

Satisfactory performance; reiterate BUY

BFSI - NBFCs ▶ Result Update ▶ October 28, 2024

TARGET PRICE (Rs): 2,050

BJFIN reported a satisfactory performance in Q2FY25 with reasonable performances posted by its established operating subsidiaries (BAF, BAGIC, and BALIC) amid the difficult and changing external environment. The emerging ventures (Finserv Health, Finserv Direct and AMC) continued to make good progress toward their journey to sustainable and profitable growth. Rising credit cost dented BAF's Q2 results and the guidance of increased credit cost for FY25 (2.05%) led to a cut in our earnings estimates. BAGIC delivered reasonable performance with the combined ratio of 101.5% coming better than peers, and BALIC reported a solid 40% APE growth; however, VNB margin dropped 3.8ppts YoY to 10.8% owing to higher ULIP. To reflect the Q2 developments, the management commentary and the external developments, we have tweaked our FY25-27 estimates leading to a ~1-2% cut in FY25-27E EPS. We reiterate our BUY rating with revised Sep-25E TP of Rs2,050 (from Rs2,150 earlier).

Bajaj Finserv: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	64,173	81,478	99,921	1,27,558	1,52,791
AUM growths (%)	26.6	34.7	25.5	24.9	23.8
NII growths (%)	28.1	26.6	27.5	23.8	20.8
NIMs (%)	10.2	10.1	10.2	10.1	9.9
PPOP growth (%)	30.7	28.2	29.2	24.4	20.7
Adj. EPS (Rs)	40.3	51.2	62.7	80.0	95.8
Adj. EPS growth (%)	40.7	27.1	22.4	27.7	19.8
Adj. BV (Rs)	291.4	378.4	440.8	520.8	616.5
Adj. BVPS growth (%)	15.2	29.9	16.5	18.1	18.4
RoA (%)	4.7	4.4	4.0	4.1	3.9
RoE (%)	23.4	22.0	19.7	20.4	20.4
P/E (x)	42.4	33.3	27.2	21.3	17.8
P/ABV (x)	5.9	4.5	3.9	3.3	2.8

Source: Company, Emkay Research

A satisfactory quarter amid difficult external environment

BJFIN's Q2FY25 results (Exhibit 1) were satisfactory, and can be seen as glass half full (with BAF reporting a healthy RoA and relatively limited surge in credit cost, BAGIC reporting the best combined ratio among listed multiline peers, and BALIC reporting a solid 40% APE growth) or glass half empty (BAF increasing guidance for FY25 credit cost, BAGIC reporting a material 6.1ppts YoY worsening in combined ratio despite reduced government health business, and BALIC seeing a sharp decline in VNB margin). However, these results once again reaffirm the strength of each of BJFIN's operating entities as they were able to deliver better than most peers, amid a challenging macro and regulatory environment. The emerging businesses continue to progress well on key operating metrics and even improve their financial metrics (revenue and profitability).

Strategy of scaling up first and then chasing profitable growth to continue

Over the last two decades, BJFIN has demonstrated a very consistent strategy of first scaling up fast to become meaningful in the business segment, and then following profitable growth or putting profitability above growth. This will continue to be their guiding principle while chasing profitable growth in BAF and BAGIC, and while scaling up the newer ventures. As far as BALIC is concerned, amid newer surrender regulations, the company will likely sacrifice some profitability to continue to gain scale in order to establish a long term sustainable franchise. Last week, media reports of Allianz looking to exit Insurance JVs with Bajaj was confirmed by BJFIN. This was neither surprising nor going to have any material impact on the strategy and operations of BAGIC and BALIC, in our view (Read: [our report](#) dated 23-Oct-24).

Minor changes to estimates; thesis remains unchanged; reiterate BUY

To reflect the Q2 developments of: 1. Higher credit cost for Q2 and guidance for FY25-led earnings estimate cut for BAF; 2. Driven by higher ULIP, the lower VNB margin at BALIC and a likely weaker margin in H2 due to new surrender regulations; and 3. Higher NatCat and Motor TP losses led to combined ratio uptick at BAGIC; we have adjusted our FY25-27E for BJFIN leading to ~1-2% cut in consolidated earnings estimates (Exhibit 2). Our SOTP-based Sep-25E target price comes down 5% to Rs2,050 (from Rs2,150 earlier; Exhibit 3), largely driven by our BAF TP cut to Rs8,800 (from Rs9,300 earlier). We reiterate BUY on BJFIN as we continue to see (Read: [Initiation report](#) dated 13-Sep-24) the established businesses of BJFIN delivering consistent strong growth in profitability, while the emerging ventures continue to scale at a fast pace.

