding	Rationale	Value per share
BALIC	74%	1.8x FY24E EV	160
BAGIC	74%	30x FY24E PAT	240
Bajaj Finance	52%	8x FY24E BVPS	1,766
Windmill	100%		1
Less: Holding Co Discount	10%		217
<b>Total</b>			<b>1,950</b>

Source: Company; Sharekhan estimates

**BAF's strong AUM growth likely to sustain, led by diverse product offerings, customer acquisition, and ability to cross sell:**

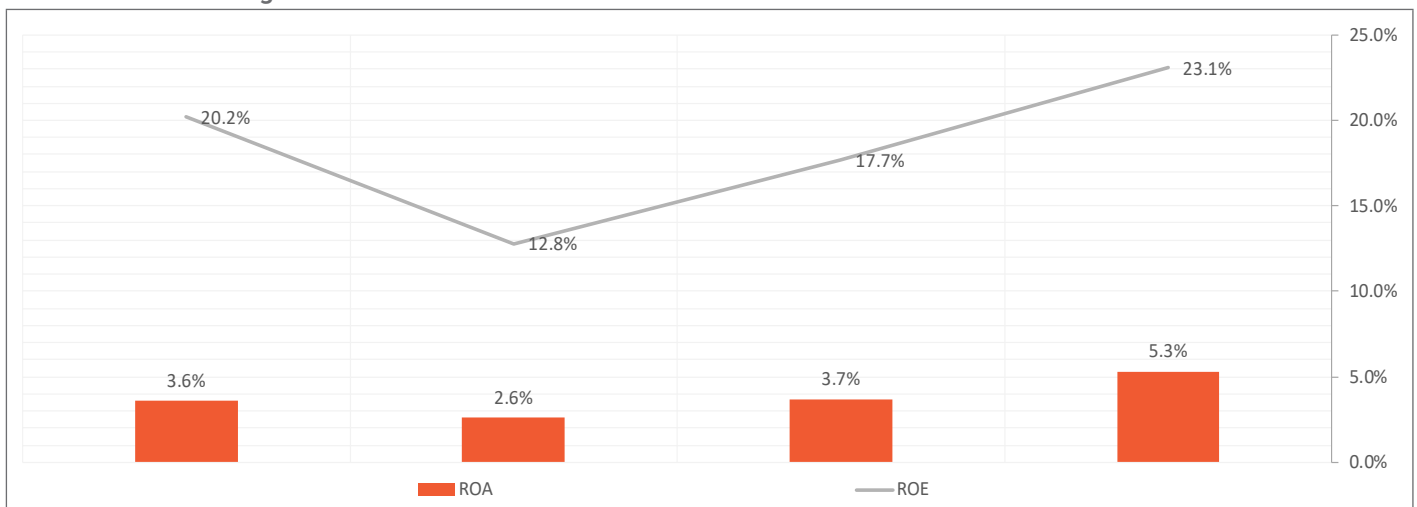
Customer franchise stood at 60.3 million (up 20% y-o-y/5% q-o-q/) and cross-sell franchise stands at 34.7m (up 26% y-o-y/6% q-o-q) in Q1FY2023. New loans booked were 7.4mn (up 17% q-o-q) and new to Bajaj (NTB) customers expanded sharply by 2.7mn (up 23% q-o-q). AUM expanded by 3% q-o-q/28% y-o-y, led by sharp recovery in rural (10% q-o-q/38% y-o-y) and SME (up 6% q-o-q/31% y-o-y). However, consumer B2B – Auto Finance continued to see weakness (down 12% y-o-y/2% q-o-q). The company is further expanding its product offering for customers. It has announced the launch of two-wheeler financing across all manufacturers in addition to financing of Bajaj Auto two-wheelers. The company plans to start this business in the second quarter of FY2023. The company has launched co-branded credit card with DBS Bank, which is likely to gain traction as it picks up pace to 30,000-40,000 cards per month (from 9,000-10,000 per month currently) by the end of FY2023. The company has also entered into a strategic tie-up with Cars24 for providing end-to-end digital financing experience for customers transacting on Cars24 platform to gain market share in the used car financing business. The company also plans to grow its gold loan portfolio, as it aims to expand standalone gold loan branches to 232 (vs. 155 now) in FY2023. Considering these product portfolio extensions and a healthy momentum in the existing business, we estimate AUM to post a 25% CAGR over FY2022-FY2025E.

