MIRAE ASSET Sharekhan

Bajaj Finserv Ltd

Strong positioning

NBFC	Sharekhan code: BAJAJFINSV		
Reco/View: Buy ↔	CMP: Rs. 1,679	Price Target: Rs. 2,350 ↔	

↑ 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		↑	

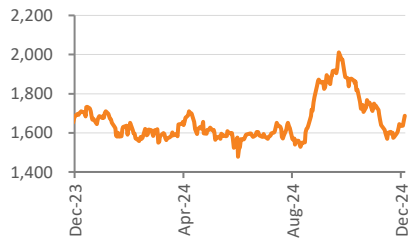
Company details

Market cap:	Rs. 2,68,119 cr
52-week high/low:	Rs. 2,029/ 1,419
NSE volume: (No of shares)	18.2 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	54.3 cr

Shareholding (%)

Promoters	60.6
FII	8.2
DII	8.1
Others	23.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	-9.5	6.3	-1.6
Relative to Sensex	-3.0	-9.2	0.0	-18.5

Mirae Asset Sharekhan Research, Bloomberg

Summary

- Bajaj Finserv unveiled its new long-range strategy for FY25-29, identified new megatrends across business lines and intends to leverage AI capabilities to improve processes, products predict customers needs and expand faster.
- At the same time, the focus remains on capital efficiency, profitable growth and healthy RoEs. Healthcare / AMC business are likely to break even in the next 3-5 years.
- Company has guided for a 20-22% CAGR in total income to Rs 3 lakh crore, 18-22% growth in PAT to Rs. 20,000 crore and 17-18% growth in customer franchise to 20 crore by FY 2029E.
- We maintain a Buy rating with an unchanged SOTP-based PT of Rs. 2,350. We believe the group is well-positioned to capture the structural growth story across the financial landscape (lending, investing, and protecting) in India over the medium to long term.

Bajaj Finserv unveiled its new long-range strategy for FY25-29 and identified new megatrends across business lines. Newer businesses are currently at a nascent stage but provides a huge opportunity in medium to long term. These are likely to breakeven in the next 3-5 years. Bajaj Finserv direct (credit cards, personal loans and Insurance are sold through this platform) is likely to break-even in FY2026E. Bajaj Finserv aims to be become a complete financial services lifecycle partner by leveraging advanced technology and data analytics. Additionally, a highly-skilled management team is known for strong execution. The lending business (BAF) is consistently outpacing industry growth, while maintaining impressive profitability metrics. The general insurance business (BAGIC) is also demonstrating healthy profitable growth amid intense competition, while the life Insurance business (BALIC) is navigating current regulatory changes with some near-term impact on profitability but at the same time, it is building a balanced product mix and multi-channel distribution networks, which would help Bajaj Finserv gain market share on a sustainable basis.

- **Lending business:** The company is reasonably confident that AI integration would drive gains on opex and credit costs. It has also identified three new additional megatrends – green finance on the product front, multi-cloud and zero trust on the technology front– and now has 28 megatrends that it will be working on. Account aggregator and GenAI are the key megatrends that would have a positive change in the business. It aims to be dominant and viable player in financial services with a share of 3-4% in total credit, 4-5% in retail credit and 1% in payments GMV. Customer franchise will likely scale up to 20 crore by FY 2029E.The company endeavours to build leadership in personal loans, gold loans, MFI and two-wheelers. It is confident to deliver 25-26% AUM over the medium term and 20-22% RoE over cycles. It also do not intend to convert to a bank in the near term.
- **Insurance business:** BAGIC is the industry's third-largest player. General insurance business has gained the ability to pick profitable pools of business by steering its product mix in the right direction led by targeting profitable demographics and strategically, timing market adjustments has resulted in strong combined ratios and consistent profitability growth, delivering higher-than-industry growth in the past five years. It has delivered consistent performance with a lower-than-industry combined ratio in the last 10 years and healthy ROE profile in the last 5 years. Effective risk management through a deep investment in technology is leading to higher profitability than peer. The life Insurance business (BALIC) is navigating through current regulatory changes with some near-term impact on profitability. RoEV is currently ~15% up from ~8% in FY2017 and will catch up to 18-20% in the next 4-5 years. Media reports are suggesting that IRDAI could consider capping parent bank's share to insurers' total bancassurance business to up to 50%. This development is a key negative for SBI Life, HDFC Life and Max Financial, as parent banks of HDFC Life, Max Life and SBI Life forms higher share than the threshold, while on the flipside, LIC, ICICI Prudential Life and Bajaj Allianz are likely to gain from the development. Both insurance subsidiaries are building well-diversified product portfolios and multi-channel distribution networks, which would help to gain market share on a sustainable basis.
- **Scaling up of new business:** Currently, the lending & Insurance business is ultimately driving the valuations. Newer businesses - AMC, Securities, health are currently at a nascent stage but provides a huge opportunity in medium to long term. These are likely to breakeven in the next 3-5 years. Bajaj Finserv direct is likely to break even in FY2026E. The company endeavours to become a complete financial services lifecycle partner by leveraging advanced technology and data analytics.

