

# Initiating Coverage Bajaj Holdings & Investments Ltd.

25-February-2021

# Bajaj Holdings & Investments Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – NBFC	Rs 3632	Buy at LTP and add on dips to Rs 3300-3310 band	Rs 3880	Rs 4560	2 quarters

HDFC Scrip Code	BAJHOL
BSE Code	500490
NSE Code	BAJAJHLDNG
Bloomberg	BJHI IN
CMP Feb 24, 2021	3631.9
Equity Capital (cr)	111.3
Face Value (Rs)	10
Eq- Share O/S(cr)	11.1
Market Cap (Rs cr)	40421
Book Value (Rs)	960.8
Avg.52 Wk Volume	73,500
52 Week High	3700.0
52 Week Low	3555.0

Share holding Pattern % (Dec, 2020)	
Promoters	49.95
Institutions	17.79
Non Institutions	32.25
Total	100.0

## Fundamental Research Analyst

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### Our Take:

Bajaj Holding is purely an investment company with no own operations and is registered with the RBI as a NBFC-ICC. Majority of its value comes from the investments in its associate companies Bajaj Auto Ltd (BHIL stake 35.77%) and Bajaj Finserv (BHIL stake 41.63%), both of which have been performing well and have strong growth potential. Apart from strategic equity investments in group companies, BHIL has equity and fixed income investments worth Rs 9187cr as on Dec'20. As against a book value of Rs 1,186/share, NAV of all the investments (inclusive of strategic holding) was Rs 9,119/share as on 31-Dec-2020. Being a holding company, it trades at a significant discount to its asset value which may contract going forward. Listing of subsidiaries of associate companies (BAGIC) could further enhance its value.

### Valuations & Recommendation:

Given the strategic nature of BHIL's investments (BAL and BFS), we have given a holding company discount to its equity investments in its associate companies while the other investments have been valued at cost. The stock is currently trading at ~60% discount to its 31-Dec-20 NAV. We believe investors can buy the stock at CMP and add on dips to Rs 3300-3310 band for a base case target of Rs 3880 and bull case target of Rs 4560.

### Financial Summary – Consolidated

Particulars (Rs cr)	FY16	FY17	FY18	FY19	FY20
Operating Income	469.8	842.1	419.7	426.7	393.4
EBITDA	428.5	627.7	355.1	342.1	259.4
APAT	2,265.2	2,473.2	2,654.8	3,048.4	2,992.0
Diluted EPS (Rs)	203.5	222.2	238.5	273.9	268.8
RoE-%	15.8	14.9	12.3	11.7	10.9
P/E (x)	17.4	16.0	14.9	12.9	13.2
EV/EBITDA (x)	88.6	59.9	110.9	115.3	151.6

(Source: Company, HDFC sec)

## Long term Triggers

**Strategic holdings in group companies (Bajaj Auto, Bajaj Finserv, Maharashtra Scooters), serve well to BHIL**

BHIL has 35.77% holding in Bajaj Auto, 41.63% holding in Bajaj Finserv, and 51% holding in Maharashtra Scooters, and a 100% subsidiary Bajaj Auto Holdings Ltd. The first three holdings are big companies, with good performance track record. The companies are have created a niche for themselves in their respective line of business.

Name of the company	% shareholding of BHIL	Status
Bajaj Auto Ltd.	35.77	Associate
Bajaj Finserv Ltd.	41.63	Associate
Maharashtra Scooters Ltd.	51.00	Subsidiary
Bajaj Auto Holdings Ltd.	100.00	Subsidiary

(Source: Company. HDFC Sec)

As being a Holding company, it is earning money from Dividends, interests etc. Its fixed income portfolio includes government securities, certificate of deposit (CD) and commercial paper (CP), corporate bonds and mutual funds. Its equity investments include strategic/group investments. The choice of companies for investment purpose have proved to be apt. As the sectors, the companies are into, are one of the rising sectors.

