

Bajaj Finserv Ltd.



Bajaj Finserv Ltd.

Insurance business witness traction, NBFC muted

CMP INR 5,832	Target INR 8,203	Potential Upside 40%	Market Cap (INR Cr) INR 92,824	Recommendation BUY	Sector Diversified NBFC
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Result Highlights:

- Revenue from operations rose by ~6%YoY/ QoQ at INR 15,050 Cr. The insurance businesses grew 20% YoY, but the revenues at the NBFC were muted.
- Provision fell marginally by 1% QoQ to INR 1,660 Cr.
- PAT were lower by 18% YoY/QoQ as costs savings accrued.
- PAT for BALIC grew 13% YoY even as gross written premium degrew 3% YoY on account of cost saving, some of them structural.
- PAT for BAGIC fell 53% Y-o-Y to INR 977 Mn on account of higher new business strain and lower capital gains even as there are structural savings in costs.
- PAT/PPOP and NII did not grow on a sequential basis.

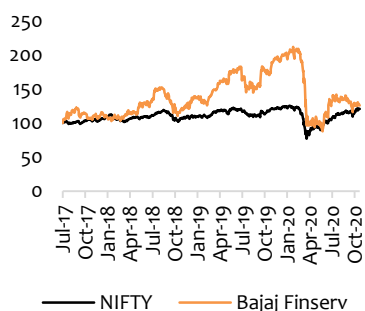
MARKET DATA

Shares outs (Cr)	16
Equity Cap (INR Cr)	54,699
Mkt Cap (INR Cr)	92,824
52 Wk H/L (INR)	10,297/3,986
Volume Avg (3m K)	628
Face Value (INR)	5
Bloomberg Code	BJFIN IN

KEY FINANCIALS

Particulars (INR Cr.)	FY18	FY19	FY20	FY21E	FY22E
NII	28,331	36,064	45,008	49,394	58,941
Operating Profit	7,132	9,842	12,421	11,361	12,290
PAT (Post Minority Interest)	2,650	3,219	3,369	2,861	3,653
EPS (INR/share)	166.5	202.3	211.7	179.8	229.5
BVPS (INR/share)	1,287	1,492	1,967	2,142	2,366
Advances Growth	34.7%	42.2%	25.6%	10.6%	25.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Consumer finance arm - Bajaj Finance (BFL) reported no sequential growth in performance

PAT/PPOP and NII did not grow on a sequential basis. AUM fell marginally sequentially and were up 1% YoY as the new loans booked were 3.62 million as against 6.47 million in Q2 FY20. The provisions were almost at the same level as the last quarter at INR 1,700 Cr, higher by 0.9% QoQ despite the unlock and improvement in business activity. The asset quality remained stable with GNPA at ~1.34%, down 30bps QoQ. This is excluding the Supreme Court's (SC) standstill. With the order under consideration, reported GNPA were 1.03% and NNPA at 0.37% with PCR at 64%. However the provisions for stage 1 and stage 2 stood at INR 1,370 Cr, lower by merely 4% QoQ. The AUM grew 1% YoY, with only commercial loans growing 18% QoQ as consumer B2C degrew 6.5% QoQ/B2C by 3% QoQ/rural lending by 2% QoQ and mortgages and SME remaining the same as last quarter. The management has reduced its guidance for AUM growth from 10% to 6-7% for FY21 and 25% for FY22. We have reduced the advance growth estimate. We expect the AUM to remain at FY20 levels from the earlier estimate of 10% in FY21.

Bajaj Allianz Life Insurance Co. (BALIC) - Non-Par and new partnerships grow :

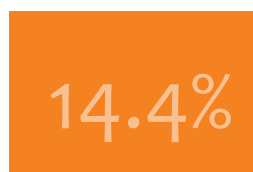
Individual Rated premium grew 19% YoY in Q2FY21 versus no material growth in the industry even as the private sector degrew 3% Y-o-Y. Preference for guaranteed products remains high but demand for protection is abating and ULIPs remain muted. Group protection remained weak as disbursement by financial institutions are yet to witness a material rise. It has commenced business partnerships with Karur Vysya Bank and IDFC first bank. This partnership have been delivering well with institutional business growing 82% in individual nonrated business. BALIC regular ticket size decreased by 13%.

