

### Resilient show in a weak quarter

- Bajaj Auto reported a decent performance in Q1FY21 amid turbulent times led by cost control measures and favorable FX movement. EBITDA fell 66% YoY to Rs 4.09bn (vs est Rs 3.88bn) with margin at 13.3% (vs est 11.96%) led by 60% fall in revenue.
- The management is hopeful for a quick recovery in 2Ws aided by increasing preference for personal mobility and improvement in rural sentiments. Motorcycle demand is back to 80-85% of normal levels in July for domestic markets.
- There are initial signs of recovery in export with demand back to 75-85% of normal levels. Nigeria sales are back to 75% while Philippines and Colombia are at 80% of normal levels for motorcycles.
- While the timing for full fledged recovery may be uncertain, we believe Bajaj Auto will be one of the biggest beneficiaries in the export markets over the medium term due to lower penetration of 2W in African market and increased preference of personal mobility
- Gross margin improved in Q1 (+133bps QoQ) due to price hike, a better geographic mix (high export) and FX benefit. However, reversal in commodity prices and INR appreciation to put pressure on margins in Q2. The company has taken several cost control measures and curtailed marketing & adv spends while keeping employee costs intact.
- We maintain our positive stance given 1) improving outlook for domestic and export 2W segments owing to increasing preference for personal mobility, 2) operating efficiency and volume recovery to support EBITDA margin and 3) strong cash reserves. At CMP, the stock is trading at 17x/15x FY22E/FY23E earnings, which leaves little upside on the stock. We roll forward our valuation from FY22 to FY23E and value the stock Rs 3,204 (16x FY23E core EPS + cash + KTM stake).

### Quicker recovery expected in domestic 2W

Q1FY21 has been an extremely challenging quarter, volume fell 65% YoY due to the unprecedented COVID-19 pandemic. However, 2W retail sales have recovered quickly from the month of June led by (contd.)

### Q1FY21 Result (Rs Mn)

| Particulars       | Q1FY21 | Q1FY20 | YoY (%) | Q4FY20 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue           | 30,792 | 77,558 | (60.3)  | 68,159 | (54.8)  |
| Total Expense     | 26,707 | 65,576 | (59.3)  | 55,631 | (52.0)  |
| EBITDA            | 4,085  | 11,982 | (65.9)  | 12,528 | (67.4)  |
| Depreciation      | 638    | 601    | 6.1     | 633    | 0.8     |
| EBIT              | 3,447  | 11,381 | (69.7)  | 11,895 | (71.0)  |
| Other Income      | 3,379  | 4,413  | (23.4)  | 5,327  | (36.6)  |
| Interest          | 10     | 5      | 75.9    | 9      | 4.4     |
| EBT               | 6,817  | 15,788 | (56.8)  | 17,212 | (60.4)  |
| Tax               | 1,536  | 4,531  | (66.1)  | 4,109  | (62.6)  |
| RPAT              | 5,280  | 11,257 | (53.1)  | 13,103 | (59.7)  |
| APAT              | 5,280  | 11,257 | (53.1)  | 13,103 | (59.7)  |
|                   |        |        | (bps)   |        | (bps)   |
| Gross Margin (%)  | 32.9   | 28.3   | 462     | 31.6   | 133     |
| EBITDA Margin (%) | 13.3   | 15.4   | (218)   | 18.4   | (511)   |
| NPM (%)           | 17.1   | 14.5   | 263     | 19.2   | (208)   |
| Tax Rate (%)      | 22.5   | 28.7   | (616)   | 23.9   | (134)   |
| EBIT Margin (%)   | 11.2   | 14.7   | (348)   | 17.5   | (626)   |

|                 |               |
|-----------------|---------------|
| CMP             | Rs 2,985      |
| Target / Upside | Rs 3,204 / 7% |
| BSE Sensex      | 37,903        |
| NSE Nifty       | 11,133        |

