

Robust finance business, insurance pickup to continue

Bajaj Finserv's delivered healthy performance in terms of topline at 43.5% YoY to ₹ 12995 crore, led by healthy traction in all the segments. On earnings, commercial finance continued to report healthy growth trajectory, profitability of general & life insurance business remained subdued.

A distinguished business model with focus on affluent masses (consumer durables) and focus on asset quality led to continued strong in AUM. Robust growth of 41% YoY in AUM led to 50% YoY traction in NII to ₹ 3395 crore. Stable asset quality with GNPA ratio at 1.54%, led to healthy growth in profitability at 57% YoY to ₹ 1176 crore.

Strong business model reporting underwriting profit with <100% combined ratio & extensive retail focus, enables general insurance segment to report RoE>24%. Premium accretion continued to remain strong at 23% YoY to ₹ 3402 crore. Excluding non-crop insurance, GWP grew 17% YoY to ₹ 2551 crore, while crop insurance written stood at ₹ 851 crore in Q4FY19; up 47% YoY. Higher claims (ratio-75.5% vs. 67.9%), provision of ₹ 115 crore in lieu of Rabi crop and cost incurred to strengthen retail distribution led to underwriting loss of ₹ 146 crore vs. profit of ₹ 30 crore in Q4FY18. Accordingly, combined ratio increased to 103.9% in Q4FY19 compared to 93.4% in Q4FY18. Exposure to IL&FS has been provided, while exposure to other stressed groups remain standard. Expect growth momentum to continue with 21% CAGR in premium in FY19-21E to ₹ 16251 crore.

Life insurance has been on a slower foot in the past. However, a continuous pick-up is witnessed in premium accretion. Healthy growth in renewal at 15% YoY and improving trend in new business premium at 23% YoY, led premium grow at 23% YoY to ₹ 3290 crore. Rated individual business grew 45% YoY to ₹ 689 crore, while group new business increased 23% YoY to ₹ 1109 crore. Provision of ₹ 40 crore in lieu of exposure to IL&FS and initial expense led by premium accretion kept PAT subdued at ₹ 112 crore. Expect premium to grow at 13% CAGR to ₹ 11219 crore in FY19-21E.

Valuation & Outlook

Bajaj Finserv continued to deliver robust performance with assertive outlook. Strong parentage and focus on productivity enabled to tide over market wide liquidity concerns. We remain positive on the stock due to 1) continued robust growth in finance business with strong outlook, 2) strong growth in GI coupled with focus on productivity and 3) pick-up in premium accretion in life insurance as earlier investment have started yielding business. Rolling over to FY21E, we revise our target price to ₹ 8500 (earlier ₹ 6900), based on SOTP valuation, implying a multiple of 22.8x on FY21E consolidated earnings. We remain positive on the fundamentals, however, with recent run up in stock price, we change our recommendation to **HOLD**.



Particulars

Particular	Amount
Market Capitalization	₹ 100141 crore
Net worth	₹ 31501 crore
52 week H/L (₹)	7200/4444
Equity capital	₹ 80 Crore
Face value	₹ 5
DII Holding (%)	6.7
FII Holding (%)	7.9

Key Highlights

- Robust traction in finance business remains abated with strong outlook
- Continued focus on growth in general insurance along with focus on underwriting profits
- Earlier investment in life insurance to yield growth in life insurance premium; profitability to follow later
- Recommend HOLD with a target price of ₹ 8500

