

Beat Estimates; Focus on profitability through smart strategy

**CMP: Rs 4,090**

**Rating: HOLD**

**Target Price: Rs 4,509**

**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)	11,83,366
52w H/L (Rs)	4,130/ 1,789
Avg Yearly Vol (in 000')	888

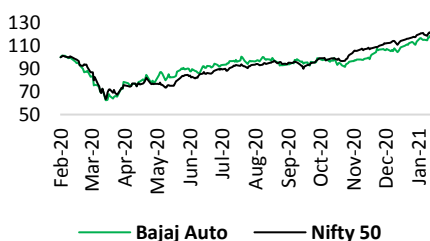
**Shareholding Pattern %**

(As on Dec, 2020)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)	3m	6m	12m
Bajaj Auto	36.0	37.0	32.9
Nifty	20.8	29.1	18.7

**Bajaj Auto Vs Nifty**



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**Bajaj Auto reported good set of numbers in Q3FY21. Result is above our estimates all fronts. Standalone revenue stood at Rs 89,099 Mn, registering +16.6% YoY/+24.5% QoQ. EBITDA stood at Rs 17,296 Mn, up by 26.5%YoY/+36.6% QoQ. On the margins front, EBITDA margin improved by 152bps YoY/172bps QoQ to 19.4%. Standalone PAT saw a rise of 23.4%YoY/36.7% QoQ to Rs 15,563 Mn vs Rs 12,616 Mn in Q3FY20.**

**Bajaj Auto Q3FY21 Concall highlights**

- Overall Motorcycle business of the company is operating at 90% of previous level.
- The company has gained market share in every market . It has enhanced market share in pulser 125cc category from 19% to 23% YoY in 3QFY21. It is driving the industry by expanding the 125cc segment.
- In Entry segment , the company raised prices and qualitatively improved the portfolio.
- Domestic two- wheelers continued to grow on the back of robust demand for pulsar dominar KTM and Husqvarna.
- Domestic CV business remains impacted due to inadequate demand for short distance mobility. Its sales improved sequentially and are back to 40% of previous levels in 3QFY21 and expected reach 50% level by 4QFY21.
- 3wheeler latin America business is at 50% and all other major markets pre-covid levels.
- The company took overall price increase of almost 1% 3QFY21.
- Container availability is still an issue for the company and the interruption is expected to continue for 3-4 months.
- Exports revenue was Rs 4082 crores and spares revenue was Rs 990 Crores for the quarter.
- Domestic motorcycle is running at last year levels and strong growth expected due to low base effect.
- The company is expecting an overall low single digit growth in demand in domestic 2wheeler.
- In FY22, 15-20% of industry growth expected conserving low base rate and further disruption from Covid.
- Tax: 23.5% of blended rate to be considered for tax.
- The company's 75% of the portfolio has electric start and it has target to make it 100%

**Valuation**

We believe, Bajaj auto is well placed to benefit from the structural product appeal in the domestic 2Ws industry with a dominant market share in the premium motorcycles. Its market leadership in various export markets makes it well-placed to benefit from the large growth potential in export markets. While the sales of new 3Ws has recovered to 40% of pre-Covid levels, the service has recovered to 90%, which is a positive for the Bajaj auto. On a sequential basis, the RM basket will increase led by sharp surge in base metals prices (steel and aluminum).

At CMP of Rs 4,090, Bajaj Auto is trading at a FY23 PE of 18.5x. We value Bajaj Auto at PE of 20x to its FY23E EPS of Rs 221, +80 for KTM stock valuation to arrive at a target price of Rs 4,509 using SOTP method for Bajaj's stake in KTM. **We maintain our Hold rating on the stock.**

