

# Bajaj Auto Ltd.

Industry **Automobiles**  
Bloomberg **BJAUT IN**  
BSE CODE **532977**

## Higher sales of BS-VI products and better export mix led to increase in margins

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>2558</b>
<b>Price Target</b>	<b>3135</b>
<b>Potential Upside</b>	<b>23%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	3315/1793
Mkt Capital (Rs Cr)	76566
Free float (%)	56%
Avg. Vol 1M (,000)	2020
No. of Shares (Cr.)	29
Promoters Pledged %	0%

### 4QFY20 Result Update

- ❑ BAJAJ-AUTO revenue declined by 8%YoY to Rs.6816 crores (vs. our estimates of Rs.6225 crores) during the quarter led by 18% YoY contraction in volumes. However, realization increased by 10%YoY largely led by BS-VI cost increases and higher export mix.
- ❑ Domestic two wheelers volume declined by was 18.5% 34%YoY. Overall share in the domestic motorcycle market in FY20 as against 18.7% in FY19.
- ❑ Export two wheelers volumes grew by 15%YoY largely led by strong growth in Africa, Latin America and Asian markets.
- ❑ The domestic 3-wheelers segment declined by 27%YoY while exports declined by 29%YoY. The company holds 57% market share in domestic market.
- ❑ Gross margin improved by 150bps QoQ to 31.6% on account of softening commodity prices, higher realization and better product mix. EBITDA margins also improved by 50 bps QoQ to 18.4%, some of the benefit of gross margin was absorbed by higher fixed cost and weaker operating leverage.
- ❑ PAT for the quarter stood at Rs.1354 crores (vs. our estimates of Rs. 1061 crores) with a decline of 4%YoY. PAT margins expanded by 260bps QoQ to 19.9% due to higher other income and increased profitability of KTM.
- ❑ KTM business volumes grew by 1% YoY to 213949 units in FY20. Revenue increased by 4% YoY to Euro 1513 million while PAT declined by 6% YoY to Euro 85 million in FY20. The proportionate profit to BAJAJ-AUTO Limited is Euro 40.6 million (Rs 322 crores) in FY20

### View and Valuation

The demand situation is expected to remain benign in 1HFY21 and the pick up may come only by 4QFY21. However, recovery in domestic markets may continue to be slow as compared to export markets. Also, the buying pattern may also get tilted towards lower priced vehicles as only serious buyers may purchase vehicles in next couple of quarters. Going ahead, the company is planning to expand its reach in ASEAN markets (specially Indonesia and Thailand) in near term and waiting for the right time to enter Brazil market with premium motorcycles. We maintain BUY rating with previous target price of Rs.3135. Currently the company is trading at 14x FY20 EPS.

### Key Risks to our rating and target

- ❑ Slowdown in exports market
- ❑ Foreign exchange and commodity price fluctuation

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	22587	21767	25165	30250	29919
EBITDA	4764	4419	4782	4980	5096
EBIT	4457	4112	4467	4714	4849
PAT	4044	4079	4219	4928	5212
EPS (Rs)	140	141	146	170	180
EPS growth (%)	0	1	3	17	6
ROE (%)	29	23	21	21	24
ROCE (%)	32	23	22	20	22
BV	485	617	706	803	749
P/B (X)	5.0	4.5	3.9	3.6	3.4
P/E (x)	17.2	19.9	18.9	17.1	14.2

