Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Bajaj Holdings & Investments Ltd

## Positive outlook ahead

| Diversified | Sharekhan code: BAJAJHLDNG |
|---|---|

| Reco/View: Buy | ↔ | CMP: Rs. 6,370 | Price Target: Rs. 7,615 | ↑ |
|---|---|---|---|---|

↑ 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 July 08, 2022

Low Risk

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

*Source: Morningstar*

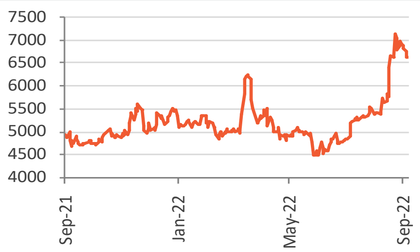
### Company details

| | |
|---|---|
| Market cap: | Rs. 70,894 cr |
| 52-week high/low: | Rs. 7,374/ 4,300 |
| NSE volume: (No of shares) | 93,644 |
| 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 | 22.5 | 39.4 | 32.3 | 34.1 |
| Relative to Sensex | 26.3 | 32.9 | 34.7 | 39.5 |

*Sharekhan Research, Bloomberg*


### Summary

- We maintain Buy on Bajaj Holdings and Investments Limited (BHIL) with a revised PT of Rs.7,615, factoring upside in valuations of its key associate, Bajaj Finserv (BFS).
- The business outlook of BFS is positive, led by expected pick-up in demand during the festive season in BFS's lending arm, Bajaj Finance Ltd. (BFL). BFS's insurance business is witnessing strong traction, led by well-diversified product portfolio and multi-channel distribution network.
- Bajaj Auto Limited (BAL) is likely to do well going forward, driven by new launches and an increasing premiumization trend.
- 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 its associate companies.


**Bajaj Holdings and Investment Limited (BHIL) holds 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).The business outlook of BFS is positive, led by expected pick-up in demand during the festive season in BFS's lending arm, Bajaj Finance Ltd. (BFL). BFS's insurance business is witnessing strong traction, led by well-diversified product portfolio and multi-channel distribution network. BFL has made calibrated changes to its risk-management practices, regaining its business momentum while maintaining strong vigil on portfolio quality and adapting to changing customer preferences post the pandemic. We believe the business transformation would enhance business sustainability, improve its scalability, position BFL to take advantage of a strong economic cycle, and would gain competitive advantage among peers. With respect to the automobile business, BAL is expected to gain market share across regions, driven by brand recall, product launches, and improving premiumisation of its product portfolio. Moreover, BAL is getting positive response from its e-2W, Chetak, and is expected to scale up its EV capacity and production. We remain positive on BHIL and retain our Buy rating on the stock with a revised SoTP-based PT of Rs. 7,615.**

- **BFS is gaining traction in both financing and insurance businesses:** The business outlook of BFS is positive, led by expected pick-up in demand during the festive season in BFS's lending arm, BFL.Assets under management (AUM) is expected to witness robust growth going forward, led by diverse product offerings, customer acquisition, and ability to cross sell. Moreover, BFS's insurance business is witnessing strong traction, led by well-diversified product portfolio and multi-channel distribution network.
- **BAL's market share to remain strong:** BAL is expected to gain market share across regions, driven by brand recall, product launches, and improving premiumisation of its product portfolio. BAL is also getting positive response from its e-2W, Chetak, and is expected to scale up its electric vehicle (EV) capacity and production.
- **Performance of associate companies to drive BHIL's valuations:** BHIL will continue to benefit from strong dividend policies of BFS and BFL, which are transparent and depend upon the performance of the respective associate companies. Strong business growth outlook is expected to drive BHIL's valuation and price target (PT) going forward.

### Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 7,615:** BHIL's business depends upon the valuations of its investments, including that of its key associates. BFS's subsidiaries are performing well. We believe healthy traction in all businesses would drive consolidatedrevenue 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 25% 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.With respect to BAL, we remain positive on the business outlook and expectexports 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 systemsat entry level. EV is gaining traction and would benefit BAL on account 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. 7,615, factoring upside in valuations of its key associate, BFS.

### Key Risks

- Any slowdown in consumer finance growth may pose a risk to earnings growth and BFL's profitability.
- Any slowdown in export markets and unfavourable forex fluctuations can affect BAL's profit. Aggravation of chips shortage can impact our estimates adversely.

### SOTP Valuation

| Particulars | Relationship | Per share (Rs) |
|---|---|---|
| Stake in Bajaj Auto (35.77%) | Associate | 4,464 |
| Stake in BFS (41.63%) | Associate | 11,607 |
| Other group companies | Subsidiary, JV | 242 |
| **Total** | | **16,071** |
| **Value post holding co discount** | | **7,232** |
| Cash & Liquid Investment/share | | 383 |
| **BHIL's Target Price** | | **7,615** |
| Upside (%) | | 20 |

*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 Rs. 1,352 per share and net asset value of Rs. 10,658 per share of itsinvestments. 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 profit soars on the share of profits from associates:** During Q1FY2023, BHIL's consolidated income from operations declined 6.5% y-o-y to Rs. 91.3 crore in Q1FY2023, 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 a 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 Rs. 925.3 crore in Q1FY2023, leading to PAT growth of 24.5% y-o-y to Rs. 969.3 crore.

**BFS is gaining traction in both, financing and insurance businesses:** The business outlook of BFS is positive, led by expected pick-up in demand during the festive season in BFS's lending arm, BFL. AUM is expected to witness robust growth going forward, led by diverse product offerings, customer acquisition, and ability to cross sell. Moreover, BFS's insurance business is witnessing strong traction, led by well-diversified product portfolio and multi-channel distribution network.

