

Q2FY25

Bajaj Finserv Limited



Bajaj Finserv Limited.

Lending business momentum intact; insurance businesses suffer from macro headwinds

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,707	INR 1,995	16.8%	27,35,721	BUY	NBFC

Result Highlights:

- The consolidated revenues stood at INR 337,037 Mn, an increase of 29.5% YoY (+7.1% QoQ) for Q2FY25. Revenues exceeded our estimates, led by higher growth in lending income. Bajaj Finserv reported a consolidated profit of INR 20,870 Mn, a growth of 8.2% YoY (-2.4% QoQ). The cost-to-income ratio for the quarter stood at 71.6%, as against 70.4% in Q1FY25 (70.5% in Q2FY24).
- PAT includes an unrealized Mark-To-Market (MTM) loss on equity investments valued at fair value through profit and loss, amounting to INR 670 Mn for Q2FY25 and INR 510 Mn for H1FY25. This is in contrast to an MTM loss of INR 720 Mn in Q2FY24 and INR 1,020 Mn for H1FY24. Excluding the MTM impact, PAT growth for both Q2FY25 and H1FY25 was 8.0%.
- We raise our target price to INR 1,995 per share from the previous INR 1,935, considering the healthy momentum in the lending and ramp up in other businesses. We anticipate a steady improvement in the performance of the emerging businesses in the coming quarters. We maintain our "BUY" rating as the target price implies an upside of 16.8%.

MARKET DATA

Shares outs (Mn)	1,597
Mkt Cap (INR Mn)	27,35,721
52 Wk H/L (INR)	2,030/1,916
Volume Avg (3m K)	2,098
Face Value (INR)	1
Bloomberg Code	BJFIN IN

SHARE PRICE PERFORMANCE**MARKET INFO**

SENSEX	79,402
NIFTY	24,181

KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
NII	698,698	919,824	1,139,264	1,301,820	1,489,259
Operating Profit	200,409	260,005	330,094	399,315	456,808
PAT (Post Minority Interest)	64,173	81,478	92,109	121,456	138,936
EPS (INR/share)	40.3	51.1	57.7	76.1	87.0
BVPS (INR/share)	291.4	378.8	434.5	509.6	595.6

Source: Company, KRChoksey Research

Bajaj Finance (BAF) – NIMs expected to stabilize; Asset quality under pressure:

- As of September 30, 2024, Assets Under Management (AUM) grew by 28.8% YoY/ 5.6% QoQ to INR 3,739,400 Mn. The company delivered an increase of INR 197,320 Mn over Q2FY24. The new loans booked in Q2FY25 stood at 9.69 Mn as compared to 8.53 Mn in Q2FY24, a growth of 13.6% YoY (-11.7% QoQ). BAF has reported double-digit growth in its rural B2C business for the first time in several quarters, with growth projected at 12.0-14.0% for the full year FY25E. However, it is cautious about credit quality in rural markets. New business lines, such as non-Bajaj Auto two-wheeler financing, tractor financing, and gold loans, started contributing to AUM growth.
- The company expects to maintain a growth rate of 27.0-28.0% for the year, with new businesses contributing significantly.
- NIMs stood at 9.7% for the quarter (-7 bps QoQ). NIMs have stabilized at current levels between Q1FY25 and Q2FY25. The pressure on margins from the rising cost of borrowings has likely subsided. The company noted that the cost of funds likely peaked at 7.97% (an increase of 3 bps QoQ). This is expected to stabilize moving forward, supporting NIM stability.
- Gross loan losses and provisions were INR 19,340 Mn. Gross loan loss to average AUF was 2.16% in Q2FY25, which aligns with Q1FY25. Net loan losses and provisions were INR 19,090 Mn. During the quarter, the company utilized a management overlay of INR 250 Mn towards loan losses and provisions. Net loan loss to average AUF was 2.13% in Q2FY25. Net loan loss to average AUF has been projected in the corridor of 1.75%-1.85%, with improvement projected in H2FY25E. However, at this juncture, for FY25E, BAF has a marginal upward bias on this metric.

SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	60.6	60.6	60.7
FIIs	8.2	8.4	8.4
DILs	8.1	7.6	7.3
Others	23.1	23.4	23.6
Total	100	100	100

*Based on previous closing

Note: All the market data is as of previous closing

19.9%

Revenues CAGR between
FY24 and FY26E

22.1%

PAT CAGR between FY24
and FY26E

Bajaj Finserv Limited.