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## 4QFY20 Results

Result better than expectation

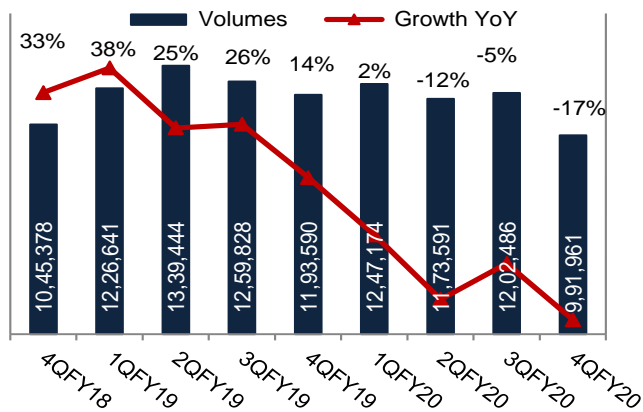
Financials	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY19	FY20	YoY %
Volumes (000)	1,194	1,247	1,174	1,202	992	-17%	-18%	5,020	4,615	-8.1%
Realization	60,533	60,657	63,900	61,842	66,645	10%	8%	58,905	63,077	7.1%
Net Sales	7,395	7,756	7,707	7,640	6,816	-8%	-11%	30,250	29,919	-1.1%
Other Income	433	337	393	366	427	-1%	17%	1,555	1,524	-2.0%
Total Income	7,828	8,093	8,101	8,006	7,243	-7%	-10%	31,805	31,443	-1.1%
COGS	5,345	5,564	5,437	5,342	4,665	-13%	-13%	21,824	21,008	-3.7%
Staff Cost	313	361	339	349	342	9%	-2%	1,257	1,391	10.7%
Other Exp.	587	639	661	592	561	-4%	-5%	2,219	2,454	10.6%
Expenditure	6,234	6,559	6,428	6,273	5,563	-11%	-11%	25,270	24,823	-1.8%
EBITDA	1,162	1,197	1,279	1,367	1,253	8%	-8%	4,980	5,096	2.3%
Depreciation	61	60	61	62	63	4%	3%	266	246	-7.2%
EBIT	1,101	1,137	1,217	1,305	1,189	8%	-9%	4,714	4,849	2.9%
Interest	0	1	1	0	1	214%	94%	4	3	-29.5%
PBT	1,533	1,474	1,610	1,671	1,616	5%	-3%	6,265	6,370	1.7%
Excpt. Item	(342)	-	-	-	-	0%	0%	(342)	-	0.0%
Tax	570	453	206	410	411	-28%	0%	2,028	1,480	-27.0%
PAT	1,408	1,012	1,523	1,322	1,354	-4%	2%	4,928	5,212	5.7%

### Concall highlights

- The management expects situation to improve from 3QFY21. The plants are ready to produce at 50-70% capacity but there is concern on demand side.
- The management does not expect any major structural changes buying pattern but certainly there could be some downtrading within the segments as people may prefer lower priced vehicles because of reduction in income level.
- The casual buying may differ and only serious buyers will purchase the vehicles.
- The first-time buyers constitute 56-59% of total sales.
- The company has 38% market share in African continent and the closest competitor is 1/6 of BAJAJ.
- Boxer continues to be the best-selling motorcycle in these regions.
- The Chinese competitors in African market are more of trading. (No Chinese OEMs)
- The management does not expect any big threat due to ban on two-wheeler taxi in Lagos city (Nigeria) as it persists since last 2-3 quarters. Lagos is 12-14% of total retails in Nigeria.
- The company is planning to expand its reach in ASEAN markets (specially Indonesia and Thailand) in near term and waiting for the right time to enter Brazil market with premium motorcycles.
- Company continues to be market leader in three wheelers segment with overall market share of 57.3%. The company holds 89.7% market share in small passenger carrier segment.
- The company has 18.5% market share in domestic motorcycle market and 45% market share in sports motorcycle segment.
- KTM AG: The company witnessed volume growth of 1%YoY to 213949 units in FY20. Revenue grew by 4%YoY to Euro 1513 mn while PAT declined by 6%YoY to Euro 85 mn. The proportionate share of Bajaj-Auto stood at Rs.322 crores in FY20.

