

Bajaj FinServ | BUY

Continued all round performance

In 2Q24, Bajaj Finserv reported consol PAT of INR 19.3bn led by strong performance in Bajaj Finance (+28% YoY PAT) while insurance subsidiaries BAGIC and BALIC also reported strong growth and profitability. BAGIC delivered profit of INR 6.26bn, +39% YoY attributable to better underwriting result & better investment performance, including higher profit on sale of investments. GWP growth was strong at 54% YoY driven by government health segment; GWP growth (ex crop and govt health) was at 22% YoY vs 16% for the industry with group health segment leading the growth at +53% YoY while even motor segment saw a healthy growth of +17% YoY. While loss ratio increased to 78% vs 75.5% YoY driven by higher mix of crop and government health business and higher claims due to heavy rains & cyclone related claims, COR improved 450bps YoY to 95.3% driven by better expense ratios. BALIC continued outperforming the industry with indvl APE growth of 32% YoY vs 13% for the industry and 16% for private peers driven by strong growth in par savings (+135% YoY), protection (+76% YoY) and ULIPs (+28% YoY); while non-par savings and annuity witnessed a decline of 9.5% and 27% YoY resp. . The insurer generated net NBV of INR 2.4bn (+25% YoY) with margins of 14.6% (vs 15.2% in 2QFY23). The NBV growth was mainly driven by business growth and change in product mix. Bajaj Finance (BAF) reported a strong, all-round quarter with 30% PPOP growth (YoY), 28% PAT growth (YoY), 33% YoY AUM growth with continued stability in portfolio metrics and operating leverage. Reported NIMs moderated by 14bps QoQ primarily led by higher cost of funds and management indicated NIMs could moderate further 25-30bps given volatility in rates though the impact on RoAs could be offset by better operating leverage and lower credit costs. We expect Bajaj Finance to deliver 29% CAGR in AUM and 27.5% CAGR in earnings over FY23-25E as operating leverage sustains. We believe BJFN's current valuations offer an attractive entry point for investors to play next leg of growth in Bajaj Finance, continued improvement momentum in life insurance and a best-in-class general insurance business which is currently at a cyclical trough with respect to earnings growth. We maintain BUY with a revised target price of INR 1,860.

- BAGIC– revival in GWP growth momentum:** In 2QFY24, GWP increased 54% YoY vs 19% for the industry. The lopsided growth was on account of government health segment; GWP growth (ex crop and govt health) was at 22% YoY vs 16% for the industry. GWP growth was better than the industry in almost all segments with group health segment leading the growth at +53% YoY while even motor segment saw a healthy growth of +17% YoY. Within motor segment, 2Wheelers and 4Wheelers witnessed strong growth of 20% YoY and 17% YoY resp., while CV growth was moderate at 6% YoY. Product mix expectedly shifter in favour of government health due to lopsided growth. Ex-government health segment, group health constituted around 19% of GWP while motor segment was at 29%. Channel mix moved in favour of direct (driven by government health business), while individual agents and brokers stood at 12% and 23% resp (flat and -14pps YoY). While loss ratio increased to 78% vs 75.5% YoY driven by higher mix of crop and government health business and higher claims due to heavy



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,860
Upside/(Downside)	19.2%
Previous Price Target	1,840
Change	1.1%

Key Data – BJFN IN

Current Market Price	INR1,561
Market cap (bn)	INR2,490.7/US\$29.9
Free Float	33%
Shares in issue (mn)	1,592.8
3-mon avg daily val (mn)	INR2,541.3/US\$30.5
52-week range	1,818/1,215
Sensex/Nifty	64,113/19,141
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	1.4	15.2	-5.6
Relative*	4.1	9.8	-10.5

* To the BSE Sensex

SOTP

(INR)

	Holding (%)	Valuation	Value/share	Contribution to TP (%)
BALIC	74.0%	2.25x FY25E EV	263	14%
BAGIC	74.0%	30x FY25E EPS	251	13%
BAF	52.5%	M.cap less 10% holdco disc.	1,345	72%
Total			1,840	100%

Source: Company data, JM Financial. Note: Valuations as of 30 Oct 2023

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet

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rains & cyclone related claims, COR improved 450bps YoY to 95.3% driven by better expense ratios. Underwriting profit was at INR 0.37bn vs underwriting loss of INR 0.18bn YoY. PAT for 2QFY24 was at INR 6.26bn (+39% YoY) aided by stable investment performance and savings in total costs. Solvency ratio remained robust at 352%.

