

**BSE SENSEX**

49,217

**S&P CNX**

14,558

**CMP: INR3,663**
**TP: INR3,875 (+6%)**
**Neutral**

**Stock Info**

	BJAUT IN
Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USD\$b)	1060.1 / 14.6
52-Week Range (INR)	4361 / 1793
1, 6, 12 Rel. Per (%)	-7/-7/-2
12M Avg Val (INR M)	2968
Free float (%)	46.3

**Financials Snapshot (INR b)**

Y/E MARCH	2020	2021E	2022E
Sales	299	274	366
EBITDA	51.0	48.6	65.2
Adj. PAT	17.0	17.8	17.8
EBIT Margin (%)	52.1	47.5	58.7
Cons. Adj. EPS (INR)	180	164	203
EPS Gr. (%)	5.8	-8.9	23.7
BV/Sh. (INR)	689	704	723

**Ratios**

RoE (%)	25.0	23.6	28.5
RoCE (%)	23.8	22.0	26.3
Payout (%)	80.1	86.6	86.2

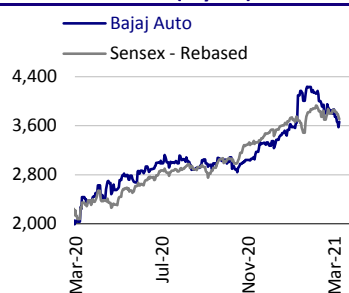
**Valuations**

P/E (x)	20.3	22.3	18.0
P/BV (x)	5.3	5.2	5.1
Div. Yield (%)	3.3	3.9	4.8
FCF Yield (%)	3.4	4.3	5.0

**Shareholding pattern (%)**

As On	Dec-20	Sep-20	Dec-19
Promoter	53.7	53.7	53.5
DII	9.1	10.4	10.1
FII	13.1	13.6	13.9
Others	24.1	22.3	22.5

FII Includes depository receipts

**Stock Performance (1-year)**


## Modifies dividend payout, linking it to cash levels...

### ...90% PAT dividend payout if cash >INR150b

Bajaj Auto (BJAUT)'s board has approved a new dividend policy that links dividend payout to the level of cash/cash equivalents, in turn increasing the payout to 90% of PAT (against 50% payout in the old policy). Considering a) strong operating cashflows, b) limited avenues to deploy cash on the books, and c) declining yields on treasure, this is a step in the right direction and could lead to a rerating.

- Under the old dividend policy, payout was planned at 50% of PAT.
- Under the revised policy, dividend payout is linked to the level of cash on the books, as follows:
  - Cash >INR150b – dividend payout of 90% of PAT
  - Cash at INR75–150b – dividend payout of 70% of PAT
  - Cash <INR75b – dividend payout of 50% of PAT.
- It had net cash of INR168.3b as of Dec'20, implying dividend payout of 90% of PAT.
- This, coupled with the withdrawal of the dividend distribution tax, would result in a substantial increase in DPS. Based on the new policy, we expect DPS to increase from INR75/INR85/INR85 to INR142/INR175/INR190 for FY21/FY22/FY23.
- The accumulation of cash on the balance sheet without clarity on deployment avenues was one of the concerns for Bajaj Auto. By linking dividend payout with cash, it balances dividend payout while also retaining a good amount of cash as a war chest for any potential M&A opportunities. The new dividend policy would substantially reduce the pace of accretion to surplus cash. We believe this is a step in the right direction as it would result in substantial improvement in RoE viz 280bp/490bp (to 28.5%/29.5%) v/s the old dividend policy. If business momentum remains strong, this would lead to a rerating for the stock.
- On the core business side, we expect strength in the export markets to continue, especially since the Africa business would see the benefit of higher crude oil prices (with a lag). In the India business, however, we expect weakness to persist at least for the next 1–2 quarters in both 2W and 3W. With this – coupled with commodity cost inflation, the return of marketing costs (in a weak demand environment), and aggressive pricing in the Entry segment – profitability is expected to be impacted in 4QFY21.
- **Valuation and view:** We lower our EPS for FY22/FY23E by 2%/4%, factoring in lower other income on account of higher dividend payout. BJAUT would benefit from a) the premiumization trend and b) good growth opportunity in exports. While domestic 3W recovery may be delayed, it is vulnerable to possible disruption from electrification. Valuations at 18x/17x FY22/FY23E consol. EPS largely captures the strong growth momentum. Maintain **Neutral**, with TP of INR3,875 (~18x Mar'23 consol EPS).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

