

Sector: Diversified  
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 3,356	
Price Target: Rs. 4,150	↓

↑ Upgrade ↔ No change ↓ Downgrade

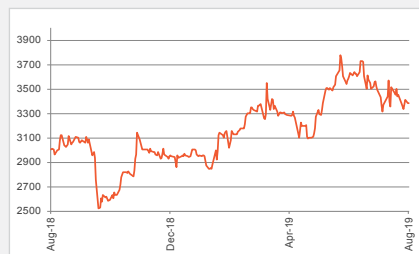
## Company details

Market cap:	Rs. 37,357 cr
52-week high/low:	Rs. 3,799 / 2,204
NSE volume: (No of shares)	36,210
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJHLDNG
Free float: (No of shares)	5.6 cr

## Shareholding (%)

Promoters	49.6
Institutions	1.9
Corporate Bodies	10.5
Foreign	15.2
Public and Others	22.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	4.0	9.9	14.5
Relative to Sensex	-1.2	4.6	2.9	14.7

Sharekhan Research, Bloomberg

**Bajaj Holdings and Investment Limited (BHIL) holds Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL – 35.77% stake) and Bajaj Finserv (BFS – 41.63% stake). BHIL also has an investment portfolio with a market value of ~Rs. 6,591 crore in other equity and fixed income securities.**

**Q1FY20 earnings decline marginally due to a slight dip in profit share of associates:** BHIL's income from operations declined 25% y-o-y to Rs 79 cr attributable to a drop in interest income. Operating profit dropped steeply by 59% to Rs 37 crore due to higher employee cost and higher other expenses. Therefore PBT before share of profit from associate companies declined 57% to Rs 25 crore. The share of profit from associate companies dropped slightly by 1.3% y-o-y to Rs 645 crore. Consequently, the PAT after share of profit from associates stood at Rs 670 cr and declined marginally by 6% y-o-y.

## Our Call

**Valuation: Retain Buy with a revised PT of Rs. 4,150:** 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. The price target (PT) for BFS has been revised to Rs. 8,000 (earlier PT of Rs. 8,250). 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 BFS. PT of BAL too has been revised downwards to Rs 2,530 (earlier PT of Rs. 2,650) due to domestic demand headwinds couple with margin pressures. Consequently, The PT for BHIL has been revised to Rs 4,150 (earlier PT of Rs. 4,548). We retain Buy recommendation on the stock.

## Valuations (SOTP)

Particulars	Relationship	Per share (Rs)	Remarks
Stake in Bajaj Auto (35.77%)	Associate	2,353	PT of Bajaj Auto= Rs 2,530
Stake in BFS (41.63%)	Associate	4,761	SOTP based PT of Bajaj Finserv at Rs 8,000
<b>Total</b>		<b>7,114</b>	
<b>Value post holding co discount</b>		<b>3,699</b>	
Cash & Liquid Investment/share		450	At cost
<b>Value per share</b>		<b>4,150</b>	
CMP		3,356	
Upside		23.6%	

Source: Company; Sharekhan estimates

**BFS: Mixed performance for Q1FY20; lending business on strong footing:** BFS's Q1FY20 results were a mixed set. While the lending business performance was strong, profitability of insurance subsidiaries -Bajaj Allianz General Insurance (BAGIC) and Bajaj Allianz Life Insurance (BALIC) was weak attributable to losses from cyclone Fani and the provision for impairment of investment of Rs 157.9 crore(post tax) taken on both insurance subsidiaries. Going ahead the lending subsidiary Bajaj Finance Limited (BFL) continues to grow into an attractive franchise, supported by its strong management, and a sustainable business model. The insurance subsidiaries - BAGIC/BALIC are expected to continue their healthy operating metrics and profitability going ahead, but the near term challenges of expenses, 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 in the longer run. However BALIC's profitability could be impacted in the near term due to due to the fast pace of new business growth

**BAL: Volume growth to moderate substantially; Margins decline trend to sustain:** BAL's Q1FY20 results were better than estimates. The domestic motorcycle industry volumes worsened in Q1FY2020, dropping 9% y-o-y. The management seemed skeptical on the volume revival at least in the near term to medium term to due to slow economic growth, delayed monsoon and high channel inventories. Also the upcoming BS6 emission norms and the recently implemented safety norms would play a demand dampener. This, coupled with likely slow growth in the exports would significantly moderate BAL's volume growth to 2% in FY20 as compared to a sturdy 25% growth in FY19. Further BAL's margins have been under stress due to its strategy to gain market share in the domestic motorcycle segment. BAL has indicated that launch of new products at lower prices or products with better features are likely to impact margins in our view. Further cost increase due to regulatory changes like BS 6 emission norms, operating de-leverage would exert margin pressures. We expect BAL's margins to drop 150 bps over the next 2 years, while the earnings are expected to decline in FY20.