**BFL's AUM likely to sustain strong growth:** BFL's AUM is likely to sustain strong growth, led by diverse product offerings, customer acquisition, and ability to cross sell. Customer franchise stood at 60.3 million (up 20% y-o-y/5% q-o-q/) and cross-sell franchise at 34.7million (up 26% y-o-y/6% q-o-q) in Q1FY2023. New loans booked were 7.4mn (up 17% q-o-q) and new to Bajaj (NTB) customers expanded sharply by 2.7mn (up 23% q-o-q). AUM expanded 3% q-o-q/ 28% y-o-y, led by sharp recovery in rural (10% q-o-q/ 38% y-o-y) and SME (up 6% q-o-q / 31% y-o-y). However, Consumer B2B –Auto Finance continued to see weakness (down 12% y-o-y/2% q-o-q). The company is further expanding its product offering for customers. It has announced the launch of 2W financing across all manufacturers in addition to financing of Bajaj Auto 2Ws. The company plans to start this business in the second quarter of FY2023. The company has launched co-branded credit card with DBS Bank, which is likely to gain traction as it picksup pace to 30,000-40,000 cards per month (from 9,000-10,000 per month currently) by the end of FY23. The company has also entered into a strategic tie-up with Cars24 for providing end-to-end digital financing experience for customers transacting on Cars24 platform to gain market share in the used car financing business. The company also plans to grow gold loan portfolio as it aims to expand standalone gold loan branches to 232 (vs. 155 now) in FY2023. Considering these product portfolio extensions and a healthy momentum in the existing business, we estimate AUM to report a 25% CAGR over FY2022-FY2024E.

**Strong performance of BFL in Q1FY2023:** BFL reported consolidated PAT of Rs. 2,596 crore, up 159% y-o-y and 7% q-o-q in Q1FY2023, 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 Q1FY2023. Management plans to grow its AUM to Rs. 4 lakh crore by FY2025. AUM composition remained steady with all segments registering double-digit growth except for the auto finance business.

**Bajaj Allianz General Insurance (BAGIC):** General Insurance's (BAGIC) gross written premium increased by 25% y-o-y and declined by ~6% q-o-q to Rs. 3,119 crore in Q1FY2023. This was mainly contributed by the motor (up 23% y-o-y) and marine insurance segment (up 16% y-o-y). The company wrote government health insurance of Rs. 108 crore during the quarter. Its net premium earned was subdued by 2% y-o-y and decreased by ~7% q-o-q. Claims ratio for general insurance was higher (at 77.9% in Q1FY2023 versus 75.9% in Q1FY2022) on account of higher severity in motor and health segments. There was an underwriting loss of Rs. 61 crore in Q1FY2023 versus gain of Rs. 15 crore in Q1FY22. The combined ratio stood at 104.6% in Q1FY2023 versus 103.4% in Q1FY2022.

**Bajaj Allianz Life Insurance (BALIC):** BALIC reported gross premium income of Rs. 4,369 crore, up ~74% y-o-y. Its new business premium doubled to Rs. 2,917 crore in Q1FY2023 as compared to Rs. 1,296 crore in Q1FY2022, 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 Q1FY2023. 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%). Market share (in terms of individual-rated new business premium) of BALIC increased to 8.3% in Q1FY2023. BALIC signed up new corporate agency channels with City Union Bank (CUB) and Development Bank of Singapore (DBS) and management foresees its contribution to commence from Q3.

**BAL's market share to remain strong:** BAL is expected to gain market share across regions, driven by brand recall, product launches, and improving premiumisation of its product portfolio. Moreover, BAL is getting positive response from its e-2W, Chetak, and is expected to scale up its EV capacity and production. 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 crore, 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 chips shortage. Export volume 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. BAL's management expects raw-material prices to stabilise in the near term and expects volumes to improve in FY2023E. Moreover, BAL expects to ramp up inventory in the near term, as the demand scenario remains positive.

**Performance of associate companies to drive BHIL's valuations:** BHIL will continue to benefit from strong dividend policies of BFS and BFL, which is transparent and depends upon the performance of the respective associate companies. Strong business growth outlook is expected to drive BHIL's valuation and PT going forward.

## Outlook and Valuation

### ■ Sector view - Structural tailwinds to support BFS; BAL's 2W business growing steadily

We believe retail players have a large market to grow. FY2023 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 2Wbusiness 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's 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 2W 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. 7,615

BHIL's business depends upon the valuations of its investments, including that of its key associates. BFS's subsidiaries are performing well. We believe healthy traction in all businesses would drive consolidated revenue 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 25% 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. With respect to 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. EV is gaining traction and would benefit BAL on account 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. 7,615, factoring upside in valuations of its key associate, BFS.

## 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 Rs. 1,391 per share and NAV of Rs. 14,694 per share of investments. BFS has three key subsidiaries, namely BFL, BAGIC, and BALIC. In addition to the above, BHIL holds investments in other equity and fixed income instruments.

## Investment theme

We expect BFL to enter FY2023 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 FY2023, driven by 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 BFL's profitability.
- Any slowdown in export markets and unfavourable forex fluctuations can affect BAL's profit. Aggravation of chips shortage can impact our estimates adversely

## Additional Data

**Key management personnel**

| | |
|---|---|
| Rahul Bajaj | Chairman |
| Sanjiv Bajaj | MD & CEO |
| Rajiv Bajaj | Director |
| Anant Marathe | CFO |
| Sriram Subramaniam | Company Secretary |

*Source: Company*

**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*

# Sharekhan

by BNP PARIBAS

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