Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Holdings & Investments Ltd

Upside in valuation driven by associate firms

Diversified	Sharekhan code: BAJAJHLDNG

Reco/View: Buy	↔	CMP: Rs. 5,279	Price Target: Rs. 6,406	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Jul 08, 2022

Low Risk

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

Source: Morningstar

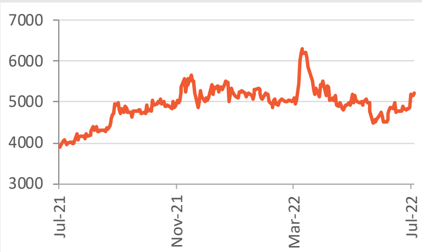
Company details

Market cap:	Rs. 58,572 cr
52-week high/low:	Rs. 6,573 / 3,411
NSE volume: (No of shares)	38.5 lakh
BSE code:	500490
NSE code:	BAJAJHLDNG
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	51.2
FII	11.8
DII	5.3
Others	32.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.6	-3.3	-2.3	33.7
Relative to Sensex	5.7	-7.7	-3.4	23.3

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Bajaj Holdings and Investments Limited (BHIL) with a revised PT of Rs.6,406, factoring upside in valuations of its key associates, viz. Bajaj Finserv (BFS) and Bajaj Auto (BAL), and other key investments.
- In Q1FY23, BHIL's key associate firms – Bajaj Finserv (BFS) and Bajaj Auto Ltd (BAL) – clocked strong growth, with key performance parameters improving.
- We remain positive on BFS and BAL and retain our buy rating on the stocks. BHIL will be the key beneficiary of improving business prospects and valuations of associates.
- BAL beats expectations in operational performance during Q1FY23, whereas BFS continued to see improvement in its life and general insurance businesses. As a result, we remain positive on BHIL.

Bajaj Holdings and Investment Limited (BHIL) holds the Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL – 35.83% 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 6.5% y-o-y to Rs91.3 crore in Q1FY23, driven by a 77.1% decline in fair value gains and 5.2% in rental income, partially offset by a 23.9% increase in dividend income, and 6.5% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. The share of profit from associates improved 27% y-o-y to Rs925.3 crore in Q1FY23, leading to a PAT growth of 24.5% y-o-y to Rs969.3 crore. BHIL's associates continued to perform well and management 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 a revised SoTP-based PT of Rs. 6,406.

Key positives

- Market share (in terms of individual-rated new business premium) of BALIC increased to 8.3% in Q1FY23, while the protection business rose strongly by 76% y-o-y
- BAL's average realisation per vehicle improved 16.8% y-o-y and 5% q-o-q to Rs. 85,739/vehicle, led by price hikes and improved product mix. BAL's e-scooter, Chetak, is gaining traction and Q1FY2023 sales have doubled in Q1FY23.
- BAL continues to increase its market share in Latin America and ASEAN regions, despite price hikes (due to currency movement), while maintaining its dominancy in Africa. Exports are expected to report steady growth going forward, led by its dominant market share and increasing premiumisation in key export markets.

Key negatives

- Combined ratio was higher at 104.6% in Q1FY23 versus 103.4% in Q1FY22, on account of higher claims ratio. Claims ratio increased to 77.9% in Q1FY23 versus 75.9% in Q1FY22, mainly due to an increase in severity of motor and health segments.
- BAL witnessed a 20-25% shortfall in overall sales and ~40% shortfall in domestic sales due to ECU supply constraints.