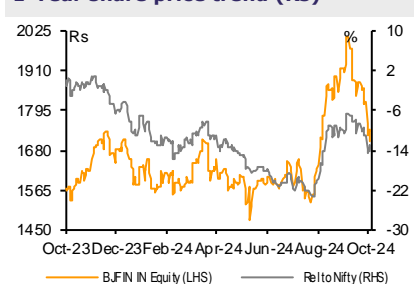
Target Price – 12M	Sep-25
Change in TP (%)	(4.7)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	20.1
CMP (25-Oct-24) (Rs)	1,707.4

Stock Data	Ticker
52-week High (Rs)	2,030
52-week Low (Rs)	1,419
Shares outstanding (mn)	1,596.7
Market-cap (Rs bn)	2,726
Market-cap (USD mn)	32,423
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	3,899.9
ADTV-3M (USD mn)	46.4
Free float (%)	-
Nifty-50	24,181
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	60.6
FPIs/MFs (%)	8.0/8.4

Price Performance

(%)	1M	3M	12M
Absolute	(11.5)	8.6	6.0
Rel. to Nifty	(4.8)	9.6	(16.2)

1-Year share price trend (Rs)



Avinash Singh

avinash.singh@emkayglobal.com
+91 22 6612 1327

Mahek Shah

mahek.shah@emkayglobal.com
+91 22 6612 1218

Kishan Rungta

kishan.rungta@emkayglobal.com
+91 22 6624 2490

Exhibit 1: Quarterly Financials

(Rs mn)	2QFY25	2QFY24	YoY	1QFY25	QoQ	H1FY25	H1FY24	YoY
BJFIN Consolidated - Ind AS								
Net worth	683,250	508,730	34.3%	633,240	7.9%	683,250	508,730	34.3%
PAT	20,870	19,290	8.2%	21,380	-2.4%	42,250	38,720	9.1%
--o/w Bajaj Finance	20,530	18,640	10.1%	20,090	2.2%	40,620	36,680	10.7%
--o/w General Insurance	3,400	2,830	20.1%	3,650	-6.8%	7,050	5,250	34.3%
--o/w Life Insurance	410	1,160	-64.7%	1,290	-68.2%	1,700	2,590	-34.4%
--o/w HolCo & Consolidation	-3,470	-3,340	NM	-3,550	NM	-7,020	-5,800	21.0%
Bajaj Finance - Ind AS								
AUM	3,739,240	2,902,640	29%	3,541,920	5.6%	3,739,240	2,902,640	28.8%
PAT	40,140	35,510	13.0%	39,120	2.6%	79,260	69,880	13.4%
GNPA (%)	1.06	0.91	15bps	0.86	20bps	1.06	0.91	15bps
NNPA (%)	0.46	0.31	15bps	0.38	8bps	0.46	0.31	15bps
Bajaj Allianz General - GAAP								
Gross written premium	58,710	72,980	-19.6%	48,056	22.2%	106,766	111,320	-4.1%
Net earned Premium	26,600	22,500	18.2%	22,315	19.2%	48,915	41,880	16.8%
PAT	4,940	4,680	5.6%	5,760	-14.2%	10,700	8,830	21.2%
Combined ratio (%)	101.4	95.3	6.1ppts	103.7	-2.3ppts	102.2	97.6	4.6ppts
Bajaj Allianz Life – GAAP/IEV								
APE	22,680	16,200	40.0%	15,020	51.0%	37,700	28,930	30.3%
Individual WRP	18,950	14,150	33.9%	12,940	46.4%	31,890	24,430	30.5%
Gross written premium	65,440	53,380	22.6%	50,180	30.4%	115,620	93,960	23.1%
VNB	2,450	2,370	3.4%	1,040	135.6%	3,490	3,310	5.4%
VNB Margin (%)	10.8	14.6	-3.8ppts	6.9	4ppts	9.3	11.4	-2.2ppts
PAT	1,480	1,930	-23.3%	970	52.6%	2,450	3,480	-29.6%
EV	229,720	197,240	16.5%			229,720	197,240	16.5%

