Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Bajaj Finserv Ltd

## In line performance

| NBFC | Sharekhan code: BAJAJFINSV |
|---|---|
| Reco/View: Buy ↔ | CMP: **Rs. 1,343** |
| | Price Target: **Rs. 1,650** ↓ |

↑ 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 Dec 08, 2022

**Medium Risk**

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

*Source: Morningstar*

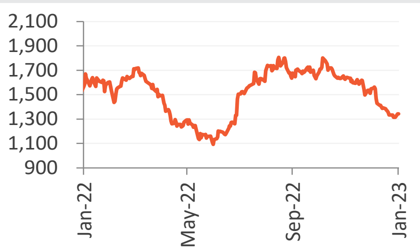
### Company details

| | |
|---|---|
| Market cap: | Rs. 2,13,939 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*


### 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 by18% 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 |
| **Total** | | | **1,650** |

*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 | |
| **Total Income from operations** | **21,755** | **17,620** | **23.5** | **20,803** | **4.6** |
| **Expenses** | | | | | |
| 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 impainment | 172 | 143 | 19.9 | 168 | 1.9 |
| Other expenses | 1,554 | 1,120 | 38.8 | 1,413 | 10.0 |
| **Provisions** | **845** | **1,074** | **-21.3** | **756** | **11.7** |
| 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 | |
| **Profit before tax** | **4,419** | **3,249** | **36.0** | **4,258** | **3.8** |
| Tax | 1,119 | 900 | 24.4 | 1,261 | -11.3 |
| **Profit after tax** | **3,300** | **2,349** | **40.5** | **2,997** | **10.1** |
| Profit attributable to Non controlling interest | 1,518 | 1,094 | 38.8 | 1,440 | 5.5 |
| **Profit for the Period** | **1,782** | **1,256** | **41.9** | **1,557** | **14.5** |

*Source: Company, Sharekhan Research*

**Bajaj Finance (Consolidated)** Rs cr

| Particulars | 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** Rs cr

| Particulars | 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** Rs cr

| Particulars | 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 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 sector-leading ROA/ROE of 4.7%/ 22% over FY20222-25E. 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*

## 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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, 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.