Management Commentary

- BALIC signed up new corporate agency channels with City Union Bank (CUB) and Development Bank of Singapore (DBS) and the management foresees its contribution to commence from Q3 onwards.
- BAL's management expects raw-material prices to stabilise in the near term and expects volumes to improve in FY2023E. Also, BAL expects to ramp up inventory in the near term, as the demand scenario remains positive.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 6,406: 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. Driven by Bajaj Finance's (BAF) prudent provisioning, high capitalisation, and strong balance sheet, BFL is expected to deliver robust AUM growth of 24% over FY2022 through FY2024E. 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 systems at entry level. Electrical Vehicles (EVs) is gaining traction and would benefit BAL on back of its widening product portfolio. BHIL will continue to benefit from strong dividend policies of BFS and BFL. We maintain our Buy rating on BHIL with a revised PT of Rs. 6,406, 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 earnings growth and profitability of BFL.
- Any slowdown in export markets and unfavourable forex fluctuations can affect the BAL's profit.

SOTP Valuation

Particulars	Relationship	Per share (Rs)
Stake in Bajaj Auto (35.77%)	Associate	4,464
Stake in BFS (41.63%)	Associate	10,593
Other group companies	Subsidiary, JV	242
Total		**15,056**
Value post holding co discount		**6,023**
Cash & Liquid Investment/share		383
BHIL's Target Price		**6,406**
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 – 35.93% stake) and Bajaj Finserv (BFS – 41.63% stake). BHIL also has a book value of Rs1,352 per share and Net Asset Value of Rs10,658 per share of its 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 Q1FY23 results are as follows

- **BHIL's profit soars on the share of profits from associates:** BHIL's consolidated income from operations declined 6.5% y-o-y to Rs91.3 crore in Q1FY23, driven by a 77.1% decline in fair value gains and 5.2% in rental income, partially offset by 23.9% increase in dividend income, and 6.5% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. The share of profit from associates improved 27% y-o-y to Rs925.3 crore in Q1FY23, leading to a PAT growth of 24.5% y-o-y to Rs969.3 crore.
- **Bajaj Finance (BAF):** BAF reported a consolidated PAT of Rs. 2,596 crore, up 159% y-o-y and 7% q-o-q in Q1FY23, primarily because of robust growth in net interest income (NII) and lower provisioning. NII grew by ~48% y-o-y (up ~10% q-o-q). Other income rose by 73% y-o-y. GNPA and NNPA declined by ~35 bps q-o-q and ~18 bps q-o-q to 1.25% and 0.5%, respectively, in Q1FY23. Management plans to grow its AUM to Rs. 4 lakh crore by FY2025. AUM composition remained steady with all the segments registering double-digit growth except for the auto finance business.
- **Bajaj Allianz General Insurance (BAGIC):** General Insurance (BAGIC), gross written premium increased by 25% y-o-y and declined by ~6% q-o-q to Rs. 3,119 crores in Q1FY23. This was mainly contributed by the motor (up 23% y-o-y) and the marine insurance segment (up 16% y-o-y). The company wrote government health insurance of Rs. 108 crores during the quarter. Its net premium earned was subdued by 2% y-o-y and decreased by ~7% q-o-q. The claims ratio for general insurance was higher (at 77.9% in Q1FY23 versus 75.9% in Q1FY22) on account of higher severity in motor and health segments. There was an underwriting loss of Rs. 61 crore in Q1FY23 versus a gain of Rs. 15 crores in Q1FY22. The combined ratio stood at 104.6% in Q1FY23 versus 103.4% in Q1FY22.
- **Bajaj Allianz Life Insurance (BALIC):** BALIC reported a gross premium income of Rs. 4,369 crore, up ~74% y-o-y. Its new business premium doubled to Rs. 2,917 crore in Q1FY23 as compared to Rs. 1,296 crore in Q1FY22, primarily driven by individual rated new business premium (up by 81% y-o-y). Group protection new business grew strongly by 76% y-o-y in Q1FY23. Product mix in terms of individual-rated new business premium stood at Par (19%), Non-Par Savings (31%), ULIP (38%), Protection (3%), and Annuity (9%).
- **BAL's Q1FY23 results were ahead of expectations:** BAL reported strong operational performance during Q1FY2023, led by higher average sales realisation, improved USD realisation, and better product mix, despite higher input costs. Net operating revenue increased 8.4% y-o-y to Rs. 8,005 crores, led by a robust 16.8% increase in average realisation, partially offset by a 7.2% decline in volumes. The volume decline was because of the chips shortage. Exports volumes declined by 10.5% y-o-y in Q1FY2023 due to a tough macro environment, while the company continued to increase its market share in ASEAN and LATAM regions. EBITDA margin contracted by 90 bps q-o-q to 16.2% in Q1, led by increased commodity prices and negative operating leverage. EBITDA for Q1 increased 15.8% y-o-y to Rs. 1,297 crore and adjusted PAT improved 10.6% y-o-y to Rs. 1,173 crores.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Income from operations	91.3	97.7	(6.5)	89.5	2.1
Total expenditure	45.3	36.9	22.6	41.1	10.3
Operating profit	46.1	60.7	(24.2)	48.4	(4.9)
Other income	12.9	13.0	(0.6)	15.9	(18.8)
EBITDA	59.0	73.7	(20.0)	64.3	(8.3)
PBT	58.3	72.9	(20.1)	63.5	(8.2)
Taxes	13.5	21.8	(37.9)	15.6	(13.3)
PAT before share of associates	44.8	51.2	(12.5)	47.9	(6.5)
Share of profit from associates	925.3	728.4	27.0	1058.3	(12.6)
Minority interset in net income of subsidiary	0.7	1.1	(33.3)	0.8	(10.3)
Adjusted PAT	969.3	778.5	24.5	1105.4	(12.3)
EPS (Rs)	87.1	70.0	24.5	99.3	(12.3)