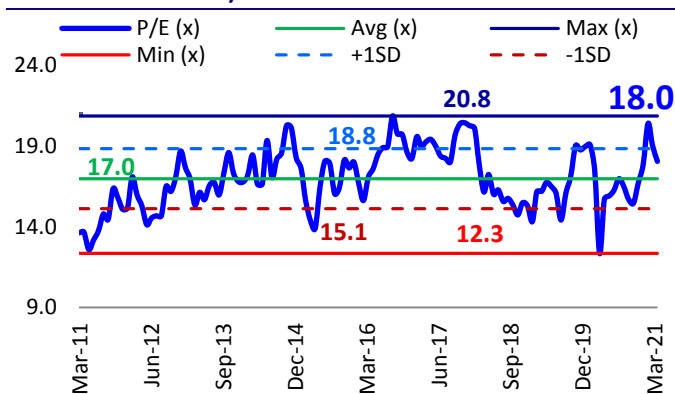
 Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Revised estimates based on dividend distribution policy

	Old Policy			New Policy		
	FY21	FY22	FY23	FY21	FY22	FY23
Dividend Payout (%)	54.6	49.4	45.7	86.6	86.2	88.3
DPS (INR)	75	85	85	142	175	190
Div. Yield (%)	2.1	2.3	2.3	3.9	4.8	5.2
RoE (%)	22.9	25.7	24.6	23.6	28.5	29.5
EPS (INR)	165.2	206.9	223.6	164.1	203.0	215.3