- **BALIC – APE growth driven by par savings segment:** In 2QFY24, BALIC continued outperforming the industry with indvl APE growth of 32% YoY vs 13% for the industry and 16% for private peers driven by strong growth in par savings (+135% YoY), protection (+76% YoY) and ULIPs (+28% YoY); while non-par savings and annuity witnessed a decline of 9.5% and 27% YoY resp. Consequently share of par was up 14pps YoY to 32% while protection stood at 4% (+1pps YoY). Non-par and annuity mix dropped to 24% and 5% resp. (-11pps and -4pps YoY rep). Channel wise, all channel saw secular growth with agency, banca led institutional business and direct business growing at +34% YoY, +30% YoY and +35% YoY resp. PAT for life insurance business was at INR 1.93bn mainly due to higher shareholder income and lower death claims, partially offset by higher new business strain on account of strong business growth. The insurer generated net NBV of INR 2.4bn (+25% YoY) with margins of 14.6% (vs 15.2% in 2QFY23). The NBV growth was mainly driven by business growth and change in product mix. Solvency ratio remained robust at 466%.
- **Bajaj Finance – Strong all-round show:** In 2QFY24, Bajaj Finance (BAF) reported a strong, all-round quarter with 30% PPOP growth (YoY), 28% PAT growth (YoY) with continued stability in portfolio metrics and operating leverage. AUM growth stood at 33% YoY led by growth across segments - auto finance (+63% YoY), SME (+38% YoY), mortgages (+28% YoY). However, rural B2C segment continued at a moderate pace. Reported NIMs moderated by 14bps QoQ during the quarter primarily led by higher cost of funds. Management indicated NIMs could moderate further 25-30bps given volatility in rates though the impact on RoAs could be offset by better operating leverage and lower credit costs. While acknowledging concerns on competitive intensity in unsecured loans and higher customer leverage, mgmt highlighted its own portfolio quality metrics remain significantly better than industry and they have already taken proactive measures with respect to cutting out growth in certain segments. As such, overall environment remains sanguine in the large buckets of unsecured lending market. Digital initiatives continue to scale up well with continued momentum on app installs, digital acquisition and payments is gathering further momentum. We expect Bajaj Finance to deliver 29% CAGR in AUM and 27.5% CAGR in earnings over FY23-25E as operating leverage sustains.
- **Valuation and TP:** We value Bajaj Finserv using SOTP. We assign INR 263 per share for life sub, INR 251 per share for general sub and INR 1,345 per share for Bajaj Finserv's c.53% stake in BAF (after 10% holdco discount). Using SOTP, we arrive at a TP of INR 1,860 for BJFIN.

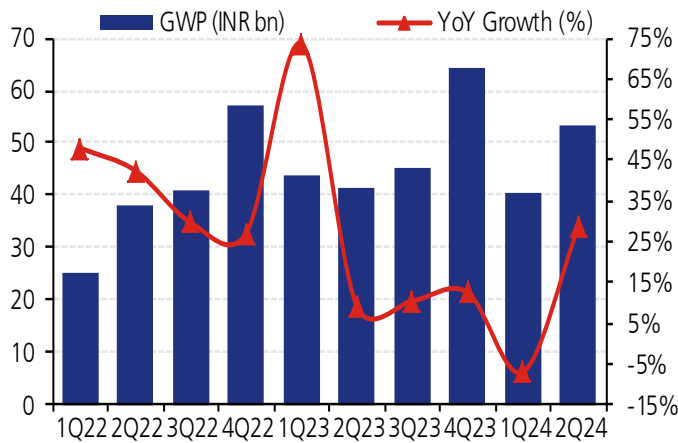
Bajaj FinServ – quarterly highlights

Exhibit 1. 2QFY24 – key financial highlights

Earnings Table (INR mn) (Consolidated)	2Q'23	1Q'24	2Q'24	YoY (%)	QoQ (%)
Total revenue	208,033	232,800	260,227	25.1%	11.8%
Profit before Interest and Tax					
General insurance	4,225	3,827	5,186	22.7%	35.5%
Life insurance	1,471	1,631	881	-40.1%	-46.0%
Investment and others	-1,764	-1,682	-2,268	NM	NM
Retail financing	38,598	47,444	49,030	27.0%	3.3%
Windmill	49	34	93	91.0%	176.3%
Total PBT	42,578	51,254	52,922	24.3%	3.3%
Tax expense	12,612	14,160	15,365	21.8%	8.5%
Reported profit	15,572	19,398	19,288	23.9%	-0.6%

