

# Bajaj Auto | Auto and Auto Components

Numbers bottomed out in Q1, heading towards recovery...

LKP

## Resilience displayed in pandemic hit quarter

Bajaj Auto posted a 61% yoy decline in the topline in COVID hit Q1, while they declined by 55% qoq. The volumes fell by 64.5% yoy and 55% qoq as there was a stringent lockdown observed in the earlier part of the quarter. Realizations grew by 9.8% yoy, which were very well supported by export realizations and a higher proportion of BS 6 vehicles. EBITDA declined by 66% yoy to ₹4.1 bn, while margins still showed a better performance at 13.3%, much better than street's expectations, though it was lower by 210 bps yoy. The overall underperformance stemming from weak macros was offset by cost savings and favourable foreign exchange. Better than expected operating performance led to PBT falling by 57% yoy to ₹6.8 bn, while PAT went down by 53% yoy, which was lesser than the PBT fall, to ₹5.3 bn on lower corporate tax rate at 22.5%.

## Demand scenario on a recovery trajectory

While Q1 was impacted by Covid-19 related lockdowns, end-demand in domestic 2W is improving swiftly (80- 90% of normal). Dealer inventory is below normal and would need build-up before festive season. Export volumes are also improving vs. Q1 lows (2W at 85%, 3W at 75% of normal). Domestic 3Ws may take longer to come back to normal (currently at 20% of normal). Management stated that domestic 2Ws have seen a swift recovery since the 2nd half of June, aided by strong rural pick-up. It had reached 90-95% normalcy levels in the first 10 days of July, but later retraced to 80-85% level, due to re-imposition of lockdowns in certain parts of the country. Management also stated that there is no downtrading witnessed in 2W as expected by the markets, however higher segment brands like Pulsar and KTM have seen a good traction.

The domestic 3W passenger segment is significantly impacted and will take longer time to return to normalcy. In addition to sharp fall in end-demand, it is also facing financing constraints, due to increased risk aversion of financiers towards the segment. In July, domestic 3Ws is trending at 20% of normal levels. However, there is some positive movement on the cargo side of 3W due to movement of essential goods during the lockdown.

Exports are also seeing a good recovery. 2Ws are trending at 75- 100% normalcy across markets (avg. 85%), while 3Ws are at ~75% levels. SE Asia, LATAM and Middle-east markets are leading recovery, while ASEAN and Africa regions are slightly behind. Its key market Nigeria has made good progress from 50% of normal level in June to 75% in the first half of July. Bangladesh and Egypt are operating above normal level whereas Uganda is operating below normal level. The Columbian market is also swiftly moving towards normalcy from 80% level currently. Stable currency rates in markets like Nigeria, Mexico, Columbia and the Philippines have been instrumental for faster recovery and management expects this trend to continue going forward.

We believe thw domestic volumes have bottomed out in Q1 and now the declines will get reduced every quarter as demand improves. We see a good festive season, after which in FY 22 we see a strong bounce back in demand considering the pent up demand of FY 21 and higher preference for personal mobility. 2Ws will be having an upper hand over cars due to their lower ticket size. Although we expect a 20% decline in FY 21 volumes, we expect a 25% volume growth in FY 22E. Exports will continue their handsome run with Africa too coming into the race sooner or later, while 3Ws shall have a bit of uncertain demand outlook due to risk of shared mobility.

YE Mar	FY 19	FY 20	FY 21E	FY 22E
Revenues (₹ bn)	302.5	299.2	246.6	318.8
EBITDA (%)	16.5	17.0	16.2	17.0
PAT (%)	14.7	17.5	17.7	17.4
EPS (₹)	161.5	176.2	145.1	185.7
EPS growth (%)	14.5%	9.1%	-17.7%	28.0%
P/E (x)	19.6	17.9	21.8	17.0
P/B(x)	4.2	4.6	4.1	3.6
EV/EBITDA (x)	18.4	18.1	23.0	16.8
ROE(%)	21.5%	25.6%	18.9%	21.3%
Dividend yield (%)	2.1%	6.8%	2.1%	2.6%

