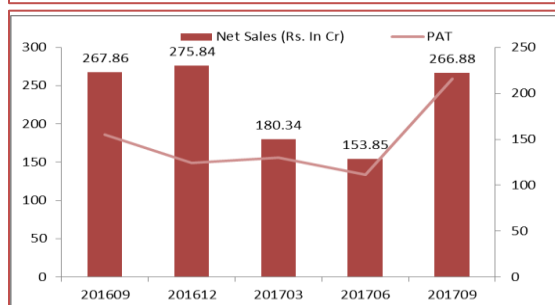


**Recommendation**  
**Buy**
**CMP**  
**Rs 2977**
**Target Price**  
**Rs 3590**
**Time Horizon**  
**9-12 months.**
**Stock Details**

Market Cap. (Cr.)	32456.62
Face Value	10
Equity (Cr.)	111.29
52 Wk high/low	3003.40/1745.00
BSE Code	500490
NSE Code	BAJAJHLDNG
Book Value (Rs)	696.02
Industry	Finance

**Share Holding Pattern %**

Promoter	44.25
FII's	16.46
Institutions	5.49
Non Promoter Corp.	10.67
Public & Others	23.14
Government	0.00
<b>Total</b>	<b>100.00</b>

**Price Chart**

 Source: Capitaline Corporate Database, EWAL Research  
 E-mail - research@elitestock.com

**Bajaj Holdings & Investment Limited (BHIL)** is an India-based holding and investment company. The company focuses on earning income through dividends, interest and gains on investments held. The company's other equities portfolio is a combination of listed and unlisted investments. The company invests in equities normally with an approximately five year holding horizon or even longer based on its views on further growth potential. The company's other equities investment portfolio includes financials, technology/pharma; consumers/education; sugar; material/metals/oil and gas; construction/infra, and telecoms and media. 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.

**Key Highlights:**

- BHIL recorded its highest annual profit for the year on a consolidated basis of Rs. 2,473.19 crore in FY2017 vs Rs. 2,265.24 crore in FY2016, an increase of 9%, due to a strong performance of BHIL (standalone) and BFS (consolidated).
- Sales of the company rose by 73.46% to Rs 266.88 crore in the quarter ended September 2017 as against Rs 153.85 crore during the previous quarter ended June 2017.
- Net profit of BHIL rose by 82.08% to Rs 216.13 crore in the quarter ended September 2017 as against Rs 111.22 crore during the previous quarter ended June 2017.
- Consolidated revenue of BHIL rose by 78.32% to 850.08 crore and profit has also been increased and it increased by 9.18% to 2473.19 crore.
- In FY17 BHIL rebalanced the sector weights of its equity portfolio by increasing allocation to companies in pharmaceuticals while taking away allocation from telecom and commodities thus reducing volatility of the portfolio.
-

## **BUSINESS PERFORMANCE:**

### **Position of investments held by the Company**

(Rs. In Cr.)

Particulars	FY2017			FY2016		
	Cost	Market Value	% to total Surplus (At Cost)	Cost	Market	% to total Surplus (At Cost)
<b>(a) Strategic Investment equities</b>	<b>1232</b>	<b>52351</b>		<b>1188</b>	<b>33356</b>	
<b>(b) Other equities</b>						
other listed equities	1134	2245	20	1454	2248	27.3
Unlisted equities	242	242	4.3	432	432	8.1
Real estate funds	14	14	0.2	25	25	0.5
<b>subtotal</b>	<b>1390</b>	<b>2501</b>	<b>24.5</b>	<b>1911</b>	<b>2705</b>	<b>35.9</b>
<b>( c ) Fixed income securities</b>						
Debentures and bonds	2616	2633	46.3	705	713	13.2
Government securities	130	125	2.3	1231	1252	23.1
Mutual funds	1383	1403	24.4	73	84	1.4
CD and CP	143	143	2.5	1406	1406	26.4
<b>subtotal</b>	<b>4272</b>	<b>4304</b>	<b>72.5</b>	<b>3415</b>	<b>3455</b>	<b>64.1</b>
<b>total (b) + ( c )</b>	<b>5662</b>	<b>6805</b>	<b>100</b>	<b>5326</b>	<b>6160</b>	<b>100</b>
<b>[d] Investment in property (net of depreciation)</b>	<b>196</b>	<b>196</b>		<b>201</b>	<b>201</b>	
<b>[e] Grand total (a+b+c+d)</b>	<b>7090</b>	<b>59352</b>		<b>6715</b>	<b>39717</b>	

