

# Bajaj FinServ | BJFIN IN

## Strong performance by all 3 business segments

All 3 business segments of Bajaj Finserv reported a strong 2QFY17. In the general insurance business, GWP witnessed a significant growth (+45% YoY) with PAT growth of 67% YoY. This business generated strong ROE of 24% supported by improvement in combined ratio and investment income growth. Bajaj Finance (BAF)'s strong performance continues with a 38% AUM growth and 46% net profit growth in 2Q17 with stable asset quality trends. The life insurance business witnessed a strong 72% YoY APE growth while renewal premiums witnessed weak trend (down 7% YoY). We value BJFIN using SOTP method and maintain BUY with TP of ₹3,400.

- BALIC – Strong APE growth of 72% YoY, sustainability is the key:** BJFIN's life insurance business witnessed 72% YoY growth in APE while renewal premiums' witnessed weak trend (down 7% YoY). Profit for the quarter declined 7% YoY to ₹2bn. Other key highlights of the quarter were the strong solvency margin ratio of 784% and 9% YoY AUM growth to ₹468bn.
- BAGIC – strong quarter with net profit up 67% YoY:** BAGIC's GWP growth remained healthy at 45% YoY in 2Q driven by crop insurance, while profit grew 67% YoY. This was on account of 4.6pps YoY decrease in combined ratio to 94.3% resulting in underwriting profit of ₹570 mn. Claim ratio stood at 71.6% (2Q16: 72.9%) and expense ratio at 22.7% (2Q16:26%), while investment income was up 36% YoY to ₹2.9bn.
- BAF – strong performance continues with PAT up 46% YoY:** BAF reported 2Q17 net profit at ₹4.07bn, up 46% YoY. AUM growth remained strong at 38% YoY driven by the consumer and commercial segments. NII/AUM declined 16 bps YoY to 9.61%. Asset quality remained healthy with gross NPL ratio at 1.58% in 2Q17 (on 120 DPD), while provision coverage stood at 73%.
- Maintain BUY with Dec'17 TP of ₹3,400:** We value Bajaj FinServ based on sum of its parts. We assign ₹829 per share for life insurance, ₹740 per share for general insurance, ₹2,152 per share for Bajaj FinServ's c.57.3% stake in Bajaj Finance and ₹54 per share for investments; we also factor in a 10% holding company discount, which is in line with the discount we apply for HDFC.

### Exhibit 1. Bajaj FinServ: SOTP valuations

Bajaj FinServ SOTP	Holding (%)	Valuation Method	Value Per Share	Contribution to TP (%)
Bajaj Allianz Life	74.0%	1.4x FY19E P/EV	829	24%
Bajaj Finance	57.3%	Market cap	2,152	64%
Bajaj Allianz General	74.0%	3x FY19E P/B	740	22%
Others	100.0%	1.0x book net of investments in subsidiaries	54	2%
Less: Holding Co. discount (@10%)		10% discount	377	-11%
<b>Total</b>			<b>3,400</b>	<b>100%</b>

Source: Company, JM Financial

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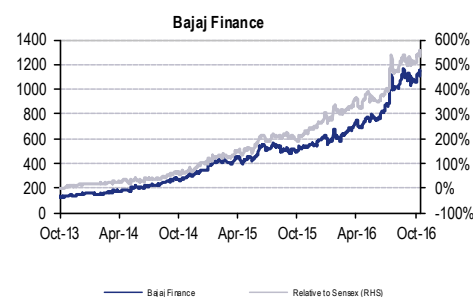
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### Key Data

Market cap (bn)	₹ 595.2 / US\$ 8.9
Shares in issue (mn)	500.0
Diluted share (mn)	500.0
3-mon avg daily val (mn)	₹ 1816.4/US\$ 27.2
52-week range	₹ 1183.9/511.5
Sensex/Nifty	27,916/8,615
₹/US\$	66.9

### Daily Performance



%	1M	3M	12M
Absolute	0.6	12.8	107.6
Relative	1.7	13.2	105.2

\* To the BSE Sensex

### Shareholding Pattern (%)

	Jun-16	Mar-16
Promoters	57.4	57.4
FII	19.7	18.3
DII	5.5	6.1
Public / Others	17.5	18.2

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet

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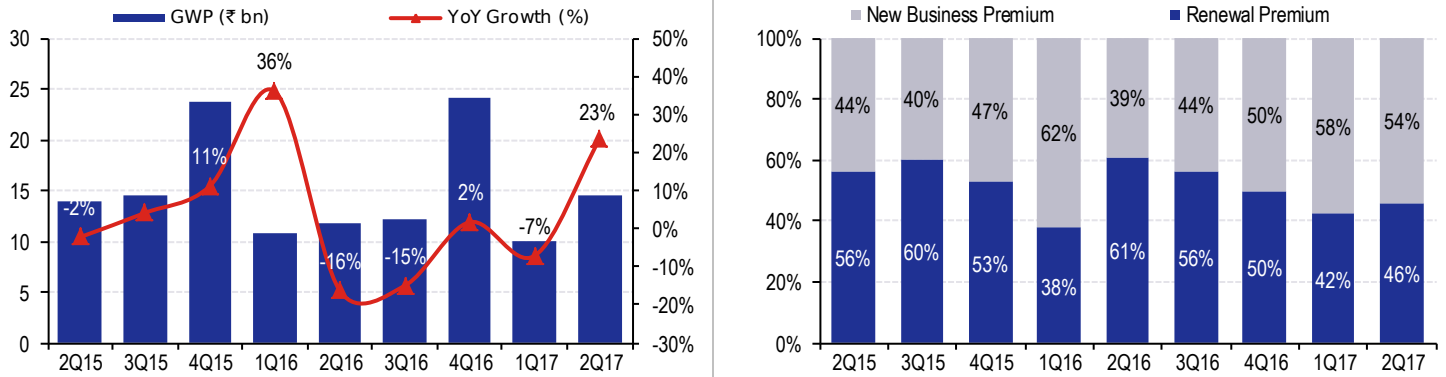
**Exhibit 2. Bajaj FinServ: 2Q17 - Results summary**

