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MARK TO MARKET

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Lending business boosts Bajaj Finserv

Bajaj Finserv Ltd's three lines of business responded differently to macroeconomic pressures in the September quarter. While the financing business continued to do well, both the insurance businesses stumbled.

Bajaj Finance, the lending arm of Finserv, reported a net profit growth of 42% from a year ago despite the firm taking accelerated loan loss provisions of ₹31 crore during the quarter. Net interest income rose 44%, boosted by a margin expansion, its management said. Despite rural distress and poor vehicle sales, the company's assets under management grew 36%, albeit on a small base. With bad loans under control and a capital adequacy ratio of 20.49%, this business looks well poised to capitalize on a macroeconomic turnaround.

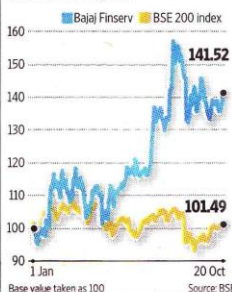
The general insurance business, which has been profitable over the last several quarters, didn't do as well. Its combined ratio of claims and expenses rose to 98.9% of premium earned in the September quarter, compared with 95.7% in the June quarter, and 96.3% a year ago. This was primarily owing to a hit from the agricultural insurance business, which saw lower reinsurance commissions. The general insurance business suffered an underwriting loss of ₹8 crore and net profit declined by 2.8%.

In any case, Bajaj Finserv is one of the few companies to generate underwriting profits in this industry and the management too sees this underperformance in general insurance as a one-off. The greater worry for investors would be life insurance, where the nascent recovery seen over the last couple of quarters has vanished.

New business premiums fell by one-fourth while renewal premiums fell by a tenth. Bajaj

SLOWING IMPETUS

After a spectacular run-up in the first half of this year, things have cooled down for the Bajaj Finserv stock since August.



Finserv is in the process of revamping its distribution, especially its agency business.

Growth is not picking up as much as the company would have liked, said its chief financial officer S. Sreenivasan.

Life insurance premium collections have been dropping for the past several years because of regulatory changes and a drop in savings rate. The recovery has been in fits and starts even after the regulatory problems seem largely behind.

The insurance regulator's new rules allowing banks to have tie-ups with more than one insurance firm comes as a shot in the arm for the likes of Bajaj Finserv, which has no partner after its broken alliance with Standard Chartered Bank. But such tie-ups are still far away.

After a spectacular run-up in the first half of this year, things have cooled down for the Bajaj Finserv stock since August. Mostly it seems to be investors taking some money off the table and the stock is still some 40% up. A recovery in the insurance business remains key for the stock rally to pick up.