## **Strong recovery in 2W**

BAL is the second largest motorcycle manufacturer in India with a domestic market share of 17%. The company has a strong portfolio across the motorcycle segment. Apart from this, it also has a leading position in the three-wheeler passenger carrier segment. BAL is the largest exporter of 2W and 3W in India with a share of with a market share of 59.6% in motorcycles. It has developed a strong global presence by early entry into Africa and Latin American markets and following an aggressive pricing strategy. It also exports to South Asia, Middle East and European countries. It derives ~40% of its revenues from export markets.

The recent past has witnessed a strong recovery in 2W demand in domestic as well as global markets and the trend could sustain for the coming few quarters. The company witnessed the highest-ever exports at 687k units (+22% YoY, 53% of overall volumes) in Q3FY21 as it gained share across markets.

Bajaj's market share in the premium category stands at over 50% YTD. Pulsar recorded the highest-ever sales, driven by the 125cc. The OEM is investing in its 250cc super premium with its three brands - the Dominar, KTM and Husqvarna. This will be further supplemented with Triumph.

BAL has a diversified risk profile with presence across ~79 countries and robust financial profile because of a strong balance sheet with adequate liquidity. Its strong premium motorcycle portfolio with increasing demand of sports bike in India should result in margin expansion. The recent addition of Triumph in the premium super sports segment would complement its existing portfolio. BAL has also launched electric 2W 'Chetak' which shows its technological progress in line with the Government's objective of moving towards electric vehicles. Increasing penetration of public transport in smaller cities could sustain demand for its 3W in the coming years. Increasing need for personal transportation post Covid pandemic, higher rural demand due to higher yields and high MSPs are some triggers that may play out in the near term.

### **Growing penetration of insurance to benefit Bajaj Finserv**

Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning is driving the insurance sector. The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US\$ 60bn according to a study by Indian Economy & Market in 2018. The life insurance penetration in India stands at ~3.7% which is amongst the lowest in the G20 countries. The world average of life insurance penetration stood at 6.3%.

Bajaj Finserv (BJFIN) is a financial conglomerate that is engaged in life insurance, general insurance, consumer finance and other financial products. It offers a best proxy to take exposure to the entire Indian financial sector (lending business, life insurance and general insurance). It has built a strong niche in consumer finance space and is among the leaders in the general and life insurance industries. Considering the low level of insurance penetration in India and the growing realization for the need of insurance, both the insurance subsidiaries have immense growth potential. The consumer durable segment is also growing at a strong pace and with a vast presence at point of sales the NBFC business is poised to do well. Bajaj Finance is also the largest financier of Bajaj Auto vehicles. BFL caters to ~43mn customers through its loan products, which include vehicle (2W & 3W), consumer durable, digital/lifestyle products and salaried personal loans. All three of BJFIN's businesses are strong franchises in their respective fields and well-poised to deliver sustainable profitability going forward. We expect Bajaj Finance (BFL) to maintain its loan book trajectory as well as profitability and margins which will be the key support for present valuations of Bajaj Finserv (holds 52.74% in BFL).

## **Listing of any of the insurance arms could unlock value for Bajaj Finserv**

A number of insurance companies have launched initial public offering (IPO) in the past few years, including SBI Life Insurance, HDFC Standard Life Insurance, General Insurance Corp (GIC Re) and New India Assurance. The general insurance business remains strong generating RoE in excess of 18% with a strong retail franchise. BAGIC continues to be among the most profitable general insurers vis-à-vis peers in the public and private sectors with a combined ratio ~100.8% in FY20 and a consistent ROAE OF ~20%. Its market share as on FY20 stood at 7.16% v/s 6.86% in FY19.

BALIC (Life insurance business) outperformed industry growth on individual rated new business—growing at 24.8% till February 2020 and ending the year at 10.6% growth. Its New Premium grew at CAGR 14% over FY15-20, going forward, we expect new premium to register a growth of CAGR 8% over FY20-22E.

Although the listing of any of the insurance arms is unlikely in the short term, they hold significant value with strong growth potential.