MARKET INFO

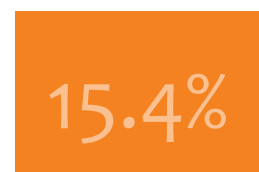
SENSEX	40,685
NIFTY	11,925

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	60.80	60.80	60.80
FIIIs	7.11	7.98	8.62
DIIIs	7.61	6.54	6.24
Others	24.48	24.68	24.34
Total	100.00	100.00	100.00



NII CAGR between FY20 and FY22E



Revenue CAGR between FY20 and FY22E

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Profit after tax fell 53% Y-o-Y to INR 98 Cr. on account of higher new business strain and lower capital gains even as there are structural savings in costs. Net New Business Value increased by 103% to INR 61 Cr in H1FY21.

Bajaj Allianz General Insurance (BAGIC) - Good retail health business but muted motor and group health:

GWP de-grew by 3 % YoY, driven by motor and group health as the industry grew 3% YoY and private players grew 5% YoY. CVs segment degrew 35% YoY as it has grown in its focused compact PV and not in fast growing commercial passenger segment. 2W degrew 29% YoY on a high base. Retail health insurance grew 39% YoY growth, but it lagged in group health where it has consciously stayed away. Combined ratio improved by 530 bps to 97.4% on account of lower claims and expenses. About half the savings in expenses is structural on account of branch closure and IT spends that is likely to improve productivity. Claim are lower but is likely to be transient and it has built reserves for the same. The health claims are likely to increase as non-Covid hospitalisation increase even as Covid claims are likely to be higher and TP motor claims are yet to be settled. Profit after tax increased by 13% YoY to INR 332 Cr.

Key Concall Highlights:

- i. Growth in compact PV is a positive. But the degrowth is in high end cars and it has stayed away from commercial passenger vehicles where the pricing is unfavourable.
- ii. Retail health is strong but there is high pricing competition and higher loss ratio in group health.
- iii. Fire is driven by the industry growth, but the rate increases are for more riskier segments and not for the profitable ones.
- iv. Provisioning for crop in Q2 is a conservative approach as claims come in Q3.
- v. In terms of reserves, the claims from non-Covid is likely to increase as hospitalisation increases for non Covid. There are signs already that the claims for non Covid are growing now even as Covid claims have grown exponentially. Within motor, own damage claims have fallen but they are likely to increase. And in case of TP settlement, it will be higher when courts settle it with interest.
- vi. Share of Covid claims is 4% in line with its market share in health
- vii. Some expense saving is structural. Even before Covid, it had initiated the IT initiative to improve productivity. Incrementally, it may not add employee in proportion to growth. Half the cost saving is structural. 17-18% saving in wage bills. It has also closed branches.
- viii. Guaranteed products are hedged fully now, and it plans to maintain 100% hedge
- ix. Pocket insurance is a good product for customer acquisition and allow incremental sum assured but is high frequency and high claim product with small share of premium. Focus is to graduate customers to other products
- x. Negative growth for ULIP, demand is likely to be positive for guaranteed and protection products. Group protection has done well but is still dependent on disbursement by banks and NBFCs. Protection fell slightly in Q2 as mortality rates fell.

Valuation and view:

The insurance subsidiaries are likely to outperform the NBFC in the year. Both the insurance subsidiaries are likely to witness improved operations as business momentum improve in key segments. The industry has been witnessing a shift in consumer behavior which is likely to sustain in the near term. The share of health, protection, Non-par savings are attractive versus ULIPs, even as other segments resume momentum, each segment independently sensitive to the economy and businesses at varying degree. While some costs savings are structural, loss ratio and reserves have increased on account of higher than normal claims in health and life. Claims in other segments are likely to rise in H2FY21 which had earlier abated.