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	Revised	Chg	Old	Revised	Chg	Old	Revised	Chg
Consolidated									
PAT	101,916	99,921	-2%	127,734	127,558	0%	153,939	152,791	-1%
Net worth	705,203	703,207	0%	832,937	830,765	0%	986,876	983,557	0%
Bajaj General									
GWP	243,567	241,930	-1%	286,239	284,287	-1%	335,536	333,229	-1%
U/w Result	-1,663	-2,164	30%	-233	-807	246%	735	-112	-115%
Operating profit	17,908	17,836	0%	22,122	22,056	0%	26,599	26,334	-1%
PAT	17,784	17,921	1%	21,502	21,434	0%	25,676	25,454	-1%
Combined ratio (%)	99.0	99.5	0.5ppts	97.7	98.1	0.4ppts	97.0	97.6	0.5ppts
RoE (%)	15.5	15.6	0.1ppts	16.9	16.8	-0.1ppts	18.3	18.2	-0.2ppts
Bajaj Life									
APE	87,680	88,206	1%	103,888	104,510	1%	122,011	122,740	1%
VNB	11,398	10,144	-11%	13,713	12,541	-9%	17,082	15,465	-9%
VNB Margin (%)	13.0	11.5	-1.5ppts	13.2	12.0	-1.2ppts	14.0	12.6	-1.4ppts
EV	243,829	244,800	0%	271,489	271,638	0%	303,691	302,560	0%
PAT	6,470	6,189	-4%	7,540	7,199	-5%	8,764	8,359	-5%