Bajaj Allianz Life Insurance Co. (BALIC)- Renewal segment drives premium growth; Margins continue to contract:

- The New Business Premium (NBP) for Q2FY25 stood at INR 32,020 Mn, a growth of 13.5% YoY (+26.0% QoQ), while the renewal premium segment reported an increase of 32.8% YoY (-40.8% QoQ). Gross Written Premium (GWP) registered a 22.6% YoY (-20.0% QoQ) growth to INR 65,440 Mn.
- The VNB stood at INR 2,450 Mn against INR 2,370 Mn in Q2FY24, an increase of 3.4% YoY (+135.6% QoQ). The modest YoY growth was due to a higher proportion of lower margin unit-linked business. VNB margins were 10.8% against 14.6% in Q2FY24.
- Annualized Premium Equivalent (APE) for the quarter grew 40.0% YoY (+51.0% QoQ) to INR 22,680 Mn. Shareholders' profit after tax during Q2FY25 reduced to INR 1,480 Mn as against INR 1,930 Mn in Q2FY24, primarily due to strain from new business, higher expense overruns, and changes in the product mix.
- AUM stood at INR 1,231.8 Bn, which grew by 24.8% YoY as of September 30, 2024. The solvency ratio remained strong at 378.0% as of September 30, 2024, above the minimum regulatory requirement of 150.0%.

Bajaj Allianz General Insurance (BAGIC) – Subdued performance:

- GWP decline by 19.6% YoY (+23.3% QoQ) to INR 58,710 Mn in Q2FY25 due to spillover of government health business in October-24. Negating the timing variance BAGIC would have reported a growth of ~13.0% YoY. Excluding volatile tender driven Crop & Govt. Health insurance premium, GWP grew by 10.9% as against industry growth of 4.0%.
- Commercial lines and others reported a growth of 2.9% YoY, but crop insurance saw a decline of 26.8% YoY. Motor segment continued to see subdued growth of 4.0% YoY as against industry growth of 6.0% YoY. The subdued growth was on the back of a de-focus on the CV business due to profitability concerns.
- The claim ratio was 79.7% in Q2FY24 (vs. 77.1% in Q1FY25) against 78.0% in Q2FY24. Excluding the tender-driven crop and government health businesses and NATCAT losses, the claim ratio reported a reduction of 71.5% as against 73.1% in Q2FY24. The combined ratio stood at 101.4% (vs 103.7% in Q1FY25) compared to 95.3% in Q2FY24, primarily due to a higher claim ratio. Excluding NATCAT, the combined ratio stood at 99.7%.
- PAT for Q2FY25 grew by 5.6% YoY (-14.2% QoQ) to INR 4,940 Mn, despite NATCAT events. The growth was driven by better investment performance.
- As of September 30, 2024, the AUM represented by cash and investments stood at INR 319.5 Bn, an increase of 8.3% YoY.

Update on other businesses:

- **Bajaj Finserv Health**, following the acquisition of Vidal Health, generated consolidated revenue of INR 2,330 Mn for the quarter, with integration work underway and positive signs of achieving break-even in the near future.
- **Bajaj Financial Securities** reported a revenue growth of 78.0% YoY at INR 1,210 Mn, on a low base, while the PAT growth stood at 185.0% YoY at INR 370 Mn.
- **Bajaj Finserv Direct's** revenue stood at INR 1,640 Mn. The loss for the quarter narrowed to INR 60 Mn as against INR 180 Mn a year ago.
- **Bajaj Finserv AMC's** AUM as of September 30, 2024, saw an increase of 35.2% QoQ to INR 162,940 Mn. The company launched one new fund during the quarter with AUM of INR 12,280 Mn.

Key Concall Highlights:

