

SELL

TP: Rs 2,750 | ▼ 8%

BAJAJ AUTO

Automobiles

22 July 2020

Margin disappoints; 3Ws worst hit after CVs – cut to SELL

Bajaj Auto's (BJAUT) Q1FY21 EBITDA margin disappointed, coming in at 13.3% vs. ~17% expected, despite better gross margins. We expect downtrading in the motorcycle segment given lower incomes amid Covid-19. This along with weaker 3W sales will continue to hurt BJAUT's sales mix in the near term. We model for a muted 3% earnings CAGR during FY20-FY23. On rolling valuations over, we have an unchanged Sep'21 TP of Rs 2,750, set at 15x one-year forward EPS. Downgrade to SELL (from REDUCE).

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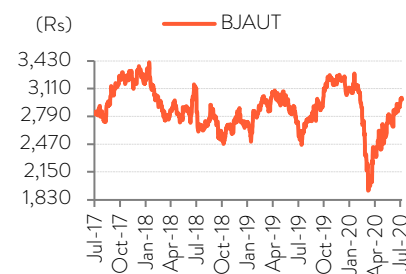
Q1 below estimates: At Rs 30.8bn, Q1 revenue dropped 60% YoY led by a 65% volume decline. Revenue from the motorcycle segment plunged 63% YoY while 3W sales slumped 74% YoY. The average blended realisation for the quarter came in at ~Rs 69,500, up 12% YoY due to BSVI changes and favourable forex realisation. EBITDA margin at 13.3% was much lower than our estimate of 17.3%. Reported PAT at Rs 5.3bn fell 53% YoY.

Ticker/Price	BJAUT IN/Rs 2,985
Market cap	US\$ 11.6bn
Shares o/s	289mn
3M ADV	US\$ 35.7mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

Unfavourable sales mix to weigh on margins: Management stated that gross profit/vehicle might not be sustainable at current levels of Rs 22.8k as domestic demand rises (earning lower realisations than exports). Also, downtrading risk in the motorcycle segment along with lower 3W sales will continue to weaken the sales mix in the near term.

STOCK PERFORMANCE



Source: NSE

Downgrade to SELL: Assuming a decline in FY21 sales, we project a volume CAGR of 2% over FY20-FY23. BJAUT's margins are likely to sustain at ~17%, and we build in a revenue/EBITDA/PAT CAGR of 5%/6%/3% over our forecast period, with ROE and ROCE of ~22% each by FY23. The stock currently trades at 17.3x FY22E EPS. On rolling valuations over, we have an unchanged Sep'21 TP of Rs 2,750 – downgrade to SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	245,472	314,498	346,451
EBITDA (Rs mn)	49,820	50,962	40,732	53,843	59,845
Adj. net profit (Rs mn)	46,752	51,000	38,791	49,955	56,067
Adj. EPS (Rs)	152.2	176.2	134.1	172.6	193.8
Adj. EPS growth (%)	14.9	9.1	(23.9)	28.8	12.2
Adj. ROAE (%)	22.9	24.5	18.6	21.7	21.8
Adj. P/E (x)	19.6	16.9	22.3	17.3	15.4
EV/EBITDA (x)	17.2	16.7	20.7	15.7	14.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE – STANDALONE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Volume	443,103	1,247,174	(64.5)	991,961	(55.3)
Avg. Realization per Vehicle (Rs)	69,493	62,187	11.7	68,711	1.1
Total Income (A)	30,792	77,558	(60.3)	68,159	(54.8)
Operating Expenses:					
Raw materials consumed	20,666	55,638	(62.9)	46,653	(55.7)
Employee Expenses	3,373	3,605	(6.5)	3,421	(1.4)
Other Expenses	2,668	6,333	(57.9)	5,557	(52.0)
Total Expenditure (B)	26,707	65,576	(59.3)	55,631	(52.0)
EBITDA (A-B)	4,085	11,982	(65.9)	12,528	(67.4)
Other Income	3,379	4,413	(23.4)	5,327	(36.6)
Depreciation	638	601	6.1	633	0.8
EBIT	6,826	15,793	(56.8)	17,221	(60.4)
Finance Costs	10	5	75.9	9	4.4
PBT	6,817	15,788	(56.8)	17,212	(60.4)
Tax expense	1,536	4,531	(66.1)	4,109	(62.6)
Adjusted PAT	5,280	11,257	(53.1)	13,103	(59.7)
EPS (Rs)	18.2	38.9	(53.1)	45.3	(59.7)