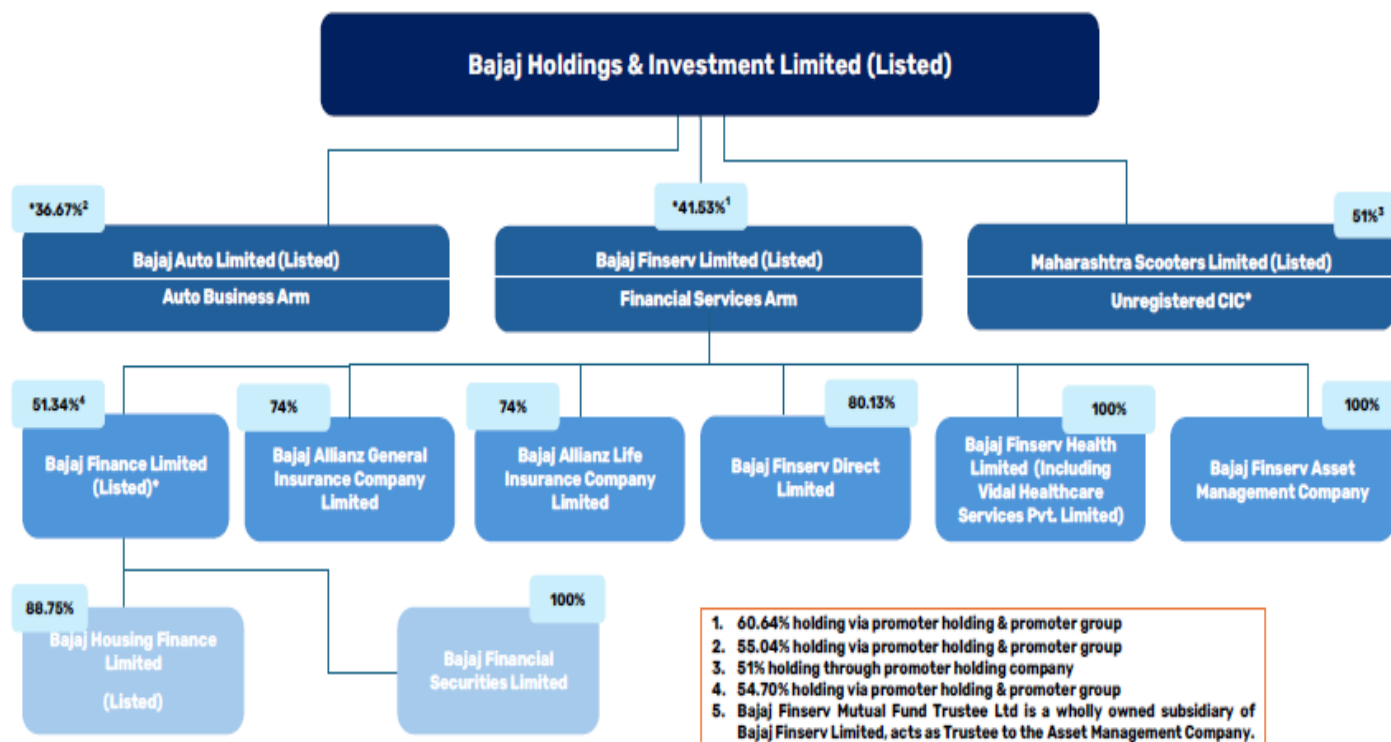
Source: Company, Emkay Research

Exhibit 3: SOTP Valuation

(Rs mn)	Parameter	FY26E Value	Implied Multiple (x)	Valuation	BJFIN Stake	Value
Bajaj Finance	Networth	1,152,976	4.7	5,438,603	51.3%	2,792,179
Bajaj Allianz General	PAT	21,434	31.9	683,829	74.0%	506,033
Bajaj Allianz Life	EV	271,638	1.8	477,513	74.0%	353,360
Holding company operations	PAT	990	25.0	24,750	100.0%	24,750
Bajaj Health	Revenue	21,614	5.0	108,068	100.0%	108,068
Bajaj Direct	Revenue	13,500	5.0	67,499	80.1%	54,087
Bajaj AMC	AUM	200,000	0.1	20,000	100.0%	20,000
BJFIN SoTP						3,858,477
Holding company discount on listed company			20%			-558,436
BJFIN Valuation						3,300,041
No. of shares (mn)						1595.3
Fair Value per share (Rs)						2,069
Target price (Rs) - Sep-25E						2,050

Source: Company, Emkay Research

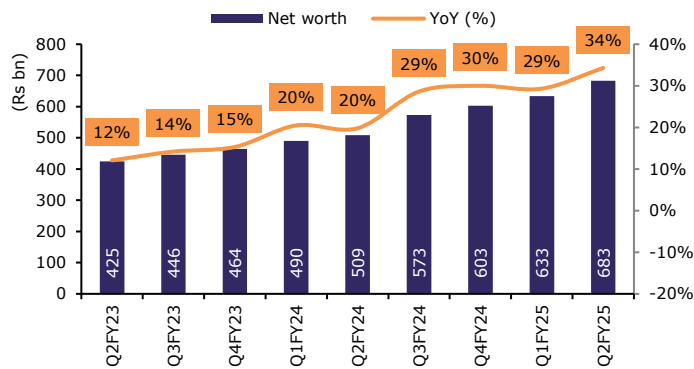
Exhibit 4: Corporate structure of Bajaj Group



