

Gradual revival in finance; insurance picking pace

Bajaj Finserv reported gradual revival in lending business, while insurance business continued to show healthy performance, though sequential run rate witnessed moderation. Consolidated top-line came at 9.6% YoY at ₹ 15960 crore, improved traction sequentially but still lower on YoY basis, due to moderation in lending business. Led by improvement in PAT in insurance business, consolidated earnings came up by 14.6% YoY to ₹ 1290 crore.

Consolidated AUM witnessed QoQ growth of 4% YoY to ₹ 143550 crore, declining 1% YoY. NII declined 4% YoY to ₹ 4296 crore, led by subdued AUM traction and interest reversal of ₹ 450 crore. **Elevated provision at ₹ 1351 crore impacted earnings which came at ₹ 1146 crore; down 25% YoY and up 19% QoQ. Headline NPA numbers showed improvement led by standstill, however, proforma GNPA surged to 2.86% with PCR at 65%.**

Gross written premium in general insurance increased by 11% YoY to ₹ 3392 crore, led by uptick in crop insurance. Crop insurance increased to ₹ 655 crore vs ₹ 392 crore YoY. **2W and 4W witnessed healthy growth at 9.6% & 13.1%, amid increase in auto sales, however, CV business de-grew 19% YoY as passenger carrying segment still remains well below pre-Covid level.** Continued cautious stance on group health business led 8.2% YoY de-growth while retail health grew in low single digit at 3.4%. Experience on claims remained better with claims ratio declining to 66.6% vs. 72.6% in Q3FY20. **Claims experience suggest that Covid related claims are offset by normal hospitalization bills.** Lower claims coupled with tight control on cost led combined ratio came at 96.1%, leading to underwriting profit came at ₹ 27 crore. Investment income remained healthy at ₹ 413 crore, up 15% YoY.

Life insurance premium grew 23% YoY to ₹ 3147 crore, led by 21% YoY traction in NBP (new business premium) and 26% YoY uptick in renewal. **Demand for individual rate premium grew 14% YoY to ₹ 613 crore, led by institutional business. Group protection business de-grew 12% YoY amid sluggish credit disbursement and term insurance business remained muted.** PAT de-grew 17% YoY to ₹ 118 crore, due to new business strain. AUM increased 16% YoY to ₹ 70295 crore.

Valuation & Outlook

Pandemic led incremental focus on product mix and business growth in life insurance business provides confidence. **Product selection with profitability is seen to propel earnings in general insurance business.** While asset quality issues are still not out of woods, **Bajaj Finance has emerged stronger with a leaner and focussed operating model. Growth guidance of ~25% for FY22E and opportunity to apply for banking licence have resulted in renewed interest of investors in the stock.** This has led to expansion of valuation multiples. Factoring in long term business potential and returning of premium multiple for lending business (contributing 85% to SoTP target), we maintain our target at ₹ 10500 per share based on SOTP valuation, implying a multiple of ~22x on FY23E consolidated earnings. Hence, we maintain **BUY**.



Particulars

Particular	Amount
Market Capitalization	₹ 143995 crore
Net worth	₹ 35972 crore
52 week H/L (₹)	9970/3986
Equity capital	₹ 80 Crore
Face value	₹ 5
DII Holding (%)	6.1
FII Holding (%)	8.8

Key Highlights

- Healthy revival witnessed in insurance business supporting consolidated revenue
- Proforma GNPA surged to 2.86%
- Maintain target price at ₹ 10500 and BUY recommendation

Risk to our call

- Delay in pick up in AUM trajectory or further rise in NPA could impact earnings
- Moderation in premium accretion or increase in motor/ health claims could be deterrent to general insurance performance

