

Stock Update

Holding strong grounds

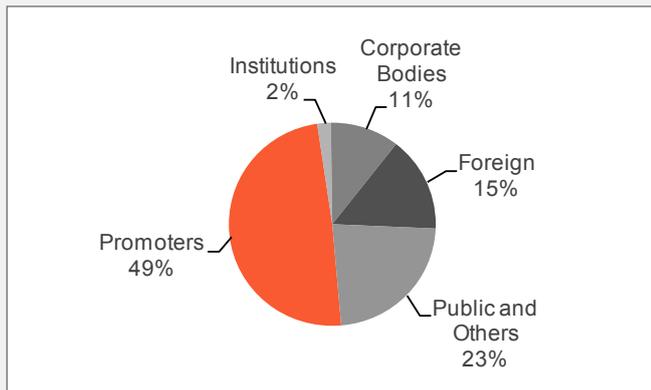
Bajaj Holdings & Investment

Reco: Buy | CMP: Rs3,696

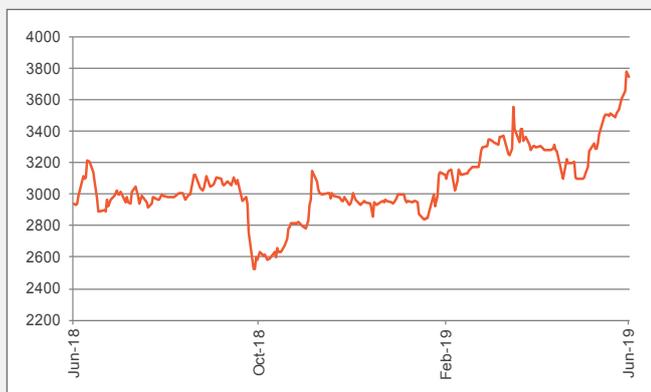
Company details

Price target:	Rs4,548
Market cap:	Rs41,134 cr
52-week high/low:	Rs3,799/2,204
NSE volume: (No of shares)	44,405
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJHLDNG
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	22.3	11.9	25.7	28.6
Relative to Sensex	15.0	5.4	12.7	14.1

Key points

- ◆ Bajaj Holdings and Investment Limited (BHIL) holds Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL - 33.43% stake) and Bajaj Finserv (BFS - 39.29% stake). BHIL also has an investment portfolio with a market value of ~Rs. 6,552 crore in other equity and fixed income securities.
- ◆ **Associate BFS stock price moves up sharply 20%; BHIL marginally increases stake in BAL:** BHIL associate company Bajaj Finserv (BHIL holds 39.29% stake) stock price has jumped 20% in the past three months. Bajaj Finserv contributes about 55% to the overall valuation of BHIL. Further, BHIL has marginally increased stake in another associate company Bajaj Auto from 31.54% in Q3FY2019 to 33.43% in Q4FY2019 which would aid in increased valuations for BHIL.
- ◆ **BAL: Q4 operational results marginally ahead of estimates; volume outlook healthy but margin pressures to impact earnings:** Q4FY2019 results of BAL were marginally ahead of street estimates as it continues to deliver strong volume growth in both domestic and export markets. While the aggressive pricing strategy in the domestic market impacted margins (OPM down by ~400 BPS y-o-y, but stable on a q-o-q basis), results were slightly ahead of street estimates. BAL has been successful in gaining market share in the domestic motorcycle market. The company's market share has increased by 320 BPS y-o-y for FY2019 to 18.8%. New launches, which are aggressively priced and loaded with features, have enabled BAL to gain market share. BAL is targeting further market share gains and has planned more launches in both the entry and mid-motorcycle segments. Moreover, outlook for the exports segment is encouraging. A stable currency and rising crude prices have boosted demand in exports markets. We expect BAL's topline to report a strong 13% CAGR over the next two years. However, BAL's continued strategy to prioritise market share over profitability, increased regulatory cost pressures and higher competitive intensity would lead to OPM declining by 80 BPS y-o-y in FY2020. We expect BAL to report an earnings CAGR of 9%, which would lag topline growth of 13%.

- ◆ **BFS: Mixed performance for Q4FY19; lending business strong but challenges for insurance business to cap upside:** BFS posted mixed results. While performance of the lending business, Bajaj Finance Limited (BFL), was strong, profitability of insurance subsidiaries - Bajaj Allianz General Insurance (BAGIC) and Bajaj Allianz Life Insurance (BALIC) - was weak. BFL's Assets under management (AUM) grew by healthy 41% y-o-y, driven by rural and consumer loans while the net profit jumped by 48.7% y-o-y to Rs. 1,176 crore. However for BFS, on a consolidated basis the Net Profit growth was at slower rate of 32% dragged by the insurance business. Bajaj Allianz General Insurance's net profit impacted due to higher underwriting losses and provisions. Bajaj Allianz Life Insurance's PAT declined on account of provision for expected losses from impairment of investments. BFL appears well set on a strong and sustainable path of growth despite the current challenging environment for NBFCs and could gain from the waning of competitive pressures being faced by NBFC peers. We expect BFL to maintain its loan book trajectory as well as profitability and margins for the medium term. However, BFS's Insurance subsidiaries may take

longer to see normalization in profitability even as their topline performance is encouraging. We believe there are medium term challenges for insurance businesses, which are likely to keep upsides capped even as the lending business outlook continues to be bright.