## Quarterly result summary

Standalone (Rs mn)	Q3FY21	Q2FY21	Q3FY20	YoY (%)	QoQ (%)
<b>Net sales</b>	89,099	71,559	<b>76,397</b>	<b>16.6</b>	<b>24.5</b>
- Raw material	63082	50581	53,422	18.1	24.7
(% of net sales)	70.8	70.7	69.9	87bps	12bps
- Staff expenditure	3172	3246	3,482	(8.9)	(2.3)
(% of net sales)	3.6	4.5	4.6	-100bps	-98bps
- Other expenditure	5548.4	5069.4	5,820	(4.7)	9.4
(% of net sales)	6.2	7.1	7.6	-139bps	-86bps
Total expenditure	71,803	58,896	62,725	14.5	21.9
<b>EBITDA</b>	<b>17,296</b>	<b>12,662</b>	<b>13,672</b>	<b>26.5</b>	<b>36.6</b>
EBITDA Margin (%)	19.4	17.7	17.9	152bps	172bps
Depreciation	650	643.2	617	5.4	1.1
<b>EBIT</b>	<b>16,646</b>	<b>12,019</b>	<b>13,055</b>	<b>27.5</b>	<b>38.5</b>
Interest	10.2	26.5	5	117.0	(61.5)
Other Income	3691.8	2858	3,662	0.8	29.2
PBT	20,328	14,851	16,713	21.6	36.9
Tax	4765	3468.6	4,097	16.3	37.4
<b>Adjusted PAT</b>	<b>15,563</b>	<b>11,382</b>	<b>12,616</b>	<b>23.4</b>	<b>36.7</b>
Reported PAT	<b>15563</b>	<b>11382</b>	<b>12,616</b>	<b>23.4</b>	<b>36.7</b>
Adjusted EPS (Rs)	53.80	39.30	43.6	-	-
Total Volumes (Nos)	13,06,810	10,53,337	12,02,486	8.7	124.1
<b>Net Realisation (Rs)</b>	<b>68,180</b>	<b>67,935</b>	<b>63,532</b>	<b>7.3</b>	<b>0.4</b>
EBITDA / Vehicle (Rs)	13,235	12,021	11,370	16.4	10.1

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

Geographical mix	Q3FY21	Q2FY21	Q3FY20	YoY (%)	QoQ (%)
<b>Revenues (INRm):</b>					
Domestic	45,936	41,422	41,045	11.9	10.9
Exports	43,162	30,137	35,352	22.1	43.2
<b>Total</b>	<b>89,099</b>	<b>71,559</b>	<b>76,397</b>	<b>16.6</b>	<b>24.5</b>
<b>Volumes (In nos):</b>					
Domestic	6,19,699	5,73,586	6,39,714	(3.1)	8.0
Exports	6,87,111	4,79,751	5,62,772	22.1	43.2
<b>Total</b>	<b>13,06,810</b>	<b>10,53,337</b>	<b>12,02,486</b>	<b>8.7</b>	<b>24.1</b>
<b>Realisations (INR):</b>					
Domestic	31,313	72,215	64,161	(51.2)	(56.6)
Exports	46,973	62,818	62,817	(25.2)	(25.2)
<b>Total</b>	<b>68,180</b>	<b>67,935</b>	<b>63,532</b>	<b>7.3</b>	<b>0.4</b>

