

Stock Update

Mixed performance

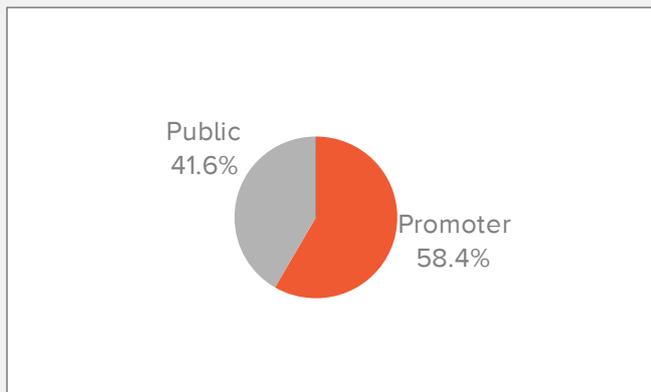
Bajaj Finserv

Reco: Hold | CMP: Rs7,993

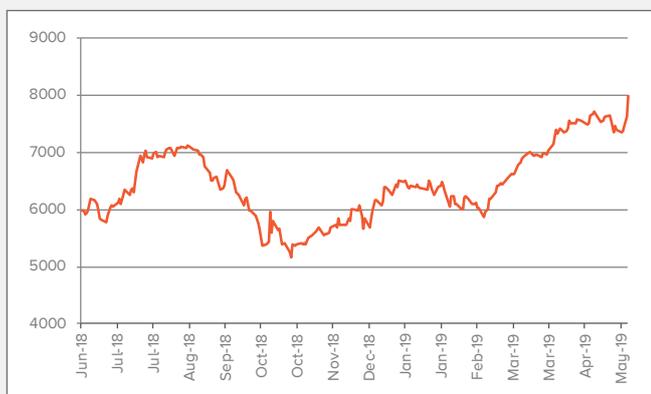
Company details

Price target:	Rs8,250
Market cap:	Rs127,194 cr
52-week high/low:	Rs8024/4960
NSE volume: (No of shares)	2.1 lakh
BSE code:	532978
NSE code:	BAJAJFINSV
Sharekhan code:	BAJAJFINSV
Free float: (No of shares)	6.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.6	21.4	29.5	62.3
Relative to Sensex	7.7	16.1	22.5	51.7

Key points

- ◆ **Healthy operating performance:** In Q4FY2019, Bajaj Finserv (BFS) posted mixed results. While the lending business performance was strong, profitability of insurance subsidiaries -Bajaj Allianz General Insurance (BAGIC) and Bajaj Allianz Life Insurance (BALIC) was weak. During Q4FY19, there was a noticeable drop in profitability of its Insurance subsidiaries due to the Kerala flood impact and higher provisions on expected losses under ECL. We believe that the impact on profitability was largely due to some one-off issues, which are less likely to recur in medium term. Hence, the consolidated income from operations grew by 55.8% y-o-y to Rs. 6403.6 crore while the premium and other income increased by 33.3% y-o-y to Rs. 6590.6 crore. At the consolidated levels, net profit witnessed a healthy growth of 31.7% y-o-y at Rs. 838.7 crore.
- ◆ **Lending business continues to outperform:** The lending subsidiary Bajaj Finance Ltd (BFL) continued with its strong performance trend and posted strong numbers for Q4 FY19, with net interest income rising by 43.6% y-o-y to Rs. 3395 crore. Net profit jumped by 48.7% y-o-y to Rs. 1176 crore. Assets under management (AUM) grew at a healthy 41% y-o-y, driven by rural and consumer loans. Despite the scorching pace of growth, the asset quality remained stable sequentially, with gross non-performing asset (GNPA) at 1.54% and a net NPA (NNPA) at 0.63% and was a key positive.
- ◆ **Outlook:** We believe the last few quarters have been challenging due to one-off events for Insurance business, which needs to be seen in perspective. We expect BFL to maintain its loan book trajectory as well as profitability and margins for the medium term which will be the key support for present valuations of Bajaj Finserv. BAGIC is expected to continue its healthy operating metrics and profitability going ahead, but the near term challenges in terms of expenses, and business mix are likely to keep profitably in a range for the medium term. We believe BALIC is focused well on strengthening its distribution channel and protection business, which would add to margins via improved operating leverage in the longer run. However, for the near to medium term, we expect BALIC profitability to

be impinged in the near term partly due to the fast pace of new business growth.

- ♦ **Valuations:** The lending subsidiary (BFL) appears well set on a strong and sustainable path of growth despite current challenging environment for NBFCs. In fact, we expect it to gain from the waning of competitive pressures, being faced by the NBFC peers. However, its Insurance subsidiaries may take longer to