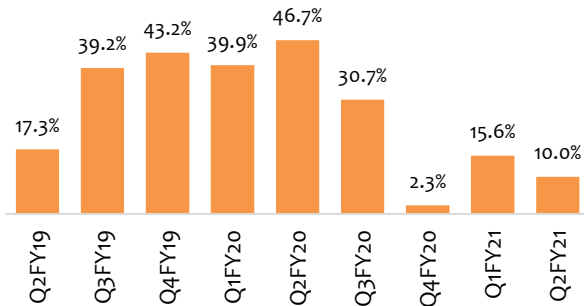
The NBFC is likely to witness a muted performance on account of caution, highly impacted segment, and higher loan losses even as competitors are likely to capture market share. We expect a revival in FY22 as the economy grows and income level improve. The NBFC is currently in wait and watch mode as the dynamics of its customer segment and its own business model change.

We expect Bajaj Finserv to clock CAGR of 15.4% in revenues and 4% in PAT between FY20-FY22E, skewed in FY22 aided by abating claims and provisions in FY22.

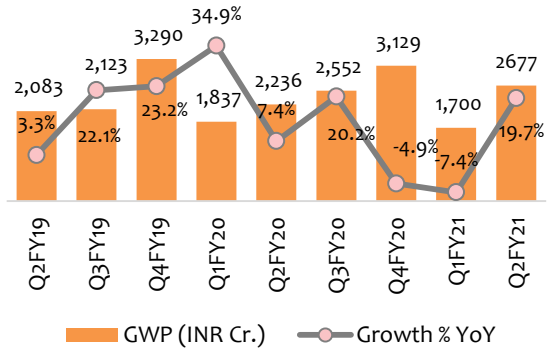
We expect the full impact of the recovery in the next fiscal year. We maintain the premium valuation for its medium-term prospects. We have used SoTP approach to arrive at a target of INR 8,203 (3.0x P/EV for BALIC on FY22E EVPS; 3.0x P/B for BAGIC on FY22E; 15x P/E for Windmill assets; and 6.2x P/ABV on FY22E for BFL); indicating an upside of 40% over CMP. Accordingly, we reiterate our “BUY” recommendation on the shares of Bajaj Finserv.

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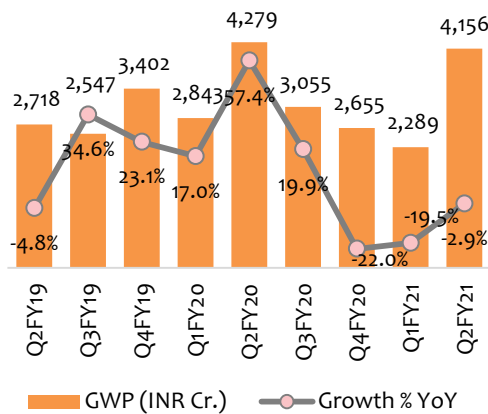
Bajaj Finserv - Top-line growth (YoY) dragged due to the NBFC



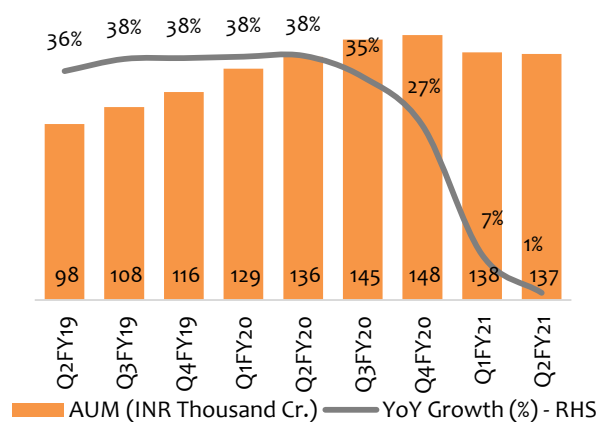
BALIC - GWP rose on Non Par with new partnerships (INR Cr.)