<b>Earnings Table (₹ mn) (Consolidated)</b>	<b>2Q'16</b>	<b>1Q'17</b>	<b>2Q'17</b>	<b>YoY</b>	<b>QoQ</b>
<b>Revenue</b>					
Insurance	22,168	21,262	26,711	20.5%	25.6%
Retail financing	17,006	23,038	23,661	39.1%	2.7%
Investments and others	1,029	401	530	-48.5%	32.1%
Windmill	231	235	274	18.2%	16.2%
Less: Inter Segment Revenue	631	338	379	-39.9%	12.0%
<b>Total Revenue</b>	<b>39,802</b>	<b>44,597</b>	<b>50,796</b>	<b>27.6%</b>	<b>13.9%</b>
<b>Profit before Tax</b>					
General Insurance	2,046	1,957	3,584	75.1%	83.1%
Life Insurance	2,386	2,619	2,251	-5.7%	-14.1%
Investments and others	98	-40	6	NM	NM
Retail Financing	4,286	6,737	6,306	47.1%	-6.4%
Windmill	162	158	180	11.1%	13.6%
<b>Total PBT</b>	<b>8,978</b>	<b>11,432</b>	<b>12,326</b>	<b>37.3%</b>	<b>7.8%</b>
Tax	2,453	3,269	3,692	50.5%	12.9%
<b>PAT (Pre-Extra-ordinaries)</b>	<b>6,525</b>	<b>8,163</b>	<b>8,634</b>	<b>32.3%</b>	<b>5.8%</b>
Less: Minority Interest	2,114	2,788	2,877	36.1%	3.2%
Extra-ordinaries	0	0	0	NM	NM
<b>Reported Profit</b>	<b>4,411</b>	<b>5,375</b>	<b>5,758</b>	<b>30.5%</b>	<b>7.1%</b>
<b>Earnings Table (₹ mn) (Standalone)</b>					
Income from Operations	949	406	667	-29.7%	64.1%
Other Income	22	27	28	26.1%	2.6%
<b>Total Income</b>	<b>971</b>	<b>433</b>	<b>694</b>	<b>-28.5%</b>	<b>60.3%</b>
Operating Expenses	152	157	169	11.7%	7.9%
Operating Profit (PBT)	819	276	525	-35.9%	90.1%
Tax	101	110	118	17.2%	7.9%
<b>PAT (Pre-Extra-ordinaries)</b>	<b>719</b>	<b>167</b>	<b>407</b>	<b>-43.4%</b>	<b>144.2%</b>
Extra-ordinaries	0	0	0	NM	NM
<b>Reported Profit</b>	<b>719</b>	<b>167</b>	<b>407</b>	<b>-43.4%</b>	<b>144.2%</b>

Source: Company, JM Financial.

