

Steady Q4; healthy growth seen across segments...

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

Q4FY23 Results: Healthy performance in the lending business.

- Consolidated topline growth came in at 25.3% YoY to ₹ 23625 crore
- AUM up 25% YoY to ₹ 247379 crore; PAT jump led by contained provision
- GWP up 14% YoY to ₹ 3765 crore; PAT down 30% YoY to ₹ 322 crore
- Life insurance premium grew 13% YoY, renewal premium was healthy

What should investors do? Bajaj Finserv's share price has grown over ~2.5x in the past five years.

- We maintain our **BUY** rating

Target Price and Valuation: Healthy pick-up in lending AUM and selective approach in insurance business coupled with focus on digitisation remain positive. Factoring in regulatory overhang with regard to the insurance business, we revise our target price from ₹ 1625 to ₹ 1600, valuing the business at ~27x FY25E EPS.

Key triggers for future price performance:

- The management has rolled out a five-year long range strategy (LRS), aiming for 3-4% share in total credit and 4-5% share in retail credit
- Digital transformation, client additions and ambitious targets on AUM growth (25-27% CAGR) to boost profitability. Expect >21% PAT growth in the next two years
- Improving distribution strength and diversified product mix to aid premium accretion. Control on opex and selective approach in insurance business to aid margins and, thus, profitability

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 ~₹ 6.0 lakh crore with a presence in life insurance, banking, AMC via its subsidiaries
- BUY with a target price of ₹ 3150



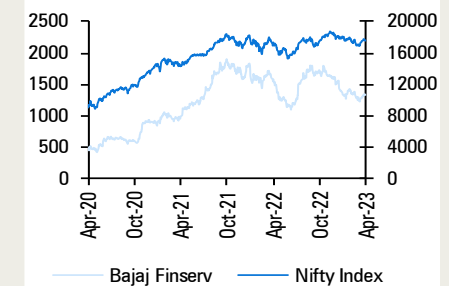
Particulars

Particular	Amount
Market Capitalization	₹ 218813 crore
Net worth	₹ 46407 crore
52 week H/L (₹)	1846/1077
Face value	₹ 1
DII Holding (%)	7.1
FII Holding (%)	7.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	60.8	60.8	60.8	60.8	60.8
FII	8.5	7.4	7.5	7.8	7.0
DII	7.0	7.7	7.0	6.9	7.1
Others	23.8	24.1	24.8	24.5	25.1

Price Chart



Recent Event & Key risks

- Consolidated topline up ~25% YoY
- Key Risk:** 1) Extended moderation in margins, 2) Slower than expected premium growth

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Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenue	54,351.5	60,591.6	68,439.0	82,072.0	15%	1,01,724.3	1,24,451.6	23%
PAT	2269.0	4470.5	4556.8	6417.3	41%	7840.8	9455.5	21%
EPS (₹)	53.9	35.2	52.8	38.5		49.3	59.4	
BV (₹)	405.3	439.9	505.9	291.3		340.2	399.3	
P/E	25.2	38.6	25.8	35.3		27.6	22.9	
P/BV	3.4	3.1	2.7	4.7		4.0	3.4	
RoA	1.9	1.1	1.4	1.7		1.7	1.7	
RoE	15.3	8.3	11.2	14.1		15.6	16.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Lending business continues to aid consolidated earnings