### Script Details

|                  |                    |
|------------------|--------------------|
| Equity / FV      | Rs 2,894mn / Rs 10 |
| Market Cap       | Rs 864bn           |
|                  | USD 12bn           |
| 52-week High/Low | Rs 3,315/Rs 1,789  |
| Avg. Volume (no) | 9,73,772           |
| NSE Symbol       | BAJAJ-AUTO         |
| Bloomberg Code   | BJAUT IN           |

### Shareholding Pattern Jun'20(%)

|                 |      |
|-----------------|------|
| Promoters       | 53.7 |
| MF/Banks/FIs    | 10.1 |
| FII             | 13.9 |
| Public / Others | 22.3 |

### Valuation (x)

|           | FY21E | FY22E | FY23E |
|-----------|-------|-------|-------|
| P/E       | 19.7  | 16.8  | 15.6  |
| EV/EBITDA | 18.5  | 15.1  | 13.6  |
| ROE (%)   | 19.2  | 18.9  | 18.6  |
| RoACE (%) | 18.9  | 18.7  | 18.4  |

### Estimates (Rs mn)

|           | FY21E    | FY22E    | FY23E    |
|-----------|----------|----------|----------|
| Revenue   | 2,71,355 | 3,09,245 | 3,35,251 |
| EBITDA    | 43,791   | 52,314   | 56,496   |
| PAT       | 43,877   | 51,303   | 55,505   |
| EPS (Rs.) | 151.6    | 177.3    | 191.8    |

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1) Pent up demand 2) Preference for personal vehicles, 2) increasing traction from home delivery business and 3) improvement in rural sentiments. Motorcycle demand is back to 80-85% of normal levels in July for domestic markets. Rural and semi-rural markets are outperforming urban regions due to good crop season and less impact of Covid-19. As incomes are affected due to the pandemic, downtrading is being witnessed, which may push up growth in the entry-level bike segment, Bajaj auto has two strong brands, Platina and CT, in this segment, which will help it to gain market share.

### Improving outlook for Exports but 3W domestic business to remain weak

The export volume outlook is improving with recovery of 2W back to 75-85% of normal level and CV back to 75% in different overseas markets. Exports volume performance could be volatile due to Covid-19 crisis and fluctuation in crude oil prices. However, we believe the company will continue to gain market share in export market led by superior product offerings, better distribution network, lean cost structure due to high economies of scale and higher resale value. 3W business is under pressure with higher impact than motorcycles, which has a cascading impact on the financiers who fear default rates to go higher due to NPAs.

### Exhibit 1: Actual vs DART Estimates

| Particulars (Rs mn)      | Actual      | Dart Estimates | Variance      | Comments              |
|--------------------------|-------------|----------------|---------------|-----------------------|
| Revenue                  | 30,792      | 32,472         | (5)           |                       |
| EBIDTA                   | 4,085       | 3,884          | 5             |                       |
| <b>EBIDTA Margin (%)</b> | <b>13.3</b> | <b>12.0</b>    | <b>131bps</b> | Cost control measures |
| PAT                      | 5,280       | 6,143          | (14)          | Lower other income    |

Source: Company, DART

### Exhibit 2: Change in estimates

| Rs Mn                   | FY21E    |          |          | FY22E    |          |          |
|-------------------------|----------|----------|----------|----------|----------|----------|
|                         | New      | Previous | % Change | New      | Previous | % Change |
| Net sales               | 2,71,355 | 2,84,852 | (4.7)    | 3,09,245 | 3,11,151 | (0.6)    |
| EBITDA                  | 43,791   | 45,931   | (4.7)    | 52,314   | 52,337   | (0.0)    |
| <i>EBITDA margin(%)</i> | 16.1     | 16.1     | 1.3bps   | 16.9     | 16.8     | (10)bps  |
| APAT                    | 43,877   | 45,625   | (3.8)    | 51,303   | 51,146   | 0.3      |
| EPS                     | 152.0    | 158.1    | (3.8)    | 177.3    | 176.7    | 0.3      |