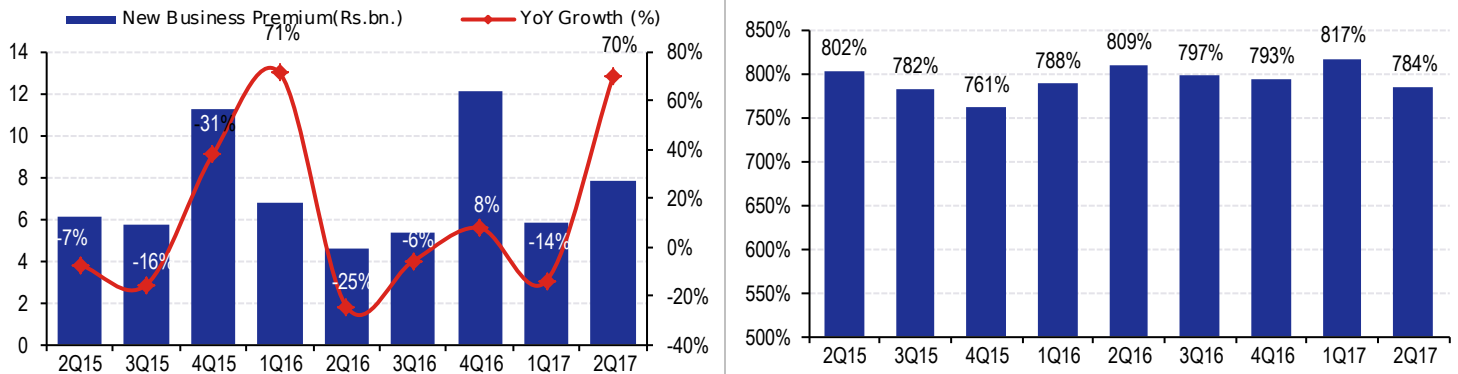
## Bajaj FinServ – 2Q17 trends

**Exhibit 3. BALIC – Trend in GWP (₹ bn) (L.H.S) and GWP mix (%) (R.H.S)**



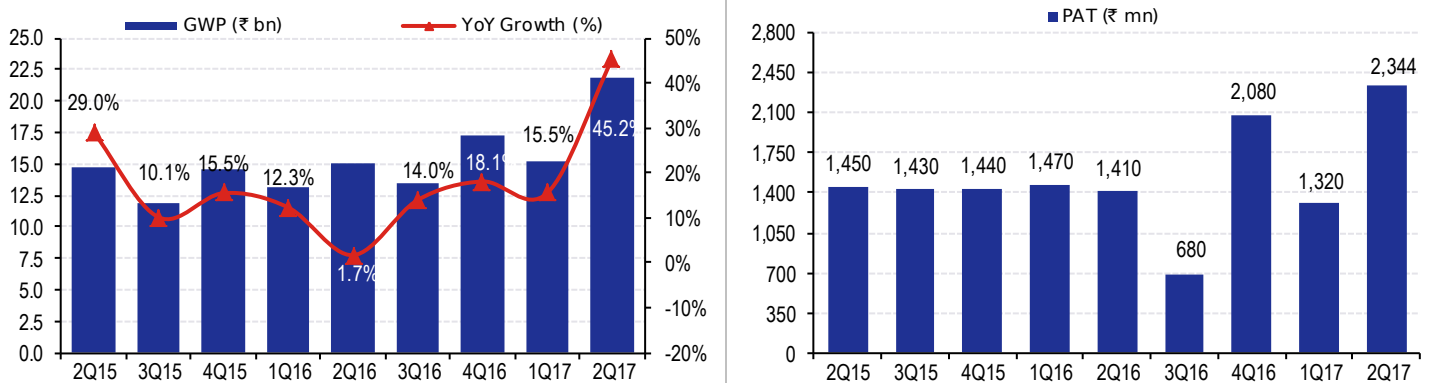
Source: Company, JM Financial.

**Exhibit 4. BALIC – Trend in new business premium (₹.bn) (L.H.S) and Solvency margin ratio (%) (R.H.S)**



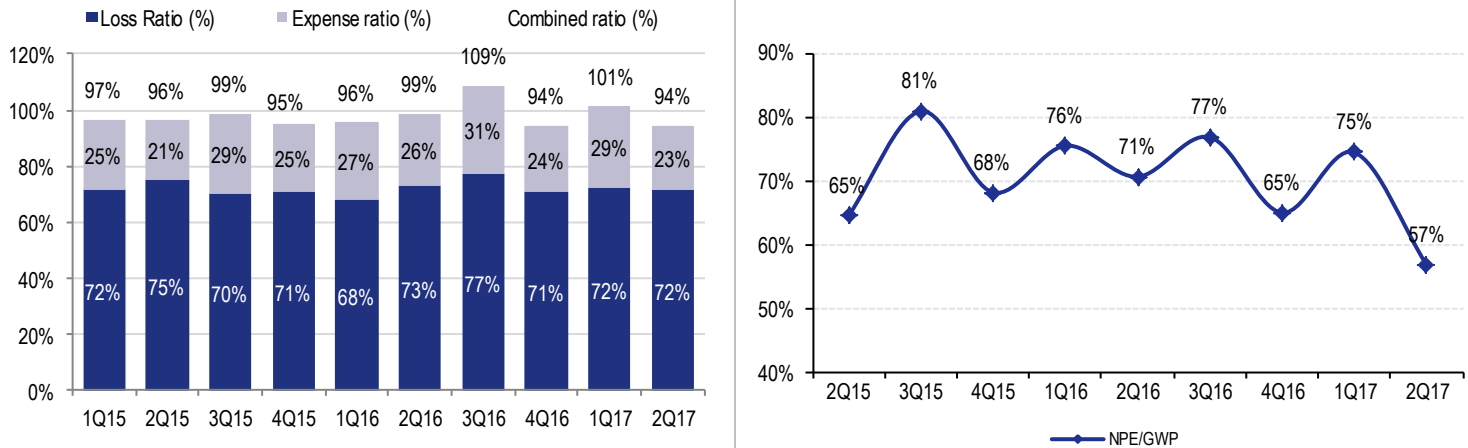
Source: Company, JM Financial.

