

Industry  
Bloomberg  
BSE CODE

Automobiles  
BJAUT IN  
532977

## Higher export mix and cost control restricted further margin erosion

RATING	BUY
CMP	2985
Price Target	3618
Potential Upside	21%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	3,315/1793
Mkt Capital (Rs Cr)	86,369
Free float (%)	47%
Avg. Vol 1M (,000)	919
No. of Shares (Cr)	29
Promoters Pledged %	0%

### RESEARCH ANALYST

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#### 1QFY21 Result update

- BAJAJ-AUTO reported revenue de-growth of 60.3% YoY to Rs.3079 crores (vs.expect. Rs.2956 crores) on account of COVID-19 led volume disruption. However, realization grew by 9.7% YoY led by BS-VI cost increases and higher export mix.
- Domestic 2 Wheeler segment de-grew by 69.6% YoY. In 1QFY21, Overall share in the domestic motorcycle market was 20.7% as against 18.5% in FY20.
- Domestic CV segment de-grew by 54.6% YoY. Overall share in domestic market was 42.6% for 1QFY21.
- The company's overall export volumes declined by 54% YoY in on account of decline of 50%, 63%, 63% and 67% YoY in Africa, SAME, LA TAM and ASEAN markets respectively. Realization per US\$ was Rs 75.6 in 1QFY21.
- Gross margin grew by 133 bps QoQ to 32.9% led by softening in commodity prices, better product mix and improved realization. Though EBITDA margin declined by 511 bps QoQ to 13.3% due to weaker operating leverage, lower sales and higher fixed cost.
- PAT for the quarter stood at Rs.396 crores (vs. expect. Rs. 519 crores), with a decline of 60.9% YoY. PAT margins contracted by 702 bps QoQ to 12.8% due to lower Ebitda margin and higher loss in KTM business.
- KTM (associate of the company) reported loss of Rs.132 crores in 1QFY21. KTM has bounced back very well in current quarter (April-June 2020) and its impact would be seen in 2QFY21 as results of KTM AG are consolidated with Bajaj Auto, one quarter in arrear.

#### View and Valuation

Domestic motorcycle market is expected to recover in next couple of quarters considering the demand reaching to 75% of last year levels. However, lockdowns in several cities and metros may have negative impact on volumes in near term. Market share in overall domestic motorcycle market improved from FY20 by 220bps to 20.7% in 1QFY21. Further the management has indicated that there is no downtrading within the segment. International market has also recovered well and volumes in majority of the key markets have reached to 75-80% of previous year levels. Going ahead the management plans to enter in Brazil market with the premium offerings. We largely maintain our FY21 estimates. We value BAJAJ-AUTO at 18x FY22e EPS and maintain our previous target price of Rs.3618 and continue with BUY rating.

#### Key Risks to our rating and target

- KTM business outlook.
- Foreign exchange and commodity price fluctuation.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	25165	30358	29919	21997	33228
EBITDA	4782	5088	5096	3768	6130
EBIT	4467	4822	4849	3515	5875
PAT	4219	5036	5212	3904	5895
EPS (Rs)	146	174	180	135	204
EPS growth (%)	3	19	3	-25	0
ROE (%)	21	22	24	17	22
ROCE (%)	22	21	22	15	22
BV	706	803	749	806	927
P/B (X)	3.9	3.6	3.4	3.7	3.2
P/E (x)	18.9	16.7	14.2	22.1	14.7

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## Revenue better than expectation

