

Weaker rupee lifts margin performance

Bajaj Auto (BAL) reported healthy Q1FY21 results. Net revenues came in at ₹ 3,079 crore (down 60.3% YoY) tracking higher-than-expected blended ASPs, which were at ₹ 69,493/unit (up 6.9% YoY). Total volumes were down 64.5% YoY to 4.4 lakh units (2-W volumes 4.0 lakh units, down 63% YoY; 3-W volumes 43,174 units, down 73.8% YoY). Total exports were at 2.5 lakh units, down 54% YoY. Reported EBITDA margins came in at 13.3% (down 511 bps QoQ) amid gross margin expansion of 130 bps (including impact of forex gains). Consequent reported PAT was down 53.1% YoY at ₹ 528 crore. At the consolidated level, share of loss from KTM amounted to ₹ 132 crore.

Mixed trends in domestic business segments

Post announcement of nationwide unlock, the 2-W segment is leading other automotive segments (ex-tractors), along expected lines. June-July retail volumes are at ~60% of pre-Covid levels, supported by greater traction in rural geographies due to (i) relatively lower Covid-19 outbreak shock in these regions, (ii) relatively firmer incomes after a good rabi harvest & remunerative crop prices, (iii) preference for affordable personal transport amid heightened awareness around social distancing, (iv) ongoing normal progress of monsoon 2020. BAL, as the second-largest domestic motorcycle manufacturer (18.5% market share in FY20), would be among beneficiaries of these industry tailwinds. Domestic 3-W segment, however, would be a point of concern (June industry retail volumes down 75% YoY) given prevalent worries over public transport and still severely curtailed level of economic activity. We build -4.6% domestic volume CAGR in FY20-22E, factoring in gradual uptick in both business segments over the rest of FY21E.

Exports performance key to ASPs, margins

Exports volumes at 42% of total volumes in FY20 represented a four year high. While motorcycle volumes rose 10.2% YoY for FY20, 3-W volumes declined 21.2% largely on account of vehicle permit related issue in Egypt – with blended ASPs dipping 1.2% YoY to ~₹ 56,269/unit as a result. Amid general sluggishness in domestic operations (especially 3-W), rebound in export volumes and product mix would hold key to limiting overall damage in total ASPs and margins at BAL. We build in 16.4% margins for FY21E, post which they are seen improving to 17.6% levels in FY22E.

Valuation & Outlook

For BAL, sales, PAT are expected to be largely flattish on a CAGR basis in FY20-22E with de-growth in FY21E being followed by healthy growth in FY22E. We value BAL at a revised target price of ₹ 3,210 using SOTP method (valuing core business at 18x FY22E EPS and assigning 2x P/B on KTM investment). We continue to assign **HOLD** rating to the stock. We derive comfort from debt free, cash rich B/S, capital efficient business model and robust cash flow generation.

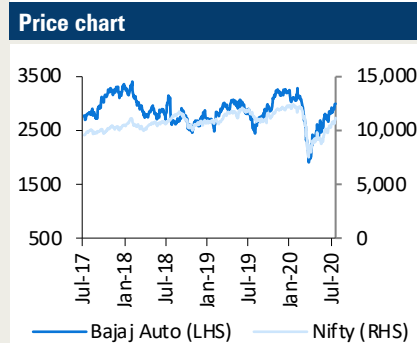
Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	25,164.9	30,250.0	29,918.6	25,004.4	30,461.2	0.9%
EBITDA	4,783.4	4,982.0	5,096.2	4,091.7	5,358.1	2.5%
EBITDA Margins (%)	19.0	16.5	17.0	16.4	17.6	
Net Profit	4,068.1	4,675.1	5,100.0	3,962.0	5,022.0	-0.8%
EPS (₹)	140.6	161.6	176.2	136.9	173.5	
P/E	21.2	18.5	16.9	21.8	17.2	
RoNW (%)	21.5	19.9	25.6	17.9	20.2	
RoCE (%)	22.9	21.0	23.8	23.3	26.6	

Source: ICICI Direct Research, Company



Particulars	
Particular	₹ crore
Market Capitalization	86,376.9
Total Debt (FY 20)	125.6
Cash & Liquid Inv. (FY 20)	17,271.0
EV	69,231.5
52 week H/L (₹)	3315 / 1793
Equity capital (₹)	289.4
Face value (₹)	₹ 10



