

One offs impact earnings; uncertain outlook...

Bajaj Finserv reported a steep fall in earnings due to lower premium accretion coupled with surge in Covid related contingent provision & MTM losses on equity investment.

Consolidated topline was flat at 2% YoY to ₹ 13294 crore, primarily led by slower traction in premium accretion in insurance business that was offset by healthy traction in lending business. Bajaj Finance, lending arm, made a contingent provision of ₹ 900 crore amid Covid-19, while insurance business took a MTM hit of ₹ 768 crore on equity investment, led by steep decline in value of equity market. This has led to a 63% YoY decline in PBT to ₹ 793 crore. Resultantly, consolidated PAT came at ₹ 194 crore, down 77% YoY. Excluding the provision for Covid-19, PAT would have been ₹ 1000 crore.

In general insurance, gross written premium (GWP) accretion declined 22% YoY to ₹ 2655 crore, primarily led by lower crop insurance business. GWP, excluding crop insurance, declined ~4% YoY to ₹ 2414 crore. Claim ratio came lower at 62.1% vs. 75.5% in Q4FY19, largely due to lower crop claims. Accordingly, combined ratio improved to 93.8% in Q4FY20 vs 103.9% in Q4FY19. Thus, underwriting profit jumped to ₹ 159 crore. Investment income remained healthy at ₹ 255 crore. In Q4FY20, BAGIC recognized ₹ 53 crore of impairment related to stressed bonds (total provision in FY20 at ₹ 129 crore). Earnings came higher on YoY and QoQ basis to ₹ 304 crore.

Life insurance premium growth declined 5% YoY to ₹ 3129 crore. New Business Premium (NBP) growth declined 16% YoY to ₹1519 crore, partially due to lock down. Rated individual business declined 12% YoY, while group premium rose 20% YoY. Renewal premium also remained subpar at 9% YoY to ₹ 1610 crore. PAT came lower at ₹ 38 crore; down ~66% YoY, owing to higher group claims. Focus on protection and individual non-par led to ~300 bps YoY improvement in VNB margin to ~10%. Higher investment variance led to 4% YoY growth in embedded value to ₹13,438 crore. In Q4FY20, BALIC recognized impairment of ₹ 224 crore related to stressed exposures. AUM declined QoQ to ₹ 56805 crore, led by decline in equity markets.

Valuation & Outlook

Strategy to focus on selective pocket for growth, increase efficiency and improve collection bodes well in the changed environment. However, increase in bounce rate and substantial customers opting for moratorium induces concern on repayment trend ahead. In insurance, pent up demand exists especially for term and health products, though lockdown in the start is seen to impact business growth as well as profitability in FY21E. Management's focus to remain profitable on underwriting basis rather than investment income provides confidence. Factoring the changed scenario, we cut our earnings estimates by ~18% for FY22E. Lower growth & higher uncertainty on asset quality warrant being cautious in near term till clarity on lockdown and moratorium behaviour emerges. Hence, we downgrade the stock to **HOLD** with revised target price of ₹ 4800/share, based on SOTP valuation, implying a multiple of ~16x on FY22E consolidated earnings.



Particulars

Particular	Amount
Market Capitalization	₹68726 crore
Net worth	₹31222 crore
52 week H/L (₹)	10297/4087
Equity capital	₹80 Crore
Face value	₹5
DII Holding (%)	6.2
FII Holding (%)	8.6

Key Highlights

- Provision of ₹ 900 crore and MTM loss of ₹ 786 crore impacted consolidated earnings
- Cautious outlook on lending business from asset quality amid Covid and lockdown
- Business growth in insurance to remain slower; focus on profitability bodes well
- Downgrade from BUY to HOLD with revised target of ₹ 4800

