April 18, 2017

Rating matrix

Rating	Buy
Target	₹ 4900
Target Period	12 months
Potential Upside	12%

What's Changed?

Target	Changed from ₹ 3620 to ₹ 4900
EPS FY17E	Changed from ₹ 146.2 to ₹ 150.3
EPS FY18E	Changed from ₹ 197 to ₹ 203.2
EPS FY19E	Changed from ₹ 236.8 to ₹ 246.9
Rating	Unchanged

Key Financials

₹ Crore	FY16E	FY17E	FY18E	FY19E
Revenue	20,696.0	25,227.3	29,219.9	35,010.1
PBT	3,825.2	4,977.8	6,185.4	7,617.6
Net Profit	1,864.7	2,390.8	3,233.4	3,928.3
EPS (₹)	117.2	150.3	203.2	246.9

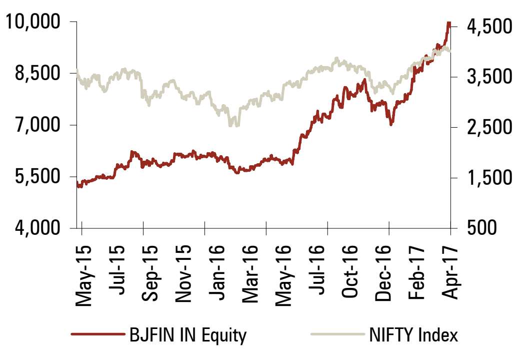
Valuation summary

	FY16E	FY17E	FY18E	FY19E
P/E	37.3	29.1	21.5	17.7
Target P/E	41.8	32.6	24.1	19.8
P/ABV	5.4	4.6	3.8	3.1
Target P/ABV	6.1	5.1	4.2	3.5
RoE	15.7	17.1	19.3	19.3
RoA	1.9	2.1	2.4	2.4

Stock data

Particular	Amount
Market Capitalization	₹ 70193 crore
Net worth	₹14499 crore
52 week H/L (₹)	4697/1725
Equity capital	₹ 80 Crore
Face value	₹ 5
DII Holding (%)	5.8
FII Holding (%)	6.1

Price chart



Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com
Vishal Narnolia
vishal.narnolia@icicisecurities.com
Vasant Lohiya
vasant.lohiya@icicisecurities.com

Bajaj Finserv (BAFINS)

₹ 4375

Healthy fundamentals; priced in....

Bajaj Finserv is a financial conglomerate that is engaged in life insurance, general insurance, consumer finance and other financial products. The company has 74% stake in two insurance companies viz. Bajaj Allianz Life Insurance Company (BALIC) and Bajaj Allianz General Insurance Company (BAGIC) and 57.3% stake in Bajaj Finance. Led by strong growth in advances, the finance business reported consistent earnings growth. In the insurance business, general insurance has been the most profitable and efficient player in industry. However, BALIC's growth has been relatively slower owing to regulatory overhang related to ULIPs. Now, it offers huge potential with guidelines in place and recent high valuation of life insurance peers at more than 3x of their embedded value.

Going ahead, we remain positive on the stock owing to 1) sustained healthy performance of Bajaj Finance 2) strong growth in general insurance business and 3) increasing traction in life insurance. Recent deals in insurance space (e.g. SBI Life 3.9% stake sale at 3x EV) warrant upgradation of valuation of life insurance business. Therefore, we have revised valuation of life insurance upwards to ₹ 33778 crore, valuing the same at 2.5x FY19E EV (embedded value). Consequently, based on SOTP valuation, we revise our target price to ₹ 4900/share (₹ 3620 earlier) for Bajaj Finserv, which implies a multiple of 19.8x on FY19E consolidated earnings. Consequently, we maintain our **BUY** rating on the stock.

Healthy growth momentum in Bajaj finance to aid earnings momentum

A distinguished business model in the consumer durables portfolio boosted the loan book, growing 30% YoY in the past five years to ₹ 44229 crore in FY16. Despite a weak economic environment, asset quality has been maintained along with sustained margin of ~10% due to higher IRR in products. PAT surged at 39% CAGR to ₹ 897 crore in FY11-16 with contribution bulging to 42% from 25% earlier. We expect healthy PAT growth of 35% CAGR in FY17-19E to ₹ 3114 crore. Accordingly, we value the finance business at ~₹ 70000 crore, based on 25x FY19E EPS.

High opportunity warrants increased valuation for insurance businesses

General insurance business remains strong generating RoE in excess of 24%, reporting underwriting profit on <100% combined ratio & extensive retail focus. Traction in retail segment coupled with premium from crop insurance scheme to keep GWP growth at ~20% in FY18-19E. Combined ratio of <100% and resultant underwriting profits to keep RoE above 20%. With higher proportion of savings anticipated to find way towards financial savings, acceleration is expected in life insurance premium at 10.5% CAGR in FY16-19E. Consequently, we upgrade Bajaj Life value at 2.5x FY19E EV at ₹ 33778 crore and raise general insurance business multiple to 20x from 16x FY19E PAT valuing the same at ₹ 22460 crore.

