



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**Reco/View**

Reco: Buy	↔
CMP: Rs. 4,106	
Price Target: Rs. 4,589	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

**Company details**

Market cap:	Rs. 1,18,804 cr
52-week high/low:	Rs. 4,361 / 1,793
NSE volume: (No of shares)	9.8 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	13.4 cr

**Shareholding (%)**

Promoters	53.7
FII	13.1
DII	12.0
Others	21.2

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	16.4	37.0	38.1	32.9
Relative to Sensex	10.9	18.5	3.1	8.2

Sharekhan Research, Bloomberg

**Summary**

- We maintain our Positive stance on Bajaj Auto Limited (BAL) with a Buy rating and revised PT of Rs. 4,589.
- BAL is expected to benefit from growth in the premium bikes segment, where BAL continues to gain market share, aided by premiumisation trend and new launches. Moreover, we expect BAL to gain market share in exports, driven by its brand equity and enhanced distribution network in export destinations.
- Moreover, we expect BAL's EBITDA margin to remain firm, given the benefits of operating leverage, product mix, and cost reductions achieved during Q3FY2021.
- The stock trades at P/E multiple of 18.8x and EV/EBITDA multiple of 13.1x its FY2023E estimates.

We expect Bajaj Auto Limited (BAL) to benefit from the expected recovery from urban markets, where we believe BAL will be a major beneficiary in the two-wheeler (2W) space, given its dominant position in the premium bike segment. Demand for three-wheelers (3Ws) is also expected to improve going forward, as COVID-19 vaccination rolls throughout the country. This will help BAL to improve its margin aided by richer product mix and operating efficiencies. BAL will also benefit from new launches in the premium segment, which it has lined up in the premium segment over the next 12-18 months. Management continues to focus on new launches and expects to launch at least one model (either new or upgraded model) every quarter. BAL has positioned itself strongly in export markets with focus on Nigeria, Bangladesh, Philippines, and Colombia, which accounts for ~50% of its 2W export revenue. In 3W exports, BAL has a strong presence in Nigeria, Egypt, Cambodia, and Iraq. Products are well diversified and have favourable sales mix in under-penetrated markets such as Africa. BAL has improved its brand equity in these markets, which will help to improve its market share. In Q3FY2021, BAL reported better-than-expected improvement in operating profit margin (OPM), which led to robust PAT growth of 23.4% y-o-y at Rs. 1,556 crore in Q3FY2021. Improvement in EBITDA margin was driven by richer product mix, operating leverage, and cost reductions. During Q3FY2021, more than 85% of export revenue was generated from geographies where BAL is either No. 1 or No. 2 player. Export growth is organic and will continue to be a long-term driver for BAL. The company aims to outpace the industry in international operations, driven by increased distribution reach. BAL's export volumes are recovering and have reached at pre-COVID levels in most markets. BAL expects positive growth in these markets in Q4FY2021. Demand in the domestic motorcycle industry is also improving with positive sales growth from August 2020. BAL expects the trend of premiumisation to continue in the domestic 2W industry, which would enable it to gain market share, especially in 125cc+ markets. 3W volumes are also improving on m-o-m basis, as the economy is moving towards normalcy. Domestic 3W sales are expected to improve with the opening of schools, colleges, other educational institutions, and corporates. Moreover, BAL is aiming to protect its margins as rising input costs are offset by price hikes, better product mix, and cost-control measures. We expect EBITDA margin to remain above 18% in the medium term. The company is debt free and generates strong cash flows, which are enough to expand capacity through internal accruals. The company has a strong long-term revenue visibility, given its leadership position in the premium bikes segment and key export destinations. We expect BAL's earnings to grow by 14.1% in FY2022E and 15.3% in FY2023E, driven by a mix of volume growth and margin expansion. We remain positive on BAL and retain our Buy rating on the stock.