Source: Annual Report

- ✚ The objective of BHIL's investments portfolio is to balance risk with adequate return. The Company has a Board approved investment policy which prescribes in detail its asset allocation. As per the said investment policy, a minimum of 40% of surplus funds at cost (excluding strategic investments) are to be invested in fixed income securities and a maximum of 60% of the surplus funds at cost into equity and equity linked products. The investment portfolio of the Company is set out in above Table.
- ✚ During FY17, the market value of strategic investment equities rose by 56.94% to Rs. 52351 crore and its cost increased by 3.70% to Rs. 1232 crore.
- ✚ The market value of Fixed income securities increased by 24.57% to Rs. 4304 crore and their cost rose by 25.09% to Rs. 4272 crore in FY17.
- ✚ Other equities market value declined by 7.54% to Rs. 2501 crore and their cost had decreased by 27.26% to Rs. 1390 crore in FY17.
- ✚ The cost and market value of investment in property declined by 2.48% to Rs. 196 crore in FY17 as compared to the last financial year.

## Position of strategic/group investments held by the Company as on 31 March 2017

(Rs. In Cr.)

Equity Shares held in	Cost		Market Value	
Bajaj Auto Ltd.		331.08		25608.15
Bajaj Finserv Ltd.		743.82		25538.86
Bajaj Auto Holdings Ltd.	0.25		0.25	
Maharashtra Scooters Ltd.	0.24		515.97	
Bajaj Electricals Ltd.	111.77		522.73	
Mukand Ltd.	32.89		68.88	
Hercules Hoists Ltd.	12.34		95.45	
Mukand Engineers Ltd.	0.1		0.26	
<b>Subtotal</b>		<b>157.59</b>		<b>1203.54</b>
<b>Total</b>		<b>1232.49</b>		<b>52350.55</b>

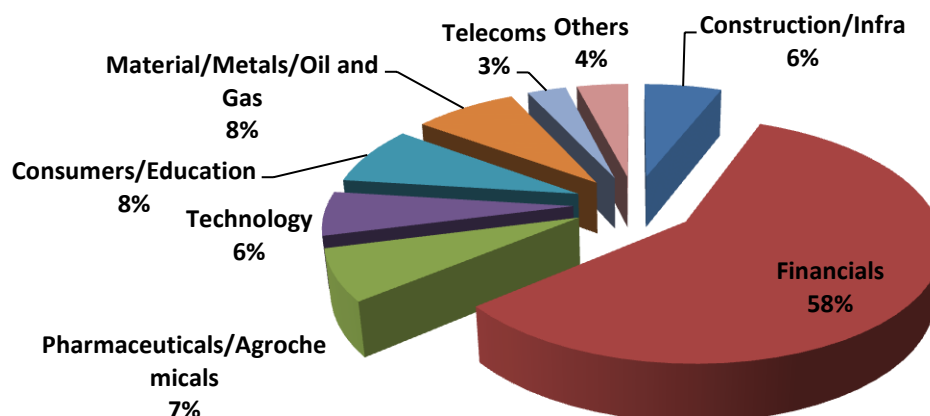
Source: Annual Report

- ✚ Subsequent to the demerger in 2007-08, BHIL is holding strategic/group investments, as set out in above table.

### Other Equities

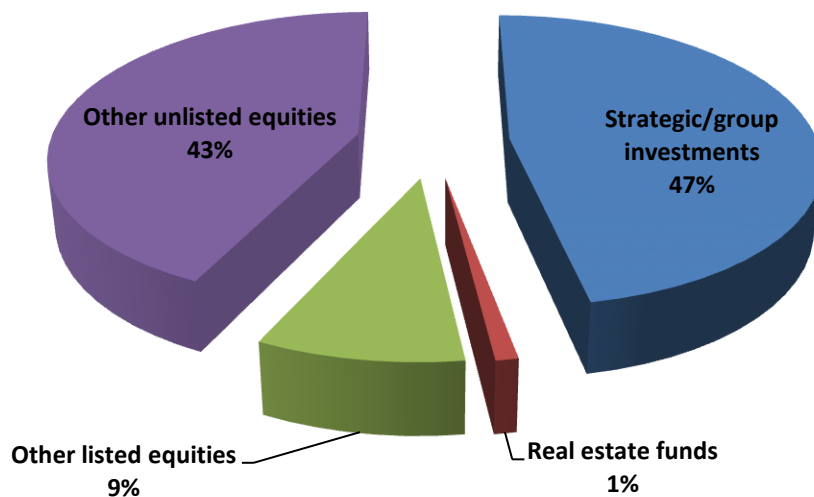
- ✚ The prescribed limit of 60% of surplus funds, BHIL invests dynamically in equities based on the Company's views of returns from public equity markets as well as opportunities in the private equity space. This helps in managing its liquidity risk while generating adequate returns. The Company invests in equities normally with a 5 year holding horizon or even longer, based on its views on further growth potential.
- ✚ The Company has diversified its portfolio across key sectors to boost returns and manage risk from the past few years. In FY17 BHIL rebalanced the sector weights of its equity portfolio by increasing allocation to companies in pharmaceuticals while taking away allocation from telecom and commodities thus reducing volatility of the portfolio. Below chart shows the sector specific stock allocation as on 31 March 2017.

