



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 **14.98**
Updated Oct 08, 2021

Low Risk

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

Source: Morningstar

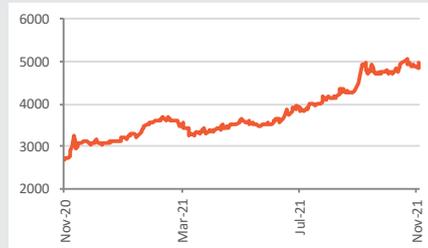
Company details

Market cap:	Rs. 55,480 cr
52-week high/low:	Rs. 5,161 / 2,658
NSE volume: (No of shares)	0.59 lakh
BSE code:	500490
NSE code:	BAJAJHLDNG
Free float: (No of shares)	5.6 cr

Shareholding (%)

Promoters	50.1
FII	13.3
DII	4.6
Others	32.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	19.1	39.7	84.6
Relative to Sensex	7.9	13.6	21.4	49.6

Sharekhan Research, Bloomberg

Bajaj Holdings & Investments Ltd

Growth foundations stay strong

Diversified	Sharekhan code: BAJAJHLDNG		
Reco/View: Buy	↔	CMP: Rs. 4,985	Price Target: Rs. 6,147 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain our Buy rating on Bajaj Holdings and Investments Limited (BHIL) with a revised 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.
- Q2FY22 results saw robust growth by BHIL's associates – BFS and BAL. The performance of both the associate companies has improved notably during the quarter.
- We continue to remain positive on BFS and BAL and have retained 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 Q2FY22, whereas BFS continues to improve life and general insurance businesses. As a result, we continue to remain positive on BHIL.

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 Rs1,391 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. (BALIC). BHIL's consolidated income from operations increased 26.7% y-o-y to Rs147 crore in Q2FY22, driven 189% increase in dividend income, 5% increase in rental income and 2.1% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. The share of profit from associates improved 39.7% y-o-y to Rs1,117.8 crore in Q2FY21. BHIL's associates continue to perform well and managements of both the associates 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 the revised SoTP based PT of Rs6,147.

Key positives

- In general insurance (BAGIC), GDPI rose by 21% y-o-y driven by growth across all segments - motor four-wheeler, fire, marine, government health and travel.
- The life insurance business (BALIC) recorded robust individual new business premium growth of 52% y-o-y versus 35% y-o-y growth in the entire private sector.
- BAL's continues to gain market share across segments, viz. two-wheelers and three-wheelers. The company's market share was at 20% in 2Ws and 68% in 3Ws in H1FY2022.

Key negatives

- In the general insurance business (BAGIC), retail health premium declined by 19% y-o-y.
- BAL's sales of premium bikes were impacted by chips shortage, while rise in commodity prices affected BAL's gross margins.

Management Commentary

- The BAGIC's management expects motor third-party claims to stabilise going forward, as courts open up and judgments come through faster.
- In the life insurance business (BALIC), the management stated that the company has received notice for price hikes by reinsurers and it is likely to increase prices because it has headroom to do so and its products are relatively priced lower.
- BAL's management was positive on the growth outlook and expects the volumes to improve in the festive season, led by recovery in rural demand. Also, the export outlook positive with markets such as Philippines yet to recover and BAL expects to exceed 200,000 volumes every month at least for next 2-3 months.

Our Call

Valuation - Maintain Buy with a revised 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 (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 the key driver in FY2022. 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 have increased BHIL's price target to Rs. 6,147, factoring upside in valuations of its key associates, viz. BFS and BAL, and other key investments.

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 (%)		23

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 Rs1,391 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. (BALIC). Key highlights of Q2FY22 results are as follows:

BHIL's profit soars on share of profits from associates: BHIL's consolidated income from operations increased 26.7% y-o-y to Rs147 crore in Q2FY22, driven 189% increase in dividend income, 5% increase in rental income and 2.1% increase in interest income. The company benefitted from the revised dividend policy of its associate companies. Share of profit from associates improved 39.7% y-o-y to Rs1,117.8 crore in Q2FY21.

Bajaj Finance (BFL): Consolidated PAT stood at Rs. 1,481 crore, up 53% y-o-y and 48% q-o-q. The company reported a sharp increase in operating expenses (up 76% y-o-y and 48% q-o-q) on account of high debt management cost and employee expenses. Cost-to-income ratio stood at 38.9% versus 30.8% in Q1FY2022. NII grew by 26% y-o-y (up by 16% q-o-q) to Rs. 4,290 crore and NIM was at 13.1%, expanded by 100 bps y-o-y/ 160 bps q-o-q, aided by aided lower cost of funds (down by 27 bps q-o-q). GNPA and NNPA stood at 2.45% (declined by 51 bps q-o-q) and 1.09% (down 36 bps q-o-q), respectively. Auto finance GNPA witnessed significant improvement (19.15% in Q1FY2022 versus 16% in Q2FY2022). PCR on GS3 stood at 55.5% versus 51.3% in Q1FY2022. Total provisions on S1 and S2 assets stood at Rs. 2,277 crore in Q2FY2022 (including a management overlay of Rs. 315 crore).

