

Allianz's exit from Insurance JVs to have no impact on BJFIN

BFSI - NBFCs ▶ Company Update ▶ October 23, 2024

TARGET PRICE (Rs): 2,150

After media reports indicated that Allianz Group might be looking to exit its 23-year old India Insurance JVs (BALIC and BAGIC) with the Bajaj Group, BJFIN in its exchange filing confirmed that Allianz has communicated to the company its intent of exiting the Indian Insurance Joint Ventures. Allianz's exit from the JVs has been speculated several times since 2016, when Allianz was unable to exercise the option to increase its stake in the JVs to 49% at a pre-determined, formula-based price as per the 2001 agreement with Bajaj, owing to the RBI regulations and unwillingness of the Bajaj Group. At this juncture, this exit does not affect the operations or strategy of BALIC and BAGIC, and will not have any material bearings on BJFIN. If Allianz chooses to exit via IPO or roping in of any strategic investor, then that could lead to price discovery of the insurance entities. If BJFIN buys this stake from Allianz then: 1. the impact on BJFIN share price could be a function of transaction price; 2. This purchase of stake by BJFIN will require capital raise to pay Allianz in cash or Allianz getting shares of BJFIN.

Bajaj Finserv: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	64,173	81,478	101,916	127,734	153,939
AUM growths (%)	26.6	34.7	25.6	24.9	23.9
NII growths (%)	28.1	26.6	26.1	23.5	21.3
NIMs (%)	10.2	10.1	10.1	10.0	9.8
PPOP growth (%)	30.7	28.2	28.5	24.0	21.5
Adj. EPS (Rs)	40.3	51.2	63.9	80.1	96.5
Adj. EPS growth (%)	40.7	27.1	24.8	25.3	20.5
Adj. BV (Rs)	291.4	378.4	442.1	522.1	618.6
Adj. BVPS growth (%)	15.2	29.9	16.8	18.1	18.5
RoA (%)	4.7	4.4	4.1	4.1	4.0
RoE (%)	23.4	22.0	20.8	21.8	21.8
P/E (x)	42.8	33.6	27.0	21.5	17.9
P/ABV (x)	5.9	4.6	3.9	3.3	2.8

Source: Company, Emkay Research; Note: Loan, NIMs, PPOP, ROA, and ROE correspond to BAF

BJFIN confirms Allianz's intention to exit India Insurance JVs

In response to media reports citing Allianz Group's intent to exit its India Insurance JVs (BALIC and BAGIC) with the Bajaj Group, BJFIN filed its response confirming the media reports indicating that Allianz had communicated its intent to exit the India Insurance JVs. Established in 2001, Bajaj Allianz Life (BALIC) and Bajaj Allianz General (BAGIC) are JVs between BJFIN and Allianz where BJFIN owns 74% stake and Allianz owns 26%.

Since 2016, Allianz's exit was near certain, only unknown was the timing

Once India government notified the law increasing foreign investment limit in Insurance to 49% in 2015, Allianz initiated discussions with the Bajaj group to allow it to increase stake in BALIC and BAGIC based on a pre-determined, formula-based price as per their mutual agreement of 2001. However, owing to RBI regulations requiring the stake transfer to happen at fair market value, the stake increase did not take place as Allianz group was not keen to increase its stake at market value. After this, it was expected that Allianz group will exit the JV. As a leading global insurance player, Allianz would not prefer to be an inactive partner in Insurance JVs when the regulations permit it to be a nearly-equal partner, rather, it might want to explore a controlling stake in India with regulations now allowing it to acquire 74%.

It is business as usual for BALIC and BAGIC

In our view, the exit of Allianz does not really affect the operation and strategy of the two insurance entities, because for a long time now, the strategy and execution at BALIC and BAGIC were driven by its management team in consultation with its India promoter (BJFIN), with Allianz having little involvement or value to add in recent years. As far as the reinsurance treaties (or facultative) are concerned, the terms of reinsurance (pricing and commissions) with reinsurers are driven more by the underwriting practices of the insurance company and that does not change with Allianz's exit. In FY24, BAGIC had ceded ~Rs11bn of premium (~10% to total premium ceded) to Allianz Group entities.