**Exhibit 5. BAGIC – Trend in premium (₹ bn) (L.H.S) and net profit (₹ mn) (R.H.S)**



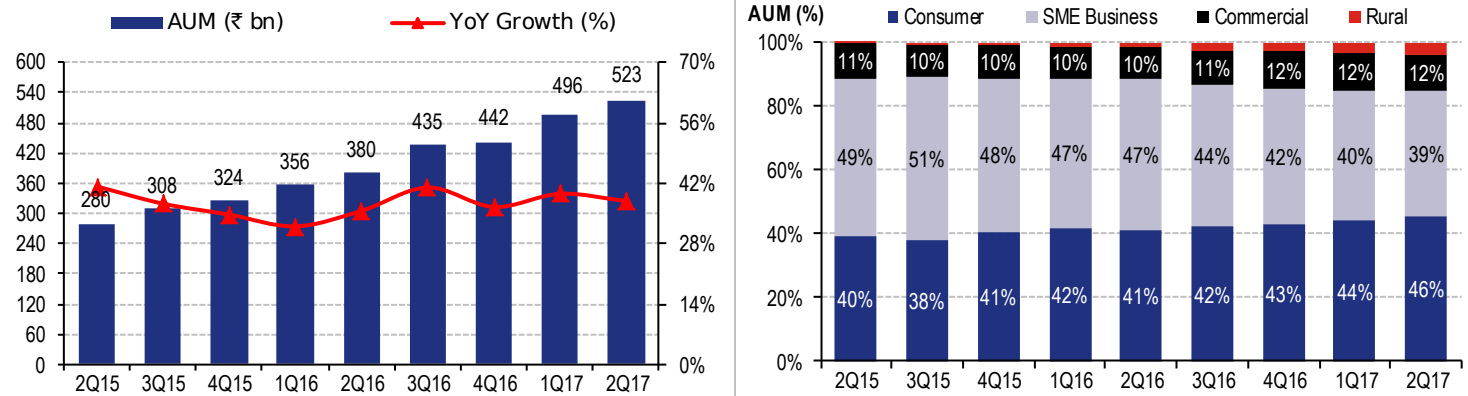
Source: Company, JM Financial.

**Exhibit 6. BAGIC - Trend in combined ratio (L.H.S) and NPE/GWP ratio (R.H.S)**



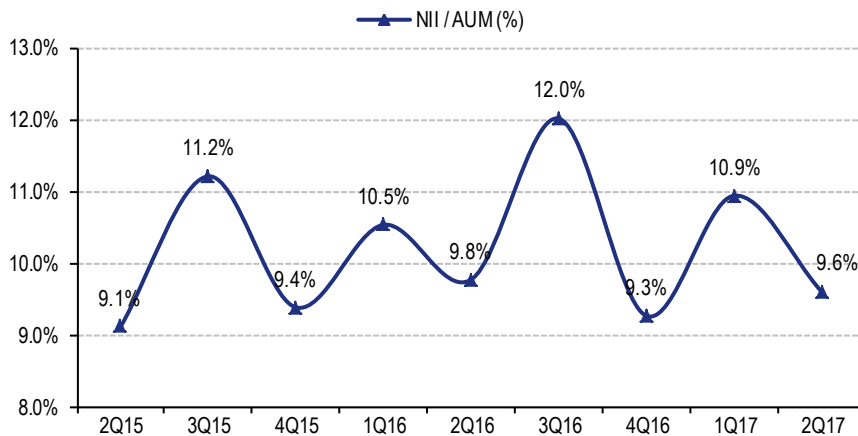
Source: Company, JM Financial.

**Exhibit 7. Bajaj Finance - Trend in AUM and composition**



Source: Company, JM Financial.

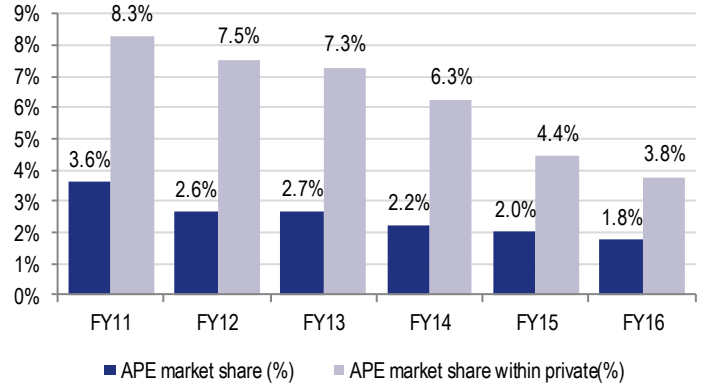
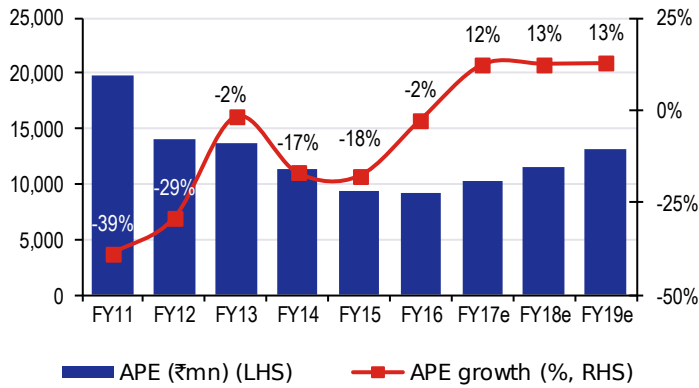
**Exhibit 8. Bajaj Finance - Trend in NII/AUM**



Source: Company, JM Financial.

