

Renewed catalysts in both lending, insurance...

Bajaj Finserv reported a steady performance wherein the insurance business witnessed a pick-up in business activities led by pandemic. However, a cautious approach and concerns on asset quality impacted business momentum and earnings growth. Improved awareness, digitisation and product innovation is expected to keep insurance business momentum healthy. Further, finance business has emerged stronger with a leaner operating model and robust growth guidance of ~25% for FY22E. **RBI's new banking license review allowing NBFCs with asset size of >₹ 50,000 crore and 10 years of existence to apply for banking license and the management's commentary indicating interest in applying for the same bode well from a long term perspective.**

Bajaj Finance's AUM is expected to grow at 21% CAGR to ₹ 210734 crore in FY21-23E. Improvement in NII and moderation in provisions (management guidance of 160-180 bps in FY22E) are seen keeping PAT growth at 36% CAGR in FY21-23E to ₹ 7644 crore. RoE is seen returning to ~15% and RoA at 2.2% in FY22E. **As per the management, post March, April 2021 when normalcy is likely to be achieved: 1) growth is expected to accelerate to 25-27% (we factor in 20% growth in FY22E) and 2) credit costs for FY22E to be lower at 160-180 bps of average loans (we factor in 210 bps).**

Improved awareness and product innovation are seen keeping individual health insurance business healthy ahead. A gradual pick-up in CV volume along with higher sale of PV and two-wheeler is seen reviving non crop premium growth ahead. General premium is expected to grow at 12.4% CAGR in FY21-23E to ₹ 17481 crore. Pandemic related claims are offsetting postponement of treatment related claims while motor claims are expected to increase with traffic getting back to normal. However, cost control and investment income are seen leading to PBT at 24% CAGR in FY21-23E.

Focus on product mix, new banca relationship, healthy persistency and gradual revival in credit protection are expected to keep premium growth healthy at 8% CAGR in FY21-23E to ₹ 12270 crore. Healthy growth is expected in earnings partially offset by new business strain.

Valuation & Outlook

Pandemic led to incremental focus on product mix and business growth in insurance business that were earlier seeing healthy growth. However, concerns on asset quality and business momentum in lending business impacted earnings and perception in recent past. **Bajaj Finance has sailed through the headwinds and emerged stronger with a leaner operating model. Growth guidance of ~25% for FY22E and opportunity to apply for banking licence have resulted in renewed interest of investors in the stock. This has led to expansion of valuation multiples.** Factoring in long term business potential and returning of premium multiple for lending business (contributing 85% to SoTP target), we roll over to FY23E and raise our target to ₹ 10500 per share (earlier ₹ 7000) based on SOTP valuation, implying a multiple of ~26x on FY23E consolidated earnings. Hence, we maintain **BUY**.



Particulars

Particular	Amount
Market Capitalization	₹ 146253 crore
Net worth	₹ 35972 crore
52 week H/L (₹)	10297/3986
Equity capital	₹ 80 Crore
Face value	₹ 5
DII Holding (%)	6.8
FII Holding (%)	7.7

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY19-22E)
Revenue	42,608.2	54,351.5	53,253.3	57,215.0	67,419.8	7%
PBT	8,069.5	8,300.2	8,203.5	10,549.3	13,159.8	17%
PAT	3133.5	3367.7	3965.5	4855.4	6420.9	24%
EPS (₹)	198.0	269.7	249.2	305.1	403.5	
BV (₹)	1498.4	2026.3	2273.7	2577.1	2978.9	
P/E	46.1	33.8	36.6	29.9	22.6	
P/BV	6.1	4.5	4.0	3.5	3.1	
RoA	1.8	1.9	1.4	1.4	1.6	
RoE	14.1	15.3	11.6	12.6	14.5	

Exhibit 1: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Total Income	53,253.3	53,253.3	0.0	57,215.0	57,215.0	0.0	67,419.8
PBT	8,203.5	8,203.5	0.0	10,549.3	10,549.3	0.0	13,159.8
PAT	3,965.5	3,965.5	0.0	4,855.4	4,855.4	0.0	6,420.9
ABV (₹)	2,273.8	2,273.7	0.0	2,577.2	2,577.1	0.0	2,978.9

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 30% discount (₹)
Bajaj Allianz Life Insurance	1.2 FY23E EV	74	19107	14118	621
Bajaj Allianz General Insurance	20x PAT	74	28648	21343	939
Bajaj Finance	4.7x FY22E BVPS	54.8	362260	198555	8932
Windmill	₹4 crore per MW	100	260	143	8
Total					10500

