

## Sector: Banks &amp; Finance

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 6,390</b>	
Price Target: <b>Rs. 7,500</b>	↑

↑ Upgrade ↔ No change ↓ Downgrade

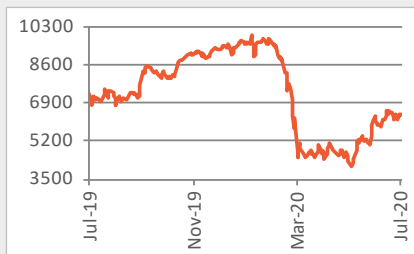
## Company details

Market cap:	Rs. 1,01,689 cr
52-week high/low:	Rs. 10,297/3,985
NSE volume: (No of shares)	8.4 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.2 cr

## Shareholding (%)

Promoters	60.8
FII	8.0
DII	5.9
Others	25.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	45.6	-33.7	-9.6
Relative to Sensex	-3.7	23.8	-25.3	-10.3

Sharekhan Research, Bloomberg

Bajaj Finserv (BFS; holding company) saw consolidated net profit in Q1FY21 rise by 43.7% to Rs. 1,215 crore, while revenue increased by 15.6% y-o-y to Rs. 14,190 crore, which were better than expectations, mainly on the back of strong earnings from its insurance subsidiaries. The lending subsidiary Bajaj Finance Ltd (BFL) reported mixed numbers for Q1FY20, with tepid business growth, but a q-o-q improvement in asset quality and a decline in moratorium share to 15.7% of AUM from 27%, was a positive. Assets under management (AUM) stood at Rs. 138,055 crore, down 6% q-o-q due to steps like more stringent loan-to-value (LTV) ratios, tightened credit filters, etc. which indicated a cautious outlook on growth by the management. However, growth guidance moderated by 10-12% and a higher credit cost guidance of 100-110 bps (against ~80-100 bps earlier) for FY21 were key notables. We believe that given BFL's strong balance sheet, its business strengths, the company can structurally deliver >20% RoE in a normalized steady state basis.

Bajaj Allianz Life Insurance (BALIC; life insurance business) posted a PAT of Rs. 1,300 crore, up 111% y-o-y, even as its GWP stood at Rs 16997 crore, down by 7% y-o-y. Also, as expected the total APE for Q1 FY21 decreased by 7% y-o-y (better than ~19% y-o-y de-growth for the industry). Notably, BALIC saw its individual rated premium steady y-o-y at Rs. 331 crore, and it outperformed the industry and private peers which had declined by 18% and 23% y-o-y respectively. Renewal premiums saw a healthy growth of 16% y-o-y. Despite challenges, persistency was steady within a reasonable range, which indicates the strong client servicing capability of the company. The non-life Insurance subsidiary BAGIC posted a PAT of Rs 3949 crore, up by 88% y-o-y, even as its gross written premium (GWP) at Rs 22,891 crore, fell by 19% y-o-y. The insurer posted a strong underwriting profit of ~Rs. 180 crore in Q1FY21 (was Rs 9 crore in Q1 FY20) driven by a lower claim ratio (68% in Q1 FY21; against 73% in Q1 FY20 ;) and better cost discipline. A lower claim ratio was seen in motor, crop and health segments, which partly were benefitted by the pandemic. While near-term headwinds are present, sound fundamentals of the business franchises are likely to sustain during present times as well. Bajaj Finance (BFL) is well capitalized 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. 7,500.

## Key positives

- Strong capital metrics across all subsidiaries, with BAGIC's solvency ratio robust at 280% and BALIC Solvency ratio stood at a healthy 760%, with BFL Tier-1 capital at 22.56%
- Insurance arms had an unrealised mark-to-market (MTM) pre-tax gain of Rs. 556 crore in Q1 FY21, while in Q4 of FY20, there was a MTM loss of Rs. 768 crore.
- Bajaj Finance saw moratorium share fall to 15.7% of AUM from 27% which is a positive.

## Key negatives

- Bajaj Finance had a consolidated liquidity buffer of Rs 20,590 crore and SLR investments of Rs. 2,550 crore which is ~19.2% of its total borrowings. Given the environment, the high liquidity buffer though is desirable, we believe will act as a drag on margins for the near term.
- BFL's growth guidance was moderated by 10-12% and credit cost guidance was raised by 100-110 bps (against ~80-100 bps earlier) for FY21 were key notables.

## 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, which shows signs of faster revert to normalization aided by operational tweaks and agility in technology adoption. 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 given BFL's strong balance sheet, and its business strengths, the company is structurally an over 20% ROE business franchise in a normalised steady state basis and continues to be attractive value contributor. We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 7,500.

## Key Risks

Slowdown in consumer finance growth and worsening of economic parameters.