Source: Company, Emkay Research

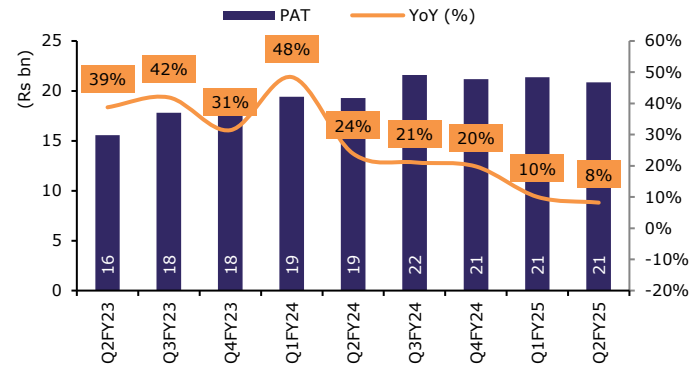
Story in Charts

Exhibit 5: BJFIN's Consolidated Net worth grows 34% YoY



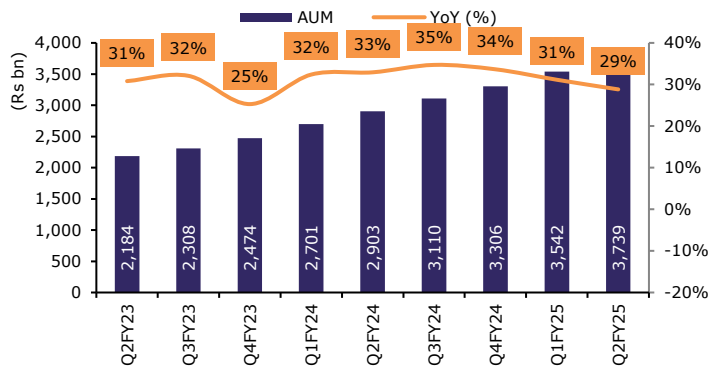
Source: Company, Emkay Research

Exhibit 6: BJFIN reported 8% YoY Consolidated PAT growth during Q2FY25



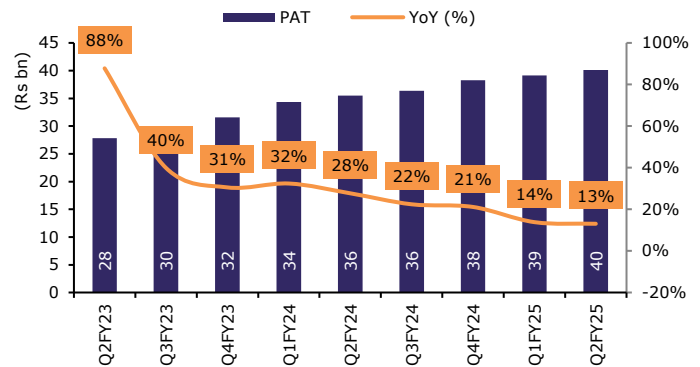
Source: Company, Emkay Research

Exhibit 7: BAF reported strong 29% growth in AUM



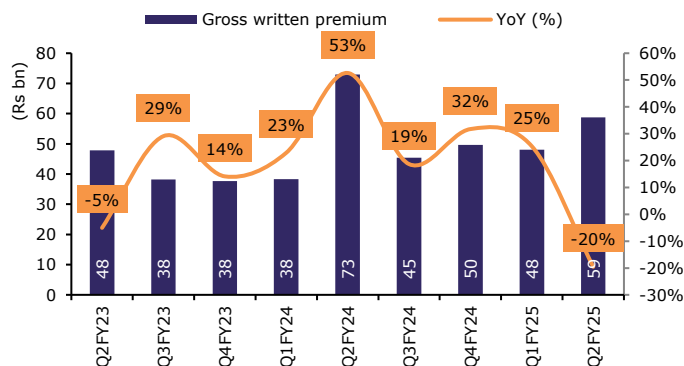
Source: Company, Emkay Research

Exhibit 8: BAF's PAT during Q2FY25 grew 13% YoY



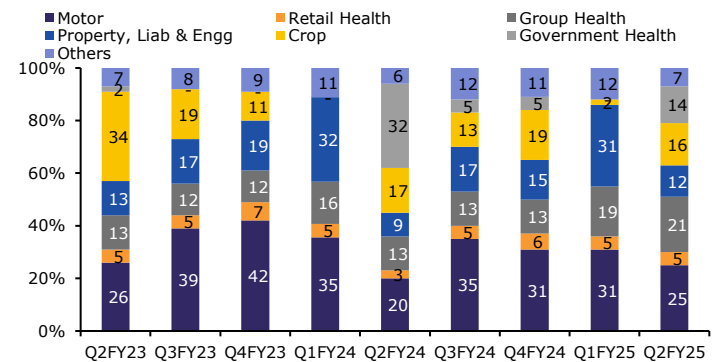
Source: Company, Emkay Research

Exhibit 9: BAGIC's GWP declined 20% YoY on account of a decline in Government Health business