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY19-22E)
Revenue	42,608.2	54,351.5	56,609.4	59,458.9	69,985.6	9%
PBT	8,069.5	8,300.2	8,323.7	10,565.6	13,209.7	17%
PAT	3133.5	3367.7	4031.3	4863.1	6449.3	24%
EPS (₹)	198.0	269.7	253.3	305.6	405.3	
BV (₹)	1498.4	2026.3	2277.9	2581.7	2985.3	
P/E	46.1	33.8	36.0	29.9	22.5	
P/BV	6.1	4.5	4.0	3.5	3.1	
RoA	1.8	1.9	1.4	1.4	1.6	
RoE	14.1	15.3	11.8	12.6	14.6	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
General Insurance	3392.0	3177.2	3,055.0	11.0	4,155.6	-18.4	2W & 4W grew 9.6% & 13.1%, CV de-gre 19%, Health insurance remained muted
Life Insurance	3147.0	2807.1	2,551.9	23.3	2,677	17.6	New business witnessed healthy growth at 14% YoY
Net premium earned	6539.0	5984.3	5,606.9	16.6	6,832.7	-4.3	
Investment and other income	3659.1	2319.7	2,126	72.1	2,593	41.1	Investment income continue to remain robust led by rally in equities and bond prices
Reinsurance Ceded	491.4	359.1	344	42.8	420	16.9	
Reserve for unexpired risk	304.8	200.0	-243	-225.4	479	-36.3	
Total Insurance	9401.9	7744.9	7,631.7	23.2	8,526.2	10.3	
Retail financing	6655.1	7014.4	7,026	-5.3	6,523	2.0	Subdued AUM growth and interest reversal impacted lending business
Windmill	3.9	11.2	11.8	-67.1	9.9	-60.7	
Investment and others	79.3	70.0	60	31.1	48	66.8	
Total	15960.7	14665.2	14,561	9.6	15,052	6.0	
Interest and Finance Charges	2258.4	664.6	2,419.4	-6.7	2,340.2	-3.5	
Other Exp	10922.8	11935.3	9,514.2	14.8	10,554.8	3.5	
Total Expenses	13181.3	12599.9	11,933.6	10.5	12,895.0	2.2	
PBT	2779.5	2065.2	2,627.2	5.8	2,156.6	28.9	
PAT	1290.3	1001.9	1,125.6	14.6	986.3	30.8	Lending business remained subdued, whereas insurance business remained robust

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Total Income	53,253.3	56,609.4	6.3	57215.0	59,458.9	3.9	67419.8	69,985.6	3.8
PBT	8,203.5	8,323.7	1.5	10,549.3	10,565.6	0.2	13,159.8	13,209.7	0.4
PAT	3,965.5	4,031.3	1.7	4,855.4	4,863.1	0.2	6,420.9	6,449.3	0.4
ABV (₹)	2,273.7	2,277.9	0.2	2,577.1	2,581.7	0.2	2,978.9	2,985.3	0.2

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Commercial Finance growth (%)	37.9	25.7	2.3	19.7	21.7	-6.2	19.7
Life Ins Premium growth (%)	16.9	10.1	11.4	11.4	12.7	2.4	10.1
General Ins GWP growth (%)	17.0	15.6	5.0	12.0	13.0	3.0	15.0

Source: Company, ICICI Direct Research

Valuation and Outlook

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Exhibit 4: SOTP valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 30% discount (₹)
Bajaj Allianz Life Insurance	1.2 FY23E EV	74	19716	14568	641
Bajaj Allianz General Insurance	20x PAT	74	28168	20985	923
Bajaj Finance	4.7x FY22E BVPS	54.8	362260	198555	8932
Windmill	₹4 crore per MW	100	260	143	8
Total					10504

Source:

