

## Company Update

# Bajaj Finserv Ltd

Bloomberg Code: BJFIN IN

India Research - Stock Broking

**BUY**

## Strong Life Insurance Performance; Welcome Breeze for the Franchise

In Q1FY21, Bajaj FinServ reported consol PAT of Rs. 12152 Mn, up by 44% YoY and Net Worth of Rs. 329571 Mn, up by 32% due to a) MTM gains on BALIC and BAGIC investments of Rs. 3300 Mn. Q1 saw growth moderation for a) BAF with reported contingency provision of Rs. 5740 Mn. with PAT declined by 19% and growth of total income by 14% and AUM growth of 7% on YoY, but this quarter growth is supported by a) BAGIC posted PAT growth on YoY by 88% on GWP of Rs. 22891 Mn with YoY de-growth of 19% b) BALIC witnessed PAT growth by 111% on YoY basis on GWP of Rs. 16997 Mn with a de-growth of 7%.

BFLs Business operations in Q1FY21 saw the restart of Sales finance, Auto, LAS and Gold loan businesses for both rural and urban in the second week of May 2020, Home loan and credit card distribution started in June 2020 and other businesses started in July 2020. Liquidity position remains very strong with an overall liquidity surplus of approximately Rs. 17,700 Cr as of 30 June 2020 on a consolidated basis.

Lockdown though adversely impacted net sales, where motor insurance has seen de-growth of 32.6% YoY and travel insurance has shown no growth in Q1FY21, but the demand for retail health insurance has picked by 15.5% and fire insurance saw a significant growth of hardening reinsurance terms. BAGIC GWP de-grew by 19% in Q1FY21 with GMC and government health de-grew by 11.3%. Higher margins are set for IBNR reserving due to lockdown uncertainties. PAT has increased due to improved loss ratio with the addition of new partners as Punjab and Sind Bank and Home Credit in Banca; Citroen in Motor Dealers and PayTm.

BALIC individual rated premium growth was flat and group protection business de-grew by 78%, but renewals showed growth of 16%. The institutional business has grown by 28% for Q1FY21. PAT has impacted by impairment of Rs. 126 Cr and partially offset by increased new business strain and increased overruns.

## Valuation and Outlook

Valuation for the firm is done by SOTP on target of Rs. 3878 for BAF at 1 year forward P/BV of 5.7x, Rs. 386 for BAGIC, and Rs. 175 for BALIC with consideration of holding company discount with 20% to reach Bajaj Finserv equity target price at Rs.8722 with upside potential of 37%. We rate the stock as **'BUY'**. Upside potential risk for the stock is improvement in PAT margin for BALIC and AUM growth for BAGIC.

### Exhibit 1: Valuation Summary

YE Mar (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	328624	426040	368096	400323	461208
PBT	60987	81547	115135	122310	166620
Net Profit	41763	53738	82897	91733	124965
EPS (Rs.)	167.0	202.0	313.0	346.0	471.0

Source: Company, Karvy Research

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### Recommendation (Rs.)

CMP (as on Jul 22, 2020)	6350
Target Price	8722
Previous Target Price	8669
Upside (%)	37

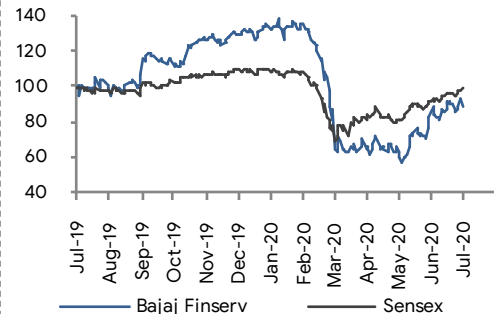
### Stock Information

Mkt Cap (Rs.Mn/US\$ Mn)	1010466/13544
52-wk High/Low (Rs.)	10297/3986
3M Avg. daily volume (Mn)	0.045
Sensex/Nifty	37872/11133
O/S Shares(mn)	159.1
Face Value (Rs.)	5.0

### Shareholding Pattern (%)

Promoters	60.8
FII's	8.0
DII's	6.4
Others	24.7

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Analyst Contact

**Sachin Mittal**

sachin.mittal@karvy.com

We think that on a structural basis, Bajaj Finserv's insurance businesses are likely to benefit from the coronavirus pandemic in the long run (even though they might be impacted in the near term due to lockdown) as the demand for health insurance and pure protection picks up. Currently in the lending businesses, investors are concerned about the trajectory of growth, asset quality and liability book. However, in insurance, the concerns currently are limited only to near-term growth as being a liabilities business, they are unlikely to see liquidity concerns and insurance companies' assets are mostly invested in less riskier government and high rate corporate bonds (in addition, there is low proportion of equity in the non ULIP book of most Insurance companies). Thus we do not expect Insurance business valuations to act as a cushion to Bajaj Finserv's SOTP.

