

Elevated provisioning, higher claims impact PAT...

About the stock: Bajaj Finserv (Finserv) is a financial conglomerate with a holding in the financing business (Bajaj Finance), life insurance (Bajaj Life Insurance) and general insurance (Bajaj General Insurance) business.

- Consistent, faster business growth and profitability remains in focus

Q1FY22 Results: Earnings impacted by elevated provision & claims in Q1FY22.

- Consolidated revenue de-grew ~2% YoY; PAT declined 31% YoY
- AUM grew 15% YoY to ₹ 159057 crore; elevated provision impacted PAT
- GWP increased 9% YoY to ₹ 2494 crore; Covid led to higher claim at 75.9%
- Life premium grew 48% YoY to ₹ 2516 crore; PAT impacted by Covid claim

What should investors do? Bajaj Finserv's share price has grown by ~3.8x over the past five years (from ~₹ 2600 in July 2016 to ₹ 12705 in July 2021).

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value Finserv at ~31x FY23 EPS to arrive at revised TP of ₹13500 per share from ₹11500 earlier.

Key triggers for future price performance:

- Expect 20%, 22% AUM growth for FY22E, FY23E, PAT growth of 30%, 45%, respectively
- Expect asset quality to stabilise post unlock by Q4FY22
- Robust premium growth & selective product mix to aid business growth & earnings in life & general insurance business
- Higher Covid claims claim remain a near term overhang

Alternate Stock Idea: Apart from BAF, in BFSI our coverage we also like HDFC Ltd.

- HDFC Ltd is a leading housing finance company with loan size of ~₹ 4.98 lakh crore with presence in life insurance, banking, AMC via its subsidiaries
- BUY with target price of ₹ 3100



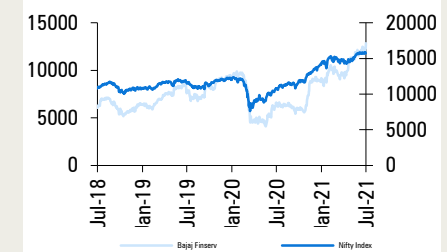
Particulars

Particular	Amount
Market Capitalization	₹ 207279 crore
Net worth	₹ 36600 crore
52 week H/L (₹)	13114 /5401
Face value	₹ 5
DII Holding (%)	6.0
FII Holding (%)	9.6

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.8	60.8	60.8	60.8	60.8
FII	8.0	7.7	8.8	9.1	9.6
DII	6.4	6.8	6.1	6.1	6.0
Others	24.9	24.7	24.4	24.0	23.7

Price Chart



Recent Event & Key risks

- Consolidated PAT fell 31% YoY due to elevated provision & higher claims
- Key Risk:** Probability of third wave could impact asset quality & claims

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Key Financial Summary

₹ crore	FY19	FY20	FY21	2 Year CAGR (FY19-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenue	42,608.2	54,351.5	60,591.6	19%	63,498.7	73,498.0	10%
PAT	3133.5	2269.0	4470.5	19%	4775.9	7009.5	24%
EPS (₹)	198.0	269.7	235.6		300.1	440.5	
BV (₹)	1498.4	2026.3	2260.2		2558.6	2997.3	
P/E	65.4	48.0	55.0		43.1	29.4	
P/BV	8.6	6.4	5.7		5.1	4.3	
RoA	1.8	1.9	1.2		1.3	1.7	
RoE	14.1	15.3	11.0		12.5	15.9	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Mixed performance

