

Reduce

Stellar margin performance, Valuation caps upside

- Bajaj Auto's Q3FY21 EBITDA was 8% ahead of our expectations on the back of better than expected gross profit and lower other expenses. EBITDA grew 27% YoY to Rs 17.29bn with margin of 19.4% (+152bps YoY) owing to better mix (higher share of Pulsar 125 and ultra-premium segment and strong export volume) and cost control measures.
- Management appears enthused by market share gains in export and the domestic 125cc segment with ramp-up of Pulsar sales. However, they are cautious on the margin front due to rising input prices. In Q3, the company took a price hike of 1% and further 1.5% in January (mainly in the entry level segment) to offset commodity inflation. Management expects RM cost to increase by 300bps QoQ in 4Q and rise in other expenses due to the increase in advertisement cost.
- We maintain our positive stance on Bajaj Auto given 1) improving profitability in its domestic 2W business, 2) diversified revenue stream (45-50% sales comes from export and 3) strong cash reserves. Recovery in high end bike volumes and continued exports growth momentum would drive decent earnings growth (15% over FY21-23E). However, we believe that consensus estimates adequately factor all the near term positives. Current valuations at a P/E of 20/18x on FY22/FY23E leave limited scope for re-rating. **We change our rating from Accumulate to Reduce with target price Rs 3,852 (17x FY23E core EPS + cash + KTM stake).**

Domestic 2W- Ride on Pulsar volume

Given that customers at the lower end of the pyramid have been impacted more by the pandemic than people in the middle class and upwards, higher end bike demand has been relatively better compared to overall lower end bike (100-110cc) demand. Introduction of Pulsar 125cc (commands 23% market share in the 125cc segment despite being the most expensive amongst competition) is helping the company to gain market share in the 125cc segment where Hero and HMSI have strong presence with their brands like Glamour, Splendor and CB Shine. In Q3, Pulsar contributed to more than 50% of domestic volume. In addition, other premium segments (Avenger, KTM and Dominar) are also receiving a good response.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	89,099	76,397	16.6	71,559	24.5
Total Expense	71,803	62,725	14.5	58,896	21.9
EBITDA	17,296	13,672	26.5	12,662	36.6
Depreciation	650	617	5.4	643	1.1
EBIT	16,646	13,055	27.5	12,019	38.5
Other Income	3,692	3,662	0.8	2,858	29.2
Interest	10	5	117.0	27	(61.5)
EBT	20,328	16,713	21.6	14,851	36.9
Tax	4,765	4,097	16.3	3,469	37.4
RPAT	15,563	12,616	23.4	11,382	36.7
APAT	15,563	12,616	23.4	11,382	36.7
			(bps)		(bps)
Gross Margin (%)	29.2	30.1	(87)	29.3	(12)
EBITDA Margin (%)	19.4	17.9	152	17.7	172
NPM (%)	17.5	16.5	95	15.9	156
Tax Rate (%)	23.4	24.5	(107)	23.4	8
EBIT Margin (%)	18.7	17.1	159	16.8	189

CMP	Rs 3,703
Target / Upside	Rs 3,852 / 4%
NIFTY	14,590

Scrip Details

Equity / FV	Rs 2,894mn / Rs 10
Market Cap	Rs 1,072bn
	USD 15bn
52-week High/Low	Rs 3,807/ 1,789
Avg. Volume (no)	8,40,639
Bloom Code	BJAUT IN

Price Performance	1M	3M	12M
Absolute (%)	14	23	20
Rel to NIFTY (%)	5	1	(1)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	53.7	53.7	53.7
MF/Banks/FIs	10.1	10.4	11.5
FIIIs	13.7	13.6	13.9
Public / Others	22.5	22.3	21.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	23.7	19.7	17.9
EV/EBITDA	17.8	13.8	12.0
ROE (%)	19.7	19.8	19.6
RoACE (%)	19.4	19.6	19.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	2,72,302	3,29,218	3,56,185
EBITDA	47,367	58,855	64,955
PAT	45,155	54,310	59,789
EPS (Rs.)	156.1	187.7	206.6

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With pent-up demand now exhausted, retail 2W volumes growth is likely to be slow in Q4. However, expected to see double digit growth owing to low base. Domestic CV volumes continue to remain muted and are dependent on return of adequate short distance mobility demand. The demand is back to 40% of normal level for passenger segment while 70% for cargo segment.

