Bajaj Auto
Auto

BUY
Target Price
4,250

IN-LINE PERFORMANCE; STABLE OUTLOOK

Bajaj Auto reported an in-line performance in terms of profitability, whereas revenue came in slightly ahead of our expectations. The company reported net revenues of Rs 8,596 crores (a 26% yoy growth) v/s our estimates of Rs 8,151 crores. The growth in revenues was led by 18% yoy volumes growth and a 7.9% ASPs increase. The company reported an EBITDA margin of 17.7% (65bps yoy contraction) v/s our estimate of 17.4%. Reported EBITDA came in at Rs 1,524 crores, a growth of 21.7% yoy (beating our estimates of Rs. 1,415 crores). This growth was led by price hikes, a higher share of premium bikes in the portfolio, better margin realization from exports, and cost reduction efforts undertaken by the company. Net profit at Rs 1,332 crores was in line with our estimates. **We upgrade our rating from Hold to BUY with a revised TP of Rs 4,250 (Rs. 4,150 earlier) (which includes Rs 170/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.** Key downside risks to our estimates – Higher than expected commodity inflation, a slowdown in exports markets and unfavourable forex fluctuations.

Key concall takeaways

- **Domestic 2W Industry:** The management sounded cautiously optimistic on domestic motorcycle industry demand. Weakness is expected to sustain in the near term especially given the ongoing 2nd wave of Covid-19 but it expects recovery from Q2/Q3 onwards once the situation normalises. The focus will remain on premiumization within segments by launching new product variants (e.g. Pulsar 125, more premium variants of Platina, CT, etc.). Bajaj's overall 2W motorcycle market share stood at 18% in FY21. The company lost a 50 bps market share in the domestic motorcycle market. While the performance in the premium segment was strong, the company lost around 400 bps market share in the economy bike segment
- **Strong Recovery in Exports market:** Exports markets continue to perform well for the company. 2W exports were strong in the 2nd half of FY21 and the outlook remains robust across markets – the management noted that volumes in Latin America saw positive growth yoy in FY21 (overall 2W exports down 4% yoy in FY21). Given high crude oil and commodity prices, demand from key regions like Africa and Latin America is expected to remain strong. Bajaj has increased its market share in almost all key export markets. More than 85% of export revenue was generated from geographies where Bajaj Auto is either No. 1 or No. 2 player with atleast 25% market share. The company expects the same momentum to sustain going ahead.
- **Domestic 3W demand continues to remain subdued:** After a return to slight normalcy in Mar'21, the domestic 3W market is facing headwinds once again due to the 2nd wave of Covid-19. However, Bajaj improved its market share in all three categories of 3Ws viz. to 85% in small passenger 3Ws, 48% in larger passenger 3Ws and 34% in cargo 3Ws. Domestic 3W demand continues to be impacted by inadequate demand for short-distance mobility. As a result, sales continue to remain weak.

Valuation & Outlook

Bajaj Auto is well placed to capitalize on urban demand normalization and premiumisation trends, which should support profitability and operational performance going forward. Moreover, we expect the company to gain further market share in exports driven by its market leadership, brand equity, and enhanced distribution network. The company's margins are expected to improve aided by premiumisation in 2Ws, higher exports, depreciating rupee, RoDTEP scheme incentives, and an increase in the share of 3Ws (higher margins) in the product mix. Bajaj Auto remains our preferred pick in the 2W segment given reasonable valuations and strong medium-term growth prospects. **We upgrade our rating from Hold to BUY with a revised TP of Rs. 4,250 (Rs. 4,150 earlier) (which includes Rs 170/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.**

Key Financials (Standalone)

(Rs. Cr)	FY20A	FY21P	FY22E	FY23E
Net Sales	29,352	27,741	34,866	40,371
EBITDA	4,698	4,928	6,238	7,513
Net Profit	5,226	4,555	5,818	6,945
EPS (Rs.)	180.6	157.4	201.1	240.0
ROE (%)	22.8	18.6	20.7	22.7
ROCE (%)	22.2	18.2	20.3	22.2
PER (x)	11.2	24.4	19.1	16.0
P/BV (x)	2.9	4.4	4.1	3.7
EV/EBITDA (x)	12.4	22.4	17.6	14.4
Debt/ Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

