

Healthy margins, valuation comfort merit upgrade...

Bajaj Auto (BAL) reported a steady Q2FY21 performance. Net revenue was at ₹ 7,156 crore (down 7.2% YoY) with blended ASPs at ₹ 67,935/unit (down 2.2% QoQ). Lower share of 3-W in total volumes (~8% in Q2FY21 vs. ~16% YoY) impacted ASPs. Volumes for the quarter were at 10.5 lakh units (down 10.2% YoY) units wherein 2-W volumes were at 9.6 lakh units (down 2% YoY), 3-W volumes were 88,872 units (down 53% YoY). Reported EBITDA margins came in at 17.7%, up 110 bps YoY, primarily due to lower other expenses (fell 190 bps YoY on percentage of sales basis). BAL undertook impact of MEIS export incentive withdrawal amounting to ₹ 78 crore for H1FY21, in Q2FY21, without which EBITDA margins could have been 18.5%+. PAT in Q2FY21 was down 18.8% YoY to ₹ 1,138 crore tracking lower other income & high effective tax rate in base quarter (Q2FY20).

Indian motorcycle segment leading volume charge domestically

The domestic 2-W segment staged a relatively quick recovery in the post Covid months. Wholesale dispatches from OEMs improved with each month over May-September aided by sustained demand for personal mobility, especially, motorcycles. The rural economy has been the driving force behind the revival on the back of positive sentiment (normal monsoon, lower incidence of the pandemic) as well as relatively stable incomes (good rabi harvest, healthy kharif sowing). The upcoming festive season is expected to provide a further leg up to the industry. BAL has also benefited from segment tailwinds, with domestic 2-W volumes up 6% YoY in Q2FY21 vs. steep 78% YoY decline in volumes in the 3-W segment. BAL has been able to maintain market share at ~18% in H1FY21 (unchanged YoY), with an encouraging development being excellent response to key products like Pulsar (highest ever quarterly volumes at 3.48 lakh units).

Encouraging exports performance, commentary bode well

In contrast to divergent fortunes domestically (industry 2-W demand at ~90% of usual levels vs. just ~25% for 3-W), exports markets bounced back in a more comprehensive manner (2-W at ~90%, 3-W at ~75-80%). BAL has been successful in gaining incremental market share in several key markets (combined form ~80% of export volumes). It is a leading exporter of 2-W out of India with its market share in exports at ~60%. Going forward, post blip in FY21E, we expect export volumes to grow at 13% CAGR in FY21-23E to ~25 lakh units in FY23E (~19 lakh units in FY21E).

Valuation & Outlook

For BAL, we build 2.8%, 7.4%, 5.6% volume, sales, PAT CAGR in FY20-23E. Margins are seen improving to 18.4% by FY23E tracking improvement in operating leverage, cost actions. We value BAL at a revised target price of ₹ 3,570 using SOTP method (core business at 18x FY22E & FY23E average EPS and 2x P/B on KTM investment) and upgrade the stock to **BUY**. In our view the stock offers adequate valuation comfort at CMP considering expected all-round uptick in coming times.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	30,250.0	29,918.6	26,349.9	33,181.6	37,051.1	7.4%
EBITDA	4,982.0	5,096.2	4,456.4	5,874.0	6,807.0	10.1%
EBITDA Margins (%)	16.5	17.0	16.9	17.7	18.4	
Net Profit	4,675.1	5,100.0	4,125.0	5,215.6	5,999.5	5.6%
EPS (₹)	161.6	176.2	142.5	180.2	207.3	
P/E	18.6	17.0	21.0	16.6	14.5	
RoNW (%)	19.9	25.6	18.5	20.7	21.0	
RoCE (%)	21.1	23.9	24.1	27.3	27.7	