Stable outlook for export

The export volume outlook is upbeat led by increasing traction in personal mobility and entering into new geographies. It aims to deepen market share in existing markets (its overall market share is ~30-34% in its targeted markets) and ~85% of its revenue come from markets where it is either market leader or close number 2 player and has a minimum 25% market share. We expect the company will continue to gain market share in the export market led by superior product offerings, better distribution network, lean cost structure due to high economies of scale and higher resale value. 3W export growth is recovering well driven by entry into new markets and this will continue going forward.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Dart Estimates	Variance	Comments
Revenue	89,099	89,516	0	NA
EBIDTA	17,296	15,844	9	Cost control measures
EBIDTA Margin (%)	19.4	17.7	171bps	
PAT	15,563	14,480	7	Higher other income

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	% Change	New	Previous	% Change
Net sales	3,29,218	3,09,245	6.5	3,56,185	3,35,251	6.2
EBITDA	58,855	52,314	12.5	64,955	56,496	15.0
EBITDA margin(%)	17.9	16.9	96bps	18.2	16.9	138bps
APAT	54,310	51,303	5.9	59,789	55,505	7.7
EPS	187.7	177.3	5.9	206.6	191.8	7.7

Source: Company, DART

Exhibit 3: Key Assumptions

(in units)	FY19	FY20	FY21E	FY22E	FY23E
2W	42,36,873	39,77,846	36,26,934	41,29,670	43,46,102
% YoY	25.7	(6.1)	(8.8)	13.9	5.2
3W	7,77,603	6,67,644	3,53,802	5,59,141	5,97,273
% YoY	22.3	(14.1)	(46.9)	58.0	6.8
Total Sales	50,14,476	46,45,490	39,80,736	46,88,811	49,43,374
% YoY	25.2	(7.4)	(14.3)	17.8	5.4

Source: DART, Company

Key Concall Highlights

- Baja Auto's growth story in Q3 was premised on 1) Capturing demand recovery in domestic and exports market by resolving supply chain issues and 2) maintaining margins with focus on premium (high margin) portfolio, cost control measures, price increases taken to offset rise in commodity prices.
- In Q3, EBITDA margin was driven by favorable product mix and high operating leverage.

Domestic

- Domestic two-wheelers continued to grow on the back of robust demand for Pulsar, Dominar, KTM and Husqvarna. Some cannibalization seen in the 150cc Neon due to price increase.
- Bajaj is focused on building the 250cc model portfolio and driving the premium segment of portfolio. Company is working to push higher CC variants to customers.
- Pulsar 125 witnessed strong traction with sales of over 164k units; (+32% QoQ); with market share in the segment grown to 22.8% for Q3FY21 (vs 16% market share in Q2FY21).
- Domestic CV volumes continue to remain muted and is dependent on return of adequate short distance mobility demand.

Export

- Acceleration of exports business was driven by 1) recovery in most international markets, 2) leadership position in markets, 3) robust dealership network and 4) good logistics management. Bajaj gained market share in all its international markets and is expected to report good Q4 on the export front.
- Container constraints impacting sales leading to 15% of order book spill over in next month. Bajaj considering entering long term contracts with logistics to avoid delays. Most containers diverted to the USA and China routes, which are more lucrative.
- Overall 2W exports demand is back to 90% of pre-covid levels with demand from Africa recovered to beyond pre-Covid levels and LatAm at 80-90%. In South Asia, demand recovery seen in Bangladesh and Sri Lanka are doing well. However, ASEAN (mainly Philippines) is still underperforming at 50% levels.
- 3W sales are back to 40% level while servicing is back to 90%. The Cargo 3W is outperforming and is back to 70%. 3W demand in LatAm market is back to 50%.
- Boxer is well received and sold over 380k units in various international markets.
- In value terms, exports were Rs 40.82bn in Q3FY21.
- Realization per US\$ was ~Rs 73.4 in Q3FY21 vs ~Rs 74 in Q2FY21.

