

**Healthy margin and better product mix to drive the growth ahead.**

**CMP: Rs 2916**

**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)          | 843721            |
| 52w H/L (Rs)             | 3315/ 1793        |
| Avg Yearly Vol (in 000') | 755               |

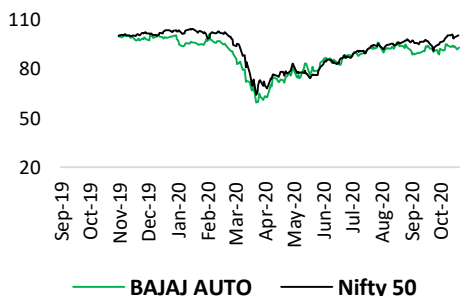
**Shareholding Pattern %**

(As on September, 2020)

|                 |       |
|-----------------|-------|
| Promoters       | 53.69 |
| Public & Others | 46.31 |

| Stock Performance (%) | 3m   | 6m   | 12m  |
|-----------------------|------|------|------|
| Bajaj Auto            | -2.6 | 20.5 | -9.2 |
| Nifty                 | 5.4  | 27.6 | -1.1 |

**Bajaj Auto Vs Nifty**



**Bajaj Auto Limited ( BAL) revenue from operations declined by 7.2% YoY but increased by 132% QoQ to Rs 71559 mn as CV volumes failed to pick up, while 2-wheeler sales saw an uptick by the quarter end. Domestic Volumes declined by 9%YoY at 573,586 units whereas Export volume declined by 20% YoY at 479,751. in Q2FY21. EBIDTA for Q2FY21 remained flat on YoY basis, however grew by 210% QOQ at Rs 12,662 mn in Q2FY21 EBIDTA margin expanded by 111 bps YoY & 443 bps QOQ to 17.7% helped by lower costs of production and lower other expenses. PAT declined 18.8% YoY but increased 115.6% to Rs 11,382 mn in Q2FY21 tracking lower other income and low effective tax rate in base quarter i.e. Q2FY20.**

**Business highlights**

- In Q2FY21 revenue declined 7.2% YoY to Rs. 71,559 mn as total volumes declined by -10.2% YoY. Volumes remained subdued initially during the months of July and August, while September saw an uptick in unit sales. Domestic market witnessed volume growth of 2.0% in two wheelers, while those of commercial vehicles continued to remain sluggish dropping 78.3% YoY. Overall export volumes de-grew across the board (-11.9% YoY), despite highest ever sales seen for KTM & Husqvarna.
- Bajaj Auto's September unit sales figures are reflective of the steady recovery seen in the market aided by pick-up in consumer demand, as the country gradually looks to come out of lockdown. Moreover, company's exports have witnessed a higher growth of recovery as against India, where the market conditions are still not optimal. Gradual restoration of supply chain and utilization levels improving at its plants, we expect volumes to reach prior year levels, along with faster recovery expected in 2-wheelers.

**Outlook and valuation**

Contrary to expectations, premiumization aided growth despite slowdown in the economy as could be seen from highest ever sales recorded by Pulsar and KTM. Company's market share in both 2Ws and CV markets continues to grow albeit slowly, and so do the volumes – a positive reflection of the growth ahead. Company will be able to maintain the margin more than 17.5% on back of expected improvement in product mix and improved model mix within 2w. Nonetheless, owing to on-going uncertainties in the domestic market. we continue to remain cautious and maintain our HOLD rating

At CMP of Rs 2,916 Bajaj Auto currently trades at FY20 PE of 17.2x. 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 3133 using SOTP method for Bajaj's stake in KTM..

## Quarterly result summary

| Standalone (in Rs million)             | Q2FY21        | Q1FY21        | Q2FY20        | Q-o-Q          | Y-o-Y          |
|--|---------------|---------------|---------------|----------------|----------------|
| <b>Net Revenue</b>                     | <b>71,559</b> | <b>30,792</b> | <b>77,073</b> | <b>132.4%</b>  | <b>-7.2%</b>   |
| Cost of raw materials consumed         | 47,737        | 16,959        | 52,652        | 181.5%         | -9.3%          |
| Purchase of traded goods               | 3,471         | 898           | 4,002         | 286.5%         | -13.3%         |
| Changes in inventory                   | -627          | 2,809         | -2,283        | -122.3%        | -72.5%         |
| Employee benefit expense               | 3,246         | 3,373         | 3,383         | -3.8%          | -4.0%          |
| Other expenses                         | 5,099         | 2,686         | 6,627         | 89.8%          | -23.1%         |
| Expenses capitalised                   | -29           | -17           | -88           | 72.4%          | -66.7%         |
| <b>EBITDA</b>                          | <b>12,662</b> | <b>4,084</b>  | <b>12,780</b> | <b>210%</b>    | <b>-0.01</b>   |
| <i>EBITDA margin %</i>                 | <i>17.7%</i>  | <i>13.3%</i>  | <i>16.6%</i>  | <i>443bps</i>  | <i>111bps</i>  |
| Depreciation and amortisation expenses | 643           | 638           | 613           | 0.8%           | 4.9%           |
| <b>EBIT</b>                            | <b>12,019</b> | <b>3,446</b>  | <b>12,167</b> | <b>248.8%</b>  | <b>-1.2%</b>   |
| Interest                               | 27            | 10            | 12            | 170.0%         | 125.0%         |
| Other income                           | 2,858         | 3,379         | 3,934         | -15.4%         | -27.4%         |
| <b>PBT</b>                             | <b>14,850</b> | <b>6,815</b>  | <b>16,089</b> | <b>117.9%</b>  | <b>-7.7%</b>   |
| Tax Expense                            | 3,468         | 1,536         | 2,064         | 125.8%         | 68.0%          |
| Effective tax rate %                   | 23.4%         | 22.5%         | 12.8%         | 81bps          | 1052bps        |
| <b>PAT</b>                             | <b>11,382</b> | <b>5,279</b>  | <b>14,025</b> | <b>115.6%</b>  | <b>-18.8%</b>  |
| <i>PAT margin %</i>                    | <i>15.9%</i>  | <i>17.1%</i>  | <i>18.2%</i>  | <i>-124bps</i> | <i>-229bps</i> |
| <b>EPS (Rs)</b>                        | <b>39.3</b>   | <b>18.2</b>   | <b>48.5</b>   | <b>115.9%</b>  | <b>-18.9%</b>  |