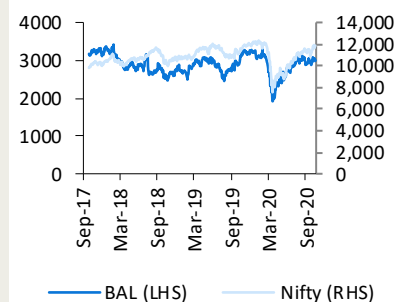
Source: ICICI Direct Research, Company



Particulars

Particular	₹ crore
Market Capitalization	86,811.0
Total Debt (FY 20)	0.0
Cash & Liquid Invests (FY 20)	17,271.0
EV	69,540.0
52 week H/L (₹)	3315 / 1793
Equity capital (₹)	289.4
Face value (₹)	₹ 10

Price chart



Key Highlights

- Revenues dip 7.2% YoY in Q2FY21 tracking 10.2% YoY drop in total volumes to 10.5 lakh units
- Margins rose 110 bps YoY to 17.7% tracking lower other expenses
- Domestic 2-W recovery is progressing well, while exports performance is more encouraging and includes 3-W revival
- Upgrade from HOLD to BUY on valuation comfort with revised target price of ₹ 3,570/share, valuing core business at 18x on FY22E & FY23E average EPS of ₹ 194

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Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	7,156	7,192	7,707	-7.2	3,079	132.4	Topline came in broadly in line with our estimates with blended realisations at ₹ 68k/unit
Raw Material Expenses	5,058	4,962	5,437	-7.0	2,067	144.8	RM costs as a % of sales came in flat on YoY basis
Employee Expenses	325	349	338	-4.1	337	-3.8	
Other Expenses	510	657	663	-23.1	269	89.9	Other expenses came in lower by ~190 bps tracking costs saving initiatives at the company including lower A&P spend
EBITDA	1,266.3	1,231.3	1,278.1	-0.9	408.5	210.0	EBITDA margins came in ahead of our estimates tracking lower other expenses. Company undertook the impact of MEIS withdrawal for H1FY21, in Q2FY21, withstanding which its EBITDA margins would have with 18.5% +
EBITDA Margin (%)	17.7	17.1	16.6	111 bps	13.3	443 bps	
Other Income	285.8	413.1	393.4	-27.4	337.9	-15.4	Other income came in lower tracking lower yields on treasury book (surplus cash on company's book)
Depreciation	64.3	69.5	61.3	4.9	63.8	0.8	
Interest	3	0	1	NA	1	NA	
PBT	1485	1575	1609	-7.7	682	117.9	PBT stood lower despite flat EBITDA due to lower other income
Total Tax	347	397	206	68.0	154	125.8	PAT rate for the quarter stood at 23.4%
Reported PAT	1138.2	1178.0	1402.4	-18.8	528.0	115.6	
EPS (₹)	39.3	40.7	48.5	-18.8	18.2	115.6	PAT decline for the quarter stood at ~19% YoY tracking lower other income and low effective tax rate in base quarter i.e. Q2FY20

Key Metrics

Revenue (₹ crore)							
Domestic	4,242	3,950	4,544	-6.7	1,298	226.9	Domestic revenues came in ahead of estimates
Exports	2,800	3,033	2,955	-5.2	1,651	69.6	Export revenues came in lower than our estimates
Blended ASP (₹/unit)							
Domestic	73,947	68,857	72,239	2.4	67,840	9.0	Domestic ASP's stood at ₹ 74k/unit
Exports	58,364	63,227	54,265	7.6	65,557	-11.0	Export ASP's stood at ₹ 58k/unit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Annex 2F: Change in Estimates								
	FY21E			FY22E			FY23E	
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced	Comments
Revenue	25,004	26,350	5.4	30,461	33,182	8.9	37,051	We have marginally tweaked our estimates and introduced FY23E numbers. For FY20-23E, we expect BAL to report sales CAGR of 7.4%
EBITDA	4,092	4,456	8.9	5,358	5,874	9.6	6,807	
EBITDA Margin (%)	16.4	16.9	51 bps	17.6	17.7	10 bps	18.4	EBITDA is expected to grow double digit i.e. 10% CAGR over FY20-23E. Margins are expected to scale up tracking costs efficiencies as well as better utilization levels
PAT	3,962	4,125	4.1	5,022	5,216	3.9	6,000	
EPS (₹)	136.9	142.5	4.1	173.5	180.2	3.9	207.3	PAT is seen growing 5.6% CAGR over FY20-23E