Our Call

View – Maintain Buy with an unchanged SOTP-based PT of Rs. 2,350: We believe strong growth visibility in the lending business and a healthy medium to long-term outlook for both insurance businesses will likely act as a positive trigger for strong consolidated earnings going forward. Additionally, scaling up of the new business would further support future performance, which has not been factored in our valuation. We maintain a Buy on Bajaj Finserv, with an unchanged SOTP-based PT of Rs. 2,350 factoring the valuations of its key subsidiaries.

Key Risks

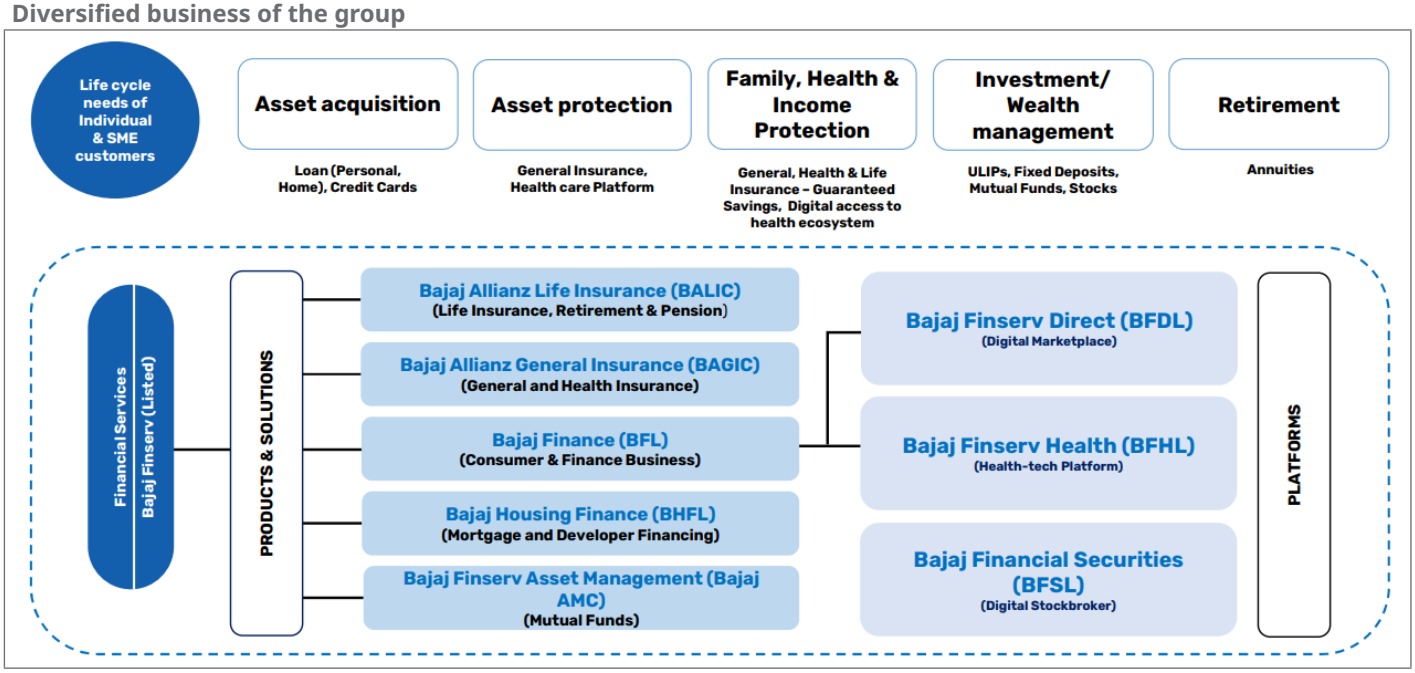
Deterioration in the performance of its subsidiaries may pose a risk to earnings growth and profitability.