Source: Company, DART

### Exhibit 3: Key Assumptions

| (in units)         | FY19             | FY20             | FY21E            | FY22E            | FY23E            |
|--------------------|------------------|------------------|------------------|------------------|------------------|
| 2W                 | 42,36,873        | 39,77,846        | 33,99,699        | 38,13,141        | 40,22,996        |
| % YoY              | 25.7             | (6.1)            | (14.5)           | 12.2             | 5.5              |
| 3W                 | 7,77,603         | 6,67,644         | 4,72,733         | 5,45,186         | 5,83,084         |
| % YoY              | 22.3             | (14.1)           | (29.2)           | 15.3             | 7.0              |
| <b>Total Sales</b> | <b>50,14,476</b> | <b>46,45,490</b> | <b>38,72,432</b> | <b>43,58,327</b> | <b>46,06,080</b> |
| % YoY              | 25.2             | (7.4)            | (16.6)           | 12.5             | 5.7              |

Source: DART, Company

### Exhibit 4: Peer Valuation

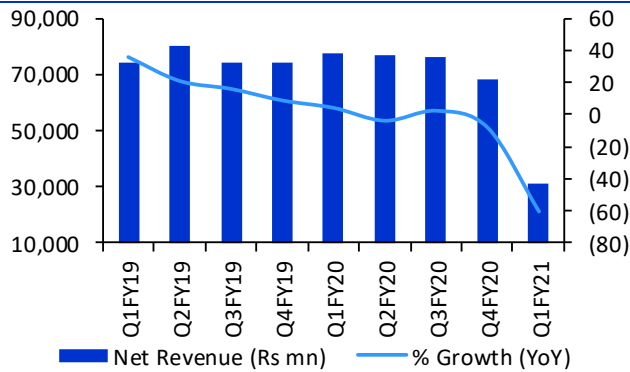
| Company           | Mcap       |               | Adj EPS (Rs/sh) |            |            | P/E (X)     |             |             | EV/EBITDA (X) |             |             | ROE (%)     |             |             |
|-------------------|------------|---------------|-----------------|------------|------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|
|                   | (Rs Bn)    | Rating        | FY21E           | FY22E      | FY23E      | FY21E       | FY22E       | FY23E       | FY21E         | FY22E       | FY23E       | FY21E       | FY22E       | FY23E       |
| Eicher Motors     | 542        | Reduce        | 441             | 724        | 874        | 45.0        | 27.4        | 22.7        | 28.8          | 18.2        | 15.2        | 11.5        | 16.9        | 17.8        |
| <b>Bajaj Auto</b> | <b>863</b> | <b>Reduce</b> | <b>152</b>      | <b>177</b> | <b>192</b> | <b>19.6</b> | <b>16.8</b> | <b>15.5</b> | <b>19.7</b>   | <b>16.5</b> | <b>15.3</b> | <b>19.2</b> | <b>18.9</b> | <b>18.6</b> |
| Hero Motocorp     | 554        | Reduce        | 117             | 158        | 176        | 23.7        | 17.6        | 15.8        | 15.2          | 11.1        | 9.7         | 15.5        | 18.8        | 19.3        |
| TVS Motor         | 189        | Sell          | 8               | 15         | 19         | 50.2        | 26.7        | 21.1        | 17.3          | 12.1        | 10.2        | 10.0        | 17.1        | 19.0        |