Rating	Buy
Current Market Price (₹)	3,015
12 M Price Target (₹)	3,342
Potential upside (%)	11

## Stock Data

FV (₹)	10
Market Cap Full (₹ bn)	872
Market Cap Free Float (₹ bn)	389
52-Week High / Low (₹)	3,315 / 1,789
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Reuters / Bloomberg	BAJA.BO / BJAUT IN

## Price Performance (%)

(%)	1M	3M	6M	1YR
Bajaj Auto	5%	20%	-2%	15%
Nifty 50	7%	20%	-8%	-1%

\* To date / current date : July 27, 2020

## Shareholding Pattern (%)

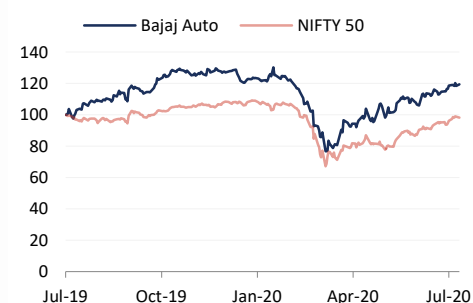
	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	53.69	53.66	53.52	53.52
FPIs	13.71	13.94	13.88	14.05
MFs	3.20	3.05	2.85	2.69
FI's / Banks	0.93	5.72	0.07	0.04
Insurance	4.98	-	6.46	6.33
Others	23.49	23.63	23.22	23.37

Source: BSE

## Annual Report 2019-20

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## Bajaj Auto vs Nifty 50



### Margins give us a positive surprise

Bajaj's gross margins improved by 130 bps qoq to 32.9% in Q1. This can be attributed to a) higher USD-INR realization (75.6 vs. 72.1 in 4Q), b) better mix in favor of exports and higher segment bikes in domestic markets, and c) price hikes to cover BS-VI cost increase. Ebitda margin contracted 510bps qoq to 13.3% due to negative operating leverage (volumes -55% QoQ). Going forward, exports margins are expected to move up strongly owing to a) faster recovery in its key export markets, b) recovery in crude price, c) stable currency rate in key markets and d) higher US\$ realization. This will enable higher margins for the company in rest of FY 21 and FY 22. We expect margins to range in 16-17% range in FY 21E and FY 22E.

### Quarterly Financial Snapshot

All fig in ₹ mn	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Net sales	29,485.2	66,109.0	-55.4%	75,650.1	-61.0%
Other op. income	1,307.2	2,049.5	-36.2%	1,908.1	-31.5%
Total income	30,792	68,159	-54.8%	77,558	-60.3%
RM cost	20,666	46,653	-55.7%	55,637	-62.9%
Employee cost	3,373	3,421	-1.4%	3,605	-6.5%
Other expenses	2,668	5,557	-52.0%	6,333	-57.9%
EBITDA	4,086	12,527	-67.4%	11,982	-65.9%
EBITDA Margins %	13.3	18.4	(510 bps)	15.4	(210 bps)
Other income	3,378	5,327	-36.6%	4,413	-23.4%
Depreciation	638	633	0.8%	601	6.1%
Interest	10	9	4.4%	5	N/A
PBT	6,816	17,212	-60.4%	15,788	-56.8%
Tax	1,536	4,109	-62.6%	4,531	-66.1%
Adj PAT	5,280	13,103	-59.7%	11,257	-53.1%
Adj PAT Margins%	17.1	19.2	(210 bps)	14.5	260 bps
Exceptional items	-	-	N/A	-	N/A
Reported PAT	5,280	13,103	-59.7%	11,257	-53.1%

