

CMP: Rs 2554

Rating: HOLD

Target Price: Rs 2735

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 bn)	771
52w H/L (Rs)	1,789/ 3,315
Avg Yearly Vol (in 000')	555

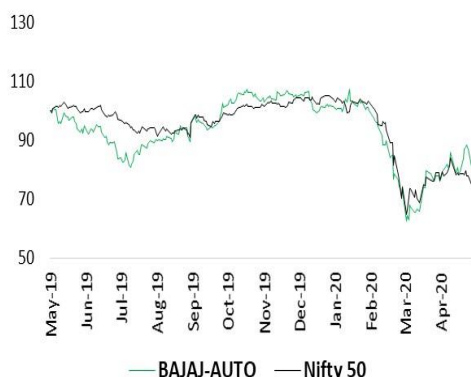
Shareholding Pattern %

(As on March, 2019)

Promoters	53.66
Public & Others	46.34

Stock Performance (%)	3m	6m	12m
Bajaj Auto	12.9	-15.5	-11.9
Nifty	-22.7	-24.3	-21.9

Bajaj Auto Vs Nifty



Bajaj Auto's Q4FY20 reported earnings were mixed missing on our revenue and EBITDA estimates but beating PAT estimates. The company has reported a flat growth of 0.4% YoY in its net profit at Rs 13,103 Mn for the Q4FY20 under review as compared to Rs 13,056 Mn for the Q4FY19 and up by 3.9% on QoQ to Rs 12,616 Mn for the Q3FY20. Bajaj Auto has reported 8.7% YoY decline in its standalone revenues for the Q4FY20. The company's revenue from operations stood at 68,159 Mn for Q4FY20 as against Rs74,645 Mn for the Q4FY19. EBITDA stood at Rs 12,528 Mn up 1.7% YoY for the Q4FY20 as compared to Rs 12,315Mn for the Q4Y19. EBITDA margins improved to 18.4% in Q4FY20 due to better product, segment mix, lower commodity prices and favorable foreign exchange.

Concall highlights

- The Company remains optimistic of the road ahead even as the lock down continued due to the Covid-19 pandemic crippling the economy.
- Management expects a smart recovery in the second half of the year, pointing out that over the next few months, as one learns to live with the pandemic and different agencies get a better grip on the situation and normalcy is restored in retail finance and supply chain, things will improve.
- Management stated that the future is really uncertain. But Bajaj will continue to march ahead for a sustainable and profitable growth.
- Bajaj will face a tough time in the export business due to lower crude prices in its major export destinations such as Africa and Middle East.
- Moreover, its high margin 3-wheeler business will recover with a lag effect as people shun public transport in favor of personal transportation. This will weigh on the company's profitability going forward.
- As the Covid-19 situation recedes, company will continue to profit from strong position in Africa, that competition from the Chinese firms in the region remains fragmented.
- Management expects move away from shared mobility (due to social distancing), latent demand and higher agriculture incomes would have positive impact on volumes.
- Post BS-VI, larger 3-Wheeler economics have become unfavorable, to benefit smaller 3-Wheeler where Bajaj has 85% market share.

Outlook and valuation

At CMP of Rs 2,554 Bajaj Auto it trades at PE of earning estimates of FY22 9.3x. Bajaj Auto has performed exceptionally in a weak market scenario. However, in the near term it faces multiple challenges due to ongoing COVID pandemic with both demand and supply remaining uncertain in the form of i) tough time in the export business due to lower crude prices in its major export destinations such as Africa and Middle East, ii) weaker demand, especially for 3W given the aversion to shared mobility. Given the near term uncertainty we lower our FY21 estimates and as Bajaj auto has diverse product portfolio in 2w and 3w segment with smart pricing, which help to gain market share beyond FY21. We value Bajaj Auto at PE of 9.5x to its FY22E EPS of Rs 274, +129 for KTM stock valuation to arrive at a target price of Rs 2,735 using SOTP method for Bajaj's stake in KTM.

We downgrade our rating to Hold from Accumulate earlier.

Quarterly result summary

Standalone (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Net sales	68,159	74,645	(8.7)	76,397	(10.8)
- Raw material	46653	53,450	(12.7)	53,422	(12.7)
(% of net sales)	68.4	71.6	-316bps	69.9	-148bps
- Staff expenditure	3421	3,126	9.4	3,482	(1.8)
(% of net sales)	5.0	4.2	83bps	4.6	46bps
- Other expenditure	5557.4	5,754	(3.4)	5,820	(4.5)
(% of net sales)	8.2	7.7	45bps	7.6	54bps
Total expenditure	55,631	62,329	(10.7)	62,725	(11.3)
EBITDA	12,528	12,315	1.7	13,672	(8.4)
EBITDA Margin (%)	18.4	16.5	188bps	17.9	48bps
Depreciation	632.7	608	4.0	617	2.6
EBIT	11,895	11,707	1.6	13,055	(8.9)
Interest	9.1	3	213.8	5	93.6
Other Income	5326.5	3,635	46.5	3,662	45.4
PBT	17,212	15,339	12.2	16,713	3.0
Tax	4109.4	5,703	(27.9)	4,097	0.3
Adjusted PAT	13,103	9,636	36.0	12,616	3.9
Reported PAT	13103	13,056	0.4	12,616	3.9
Adjusted EPS (Rs)	45.30	33.3	-	43.6	-
Total Volumes (Nos)	9,91,961	11,93,590	(16.9)	12,02,486	82.5
Net Realisation (Rs)	68,711	62,538	9.9	63,532	8.2
EBITDA / Vehicle (Rs)	12,629	10,318	22.4	11,370	11.1

