

Sector: Automobiles
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 2,558	
Price Target: Rs. 3,000	↔
↑ Upgrade ↔ No change ↓ Downgrade	

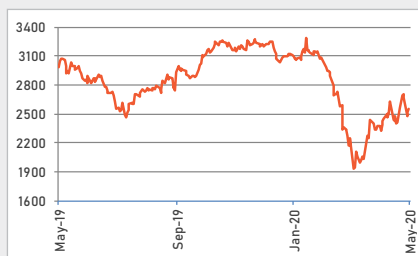
Company details

Market cap:	Rs. 74,022 cr
52-week high/low:	Rs. 3,315/1,793
NSE volume: (No of shares)	4.8 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	13.45 cr

Shareholding (%)

Promoters	53.7
FII	13.9
DII	8.8
Others	23.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.1	-14.2	-19.8	-14.2
Relative to Sensex	9.5	9.4	4.2	6.7

Sharekhan Research, Bloomberg

Bajaj Auto Limited (BAL) Q4 FY20 results were ahead of our as well as street estimates on account of better realisations per vehicle, driven by a better product mix and higher export realisations. Favourable currency movement and soft commodity prices helped margins beat estimates. Going ahead, the two-wheeler industry is likely to witness faster recovery driven by higher rural exposure. A strong rabi harvest, expectations of good monsoon and the government's recent reforms to open end markets for farmers would boost farm incomes and in turn, two-wheeler demand. Further, pent-up demand and customer preference for personal transport post COVID-19 would also drive demand. The management expects two-wheeler industry to reach normal sales levels by H2FY21 (with the onset of the festive season). Moreover, BAL is expected to continue outpacing the industry driven by new launches in domestic markets and entry into newer export markets. Hence we retain a Buy rating on the stock.

Key positives

- Realisation per vehicle rose 10% y-o-y in Q4FY20 and was ahead of our as well as street estimates. Better product mix and higher forex realisations led to better than anticipated realisation.
- Operating margins at 18.4% were better than street estimates. Soft commodity prices, favourable exchange rates and higher sales of sport bikes boosted the margins.
- The company declared special dividend of Rs 120 per share during the quarter.

Key negatives

- Volume growth continues to remain under pressure declining sharply 17% y-o-y during Q4FY20. Transition from BS-IV to BS-VI emission norms and lockdown on account of COVID-19 impacted the volumes
- Three-wheeler volumes are expected to face greater challenges on account of lockdown due to COVID-19. Company expects three-wheeler volumes to be under more stress as compared to two-wheeler volumes.

Our Call

Valuation - Fine-tuned estimates; Retain Buy with a PT of Rs. 3,000: Q4 FY20 results were better than our as well as street expectations driven by better realisations and margins. We have fine-tuned our earnings estimates for both FY2021 and FY2022. At CMP, the stock is trading at 14.4x FY22 earnings which is lower than its long-term historical average of 17x. BAL is a cash rich company (cash and cash equivalents worth Rs 14,300 crore) having strong balance sheet and return ratios. We retain a Buy rating on the stock with an unchanged PT of Rs. 3,000.

Key Risks

Prolonged slowdown in volumes in both domestic and exports on account of COVID-19 can impact the financials.

Valuation

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	25,218.9	30,357.6	29,918.7	28,880.2	31,669.2
Growth (%)	15.9	20.4	-1.4	-3.5	9.7
EBIDTA	4,837.4	5,192.5	5,096.2	4,770.4	5,383.8
OPM (%)	19.2	17.1	17.0	16.5	17.0
Recurring PAT	4,100.1	4,333.2	5,100.0	4,606.8	5,154.1
Growth (%)	7.1	5.7	17.7	-9.7	11.9
EPS (Rs)	141.8	149.8	176.3	159.3	178.2
PE (x)	18.0	17.1	14.5	16.1	14.4
P/BV (x)	3.9	3.4	3.0	2.7	2.5
EV/EBIDTA (x)	12.5	12.2	9.2	9.8	9.0
RoCE (%)	29.5	28.3	25.9	22.3	22.9
RoNW (%)	21.5	19.9	20.7	17.1	17.6

Source: Company; Sharekhan estimates

Strong quarter; Results ahead of estimates: Q4FY20 results were better than ours as well as the street's expectations. Revenue dipped by 8% y-o-y (but was ahead of estimates) owing to better than anticipated realisations. Realisation grew 10% y-o-y as against our expectations of 2% growth. Better product mix (higher sales of sport bikes and exports) and higher export realisations led to better realisations. BAL's operating margins improved sharply 170 bps y-o-y to 18.4% and were better than our estimates of 16.1%. Softening commodity prices, higher export realisations and a richer mix enabled margins to beat estimates. Other income grew strongly 45% y-o-y to Rs. 532 crore and was ahead of our estimates. Adjusted net profit was flat at Rs. 1,310 crore and was ahead of estimates of Rs 986 crore.