### Outlook and valuation

Bajaj came out with a better than expected numbers in Q1, thanks to its strength in the exports markets. Going forward, as the nation is opening up and unlocking itself, things will start to improve. With intrinsic demand getting back almost to the pre-COVID level production/supply constraints still persist to some extent. 2W demand in the domestic markets is expected to continue its uptrend with strong rural demand driven by good monsoons. We expect a good festive season with pent up demand coming into foray. On the low base of FY 21, we anticipate a strong FY 22E. With exports improvement expected to continue and high margin models to sell well in domestic markets, margins are expected to improve. With ultimate demand for personal mobility playing on, we expect Bajaj to get its advantage. With strong balance sheet, robust return ratios and zero financial leverage, we believe the stock looks attractive even at 16x FY 22E earnings. We maintain our BUY rating on the stock with a target price of ₹3,342 (at 18x FY 22E earnings).

Per unit parameters (₹)	Q1 FY21	Q4 FY20	Q3 FY20	Q2 FY20	Q1 FY20	Q4 FY19	Q3 FY19	Q2 FY19
Gross Realisation per Unit (₹)	66,603	66,645	61,842	63,900	60,657	60,533	57,493	58,470
Net Realisation per Unit (₹)	66,603	66,645	61,842	63,900	60,657	60,533	57,493	58,470
Total Cost per unit (₹)	60,327	56,082	52,161	54,783	52,580	52,220	49,636	49,601
Material Cost per unit (₹)	46,681	47,031	44,427	46,328	44,611	44,781	42,840	43,174
Staff Cost per unit (₹)	7,618	3,449	2,896	2,883	2,891	2,619	2,515	2,329
Other Expn per unit (₹)	6,065	5,658	4,923	5,646	5,122	4,912	4,349	4,145
EBITDA per unit (₹)	9,229	12,629	11,372	10,890	9,608	9,737	9,176	10,026
PAT per unit (₹)	11,927	13,209	10,493	11,950	9,026	8,073	8,746	8,604

## Consolidated Financial

Income Statement				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>Total Revenues</b>	<b>302,500</b>	<b>299,187</b>	<b>246,550</b>	<b>318,815</b>
Raw Material Cost	218,243	210,083	171,986	223,891
Employee Cost	12,554	13,892	10,927	14,823
Other Exp	21,882	24,249	23,102	25,155
<b>EBITDA</b>	<b>49,821</b>	<b>50,962</b>	<b>39,894</b>	<b>54,246</b>
EBITDA Margin(%)	16.5	17.0	16.2	17.0
Other income	16493	17336	17000	18000
Depreciation	2,657	2,464	2,317	2,400
Interest	45	32	50	60
<b>PBT</b>	<b>63,612</b>	<b>65,802</b>	<b>54,527</b>	<b>69,786</b>
PBT Margin(%)	21.5	22.6	23.0	22.6
Exceptional items	0	0	0	0
Tax	20,280	14,802	12,541	16,051
<b>APAT</b>	<b>46,752</b>	<b>51,000</b>	<b>41,986</b>	<b>53,735</b>
APAT Margins (%)	15.5	17.0	17.0	16.9
<b>PAT</b>	<b>43,332</b>	<b>51,000</b>	<b>41,986</b>	<b>53,735</b>
PAT Margin (%)	14.7	17.5	17.7	17.4

Key Ratios				
YE Mar	FY 19	FY 20	FY 21E	FY 22E
<b>Per Share Data (₹)</b>				
Adj. EPS	161.5	176.2	145.1	185.7
CEPS	152.0	170.7	184.7	153.1
BVPS	752.6	688.5	768.3	870.4
DPS	65.1	215.8	65.3	83.6
<b>Growth Ratios(%)</b>				
Total revenues	19.9%	-1.1%	-17.6%	29.3%
EBITDA	4.0%	2.3%	-21.7%	36.0%
PAT	14.5%	9.1%	-17.7%	28.0%
EPS Growth	14.5%	9.1%	-17.7%	28.0%
<b>Valuation Ratios (x)</b>				
PE	19.6	17.9	21.8	17.0
P/CEPS	18.5	17.1	20.6	16.3
P/BV	4.2	4.6	4.1	3.6
EV/Sales	3.7	3.1	3.2	3.8
EV/EBITDA	18.4	18.1	23.0	16.8
<b>Operating Ratios (Days)</b>				
Inventory days	11.9	13.3	10.0	12.0
Receivable Days	31.6	21.6	20.0	21.0
Payables day	46.7	39.9	42.0	44.0
Net Debt/Equity (x)	0.01	0.04	0.02	(0.02)
<b>Profitability Ratios (%)</b>				
ROE	21.5%	25.6%	18.9%	21.3%
Dividend yield	2.1%	6.8%	2.1%	2.6%