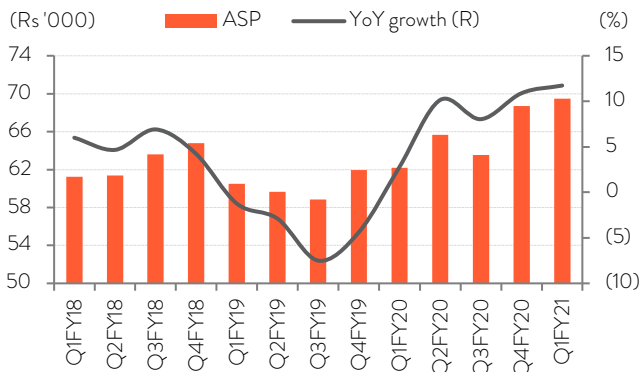
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q1FY21	Q1FY20	YoY (bps)	Q4FY20	QoQ (bps)
Gross margin	32.9	28.3	462	31.6	133
EBITDA margin	13.3	15.4	(218)	18.4	(511)
EBIT margin	22.2	20.4	181	25.3	(310)
PBT margin	22.1	20.4	178	25.3	(312)
Tax rate	22.5	28.7	(616)	23.9	(134)
Adj PAT margin	17.1	14.5	263	19.2	(208)

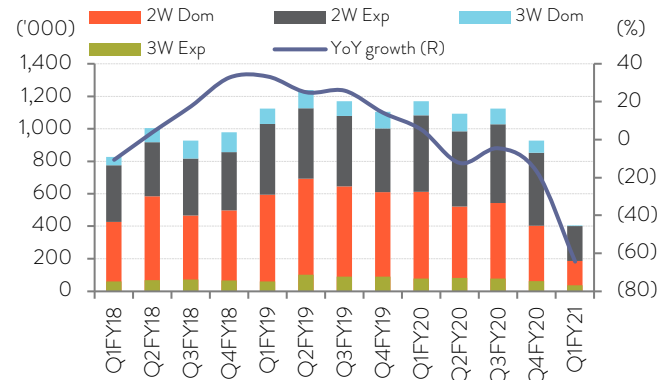
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



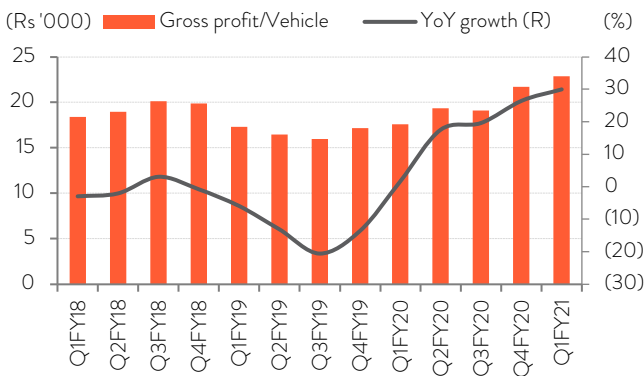
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



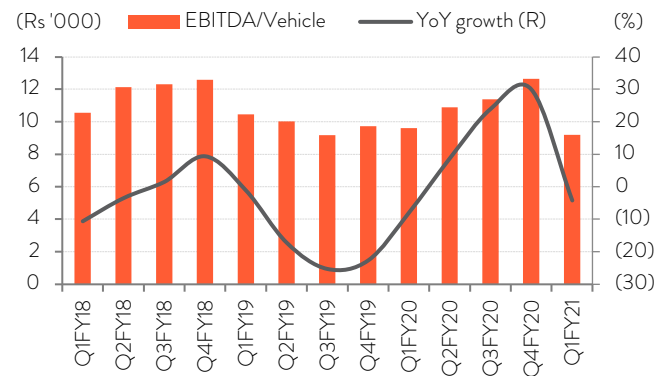
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