## **Healthy growth momentum in Bajaj Finance to aid earnings momentum**

A distinguished business model in the consumer durables portfolio boosted advances growing 25% YoY to Rs 141,376cr in FY20 while healthy asset quality sustained despite a weak economic environment. Over FY13-20, its AUM grew at a CAGR of ~35%, RoAEs averaged ~19.6%, and GNPA's continued to be under control (below 1.7%). BFL has been at the forefront of technology adoption amongst NBFCs, and has been continuously leveraging its existing and emerging technologies to launch new products to enhance customer acquisition and service processes along with simplification of back-office. It has invested ~Rs 1,500cr in technology over FY15-FY20.

## **What could go wrong**

### **The company's performance solely depends on the performance of these companies:**

The company's performance depends on the performance of the companies discussed above. Any downturn in these is going to adversely affect the profitability of the same.

### **Slowdown in insurance growth, or rural income drop in the coming quarters might pose a threat to both the auto, and insurance business**

Any slowdown in insurance growth, or policy issue slowdown, due to slow demand, delay or dry monsoon, could pose a threat to the investee companies and could reduce the dividend earnings of the company.

## Holding company discount

Since BHIL is a holding company it does not get full valuations of its investments in associates as it does not directly run these businesses. This discount keeps widening and narrowing based on the market sentiments.

## Lower returns from investments

The profits earned by the company is invested in various listed/unlisted financial products to earn income. With the contraction in interest rates the returns earned by the company on its investments could reduce.

## Valuation

Particulars	Holding %	Valuation	Value	Per Share (Rs)
Bajaj Auto	35.77%	Market price	40672	3655
Bajaj Finserv	41.63%	Market price	67693	6082
<b>TOTAL</b>				<b>9737</b>
Holding Co. Discount				67/60%
<b>Value post holding co. discount</b>				<b>3213/3895</b>
Other investments		Fair Value*	7421.6	667
<b>Value per share</b>				<b>3880/4562</b>
CMP				3632
Upside				6.8/25.6%

\* fair value in case of other investments has risen sharply post March 31, 2020 due to buoyant capital market sentiments

(Source: Company, HDFC Sec)

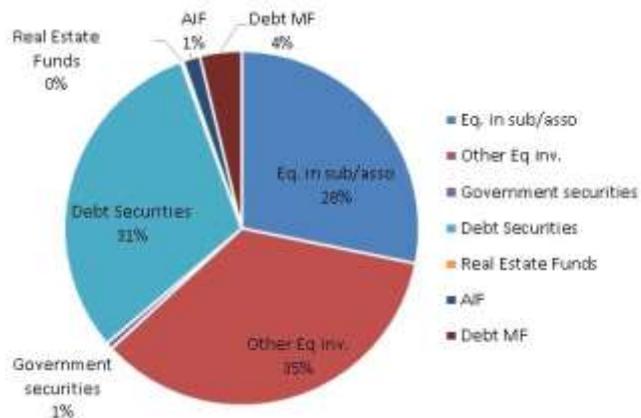
## About the company

Bajaj Holdings & Investment Ltd. ('BHIL or 'the Company) came into existence post the demerger in 2007-08 of erstwhile Bajaj Auto Ltd. into three entities - Bajaj Auto Ltd., Bajaj Finserv Ltd. and the erstwhile Bajaj Auto Ltd. (renamed as Bajaj Holdings & Investment Ltd). BHIL remains essentially a holding and investment company. As on FY20, the Company holds strategic stakes of 35.77% in Bajaj Auto Ltd. (BAL), 41.63% in Bajaj Finserv Ltd. (BFS), 51% in Maharashtra Scooters Ltd.(MSL), the results of which it consolidates, and other investments, and investment in properties of ~Rs 6620cr at cost. The market value of the said portfolio stood at over Rs 1 lakh crore as of Jan-2021. The company is acting as a primary investment company and focusing on new business opportunities.

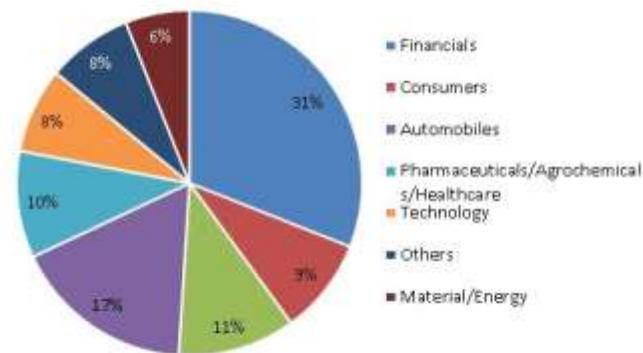
BHIL has been registered as a Non-Banking Financial Company (NBFC) in 2009 under the Reserve Bank of India (RBI). The Company is classified as a 'Systemically Important Non-deposit taking NBFC' as per RBI Regulations.