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Exhibit C: Assumptions									
	Current						Earlier		Comments
Units (lakh)	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Motorcycle volumes	33.7	42.4	39.5	34.4	41.1	43.9	31.6	37.9	Amidst the Covid-19 outbreak total volumes are seen declining 17% on YoY basis in FY21E. Post the blip, volumes are expected to grow at a CAGR of 14.5% over FY21-23E, with exports growing at a CAGR of 13.1% in the aforesaid period. 2-W volumes are seen outperforming handsomely over 3-W volumes
Three-Wheeler volumes	6.4	7.8	6.6	3.8	5.3	6.2	4.0	4.8	
Total volumes	40.1	50.2	46.1	38.2	46.4	50.1	35.6	42.7	
Export volumes	16.6	20.8	21.7	19.3	22.9	24.7	17.2	20.5	
Domestic revenues (₹ crore)	15,396	18,099	17,169	14,492	18,879	21,023	13,386	16,406	
Export revenues (\$ mn)	1,400	1,642	1,677	1,524	1,820	2,013	1,460	1,756	
US\$INR Realisation rate	67	70	71	75	75	76	75	75	
Export ASP (\$/unit)	872	790	772	788	794	816	848	856	
Blended ASP (₹/unit)	62,640	58,905	63,077	67,494	70,068	72,435	67,979	69,198	

Source: ICICI Direct Research

Q2FY21 Conference call highlights

Management outlook and demand

- Barring supply chain issues, BAL expects October volumes to be better than September and November to be better than October. In recent weeks, domestic recovery is equally spread between rural and urban centres
- Domestic 2-W industry demand is at 90% of last year's levels. First few days of inquiries, walk ins in the ongoing festive period are at similar levels of last year (adjusting for month end period last year)
- Domestic 3-W industry currently is at 25% of normal levels. Passenger 3-W segment is at 20% levels while cargo category is at ~40-50% levels
- The 2-W international markets are at ~90% of usual levels while 3-W international markets are at ~80% of normal levels. Among geographies, Africa (90-95%), South Asia (~90%) and Latin America (80-85%) are leading the way with Asean nations at 50%
- In exports, 80-85% of BAL revenues come from markets where the company is the biggest or the second biggest player with > 25% market share. Extensive ground studies and market insights is helping gain market share in key export markets.
- In 3-W exports, the company has increased market share in 30 markets which form ~ 80% of volumes
- BAL's export performance has been better than the industry courtesy resolution of supply side issues
- Premium brands i.e. KTM, Husqvarna also recorded highest ever domestic volumes in Q2FY21

Margins and profitability

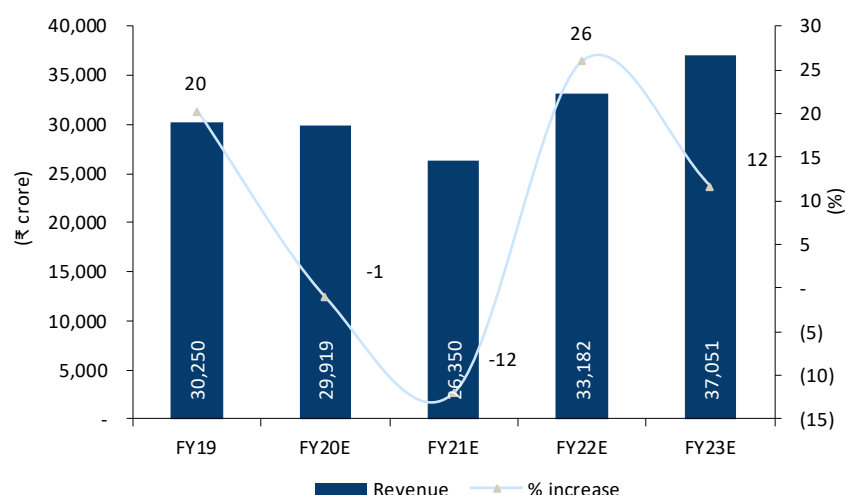
- Domestic 2-W margins at multi-year high levels
- Better model mix within 2-W i.e. higher Pulsar sales helped margins despite lower share of 3-W. Pulsar 125 has captured 16% market share in 125 cc category. BAL is hopeful of further market share gains for 125 Pulsar pursuant to further expansion pan India and continued advertising efforts
- The company has mostly passed on costs of MEIS withdrawal in export markets through calibrated price hikes
- Total 2/3rd of drop in other expenses (down ~23% YoY) is due to lower marketing spends. The rest is on account of operating cost reduction. Some of these reduced expenses will come back in future upon volume revival
- Some commodity cost pressures are set to occur in Q3FY21E (led by base metals). The company plans to mitigate it through calibrated price increases and increased exports
- BAL said there is no major prevalence of discounting so far in the market place
- In Q2FY21, export sales were at ₹ 2,800 crore while spare parts revenues stood at ₹ 733 crore