SOTP Valuation

Particulars	Holding	Rationale	Value per share (Rs.)
BALIC	74%	2.2x FY27 EV	295
BAGIC	74%	25x FY27E PAT	345
Bajaj Finance	51%	4.2x FY27E BVPS	1,900
Less: Holding Co Discount			190
Total			2,350

Source: Company; Sharekhan Research

Diversified business of the group



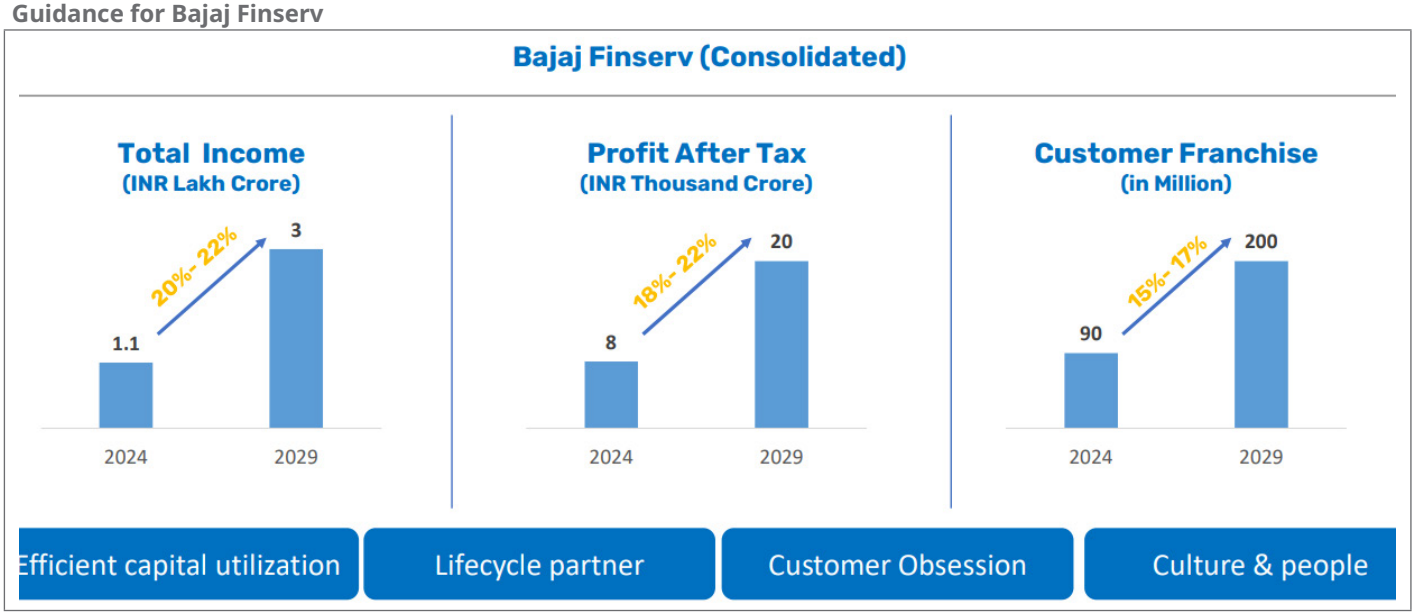
Source: Mirae Asset Sharekhan Research

Past decadal track record

Particulars	FY 14	FY 19	FY 23	FY 24	Growth for the year	5 YR CAGR	10 YR CAGR
Bajaj Finserv (Consolidated)							
Net total Income	15,555	42,606	82,072	110,383	34%	21%	22%
Profit after tax	1,544	3,219	6,417	8,148	27%	20%	18%
Net Worth	9,311	23,766	46,407	60,329	30%	20%	21%
Bajaj Allianz General Insurance Company							
Gross Written Premium	4,584	11,097	15,487	20,630	33%	13%	16%
Profit after tax	409	780	1,348	1,550	15%	15%	14%
Combined Ratio	98.1%	96.7%	100.5%	99.9%	0.6% abs	-	-
Assets under Management	6,967	17,237	27,809	31,196	12%	13%	16%
Bajaj Allianz Life Insurance Company							
Individual Rated New Business	1,002	1,742	5,214	6,326	21%	29%	20%
Gross Written Premium	5,843	8,857	19,462	23,043	18%	21%	15%
New Business Value	(27)	154	950	1,061	12%	47%	NA
Assets under Management	38,780	56,634	90,584	1,09,829	21%	14%	11%
Bajaj Finance (Consolidated)							
Net total Income	2,500	11,877	28,858	36,258	26%	25%	31%
Profit after tax	719	3,995	11,508	14,451	26%	29%	35%
Assets under Management	24,061	1,15,888	2,47,379	3,30,615	34%	23%	30%
Bajaj Housing Finance							
Net total Income	NA	471	2,454	2,925	19%	44%	-
Profit after tax	NA	110	1,258	1,731	38%	74%	-
Assets under Management	NA	17,562	69,228	91,370	32%	39%	-