- ◆ **Valuation: Raise PT to Rs. 4,548, as we revise upwards our PT for both associate companies; Maintain Buy:** 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 upwards to Rs. 8,250 (earlier PT of Rs. 6,900). 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. We have marginally raised our PT for BAL to Rs. 3,250 (earlier PT of Rs. 3,100) due to better-than-anticipated Q4FY2019 performance. Consequently, we have raised our PT for BHIL to Rs. 4,548 (earlier PT of Rs. 3,924). We retain Buy recommendation on the stock.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Income from operations	83.0	105.7	-21.5	109.6	-24.3
Total expenditure	37.8	19.4	95.0	16.2	132.9
Operating profit	45.2	86.3	-47.6	93.4	-51.6
Other income	1.2	1.1	11.3	1.2	0.9
EBITDA	46.4	87.4	-46.9	94.6	-50.9
PBT	46.4	87.4	-46.9	94.6	-50.9
Taxes	21.9	-3.4	-741.6	33.9	-35.4
PAT before share of associates	24.5	90.8	-73.0	60.7	-59.6
Share of profit from associates	766.9	621.4	23.4	720.4	6.5
Reported PAT	791.4	712.2	11.1	781.1	1.3
Adjusted PAT	791.4	712.2	11.1	781.1	1.3
EPS (Rs.)	71.1	64.0	11.1	70.2	1.3

SOTP

Particulars	Relationship	Per share (Rs)	Remarks
Stake in Bajaj Auto (33.43%)	Associate	2,825	PT of Bajaj Auto= Rs 3,250
Stake in BFS (39.29%)	Associate	4,634	SOTP based PT of Bajaj Finserv at Rs 8,250
Total		7,458	
Value post holding co discount		4,102	
Cash & Liquid Investment/share		446	At cost
Value per share		4,548	
CMP		3,696	
Upside		23.1%	

Q4FY2019 result highlights (Consolidated):

- ◆ BHIL reported healthy earnings growth for the quarter, aided by double-digit growth in the share of profit from associate companies – BAL and BFS.
- ◆ Income from operations declined by 22% y-o-y to Rs. 83 crore. The drop in revenue can be attributed to the decline in interest income and net loss on fair value changes as against gain reported in Q4FY2018. Expenses almost doubled on a y-o-y basis (due to increased other expenses) to Rs. 37.8 crore. Further, BHIL reported tax outgo in Q4FY2019 as against tax credit in the corresponding quarter. Consequently, PAT before share of associates dropped sharply by 73%.
- ◆ The share of profit of associate companies rose strongly by 23% y-o-y to Rs. 767 crore. The rise can be attributed to sturdy performance from both associate companies - BFS and BAL.
- ◆ Consequently, consolidated reported PAT for the quarter stood at Rs. 791 crore, up 11%.

Stake in associate BAL increases marginally; Stake in other group companies unchanged: BHIL's stake in one of the associate companies - BAL - increased marginally by 1.9% to 33.43% during Q4FY2019. BHIL's stake in another associate, BFS, and subsidiary, Bajaj Auto Holdings, remained unchanged. BHIL JV stake in Maharashtra Scooters remained unchanged at 24% during Q4FY2019.

Market value of BHIL's investments grows impressively by 8% q-o-q; Surge in stock prices of associate companies and sturdy growth in value of other equity investments drives growth:

- ◆ Market value of BHIL's investments in equity associate companies increased sharply by 10.5% q-o-q, driven by 7% and 8% surge in the stock price of BAL and BFS, respectively. Further, increased stake in BAL also aided growth.
- ◆ Market value of BHIL's investments in other equities for the quarter grew impressively by 11.5% q-o-q. The overall benchmark index, BSE Sensex also increased by 7% q-o-q. Moreover, the share of investments in other equities portfolio rose by 1.2% q-o-q, which aided growth.
- ◆ Market value of BHIL's investments in fixed income securities for the quarter declined by 34% q-o-q, primarily attributable to a steep 21% decline in share of investments.

Investments	Rs cr		
Investments at Cost	Q4FY19	Q3FY19	QoQ %
Equity associates	2,831	1,232	129.79%
Equity - Others	1,741	1,643	5.96%
Fixed income sec	3,228	4,895	-34.06%
Investment property	187	188	-0.53%
Total	7,987	7,958	0.36%
Mkt Value (Rs. crore)			
Equity associates	74,031	67,019	10.46%
Equity – others	3,343	2,999	11.47%
Fixed income sec	3,209	4,826	-33.51%
Investment property	281	188	49.47%
Total	80,864	75,032	7.77%

Shareholdings in associate companies

Stake (%)	Relationship with BHIL	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Bajaj Auto Limited (BAL)	Associate	31.54	31.54	31.54	31.54	31.54	31.54	31.54	33.43
Bajaj Finserv Limited (BFS)	Associate	39.29	39.29	39.29	39.29	39.29	39.29	39.29	39.29
Bajaj Auto Holdings Ltd.	Subsidiary	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Maharashtra Scooters Ltd.	Joint venture	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00

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