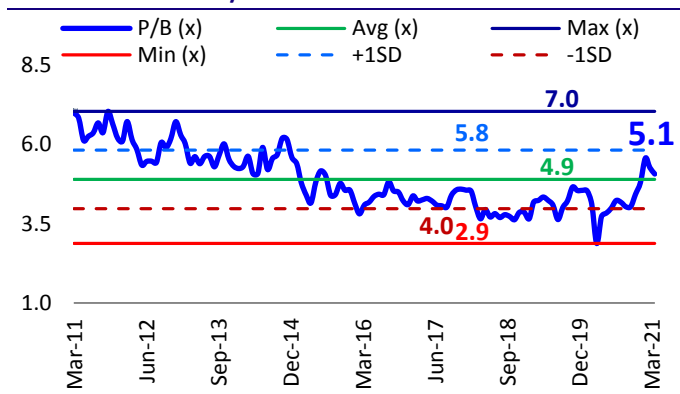
Source: MOFSL

Exhibit 2: BJAUT's P/E band



Source: MOFSL

Exhibit 3: BJAUT's P/BV band



Source: MOFSL

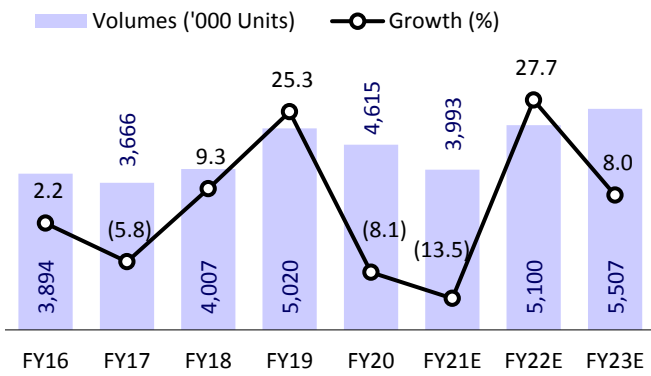
Exhibit 4: Key operating metrics

000 units	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Motorcycles (units)</b>									
Domestic	1,771	1,899	2,001	1,975	2,541	2,078	1,814	2,268	2,427
Growth (%)	-15.6	7.2	5.4	-1.3	28.7	-18.2	-12.7	25.0	7.0
% of total volumes	46.5	48.8	54.6	49.3	50.6	45.0	45.1	44.2	43.8
Exports	1,521	1,459	1,219	1,395	1,696	1,869	1,841	2,246	2,426
Growth (%)	15.0	-4.1	-16.5	14.5	21.6	10.2	-1.5	22.0	8.0
% of total volumes	39.9	37.5	33.2	34.8	33.8	40.5	45.8	43.8	43.8
<b>Total M/Cycles</b>	<b>3,292</b>	<b>3,358</b>	<b>3,220</b>	<b>3,369</b>	<b>4,237</b>	<b>3,948</b>	<b>3,656</b>	<b>4,514</b>	<b>4,853</b>
Growth (%)	-3.8	2.0	-4.1	4.6	25.7	-6.8	-7.4	23.5	7.5
% of total volumes	86.4	86.3	87.8	84.1	84.4	85.5	90.9	88.0	87.6
<b>3Ws</b>									
Domestic	234	255	253	370	399	366	106	292	335
Growth (%)	25.4	8.8	-0.7	46.0	8.1	-8.4	-71.0	175.0	15.0
% of total volumes	6.1	6.5	6.9	9.2	8.0	7.9	2.6	5.7	6.1
Exports	285	280	193	268	383	302	260	325	350
Growth (%)	9.2	-1.6	-31.2	38.9	43.1	-21.2	-14.0	25.0	8.0
% of total volumes	7.5	7.2	5.3	6.7	7.6	6.5	6.5	6.3	6.3
<b>3Ws</b>	<b>519</b>	<b>535</b>	<b>446</b>	<b>637</b>	<b>783</b>	<b>668</b>	<b>366</b>	<b>616</b>	<b>686</b>
Growth (%)	16.0	3.1	-16.7	42.9	22.8	-14.7	-45.2	68.5	11.3
% of total volumes	13.6	13.7	12.2	15.9	15.6	14.5	9.1	12.0	12.4
<b>Total Volumes</b>	<b>3,811</b>	<b>3,894</b>	<b>3,666</b>	<b>4,007</b>	<b>5,020</b>	<b>4,615</b>	<b>4,021</b>	<b>5,130</b>	<b>5,539</b>
Growth (%)	-1.5	2.2	-5.8	9.3	25.3	-8.1	-12.9	27.6	8.0
<b>Avg. Net Realn (INR/unit)</b>	<b>51,853</b>	<b>53,697</b>	<b>54,482</b>	<b>55,745</b>	<b>52,928</b>	<b>56,462</b>	<b>59,961</b>	<b>63,363</b>	<b>64,566</b>
Growth (%)	7.0	3.6	1.5	2.3	-5.1	6.7	6.2	5.7	1.9
<b>Net Revenues (INR B)</b>	<b>211</b>	<b>222</b>	<b>214</b>	<b>247</b>	<b>296</b>	<b>291</b>	<b>270</b>	<b>358</b>	<b>393</b>
Growth (%)	7.0	5.0	-3.5	15.6	19.7	-1.5	-7.2	32.7	9.6
<b>EBITDA (INR B)</b>	<b>41</b>	<b>48</b>	<b>44</b>	<b>48</b>	<b>52</b>	<b>51</b>	<b>49</b>	<b>66</b>	<b>71</b>
EBITDA margins (%)	19.0	21.2	20.3	19.2	17.1	17.0	17.8	17.8	17.7
<b>EBITDA (INR/Unit)</b>	<b>10,801</b>	<b>12,282</b>	<b>12,063</b>	<b>12,073</b>	<b>10,345</b>	<b>11,042</b>	<b>12,205</b>	<b>12,794</b>	<b>12,895</b>
Growth (%)	0.3	16.2	-7.5	9.4	7.3	-1.9	-3.7	33.7	8.8
<b>Consol. PAT (INR B)</b>	<b>33</b>	<b>41</b>	<b>41</b>	<b>42</b>	<b>49</b>	<b>52</b>	<b>47</b>	<b>59</b>	<b>62</b>
Consol. EPS	113	140	141	146	170	180	164	203	215

