

Steady performance; sustainability to aid valuation...

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 remain in focus

Q3FY23 Results: Healthy performance in lending. Insurance was a bit volatile.

- Consolidated topline growth came in at ~26.4% YoY to ₹ 21755 crore
- AUM up 27% YoY to ₹ 230842 crore; PAT jump led by lower provision
- GWP up 29% YoY to ₹ 3821 crore; PAT down 8.6% YoY to ₹ 278 crore
- Life insurance premium grew 10% YoY, renewal remained healthy

What should investors do? Bajaj Finserv's share price has grown over ~1.7x in the past five years.

- We upgrade the stock from HOLD to **BUY** rating given the recent correction in the stock

Target Price and Valuation: Healthy pick-up in lending AUM and selective approach in insurance business coupled with focus on digitisation remain positive. We value Finserv at ~28x FY25E EPS and downgrade our target price to ₹ 1625.

Key triggers for future price performance:

- The management has rolled out a five-year long range strategy (LRS), aiming for 3-4% share in total credit and 4-5% share in retail credit
- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR) 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

Alternate Stock Idea: Besides Finserv, in our BFSI coverage, we also like HDFC Ltd.

- HDFC Ltd is a leading housing finance company with loan size of ~₹ 6.0 lakh crore with a presence in life insurance, banking, AMC via its subsidiaries
- BUY with a target price of ₹ 2850



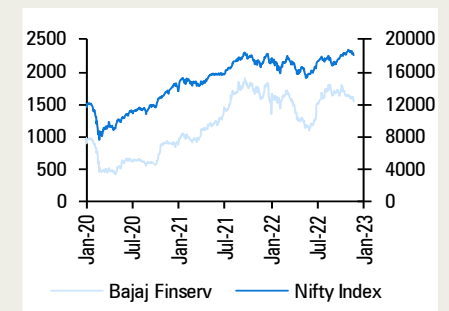
Particulars

Particular	Amount
Market Capitalization	₹ 214902 crore
Net worth	₹ 44551 crore
52 week H/L (₹)	1846/1077
Face value	₹ 1
DII Holding (%)	6.9
FII Holding (%)	7.8

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	60.8	60.8	60.8	60.8
FII	8.5	7.4	7.5	7.8
DII	7.0	7.7	7.0	6.9
Others	23.8	24.1	24.8	24.5

Price Chart



Recent Event & Key risks

- Consolidated topline up ~26% YoY
- Key Risk:** 1) Elevated opex may impact return ratios, 2) Claims ratios trajectory in retail products

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Revenue	54,351.5	60,591.6	68,439.0	17%	82,444.8	1,01,742.6	1,25,615.8	22%
PAT	2269.0	4470.5	4556.8	13%	6224.9	7696.7	9237.2	27%
EPS (₹)	53.9	35.2	52.8		39.1	48.4	58.1	
BV (₹)	405.3	439.9	505.9		291.9	339.9	397.6	
P/E	25.0	38.2	25.5		34.4	27.8	23.2	
P/BV	3.3	3.1	2.7		4.6	4.0	3.4	
RoA	1.9	1.1	1.4		1.4	1.3	1.3	
RoE	15.3	8.3	11.2		14.4	15.3	15.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Reports healthy performance led by lending business. Insurance business bit volatile