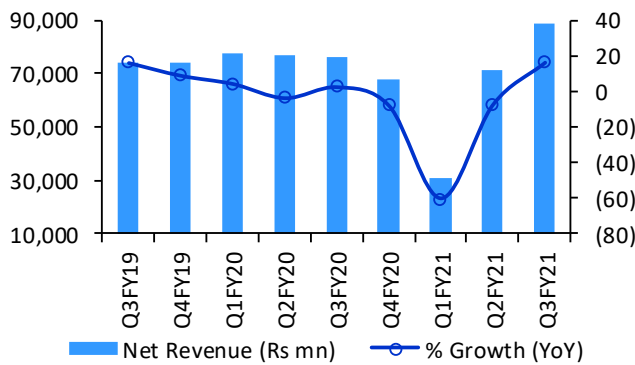
Margin

- Bajaj has taken price hikes to offset MEIS withdrawal in the international markets. In Q3, the company took a price hike of 1% and a further price increase of 1.25% in January (mainly in the entry level segment) to offset commodity price rise. Further price increase to be spread out over a period of time depending on the demand scenario. Lower operating leverage and unrecovered commodity cost to put pressure on margins in Q4FY21 with RM as a % of sales likely to increase by 300bps QoQ. In the 3W domestic market, company has taken a 1% price hike.

Others

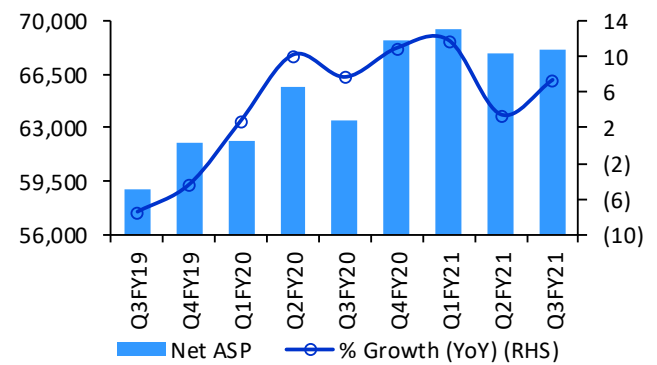
- Bajaj is actively pursuing manufacturing 2W and 3W on the electric platform. Company is working on launching an electric 3W vehicle in 2HFY22.
- Co is likely to reopen bookings for Chetak electric in Pune and Bangalore after resolving supply constraints wrt availability of semi-conductors and other parts.
- Bajaj Auto signed an MoU with Maharashtra Govt to set up a new manufacturing facility in Chakan for the manufacture of high-end motorcycles and electric vehicles, at proposed investment of Rs 6.5bn. This new facility is expected to commence production in the year 2023.
- Financing is forthcoming for the motorcycle segment improving and, at present, stands at 63% with collections back to normal levels. About 60% of financed Bajaj vehicles are done by Bajaj Finance.
- For Q3FY21, spare parts revenue is Rs 9.9bn.
- Cash and cash equivalents stood at Rs 168.9bn at the end of Q3FY21 vs Rs 162.4bn at Q2FY21 end.