Others

- BAL 2-W inventory is at ~45 days of sales at present
- Financing levels as of Q2FY21 were at 50-52%, of which 60% was via Bajaj Auto Finance

Financial story in charts

Exhibit 4: Total operating income trend

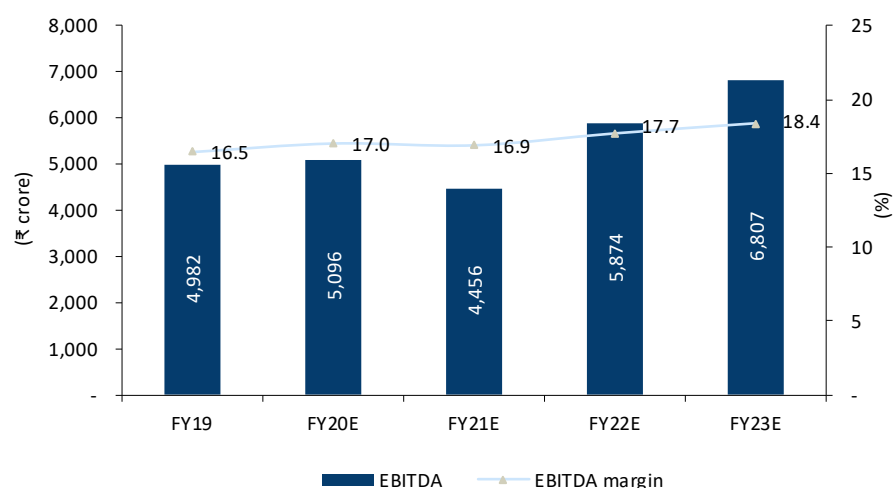


Source: Company, ICICI Direct Research

We expect total operating income to grow at 7.4% CAGR over FY20-23E. It includes volume growth CAGR of 2.8% over the aforesaid period

Revenue mix expected to evolve in favour of exports given continued weakness in domestic 3-W space. Exports share in total revenues is seen at ~42-44% over FY20-23E

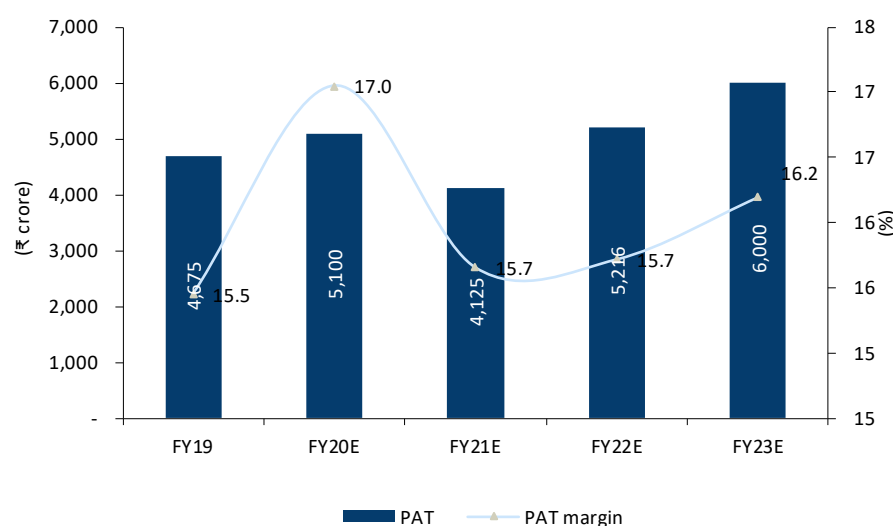
Exhibit 5: EBITDA trend and margin profile