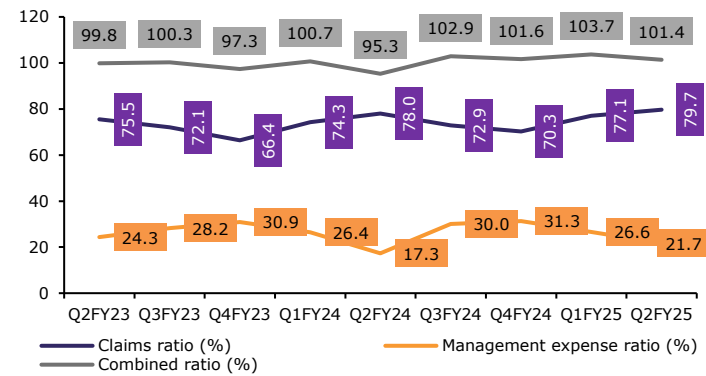


Source: Company, Emkay Research

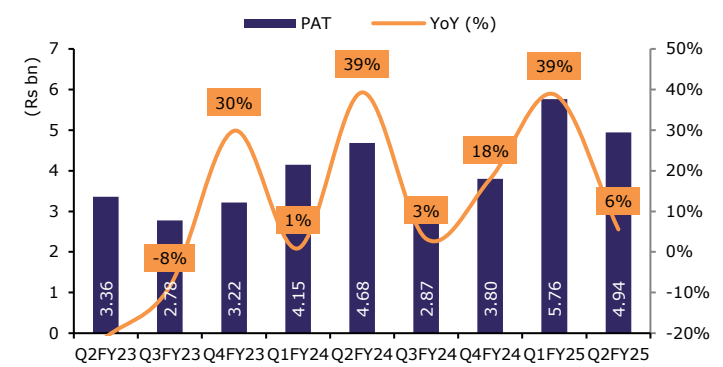
Exhibit 10: GWP Mix — Health segment remains the major contributor