### Sectoral allocation of other equities (at cost)



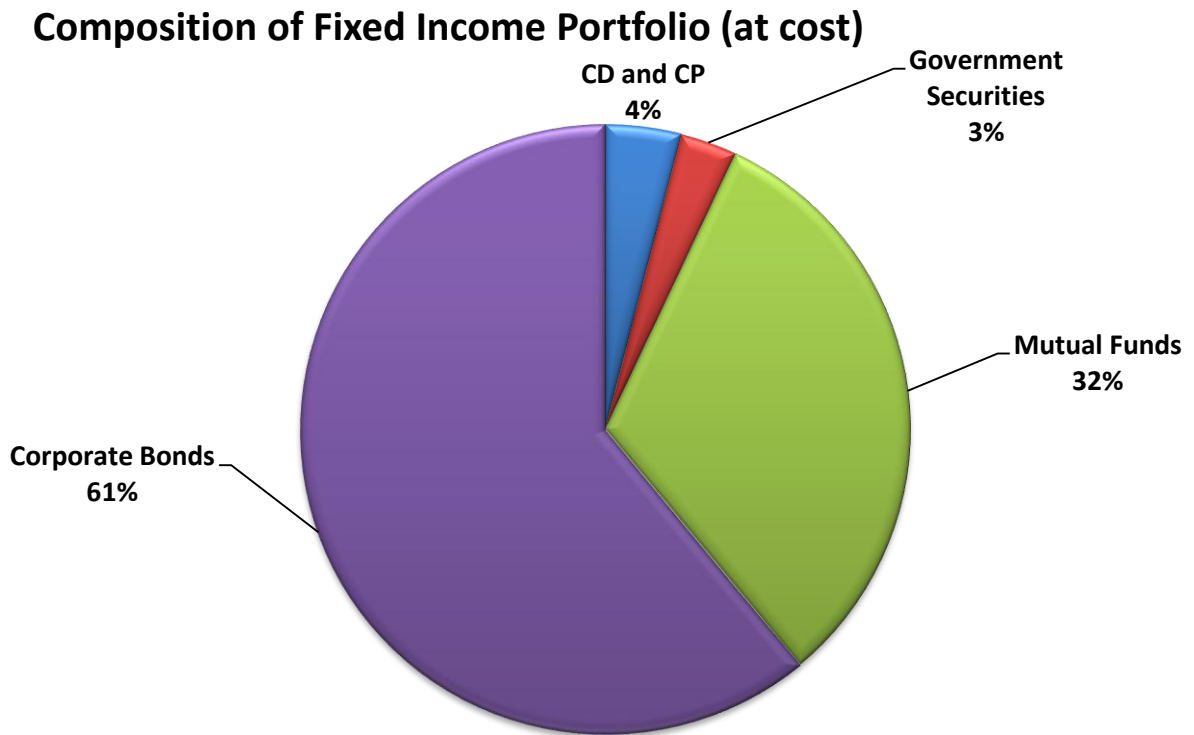
- ✚ BHIL's other equities portfolio is a combination of listed and unlisted investments. Listed investments dominate the pie with a 81.6% share of other equity investments.
- ✚ BHIL's investments in unlisted companies are in National Stock Exchange of India Ltd. (NSE) and National Multi-Commodity Exchange of India Ltd. NSE is expected to list during H1 FY2018. BSE (Bombay Stock Exchange) Ltd. and Ujjivan Financial Services Ltd. listed successfully during the year, achieving a reasonable return for BHIL.
- ✚ During the year, BHIL sold a part of its investments in ICICI Bank, Bharti Infratel, United Phosphorous, Reliance Industries, L&T, Marico, CARE and Container Corporation, while it completely exited Axis Bank, BHEL, Bharti Airtel, IL&FS Transportation, Tata Steel and NMDC.
- ✚ Key new stock added to portfolio in FY2017 was Lupin, while additional purchases were made of HDFC Bank.
- ✚ BHIL's other equities portfolio generated returns of 25.7% for FY2017, outperforming the Sensex. BHIL's other equities portfolio has a high weight in financials (58% of other equities portfolio at cost) as a proxy for growth in the domestic economy. In FY2017, investments in mostly financials like ICICI Bank, HDFC Bank, Ujjivan, CARE, Power Finance Corporation and others like United Phosphorous and Marico outperformed the markets while investments like Treehouse Education and Bharti Infratel underperformed the Sensex.
- ✚ As a prudent policy, BHIL has provided for diminution in value of its equity investments in Treehouse Education, Bajaj Hindusthan Sugar, IPCA Laboratories and real estate funds aggregating to H 160 crore.