Source: DART, Company

## Key Concall Highlights

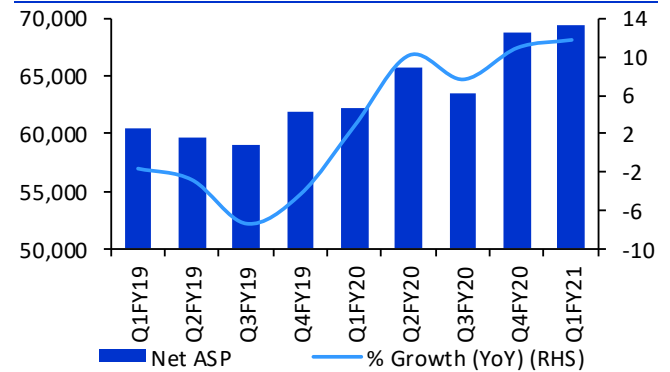
- Management is observing a faster recovery in 2W retail sales led by – 1) pent up demand, 2) increasing preference for personal mobility and 3) improvement in rural sentiments.
- The company has restarted operations at all its plants, however, frequent lockdowns at district levels is impacting supply chain and resumption of normalcy affecting retail numbers. Supply chain is back to 65-70% of normal capacity.
- While domestic motorcycle sales in April'20 was nil and impacted majority of May, Bajaj auto witnessed decent recovery in June. For Q1, Bajaj Auto volumes decline 70% YoY vs industry decline of 73%. Motorcycle demand is back to 80-85% of normal levels in July for domestic and export markets.
- In Q1FY21, Pulsar (including the new 125cc) attributes to 50% of motorcycle portfolio, which was at 40% earlier.
- Motorcycle inventory is below 30 days and company is increasing inventory with resumption of supply chain.
- Overall share in the domestic motorcycle market was 20.7% as against 18.5% in FY20.
- Decline in CV market share was largely attributed to lack of commuting demand due to the pandemic which led to a reduction of segment contribution of small three-wheeler passenger carrier (-23% in Q1FY21 vs -44% in FY20). 3w recovery in domestic market is at 20% and at 75% in the international market.
- 3w business has been impacted more than motorcycles which has a cascading impact on the financiers who fear default rates to go higher due to NPAs. However, 3w cargo demand is restoring at a swifter pace due to renewed demand for intra city transport vehicles.
- In value terms, exports were US\$ 217mn (~Rs 16.51bn) reporting decline in volume of 54% YoY. By regions, Africa recorded a decline of 50%, SAME of 63%, LATAM of 63% and ASEAN recorded a decline of 67% in Q1FY21.
- SAME and LATAM markets are ahead of ASEAN regions in recovery. Nigeria sales are back to 75%, Philippines and Colombia at 80% of normal level for motorcycles.
- Realization per US\$ was ~Rs 75.6 in Q1FY21 vs ~Rs 72.1 in Q4FY20. Forex transactions currently in the market. Expect Rupee to strengthen from this point.
- KTM demand has bounced back very well and expect share of loss to drastically decline in Q2.
- Bajaj has taken small price increases. No further cost increase is anticipated except due to rise in noble metal prices.
- Company has resorted to several cost control measures and curtailed marketing and advertisement spends. Commodity prices have been adverse due to rise of noble metal prices. Domestic motorcycle margins are expected to improve.
- Import content is in low single digits and the company is considering alternate domestic sourcing options.
- Bajaj Auto is reducing dependence on Bajaj Finance. HDFC Bank has been newly empaneled as financiers for motorcycles.
- Cash and cash equivalents stood at Rs 142.32bn at the end of Q1FY21 vs Rs 143.22bn at FY20 end.