- Consolidated topline de-grew ~2% YoY to ₹ 13949 crore, due to muted performance in lending business and higher re-insurance ceded
- Elevated provisioning in lending business and higher Covid claims impacted earnings, which de-grew 31% YoY to ₹ 833 crore
- In general insurance, GWP rose 9% YoY to ₹ 2494 crore. Growth in two-wheeler, four-wheeler remained strong at 23%, 10.3% YoY, respectively. Retail health and commercial lines business rose 30.8% & 14% YoY, respectively. However, CV segment stayed stressed with 2.8% de-growth
- On claims, frequency in motor OD claims remained slower compared to Q1FY21. Motor TP claims settlement stayed moderate owing to lockdown. Covid claims witnessed a surge with 82% of claims in FY21 recorded in Q1FY22; pre-tax Covid claims of ₹ 283 crore vs. ₹ 14 crore in Q1FY21
- In life insurance business, GWP grew 48% YoY to ₹ 2516 crore, with higher traction seen in annuity and group protection business. Demand for Ulip remained steady while retail protection has slowed a bit
- In group protection and retail side, stress was observed with a surge of claims in May & June 2021. On the retail side, the company received over 1600+ claims pertaining to Covid-19 worth ₹117 crore (on gross basis)
- The company reserves (net of reinsurance recovery) were at ₹ 304 crore (vs. ₹ 98 crore as of March 31, 2021) for probable Covid-19 claims
- Bajaj Finserv board approved investment of ₹ 342 crore (₹ 284 crore is to be invested by Bajaj Finance) in Bajaj Finserv Direct Ltd, wholly owned subsidiary, engaged in business of distribution of financial products through digital marketplace

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Finance (LICHF)	454	475	Hold	229	58.9	65.3	76.0	7.7	6.9	6.0	1.4	1.2	1.1	15.4	15.1	15.9
HDFC (HDFC)	2,480	3,100	Buy	4,440	59.8	75.6	87.7	41.5	32.8	28.3	4.1	3.9	3.7	11.1	12.3	13.5
Bajaj Finserv (BAFINS)	12,950	13,500	Hold	2,027	235.6	300.1	440.5	55.0	43.1	29.4	5.7	5.1	4.3	11.0	12.5	15.9
Bajaj Finance (BAJFI)	5,937	6,900	Buy	3,584	73.5	102.9	131.7	80.8	57.7	45.1	10.0	8.7	6.7	12.1	15.6	16.3
Mahindra & Mahindra Finance	155	160	Reduce	190	2.7	7.2	10.4	57.0	21.6	14.9	1.7	1.4	1.2	2.6	5.7	7.3

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 25% discount (₹)
Bajaj Allianz Life Insurance	1.8x FY23E EV	74	31642	23380	1087
Bajaj Allianz General Insurance	28x PAT	74	57302	42403	1972
Bajaj Finance	7.8x FY23E BVPS	53	425040	223784	10432
Windmill	₹4 per mw	100	260	143	8
Total					13500

Source: Company, ICICI Direct Research

We remain positive on a revival in business growth, digital capabilities and operational efficiency in finance as well as insurance business.

Exhibit 3: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
General Insurance	2494.4	2495.1	2,289.1	9.0	2,787.4	-10.5	Partial lockdown kept premium growth slower
Life Insurance	2515.5	2617.5	1,699.7	48.0	4,501	-44.1	Growth in individual and group NBP propelled life insurance premium
Net premium earned	5009.8	5112.6	3,988.8	25.6	7,288.7	-31.3	
Investment and other income	2311.9	2126.5	3,667	-37.0	1,837	25.8	
Reinsurance Ceded	261.5	306.8	294	-11.1	590	-55.7	
Reserve for unexpired risk	-215.1	100.0	-280	-23.2	-71	201.6	
Total Insurance	7275.3	6832.3	7,641.3	-4.8	8,606.9	-15.5	
Retail financing	6743.0	7103.5	6,650	1.4	6,855	-1.6	Healthy AUM impacted by elevated slippages
Windmill	5.0	8.0	7.8	-36.7	2.4	108.9	
Investment and others	83.8	80.0	42	101.4	312	-73.1	
Total	13949.5	13846.2	14,192	-1.7	15,387	-9.3	
Interest and Finance Charges	2190.5	664.6	2,395.2	-8.5	2,147.4	2.0	
Other Exp	9991.9	10863.1	9,228.7	8.3	10,880.0	-8.2	
Total Expenses	12182.4	11527.8	11,623.9	4.8	13,027.5	-6.5	
PBT	1767.1	2318.5	2,568.1	-31.2	2,359.8	-25.1	
PAT	832.8	1043.3	1,215.2	-31.5	980.4	-15.1	Elevated provisioning & higher claims impacted earnings momentum

