Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

October 22, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	**HOLD**		**HOLD**	
Target Price	**3,108**		**3,014**	
Sales (Rs. m)	3,06,568	3,30,634	2,86,320	3,07,334
% Chng.	*7.1*	*7.6*		
EBITDA (Rs. m)	50,506	52,903	46,515	48,576
% Chng.	*8.6*	*8.9*		
EPS (Rs.)	181.0	189.1	179.9	183.1
% Chng.	*0.6*	*3.2*		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,99,187	2,65,175	3,06,568	3,30,634
EBITDA (Rs. m)	50,962	44,163	50,506	52,903
Margin (%)	*17.0*	*16.7*	*16.5*	*16.0*
PAT (Rs. m)	54,427	46,412	52,386	54,717
EPS (Rs.)	188.1	160.4	181.0	189.1
Gr. (%)	*13.7*	*(14.7)*	*12.9*	*4.4*
DPS (Rs.)	120.0	80.0	90.0	113.3
Yield (%)	*4.0*	*2.7*	*3.0*	*3.8*
RoE (%)	*26.1*	*22.4*	*23.5*	*23.0*
RoCE (%)	*23.1*	*19.9*	*21.3*	*20.9*
EV/Sales (x)	2.9	3.3	2.8	2.6
EV/EBITDA (x)	17.0	19.6	17.0	16.1
PE (x)	16.0	18.7	16.6	15.9
P/BV (x)	4.4	4.1	3.8	3.6

Key Data

Key Data	BAJA.BO | BJAUT IN
52-W High / Low	Rs.3,315 / Rs.1,789
Sensex / Nifty	40,558 / 11,896
Market Cap	Rs.870bn/ $ 11,829m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.5873.88m

Shareholding Pattern (%)

Promoter's	53.69
Foreign	13.56
Domestic Institution	10.41
Public & Others	22.34
Promoter Pledge (Rs bn)	0.05

Stock Performance (%)

	1M	6M	12M
Absolute	0.7	26.3	(3.7)
Relative	(6.3)	(2.3)	(7.5)

Deep Shah
deepshah@plindia.com | 91-22-66322235

Amber Shukla
ambershukla@plindia.com | 91-22-66322426

Bajaj Auto (BJAUT IN)

Rating: HOLD | CMP: Rs3,006 | TP: Rs3,108

In-line performance, mixed demand outlook

Quick Pointers:

- EBITDA margins back to normalized levels at 17.7% (in-line).
- Demand outlook mixed - overall exports, domestic 2W better and 3W weak.
- Domestic 2W discounts ahead of festive under control (v/s last year).

BJAUT's 2QFY21 revenues/EBITDA were in-line while adj. PAT slightly missed estimates at Rs11.4bn (PLe Rs12bn), led by lower other income. EBITDA margins expanded 110bp YoY at 17.7% (in-line) led by cost optimization initiatives. For 2HFY21, sustainability of these margins is unlikely due to a) sharp increase in key RM prices (by 10-15%) and b) we expect marketing spend to be back as BJAUT has lost ~130bp retail level market share to 11.3% in 2QFY21 (despite several product interventions). We believe 2W recovery both in domestic and exports markets have been better (to an extent 90-95%), BJAUT's 3W portfolio to remain under pressure (~25-30% recovery in domestic 3W led by cargo). We upgrade FY21/22/23 EPS by 5%/1%/3% to factor in for cost efficiencies and maintain 'Hold' on the stock with revised price target of Rs3,108 (earlier Rs3,014) at 17x (in-line with 10 year LPA Sep'22 EPS, unchanged). BJAUT trades at 16.6x/15.9x FY22/23 EPS.

- **In-line performance:** Revenues declined by 7.2% YoY as volumes for the quarter declined 10.2% YoY while realization grew 3.4% YoY to Rs67.9k/unit (PLe Rs68.8k/unit). The growth in realizations was led by price hikes and favorable mix within motorcycle segment. Exports revenues declined ~10% YoY to Rs28bn while USD realization at Rs74 in Q2FY21 (v/s Rs75.6/USD in Q1FY21).

- **EBITDA in-line, Adj PAT marginally missed estimates -** EBITDA came in-line at Rs12.7bn (-1% YoY) led by better cost control resulting in EBITDA margins at 17.7% (+110bp YoY, in-line). Whereas lower other income at Rs2.9bn (PLe Rs3.5bn), led to adj. PAT miss at Rs11.4bn (-19% YoY PLe Rs12bn).