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Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	24,508.5	32,457.4	42,608.2	50,911.6	62,361.7	21%
PBT	4,924.5	6,057.3	8,069.5	10,527.0	13,797.7	31%
PAT	2261.9	2608.8	3133.5	4271.2	5580.9	33%
EPS (₹)	142.2	164.0	196.9	268.4	350.7	
BV (₹)	994.0	1302.1	1497.3	1763.9	2112.9	
P/E	56.1	48.7	40.5	29.7	22.8	
P/BV	8.0	6.1	5.3	4.5	3.8	
RoA	1.9	1.8	1.6	1.8	1.9	
RoE	15.5	14.3	14.1	16.5	18.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
General Insurance	3402.3	3316.9	2,764.1	23.1	2,547.0	33.6	Excluding group insurance, accretion remained healthy at 17% YoY, while crop insurance grew at ~46% YoY
Life Insurance	3289.9	2963.7	2,670.0	23.2	2,123	54.9	Growth in new business premium increased 30% YoY to ₹ 1818 crore. Renewal premium growth remained healthy at
Net premium earned	6692.2	6280.6	5,434.1	23.2	4,670.2	43.3	
Investment and other income	1839.0	1105.0	902	103.9	1,979	-7.1	
Reinsurance Ceded	423.6	628.1	421	0.6	341	24.1	
Reserve for unexpired risk	325.7	100.0	325	0.3	129	152.8	
Total Insurance	7782.0	6657.6	5,590.3	39.2	6,178.9	25.9	
Retail financing	5268.8	5308.4	3,483	51.3	4,995	5.5	Robust growth in AUM, steady margins and asset quality led healthy growth in finance segment
Windmill	15.7	17.5	16.7	-5.7	10.1	56.0	
Investment and others	51.4	40.0	16	218.3	54	-4.1	
Total	12994.5	11991.5	9,057	43.5	11,142	16.6	
Interest and Finance Charges	1883.7	664.6	1,209.3	55.8	1,782.0	5.7	Provision pertaining to investments in insurance business and cost related to strengthening distribution kept cost higher
Other Exp	8980.7	8983.7	6,302.2	42.5	7,135.6	25.9	
Total Expenses	10864.5	9648.3	7,511.4	44.6	8,917.6	21.8	
PBT	2130.1	2343.2	1,546.0	37.8	2,224.0	-4.2	
PAT	838.7	899.8	637.0	31.7	850.5	-1.4	Continued traction in finance segment; GI remained subdued

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E
	Old	New	% Change	Introduced
Total Income	50,911.6	50,911.6	0.0	62,361.7
PBT	10,527.0	10,527.0	0.0	13,797.7
PAT	4,271.2	4,271.2	0.0	5,580.9
ABV (₹)	1,763.9	1,763.9	0.0	2,112.9

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier
	FY18	FY19	FY20E	FY21E	FY20E
Commercial Finance growth (%)	41.5	37.9	33.8	32.8	33.8
Life Ins Premium growth (%)	22.6	16.9	12.5	12.6	12.5
General Ins GWP growth (%)	23.4	17.0	21.0	21.0	21.0

Source: Company, ICICI Direct Research

Outlook and valuation

Given Bajaj’s strong leadership in the domestic market and presence in growing business verticals, we expect the entity to continue its focus on improvement in earnings growth and sustenance of a healthy balance sheet.

We factor in healthy growth in premiums and AUM, along with rising overruns in life insurance and opex in finance. Going ahead, we expect consolidated revenue, PAT to grow at a CAGR of 21%, ~33% to ₹ 62362 crore, ₹ 5581 crore, respectively, in FY19-21E.

Bajaj Finserv continued to deliver robust performance with assertive outlook. Strong parentage and focus on productivity enabled to tide over market wide concerns on liquidity. We remain positive on the stock due to 1) robust growth in finance business continue to remain abated coupled with strong outlook, 2) strong growth in GI coupled with focus on productivity and 3) pick-up in premium accretion in life insurance as investment started yielding business. Rolling over to FY21E, we revise our target price to ₹ 8500 (earlier ₹ 6900), based on SOTP valuation, implying a multiple of 22.8x on FY21E consolidated earnings. We remain positive on the fundamentals, however, with recent run up in stock price, we change our recommendation to **HOLD**.

Exhibit 4: SOTP Valuation

Business	Basis	Stake (%)	Business Value	Value of stake (₹ crore)	Value/ share after 15% discount (₹)
Bajaj Allianz Life Insurance	1.5x EV	74	25843	19095	914
Bajaj Allianz General Insurance	23x PAT	74	32053	23719	1064
Bajaj Finance	30x EPS	55.0	221483	121794	6506
Windmill	₹4 per mw	100	260	260	15
Total					8500