**Exhibit 5: Net Revenue declined 60% YoY**



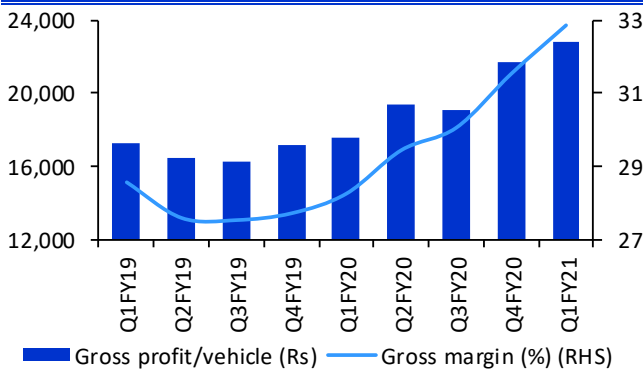
Source: DART, Company

**Exhibit 6: Net ASP grew 11.7% YoY**



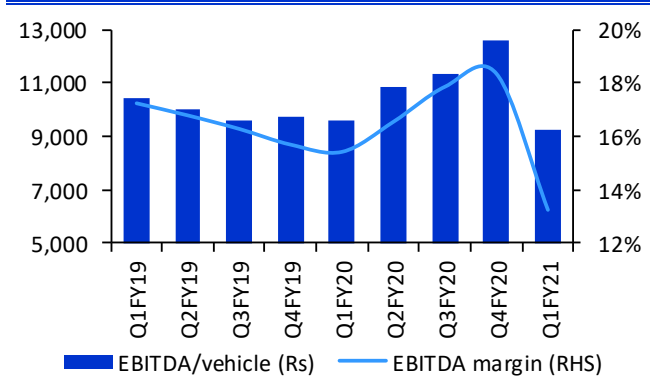
Source: DART, Company

**Exhibit 7: Gross Margin Improved QoQ/YoY**



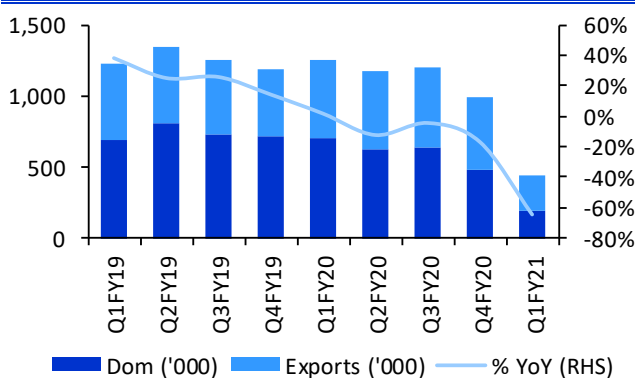
Source: DART, Company

**Exhibit 8: EBITDA Margin declined QoQ/YoY**



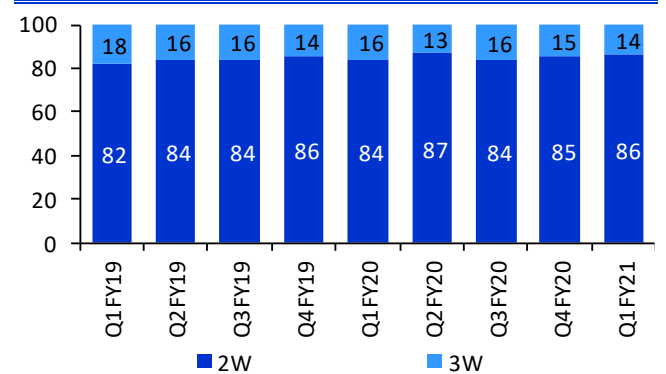
Source: DART, Company

**Exhibit 9: Export Volume Mix Was favorable**



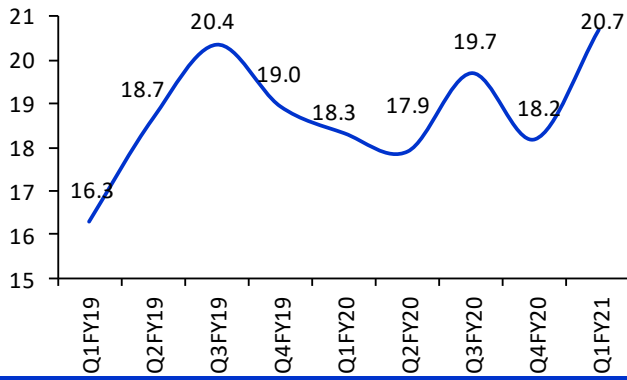
Source: DART, Company

**Exhibit 10: Sales Mix was Unfavorable**



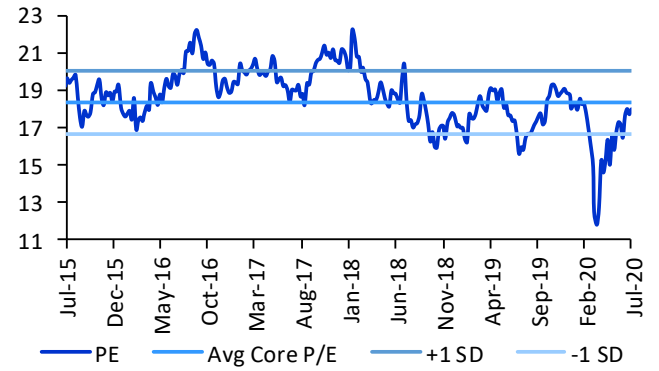
Source: DART, Company

**Exhibit 11: Motorcycle market share (%)**



Source: DART, Company

**Exhibit 12: 1 Year Fwd P/E Band-Trading at average PE**



Source: DART, Company

**Profit and Loss Account**

| (Rs Mn)                                | FY20A           | FY21E           | FY22E           | FY23E           |
|--|-----------------|-----------------|-----------------|-----------------|
| <b>Revenue</b>                         | <b>2,99,187</b> | <b>2,71,355</b> | <b>3,09,245</b> | <b>3,35,251</b> |
| <b>Total Expense</b>                   | <b>2,48,224</b> | <b>2,27,565</b> | <b>2,56,932</b> | <b>2,78,755</b> |
| COGS                                   | 2,10,083        | 1,92,192        | 2,16,892        | 2,35,149        |
| Employees Cost                         | 13,892          | 14,042          | 16,361          | 18,242          |
| Other expenses                         | 24,249          | 21,331          | 23,678          | 25,363          |
| <b>EBIDTA</b>                          | <b>50,962</b>   | <b>43,791</b>   | <b>52,314</b>   | <b>56,496</b>   |
| Depreciation                           | 2,464           | 2,587           | 2,553           | 2,622           |
| <b>EBIT</b>                            | <b>48,498</b>   | <b>41,204</b>   | <b>49,760</b>   | <b>53,874</b>   |