Bajaj Allianz General Insurance (BAGIC): With easing of mobility restrictions, BAGIC witnessed a turnaround in all key segments and faster growth than the industry in chosen segments. Its gross premium grew 21% y-o-y, above the industry average of 10.7% y-o-y. 4W continued to show strong growth while 2W growth slowed down. Its CV business has started showing signs of recovery. Retail health growth was slightly muted in Q2 on account of high base in Q2FY21 from sales of Corona Kavach. Overall loss ratio was at 77.6% in Q2FY22 vs. 74.2% in Q2FY21.

Bajaj Allianz Life Insurance (BALIC): BAGIC continued to report above industry individual rated new business premium (IRNB) growth of 52% y-o-y. In H1FY22, digitization across each channel has help drive IRNB growth with Agency, Institutional Business and BALIC direct delivering a growth of 55%, 50% and 38% respectively. On the retail front, BALIC received over 2,800 COVID-19 claims amounting to Rs. 146 crore (gross).

BAL's Q2FY22 results were ahead of expectations: Bajaj Auto Limited (BAL) reported strong operational performance during Q2FY22, led by higher average realisation and EBITDA margin expansion. Net operating revenue was up 22.4% y-o-y to Rs8,762 crore, led by 8.8% growth in volumes and 12.6% growth in average realisation. The volume growth was on back of robust 27.8% growth in export volumes, while the improvement in average realisation was aided by price hikes taken by the company during the year. EBITDA margin improved 80 bps q-o-q to 16% in Q2FY22, led by operating leverage benefits and cost reductions, partially mitigated by rise in raw material costs. As a result, EBITDA and PAT improved 10.7% y-o-y and 12% y-o-y at Rs1,401 crore and Rs 1,275 crore respectively.

Results (Consolidated)

Particulars	Rs cr				
	Q2FY22	Q2FY21	Y-o-Y %	Q1FY22	Q-o-Q %
Income from operations	147.0	116.0	26.7	97.7	50.5
Total expenditure	33.6	30.1	11.8	36.9	-9.0
Operating profit	113.4	86.0	31.9	60.7	86.7
Other income	13.4	15.6	-14.2	13.0	3.0
EBITDA	126.8	101.6	24.8	73.7	72.0
PBT	126.0	100.6	25.2	72.9	72.7
Taxes	45.7	27.6	65.5	21.8	110.0
PAT before share of associates	80.3	73.0	10.0	51.2	56.9
Share of profit from associates	1117.8	800.1	39.7	728.4	53.5
Minority interest in net income of subsidiary	66.5	0.9	-	1.1	-
Adjusted PAT	1131.6	872.1	29.7	778.5	45.3
EPS (Rs)	101.7	78.4	29.7	70.0	45.3

Source: Company; Sharekhan Research

Investments

Particulars	Rs cr				
	Q2FY22	Q2FY21	Y-o-Y %	Q1FY22	Q-o-Q %
Equity associates	3,135	3,135	-	3,135	-
Equity - others	2,678	2,585	3.6	2,748	(2.5)
Fixed income sec	4,047	3,706	9.2	3,999	1.2
Investment property	179	182	(1.6)	180	(0.6)
Total	10,039	9,608	4.5	10,062	(0.2)
Mkt Value					
Equity associates	153,275	67,043	128.6	119,752	28.0
Equity - others	5,861	4,069	44.0	5,549	5.6
Fixed income sec	4,114	3,795	8.4	4,052	1.5
Investment property	274	273	0.4	274	-
Total	163,524	57,062	186.6	129,627	26.1

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Structural tailwinds to support BFS; BAL's 2W business growing steadily

We believe that retail players have a large market to grow and credit growth being pegged at 7.5-8% in FY22 indicates a pick-up in credit offtake, especially in retail and consumer segments. Leading indicators depict recovery in economic activity, which will be a positive. The demand for market-linked ULIPs etc has started to see recovery along while strong demand for protection, Health and non-PAR segments remained robust. While the resurgence of COVID-19 cases clouds the medium term, we believe the tailwinds such as a large protection gap and expanding per capita income are key long-term growth drivers for the sector. The 2W 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 2W 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 a revised 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 (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 the key driver in FY2022. 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 have increased BHIL's price target to Rs. 6,147, factoring upside in valuations of its key associates, viz. BFS and 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 – 35.77% 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.

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.	17.8
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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