Source: Company, MOFSL

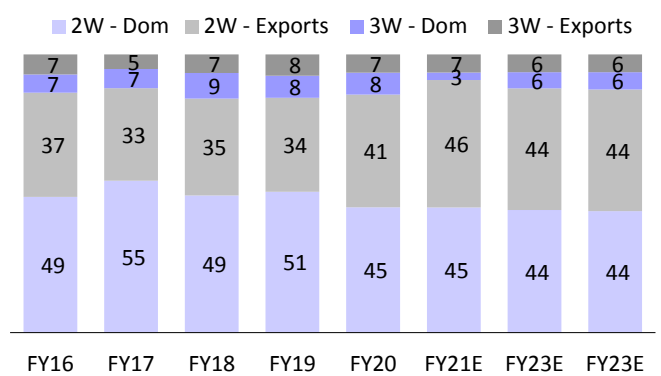
Stories in charts

Exhibit 5: Trend in volume and volume growth



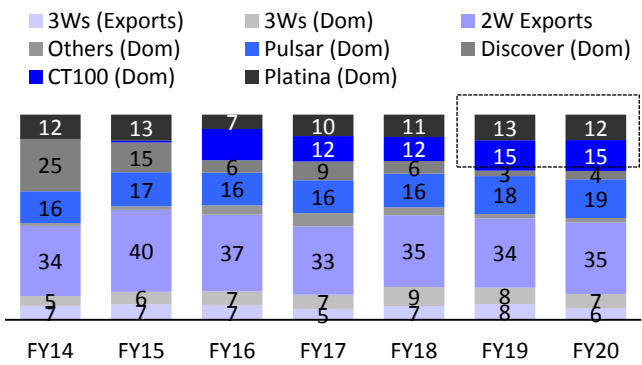
Source: Company, MOFSL

Exhibit 6: Product mix trend



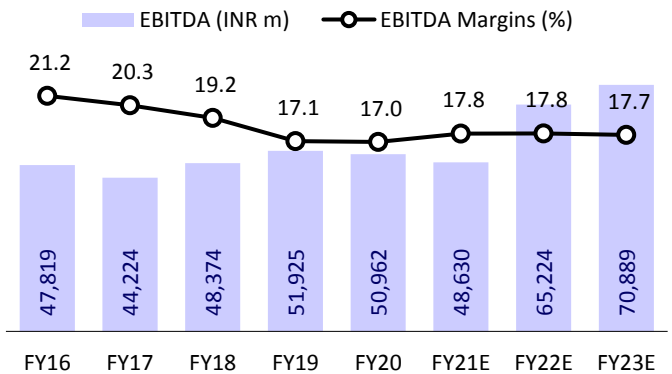
Source: Company, MOFSL

Exhibit 7: Trend in volume mix



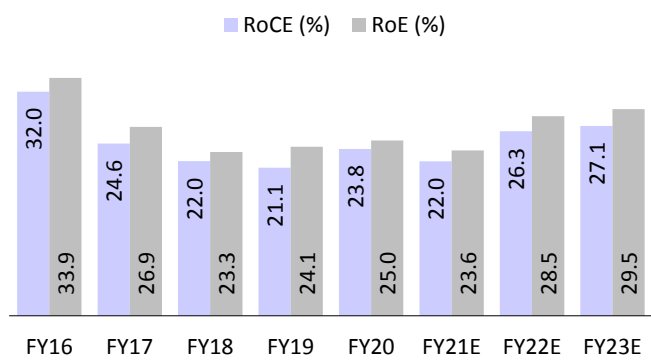
Source: Company, MOFSL

Exhibit 8: Trend in EBITDA and EBITDA margins



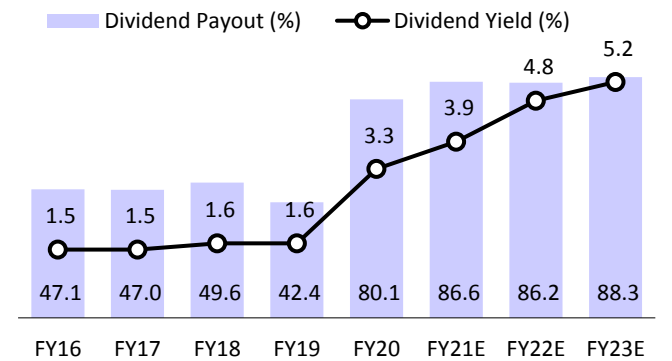
Source: Company, MOFSL

Exhibit 9: Trend in return ratios



Source: Company, MOFSL

Exhibit 10: Dividend payout to remain healthy



Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Volumes</b>	<b>38,93,581</b>	<b>36,65,950</b>	<b>40,06,788</b>	<b>50,19,503</b>	<b>4,615,212</b>	<b>3,993,368</b>	<b>5,100,115</b>	<b>5,506,599</b>
Change (%)	2.2	-5.8	9.3	25.3	-8.1	-13.5	27.7	8.0
<b>Net Sales</b>	<b>2,25,865</b>	<b>2,17,667</b>	<b>2,52,189</b>	<b>3,03,576</b>	<b>299,187</b>	<b>273,524</b>	<b>366,497</b>	<b>401,398</b>
Change (%)	4.5	-3.6	15.9	20.4	-1.4	-8.6	34.0	9.5
<b>Total Expenditure</b>	<b>1,78,046</b>	<b>1,73,443</b>	<b>2,03,815</b>	<b>2,51,651</b>	<b>248,224</b>	<b>224,894</b>	<b>301,273</b>	<b>330,508</b>