Sales picking up; expect faster recovery for two-wheelers: To prevent the spread of COVID-19; Indian Government announced lockdown from end of March 2020. April 2020 witnessed near-zero automobile sales. While the lockdown is still in force, the government has relaxed it partially and is allowing resumption of business and economic activity. Sales momentum is picking up, with BAL witnessing 25-30% of the normal sales in May 2020 and expects to reach 50% sales by June 2020. Also, given the higher rural exposure (about 40-45% two-wheeler sales are rural), the two-wheeler industry is likely to recover faster. Rural sentiments have been strong with good rabi harvest and expectations of robust kharif crop given the normal monsoon forecast by the IMD. Also, with the government opening up end markets for farmers, crop realisation is expected to go up which would boost farm incomes and 2W sales. BAL also stated that export markets are also witnessing pick up in sales and with the Government easing lockdown restrictions, export volumes would also recover. BAL stated that exports have reached 35% of normal sales in May 2020 and management expects a further pick-up in sales. The management expects to achieve normal overall sales levels by festive season in early H2FY2021.

BAL to continue outpacing industry: BAL outpaced the domestic motorcycle industry with new launches in the entry motorcycle segment. BAL market share increased from 15.6% in FY2018 to 18.5% in FY2020. BAL is targeting to further improve its market share by offering new motorcycle variants with added features. BAL recently introduced low priced air injection systems in entry-level BS-VI motorcycles (as compared to fuel injection variants launched by competitors). The price differential would be used to provide additional features to attract customers and gain market share. Also, BAL is gaining market share in the key export markets by strengthening network presence, introducing new products and tapping new geographies. BAL has improved its market share in Africa and aims to further gain share and is also tapping new geographies in the ASEAN region (Indonesia and Thailand) and is also mulling entry into the Brazil market. We expect the company to outpace the underlying markets in both domestic and exports.

Key conference call highlights:

Demand environment: BAL stated that demand is picking up gradually in both domestic and export markets. After witnessing near-zero sales in 2020, domestic sales would be 25% of normal in May 2020 and export sales would be 35% of normal. Management expects to reach normal sales levels in both domestic and export markets by festive season in early H2FY20.

Geographical demand expectations: BAL stated that while both domestic and export markets would decline in FY21 on account of COVID-19, export market would decline at a lower rate than the domestic market.

Dealership update: BAL stated that 50-60% of its dealerships in India have resumed operations and that 65-70% of service centres have resumed operations.

New entry markets: BAL stated that it is planning entry into newer ASEAN markets such as Indonesia and Thailand. BAL is also planning entry into the Brazilian market.

Downtrading: BAL does not expect significant downtrading across the motorcycle segments. However, BAL expects downtrading within a segment (a customer buying a motorcycle in a particular cc range would opt for a no-frills variant).

Retail financing: BAL has not witnessed retail financing issues for 2W customers. However BAL expects financing challenges for the 3W segment in the near term.

Export hedging: BAL has stated that it has already hedged 70-75% of its projected exports for FY2021.

Rural sentiments: BAL stated that the rural sentiments are extremely strong given the good rabi harvest and expectations of robust kharif crop due to normal monsoon forecast by IMD and good water reservoir levels. BAL stated that rural demand could surprise positively in H2FY20.

Results

Particulars	Q4FY20	Q4FY19	%YoY	Q3FY20	%QoQ
Total Income	6,815.9	7,420.5	-8.1	7,639.7	-10.8
EBIDTA	1,252.8	1,227.0	2.1	1,367.2	-8.4
EBIDTA Margins (%)	18.4	16.5	190 bps	17.9	50 bps
Depreciation	63.3	60.8	4.0	61.7	2.6
Interest	0.9	0.3	213.8	0.5	93.6
Other Income	532.7	368.0	44.7	366.2	45.4
PBT	1,721.2	1,533.9	12.2	1,671.3	3.0
Tax	410.9	570.3	-27.9	409.7	0.3
Reported PAT	1,310.3	963.6	36.0	1,261.6	3.9
EPS	45.3	33.3	36.0	43.6	3.9
Adjusted PAT	1,310.3	1,305.6	0.4	1,261.6	3.9