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Total Income	62136.1	63,498.7	2.2	73536.0	73,498.0	-0.1
PBT	11,679.3	10,758.2	-7.9	14,816.9	15,135.5	2.2
PAT	5,287.7	4,775.9	-9.7	6,822.4	7,009.5	2.7
ABV (₹)	2,590.7	2,558.6	-1.2	3,017.7	2,997.3	-0.7

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current			Earlier		
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
Commercial Finance growth (%)	25.7	3.8	18.0	21.7	18.0	21.7
Life Ins Premium growth (%)	10.1	15.4	23.7	14.0	23.7	14.0
General Ins GWP growth (%)	15.6	5.0	10.5	12.0	11.0	12.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenue				
<i>Life Insurance</i>	9753	12025	13926	15882
<i>General Insurance</i>	12833	12624	14889	16676
Total	22586	24649	28816	32559
Less: Reinsurance ceded	1056	1797	2330	2581
Reserve for unexpired risk	180	432	744	834
Net Insurance Premium Earned	21349	22420	25741	29144
Investment and other income	6791	11756	8391	8431
Total Insurance Income	28140	34176	34132	37575
Investment and others	904	480	528	581
Retail financing	26386	26683	29792	36386
Windmill	39	24	30	37
Total	55469	61363	64482	74580
Less: Inter-segment revenue	1118	772	983	1082
Total revenue	54351	60592	63499	73498
Pre-tax profit				
<i>General Insurance</i>	1033	2392	2262	2819
<i>Life Insurance</i>	39	1383	1041	1368
Total Insurance	1072	3776	3303	4188
Retail financing	7442	6387	7705	11220
Investments & others	-234	-305	-264	-291
Windmill	20	5	14	18
Total PBIT	8300	9862	10758	15135
Less: Interest	-234	-96	-264	-291
Profit before tax	8301	9862	10758	15135
Tax	-2308	-2495	-2798	-3050
Net profit before minority	5994	7367	7960	12085
Minority and deferred tax adjustment	2624	2897	3184	5076
Net profit	2269	4470	4776	7009

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio				
(Year-end March)	FY20	FY21	FY22E	FY23E
CMP	12950.0	12950.0	12950.0	12950.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	269.7	235.6	300.1	440.5
BV	2026.3	2260.2	2558.6	2997.3
RoA	1.9	1.2	1.3	1.7
RoE	15.3	11.0	12.5	15.9
P/BV	6.4	5.7	5.1	4.3
P/E	48.0	55.0	43.1	29.4

(Year-end March) - Growth ratios	FY20	FY21	FY22E	FY23E
Gross Written Premium				
- Life	10.1	15.4	23.7	14.0
- General	16	5	11	12
Loan book Bajaj Finance	26	4	18	22
Consol Network	35	12	13	17
Consol Revenues	30	20	12	16
Consol PAT	36	-13	27	47
Consol Effective Tax rate	25	25	26	20

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
(Year-end March)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Shareholders' Funds	32242	35830	40712	47693
- Share capital	80	80	80	80
- Reserves & Surplus	32162	35750	40632	47614
Policy liabilities	58772	75230	68775	85132
Loan funds	122465	124014	173139	210773
Defered tax liability (net)	80	320	326	333
Current liabilities	75071	44624	67751	64364
Provisions	176	226	235	245
Total liabilities	251384	280164	385466	450023
Applications of Funds				
Fixed assets	1615	1565	2387	2602
Goodwill on investments in associat	689	689	689	689
Investments	27714	33609	17845	17310
Policyholders' Investments	64108	80072	72061	86902
Deferred Tax Assets (net)	885	946	976	1025
Current assets	14997	163284	118368	130722
- Receivable under financing activity	141376	146687	173139	210773
Misc Expenditure	0	0	0	0
Total Assets	251384	280164	385466	450023

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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