Key Highlights

- Revenues fall 60.3% YoY in Q1FY21 tracking 64.5% YoY drop in total volumes to 4.4 lakh units
- Gross margin expansion on the back of ₹ 77 crore forex gains limited sequential margin decline to 13.3%
- Domestic 2-W recovery on track, although 3-W segment is lagging far behind. Rebound on exports front would be key to uptick in ASPs and margins, going forward
- Maintain HOLD with revised target price of ₹ 3,210/share, valuing core business at 18x FY22E EPS

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	3,079	2,971	7,756	-60.3	6,816	-54.8	Topline came in ahead of estimates tracking beat on ASP's in the export market due to INR depreciation. Blended ASP for the quarter stood at ₹ 69.5k/unit
Raw Material Expenses	2,067	2,105	5,564	-62.9	4,665	-55.7	RM costs came in lower given currency benefits, adjusting for which RM costs for the quarter stood at ~69.6% of sales
Employee Expenses	337	319	361	-6.5	342	-1.4	Employee costs was on expected lines
Other Expenses	269	290	639	-58.0	561	-52.2	
EBITDA	408.5	260.4	1,198.2	-65.9	1,252.8	-67.4	EBITDA for the quarter came in substantially higher tracking currency benefits as well as cost savings initiatives undertaken by the company
EBITDA Margin (%)	13.3	8.8	15.4	-218 bps	18.4	-511 bps	
Other Income	337.9	353.8	441.3	-23.4	532.7	-36.6	Other income came in on expected lines
Depreciation	63.8	65.8	60.1	6.1	63.3	0.8	
Interest	1	0	1	NA	1	NA	
Total Tax	154	138	453	-66.1	411	-62.6	Tax rate came in marginally lower at 22.5%
Reported PAT	528.0	410.0	1125.7	-53.1	1310.3	-59.7	
EPS (₹)	18.2	14.2	38.9	-53.1	45.3	-59.7	PAT came in higher tracking beat on ASP's as well as EBITDA margins, partially supported by lower tax arte
Key Metrics							
Revenue (₹ crore)							
Domestic	1,298	1,410	4,515	-71.3	3,711	-65.0	Domestic revenues came in lower than estimates
Exports	1,651	1,488	3,050	-45.9	2,900	-43.1	Exports revenues came in ahead of estimates
Blended ASP (₹/ unit)							
Domestic	67,840	73,728	64,764	4.7	77,608	-12.6	Domestic ASP's came in lower at ~₹ 68k/unit
Exports	65,557	59,089	55,452	18.2	56,442	16.2	Export ASP's came in substantially higher at ~₹ 66k/unit tracking sharp depreciation of INR vs. USD

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	27,034	25,004	-7.5	31,161	30,461	-2.2	Downward revision in sales volume estimates, particularly in the 3-W segment, leads to single digit decline in our sales value estimates for Bajaj Auto over FY 21-22E
EBITDA	3,991	4,092	2.5	4,973	5,358	7.7	
EBITDA Margin (%)	14.8	16.4	156 bps	16.0	17.6	159 bps	Costs initiatives as well as calibrated price hike undertaken by the company amidst supportive currency leads to upward revision in our margin estimates
PAT	3,902	3,962	1.5	4,690	5,022	7.1	
EPS (₹)	134.9	136.9	1.5	162.1	173.5	7.1	Earnings get upgrades tracking upward revision in margin estimates partially limited by decline in sales value

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
Units (m n)	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Motorcycle volumes	3.4	4.2	3.9	3.2	3.8	3.3	3.8
Three-Wheeler volumes	0.6	0.8	0.7	0.4	0.5	0.5	0.6
Quadricycle volumes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total volumes	4.0	5.0	4.6	3.6	4.3	3.9	4.4
Export volumes	1.7	2.1	2.2	1.7	2.1	1.8	2.1
Domestic revenues (₹ cror	15,396	18,099	17,169	13,386	16,406	15,917	18,364
Export revenues (\$ mn)	1,400	1,642	1,677	1,460	1,756	1,415	1,617
US\$INR Realisation rate	67	70	71	74	75	73	74
Export ASP (\$/unit)	872	790	772	848	856	776	787
Blended ASP (₹/unit)	62,640	58,905	63,077	67,979	69,198	67,764	68,785

