

## Sector: Banks &amp; Finance

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 4,316</b>	
Price Target: <b>Rs. 5,322</b>	↓
↑ Upgrade   ↔ No change   ↓ Downgrade	

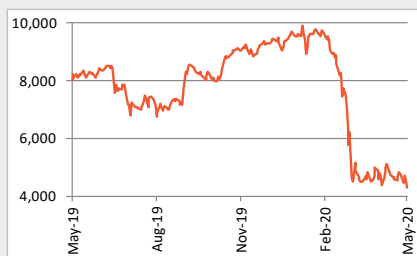
## Company details

Market cap:	Rs. 68,727 cr
52-week high/low:	Rs. 10,297/4,087
NSE volume: (No of shares)	2.6 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.2 cr

## Shareholding (%)

Promoters	60.8
FII	8.6
DII	6.2
Others	24.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	-55.6	-52.8	25.1
Relative to Sensex	-3.8	-31.5	-28.3	46.7

Sharekhan Research, Bloomberg

Bajaj Finserv (BFS; holding company) posted weak Q4FY2020 results primarily due to the lockdown (impacted revenues) and high provisions (Covid impact & MTM impact) that hit profitability of its subsidiaries. Consequently, topline growth of Bajaj Finserv lagged estimates, while MTM adjustment and contingency provisions in subsidiaries affected consolidated PAT by Rs. 807 crore. Lending subsidiary Bajaj Finance Ltd (BFL) reported mixed numbers in Q4FY20, with a spike in provisions (mainly due to COVID-19 related provisions and one-offs) that led to PAT trailing expectations. In Q4, BFL saw its provisions jump to Rs. 1,953 crore (up by 135% from Q3) mainly due to a one-time provision of Rs 1,419 crore (COVID-19 of provision Rs. 900 crore, Rs. 390 crore for two large accounts has been now written-off, and Rs 129 crore for ECL re-calibration). However, Bajaj Allianz General Insurance (BAGIC; general insurance) had a decent quarter with claims ratio reducing to 62.1% in Q4 FY20, largely due to lower crop claims and a decline in commercial activity due to the lockdown. Its combined ratio too improved to 93.8% in Q4 FY20 (from 103.9% in Q4FY19). Bajaj Allianz Life Insurance (BALIC; life insurance business) recorded a 24.8% growth in individual rated new business premium till February 2020, but ended the year with a growth of 10.6% as against the private sector insurance players' growth of 4.8% due to the lockdown impact. New business value (NBV), which measures profitability of life insurers, increased by 48% to Rs 228 crore in FY20. We believe that due to COVID-19 impact, insurers would be sensitive to bond downgrades (for corporate bonds etc), and their investment portfolios and investment earnings are vulnerable (due to market volatility). For general insurers, renewal premiums growth is expected to be weak due to cashflow issues and an overall weak sentiment. For life insurers, we expect that medium-term premium recovery and incremental sales growth may be impacted. While near term headwinds are present, the sound fundamentals of the business franchises are likely to sustain during present times as well. Bajaj Finance (BFL) is well-capitalised with a conservative leverage and both the life and general insurance businesses have healthy solvency ratios and strong operating metrics. We maintain our Buy recommendation on Bajaj Finserv with a revised SOTP-based price target of Rs. 5,322.

## Key positives

- ♦ BAGIC saw its claim ratio fall to 62.1% in Q4 FY20 (less is better), and its Combined ratio too improved to 93.8% in Q4 FY20 (was 103.9% in Q4 FY19)
- ♦ For Bajaj Finance, its stable asset quality with Gross Stage 3 (GS3) at 1.61%, with Coverage ratio of 60% which is significant given the present business scenario.

## Key negatives

- ♦ The insurance subsidiaries have chosen to hold equity securities as "Fair Value through Profit and Loss Account" (as per Ind-AS norms) and therefore, BALIC and BAGIC had an unrealised mark-to-market (MTM) pre-tax loss of Rs. 768 crore in consolidated financials.
- ♦ The life insurance industry also recorded a steep fall in new business in the month of March as a substantial amount of business seasonally is written in the last few days of March.

