

Stock Update

Holding Grounds; Maintain Buy with a revised PT of Rs. 3,924

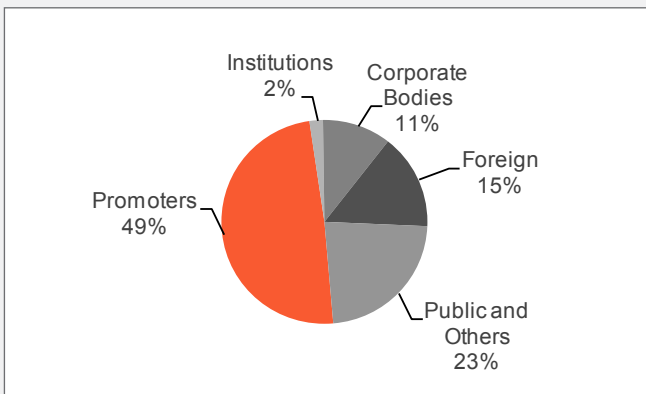
Bajaj Holdings & Investment

Reco: Buy | CMP: Rs3,295

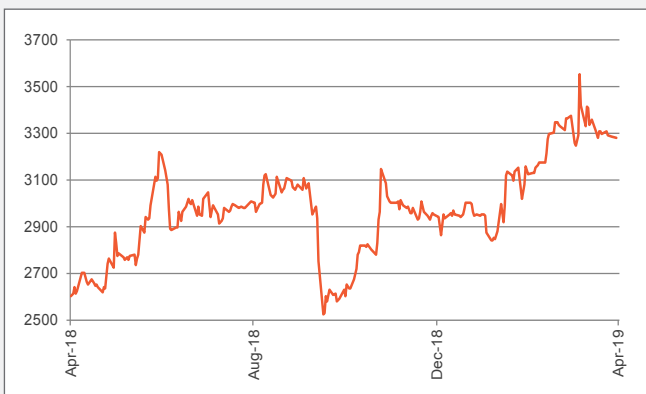
Company details

Price target:	Rs3,924
Market cap:	Rs36,671 cr
52-week high/low:	Rs3,750/2,204
NSE volume: (No of shares)	41,785
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJHLDNG
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.4	11.1	25.0	27.1
Relative to Sensex	-3.6	4.6	10.0	11.8

Key points

- ♦ Bajaj Holdings and Investment Limited (BHIL) holds Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL - 31.54% stake) and Bajaj Finserv (BFS - 39.29% stake). BHIL also has an investment portfolio with a market value of Rs. 7,825 crore in other equity and fixed income securities.
- ♦ **Bajaj Auto to continue gaining market share in domestic markets; Exports outlook healthy; Mounting cost pressures to impact margins; Earnings to grow slower than historical long term average rate of 12%:** Bajaj Auto Limited (BAL) has been successful in gaining market share in the domestic motorcycle segment, led by its strategy of aggressive pricing (direct discounts and free insurance). Moreover, the company has introduced models/upgrades with new features, which would boost sales volumes. BAL's market share has increased by ~300 BPS to 18.8% in FY2019. Going ahead, management has stated that it would continue with the strategy of aggressive pricing and is targeting a market share of 24% in FY2020. Further, stable crude oil prices and enhanced availability of U.S. dollar provide ample growth visibility for export volumes. BAL's strategy to enter new markets/geographies would further aid export volumes. Cumulatively, we expect BAL's topline to report a healthy 12% CAGR over FY2019-FY2021, which is better than mid-single digit growth expected for the industry. However BAL's margins are expected to be under pressure on account of subdued two wheeler demand attributable to weak consumer sentiment, and elevated costs. This coupled with the company's strategy of aggressive pricing is likely to adversely impact margins. BAL's margins are expected to contract by 70 BPS in FY2020. Consequently, BAL's earnings growth at 8% is expected to be slower than the historical long-term average of 12%.
- ♦ **Bajaj Finance with strong operational parameters to augment BFS's performance:** Bajaj Finance Limited (BFL), BFS's lending subsidiary, has a strong borrowing profile (high ratings and well-matched ALM profile) and strong business and operational parameters. We expect the NBFC space to see differentiated performers, with borrowing costs as per their balance sheet/business model strengths, thereby resulting in a differentiated margin play. Consequently, institutional growth capital is likely to favour the outperformers. The ability of BFL to create

new product categories, leveraging its large customer base and proactive risk management track record are key positives to support growth.

- ♦ **Valuations - Retain Buy with a revised PT of Rs. 3,924:** Given the strategic nature of BHIL's investments (BAL and BFS), we have given a holding company discount to its equity investments. Liquid investments have been valued at cost. BFS is an attractive play on our

long-term structural theme of financialisation of savings in the economy. BFL is expected to maintain its loan book trajectory for the medium term. Thus, BFS's recommendation and price target (PT) remain unchanged. The PT for BAL has been revised upwards to Rs. 3,100 (recommendation maintained as Hold), as we roll over to FY2021 estimates. Consequently, we revise BHIL's PT upwards to Rs. 3,924 (earlier PT of Rs. 3,796).

Valuation Table – SOTP (Rs)

Particulars	Relationship	Per share	Remarks
Stake in Bajaj Auto (31.54%)	Associate	2,541	PT of Bajaj Auto= Rs. 3,100
Stake in BFS (39.29%)	Associate	3,875	SOTP based PT of Bajaj Finserv at Rs. 6,900
Total		6,417	
Discounted value per share		3,337	
Cash & Liquid Invst/share		587	At cost
Value per share		3,924	
CMP (Rs.)		3,295	
Upside		19.1%	

Shareholding in associate companies

Stake (%)	Relationship with BHIL	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Bajaj Auto Limited (BAL)	Associate	31.54	31.54	31.54	31.54	31.54	31.54	31.54
Bajaj Finserv Limited (BFS)	Associate	39.29	39.29	39.29	39.29	39.29	39.29	39.29
Bajaj Auto Holdings Ltd	Subsidiary	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Maharashtra Scooters Ltd	Joint venture	24.00	24.00	24.00	24.00	24.00	24.00	24.00

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