- **Key takeaways from the con-call: (1) Demand outlook:** Domestic – 2W recovery to an extent of 90%. Demand for first five days of Navatra suggest flattish trends while exports to sustain in 3Q. **(2)** Domestic 3W recovery slow with cargo demand recovering faster (40-50% recovery) v/s passenger (20-25%). **(3) Exports -** Have increased market share in 30 of the 70 markets (~80% of exports). Motorcycles retail at 90% levels and 3Ws at 80% levels. **(4) Current inventory** level are of 45 days. Will relook at production level based on post festive retails. (6) Have captured 40% of disc variant segment in domestic market. Pulsar has captured 16% market share of 125cc despite being expensive product in to the segment. (7) **2Q financing were ~10% lower at 50-52%** but Sep was at 60% and expect to be 70-75% during festive. (8) Bajaj Finance account for ~60% of overall financing for the company.

Exhibit 1: Q2FY21 Result Overview (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Revenues	**71,559**	**77,073**	***(7.2)***	**30,792**	**1,02,351**	**1,54,631**	***(33.8)***
Raw Materials	50,581	54,370	*(7.0)*	20,666	71,247	1,10,008	*(35.2)*
% of Net Sales	*70.7*	*70.5*		*67.1*	*69.6*	*71.1*	
Personnel	3,246	3,384	*(4.1)*	3,373	6,618	6,989	*(5.3)*
% of Net Sales	*4.5*	*4.4*		*11.0*	*6.5*	*4.5*	
Manufacturing & Other Exp	5,069	6,539	*(22.5)*	2,668	7,738	12,872	*(39.9)*
% of Net Sales	*7.1*	*8.5*		*8.7*	*7.6*	*8.3*	
Total Expenditure	58,896	64,293	*(8.4)*	26,707	85,603	1,29,869	*(34.1)*
EBITDA	**12,662**	**12,781**	***(0.9)***	**4,085**	**16,748**	**24,763**	***(32.4)***
EBITDA Margin (%)	***17.7***	***16.6***		***13.3***	***16.4***	***16.0***	
Depreciation	643	613	*4.9*	638	1,281	1,215	*5.5*
EBIT	**12,019**	**12,167**	***(1.2)***	**3,447**	**15,467**	**23,548**	***(34.3)***
Interest Expenses	27	12	*113.7*	10	36	18	*102.2*
Non-operating income	2,858	3,934	*(27.4)*	3,379	6,237	8,347	*(25.3)*
Extraordinary Expenses	0	0		0	0	0	
PBT	**14,851**	**16,089**	***(7.7)***	**6,817**	**21,667**	**31,877**	***(32.0)***
Tax-Total	3,469	2,065	*68.0*	1,536	5,005	6,596	*(24.1)*
Tax Rate (%) - Total	23.4	12.8	*82.0*	22.5	23.1	20.7	*11.6*
Reported PAT	**11,382**	**14,024**	***(18.8)***	**5,280**	**16,662**	**25,281**	***(34.1)***
Adj. PAT	**11,382**	**14,024**	***(18.8)***	**5,280**	**16,662**	**25,281**	***(34.1)***