## Our Call

**Valuation** - Bajaj Finserv has witnessed consistent performance from its lending business and we expect its strong business model to be able to withstand near term challenges. While the COVID-19 has had an unprecedented impact and course correction across industries, we believe that India's structural long-term growth potential for the insurance business continues. All three of Bajaj Finserv's businesses are strong franchises in their respective fields and are well-poised to deliver sustainable profitability going forward. We believe that the weakness in the stock may be an opportunity for investors to add it to their long-term portfolio. We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 5322.

## Key Risks

Slowdown in consumer finance growth and worsening of economic parameters may pose challenges.

## SOTP Valuation

Particulars	Holding	Value per share	Rationale
Life Insurance	74.0%	1,675	2x FY22E EV
General Insurance	74.0%	1,192	20x FY22E PAT
Bajaj Finance	52.8%	3,786	4.5x FY22E BVPS
Less: Holding Co Discount	20%	1,331	
<b>Total</b>		<b>5,322</b>	

Source: Company; Sharekhan estimates

## Key Concall Highlights

- ♦ **COVID-19 response and strategy:** Bajaj Finserv took steps to continue business and will look to increase its digital usage. BAGIC issued over 1.4 million policies, settled over 700,000 claims between March 24 and April 20, 2020. BALIC issued 24,000 policies and of these, 15,000 were issued in April. BALIC also on-boarded 8,000 sales-persons online, of which around 3,500 were on-boarded in April indicating fairly unimpaired business flow. The situation on ground is still evolving and Bajaj Finserv will aim for profitability over growth, conserve cash, borrow for long term, strengthen collections and reduce overheads etc.
- ♦ **MTM Impact:** Under the IND-AS accounting system, insurers had to see an MTM loss of Rs. 768 crore. BFL had kept a contingency provision of Rs. 900 crore for COVID-19.
- ♦ **BAGIC Outlook:** Outlook is subdued for the motor insurance, travel and credit segments. Health insurance will gain. BAGIC was successful in retaining bancassurance relation with all merging PSU banks and has gained ~10k branches. Motor insurance business may see higher repair costs, etc once lockdown lifts. Customers may also postpone corrective surgeries, etc which may later prove costly.
- ♦ **BALIC Outlook:** Retail customers are cautious and looking to conserve cash that may affect new business premium, also due to compulsory medicals, life products are seeing lesser demand. BALIC will focus on diversification, controlling costs and multi-channel model.
- ♦ **Crop Insurance:** Crop insurance is a seasonal segment and Bajaj Finserv has taken appropriate stances on that at different times. In 2020, there is a higher share of Kharif crop and less of Rabi. Lower claims ratio has driven up underwriting profit for BAGIC.
- ♦ **BALIC:** The life insurance business saw a decline as the last few days of the March month are critical for Insurance sales. New Business Value NBV including all cost overruns increased by 47% y-o-y. The bancassurance channel was impacted by banks seeing disruption in their operations by the lockdown.
- ♦ **BAGIC underwriting strength:** The Company doesn't expect very significant impact of impairment. Underwriting (indicated by the Reserving triangle) of BAGIC continues to be reasonably conservative. BAGIC has expanded its rural footprint of late. Going forward, it expects smaller segments and two-wheeler business to re-start soon.
- ♦ **EV movement and breakup:** Investment variance had three subsections - 1) one-off cases with provisions for impairment of corporate bond worth Rs. 122 crore, equity market MTM and debt MTM gains. However, the biggest impact was from 1-year forward yield curve movement that saw an impact of Rs 265 crore. This can reverse later depending on yield curve movement. Among operating variance sub-sections, since the company updated its assumptions (based on experience) on mortality and persistency etc hence it resulted in a release Rs 31 crores, but updated lapse assumption changes resulted in charge of Rs. 13 crore (negative). Also, the registered extra claims of Rs. 113 crore in the group health insurance business led to a net impact of Rs. 94 crores On the Operating impact.
- ♦ **Growth in health insurance business:** In April, queries on health insurance increased to some extent for BAGIC.
- ♦ **Reserving triangle of BAGIC:** Due to conservative underwriting, the reserving triangle is showing a trend of release of Rs 500 crores per year, which going forward too the company expects to continue. Released reserve is a good indicator of being adequately reserved and conservativeness of the company.
- ♦ **BALIC's Non-PAR:** Strong growth seen from the Non-PAR business. Given declining interest rates and credit risks, the business approach has been to hold high quality bonds at year beginning of year, which though makes credit risk well under control, but is less margin accretive. Going ahead, BALIC will try to bring down the share of the PAR business, by growing proportion of term plans.
- ♦ **Assumption change variance:** There was a impact of the mortality and lapse change to the tune of Rs. 24 crore.