Bajaj Auto Holdings Ltd. operates as a holding company. The Company, through its subsidiaries, manufactures scooters, motorcycles, off-road vehicles, and spare parts and accessories. Bajaj Auto Holdings serves customers worldwide.

*Investment Portfolio as of FY20 at cost*

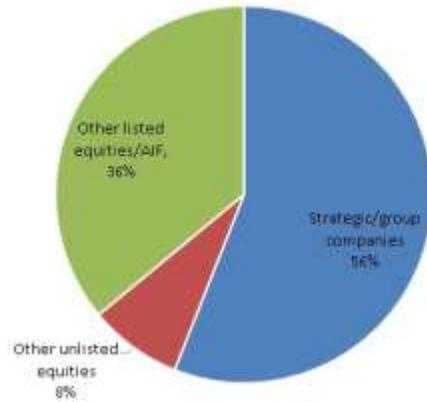


*Sectoral allocation of Other Equities (at cost)*

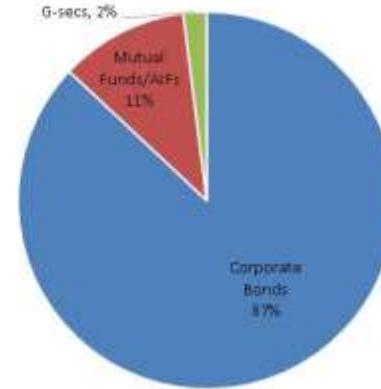


(Source: Company, HDFC sec)

Composition of equity investment

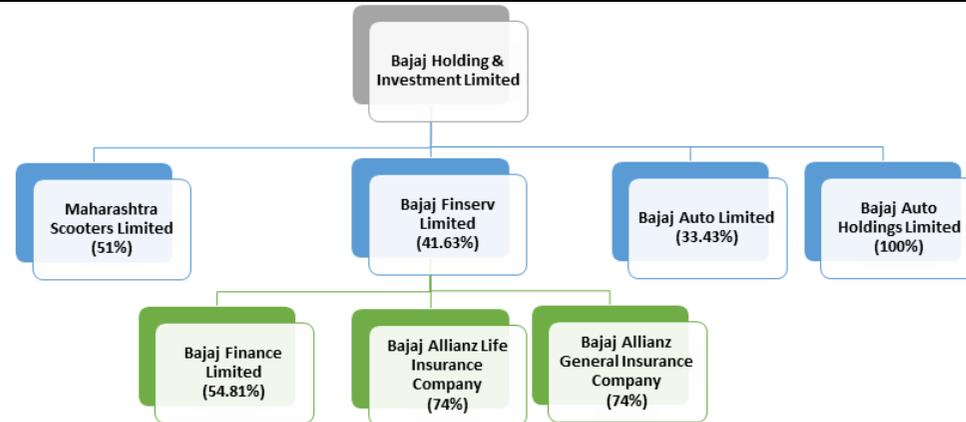


Composition of fixed income portfolio



(Source: Company, HDFC sec)

Group Structure



(Source: Company, HDFC sec)