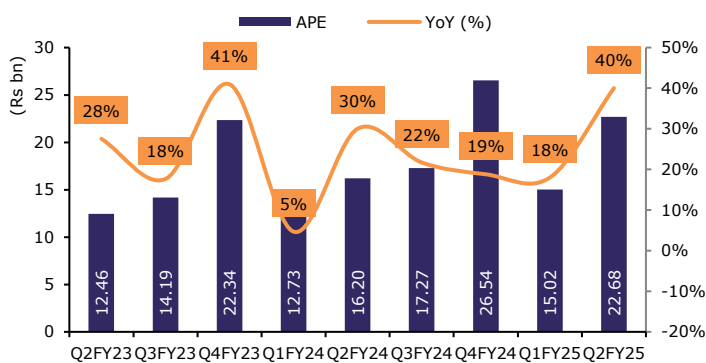
Source: Company, Emkay Research

Exhibit 11: BAGIC's Combined Ratio inches up to 101.4% YoY

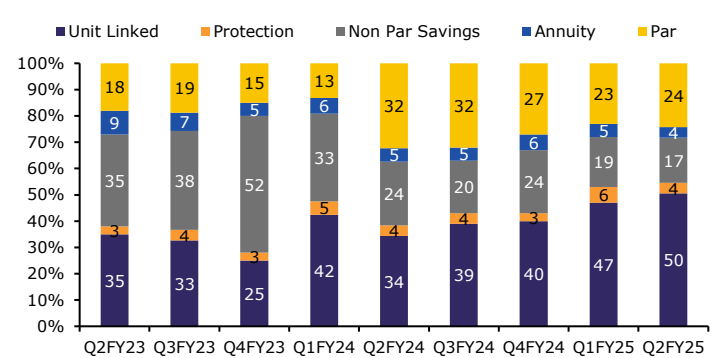
Source: Company, Emkay Research

Exhibit 12: BAGIC PAT grew at modest 6% YoY

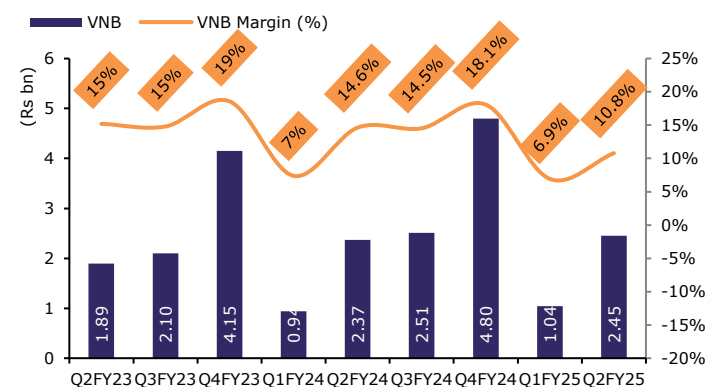
Source: Company, Emkay Research

Exhibit 13: BALIC posted strong 40% APE growth in Q2FY25

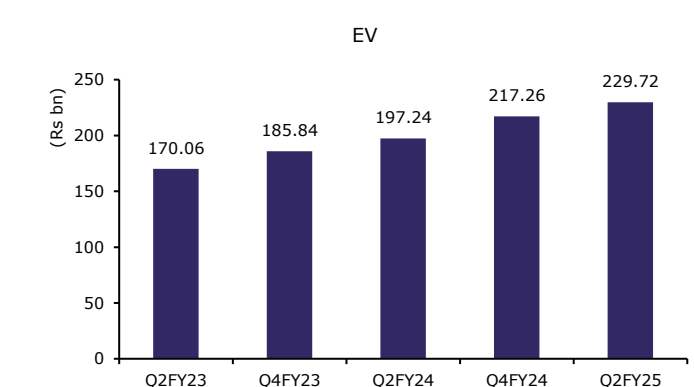
Source: Company, Emkay Research

Exhibit 14: Individual APE mix – ULIP dominates the Ind APE mix

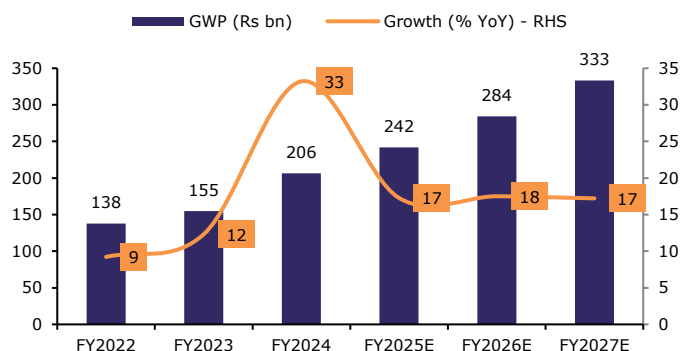
Source: Company, Emkay Research

Exhibit 15: BALIC's VNB Margin slides to 10.8% during Q2FY25

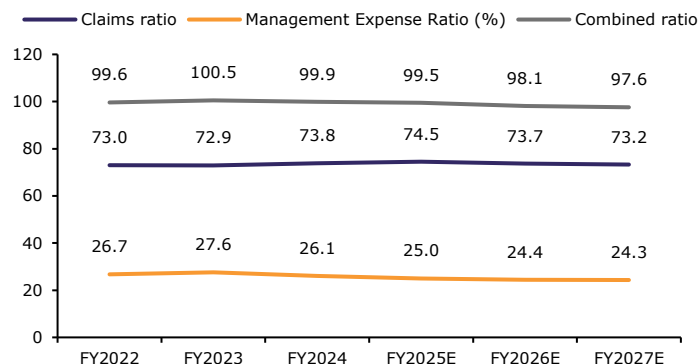
Source: Company, Emkay Research

Exhibit 16: BALIC posts an EV of Rs230bn during Q2FY25

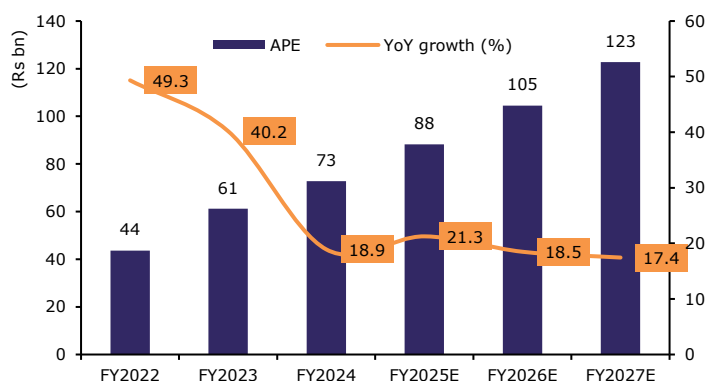
Source: Company, Emkay Research

Exhibit 17: We expect BAGIC to deliver 17% GWP growth in FY25E

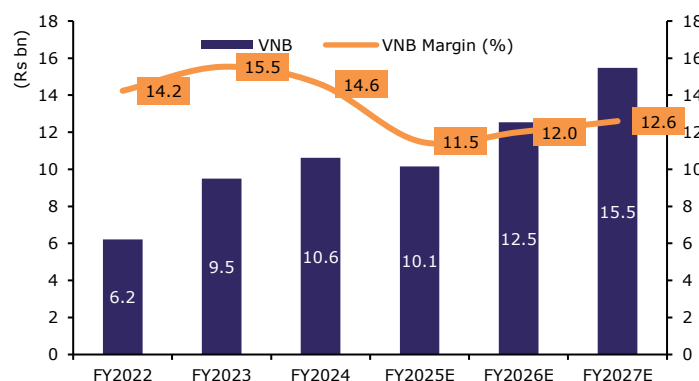
Source: Company, Emkay Research

Exhibit 18: We expect BAGIC's CoR to improve to 97.6% by FY27E

Source: Company, Emkay Research

Exhibit 19: BALIC's APE is expected to grow 21% during FY25E

Source: Company, Emkay Research

Exhibit 20: VNB Margins to see gradual improvement after FY25E

Source: Company, Emkay Research

Exhibit 21: BJFIN - Summary

Bajaj Finserv Consolidated Financials					
(Rs mn)	2023	2024	2025E	2026E	2027E
Profit before Tax	168,111	213,750	256,670	326,911	390,513
-- Bajaj Finance	154,790	193,019	230,960	295,486	352,545
--General Insurance	18,026	20,550	23,895	28,579	33,938