- Consolidated topline growth came in at 25.3% YoY to ₹ 23625 crore, mainly driven by healthy growth in the lending business. Accretion in insurance business remained mixed. Led by lower provisions in the lending business and steady premium trajectory, consolidated earnings growth was 31.4% YoY at ₹ 1769 crore (flat QoQ)
- In the lending business, AUM growth came in at 25% YoY (7% QoQ) increasing to ₹ 247379 crore, primarily driven by urban B2C growing 29% YoY and SME lending growing 35% YoY. GNPA & NNPA were at 0.94% & 0.34% vs. 1.60% & 0.68%, respectively, on a QoQ basis
- Gross written premium in general insurance increased 14% YoY to ₹ 3765 crore. Excluding tender driven crop and government health insurance premium, BAGIC's gross written premium increased 17% YoY to ₹ 3345 crore. Revenue growth was led by motor (13.3% - 2-W: 26%, 4-W: 18%), Retail & Group Health (16.4% & 29.8%), commercial lines (15.2%) and travel (54.5%)
- Claim ratio declined to 66.4% in Q4FY23 vs. 68.8% in Q4FY22 mainly due to lower claims in motor, health and some commercial lines. Combined ratio was at 97.3% in Q4FY23 vs. 98.3% in Q4FY22. Investment and other income (net) for Q4FY23 was at ₹ 431 crore vs. ₹ 327 crore in Q4FY22, leading to PAT growth of 30% YoY at ₹ 322 crore
- Life insurance gross written premium grew 13% YoY to ₹ 6434 crore. NBP was largely flat YoY at ₹ 3297 crore, attributable to slower group fund business. Individual rate business grew 48% YoY while group fund premium declined from ₹ 1030 crore in Q4FY22 to ₹ 505 crore in Q4FY23. Group protection also fell 10% YoY. Renewal premium was up 26% YoY at ₹ 3137 crore. NBP margin witnessed an improvement of 35% YoY, while higher strain led by growth in individual business impacted momentum of shareholder's profit, which got reported at ₹ 26 crore. Solvency ratio was at 516% as of March 2022. AUM grew 6% YoY to ₹ 90584 crore
- In life insurance, FY23 growth was 41% vs. private player's growth of 24%; market share in IRNB terms increased from 6.7% to 7.6% among private players. Product mix - par, non-par savings, Ulip, protection, annuity retail mix was at 15%, 52%, 25%, 3%, 5%, respectively. NBV was up 35% YoY with margin (NBM) healthy at 18.6% in Q4FY23

Bajaj Finserv - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.4	0.4	2.1
Social	12.6	8.4	11.2
Governance	78.6	78.6	84.9
Overall ESG Score	30.6	29.2	32.8

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)				
	(₹)	TP(₹)		Rating	(₹ bn)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E
HDFC (HDFC)	2,768	3,150	Buy	5,078	75.8	86.7	100.0	114.4	36.5	31.9	27.7	24.2	4.2	3.7	3.3	2.9	12.0	13.3	14.8	15.9
Bajaj Finserv (BAFINS)	1,360	1,600	Buy	2,188	52.8	38.5	49.3	59.4	25.8	35.3	27.6	22.9	2.7	4.7	4.0	3.4	11.2	14.1	15.6	16.1
Bajaj Finance (BAJFI)	6,225	7,250	Buy	3,768	116.8	195.4	240.0	298.3	53.3	31.9	25.9	20.9	8.8	6.9	5.7	4.7	17.5	23.9	23.9	23.5
Muthoot Finance (MUTFIN)	1,011	1,150	Hold	405	98.5	85.2	95.7	111.4	10.3	11.9	10.6	9.1	2.4	2.1	1.8	1.6	23.5	17.5	17.4	17.9

Source: Company, ICICI Direct Research

Exhibit 2: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 15% discount (₹)
Bajaj Allianz Life Insurance	1.8x FY25E EV	74	41483	30652	164
Bajaj Allianz General Insur	30x FY25E PAT	74	45237	33475	179
Bajaj Finance	4.5x FY25E ABV	52.5	448050	235181	1257
Windmill	₹4 per mw	100	260	143	1
Total					1600

Source: Company, ICICI Direct Research

Exhibit 3: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
General Insurance	3765.8	3893.8	3,299.8	14.1	3,820.7	-1.4	Excluding tender driven crop and government health business, premium grew 17%
Life Insurance	6432.9	6748.1	5,718.7	12.5	4,504	42.8	Uptick in individual business amid tax amendment; Group savings business grew slower
Net premium earned	10198.7	10641.9	9,018.5	13.1	8,325.0	22.5	
Investment and other income	2423.8	2679.2	1,966	23.3	2,920	-17.0	
Reinsurance Ceded	211.8	532.1	746	-71.6	263	-19.5	
Reserve for unexpired risk	61.7	-100.0	-125	-149.4	-65	-194.7	
Total Insurance	12349.0	12889.0	10,363.9	19.2	11,047.4	11.8	
Retail financing	11363.1	11319.5	8,630	31.7	10,785	5.4	Led by healthy AUM growth and steady asset quality
Windmill	2.6	3.3	7.8	-67.0	3.3	-22.1	
Investment and others	231.7	120.0	126	84.4	196	17.9	
Total	23,625	23,766	18,862	25.3	21,755	8.6	
Interest and Finance Charges	3,435.6	664.6	2,481.3	38.5	3,240.8	6.0	
Other Exp	15,648.9	18,627.1	12,918.1	21.1	14,095.6	11.0	
Total Expenses	19,084.5	19,291.8	15,399.5	23.9	17,336.4	10.1	
PBT	4,540.5	4,474.0	3,462.2	31.1	4,419.0	2.7	
PAT	1,769.0	1,707.3	1,346.1	31.4	1,782.0	-0.7	Healthy topline, PAT growth

