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3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING **14.72**
Updated Feb 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

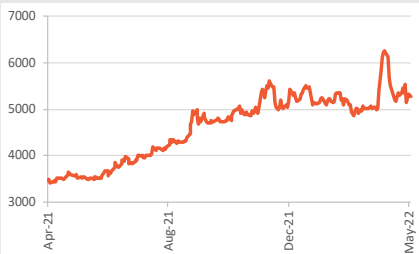
Company details

Market cap:	Rs. 56,537 cr
52-week high/low:	Rs. 6,573/ 3,411
NSE volume: (No of shares)	0.74 lakh
BSE code:	500490
NSE code:	BAJAJHLDNG
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	51.1
FII	12.1
DII	5.2
Others	32.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.9	3.0	11.3	52.6
Relative to Sensex	11.0	5.8	19.8	40.7

Sharekhan Research, Bloomberg

Bajaj Holdings & Investments Ltd

Robust show by flagships powers Q4

Diversified	Sharekhan code: BAJAJHLDNG	
Reco/View: Buy	↔	CMP: Rs. 5,080
		Price Target: Rs. 6,147
↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- In Q4FY22, BHIL's associate firms – Bajaj Finserv (BFS) and Bajaj Auto Ltd (BAL) – clocked robust growth, with performance improving notably.
- We remain positive on BFS and BAL and retain our buy rating on the stock. BHIL will be the key beneficiary of improving business prospects and valuations of associates.
- BAL beats expectations in operational performance during Q4FY22, whereas BFS continued to see improvement in its life and general insurance businesses. As a result, we remain positive on BHIL.
- We maintain a Buy on Bajaj Holdings and Investments Limited (BHIL) with an unchanged PT of Rs. 6,147, factoring upside in valuations of its key associates, viz. Bajaj Finserv (BFS) and Bajaj Auto (BAL), and other key investments.

Bajaj Holdings and Investment Limited (BHIL) holds the Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL – 35.81% stake) and Bajaj Finserv (BFS – 41.63% stake). BFS has three key subsidiaries, namely Bajaj Finance Limited (BFL), Bajaj Allianz General Insurance Co. (BAGIC) and Bajaj Allianz Life Insurance Co. (BALIC). BHIL's consolidated income from operations declined 3.3% y-o-y to Rs89.5 crore in Q4FY22, driven by 46.8% decline in fair value gains, partially mitigated by 78.8% increase in dividend income, flat growth in rental income and 3.1% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. The share of profit from associates improved 15.9% y-o-y to Rs1,058.3 crore in Q4FY21, leading to a PAT growth of 16.5% y-o-y to Rs1,105.4 crore. BHIL's associates continued to perform well and managements of both associate firms have commented positively about the business prospects in the medium term. We remain positive on BHIL and retain our Buy rating on the stock with an unchanged SoTP based PT of Rs. 6,147.

Key positives

- In the life insurance business (BALIC), individual rated new business of the company rose by 36% y-o-y versus 9% y-o-y growth for private players. BALIC's annuity product continued to perform well, contributing 9% in Q4FY2022 and 11% in FY2022.
- BAGIC maintained its market share and recorded the highest-ever gross written premium and PAT.
- BAL's market share improved 2% points across segments in exports, with export revenue touching all-time high at US\$2 billion more in FY2022. Exports are expected to report steady growth, led by robust regional performance.

Key negatives

- Claim ratio for general insurance was higher in Q4FY2022 on account increased severity of non-Covid health claims.
- BAL's sales of premium bikes was affected due to semi-conductor shortage and affected 15-20% of volumes.