Source: Company, ICICI Direct Research

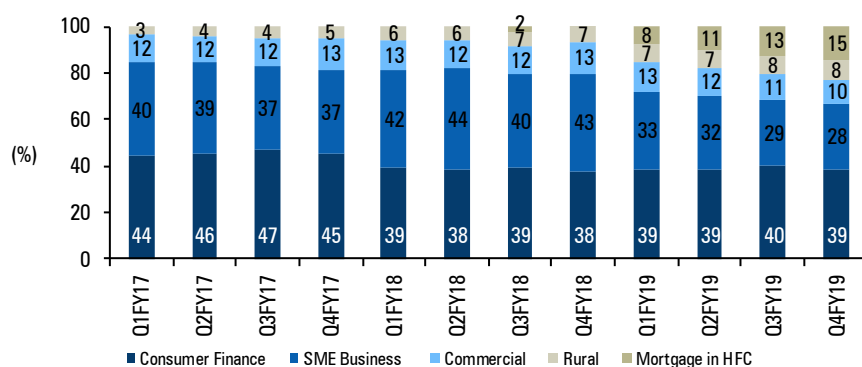
Story in Charts

Exhibit 5: Consolidated profit summary

Particulars	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
General Insurance	1722	2260	1973	2857	1892	2764	2429	2718	2547	3402
Life Insurance	1485	2248	1154	2016	1739	2670	1361	2083	2123	3290
Total Insurance	3614	4368	4709	5207	4628	5590	4862	5404	6179	7782
Investments & others	28	26	16	131	17	16	18	337	54	51
Windmill	7	12	15	23	18	17	16	29	10	16
Retail financing	2700	2673	2834	3066	3374	3483	3941	4296	4995	5269
Less: Inter-segment revenue	33	36	38	161	32	49	67	367	96	123
Total revenue	6317	7043	7536	8266	8005	9057	8771	9698	11142	12995
Interest and Finance Charges	961	960	1050	1109	1168	1209	1334	1540	1782	1884
Other Exp	3978	4913	5227	5574	5128	6302	5447	6348	7136	8981
Total Expenses	4939	5873	6277	6682	6296	7511	6781	7888	8918	10864
PBT	1378	1171	1259	1584	1709	1546	1990	1810	2224	2130
PAT	614	535	584	698	730	637	826	704	851	839

Source: Company, ICICI Direct Research

Exhibit 6: Consumer finance & SME to remain major contributor



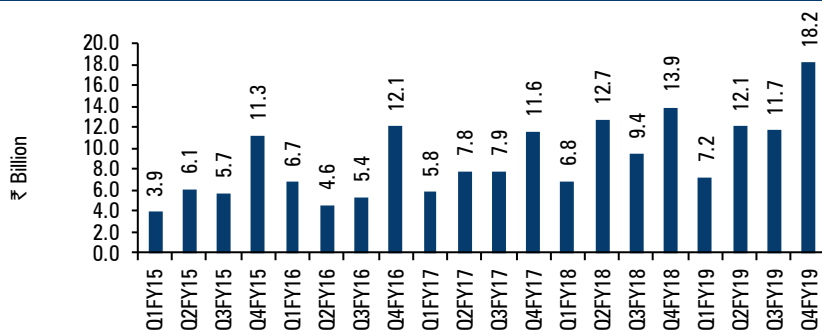
Source: Company, ICICI Direct Research

Exhibit 7: Strong AUM traction to boost performance

₹ crore	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Nil	1477	1760	1909	2192	2261	2573	2689	3201	3395
Total income	1689	1761	1925	2195	2265	2578	2729	3203	3396
Total expenses	709	743	781	853	894	954	980	1119	1174
Provision	290	305	221	278	227	327	315	454	401
PBT	691	713	923	1064	1144	1297	1435	1630	1821
Loan outstanding	60194	68883	72669	76384	78852	86042	89876	96248	98859

Source: Company, ICICI Direct Research

Exhibit 8: Life insurance premium (NBP) growth came healthy in Q4FY19



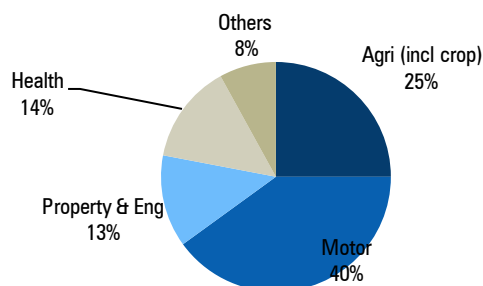
Source: Company, ICICI Direct Research

Exhibit 9: Pickup in life business to continue ahead

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Total premium	1154	2016	1739	2670	1361	2083	2123	3290
New business premium	683	1271	944	1394	721	1213	1171	1818
Renewal premium	471	745	795	1276	640	870	952	1472
Policyholder profits	42	49	37	64	21	18	35	31
Shareholder profits*	154	137	126	107	125	114	77	81
Total profits	196	186	163	171	146	132	112	112
Solvency ratio (%)	598	608	600	592	770	749	767	804