Source: ICICI Direct Research

Conference call highlights

Management outlook and demand

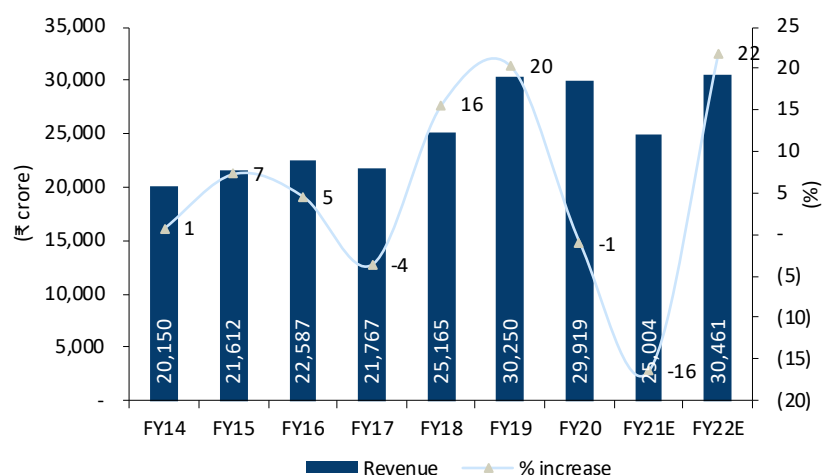
- The management said that domestic 2-W demand is recovering well, with retail prints for the first half of July 2020 at ~80-85% of last year's levels. The trend is similar in export markets (i.e. 80-85% on average), with Latin America and Asean countries leading the pack. Total 3-W exports are ~10% lower than 2-W exports on average. However, domestic 3-W demand is only at ~20% of last year's levels
- Going forward, the management is confident that a 2-W recovery is close. However, the 3-W segment (ex-cargo) is lagging far behind
- The company said it is witnessing no meaningful trend of customer downtrading in its products post Covid-19. Its Pulsar family share in total sales volumes has improved from ~40% in Q4FY20 to ~50% in Q1FY21
- Present capacity utilisation is at ~65-70%, with motorcycle inventory at less than 30 days. Total 95% of 2-W and 84% of 3-W dealerships are now operational
- The company's electronic injection (EI) BS-VI variants in the commuter motorcycle segment have been well accepted in the marketplace

Margins and profitability

- Q1FY21 gross margins were at 69.6% excluding impact of forex gains (~₹ 77 crore). Commodity costs were adverse. Going forward, in the short term, gross margin per unit will contract given relatively lower share of high margin export sales, relatively lower share of 3-W as well as increasing share of relatively lower margin domestic 2-W segment. Increase of prices of noble metals globally is a margin headwind
- The company has taken calibrated price hikes in the domestic 2-W market to counter rise in input costs. **It said that BS-VI costs have been passed on but the gross margin component on the same has not yet been put through to customers**
- Export ASPs are expected to soften in the coming six months courtesy appreciating trend in rupee
- **The company realised ₹ 100 crore of benefits from cost reduction initiatives during the quarter**
- Import content is in single digit as a percentage of total input costs
- BAL expects to front load advertising and promotion expenses as demand revives, going forward
- KTM financials have improved substantially in April-June 2020 (consolidated with a quarter's lag). Hence, share of loss from it is expected to go down, going forward

Financial story in charts

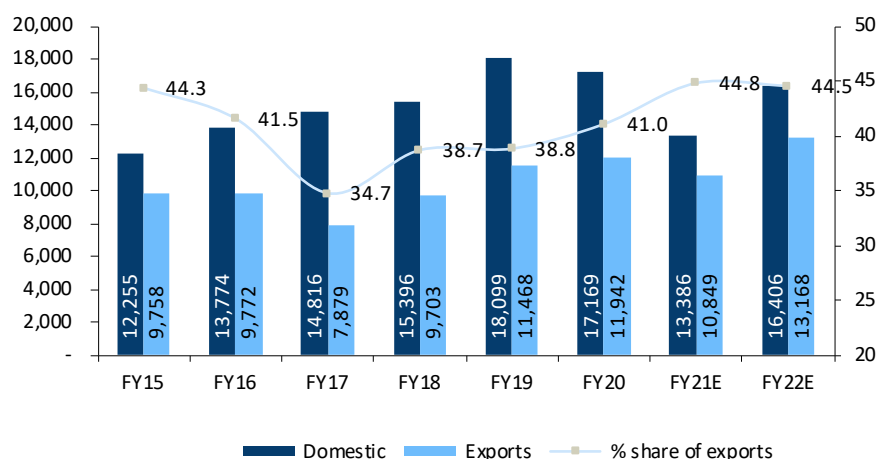
Exhibit 4: Total operating income trend



We expect total operating income to be flattish over FY20-22E. It includes volume de-growth CAGR of 3.8% over the aforesaid period