Exhibit 4: Net Revenue grew 16.6% YoY



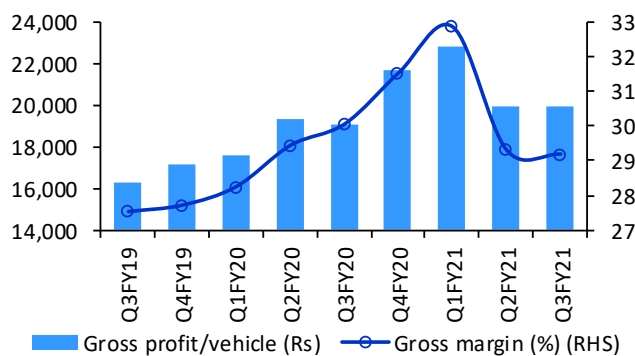
Source: DART, Company

Exhibit 5: Net ASP grew 7.3% YoY



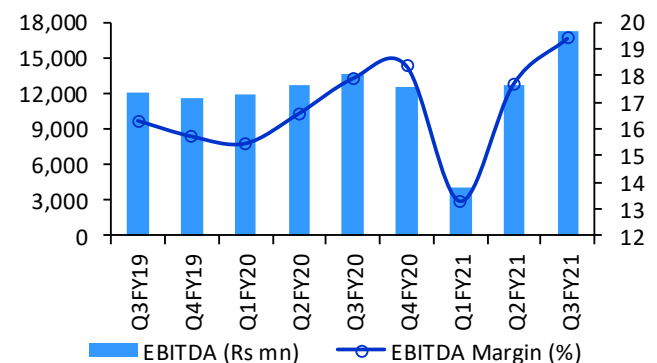
Source: DART, Company

Exhibit 6: Gross Margin remained flat QoQ



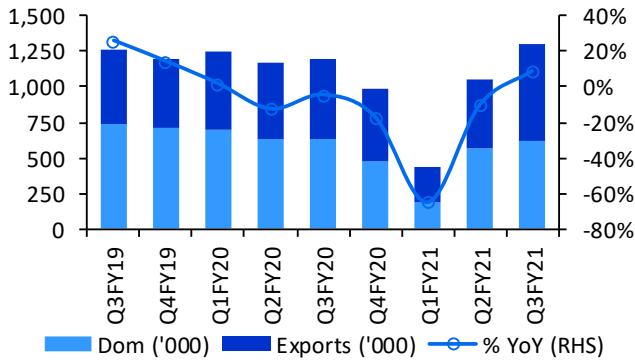
Source: DART, Company

Exhibit 7: EBITDA Margin improved QoQ/YoY



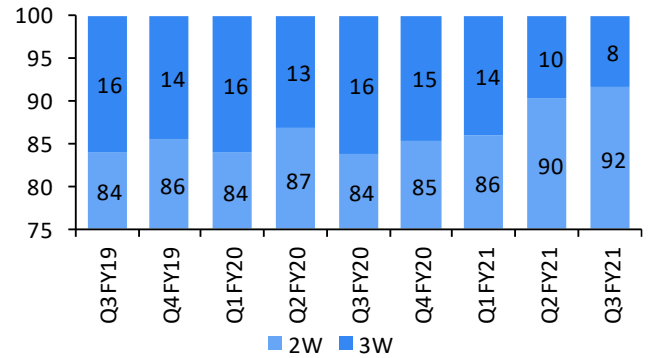
Source: DART, Company

Exhibit 8: Export Volume Mix Was favorable



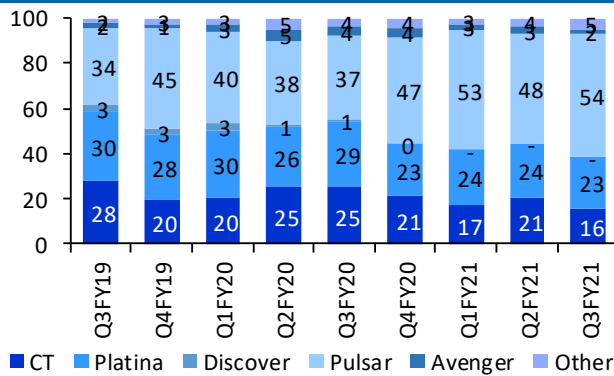
Source: DART, Company

Exhibit 9: Segment Mix was unfavorable



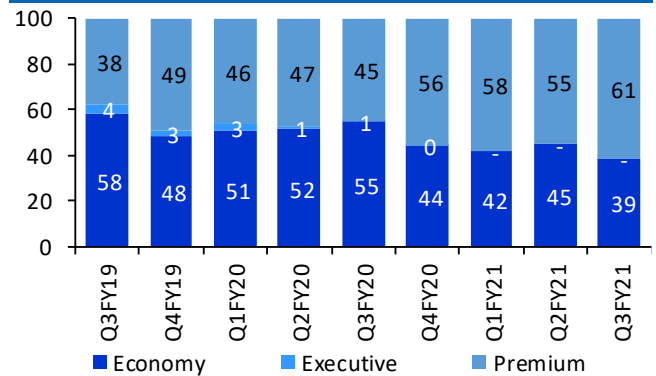
Source: DART, Company

Exhibit 10: 2W - Model wise breakup (%)



