

Stock Update

Value accretion driven by Finserv; Retain Buy with a PT of Rs.3,124

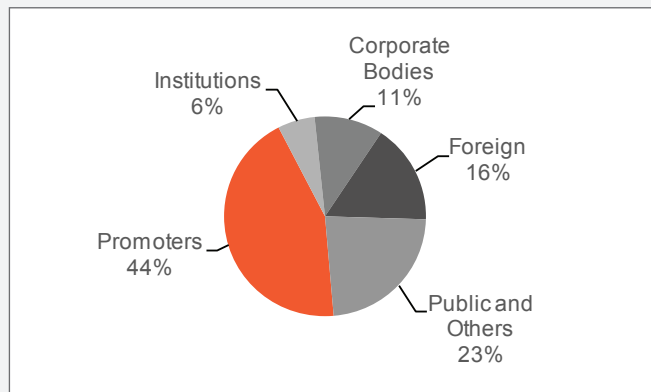
Bajaj Holdings and Investment

Reco: Buy | CMP: Rs2546

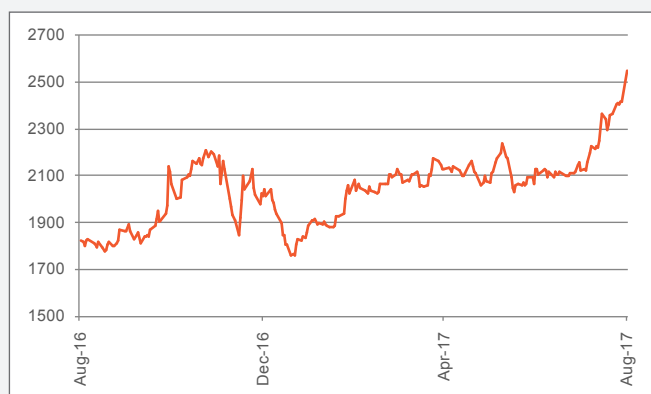
Company details

Price target:	Rs3,124
Market cap:	Rs28,335 cr
52-week high/low:	Rs2,568/1,745
NSE volume: (No of shares)	21,388
BSE code:	500490
NSE code:	BAJAJHLDNG
Sharekhan code:	BAJAJHLDNG
Free float: (No of shares)	6.26 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.4	16.3	21.1	36.2
Relative to Sensex	11.1	7.6	4.8	15.2

Key points

- ◆ Bajaj Holdings and Investment Limited (BHIL) holds Bajaj Group's investments in two flagship companies - Bajaj Auto Limited (BAL; 31.54% stake) and Bajaj Finserv (BFS; 39.29% stake). BHIL also has an investment portfolio with a market value of ~Rs.6,926 crore in other equity and fixed income securities.
- ◆ **BAL's volumes to recover but margin pressure likely to sustain:** BAL reported a weak operating performance for the quarter. Higher-than-expected other income resulted in PAT beating our estimates. Post GST transitory issues, BAL's domestic volumes are expected to grow by ~4% for FY2018, which is lower than the industry's growth. Exports volumes are expected to grow by ~14% for FY2018, given the stability in crude oil prices and low base in the past two years. However, higher raw-material prices, expiry of fiscal incentives at Pantnagar and increased competitive intensity would maintain pressure on BAL's margin, which is expected to decline by 230BPS to 18% for FY2018.
- ◆ **BFS posts impressive overall performance for Q1FY2018:** BFS has shown healthy performance across all three of its businesses in terms of growth. BFS's life insurance business, BALIC reported decent growth in gross written premiums (GWP) at 14.9% YoY, while the general insurance business – BAGIC witnessed healthy 29.2% YoY growth in GWP. The lending arm, Bajaj Finance Limited (BAF) reported increased momentum in its loan book, brushing aside the effect of demonetisation. We expect the loan book to maintain healthy growth in the next few years, while business momentum for BALIC and BAGIC is also likely to improve.
- ◆ **Valuation: Maintain Buy with a PT of Rs.3,124:** Given the strategic nature of BHIL's investments (BAL and BFS), we have given a holding company discount of 50% to its equity investments. Liquid investments have been valued at cost. Further, the price target (PT) for BFS has been revised upwards to Rs.5,500, as BAGIC and BAF are showing improved performances and are likely to maintain the high-growth trajectory. In addition, BALIC is steadily improving. However, the outlook for BAL remains weak, and we continue to have a Hold rating on the stock with a PT of Rs.2,900. Consequently, we have maintained our Buy recommendation for BHIL with a revised PT of Rs.3,124.

