

Pick of the week



Bajaj Finserv Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 5000

Target Price

₹ 7150

Potential Upside

43 %

Investment Argument

- Bajaj Finserv's partnership with Axis Bank will likely provide some upside to volumes and improve operating leverage, not factored at this stage. Lower ULIPs volumes, mostly in FY21E, will likely put pressure on VNB growth for the year. However, KIE expects both life and non-life businesses to benefit from higher demand for (life and health) protection in the current environment.
- The current holding company discount of Bajaj Finance is probably at peak. The current discount appears at the highest level when compared with year end data points. This, in our view, provides two solid levers for stock price appreciation (1) reduction in holding-company discount and (2) Appreciation in stock price of Bajaj Finance.
- The uncertainty on the lockdown and ensuing collection behavior will prompt Bajaj and all lenders to slow down new loans. KIE has always liked the franchise of Bajaj Finance and management of the company though high valuations had held back from having a more aggressive stock view.
- KIE continues to remain assertive on Bajaj Finance's ability to get back on the growth track even as FY21E performance will likely remain weak. At RGM-based FV Rs2,700/share, KIE expects Bajaj Finance stock to trade at 3.6X March 2022E. Bajaj Finance remains the key value driver contributing to about 66% to Bajaj Finserv's SOTP.
- KIE values the life insurance business at 1.3X EV and general insurance business at 4x book. The life business remains relatively sub-optimal with 12-13% near-term operating RoEV as compared to 18-20% for large peers. KIE is building in 10% holding-company discount. KIE upgrades rating to BUY from ADD with the fair value of Rs.7150.