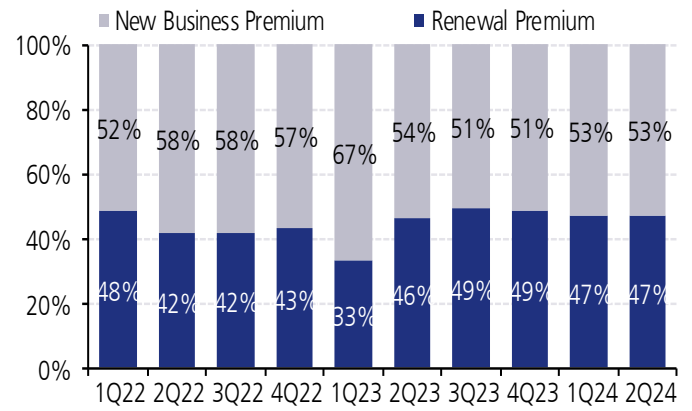
Source: Company, JM Financial

Exhibit 2. BALIC – trend in GWP (INRbn)



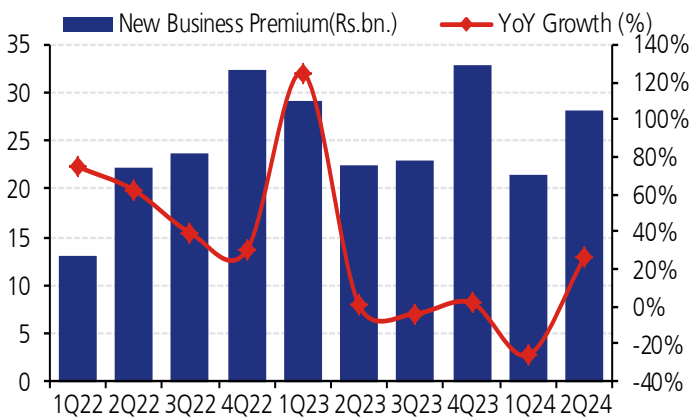
Source: Company, JM Financial

Exhibit 3. BALIC - Trend in GWP mix



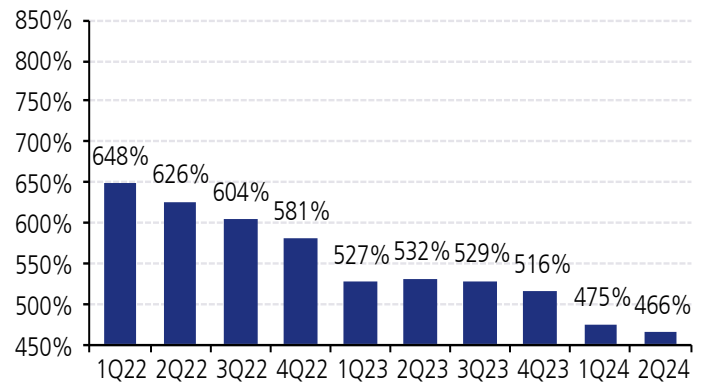
Source: Company, JM Financial

Exhibit 4. BALIC – trend in new business premium (INRbn)