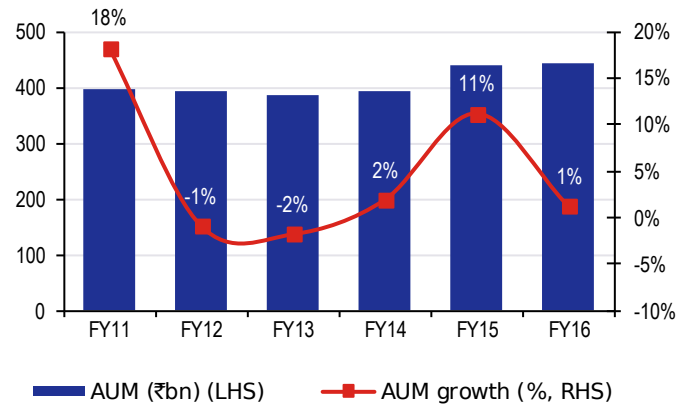
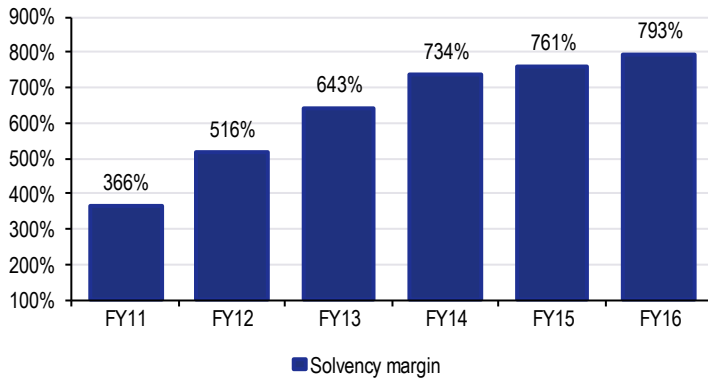
# Bajaj Allianz Life Insurance (BALIC) - Annual Trends

**Exhibit 9. BALIC: Decline in APE led to fall in market share**



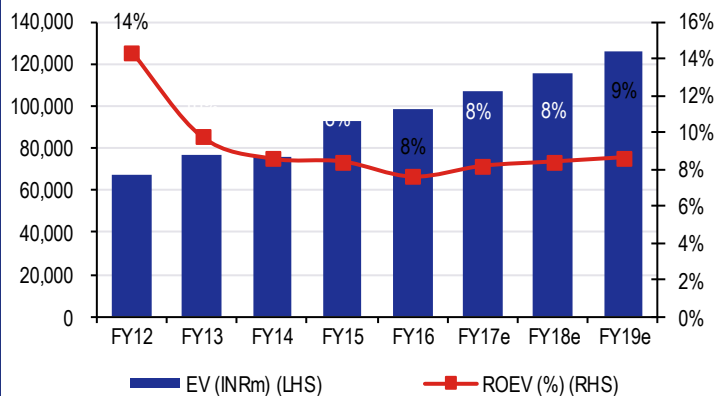
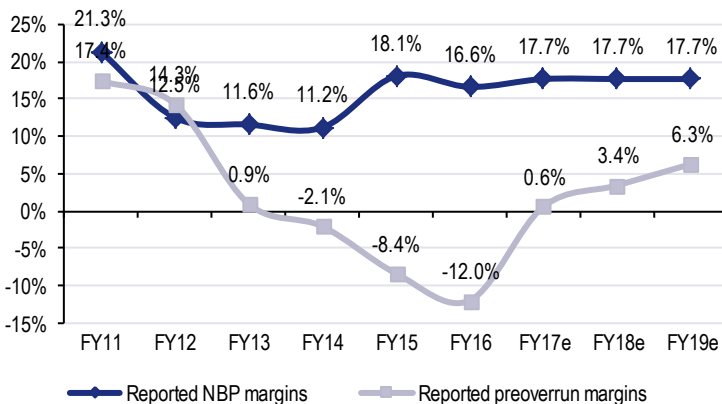
Source: Company, JM Financial.

**Exhibit 10. BALIC: Solvency margin (LHS) and AUM (RHS)**



Source: Company, JM Financial.

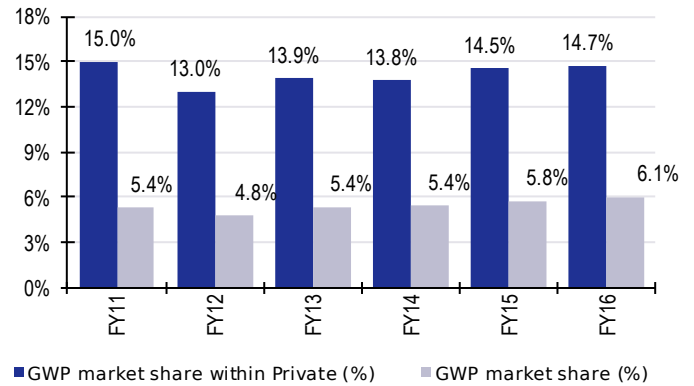
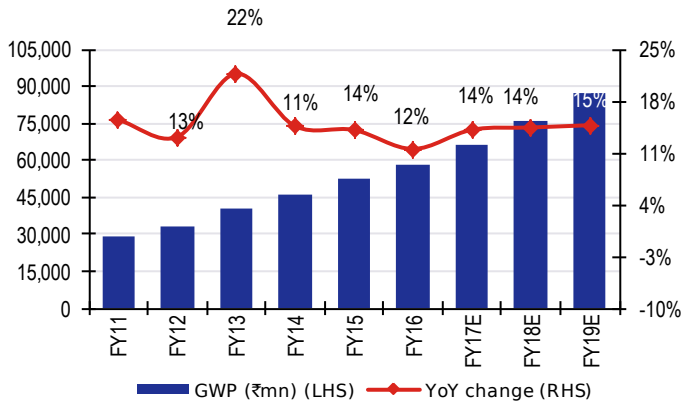
**Exhibit 11. BALIC: Reported new business margin (LHS) and Embedded Value & ROEV (RHS)**



Source: Company, JM Financial.

