

Financial Services

Company Overview

Bajaj Finserv Ltd is the holding company for the various financial services businesses under the Bajaj group. It serves millions of customers by providing solutions for asset acquisition through financing, asset protection through general insurance, family and income protection in the form of life and health insurance and retirement and savings solutions. More specifically, the areas of business are Lending and Protection and Savings. Bajaj Finserv has three key financial sector businesses: (i) lending through Bajaj Finance Ltd. (BFL), (ii) general insurance, under Bajaj Allianz General Insurance Company Ltd. (BAGIC), (iii) life insurance, under Bajaj Allianz Life Insurance Company Ltd. (BALIC)

Investment Rationale

Cost of funds are expected decrease which will aid company's profitability, going ahead

Cost of funds continued to go down for the company. The cost of funds for the firm came down from 8.49% in Q1 to 8.38% in Q2FY20. The cost of funds could fundamentally still be lower if not for the Rs.10,000 Crores of cash and cash equivalents. It does create a cost of carry, but given the environment that is probably in their internal ALCO assessment, the firm has said it is the right thing to do. Through ECB they have raised money at an attractive price (raised at 7.9%) all-in cost from a 3-year fully hedged facility standpoint. They have also taken a Board approval to go and seek approval from RBI to raise another \$ 700 million in balance half of the year, subject to RBI approval.

Diversified Liability book would reduce the dependency on a single source

Deposits book continue to grow well. Both ECB and deposits are creating significant amount of diversification on liability profile for the company. It grew 60% on a year-on-year consolidated basis; 15% of the liability profile is now retail and corporate deposits. Rs. 10,500 Crores of this is retail and Rs. 7,000 Crores is wholesale approximately. This diversified mix helps the company to be insulated from any negative effects seen in a particular segment of the total liability mix.

Life Insurance Business would enable to sustain growth

A continued momentum was witnessed in Life Insurance premium accretion. Life insurance premium grew to Rs 1837 crore, clocking a healthy growth of 35% on a YoY basis along with a build up in the group business (grew 57% to Rs 667 crore). Further, adding to the positive results was the robust growth of 29% in the renewal premium. During the quarter BALIC also signed a Corporate Agency agreement with Axis Bank Ltd as their third Life insurance partner which will help the company garner more growth in the Life Insurance business.

Valuation and Outlook

Bajaj Finserv continues to clock a robust performance with an optimistic outlook. The company has a strong leadership in the domestic market and a good presence along with strong market shares in growing business verticals. A recognizable brand name coupled with continued focus on productivity helped it to brush aside the broad based market liquidity concerns. We therefore, have a Buy Rating on the stock with a Target price of INR 10,535 implying a multiple of 29.3x on FY21E consolidated earnings and 4.9x Price to Book Value on FY21 book value.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	8,860
Target Price (INR)	10,535
NSE Symbol	BAJAJFINSV
Bloomberg	BJFIN.IN
Reuters	BJFS.BO

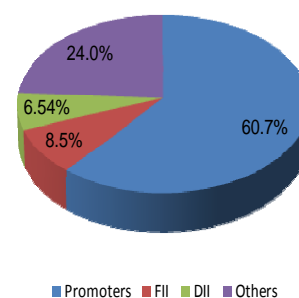
Key Data

Nifty	11921.5
52WeekH/L(INR)	9284.8/5612
O/s Shares (Mn)	159.1
Market Cap (INR bn)	1409.
Face Value (INR)	5

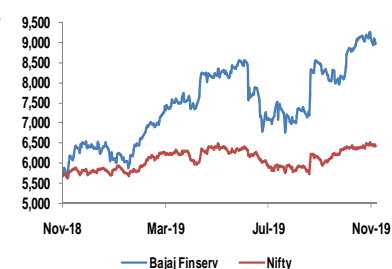
Average volume

3 months	980,540
6 months	2,015,130
1 year	4,080,600

Share Holding Pattern (%)



Relative Price Chart





Weekly Wealth

Key Financials					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Total Income	245,072	328,624	426,040	528,462	625,786
<i>Revenue Growth (Y-o-Y)</i>	19.0%	34.1%	29.6%	24.0%	18.4%
Profit Before Tax	49,245	60,987	81,547	101,320	125,440
<i>Growth (Y-o-Y)</i>	29.0%	23.8%	33.7%	24.2%	23.8%
Net Profit	22,619	26,503	32,190	45,637	57,145
<i>Net Profit Growth (Y-o-Y)</i>	21.0%	17.2%	21.5%	41.8%	25.2%
EPS	142.1	166.5	202.3	286.8	359.1
<i>Diluted EPS Growth (Y-o-Y)</i>	21.0%	17.2%	21.5%	41.8%	25.2%
Key Ratios					
ROA (%)	1.8%	1.6%	1.5%	1.4%	1.4%
RoE (%)	14.1%	13.0%	13.6%	16.1%	16.8%
BV per Share (Rs.)	1,009	1,282	1,488	1,779.	2,137
Valuation Ratios					
P/E (x)	62.7x	53.5x	44.1x	31.1x	24.8x
P/BV (x)	8.8x	7.0x	6.0x	5.0x	4.2x

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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