| Interest                               | 0               | 0               | 0               | 0               |
| Other Income                           | 17,483          | 17,732          | 19,284          | 20,827          |
| Exc. / E.O. items                      | 0               | 0               | 0               | 0               |
| <b>EBT</b>                             | <b>65,981</b>   | <b>58,935</b>   | <b>69,044</b>   | <b>74,701</b>   |
| Tax                                    | 14,802          | 15,058          | 17,742          | 19,195          |
| RPAT                                   | 51,178          | 43,877          | 51,303          | 55,505          |
| Minority Interest                      | 0               | 0               | 0               | 0               |
| <b>Profit/Loss share of associates</b> | <b>0</b>        | <b>0</b>        | <b>0</b>        | <b>0</b>        |
| <b>APAT</b>                            | <b>51,178</b>   | <b>43,877</b>   | <b>51,303</b>   | <b>55,505</b>   |

**Balance Sheet**

| (Rs Mn)                       | FY20A           | FY21E           | FY22E           | FY23E           |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Sources of Funds</b>       |                 |                 |                 |                 |
| Equity Capital                | 2,894           | 2,894           | 2,894           | 2,894           |
| Minority Interest             | 0               | 0               | 0               | 0               |
| Reserves & Surplus            | 1,96,361        | 2,55,336        | 2,80,586        | 3,10,037        |
| <b>Net Worth</b>              | <b>1,99,255</b> | <b>2,58,230</b> | <b>2,83,479</b> | <b>3,12,930</b> |
| Total Debt                    | 0               | 0               | 0               | 0               |
| Net Deferred Tax Liability    | 3,464           | 3,745           | 3,875           | 4,342           |
| <b>Total Capital Employed</b> | <b>2,02,719</b> | <b>2,61,975</b> | <b>2,87,354</b> | <b>3,17,272</b> |

