

Financing, life ins continue healthy momentum...

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 remain in focus

Q2FY23 Results: Pick-up in lending AUM supports consolidated performance.

- Consolidated revenue grew ~16% YoY; PAT up 38.7% YoY
- AUM up 30.8% YoY to ₹ 218366 crore; PAT jump led by lower provision
- GWP declined 5% YoY to ₹ 4781 crore; PAT down 21% YoY to ₹ 411 crore
- Life insurance premium grew 9% YoY, led by renewal

What should investors do? Bajaj Finserv's share price has grown over ~3x in the past five years.

- We downgrade the stock from BUY to **HOLD** given recent run up in the stock

Target Price and Valuation: Pick-up in lending AUM and anticipated healthy growth in insurance segment coupled with focus on digitisation remain positive. We value Finserv at ~33x FY24E EPS and maintain our target price at ₹ 1850.

Key triggers for future price performance:

- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR to ₹ 3.8 – 4 lakh crore by FY25) to boost profitability
- Product launch and selective product mix to aid premium growth; focus on claims and opex to aid earnings in life and general insurance business
- Healthy traction in existing businesses and pick-up in new ventures to drive consolidated revenue and earnings

Alternate Stock Idea: Besides Finserv, in our BFSI coverage, we also like HDFC Ltd.

- HDFC Ltd is a leading housing finance company with loan size of ~₹ 5.7 lakh crore with a presence in life insurance, banking, AMC via its subsidiaries
- BUY with a target price of ₹ 2800



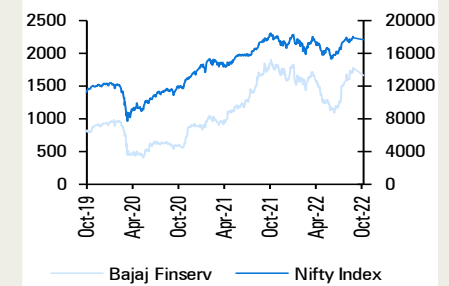
Particulars

Particular	Amount
Market Capitalization	₹ 265442 crore
Net worth	₹ 70431 crore
52 week H/L (₹)	1896/1077
Face value	₹ 1
DII Holding (%)	7.0
FII Holding (%)	7.2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.8	60.8	60.8	60.8	60.8
FII	8.9	8.8	8.5	7.4	7.2
DII	6.6	6.8	7.0	7.7	7.0
Others	23.7	23.7	23.8	24.1	25.1

Price Chart



Recent Event & Key risks

- Consolidated topline up ~16% YoY
- Key Risk:** 1) Elevated opex may impact return ratios, 2) Claims ratios trajectory in retail products

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Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue	42,608.2	54,351.5	60,591.6	68,439.0	17%	83,484.9	1,03,846.8	23%
PAT	3133.5	2269.0	4470.5	4556.8	13%	7671.6	9043.9	41%
EPS (₹)	39.6	53.9	35.2	52.8		48.2	56.8	
BV (₹)	299.7	405.3	439.9	505.9		301.0	357.5	
P/E	42.1	30.9	47.3	31.6		34.6	29.3	
P/BV	5.6	4.1	3.8	3.3		5.5	4.7	
RoA	1.8	1.9	1.1	1.4		1.7	1.5	
RoE	14.1	15.3	8.3	11.2		17.4	17.3	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Bajaj Finserv reports healthy performance led by lending business. Insurance business bit volatile