Source: Company, ICICI Direct Research

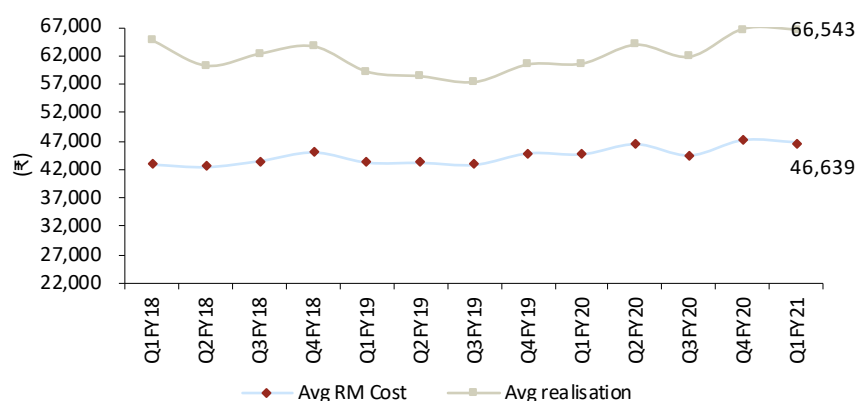
Exhibit 5: Revenue mix



Revenue mix expected to evolve in favour of exports given continued weakness in domestic 3-W space

Source: Company, ICICI Direct Research

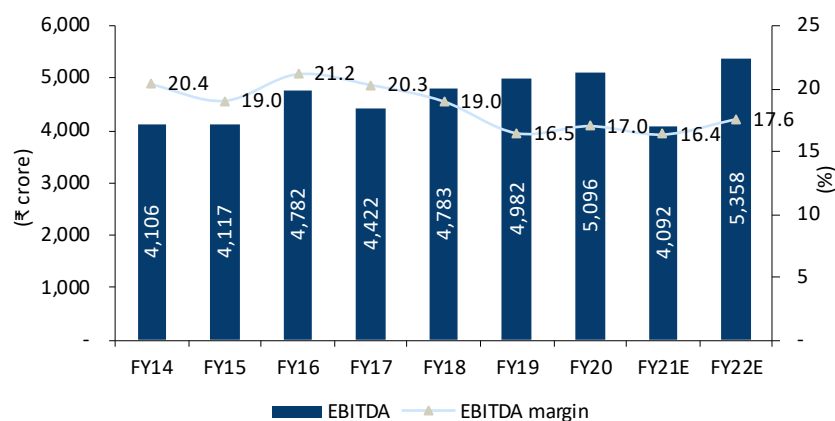
Exhibit 6: Per vehicle metrics and estimates



ASPs for the quarter were at ~₹ 66,543/unit (on net sales basis)

Source: Company, ICICI Direct Research

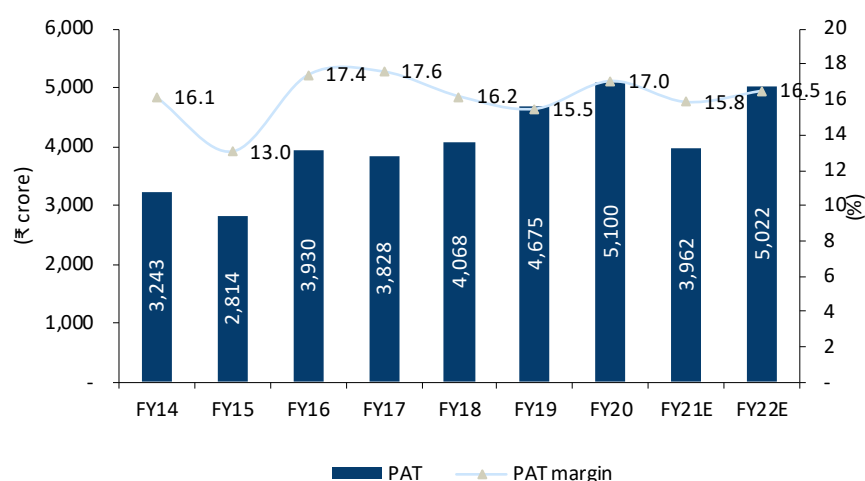
Exhibit 7: EBITDA trend and margin profile