Source: Company, ICICI Direct Research

Exhibit 10: General insurance business mix, robust traction across segments



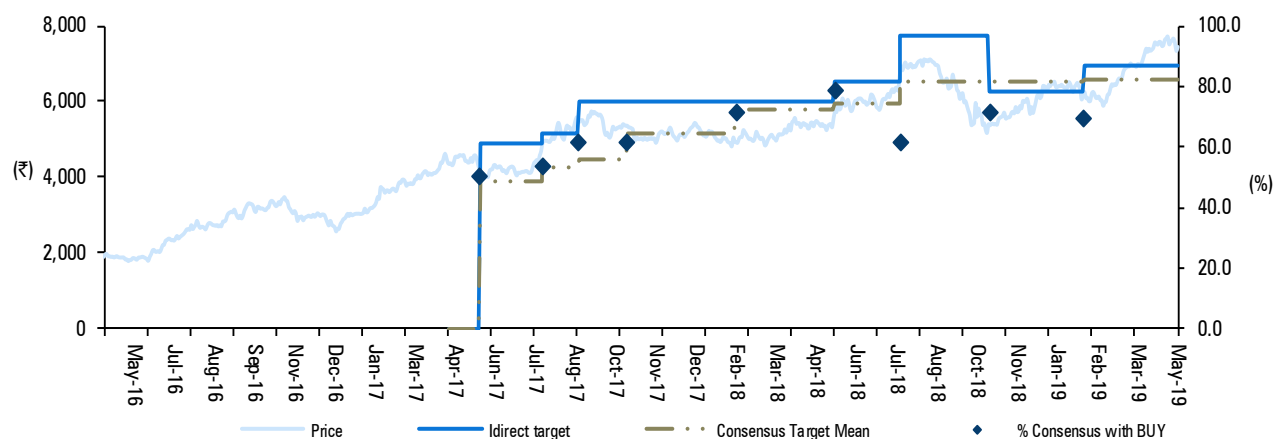
Source: Company, ICICI Direct Research

Exhibit 11: Higher claims pushed combined ratio above 100% in Q4FY19

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Gross Premium	1973	2857	1892	2764	2429	2718	2547	3402
Net Earned Premium	1334	1589	1486	1650	1612	1679	1801	1917
Underwriting profit	12	138	113	30	128	-12	48	-146
Investment income	300	247	269	244	307	286	273	268
PBT	312	385	382	274	435	274	321	122
PAT	213	260	262	185	291	182	224	83
Claim Ratio (%)	69	68	62	68	66	68	64	76
Combined Ratio (%)	96	89	92	93	90	97	94	104

Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Name	est Filing Date	% O/S	sition (m)	range (m)
1	Bajaj Group of Industries	31-03-2019	54.51%	86.72M	+0.03M
2	Firodia Group of Industries	31-03-2019	3.85%	6.13M	+0.02M
3	Life Insurance Corporation of India	31-03-2019	2.16%	3.44M	0
4	Bajaj (Niraj)	31-03-2019	1.74%	2.77M	+0.94M
5	Yamuna Trust	31-12-2018	1.15%	1.83M	0
6	Bajaj (Rahul Kumar)	31-03-2019	1.05%	1.66M	0
7	ICICI Prudential Asset Management Co. Ltd.	31-03-2019	0.96%	1.53M	-0.04M
8	The Vanguard Group, Inc.	31-03-2019	0.87%	1.38M	-0.01M
9	BlackRock Institutional Trust Company, N.A.	30-04-2019	0.87%	1.38M	-0.00M
10	SBI Funds Management Pvt. Ltd.	31-03-2019	0.76%	1.22M	-0.12M

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Bajaj (Niraj)	+95.2M	+0.94M	DSP Investment Managers Pvt. Ltd.	-12.07M	-0.12M
Goldman Sachs Asset Management International	+7.14M	+0.08M	SBI Funds Management Pvt. Ltd.	-11.88M	-0.12M
Norges Bank Investment Management (NBIM)	+6.71M	+0.07M	Reliance Nippon Life Asset Management Limited	-4.67M	-0.05M
Caisse de Depot et Placement du Quebec	+3.40M	+0.04M	ICICI Prudential Asset Management Co. Ltd.	-4.39M	-0.04M
Bajaj (Shekhar P)	+3.68M	+0.04M	L&T Investment Management Limited	-2.86M	-0.03M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	58.4	58.4	58.4	58.4	58.4
FII	7.8	7.5	7.4	7.9	8.3
DII	7.0	7.3	7.3	6.7	6.5
Others	26.9	26.9	27.0	27.1	26.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Revenue				
<i>Life Insurance</i>	7578	8856	9961	11219
<i>General Insurance</i>	9487	11100	13430	16251
Total	17065	19956	23392	27469
Less: Reinsurance ceded	2815	2279	3960	4775
Reserve for unexpired risk	674	111	-269	-325
Net Insurance Premium Earned	13577.0	17566.0	19700.6	23019.7
Investment and other income	5392.3	6659.9	6607.4	7080.5
Total Insurance Income	18969.3	24225.8	26308.0	30100.3
Investment and others	229.4	458.8	550.5	660.6
Retail financing	13465.9	18501.8	24692.8	32308.4
Windmill	72.0	75.5	79.3	83.3
Total	32736.5	43261.9	51630.6	63152.7
Less: Inter-segment revenue	279.1	653.7	719.1	791.0
Total revenue	32457	42608	50912	62362
Pre-tax profit				
<i>General Insurance</i>	1346	1254	1697	2020
<i>Life Insurance</i>	793	772	849	934
Total Insurance	2139	2026	2546	2953
Retail financing	3917	6180	8060	10943
Investments & others	-28	-157	-110	-132
Windmill	30	20	32	33
Total PBIT	6057	8070	10527	13798
Less: Interest	-28	-157	-110	-132
Profit before tax	6057	8070	10527	13798
Tax	-1922	-2781	-3638	-4796
Net profit before minority	4135	5288	6889	9001
Minority and deferred tax adjustment	1526	2155	2618	3421
Net profit	2609	3134	4271	5581