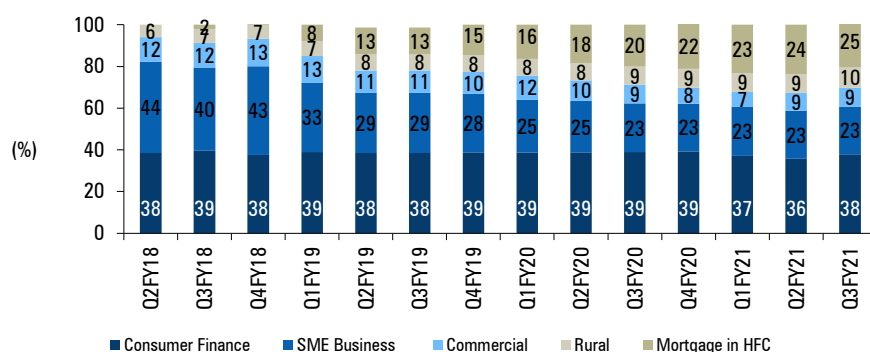
Story in Charts

Exhibit 5: Consolidated profit summary

Particulars	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
General Insurance	2718	2547	3402	2843	4279	3055	2655	2289	4156	3392
Life Insurance	2083	2123	3290	1837	2236	2552	3128	1700	2677	3147
Total Insurance	5404	6179	7782	6537	7905	7632	6066	7641	8526	9402
Investments & others	337	54	51	52	410	60	381	42	48	79
Windmill	29	10	16	8	12	12	7	8	10	4
Retail financing	4296	4995	5269	5808	6323	7026	7229	6650	6523	6655
Less: Inter-segment revenue	367	96	123	133	426	169	389	148	55	179
Total revenue	9698	11142	12995	12272	14224	14561	13294	14192	15052	15961
Interest and Finance Charges	1540	1782	1884	2054	2313	2419	2552	2395	2340	2258
Other Exp	6348	7136	8981	7963	9285	9514	9949	9229	10555	10923
Total Expenses	7888	8918	10864	10017	11598	11934	12501	11624	12895	13181
PBT	1810	2224	2130	2255	2626	2627	793	2568	2157	2779
PAT	704	851	839	845	1204	1126	194	1215	986	1290

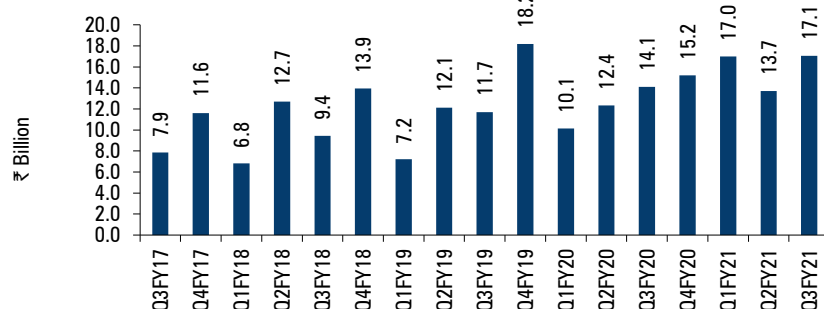
Source: Company, ICICI Direct Research

Exhibit 6: Consumer finance still dominates asset mix



Source: Company, ICICI Direct Research

Exhibit 7: Life insurance premium (NBP) growth trend



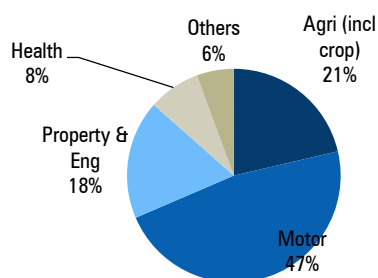
Source: Company, ICICI Direct Research

Exhibit 8: Healthy accretion in premium continued in Q3FY21

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Total premium	2083	2123	3290	1837	2235	2552	3129	2658	2677	3147
New business premium	1213	1171	1818	1014	1235	1411	1519	1700	1372	1706
Renewal premium	870	952	1472	823	1000	1141	1610	958	1305	1441
Policyholder profits	18	35	31	-30	-1	10	11	-52	-33	-30
Shareholder profits*	114	77	81	92	207	133	27	182	131	148
Total profits	132	112	112	62	206	143	38	130	98	118
Solvency ratio (%)	749	767	804	790	770	770	745	760	730	708

Source: Company, ICICI Direct Research

Exhibit 9: GI business mix dominated by agri & motor insurance in Q3FY21



Source: Company, ICICI Direct Research

Exhibit 10: Decline in claims led to improvement in combined ratio

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Gross Premium	2843	4279	3055	2655	2289	4156	3392
Net Earned Premium	1946	2131	2156	1972	1818	1986	1838
Underwriting profit	9	-91	-87	159	175	29	27
Investment income	310	462	359	255	352	414	413
PBT	319	371	272	414	527	443	440
PAT	210	294	191	304	395	332	330
Claim Ratio (%)	73	75	73	62	68	74	66
Combined Ratio (%)	103	103	104	94	98	97	96