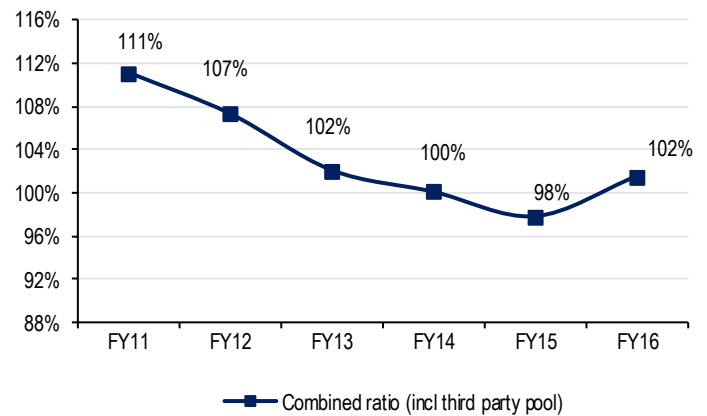
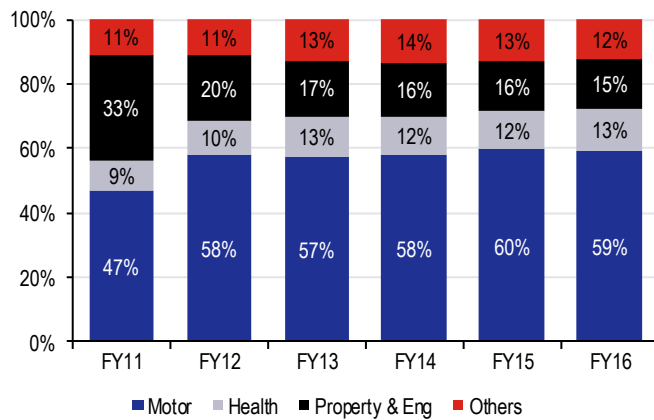
# Bajaj Allianz General Insurance (BAGIC) – Annual Trends

**Exhibit 12. BAGIC: Gross written premium (LHS) and Market Share (RHS)**



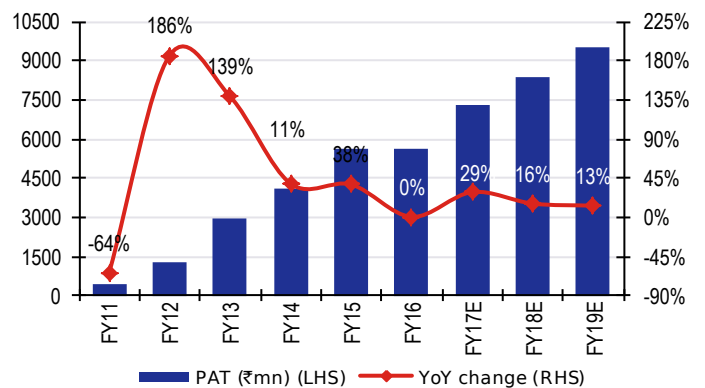
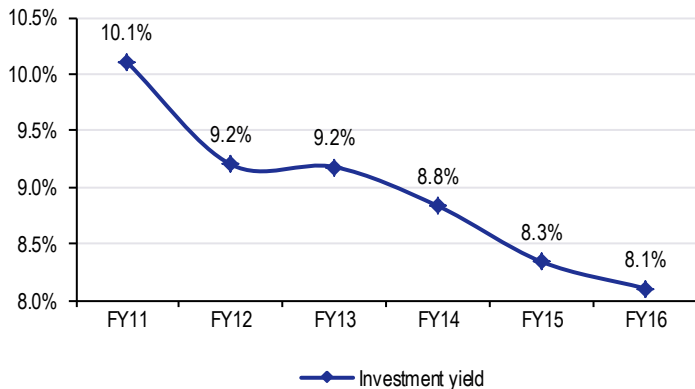
Source: Company, JM Financial.

**Exhibit 13. BAGIC: Product mix (LHS) and Combined ratio (RHS)**



Source: Company, JM Financial.

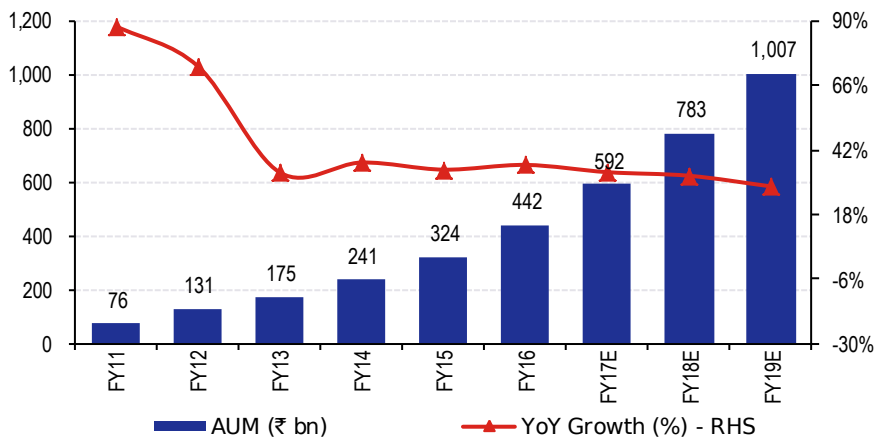
**Exhibit 14. BAGIC: Investment yield (LHS) and PAT (RHS)**



Source: Company, JM Financial.