### 1QFY21 Results

Fig in Rs Cr

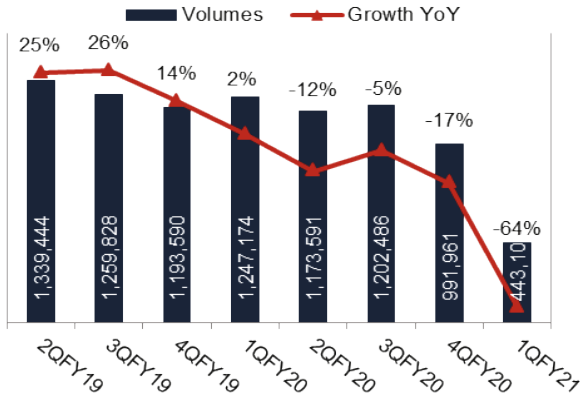
FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Volumes (000)	1,247	1,174	1,202	992	443	-64%	-55%	5,020	4,615	-8.1%
Realization	60,657	63,900	61,842	66,645	66,543	10%	0%	58,905	63,077	7.1%
Net Sales	7,756	7,707	7,640	6,816	3,079	-60%	-55%	30,250	29,919	-1.1%
Other Income	337	393	366	427	338	0%	-21%	1,555	1,524	-2.0%
Total Income	8,093	8,101	8,006	7,243	3,417	-58%	-53%	31,805	31,443	-1.1%
COGS	5,564	5,437	5,342	4,665	2,067	-63%	-56%	21,824	21,008	-3.7%
Staff Cost	361	339	349	342	338	-6%	-1%	1,257	1,391	10.7%
Other Exp.	639	661	592	561	268	-58%	-52%	2,219	2,454	10.6%
Expenditure	6,559	6,428	6,273	5,563	2,671	-59%	-52%	25,270	24,823	-1.8%
EBITDA	1,197	1,279	1,367	1,253	408	-66%	-67%	4,980	5,096	2.3%
Depreciation	60	61	62	63	64	6%	1%	266	246	-7.2%
EBIT	1,137	1,217	1,305	1,189	345	-70%	-71%	4,714	4,849	2.9%
Interest	1	1	0	1	1	76%	4%	4	3	-29.5%
PBT	1,474	1,610	1,671	1,616	682	-54%	-58%	6,265	6,370	1.7%
Excpt. Item	-	-	-	-	-	0%	0%	(342)	-	0.0%
Tax	453	206	410	411	154	-66%	-63%	2,028	1,480	-27.0%
PAT	1,012	1,523	1,322	1,354	396	-61%	-71%	4,928	5,212	5.7%

### Concall Highlights

- Demand: The Company has not seen any down trading. The quality of demand has not depreciated in this difficult period of COVID-19. The company's segment structuring is largely same to that of pre-covid period.
- Behavior of international markets is similar to that of India. In June 2020, restoration of demand in Motorcycles was there at about 75% YoY basis (previous year's level).
- July 2020 retail is already at 80-85% level. In this South Asia, Middle east and Latin are ahead whereas, Africa is slightly behind and same trend is expected to continue.
- Key countries: Nigeria, Philippines, Bangladesh, Egypt and Columbia is above normal. Uganda is below normal level. Demand in most of the countries' market is lying in between 75%-100% level and 10% below in CV levels.
- 3W demand in July 2020 reached at 20% of normal level in domestic demand and at 75% of normal level in international market's retail.
- Three wheeler's segment is substantially impacted due to lockdown and shared mobility's restoration is taking longer to recover to normalcy. Cargo segment is seeing some demand swift now.
- The commodity for the quarter has been adverse due to global prices going up.
- The company's forex contracts are well placed and rupees is expected to strengthen from here. Average exchange rate for 1QFY21 was Rs 75.6.
- Supply chain is very deep and wide across country & internationally and is present in 3 levels. Much of inter dependency is there among the suppliers so, disruption in one of them impacts the whole supply chain.
- Recent lockdown of 8 days in Aurangabad also impacted the company's supply side.
- For now, demand and supply are sort of balanced. In July 2020, first 10 days was pretty good around 90% of normal level. Post that lockdown was imposed in various cities that again hit the demand.
- Motorcycle Inventory is running below 30 days of current retail levels.
- Dealerships: 95% and 84% of the company's dealerships are open of Motorcycle and CV respectively.
- The company's current production level is at 65-75%.
- The company is targeting to reach 5 digit volume numbers in pro bike segment.
- KTM has bounced back very well in current quarter and share of loss is expected to come down drastically in 2QFY21.
- The company has taken price increase in 1QFY21. No major cost increase is expected in 2QFY21. Domestic motorcycle's gross margin is expected to improve marginally in 2QFY21.