Impact on BJFIN depends on Allianz's exit route

Regarding BJFIN shares, the impact of Allianz's exit will be dependent on the mechanism of this exit used by Allianz. In case Allianz chooses to offload its 26% stake by OFS in an IPO or ropes in one or more strategic investors, the price discovery of BALIC and BAGIC can impact BJFIN shares accordingly. Currently, we have valued BAGIC (100%) at Rs672bn and BALIC at Rs504bn. If BJFIN chooses to buy the stake from Allianz then the transaction at a lower valuation than our estimated fair value could be value accretive for BJFIN shareholders, but stake buying by BJFIN will require a capital raise in form of equity or a combination of equity and debt to pay Allianz in cash or Allianz getting BJFIN shares through a share swap agreement.

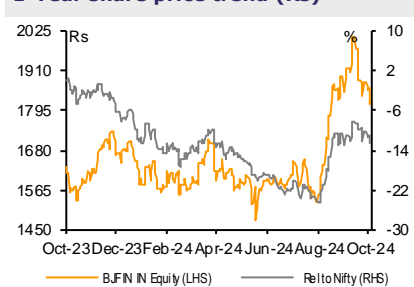
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.8
CMP (22-Oct-24) (Rs)	1,722.6

Stock Data	Ticker
52-week High (Rs)	2,030
52-week Low (Rs)	1,419
Shares outstanding (mn)	1,596.7
Market-cap (Rs bn)	2,750
Market-cap (USD mn)	32,713
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	3,850.7
ADTV-3M (USD mn)	45.8
Free float (%)	-
Nifty-50	24,472
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	60.6
FPIs/MFs (%)	8.1/7.9

Price Performance

(%)	1M	3M	12M
Absolute	(8.3)	7.2	7.5
Rel. to Nifty	(4.5)	6.1	(15.2)

1-Year share price trend (Rs)



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Exhibit 1: BAGIC's reinsurance arrangements with Allianz entities remain limited at ~10% of total, and the commission/claims experience are similar

(Rs mn)	FY21	FY22	FY23	FY24
Total				
Reinsurance premium ceded	52,071	60,252	71,756	110,616
Reinsurance commission received	7,520	9,731	14,124	22,272
Reinsurance claims received	26,741	31,591	26,988	49,486
Reinsurance commission ratio	14.4%	16.2%	19.7%	20.1%
Reinsurance claims ratio	51.4%	52.4%	37.6%	44.7%
Reinsurance ceded with Allianz entities				
Reinsurance premium ceded	1,034	1,208	8,822	11,314
Reinsurance commission received	109	189	1,565	2,406
Reinsurance claims received	599	639	3,412	4,713
Reinsurance commission ratio	10.5%	15.7%	17.7%	21.3%
Reinsurance claims ratio	57.9%	52.9%	38.7%	41.7%

Source: Company, Emkay Research

Exhibit 2: SOTP-based Valuation

(Rs mn)	Parameter	FY26E Value	Implied Multiple (x)	Valuation	BJFIN Stake	Value
Bajaj Finance	Networth	1,103,789	5.2	5,747,615	51.3%	2,950,825
Bajaj Allianz General	PAT	21,502	31.3	672,444	74.0%	497,609
Bajaj Allianz Life	EV	271,489	1.9	504,457	74.0%	373,298
Holding company operations	PAT	990	25.0	24,750	100.0%	24,750
Bajaj Health	Revenue	21,614	5.0	108,068	100.0%	108,068
Bajaj Direct	Revenue	13,500	5.0	67,499	80.1%	54,087
Bajaj AMC	AUM	200,000	0.1	20,000	100.0%	20,000
BJFIN SoTP						4,028,637
Holding company discount on listed company			20%			-590,165
BJFIN Valuation						3,438,472
No. of shares (mn)						1595.3
Fair Value per share (Rs)						2,155
Target price (Rs) - Sep-25E						2,150

