



Powered by the Sharekhan 3R Research Philosophy

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 Dec 08, 2022

Medium Risk

NEGL	LOW	<b>MED</b>	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

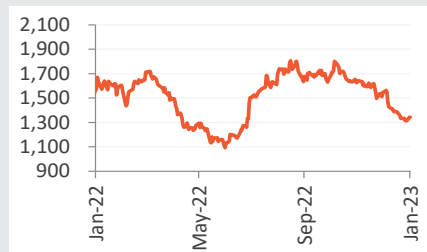
Company details

Market cap:	Rs. 2,13,939 cr
52-week high/low:	Rs. 1,846/ 1,078
NSE volume: (No of shares)	22.5 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	60.5 cr

Shareholding (%)

Promoters	60.8
FII	7.8
DII	6.9
Others	24.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.2	-20.4	-10.8	-14.4
Relative to Sensex	-10.7	-19.8	-14.2	-18.5

Sharekhan Research, Bloomberg

NBFC	Sharekhan code: BAJAJFINSV		
Reco/View: Buy	↔	CMP: Rs. 1,343	Price Target: Rs. 1,650 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Bajaj Allianz Life Insurance reported healthy growth in Annualized New Business Premium Equivalent (APE) at 18% y-o-y, while renewal premium grew by 30% y-o-y. VNB (Value of New business) grew by 38% y-o-y to Rs. 210 crore led by improved product mix and VNB margins were at 14.8% vs 12.6% in Q3FY22 & 15.2% in Q2FY23.
- Bajaj General Insurance's gross direct premium income grew by 29% y-o-y. Net earned premium grew by 8% y-o-y. Claims ratio were lower sequentially to 72.1% vs 75.5% qoq and 69.6% y-o-y. Combined ratio at 100.3% vs 98.9% Y-o-y and 99.8% q-o-q. Underwriting losses stood at Rs. 40 crore versus Rs. 5 crore profit in Q3FY22 and Rs 18 crore loss q-o-q. PAT de-grew by 9% y-o-y. Lower PAT is attributable to higher combined ratio and lower realized gains.
- On the lending business side, Bajaj Finance reported in-line performance with earnings growth at 40% y-o-y in Q3FY23 driven by strong operating profits growth (24% y-o-y) and a decline in credit cost by 20% y-o-y.
- We maintain a Buy rating on the stock with a revised SOTP-based PT of Rs. 1,650.

Bajaj Finserv reported consolidated PAT of Rs. 1,782 crore, up ~42% y-o-y and ~15% q-o-q led by a strong performance from the lending business. Bajaj Finance (BAF) consolidated asset under management (AUM) stood at Rs. 230,842 crore, increased by 27% y-o-y/ 6% q-o-q in Q3FY23. AUM growth moderated on y-o-y as well as qoq basis due to higher competitive intensity but still remain healthy. Run rate of new customer acquisition & cross-sell franchise continues to improve. PAT reported at Rs. 2,973 crore was up by 40% y-o-y/ 7% q-o-q driven by strong operating performance and lower credit cost. For the life insurance business (BALIC), VNB grew 38% Y-o-y and APE grew by 18% Y-o-y. VNB margins expanded by ~220 bps y-o-y to 14.8%. For General Insurance (BAGIC), Lower PAT on y-o-y is attributable to higher combined ratio and lower realized gains.

Key positives

- Persistency trends for BALIC improved across all buckets in 9MFY23, while it is gradually gaining market share in retail protection.
- Strong performance in lending business.

Key negatives

- BAGIC is losing market share in the motor segment.
- Claim ratio increased to 72.1% vs 69.6% y-o-y in general insurance business

Management Commentary

- The management guided that focus is on maintaining balanced product mix there by improving margins gradually and increased investments for retail growth in life insurance business. Irrational pricing remained in the motor & retail health segment. It is striving for market share growth through a well-diversified product portfolio and multi-channel distribution supported by prudent underwriting along with focus on generating sustainable ROE.

