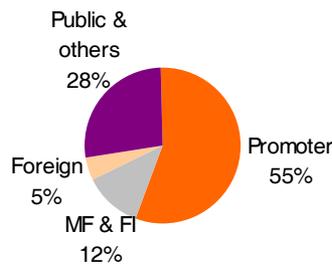
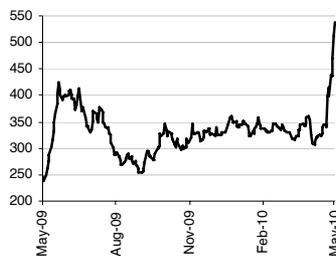


Bajaj Finserv

Apple Green
Stock Update
Downgraded to Hold
Hold; CMP: Rs538
Company details

Price target:	Rs572
Market cap:	Rs7,784 cr
52 week high/low:	Rs546/214
NSE volume: (No of shares)	2.1 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.5 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	45.1	51.5	63.5	98.0
Relative to Sensex	49.7	41.5	59.1	36.0

Result highlights

- ◆ In Q4FY2010, Bajaj Finserv reported a strong set of numbers by earning a consolidated net profit of Rs433.6 crore as compared with a net profit of Rs107 crore during the year-ago period. The strong performance was mainly driven by the life insurance business, which generated a pre-tax profit of Rs542.2 crore during the quarter as compared to Rs80.8 crore in the year-ago quarter. For FY2010, Bajaj Finserv has reported a consolidated profit after tax (PAT) of Rs554.53 crore, growing by more than 6x yoy.
- ◆ The consolidated income from operations for the quarter stood at Rs652 crore, growing by 3.6x on a year on-year (y-o-y) basis.
- ◆ **Life insurance:** Bajaj Allianz Life Insurance Company Ltd (BALIC) reported a full-year profit for the first time since its inception. For Q4FY2010 the company reported a pre-tax profit of Rs542.2 crore, a 5.7x growth from that of the year-ago quarter. As a result of the strong Q4FY2010 performance, the company recorded a shareholder profit of Rs542 crore for FY2010 as compared to a loss of Rs71 crore in FY2009.
- ◆ **General insurance:** The company reported a pre-tax profit of Rs50 crore during the quarter, down 33% year on year (yoy). The fall was a result of an underwriting loss incurred by the company during the quarter. For the full year, however, the company has reported a PAT of Rs121 crore, up a strong 27% yoy.
- ◆ **Bajaj Auto Finance:** Bajaj Auto Finance Ltd (BAFL), the automobile and consumer financing arm of the group, witnessed a strong quarter in terms of business growth with disbursements growing by 104% yoy to Rs1,320 crore. For Q4FY2010, the company reported a 44.1% y-o-y growth in its total operating income to Rs252.8 crore and a strong 67.2% y-o-y growth in its PAT to Rs25.2 crore.

Results table

Particulars	Q4FY10	Q4FY09	% yoy	FY2010	FY2009	% yoy
Total income	3399.5	1883.4	80.5	11921.0	8776.2	35.8
Total expenditure	2622.4	1597.6	64.1	9328.4	7607.0	22.6
Operating profits	777.1	285.8	171.9	2592.6	1168.8	121.8
Other income	42.5	22.9	85.5	122.5	104.3	17.4
EBIDTA	819.6	308.8	165.5	2715.1	1273.1	113.3
Interest	0.0	5.2	-	6.0	21.0	-
PBDT	819.6	303.6	170.0	2709.1	1252.0	116.4
Depreciation	34.1	31.3	9.0	136.4	129.8	5.1
PBT	785.5	272.3	188.5	2572.6	1122.3	121.2
Tax	207.5	59.1	251.0	707.5	301.6	134.6
Adj. profit after tax	578.0	213.2	171.2	1865.1	820.7	127.3
Extraordinary items	49.1	82.9	-40.7	-165.2	-167.0	
Reported PAT	528.9	130.3	306.0	1700.1	654.5	159.8
OPM (%)	22.9	15.2		21.7	13.6	

- ♦ The Reserve Bank of India (RBI) has come out with revised pricing guidelines for the transfer of shares by Indian residents to non-residents. The revised guidelines are a strong positive for Bajaj Finserv and could lead to an upside potential of Rs417.5 (best case scenario) for the company.
- ♦ We have revised our target price to factor in the potential upside arising out of the RBI circular. However as we do not have complete clarity of the impact of the circular on Finserv's agreement with Allianz and are of the opinion that although the price of the stake transfer will be revised upward it could still be at a considerable discount to the fair value. Thus our target price is an average of the target prices arising of the following two scenarios 1) Factoring in the potential upside from the RBI circular and 2) Factoring in zero upside arising out of the RBI circular. In the event that the stake transfer between Finserv and Allianz takes place at fair value, the scenario would provide further upside to our estimates.
- ♦ We value the company using the sum-of-the-parts method and revise our target price upwards to Rs572 while downgrading our recommendation to Hold due to a significant run up in the stock price of Bajaj Finserv as a reaction to the RBI circular.