Source: Company, ICICI Direct Research

Exhibit 18: Key Ratio				
(Year-end March)	FY18	FY19P	FY20E	FY21E
CMP	7981.2	7981.2	7981.2	7981.2
No. of shares in mn	159.1	159.1	159.1	159.1
EPS	164.0	196.9	268.4	350.7
BV	1302.1	1497.3	1763.9	2112.9
RoA	1.8	1.6	1.8	1.9
RoE	14.3	14.1	16.5	18.1
P/BV	6.1	5.3	4.5	3.8
P/E	48.7	40.5	29.7	22.8
(Year-end March) - Growth ratios	FY18	FY19P	FY20E	FY21E
Gross Written Premium				
- Life	22.6	16.9	12.5	12.6
- General	23	17	21	21
Loan book Bajaj Finance	41	38	34	33
Consol Networth	31	15	18	20
Consol Revenues	32	31	19	22
Consol PAT	15	20	36	31
Consol Effective Tax rate	32	34	35	35

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet				
(Year-end March)	FY18	FY19P	FY20E	FY21E
Sources of Funds				
Shareholders' Funds	2072	2382	2807	3362
- Share capital	80	80	80	80
- Reserves & Surplus	20639	23745	27988	33541
Policy liabilities	19659	23388	27485	32848
Provision for linked liabilities	29488	36582	44844	53594
Funds for future appropriation in polic	436	484	508	533
Minority interest	11047	13202	15820	19240
Loan funds	52862	101588	123429	164161
Defered tax liability (net)	7	7	8	8
Current liabilities	24001	22801	21661	20577
Provisions	908	944	982	1021
Total liabilities	159126	222820	262805	325603
Applications of Funds				
Fixed assets	1090	1763	1797	1953
Goodwill on investments in associat	689	689	689	689
Investments	10369	33707	43602	56166
Policyholders' Investments	33001	34398	35817	36488
Assets held to cover linked liabilities	20778	24386	26785	29678
Deferred Tax Assets (net)	440	462	485	509
Current assets	11160	14901	3135	217
- Receivable under financing activity	81600	112513	150495	199903
Misc Expenditure	0	0	0	0
Total Assets	159126	222820	262805	325603

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)	Rating		FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	
LIC Housing Finance (LICHF)	491	540	Hold	24,797	39.9	46.2	53.6	12.3	10.6	9.2	2.1	1.8	1.5	1.2	1.3	1.3	16.9	16.3	15.8	
Reliance Capital (RELCAP)	115		UR	3,096	51.7	44.2	53.9	2.2	2.6	2.1	0.2	0.6	0.5	1.5	1.2	1.4	10.0	12.5	25.5	
HDFC (HDFC)		1,980	2,195	Hold	340,835	65.4	57.5	61.2	30.3	34.5	32.3	6.2	5.4	5.0	3.0	2.3	2.1	23.5	16.4	16.1
Bajaj Finserv (BAFINS)		7,981		UR	127,010	164.0	208.9	273.7	48.7	38.2	29.2	6.1	5.3	4.5	1.8	1.8	1.9	14.3	14.9	16.6
Bajaj Finance (BAJFI)		3,284	8,500	Hold	189,764	44.4	69.3	89.1	74.0	47.4	36.8	13.3	10.5	6.8	2.9	3.5	3.6	18.7	22.4	21.5
Mahindra & Mahindra Finar	376	500		Buy	23,253	18.5	25.3	29.9	177.3	129.6	109.7	32.0	26.5	22.7	2.2	2.6	2.6	13.4	15.2	15.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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