

Stock Update

Attractive business franchise, strong quarter reiterates confidence

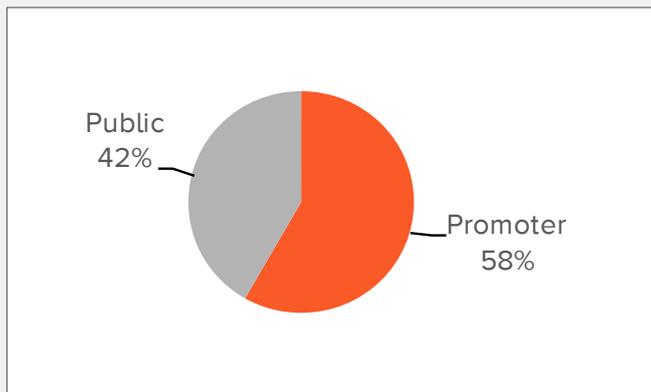
Bajaj Finserv

Reco: Buy | CMP: Rs5,727

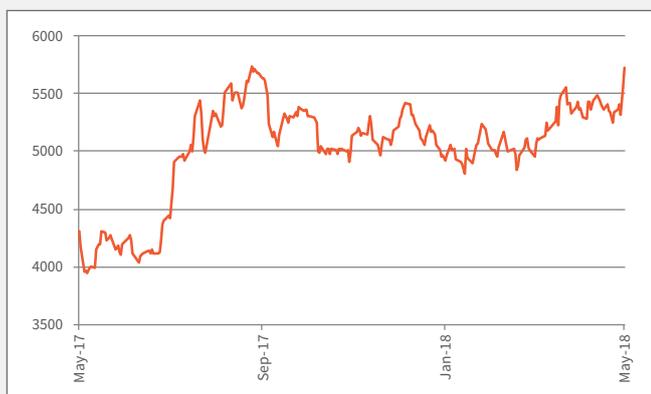
Company details

Price target:	Rs6,725
Market cap:	Rs91,139 cr
52-week high/low:	Rs5,835/3,796
NSE volume: (No of shares)	1.4 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.63 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.6	10.1	8.6	24.2
Relative to Sensex	0.4	6.4	2.8	7.0

Key points

- Impressive overall performance:** Bajaj Finserv (BFS) reported strong results for Q4FY2018, with healthy performance across all its businesses. On a consolidated basis, total income from operations increased by 25.4% y-o-y to Rs. 8,829.3 crore, while net profit increased by 28.1% y-o-y to Rs. 685.5 crore.
- Continued traction in lending business:** Bajaj Finance Limited (BFL), the lending subsidiary (54.9% shareholding of BFS), reported strong operating performance for Q4FY2018, with net interest income (NII) surging by 40.3% y-o-y to Rs. 721.0 crore. Impressive NII growth was driven by healthy growth in AUM (Rs. 80,444 crore, up 33.6% y-o-y) and expansion in net interest margin (NIM; calculated) by 36 BPS y-o-y to 13.2%, as BFL benefitted from lower cost of funds (CoF) and strong demand-led AUM growth resulting in NIM expansion. Healthy operational parameters, strong AUM growth and attractive asset quality are key differentiating factors for BFL.
- Insurance business shows traction:** BFS is present in the insurance industry via Bajaj Allianz Life Insurance (BALIC; 74% shareholding) and Bajaj Alliance General Insurance business (BAGIC; 74% shareholding). The general insurance business reported strong performance as gross written premium (GWP) increased by 22.3% y-o-y and net earned premium increased by 26.9 y-o-y. In the life insurance space, GWP reported decent growth of 18.8% y-o-y, with the rated individual business growing by 22.8% y-o-y to Rs. 474 crore.
- Outlook-Attractive play on the long-term structural theme of financialisation of savings:** We believe BFS is an attractive play on our long-term structural theme of financialisation of savings in the economy. It is a holding company and its BFL and BAGIC businesses are displaying healthy performance. We expect BFL to maintain its loan book trajectory for the medium term. BAGIC continues to demonstrate underwriting strength and ability to balance business growth with profitability. BALIC is focused on strengthening the life insurance distribution channel, which would help the company to maintain or improve its business momentum going forward and has seen improving Persistency and healthy solvency which is a positive for valuations.
- Valuation:** We believe BAGIC and BFL businesses have excellent operating metrics in their respective segments and are likely to continue the growth trend going forward. While the life insurance business is steadily improving, its high capital ratios preclude capital-infusion requirements in the near term and are attractive long-term investments for BFS. We maintain our Buy rating on BFS with a revised price target of Rs. 6,725, based on our SOTP valuation methodology.