Source: Company, Emkay Research

Exhibit 3: Bajaj Finance – Financial Summary

(Rs mn)	2023	2024	2025E	2026E	2027E
Income statement					
Interest Income	355,502	483,066	625,406	776,114	952,771
Interest expense	125,599	187,247	246,637	303,664	376,722
Net Interest Income	229,903	295,819	378,769	472,450	576,048
Fee income	42,923	52,672	68,100	81,131	96,119
Other income	15,143	14,087	20,121	23,585	29,283
Total Revenue	287,969	362,578	466,990	577,167	701,450
Employee Cost	50,591	63,960	81,528	100,653	122,664
Other expense	50,708	59,292	77,836	95,109	115,352
Core Pre Provision Operating Profit	186,669	239,326	307,626	381,405	463,435
Loan Loss provision	31,897	46,307	71,741	86,234	109,046
Pre-tax profit	154,790	193,019	235,885	295,170	354,389
Tax expense	40,202	48,584	60,622	75,859	91,078
Profit after Tax	114,588	144,435	175,262	219,312	263,311
Balance Sheet					
Assets					
Fixed Assets	16,766	23,583	25,212	27,646	30,323
Investments	227,518	308,807	389,876	484,064	600,964
Receivables under Financing	2,422,689	3,262,933	4,097,502	5,118,421	6,340,734
Off-BS Receivables	106,731	43,217	101,308	130,092	167,422
Long Term Loans and Advances/ FD with bank	31,083	42,770	168,159	184,579	250,083
Deferred Tax Assets	11,185	13,084	13,084	13,084	13,084
Cash & Bank	43,045	106,240	50,000	62,079	77,071
Other Current Assets	0	0	0	0	0
Total Assets	2,752,287	3,757,416	4,743,833	5,889,872	7,312,259
Debt	2,166,905	2,895,080	3,710,128	4,641,760	5,805,252
Share Holders equity	543,720	766,954	914,476	1,099,077	1,320,713
Total Liabilities and Shareholders' equity	2,752,287	3,757,416	4,743,833	5,889,872	7,312,259
Key ratios (%)					
Net Interest margin	10.2	10.1	10.1	10.0	9.8
Cost-to-income ratio	35.2	34.0	34.1	33.9	33.9
Credit cost (% of AUM)	1.4	1.6	1.9	1.8	1.9
RoA	4.7	4.4	4.1	4.1	4.0
RoE	23.4	22.0	20.8	21.8	21.8
GNPA	0.94	0.85	0.84	0.85	0.85
NNPA	0.34	0.37	0.37	0.37	0.37

Source: Company, Emkay Research

Exhibit 4: Bajaj Allianz General Insurance – Financial Summary

(Rs mn)	2023	2024	2025E	2026E	2027E
Policyholders' account					
Gross Written Premium	154,869	206,300	243,567	286,239	335,536
Net Written Premium	83,113	95,684	119,890	146,784	175,125
Net earned premium	80,188	88,839	108,893	133,226	158,756
Investment income	14,206	16,709	19,037	21,820	25,328
Other income	593	535	535	535	535
Total revenue	94,987	106,083	128,465	155,582	184,620
Commission expense	-3,662	6,439	7,671	8,610	10,174
Operating expenses	26,588	18,495	22,300	27,008	32,223
Claims incurred (Net)	58,470	65,559	80,586	97,841	115,624
Total expense	81,426	90,525	110,557	133,460	158,021
Operating profit	13,562	15,557	17,908	22,122	26,599
Shareholders' account					
Operating profit	13,562	15,557	17,908	22,122	26,599
Investment income	5,480	5,663	6,494	7,310	8,481
expenses	1,057	705	740	814	895
Profit before tax	18,026	20,550	23,712	28,669	34,235
Tax expense	4,546	5,046	5,928	7,167	8,559
Profit after tax	13,480	15,503	17,784	21,502	25,676
Balance Sheet					
Sources of Funds					
Shareholders' Funds	95,886	108,413	120,862	133,763	146,601
Fair value gains	2,178	6,323	6,956	7,651	8,416
Total	98,064	114,736	127,817	141,414	155,017
Application of Funds					
Investments	270,017	301,680	364,802	428,957	498,617
Other non-current assets	4,821	5,210	5,450	5,702	5,967
Current Assets:					
Cash and Bank Balances	8,076	10,299	10,814	11,355	11,923
Other current assets	30,456	50,982	56,080	61,688	67,857
Current liabilities					
Claim reserves	170,552	201,947	256,510	303,706	361,904
Provisions	44,756	51,488	65,399	77,432	92,270
Net Current Assets	-176,775	-192,154	-255,015	-308,096	-374,395
Other Asset	0	0	12,580	14,851	24,828
Total	98,064	114,736	127,817	141,414	155,017
Key Ratios (%)					
Retention ratio	53.7	46.4	49.2	51.3	52.2
NEP/NWP	96.5	92.8	90.8	90.8	90.7
Claims ratio	72.9	73.8	74.0	73.4	72.8
Commission ratio	-4.4	6.7	6.4	5.9	5.8
Opex ratio	32.0	19.3	18.6	18.4	18.4
Combined ratio	100.5	99.9	99.0	97.7	97.0
Reported combined ratio`	100.5	99.9	99.0	97.7	97.0
GWP growth	12.3	33.2	18.1	17.5	17.2
Tax rate	25.2	24.6	25.0	25.0	25.0
Return on equity	15.0	15.2	15.5	16.9	18.3