- ♦ **BAGIC combined ratio:** Q4 looks good mainly due to the absence of major calamities such as floods. The current trend indicates that hospitals are running at 30% occupancy, indicating that people are holding back treatments. This may increase risks as a later surgery/treatment may entail higher costs. Also COVID 19 trend can also have impact on the combined ratio. A greater number of commercial vehicles and personal vehicles on road may also increase loss ratio.
- ♦ **Decline in investment yield:** BAGIC depends on underwriting strengths; underwriting discipline, etc will help offset the impact of volatility on Investment yields. The focus for the company is on profitability over growth.
- ♦ **BALIC - new business margins:** The company has not given guidance, but focus will be on VNB and it have various levers like persistency, product mix (ULIP dependence coming down; focusing on up-selling to existing client), Distribution mix (agency is now only 56% and other three channels are going strong) to achieve it. Bancassurance channel is working well, have tie up with PSU as well as private banks etc. ULIP can move to online which will have lower costs. Along with cost control, change in customer behavior once the lockdown opens.
- ♦ **Persistency assumption for VNB:** The persistency assumption varies across products, and is not disclosed by the company. However, Co is confident of maintaining the VNB trajectory.
- ♦ **Advance premium for general insurance business:** For motor insurance, the figure is at Rs. 760 crore and the others are at Rs. 260 crores, leading to a total of Rs. 1,020 crore.
- ♦ **New business streams:** BALIC expects growth to come from Non-PAR, protection business, etc.
- ♦ **Life insurance distribution:** Agency distribution share was at 56% (was 70% in Q4 FY19), online distribution was 11% (from 9% a year ago) and bancassurance share stood at 21% (from 11% in Q4FY19). The rest (14%) was contributed by its own sales force.
- ♦ **Growth in BALIC:** BALIC lacks a strong bancassurance channel. Last two years, BALIC has been able to outperform the market, on NBV and margins. The company is trying to reduce dependence on distribution, customer segment, etc. It will focus on low fixed cost and high variable. Going forward, under normal cases, BALIC expects to outperform industry growth once situation stabilises.
- ♦ **Credit life insurance:** Over the years, the company has been pricing this product close to mortality rates, but last year it introduced a more dynamic pricing model. It re-priced the reserving increases and passed on to customers.