## Valuation

SOTP Valuation Table	Holding	Value per share	Rationale
Life Insurance	74.0%	1,332	1.7x FY22E EV
General Insurance	74.0%	1,148	20x FY22E PAT
Bajaj Finance	52.8%	7,539	4.7x FY22E BVPS
Less: Holding Co Discount	25%	2,519	
<b>Total</b>		<b>7,500</b>	

Source: Company; Sharekhan estimates

## Key Concall Highlights

**Update on performance:** The quarter was the first full quarter where much of the business was impacted by lockdowns. Although an easing was announced in May, metros continued to face challenges.

**BAGIC update:** Motor vehicle sales were impacted across all segments. Hence, BAGIC and general insurance industry suffered a decline in the largest line of business. There was reinsurance rate increase, but BAGIC won several corporate accounts and there was improvement in volume and pricing.

**BALIC update:** Significant de-growth across the industry, led by ULIPs. As risk environment deteriorates, customers prefer guaranteed products and Protection plans. However, due to low fixed deposit rates, traditional life products are more attractive. BALIC had changed its product mix two years back and reduced dependence on ULIPs, which has balanced the mix. Launch of upgraded term product in early Q4FY20 is helping find traction in retail term life insurance market.

**Digital Capabilities:** BALIC and BAGIC have strong digital capabilities.

- ♦ **BAGIC digital update:** BAGIC's app "caringly yours" was upgraded further. Currently, there are 250,000 active users during quarter. Digital adoption rose during lockdown, with 85% digital policy issuance, 80% digital servicing and 95% tele medicine examination. Approximately, 50% of motor claims and 55% of health claims are being reported digitally.
- ♦ **BALIC digital update:** BALIC issued over 90,000 policies of which term constituted 37% of the total policies. Around 70% of renewal was done digitally.

**Rise in manpower:** BALIC recruited 1,071 agents and BAGIC hired 2,027 agents during the quarter.

**MTM gains on equity book:** Equity instruments held by BAGIC and BALIC were required to be classified as Fair Value through Profit & Loss. During Q1, consolidated PAT had a positive impact of Rs 330 crore.

**3-5 year outlook for BALIC:** Three-years ago, BALIC started on 1) APE growth, 2) Persistency 3) focus on NBV rather than NBM. The same focus continues, along with a sustainable product mix. BALIC have a large swathe of regional as well as national banks. Market is very volatile and pricing and discounting are changing. Persistency want to be in 80% level (13th month), retail APE will be most important focus within which the channel mix and product mix.

**More diversified distribution mix:** In last few years, the Agency channel contribution to overall business has decreased from 90% to ~40% now due to more diversification. Banks, brokers, etc are now ~45%. The agency model is a high fixed cost model and hence bancassurance, etc channels are more cost effective.

**Insurance product mix is now more balanced:** Product mix now more balanced, and will look to maintain the mix. The Non-PAR term, Non PAR guarantee, Health, etc, are new focus areas.

**BAGIC Outlook:** Customer has now more awareness in Health, and going forward BAGIC shift expected to move to more of Protection and combining distribution with right servicing, etc which will help growth. Strong underwriting and good investment team to cushion volatilities. Via virtual offices and banks, the reach has been deeper. Claim settlement is very smooth and strong point of BAGIC.

**On Disclosing VNB more frequently:** Presently VNB margins and EV per quarter is not disclosed as Q1 is generally a weak quarter, but company may disclose the numbers on a semi-annual basis.

**Risks due to COVID-19:** BAGIC / BALIC can face increasingly higher COVID-19 as well as non-COVID-19 claims. Due to COVID-19, claims have largely moved up. Right now no interest paid on claims since the courts are now working smoothly. Except Motor, OD will also go up, along with higher health claims, etc. The company has considered the same and is prepared.

**Protection:** BALIC had pricing advantage in Q1 as the re-pricing came in fag end of the quarter for the Life Insurance. Don't expect 17% growth to sustain. So there may be a market share reduction.

**Impact of COVID-19:** The diversified nature of the business geography-wise as well as product wise will help manage impact. Also, hospitals are reporting reduced occupancies so that also balances out. COVID-19 deaths have been 9 so far resulting in financial impact of <Rs 50 lakhs. Uncertainty on claims is high. The company expects there may be some interest impact on claims going forward too. Also, Auto garages and Hospitals who have been impacted by COVID-19 will charge higher claims.

**Non PAR guaranteed products:** Non PAR guaranteed of Retail portfolio is Rs. 3,000 crore and two-thirds of this was written ~10 yrs back which is rising.