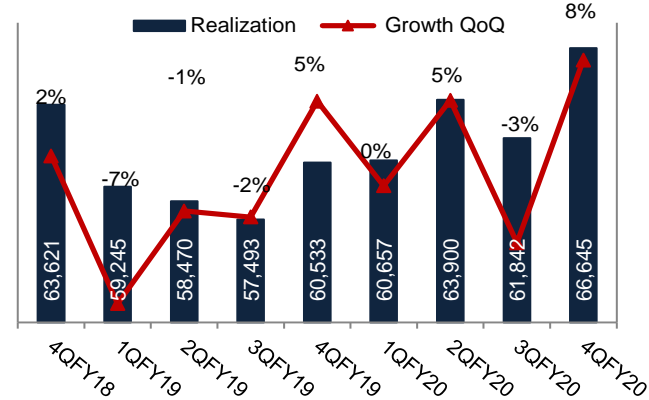
## Exhibit: Volume and Volume Growth Trend

Weak consumer sentiments and headwinds across key markets led to volumes decline



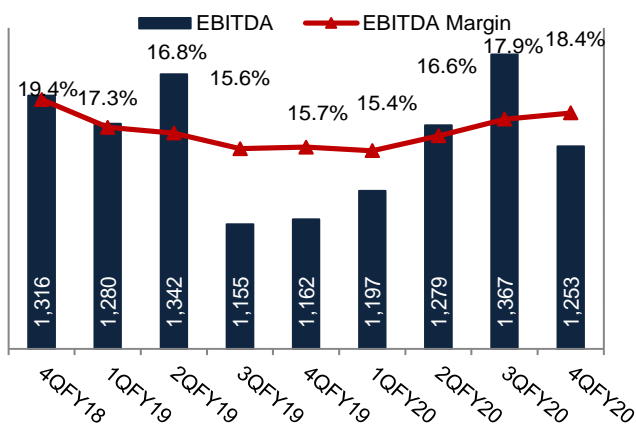
## Exhibit: Realisation and Realisation Growth Trend

Realization improved because of higher exports and price increase on the back of BS-VI



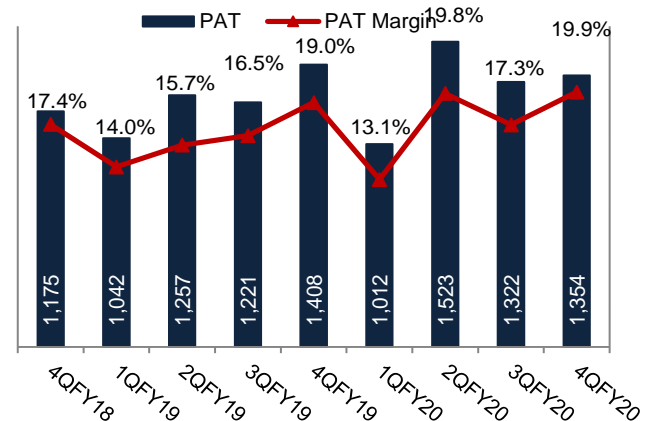
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Margins improved because of higher export contribution, improved dollar realization and product upgradation.



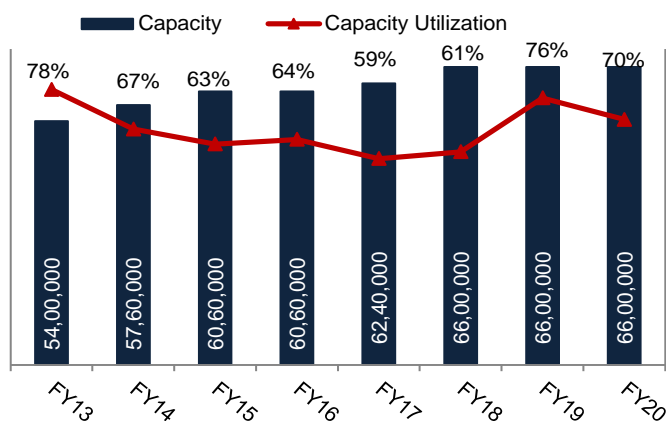
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin improved because of higher other income and strong KTM performance



