

Buy

Bajaj Auto

Industry: Auto and Auto Components

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Since 1948

Management expects a strong H2 FY 21

Strong set of numbers in Q4

Bajaj Auto posted a strong set of numbers in Q4 FY20, as a volume fall of 17% yoy was quite arrested by a 10.1% hike in realizations on a better product mix and benign hike in input costs. The topline fell by 8% yoy and 11% qoq. Better realizations, steady forex benefits, RM costs tailwinds led to an 8 quarter high EBITDA margins at 18.4% up from 15.7%/17.9% yoy and qoq respectively. RM costs to sales ratio fell to 70.6% from 74% yoy and 71.8% qoq leading to a robust margin performance. Other income grew by 23%, while depreciation grew by just 4%. On 24% tax rate, net profits zoomed up by 36% yoy to ₹13.1 bn. On a qoq basis, they grew by 4%.

Covid -19 impact to be seen in H1 FY 21, all hopes on H2..

As we all know that in the current lockdown period, we saw a zero sales April and things are slightly looking up in May, considering the below normal capacity operations initiated at various OEM plants. However, given to understand through the management conference call and our dealer checks, that enquiries and conversion rates have not yet picked up. Services and repairs business is helping the dealers to somewhat manage their daily expenses. Management also stated that currently, the retail volumes are 25% of average and only 50% dealerships have opened and are working at 50% levels. As lockdown lifts up gradually, things may start looking up with the genuinely needy buyers coming to buy. Also, those whose orders are pending since they have done the bookings pre Covid shall come back to take their deliveries.

Management expects that in motorcycle business, in H1, demand will be very low due to Covid and BS 6 price hikes taken from April 1st. However, demand will pick up only by festive season and the recovery should be sharp post it. So FY 22E will be a good year with pent up demand of the previous two years. Demand will be high for the economy segment of motorcycles, considering the down trading which will be seen considering the low ticket size of this segment and affordability of the customer in the view of job losses and impact on overall employment in the country. Eventually, management expects customers to move away from shared mobility and go for personal mobility. Better agri incomes on good monsoon and latent demand should surprise us positively in H2.

On the 3W business side, management expects the small 3W(85-90% market share of Bajaj Auto) and cargo business to do well post Covid, while the diesel and larger 3Ws will get impacted considering low possibility of social distancing in them. Also the B2B business hasn't yet started and BS6 has led to higher prices of larger 3W which are not affordable right now.

Exports expected to post a lesser decline than domestic

Exports have comparatively posted a decent performance than the domestic business, with a growth of 7% yoy in Q4 FY20 and 4% growth in FY 20 as compared to 33% and 17% declines respectively in domestic business. This growth was mainly driven by Africa with markets like Nigeria, Kenya, Tanzania, Egypt and Ethiopia outperforming other countries. Bajaj Auto has got a 38% market share in African continent with the closest Chinese competitor far away. In Asia, Philippines has been the star performer, while SL and Bangladesh are still underperforming. Impact of Covid will be seen in these markets but to a lesser extent than India. The devaluation of Nigerian currency Naira remains the biggest worry for Bajaj Auto in Nigeria which is their biggest export country. However, expected better performances in ASEAN and rest of Africa will bolster the exports business. The company is planning to enter Indonesia and Thailand in Asia and then eye Brazil and Europe. Its various JVs like Triumph should enable the company to achieve its goals.

Margins give us a positive surprise

Q4 margins saw a surprising rise at 18.4% driven by improved product mix (higher sales of CT and Platina 110 variants (43% of the model), BS VI bikes and a good exports recovery. RM tailwinds and forex benefits also supported the margins. Realizations and margins both saw a good growth in the quarter. Management mentioned that in the view of Covid, it will be difficult to maintain margins in 18-19% range unlike Q4 FY20, however a better exports performance and expected pick up in H2 may range the margins in a conservative 16-17% range according to us. We expect at least a 100 bps improvement in margins in FY 22E.

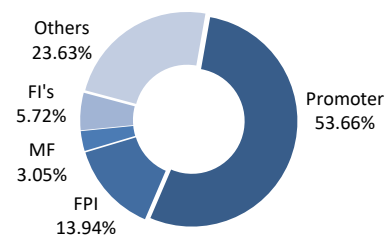
Stock Data

Rating	Buy
Current Market Price(₹)	2,650
12 M Price Target (₹)	3,055
Potential upside (%)	15
FV (₹)	10
Market Cap Full (₹ bn)	781
52-Week Range (₹)	3,315 / 1,793
BSE / NSE Code	532977 / BAJAJ-AUTO
Reuters / Bloomberg	BAJA.BO / BJAUT IN