Source: Mirae Asset Sharekhan Research

Guidance for Bajaj Finserv



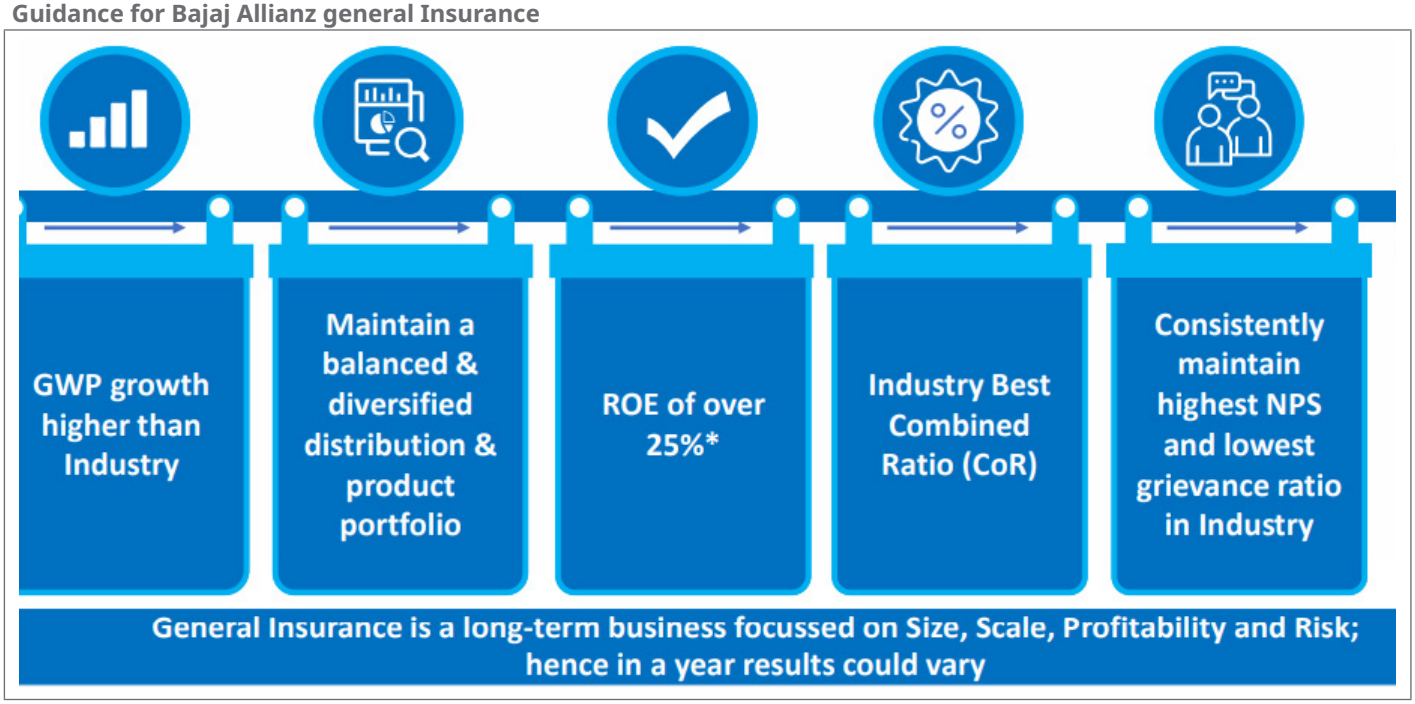
Source: Mirae Asset Sharekhan Research

Guidance for Bajaj Allianz Life Insurance

KPIs – BALIC v2	FY 2024	Aspiration
Market share (RWRP)	8.6% (among private players)	Continue to gain Market share with Topline growth of ~2X the industry
Protection Business	Contribution 4% of RWRP	Contribution ~10% of RWRP
Product mix (RWRP)	Traditional : ULIP (61:39)	Stable product mix (Protection : Non-par : Par : ULIP) ~10% : ~25% : ~30% : ~35%
Return on EV	RoEV: 15%	RoEV: 18 - 20%
Profitability	VNB: +1,000 cr NBM: +15%	VNB growth significantly faster than RWRP