**Applications of Funds**

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Net Block   | 16,990          | 18,296          | 19,122          | 20,550          |
| CWIP  | 602             | 500             | 500             | 500             |
| Investments                                       | 1,81,960        | 1,87,519        | 1,94,190        | 2,02,196        |
| <b>Current Assets, Loans &amp; Advances</b>       | <b>48,181</b>   | <b>1,03,588</b> | <b>1,30,077</b> | <b>1,59,224</b> |
| Inventories                                       | 10,635          | 8,178           | 9,320           | 10,103          |
| Receivables                                       | 17,251          | 18,586          | 21,181          | 22,962          |
| Cash and Bank Balances                            | 3,083           | 52,005          | 72,095          | 97,388          |
| Loans and Advances                                | 7,203           | 14,110          | 16,081          | 17,433          |
| Other Current Assets                              | 10,009          | 10,709          | 11,400          | 11,337          |
| <b>Less: Current Liabilities &amp; Provisions</b> | <b>45,014</b>   | <b>47,929</b>   | <b>56,534</b>   | <b>65,199</b>   |
| Payables  | 31,997          | 28,679          | 32,380          | 35,131          |
| Other Current Liabilities                         | 13,017          | 19,249          | 24,154          | 30,068          |
| sub total   |                 |                 |                 |                 |
| Net Current Assets                                | 3,167           | 55,660          | 73,542          | 94,026          |
| <b>Total Assets</b>                               | <b>2,02,719</b> | <b>2,61,975</b> | <b>2,87,355</b> | <b>3,17,272</b> |

E – Estimates

**Important Ratios**

| Particulars                               | FY20A        | FY21E        | FY22E        | FY23E        |
|---|--------------|--------------|--------------|--------------|
| <b>(A) Margins (%)</b>                    |              |              |              |              |
| Gross Profit Margin                       | 29.8         | 29.2         | 29.9         | 29.9         |
| EBIDTA Margin                             | 17.0         | 16.1         | 16.9         | 16.9         |
| EBIT Margin                               | 16.2         | 15.2         | 16.1         | 16.1         |
| Tax rate                                  | 22.4         | 25.5         | 25.7         | 25.7         |
| Net Profit Margin                         | 17.1         | 16.2         | 16.6         | 16.6         |
| <b>(B) As Percentage of Net Sales (%)</b> |              |              |              |              |
| COGS                                      | 70.2         | 70.8         | 70.1         | 70.1         |
| Employee                                  | 4.6          | 5.2          | 5.3          | 5.4          |
| Other                                     | 8.1          | 7.9          | 7.7          | 7.6          |
| <b>(C) Measure of Financial Status</b>    |              |              |              |              |
| Gross Debt / Equity                       | 0.0          | 0.0          | 0.0          | 0.0          |
| Interest Coverage                         |              |              |              |              |
| Inventory days                            | 13           | 11           | 11           | 11           |
| Debtors days                              | 21           | 25           | 25           | 25           |
| Average Cost of Debt                      |              |              |              |              |
| Payable days                              | 39           | 39           | 38           | 38           |
| Working Capital days                      | 4            | 75           | 87           | 102          |
| FA T/O                                    | 17.6         | 14.8         | 16.2         | 16.3         |
| <b>(D) Measures of Investment</b>         |              |              |              |              |
| AEPS (Rs)                                 | 176.9        | 151.6        | 177.3        | 191.8        |
| CEPS (Rs)                                 | 185.4        | 160.6        | 186.1        | 200.9        |
| DPS (Rs)                                  | 65.0         | 70.0         | 75.0         | 76.0         |
| Dividend Payout (%)                       | 36.7         | 46.2         | 42.3         | 39.6         |
| BVPS (Rs)                                 | 688.6        | 892.5        | 979.7        | 1081.5       |
| RoANW (%)                                 | 24.5         | 19.2         | 18.9         | 18.6         |
| RoACE (%)                                 | 24.0         | 18.9         | 18.7         | 18.4         |
| RoAIC (%)                                 | 23.4         | 20.1         | 23.4         | 24.8         |
| <b>(E) Valuation Ratios</b>               |              |              |              |              |
| CMP (Rs)                                  | 2985         | 2985         | 2985         | 2985         |
| P/E                                       | 16.9         | 19.7         | 16.8         | 15.6         |
| Mcap (Rs Mn)                              | 8,63,803     | 8,63,803     | 8,63,803     | 8,63,803     |
| MCap/ Sales                               | 2.9          | 3.2          | 2.8          | 2.6          |
| EV  | 8,60,720     | 8,11,798     | 7,91,708     | 7,66,415     |
| EV/Sales                                  | 2.9          | 3.0          | 2.6          | 2.3          |
| EV/EBITDA                                 | 16.9         | 18.5         | 15.1         | 13.6         |
| P/BV                                      | 4.3          | 3.3          | 3.0          | 2.8          |
| Dividend Yield (%)                        | 2.2          | 2.3          | 2.5          | 2.5          |
| <b>(F) Growth Rate (%)</b>                |              |              |              |              |
| Revenue                                   | (1.1)        | (9.3)        | 14.0         | 8.4          |
| EBITDA                                    | 2.3          | (14.1)       | 19.5         | 8.0          |
| EBIT                                      | 2.8          | (15.0)       | 20.8         | 8.3          |
| PBT                                       | (1.6)        | (10.7)       | 17.2         | 8.2          |
| APAT                                      | 18.1         | (14.3)       | 16.9         | 8.2          |
| EPS                                       | 18.1         | (14.3)       | 16.9         | 8.2          |
| <b>Cash Flow</b>                          |              |              |              |              |
| <b>(Rs Mn)</b>                            | <b>FY20A</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
| CFO                                       | 38,617       | 43,500       | 56,386       | 62,839       |
| CFI                                       | 17,545       | 46,349       | 7,871        | 8,468        |
| CFF                                       | (62,466)     | (24,316)     | (26,053)     | (26,054)     |
| FCFF                                      | 36,681       | 39,709       | 53,006       | 58,789       |
| Opening Cash                              | 1,88,595     | 1,72,710     | 2,27,191     | 2,53,952     |
| Closing Cash                              | 1,72,710     | 2,27,191     | 2,53,952     | 2,87,251     |