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

Exhibit 1: Quarterly revenue and growth trend

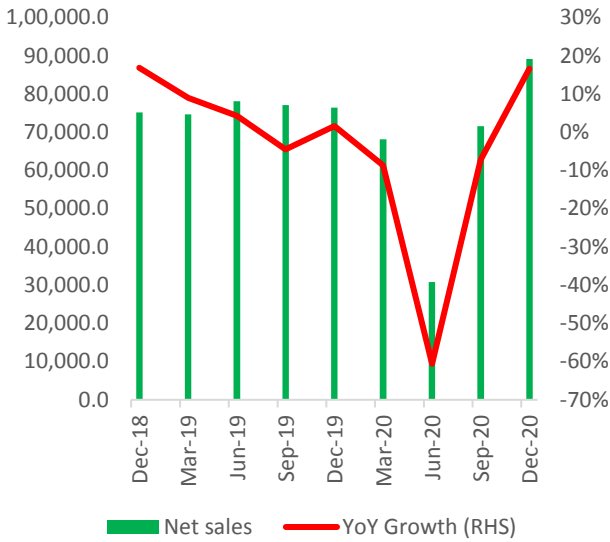


Exhibit 2: Gross margin and EBITDA margin trend

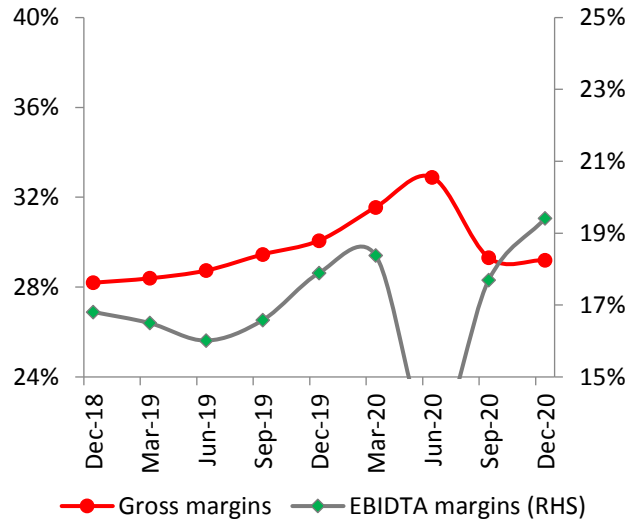


Exhibit 3: Quarterly Volume / % Net Sales

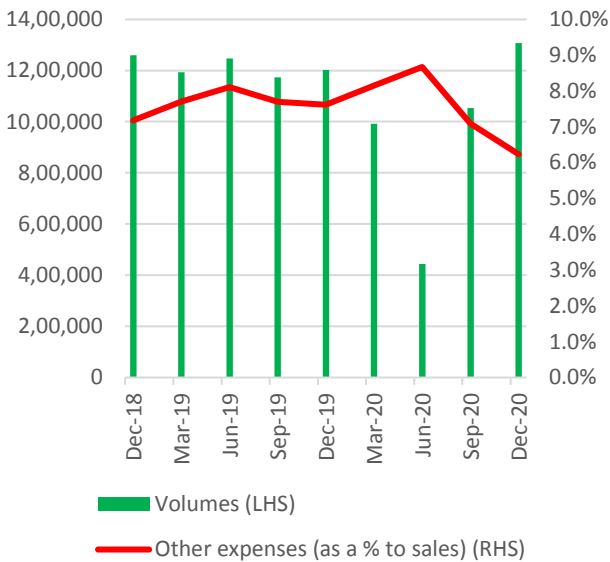
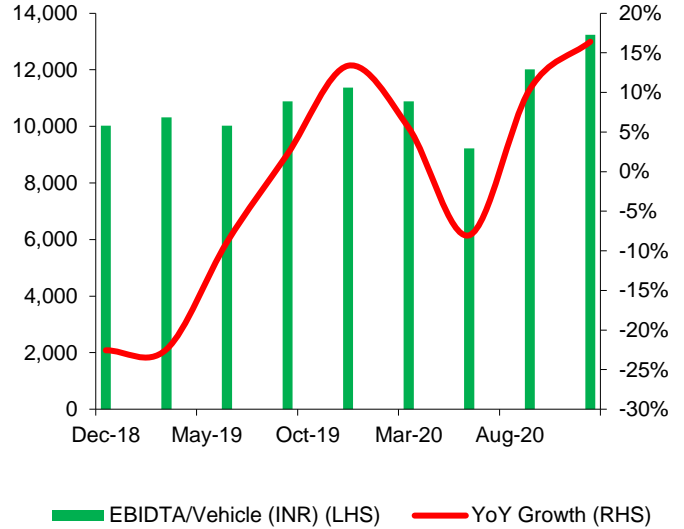


Exhibit 4: Quarterly EBITDA / Vehicle trend



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

## Financials (Standalone)

## Profit &amp; Loss Statement

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>3,03,575</b>	<b>2,99,187</b>	<b>2,71,679</b>	<b>3,27,301</b>	<b>3,78,717</b>
Growth, %	21	-1	-9	20	16
RM expenses	2,17,977	2,10,083	1,92,892	2,27,147	2,61,693
Employee expenses	12,554	13,892	15,559	17,426	18,733
Other expenses	21,120	24,249	24,451	27,821	30,297
<b>EBITDA (Core)</b>	<b>51,924</b>	<b>50,962</b>	<b>38,777</b>	<b>54,907</b>	<b>67,993</b>
Growth, %	11	-2	-24	42	24
Margin, %	17.1	17.0	14.3	16.8	18.0
Depreciation	2,657	2,464	2,681	2,906	3,131
<b>EBIT</b>	<b>49,268</b>	<b>48,498</b>	<b>36,096</b>	<b>52,001</b>	<b>64,862</b>
Growth, %	13	-2	-26	44	25
Margin, %	16.2	16.2	13.3	15.9	17.1
<b>Other income</b>	<b>14,389</b>	<b>17,336</b>	<b>17,856</b>	<b>18,391</b>	<b>18,943</b>
Interest paid	45	32	48	48	48
Non-recurring Items	3,420	0	0	0	0
<b>Pre-tax profit</b>	<b>67,031</b>	<b>65,802</b>	<b>53,903</b>	<b>70,345</b>	<b>83,757</b>
Tax provided	20,280	14,802	12,667	16,531	19,683
<b>Profit after tax</b>	<b>46,751</b>	<b>51,000</b>	<b>41,236</b>	<b>53,814</b>	<b>64,074</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>46,751</b>	<b>51,000</b>	<b>41,236</b>	<b>53,814</b>	<b>64,074</b>
Growth, %	26	9	-19	31	19
<b>Net Profit (adjusted)</b>	<b>46,751.4</b>	<b>51,000</b>	<b>41,236</b>	<b>53,814</b>	<b>64,074</b>