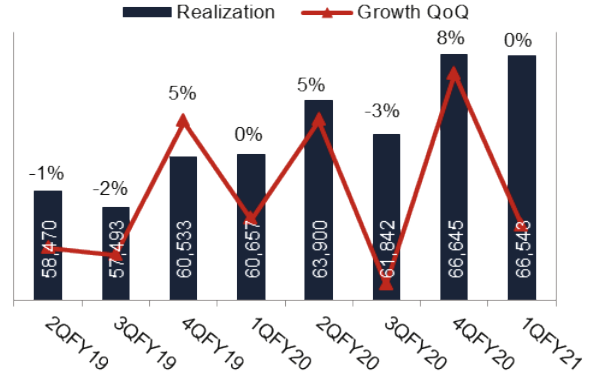
## Exhibit: Volume and Volume Growth Trend

COVID-19 led headwinds across key markets led to decline in volumes.



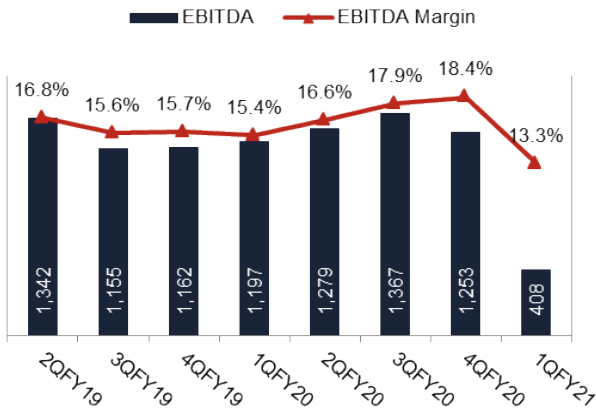
## Exhibit: Realisation and Realisation Growth Trend

Realization improved because of higher price increase on the back of BS-VI transition.



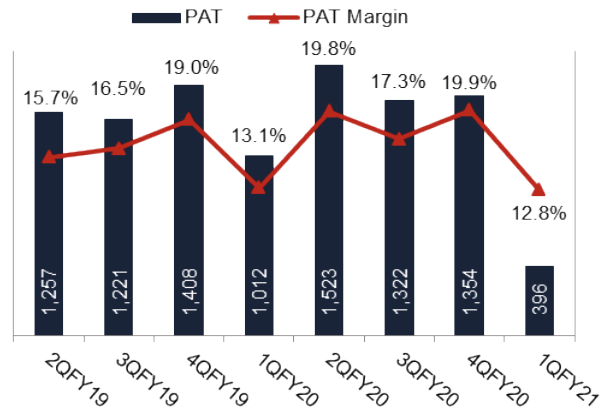
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin declined due to weaker operating leverage, lower sales and higher fixed cost.



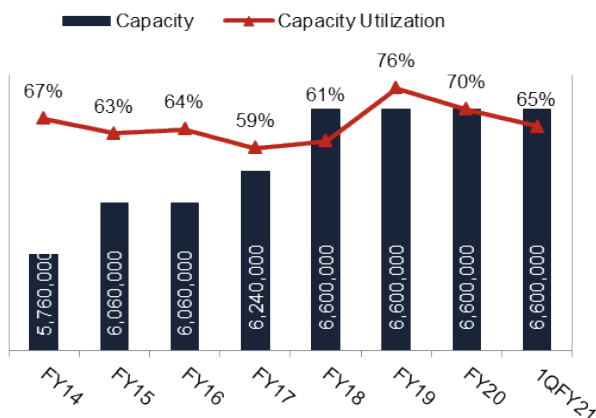
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margin declined due to lower Ebitda margin and higher loss in KTM business.