Source: Company, Emkay Research

Exhibit 5: Bajaj Allianz Life Insurance – Financial Summary

(Rs mn)	2023	2024	2025E	2026E	2027E
Policyholders' account					
Net earned premium	191,154	226,633	279,492	338,320	403,961
Investment income	40,108	146,296	123,776	146,500	173,961
Other income	3,679	885	0	0	0
Total revenue	234,941	373,813	403,268	484,820	577,922
Commission expense	12,067	20,593	25,396	30,742	36,706
Operating expenses	38,934	38,303	45,840	53,796	62,214
Benefits cost	127,010	124,500	151,976	179,387	212,810
Total expense	234,844	376,054	404,457	484,906	576,813
Surplus/Deficit	97	-2,241	-1,189	-86	1,109
Shareholders' account					
Transfer from policyholders' account	10,897	10,352	12,686	15,200	17,947
Investment income	8,088	8,871	8,949	9,005	9,134
expenses	15,315	13,523	15,034	16,512	18,138
Profit before tax	3,699	5,716	6,602	7,694	8,943
Tax expense	-197	90	132	154	179
Profit after tax	3,896	5,626	6,470	7,540	8,764
Embedded Value Account					
Embedded Value	185,840	217,260	243,829	271,489	303,691
--o/w Adjusted Net Worth	110,820	128,210	122,750	124,378	126,271
--o/w Value-in-Force	75,020	89,050	121,079	147,111	177,420
Annualized Premium Equivalent (APE)	61,170	72,740	87,680	103,888	122,011
New Business value	9,500	10,610	11,398	13,713	17,082
New Business Margin (%)	15.5	14.6	13.0	13.2	14.0
EV Operating Profit	26,006	26,950	28,769	32,720	38,245
Operating RoEV (%)	15.1	14.5	13.2	13.4	14.1