# Bajaj Holdings & Investments Ltd.

## Financials – Consolidated

### Income Statement

(Rs Cr)	FY16	FY17	FY18	FY19	FY20
<b>Net Revenues</b>	<b>469.8</b>	<b>842.1</b>	<b>419.7</b>	<b>426.7</b>	<b>393.4</b>
<b>Growth (%)</b>	<b>-10.3</b>	<b>79.2</b>	<b>-50.2</b>	<b>1.7</b>	<b>-7.8</b>
Operating Expenses	41.3	214.4	64.6	84.6	134.0
<b>EBITDA</b>	<b>428.5</b>	<b>627.7</b>	<b>355.1</b>	<b>342.1</b>	<b>259.4</b>
<b>Growth (%)</b>	<b>-11.5</b>	<b>46.5</b>	<b>-43.4</b>	<b>-3.6</b>	<b>-24.2</b>
<b>EBITDA Margin (%)</b>	<b>91.2</b>	<b>74.5</b>	<b>84.6</b>	<b>80.2</b>	<b>65.9</b>
Depreciation	5.5	5.4	5.2	4.1	33.3
Other Income	6.9	8.0	4.7	4.7	42.3
<b>EBIT</b>	<b>429.9</b>	<b>630.3</b>	<b>354.6</b>	<b>342.7</b>	<b>268.4</b>
Interest expenses	0.0	0.0	0.0	0.0	12.5
<b>PBT</b>	<b>429.9</b>	<b>630.3</b>	<b>354.6</b>	<b>342.7</b>	<b>255.9</b>
Tax	88.3	134.6	84.7	121.6	233.5
<b>PAT</b>	<b>341.6</b>	<b>495.7</b>	<b>269.9</b>	<b>221.1</b>	<b>22.4</b>
Share of Asso./Minority Int.	1923.7	1977.5	2384.9	2827.3	2969.6
<b>Adj. PAT</b>	<b>2265.2</b>	<b>2473.2</b>	<b>2654.8</b>	<b>3048.4</b>	<b>2992.0</b>
<b>Growth (%)</b>	<b>11.6</b>	<b>9.2</b>	<b>7.3</b>	<b>14.8</b>	<b>-1.8</b>
EPS	203.5	222.2	238.5	273.9	268.8

### Balance Sheet

As at March	FY16	FY17	FY18	FY19	FY20
<b>SOURCE OF FUNDS</b>					
Share Capital	111.3	111.3	111.3	111.3	111.3
Reserves	15182.0	17706.6	25089.9	26841.0	27652.3
<b>Shareholders' Funds</b>	<b>15293.3</b>	<b>17817.9</b>	<b>25201.2</b>	<b>26952.3</b>	<b>27763.5</b>
Minority Interest	0.0	0.0	0.0	0.0	4536.1
Total Debt	0.0	0.0	0.0	0.0	0.0
Net Deferred Taxes	6.2	6.4	-187.4	-138.4	180.2
<b>Total Source of Funds</b>	<b>15299.5</b>	<b>17824.3</b>	<b>25013.9</b>	<b>26813.9</b>	<b>32479.8</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	526.9	8.3	6.4	6.3	190.6
CWIP	0.0	0.0	0.0	0.0	0.0
Inv. & Other Non Curr Assets	13441.3	17763.1	24784.1	26444.1	32251.6
<b>Total Non Current Assets</b>	<b>13968.3</b>	<b>17771.4</b>	<b>24790.5</b>	<b>26450.4</b>	<b>32442.2</b>
Inventories	0.1	0.3	0.0	0.0	3.4
Debtors	0.6	0.5	0.0	0.0	4.7
Cash & Equivalents	1423.0	12.5	81.2	10.2	112.3
Other Current Assets	79.7	103.9	209.8	409.5	166.2
<b>Total Current Assets</b>	<b>1503.4</b>	<b>117.3</b>	<b>291.0</b>	<b>419.7</b>	<b>286.5</b>
Creditors	0.7	0.8	0.5	1.1	5.0
Other Current Liab & Provisions	171.6	63.6	67.1	55.0	243.9
<b>Total Current Liabilities</b>	<b>172.2</b>	<b>64.4</b>	<b>67.6</b>	<b>56.1</b>	<b>248.9</b>
Net Current Assets	1331.2	52.9	223.4	363.6	37.6
<b>Total Application of Funds</b>	<b>15299.5</b>	<b>17824.3</b>	<b>25013.9</b>	<b>26813.9</b>	<b>32479.8</b>