**Exhibit 2: Quarterly Performance**

YE Mar (Rs. Mn)	Jun'20	Mar'20	Jun'19	YoY (%)	QoQ (%)
Total Revenue	141920	132943	122723	15.6	6.8
General Insurance PBT	7094	146	3114	127.8	4,775.4
Life Insurance PBT	4610	(4475)	912	405.5	(203.0)
Investments	(590)	(452)	(588)	0.2	30.6
Retail Financing	14532	12674	19079	(23.8)	14.7
Windmill	36	36	35.8	(0.8)	(0.8)
PBT	25681	7929	22552	13.9	223.9
Tax Expense	6459	2528	8010	(19.4)	155.5
PAT	19222	5401	14542	32.2	255.9

Source: Company, Karvy Research

**Cautious but steady in a tough quarter:**

Bajaj Finance (BAF) reported a Q1FY21 PAT of Rs. 9.6 Bn, down 19.5% YoY, alongside growth guidance of 10-12% (revisit possible in H2FY21), higher credit costs guidance of 100- 110% (vs 80-100%) increase in FY21 provisions vs pre-COVID19 levels and a moratorium book which is now down to 15.7% of AUM. Profitability was impacted by lower volumes, Rs. 2.2bn interest income reversal on moratorium book and an additional Rs. 14.5 Bn in COVID19 provisions (total COVID19 provisions stand at 170 bps of AUM as of Jun'20). Operating performance was strong with PPOP growth of 26% YoY aided by cost control – CIR down 7% YoY to 28%. Other Q1 highlights are, a) stringent LTVs, focus on the cross-selling, staggered opening of product lines resulted in 78% YoY drop in new loans booked and 70% was cross-sold, b) weak AUM growth of 7% YoY impacted by lockdown with total customer franchise up 17% YoY to 43 mn, and c) sequential improvement in GS3 ratio by 20bps to 1.4% with healthy coverage of 65%. Going forward, we expect BAF to generate healthy RoEs of 14% in FY21E assuming higher credit costs of credit at Rs. 65 Bn. Delivery of such returns despite building in CC of 440 bps showcases the highly profitable business model of BAF. This, in our opinion, will strengthen further from FY22 onwards driven by a structural decline in cost ratios leading to PPOP/Assets of 8% going into FY22. RoA for Q1FY21 was 0.7% and RoE was 2.9% after contingency provisioning of 10.8% on moratorium book to reach at Rs. 2350 Cr along with additional ECL provisioning of Rs. 623 Cr and has reversed interest income of Rs. 220 Cr. CAR for the franchise is 26.4% out of which Tier-1 is 22.6%.

Given the superior business model, strong profitability focus we believe BAF is well-positioned to navigate these challenging times. Despite factoring in higher credit costs, BAF is on track to deliver 14% RoE in FY21E given strong PPOP generation capacity. BAF remains our top pick in the NBFC space.

**Exhibit 3: Quarterly Performance**

YE Mar (Rs. Mn)	Jun'20	Mar'20	Jun'19	YoY (%)	QoQ (%)
NII	30709	39308	35599	(13.7)	(21.9)
NIM (%)	2.3	2.8	2.8	(53) bps	(46) bps
PPOP	23739	32320	29954	(20.7)	(26.6)
PAT	11953	9481	9623	24.2	26.1
EPS (Rs.)	16.0	14.8	20.7	(22.7)	8.1

Source: Company, Karvy Research

**Exhibit 4: Valuation Summary**

YE Mar (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Interest Income	77388	111847	162124	161868	200554
Net fees/commissions	9094	6490	7020	6208	7210
Operating expense	32690	41977	56628	58781	70810
EPS (Rs.)	43.0	69.0	87.0	60.0	126.0
DPS (Rs.)	4.1	4.8	10.0	10.0	10.0