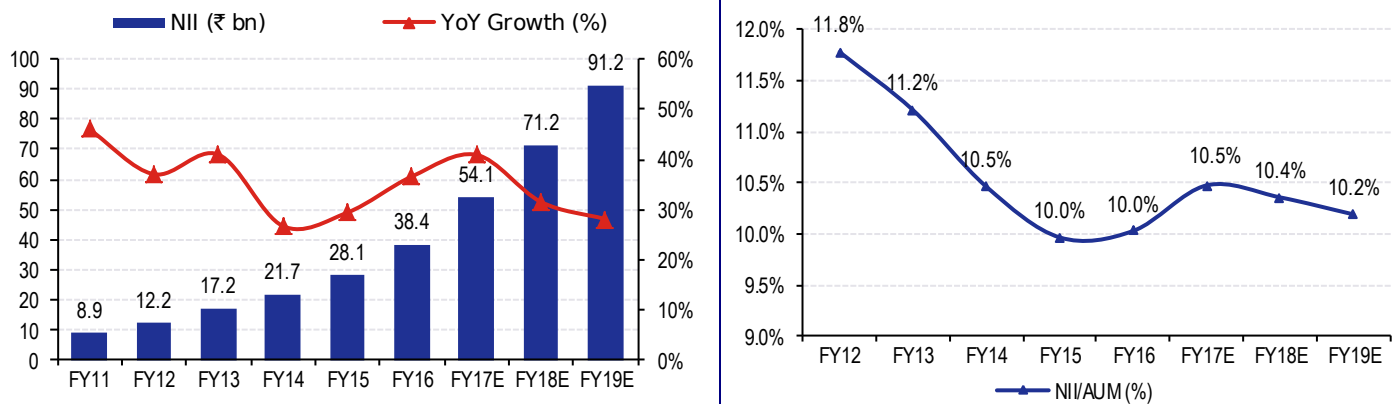
## BAF - Annual Trends

**Exhibit 15. BAF: Trend in loans (₹ bn)**



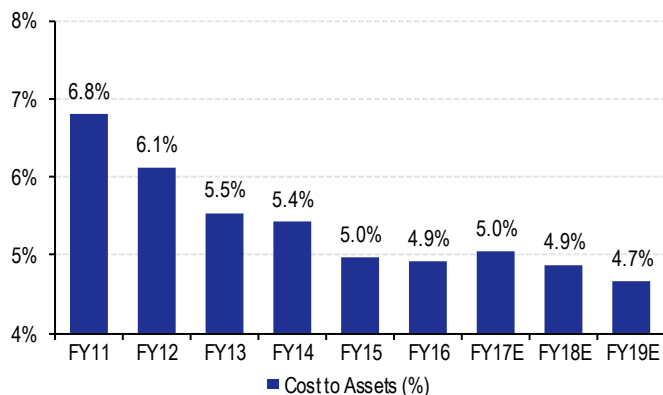
Source: Company, JM Financial.

**Exhibit 16. BAF: Trend in NII and margins**



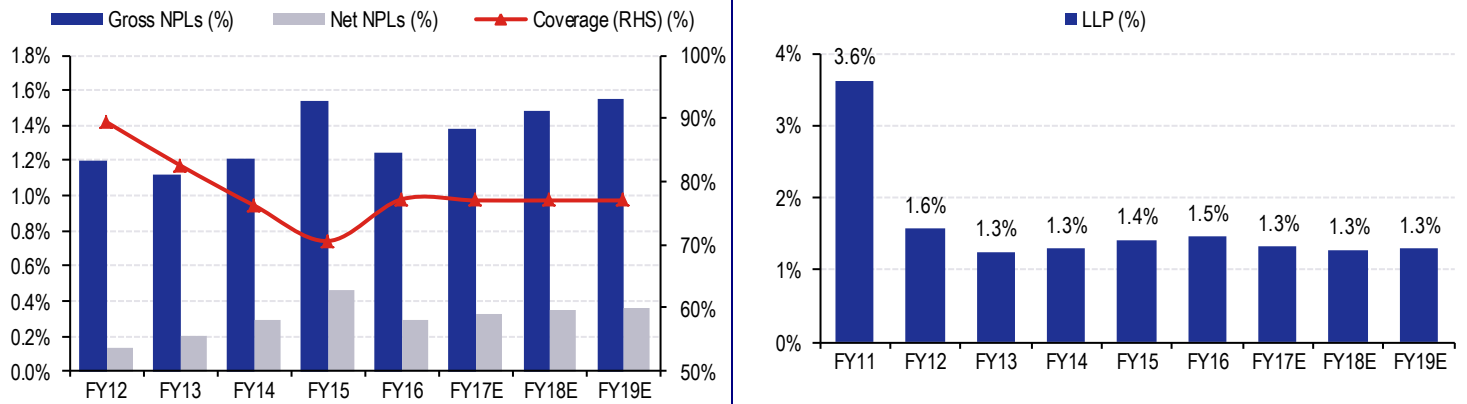
Source: Company, JM Financial.