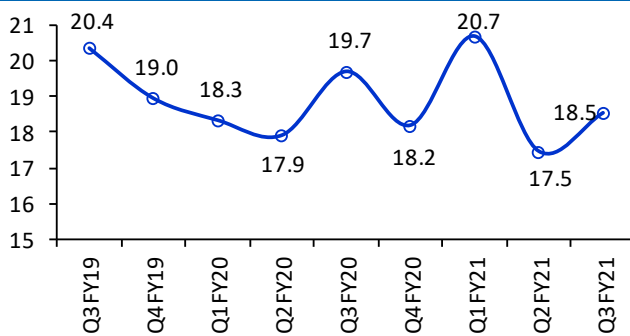
Source: DART, Company

Exhibit 11: 2W - Segment wise breakup (%)



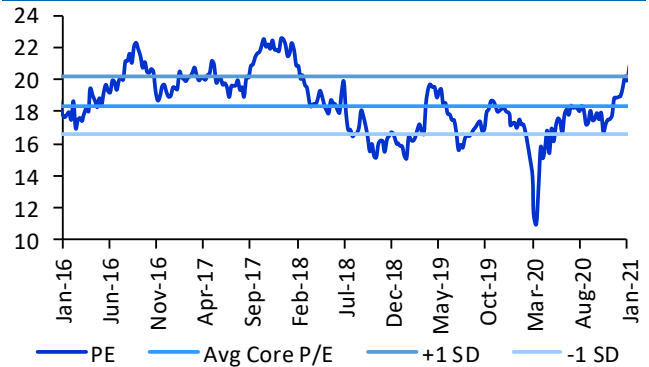
Source: DART, Company

Exhibit 12: Motorcycle market share (%)



Source: DART, Company

Exhibit 13: 1 Year Fwd PE Band-Trading at upper band



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	2,99,187	2,72,302	3,29,218	3,56,185
Total Expense	2,48,224	2,24,935	2,70,363	2,91,230
COGS	2,10,083	1,91,501	2,29,596	2,46,995
Employees Cost	13,892	13,627	15,970	17,700
Other expenses	24,249	19,807	24,797	26,535
EBIDTA	50,962	47,367	58,855	64,955
Depreciation	2,464	2,587	2,600	2,673
EBIT	48,498	44,779	56,255	62,282
Interest	32	9	10	11
Other Income	17,483	15,478	16,850	18,198
Exc. / E.O. items	0	0	0	0
EBT	65,949	60,248	73,095	80,470
Tax	14,802	15,093	18,785	20,681
RPAT	51,147	45,155	54,310	59,789
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	51,147	45,155	54,310	59,789

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,894	2,894	2,894	2,894
Minority Interest	0	0	0	0
Reserves & Surplus	1,96,361	2,56,623	2,84,889	3,18,635
Net Worth	1,99,255	2,59,517	2,87,783	3,21,529
Total Debt	0	0	0	0
Net Deferred Tax Liability	3,464	3,745	3,875	4,342
Total Capital Employed	2,02,719	2,63,261	2,91,658	3,25,871

Applications of Funds

Net Block	16,990	18,296	19,122	20,550
CWIP	602	500	500	500
Investments	12,333	12,333	12,333	12,333
Current Assets, Loans & Advances	2,17,808	2,80,356	3,18,551	3,60,253
Inventories	10,635	8,206	9,922	10,734
Receivables	17,251	18,651	22,549	24,396
Cash and Bank Balances	1,72,710	2,28,830	2,57,951	2,95,092
Loans and Advances	7,203	14,160	17,119	18,522
Other Current Assets	10,009	10,509	11,009	11,509
Less: Current Liabilities & Provisions	45,014	48,223	58,848	67,766
Payables	31,997	28,348	34,073	36,703
Other Current Liabilities	13,017	19,875	24,774	31,063
		<i>sub total</i>		
Net Current Assets	1,72,794	2,32,133	2,59,703	2,92,488
Total Assets	2,02,719	2,63,261	2,91,658	3,25,871