- Consolidated topline growth came in at ~16% YoY to ₹ 20802 crore, primarily led by a healthy revival in the lending business. Lower provisioning in the lending business and profitability in life insurance led to consolidated earnings at ₹ 1556.9 crore; up 38.7% YoY
- In the lending business, AUM growth at 30.8% YoY to ₹ 218366 crore, with steady margins and steady opex & provision led to robust growth in earnings. GNPA & NNPA were at 1.17% and 0.44% as of Q2FY23 against 1.25% and 0.50%, respectively, as of Q1FY23
- Gross written premium in general insurance declined 5% YoY to ₹ 4781 crore. Excluding crop and government business, gross premium increased 13% YoY to ₹ 3088 crore. In H1FY23, motor business grew 12% with two-wheeler growth at 23%, CV at 14% and four-wheeler at 8%. Commercial lines business growth remained healthy at 15.3%
- Claim ratio improved YoY at 75.5% vs. 77.6% in Q2FY22, despite one-time impact of ₹ 34 crore on account of court order with respect to 2020 crop season. Combined ratio (total expenses for an insurer to premium) was at 99.8% vs. 98.5% in Q2FY22 and 104.6% in Q1FY23, leading to underwriting loss at ₹ 18 crore. Investment income came in at ₹ 468 crore, which led to PAT of ₹ 336 crore; down ~21% YoY
- Life insurance gross written premium grew 9% YoY to ₹ 4155 crore. NBP was largely flat on a YoY basis to ₹ 2235 crore, attributable to slower group saving business. Assured wealth goal (non-par savings) product has seen healthy demand contributing 16% of product mix in Q2FY23
- Product mix - par, non-par savings, Ulip, protection, annuity retail mix was at 18%, 35%, 35%, 3%, 9%, respectively. New business margin (NBM) came in healthy at 15.2% in Q2FY23 vs. 13.9% in Q2FY22
- Individual rate business grew 32% YoY, while group protection increased 5% YoY. Renewal premium was up 21% YoY at ₹ 1920 crore. NBP margin witnessed improvement while controlled opex led to shareholder's profit at ₹ 159 crore. Solvency ratio was at 532% as of September 2022. AUM grew 7% YoY to ₹ 86907 crore
- PAT for Q2FY23 was at ₹ 159 crore against ₹ 104 crore in Q2FY22, mainly on account of lower death claims and higher investment income

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	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
HDFC (HDFC)	2,379	2,800	Buy	4,316	66.7	75.8	84.3	101.0	35.7	31.4	28.2	23.6	3.9	3.6	3.5	3.3	12.3	12.0	12.6	14.5
Bajaj Finserv (BAFINS)	15,039	17,600	Buy	2,395	176.2	263.5	431.0	565.1	85.4	57.1	34.9	26.6	6.8	5.9	5.1	4.3	8.3	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7,208	8,500	Buy	4,364	73.6	116.7	168.5	221.7	98.0	61.8	42.8	32.5	12.1	10.2	8.6	6.4	12.8	17.4	21.0	21.6
Muthoot Finance (MUTFIN)	1,021	1,300	Buy	409	8.0	9.5	12.0	13.0	128.2	107.1	84.8	78.3	2.8	2.4	2.0	1.7	27.8	23.5	22.9	23.1

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/share after 10% discount (₹)
BALIC	1.8x FY24E EV	74	38076	28135	150
BAGIC	30x FY24E PAT	74	45899	33965	181
Bajaj Finance	8.4x FY24E BVPS	52	532840	279688	1518
Windmill	₹4 per mw	100	260	143	1
Total					1850

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
General Insurance	4781.0	4732.5	5,034.6	-5.0	3,119.0	53.3	Crop & govt health business grows slower
Life Insurance	4155.0	5262.1	3,813.1	9.0	4,369	-4.9	Individual business accretion robust
Net premium earned	8936.0	9994.6	8,847.7	1.0	7,488.0	19.3	
Investment and other income	2961.2	2305.1	3,208	-7.7	554	434.4	
Reinsurance Ceded	371.4	699.6	710	-47.7	1,307	-71.6	
Reserve for unexpired risk	739.7	-100.0	1,060	-30.2	51	1,361.1	
Total Insurance	10786.0	11700.0	10,285.5	4.9	6,684.2	61.4	
Retail financing	9974.5	10102.1	7,732	29.0	9,283	7.5	Led by strong revival in lending business and steady asset quality
Windmill	9.3	9.8	10.3	-10.0	8.0	17.0	
Investment and others	812.8	120.0	427	90.2	463	75.5	
Total	20,802	21,427	18,008	15.5	15,889	30.9	
Interest and Finance Charges	2,961.2	664.6	2,381.9	24.3	2,563.8	15.5	
Other Exp	13,583.4	16,729.9	12,834.1	5.8	9,730.9	39.6	
Total Expenses	16,544.6	17,394.6	15,216.0	8.7	12,294.8	34.6	
PBT	4,257.8	4,032.3	2,792.3	52.5	3,593.9	18.5	
PAT	1,556.9	1,538.7	1,122.1	38.7	1,309.4	18.9	Lower provisioning in lending business

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Total Income	82,436.5	83,484.9	1.3	1,03,741.4	1,03,846.8	0.1
PBT	16,020.6	17,543.8	9.5	21,030.3	21,112.3	0.4
PAT	6,858.4	7,671.6	11.9	8,992.2	9,043.9	0.6
ABV (₹)	2,958.6	301.0	-89.8	3,522.0	357.5	-89.9