<b>EBITDA</b>	<b>47,819</b>	<b>44,224</b>	<b>48,374</b>	<b>51,925</b>	<b>50,962</b>	<b>48,630</b>	<b>65,224</b>	<b>70,889</b>
Change (%)	16.2	-7.5	9.4	7.3	-1.9	-4.6	34.1	8.7
EBITDA Margins (%)	21.2	20.3	19.2	17.1	17.0	17.8	17.8	17.7
Depreciation	3,072	3,073	3,148	2,657	2,464	2,594	2,705	3,010
<b>EBIT</b>	<b>44,748</b>	<b>41,151</b>	<b>45,226</b>	<b>49,268</b>	<b>48,498</b>	<b>46,036</b>	<b>62,519</b>	<b>67,879</b>
Int. & Fin. Charges	11	14	13	45	32	76	75	75
Other Income	10,736	12,220	12,933	14,389	17,336	13,477	11,375	10,563
Non-recurring Exp.	0	0	320	-3,420	0	0	0	0
<b>PBT</b>	<b>55,473</b>	<b>53,356</b>	<b>57,826</b>	<b>67,032</b>	<b>65,802</b>	<b>59,437</b>	<b>73,819</b>	<b>78,367</b>
Tax	16,177	15,081	17,145	20,280	14,802	13,873	17,670	18,882
Effective Rate (%)	29.2	28.3	29.6	30.3	22.5	23.3	23.9	24.1
<b>PAT</b>	<b>39,297</b>	<b>38,276</b>	<b>40,681</b>	<b>46,752</b>	<b>51,000</b>	<b>45,564</b>	<b>56,150</b>	<b>59,484</b>
Change (%)	39.7	-2.6	6.3	14.9	9.1	-10.7	23.2	5.9
Add: Share in profit of asso.	1,316	2,519	1,283	4,910	1,119	1,911	2,599	2,809
<b>Adj. PAT</b>	<b>40,612</b>	<b>40,795</b>	<b>42,189</b>	<b>49,276</b>	<b>52,119</b>	<b>47,476</b>	<b>58,749</b>	<b>62,293</b>
Change (%)	24.5	0.4	3.4	16.8	5.8	(8.9)	23.7	6.0