Source: Company. HDFC Sec

# Bajaj Holdings & Investments Ltd.

## Key Ratios

(Rs Cr)	FY16	FY17	FY18	FY19	FY20
<b>Profitability Ratios (%)</b>					
EBITDA Margin	91.2	74.5	84.6	80.2	65.9
EBIT Margin	91.5	74.8	84.5	80.3	68.2
APAT Margin	482.1	293.7	632.6	714.4	760.6
RoE	15.8	14.9	12.3	11.7	10.9
RoCE	3.0	3.8	1.6	1.3	1.0
<b>PER SHARE DATA (Rs)</b>					
EPS	203.5	222.2	238.5	273.9	268.8
CEPS	204.0	222.7	239.0	274.3	271.8
BV	1374.2	1601.0	2264.5	2421.8	2494.7
Dividend	32.5	32.5	40.0	32.5	40.0
<b>VALUATION</b>					
P/E	17.8	16.3	15.2	13.3	13.5
P/BV	2.6	2.3	1.6	1.5	1.5
EV/EBITDA	90.9	61.4	113.6	118.1	155.4
EV / Revenues	82.9	45.8	96.1	94.7	102.5
Dividend Yield (%)	0.9	0.9	1.1	0.9	1.1
Dividend Payout	16.0	14.6	16.8	11.9	14.9

Source: Company, HDFC Sec

# Bajaj Holdings & Investments Ltd.

## Key Financials of Associate companies

### Bajaj Finance

(Rs cr)	FY19	FY20	FY21E	FY22E
Net int. income	9,725	13,497	13,761	16,269
PPOP	7,681	11,252	12,159	14,331
PAT	3,995	5,264	4,589	8,076
EPS (Rs)	69.3	87.7	76.5	134.6
RoAA (%)	3.8	3.7	2.8	4.4
RoAE (%)	22.5	20.2	13.3	19.8
Adj. BVPS (Rs)	329.0	523.0	571.0	715.0
P/ABV (x)	16.9	10.6	9.7	7.8
P/E (x)	80.1	63.3	72.6	41.3

### Bajaj Finserv

#### Income Statement

(Rs cr)	FY17	FY18	FY19	FY20
Operating Income	24508	30599	42606	54351
Operating Expenses	18779	23244	32764	41930
<b>PPoP</b>	<b>5728</b>	<b>7355</b>	<b>9842</b>	<b>12421</b>
Prov & Cont	804	1045	1689	4120
Profit Before Tax	4925	6310	8153	8301
Tax	1475	1970	2781	2308
<b>PAT</b>	<b>3450</b>	<b>4340</b>	<b>5372</b>	<b>5993</b>
Minority Interest	-1188	-1598	-2155	-2624
Profit/Loss of Associates	0	0	1	1
<b>Adj. PAT</b>	<b>2262</b>	<b>2741</b>	<b>3219</b>	<b>3369</b>

### Bajaj Auto

(Rs cr)	FY19	FY20	FY21E	FY22E
Net Sales	30,358	29,919	26,805	30,423
EBITDA	5,193	5,096	4,771	5,221
APAT	4,437	5,100	4,702	5,194
Adj. EPS (Rs)	153.3	176.2	162.5	179.5
APAT Gr (%)	8.5	15.0	-7.8	10.5
P/E (x)	25.6	22.3	24.2	21.9
RoE (%)	21.7	24.5	22.4	22.3

#### Balance Sheet

(Rs cr)	FY17	FY18	FY19	FY20
Share Capital	80	80	80	80
Reserves & Surplus	16020	20403	23661	31222
<b>Shareholder funds</b>	<b>16100</b>	<b>20483</b>	<b>23740</b>	<b>31301</b>
Minority Interest	7176	10774	12808	19560
Borrowings	45653	57902	86561	105179
Other Liab & Prov.	63459	72403	85414	95344
<b>SOURCES OF FUNDS</b>	<b>132388</b>	<b>161562</b>	<b>208523</b>	<b>251384</b>
Fixed Assets	985	1130	1473	2030
Goodwill on Consolidation	689	689	689	689
Investment	64715	69417	81666	91807
Cash & Bank Balance	1383	1606	1589	2525
Advances	55676	79372	112848	141743
Other Assets	8940	9348	10258	12049
<b>TOTAL ASSETS</b>	<b>132388</b>	<b>161562</b>	<b>208523</b>	<b>251384</b>