Management Commentary

- BAGIC seeks to grow the preferred segments such as private cars, two wheelers, commercial lines, and retail health going ahead; however, it remains cautious on group health.
- BAL's management is expecting a 3-4% rise in raw-material costs in Q1FY2023 and the company has already taken price hike of 1.5-2% in anticipation of input cost going up on April 1, 2022. EV plans are well in control and the company is ready if demand exceeds expectations.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 6,147: BHIL's business depends upon the valuations of its investments, including that of its key associates. BFS's subsidiaries are performing well. We believe that healthy traction in all businesses would drive consolidated revenues and earnings for BFS. Due to Bajaj Finance's (BAF) prudent provisioning, we expect it to enter FY22 with a clean slate, high capitalisation and strong balance sheet as growth facilitators going forward. Both BALIC and BAGIC have healthy solvency ratios and strong operating metrics, along with strong structural tailwinds to provide growth opportunities for them in the long term. In respect of BAL, we remain positive on the business outlook and expect exports to remain a key growth driver in FY2023. We expect BAL to continue to increase its market share in domestic and export markets, given its strong portfolio of premium brands and cost-effective electronic injection system at entry level. OPM would expand because of richer product mix, operating leverage, and cost-control measures. BHIL will continue to benefit from strong dividend policies of BFS and BFL. We maintain our Buy rating on BHIL with an unchanged PT of Rs. 6,147, factoring upside in valuations of its key associates, viz. Bajaj Finserv (BFS) and Bajaj Auto (BAL), and other key investments.

Key Risks

Any slowdown in consumer finance growth may pose a risk to the BFS's earnings growth and profitability. Any slowdown in export markets and unfavourable forex fluctuations can affect the BAL's profits.

SOTP Valuation

Particulars	Relationship	Per share (Rs)
Stake in Bajaj Auto (35.77%)	Associate	4,464
Stake in BFS (41.63%)	Associate	12,059
Other group companies	Subsidiary, JV	241
Total		16,523
Value post holding co discount		5,783
Cash & Liquid Investment/share		364
BHIL's Target Price		6,147
Upside (%)		21

Source: Company; Sharekhan estimates

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 a book value of Rs1,383 per share and Net Asset Value of Rs14,076 per share of the Investments. BFS has three key subsidiaries, namely Bajaj Finance Limited (BFL), Bajaj Allianz General Insurance Co. (BAGIC), and Bajaj Allianz Life Insurance Co. (BALIC).

Key highlights of Q4FY22 results are as follows:

- ◆ **BHIL's profit soars on share of profits from associates:** BHIL's consolidated income from operations declined 3.3% y-o-y to Rs89.5 crore in Q4FY22, driven by 46.8% decline in fair value gains, partially mitigated by 78.8% increase in dividend income, flat growth in rental income and 3.1% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. The share of profit from associates improved 15.9% y-o-y to Rs. 1,058.3 crore in Q4FY21, leading to a PAT growth of 16.5% y-o-y to Rs. 1,105.4 crore.
- ◆ **Bajaj Finance (BAF):** BAF reported consolidated PAT of Rs. 2,420 crore, up 80% y-o-y and 14% q-o-q in Q4FY2022, primarily because of robust growth in net interest income (NII) and other income. NII grew by ~30% y-o-y (up ~2% q-o-q). Other income rose by 54% y-o-y. GNPA and NNPA declined by ~14 bps q-o-q and ~10 bps q-o-q to 1.6% and 0.68%, respectively, in Q4FY2022. Consolidated AUM at Rs. 1.97 trillion increased ~29% y-o-y/~9% q-o-q, which added Rs. 14,700 crore worth of loans sequentially. AUM composition remained steady, with all segments registering double-digit growth except for auto finance business.
- ◆ **Bajaj Allianz General Insurance (BAGIC):** General insurance's (BAGIC), gross written premium increased by 18% y-o-y and 12% q-o-q to Rs. 3,300 crore. It wrote crop and government health insurance of Rs. 429 crore in Q4FY2022 versus Rs. 96 crore in Q4FY2021. Its net premium earned increased by 10% y-o-y and 3% q-o-q. Claim ratio for general insurance was higher in Q4FY2022 because of increased severity of non-COVID health claims and higher crop claims in Kharif season of FY2022; although it maintained its market share. In FY2022, overall motor growth stood at 2.5% y-o-y and was lower than the industry's growth of 4.0% y-o-y. Commercial lines (fire, engineering, marine, and liability) continued to perform well with 16.5% y-o-y growth as against industry's growth of 12.6% y-o-y in FY2022. Combined ratio increased to 98.3% in 4QFY2022 versus 96.6% in Q4FY2021.
- ◆ **Bajaj Allianz Life Insurance (BALIC):** The company's life insurance business (BALIC) reported gross premium income of Rs. 5,719 crore, an increase of ~27% y-o-y. Its new business premium grew by 36% y-o-y and ~36% q-o-q, primarily driven by individual-rated new business premium (up 36% y-o-y), while group protection businesses grew by a modest 1% y-o-y. Product mix in terms of by individual-rated new business premium stands at PAR (20%), Non-PAR savings (33%), ULIP (36%), Protection (2%), Annuity (9%). Management stated that its launch of Guaranteed Pension Goal annuity product in Q4FY2021 has been received well and contributed to 11% of the product mix in FY2022.
- ◆ **BAL's Q4FY22 results were ahead of expectations on strong operational performance:** BAL reported strong operational performance during Q4FY2022, led by higher average sales realisation, improved product mix, improved USD realisation, and deferral of material cost increase. Sales, EBITDA, and PAT were higher by 5.5%, 20.4%, and 43.2%, respectively, compared to street's expectations. EBITDA margin was 210 bps higher than street's expectations at 17.1% in Q4FY22. Net operating revenue declined by 7.2% y-o-y to Rs. 7,975 crore, led by a 16.5% decline in volumes, partially benefitted by 11.1% improvement in average realisation. EBITDA for Q4 declined 10.4% y-o-y to Rs. 1,366 crore and adjusted PAT improved 10.3% y-o-y to Rs. 1,469 crore. Adjusted PAT improved due to adjustment of exceptional item of Rs. 315 crore, which is an incentive received by the state government of Maharashtra under Package Scheme of Incentive 2007 for April 2015 to March 2021.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Income from operations	89.5	97.7	-8.4	95.6	-6.4
Total expenditure	41.1	36.9	11.2	39.6	3.8
Operating profit	48.4	60.7	-20.3	56.0	-13.6
Other income	15.9	13.0	22.3	14.6	9.1
EBITDA	64.3	73.7	-12.8	70.6	-8.9
PBT	63.5	72.9	-12.9	69.8	-9.0
Taxes	15.6	21.8	-28.3	17.2	-9.4
PAT before share of associates	47.9	51.2	-6.4	52.6	-8.9
Share of profit from associates	1058.3	728.4	45.3	989.2	7.0
Minority interest in net income of subsidiary	0.8	1.1	-25.7	1.6	-51.6
Adjusted PAT	1105.4	778.5	42.0	1040.2	6.3
EPS (Rs)	99.3	70.0	42.0	93.5	6.3

Source: Company; Sharekhan Research

Investments

Investments at Cost	Rs cr				
	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Equity associates	3,135	3,135	-	3,135	-
Equity - others	2,714	2,772	(2.1)	2,693	0.8
Fixed income sec	4,132	3,832	7.8	4,100	0.8
Investment property	177	181	(2.2)	179	(1.1)
Total	10,158	9,920	2.4	10,107	0.5
Mkt Value					
Equity associates	1,46,011	99,806	46.3	1,38,479	5.4
Equity - others	6,198	5,241	18.3	6,135	1.0
Fixed income sec	4,153	3,888	6.8	4,142	0.3
Investment property	287	274	4.7	274	4.7
Total	1,56,649	1,09,209	43.4	1,49,030	5.1

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural tailwinds to support BFS; BAL's two-wheeler business growing steadily

We believe retail players have a large market to grow. FY2022 indicates pick-up in credit offtake, especially in the retail and consumer segments, as credit growth is pegged at 7.5-8%. Leading indicators depict recovery in economic activity, which will be positive. We believe retail and consumer lending segments have a long structural growth runway available to them, as India's credit delivery diversifies and penetration increases. The two-wheeler business has a tremendous growth potential, driven by lower vehicle penetration domestically and strong brand image of Indian players in key export markets of Africa and Latin America.