**General Insurance:** Impact of Rs 40 crore due to Amphan and Nisarg, net of re-insurance.

**Results (Consolidated)**

	Rs cr				
Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	QoQ (%)
Income from operations	14,190.1	12,271.7	15.6	13,294.3	6.7
Other income	2.0	0.6	236.7	0.0	-
<b>Total Income from operations</b>	<b>14,192.1</b>	<b>12,272.3</b>	<b>15.6</b>	<b>13,294.3</b>	<b>6.8</b>
<b>Expenses</b>	<b>11,623.7</b>	<b>10,017.1</b>	<b>16.0</b>	<b>12,502.5</b>	<b>-7.0</b>
Employee Expenses	993.6	1,142.5	-13.0	1,117.8	-11.1
Finance Costs	2,395.2	2,053.6	16.6	2,552.3	-6.2
Fees and commission expense	441.2	466.5	-5.4	673.1	-34.4
Claims paid	2,105.8	2,309.4	-8.8	4,038.8	-47.9
Reinsurance ceded	773.0	843.0	-8.3	915.5	-15.6
Net Change in Insurance / Investment Liabilities	2,457.4	1,455.3	68.9	167.7	1,365.3
Depreciation & Amtzn.	125.4	97.5	28.6	127.1	-1.3
Other Expenses	650.3	897.4	-27.5	930.3	-30.1
Provisions	1,681.8	751.9	123.7	1,979.9	-15.1
<b>Profit before tax</b>	<b>2,568.4</b>	<b>2,255.2</b>	<b>13.9</b>	<b>791.8</b>	<b>224.4</b>
Share in PAT of investments in associates	-0.3	0.0	NM	1.1	NM
Tax	645.9	801.0	-19.4	252.8	155.5
PAT	1,922.3	1,454.1	32.2	540.1	255.9

Source: Company; Sharekhan Research

**Bajaj Allianz Life Insurance**

	Rs cr				
Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	QoQ (%)
Gross written premium	1,700.0	1,837.0	-7.5	3,129.0	-45.7
New business premium	742.0	1,014.0	-26.8	1,519.0	-51.2
Renewal premium	958.0	823.0	16.4	1,610.0	-40.5
Shareholders Profit	182.0	92.0	97.8	27.0	574.1
Transfer from policyholder account	-52.0	-30.0	73.3	11.0	-572.7
Profit / ( Loss ) for the year	130.0	62.0	109.7	38.0	242.1
AUM	322.2	57,859.6	-99.4	616.5	-47.7

Source: Company; Sharekhan Research

**Bajaj Allianz General Insurance**

	Rs cr				
Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	QoQ (%)
Gross Written Premium	2,289.0	2,843.0	-19.5	2,655.0	-13.8
Net Earned Premium	1,818.0	1,946.0	-6.6	1,972.0	-7.8
Investment and other Income	352.0	310.0	13.5	255.0	38.0
Profit before tax	527.0	319.0	65.2	414.0	27.3
Profit after tax	395.0	210.0	88.1	304.0	29.9

Source: Company; Sharekhan Research

**Bajaj Finance Ltd**

	Rs cr				
Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	QoQ (%)
Total income	6,650.0	5,808.0	14.5	7,231.0	-8.0
Interest and finance charges	2,498.0	2,113.0	18.2	2,547.0	-1.9
Net interest income	4,152.0	3,695.0	12.4	4,684.0	-11.4
Expenses	1,156.0	1,293.0	-10.6	1,452.0	-20.4
Impairment on Financial Assets	1,686.0	551.0	206.0	1,954.0	-13.7
Profit before tax	1,310.0	1,851.0	-29.2	1,278.0	2.5
Profit after tax	962.0	1,195.0	-19.5	948.0	1.5
AUM	1,38,055	1,28,898	7.1	1,47,153	-6.2

Source: Company; Sharekhan Research

## Outlook

With the lockdown's impact still unfolding, uncertainty regarding the risk to livelihoods and economic hardships in coming months. We believe that the uncertainty may impact spending behaviour and affect collections which may prompt BFL to slow down loan disbursements. That said, BFL stands out with its strong balance sheet, comfortable liquidity, high credit ratings and well-matched asset-liability management position. It is also well-capitalised as well and has a strong provision buffer that will help it cushion impact on its balance sheet and profitability significantly extent. BFL has modularity built across various cost items, including salary costs, which will provide BFL a reasonable control over costs. 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. Even though Insurance business topline for Q1 was impacted due to the lockdown (as expected), pickup on month-on-month basis in premiums is encouraging, reflecting a rapid normalisation aided by operational tweaks and agility in technology adoption. All subsidiaries are well-capitalised with strong operating metrics which will enable them withstand near-term challenges. 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, which shows signs of faster revert to normalization aided by operational tweaks and agility in technology adoption. 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 given BFL's strong balance sheet, and its business strengths, the company is structurally an over 20% ROE business franchise in a normalised steady state basis and continues to be attractive value contributor. We maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 7,500.

### 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, amounts top 5 private general insurer in India in terms of Gross Premium) and Bajaj Allianz Life Insurance (BALIC, is among top 5 Pvt sector Life insurers in India on new business basis).

### 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.

### Key Risks

Slowdown in consumer finance growth and worsening of economic parameters.

### 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	3.9
3	Maharashtra Scooters Ltd	2.3
4	Life Insurance Corp of India	2.2
5	Bajaj Sevashram Pvt Ltd	1.5
6	Bachhraj & Co Pvt Ltd	1.3
7	NIRAJ BAJAJ	1.2
8	Axis Asset Management Co Ltd	1.0
9	SBI Fund Management Pvt Ltd	0.9
10	Vanguard Group Inc	0.9

Source: Bloomberg

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