(CMP as of April 29, 2021)

CMP (Rs)	3,834
Upside /Downside (%)	11%
High/Low (Rs)	4,361/2,363
Market cap (Cr)	1,12,571
Avg. daily vol. (6m) Shrs.	2,32,770
No. of shares (Cr)	29

Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	53.7	53.7	53.7
FIIs	13.6	13.1	12.0
MFs / UTI	3.0	3.1	3.4
Banks / FIs	0.3	0.0	0.1
Others	29.5	30.1	30.8

Financial & Valuations

Y/E Mar (Rs. Crs)	2021P	2022E	2023E
Net Sales	27,741	34,866	40,371
EBITDA	4,928	6,238	7,513
Net Profit	4,555	5,818	6,945
EPS (Rs.)	157.4	201.1	240.0
PER (x)	24.4	19.1	16.0
EV/EBITDA (x)	22.4	17.6	14.4
P/BV (x)	4.4	4.1	3.7
ROE (%)	18.6	20.7	22.7

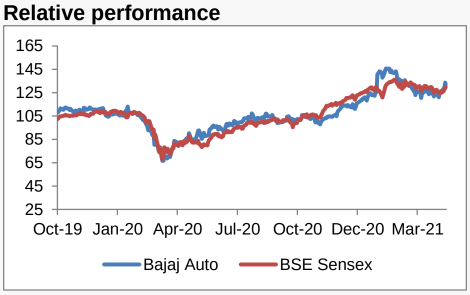
Change in Estimates (%)

Y/E Mar	FY21P	FY22E	FY23E
Sales	(3.1)	(2.2)	0.1
EBITDA	0.2	(0.5)	0.4
PAT	(1.6)	1.0	2.0

Axis vs Consensus

EPS Estimates	2021P	2022E	2023E
Axis	157.4	201.1	240.0
Consensus	157.8	193.0	221.7
Mean Consensus TP (12M)			4,038

Relative performance



Source: Capitaline, Axis Securities

Darshan Gangar
Research Associate

Email: darshan.gangar@axissecurities.in

Q4FY21 Financial Highlights (Standalone)

(Rs crs)	Q4FY21	Axis Sec Estimates	Axis Sec Var (%)	Q3FY21	QoQ growth (%)	Q4FY20	YoY growth (%)
Net Sales	**8,596**	**8,151**	**5.5**	**8,910**	**(3.5)**	**6,816**	**26.1**
Less:							
Net Raw Material consumed	6,177	5,869	5.2	6,308	(2.1)	4,665	32.4
Other Manufacturing & Sales Exp.	588	546	7.7	555	6.0	556	5.9
Personnel Cost	307	322	(4.5)	317	(3.2)	342	(10.3)
Total Expenditure	**7,072**	**6,736**	**5.0**	**7,180**	**(1.5)**	**5,563**	**27.1**
EBIDTA	**1,524**	**1,415**	**7.7**	**1,730**	**(11.9)**	**1,253**	**21.7**
Less: Depreciation	66	66	1.0	65	1.8	63	4.6
EBIT	**1,458**	**1,349**	**8.1**	**1,665**	**(12.4)**	**1,189**	**22.6**
Less: Interest	2	2	19.9	1	100.0	1	124.2
Add: Other income	284	392	(27.7)	369	(23.2)	533	(46.8)
Profit Before Extra-ordinary items and Tax	**1,739**	**1,740**	**(0.0)**	**2,033**	**(14.4)**	**1,721**	**1.1**
Less: Extraordinary Expense/(Income)	0	0		0		0	
Profit Before Tax	**1,739**	**1,740**	**(0.0)**	**2,033**	**(14.4)**	**1,721**	**1.1**
Less: Total Tax	407	409	(0.4)	477	(14.5)	411	(0.9)
Profit After Tax	**1,332**	**1,331**	**0.1**	**1,556**	**(14.4)**	**1,310**	**1.7**
Adj. PAT	**1,332**	**1,331**	**0.1**	**1,556**	**(14.4)**	**1,310**	**1.7**
Shares Outstanding (crs)	29	29	-	29		29	
Reported EPS (Rs.)	**46.0**	**46.0**	**0.1**	**53.8**	**(14.4)**	**45.3**	**1.6**
Adj. EPS (Rs.)	**46.0**	**46.0**	**0.1**	**53.8**	**(14.4)**	**45.3**	**1.6**