**Our Call**

**Valuation - Maintain Buy with a revised PT of Rs. 4,589:** BAL is witnessing strong recovery in domestic 2Ws and exports demand, while there is slow recovery in 3W demand. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. OPM would expand because of richer product mix, operating leverage, and cost-control measures. We have increased our earnings estimates to factor in improved business outlook. We have raised our PT to Rs. 4,589 on 21x its FY2023E estimated earnings. The stock is valued at P/E multiple of 18.8x and EV/EBITDA multiple of 13.1x its FY2023E estimates. We retain our Buy rating on the stock.

**Key risk**

BAL can lose its market share, if EVs in the domestic 3W market rise faster than we expect. Moreover, BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can affect the company's profits adversely.

**Valuations (Consolidated)**

Particulars	Rs cr				
	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	30,358	29,919	28,370	32,779	37,419
Growth (%)	20.4	-1.4	-5.2	15.5	14.2
EBIDTA	5,192	5,096	5,205	6,104	6,998
OPM (%)	17.1	17.0	18.3	18.6	18.7
Recurring PAT	4,333	5,100	4,802	5,481	6,320
Growth (%)	5.7	17.7	-5.8	14.1	15.3
EPS (Rs )	149.8	176.3	166.1	189.5	218.5
PE (x)	27.4	23.3	24.7	21.7	18.8
P/BV (x)	5.5	6.0	5.3	4.7	4.1
EV/EBIDTA (x)	19.2	20.4	18.8	15.5	13.1
RoNW (%)	19.9	25.6	21.6	21.7	22.0
RoCE (%)	28.3	32.1	27.7	28.4	28.8

Source: Company; Sharekhan estimates

## Outlook and Valuation

### ■ Sector View – Demand picking up in domestic as well as export markets

2W demand has been improving on m-o-m basis and the trend has continued through the festive season in October-November 2020. We expect growth momentum to continue in Q4FY2021, driven by strong rural sentiments, supported by higher kharif sowing. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. We expect strong recovery from FY2022, driven by normalisation of economic activity and pent-up demand (the industry has been in the downcycle for the past seven to eight quarters). Export markets have witnessed notable recovery in volume sales offtake across regional markets - ASEAN, South Asia, Middle East, and Africa. Indian OEMs are positive on recovery and expect these markets to improve.

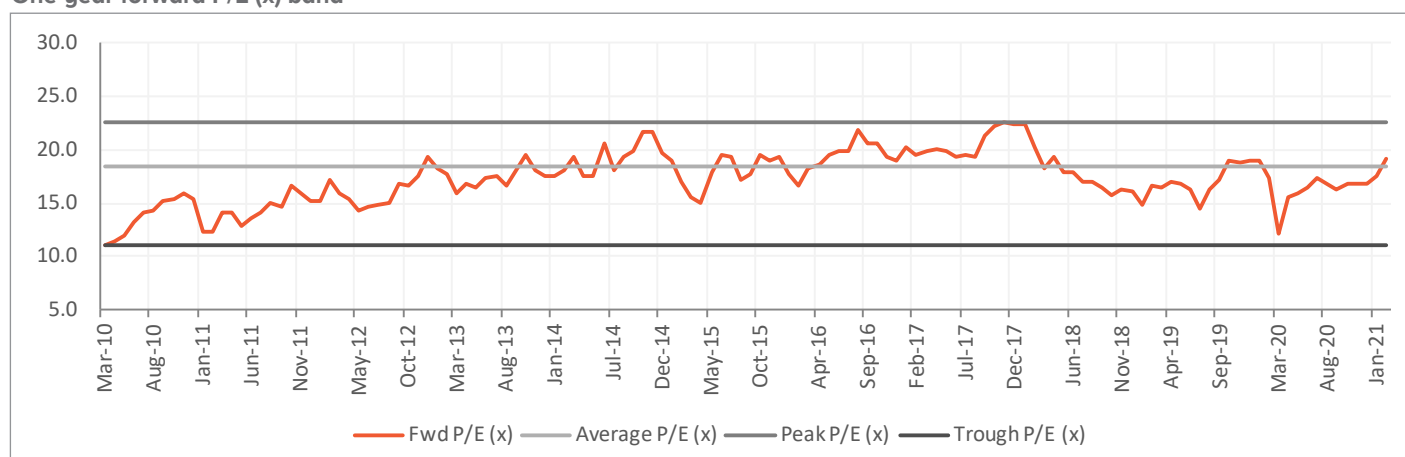
### ■ Company Outlook – Strong earnings growth