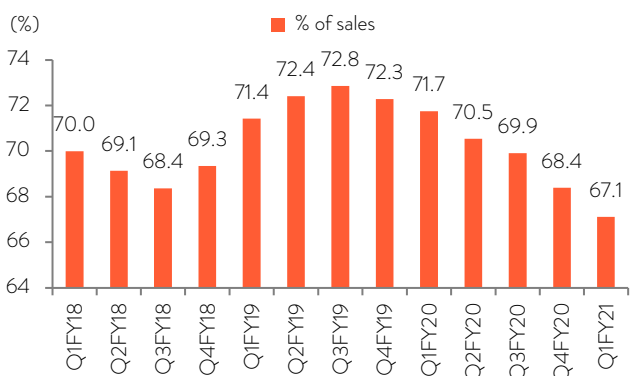
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



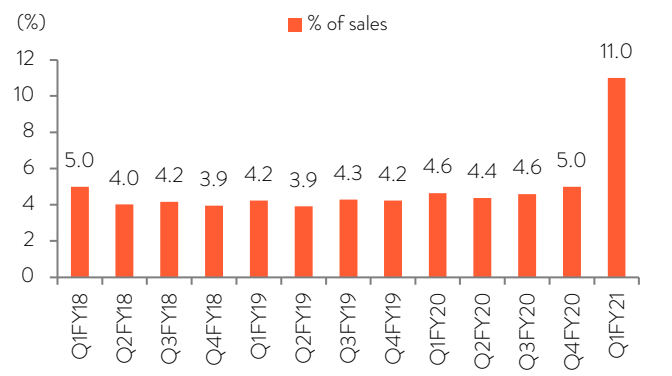
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



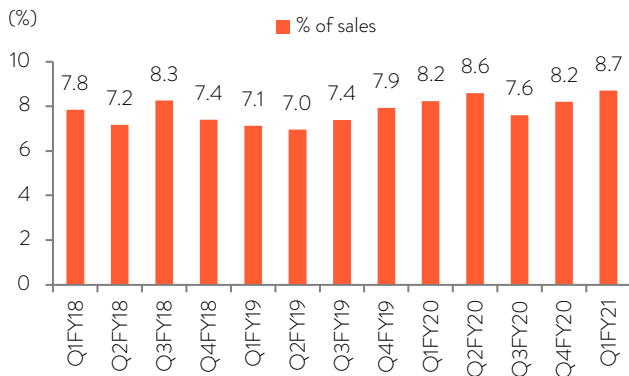
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND



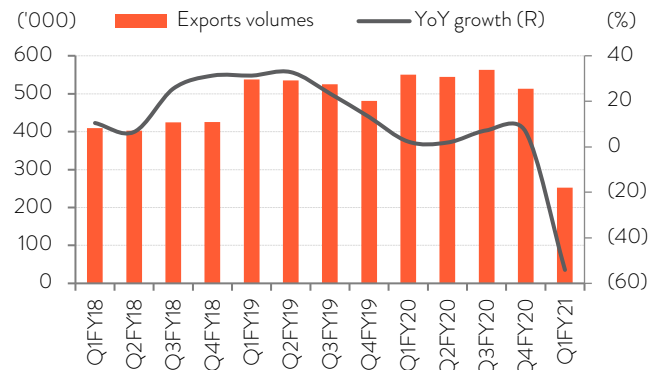
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND



Source: Company, BOBCAPS Research

FIG 10 – QUARTERLY EXPORT SALES TREND



Source: Company, BOBCAPS Research

Earnings call highlights

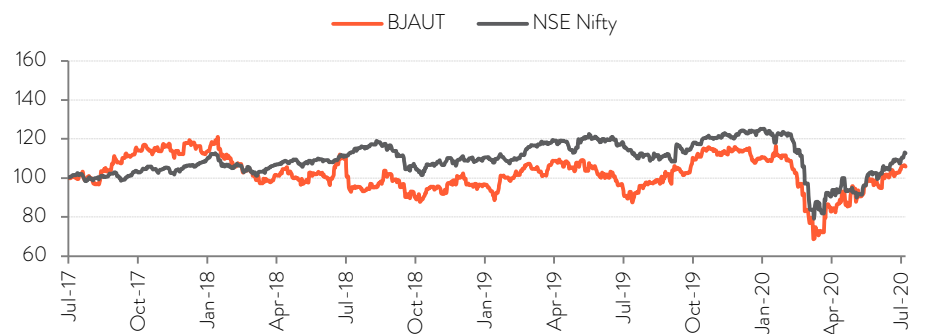
- Domestic demand for motorcycles remains 15% lower on a yearly basis in early July while exports are achieving normalcy.
- Passenger 3W sales are still 80% below normal while cargo 3Ws are relatively better placed.
- In Q1FY21, gross margins improved due to favourable forex realisation coupled with a better product mix. However, gross profit/vehicle might not be sustainable at current levels as the product mix starts tilting towards domestic sales once demand normalises in India (realisations are better in the export market) and currency headwinds kick in.
- Precious metal prices have risen sharply in recent months and could raise overall raw material costs.
- BJAUT has fully passed on the cost of BSVI rollout.
- Current production stands at 65-70% of capacity.
- Close to 95% of 2W dealers have opened shops while 84% of 3W dealers are open for operation currently.