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.8	29.7	30.3	30.7
EBIDTA Margin	17.0	17.4	17.9	18.2
EBIT Margin	16.2	16.4	17.1	17.5
Tax rate	22.4	25.1	25.7	25.7
Net Profit Margin	17.1	16.6	16.5	16.8
(B) As Percentage of Net Sales (%)				
COGS	70.2	70.3	69.7	69.3
Employee	4.6	5.0	4.9	5.0
Other	8.1	7.3	7.5	7.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	1534.7	4975.5	5625.5	5662.0
Inventory days	13	11	11	11
Debtors days	21	25	25	25
Average Cost of Debt				
Payable days	39	38	38	38
Working Capital days	211	311	288	300
FA T/O	17.6	14.9	17.2	17.3
(D) Measures of Investment				
AEPS (Rs)	176.8	156.1	187.7	206.6
CEPS (Rs)	185.3	165.0	196.7	215.9
DPS (Rs)	65.0	70.0	75.0	76.0
Dividend Payout (%)	36.8	44.9	40.0	36.8
BVPS (Rs)	688.6	896.9	994.6	1111.2
RoANW (%)	24.5	19.7	19.8	19.6
RoACE (%)	24.0	19.4	19.6	19.4
RoAIC (%)	150.1	139.0	165.1	193.2
(E) Valuation Ratios				
CMP (Rs)	3703	3703	3703	3703
P/E	20.9	23.7	19.7	17.9
Mcap (Rs Mn)	10,71,522	10,71,522	10,71,522	10,71,522
Mcap/ Sales	3.6	3.9	3.3	3.0
EV	8,98,812	8,42,692	8,13,570	7,76,430
EV/Sales	3.0	3.1	2.5	2.2
EV/EBITDA	17.6	17.8	13.8	12.0
P/BV	5.4	4.1	3.7	3.3
Dividend Yield (%)	1.8	1.9	2.0	2.1
(F) Growth Rate (%)				
Revenue	(1.1)	(9.0)	20.9	8.2
EBITDA	2.3	(7.1)	24.3	10.4
EBIT	2.8	(7.7)	25.6	10.7
PBT	(1.6)	(8.6)	21.3	10.1
APAT	18.0	(11.7)	20.3	10.1
EPS	18.0	(11.7)	20.3	10.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	38,617	44,332	58,988	66,938
CFI	17,545	46,349	7,824	8,418
CFF	(62,466)	(24,316)	(26,053)	(26,054)
FCFF	36,681	40,541	55,562	62,837
Opening Cash	1,88,595	1,72,710	2,28,830	2,57,951
Closing Cash	1,72,710	2,28,830	2,57,951	2,95,092

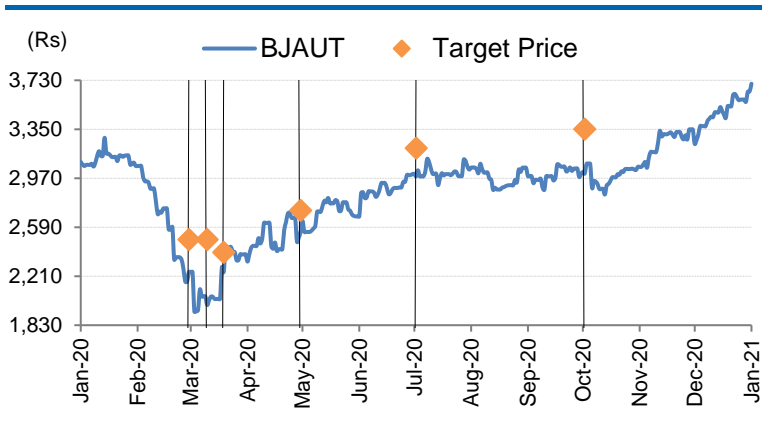
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Accumulate	2,495	2,242
Mar-20	Accumulate	2,495	1,987
Apr-20	Reduce	2,395	2,242
May-20	Reduce	2,721	2,558
Jul-20	Reduce	3,204	2,985
Oct-20	Accumulate	3,352	3,006

*Price as on recommendation date

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