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY23E	FY24E	FY22E	FY23E
Commercial Finance growth (%)	116.1	24.4	113.5	23.1
Life Ins Premium growth (%)	23.9	21.5	23.9	21.5
General Ins GWP growth (%)	20.0	18.0	22.0	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement						
(Year-end March)	₹ crore					
	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue						
<i>Life Insurance</i>	8856	9753	12025	16127	19983	24279
<i>General Insurance</i>	11100	12833	12624	13689	16427	19384
Total	19956	22586	24649	29816	36410	43662
Less: Reinsurance ceded	2279	1056	1797	2185	2108	2418
Reserve for unexpired risk	111	180	432	241	821	969
Net Insurance Premium Earned	17566	21349	22420	27490	33480	40275
Investment and other income	6660	6791	11756	9591	8874	12399
Total Insurance Income	24226	28140	34176	37081	42354	52674
Investment and others	459	904	480	996	1394	1672
Retail financing	18502	26386	26683	31640	40784	50650
Windmill	76	39	24	29	35	41
Total	43262	55469	61363	69746	84567	105037
Less: Inter-segment revenue	654	1118	772	1307	1082	1190
Total revenue	42608	54351	60592	68439	83485	103847
Pre-tax profit						
<i>General Insurance</i>	1254	1033	2392	1736	2072	2156
<i>Life Insurance</i>	772	39	1383	43	1036	1380
Total Insurance	2026	1072	3776	1778	3108	3536
Retail financing	6180	7442	6387	10000	15542	18904
Investments & others	-157	-234	-305	-514	-1115	-1338
Windmill	20	20	5	6	9	10
Total PBIT	8070	8300	9862	11271	17544	21112
Less: Interest	-157	-234	-305	-514	-1115	-1338
Profit before tax	8070	8301	9862	11270	17544	21112
Tax	-2781	-2308	-2495	-2957	-2931	-3024
Net profit before minority	5288	5994	7367	8313	14613	18088
Minority and deferred tax adjustment	2155	2624	2897	3757	6941	9044
Net profit	3134	2269	4470	4557	7672	9044

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
CMP	1666.0	1666.0	1666.0	1666.0	1666.0	1666.0
No. of shares in mn	795.6	795.6	795.6	795.6	1591.2	1591.2
EPS	39.6	53.9	35.2	52.8	48.2	56.8
BV	299.7	405.3	439.9	505.9	301.0	357.5
RoA	1.8	1.9	1.1	1.4	1.7	1.5
RoE	14.1	15.3	8.3	11.2	17.4	17.3
P/BV	5.6	4.1	3.8	3.3	5.5	4.7
P/E	42.1	30.9	47.3	31.6	34.6	29.3

(Year-end March) - Growth ratios	FY19	FY20	FY21	FY22	FY23E	FY24E
Gross Written Premium						
- Life	16.9	10.1	23.3	34.1	23.9	21.5
- General	17	16	-2	8	20	18
Loan book Bajaj Finance	38	0	0	0	116	24
Consol Network	15	35	9	15	19	19
Consol Revenues	12	30	22	15	28	24
Consol PAT	19	36	-35	50	83	18
Consol Effective Tax rate	33	25	30	27	17	14

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Shareholders' Funds	2384	32242	35830	40247	47890	56879
- Share capital	80	80	80	80	159	159
- Reserves & Surplus	23762	32162	35750	40167	47731	56720
Policy liabilities	21814	58772	75230	31483	96643	130381
Loan funds	101588	122465	124014	71506	243153	302395
Deferred tax liability (net)	7	80	320	3370	3437	3506
Current liabilities	22801	75071	44624	120559	114531	108804
Provisions	944	176	226	234	243	253
Total liabilities	208784	251384	280164	333719	551452	660654
Applications of Funds						
Fixed assets	2108	2285	1565	2332	3352	4236
Goodwill on investments in associat	689	689	689	689	689	689
Investments	34484	36141	33609	19600	12368	12739
Policyholders' Investments	47092	46491	80072	98645	127319	163932
Deferred Tax Assets (net)	462	485	509	534	946	993
Current assets	11436	52781	163721	99404	163625	175670
- Receivable under financing activity	112513	112513	112513	112513	243153	302395
Total Assets	208784	251384	280164	333719	551452	660654

Source: Company, ICICI Direct Research

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