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

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**Q2FY21 -Con Call Highlights**

- Barring supply chain issues, BAL expects October volumes to be better than September and November to be better than October. In recent weeks, domestic recovery is equally spread between rural and urban centres.
- BAL's export performance has been better than the industry courtesy resolution of supply side issues.
- Domestic 2-W industry demand is at 90% of last year's levels. First few days of inquiries, walk ins in the on-going festive period are at similar levels of last year (adjusting for month end period last year).
- Domestic 3-W industry currently is at 25% of normal levels. Passenger 3-W segment is at 20% levels while cargo category is at ~40-50% levels.
- In exports, 80-85% of BAL revenues come from markets where the company is the biggest or the second biggest player with greater than 25% market share. Extensive ground studies and market insights is helping gain market share in key export markets.
- The 2-W international markets are at ~90% of usual levels while 3-W international markets are at ~80% of normal levels. Among geographies, Africa (90-95%), South Asia (~90%) and Latin America (80-85%) are leading the way with Asean nations at 50%
- Premium brands i.e. KTM, Husqvarna also recorded highest ever domestic volumes in Q2FY21
- Domestic 2-W margins at multi-year high levels.
- Better model mix within 2-W i.e. higher Pulsar sales helped margins despite lower share of 3-W. Pulsar 125 has captured 16% market share in 125 cc category. BAL is hopeful of further market share gains for 125 Pulsar pursuant to further expansion pan India and continued advertising efforts
- The company has mostly passed on costs of MEIS withdrawal in export markets through calibrated price hikes.
- Total 2/3rd of drop in other expenses (down ~23% YoY) is due to lower marketing spends. The rest is on account of operating cost reduction. Some of these reduced expenses will come back in future upon volume revival
- Some commodity cost pressures are set to occur in Q3FY21E (led by base metals). The company plans to mitigate it through calibrated price increases and increased exports
- BAL said there is no major prevalence of discounting so far in the market place
- In Q2FY21, export sales were at Rs 2,800 crore while spare parts revenues stood at Rs 733 crore.
- BAL 2-W inventory is at ~45 days of sales at present
- Financing levels as of Q2FY21 were at 50-52%, of which 60% was via Bajaj Auto Finance.

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

| 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          |
| <b>Total current assets</b>           | <b>64,091</b>   | <b>48,181</b>   | <b>47,432</b>   | <b>52,880</b>   |
| 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             |
| <b>Net fixed assets</b>               | <b>18,120</b>   | <b>17,209</b>   | <b>24,149</b>   | <b>25,985</b>   |
| <b>Total assets</b>                   | <b>2,24,471</b> | <b>2,03,592</b> | <b>2,22,556</b> | <b>2,45,509</b> |
| Current liabilities                   | 47,781          | 41,374          | 37,459          | 40,634          |
| Provisions                            | 1,552           | 2,385           | 2,623           | 2,885           |
| <b>Total current liabilities</b>      | <b>49,333</b>   | <b>43,758</b>   | <b>40,082</b>   | <b>43,519</b>   |
| Non-current liabilities               | 1,75,138        | 1,59,833        | 1,82,474        | 2,01,989        |
| <b>Total liabilities</b>              | <b>6,672</b>    | <b>4,336</b>    | <b>4,205</b>    | <b>4,094</b>    |
| 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        |
| <b>Total equity &amp; liabilities</b> | <b>2,24,471</b> | <b>2,03,592</b> | <b>2,22,556</b> | <b>2,45,509</b> |

| Cash Flow                    |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|
| Particulars (Rs mn)          | FY19           | FY20           | FY21E          | FY22E          |
| <b>Pre-tax profit</b>        | <b>63,611</b>  | <b>65,802</b>  | <b>59,975</b>  | <b>69,527</b>  |
| 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        |
| <b>CFO</b>                   | <b>21,967</b>  | <b>11,966</b>  | <b>7,500</b>   | <b>18,908</b>  |
| 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        |
| <b>CFI</b>                   | <b>9,528</b>   | <b>25,198</b>  | <b>899</b>     | <b>-5,014</b>  |
| 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        |
| <b>CFF</b>                   | <b>-23,925</b> | <b>-40,813</b> | <b>-27,267</b> | <b>-30,637</b> |
| <b>Net chg in cash</b>       | <b>7,570</b>   | <b>-3,649</b>  | <b>-18,868</b> | <b>-16,743</b> |
| Opening cash balance         | 7,780          | 9,228          | 3,083          | 5,331          |
| <b>Closing cash balance</b>  | <b>9,228</b>   | <b>3,083</b>   | <b>5,331</b>   | <b>7,746</b>   |

| 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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