Source: Company, ICICI Direct Research

EBITDA margins are seen rising towards 17.7% in FY22E and thereafter to 18.4% by FY23E on the back of expected improvement in product mix as well as improved model mix within 2-W

Exhibit 6: Profitability trend



Source: Company, ICICI Direct Research

PAT is seen growing at 5.6% CAGR over FY20-23E to ₹ 6,000 crore

Exhibit 7: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	30,250.0	20.2	161.6	14.9	18.6	13.6	19.9	21.1
FY20	29,918.6	(1.1)	176.2	9.1	17.0	13.6	25.6	23.9
FY21E	26,349.9	-11.9	142.5	-19.1	21.0	15.1	18.5	24.1
FY22E	33,181.6	25.9	180.2	26.4	16.6	11.0	20.7	27.3
FY23E	37,051.1	11.7	207.3	15.0	14.5	9.0	21.0	27.7

Source: Bloomberg, ICICI Direct Research

Exhibit 8: SOTP valuation

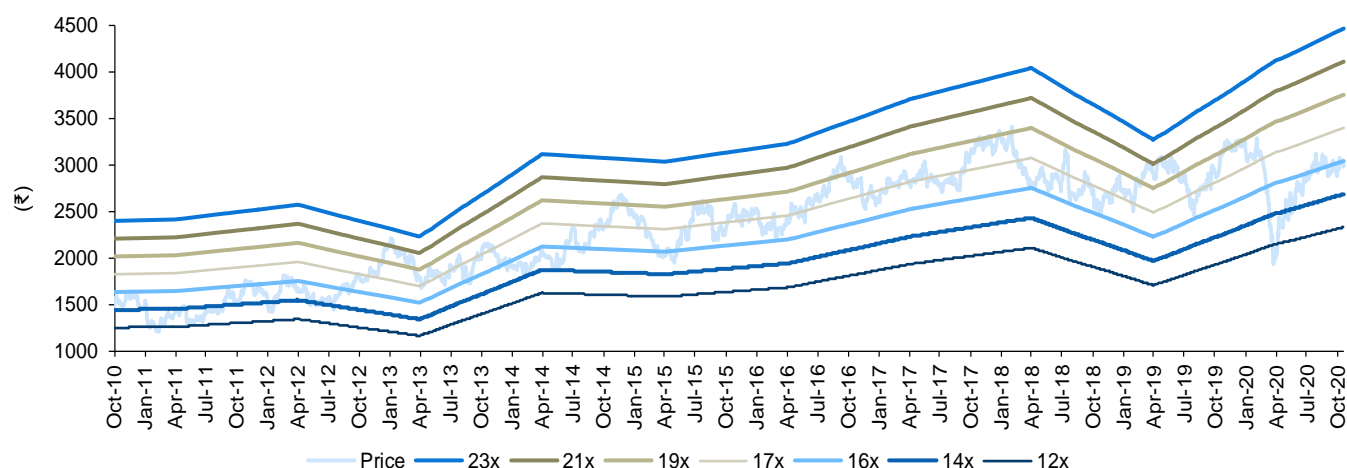
SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY22E & FY23E Average EPS (₹)	193.8		
Multiple (x)	18.0		
Value per share (₹)		3,486	
Stake in KTM (48%)			
KTM value derived back to Bajaj (₹ crore)	2440		2x of Invested Capital (₹ 1220 crore)
Value per share		84	
Total Value per Share (₹)		3,570	