Source: Company; Axis Securities

Other Key Concall Takeaways

1) **RM outlook and price hikes:** The management noted that the rise in commodity prices impacted margins by ~400 bps in Q4 while Q1 is expected to see a further impact of ~300 bps. A blended price hike of 2% was taken in Q4 and the company has taken another price hike of 1.5-2% in Q1 in both domestic and export markets to offset part of the cost pressures.

2) **Margin Outlook:** Though margins will remain under pressure in the near term on account of commodity cost headwinds, we expect the same to improve over the medium to long term. The potential drivers to offset input cost pressures and improve margins include (1) Benefits of rupee depreciation (Q4 realization was 72.9 vs spot levels of around 75), (2) RoDTEP scheme (replacement for MEIS scheme) incentives whenever they come in (3) Increase in the share of 3W mix once the demand for 3Ws starts picking up.

3) **Dividend:** In line with the revised dividend policy and given a cash balance of more than Rs 15000 crores, the dividend payout was around 90%. The company has announced a dividend per share of Rs 140/share for FY21 resulting in a dividend yield of ~3.6%. Cash and cash equivalents stood at Rs 17,689 crores in Mar-21 vs Rs 14,322 crores in Mar-20 led by robust FCF generation in FY21.

4) **Focus on EV**: Management indicated that it is closely monitoring developments in the 2W EV industry, which is seeing the influx of various start-ups. Bajaj believes a reduction in battery cost is the fundamental factor that will drive momentum for EVs. The company is looking to build up its capabilities in Electric Vehicle rather than launch lower-priced models and chase volumes. It will continue to expand product availability in multiple cities and targets to ramp up Chetak volumes to 1,000 units per month within the next few months. It is also working on an electric 3W product

5) **Other expenses:** Management expects other expenses to normalize slightly in FY22 as some projects in FY21 got deferred and will likely get executed in this year. However, companies are likely to control A&P spends and not go overboard unless the commodity prices normalize providing some headroom.

6) **Other takeaways:**
   - ✓ Production of high-end bikes like KTM has been impacted by semi-conductor shortage – the impact of 10-15% on total production.
   - ✓ The shortage of shipping containers is also impacting export volumes. This has resulted in a 10-15% spillover of export order book every month.
   - ✓ The market share of Bajaj Auto in the 125cc segment has increased from 7% in FY20 to 19% in FY21.
   - ✓ The company's spare parts revenues stood at Rs 1,089 crores for the quarter and Rs 3,100 for a full year. Exports revenue for the quarter came in at Rs 3,991 crores.
   - ✓ Forex realization was at Rs 72.9/USD.

Change in Estimates

(Rs Crs)

	Revised			Old			% Change		
	FY21P	FY22E	FY23E	FY21E	FY22E	FY23E	FY21P	FY22E	FY23E
Revenue	27,741	34,866	40,371	28,633	35,635	40,325	-3.1%	-2.2%	0.1%
EBITDA	4,928	6,238	7,513	4,919	6,271	7,486	0.2%	-0.5%	0.4%
PAT	4,555	5,818	6,945	4,630	5,759	6,809	-1.6%	1.0%	2.0%
EPS	157.4	201.1	240.0	160.0	199.0	235.3	-1.6%	1.0%	2.0%

Source: Company, Axis Research

Financials (Standalone)

Profit & Loss (Rs Crs)

Y/E March	FY20A	FY21P	FY22E	FY23E
Net revenues	**29352**	**27741**	**34866**	**40371**
Operating expenses	24655	22813	28628	32858
EBIDTA	**4,698**	**4,928**	**6,238**	**7,513**
EBIDTA margin (%)	**16.0**	**17.8**	**17.9**	**18.6**
Other income	2295	1276	1639	1844
Interest	3.2	6.7	6.1	6.1
Depreciation	246.4	259.3	264.5	271.5
Profit Before Tax	6580	5939	7606	9079
Tax	1480	1384	1787	2133
Reported Net Profit	**5,100**	**4,555**	**5,818**	**6,945**
Net Margin (%)	17.4	16.4	16.7	17.2
Adjusted Net Profit	**5226**	**4555**	**5818**	**6945**