Source: Company, Karvy Research

**Strong new business value growth drives EV expansion:**

BALIC in Q1FY21, GWP declined 7%, but renewal premium increased by 16% YoY. On an unweighted basis, individual new business premium declined by 0.5% YoY and further deteriorated by 40% YoY in group premiums. Product-wise, regular premium ticket size is decreased by 40% QoQ and increased by 10% YoY. Regular premium ticket size via agency also decreased by 52% QoQ and 14% YoY. PAT for Q1FY21 improved to Rs. 1300 Mn vs 617 Mn last year owing to MTM gains in investment income. BALIC balanced mix till Q1FY21 for individual rated: Unit Linked, Non-Par, Non-Par Savings, Par is 37%, 17%, 33% and 13% respectively while Group New Business mix for Group fund new business and Group protection new business is 78% and 22% respectively, b) Improvement in persistency – seen in 13<sup>th</sup> month persistency by 0 bps impacted by COVID19 lockdown, 25<sup>th</sup> month by 200 bps, 37<sup>th</sup> month by 300 bps, 49<sup>th</sup> month by 200 bps and 61<sup>st</sup> month by 100 bps. AUM for the traditional product grew by 9% but dried up for ULIP with the overall growth of total AuM by 5%. Overall, BALIC reported Net worth of Rs. 101201Mn and accumulated profits are at 88% of net worth. The solvency ratio remained robust at 760%. We build in EV CAGR of 11% over FY20-22E with margins improving to 12.5% levels by FY22E.

**Strong underwriting performance led by lower claims:**

In Q1FY21, Industry GDPI de-grew by 4% and the firm's GWP declined by 19% YoY vs 6% decline for the industry. The combined ratio stood at 97.6%. In terms of channel mix in 1Q, Direct business channel declined GWP share to 20% (-4% YoY), brokers channel improved share to 40% of GWP (+1%), Corporate Agents-Others channel improved share to 6% of GWP (+2%) with BAGIC boasting of one of the largest banca network in the GI space with 10k branches expected to add to the network post-PSU bank mergers has remained stable in the mix. AuM has increased by 12% with investment leverage at 3.13x by Q1. PAT for Q1FY21 jumped to Rs. 3949 Mn vs Rs. 2104 Mn with a growth of 88% Business mix has hugely inclined towards Prop, Public Liability and Engineering business lines from 19% to 33% and huge decline are witnessed in Motor and Crop business lines with de-growth by 700 bps and 300 bps respectively YoY. Overall, Networth increased by 16.8% with accumulated profit is 96% of net-worth. The solvency ratio remained healthy at 280%. We are building in GWP CAGR of 10% over FY20-22E with earnings CAGR of 20% aided by CORs improving to 97% level by FY22E vs 101% currently.

## Financials of Bajaj Finance

### Exhibit 5: Income Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	127444	118337	169144	168076	207764
Growth (%)	27.9	(7.1)	42.9	(0.6)	23.6
Operating Expenses	36900	41483	56628	58781	70810
EBITDA	39455	63233	76168	48391	101522
Growth (%)	37.3	60.3	20.5	(36.5)	109.8
Depreciation & Amortization	1021	1441	2946	0	0
Other Income	124	166	118	0	0
EBIT	38559	61958	73340	48391	101522
Interest Expenses	41527	67227	94732	96247	111169
PBT After Exceptional Items	38434	61791	73221	48391	101522
Tax	13471	21828	20584	12388	25990
PAT	24964	39963	52638	36003	75532
Adjusted PAT	24964	39963	52638	36003	75532
Growth (%)	37.0	60.1	31.7	(31.6)	109.8

Source: Company, Karvy Research

### Exhibit 6: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Cash & Investments	31394	85990	189266	180797	132523
Loans & Advances	800001	1137135	1413761	1447896	1746660
Fixed and Other Assets	16587	19200	40887	56663	67863
<b>Total Assets</b>	<b>847982</b>	<b>1242325</b>	<b>1643914</b>	<b>1685356</b>	<b>1947046</b>
Current Liabilities & Provisions	23932	29476	22574	41884	50571
Debt	665573	1015879	1298060	1291411	1472481
<b>Total Liabilities</b>	<b>689505</b>	<b>1045355</b>	<b>1320634</b>	<b>1333295</b>	<b>1523052</b>
Shareholders' Equity	1150	1154	1201	1203	1203
Reserves & Surplus	157328	195817	322076	350859	422791
<b>Total Network</b>	<b>158478</b>	<b>196971</b>	<b>323277</b>	<b>352062</b>	<b>423994</b>
<b>Total Network &amp; Liabilities</b>	<b>847983</b>	<b>1242326</b>	<b>1643911</b>	<b>1685357</b>	<b>1947046</b>