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Key Financial Summary

₹crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Revenue	32,457.4	42,608.2	54,351.5	53,934.2	62,147.1	13%
PBT	6,057.3	8,069.5	8,300.2	8,876.5	10,805.3	10%
PAT	2608.8	3133.5	3367.7	4042.1	4891.9	16%
EPS (₹)	164.0	196.9	211.6	254.0	307.4	
BV (₹)	1302.1	1497.3	1967.1	2219.3	2525.0	
P/E	26.3	21.9	20.4	17.0	14.0	
P/BV	3.3	2.9	2.2	1.9	1.7	
RoA	1.8	1.6	1.4	1.3	1.3	
RoE	14.3	14.1	12.2	12.1	13.0	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
General Insurance	2655.5	3572.4	3,402.3	-22.0	3,055.0	-13.1	Premium accretion declined 22% YoY on the back of lower crop insurance business
Life Insurance	3128.3	3454.4	3,289.9	-4.9	2,552	22.6	New business premium growth slumped 5% YoY due to decline in individual premium amid lockdown
Net premium earned	5783.8	7026.8	6,692.2	-13.6	5,606.9	3.2	
Investment and other incor	274.6	2013.4	1,839	-85.1	2,126	-87.1	
Reinsurance Ceded	206.5	421.6	424	-51.3	344	-40.0	
Reserve for unexpired risk	-214.4	200.0	326	-165.8	-243	-11.8	
Total Insurance	6066.3	8418.6	7,782.0	-22.0	7,631.7	-20.5	
Retail financing	7228.9	5778.2	5,269	37.2	7,026	2.9	Continued healthy growth in AUM supported finance segment
Windmill	7.1	16.5	15.7	-54.7	11.8	-39.5	
Investment and others	381.4	60.0	51	641.4	60	530.5	
Total	13294.3	14100.0	12,995	2.3	14,561	-8.7	
Interest and Finance Charg	2552.3	664.6	1,883.7	35.5	2,419.4	5.5	
Other Exp	9949.0	11438.9	8,980.7	10.8	9,514.2	4.6	
Total Expenses	12501.4	12103.5	10,864.5	15.1	11,933.6	4.8	
PBT	792.9	1996.5	2,130.1	-62.8	2,627.2	-69.8	
PAT	194.4	855.3	838.7	-76.8	1,125.6	-82.7	Provision of ₹ 900 crore related to Covid and ₹ 786 crore of MTM loss on investment in insurance impacted earnings

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Total Income	64,432.6	53,934.2	-16.3	78051.0	62,147.1	-20.4
PBT	12,417.1	8,876.5	-28.5	15,219.9	10,805.3	-29.0
PAT	5,291.1	4,042.1	-23.6	6,850.7	4,891.9	-28.6
ABV (₹)	2,074.7	2,219.3	7.0	2,503.5	2,525.0	0.9

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	FY19	FY20	Current		Earlier	
			FY21E	FY22E	FY21E	FY22E
Commercial Finance growth	37.9	37.1	1.7	22.2	30.0	30.0
Life Ins Premium growth (%)	16.9	10.1	-2.9	15.6	14.2	13.8
General Ins GWP growth (%)	17.0	11.0	10.0	22.0	24.0	22.0

Source: Company, ICICI Direct Research

Outlook and valuation

Given Bajaj's strong leadership in the domestic market and presence in growing business verticals, we expect the entity to continue its focus on improvement in earnings growth and sustenance of a healthy balance sheet.

We factor in healthy growth in premiums and AUM, along with rising overruns in life insurance and opex in finance. Going ahead, we expect consolidated revenue, PAT to grow at a CAGR of 22.5%, ~36.2% to ₹ 78353 crore, ₹ 7924 crore, respectively, in FY19-22E.

Bajaj Finserv continued to deliver robust performance with assertive outlook. Continued focus on productivity enable to tide over general slowdown witnessed recently. We remain positive on insurance business led by strong growth and focus on productivity in GI business, though quarterly hiccups are anticipated. Benefit of reduction in tax rate is seen to prop earnings in commercial finance and general insurance business. Focus on home finance segment is seen to keep growth momentum in commercial finance business abreast, margin are anticipated to moderate given low yield in home finance. Rolling over to FY22E, we revise our target price to ₹ 10300 per share, based on SOTP valuation, implying a multiple of 21x on FY22E consolidated earnings. Maintain Hold recommendation on the stock.

Exhibit 4: SOTP Valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 20% discount (₹)
Bajaj Allianz Life Insurance	1.2 FY 22E EV	74	18097	13372	672
Bajaj Allianz General Insur:	15x PAT	74	27122	20206	1016
Bajaj Finance	6x FY 22E BVPS	54.8	120000	65772	3104
Windmill	₹ per mw	100	260	143	8
Total					4800