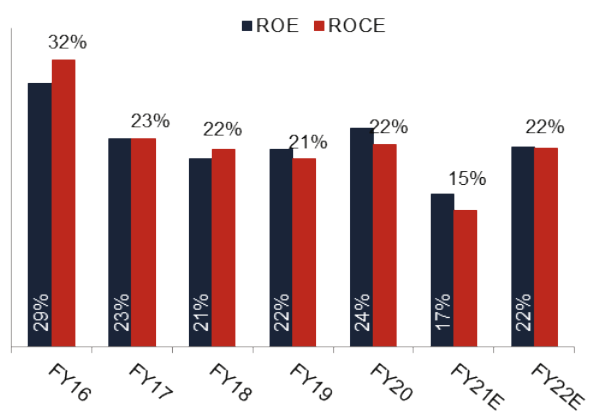
## Exhibit: Capacity Utilization Trend

The company has enough capacity to cater future demand



## Exhibit: Return Ratios

Return ratios to stay around healthy 21% mark in the long run.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	289	289	289	289	289	289	289	289
Reserves	10,806	13,731	17,567	20,136	22,944	21,373	23,045	26,537
Networth	11,095	14,020	17,857	20,425	23,234	21,662	23,334	26,827
Debt	112	118	120	121	125	126	126	126
Other Non Cur Liab	199	233	321	325	544	347	347	347
<b>Total Capital Employed</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>	<b>23,460</b>	<b>26,952</b>
Net Fixed Assets (incl CWIP)	2,172	2,078	1,985	1,878	1,756	1,705	1,738	1,738
Non Cur Investments	3,185	7,718	7,459	10,600	16,360	14,183	14,363	15,825
Other Non Cur Asst	0	279	268	357	307	251	251	251
Non Curr Assets	6,399	12,507	12,169	15,890	21,761	19,894	20,106	21,568
Inventory	814	719	728	743	962	1,064	522	806
Debtors	717	718	953	1,492	2,560	1,725	1,268	1,916
Cash & Bank	593	820	288	776	916	285	590	759
Other Curr Assets	347	1,049	1,096	373	923	637	468	708
Curr Assets	9,567	4,733	9,469	9,251	7,073	6,616	7,019	10,398
Creditors	1,800	2,027	2,236	3,244	3,787	3,200	2,353	3,554
Provisons (both)	1,992	161	199	238	155	238	196	256
Other Curr Liab	767	299	558	394	557	329	161	249
Curr Liabilities	4,477	2,781	3,213	4,111	4,874	4,253	3,197	4,545
Net Curr Assets	5,090	1,952	6,256	5,139	2,199	2,363	3,823	5,853
<b>Total Assets</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>	<b>27,126</b>	<b>31,966</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Revenue from Operation</b>	<b>21,106</b>	<b>22,152</b>	<b>21,374</b>	<b>24,700</b>	<b>29,567</b>	<b>29,112</b>	<b>21,063</b>	<b>31,818</b>
Change (%)	7.2	4.5	(3.6)	15.6	20.6	(1.4)	(26.5)	51.1
Other Income	584	985	1,222	1,212	1,555	1,524	1,425	1,700
<b>EBITDA</b>	<b>4,113</b>	<b>4,764</b>	<b>4,419</b>	<b>4,782</b>	<b>5,088</b>	<b>5,096</b>	<b>3,768</b>	<b>6,130</b>
Change (%)	(1.0)	15.8	(7.2)	8.2	6.4	0.2	(26.0)	62.7
<b>Margin (%)</b>	<b>19.0</b>	<b>21.1</b>	<b>20.3</b>	<b>19.0</b>	<b>16.8</b>	<b>17.0</b>	<b>17.1</b>	<b>18.4</b>
Depr & Amor.	267	307	307	315	266	246	254	255
EBIT	3,846	4,457	4,112	4,467	4,822	4,849	3,515	5,875
Int. & other fin. Cost	6	1	1	1	4	3	3	3
<b>EBT</b>	<b>4,423</b>	<b>5,440</b>	<b>5,333</b>	<b>5,678</b>	<b>6,372</b>	<b>6,370</b>	<b>4,937</b>	<b>7,572</b>
Exp Item	340	-	-	32	(342)	-	-	-
Tax	1,271	1,618	1,508	1,714	2,028	1,480	1,226	1,908
Minority Int & P/L share of Ass.	214	221	255	288	350	322	193	231
<b>Reported PAT</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>5,036</b>	<b>5,212</b>	<b>3,904</b>	<b>5,895</b>
<b>Adjusted PAT</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>5,036</b>	<b>5,212</b>	<b>3,904</b>	<b>5,895</b>
Change (%)	(10.5)	33.7	0.9	3.4	19.4	3.5	(25.1)	51.0
<b>Margin(%)</b>	<b>14.0</b>	<b>17.9</b>	<b>18.7</b>	<b>16.8</b>	<b>16.6</b>	<b>17.4</b>	<b>17.7</b>	<b>17.7</b>