What's Changed

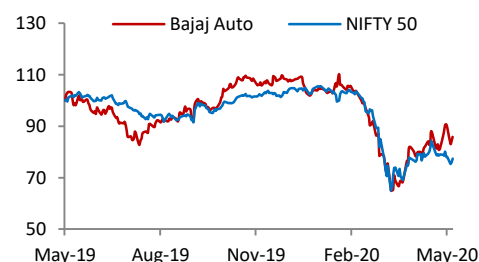
12 month Price Target (₹)	3,640 to 3,055
FY2021E EPS (₹)	191 to 152
FY2022E EPS (₹)	214 to 191

Shareholding Pattern (March 2020)



YE Mar	FY 19	FY 20	FY 21E	FY 22E
Revenues (₹ bn)	302.5	299.2	265.8	330.4
EBITDA (%)	16.5	17.0	16.3	17.4
PAT (%)	14.7	17.5	17.2	17.2
EPS (₹)	161.5	176.2	152.3	190.9
EPS growth (%)	14.5%	9.1%	-13.6%	25.3%
P/E (x)	19.6	17.9	20.8	16.6
P/B(x)	4.2	4.6	3.9	3.4
EV/EBITDA (x)	18.4	18.1	21.3	15.9
ROE (%)	21.5%	25.6%	19.0%	20.4%
Dividend yield (%)	2.1%	6.8%	1.2%	1.8%

Relative Price Performance



All fig in ₹ mn	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Net sales	66,109	74,364	-11.1%	72,252	-8.5%
Other op. income	2,050	2,032	0.8%	1,700	20.6%
Total income	68,159	76,397	-10.8%	73,952	-7.8%
RM cost	46,653	53,422	-12.7%	53,450	-12.7%
Employee cost	3,421	3,482	-1.8%	3,126	9.4%
Other expenses	5,557	5,818	-4.5%	5,754	-3.4%
EBITDA	12,527	13,674	-8.4%	11,623	7.8%
EBITDA Margins %	18.4	17.9	50 bps	15.7	270 bps
Other income	5,327	3,662	45.4%	4,327	23.1%
Depreciation	633	617	2.6%	608	4.0%
Interest	9	5	93.6%	3	N/A
PBT	17,212	16,715	3.0%	15,339	12.2%
Tax	4,109	4,097	0.3%	5,703	-27.9%
Adj PAT	13,103	12,618	3.8%	9,636	36.0%
Adj PAT Margins%	19.2	16.5	270 bps	13.0	620 bps
Exceptional items	-	-	-	3,420	-
Reported PAT	13,103	12,618	3.8%	13,056	0.4%

Outlook and valuation

Bajaj Auto reported a robust set of numbers in Q4 despite challenging environment. Going forward, there is an uncertainty about the pandemic. Whenever it settles, and retail demand picks up, the company is well equipped and ready to start functioning at 50-70% of its capacity and an quickly ramp up its production as per the demand. H1 is expected to be dull in line with the industry expectations and H2 should see a meaningful recovery. FY 22E should see a strong performance on low base and pent up demand of previous two years. Exports are supported by Africa and ASEAN countries. New geographies should be entered once Covid becomes less severe. Margins are currently strong, which are expected to fall in H1, but exports markets will support the cause. We are expecting even margins to pick up in H2 and FY 22 as the high margin 3W sales also will move up with 2W. FY20 has witnessed a special dividend from BAL and we are not building the same for the next two years in our forecast. In view of a positive H2 FY21 and FY22, we are maintaining our BUY rating on the stock with reduced estimates and target of ₹3,055.

Per unit parameters (₹)	Q4 FY20	Q3 FY20	Q2 FY20	Q1 FY20	Q4 FY19	Q3 FY19	Q2 FY19	Q1 FY19
Gross Realisation per Unit (₹)	66,645	61,842	63,900	60,657	60,533	57,493	58,470	59,245
Net Realisation per Unit (₹)	66,645	61,842	63,900	60,657	60,533	57,493	58,470	59,245
Total Cost per unit (₹)	56,082	52,161	54,783	52,580	52,220	49,636	49,601	50,038
Material Cost per unit (₹)	47,031	44,427	46,328	44,611	44,781	42,840	43,174	43,201
Staff Cost per unit (₹)	3,449	2,896	2,883	2,891	2,619	2,515	2,329	2,560
Other Expn per unit (₹)	5,658	4,923	5,646	5,122	4,912	4,349	4,145	4,312
EBITDA per unit (₹)	12,629	11,372	10,890	9,608	9,737	9,176	10,026	10,447
PAT per unit (₹)	13,209	10,493	11,950	9,026	8,073	8,746	8,604	9,092