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Total Income	1,01,742.6	1,01,724.3	0.0	1,25,615.8	1,24,451.6	-0.9
PBT	21,248.1	21,285.8	0.2	25,501.5	26,179.2	2.7
PAT	7,696.7	7,840.8	1.9	9,237.2	9,455.5	2.4
ABV (₹)	339.9	340.2	0.1	397.6	399.3	0.4

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Commercial Finance growth (%)	24.5	16.0	24.4	24.5
Life Ins Premium growth (%)	20.8	20.4	21.0	20.7
General Ins GWP growth (%)	17.0	17.0	18.0	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Revenue				
Life Insurance	16127	19461	23454	28237
General Insurance	13689	15487	18579	21737
Total	29816	34948	42033	49974
Less: Reinsurance ceded	2185	2154	2299	2611
Reserve for unexpired risk	241	787	929	1087
Net Insurance Premium Earned	27490	32008	38805	46276
Investment and other income	9591	8859	10997	13344
Total Insurance Income	37081	40867	49801	59621
Investment and others	996	1704	1812	2174
Retail financing	31640	41406	52198	64951
Windmill	29	23	37	43
Total	69746	84000	103849	126788
Less: Inter-segment revenue	1307	1928	2124	2337
Total revenue	68439	82072	101724	124452
Pre-tax profit				
General Insurance	1736	1403	1816	2125
Life Insurance	43	-191	874	879
Total Insurance	1778	1213	2690	3004
Retail financing	10000	16169	20036	24904
Investments & others	-514	-581	-1449	-1739
Windmill	6	10	9	11
Total PBIT	11271	16811	21286	26179
Less: Interest	-514	-581	-1449	-1739
Profit before tax	11270	16811	21286	26179
Tax	-2957	-4602	-5912	-7268
Net profit before minority	8313	12210	15374	18911
Minority and deferred tax adjustments	3757	5792	7533	9456
Net profit	4557	6417	7841	9456

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratio				
(Year-end March)	FY22	FY23	FY24E	FY25E
CMP	1360.0	1360.0	1360.0	1360.0
No. of shares in mn	795.6	1591.2	1591.2	1591.2
EPS	52.8	38.5	49.3	59.4
BV	505.9	291.3	340.2	399.3
RoA	1.4	1.7	1.7	1.7
RoE	11.2	14.1	15.6	16.1
P/BV	2.7	4.7	4.0	3.4
P/E	25.8	35.3	27.6	22.9

(Year-end March) - Growth ratios	FY22	FY23	FY24E	FY25E
Gross Written Premium				
- Life	34.1	20.4	20.8	20.4
- General	8	16	17	17
Loan book Bajaj Finance	0	116	25	16
Consol Network	15	15	17	17
Consol Revenues	15	27	23	22
Consol PAT	50	46	28	21
Consol Effective Tax rate	27	28	28	28

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Shareholders' Funds	40247	46345	54130	63529
- Share capital	80	159	159	159
- Reserves & Surplus	40167	46185	53971	63370
Policy liabilities	31483	96136	129070	166744
Loan funds	71506	100718	151115	188473
Deferred tax liability (net)	3370	3437	3506	3576
Current liabilities	120559	114531	108804	103364
Provisions	234	243	253	263
Total liabilities	333719	405509	502260	595068
Applications of Funds				
Fixed assets	2332	3352	4236	4307
Goodwill on investments in associates	689	689	689	689
Investments	19600	22751	23434	24137
Policyholders' Investments	98645	95485	161606	202818
Assets held to cover linked liabilities	33223	46805	59944	73568
Deferred Tax Assets (net)	534	946	993	1043
Current assets	99404	9023	9070	11515
- Receivable under financing activity	79290	226457	302231	350559
Total Assets	333719	405509	502260	595068

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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