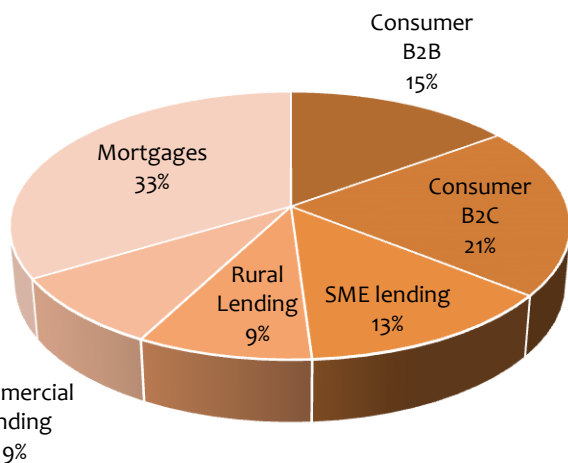
BAGIC - GWP declined due to group as retail was robust



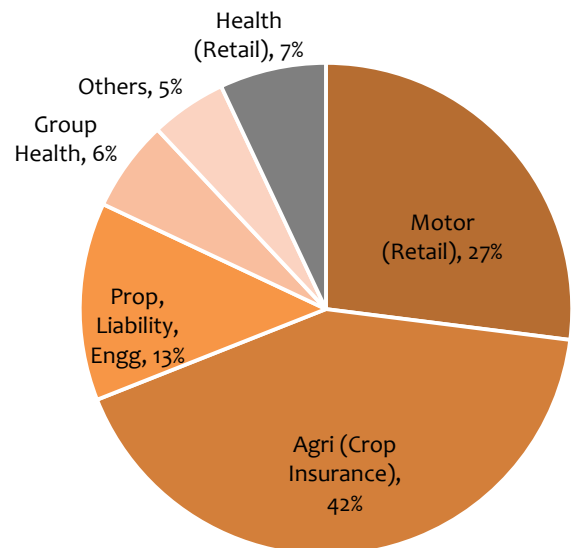
BFL - AUM growth flattening



BFL - Diversified Loan Portfolio Book



BAGIC - Balanced Product Mix



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Consolidated)

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenue from Operations	32,862	42,604	54,347	60,428	72,424
Finance Cost	4,531	6,540	9,339	11,034	13,483
Net Interest Income	28,331	36,064	45,008	49,394	58,941
Other Income	0	2	5	5	2
Operating Income	28,332	36,066	45,013	49,399	58,943
- Employee expense	2,745	3,802	4,755	4,317	4,721
- Other operating expense	18,455	22,422	27,836	33,721	41,932
Operating Expense	21,199	26,223	32,592	38,038	46,653
Operating Profit	7,132	9,842	12,421	11,361	12,290
Provisions	1,035	1,689	4,120	4,755	3,821
Share of Profits from JVs	1	1	1	1	1
PBT	6,099	8,155	8,302	6,607	8,470
Tax Expense	1,922	2,781	2,308	1,625	2,090
PAT	4,176	5,374	5,994	4,982	6,380
Minority Interests	1,526	2,155	2,624	2,121	2,728
Profit for Shareholders	2,650	3,219	3,369	2,861	3,653
Diluted EPS (INR)	166.5	202.3	211.7	179.8	229.5

Source: Company, KRChoksey Research

Bajaj Finserv Ltd.

Exhibit 2: Balance Sheet (Consolidated)

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Source of Funds					
Share Capital	80	80	80	80	80
Reserves & Surplus	20,403	23,661	31,222	34,003	37,576
Networth	20,483	23,740	31,301	34,083	37,656
Minority Interest	10,774	12,808	19,560	21,681	24,409
Total Equity	31,257	36,548	50,861	55,764	62,065
Borrowings	21,055	37,574	54,700	82,169	93,703
Deposits	7,793	13,193	21,427	28,148	30,301
Debt Securities	32,709	44,848	46,337	51,029	75,965
Insurance Contract Liabilities	51,518	57,323	58,773	67,589	92,309
Other Liabilities & Provisions	17,230	19,037	19,285	28,007	40,388
TOTAL EQUITIES AND LIABILITIES	1,61,562	2,08,523	2,51,384	3,12,705	3,94,731
Uses of Funds					
Cash & Bank Balances	1,606	1,589	2,525	35,987	38,128
Receivables + Loans/Advances	81,179	1,15,213	1,44,558	1,60,418	1,99,878
Net Investments	69,428	81,679	91,821	99,027	1,35,241
Deferred Tax Assets	953	953	1,182	1,552	1,671
Goodwill in Consolidation	689	689	689	906	975
Fixed Assets	957	1,203	2,201	2,267	2,883
Other Assets	6,748	7,197	8,409	12,547	15,956
TOTAL ASSETS	1,61,562	2,08,523	2,51,384	3,12,705	3,94,731

