

Bajaj Auto Ltd.



Bajaj Auto Ltd.

Better margin performance due to lower costs

CMP INR 2,895	Target INR 3,236	Potential Upside 11.8%	Market Cap (INR Mn) INR 837,761	Recommendation ACCUMULATE	Sector Automobile
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Result highlights

- For Q2FY21, Bajaj Auto reported total revenue from operations of INR 7.041 Cr, degrowth of 6.1% YoY (up 138.8% QoQ)
- Domestic Volumes declined by 9% YoY at 573,586 units whereas Export volume declined by 20% YoY at 479,751
- EBITDA margin expanded 93 bps YoY to 18.0% (+539 bps QoQ). Net Profit de-grew by 18.9% YoY to INR 1,138 Cr. (+115.7% QoQ) attributed to reduction in treasury income coupled with one-time gain noted in last year's Net Profit. Net profit margin contracted 255 bps YoY/173 bps QoQ to 16.2%
- In Q2FY21, the company introduced Pulsar 125 Drum Split Seat and expanded the footprint of Pulsar 125 Disc Split Seat. Further refreshed versions of Platina 100 ES and Duke 50 were also introduced.

MARKET DATA

Shares O/S (Mn)	289
Equity Cap (INR Mn)	216,621
Mkt Cap (INR Mn)	837,761
52 Wk H/L (INR)	3,315/1,793
Volume Avg (3m K)	951
Face Value (INR)	10
Bloomberg Code	BJAUT IN

KEY FINANCIALS

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenue from Operations	25,617	30,358	29,919	27,024	31,682
EBITDA	4,836	5,190	5,096	4,591	5,287
PAT	4,219	4,928	5,212	4,475	5,203
EPS (INR)	145.8	170.3	180.2	154.6	179.8
EBITDA Margin	18.9%	17.1%	17.0%	17.0%	16.7%
NPM	16.5%	16.2%	17.4%	16.6%	16.4%

Source: Company, KRChoksey Research

Pent-up demand led sequential recovery after washout quarter

For Q2FY21, Bajaj Auto reported degrowth of 6.1% YoY (up 138.8% QoQ) as volumes for the quarter declined 10.2% YoY while realization grew 3.4% YoY to Rs67,900 per unit. The growth in realizations was led by favorable mix and price hikes. Overall share in the domestic motorcycle market was 18.2% in H1FY21 (18.2% in H1FY20). For commercial vehicles (CV), the company continues to be the market leader in the domestic market and sold 365,000+ units; overall share in domestic market was 57.3% in FY20. Domestic CV volume continue to be remained under pressure (down by 78% YoY) as people movement is restricted amid lockdown. Within CV, cargo has performed better than passenger and its market share has increased to 37% (highest ever). Overall, market share was 53.3% in H1FY21. Exports revenues declined ~10% YoY (volume declined by 20% YoY at 479,751) while USD realization at INR 74 in Q2FY21 (INR 75.6 in Q1FY21). The management observed ~50%, ~90%, ~90% and ~80% recovery in Asian, Middle East, Africa and LATM, respectively and expect growth in Q3FY21 and full recovery by Q4FY21.

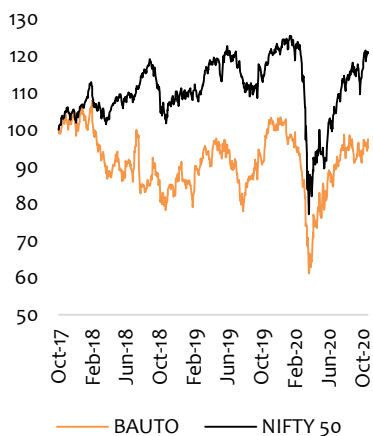
Margin expansion on the back of capacity utilization and lower Other expenses

Gross margins declined 360bps QoQ to 29.3% due to higher raw material cost. EBITDA margin expanded 93 bps YoY to 18.0% (+539 bps QoQ) led by increase in capacity utilization and reduction in Other expenses. Management expects raw material cost to increase in Q3; which will be passed to the consumers with recent price hike.