Source: Company; Sharekhan Research

Investments Rs cr

Investments at Cost	Q1FY23	Q1FY22	YoY %	Q1FY22	QoQ %
Equity associates	3,173	3,135	0.0	3,135	0.0
Equity - others	2,692	2,748	(0.0)	2,748	(0.0)
Fixed income sec	4,264	3,999	0.1	3,999	0.1
Investment property	176	180	(0.0)	180	(0.0)
Total	**10,305**	**10,062**	**0.0**	**10,062**	**0.0**
Mkt Value					
Equity associates	1,08,250	1,19,752	(0.1)	1,19,752	(0.1)
Equity - others	5,899	5,549	0.1	5,549	0.1
Fixed income sec	4,132	4,052	0.0	4,052	0.0
Investment property	287	274	0.0	274	0.0
Total	**1,18,568**	**1,29,627**	**(0.1)**	**1,29,627**	**(0.1)**

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. FY2023 indicates a pick-up in credit offtake, especially in the retail and consumer segments, as credit growth is pegged at 7.5-8%. Leading indicators depict a 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 tremendous growth potential, driven by lower vehicle penetration domestically and the 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 an increasing premiumisation trend. In export markets, increasing the distribution network would be a key driver for outperformance.

■ Valuation – Maintain Buy with a revised PT of Rs. 6,406

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. Driven by Bajaj Finance's (BAF) prudent provisioning, high capitalisation, and strong balance sheet, BFL is expected to deliver robust AUM growth of 24% over FY2022 through FY2024E. 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 systems at the entry level. Electrical Vehicles (EVs) is gaining traction and would benefit BAL on the back of its widening product portfolio. BHIL will continue to benefit from the strong dividend policies of BFS and BFL. We maintain our Buy rating on BHIL with a revised PT of Rs.6,406, 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 a recovery in domestic (2W and 3W) and export demand. The outlook remains positive with strong recovery expected from FY2022, driven by the normalisation of economic activities. OPM would expand because of a 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 earnings growth and profitability of BFL.
- Any slowdown in export markets and unfavourable forex fluctuations can affect the BAL's profit.

Additional Data

Key management personnel

Rahul Bajaj	Chairman
Sanjiv Bajaj	MD & CEO
Rajiv Bajaj	Director
Anant Marathe	CFO
Sriram Subramaniam	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

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 detoriating 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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