Our Call

**Valuation: Maintain Buy with a revised SOTP-based PT of Rs. 1,650:** Bajaj Finserv reported in-line performance, led by a strong show by BAF and BALIC while mixed performance from BAGIC. The company is actively working on digital initiatives that will help Bajaj Finserv achieve the next growth stage, emphasizing continuous innovation. For the general insurance business, the company is focusing on profitability and generating sustainable RoE while pursuing sustainable premium growth which is a key positive. The life insurance business is growing stronger due to its focus on balanced product mix and new product launches. 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 FY2025E EV	177
BAGIC	74%	25x its FY2025E PAT	237
BFL	52%	5x its FY2025E BVPS	1,418
Less: Holding Co. Discount	10%		182
<b>Total</b>			<b>1,650</b>

Source: Company; Sharekhan estimates

### Key Result Highlights:

**Bajaj Finance:** Customer franchise stood at 66 million (up 19% y-o-y) and cross-sell franchise stood at 38.6 million (up 23% y-o-y) in Q3FY2023. New loans booked were 7.8 million, the highest-ever quarterly run rate. AUM grew by 27% y-o-y/6% q-o-q. AUM growth is moderating to 25-30% vs. earlier at 35-40%, owing to a higher base and competitive intensity, which continues to remain elevated across the portfolio, which is leading to some market share loss in the near term. Growth moderation was seen in the B2B segment due to lower disbursements owing to muted festive demand, and in the mortgages segment due to intense pricing pressure. 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. The company articulated that its new customer additions are expected to be higher than 11 million in FY2023 vs. earlier guided at 10-11 million. We believe diverse product offerings, healthy customer acquisition, ability to cross-sell and digital transformation journey to support AUM growth. It is poised to deliver sector-leading ROA/ROE of 4.7%/22% over FY2022-FY2025E.

**Bajaj Allianz General Insurance (BAGIC):** Gross Direct Premium Income (GDPI) grew by 29% Y-o-y in Q3FY23 as against Industry growth of 18.5%. 9MFY23 growth was 11.4% versus the industry's growth of 16.2%. Excluding, Crop & Govt. Health Insurance segment, Q3FY23 GDPI grew by 12.8% versus the industry's growth of 15.3%. This quarter the growth was attributable to Group Health (41% Y-o-y), Commercial lines (Fire, Engineering, Marine and Liability - 14.9%), and travel business (44%). Retail health also picked up and grew by 11% y-o-y versus 9% in last quarter. Net earned premium grew by 8% y-o-y. For Q3 FY23, loss ratio stands at 72.1% as against 69.6% in Q3FY22. Increase in LR was attributable to - high inflation in Motor & Health, partially offset by lower commercial claims; Rs. 9 crore(net) impact taken on account of the adverse court order with respect to Osmanabad Kharif 2020 Crop season. However, sequentially from Q2FY23 LR ratio improved by 3.4% in Q3FY23 due to - better selection of business and normalisation of aberrations such as high motor own damage loss ratios. The combined ratio increased to 100.3% in Q3FY23 vs 98.9% in Q3FY22. Q3FY23 PAT de-grew by 9% to Rs. 278 crore vs Rs. 304 crore in Q3FY22. Lower PAT is attributable to higher combined ratio and lower realised gains.

**Bajaj Allianz Life Insurance (BALIC):** It witnessed 38% growth in New Business Value (Rs. 210 Crore in Q3FY23 vs Rs. 152 Crore in Q3FY22) on account of business growth and improved product mix. VNB margins increased to 14.8% in Q3FY23 from 12.6% in Q3FY22. The company has successfully realigned its product mix towards a higher share of high-margin products as compared to pre-COVID era when ULIP used to dominate the mix. Newly launched annuity and non-par products are aiding this shift in mix which is also margin accretive. The product mix in terms of individual-rated new business premium stood at Par (19%), Non-Par Savings (37%), ULIP (33%), Protection (4%), and annuity (7%). It is focusing on balanced and sustainable product mix with a view of de-risking its business from volatile market movements.

### Bajaj Finserv (Consolidated)

Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Income from operations	21,755	17,587	23.7	20,803	4.6
Other income	0	33		0	
<b>Total Income from operations</b>	<b>21,755</b>	<b>17,620</b>	<b>23.5</b>	<b>20,803</b>	<b>4.6</b>
<b>Expenses</b>					
Employee benefits expenses	2,156	1,767	22.0	2,082	3.5
Finance costs	3,241	2,445	32.6	2,961	9.4
Fees and commission expense	1,027	905	13.6	1,018	0.9
Claims paid	4,246	4,318	-1.7	3,833	10.8
Reinsurance ceded	1,938	1,554	24.7	2,023	-4.2
Net change in insurance/ Investment contract liabilities	2,158	1,046	106.3	2,289	-5.7
Depreciation, amortisation and impairment	172	143	19.9	168	1.9
Other expenses	1,554	1,120	38.8	1,413	10.0
<b>Provisions</b>	<b>845</b>	<b>1,074</b>	<b>-21.3</b>	<b>756</b>	<b>11.7</b>
Impairment of financial instruments - lending assets	841	1,051	-20.0	734	14.6
Impairment of financial instruments - investments	4	22	-83.2	22	-82.9
Share in PAT of invst in associates	0	-0		-0	
<b>Profit before tax</b>	<b>4,419</b>	<b>3,249</b>	<b>36.0</b>	<b>4,258</b>	<b>3.8</b>
Tax	1,119	900	24.4	1,261	-11.3
<b>Profit after tax</b>	<b>3,300</b>	<b>2,349</b>	<b>40.5</b>	<b>2,997</b>	<b>10.1</b>
Profit attributable to Non controlling interest	1,518	1,094	38.8	1,440	5.5
<b>Profit for the Period</b>	<b>1,782</b>	<b>1,256</b>	<b>41.9</b>	<b>1,557</b>	<b>14.5</b>