Domestic demand outlook grim in near-term; Export markets offers cushion

As per the latest data release by Auto Dealer's Association, 2W sales were weak in Navaratri and Dussehra; sales down by ~15% YoY. Overall demand for moped and gearless scooters is less. Most distributors have high inventory. All together, we remained cautious on domestic outlook. Nonetheless, export market displays buoyancy and visible from latest results. Bajaj Auto recorded highest ever exports in September (2.12 units) and expect October and November months sales to beat September numbers. Except Philippines, Cambodia and Sri Lanka, strong revival of demand in witnessed in LATM and Africa region.

SHARE PRICE PERFORMANCE

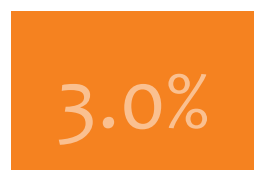


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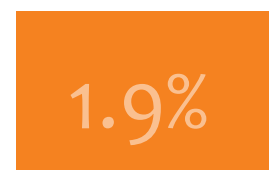
SENSEX	40,146
NIFTY	11,768

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	53.69	53.69	53.66
FIIs	13.56	13.71	13.94
DIIIs	10.42	9.12	8.76
Others	22.33	23.48	23.64
Total	100	100	100



Revenue CAGR between FY20 and FY22E



EBITDA CAGR between FY20 and FY22E

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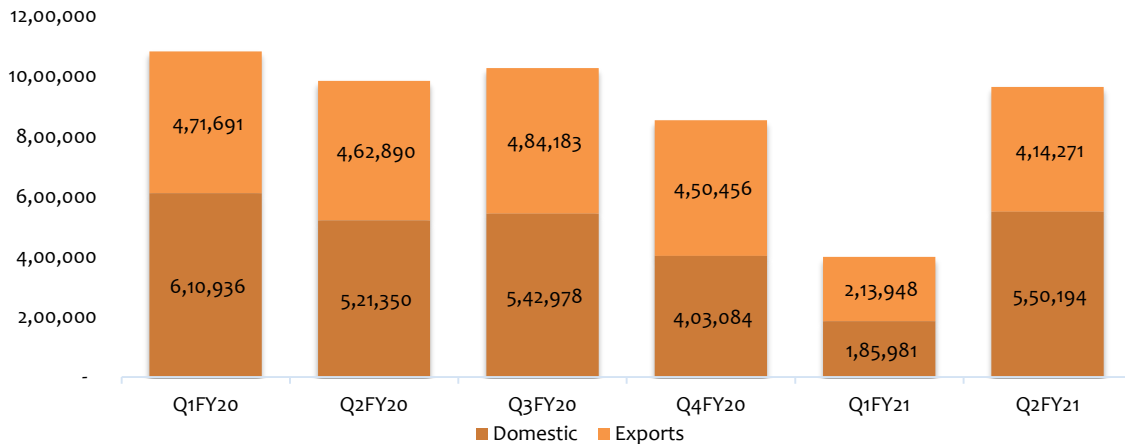
Key Concall Highlights:

(i) Domestic 2W recovery to an extent of 90%. Early signs in festive seasons is not encouraging. The trend is bearish compared to previous year; however, export market is doing well. Domestic 3W recovery remained sluggish with cargo demand recovering faster with 40-50% recovery rate and passenger at 20-25%. Further, Domestic motorcycle business delivered highest margins in the last 16 quarters. (ii) In export segment, the market share has increased in more than 30 markets (out of 70) that contributes ~80% of exports. Motorcycles retail at 90% levels and 3Ws at 80% levels. (iii) Currently the company maintains inventory level of 45 days and relook at production level based on festive season performance. (iv) Bajaj Finance remains key financing partner with ~60% share in overall financing for the company. (v) Advertising and promotion expenses reduced in quarter due to cost saving exercises. The management expects some concerns with rising input cost. (vi) Bajaj Auto volumes declined 10% YoY in line with the industry. (vii) Pulsar 125 has outperformed in the 125cc segment and has 16% market share. Decline in the other Pulsar segments (150, 180 and NS) was due to supply chain constraints. Premium motorcycles is doing well. (viii) Pent up demand for 2W is exhausted; hence, the demand outlook for 2HFY21 is difficult to gauge, as per the management.

