

Improving prospects of key subsidiaries to add value

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

Rationale: Traction in insurance and digitisation in lending, a long term positive.

- Bajaj Finance launched the wallet business in July 2021 and aims to on-board ~2.5 crore customers by FY23
- Premium growth in general insurance at 20% for April-July21 aids market share gain of 30 bps to 7.9%
- Life insurance premium jumped 40% YoY for April-July21 ahead of industry
- Foray into mutual fund business would add value to overall franchisee

What should investors do? Bajaj Finserv's share price has grown by ~6x over the past five years (from ~₹ 2900 in September 2016 to ₹ 17500 in September 2021).

- We upgrade our rating on the stock from HOLD to BUY

Target Price and Valuation: We value Finserv at ~45x FY23 EPS to arrive at revised TP of ₹20200 per share from ₹13500 earlier.

Key triggers for future price performance:

- Expect 20%, 22% AUM growth for FY22E, FY23E, PAT growth of 30%, 45%, respectively
- Asset quality to stabilise from H2FY22 onwards
- Robust premium growth & selective product mix to aid business growth & earnings in life & general insurance business

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 a target price of ₹ 3100



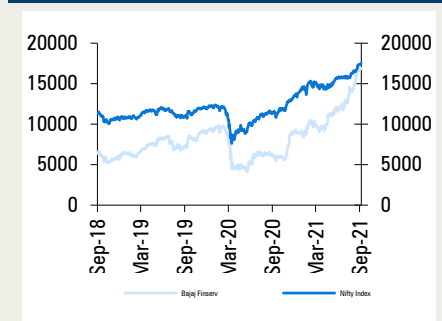
Particulars

Particular	Amount
Market Capitalization	₹ 280645 crore
Net worth	₹ 36600 crore
52 week H/L (₹)	17780 /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

- Lending and insurance business to witness improving growth trajectory
- Key Risk:** (I) Extended pandemic could lead to higher claims (II) Delay in lending business growth revival could impact profitability

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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	88.4	64.9	74.3		58.3	39.7	
P/BV	11.7	8.6	7.7		6.8	5.8	
RoA	1.8	1.9	1.2		1.3	1.7	
RoE	14.1	15.3	11.0		12.5	15.9	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement				
(Year-end March)	₹ crore			
	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 3: Key Ratio				
(Year-end March)	FY20	FY21	FY22E	FY23E
CMP	17510.0	17510.0	17510.0	17510.0
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	8.6	7.7	6.8	5.8
P/E	64.9	74.3	58.3	39.7

(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 Networth	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 2: 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

Exhibit 4: SOTP valuation					
Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 90% discount (₹)
BALIC	2x FY23E EV	74	34678	25624	1449
BAGIC	30x FY23E PAT	74	61395	45432	2570
Bajaj Finance	10x FY23E BVPS	53	551320	290270	16173
Windmill	₹4 per mw	100	260	143	8
Total					20200

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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