Source: Company, ICICI Direct Research

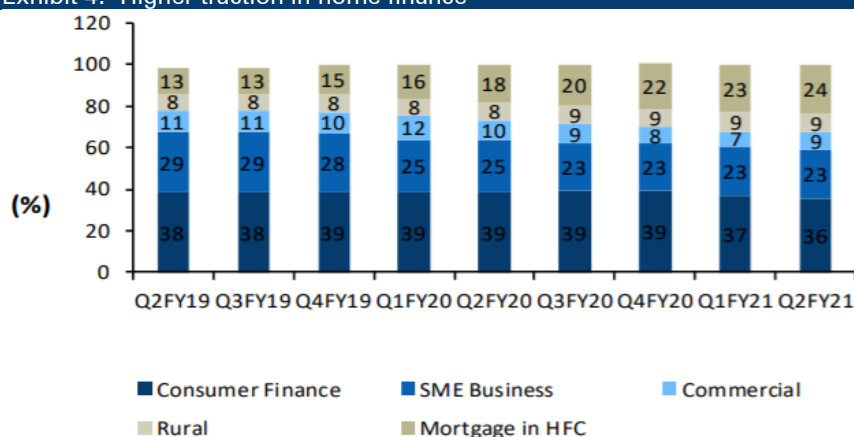
Story in charts

Exhibit 3: Consolidated profit summary

Particulars	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
General Insurance	2764	2429	2718	2547	3402	2843	4279	3055	2655	2289	4156
Life Insurance	2670	1361	2083	2123	3290	1837	2236	2552	3128	1700	2677
Total Insurance	5590	4862	5404	6179	7782	6537	7905	7632	6066	7641	8526
Investments & others	16	18	337	54	51	52	410	60	381	42	48
Windmill	17	16	29	10	16	8	12	12	7	8	10
Retail financing	3483	3941	4296	4995	5269	5808	6323	7026	7229	6650	6523
Less: Inter-segment revenue	49	67	367	96	123	133	426	169	389	148	55
Total revenue	9057	8771	9698	11142	12995	12272	14224	14561	13294	14192	15052
Interest and Finance Charges	1209	1334	1540	1782	1884	2054	2313	2419	2552	2395	2340
Other Exp	6302	5447	6348	7136	8981	7963	9285	9514	9949	9229	10555
Total Expenses	7511	6781	7888	8918	10864	10017	11598	11934	12501	11624	12895
PBT	1546	1990	1810	2224	2130	2255	2626	2627	793	2568	2157
PAT	637	826	704	851	839	845	1204	1126	194	1215	986

Source: Company, ICICI Direct Research

Exhibit 4: Higher traction in home finance



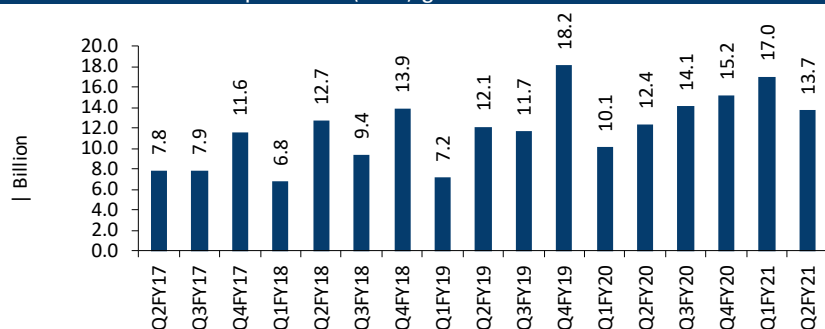
Source: Company, ICICI Direct Research

Exhibit 5: AUM growth witnesses decline

₹crore	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Nil	2573	2708	3201	3395	3688	3999	4537	4679	4151	4158
Total income	2578	2708	3203	3395	3695	3999	4537	4683	4152	4158
Total expense	954	959	1119	1174	1293	1382	1536	1452	1156	1159
Provision	327	315	454	409	551	594	831	1954	1686	1700
PBT	1297	1435	1630	1812	1851	2022	2170	1278	1309	1341
Loan outstanc	93314	100217	109930	115889	128898	135533	145020	147153	138000	137300

Source: Company, ICICI Direct Research

Exhibit 6: Life insurance premium (NBP) growth trend



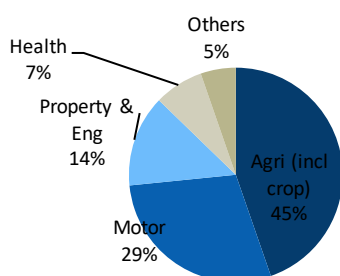
Source: Company, ICICI Direct Research

Exhibit 7: Higher actuarial liabilities arrest PAT growth

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total premium	2083	2123	3290	1837	2235	2552	3129	2658	2677
New business premium	1213	1171	1818	1014	1235	1411	1519	1700	1372
Renewal premium	870	952	1472	823	1000	1141	1610	958	1305
Policyholder profits	18	35	31	-30	-1	10	11	-52	-33
Shareholder profits*	114	77	81	92	207	133	27	182	131
Total profits	132	112	112	62	206	143	38	130	98
Solvency ratio (%)	749	767	804	790	770	770	745	760	730

Source: Company, ICICI Direct Research

Exhibit 8: General insurance business mix dominated by agri & motor insurance in Q2FY21



Source: Company, ICICI Direct Research

Exhibit 9: Steady claims, tight cost control lead combined ratio to come in at 97%