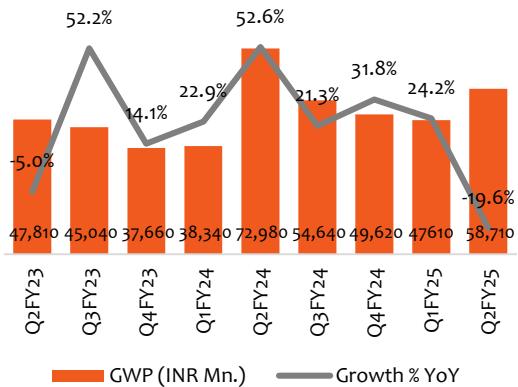
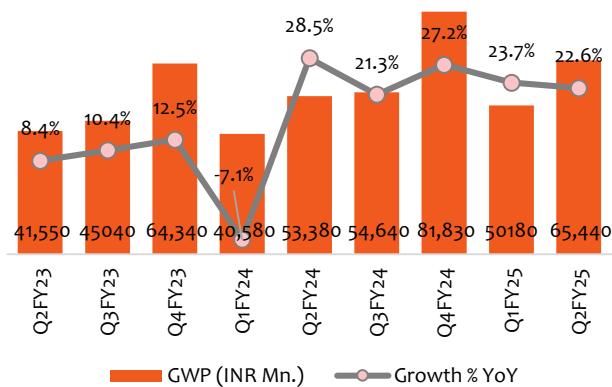
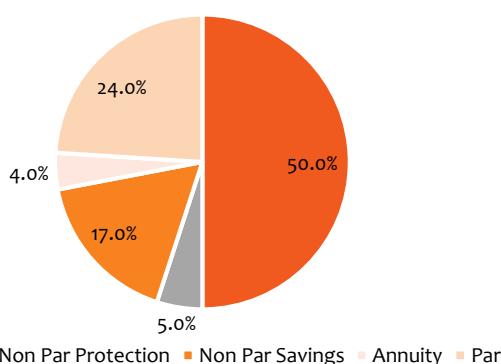
- Allianz formally informed Bajaj Finserv of its intent to exit the joint ventures. Bajaj Finserv acknowledged this and stated that discussions and procedural steps are underway, with necessary disclosures to be made in compliance with regulatory requirements.
- Bajaj Finserv reiterated that it remains committed to holding a dominant share in both BAGIC and BALIC, aiming to continue their strategic and operational stability. Bajaj Finserv holds a 74.0% stake in both ventures and will likely explore options to ensure continuity and leadership within these insurance arms.
- Bajaj Finserv Health is focused on integrating Vidal Health and further developing health-tech services, including customer-centric health benefits. Plans to break even in the next few quarters are supported by strategic healthcare initiatives and service expansion.
- BALIC reported growth in the agency and direct channels, with substantial investments in infrastructure and manpower expected to continue in the near term. The insurance margin targets remain on track, with plans to improve VNB (Value of New Business) margins through distribution expansion and efficient product mix.
- Bajaj Finserv's surplus capital stands at INR 35 Bn, with funds reserved for expansion within asset management and healthcare. Additional investment is planned for the ongoing warrants issuance.

Valuation and view: Bajaj Finserv delivered a healthy performance in Q2FY25, primarily driven by its lending business. However, its general insurance segment showed sluggish results across key financial metrics. The life insurance sector also faced margin pressures, reflecting a broader industry trend. Meanwhile, other segments like Bajaj Direct and AMC continued to grow in alignment with the company's strategic objectives. The company is well-equipped for growth in both established and emerging sectors, with ample capital reserves for potential expansions and acquisitions. BFIN remains at the forefront of market growth in its key areas by utilizing strategic diversification, broadening its insurance distribution channels, and investing heavily in technology-driven services in health and asset management. This strategy aligns with the company's long-term objectives of sustainable profitability and market dominance, particularly as it strengthens its foothold in high-potential fields like healthcare and digital financial services, thereby solidifying its position despite current market challenges. On a consolidated basis, we have factored in a revenue CAGR of 19.9% over FY24-26E and a net profit CAGR of 22.1% over the same period. We have used the SoTP approach to arrive at a target of INR 1,995 per share (earlier INR 1,935); (3.0x P/EV for BALIC on FY26E EVPS; 2.8x P/B for BAGIC on FY26E; and 4.6x P/ABV on FY26E for BAF); indicating an upside potential of 16.8% over CMP. Accordingly, we maintain our "BUY" rating on the shares of Bajaj Finserv Ltd.

