

CMP: Rs 2985

Rating: HOLD

Target Price: Rs 3133

Stock Info

BSE	532977
NSE	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
Sector	Auto-2&3 wheelers
Face Value (Rs)	10
Equity Capital (Rs mn)	2894
Mkt Cap (Rs Mn)	8,63,769
52w H/L (Rs)	1,789/ 3,315
Avg Yearly Vol (in 000')	553

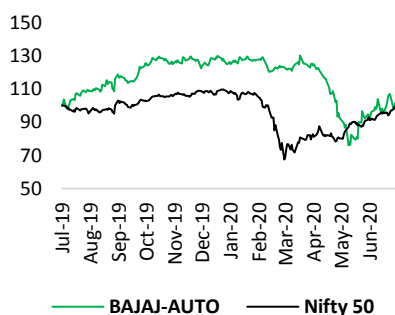
Shareholding Pattern %

(As on June, 2020)

Promoters	53.69
Public & Others	46.31

Stock Performance (%)	3m	6m	12m
Bajaj Auto	22.8	-3.1	16.4
Nifty	-21.6	-8.1	-1.8

Bajaj Auto Vs Nifty



Bajaj Auto's Profit for the quarter de-grew by 53.1%YoY/59.7% QoQ to Rs 5,280 Mn during Q1FY21. Standalone revenue stood at Rs 30,792 Mn for Q1FY21 vs 78,078 for the Q1FY20 registering de-growth of 60.6%YoY/54.8%QoQ. Lower volumes due to Covid-19 pandemic led to fall in revenue. Reported EBITDA was down by 67.3%YoY/67.4% QoQ to Rs 4,085 Mn, as compared to Rs 12,502 Mn, while EBITDA margin contracted sharply by 275bps YoY/511bps QoQ. Total Volume was down by 64%YoY to 443,103 units. Bajaj Auto's domestic sales declined 73% over the year ago to 1,91,263 units in the quarter ended June.

Concall highlights

- Management stated that demand and supply are sort of balanced. In July 2020, first 10 days were pretty good around 90% of normal level. post that lockdown was imposed in various cities that again hit the demand.
- Dealership: 95% and 84% of the company's dealership are open of motorcycle and CV respectively.
- 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 motorcycles gross margin is expected to improve marginally in 2QFY21.
- The company's current production level is at 65-75%.
- Regions like South Asia, Middle East, LATAM are doing well while African markets are seeing delayed recovery. Demand in Nigeria is at ~55% of pre-covid levels whereas Bangladesh, Egypt, Columbia are trading above normal.
- 3W was adversely affected due to the pandemic whereas BJAUT's overall market share was 42.6% in Q1. Management indicated that outlook on domestic 3W remains uncertain and will improve once overall commuter activity ramps up.
- Motorcycle Inventory is running below 30 days of current retail levels.

Outlook and valuation

Going ahead, we believe, further margin expansion would be capped owing to strong ramp up in the domestic Motor Cycle market, which command lower realizations and uncertainties which prevail over a recovery in 3W. Its sustained momentum in export markets with market share gains from Chinese peers should continue to act as an overall hedge. However, on the domestic side, the company could face market share loss owing to strong demand in the commuter bikes where the company is yet to gain meaningful market share. Given the near term uncertainty, we lower our FY21-22 estimates.

At CMP of Rs 2,985, Bajaj Auto currently trades at FY20 PE of 17x. We value Bajaj Auto at PE of 16.5x to its FY22E EPS of Rs 185, +80 for KTM stock valuation to arrive at a target price of Rs 3,133 using SOTP method for Bajaj's stake in KTM. **We maintain our Hold rating on the stock.**