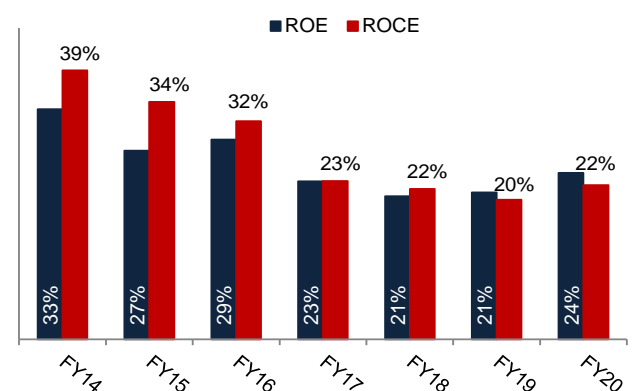
## Exhibit: Capacity Utilization Trend

The company has enough capacity to cater future demand



## Exhibit: Return Ratios

Return ratios to stay around healthy 19% mark in the long run



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	289	289	289	289	289	289	289	289
Reserves	7,776	9,878	10,806	13,731	17,567	20,136	22,944	21,373
Networth	8,065	10,167	11,095	14,020	17,857	20,425	23,234	21,662
Debt	98	58	112	118	120	121	125	126
Other Non Cur Liab	237	231	199	233	321	325	544	347
<b>Total Capital Employed</b>	<b>8,164</b>	<b>10,225</b>	<b>11,207</b>	<b>14,138</b>	<b>17,976</b>	<b>20,546</b>	<b>23,358</b>	<b>21,788</b>
Net Fixed Assets (incl CWIP)	2,101	2,150	2,172	2,078	1,985	1,878	1,756	1,705
Non Cur Investments	3,348	6,158	3,185	7,718	7,459	10,600	16,360	14,183
Other Non Cur Asst	1	1	0	279	268	357	307	251
Non Curr Assets	6,494	9,683	6,399	12,507	12,169	15,890	21,761	19,894
Inventory	644	641	814	719	728	743	962	1,064
Debtors	734	796	717	718	953	1,492	2,560	1,725
Cash & Bank	567	501	593	820	288	776	916	285
Other Curr Assets	212	417	347	1,049	1,096	373	923	637
Curr Assets	6,182	5,624	9,567	4,733	9,469	9,251	7,073	6,616
Creditors	1,982	2,112	1,800	2,027	2,236	3,244	3,787	3,200
Provisons (both)	1,744	1,974	1,992	161	199	238	155	238
Other Curr Liab	549	766	767	299	558	394	557	329
Curr Liabilities	4,139	4,731	4,477	2,781	3,213	4,111	4,874	4,253
Net Curr Assets	2,043	894	5,090	1,952	6,256	5,139	2,199	2,363
<b>Total Assets</b>	<b>12,676</b>	<b>15,308</b>	<b>15,966</b>	<b>17,240</b>	<b>21,638</b>	<b>25,141</b>	<b>28,834</b>	<b>26,510</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	19,533	19,726	21,106	22,152	21,374	24,700	29,567	29,112
Change (%)	2.3	0.6	7.2	4.5	(3.6)	15.6	20.2	(1.1)
Other Income	797	682	584	985	1,222	1,212	1,555	1,524
<b>EBITDA</b>	<b>3,648</b>	<b>4,155</b>	<b>4,113</b>	<b>4,764</b>	<b>4,419</b>	<b>4,782</b>	<b>4,980</b>	<b>5,096</b>
Change (%)	(1.7)	13.9	(1.0)	15.8	(7.2)	8.2	4.1	2.3
<b>Margin (%)</b>	<b>18.2</b>	<b>20.6</b>	<b>19.0</b>	<b>21.1</b>	<b>20.3</b>	<b>19.0</b>	<b>16.5</b>	<b>17.0</b>
Depr & Amor.	168	181	267	307	307	315	266	246
EBIT	3,481	3,974	3,846	4,457	4,112	4,467	4,714	4,849
Int. & other fin. Cost	1	1	6	1	1	1	4	3
<b>EBT</b>	<b>4,277</b>	<b>4,655</b>	<b>4,423</b>	<b>5,440</b>	<b>5,333</b>	<b>5,678</b>	<b>6,265</b>	<b>6,370</b>
Exp Item	-	-	340	-	-	32	(342)	-
Tax	1,217	1,390	1,271	1,618	1,508	1,714	2,028	1,480
Minority Int & P/L share of Ass.	84	145	214	221	255	288	350	322
<b>Reported PAT</b>	<b>3,132</b>	<b>3,380</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>4,928</b>	<b>5,212</b>
<b>Adjusted PAT</b>	<b>3,132</b>	<b>3,380</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>4,928</b>	<b>5,212</b>
Change (%)	2.9	7.9	(10.5)	33.7	0.9	3.4	16.8	5.7
<b>Margin(%)</b>	<b>15.6</b>	<b>16.8</b>	<b>14.0</b>	<b>17.9</b>	<b>18.7</b>	<b>16.8</b>	<b>16.3</b>	<b>17.4</b>