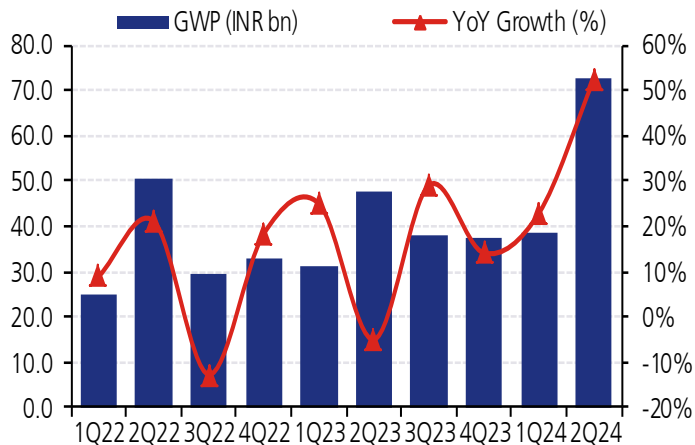
Source: Company, JM Financial

Exhibit 5. BALIC – solvency ratio



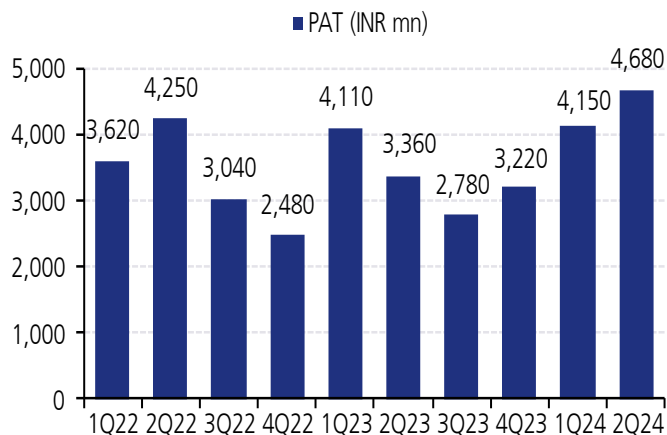
Source: Company, JM Financial

Exhibit 6. BAGIC – trend in premium (INRbn)



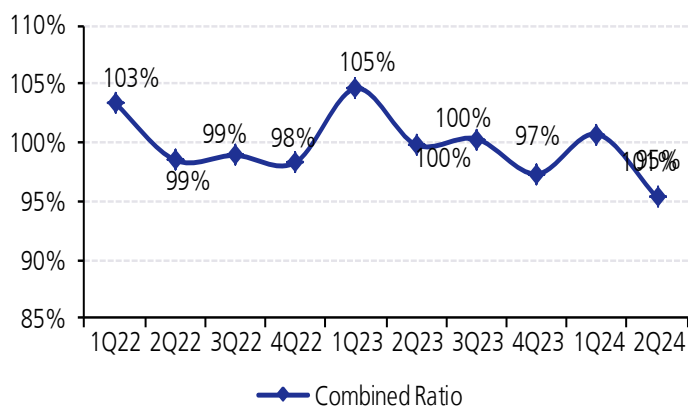
Source: Company, JM Financial

Exhibit 7. BAGIC – trend in PAT (INRmn)