Source: Company; Sharekhan Research

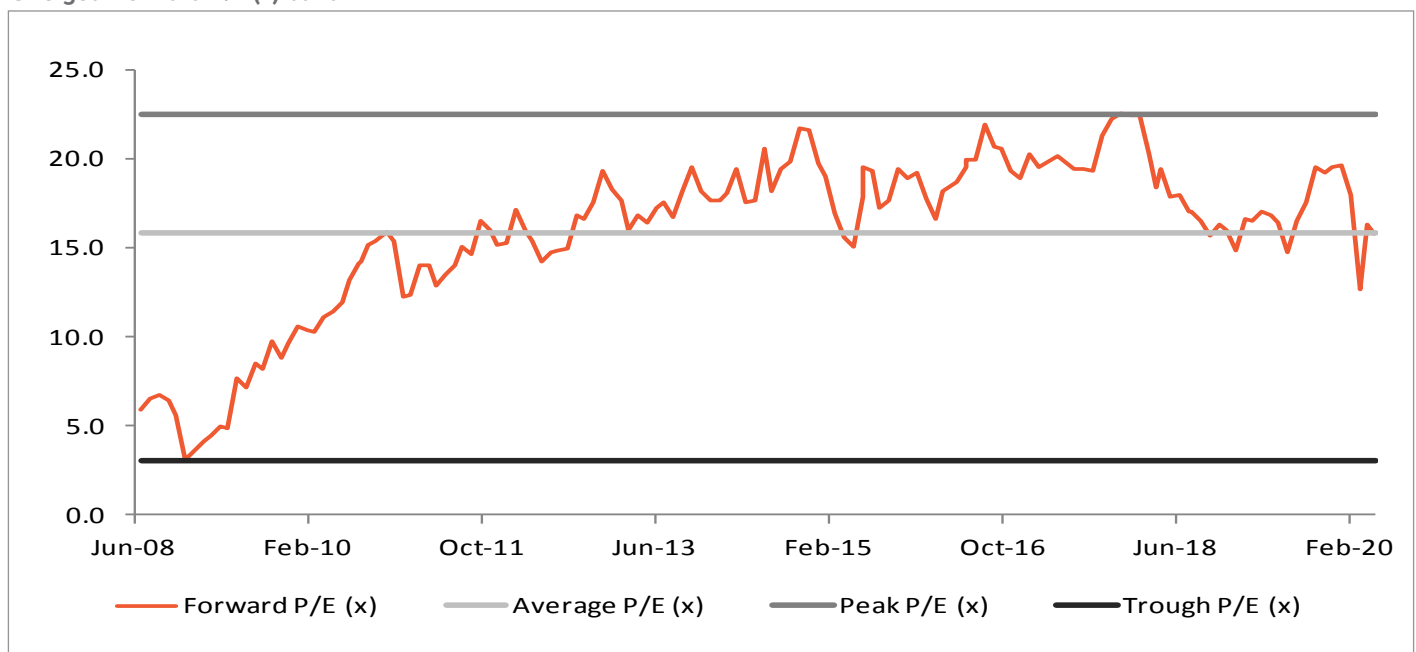
Outlook

Recovery expected from H2FY21; BAL to continue outpacing industry: With the Governments easing lockdown restrictions, BAL expects the two-wheeler industry to recover to normal growth levels in H2FY21 (onset of the festive season). Pent-up demand and strong rural sentiments coupled with preference for private vehicles over public transport would lead to demand recovery from H2FY21. Further with introduction of new products in the domestic market and entry into newer export markets would enable BAL to continue outpacing the industry.

Valuation

Fine tuned estimates; retain Buy with PT of Rs. 3,000: Q4 FY20 results were better than our as well as street expectations driven by better realisations and margins. We have fine-tuned our earnings estimates for both FY2021 and FY2022. At CMP, the stock is trading at 14.4x FY22 earnings, which is lower than its long-term historical average of 17x. BAL is a cash-rich company (cash and cash equivalents worth Rs 14,300 crore) having strong balance sheet and return ratios. We retain a Buy rating on the stock with an unchanged PT of Rs. 3,000.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

BAL is the second largest motorcycle manufacturer in India with a market share of about 20%. Over the years, BAL has created a strong brand not only domestically but also in export markets. Exports currently constitute about 45% of overall volumes with Africa, Southeast Asia and Latin America amongst the key markets. BAL is the leader in the premium motorcycle segment having a market share of 41%. Apart from premium motorcycles, BAL is also the leader in the three-wheeler segment, commanding market share of about 57%. Motorcycles constitute about 85% of overall volumes, while three-wheelers contribute to 15%

Investment theme

BAL is the market leader in the premium motorcycle segment and three-wheelers. BAL has strongly developed its brand in key export markets and is currently India's largest two-wheeler and three-wheeler exporter. Post COVID-19, 2W sales are expected to recover fast given the higher rural exposure. Management expects sales to normalise from H2FY21 with onset of festives. BAL is expected to continue outpacing industry with new launches in domestic market and entry into new geographies overseas. Hence we retain Buy rating on the stock.

Key Risks

- ◆ BAL derives about 45% of volumes from export markets; hence, it is exposed to forex risks. Any adverse currency movement in INR/USD can impact profitability.
- ◆ Any adverse government policy for full switchover to electric vehicles in both the two-wheeler and three-wheeler segments would impact market positioning of the company.
- ◆ Prolonged slowdown in domestic market can impact the financials

Additional Data

Key management personnel

Rahul Bajaj	Chairman Executive
Rajiv Bajaj	MD & CEO
Rakesh Sharma	Executive Director
Soumen Ray	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	33.43
2	Jamnalal Sons Pvt Ltd	8.95
3	Life Insurance Corp of India	4.6
4	Jaya Hind Industries Ltd	3.35
5	Maharashtra Scooters Ltd	2.34
6	Bajaj Sevashram Pvt Ltd	1.54
7	Norges Bank Investment Management	1.38
8	Government Pension Fund	1.38
9	Bachhraj & Co Pvt Ltd	1.26
10	SBI Funds Management	1.14

Source: Bloomberg

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