Financials

Income statement

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
Total Revenues	302,500	299,187	265,764	330,441
Raw Material Cost	218,243	210,083	185,383	232,320
Employee Cost	12,554	13,892	12,838	14,099
Other Exp	21,882	24,249	23,599	25,755
EBITDA	49,821	50,962	43,303	57,567
EBITDA Margin(%)	16.5	17.0	16.3	17.4
Other income	16493	17336	18000	19000
Depreciation	2,657	2,464	2,473	2,837
Interest	45	32	50	60
PBT	63,612	65,802	58,780	73,670
PBT Margin(%)	21.5	22.6	22.9	23.0
Exceptional items	0	0	0	0
Tax	20,280	14,802	14,695	18,417
APAT	46,752	51,000	44,085	55,252
APAT Margins (%)	15.5	17.0	16.6	16.7
PAT	43,332	51,000	44,085	55,252
PAT Margin (%)	14.7	17.5	17.2	17.2

Key Ratios

YE Mar	FY 19	FY 20	FY 21E	FY 22E
Per Share Data (₹)				
Adj. EPS	161.5	176.2	152.3	190.9
CEPS	152.0	170.7	184.7	160.9
BVPS	752.6	688.5	802.8	936.4
DPS	65.1	215.8	38.1	57.3
Growth Ratios(%)				
Total revenues	19.9%	-1.1%	-11.2%	24.3%
EBITDA	4.0%	2.3%	-15.0%	32.9%
PAT	14.5%	9.1%	-13.6%	25.3%
EPS Growth	14.5%	9.1%	-13.6%	25.3%
Valuation Ratios (x)				
PE	19.6	17.9	20.8	16.6
P/CEPS	18.5	17.1	19.6	15.7
P/BV	4.2	4.6	3.9	3.4
EV/Sales	3.7	3.1	3.2	3.6
EV/EBITDA	18.4	18.1	21.3	15.9
Operating Ratios (Days)				
Inventory days	11.9	13.3	15.0	15.0
Receivable Days	31.6	21.6	24.0	25.0
Payables day	46.7	39.9	42.0	44.0
Net Debt/Equity (x)	0.01	0.04	0.03	0.00
Profitability Ratios (%)				
ROE	21.5%	25.6%	19.0%	20.4%
Dividend yield	2.1%	6.8%	1.2%	1.8%

Balance sheet

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,894	2,894	2,894	2,894
Reserves and surplus	214,905	196,361	229,425	268,102
Total networth	217,799	199,255	232,319	270,995
Non current liabilities				
Long term borrowings & provisions	1,842	2,482	2,502	2,522
Deferred tax liabilities	5,426	3,464	3,464	3,464
Current liabilities				
Current liabilities and provisions	39,246	33,439	31,125	40,208
Other current liabilities	9,490	9,093	9,093	9,093
Total equity and liabilities	273,803	247,733	278,502	326,282
ASSETS				
Net block				
Capital work in progress	115	465	565	665
Intangible assets	562	567	567	567
Non current investments	176,384	154,701	184,701	212,701
Long term loans and advances	316	325	325	325
Other non current assets	8,913	9,685	9,685	9,685
Total non current assets	203,176	181,763	213,390	245,653
Current assets				
Current investments	15,765	27,798	27,798	27,798
Inventories	9,615	10,636	10,552	13,169
Trade receivables	25,597	17,251	16,883	21,948
Cash and cash bank	9,228	3,082	2,676	10,512
Short term loans and advances	63	61	61	61
Other current assets	10,358	7,142	7,142	7,142
Total current assets	70,626	65,970	65,112	80,629
Total Assets	273,803	247,733	278,502	326,282

Cash Flow

YE Mar (₹ mn)	FY 19	FY 20	FY 20E	FY 21E
PBT	67,032	65,802	58,780	73,670
Depreciation	2,657	2,464	2,473	2,837
Interest	10	11	0	0
Chng in working capital	(7,925)	3,766	(1,862)	1,401
Tax paid	(19,643)	(16,777)	(14,695)	(18,417)
Other operating activities	0	0	0	0
Cash flow from operations (a)	24,896	38,618	44,696	59,491
Capital expenditure	(1,635)	(2,828)	(4,100)	(7,100)
Chng in investments	(4,606)	16,505	(30,000)	(28,000)
Other investing activities	0	0	0	0
Cash flow from investing (b)	(2,441)	17,547	(34,100)	(35,100)
Free cash flow (a+b)	22,455	56,166	10,596	24,391
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(17,358)	(51,951)	(11,021)	(16,576)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(20,741)	(62,465)	(10,695)	(16,556)
Net chng in cash (a+b+c)	1,714	(6,300)	(99)	7,835
Closing cash & cash equivalents	9,054	2,776	2,676	10,512

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