**BAGIC – Trend in GWP growth**



Source: Company, Sharekhan Research

**BAGIC – Trend in GWP growth**

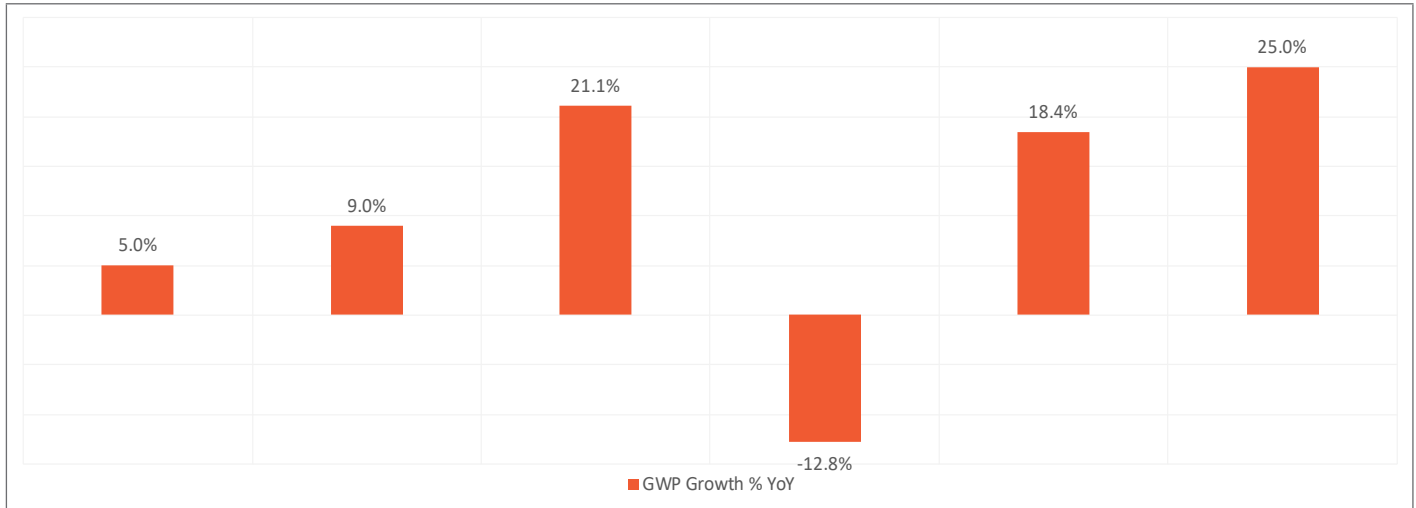


Source: Company, Sharekhan Research

**Bajaj Allianz General Insurance (BAGIC):**

General insurance’s (BAGIC) gross written premium increased by 25% y-o-y in Q1FY2023, led by motor (up 23% y-o-y) and marine insurance (up 16% y-o-y) segments. Combined ratio stood at 104.6% in Q1FY2023 due to higher claims in motor and health segment. We believe higher solvency ratio, large AUM compared to its premium, increased liquidity, prudent underwriting, and strong brand position would likely help in improving the performance going forward.