BAL is India's second largest motorcycle player with a market share of about 20%. The company is the market leader in the premium motorcycle segment (125cc-200cc) with a market share of 41%. With new launches, BAL aims to increase its market share further and is targeting market share of around 25% over the next few years. With network expansion, BAL aims to retain its leadership position in motorcycle exports. BAL has a strong balance sheet with zero debt. The company has cash and cash equivalents worth Rs. 16,240 crore with strong return ratios. BAL has healthy dividend payout ratio of 40%-45%. BAL is uniquely positioned to benefit from domestic 2W demand and export market, driven by its brand equity and value proposition. We expect BAL's earnings to grow by 14.1% in FY2022E and 15.3% in FY2023E, driven by a mix of volume growth and margin expansion.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 4,589

BAL is witnessing strong recovery in domestic 2Ws and exports demand, while there is slow recovery in 3W demand. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. OPM would expand because of a richer product mix, operating leverage, and cost-control measures. We have increased our earnings estimates to factor in improved business outlook. We have raised our PT to Rs. 4,589 on 21x its FY2023E estimated earnings. The stock is valued at a P/E multiple of 18.8x and EV/EBITDA multiple of 13.1x its FY2023E estimates. We retain our Buy rating on the stock.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bajaj Auto	24.7	21.7	18.8	18.8	15.5	13.1	27.7	28.4	28.8
Hero MotoCorp	23.1	18.5	16.6	15.1	11.7	9.8	26.1	30.7	27.1
TVS Motor	47.2	30.3	25.7	21.1	15.6	13.6	16.4	21.8	22.5

Source: Company, Sharekhan estimates

## About company

BAL is one of the leading automobile manufacturers in India and is a leader in the premium motorcycle segment with a lion's share. The company also makes 3W and is a leader in the 3W segment. Motorcycles constitute around 85% of the overall volumes, while 3W contribute around 15% share.

## Investment theme

BAL is the second largest motorcycle manufacturer in India with a market share of about 20%. Over the years, BAL has created a strong brand not only domestically but also in export markets. BAL is the leader in the premium motorcycle segment having a market share of 41%. Apart from premium motorcycles, BAL is also the leader in the 3W segment, commanding a market share of about 57%. Motorcycles constitute about 85% of overall volumes, while 3W contribute 15% share. BAL is well positioned in the domestic as well as in global markets to deliver sustained growth in the long term. The company is a leader in the premium segment bikes such as Pulsar, Avenger, KTM, Dominar, and Husqvarna. Exports currently constitute about 45% of overall volumes, with Africa, Southeast Asia, and Latin America amongst the key markets. During Q3FY2021, more than 85% of export revenue was generated from geographies where BAL is either No. 1 or No. 2 player. Export growth is organic and will continue to be a long-term driver for BAL. We remain positive on the company's growth prospects going forward.

## Key Risks

- ◆ BAL can lose its market share if EVs in the domestic 3W market rise faster than we expect.
- ◆ BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can affect the company's profits adversely.

## Additional Data

### Key management personnel

Rahul Bajaj	Chairman Executive
Rajiv Bajaj	MD & CEO
Rakesh Sharma	Executive Director
Soumen Ray	CFO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	33.43
2	Jamnalal Sons Pvt Ltd	9.08
3	Life Insurance Corp of India	4.76
4	Jaya Hind Industries Ltd	3.35
5	Maharashtra Scooters Ltd	2.34
6	Bajaj Sevashram Pvt Ltd	1.54
7	SBI Funds Management	1.36
8	Bachhraj & Co Pvt Ltd	1.26
9	Norges Bank	1.09
10	Vanguard Group Inc	1.08

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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