Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Finserv Ltd

Mixed Bag

NBFC	Sharekhan code: BAJAJFINSV
Reco/View: Buy ↔	CMP: Rs. 1,659 / Price Target: Rs. 1,950 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Oct 08, 2022

Medium Risk

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

Source: Morningstar

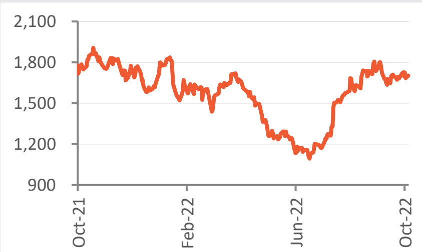
Company details

Market cap:	Rs. 2,66,797 cr
52-week high/low:	Rs. 1,896 / 1,078
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	7.2
DII	7.3
Others	24.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.7	30.1	7.4	-11.1
Relative to Sensex	-4.3	21.4	1.9	-7.6

Sharekhan Research, Bloomberg

Summary

- Bajaj Allianz Life Insurance reported strong growth in Annualized Premium Equivalent(APE) which grew by 29% YOY driven by strong growth in individual APE by 31% YoY. VNB (Value of New business) margins expanded to 15.2% in Q2FY23 vs 13.9% in Q2FY22 led by a better product mix towards non-par.
- While, for Bajaj General Insurance, gross written premium decreased by 5% YoY. Excluding crop segment, it grew by 13% YoY led by group health (33%) and commercial line (12%). It reported muted growth in the motor segment (4% YoY) as well as the retail health segment (9% YoY).
- The company is focusing on better profitability here and maintaining a cautious stance in select segments with high pricing pressure like motor OD. On the lending side, Bajaj Finance reported steady performance for Q2FY23 driven by robust AUM growth (31% YoY/ 7% QoQ) and contained credit cost.
- We maintain our Buy rating on the stock with an unchanged SOTP-based PT of Rs. 1,950.

Bajaj Finserv reported consolidated PAT of Rs. 1,557 crores, up ~39% y-o-y and ~19% q-o-q, driven by a healthy performance from Bajaj Finance & Bajaj Allianz Life Insurance. Bajaj Finance (BAF) consolidated asset under management (AUM) stood at Rs. 218,366 crore, increased by 31% y-o-y/ 7% QoQ in Q1FY23. Strong AUM growth was aided by healthy momentum in customer acquisition & cross-sell franchise. PAT reported at Rs. 2,781 crore was up by 88% y-o-y/ 7% q-o-q driven by strong operating performance and contained credit cost. For the life insurance business (BALIC), New business value grew 40% YoY and APE grew by 29% YoY. VNB expanded by ~130 bps YoY to 15.2%. For General Insurance (BAGIC), gross written premiums were down by 5% mainly led by crop, motor & retail health segment. The claim ratio moderated to 75.5% in Q2FY23 versus 77.6% in Q2FY22.

Key positives

- Bajaj Life has been gradually gaining market share in the individual business.
- Persistency ratios for BALIC improved across all buckets in Q2FY23.
- Strong performance from BAF.

Key negatives

- BAGIC is losing market share in the motor & Retail health Insurance segment.

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 and newly launched annuity and non-par products.
- For BAGIC, Intense price competition in the motor & retail health segment witnessing. As a consequence of going slow, the company managed to curtail the claim ratio to 69% in motor OD, down from 83% in 1QFY23. The claims ratio in motor TP declined sequentially to 82% from 88%.

Our Call

Valuation – Maintain Buy with an unchanged SOTP-based PT of Rs. 1,950: Bajaj Finserv reported mixed performance, led by a strong performance from BAF & BALIC while a muted performance from BAGIC. 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 moderated however the company is focusing on improving profitability which is a key positive. The life insurance business is growing stronger due to its focus on product mix and innovation. We believe strong growth in the lending business and an improving outlook 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 (Rs.)
BALIC	74%	1.8x its FY2024E EV	160
BAGIC	74%	30x its FY2024E PAT	240
BFL	52%	8x its FY2024E BVPS	1,766
Windmill	100%		1
Less: Holding Co. Discount	10%		217
Total			1,950

Source: Company; Sharekhan estimates

Key Result Highlights:

- **Bajaj Finance:** Customer franchise stood at 62.9 million (up 19% y-o-y) and cross-sell franchise at 36.4m (up 24% y-o-y) in Q2FY23. New loans booked were 6.8 million and new to Bajaj (NTB) customers were at 2.6 million. AUM expanded 31% y-o-y/ 7% q-o-q. Sequential growth was driven by Urban B2C (7%), Rural B2C (7%), SME (9%), LAS (14%), and Commercial (11%) and Mortgages (8%). However, Urban/Rural B2B Sales Finance (-1%/-5% q-o-q) performance was muted in Q2FY23. It is important to note that the second quarter has historically been a seasonally weak quarter in Consumer Durable financing before the festive season sets in the third quarter of a fiscal. The Company is further expanding its product offering for customers. The company articulated that its customer acquisitions run rate is likely to improve further from here on and thus AUM growth is expected to improve further. Strong AUM growth is likely to sustain led by diverse product offerings, customer acquisition, and ability to cross-sell. Key catalyst for drivers in earnings growth – AUM growth & normalized credit cost.

- **Bajaj Allianz General Insurance (BAGIC):** Gross Direct Premium Income(GDPI) de-grew by 5% YoY in Q2 FY23 as against Industry growth of 9.0%. H1FY23 growth was 4.7% vs the industry growth of 15.0%. Excluding, Crop & Govt. Health Insurance segment, Q2FY23 GDPI grew by 11.8% vs Industry growth of 13.9%. This quarter the growth was attributable to Group Health (33% YoY), Commercial lines (Fire, Engineering, Marine and Liability - 11.4%), and revival of the travel business. For Q2 FY23, the Loss Ratio stands at 75.5% as against 77.6% in Q2 FY22, despite Rs 34 crore (net) one-time impact taken on account of the adverse court order with respect to Osmanabad Kharif 2020 Crop season. The combined Ratio increased to 99.8% in Q2FY23 vs 98.5% in Q2FY22. Sequentially, claim ratio and combined ratio improved by 2.4% and 4.8% respectively due to a better selection of business and measures taken for expense management. Q2FY23 PAT de-grew by 21% to Rs. 336 Cr vs Rs.425 Cr in Q2 FY22. The decrease in PAT is mainly on account of lower realized gains.

- **Bajaj Allianz Life Insurance (BALIC):** Witnessed 40% growth in New Business Value (Rs. 190 Crore in Q2FY23 vs Rs. 136 Crore in Q2FY22) on account of business growth and improved product mix VNB margins increased to 15.2% in Q2FY23 from 13.9% in Q2FY22. The company has successfully realigned its product mix towards a higher share of high-margin products; with ULIP, non-par and par at 27%, 38%, and 37% of the product mix respectively as compared to pre-Covid era when ULIP used to dominate the mix at 60%. Newly launched annuity and non-par products are aiding this shift in mix which is also margin accretive. Overall market share in the individual business inched up to 4.7% from sub-4% last year. The product mix in terms of by individual-rated new business premium stood at Par (18%), Non-Par Savings (35%), ULIP (35%), Protection (3%), and Annuity (9%). It focuses on a balanced and sustainable product mix with a view of de-risking its business from volatile market movements.

Outlook and Valuation

■ Sector View – Structural tailwinds ahead

Lead indicators depict a 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. The 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. Against this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionally 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-capitalized, and is poised to deliver superior profitability with a 40% PAT CAGR over FY2022-FY2024E and sector-leading ROA/ROE of 4.7%/ 22% in FY2024E. Moreover, the digital transformation was 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 a 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 the long-term sustainability of the business franchise and healthy earnings trajectory.

■ Valuation – Maintain Buy with an unchanged SOTP-based PT of Rs. 1,950

Bajaj Finserv reported mixed performance, led by a strong performance from BAF & BALIC while a muted performance from BAGIC. 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 moderated however the company is focusing on improving profitability which is a key positive. The life insurance business is growing stronger due to its focus on product mix and innovation. We believe strong growth in the lending business and an improving outlook 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 long-term growth potential. The insurance subsidiaries are strong entities in their own domains. Both BAGIC and BALIC have healthy operating metrics, and 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	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

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 detoriating 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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