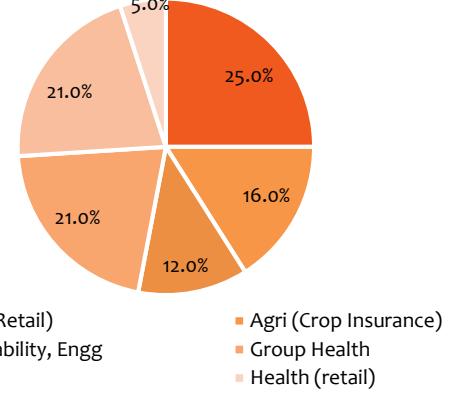
Bajaj Finserv Limited.**Result Snapshot**

Particulars (In INR Mn) Consolidated	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y	H1FY25	H1FY24	Y-o-Y
Income Statement								
Revenue from Operations	337,037	314,801	260,227	7.1%	29.5%	651,837	493,026	32.2%
Interest expense	60,456	55,920	44,491	8.1%	35.9%	116,376	84,695	37.4%
Net interest income	276,581	258,881	215,736	6.8%	28.2%	535,460	408,332	31.1%
Non-interest income	0	0	0	-	-	2	0	-
Total income	276,581	258,881	215,736	6.8%	28.2%	535,462	408,332	31.1%
Employee costs	30,085	28,944	24,463	3.9%	23.0%	59,029	48,869	20.8%
Other operating expenses	167,877	153,290	127,548	9.5%	31.6%	321,167	234,384	37.0%
Operating expenses	197,962	182,234	152,011	8.6%	30.2%	380,196	283,252	34.2%
Operating Profit	78,619	76,647	63,725	2.6%	23.4%	155,266	125,079	24.1%
Loan Losses and Provisions	18,994	16,987	10,806	11.8%	75.8%	35,981	20,934	71.9%
Share of Profit from JVs	35	24	2	43.2%	1542.9%	59	30	94.7%
Profit before tax	59,591	59,684	52,922	-0.2%	12.6%	119,344	104,175	14.6%
Tax expense	17,858	17,591	15,365	1.5%	16.2%	35,450	29,524	20.1%
Net profit	41,733	42,093	37,557	-0.9%	11.1%	83,894	74,651	12.4%
Minority Interests	20,932	20,716	18,268	1.0%	14.6%	41,648	35,936	15.9%
Profit for Shareholders	20,870	21,377	19,290	-2.4%	8.2%	42,247	38,716	9.1%
Key ratios								
Cost to income	71.6%	70.4%	70.5%	118bps	111bps	71.0%	69.4%	164bps
RoA (%)	1.4%	1.5%	1.6%	-12bps	-26bps	1.4%	1.7%	63bps

Source: Company, KRChoksey Research

BAGIC – Spillover impacts business growth (INR in Mn)**BALIC – Healthy growth in premium (INR Mn.)****BALIC- Product Mix for Q2FY25**

■ ULIP ■ Non Par Protection ■ Non Par Savings ■ Annuity ■ Par

BAGIC- Balanced Product Mix

■ Motor (Retail)
■ Agri (Crop Insurance)
■ Prop, Liability, Engg
■ Group Health
■ Health (Retail)

Source: Company, KRChoksey Research

Bajaj Finserv Limited.**Financials:****Exhibit 1: Profit & Loss Statement**

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	820,712	1,103,819	1,388,187	1,587,591	1,816,176
Finance Cost	122,014	183,995	248,923	285,771	326,917
Net Interest Income	698,698	919,824	1,139,264	1,301,820	1,489,259
Other Income	8	11	22	28	28
Operating Income	698,706	919,835	1,139,286	1,301,848	1,489,287
- Employee expense	87,672	103,610	126,775	142,886	163,458
- Other operating expense	410,625	556,220	682,416	759,647	869,021
Operating Expense	498,297	659,830	809,192	902,533	1,032,480
Operating Profit	200,409	260,005	330,094	399,315	456,808
Provisions	32,310	46,336	72,344	66,680	76,281
Share of Profits from JVs	12	81	99	120	120
PBT	168,111	213,750	257,849	332,755	380,647
Tax Expense	46,016	57,797	74,231	89,844	102,775
PAT	122,095	155,954	183,618	242,911	277,873
Minority Interests	57,923	74,476	91,510	121,456	138,936
Profit for Shareholders	64,173	81,478	92,109	121,456	138,936
Diluted EPS (INR)	40.3	51.1	57.7	76.1	87.0