## Bajaj Finserv Results (Consolidated)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Income from operations	13,294.3	12,994.1	2.3	14,558.9	-8.7
Other income	0.0	0.4	-100.0	1.8	-100.0
<b>Total Income from operations</b>	<b>13,294.3</b>	<b>12,994.5</b>	<b>2.3</b>	<b>14,560.7</b>	<b>-8.7</b>
<b>Expenses</b>	<b>12,502.5</b>	<b>10,865.4</b>	<b>15.1</b>	<b>11,933.8</b>	<b>4.8</b>
Employee Expenses	1,117.8	1,044.6	7.0	1,293.3	-13.6
Finance Costs	2,552.3	1,883.7	35.5	2,419.4	5.5
Fees and commission expense	673.1	501.6	34.2	557.3	20.8
Claims paid	4,038.8	3,141.6	28.6	3,198.4	26.3
Reinsurance ceded	915.5	1,172.1	-21.9	1,163.5	-21.3
Net Change in Insurance / Investmetn Liabilities	167.7	1,692.7	-90.1	1,378.3	-87.8
Depreciation & Amtzn.	127.1	71.2	78.6	116.2	9.4
Other Expenses	930.3	896.4	3.8	978.4	-4.9
Provisions	1,979.9	461.6	328.9	828.9	138.9
<b>Profit before tax</b>	<b>791.8</b>	<b>2,129.1</b>	<b>-62.8</b>	<b>2,627.0</b>	<b>-69.9</b>
Share in PAT of invst in associates	1.1	1.0	18.9	0.2	494.7
Tax	252.8	696.1	-63.7	649.1	-61.1
<b>PAT</b>	<b>540.1</b>	<b>1,433.9</b>	<b>-62.3</b>	<b>1,978.1</b>	<b>-72.7</b>

Source: Company; Sharekhan Research

## Bajaj Finance Ltd. (BFL) Consolidated

Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Interest Income & Fees	7226.6	5307.7	36.2	7011.1	3.1
Interest and Other Charges	2547.4	1913.2	33.2	2489.0	2.3
<b>Net Interest Income</b>	<b>4679.2</b>	<b>3394.5</b>	<b>37.8</b>	<b>4522.0</b>	<b>3.5</b>
<b>Other Income</b>	<b>4.3</b>	<b>0.8</b>	<b>424.7</b>	<b>14.9</b>	<b>-71.4</b>
<b>Total Operating Income</b>	<b>4683.4</b>	<b>3395.3</b>	<b>37.9</b>	<b>4536.9</b>	<b>3.2</b>
Employee Expense	618.1	531.8	16.2	722.1	-14.4
Depreciation & Amortisation Expenses	85.3	40.8	109.0	75.6	12.8
Other Expenses	748.1	601.8	24.3	738.4	1.3
<b>PPoP</b>	<b>3231.9</b>	<b>2220.9</b>	<b>45.5</b>	<b>3000.8</b>	<b>7.7</b>
Provisions and Loan losses	1953.8	409.3	377.4	830.8	135.2
<b>PBT</b>	<b>1278.2</b>	<b>1811.6</b>	<b>-29.4</b>	<b>2170.1</b>	<b>-41.1</b>
Tax Expense	330.1	635.6	-48.1	556.0	-40.6
<b>Profit After Tax</b>	<b>948.1</b>	<b>1176.1</b>	<b>-19.4</b>	<b>1614.1</b>	<b>-41.3</b>

Source: Company; Sharekhan Research

## Bajaj Allianz General Insurance

Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Gross Written Premium	2,655.0	3,402.0	-22.0	3,055.0	-13.1
Net Earned Premium	1,972.0	1,917.0	2.9	2,156.0	-8.5
Underwriting Result	159.0	-146.0	NA	-87.0	NA
Investment & other Income	255.0	268.0	-4.9	359.0	-29.0
Profit before tax	414.0	122.0	239.3	272.0	52.2
<b>Profit after tax</b>	<b>304.0</b>	<b>83.0</b>	<b>266.3</b>	<b>191.0</b>	<b>59.2</b>

Source: Company; Sharekhan Research

## Bajaj Allianz Life Insurance

Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Gross written premium	3,129.0	3,290.0	-4.9	2,552.0	22.6
New business premium	1,519.0	1,818.0	-16.4	1,411.0	7.7
Renewal premium	1,610.0	1,472.0	9.4	1,141.0	41.1
Shareholders Profit	27.0	81.0	-66.7	133.0	-79.7
Transfer from policyholder account	11.0	31.0	-64.5	10.0	10.0
<b>Profit / ( Loss ) after tax</b>	<b>38.0</b>	<b>112.0</b>	<b>-66.1</b>	<b>143.0</b>	<b>-73.4</b>