Source: Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	60.7	60.7	60.8	60.8	60.8	60.8
FII	8.5	8.7	8.6	8.0	7.7	8.8
DII	6.7	6.6	6.2	6.4	6.8	6.1
Others	24.1	24.0	24.3	24.9	24.7	24.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Revenue				
Life Insurance	9753	10865	12108	13646
General Insurance	12320	13475	15092	17054
Total	22073	24340	27200	30699
Less: Reinsurance ceded				
Reserve for unexpired risk	-1417	539	302	341
Net Insurance Premium Earned	21349	19811	22430	25310
Investment and other income	6791	10042	6974	7985
Total Insurance Income	28140	29853	29404	33295
Investment and others	904	967	1064	1170
Retail financing	26386	26642	29931	36557
Windmill	39	41	43	45
Total	55469	57503	60442	71067
Less: Inter-segment revenue	1118	894	983	1082
Total revenue	54351	56609	59459	69986
Pre-tax profit				
General Insurance	1033	1864	1840	1940
Life Insurance	39	1101	1112	1221
Total Insurance	1072	2965	2952	3162
Retail financing	7442	5531	7805	10260
Investments & others	-234	-193	-213	-234
Windmill	20	21	21	22
Total PBIT	8300	8324	10566	13210
Less: Interest	-234	-193	-213	-234
Profit before tax	8300	8324	10566	13210
Tax	-2308	-2216	-2593	-2637
Net profit before minority	5992	6108	7972	10573
Minority and deferred tax adjustments	2624	2077	3109	4123
Net profit	3368	4031	4863	6449

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratio				
(Year-end March)	FY20	FY21E	FY22E	FY23E
CMP	9130.0	9130.0	9130.0	9130.0
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	269.7	253.3	305.6	405.3
BV	2026.3	2277.9	2581.7	2985.3
RoA	1.9	1.4	1.4	1.6
RoE	15.3	11.8	12.6	14.6
P/BV	4.5	4.0	3.5	3.1
P/E	33.8	36.0	29.9	22.5

(Year-end March) - Growth ratios	FY20	FY21E	FY22E	FY23E
Gross Written Premium				
- Life	10.1	11.4	11.4	12.7
- General	16	5	12	13
Loan book Bajaj Finance	26	2	20	22
Consol Network	35	12	13	16
Consol Revenues	30	20	5	18
Consol PAT	36	-6	21	33
Consol Effective Tax rate	25	27	25	20

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Sources of Funds				
Shareholders' Funds	3224	3625	4108	4750
- Share capital	80	80	80	80
- Reserves & Surplus	32162	36166	41001	47422
Policy liabilities	18133	36564	45350	55398
Loan funds	122465	144660	173106	210734
Deferred tax liability (net)	80	82	83	85
Current liabilities	75071	71317	67751	64364
Provisions	176	183	190	198
Total liabilities	251384	334283	381348	442411
Applications of Funds				
Fixed assets	1615	4319	4728	5177
Goodwill on investments in associates	689	689	689	689
Investments	27714	19298	18719	18158
Policyholders' Investments	64108	57498	67817	79868
Deferred Tax Assets (net)	885	930	976	1025
Current assets	14997	106889	115312	126759
- Receivable under financing activity	141376	144660	173106	210734
Misc Expenditure	0	0	0	0
Total Assets	251384	334283	381348	442411

Source: Company, ICICI Direct Research

Exhibit 15: 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
LIC Housing Finance (LICHF)	431	345	Buy	22,405	46.5	44.2	58.6	9.3	9.8	7.4	1.5	1.4	1.3	1.1	0.9	1.1	13.8	11.9	14.5
HDFC (HDFC)	2,688	2,200	Hold	4,74,703	102.6	53.5	71.1	26.2	50.2	37.8	5.4	4.6	4.4	3.6	1.7	2.1	3.6	1.7	2.1
Bajaj Finserv (BAFINS)	9,048	10,500	Buy	1,44,019	269.7	253.3	305.6	33.5	35.7	29.6	4.5	4.0	3.5	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	4,981	5,900	Buy	3,00,157	89.5	68.7	96.9	55.7	72.5	51.4	9.3	8.8	7.8	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Finance	185	140	Hold	23,580	14.7	7.9	10.9	12.6	23.4	16.9	1.5	1.9	1.6	1.3	1.3	1.7	8.1	7.3	8.2

Source: Company, ICICI Direct Research

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