Source: Company, Karvy Research

### Exhibit 7: Key Ratios

YE Mar (%)	FY18	FY19	FY20	FY21E	FY22E
Cost/Income	40.4	39.7	33.5	35.0	34.1
Total Opex to NII	26.5	11.6	34.9	36.3	35.3
Total Opex to Total Income	16.1	23.2	22.0	22.8	22.7
NPL/Loan	0.5	0.6	0.5	0.5	0.5
Net NPA	0.4	0.6	0.7	1.0	1.1
Coverage	70.0	60.0	59.6	71.7	68.5
RoE	15.8	23.1	18.7	8.6	18.5
RoA	3.0	3.8	3.3	1.9	4.0
Credit Cost (%)	3.1	1.6	2.9	4.6	2.2

Source: Company, Karvy Research

## Financials of Bajaj Finserv

### Exhibit 8: Profit and Loss Statement

Particulars( In Rs MN)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenue from operations</b>					
Interest Income	137363	187763	155147	172356	199473
Dividend income	439	613	-	-	-
Rental income	40	52	-	-	-
Fees and commission income	8081	16819	-	-	-
Net gain on fair value changes	15885	19781	-	-	-
Sale of services	1396	1473	-	-	-
Premium and other operating income from insurance business	164255	198573	212949	227967	261735
Others	1165	967	-	-	-
<b>Total revenue from operations</b>	<b>328624</b>	<b>426040</b>	<b>368096</b>	<b>400323</b>	<b>461208</b>
Other Income	3	16	-	-	-
<b>Total income</b>	<b>328627</b>	<b>426056</b>	<b>368096</b>	<b>400323</b>	<b>461208</b>
<b>Expenses</b>					
Employee benefits expense	27448	38018	49423	54365	65238
Finance Cost	45310	65400	-	-	-
Fees and commission expense	12815	16928	-	-	-
Impairment on financial instruments	10349	16887	25582	42516	25079
Claims incurred pertaining to insurance business	107914	106637	-	-	-
Reinsurance ceded	27272	31193	-	-	-
Net change in insurance/investment contract liabilities	8947	37020	-	-	-
Depreciation, amortisation and impairment	1599	2261	-	-	-
Other expenses	25998	30179	177956	181131	204271
<b>Total Expenses</b>	<b>267652</b>	<b>344522</b>	<b>252961</b>	<b>278012</b>	<b>294588</b>
Share of profits of joint venture	13	14	-	-	-
<b>Profit Before Tax</b>	<b>60987</b>	<b>81547</b>	<b>115135</b>	<b>122311</b>	<b>166620</b>
i) Current Tax	19955	27378	32238	30578	41655
ii) Deferred tax	(731)	431	-	-	-
<b>Total</b>	<b>19224</b>	<b>27809</b>	<b>32238</b>	<b>30578</b>	<b>41655</b>

<b>Profit After Tax</b>	<b>41764</b>	<b>53738</b>	<b>82897</b>	<b>91733</b>	<b>124965</b>
Profit attributable to non-controlling interests	15261	21548	33242	36785	49986
<b>Profit for the year</b>	<b>26503</b>	<b>32190</b>	<b>49655</b>	<b>54948</b>	<b>74979</b>
Total comprehensive income for the year	35496	55174	82897	91733	124965
<b>Profit attributable to</b>					
Owners of the company	26503	32190	49655	54948	74979
Non-controlling interests	15261	21548	33242	36785	49986
<b>Total comprehensive income attributable to</b>					
Owners of the company	21898	33251	49655	54948	74979
Non-controlling interests	13598	21923	33242	36785	49986
Number of Equity Shares (Basic)	159133298	159135642	159135642	159135642	159137290
Number of Equity Shares (Diluted)	159133298	159159216	159135642	159135642	159137290

Source: Company, Karvy Research

#### Exhibit 9: Key Ratios

<b>YoY % Change</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
EPS Growth	17.2	21.4	4.7	63.4	36.2
PAT Margin	8.1	7.6	11.0	11.5	27.1
Price/Book (x)	402.0	471.0	143.0	218.0	179.0
RoA	1.7	1.6	2.2	2.2	2.7
RoE	12.9	13.5	18.9	17.5	19.7
Cost-Income	71.1	69.1	61.8	58.8	58.4

Source: Company, Karvy Research



Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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## Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India

Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

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