- Consolidated topline growth was at ~26.4% YoY to ₹ 21755 crore, primarily led by a healthy revival in lending business and general insurance premium accretion. Lower provisioning in lending business and profitability in general insurance led to consolidated earnings at ₹ 1782 crore, up 41.9% YoY
- In lending business, AUM growth at 27% YoY to ₹ 230842 crore, coupled with steady margins & opex while lower provision led to robust growth in earnings. GNPA & NNPA were at 1.14% & 0.41%, respectively, as of Q3FY23 against 1.17% and 0.44%, respectively, as of Q2FY23
- Gross written premium in general insurance increased 29% YoY to ₹ 3821 crore. Excluding tender driven crop and government health business, gross premium increased 13% YoY to ₹ 3097 crore. In Q3FY23, motor business grew 6% with two-wheeler growth at 24%, CV at -5% and four-wheeler at 6%. Focus on commercial lines business led to 14.9% YoY growth while travel insurance grew 44% YoY
- Claim ratio increased YoY at 72.1% vs. 69.6% in Q3FY22, due to high inflation in motor and health claims partially offset by lower claims from commercial lines. However, sequentially the claim ratio has been improving since Q1FY23. Combined ratio (total expenses for an insurer to premium) was at 100.3% vs. 98.9% in Q3FY22 and 99.8% in Q2FY23, leading to underwriting loss at ₹ 40 crore. Investment income came in at ₹ 413 crore, which led to PAT of ₹ 278 crore, down ~8.6% YoY
- Life insurance gross written premium grew 10% YoY to ₹ 4504 crore. NBP was largely flat YoY at ₹ 2289 crore, attributable to slower group saving business. Individual rate business grew 22% YoY, while group protection declined 15.6% YoY. Renewal premium was up 30% YoY at ₹ 2215 crore. NBP margin witnessed an improvement while higher strain led by individual business impacted momentum of shareholder's profit, which got reported at ₹ 81 crore. Solvency ratio was at 529% as of December 2022. AUM grew 8% YoY to ₹ 89466 crore
- In life insurance, 9MFY23 growth was 38% vs. private player's growth of 19%; market share in IRNB terms increased from 6.4% to 7.4% among private players
- Product mix - par, non-par savings, Ulip, protection, annuity retail mix was at 19%, 37%, 33%, 4%, 7%, respectively. New business margin (NBM) came in healthy at 14.8% in Q3FY23 vs. 12.6% in Q3FY22

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)			P/ABV (x)			RoE (%)					
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
HDFC (HDFC)	2,611	2,850	Buy	4,771	66.7	75.8	89.0	103.6	39.2	34.4	29.3	25.2	4.3	3.9	3.9	3.6	12.3	12.0	13.3	14.8
Bajaj Finserv (BAFINS)	1,346	1,625	Buy	2,149	35.2	52.8	39.1	48.4	38.2	25.5	34.4	27.8	3.1	2.7	4.6	4.0	8.3	11.2	14.4	15.3
Bajaj Finance (BAJFI)	5,890	7,250	Buy	3,562	73.6	116.8	198.5	229.7	80.1	50.4	29.7	25.6	9.9	8.3	6.8	5.6	12.8	17.5	24.2	22.9
Muthoot Finance (MUTFIN)	1,040	1,150	Hold	417	92.8	98.5	84.4	103.9	11.2	10.6	12.3	10.0	2.8	2.5	2.2	1.9	27.8	23.5	17.3	18.8

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/share after 15% discount (₹)
Bajaj Allianz Life Insurance	1.8x FY24E EV	74	41850	30923	165
Bajaj Allianz General Insur	30x FY24E PAT	74	51051	37778	202
Bajaj Finance	8.4x FY24E BVPS	52.5	448050	235181	1257
Windmill	₹4 per mw	100	260	143	1
Total					1625

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
General Insurance	3820.7	3847.3	2,959.5	29.1	4,781.4	-20.1	Excluding tender driven crop and government health business
Life Insurance	4504.3	4854.9	4,079.7	10.4	4,155	8.4	Group savings business grew slower
Net premium earned	8325.0	8702.2	7,039.2	18.3	8,936.4	-6.8	
Investment and other income	2920.2	2474.8	2,105	38.8	2,961	-1.4	
Reinsurance Ceded	263.0	435.1	467	-43.7	371	-29.2	
Reserve for unexpired risk	-65.1	-100.0	-479	-86.4	740	-108.8	
Total Insurance	11047.4	10841.8	9,156.1	20.7	10,786.5	2.4	
Retail financing	10785.5	10434.8	8,535	26.4	9,974	8.1	Led by healthy performance in lending business and steady asset quality
Windmill	3.3	8.8	6.3	-47.3	9.3	-64.4	
Investment and others	196.5	120.0	359	-45.2	813	-75.8	
Total	21,755	20,884	17,620	23.5	20,803	4.6	
Interest and Finance Charges	3,240.8	664.6	2,444.5	32.6	2,961.2	9.4	
Other Exp	14,095.6	16,053.3	11,926.1	18.2	13,583.8	3.8	
Total Expenses	17,336.4	16,717.9	14,370.6	20.6	16,545.1	4.8	
PBT	4,419.0	4,165.8	3,249.0	36.0	4,257.8	3.8	
PAT	1,782.0	1,589.7	1,255.8	41.9	1,556.9	14.5	Healthy topline, PAT growth