Source: Company; Sharekhan Research

## Outlook

With the impact of lockdown impact still unfolding, and much uncertainty the commentary from market players indicates risk to livelihoods and economic hardships in coming months. Initial signs indicate the pandemic may result in higher delinquencies and lower credit off take for NBFC players, including Bajaj Finserv's (BFS) lending subsidiary, Bajaj Finance Limited (BFL). Though the RBI and Govt has provided relief measures, we believe risks to portfolios like unsecured loans, SME etc segment has risen sharply. We have revised our estimates (factoring in growth adjustments and higher provisions burden) and target multiples (in light of dynamic business environment). We believe that Insurance companies are sensitive to bond downgrades (for corporate bonds etc), and if market volatility persists, then their investment portfolios and investment earnings may be impacted as well. For the general insurance business, the impact on renewal premiums growth is expected to be more pronounced in light of cashflow issues and an overall weak sentiment. For the Life Insurance business, we expect the medium term premium recovery and incremental sales growth to be impacted. While near term headwinds persist, the sound fundamentals of the business franchises are likely to sustain during these tough times.

## Valuation

Bajaj Finserv has witnessed consistent performance from its lending business and we expect its strong business model to be able to withstand near term challenges. While the COVID-19 has had an unprecedented impact and course correction across industries, we believe that India's structural long-term growth potential for the insurance business continues. All three of Bajaj Finserv's businesses are strong franchises in their respective fields and are well-poised to deliver sustainable profitability going forward. We believe that the weakness in the stock may be an opportunity for investors to add it to their long-term portfolio. We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 5322.

## About company

Bajaj Finserv (BFS) is a diversified financial services group with a pan-India presence in life insurance, general insurance, and lending. It is the holding company for Bajaj Finance Ltd (BFL) and BFS' shareholding in BFL (Bajaj Finance Ltd.) was 54.81%. It also holds 74% each in Bajaj Allianz General Insurance (BAGIC, 2nd largest private general insurer in India as of FY19 in terms of Gross Premium) and Bajaj Allianz Life Insurance (BALIC, is among top 5 Pvt sector Life insurers in India on new business in FY19).

## Investment theme

Bajaj Finserv is a financial conglomerate having presence in the financing business (vehicle finance, consumer finance and distribution) via Bajaj Finance (BFL) and is among the top players in the life insurance (BALIC) and general insurance (BAGIC) segments. We expect BFL to maintain its loan book trajectory in the long term as and when business environment normalises. Near term challenges are mostly related to disruption of normal business due to the lockdown which have impacted medium term business of subsidiaries. However, for BAGIC and BALIC, we find their healthy operating metrics and profitability positive. The insurance arms are focusing on strengthening distribution channel and profitability and are likely to emerge as attractive businesses over time.

## Additional Data

### Key management personnel

Mr. Sanjiv Bajaj	Managing Director & CEO
S Sreenivasan	CFO
V. Rajagopalan	President - Legal
Mr. Ganesh Mohan	Group Head – Strategy
Mr. Ajay Sathe	Head – Group Risk Management
Rajeev Jain	Managing Director – Bajaj Finance Limited

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jamnalal Sons Pvt Ltd	9.6
2	Jaya Hind Industries Ltd	3.85
3	Maharashtra Scooters Ltd	2.34
4	Life Insurance Corp of India	2.16
5	Bajaj Sevashram Pvt Ltd	1.48
6	Bachhraj & Co Pvt Ltd	1.24
7	NIRAJ BAJAJ	1.15
8	BlackRock Inc	1.01
9	Axis Asset Management Co Ltd	0.92
10	Vanguard Group Inc	0.87

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

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 SHAREKHAN 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.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.