EBITDA margins seen softening towards 16.4% in FY21E following difficulty in passing on margin component of BS-VI products as well as adverse product mix. Volume support in FY22E is seen leading to return to 17.6% margin levels

Source: Company, ICICI Direct Research

Exhibit 8: Profitability trend



PAT seen remaining flattish over FY20-22E at ₹ 5,022 crore

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

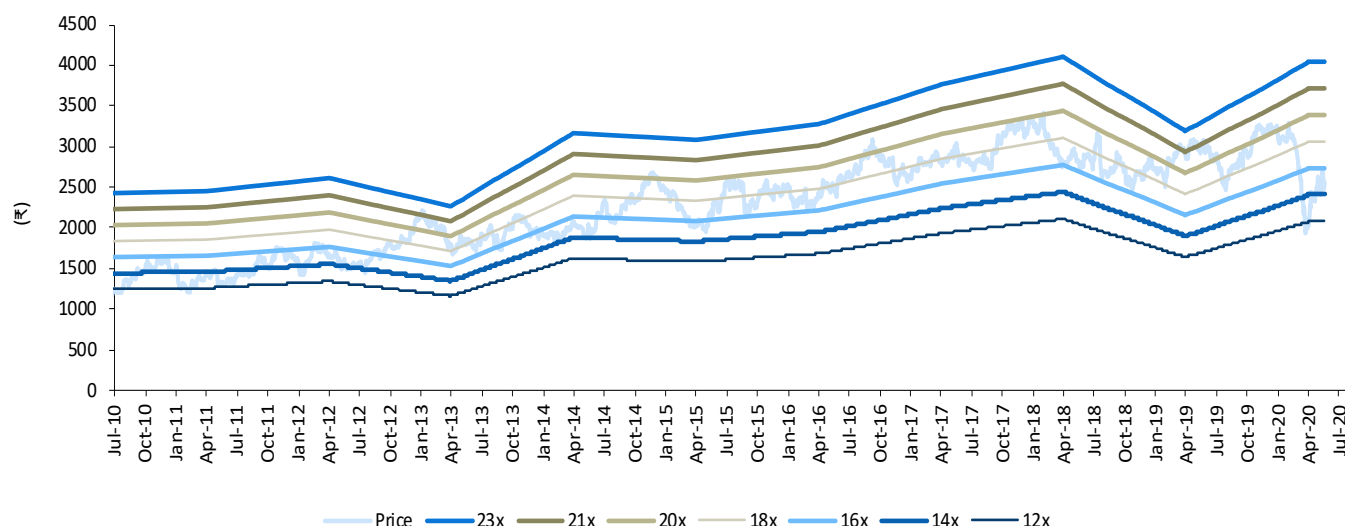
	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 18	25,164.9	15.6	140.6	6.3	21.2	14.8	21.5	22.9
FY 19	30,250.0	20.2	161.6	14.9	18.5	13.6	19.9	21.0
FY 20E	29,918.6	(1.1)	176.2	9.1	16.9	13.6	25.6	23.8
FY 21E	25,004.4	-16.4	136.9	-22.3	21.8	16.4	17.9	23.3
FY 22E	30,461.2	21.8	173.5	26.8	17.2	12.0	20.2	26.6

Source: Bloomberg, ICICI Direct Research

Exhibit 10: SOTP valuation

SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY 22E EPS (₹)	173.5		
Multiple (x)	18.0		~15% premium to its long period averages and slightly ahead of its competition courtesy consistent out-performance on EBITDA margins
Value per share (₹)		3,125	
Stake in KTM (48%)			
KTM value derived back to Bajaj (₹ crore)	2440		2x of Invested Capital (₹ 1220 crore)
Value per share		85	
Total Value per Share (₹)		3,210	