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Source of Funds					
Share Capital	1,593	1,594	1,594	1,594	1,594
Reserves & Surplus	462,481	601,692	692,207	812,068	949,410
Net worth	464,073	603,286	693,801	813,662	951,005
Minority Interest	311,907	434,472	525,982	647,437	786,373
Total Equity	775,981	1,037,759	1,219,783	1,461,100	1,737,378
Borrowings	815,494	1,116,175	1,477,004	1,789,473	2,097,871
Deposits	446,656	601,509	787,736	913,773	1,059,977
Debt Securities	815,960	1,122,525	1,419,072	1,589,361	1,780,084
Insurance Contract Liabilities	941,017	1,182,801	1,447,453	1,621,148	1,815,686
Other Liabilities & Provisions	259,984	318,528	413,126	459,595	512,829
TOTAL EQUITIES AND LIABILITIES	4,055,092	5,379,296	6,764,174	7,834,448	9,003,824
Uses of Funds					
Cash & Bank Balances	53,772	123,867	135,641	152,589	168,956
Receivables + Loans/Advances	2,462,082	3,327,160	4,273,425	5,040,818	5,872,025
Net Investments	1,361,757	1,683,846	2,018,910	2,260,720	2,531,547
Deferred Tax Assets	13,419	14,640	14,640	14,640	14,640
Goodwill in Consolidation	6,893	6,893	10,515	12,198	14,149
Fixed Assets	30,666	39,652	45,351	49,070	53,235
Other Assets	126,502	183,238	265,692	304,414	349,273
TOTAL ASSETS	4,055,092	5,379,296	6,764,174	7,834,448	9,003,824

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
AUM (BAF) (%)	26.5%	34.6%	28.0%	18.0%	16.5%
Deposits (%)	50.0%	36.9%	32.3%	21.2%	17.2%
Total assets (%)	21.5%	32.7%	25.7%	15.8%	14.9%
NII (%)	18.6%	31.6%	23.9%	14.3%	14.4%
Pre-provisioning profit (%)	24.0%	29.7%	27.0%	21.0%	14.4%
PAT (%)	46.9%	27.7%	17.7%	32.3%	14.4%
B/S Ratios					
Loans/Borrowings (%)	301.9%	298.1%	289.3%	281.7%	279.9%
Advances/Total Assets	60.7%	61.9%	63.2%	64.3%	65.2%
BFL - CAR (%)	25.0%	22.5%	21.7%	20.9%	20.2%
Tier I (%)	23.2%	21.5%	20.8%	20.2%	19.6%
Bajaj Housing - CAR (%)	23.0%	21.3%	21.0%	20.5%	20.5%
Leverage - Total Assets to Equity	6.1	6.9	6.5	6.4	6.2
Operating efficiency					
Cost/Income (%)	71.3%	71.7%	71.0%	69.3%	69.3%
Opex/total assets (%)	12.3%	12.3%	12.0%	11.5%	11.5%
Opex/total interest earning assets	14.1%	14.6%	14.0%	13.0%	12.9%
Profitability					
RoA (%)	3.0%	2.9%	2.7%	3.1%	3.1%
RoE (%)	13.8%	13.5%	13.3%	14.9%	14.6%
Bajaj Finance - Asset quality					
Gross NPA (%)	0.9%	0.9%	1.0%	0.9%	0.9%
Net NPA (%)	0.3%	0.4%	0.4%	0.3%	0.2%
PCR (%)	63.8%	56.5%	60.0%	68.5%	71.5%
Credit cost (%)	1.5%	1.6%	2.0%	1.9%	1.8%
Bajaj Allianz Life Insurance					
VNB	948.1	1061.0	734.7	1013.9	1214.5
VNB Margin	15.5%	14.6%	10.0%	12.0%	12.5%
EV	17249	18584	21726	25317	28657
RoEV	14.2%	14.1%	11.2%	12.0%	12.3%
Bajaj Allianz General Insurance					
Growth in Investments	11.4%	11.7%	13.0%	13.0%	13.0%
RoE	15.2%	13.7%	13.5%	14.1%	14.3%
Per share data / Valuation					
EPS (INR)	40.3	51.1	57.7	76.1	87.0
BVPS (INR)	291	379	435	510	596
P/E (x)	31.4	32.2	27.8	21.1	18.4
P/BV (x)	4.3	4.3	3.7	3.1	2.7
Profitability					
Return on Capital	11.6%	11.5%	11.4%	12.0%	11.9%
Return on Equity	13.8%	13.5%	13.3%	14.9%	14.6%

KRChoksey Research
is also available on Bloomberg KRCS<GO>
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Bajaj Finserv Limited.

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Date	CMP (INR)	TP (INR)	Recommendation
28-Oct-24	1,707	1,995	BUY
01-Aug-24	1,652	1,935	BUY
02-May-24	1,615	1,880	BUY
01-Jan-24	1,622	1,925	BUY
01-Nov-23	1,573	1,925	BUY
03-Aug-23	1,491	1,850	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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