Source: ICICI Direct Research

Exhibit 9: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	53.5	53.5	53.7	53.7	53.7
FII	14.1	13.9	13.9	13.7	13.6
DII	9.8	10.1	8.8	9.1	10.4
Others	22.6	22.5	23.6	23.5	22.3

Source: Company, ICICI Direct Research

Exhibit 10: Bajaj Auto currently trades at ~16.6x on its FY22E EPS


Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement

₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	29918.6	26349.9	33181.6	37051.1
Growth (%)	-1.1	-11.9	25.9	11.7
Raw Material Expenses	21,008.3	18,502.3	23,191.4	25,764.4
Employee Expenses	1,389.2	1,350.0	1,516.6	1,635.6
Other expenses	2,454.9	2,062.2	2,633.1	2,881.6
Total Operating Expenditure	24,822.4	21,893.5	27,307.6	30,244.1
EBITDA	5096.2	4456.4	5874.0	6807.0
Growth (%)	2.3	-12.6	31.8	15.9
Depreciation	246.4	263.5	298.6	333.5
Interest	3.2	3.6	0.0	0.0
Other Income	1,733.6	1,264.5	1,397.3	1,547.2
PBT	6,580.2	5,453.8	6,972.7	8,020.7
Total Tax	1,480.2	1,328.8	1,757.1	2,021.2
PAT	5100.0	4125.0	5215.6	5999.5
Growth (%)	9.1	-19.1	26.4	15.0
EPS (₹)	176.2	142.5	180.2	207.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement

₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	5,100.0	4,125.0	5,215.6	5,999.5
Add: Depreciation	246.4	263.5	298.6	333.5
Sub: Other Income	1,733.6	1,264.5	1,397.3	1,547.2
(Inc)/dec in Current Assets	1,054.4	203.5	-857.0	-485.4
Inc/(dec) in CL and Provisions	-569.6	-327.5	785.7	445.0
CF from operating activities	4050.1	2982.1	4144.8	4810.3
(Inc)/dec in Investments	973.7	-2,100.0	-2,800.0	-3,350.0
(Inc)/dec in Fixed Assets	-193.7	-215.0	-215.0	-215.0
Others	-216.8	-95.0	-95.0	-95.0
Add: Other Income	1,733.6	1,264.5	1,397.3	1,547.2
CF from investing activities	2296.7	-1145.5	-1712.7	-2112.8
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,166.9	-1,736.2	-2,315.0	-2,604.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-2,790.7	-17.6	-14.0	-14.0
CF from financing activities	-6957.6	-1753.8	-2329.0	-2618.3
Net Cash flow	-610.8	82.8	103.2	79.1
Opening Cash	918.8	308.0	390.8	494.0
Closing Cash	308.0	390.8	494.0	573.1