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Total Income	83,484.9	82,444.8	-1.2	103,846.8	101,742.6	-2.0	125,615.8
PBT	17,543.8	16,475.4	-6.1	21,112.3	21,248.1	0.6	25,501.5
PAT	7,671.6	6,224.9	-18.9	9,043.9	7,696.7	-14.9	9,237.2
ABV (₹)	301.0	291.9	-3.0	357.5	339.9	-4.9	397.6

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Commercial Finance growth (%)	116.1	24.4	24.5	116.1	24.4
Life Ins Premium growth (%)	20.4	21.0	20.7	23.9	21.5
General Ins GWP growth (%)	16.0	18.0	18.0	20.0	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Revenue				
<i>Life Insurance</i>	16127	19419	23493	28347
<i>General Insurance</i>	13689	15879	18738	22110
Total	29816	35299	42231	50458
Less: Reinsurance ceded	2185	2028	2335	2693
Reserve for unexpired risk	241	794	937	1106
Net Insurance Premium Earned	27490	32477	38959	46659
Investment and other income	9591	8874	12371	16015
Total Insurance Income	37081	41351	51330	62675
Investment and others	996	1394	1672	2007
Retail financing	31640	41438	50650	63033
Windmill	29	32	37	43
Total	69746	84215	103690	127758
Less: Inter-segment revenue	1307	1770	1947	2142
Total revenue	68439	82445	101743	125616
Pre-tax profit				
<i>General Insurance</i>	1736	1440	2084	2398
<i>Life Insurance</i>	43	-53	1315	1519
Total Insurance	1778	1386	3400	3917
Retail financing	10000	16196	19177	23179
Investments & others	-514	-1115	-1338	-1606
Windmill	6	8	9	11
Total PBIT	11271	16475	21248	25502
Less: Interest	-514	-1115	-1338	-1606
Profit before tax	11270	16475	21248	25502
Tax	-2957	-4619	-5855	-7027
Net profit before minority	8313	11857	15393	18474
Minority and deferred tax adjustmen	3757	5632	7697	9237
Net profit	4557	6225	7697	9237

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Shareholders' Funds	40247	46444	54085	63266
- Share capital	80	159	159	159
- Reserves & Surplus	40167	46285	53926	63107
Policy liabilities	31483	96136	129105	166882
Loan funds	71506	243153	302395	376533
Deferred tax liability (net)	3370	3437	3506	3576
Current liabilities	120559	114531	108804	103364
Provisions	234	243	253	263
Total liabilities	333719	548133	653786	783053
Applications of Funds				
Fixed assets	2332	3352	4236	4307
Goodwill on investments in associat	689	689	689	689
Investments	19600	12368	12739	13121
Policyholders' Investments	98645	126064	161874	203496
Deferred Tax Assets (net)	534	946	993	1043
Current assets	99404	161561	170859	183864
- Receivable under financing activity	112513	243153	302395	376533
Total Assets	333719	548133	653786	783053

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio				
(Year-end March)	FY22	FY23E	FY24E	FY25E
CMP	1346.0	1346.0	1346.0	1346.0
No. of shares in mn	795.6	1591.2	1591.2	1591.2
EPS	52.8	39.1	48.4	58.1
BV	505.9	291.9	339.9	397.6
RoA	1.4	1.4	1.3	1.3
RoE	11.2	14.4	15.3	15.7
P/BV	2.7	4.6	4.0	3.4
P/E	25.5	34.4	27.8	23.2

(Year-end March) - Growth ratios	FY22	FY23E	FY24E	FY25E
Gross Written Premium				
- Life	34.1	20.4	21.0	20.7
- General	8	16	18	18
Loan book Bajaj Finance	0	116	24	25
Consol Networth	15	15	16	17
Consol Revenues	15	26	23	23
Consol PAT	50	48	24	20
Consol Effective Tax rate	27	28	28	28

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities 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.