Quarterly result summary

Standalone (Rs mn)	Q1FY21	Q4FY20	Q1FY20	YoY (%)	QoQ (%)
Net sales	30,792	68,159	78,078	(60.6)	(54.8)
- Raw material	20666	46653	55,638	(62.9)	(55.7)
(% of net sales)	67.1	68.4	71.3	-414bps	-133bps
- Staff expenditure	3373	3421	3,605	(6.5)	(1.4)
(% of net sales)	11.0	5.0	4.6	634bps	593bps
- Other expenditure	2668.4	5557.4	6,333	(57.9)	(52.0)
(% of net sales)	8.7	8.2	8.1	55bps	51bps
Total expenditure	26,707	55,631	65,576	(59.3)	(52.0)
EBITDA	4,085	12,528	12,502	(67.3)	(67.4)
EBITDA Margin (%)	13.3	18.4	16.0	-275bps	-511bps
Depreciation	637.9	632.7	601	6.1	0.8
EBIT	3,447	11,895	11,901	(71.0)	(71.0)
Interest	9.5	9.1	5	75.9	4.4
Other Income	3378.8	5326.5	3,893	(13.2)	(36.6)
PBT	6,817	17,212	15,788	(56.8)	(60.4)
Tax	1536.3	4109.4	4,531	(66.1)	(62.6)
Adjusted PAT	5,280	13,103	11,257	(53.1)	(59.7)
Reported PAT	5280	13103	11,257	(53.1)	(59.7)
Adjusted EPS (Rs)	18.30	45.30	38.9	-	-
Total Volumes (Nos)	4,43,103	9,91,961	12,47,174	(64.5)	44.7
Net Realisation (Rs)	69,493	68,711	62,604	11.0	1.1
EBITDA / Vehicle (Rs)	9,220	12,629	10,024	(8.0)	(27.0)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Geographical mix	Q1FY21	Q4FY20	Q1FY20	YoY (%)	QoQ (%)
Revenues (INRm):					
Domestic	14,973	35,883	46,578	(23.0)	(58.3)
Exports	15,820	32,276	31,500	(49.8)	(51.0)
Total	30,792	68,159	78,078	(12.7)	(54.8)
Volumes (In nos):					
Domestic	1,91,263	4,78,160	6,97,153	(72.6)	(60.0)
Exports	2,51,840	5,13,801	5,50,021	(54.2)	(51.0)
Total	4,43,103	9,91,961	12,47,174	(64.5)	(55.3)
Realisations (INR):					
Domestic	78,282	75,044	66,812	17.2	4.3
Exports	62,817	62,817	57,271	9.7	0.0
Total	69,493	68,711	62,604	11.0	1.1

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 1: Quarterly revenue and growth trend