Segment break-up

Rs (cr)

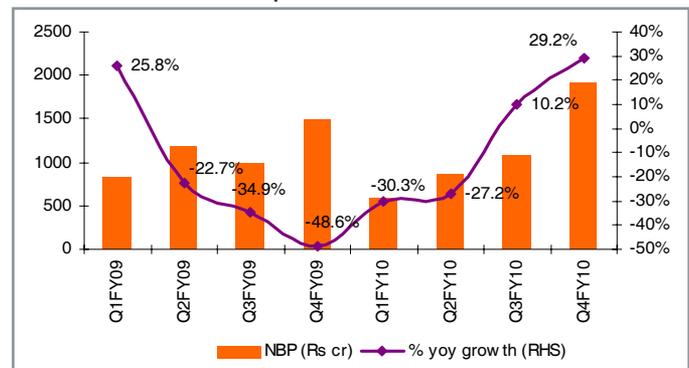
Particulars	Q4 FY10	Q4 FY09	% yoy	FY10	FY09	% yoy
Revenues						
General insurance	713.6	721.5	-1	2153.0	2141.8	1
Life insurance	4805.9	4361.6	10	21458.0	7590.0	183
Investment & others	35.2	31.7	11	127.0	94.8	34
Windmill	4.9	6.2	-21	43.0	41.6	4
Total revenues	5559.6	5121.0	9	23781.0	9868.2	141
Pre-tax profit/loss						
General insurance	50.0	74.4	-33	179.6	149.6	20
Life insurance	542.2	80.8	571	557.0	-70.7	-888
Investment & others	17.4	16.3	7	58.3	60.8	-4
Retail financing	11.3	6.3	78	38.2	14.0	174
Windmill	-4.7	-2.5	92	-2.8	0.7	-526
Profit before tax	616.1	175.3	251	830.3	154.4	438
Tax	30.3	35.0	-13	98.8	77.0	28
Net profit	586.0	140.0	319	731.5	77.0	850
Less: Minority int	147.6	33.0	347	172.4	6.0	277
Net profit after Minority int	438.5	107.0	310	559.1	71.0	687
Adjustment on revaluation of deferred tax	4.6	0.0		4.6		
Net profit	433.9	107.0	305	554.5	71.0	681

Life insurance business turns profitable

During Q4FY2010 BALIC reported a full year profit for the first time since its inception. During Q4FY2010 the company reported a pre-tax profit of Rs542.2 crore, a 5.7x growth over that of the year-ago quarter. As a result of the strong Q4FY2010 performance, the company recorded a shareholder profit of Rs542 crore for FY2010 as compared to a loss of Rs71 crore in FY2009.

The company managed to display a strong bottom line performance despite a muted growth of 7.5% in its gross written premiums to Rs11,420 crore for FY2010 and an 8.75% contraction in its annual premium equivalent (APE) for the year. This was largely due to the stringent cost control measures implemented by the company.

Growth in new business profits



General insurance: Strong growth in profits

The company's gross written premium for Q4FY2010 grew by 6.3% yoy to Rs924 crore. However, for the full year the gross written premium (GWP) contracted by 5% yoy as the company continued to focus on reducing its exposure to loss-making businesses and concentrated on cost control and profitability. Despite a fall in its GWP BAGIC has maintained its second rank among the private insurers with a market share of 7.2%.

For the fourth quarter the company has reported a pre-tax profit of Rs50 crore, down 33% yoy. The fall was a result of an underwriting loss incurred by the company during the quarter. For the full year, however, the company reported an underwriting profit of Rs6 crore (as compared to a loss of Rs20 crore in FY2009) and a PAT of Rs121 crore, up a strong 27% yoy.

Auto finance: Strong growth in disbursements

BAFL, the automobile and consumer financing arm of the group, witnessed a strong quarter in terms of business growth with its disbursements growing by 104% yoy to

Rs1,320 crore. The growth in the disbursements was due to a strong growth in the mortgages (up 97% yoy), small business loans (up 73% yoy) and loans for two- and three-wheelers (up 122% yoy). For Q4FY2010, the company has reported a 44.1% y-o-y growth in its total operating income to Rs252.8 crore and a strong 67.2% y-o-y growth in its PAT to Rs25.2 crore.