## Cash Flow

Particulars	FY19	FY20	FY21E	FY22E	FY23E
<b>Pre-tax profit</b>	<b>63,611</b>	<b>65,802</b>	<b>53,903</b>	<b>70,345</b>	<b>83,757</b>
Depreciation	2,657	2,464	2,681	2,906	3,131
Chg in working capital	-13,060	4,189	361	1,120	1,236
Total tax paid	-18,186	-15,473	-12,667	-16,531	-19,683
<b>CFO</b>	<b>21,967</b>	<b>11,966</b>	<b>-1,325</b>	<b>16,416</b>	<b>3,872</b>
Capital expenditure	-1,429	-1,554	-9,918	-5,001	-5,002
Chg in investments	-15,711	9,634	-9,098	-19,106	-21,016
<b>CFI</b>	<b>9,528</b>	<b>25,198</b>	<b>-833</b>	<b>-5,014</b>	<b>13,122</b>
Free cash flow	20,538	10,412	-11,243	11,415	-1,130
Debt raised/(repaid)	-181	-154	-131	-111	-95
Dividend (incl. tax)	-20,314	-40,628	-27,085	-30,471	-33,856
<b>CFF</b>	<b>-20,540</b>	<b>-40,813</b>	<b>-27,264</b>	<b>-30,630</b>	<b>-33,999</b>
Net chg in cash	10,955	-3,649	-29,421	-19,228	-17,005
Opening cash balance	7,780	9,228	3,083	1,127	4,278
<b>Closing cash balance</b>	<b>9,228</b>	<b>3,083</b>	<b>1,127</b>	<b>4,278</b>	<b>12,748</b>

## Balance Sheet

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Cash & bank	9,228	3,083	1,127	4,278	12,748
Investments	1,91,594	1,81,960	1,91,057	2,10,163	2,31,180
Debtors	25,597	17,251	15,665	18,872	21,837
Inventory	9,615	10,635	9,657	11,634	13,462
Loans & advances	380	386	424	467	513
Other current assets	19,271	16,827	17,668	18,552	19,479
<b>Total current assets</b>	<b>64,091</b>	<b>48,181</b>	<b>44,542</b>	<b>53,803</b>	<b>68,039</b>
Gross fixed assets	51,790	52,994	62,913	67,914	72,916
Less: Depreciation	33,786	36,250	38,931	41,838	44,969
Add: Capital WIP	115	465	465	465	465
<b>Net fixed assets</b>	<b>18,120</b>	<b>17,209</b>	<b>24,446</b>	<b>26,541</b>	<b>28,412</b>
<b>Total assets</b>	<b>2,24,471</b>	<b>2,03,592</b>	<b>2,17,611</b>	<b>2,40,842</b>	<b>2,70,963</b>
Current liabilities	47,781	41,374	39,812	46,780	53,494
Provisions	1,552	2,385	2,623	2,885	3,174
Total current liabilities	49,333	43,758	42,435	49,666	56,668
Non-current liabilities	1,75,138	1,59,833	1,75,176	1,91,176	2,14,295
<b>Total liabilities</b>	<b>6,672</b>	<b>4,336</b>	<b>4,205</b>	<b>4,094</b>	<b>4,000</b>
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	2,14,905	1,96,361	2,10,512	2,33,854	2,64,070
Shareholders' equity	2,17,799	1,99,255	2,13,406	2,36,748	2,66,964
<b>Total equity &amp; liabilities</b>	<b>2,24,471</b>	<b>2,03,592</b>	<b>2,17,611</b>	<b>2,40,842</b>	<b>2,70,963</b>

## Ratios

Particulars	FY19	FY20	FY21E	FY22E	FY23E
EPS (INR)	162	176	143	186	221
PER (x)	25.3	23.2	28.7	22.0	18.5
Price/Book (x)	3.5	3.8	3.6	3.2	2.9
EV/EBITDA (x)	8.8	8.8	15.8	11.8	10.9
EV/Net sales (x)	2.0	2.1	2.1	1.7	1.7
RoE (%)	28.2	32.4	10.8	14.0	15.3
RoCE (%)	37	39	25	29	38
Fixed Asset turnover (x)	5.9	5.6	4.3	4.8	5.2
Dividend Yield (%)	2.3	4.5	3.0	3.4	3.8
Receivable (days)	32	22	22	22	22
Inventory (days)	14	16	14	14	15
Payable (days)	55	47	42	43	43
Net D/E ratio (x)	(0.9)	(0.8)	(0.8)	(0.7)	(0.4)

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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