Source: Company, Emkay Research

Bajaj Finserv: Consolidated Financials

(Rs mn)	2023	2024	2025E	2026E	2027E
Income Statement					
Revenue from operations					
Interest income	401,552	537,932	692,879	854,962	1,045,499
Dividend income	1,316	1,580	1,738	1,912	2,103
Rental income	41	44	47	51	54
Fees and commission income	43,125	54,359	71,505	85,188	100,925
Net gain on fair value changes	-1,555	28,358	31,194	34,313	37,745
Sale of services	3,259	6,551	7,206	7,927	8,720
Premium and other operating income from insurance business	359,133	463,227	512,696	618,582	737,214
Others	13,842	11,769	10,553	18,049	28,294
Total revenue from operations	820,712	1,103,819	1,327,820	1,620,983	1,960,553
Total Income	820,720	1,103,830	1,327,820	1,620,983	1,960,553
Employee benefits expenses	87,672	103,610	118,216	145,946	177,862
Finance costs	122,014	183,995	246,637	303,664	376,722
Fees and commission expense	42,382	69,706	76,054	90,510	107,825
Impairment on financial instruments	32,310	46,336	71,741	86,234	109,046
Claims incurred pertaining to insurance business	165,920	218,303	232,563	277,228	328,434
Reinsurance ceded	70,273	95,631	115,524	130,612	150,462
Net change in insurance/investment contract liabilities	66,280	102,555	125,304	152,789	183,292
Depreciation, amortization and impairment	6,778	9,001	10,351	11,904	13,690
Other expenses	58,993	61,024	69,631	94,963	120,054
Total expenses	652,621	890,161	1,066,021	1,293,850	1,567,387
Share of profits of joint venture	12	81	100	100	100
Profit Before Tax	168,111	213,750	261,699	327,033	393,067
Tax	46,016	57,797	67,582	84,080	100,716
Profit After Tax	122,095	155,954	194,116	242,953	292,351
Profit attributable to Non-Controlling Interest	57,923	74,476	92,200	115,219	138,412
Profit attributable to Owners	64,173	81,478	101,916	127,734	153,939
Basic and Diluted EPS (Rs)	40.3	51.2	64.0	80.2	96.6
Share Count	1,593	1,593	1,593	1,593	1,593
BALANCE SHEET					
Equity and Liabilities					
Shareholders' funds	464,073	603,286	705,203	832,937	986,876
Minority interest	311,907	434,472	414,928	493,214	587,191
Total Equity	775,981	1,037,759	1,120,130	1,326,151	1,574,067
Financial liabilities					
Borrowings	2,114,413	2,875,988	3,685,662	4,611,150	5,766,969
Policy liabilities	941,017	1,182,801	1,368,208	1,590,666	1,852,557
Linked liabilities	97,973	113,774	134,294	159,315	189,332
Other long-term liabilities	84,354	113,125	138,431	168,322	205,062
Total - financial liabilities	3,237,757	4,285,688	5,326,595	6,529,453	8,013,921
Non-financial liabilities					
Other current liabilities	36,408	50,519	129,394	140,458	153,415
Provisions	4,946	5,330	6,523	7,931	9,662
Total - non-financial Liabilities	41,354	55,850	135,916	148,389	163,078
Total - Equity and Liabilities	4,055,092	5,379,296	6,582,641	8,003,993	9,751,066
ASSETS					
Financial assets					
Shareholders' investments	405,835	496,156	570,580	656,167	754,592
Policyholders' investments	954,850	1,183,862	1,407,550	1,667,005	1,972,906
Receivables under financing activity	34,586	59,739	68,699	79,004	90,855
Cash and bank balances	53,772	123,867	151,971	146,910	195,959
Loans and advances	2,427,496	3,267,422	4,105,021	5,127,340	6,351,334
Other current assets	109,431	162,426	173,796	199,865	229,845
Total - Financial Assets	3,985,969	5,293,471	6,477,617	7,876,291	9,595,490
Non-financial assets					
Tangible assets	29,102	37,753	41,528	45,681	50,249
Intangible assets	8,659	11,287	12,980	14,538	15,992
Capital work-in-progress	618	821	0	0	0
Fixed assets	38,379	49,861	54,508	60,218	66,240
Goodwill on consolidation of subsidiary/associates	6,893	6,893	6,893	6,893	6,893
Other non-current assets	23,850	29,071	43,623	60,590	82,442
Total - Non-financial Assets	69,123	85,825	105,024	127,702	155,576
Total Assets	4,055,092	5,379,296	6,582,641	8,003,993	9,751,066
Per share data (Rs)					
Basic EPS	40.3	51.2	63.9	80.1	96.5
Diluted EPS	40.0	50.7	63.4	79.5	95.8
BVPS (LHS)	291.4	378.8	442.7	522.9	619.6
Key ratios					
Return on Equity (%)	14.8	15.3	15.6	16.6	16.9
PAT Growth (YoY %)	40.8	27.0	25.1	25.3	20.5

Source: Company, Emkay Research

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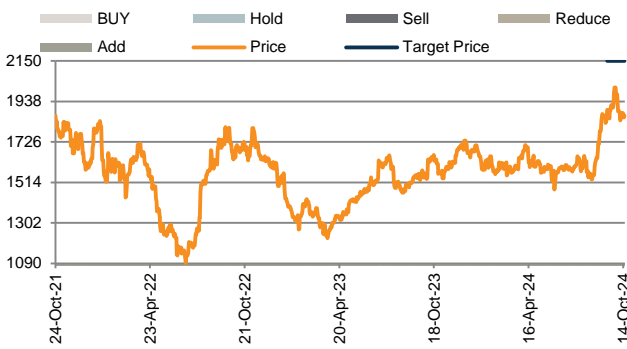
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
13-Sep-24	1,894	2,150	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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