## Composition of equity investments (at cost)



## Fixed Income Investments

- ✚ The objective of Fixed Income Instruments portfolio of BHIL is to provide protection to capital along with liquidity and a reasonable return.
- ✚ RBI cut repo rate by 50 basis points during the year. As a result, bond markets witnessed a positive run in FY2017 with a sharp drop in yields across tenures. Bonds rallied even further after demonetization with the expectation of a surge in liquidity and deeper rate cuts due to negative growth impact.
- ✚ This was reflected in the 10 year government security which started the year at a yield of 7.4%, reached a bottom of 6.2% in November 2016 post demonetization and closed the year at a yield of 6.7%.
- ✚ Based on the positive outlook on interest rates for FY2017, BHIL increased portfolio duration at start of the year by investing in longer tenure government securities. Post demonetisation, as bonds rallied expecting de-growth and deeper rate cut, BHIL successfully booked significant profit by selling long tenure government securities throughout Q3 and Q4 FY2017.
- ✚ For FY2017 BHIL's realised yield on the portfolio was 10.3% while total return (realised and unrealised) was 10.4%. At year end, the portfolio yield was 7.4% with average maturity of 2.3 years. The fixed income portfolio is presented in the below chart:



## PROFIT AND LOSS ACCOUNT (CONSOLIDATED)

(Rs. In Cr.)

	201703	201603	201503	201403	201303	Change (%)
<b>INCOME :</b>						
Operating Income	842.36	470.11	524.14	423.19	337.07	79.18
Other Income	7.97	6.85	34.9	4.65	2.58	16.35
<b>Total Income</b>	<b>850.33</b>	<b>476.96</b>	<b>559.04</b>	<b>427.84</b>	<b>339.65</b>	<b>78.28</b>
<b>EXPENDITURE :</b>						
Operating & Administration Expenses	26.26	22.57	15.9	12.32	7.44	16.35
Miscellaneous Expenses	179.18	11.78	21.53	9.18	6	1421.05
Employee Expense	9.24	7.23	2.28	1.99	1.63	27.80
<b>Total Expenditure</b>	<b>214.68</b>	<b>41.58</b>	<b>39.71</b>	<b>23.49</b>	<b>15.08</b>	<b>416.31</b>
Gross Profit	635.65	435.38	519.12	404.35	324.38	46
Depreciation	5.39	5.48	5.93	4.78	2.36	-1.64
Profit Before Tax	630.26	429.9	513.19	399.57	322.02	46.61
Tax	134.37	87.36	98.84	80.48	68.01	53.81
Deferred Tax	0.23	0.95	0.52	0.64	0.32	-75.79
Net Profit	495.66	341.59	413.83	318.45	253.69	45.10
Profit/Loss of Associate Company	1977.5	1923.65	1615.41	1669.11	1602.69	2.80
Net Profit after Minority Interest & P/L Asso.Co.	2473.16	2265.24	2029.24	1987.56	1856.38	9.18
<b>Adjusted Net Profit</b>	<b>2473.16</b>	<b>2265.24</b>	<b>2029.24</b>	<b>1987.54</b>	<b>1856.32</b>	<b>9.18</b>

**SOURCE: CAPITALINE**

- ✚ Operating income rose by 79.18% to Rs. 842.36 crore in FY17 as compared to the last FY16 and in last year it was Rs. 470.11 crore.
- ✚ On the other hand, total expenditure increased by 416.31% to Rs 214.68 crore in FY17 and it was only Rs. 41.58 crore in FY16. This tremendous hike in total expenditure got to see only because of rapid increase in miscellaneous expense which rose by 1421.05% to Rs. 179.18 crore in FY17 from Rs. 11.58 crore in FY16. Even employee expenses also rose by 27.80 % to Rs. 9.24 crore in FY17
- ✚ As a result, gross profit rose by 46% to Rs 635.65 crore in FY17 as compared to last FY16 in which it was Rs. 435.38 crore.
- ✚ However tax also got hike of 53.81% and which moved the tax amount from Rs. 87.36 crore in FY16 to Rs. 134.37 crore in FY17. This hike affected the net profit.
- ✚ Deferred tax went down by 75.79% to Rs. 0.23 core in FY17 which made a bit addition to the net profit.
- ✚ Hence net profit that is profit after tax (PAT) rose by 45.10% to Rs. 495.66 crore in FY17 and it was Rs. 341.59 crore in FY16.