Source: Mirae Asset Sharekhan Research

Guidance for Bajaj Allianz general Insurance



Source: Mirae Asset Sharekhan Research

Guidance for Bajaj Finance

Sr No	Basic Construct	6M FY25	LRS FY28	LRS FY29
1	Customer Franchise (MM)	92.1	130-140	190-210
2	Cross-sell Franchise (MM)	57.7	80-90	115-125
3	India payments GMV	0.27%	1.25-1.5%	0.4-0.5%
4	Share of total credit	2.11%	3-3.25%	3.2-3.5%
5	Share of retail credit	2.67%	3.8-4.0%	3.8-4.2%
6	Location Presence	4,245	5,200-5,500	5,200-5,500
7	App - Net installs (MM)	61.7	120-150	150-170
8	Web - Visitors (MM)	277	1,500-1,800	3,500-4,500
9	Return on Equity	19.4%	20-22%	20-22%
10	AUM per cross sell franchise (₹)	64.8K	90-95K	80-85K
11	PAT per cross sell franchise (₹)	1,374	3.8-3.9K	3.8-4.0K
12	Product Per Customer (PPC)	6.15	6-7	6-7

Source: Mirae Asset Sharekhan Research

Strategy for lending business (FY2025E-29E)

Acquire Customers (1)
Next 100 MM customers – Strategic partnerships, organic acquisition and Bajaj Prime

Next Frontier of Growth (1)
MSME – The next big growth engine

Build Market Leadership – Amongst top 3 (4)
PL - 50K to 50 lacs | Gold Loan | MFI | Two Wheeler

Optimize (2)
Auto Loans - Scale with low credit cost | A viable Payments business

New Products (2)
Green Financing – Solar & EV | Corporate Leasing - Multi-product distribution

Risk Management (2)
Back to basics | Operational Risk Management

Source: Mirae Asset Sharekhan Research

Use of AI

AI for Revenue (2)
Conversational AI for sell – 3X conversion rate | Conversational AI for Cross sell - 3X conversion rate

AI to Reduce cost (6)
FTE productivity - 1.5X Field, 2X HO | PSF productivity – 15% increase | Reduce sales Contact center
Reduce DMS contact center | Ops & Service co-pilot & auto-pilot | Technology co-pilot & auto-pilot

AI for Design & Engagement (3)
Conversation driven search | Interactive multi-modal AI assistant | Conversational AI in business journey

AI for Risk (2)
Data 3.0 – Unstructured to structured data | Augmented Risk Intelligence for B2B (Responsible and explainable AI)

AI for Credit (1)
Underwriting AI co-pilot – Image, note summary, screening & validation

AI for Productivity (3)
AI enabled Loan Origination System | AI enabled engagement and training | AI enabled Sales, DMS & Dealer Management - Interactive reports, summary and help desk

AI for Controllership (3)
Operations & Service QA co-pilot & auto-pilot | Audit - co-pilot & auto-pilot | Technology & Platform compliance co-pilot & auto-pilot

Source: Mirae Asset Sharekhan Research

Outlook and Valuation

Sector View – Long runway for growth

Retail credit growth remains healthy. We believe retail 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 / higher competition could impact profitability.

Company Outlook – Subsidiaries to emerge 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. The company has exhibited its strong ability to navigate through the economic downcycle, led by a prudent and agile management team, robust risk management framework and a diverse product offering strategy. The insurance subsidiaries are building well-diversified product portfolios and multi-channel distribution networks, which would help to gain market share on sustainable basis.

Valuation – Maintain Buy with an unchanged SOTP-based PT of Rs. 2,350

We believe strong growth visibility in the lending business and a healthy medium to long-term outlook for both insurance businesses will likely act as a positive trigger for strong consolidated earnings going forward. Additionally, scaling up of the new business would further support future performance, which has not been factored in our valuation. We maintain a Buy on Bajaj Finserv, with an unchanged SOTP-based PT of Rs. 2,350 factoring the valuations of its key subsidiaries

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 51.34%. 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 three other fully owned subsidiaries – BFS Asset Management Company (Bajaj AMC), BFS Direct Limited, BFS Health limited.

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). We believe all of Bajaj Finserv's subsidiaries are well-placed to capture long-term growth opportunities.

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	MD – Bajaj Finance Limited
Tarun Chugh	MD – Bajaj Allianz Life Insurance
Tapan Singhel	MD – Bajaj Allianz General Insurance

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	39.03
2	Jamnalal Sons Pvt Ltd	9.70
3	Jaya Hind Industries Pvt Ltd	3.91
4	LICI ULIP GROWTH FUND	2.49
5	Maharashtra Scooters Ltd	2.38
6	Bajaj Sevashram Pvt Ltd	1.67
7	ICICI Prudential Asset Management	1.56
8	Bachhraj & Co Pvt Ltd	1.46
9	Capital Group Cos Inc/The	1.38
10	Bajaj Niraj	1.33

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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