Source: Bloomberg, ICICI Direct Research

Exhibit 11: BAL currently trades at ~17x its FY22E EPS


Source: Bloomberg, ICICI Direct Research

Exhibit 12: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	53.5	53.5	53.5	53.7	53.7
FII	15.7	14.1	13.9	13.9	13.7
DII	7.5	9.8	10.1	8.8	9.1
Others	23.3	22.6	22.5	23.6	23.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total operating Income	30250.0	29918.6	25004.4	30461.2	
Growth (%)	14.1	-1.1	-16.4	21.8	
Raw Material Expenses	21,824.4	21,008.3	17,432.0	21,182.5	
Employee Expenses	1,255.4	1,389.2	1,366.1	1,408.7	
Other expenses	2,218.3	2,454.9	2,138.2	2,542.5	
Total Operating Expenditure	25,268.0	24,822.4	20,912.6	25,103.2	
EBITDA	4982.0	5096.2	4091.7	5358.1	
Growth (%)	-14.3	2.3	-19.7	30.9	
Depreciation	265.7	246.4	262.5	289.4	
Interest	4.5	3.2	1.7	0.9	
Other Income	1,649.3	1,733.6	1,445.1	1,646.0	
PBT	6,361.1	6,580.2	5,272.6	6,713.9	
Total Tax	2,028.0	1,480.2	1,310.5	1,691.9	
PAT	4675.1	5100.0	3962.0	5022.0	
Growth (%)	14.9	9.1	-22.3	26.8	
EPS (₹)	161.6	176.2	136.9	173.5	

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	4,675.1	5,100.0	3,962.0	5,022.0	
Add: Depreciation	265.7	246.4	262.5	289.4	
(Inc)/dec in Current Assets	-1,871.0	1,054.4	372.2	-684.6	
Inc/(dec) in CL and Provisions	557.4	-569.6	-482.2	627.5	
CF from operating activities	3836.7	5783.6	4079.3	5338.5	
(Inc)/dec in Investments	-3,172.1	973.7	-2,000.0	-2,650.0	
(Inc)/dec in Fixed Assets	-142.9	-193.7	-215.0	-215.0	
Others	1,619.0	-217.9	-95.0	-95.0	
CF from investing activities	-1695.9	562.1	-2310.0	-2960.0	
Inc/(dec) in loan funds	3.8	1.1	-20.0	-20.0	
Dividend paid & dividend tax	-2,083.5	-4,166.9	-1,736.2	-2,315.0	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
CF from financing activities	-1999.8	-6956.5	-1772.0	-2349.8	
Net Cash flow	141.0	-610.8	-2.7	28.7	
Opening Cash	777.8	918.8	308.0	305.4	
Closing Cash	918.8	308.0	305.4	334.1	

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	289.4	289.4	289.4	289.4	
Reserve and Surplus	21,490.5	19,636.1	21,847.9	24,540.9	
Total Shareholders funds	21779.9	19925.5	22137.3	24830.3	
Total Debt	124.5	125.6	105.6	85.6	
Deferred Tax Liability	542.7	346.4	346.4	346.4	
Other non-current liabilities	1.1	0.8	0.8	0.8	
Total Liabilities	22506.7	20520.1	22721.9	25404.9	
Assets					
Gross Block	4,266.0	4,090.9	4,317.5	4,517.5	
Less: Acc Depreciation	2,521.8	2,435.0	2,697.6	2,986.9	
Net Block	1,744.2	1,655.9	1,619.9	1,530.5	
Capital WIP	11.5	46.5	20.0	20.0	
Total Fixed Assets	1755.7	1702.5	1639.9	1550.5	
Investments	19,159.4	18,196.3	20,246.3	22,946.3	
Inventory	961.5	1,063.5	822.1	1,001.5	
Debtors	2,559.7	1,725.1	1,712.6	2,086.4	
Loans and Advances	6.3	6.1	5.1	6.2	
Other current assets	1035.8	714.3	597.0	727.3	
Cash	918.8	308.0	305.4	334.1	
Total Current Assets	5,482.2	3,817.0	3,442.1	4,155.4	
Creditors	3,786.7	3,199.7	2,740.2	3,338.2	
Provisions	140.6	158.0	135.3	164.8	
Other current liabilities	575.4	347.3	290.3	353.6	
Total Current Liabilities	4,873.7	4,253.3	3,734.1	4,445.0	
Net Current Assets	608.5	-436.3	-291.9	-289.5	
Deferred Tax asset	0.0	0.0	0.0	0.0	
Application of Funds	22506.7	20520.1	22721.9	25404.9	