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
Growth Rates					
Advances (%)	34.7%	42.2%	25.6%	10.6%	25.0%
Deposits (%)	30.2%	78.5%	45.6%	50.2%	14.0%
Total assets (%)	25.6%	29.1%	20.6%	24.4%	26.2%
NII (%)	36.3%	27.3%	24.8%	9.7%	19.3%
Pre-provisioning profit (%)	24.5%	38.0%	26.2%	-8.5%	8.2%
PAT (%)	21.1%	28.7%	11.5%	-16.9%	28.1%
B/S Ratios					
Loans/Borrowings (%)	385.6%	306.6%	264.3%	195.2%	213.3%
Advances/Total Assets	50.2%	55.3%	57.5%	51.3%	50.6%
BFL - CAR (%)	24.7%	20.7%	25.0%	22.9%	22.0%
Tier I (%)	19.7%	16.3%	21.3%	19.7%	19.3%
Bajaj Housing - CAR (%)	45.1%	25.5%	25.2%	23.9%	22.7%
Leverage - Total Assets to Equity	6.9	6.7	6.9	6.1	7.1
Operating efficiency					
Cost/Income (%)	74.8%	72.7%	72.4%	77.0%	79.1%
Opex/total assets (%)	13.1%	12.6%	13.0%	12.2%	11.8%
Opex/total interest earning assets	16.1%	15.0%	14.9%	14.2%	14.0%
Profitability					
RoA (%)	2.6%	2.6%	2.4%	1.6%	1.6%
RoE (%)	12.9%	13.6%	10.8%	8.4%	9.7%
Bajaj Finance - Asset quality					
Gross NPA (%)	1.4%	1.5%	1.6%	1.7%	1.5%
Net NPA (%)	0.4%	0.6%	0.7%	0.6%	0.6%
PCR (%)	69.6%	59.8%	57.2%	61.8%	57.7%
Credit cost (%)	1.5%	1.6%	3.1%	3.8%	2.6%
Bajaj Allianz Life Insurance					
VNB	222.0	347.7	435.1	410.3	442.4
VNB Margin	12.5%	15.6%	17.0%	17.0%	17.0%
EV	11265	11858	12989	13438	15434
RoEV	9.8%	11.1%	10.2%	11.6%	11.4%
Bajaj Allianz General Insurance					
Growth in Investments	36.2%	20.0%	20.6%	19.9%	18.6%
RoE	20.6%	20.6%	15.1%	16.5%	17.3%
Per share data / Valuation					
EPS (INR)	166.5	202.3	211.7	179.8	229.5
BVPS (INR)	1287	1492	1967	2142	2366
P/E (x)	35.2	29.0	27.7	32.6	25.6
P/BV (x)	4.6	3.9	3.0	2.7	2.5
Profitability					
Return on Capital	12.63%	11.49%	11.37%	8.54%	8.37%
Return on Equity	12.94%	13.56%	10.76%	8.39%	9.70%

Source: Company, KRChoksey Research

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Bajaj Finserv Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-Oct-20	5,832	8,203	BUY	Buy	More than 15%
24-Sep-20	5,640	8,203	BUY	Accumulate	5% – 15%
24-Jul-20	6,270	8,203	BUY	Hold	0 – 5%
4-Jul-20	6,149	7,282	BUY	Reduce	-5% – 0
23-May-20	4,316	6,136	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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