**Exhibit 17. BAF: Trend in cost to assets (%)**



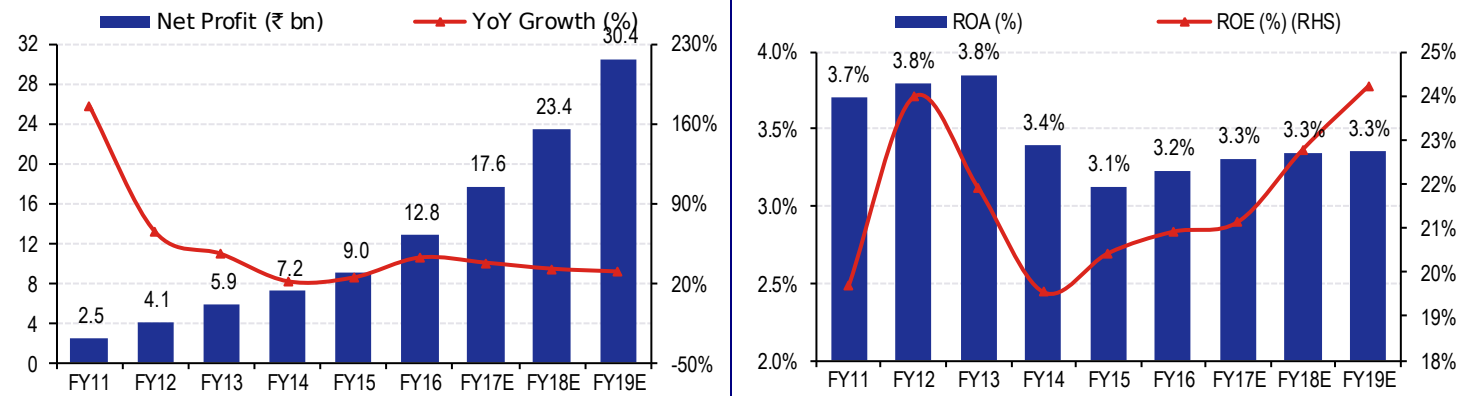
Source: Company, JM Financial.

**Exhibit 18. BAF: Trend in asset quality**



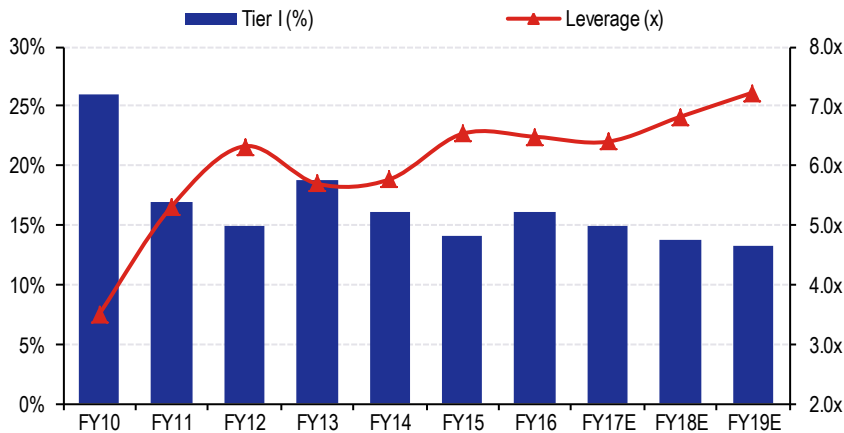
Source: Company, JM Financial.

**Exhibit 19. BAF: Trend in earnings growth**



Source: Company, JM Financial.

**Exhibit 20. BAF: Trend in tier I and leverage ratio (%)**



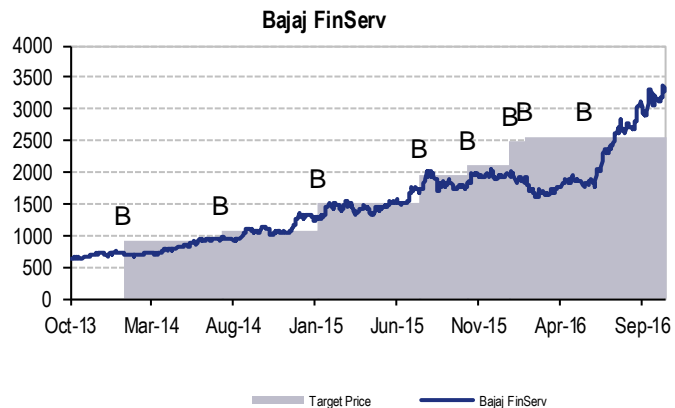
Source: Company, JM Financial.



**History of earnings estimates and target price**

Date	FY16E EPS (₹)	% Chg.	FY17E EPS (₹)	% Chg.	Target Price	% Chg.
16-Jan-14					915	
17-Jul-14					1,070	16.9
14-Jan-15					1,500	40.2
22-Jul-15					1,965	31.0
20-Oct-15					2,100	6.9
7-Jan-16					2,480	18.1
3-Feb-16					2,550	2.8
24-May-16					2,550	0.0
26-Jul-16					2,980	16.9

**Recommendation history**



## APPENDIX I

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