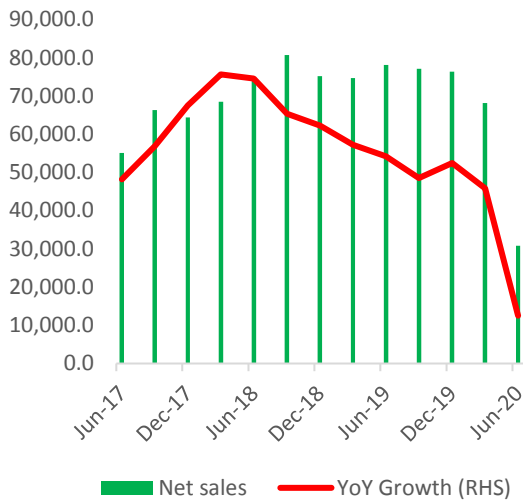


Exhibit 2: Gross margin and EBITDA margin trend

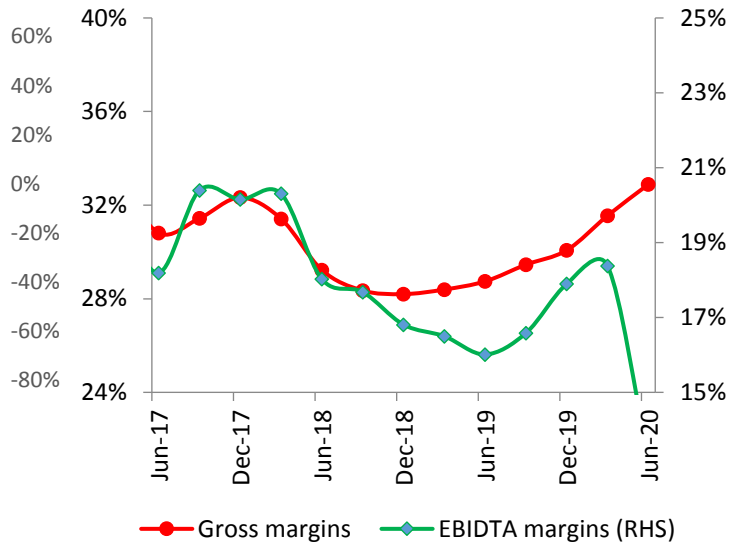


Exhibit 3: Quarterly Volume / % Net Sales

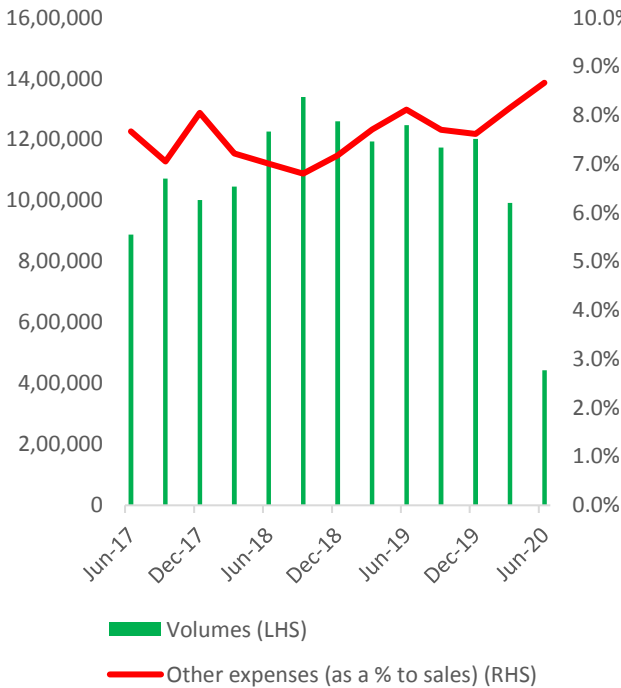
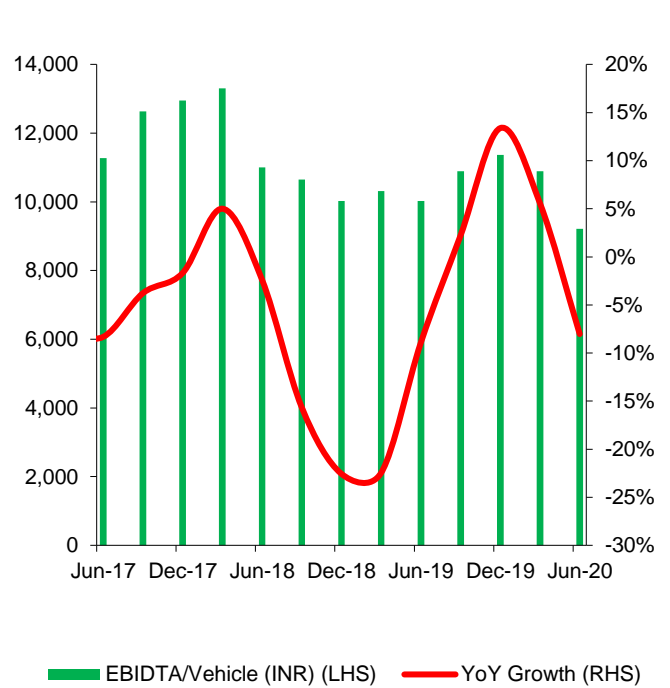


