

Sector: Automobiles  
Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 2,471</b>	
Price Target: <b>Rs. 3,345</b>	↓
↑ Upgrade	↔ No change
↓ Downgrade	

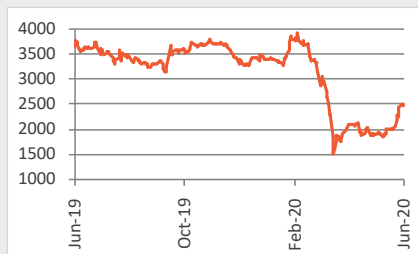
## Company details

Market cap:	Rs. 27,502 cr
52-week high/low:	Rs. 3,949/1,472
NSE volume: (No of shares)	66,968
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJHLDNG
Free float: (No of shares)	5.6 cr

## Shareholding (%)

Promoters	75.0
FII	2.1
DII	6.1
Others	16.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	31.6	-14.2	-25.1	-32.3
Relative to Sensex	23.4	-10.3	-10.2	-18.4

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. 7,000 crore in other equity and fixed income securities.**

**Q4FY2020 results impacted by higher taxation and weak performance of associates due to COVID-19:** BHIL's standalone income from operations grew by 33% y-o-y to Rs. 110 crore, attributable to higher dividend income and net gain on fair value changes. Operating profit grew by 36% to Rs. 62 crore, mostly in line with topline growth. However, higher overall tax provision of Rs. 169 crore (compared to Rs. 22 crore in Q4FY2019) impacted the bottomline. During the quarter, BHIL recognised deferred tax provision of Rs. 149 crore for possible non-utilisation of MAT credit. Therefore, the company reported loss before share of associate companies of Rs. 104.1 crore compared to profit of Rs. 24.5 crore in Q4FY2019. Also, share of profit from associate companies fell 32% yoy impacted by COVID-19. Consequently, PAT after share of associates stood at Rs. 414 crore, declining by 47% y-o-y.

## Our Call

**Valuation: Retain Buy with a revised PT of Rs. 3,345:** The price target (PT) for associate company, BFS, has been revised downwards to Rs. 5,322. Bajaj Finserv posted weak Q4FY2020 results, with 62% y-o-y drop in net profit. Initial signs indicate COVID-19 pandemic may result in higher delinquencies and lower credit offtake for the lending subsidiary, BFL. For the general insurance business, the impact on renewal premiums growth is expected to be more pronounced in light of cashflow issues and an overall weak sentiment. For the life insurance business, we expect the medium-term premium recovery and incremental sales growth to be impacted. While near-term headwinds persist, the sound fundamentals of the business franchises are likely to sustain during these tough times. BAL's PT has been maintained at Rs. 3,000, given better-than-anticipated Q4FY2020 results and continued outperformance in the two-wheeler (2W) industry. 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. Consequently, BHIL's PT stands revised to Rs. 3,345. We retain our Buy recommendation on the stock.

## SOTP Valuation

Particulars	Relationship	Per share (Rs.)	Remarks
Stake in Bajaj Auto (35.77%)	Associate	2,790	PT of Bajaj Auto= Rs. 3,000
Stake in BFS (41.63%)	Associate	3,167	SOTP-based PT of Bajaj Finserv at Rs. 5,322
<b>Total</b>		<b>5,957</b>	
Holding co. discount (%)			
Value post holding co discount		2,800	
Cash and Liquid Investment/share		545	At cost
<b>Value per share (Rs.)</b>		<b>3,345</b>	
CMP (Rs.)		2,471	
Upside		35.4%	

Source: Company; Sharekhan estimates

**BFS: Weak results for Q4FY2020 impacted by COVID-19; Near term headwinds but sound fundamentals to sustain:** Bajaj Finserv (BFS) posted weak Q4FY2020 results, primarily due to the lockdown, which impacted revenue and high provisions (COVID-19 impact and MTM impact) that hit profitability of its subsidiaries. Lending subsidiary, BFL reported mixed numbers in Q4FY2020, with a spike in provisions (mainly due to COVID-19 related provisions and one-offs) that impacted PAT. Bajaj Allianz Life Insurance (BALIC; life insurance business) recorded 24.8% growth in individual-rated new business premium till February 2020, but it ended the year with 10.6% growth due to the lockdown impact. However, Bajaj Allianz General Insurance (BAGIC; general insurance) had a decent quarter with claims ratio reducing to 62.1% in Q4FY2020, largely due to lower crop claims and a decline in commercial activity due to the lockdown. Its combined ratio also improved to 93.8% in Q4FY2020 (from 103.9% in Q4FY2019). We believe due to COVID-19 impact, insurers would be sensitive to bond downgrades (for corporate bonds etc.) and their investment portfolios and investment earnings are vulnerable (due to market volatility). For general insurers, renewal premiums growth is expected to be weak due to cashflow issues and an overall weak sentiment. For life insurers, we expect medium-term premium recovery and incremental sales growth may be impacted. While near-term headwinds are present, the sound fundamentals of the business franchises are likely to sustain during present times as well. BFL is well capitalised with conservative leverage and both the life and general insurance businesses have healthy solvency ratios and strong operating metrics.