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Sales Volume (nos)	**10,53,337**	**11,73,591**	***(10.2)***	**4,43,103**	**14,96,440**	**24,20,765**	***(38.2)***
Net Realisation/Vehicle	67,935	65,673	*3.4*	69,493	68,396	63,877	*7.1*
Material cost / vehicle	48,020	46,328	*3.7*	46,639	47,611	45,443	*4.8*
Gross Profit / vehicle	19,915	19,345	*2.9*	22,853	20,785	18,434	*12.8*
Employee cost /vehicle	3,081	2,883	*6.9*	7,612	4,423	2,887	*53.2*
Other expenses / vehicle	4,813	5,572	*(13.6)*	6,022	5,171	5,317	*(2.8)*
EBITDA/vehicle	12,021	10,890	*10.4*	9,220	11,192	10,229	*9.4*
Net Profit/vehicle	10,806	11,950	*(9.6)*	11,917	11,135	10,443	*6.6*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**2,99,187**	**2,65,175**	**3,06,568**	**3,30,634**
YoY gr. (%)	*(1.4)*	*(11.4)*	*15.6*	*7.8*
Cost of Goods Sold	2,10,083	1,87,744	2,16,744	2,35,081
Gross Profit	89,104	77,431	89,824	95,553
Margin (%)	*29.8*	*29.2*	*29.3*	*28.9*
Employee Cost	13,892	13,406	14,076	15,484
Other Expenses	24,249	19,862	25,242	27,167
EBITDA	**50,962**	**44,163**	**50,506**	**52,903**
YoY gr. (%)	*(1.9)*	*(13.3)*	*14.4*	*4.7*
Margin (%)	*17.0*	*16.7*	*16.5*	*16.0*
Depreciation and Amortization	2,464	2,593	2,727	2,916
EBIT	**48,498**	**41,570**	**47,779**	**49,987**
Margin (%)	*16.2*	*15.7*	*15.6*	*15.1*
Net Interest	32	40	42	46
Other Income	17,336	14,071	15,576	16,070
Profit Before Tax	**65,802**	**55,601**	**63,313**	**66,010**
Margin (%)	*22.0*	*21.0*	*20.7*	*20.0*
Total Tax	14,802	12,788	14,562	15,182
Effective tax rate (%)	*22.5*	*23.0*	*23.0*	*23.0*
Profit after tax	**51,000**	**42,813**	**48,751**	**50,828**
Minority interest	-	-	-	-
Share Profit from Associate	3,428	3,599	3,635	3,889
Adjusted PAT	**54,427**	**46,412**	**52,386**	**54,717**
YoY gr. (%)	*13.7*	*(14.7)*	*12.9*	*4.4*
Margin (%)	*18.2*	*17.5*	*17.1*	*16.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**54,427**	**46,412**	**52,386**	**54,717**
YoY gr. (%)	*8.3*	*(14.7)*	*12.9*	*4.4*
Margin (%)	*18.2*	*17.5*	*17.1*	*16.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	54,427	46,412	52,386	54,717
Equity Shares O/s (m)	**289**	**289**	**289**	**289**
EPS (Rs)	**188.1**	**160.4**	**181.0**	**189.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**41,416**	**45,018**	**49,018**	**57,018**
Tangibles	41,416	45,018	49,018	57,018
Intangibles	-	-	-	-
Acc: Dep / Amortization	**24,425**	**27,018**	**29,745**	**32,661**
Tangibles	24,425	27,018	29,745	32,661
Intangibles	-	-	-	-
Net fixed assets	**16,990**	**17,999**	**19,272**	**24,356**
Tangibles	16,990	17,999	19,272	24,356
Intangibles	-	-	-	-
Capital Work In Progress	602	1,000	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	1,81,960	2,01,960	2,01,960	2,01,960
Net Deferred tax assets	(3,464)	(3,742)	(4,058)	(758)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	10,635	9,445	10,919	12,011
Trade receivables	17,251	13,077	15,118	16,630
Cash & Bank Balance	2,773	4,173	13,118	17,233
Other Current Assets	17,136	15,257	17,638	19,402
Total Assets	**2,47,733**	**2,63,251**	**2,79,420**	**2,93,026**
Equity				
Equity Share Capital	2,894	2,894	2,894	2,894
Other Equity	1,96,361	2,11,348	2,28,795	2,41,502
Total Networth	**1,99,255**	**2,14,242**	**2,31,689**	**2,44,396**
Non-Current Liabilities				
Long Term borrowings	1,677	1,677	1,677	1,677
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	31,997	32,693	29,397	32,336
Other current liabilities	11,340	10,898	12,599	13,858
Total Equity & Liabilities	**2,47,733**	**2,63,251**	**2,79,420**	**2,93,026**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	65,802	55,601	47,779	49,987
Add. Depreciation	2,464	2,593	2,727	2,916
Add. Interest	9,495	14,071	15,576	16,070
Less Financial Other Income	17,336	14,071	15,576	16,070
Add. Other	(26,132)	(14,031)	-	-
Op. profit before WC changes	51,629	58,234	66,082	68,972
Net Changes-WC	3,765	7,541	(7,545)	(207)
Direct tax	(16,777)	(12,510)	(14,245)	(18,483)
Net cash from Op. activities	**38,618**	**53,265**	**44,291**	**50,282**
Capital expenditures	(2,800)	(4,000)	(4,000)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	20,345	(20,000)	-	-
Net Cash from Invt. activities	**17,545**	**(24,000)**	**(4,000)**	**(8,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(62,444)	(27,826)	(31,304)	(38,121)
Interest paid	(21)	(40)	(42)	(46)
Others	-	-	-	-
Net cash from Fin. activities	**(62,465)**	**(27,866)**	**(31,346)**	**(38,167)**
Net change in cash	**(6,302)**	**1,399**	**8,945**	**4,115**
Free Cash Flow	35,818	49,265	40,291	42,282