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

Geographical mix	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenues (INRm):					
Domestic	35,883	44,415	(19.2)	41,045	(12.6)
Exports	32,276	30,230	6.8	35,352	(8.7)
Total	68,159	74,645	(8.7)	76,397	(10.8)
Volumes (In nos):					
Domestic	4,78,160	7,12,352	(32.9)	6,39,714	(25.3)
Exports	5,13,801	4,81,238	6.8	5,62,772	(8.7)
Total	9,91,961	11,93,590	(16.9)	12,02,486	(17.5)
Realisations (INR):					
Domestic	75,044	62,349	20.4	64,161	17.0
Exports	62,817	62,817	0.0	62,817	0.0
Total	68,711	62,538	9.9	63,532	8.2

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

Exhibit 1: Quarterly revenue and growth trend

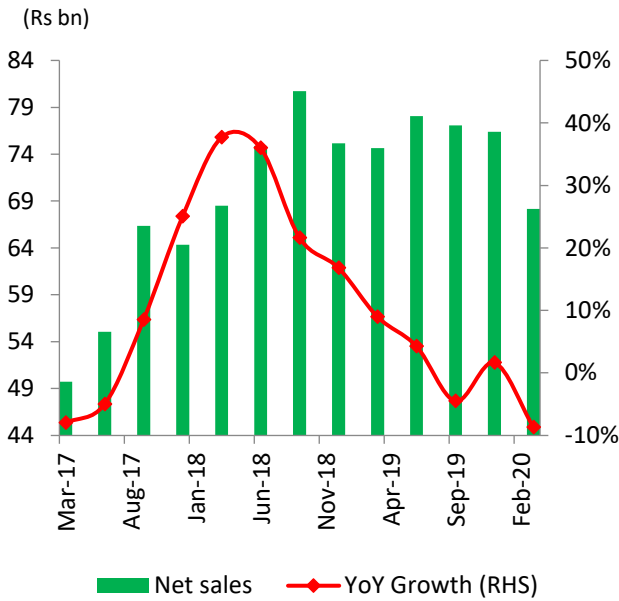


Exhibit 2: Gross margin and EBITDA margin trend

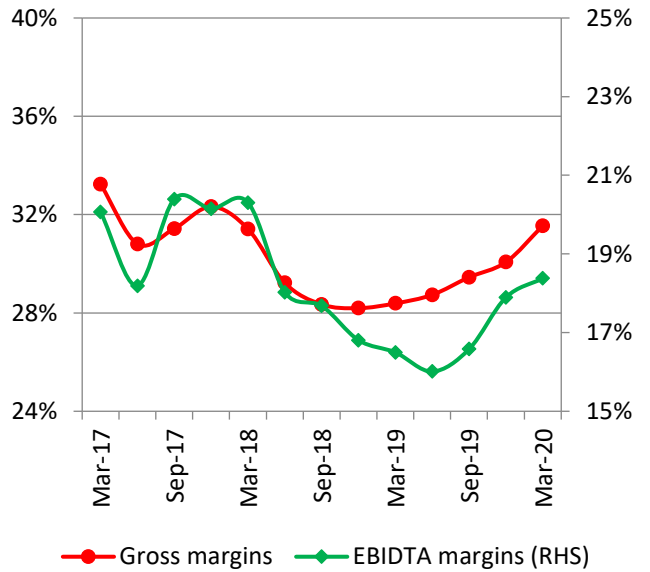


Exhibit 3: Quarterly realization and growth trend

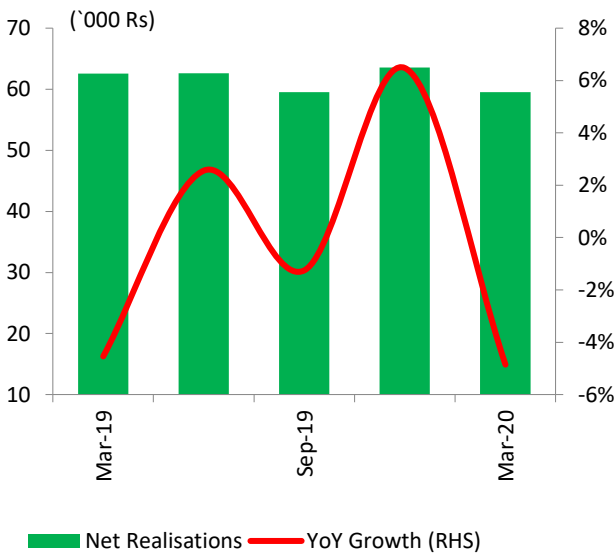
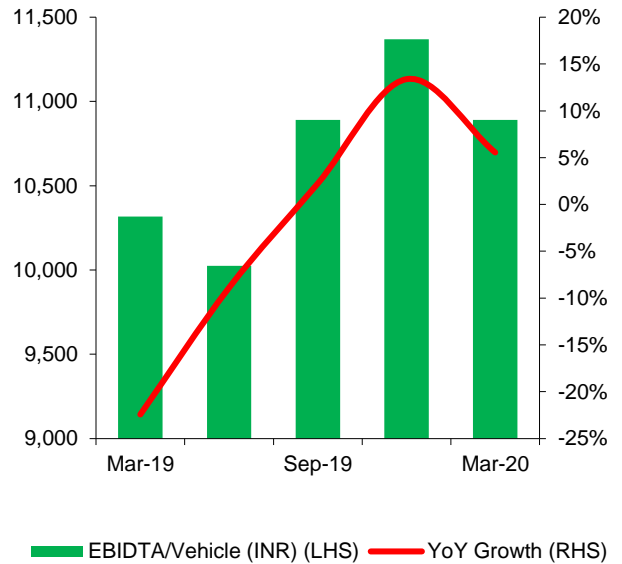


Exhibit 4: Quarterly EBITDA / Vehicle trend



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	2,84,637	3,04,550
Growth, %	21	-1	-5	7
RM expenses	2,17,977	2,10,083	1,94,976	2,01,003
Employee expenses	12,554	13,892	15,559	17,426
Other expenses	21,120	24,249	2,562	2,741
EBITDA (Core)	51,924	50,962	71,540	83,380
Growth, %	11	-2	40	17
Margin, %	17.1	17.0	25.1	27.4
Depreciation	2,657	2,464	2,979	3,164
EBIT	49,268	48,498	68,561	80,215
Growth, %	13	-2	41	17
Margin, %	16.2	16.2	24.1	26.3
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	88,449	1,03,086
Tax provided	20,280	14,802	20,343	23,710
Profit after tax	46,751	51,000	68,106	79,377
Others (Minorities, Associates)	-	-	-	-
Net Profit	46,751	51,000	68,106	79,377
Growth, %	26	9	34	17
Net Profit (adjusted)	46,751	51,000	68,106	79,377

Balance Sheet				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Cash & bank	9,228	3,083	18,222	44,466
