



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
Updated Aug 08, 2023 26.82

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 2,48,976 cr
52-week high/low:	Rs. 1,813/ 1,216
NSE volume: (No of shares)	15.0 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	47.9 cr

Shareholding (%)

Promoters	60.7
FII	7.7
DII	12.4
Others	19.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	-2.3	15.2	-7.5
Relative to Sensex	4.0	1.3	10.3	-13.1

Sharekhan Research, Bloomberg

Bajaj Finserv Ltd
Strong Q2

NBFC	Sharekhan code: BAJAJFINSV		
Reco/View: Buy	↔	CMP: Rs. 1,561	Price Target: Rs. 2,040 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ◆ Bajaj Allianz Life Insurance reported strong growth in new business premium APE, up 30% y-o-y, at Rs. 1,620 crore. Value of new business (VNB) grew by 25% y-o-y to Rs. 237 crore. VNB margins stood at 14.6% vs. 15.2% y-o-y.
- ◆ Bajaj General Insurance's gross written premium grew by 53% y-o-y. Net earned premium grew by 8% y-o-y. Claims ratio increased to 78% vs. 75.5% y-o-y. Combined ratio improved to 95.3% vs. 99.8% y-o-y, led by better expense ratio despite higher claims. Underwriting profit stood at Rs. 37 crore in Q2FY2024 vs. Rs. 18 crore loss in Q2FY2023.
- ◆ On the lending business side, Bajaj Finance reported earnings growth of 28% y-o-y in Q2FY2024, driven by strong operating profit growth and contained credit cost.
- ◆ We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 2,040.

Bajaj Finserv reported a consolidated PAT of Rs. 1,929 crore in Q2FY2024, up ~24% y-o-y. Strong performance from the lending business continued along with good performance from both the insurance subsidiaries. Bajaj Finance's (BAF) consolidated asset under management (AUM) stood at Rs. 2,90,264 crore, increased by 33% y-o-y/7% q-o-q in Q2FY2024. Run rate of new customer acquisition and cross-sell franchise remained healthy. PAT was reported at Rs. 3,551 crore, up 28% y-o-y/3% q-o-q, driven by strong operating performance and contained credit cost. For the life insurance business (BALIC), VNB grew by 25% y-o-y and APE grew by 30% y-o-y, led by strong business growth. For general insurance (BAGIC), the company reported underwriting profit at Rs. 37 crore, led by lower combined ratio.

Key positives

- ◆ APE and VNB growth was strong in the life insurance business.
- ◆ Overall combined ratio was lower in the general insurance business.
- ◆ Strong performance in the lending business continued.

Key negatives

- ◆ Claim ratio was higher in the general insurance business.
- ◆ Higher new business strain in the life insurance business was on account of business growth

Management Commentary

- ◆ Bajaj Finserv Asset Management commenced business during the quarter and launched two funds – liquid and arbitrage funds. Total AUM stood at Rs. 5,235 crore. Over the next few months, the company will be launching other categories of funds, including balance funds and ETFs.
- ◆ Some of the initiatives, such as focusing on smaller tier towns with a multi-channel model, expansion of distribution, having more bank insurance partners, and increasing presence in the large-ticket corporate segment have led to strong performance in the general insurance business.
- ◆ A better product mix and the launch of new par products along with strong growth in the individual business led to strong business growth in the life Insurance business.

Our Call

Valuation: Maintain Buy with a revised SOTP-based PT of Rs. 2,040: Bajaj Finserv reported strong numbers. For the general insurance business, the company is focusing on improving profitability and generating sustainable RoE, while pursuing sustainable premium growth, which is a key positive. The life insurance business is focused on the 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%	6.2x its Sep 2025E BVPS	1,855
Less: Holding Co. Discount	10%		229
Total			2,040

Source: Company; Sharekhan estimates

Key Result Highlights:

- ◆ **Bajaj Finance:** The company delivered strong AUM growth of 33% y-o-y in Q2FY2024 vs. full fiscal guidance of 29-31%. Sequentially, AUM grew at 7.5% q-o-q on strong traction in auto loans (12% q-o-q), SME (10.6% q-o-q), and mortgage (10.6% q-o-q). We expect product diversification across segments, omni-channel strategy, and well-capitalized position to support BAF for registering strong AUM growth over the medium term. The company added 3.58 million new customers in Q2FY2024. Management is optimistic to deliver over 5% RoA for the full fiscal.
- ◆ **Bajaj Allianz General Insurance (BAGIC):** Gross Direct Premium Income (GDPI) grew by 54% y-o-y in Q2FY2024 as against the industry's growth of 18.6%. Ex. Crop and government health, GDPI grew by 22.4%. Q2FY2024 growth was better than the industry's growth in almost all segments. Claims ratio increased to 78% vs. 75.5% y-o-y. Claim ratio was higher, led by a higher mix of crop and government health business along with increased claims due to heavy rains and cyclone-related claims. Combined ratio improved to 95.3% vs. 99.8% y-o-y, led by a better expense ratio despite higher claims. Underwriting profit stood at Rs. 37 crore in Q2FY2024 vs. Rs. 18 crore loss in Q2FY2023. PAT stood at Rs. 468 crore vs. Rs. 336 crore y-o-y. Higher PAT can be attributed to better underwriting results and better investment performance, including increased profit on the sale of investments. Solvency ratio stood at 352% as of September 30, 2023.
- ◆ **Bajaj Allianz Life Insurance (BALIC):** BALIC reported healthy growth in the individual new business premium APE at 32% y-o-y, while overall APE grew by 30% y-o-y. VNB grew by 25% y-o-y to Rs. 237 crore. VNB margins stood at 14.6% vs. 15.2% y-o-y. It is focusing on a balanced and sustainable product mix with a view of de-risking its business from the volatile market movements. A better product mix and the launch of new par products along with strong growth in the individual business led to robust business growth in the business. Continued focus on renewal collection via various initiatives such as driving auto-payment registration, digital payments, and higher distribution ownership has led to significant improvement in persistency across most cohorts.