see normalization in profitability even as their topline performance is encouraging. Hence, we find the operating metrics are healthy and trending for better consistently. We believe there are medium term challenges for insurance businesses, which are likely to keep upsides capped even as the lending business outlook continues to be bright. We downgrade our rating to Hold on the stock with a revised price target (PT) of Rs. 8,250.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Revenue from Operations	6,403.6	4,110.1	55.8	6,584.0	(2.7)
Premium and other Op Income from insurance	6,590.6	4,945.1	33.3	4,557.0	44.6
Other Income	0.4	0.0	850.0	0.6	(30.9)
Total Income	12,994.5	9,055.3	43.5	11,141.6	16.6
Employee Expenses	1,044.6	745.4	40.1	1,003.3	4.1
Finance Costs	1,883.7	1,209.3	55.8	1,782.0	5.7
Fees and comission expense	501.6	473.0	6.1	425.9	17.8
Impairment of financial instruments	461.6	225.5	104.7	556.4	(17.0)
Claims paid	3,141.6	3,096.0	1.5	2,394.6	31.2
Reinsurance ceded	1,172.1	805.7	45.5	633.2	85.1
Net Change in Insurance / Investmetn Liabilities	1,692.7	265.8	536.7	1,292.0	31.0
Depreciation & Amtzn.	71.2	47.8	49.0	59.9	18.9
Other Expenses	896.4	641.8	39.7	770.7	16.3
Total Expenses	10,865.4	7,510.1	44.7	8,918.1	21.8
Share of profits from JV	1.0	0.9	11.8	0.5	102.1
Profit before Tax	2,130.1	1,546.0	37.8	2,224.0	(4.2)
Tax	696.1	497.1	40.1	803.2	(13.3)
Profit from ordinary activites	1,433.9	1,048.9	36.7	1,420.8	0.9
Minority interest	595.2	411.9	44.5	570.3	4.4
Net Profit	838.7	637.0	31.7	850.5	(1.4)

Segment-wise performance

- ♦ **Strong performance by Bajaj Finance:** For Q4FY2019, Bajaj Finance Limited (BFL) posted healthy operating performance with net interest income (NII; calc) growing by 49.9% y-o-y to Rs. 3395 crore. Augmented by the strong topline performance, net profit jumped by 57.3% y-o-y to Rs. 1176.1 crore. BFL remains well capitalised (CRAR 20.7%, Tier-1 at 16.3%), which enables it to sustain its strong growth traction at least for the medium term.

During the quarter, BFL witnessed healthy traction in loan growth, with AUM growth of 41% to Rs. 1158880 crore. Despite a tough liquidity and subdued growth environment for most NBFCs, BFL added receivables of Rs. 8386 crore in Q3FY2019.

Growth was mainly led by the segments like Rural business (8% of overall book, up 69%

y-o-y), consumer lending business (39% of overall book, up 45% y-o-y) and SME business (14% of the book, up 38% y-o-y). We believe with strong credit rating, healthy liability franchisee and better pricing power in various segments, are strong positives for BFL, which thus will be able to maintain its margins and, thus, profitability going ahead.

Particulars	Rs cr				
	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %
Total Income	5308	3492	52.0	4995	6.3
Interest Expense	1913	1227	55.9	1786	7.1
Net Interest Income	3395	2265	49.9	3209	5.8
Operating Expenses	1174	894	31.3	1119	4.9
Loan loss and provisions	409	227	80.2	454	(9.9)
Profit Before tax	1812	1144	58.4	1636	10.8
Tax	636	396	60.6	576	10.4
Profit after tax	1176	748	57.2	1060	10.9
Assets under Management (AUM)	115,888	82,422	40.6	109,930	5.4

- ◆ **BAGIC performance weakened:** During Q4FY19 quarter, the general insurance business posted mixed performance, especially on the profitability front as the company observed an underwriting loss of Rs 146 crore as compared to underwriting profit of Rs 30 crore Q3FY2019, primarily due to provisions on crop insurance and technology related investments. However, investment and other income for Q4FY2019 stood at Rs. 268 crore (marginally better than Rs 244 crore in Q4FY18). Profit after tax for Q4FY19 stood at Rs. 83 crore, down 56% y-o-y, mainly on account of higher underwriting losses and provision of Rs. 20 crore (against expected losses from an investment). Including the provision of Rs. 37 crore in H9FY2019, total provisions for FY19 were Rs. 57 crore. Claim ratio improved at 75.5% in Q4FY2019 (67.9% in Q4FY2018) and combined ratio stood at 103.9% in Q4FY2019 (93.4% in Q4FY2018).
- ◆ **BALIC posted decent numbers:** BALIC, the life insurance arm, posted weak overall growth as gross written premium (GWP) increased by 23.2% y-o-y, whereas new business premium grew faster than GWP, by 30.4% y-o-y. With equity markets coming under pressure the ULIP business has seen some slowdown while the company looks to bring a balance mix between traditional and ULIP products. Rated individual new business premium and renewal premiums grew strongly by 45.4% y-o-y and 62.5% y-o-y respectively. Profit declined by 34.5% y-o-y to Rs. 112 crore on account of additional provisions of Rs 40 crore.

Particulars	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %
Gross Written Premium	3402	2764	23.1	2547	33.6
Net Earned Premium	1917	1650	16.2	1801	6.5
Interest and dividend income	268	244	9.8	273	(1.8)
Profit before tax	122	274	(55.5)	321	(62.0)
Profit after tax	83.1	187	(55.6)	224	(62.9)

Particulars	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %
New business premium	1818	1394	30.4	1171	55.3
Renewal premium	1472	1276	15.4	952	54.6
Gross written premium	3290	2670	23.2	2123	55.0
Shareholders Profit	81	107	(24.3)	77	5.2
Transfer from policy-holder account	31	64	(51.6)	35	(11.4)
Profit / (Loss) for the year	112	171	(34.5)	112	-

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