Balance Sheet				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholder's funds</b>				
Share capital	2,894	2,894	2,894	2,894
Reserves and surplus	214,905	196,361	219,453	249,008
<b>Total networth</b>	<b>217,799</b>	<b>199,255</b>	<b>222,347</b>	<b>251,901</b>
<b>Non current liabilities</b>				
Long term borrowings & prov	1,842	2,482	2,502	2,522
Deferred tax liabilities	5,426	3,464	3,464	3,464
<b>Current liabilities</b>				
Current liabilities and provisions	39,246	33,439	28,914	38,807
Other current liabilities	9,490	9,093	9,093	9,093
<b>Total equity and liabilities</b>	<b>273,803</b>	<b>247,733</b>	<b>266,320</b>	<b>305,787</b>
<b>ASSETS</b>				
Net block	16,886	16,020	14,703	15,303
Capital work in progress	115	465	565	665
Intangible assets	562	567	567	567
Non current investments	176,384	154,701	179,701	201,701
Long term loans and advances	316	325	325	325
Other non current assets	8,913	9,685	9,685	9,685
<b>Total non current assets</b>	<b>203,176</b>	<b>181,763</b>	<b>205,546</b>	<b>228,246</b>
<b>Current assets</b>				
Current investments	15,765	27,798	27,798	27,798
Inventories	9,615	10,636	6,508	10,153
Trade receivables	25,597	17,251	13,016	17,767
Cash and cash bank	9,228	3,082	6,248	14,619
Short term loans and advances	63	61	61	61
Other current assets	10,358	7,142	7,142	7,142
<b>Total current assets</b>	<b>70,626</b>	<b>65,970</b>	<b>60,774</b>	<b>77,541</b>
<b>Total Assets</b>	<b>273,802</b>	<b>247,733</b>	<b>266,320</b>	<b>305,787</b>

Cash Flow				
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
<b>PBT</b>	<b>67,032</b>	<b>65,802</b>	<b>54,527</b>	<b>69,786</b>
Depreciation	2,657	2,464	2,317	2,400
Interest	10	11	0	0
Chng in working capital	(7,925)	3,766	3,837	1,497
Tax paid	(19,643)	(16,777)	(12,541)	(16,051)
Other operating activities	0	0	0	0
<b>Cash flow from operations (a)</b>	<b>24,896</b>	<b>38,618</b>	<b>48,140</b>	<b>57,632</b>
Capital expenditure	(1,635)	(2,828)	(1,100)	(3,100)
Chng in investments	(4,606)	16,505	(25,000)	(22,000)
Other investing activities	0	0	0	0
<b>Cash flow from investing (b)</b>	<b>(2,441)</b>	<b>17,547</b>	<b>(26,100)</b>	<b>(25,100)</b>
<b>Free cash flow (a+b)</b>	<b>22,455</b>	<b>56,166</b>	<b>22,040</b>	<b>32,532</b>
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(17,358)	(51,951)	(18,894)	(24,181)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>(20,741)</b>	<b>(62,465)</b>	<b>(18,568)</b>	<b>(24,161)</b>
<b>Net chng in cash (a+b+c)</b>	<b>1,714</b>	<b>(6,300)</b>	<b>3,472</b>	<b>8,371</b>
<b>Closing cash &amp; cash equivalents</b>	<b>9,054</b>	<b>2,776</b>	<b>6,248</b>	<b>14,619</b>

Source: Company, LKP Research

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