Exhibit 1: Valuation on SOTP basis (FY19E)

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 10% discount (₹)
Bajaj Allianz Life Insurance	2x EV	74	33778	24958	1412
Bajaj Allianz General Insurance	20x PAT	74	22460	16620	940
Bajaj Finance	22.5x EPS	57.3	77886	44613	2523
Windmill	₹6 per mw	100	397	397	25
Total					**4900**

Source: ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16E	FY17E	FY18E	FY19E
Revenue				
Life Insurance	5896	6643	7172	7949
General Insurance	5901	7435	8922	10706
Total	11796	14078	16094	18655
Less: Reinsurance ceded	1351	2374	2195	2621
Reserve for unexpired risk	348	260	268	321
Net Insurance Premium Earned	10097.2	11443.3	13630.6	15712.7
Investment and other income	2935	3592.0	2541.4	2736.1
Total Insurance Income	13032	15035.4	16172.0	18448.8
Investment and others	307	337.2	354.1	371.8
Retail financing	7382	9884.6	12715.4	16201.2
Windmill	57	68.8	79.1	91.0
Total	20778	25326.0	29320.6	35112.8
Less: Inter-segment revenue	82	98.7	100.7	102.7
Total revenue	20696	25227	29220	35010
Pre-tax profit				
General Insurance	771	1178	1366	1604
Life Insurance	983	1007	1107	1218
Total Insurance	1754	2185	2473	2822
Retail financing	1953	2730	3596	4669
Investments & others	86	24	71	74
Windmill	32	39	45	52
Total PBIT	3825	4978	6185	7618
Less: Interest	86	24	71	74
Profit before tax	3825	4978	6185	7618
Tax	-1048	-1409	-1499	-1924
Net profit before minority	2777	3568	4686	5693
Minority and deferred tax adjustments	913	1178	1453	1765
Net profit	1865	2391	3233	3928

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16E	FY17E	FY18E	FY19E
Sources of Funds				
Shareholders' Funds	1281	1517	1838	2228
- Share capital	80	80	80	80
- Reserves & Surplus	12730	15093	18299	22199
Policy liabilities	17026	19104	16327	16980
Provision for linked liabilities	21449	20332	24490	25470
Funds for future appropriation in policyholders' account	341	358	376	395
Minority interest	5174	6351	7804	9569
Loan funds	37024	49400	65396	85202
Defered tax liability (net)	11	11	11	12
Current liabilities	13603	14215	14855	15523
Provisions	195	203	211	219
Total liabilities	107632	125148	147849	175648
Applications of Funds				
Fixed assets	1443	1509	1616	1701
Goodwill on investments in associates	429	429	429	429
Investments	16623	19735	21167	23034
Policyholders' Investments	16685	18722	20703	22745
Assets held to cover linked liabilities	21449	20332	21713	23345
Deferred Tax Assets (net)	198	207	218	229
Current assets	6576	5389	4649	3217
- Receivable under financing activity	44229	58825	77354	100947
Misc Expenditure	0	0	0	0
Total Assets	107632	125148	147849	175648

Source: Company, ICICIdirect.com Research

Key Ratio				
(Year-end March)	FY16E	FY17E	FY18E	FY19E
CMP	4375.0	4375.0	4375.0	4375.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	117.2	150.3	203.2	246.9
BV	805.1	953.6	1155.0	1400.1
RoA	1.9	2.1	2.4	2.4
RoE	15.7	17.1	19.3	19.3
P/BV	5.4	4.6	3.8	3.1
P/E	37.3	29.1	21.5	17.7

(Year-end March) - Growth ratios	FY16E	FY17E	FY18E	FY19E
Gross Written Premium				
- Life	-2.0	12.7	8.0	10.8
- General	11.3	26.0	20.0	20.0
Loan book Bajaj Finance	42	33	32	31
Consol Networth	17	18	21	21
Consol Revenues	15	22	16	20
Consol PAT	10	28	35	21

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (NBFC)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY16	FY17E	FY18E	P/E (x) FY16	FY17E	FY18E	P/ABV (x) FY16	FY17E	FY18E	RoA (%) FY16	FY17E	FY18E	RoE (%) FY16	FY17E	FY18E
LIC Housing Finance (LICHF)	643	590	Hold	32,170	32.9	39.2	45.6	19.5	16.4	14.1	3.7	3.0	2.5	1.4	1.4	1.4	19.6	19.5	18.8
Reliance Capital (RELCAP)	598	540	Buy	15,590	56.9	45.3	49.5	10.6	13.3	12.2	1.1	1.0	1.0	2.4	1.6	1.5	9.8	7.0	7.2
HDFC (HDFC)	1,481	1,570	Buy	235,052	45.0	46.6	53.9	32.9	31.8	27.5	7.0	6.3	5.7	2.6	2.4	2.4	21.8	20.5	21.5
PTC India Financial Services (PTCIND)	46	42	Hold	3,070	7.0	6.1	6.0	6.5	7.5	7.6	1.7	1.3	1.2	5.0	4.0	3.0	24.7	18.8	14.7
CARE (CARE)	1,549	1,650	Buy	4,533	48.4	40.0	53.8	32.0	38.7	28.8	12.5	11.2	9.9	43.2	40.9	42.5	38.9	28.8	34.3
Bajaj Finserv (BAFINS)	4,369	4,900	Buy	71,505	117.2	150.3	203.2	37.3	29.1	21.5	5.4	4.6	3.8	1.9	2.1	2.4	15.7	17.1	19.3
Bajaj Finance (BAJAF)	1,232	1,300	Buy	69,261	24.5	33.6	43.9	50.3	36.7	28.1	8.7	7.4	5.8	3.2	3.4	3.3	20.9	22.1	23.3

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.