



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	■	↔	■

Company details

Market cap:	Rs. 2,59,610 cr
52-week high/low:	Rs. 1,216
NSE volume: (No of shares)	14.0 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	47.9 cr

Shareholding (%)

Promoters	60.7
FII	7.9
DII	7.5
Others	23.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.5	3.6	1.8	21.2
Relative to Sensex	-4.4	-8.4	-6.3	2.1

Sharekhan Research, Bloomberg

Bajaj Finserv Ltd
Mixed Performance

NBFC	Sharekhan code: BAJAJFINSV	
Reco/View: Buy	↔	CMP: Rs. 1,627 Price Target: Rs. 2,040
↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- ♦ Bajaj Allianz Life Insurance reported strong growth in new business premium APE, up 22% y-o-y, at Rs. 1,727 crore. VNB grew 19% y-o-y to Rs. 251 crore. VNB margins stood at 14.5% vs. 14.8% y-o-y.
- ♦ Bajaj General Insurance's gross written premium grew 19% y-o-y. Net earned premium grew 13% y-o-y. Claims ratio increased to 72.9% vs. 72.1% y-o-y. Combined ratio also inched up to 102.9% vs. 100.3% y-o-y. Underwriting loss stood at Rs. 85 crore in Q3FY2024 vs. Rs. 40 crore loss in Q3FY2023.
- ♦ Bajaj Finance reported earnings growth of 22% y-o-y in Q3FY2024 despite strong AUM growth of 35% y-o-y, mainly led by higher credit cost and margin pressure.
- ♦ We maintain Buy with an unchanged SOTP-based PT of Rs. 2,040.

Bajaj Finserv reported consolidated PAT of Rs. 2,158 crore in Q3FY2024, up ~21% y-o-y. The life insurance business reported strong performance, while the general insurance and lending business reported mixed performance. Bajaj Finance's (BAF) consolidated asset under management (AUM) stood at Rs. 3,10,968 crore, up 35% y-o-y/7% q-o-q in Q3FY2024. Run rate of new customer acquisition and cross-sell franchise remained healthy. Lower NIM and higher credit cost resulted in moderate PAT growth. PAT was reported at Rs. 3,639 crore, up 22% y-o-y/2% q-o-q. For the life insurance business (BALIC), APE/VNB grew 22%/19% y-o-y. VNB margin was lower, led by adverse product mix. For general insurance (BAGIC), the company reported an underwriting loss of Rs. 85 crore, led by a higher combined ratio.

Key positives

- ♦ APE and VNB growth was strong in the life insurance business.

Key negatives

- ♦ Claim ratio and combined ratio was higher in the general insurance business mainly due to the catastrophic event.
- ♦ Group protection business declined 8% y-o-y.
- ♦ Higher stress in the personal segment led to increased credit cost in the lending business.

Management Commentary

- ♦ GDP growth was strong at 19% y-o-y vs. the industry growing at 11% in Q3FY2024. However, the motor segment was muted. Growth was strong in commercial and miscellaneous lines and group health.
- ♦ The claim ratio increased for health, PA, fire, and engineering, while the motor business reported a decline in the loss ratio during the quarter.
- ♦ BALIC's market share in the individual-rated new business terms (among private players) increased to ~8% in Q3FY2024 vs. ~7% in Q3FY2023. The company now has a reasonably large number of bancassurance tie-ups; and over the next couple of years, this should help it reduce any concentration risk.

Our Call

Valuation: Maintain Buy with an unchanged SOTP-based PT of Rs. 2,040: The life insurance business reported strong performance, while the general insurance and lending business reported mixed performance. For the general insurance business, the company is focusing on improving profitability and generating sustainable RoE, while pursuing justifiable 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 a healthy medium to long-term 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%	1.7x FY26E EV	187
BAGIC	74%	18x FY26E PAT	195
Bajaj Finance	51%	5.8x FY26E BVPS	2,020
Less: Holding Co Discount	15%		362
Total			2,040

Source: Company; Sharekhan estimates

Key Result Highlights:

Bajaj Finance: The company delivered strong AUM growth of 35% y-o-y/7% q-o-q in Q3FY2024 on account of a strong pick-up in two-wheeler finance (12.3% q-o-q), SME lending (10.6% q-o-q), and mortgages (9.4% q-o-q). New loans booked rose 26% y-o-y to 9.9 million. The company witnessed the highest-ever customer addition of 3.85 million in Q3FY2024. Customer franchise rose to 80.4 million from 66 million y-o-y. The company expects new customers addition of 13-14 million in FY2024. PAT grew 22% y-o-y/2.5% q-o-q to Rs. 3,639 crore.

Bajaj Allianz General Insurance (BAGIC): Gross Direct Premium Income (GDPI) grew 19% y-o-y in Q3FY2024 as against the industry's growth of 11.2%. Ex. crop and government health, GDPI grew 20%. Growth was better than the industry's growth in almost all segments. Claims ratio increased to 72.9% vs. 72.1% y-o-y. Claim ratio was higher, led by the catastrophic event. Combined ratio also inched up to 102.9% vs. 100.3% y-o-y. Underwriting loss stood at Rs. 85 crore in Q3FY2024 vs. Rs. 40 crore loss in Q3FY2023. PAT stood at Rs. 287 crore vs. Rs. 278 crore y-o-y. Lower PAT can be attributed to higher underwriting loss and lower investment gains. Solvency ratio stood at 355% as of December 31, 2023.