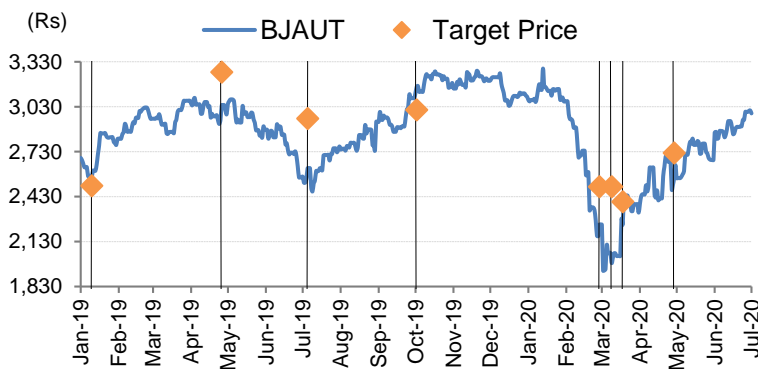
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

|                   |                  |
|-------------------|------------------|
| <b>Buy</b>        | <b>&gt; 20%</b>  |
| <b>Accumulate</b> | <b>10 to 20%</b> |
| <b>Reduce</b>     | <b>0 to 10%</b>  |
| <b>Sell</b>       | <b>&lt; 0%</b>   |

### Rating and Target Price History



| Month  | Rating     | TP (Rs.) | Price (Rs.) |
|--------|------------|----------|-------------|
| Jan-19 | Sell       | 2,502    | 2,555       |
| May-19 | Reduce     | 3,260    | 3,040       |
| Jul-19 | Accumulate | 2,950    | 2,619       |
| Oct-19 | Sell       | 3,008    | 3,163       |
| Mar-20 | Accumulate | 2,495    | 2,242       |
| Mar-20 | Accumulate | 2,495    | 1,987       |
| Apr-20 | Reduce     | 2,395    | 2,242       |
| May-20 | Reduce     | 2,721    | 2,558       |

\*Price as on recommendation date

### DART Team

|                          |                          |                                |                        |
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