Bajaj Finserv (Consolidated)

Particulars	Rs cr				
	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
Income from operations	26,023	20,803	25.1	23,280	11.8
Other income		0			
Total Income from operations	26,023	20,803	25.1	23,280	11.8
Expenses					
Employee benefits expenses	2,466	2,082	18.4	2,441	1.1
Finance costs	4,449	2,961	50.2	4,020	10.7
Fees and commission expense	1,653	1,018	62.4	1,435	15.2
Claims paid	5,085	3,833	32.7	4,158	22.3
Reinsurance ceded	2,459	2,023	21.5	1,429	72.0
Net change in insurance/ Investment contract liabilities	1,830	2,289	-20.1	2,203	-17.0
Depreciation, amortisation and impairment	209	168	24.0	202	3.2
Other expenses	1,519	1,413	7.5	1,255	21.1
Provisions	1,081	756	42.9	1,013	6.7
Impairment of financial instruments - lending assets	1,077	734	46.7	995	8.3
Impairment of financial instruments – investments	3	22	-85.5	18	-82.0
Share in PAT of invst in associates	0	-0	-170.0	3	-92.5
Profit before tax	5,292	4,258	24.3	5,125	3.3
Tax	1,536	1,261	21.8	1,416	8.5
Profit after tax	3,756	2,997	25.3	3,709	1.2
Profit attributable to Non controlling interest	1,827	1,440	26.9	1,767	3.4
Profit for the Period	1,929	1,557	23.9	1,943	-0.7

Source: Company data; Sharekhan Research

Bajaj Finance (Consolidated)

					Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)	
Interest Income	11,734	8,509	38%	10,821	8%	
Interest Expenses	4,537	2,971	53%	4,103	11%	
Net Interest Income	7,197	5,538	30%	6,719	7%	
Fee & Other Income	1,648	1,464	13%	1,679	-2%	
Net Income	8,845	7,001	26%	8,398	5%	
Operating Expenses	3,010	2,515	20%	2,854	5%	
Pre-Provisioning Profit (PPoP)	5,835	4,487	30%	5,544	5%	
Provisions & Writeoffs	1,077	734	47%	995	8%	
PBT	4,758	3,752	27%	4,551	5%	
Tax	1,207	972	24%	1,114	8%	
Tax Rate (%)	25.4	25.9		24.5		
PAT	3,551	2,781	28%	3,437	3%	

Source: Company, Sharekhan Research

Bajaj Allianz Life Insurance

					Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)	
Gross written premium	5,338	4,155	28.5	4,058	31.5	
New business premium	2,821	2,235	26.2	2,159	30.7	
Renewal premium	2,517	1,920	31.1	1,899	32.5	
Value of New business	237	190	24.7	94	152.1	
Profit / (Loss) after tax	193	159	21.4	155	24.5	

Source: Company, Sharekhan Research

Bajaj Allianz General Insurance

					Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)	
Gross Written Premium	7,298	4,781	52.6	3,834	90.3	
Net Earned Premium	2,250	2,090	7.7	1,938	16.1	
Underwriting Result	37	-18	NM	-42	NM	
Investment & other Income (net)	589	468	25.9	597	-1.3	
Profit before tax	626	450	39.1	555	12.8	
Profit after tax	468	336	39.3	415	12.8	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Long runway for growth

Credit growth remains robust. We believe retail and consumer lending segments have a long structural growth runway, as India's credit delivery diversifies and penetration increases. In the insurance space, the opportunity is very large. There is a strong demand for protection, health, and savings 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, but regulatory risk exists, which could impact profitability.

■ Company Outlook – Businesses emerging stronger

We believe all of Bajaj Finserv's subsidiaries are well-placed to capture long-term growth opportunities. BFL stands out as it has a strong balance sheet, comfortable liquidity position, is well-capitalized, and is poised to deliver sector-leading ROA/ROE. 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 are 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. 2,040

Bajaj Finserv reported strong numbers. For the general insurance business, the company is focusing on improving profitability and generating sustainable RoE, while pursuing sustainable premium growth, which is a key positive. The life insurance business is focused on the 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 the 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 52.45%. 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. Apart from these, Bajaj Finserv also has two other fully owned subsidiaries – BFS Asset Management Company (Bajaj AMC), which has started operations and has launched its first fund and BFS Ventures (BFSV) for alternative investments.

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 but regulatory risk persists. The insurance subsidiaries are strong entities in their own domains. Both BAGIC and BALIC are growing steadily. 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	39.1
2	Jamnalal Sons Pvt Ltd	9.7
3	Jaya Hind Industries Pvt Ltd	3.9
4	Maharashtra Scooters Ltd	2.4
5	Bajaj Sevshram Pvt Ltd	1.6
6	Life Insurance Corporation Of India	1.5
7	Niraj Bajaj	1.4
8	Bachhraj & Co Pvt Ltd	1.3
9	SBI Fund Management	1.2
10	Axis Asset Management Co Ltd	0.9

Source: Bloomberg data as at June 2023

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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

Sharekhan

by BNP PARIBAS

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai - 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai - 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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