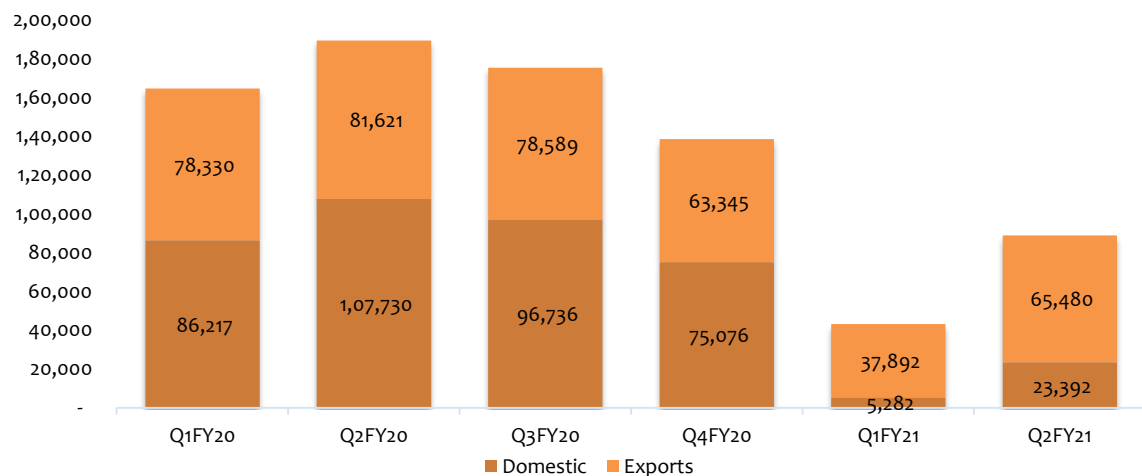
Valuation and view

Taking cues from the Q2FY21 performance, both the domestic is expected to remain subdued in the near and suppressed purchasing power/demand. Furthermore, there is a risk of downtrading (where consumer switches from expensive option to the cheaper alternatives) to the company. While the margins were strong for the quarter, the company expects the business to revive in H2FY21 with improvement in the economic situation in exports and better realization in the domestic markets. While domestic demand continue to remain under pressure, we retain our positive stance on Bajaj Auto based on its resilient performance especially in the export markets and the company's ability to control costs amid demand slowdown. Recently, the management also announced that festive demand remained weaker than expected. **Hence, we reduce a P/E multiple of 18x (earlier, 19x) on FY21E EPS of INR 179.8; to arrive at a target price of INR 3,236 per share; implying an upside potential of 11.8% from CMP. Accordingly, we reiterate an "ACCUMULATE" recommendation on the shares of Bajaj Auto.**

Motorcycles sales (Units Sold)



Commercial Vehicles (Units Sold)



Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

Exhibit 1: Balance Sheet

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
PPE	1,821	1,689	1,602	1,577	1,543
Capital WIP	11	12	47	47	47
Investment property	57	56	54	54	54
Intangible assets	0	20	43	43	43
Intangible assets under development	45	36	14	14	14
Investments in associate of subsidiary	2,529	2,666	2,951	2,951	2,951
Financial assets	10,631	16,392	14,219	15,637	17,197
Income tax assets	439	584	715	786	865
Other non current assets	357	307	251	276	303
Total non current assets	15,890	21,761	19,894	21,384	23,016
Inventories	743	962	1,064	934	1,099
Investments	5,765	1,576	2,780	2,780	2,780
Trade receivables	1,492	2,560	1,725	1,562	1,832
Cash and cash eq	776	916	285	424	661
Other bank balances	17	17	31	31	31
Loans	6	6	6	6	6
Other financial assets	79	113	88	88	88
Other current assets	373	923	637	637	637
Total current assets	9,251	7,073	6,616	6,463	7,133
Total Assets	25,141	28,834	26,510	27,846	30,149
Equity share capital	289	289	289	289	289
Other equity	20,136	22,944	21,373	22,954	24,684
Total Equity	20,425	23,234	21,662	23,243	24,974
Sales tax deferral	121	125	126	126	126
Provisions	112	15	81	81	81
DTL	323	543	346	364	382
Govt grant	47	44	41	41	41
Other non current liabilities	1	1	1	1	1
Total non current liabilities	604	727	595	612	630
Trade payables	3,244	3,787	3,200	2,894	3,402
Other financial liabilities	329	371	548	576	604
Other current liabilities	394	557	329	345	363
Provisions	126	141	158	158	158
Govt grant	3	3	3	3	3
Current tax liabilities	16	16	16	16	16
Total current liabilities	4,111	4,874	4,253	3,991	4,546
Total liabilities	25,141	28,834	26,510	27,846	30,149

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
Sales	25,099	29,567	29,112	26,295	30,907
Other operating revenue	519	790	807	729	775
Revenue from operations	25,617	30,358	29,919	27,024	31,682
Cost of sales	17,410	21,798	21,008	18,948	22,276
Gross profit	8,207	8,560	8,910	8,077	9,405
Excise duty	398	0	0	0	0
Employee benefit expense	1,069	1,257	1,391	1,351	1,616
Finance cost	1	4	3	3	3
Depreciation	315	266	246	322	382
Other expenses	1,928	2,144	2,454	2,162	2,535
Capitalised expenses	(24)	(30)	(30)	-27	-32
Total expenses	21,098	25,438	25,073	22,759	26,781
EBITDA	4,836	5,190	5,096	4,591	5,287
EBIT	4,521	4,924	4,849	4,268	4,904
Share of profit by associates	288	350	322	325	421
PBT before exp	5,965	6,614	6,692	5,967	6,937
Exceptional items	32	(342)	0	0	0
PBT	5,933	6,956	6,692	5,967	6,937
Income tax expense	1,714	2,028	1,480	1,492	1,734
Non controlling interests	(0.01)	(0.01)	0.00	0.00	0.00
Net profit	4,219	4,928	5,212	4,475	5,203
EPS (INR)	145.80	170.29	180.20	154.6	179.8

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Statement

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
Cash from operations activities	4,328	2,487	3,850	4,734	5,603
Cash from investing activities	(2,053)	(338)	1,556	(1,716)	(1,909)
Cash from financing activities	(1,885)	(2,074)	(6,247)	(2,880)	(3,458)
Net inc/dec in cash equivalents	389	74	(840)	139	237
Opening Balance cash	288	776	916	285	424
End Cash	776	916	285	424	661

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY 18	FY 19	FY 20	FY 21E	FY 22E
EBITDA Margin (%)	18.9%	17.1%	17.0%	17.0%	16.7%
Tax rate (%)	28.9%	29.2%	22.1%	25.0%	25.0%
Net Profit Margin (%)	16.5%	16.2%	17.4%	16.6%	16.4%
RoE (%)	22.0%	22.6%	23.2%	19.9%	21.6%
RoCE (%)	22.1%	21.2%	22.4%	18.4%	19.6%
Current Ratio (x)	2.25X	1.45X	1.56X	1.62X	1.57X
EPS (INR per share)	145.8	170.3	180.2	154.6	179.8

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

Bajaj Auto Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
26-Oct-20	2,895	3,236	ACCUMULATE	Buy	More than 15%
18-Aug-20	3,116	3,410	ACCUMULATE	Accumulate	5% – 15%
05-Jun-20	2,817	3,267	BUY	Hold	0 – 5%
21-May-20	2,627	3,051	BUY	Reduce	-5% – 0
03-Apr-20	2,051	2,513	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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