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	39%	33%	27%	29%	23%	21%	21%	24%
ROCE	43%	39%	34%	32%	23%	22%	20%	22%
Asset Turnover	1.58	1.32	1.35	1.31	1.01	1.00	1.05	1.13
Debtor Days	13	14	12	12	16	22	31	21
Inv Days	12	12	14	12	12	11	12	13
Payable Days	36	38	30	33	37	47	46	39
Int Coverage	2,925	4,846	593	4,245	2,937	3,410	1,052	1,535
P/E	17	18	19	17	20	19	17	14
Price / Book Value	6	6	5	5	5	4	4	3
EV/EBITDA	14	14	14	14	18	16	17	14
FCF per Share	2,727	3,722	2,383	3,955	3,467	4,510	2,650	4,123
Div Yield	2.5%	2.4%	2.5%	4.2%	0.2%	2.0%	2.1%	7.0%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	4,277	4,655	4,083	5,679	5,588	5,933	6,956	6,692
(inc)/Dec in Working Capital	4,780	5,401	4,807	4,930	4,613	4,922	5,160	5,153
Non Cash Op Exp	168	181	267	307	307	315	266	246
Int Paid (+)	1	1	6	0	1	0	4	2
Tax Paid	(1,239)	(1,314)	(1,285)	(1,782)	(1,503)	(1,683)	(1,954)	(1,678)
others	(5,768)	(5,423)	(5,765)	(5,444)	(5,739)	(5,160)	(7,943)	(6,575)
CF from Op. Activities	2,218	3,502	2,114	3,690	3,267	4,328	2,487	3,840
(inc)/Dec in FA & CWIP	(508)	(220)	(270)	(265)	(199)	(183)	(164)	(283)
Free Cashflow	1,710	3,282	1,844	3,425	3,068	4,145	2,323	3,558
(Pur)/Sale of Inv	-	(1,957)	(419)	91	(2,824)	(2,495)	(461)	1,661
others	(886)	76	274	61	(659)	624	286	191
CF from Inv. Activities	(1,394)	(2,100)	(414)	(113)	(3,683)	(2,053)	(338)	1,570
inc/(dec) in NW								
inc/(dec) in Debt	2	(27)	-	-	-	-	-	-
Int. Paid	(1)	(1)	(6)	(0)	(1)	(0)	(4)	(2)
Div Paid (inc tax)	(1,511)	(1,518)	(1,691)	(3,434)	(202)	(1,885)	(2,073)	(6,244)
others	32	50	53	50	13	-	3	-
CF from Fin. Activities	(1,478)	(1,496)	(1,644)	(3,384)	(190)	(1,885)	(2,074)	(6,247)
Inc(Dec) in Cash	(654)	(66)	90	250	(534)	464	167	(629)
Add: Opening Balance	1,179	558	492	582	820	288	776	916
Closing Balance	525	492	582	831	286	776	916	289

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