Result					Rs cr	
Particulars	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %	
Income from operations	153.9	118.1	30.3	180.3	-14.7	
Total expenditure	15.4	11.1	38.8	19.4	-20.8	
Operating profit	138.5	107.0	29.4	160.9	-14.0	
Other income	1.1	1.9	-43.2	1.0	1.9	
EBITDA	139.5	108.8	28.2	162.0	-13.9	
PBT	138.2	109.0	26.7	160.6	-14.0	
Taxes	27.0	22.9	17.8	30.3	-11.2	
PAT before share of associates	111.2	86.2	29.1	130.3	-14.6	
Share of profit from associates	524.5	479.7	9.3	432.5	21.3	
Reported PAT	635.8	565.8	12.4	562.8	13.0	
Adjusted PAT	635.8	565.8	12.4	562.8	13.0	
EPS (Rs)	57.1	50.8		50.6		

Valuation				Rs cr
Particulars	Relationship	Per share	Remarks	
Stake in Bajaj Auto (31.54%)	Associate	2,374	PT of Bajaj Auto= Rs 2900	
Stake in BFS (39.29%)	Associate	3,089	SOTP based PT of Bajaj Finserv at Rs5,500	
Total		5,463		
Holding co. discount (%)		50%		
Discounted value per share		2,731		
Cash & Liquid Invst/share		392	At cost	
Value per share		3,124		
CMP		2,546		
Upside		22.7%		

Q1FY2018 result highlights (Consolidated)

- ◆ BHIL reported a strong set of numbers for Q1FY2018, backed by a stellar performance from Bajaj Finserv.
- ◆ The company's topline for the quarter grew in double digits by 30% YoY to Rs.154 crore, led by increased profit on sale of investments.
- ◆ Operating profit increased by 29% YoY to Rs.139 crore on account of strong topline growth. Net profit before the share of associates grew by 29% YoY to Rs.111 crore.
- ◆ Share of profit from investments in associate companies stood at Rs.525 crore, up 9% YoY. Consequently, adjusted PAT grew by 12.4% YoY to Rs.636 crore.

Holding company's stake in other group companies unchanged: BHIL's stake in key associate companies remained unchanged during Q1FY2018.

The company's current stake in BAL and BFS stands at 31.54% and 39.29%, respectively.

Market value of investments almost flat for the quarter:

- ◆ The market value of BHIL's equity investments in associate companies remained flat on a QoQ basis, given the 0.5% QoQ drop in the stock price of BAL, which was fully compensated by a 0.5% QoQ rise in the stock price of BFS.
- ◆ The market value of BHIL's investments in other equities for the quarter increased slightly by 0.6% QoQ, while share of investments in other equities dropped by 0.4% QoQ.
- ◆ On the other hand, the market value of BHIL's investments in fixed income securities increased by 2.4% QoQ, as share of investments in fixed income securities rose modestly by 0.6% QoQ.

Investments				Rs cr
Particulars	Q1FY18	Q4FY17	QoQ %	
Equity associates	1,232	1,232	0.0	
Equity - others	1,378	1,390	-0.9	
Fixed income sec	4,367	4,272	2.2	
Investment property	196	196	0.0	
Total	7,173	7,090	1.2	
Mkt Value (Rs Crore)				
Equity associates	52,344	52,351	0.0	
Equity - others	2,517	2,501	0.6	
Fixed income sec	4,409	4,304	2.4	
Investment property	195	196	-0.5	
Total	59,465	59,352	0.2	

Shareholdings in associate companies:

Stake (%)	Relationship with BHIL	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Bajaj Auto Limited (BAL)	Associate	31.49	31.49	31.49	31.54	31.54
Bajaj Finserv Limited (BFS)	Associate	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
Maharashtra Scooters Ltd	Joint venture	24.00	24.00	24.00	24.00	24.00

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