--Life Insurance	3,699	5,716	6,315	7,346	8,529
--Holding company net of elimination	-8,404	-5,534	-4,500	-4,500	-4,500
Tax expense	46,016	57,797	66,357	84,132	100,159
Profit after tax	122,095	155,954	190,313	242,780	290,354
Minorities	57,923	74,476	90,392	115,221	137,563
Group Net income	64,173	81,478	99,921	127,558	152,791
Balance Sheet					
EQUITY AND LIABILITIES					
Shareholders' funds	464,073	6,03,286	7,03,207	8,30,765	9,83,557
Minority interest	311,907	4,34,472	4,36,301	5,15,927	6,11,036
Total Equity	775,981	1,037,759	1,139,508	1,346,693	1,594,593
Total - financial liabilities	3,237,757	4,285,688	5,273,634	6,521,855	7,997,677
Total - non-financial Liabilities	41,354	55,850	153,351	168,402	186,964
Total - Equity and Liabilities	4,055,092	5,379,296	6,566,493	8,036,950	9,779,233
ASSETS					
Total - Financial Assets	3,985,969	5,293,471	6,461,726	7,908,723	9,623,208
Total - Non-financial Assets	69,123	85,825	104,767	128,227	156,025
Total	4,055,092	5,379,296	6,566,493	8,036,950	9,779,233
Per share data (Rs)					
Basic EPS	40.3	51.2	62.7	80.0	95.8
Diluted EPS	40.0	50.7	62.2	79.4	95.1
BVPS (LHS)	291.4	378.4	440.8	520.8	616.5
DPS	5.00	5.00	5.00	5.00	5.00
Key ratios					
Return on Equity (%)	14.8	15.3	15.3	16.6	16.8
PAT Growth (YoY, %)	40.8	27.0	22.6	27.7	19.8

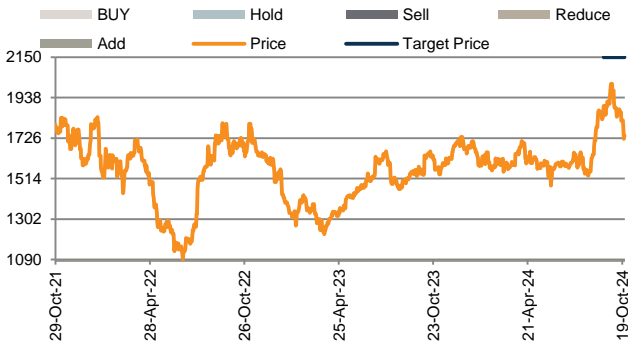
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Oct-24	1,740	2,150	Buy	Avinash Singh
13-Sep-24	1,894	2,150	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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