Valuation methodology

We concur with management's concerns over near-term demand weakness due to the significant rise in cost of 2W ownership. Accordingly, we expect a muted volume CAGR of 2% over FY20-FY23 (due to negative growth in FY21 sales). BJAUT's EBITDA margins are forecast to remain at ~17% levels as we believe the company will be able to achieve operating efficiencies with higher volumes.

We build in a revenue/EBITDA/PAT CAGR of 5%/6%/3% over our forecast period, with ROE and ROCE of ~22% each by FY23. The stock is currently trading at 17.3x FY22E EPS. On rolling valuations over, we have an unchanged Sep'21 target price of Rs 2,750, set at 15x one-year forward EPS – downgrade from REDUCE to SELL.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected demand for 2Ws/3Ws in domestic as well as export markets can drive up volume sales, leading to a better performance by the company.
- Any significant market share gains can lead to better profitability and pose upward risks to our estimates.
- Reduction in raw material prices and favourable forex movements can improve operating performance.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	302,500	299,187	245,472	314,498	346,451
EBITDA	49,820	50,962	40,732	53,843	59,845
Depreciation	2,657	2,464	2,517	2,655	2,806
EBIT	67,076	65,834	51,899	66,824	74,995
Net interest income/(expenses)	(45)	(32)	(40)	(40)	(40)
Other income/(expenses)	19,913	17,336	13,684	15,637	17,957
Exceptional items	(2,724)	0	0	0	0
EBT	64,308	65,802	51,859	66,784	74,955
Income taxes	20,280	14,802	13,069	16,830	18,889
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	44,028	51,000	38,791	49,955	56,067
Adjustments	2,724	0	0	0	0
Adjusted net profit	46,752	51,000	38,791	49,955	56,067

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	37,867	31,997	29,629	29,640	33,111
Other current liabilities	9,306	8,955	6,238	5,822	7,497
Provisions	1,564	2,385	1,559	1,588	1,562
Debt funds	1,245	1,256	1,256	1,256	1,256
Other liabilities	596	421	421	421	421
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	214,905	196,361	214,318	239,271	270,336
Shareholders' fund	217,799	199,255	217,211	242,165	273,230
Total liabilities and equities	268,377	244,269	256,314	280,892	317,077
Cash and cash eq.	9,228	3,083	4,967	5,331	5,754
Accounts receivables	25,597	17,251	23,129	23,012	25,351
Inventories	9,615	10,635	10,446	9,972	10,865
Other current assets	10,421	7,528	11,619	10,978	10,764
Investments	191,594	181,960	182,960	207,960	240,960
Net fixed assets	17,639	16,990	16,473	16,818	16,512
CWIP	480	602	500	600	650
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,427)	(3,464)	(3,464)	(3,464)	(3,464)
Other assets	9,229	9,685	9,685	9,685	9,685
Total assets	268,377	244,269	256,314	280,892	317,077

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	49,409	53,464	41,308	52,610	58,873
Interest expenses	(45)	(32)	(40)	(40)	(40)
Non-cash adjustments	(19,913)	(17,336)	(13,684)	(15,637)	(17,957)
Changes in working capital	(13,060)	4,189	(15,691)	856	2,101
Other operating cash flows	0	0	0	0	0
Cash flow from operations	16,391	40,286	11,893	37,789	42,977
Capital expenditures	(1,429)	(1,937)	(1,898)	(3,100)	(2,550)
Change in investments	(15,711)	9,634	(1,000)	(25,000)	(33,000)
Other investing cash flows	19,913	17,336	13,684	15,637	17,957
Cash flow from investing	2,774	25,033	10,786	(12,463)	(17,593)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	38	11	0	0	0
Interest expenses	(45)	(32)	(40)	(40)	(40)
Dividends paid	(17,362)	(34,724)	(20,834)	(25,001)	(25,001)
Other financing cash flows	2,192	(1,963)	0	0	0
Cash flow from financing	(15,177)	(36,708)	(20,874)	(25,041)	(25,041)
Changes in cash and cash eq.	3,988	28,611	1,805	284	343
Closing cash and cash eq.	9,228	3,083	4,967	5,331	5,754