## Financial Details

### Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	27%	29%	23%	21%	22%	24%	17%	22%
ROCE	34%	32%	23%	22%	21%	22%	15%	22%
Asset Turnover	1.35	1.31	1.01	1.00	1.05	1.13	0.81	1.04
Debtor Days	12	12	16	22	31	21	21	21
Inv Days	14	12	12	11	12	13	13	13
Payable Days	30	33	37	47	46	39	39	39
Int Coverage	593	4,245	2,937	3,410	1,076	1,535	1,112	1,859
P/E	19	17	20	19	17	14	22	15
Price / Book Value	5	5	5	4	4	3	4	3
EV/EBITDA	14	14	18	16	16	14	23	14
FCF per Share	2,383	3,955	3,467	4,510	2,650	4,123	4,559	6,584
Div Yield	2.5%	4.2%	0.2%	2.0%	2.1%	7.0%	2.2%	2.3%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	4,083	5,679	5,588	5,933	6,956	6,692	4,937	7,572
(inc)/Dec in Working Capital	4,807	4,930	4,613	4,922	5,160	5,153	5,386	8,062
Non Cash Op Exp	267	307	307	315	266	246	254	255
Int Paid (+)	6	0	1	0	4	2	3	3
Tax Paid	(1,285)	(1,782)	(1,503)	(1,683)	(1,954)	(1,678)	(1,226)	(1,908)
others	(5,765)	(5,444)	(5,739)	(5,160)	(7,943)	(6,575)	(5,081)	(7,656)
CF from Op. Activities	2,114	3,690	3,267	4,328	2,487	3,840	4,273	6,329
(inc)/Dec in FA & CWIP	(270)	(265)	(199)	(183)	(164)	(283)	(286)	(255)
Free Cashflow	1,844	3,425	3,068	4,145	2,323	3,558	3,986	6,074
(Pur)/Sale of Inv	(419)	91	(2,824)	(2,495)	(461)	1,661	(1,267)	(2,036)
others	274	61	(659)	624	286	191	(180)	(1,462)
CF from Inv. Activities	(414)	(113)	(3,683)	(2,053)	(338)	1,570	(1,734)	(3,753)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	-	-	-	-	-
Int. Paid	(6)	(0)	(1)	(0)	(4)	(2)	(3)	(3)
Div Paid (inc tax)	(1,691)	(3,434)	(202)	(1,885)	(2,073)	(6,244)	(2,231)	(2,403)
others	53	50	13	-	3	-	-	-
CF from Fin. Activities	(1,644)	(3,384)	(190)	(1,885)	(2,074)	(6,247)	(2,234)	(2,406)
Inc(Dec) in Cash	90	250	(534)	464	167	(629)	305	170
Add: Opening Balance	492	582	820	288	776	916	285	590
Closing Balance	582	831	286	776	916	289	590	760



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