Investments	1,91,594	1,81,960	2,00,155	2,20,171
Debtors	25,597	17,251	16,412	17,560
Inventory	9,615	10,635	10,118	10,826
Loans & advances	380	386	424	467
Other current assets	19,271	16,827	17,668	18,552
Total current assets	64,091	48,181	62,845	91,871
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	2,44,481	2,93,274
Current liabilities	47,781	41,374	40,045	41,867
Provisions	1,552	2,385	2,623	2,885
Total current liabilities	49,333	43,758	42,668	44,752
Non-current liabilities	1,75,138	1,59,833	2,01,813	2,48,522
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	2,37,382	2,86,287
Shareholders' equity	2,17,799	1,99,255	2,40,275	2,89,180
Total equity & liabilities	2,24,471	2,03,592	2,44,481	2,93,275

Cash Flow				
Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Pre-tax profit	63,611	65,802	88,449	1,03,086
Depreciation	2,657	2,464	3,099	3,164
Chg in working capital	-13,060	4,189	-614	-698
Total tax paid	-18,186	-15,473	-20,343	-23,710
CFO	21,967	11,966	25,621	41,982
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	-18,196	-20,017
CFI	9,528	25,198	-8,199	-5,924
Free cash flow	20,538	10,412	15,703	36,982
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	-9,845	5,421
Opening cash balance	7,780	9,228	3,083	18,222
Closing cash balance	9,228	3,083	18,222	44,466

Ratios				
Particulars	FY19	FY20	FY21E	FY22E
EPS (INR)	162	176	235	274
PER (x)	15.8	14.5	10.9	9.3
Price/Book (x)	3.5	3.8	3.2	2.6
EV/EBITDA (x)	8.8	8.8	8.0	6.4
EV/Net sales (x)	2.0	2.1	1.9	1.7
RoE (%)	28.2	32.4	22.0	22.1
RoCE (%)	37	39	39	38
Fixed Asset turnover (x)	5.9	5.6	4.5	4.5
Dividend Yield (%)	2.7	4.5	3.0	3.4
Receivable (days)	32	22	22	22
Inventory (days)	14	16	16	16
Payable (days)	55	47	46	45
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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