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet

₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	289.4	289.4	289.4	289.4
Reserve and Surplus	19,636.1	22,010.8	24,897.5	28,278.6
Total Shareholders funds	19925.5	22300.2	25186.8	28568.0
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	346.4	346.4	346.4	346.4
Other non-current liabilities	0.8	0.8	0.8	0.8
Total Liabilities	20520.1	22904.8	25801.5	29192.6
Assets				
Gross Block	4,090.9	4,317.5	4,517.5	4,717.5
Less: Acc Depreciation	2,435.0	2,698.5	2,997.1	3,330.6
Net Block	1,655.9	1,619.0	1,520.3	1,386.9
Capital WIP	46.5	20.0	20.0	20.0
Total Fixed Assets	1702.5	1639.0	1540.3	1406.9
Investments	18,196.3	20,346.3	23,196.3	26,596.3
Inventory	1,063.5	866.3	1,090.9	1,218.1
Debtors	1,725.1	1,804.8	2,272.7	2,537.7
Loans and Advances	6.1	5.4	6.8	7.6
Other current assets	714.3	629.1	792.2	884.6
Cash	308.0	390.8	494.0	573.1
Total Current Assets	3,817.0	3,696.4	4,656.6	5,221.1
Creditors	3,199.7	2,887.7	3,636.3	4,060.4
Provisions	158.0	142.6	179.6	200.5
Other current liabilities	347.3	305.9	385.2	430.1
Total Current Liabilities	4,253.3	3,904.4	4,789.4	5,299.3
Net Current Assets	-436.3	-208.1	-132.8	-78.2
Deferred Tax asset	0.0	0.0	0.0	0.0
Application of Funds	20520.1	22904.8	25801.5	29192.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	176.2	142.5	180.2	207.3
Cash EPS	184.8	151.7	190.6	218.9
BV	688.6	770.6	870.4	987.2
DPS	120.0	60.0	80.0	90.0
Cash Per Share	10.6	13.5	17.1	19.8
Operating Ratios (%)				
EBITDA Margin	17.0	16.9	17.7	18.4
PBT / Net sales	16.2	15.9	16.8	17.5
PAT Margin	17.0	15.7	15.7	15.7
Inventory days	13.0	12.0	12.0	12.0
Debtor days	21.0	25.0	25.0	25.0
Creditor days	39.0	40.0	40.0	40.0
Return Ratios (%)				
RoE	23.9	24.1	27.3	27.7
RoCE	25.6	18.5	20.7	21.0
RoIC	180.1	146.0	198.0	237.4
Valuation Ratios (x)				
Core P/E	17.0	21.0	16.6	14.5
EV / EBITDA	13.6	15.1	11.0	9.0
EV / Net Sales	2.3	2.6	1.9	1.6
Market Cap / Sales	2.9	3.3	2.6	2.3
Price to Book Value	4.4	3.9	3.4	3.0
Solvency Ratios				
Current Ratio	0.9	1.0	1.0	1.0
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	MCap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	140	120	Hold	8,009	8.3	4.9	8.9	16.8	28.5	15.7	7.3	6.3	5.4	4.7	4.7	6.6	4.8	2.5	4.9
Ashok Leyland (ASHLEY)	80	90	Buy	23,417	0.8	0.3	2.5	98.1	301.3	32.3	21.6	26.9	13.9	4.5	2.3	9.2	4.7	1.1	9.4
Bajaj Auto (BAAUTO)	3,000	3,570	Buy	86,811	176.2	142.5	180.2	17.0	21.0	16.6	13.6	15.1	11.0	23.9	24.1	27.3	25.6	18.5	20.7
Bharat Forge (BHAFOR)	465	415	Hold	21,649	7.5	3.5	13.7	62.0	133.4	34.0	21.8	29.4	16.3	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	2,160	2,470	Buy	58,882	67.0	46.6	71.3	32.2	46.4	30.3	24.0	30.0	20.5	17.3	11.5	15.4	18.3	11.6	15.4
Escorts (ESCORT)	1,190	1,375	Buy	14,587	39.6	46.1	54.5	30.0	25.8	21.8	20.2	17.2	14.4	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	160	180	Buy	13,600	9.7	6.3	8.9	11.8	18.0	12.9	9.8	12.1	9.4	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	3,080	3,235	Hold	61,508	181.9	118.0	161.8	16.9	26.1	19.0	13.9	16.8	12.1	21.3	15.4	20.3	22.7	15.4	19.1
M&M (MAHMAH)	605	760	Buy	75,214	11.2	29.1	40.0	54.3	20.8	15.1	12.4	12.7	9.6	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	6,800	5,700	Reduce	2,05,414	187.1	124.9	203.4	36.4	54.4	33.4	23.2	31.8	19.5	7.4	3.5	8.2	11.7	7.4	11.1
Minda Industries (MININD)	325	370	Hold	8,522	5.9	2.8	10.0	55.0	115.5	32.4	15.3	17.8	11.5	10.2	6.3	12.7	10.3	4.0	13.0
Tata Motors (TATMOT)	135	160	Buy	48,569	-33.3	-25.0	7.0	NM	NM	19.2	5.1	5.4	3.6	1.3	1.1	6.7	-18.7	-16.8	4.5

Source: Reuters, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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