Sharekhan by BNP PARIBAS

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Bajaj Finserv Ltd

Mixed bag Q2

Stock Update

Result Update

NBFC	Sharekhan code: BAJAJFINSV
Reco/View: Buy ↔	CMP: Rs. 1,707
Price Target: Rs. 2,350 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

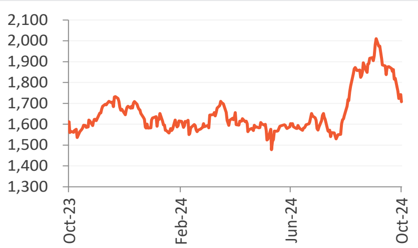
Company details

Market cap:	Rs. 2,72,566 cr
52-week high/low:	Rs. 2029/1,419
NSE volume: (No of shares)	18.5 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Free float: (No of shares)	54.3 cr

Shareholding (%)

Promoters	60.6
FII	8.2
DII	8.1
Others	23.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.5	8.6	3.1	6.0
Relative to Sensex	-4.3	11.0	-4.6	-18.5

Sharekhan Research, Bloomberg

Summary

- Bajaj Allianz Life Insurance reported strong APE growth of 40% y-o-y, at Rs. 2,268 crore however, VNB grew by just 3% y-o-y to Rs. 245 crore. VNB margins were lower at 10.8% vs 14.6% y-o-y.
- Bajaj General Insurance's GDPI fell by 20% y-o-y. Net earned premium grew 18% y-o-y. Claims ratio increased to 79.7% vs 78.0% y-o-y. Combined ratio also inched up to 101.4% vs 95.3% y-o-y. Excluding the impact of NATCAT, the combined ratio would have been at 99.7% for Q2FY2025 Underwriting loss stood at Rs. 48 crore vs Rs. 37 crore profit in Q2FY2024.
- For Bajaj Finance, overall operating performance was in line however higher credit (2.1% vs 1.9% q-o-q) was a key dampener resulting in muted earnings growth (13% y-o-y) despite strong AUM growth (29% y-o-y/ 6% q-o-q.
- We maintain a Buy with an unchanged SOTP-based PT of Rs. 2,350 factoring in the valuation of subsidiaries.

Consolidated PAT stood at Rs. 2,087 crore in Q2FY2025, up ~8% y-o-y. Q2FY25 marked a mixed performance from life insurance, General Insurance as well as lending business. Bajaj Finance's (BAF's) consolidated asset under management (AUM) stood at Rs. 3,73,924 crore, up 29% y-o-y/6% q-o-q in Q2FY25. Despite strong AUM growth, higher credit cost (2.1% vs 1.9% q-o-q) was a key dampener resulting in muted earnings growth (13% y-o-y) for the lending business. The company is cautiously optimistic on the portfolio and guided that loan losses peaked have in Q2 and are expected to decline below 2% by Q4 . It has guided for AUM growth of 27-28% in FY25, with newer businesses contributing 2-3% to this growth, while existing businesses are expected to grow at 24-25% y-o-y in FY25. Earnings growth is expected to gradually converge with asset growth led by moderation in credit costs and stability in NIMs in FY26 and outlook for H2FY25 is better than H1. For the life insurance business (BALIC), though the APE growth (~40% y-o-y) was strong but VNB margins lagged estimates. VNB grew by 3% y-o-y resulting in VNB margin at 10.8% vs 14.6% y-o-y, led by adverse product mix. For general insurance (BAGIC), earnings grew at a muted pace by 6% y-o-y led by underwriting losses, partially set off by healthy investment income (up 20% y-o-y).

Key positives

- For Life Insurance business, retail protection NBP (34% y-o-y in H1FY25) as well as group business NBP (25% y-o-y in H1FY25) grew at healthy pace.

Key negatives

- In life insurance business, VNB margins were lower by 380 bps y-o-y due to an adverse product mix.
- In general insurance business, claims ratio deteriorated led by retail health and commercial lines business.
- In lending business, credit cost was elevated leading to lower earnings growth.

Management Commentary

- In general Insurance business, GDPI is down 20% y-o-y but it is predominantly because of a large government health business which got shifted to Q3. Nevertheless, the underlying growth is significantly above market.
- Motor third-party business growth is moderating consciously due to stagnation in price hikes.
- With regards to new surrender regulation, most of the distributors have either taken a commission cut or a deferral but it would be fair to assume that VNB margins could be potentially 100-150 basis points lower y-o-y given the similar product mix.

Our Call

Valuation – Maintain Buy with an unchanged SOTP-based PT of Rs. 2,350: We believe strong growth visibility in the lending business and a healthy medium to long-term outlook for both insurance businesses will likely act as a positive trigger for strong consolidated earnings going forward. Additionally, scaling up of the new business would further support future performance, which has not been factored in our valuation. We maintain Buy on Bajaj Finserv, with an unchanged SOTP-based PT of Rs. 2,350 factoring the valuations of its key subsidiaries.

Key Risks

Deterioration in the performance of its subsidiaries may pose a risk to earnings growth and profitability.

SOTP Valuation Rs cr

Particulars	Holding	Rationale	Value per share (Rs.)
BALIC	74%	EV	302
BAGIC	74%	PAT	409
Bajaj Finance	51%	BVPS	1,902
Less: Holding Co Discount	10%		263
Total			**2,350**

Source: Company; Sharekhan estimates