## **BALANCE SHEET CONSOLIDATED**

(Rs. In Cr.)

Particulars	201703	201603	201503	201403	201303
<b>SOURCES OF FUNDS :</b>					
Share Capital	111.29	111.29	111.29	111.29	111.29
Reserves Total	17706.61	15182.03	13281.94	11887.69	10233.8
Total Shareholders Funds	17817.9	15293.32	13393.23	11998.98	10345.09
Other Liabilities	30.84	30.39	29.81	31.09	23.89
Total Liabilities	17848.74	15323.71	13423.04	12030.07	10368.98
<b>APPLICATION OF FUNDS :</b>					
Fixed Assets					
Gross Block	658.73	623	622.18	626.65	609.14
Less: Accumulated Depreciation	96.13	96.08	95.72	94.85	94.64
Net Block	562.6	526.92	526.46	531.8	514.5
Lease Adjustment	17.5	17.5	17.5	0	17.5
Investments	17006.16	13275.84	13077.56	11324.93	9577.35
Current Assets, Loans & Advances					
Inventories	0.28	0.13	0.31	0.12	0.14
Sundry Debtors	0.53	0.59	0.61	0.31	0.61
Cash and Bank Balance	12.53	1423.01	48.24	268.53	146.62
Loans and Advances	103.91	79.7	64.12	38.77	7.34
Total Current Assets	117.25	1503.43	113.28	307.73	154.71
Less: Current Liab. & Provisions					
Current Liabilities	20.11	27.82	17.1	14.08	10.48
Provisions	13.43	113.99	447.63	399.4	391.96
Total Current Liabilities & Provisions	33.54	141.81	464.73	413.48	402.44
Net Current Assets	83.71	1361.62	-351.45	-105.75	-247.73
Deferred Tax Assets	3.24	9.15	0	0	0
Deferred Tax Liability	9.63	15.31	5.21	4.69	4.05
Net Deferred Tax	-6.39	-6.16	-5.21	-4.69	-4.05
Other Assets	185.16	147.99	158.18	283.78	511.41
<b>Total Assets</b>	<b>17848.74</b>	<b>15323.71</b>	<b>13423.04</b>	<b>12030.07</b>	<b>10368.98</b>
<b>Contingent Liability</b>	<b>1563.73</b>	<b>1071.97</b>	<b>935.19</b>	<b>739.82</b>	<b>692.67</b>

### **OUTLOOK:**

BHIL invests in equities based on the Company's views of returns from public equity markets, as well as opportunities in the private equity space. The Company invests in equities normally with an approximately five year holding horizon or even longer. The Company's other equities investment portfolio includes financials, technology/pharma; consumers/education; sugar; material/metals/oil and gas; construction/infra, and telecoms and media.

On the performance front, the company has reported outstanding numbers on its consolidated side with total revenue of Rs 850 cr in FY17 vs Rs 477 cr in FY16 with profit of Rs 2473 crore in FY17 vs 2265 cr in FY16. Being an investment company, BHIL is largely dependent on the stock and money markets for its income. While sharply rising equity markets provided an opportunity to realise gains on equity investments, a decline in interest rates gave an opportunity to book gains on fixed income securities. Profit on sale of investments (net) for FY2017 was Rs 531 crore v/s Rs 114 crore in FY2016.

As on 31 March 2017, the Company held strategic stakes of 31.54% in Bajaj Auto Ltd. (BAL), 39.29% in Bajaj Finserv Ltd. (BFS) and 24% in Maharashtra Scooters Ltd. (MSL), the results of which it consolidates and other investments and investment property RS of 7,000 crore at market value. The market value of the said portfolio stood at RS 59,352 crore as on 31 March 2017.

We value the company at 1.54x the FY18E ABV to arrive at a target price of Rs 3590, BHIL expected to report EPS of Rs 268 FY18E. at the CMP PE works out to be 11x FY18E. Hence stock be bought here for time horizon of Rs 9-12 months.

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Disclosure Appendix

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