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	161.6	176.2	136.9	173.5
Cash EPS	170.7	184.8	146.0	183.5
BV	752.7	688.6	765.0	858.1
DPS	60.0	120.0	60.0	80.0
Cash Per Share	31.8	10.6	10.6	11.5
Operating Ratios (%)				
EBITDA Margin	16.5	17.0	16.4	17.6
PBT / Net sales	15.6	16.2	15.3	16.6
PAT Margin	15.5	17.0	15.8	16.5
Inventory days	11.6	13.0	12.0	12.0
Debtor days	30.9	21.0	25.0	25.0
Creditor days	45.7	39.0	40.0	40.0
Return Ratios (%)				
RoE	21.0	23.8	23.3	26.6
RoCE	19.9	25.6	17.9	20.2
RoIC	155.8	180.1	133.2	179.2
Valuation Ratios (x)				
Core P/E	19.9	16.9	21.8	17.2
EV / EBITDA	13.6	13.6	16.4	12.0
EV / Net Sales	2.2	2.3	2.7	2.1
Market Cap / Sales	2.9	2.9	3.5	2.8
Price to Book Value	4.0	4.3	3.9	3.5
Solvency Ratios				
Current Ratio	1.0	0.9	1.0	1.0
Quick Ratio	0.8	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Apollo Tyre (APOTYR)	110	100	Hold	6,292	8.3	2.4	7.6	13.2	46.3	14.4	6.3	6.0	4.7	4.8	3.5	6.1	4.8	1.2	4.3
Ashok Leyland (ASHLEY)	52	58	Hold	15,221	0.8	0.1	2.1	63.7	777.9	25.3	14.7	21.0	10.6	5.6	2.2	8.6	4.7	0.3	8.0
Bajaj Auto (BAAUTO)	2,985	3,210	Hold	86,377	176.2	136.9	173.5	16.9	21.8	17.2	13.6	16.4	12.0	23.8	23.3	26.6	25.6	17.9	20.2
Bharat Forge (BHAFOR)	387	300	Hold	18,018	7.5	0.0	10.0	51.6	NM	38.7	18.5	34.4	17.1	7.7	2.2	8.2	7.8	0.0	8.6
Eicher Motors (EICMOT)	19,880	18,070	Hold	54,193	670.4	495.4	690.9	29.7	40.1	28.8	23.0	28.9	20.4	22.5	15.9	19.1	18.3	12.2	14.9
Escorts (ESCORT)	1,204	1,020	Buy	14,759	39.6	40.8	50.3	30.4	29.5	23.9	20.4	20.1	16.1	18.9	13.3	14.2	14.2	10.1	11.1
Exide Industries (EXIIND)	158	170	Hold	13,430	9.7	8.1	9.7	16.3	19.5	16.4	9.7	10.3	8.7	16.7	13.8	15.2	13.4	10.3	11.4
Hero Moto (HERHON)	2,770	2,500	Hold	55,317	181.9	109.8	147.6	15.2	25.2	18.8	12.5	16.5	12.0	26.5	18.7	23.2	22.7	14.5	17.9
M&M (MAHMAH)	592	600	Buy	73,597	10.7	28.4	39.7	55.3	20.9	14.9	12.1	12.9	9.5	13.0	11.1	14.2	6.4	9.5	12.0
Maruti Suzuki (MARUTI)	6,000	4,650	Reduce	1,81,248	187.1	138.4	194.4	32.1	43.4	30.9	20.1	23.7	17.0	7.4	4.8	7.9	11.7	8.2	10.6
Minda Industries (MININD)	305	320	Buy	7,997	5.9	2.8	9.6	51.6	108.0	31.7	14.3	16.1	11.0	10.6	6.6	12.7	10.3	5.1	13.6
Tata Motors (TATMOT)	105	90	Hold	38,378	-32.8	-27.4	2.4	NM	NM	43.6	4.6	7.0	3.9	3.0	-0.1	7.2	-4.3	-12.3	8.5

Source: Reuters, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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