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	161.6	176.2	134.1	172.6	193.8
Adjusted EPS	152.2	176.2	134.1	172.6	193.8
Dividend per share	60.0	120.0	72.0	86.4	86.4
Book value per share	752.7	688.6	750.6	836.9	944.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.8	2.8	3.4	2.7	2.5
EV/EBITDA	17.2	16.7	20.7	15.7	14.3
Adjusted P/E	19.6	16.9	22.3	17.3	15.4
P/BV	4.0	4.3	4.0	3.6	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.7	77.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.9	100.0	99.9	99.9	99.9
EBIT margin (EBIT/Revenue)	22.2	22.0	21.1	21.2	21.6
Asset turnover (Revenue/Avg TA)	146.3	142.3	116.9	135.9	133.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.9	24.5	18.6	21.7	21.8

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	19.9	(1.1)	(18.0)	28.1	10.2
EBITDA	3.7	2.3	(20.1)	32.2	11.1
Adjusted EPS	14.9	9.1	(23.9)	28.8	12.2
Profitability & Return ratios (%)					
EBITDA margin	16.5	17.0	16.6	17.1	17.3
EBIT margin	22.2	22.0	21.1	21.2	21.6
Adjusted profit margin	15.5	17.0	15.8	15.9	16.2
Adjusted ROAE	22.9	24.5	18.6	21.7	21.8
ROCE	22.2	24.3	18.5	21.6	21.6
Working capital days (days)					
Receivables	24	26	30	27	25
Inventory	10	12	16	12	11
Payables	59	61	66	50	48
Ratios (x)					
Gross asset turnover	0.1	0.1	0.2	0.2	0.2
Current ratio	1.1	0.9	1.3	1.3	1.3
Net interest coverage ratio	(1,497.2)	(2,083.3)	(1,297.5)	(1,670.6)	(1,874.9)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

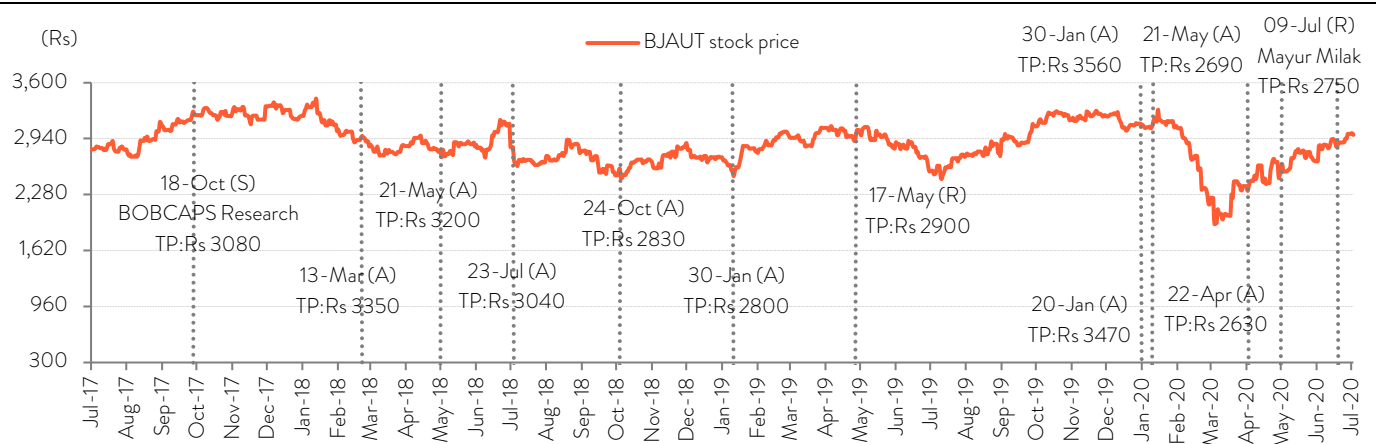
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): BAJAJ AUTO (BJAUT IN)



B – Buy, A – Add, R – Reduce, S – Sell

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