Source: Company, ICICI Direct Research

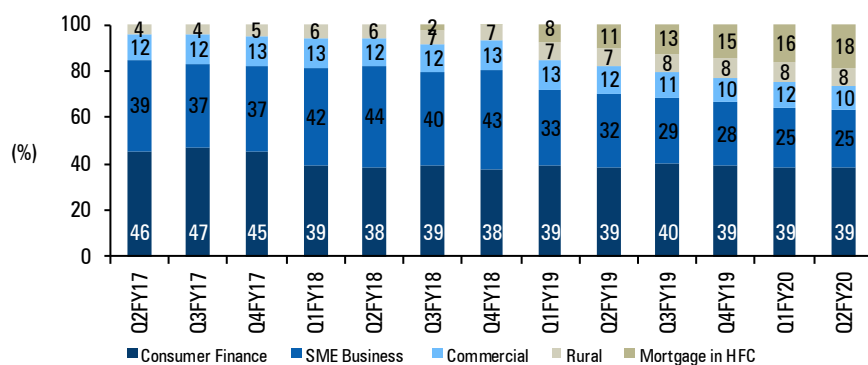
Story in Charts

Exhibit 5: Consolidated Profit Summary

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
General Insurance	1973	2857	1892	2764	2429	2718	2547	3402	2843	4279	3055	2655
Life Insurance	1154	2016	1739	2670	1361	2083	2123	3290	1837	2236	2552	3128
Total Insurance	4709	5207	4628	5590	4862	5404	6179	7782	6537	7905	7632	6066
Investments & others	16	131	17	16	18	337	54	51	52	410	60	381
Windmill	15	23	18	17	16	29	10	16	8	12	12	7
Retail financing	2834	3066	3374	3483	3941	4296	4995	5269	5808	6323	7026	7229
Less: Inter-segment revenue	38	161	32	49	67	367	96	123	133	426	169	389
Total revenue	7536	8266	8005	9057	8771	9698	11142	12995	12272	14224	14561	13294
Interest and Finance Charges	1050	1109	1168	1209	1334	1540	1782	1884	2054	2313	2419	2552
Other Exp	5227	5574	5128	6302	5447	6348	7136	8981	7963	9285	9514	9949
Total Expenses	6277	6682	6296	7511	6781	7888	8918	10864	10017	11598	11934	12501
PBT	1259	1584	1709	1546	1990	1810	2224	2130	2255	2626	2627	793
PAT	584	698	730	637	826	704	851	839	845	1204	1126	194

Source: Company, ICICI Direct Research

Exhibit 6: Higher traction in home finance to continue ahead



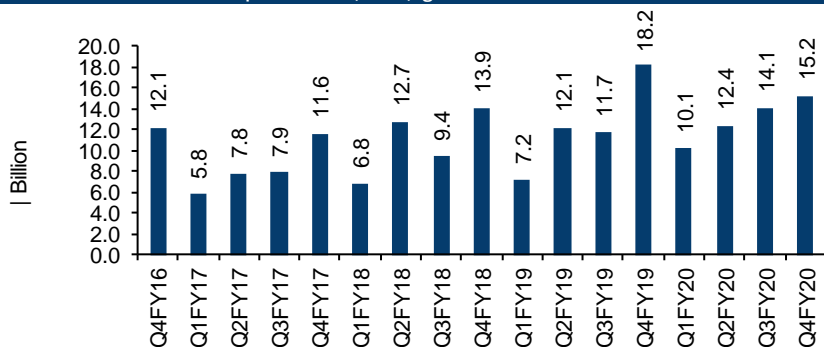
Source: Company, ICICI Direct Research

Exhibit 7: Strong AUM traction boost performance

₹ crore	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	2192	2261	2573	2708	3201	3395	3688	3999	4537	4679
Total	2195	2265	2578	2708	3203	3395	3695	3999	4537	4683
Total expens	853	894	954	959	1119	1174	1293	1382	1536	1452
Provision	278	227	327	315	454	409	551	594	831	1954
PBT	1064	1144	1297	1435	1630	1812	1851	2022	2170	1278
Loan	76384	78852	93314	100217	109930	115889	128898	135533	145020	147153

Source: Company, ICICI Direct Research

Exhibit 8: Life insurance premium (NBP) growth for Q4FY20



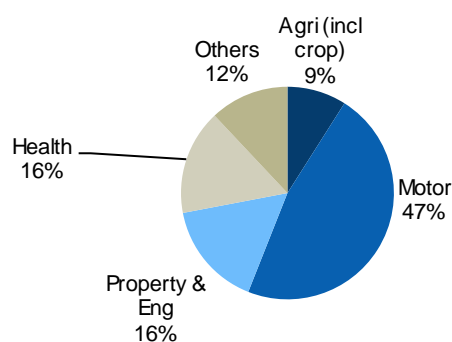
Source: Company, ICICI Direct Research

Exhibit 9: Pickup in life business to continue ahead

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Total premium	2670	1361	2083	2123	3290	1837	2235	2552	3129
New business premium	1394	721	1213	1171	1818	1014	1235	1411	1519
Renewal premium	1276	640	870	952	1472	823	1000	1141	1610
Policyholder profits	64	21	18	35	31	-30	-1	10	11
Shareholder profits*	107	125	114	77	81	92	207	133	27
Total profits	171	146	132	112	112	62	206	143	38
Solvency ratio (%)	592	770	749	767	804	790	770	770	745