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Gross Premium	2843	4279	3055	2655	2289	4156
Net Earned Premium	1946	2131	2156	1972	1818	1986
Underwriting profit	9	-91	-87	159	175	29
Investment income	310	462	359	255	352	414
PBT	319	371	272	414	527	443
PAT	210	294	191	304	395	332
Claim Ratio (%)	73	75	73	62	68	74
Combined Ratio (%)	103	103	104	94	98	97

Source: Company, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	60.7	60.7	60.8	60.8	60.8
FII	8.5	8.7	8.6	8.0	7.7
DII	6.7	6.6	6.2	6.4	6.8
Others	24.1	24.0	24.3	24.9	24.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue				
Life Insurance	9753	9991	11004	12270
General Insurance	12320	13218	15201	17481
Total	22073	23209	26205	29750
Less: Reinsurance ceded				
Reserve for unexpired risk	-1417	529	304	350
Net Insurance Premium Earned	21349	18779	21425	24261
Investment and other income	6791	7718	5736	6469
Total Insurance Income	28140	26497	27160	30729
Investment and others	904	967	1064	1170
Retail financing	26386	26642	29931	36557
Windmill	39	41	43	45
Total	55469	54147	58198	68502
Less: Inter-segment revenue	1118	894	983	1082
Total revenue	54351	53253	57215	67420
Pre-tax profit				
General Insurance	1033	1843	1830	1973
Life Insurance	39	1001	1106	1138
Total Insurance	1072	2845	2936	3112
Retail financing	7442	5531	7805	10260
Investments & others	-234	-193	-213	-234
Windmill	20	21	21	22
Total PBIT	8300	8203	10549	13160
Less: Interest	-234	-193	-213	-234
Profit before tax	8300	8203	10549	13160
Tax	-2308	-2195	-2590	-2634
Net profit before minority	5992	6008	7960	10526
Minority and deferred tax adjustments	2624	2043	3104	4105
Net profit	3368	3966	4855	6421

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratio				
(Year-end March)	FY20	FY21E	FY22E	FY23E
CMP	9130.0	9130.0	9130.0	9130.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	269.7	249.2	305.1	403.5
BV	2026.3	2273.7	2577.1	2978.9
RoA	1.9	1.4	1.4	1.6
RoE	15.3	11.6	12.6	14.5
P/BV	4.5	4.0	3.5	3.1
P/E	33.8	36.6	29.9	22.6
(Year-end March) - Growth ratios				
Gross Written Premium				
- Life	10.1	2.4	10.1	11.5
- General	16	3	15	15
Loan book Bajaj Finance	37	-6	20	22
Consol Network	35	12	13	16
Consol Revenues	30	13	7	18
Consol PAT	36	-8	22	32
Consol Effective Tax rate	25	27	25	20

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Sources of Funds				
Shareholders' Funds	3224	3618	4101	4740
- Share capital	80	80	80	80
- Reserves & Surplus	32162	36100	40928	47321
Policy liabilities	18133	36021	44105	53255
Loan funds	122465	144660	173106	210734
Deferred tax liability (net)	80	82	83	85
Current liabilities	75071	71317	67751	64364
Provisions	176	183	190	198
Total liabilities	251384	333309	379226	438796
Applications of Funds				
Fixed assets	1615	4319	4728	5177
Goodwill on investments in associates	689	689	689	689
Investments	27714	19298	18719	18158
Policyholders' Investments	64108	55735	64700	75085
Deferred Tax Assets (net)	885	930	976	1025
Current assets	2123	107677	116308	127928
- Receivable under financing activity	154250	144660	173106	210734
Misc Expenditure	0	0	0	0
Total Assets	251384	333309	379226	438796

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (BFSI- Non banks)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
LIC Housing Finance (LICHF)	359	345	Buy	18,132	46.5	44.2	58.6	7.7	8.1	6.1	1.2	1.1	1.0	1.1	0.9	1.1	13.8	11.9	14.5
HDFC (HDFC)	2,243	2,200	Hold	4,04,102	102.6	53.5	71.1	21.9	41.9	31.6	4.5	3.8	3.7	3.6	1.7	2.1	3.6	1.7	2.1
Bajaj Finserv (BAFINS)	9,130	10,500	Buy	1,46,253	269.7	249.2	305.1	33.8	36.6	29.9	4.5	4.0	3.5	1.4	1.4	1.6	11.6	12.6	14.5
Bajaj Finance (BAJFI)	4,863	5,900	Buy	2,93,038	89.5	68.7	96.9	54.3	70.8	50.2	9.1	8.1	7.1	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Finance	168	140	Hold	18,075	14.7	7.9	10.9	11.4	21.2	15.4	1.4	1.7	1.4	1.3	1.3	1.7	8.1	7.3	8.2
HDFC AMC (HDFAMC)	2,568	2,500	Hold	54,705	59.2	59.3	66.5	43.3	43.3	38.6	13.6	11.7	10.2	0.4	0.3	0.3	31.3	27.1	26.4
Nippon AMC (RELNIP)	293	300	Hold	18,078	6.8	9.6	11.1	43.2	30.6	26.4	6.9	6.5	6.1	0.1	0.3	0.3	14.1	16.6	16.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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