**BAL: Better-than-expected Q4FY2020 results; Faster recovery expected for 2W; BAL to continue outpacing the industry:** BAL's Q4FY2020 results were ahead of estimates on account of better realisations per vehicle, driven by a better product mix and higher export realisations. Favourable currency movement and soft commodity prices helped margins beat estimates. Going ahead, the 2W industry is likely to witness faster recovery, driven by higher rural exposure. A strong rabi harvest, expectations of good monsoon, and the government's recent reforms to open end markets for farmers would boost farm incomes and, in turn, 2W demand. Further, pent-up demand and customer preference for personal transport post COVID-19 would drive demand. Management expects the 2W industry to reach normal sales levels by H2FY2021 (with the onset of the festive season). Moreover, BAL is expected to continue outpacing the industry, driven by new launches in domestic markets and entry into newer export markets.

#### Results (Consolidated)

Particulars	Rs cr				
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Income from operations	110.5	83.0	33.1	86.7	27.4
Total expenditure	48.7	37.8	28.8	40.7	19.5
Operating profit	61.8	45.2	36.6	46.0	34.3
Other income	8.0	1.2	578.8	10.7	-25.1
EBITDA	69.8	46.4	50.4	56.7	23.1
PBT	65.0	46.4	40.1	54.1	20.1
Taxes	169.1	21.9	673.0	20.5	726.6
PAT before share of associates	-104.1	24.5	NA	33.7	NA
Share of profit from associates	518.1	766.9	-32.4	900.0	-42.4
Reported PAT	414.0	791.4	-47.7	933.7	-55.7
Adjusted PAT	361.4	791.4	-54.3	932.7	-61.2
EPS (Rs.)	32.5	71.1	-54.3	83.8	-61.2

Source: Company

#### Market value of BHIL's investment portfolio falls sharply by 43% in Q4FY2020

- Market value of BHIL's investments in equity associate companies declined sharply by 46.1% q-o-q. Associate company, BFS's stock price halved (declining by 51%) on a q-o-q basis. Another associate company, BAL's stock price also fell sharply by 36% q-o-q.
- Market value of BHIL's investments in other equities declined by 20.7% q-o-q as compared to benchmark indices, which dropped by 28.6% in the same period. The share of investment in other equities remained stable at 26.2% (as compared to 26% in Q3FY2020).
- Market value of BHIL's investments in fixed income securities for the quarter grew by 15.3% q-o-q. This was on account of increased share of investments in fixed income securities by 2%.

Investments			Rs cr
Particulars	Q4FY20	Q3FY20	QoQ %
<b>Cost (Rs.crore)</b>			
Equity associates	3,135	3,070	2.1%
Equity - Others	2,461	2,252	9.3%
Fixed income sec	3,610	3,148	14.7%
Investment property	184	187	-1.6%
<b>Total</b>	<b>9,390</b>	<b>8,657</b>	<b>8.5%</b>
<b>Mkt Value (Rs.crore)</b>			
Equity associates	49,914	92,615	-46.1%
Equity - Others	3,225	4,069	-20.7%
Fixed income sec	3,650	3,167	15.3%
Investment property	273	281	-2.8%
<b>Total</b>	<b>57,062</b>	<b>1,00,132</b>	<b>-43.0%</b>

Source: Company

**Stakes in associate and subsidiary companies unchanged:** BHIL's stake in associate companies – BAL and BFS – was unchanged in Q4FY2020. BHIL continued to hold 35.77% and 41.63% stake in BAL and BFS, respectively. BHIL's stake in subsidiary companies also remains unchanged during Q4FY2020. Bajaj Auto Holdings continued to remain the wholly owned subsidiary, while stake in Maharashtra Scooters remained unchanged at 51%.

#### Shareholdings in subsidiary/associate companies

Stake (%)	Relationship with BHIL	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Bajaj Auto Limited (BAL)	Associate	31.54	31.54	31.54	33.43	35.77	35.77	35.77	35.77
Bajaj Finserv Limited (BFS)	Associate	39.29	39.29	39.29	39.29	41.63	41.63	41.63	41.63
Bajaj Auto Holdings Limited	Subsidiary	100.00	100.00	100.00	100.00	100.00	100.00	100	100
Maharashtra Scooters Limited	Subsidiary	24.00	24.00	24.00	24.00	51.00	51.00	51	51

Source: Company

## 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 Finserv Limited (BFS). As of quarter ending September 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 PT for BFS has been revised downwards to Rs. 5,322. Bajaj Finserv posted weak Q4FY2020 results, with 62% y-o-y drop in net profit. Initial signs indicate COVID-19 pandemic may result in higher delinquencies and lower credit offtake for the lending subsidiary, BFL. For the general insurance business, the impact on renewal premiums growth is expected to be more pronounced in light of cashflow issues and an overall weak sentiment. For the life insurance business, we expect the medium-term premium recovery and incremental sales growth to be impacted. While near-term headwinds persist, the sound fundamentals of the business franchises are likely to sustain during these tough times. BAL's PT has been maintained at Rs. 3,000, given better than-anticipated Q4FY2020 results and continued outperformance in the two-wheeler (2W) industry. Consequently, we retain our Buy recommendation on BHIL with a revised PT of Rs. 3,345.

## 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	Jaya Hind Industries Ltd.	5.3%
5	Bajaj Niraj Ramkrishna	4.8%
6	Nirav Trust	4.8%
7	Bajaj Shekhar	4.6%
8	Franklin Resources Inc.	4.3%
9	Rahul Bajaj Rajiv Trust	3.6%
10	Bajaj Sevashram Pvt. Ltd.	3.2%

Source: Bloomberg

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