Source: Company, Sharekhan Research

**Bajaj Finance (Consolidated)**

Particulars	Rs cr				
	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Interest Income	9,273	7,265	28%	8,509	9%
Interest Expenses	3,351	2,534	32%	2,971	13%
Net Interest Income	5,922	4,731	25%	5,538	7%
Fee & Other Income	1,513	1,274	19%	1,464	3%
Net Income	7,435	6,005	24%	7,001	6%
Operating Expenses	2,582	2,086	24%	2,515	3%
Pre-Provisioning Profit (PPoP)	4,853	3,919	24%	4,487	8%
Provisions	841	1,051	-20%	734	15%
PBT	4,012	2,868	40%	3,752	7%
Tax	1,039	743	40%	972	7%
Tax Rate (%)	25.9	25.9		25.9	
PAT	2,973	2,125	40%	2,781	7%

Source: Company, Sharekhan Research

**Bajaj Allianz General Insurance**

Particulars	Rs cr				
	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Gross Written Premium	3,821	2,959	29.1	4,781	-20.1
Net Earned Premium	2,086	1,930	8.1	2,090	-0.2
Underwriting Result	-40	5	NM	-18	NM
Investment & other Income (net)	413	402	2.7	468	-11.8
Profit before tax	373	407	-8.4	450	-17.1
Profit after tax	278	304	-8.6	336	-17.3

Source: Company, Sharekhan Research

**Bajaj Allianz Life Insurance**

Particulars	Rs cr				
	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Gross written premium	4,504	4,079	10.4	4,155	8.4
New business premium	2,289	2,377	-3.7	2,235	2.4
Renewal premium	2,215	1,702	30.1	1,920	15.4
Shareholders Profit	198	138	43.5	203	-2.5
Transfer from policyholder account	-117	-50	NM	-44	NM
Profit / ( Loss ) after tax	81	88	-8.0	159	-49.1

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Strong outlook

Credit growth continues to remain robust. 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. There is a strong demand for protection, health, and non-PAR products. 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 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-capitalized, and is poised to deliver sector-leading ROA/ROE of 4.7%/ 22% over FY2022-25E. Moreover, digital transformation which is undertaken and an 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 a revised SOTP-based PT of Rs. 1,650:

Bajaj Finserv reported in-line performance, led by a strong show by BAF and BALIC while mixed performance from BAGIC. The company is actively working on digital initiatives that will help Bajaj Finserv achieve the next growth stage, emphasizing continuous innovation. For the general insurance business, the company is focusing on profitability and generating sustainable RoE while pursuing sustainable premium growth which is a key positive. The life insurance business is growing stronger due to its focus on balanced product mix and new product launches. 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 is 52.65%. It also holds 74% each in BAGIC and BALIC. Its vision is to provide financial solutions for retail and SME customers through their life cycle. These involve: (i) asset acquisition and lifestyle enhancement through financing, (ii) asset protection through general insurance, (iii) family protection through life and health insurance, (iv) providing healthcare needs for the family, (v) offering savings products, (vi) wealth management, and (vii) retirement planning and annuities.

## 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

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BAJAJ HOLDINGS & INVESTMENT LTD	39.12
2	JAMNALAL SONS PVT LTD	9.69
3	JAYA HIND INDUSTRIES PVT LTD	3.85
4	MAHARASHTRA SCOOTERS LTD	2.34
5	LIFE INSURANCE CORP OF INDIA	1.62
6	BAJAJ SEVASHRAM PVT LTD	1.53
7	BAJAJ NIRAJKUMAR RAMKRISHNAJI	1.37
8	BACHHRAJ & CO PVT LTD	1.27
9	AXIS ASSET MANAGEMENT CO LTD	1.24
10	SBI FUNDS MANAGEMENT LTD	1.23

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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