■ Company Outlook – Sound business fundamentals for BFS subsidiaries; BAL to continue its strong performance

We believe, structurally, all of BFS subsidiaries are well placed. BFL stands out with its strong balance sheet, comfortable liquidity, high credit ratings, and well-matched asset-liability management position. It is also well-capitalised and has a strong provision buffer that will help it cushion the impact on its balance sheet and profitability. BFL has a diversified financial services strategy seeking to optimise risk and profit and deliver a sustainable and superior RoE and RoA in the long term. Insurance subsidiaries have a well-diversified product portfolio and multi-channel distribution supported by prudent underwriting, which augurs well for long-term sustainability and profits. BAL is likely to continue to outpace the two-wheeler industry, driven by new launches and increasing premiumisation trend. In export markets, increasing distribution network would be a key driver for outperformance.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 6,147

BHIL's business depends upon the valuations of its investments, including that of its key associates. BFS's subsidiaries are performing well. We believe that healthy traction in all businesses would drive consolidated revenues and earnings for BFS. Due to Bajaj Finance's (BAF) prudent provisioning, we expect it to enter FY22 with a clean slate, high capitalisation and strong balance sheet as growth facilitators going forward. Both BALIC and BAGIC have healthy solvency ratios and strong operating metrics, along with strong structural tailwinds to provide growth opportunities for them in the long term. In respect of BAL, we remain positive on the business outlook and expect exports to remain a key growth driver in FY2023. We expect BAL to continue to increase its market share in domestic and export markets, given its strong portfolio of premium brands and cost-effective electronic injection system at entry level. OPM would expand because of richer product mix, operating leverage, and cost-control measures. BHIL will continue to benefit from strong dividend policies of BFS and BFL. We maintain our Buy rating on BHIL with an unchanged PT of Rs. 6,147, factoring upside in valuations of its key associates, viz. Bajaj Finserv (BFS) and Bajaj Auto (BAL), and other key investments.

About company

BHIL is essentially a holding and investment company. BHIL holds Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL – 35.81% stake) and Bajaj Finserv (BFS – 41.63% stake). BHIL also has a book value of Rs1,391 per share and Net Asset Value of Rs14,694 per share of the Investments. BFS has three key subsidiaries, namely Bajaj Finance Limited (BFL), Bajaj Allianz General Insurance Co. (BAGIC), and Bajaj Allianz Life Insurance Co. In addition to the above, BHIL holds investments in other equity and fixed income instruments.

Investment theme

With the upfronting of provisions in FY2021, we expect BFL to enter FY2022E with a clean slate, high capitalisation, and strong balance sheet as growth facilitators going forward. Notwithstanding, near-term headwinds, sound fundamentals of BFL's business franchise, and strategic long-term business transformation steps are likely to be long-term positives. BFL is well capitalised with conservative leverage and both BALIC and BAGIC have healthy solvency ratios and strong operating metrics, along with strong structural tailwinds to provide growth opportunities for them for the long term. BAL is witnessing recovery in domestic (2W and 3W) and export demand. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. OPM would expand because of richer product mix, operating leverage, and cost-control measures. Given the strategic nature of BHIL's investments (BAL and BFS), we have valued BHIL on the valuations of its associates and other investments, which provides significant value to it.

Key Risks

Any slowdown in consumer finance growth may pose a risk to the BFS's earnings growth and profitability. Any slowdown in export markets and unfavourable forex fluctuations can affect the BAL's profits.

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.	17.9
2	Jaya Hind Industries Limited	5.3
3	Niraj Bajaj Nirav Trust	4.8
4	Shekhar Bajaj Anant Bajaj Trust	4.6
5	Rahulkumar Bajaj Sanjiv Trust	3.7
6	Rahulkumar Bajaj Rajiv Trust	3.6
7	Bajaj Sevashram Private Ltd	3.3
8	Bajaj Auto Limited	3.1
9	Maharashtra Scooters Limited	3.0
10	Bachhraj And Company Pvt Limited	2.9

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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