Stand-alone performance

On a stand-alone basis, the reported PAT for the quarter stood at Rs2.46 crore, down 62% yoy. The PAT contracted as a result of adjustments on revaluation of the deferred tax assets; excluding the same the net profit grew by 10% yoy to Rs7.05 crore.

Revised RBI guidelines on share transfer to benefit Bajaj Finserv

The RBI has come out with revised pricing guidelines for the transfer of shares by Indian residents to non-residents. As per the revised guidelines transfer of shares of companies that are not listed on any stock exchange has to take place at a price not less than the fair value to be determined as per the discounted free cash flow method. According to the earlier guidelines, the transfer of shares by Indian residents to non-residents could take place at a fair valuation as per the guidelines issued by the Controller of Capital Issues (CCI). As a result of the revised guidelines, stake transfer to foreign entities by an Indian company are likely to take place at higher valuations, as the discounted cash flow method would provide a more realistic value of the company as compared to the method issued by the CCI.

The revised guidelines are likely to benefit Bajaj Finserv as both the insurance arms, life insurance and general insurance, are by way of a joint venture with Germany-based Allianz. Allianz has an option to increase its stake in the joint venture to 74% in the case of the life insurance business and to 50% in the case of the general insurance business at a pre-determined price up to 2016. The pre-determined price for the transfer of additional stake is at a high discount to the fair value and with the introduction of the revised guidelines, the stake transfer, whenever it takes place, will likely be revised upward to reflect the fair value of the businesses.

Potential upside to the stock of Bajaj Finserv

Assuming a scenario in which the foreign direct investment ceiling in the insurance industry will be revised upward to 74%, the potential upside to the stock of Bajaj Finserv would be as follows.

	Firm value (Rs cr)	Stake sale to Allianz (%)	Value (Rs cr)	Value per share (Rs)
Life insurance	11507.5	48	5523.6	380.9
General insurance	2209.7	24	530.3	36.6
Total			6053.9	417.5

Outlook and valuation

Bajaj FinServ has reported a strong set of numbers for Q4FY2010 as well FY2010, aided by the profitability of the life insurance business. Bajaj FinServ's Q4FY2010 results clearly indicate the company's shifting focus towards profitable business growth through cost control measures and underwriting of high-margin business in the insurance segment. Going ahead, we expect the life insurance segment to continue to grow its profits and wipe out the accumulated losses completely in the near future. Further, the revised RBI circular is a strong positive for the company and lends significant upside potential to the stock of Bajaj FinServ.

We have revised our target price to factor in the potential upside arising out of the RBI circular. However as we do not have complete clarity of the impact of the circular on Finserv's agreement with Allianz and are of the opinion that although the price of the stake transfer will be revised upward it could still be at a considerable discount to the fair value. Thus our target price is an average of the target prices arising of the following two scenarios 1) Factoring in the potential upside from the RBI circular and 2) Factoring in zero upside arising out of the RBI circular. In the event that the stake transfer between Finserv and Allianz takes place at fair value, the scenario would provide further upside to our estimates.

We value the company using the sum-of-the-parts method and revise our target price upwards to Rs572 while downgrading our recommendation to Hold due to a significant run up in the stock price of Bajaj Finserv as a reaction to the RBI circular.

Valuation matrix	Scenario 1 FY2012	Scenario 2 FY2012
Life Insurance (26% stake)	206	206
General Insurance (26% stake)	40	40
Auto Finance (42% stake - 1x BV)	66	66
Investments (at cost and 50% discount)	51	51
Value per share	363	363
adding upside from RBI circular	417	
Total value per share	780	363
Price target		572
(average of the two scenarios)		

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Alphageo India
Allied Digital Services
Axis Bank (UTI Bank)
Cadila Healthcare
Emco
Greaves Cotton
Max India
Network 18 Media & Investments
Opto Circuits India
Patels Airtemp India
Thermax
Zydus Wellness

Ugly Duckling

BASF India
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
India Cements
Ipsa Laboratories
ISMT
Jaiprakash Associates
Mold-Tek Technologies
Orbit Corporation
Pratibha Industries
Punjab National Bank
Ratnamani Metals and Tubes
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Sunil Hitech Engineers
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
Zensar Technologies

Vulture's Pick

Esab India
Mahindra Lifespace Developers
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