Balance Sheet								(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	2,894	2,894	2,894	2,894	2,894	2,894	2,894	2,894
<b>Net Worth</b>	<b>132,666</b>	<b>170,341</b>	<b>191,039</b>	<b>217,799</b>	<b>199,255</b>	<b>203,729</b>	<b>209,238</b>	<b>213,742</b>
Deferred Tax	2,028	3,136	3,234	5,427	3,464	4,653	6,129	7,696
Loans	1,886	1,764	1,674	1,685	1,669	1,669	1,669	1,669
<b>Capital Employed</b>	<b>136,579</b>	<b>175,242</b>	<b>195,947</b>	<b>224,910</b>	<b>204,388</b>	<b>210,050</b>	<b>217,036</b>	<b>223,107</b>
Gross Fixed Assets	51,572	45,917	46,402	42,956	41,573	43,475	46,675	55,375
Less: Depreciation	24,183	25,900	27,619	25,317	24,583	27,177	29,881	32,892
<b>Net Fixed Assets</b>	<b>27,389</b>	<b>20,018</b>	<b>18,783</b>	<b>17,639</b>	<b>16,990</b>	<b>16,298</b>	<b>16,794</b>	<b>22,483</b>
Capital WIP	522	422	565	480	602	700	3,500	800
Investments	102,606	147,315	175,883	191,594	181,960	181,960	181,960	181,960
<b>Current Assets</b>	<b>34,348</b>	<b>40,395</b>	<b>42,964</b>	<b>64,091</b>	<b>48,181</b>	<b>52,287</b>	<b>69,979</b>	<b>78,318</b>
Inventory	7,191	7,284	7,426	9,615	10,635	9,723	13,028	14,268
Sundry Debtors	7,179	9,533	14,919	25,597	17,251	20,233	27,111	29,692
Cash & Bank Balances	8,176	2,798	7,609	9,054	2,773	6,990	9,287	11,845
Loans & Advances	365	362	369	380	386	353	472	517
Others	11,437	20,418	12,641	19,445	17,136	14,988	20,082	21,994
<b>Current Liab. &amp; Prov.</b>	<b>28,286</b>	<b>32,907</b>	<b>42,248</b>	<b>48,894</b>	<b>43,345</b>	<b>41,194</b>	<b>55,196</b>	<b>60,453</b>
Sundry Creditors	20,270	22,357	32,443	37,867	31,997	29,252	39,196	42,928
Other Liabilities	6,410	8,559	7,427	9,475	8,964	8,195	10,980	12,026
Provisions	1,605	1,991	2,378	1,552	2,385	3,747	5,021	5,499
<b>Net Current Assets</b>	<b>6,063</b>	<b>7,488</b>	<b>716</b>	<b>15,197</b>	<b>4,836</b>	<b>11,092</b>	<b>14,783</b>	<b>17,865</b>
<b>Application of Funds</b>	<b>136,580</b>	<b>175,242</b>	<b>195,947</b>	<b>224,911</b>	<b>204,387</b>	<b>210,050</b>	<b>217,036</b>	<b>223,107</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Basic (INR)</b>								
<b>Consol EPS</b>	<b>143.5</b>	<b>141.1</b>	<b>151.3</b>	<b>165.4</b>	<b>180.1</b>	<b>164.1</b>	<b>203.0</b>	<b>215.3</b>
EPS growth (%)	27.3	-1.7	7.3	9.3	5.8	-8.9	23.7	6.0
Consol Cash EPS	154.1	151.7	162.2	174.6	188.6	173.0	212.4	225.7
Book Value per Share	458.5	588.7	660.2	752.7	688.6	704.0	723.1	738.6
DPS	55.0	55.0	60.0	60.0	120.0	142.0	175.0	190.0
Payout (Incl. Div. Tax) %	46.1	46.9	47.8	43.6	80.1	86.6	86.2	88.3
<b>Valuation (x)</b>								
P/E	25.8	26.3	24.5	22.4	20.3	22.3	18.0	17.0
Cash P/E	24.1	24.4	22.9	21.2	19.4	21.2	17.3	16.2
EV/EBITDA	20.2	20.9	18.4	16.8	17.2	17.9	13.3	12.2