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	**76,397**	**68,159**	**30,792**	**71,559**
YoY gr. (%)	*3.1*	*(8.1)*	*(60.3)*	*(7.2)*
Raw Material Expenses	53,422	46,653	20,666	50,581
Gross Profit	22,974	21,506	10,126	20,977
Margin (%)	*30.1*	*31.6*	*32.9*	*29.3*
EBITDA	**13,672**	**12,528**	**4,085**	**12,662**
YoY gr. (%)	*18.3*	*2.1*	*(65.9)*	*(0.9)*
Margin (%)	*17.9*	*18.4*	*13.3*	*17.7*
Depreciation / Depletion	617	633	638	643
EBIT	**13,055**	**11,895**	**3,447**	**12,019**
Margin (%)	*17.1*	*17.5*	*11.2*	*16.8*
Net Interest	5	9	10	27
Other Income	3,662	5,327	3,379	2,858
Profit before Tax	**16,713**	**17,212**	**6,817**	**14,851**
Margin (%)	*21.9*	*25.3*	*22.1*	*20.8*
Total Tax	4,097	4,109	1,536	3,469
Effective tax rate (%)	*24.5*	*23.9*	*22.5*	*23.4*
Profit after Tax	**12,616**	**13,103**	**5,280**	**11,382**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**12,616**	**13,103**	**5,280**	**11,382**
YoY gr. (%)	*14.5*	*36.0*	*(53.1)*	*(18.8)*
Margin (%)	*16.5*	*19.2*	*17.1*	*15.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**12,616**	**13,103**	**5,280**	**11,382**
YoY gr. (%)	*14.5*	*0.4*	*(53.1)*	*(18.8)*
Margin (%)	*16.5*	*19.2*	*17.1*	*15.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,616**	**13,103**	**5,280**	**11,382**
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	**43.6**	**45.3**	**18.2**	**39.3**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	188.1	160.4	181.0	189.1
CEPS	196.6	169.4	190.5	199.2
BVPS	688.6	740.4	800.7	844.6
FCF	123.8	170.2	139.2	146.1
DPS	120.0	80.0	90.0	113.3
Return Ratio(%)				
RoCE	23.1	19.9	21.3	20.9
ROIC	18.1	15.7	17.4	17.3
RoE	26.1	22.4	23.5	23.0
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	(5)	(14)	(4)	(4)
Valuation(x)				
PER	16.0	18.7	16.6	15.9
P/B	4.4	4.1	3.8	3.6
P/CEPS	15.3	17.8	15.8	15.1
EV/EBITDA	17.0	19.6	17.0	16.1
EV/Sales	2.9	3.3	2.8	2.6
Dividend Yield (%)	4.0	2.7	3.0	3.8

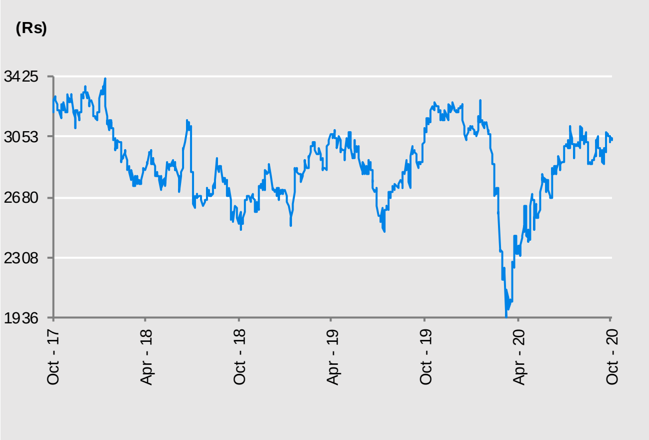
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Motorcycle volume (units)	39,47,550	34,41,624	37,69,243	41,14,232
Three-wheeler volume (units)	6,67,644	4,45,519	5,68,476	6,33,156
Net Realisation (Rs/unit)	63,078	66,645	69,094	68,351

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-20	Hold	2,904	3,060
2	22-Jul-20	Hold	2,713	2,985
3	11-Jul-20	Hold	2,664	2,895
4	21-May-20	Hold	2,504	2,556
5	9-Apr-20	Hold	2,554	2,436
6	30-Jan-20	Reduce	2,969	3,142
7	3-Jan-20	Reduce	3,036	3,072
8	23-Oct-19	Reduce	2,922	3,163

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	95	76
2	Bajaj Auto	Hold	2,904	3,060
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,136	1,001
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	191	164
7	Hero Motocorp	Accumulate	3,438	3,327
8	Mahindra & Mahindra	BUY	703	633
9	Maruti Suzuki	BUY	7,642	7,062
10	Motherson Sumi Systems	BUY	139	121
11	Tata Motors	Hold	138	138
12	TVS Motors	Sell	381	472

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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