**BAGIC – Trend in GWP growth**

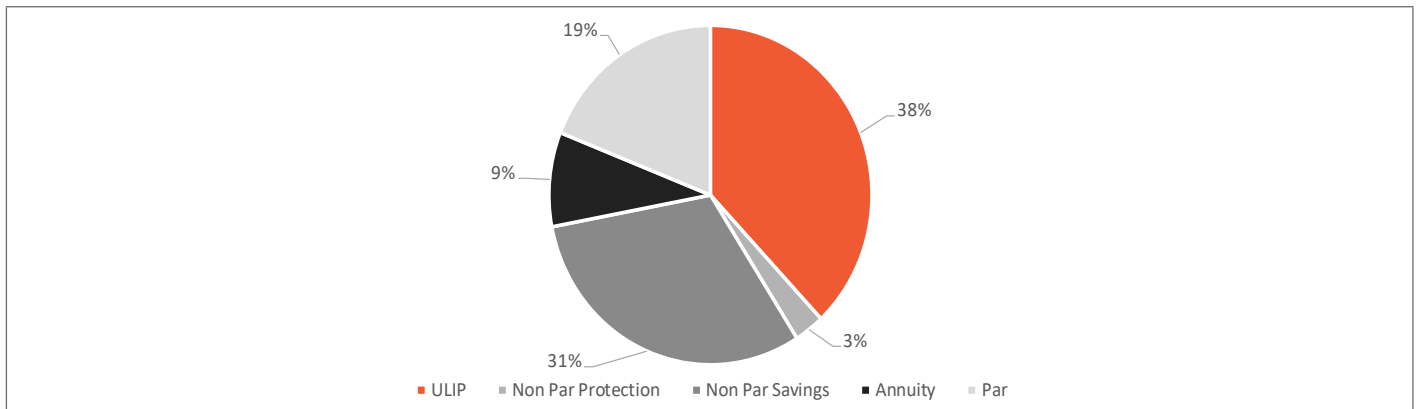


Source: Company, Sharekhan Research

**Bajaj Allianz Life Insurance (BALIC):**

The company’s life insurance business (BALIC) reported gross premium income of Rs. 4,369 crore, up ~74% y-o-y. Its new business premium doubled to Rs. 2,917 crore in Q1FY2023 as compared to Rs. 1,296 crore in Q1FY2022, 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 Q1FY2023. Product mix in terms of by individual-rated new business premium stood at Par (19%), Non-Par Savings (31%), ULIP (38%), Protection (3%), and Annuity (9%). It focuses on balanced and sustainable product mix with a view of de-risking its business from volatile market movements. Consequently, share of ULIP has been falling 41% in FY2021 to 38% in Q1FY2023. Its share of annuity, non-participating guaranteed savings, and protection products increased to 43% in Q1FY2023 vs. 36% in FY2021.

**BALIC: IRNB Mix**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Structural tailwinds ahead

Lead indicators depict recovery in economic activity in India, which is positive. We believe retail and consumer lending segments have a long structural growth runway, as India's credit delivery diversifies and penetration increases. The insurance industry demonstrated its resiliency during the pandemic period. Demand for market-linked ULIPs has started to see recovery, while strong demand for protection, health, and non-PAR segments remained robust. 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 products are still at an early stage and have the potential to grow multi-fold. 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 – Strong outlook of subsidiaries

We believe all of Bajaj Finserv's subsidiaries are well placed to capture long-term growth opportunities. BFL stands out with its strong balance sheet, comfortable liquidity position, is well-capitalised, and is poised to deliver superior profitability with a 40% PAT CAGR over FY2022-FY2024E and sector-leading ROA/ROE of 4.8%/ 23% in FY2024E. Moreover, digital transformation undertaken and omnichannel strategy are likely to bode well for its growth objectives along with operational efficiencies going ahead. The company exhibited its strong ability to navigate through the economic down cycle, led by prudent and agile management team, robust risk management framework, and diverse product offering strategy. The company's insurance subsidiaries have well-diversified product portfolios and multi-channel distribution networks, which is helping to continuously gain market share along with prudent underwriting, thus auguring well for long-term sustainability of the business franchise and healthy earnings trajectory.

### ■ Valuation – Maintain a Buy rating with a revised SOTP-based PT of Rs. 1,950

Bajaj Finserv has been reporting steady performance, led by strong performance from BFL. The company is actively working on digital initiatives that will help Bajaj Finserv achieve the next growth stage, emphasizing continuous innovation. General insurance premium growth has shown a sequential improvement with an uptick in almost all the segments. The life insurance business is growing stronger due to focus on product mix and innovation. We believe strong growth in the lending business and improving growth momentum for both the insurance businesses will likely act as a positive trigger for strong consolidated earnings going forward.

## About company

Bajaj Finserv is a diversified financial services group with a pan-India presence in life insurance, general insurance, and lending. It is the holding company for BFL. Bajaj Finserv's shareholding in BFL was 52.65%. It also holds 74% each in BAGIC and BALIC. Set up in 1987, Bajaj Finserv 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 the most profitable among private players. BALIC, established in 2001, has a deep, pan-India distribution reach.

## Investment theme

Bajaj Finserv is a financial conglomerate present in the financing business (vehicle finance, consumer finance, and distribution) via BFL and in the insurance space via its life insurance arm (BALIC) and non-life subsidiary (BAGIC). BFL is a dominant player in the consumer finance space. We expect BFL to maintain its growth trajectory as well as profitability and margins in the long term, augmented by its unique business model and strong moats. We view insurance as an attractive space with a long-term growth potential. The insurance subsidiaries are strong entities in their own domains. 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 their distribution channel and profitability and are likely to emerge as attractive business franchises.

## Key Risks

Deterioration in the performance of its subsidiaries may pose a risk to earnings growth and profitability.

## Additional Data

### Key management personnel

Mr. Sanjiv Bajaj	Chairman and Managing Director
Mr. Rajeev Jain	Managing Director – Bajaj Finance Limited
Mr. Tarun Chugh	MD and CEO – BALIC
Mr. Tapan Singhel	MD and CEO - BAGIC

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jamnallal 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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## 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

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai-400028, Maharashtra, INDIA, Tel: 022-67502000 / Fax: 022-24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

**Disclaimer:** Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.