Source: Company, Axis Securities

Balance Sheet (Rs Crs)

Y/E March	FY20A	FY21P	FY22E	FY23E
Equity capital	289.4	289.4	289.4	289.4
Reserves & surplus	19,636	24,913	26,894	30,002
Shareholders' funds	**19,925**	**25,202**	**27,183**	**30,291**
Total Loans	126	122	122	122
Deferred tax liability	346	522	522	522
Total Liabilities and Equity	**20,398**	**25,846**	**27,827**	**30,935**
Gross block	4078	4291	4829	5417
Depreciation	2419	2679	2943	3215
Net block	1,659	1,613	1,886	2,203
Capital WIP	47	16	78	90
Investments	18250	22683	23083	23883
Inventory	1064	1494	1569	1800
Debtors	1725	2717	2388	2765
Cash & Bank Bal	308	527	1299	2822
Loans & Advances	1721	2480	2511	2553
Current Assets	**4,818**	**7,218**	**7,767**	**9,941**
Sundry Creditors	3454	4574	3877	4071
Other Current Liability	921	1110	1110	1110
Current Liability & Provisions	4375	5684	4987	5181
Net current assets	443	1,535	2,780	4,759
Total Assets	**20,398**	**25,846**	**27,827**	**30,935**

Source: Company, Axis Securities

Cash Flow (Rs Crs)

Y/E March	FY20A	FY21P	FY22E	FY23E
EBIT	4,451	4,669	5,973	7,241
Other Income	2,295	1,276	1,639	1,844
Depreciation & Amortization	246	259	264	272
Interest Paid (-)	(3)	(7)	(6)	(6)
Tax paid (-)	(1,480)	(1,384)	(1,787)	(2,133)
Extra Ord Income	(162)	-	-	-
Operating Cash Flow	**5,346**	**4,814**	**6,083**	**7,217**
Change in Working Capital	419	(872)	(474)	(456)
Cash Flow from Operations	**5,766**	**3,942**	**5,609**	**6,760**
Capex	(195)	(183)	(600)	(600)
Strategic investments	(11)	-	-	-
Non-Strategic Investments	976	(4,433)	(400)	(800)
Cash Flow from Investing	**770**	**(4,616)**	**(1,000)**	**(1,400)**
Change in borrowing	1	(4)	-	-
Others	(2,965)	4,735	-	(0)
Dividends paid (-)	(4,186)	(3,837)	(3,837)	(3,837)
Cash Flow from Financial Activities	**(7,150)**	**893**	**(3,837)**	**(3,837)**
Change in Cash	(615)	219	772	1,523
Opening Cash	923	308	527	1,299
Closing Cash	308	527	1,299	2,822

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY20A	FY21P	FY22E	FY23E
Revenue Growth	-1.5	-5.5	25.7	15.8
EBITDA Margin	16.0	17.8	17.9	18.6
Net Profit Margin	17.8	16.4	16.7	17.2
ROCE (%)	22.2	18.2	20.3	22.2
ROE (%)	22.8	18.6	20.7	22.7
EPS (Rs)	180.6	157.4	201.1	240.0
P/E (x)	18.7	11.2	24.4	19.1
P / BV (x)	3.9	2.9	4.4	4.1
EV / EBITDA (x)	17.9	12.4	22.4	17.6
Fixed Asset Turnover Ratio (x)	17	17.2	17	17.8
Debt Equity (x)	0	0	0	0
EV / Sales	2.8	2	4	3.1

Source: Company, Axis Securities

About the analyst

Analyst: Darshan Gangar

Contact Details: darshan.gangar@axissecurities.in

Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over a year of research experience in the Mid Cap space and Auto sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Darshan Gangar, Chartered Accountant, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.Any holding in stock – No
5. 5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	**Expected absolute returns over 12-18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.SEBI-Portfolio Manager Reg. No. INP000000654