Exhibit 4: Quarterly EBITDA / Vehicle trend



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net sales	3,03,575	2,99,187	2,57,583	2,80,194
Growth, %	21	-1	-14	9
RM expenses	2,17,977	2,10,083	1,76,444	1,90,532
Employee expenses	12,554	13,892	15,559	17,426
Other expenses	21,120	24,249	20,607	22,415
EBITDA (Core)	51,924	50,962	44,973	49,820
Growth, %	11	-2	-12	11
Margin, %	17.1	17.0	17.5	17.8
Depreciation	2,657	2,464	2,979	3,164
EBIT	49,268	48,498	41,994	46,656
Growth, %	13	-2	-13	11
Margin, %	16.2	16.2	16.3	16.7
Other income	14,389	17,336	19,936	22,926
Interest paid	45	32	48	55
Non-recurring Items	3,420	0	0	0
Pre-tax profit	67,031	65,802	61,882	69,527
Tax provided	20,280	14,802	13,794	15,991
Profit after tax	46,751	51,000	48,088	53,536
Others (Minorities, Associates)	-	-	-	-
Net Profit	46,751	51,000	48,088	53,536
Growth, %	26	9	-6	11
Net Profit (adjusted)	46,751.4	51,000	48,088	53,536

Balance Sheet				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	9,228	3,083	5,331	7,746
Investments	1,91,594	1,81,960	1,91,057	2,10,163
Debtors	25,597	17,251	14,852	16,156
Inventory	9,615	10,635	9,156	9,960
Loans & advances	380	386	424	467
Other current assets	19,271	16,827	17,668	18,552
Total current assets	64,091	48,181	47,432	52,880
Gross fixed assets	51,790	52,994	62,913	67,914
Less: Depreciation	33,786	36,250	39,229	42,394
Add: Capital WIP	115	465	465	465
Net fixed assets	18,120	17,209	24,149	25,985
Total assets	2,24,471	2,03,592	2,22,556	2,45,509
Current liabilities	47,781	41,374	37,459	40,634
Provisions	1,552	2,385	2,623	2,885
Total current liabilities	49,333	43,758	40,082	43,519
Non-current liabilities	1,75,138	1,59,833	1,82,474	2,01,989
Total liabilities	6,672	4,336	4,205	4,094
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	2,14,905	1,96,361	2,15,457	2,38,521
Shareholders' equity	2,17,799	1,99,255	2,18,351	2,41,415
Total equity & liabilities	2,24,471	2,03,592	2,22,556	2,45,509

Cash Flow				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	63,611	65,802	59,975	69,527
Depreciation	2,657	2,464	2,979	3,164
Chg in working capital	-13,060	4,189	-679	404
Total tax paid	-18,186	-15,473	-13,794	-15,991
CFO	21,967	11,966	7,500	18,908
Capital expenditure	-1,429	-1,554	-9,918	-5,001
Chg in marketable securities	0	0	0	1
Chg in investments	-15,711	9,634	-9,098	-19,107
CFI	9,528	25,198	899	-5,014
Free cash flow	20,538	10,412	-2,418	13,908
Debt raised/(repaid)	-181	-154	-131	-111
Dividend (incl. tax)	-23,699	-40,628	-27,085	-30,471
CFF	-23,925	-40,813	-27,267	-30,637
Net chg in cash	7,570	-3,649	-18,868	-16,743
Opening cash balance	7,780	9,228	3,083	5,331
Closing cash balance	9,228	3,083	5,331	7,746

Ratios				
Particulars	FY19	FY20	FY21E	FY22E
EPS (INR)	162	176	160	185
PER (x)	18.7	17.2	18.9	16.3
Price/Book (x)	3.5	3.8	3.5	3.2
EV/EBITDA (x)	8.8	8.8	12.6	11.1
EV/Net sales (x)	2.0	2.1	2.1	2.0
RoE (%)	28.2	32.4	14.5	15.0
RoCE (%)	37	39	29	30
Fixed Asset turnover (x)	5.9	5.6	4.1	4.1
Dividend Yield (%)	2.7	4.5	3.0	3.4
Receivable (days)	32	22	22	22
Inventory (days)	14	16	14	15
Payable (days)	55	47	42	42
Net D/E ratio (x)	(0.9)	(0.8)	(0.8)	(0.7)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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