Source: Company, ICICI Direct Research

Exhibit 10: Bajaj Allianz business mix in Q4FY20



Source: Company, ICICI Direct Research

Exhibit 11: Improved claim ratio due to lower crop claims amid lockdown

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Gross Premium	3402	2843	4279	3055	2655
Net Earned Premium	1917	1946	2131	2156	1972
Underwriting profit	-146	9	-91	-87	159
Investment income	268	310	462	359	255
PBT	122	319	371	272	414
PAT	83	210	294	191	304
Claim Ratio (%)	76	73	75	73	62
Combined Ratio (%)	104	103	103	104	94

Source: Company, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	58.4	60.7	60.7	60.7	60.8
FII	8.3	8.9	8.5	8.7	8.6
DII	6.5	6.3	6.7	6.6	6.2
Others	26.8	24.1	24.1	24.0	24.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Revenue				
Life Insurance	8856	9753	9471	10949
General Insurance	11100	12320	13553	16534
Total	19956	22073	23023	27484
Less: Reinsurance ceded				
Reserve for unexpired ris	111	-1417	-271	-331
Net Insurance Premium Earned	17566	21349	19310	22966
Investment and other income	6660	6791	7887	8300
Total Insurance Income	24226	28140	27197	31266
Investment and others	459	904	949	1044
Retail financing	18502	26386	26976	31146
Windmill	76	39	41	43
Total	43262	55469	55164	63499
Less: Inter-segment revenue	654	1118	1229	1352
Total revenue	42608	54351	53934	62147
Pre-tax profit				
General Insurance	1254	1033	1450	1820
Life Insurance	772	39	774	851
Total Insurance	2026	1072	2224	2671
Retail financing	6180	7442	6822	8322
Investments & others	-157	-234	-190	-209
Windmill	20	20	21	21
Total PBIT	8070	8300	8877	10805
Less: Interest	-157	-234	-190	-209
Profit before tax	8070	8300	8877	10805
Tax	-2781	-2308	-2025	-2514
Net profit before minority	5288	5992	6851	8291
Minority and deferred tax adjust	2155	2624	2809	3399
Net profit	3134	3368	4042	4892

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratio				
(Year-end March)	FY19	FY20	FY21E	FY22E
CMP	4318.0	4318.0	4318.0	4318.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	196.9	211.6	254.0	307.4
BV	1497.3	1967.1	2219.3	2525.0
RoA	1.6	1.4	1.3	1.3
RoE	14.1	12.2	12.1	13.0
P/BV	2.9	2.2	1.9	1.7
P/E	21.9	20.4	17.0	14.0
(Year-end March) - Growth ratio				
Gross Written Premium				
- Life	16.9	10.1	-2.9	15.6
- General	17	11	10	22
Loan book Bajaj Finance	38	37	2	22
Consol Networth	15	31	13	14
Consol Revenues	31	28	-1	15
Consol PAT	20	7	20	21
Consol Effective Tax rate	34	28	23	23

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Shareholders' Funds	2382	3130	3531	4018
- Share capital	80	80	80	80
- Reserves & Surplus	23745	31220	35234	40099
Policy liabilities	36582	58779	52375	61259
Loan funds	101588	122465	144514	176307
Defered tax liability (net)	7	80	82	83
Current liabilities	22801	75071	71317	67751
Provisions	944	176	183	190
Total liabilities	222820	251384	358788	409643
Applications of Funds				
Fixed assets	1763	1615	1961	2010
Goodwill on investments in ass	689	689	689	689
Investments	33710	27714	62869	77141
Policyholders' Investments	58784	64108	65201	67443
Deferred Tax Assets (net)	462	885	930	976
Current assets	14899	2123	70210	69662
- Receivable under financing a	112513	154250	156928	191722
Misc Expenditure	0	0	0	0
Total Assets	222820	251384	358788	409643

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP (₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
HDFC (HDFC)	1,515	2,000	Buy	2,62,674	108.3	69.5	72.7	14.0	21.8	20.8	3.4	3.2	3.1	3.8	2.2	2.0	26.8	15.2	15.1
Mahindra & Mahindra Financial	129	190	Hold	7,883	20.6	25.9	35.2	6.3	5.0	3.7	1.1	1.0	0.8	1.6	1.7	2.2	11.0	12.3	14.4
Bajaj Finserv (BAFINS)	4,318	4,800	Hold	68,726	211.6	254.0	307.4	20.4	17.0	14.0	2.2	1.9	1.7	1.4	1.3	1.3	12.2	12.1	13.0
Bajaj Finance (BAJFI)	1,900	2,000	Hold	1,14,077	87.7	84.7	103.3	21.7	22.4	18.4	3.6	3.3	3.0	3.7	2.9	3.0	20.2	14.7	15.6
SBI Life Insurance (SBILIF)	734	800	Buy	73,026	14.2	13.5	16.0	51.6	54.2	46.0	2.8	2.4	2.1	0.9	0.7	0.7	16.8	14.2	14.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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