EV/Sales	4.3	4.2	3.5	2.9	2.9	3.2	2.4	2.2
Price to Book Value	8.1	6.3	5.6	4.9	5.3	5.2	5.1	5.0
Dividend Yield (%)	1.5	1.5	1.6	1.6	3.3	3.9	4.8	5.2
<b>Profitability Ratios (%)</b>								
RoE	34.7	26.9	24.2	23.4	25.0	23.6	28.5	29.5
RoCE	32.0	24.6	22.0	21.1	23.8	22.0	26.3	27.1
RoIC	182	118	174	193	176	179	117	116
<b>Turnover Ratios</b>								
Debtors (Days)	11	15	21	31	21	27	27	27
Inventory (Days)	11	12	11	12	13	13	13	13
Creditors (Days)	31	35	46	46	39	39	39	39
Working Capital (Days)	-9	-9	-14	-3	-5	1	1	1
Asset Turnover (x)	1.7	1.2	1.3	1.3	1.5	1.3	1.7	1.8
Fixed Asset Turnover	4.9	4.5	5.5	6.8	7.1	6.4	8.1	7.9
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>(INR M)</b>								
<b>Profit before Tax</b>	<b>55,473</b>	<b>53,356</b>	<b>57,826</b>	<b>67,032</b>	<b>65,802</b>	<b>59,437</b>	<b>62,519</b>	<b>67,879</b>
Depreciation & Amort.	3,072	3,073	3,148	2,657	2,464	2,594	2,705	3,010
Direct Taxes Paid	-18,195	-15,026	-16,851	-19,643	-16,777	-12,684	-16,193	-17,315
(Inc)/Dec in Working Capital	5,753	2,533	10,451	-7,030	3,765	-2,040	-1,394	-523
Other Items	-9236	-10269	-11738	-18061	-16635	-13401	-11300	
<b>CF from Oper. Activity</b>	<b>36,866</b>	<b>33,667</b>	<b>42,836</b>	<b>24,954</b>	<b>38,620</b>	<b>47,383</b>	<b>59,011</b>	<b>63,614</b>
Extra-ordinary Items	-298	-275	-228	-58	-3	0	0	0
<b>CF after EO Items</b>	<b>36,568</b>	<b>33,392</b>	<b>42,608</b>	<b>24,895</b>	<b>38,618</b>	<b>47,383</b>	<b>59,011</b>	<b>63,614</b>
(Inc)/Dec in FA+CWIP	-2,582	-1,970	-1,833	-1,082	-2,800	-2,000	-6,000	-6,000
<b>Free Cash Flow</b>	<b>33,986</b>	<b>31,422</b>	<b>40,775</b>	<b>23,814</b>	<b>35,818</b>	<b>45,383</b>	<b>53,011</b>	<b>57,614</b>
(Pur)/Sale of Invest.	2,394	-34,913	-17,347	-1,359	20,345	0	0	0
<b>CF from Inv. Activity</b>	<b>-188</b>	<b>-36,883</b>	<b>-19,180</b>	<b>-2,441</b>	<b>17,545</b>	<b>-2,000</b>	<b>-6,000</b>	<b>-6,000</b>
Inc. / Dec.in Networth	0	0	0	0		0	0	0
Inc/(Dec) in Debt	501	128	0	28		0	0	0
Interest Paid	-5	-6	-4	-35	-21	-76	-75	-75
Dividends Paid	-34,337	-2,022	-18,848	-20,733	-62,444	-41,091	-50,640	-54,980
<b>CF from Fin. Activity</b>	<b>-33,841</b>	<b>-1,901</b>	<b>-18,853</b>	<b>-20,741</b>	<b>-62,465</b>	<b>-41,167</b>	<b>-50,715</b>	<b>-55,055</b>
<b>Inc/(Dec) in Cash</b>	<b>2,539</b>	<b>-5,392</b>	<b>4,575</b>	<b>1,714</b>	<b>-6,302</b>	<b>4,217</b>	<b>2,296</b>	<b>2,558</b>
Add: Beginning Bal.	5,637	8,190	3,034	7,340	9,075	2,773	6,990	9,287
<b>Closing Balance</b>	<b>8,175</b>	<b>2,798</b>	<b>7,609</b>	<b>9,054</b>	<b>2,773</b>	<b>6,990</b>	<b>9,287</b>	<b>11,845</b>

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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