Results	Rs cr				
	Particulars	Q1FY20	Q1FY19	YoY %	Q4FY19
Income from operations	78.6	104.7	-24.9	83.0	-5.3
Total expenditure	41.8	15.5	169.0	37.8	10.5
Operating profit	36.9	89.2	-58.7	45.2	-18.5
Other income	10.5	1.2	805.2	1.2	789.8
EBITDA	47.4	90.3	-47.6	46.4	2.1
PBT	44.8	90.3	-50.4	46.4	-3.5
Taxes	20.0	32.6	-38.7	21.9	-8.6
PAT before share of associates	24.8	57.8	-57.1	24.5	1.1
Share of profit from associates	645.3	653.5	-1.3	766.9	-15.9
Reported PAT	670.1	711.3	-5.8	791.4	-15.3
Adjusted PAT	670.1	711.3	-5.8	791.4	-15.3
EPS (Rs)	60.2	63.9	-5.8	71.1	-15.3

Source: Company; Sharekhan Research

**Market Value of BHIL's investment portfolio rose 12.5% in Q1FY2020:**

- ◆ Market value of BHIL's investments in equity associate companies increased sharply by 14% q-o-q, driven by sharp 21% growth in stock price of associate company –BFS while stock price of BAL declined marginally by 3% q-o-q. Also increase in share of investments in the associate companies by 1.7%, aided growth.
- ◆ Market value of BHIL's investments in other equities was up marginally by 1.4% q-o-q. The benchmark indices have also grown by ~1.8% in the same period.
- ◆ Market value of BHIL's investments in fixed income securities for the quarter was almost flat. The share of investments in fixed income securities is stable sequentially.

Investments	Rs cr		
Investments at Cost (Rs crore)	Q1FY20	Q4FY19	QoQ %
Equity associates	3,071	2,831	8.5%
Equity - others	1,801	1,741	3.4%
Fixed income sec	3,213	3,228	-0.5%
Investment property	186	187	-0.5%
<b>Total</b>	<b>8,271</b>	<b>7,987</b>	<b>3.6%</b>
<b>Mkt Value (Rs Crore)</b>			
Equity associates	84,135	74,031	13.6%
Equity - others	3,390	3,343	1.4%
Fixed income sec	3,201	3,209	-0.2%
Investment property	281	281	0.0%
Total	91,007	80,864	12.5%

Source: Company; Sharekhan Research

**Stakes in Associate companies and Maharashtra Scooters increases:** BHIL's stake in associate companies – BAL and BFS has increased by 2.3% each to 35.7% and 41.6% respectively over Q4FY19. BHIL's stake in Maharashtra Scooters has also increased by 27% to 51%. Consequently, Maharashtra Scooters has become a subsidiary of BHIL. Stake in Bajaj Auto Holdings remains unchanged.

**Shareholdings in associate companies**

Stake (%)	Relationship with BHIL	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Bajaj Auto Limited (BAL)	Associate	31.54	31.54	31.54	33.43	35.77
Bajaj Finserv Limited (BFS)	Associate	39.29	39.29	39.29	39.29	41.63
Bajaj Auto Holdings Ltd	Subsidiary	100.00	100.00	100.00	100.00	100.00
Maharashtra Scooters Ltd	Subsidiary	24.00	24.00	24.00	24.00	51.00

Source: Company; Sharekhan Research

## About company

Bajaj Holdings & Investment (BHIL) is essentially a holding and investment company. BHIL holds Bajaj groups investments in two flagship companies – Bajaj Auto Limited (BAL) and Bajaj Finserve Limited (BFS). As of quarter ending June 2019, BHIL holds 35.7% stake in BAL while it has 41.63% stake in BFS. In addition to the above BHIL also holds investments in other equity and fixed income instruments.

## Investment theme

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. The price target (PT) for BFS has been revised to Rs. 8,000 (earlier PT of Rs. 8,250). 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 BFS. PT of BAL too has been revised downwards to Rs 2,530 (earlier PT of Rs. 2,650) due to domestic demand headwinds couple with margin pressures. Consequently, we retain Buy recommendation on BHIL with a revised PT of Rs 4,150.

## Additional Data

### Key management personnel

Rahul Bajaj	Chairman
Sanjiv Bajaj	MD & CEO
Rajiv Bajaj	Director
Anant Marathe	CFO
Sriram Subbramaniam	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jamnalal Sons Pvt Ltd	17.5%
2	CENTRUM ESPS TRUST	15.2%
3	BAJAJ RAHULKUMAR	7.3%
4	Bajaj Niraj Ramkrishna	6.5%
5	Jaya Hind Industries Ltd	5.3%
6	NIRAV TRUST	4.8%
7	Bajaj Shekhar	4.6%
8	Franklin Resources Inc	4.5%
9	RAHUL BAJAJ RAJIV TRUST	3.6%
10	Bajaj Sevashram Pvt Ltd	3.2%

Source: Bloomberg

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