Bajaj Allianz Life Insurance (BALIC): BALIC reported healthy growth in the individual new business premium APE at 24% y-o-y, while overall APE grew 22% y-o-y. VNB grew 19% y-o-y to Rs. 251 crore. VNB margins stood at 14.5% vs. 14.8% y-o-y. VNB margins were lower, led by a higher share of PAR and ULIP business along with lower group protection business. Going forward, the sustainability of its APE growth would be a key monitorable as the wallet share at Axis Bank has matured. However, the company now has a reasonably large number of bancassurance tie-ups, and over the next couple of years, this should help it reduce any concentration risk.

Bajaj Finserv (Consolidated)

	Rs cr				
Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Income from operations	29,038	21,755	33.5	26,023	11.6
Other income		0			
Total Income from operations	29,038	21,755	33.5	26,023	11.6
Expenses					
Employee benefits expenses	2,663	2,156	23.5	2,466	8
Finance costs	4,777	3,241	47.4	4,449	7.4
Fees and commission expense	1,783	1,027	73.6	1,653	7.9
Claims paid	5,952	4,246	40.2	5,085	17
Reinsurance ceded	2,822	1,938	45.6	2,459	14.8
Net change in insurance/ Investment contract liabilities	2,536	2,158	17.5	1,830	38.6
Depreciation, amortisation and impairment	232	172	35.3	209	11.1
Other expenses	1,607	1,554	3.4	1,519	5.7
Provisions	1,238	845	46.5	1,081	14.6
Impairment of financial instruments – lending assets	1,248	841	48.4	1,077	15.9
Impairment of financial instruments – investments	-10	4	NM	3	NM
Share in PAT of invest in associates	2	0	2,816.70	0	733.3
Profit before tax	5,431	4,419	22.9	5,292	2.6
Tax	1,386	1,119	23.9	1,536	-9.8
Profit after tax	4,045	3,300	22.6	3,756	7.7
Profit attributable to non-controlling interest	1,888	1,518	24.3	1,827	3.3
Profit for the period	2,158	1,782	21.1	1,929	11.9

Source: Company data; Sharekhan Research

Bajaj Finance (Consolidated)

Rs cr

Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Interest Income	12,523	9,273	35%	11,734	7%
Interest Expenses	4,868	3,351	45%	4,537	7%
Net Interest Income	7,655	5,922	29%	7,197	6%
Fee and Other Income	1,643	1,513	9%	1,648	0%
Net Income	9,298	7,435	25%	8,845	5%
Operating Expenses	3,156	2,582	22%	3,010	5%
Pre-Provisioning Profit (PPoP)	6,142	4,853	27%	5,835	5%
Provisions and Write-offs	1,248	841	48%	1,077	16%
PBT	4,896	4,012	22%	4,758	3%
Tax	1,257	1,039	21%	1,207	4%
Tax Rate (%)	25.7	25.9		25.4	
PAT	3,639	2,973	22%	3,551	2%

Source: Company, Sharekhan Research

Bajaj Allianz Life Insurance

Rs cr

Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Gross written premium	5,464	4,504	21.3	4,058	34.6
New business premium	2,561	2,289	11.9	2,159	18.6
Renewal premium	2,903	2,215	31.1	1,899	52.9
Value of new business	251	210	19.5	94	167
Profit/(Loss) after tax	108	81	33.3	155	-30.3

Source: Company, Sharekhan Research

Bajaj Allianz General Insurance

Rs cr

Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Gross Written Premium	4,536	3,821	18.7	7,298	-37.8
Net Earned Premium	2,358	2,086	13	2,250	4.8
Underwriting Result	-85	-40	NM	37	NM
Investment and other Income (net)	469	413	13.6	589	-20.4
Profit before tax	384	373	2.9	626	-38.7
Profit after tax	287	278	3.2	468	-38.7

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – 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 an unchanged SOTP-based PT of Rs. 2,040

The life insurance business reported strong performance, while the general insurance and lending business reported mixed performance. For the general insurance business, the company is focusing on improving profitability and generating sustainable RoE, while pursuing justifiable 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 a healthy medium to long-term 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 51.42%. 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 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

Sanjiv Bajaj	Chairman and Managing Director
Rajeev Jain	Managing Director – Bajaj Finance Limited
Tarun Chugh	MD and CEO – BALIC
Tapan Singhel	MD and CEO – BAGIC

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	39.06
2	Jamnalal Sons Pvt. Ltd.	9.71
3	Jaya Hind Industries Pvt. Ltd.	3.86
4	Maharashtra Scooters Ltd.	2.38
5	Life Insurance Corp of India	2.28
6	Bajaj Sevashram Pvt. Ltd.	1.67
7	Bajaj Niraj	1.33
8	The Capital Group Cos Inc.	1.30
9	Bachhraj & Co Pvt. Ltd.	1.26
10	SBI Funds Management Ltd.	1.14

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

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