Results					Rs cr	
Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	
Income from operations	3,681.4	2,693.3	36.7	3,598.5	2.3	
Premium and other operating income	5,147.9	4,349.9	18.3	4,066.9	26.6	
Total Income from operations	8,829.3	7,043.2	25.4	7,665.4	15.2	
Expenses	5,998.1	4,912.7	22.1	4,734.1	26.7	
Operating profit	2,831.2	2,130.7	32.9	2,931.4	-3.4	
Interest	1,216.4	960.2	26.7	1,167.8	4.2	
Profit before tax	1,614.9	1,170.6	38.0	1,763.5	-8.4	
PBT from ordinary activities	1,614.9	1,170.6	38.0	1,763.5	-8.4	
Tax	501.0	351.8	42.4	560.1	-10.5	
Profit from ordinary activities	1,113.8	818.7	36.0	1,203.5	-7.4	
Less minority interest	428.4	283.8	50.9	454.9	-5.8	
Net profit	685.5	534.9	28.1	748.6	-8.4	

Strong operating performance from Bajaj Finance:

Bajaj Finance witnessed healthy business growth as AUM was up by 33.6% y-o-y. Strong business growth was fueled by the consumer segment (46% of total AUM, up 44% y-o-y) and commercial lending (14.7% of total AUM, up 57% y-o-y). Notably, BFL has seen strong customer traction, as BFL has acquired 1.41 million new customers during the quarter, taking its total customer franchise to 26.2 million, up 30% y-o-y. This will be positive for sustaining growth as well as cross-sell opportunities for BFL. NII increased by 40.3% y-o-y to Rs. 2,365 crore, while net profit jumped by 60.6% y-o-y to Rs. 721 crore.

The existing mortgages portfolio of BAF (both core housing and LAP) will continue to run down gradually, as incremental sourcing and disbursements will happen in Bajaj Housing Finance Limited (BHFL). BHFL, which started operations in Q3FY2018, has expanded its presence (added 215 new locations in Q4FY2018) to 1,332 locations. Going forward, we expect BHFL to grow at an annual growth rate of 15-20% from its current book size of Rs. 3,589 crore.

Bajaj Finance Ltd	Q4 FY18	Q4 FY17	YoY (%)	Q3 FY18	QoQ (%)
Total income	3,557.0	2,670.0	33.2	3,543.0	0.4
Interest and finance charges	1,192.0	984.0	21.1	1,171.0	1.8
Net interest income	2,365.0	1,686.0	40.3	2,372.0	-0.3
Expenses	922.0	709.0	30.0	949.0	-2.8
Loan Loss Provision	274.0	287.0	-4.5	247.0	10.9
Profit before tax	1,099.0	690.0	59.3	1,176.0	-6.5
Profit after tax	721.0	449.0	60.6	767.0	-6.0
AUM	80,444	60,194	33.6	76,384	5.3

General insurance business healthy: BAGIC continued to demonstrate its underwriting strength and ability to balance business growth with profitability. Its combined ratio (a measure of losses + expenses against earned premium), including Motor

TP Pool Losses, was stable at 93.4% as against 92.7% y-o-y. BAGIC has maintained consistent combined ratio, below 100%, which is impressive.

BAGIC reported healthy overall GWP growth of 22.3% to Rs. 2,764 crore, while net earned premium (NEP) climbed by 26.9% y-o-y to Rs. 1,650 crore. The business mix is well diversified but strong growth in motor insurance (42% of business mix) and health insurance (16% of business mix) continues to be the key component. Claim ratio increased slightly to 67.9% in Q4FY2018 from 67.1% y-o-y, with 276% solvency ratio (well above the minimum requirement of 150%).

Bajaj Allianz General Insurance	Q4 FY18	Q4 FY17	YoY (%)	Q3 FY18	QoQ (%)
Gross Written Premium	2,764.0	2,260.0	22.3	1,892.4	46.1
Net Earned Premium	1,650.0	1,300.0	26.9	1,486.1	11.0
Interest and dividend income	244.0	212.0	15.1	269.0	-9.3
Profit before tax	274.0	247.0	10.9	382.0	-28.3
Profit after tax	187.0	165.0	13.3	262.0	-28.6

Life business shows improved growth: BALIC, which was struggling to gather momentum due to lack of a strong bancassurance partner, has picked up smartly in the past few quarters. Its focus is to grow the regular premium, which is reflected in individual-rated premium. Its individual-rated new business was at Rs. 474 crore, growing by robust 22.8% y-o-y, while the group's new business at Rs. 900 crore increased by 19.2% y-o-y in Q4FY2018. GWP at Rs. 2,670 crore and renewal premium at Rs. 1,276 crore showed healthy growth of 18.8% y-o-y and 17.4% y-o-y, respectively. Solvency margin ratio of BALIC remained strong at 592% (as against the minimum regulatory requirement of 150%); and the fact that BALIC has a surplus of Rs. 650 crore over and above the required solvency margin is likely to preclude the need for equity infusion.

Bajaj Allianz Life Insurance	Q4 FY18	Q4 FY17	YoY (%)	Q3 FY18	QoQ (%)
Gross written premium	2,670.0	2,248.0	18.8	1,739.0	53.5
New business premium	1,394.0	1,161.0	20.1	944.0	47.7
Renewal premium	1,276.0	1,087.0	17.4	795.0	60.5
Shareholders Profit	107.0	129.0	-17.1	126.0	-15.1
Transfer from policyholder account	64.0	69.0	-7.2	37.0	73.0
Profit / (Loss) for the year	171.0	198.0	-13.6	163.0	4.9
AUM	51,970.0	49,270.3	5.5	52,400.8	-0.8

SOTP Valuation	Stake %	Value per share
Life Insurance	74.0	2,471
General Insurance	74.0	742
Bajaj Finance	57.5	3,509
Investments		3
Total		6,725

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