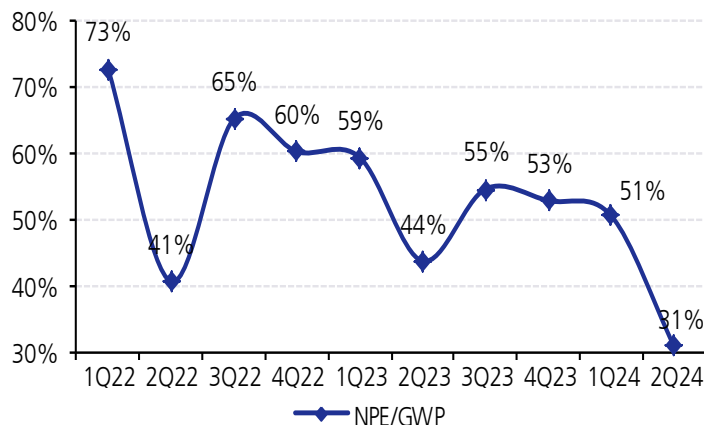
Source: Company, JM Financial

Exhibit 8. BAGIC – trend in COR



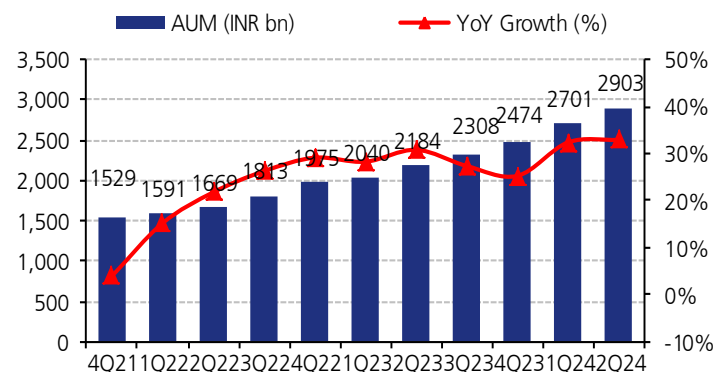
Source: Company, JM Financial

Exhibit 9. BAGIC – trend in NPE/GWP ratio



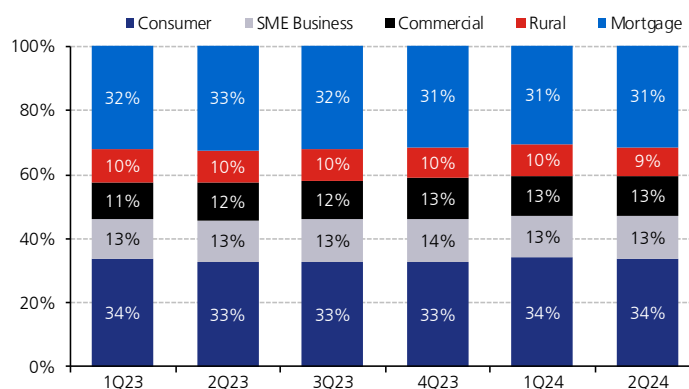
Source: Company, JM Financial

Exhibit 10. BAF – trend in AUM



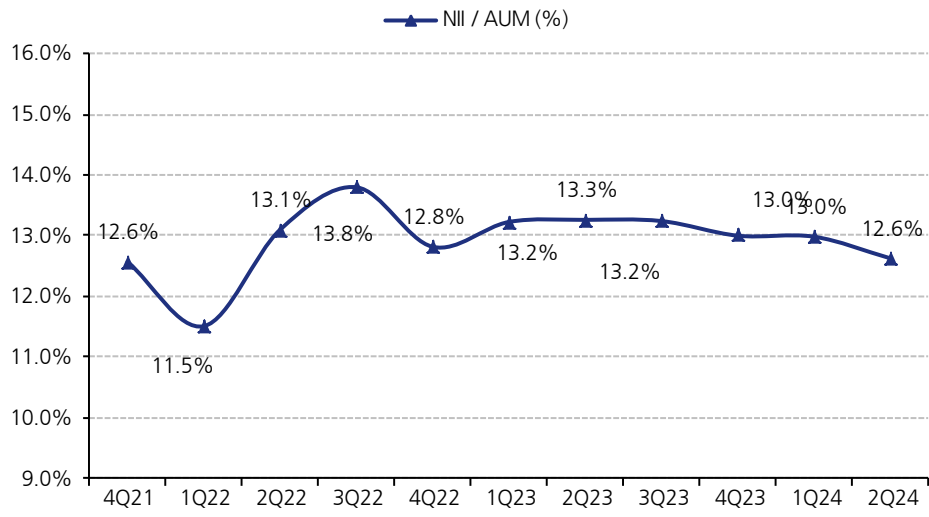
Source: Company, JM Financial

Exhibit 11. BAF – trends in AUM composition



Source: Company, JM Financial

Exhibit 12. BAF – trends in NII/AUM

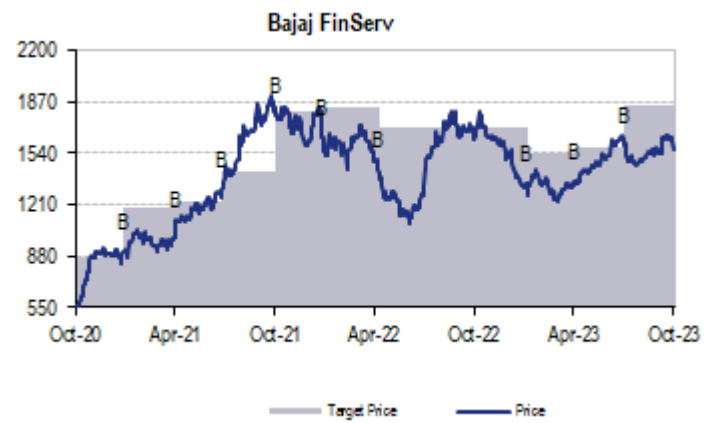


Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Jan-20	Buy	1,100	
22-May-20	Buy	587	-46.6
22-Jul-20	Buy	870	48.2
22-Sep-20	Buy	870	0.0
22-Oct-20	Buy	867	-0.3
21-Jan-21	Buy	1,185	36.7
28-Apr-21	Buy	1,233	4.1
22-Jul-21	Buy	1,415	14.8
29-Oct-21	Buy	1,800	27.2
21-Jan-22	Buy	1,835	1.9
4-May-22	Buy	1,700	-7.4
31-Jan-23	Buy	1,535	-9.7
28-Apr-23	Buy	1,575	2.6
28-Jul-23	Buy	1,840	16.8

Recommendation History



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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