# Bajaj Holdings & Investments Ltd.

## Bajaj Allianz Life Insurance

### Income Statement

(Rs cr)	FY19	FY20	FY21E	FY22E
Transferred from Policyholder's a/c	480	421	486	534
Income from Investment	658	612	472	574
Other Income	0	91	73	80
<b>Total Income</b>	<b>1139</b>	<b>1124</b>	<b>1032</b>	<b>1188</b>
Indirect expenses	47	46	58	61
Other expenses	511	554	455	477
PBT	581	524	518	649
Tax	79	75	76	97
<b>PAT</b>	<b>502</b>	<b>450</b>	<b>442</b>	<b>552</b>

## Bajaj Allianz General Insurance

### Income Statement

(Rs cr)	FY19	FY20	FY21E	FY22E
Transferred from Policyholder's a/c	968	1243	829	1299
Income from Investment	272	341	358	393
<b>Total Income</b>	<b>1240</b>	<b>1592</b>	<b>1187</b>	<b>1692</b>
Indirect expenses	58	130	-1	-1
Other expenses	31	86	87	79
PBT	1152	1376	1101	1614
Tax	372	377	278	407
<b>PAT</b>	<b>780</b>	<b>999</b>	<b>824</b>	<b>1207</b>

### Balance Sheet

(Rs cr)	FY19	FY20	FY21E	FY22E
Share Capital	151	151	151	151
Reserves & Surplus	9503	9580	10022	10574
<b>SHAREHOLDERS FUNDS</b>	<b>9654</b>	<b>9731</b>	<b>10173</b>	<b>10725</b>
Policyholder Funds	48198	47290	52339	58043
<b>SOURCES OF FUNDS</b>	<b>57852</b>	<b>57021</b>	<b>62512</b>	<b>68768</b>
Shareholder Investment	9099	9237	9422	9705
Policy holder Investments	24460	27228	29951	34444
Assets held to cover linked liabilities	22632	19262	20225	21237
Fixed Assets	250	342	359	377
Net Current Assets	1411	951	2554	3006
<b>APPLICATION OF FUNDS</b>	<b>57852</b>	<b>57021</b>	<b>62512</b>	<b>68768</b>

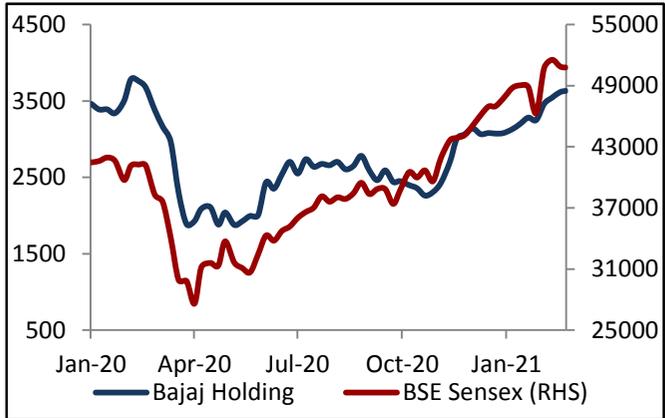
### Balance Sheet

(Rs cr)	FY19	FY20	FY21E	FY22E
Share Capital	110	110	110	110
Reserves & Surplus	4976	5841	6665	7873
<b>Shareholder funds</b>	<b>5086</b>	<b>5952</b>	<b>6775</b>	<b>7983</b>
Fair Value Change	78	-310	0	0
<b>SOURCES OF FUNDS</b>	<b>5164</b>	<b>5642</b>	<b>6775</b>	<b>7983</b>
Investments	16786	18305	19586	21740
Fixed Assets	344	430	451	496
Deferred Tax Assets	154	64	65	66
Net Current Assets	-12121	-13156	-13327	-14320
<b>APPLICATION OF FUNDS</b>	<b>5164</b>	<b>5642</b>	<b>6775</b>	<b>7983</b>

Source: Company, HDFC Sec



Price Chart



# Bajaj Holdings & Investments Ltd.

## Disclosure:

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