

SELL

TP: Rs 3,200 | ▼ 17%

BAJAJ AUTO

| Automobiles

| 22 July 2021

Input cost headwinds weaken margins

- BJAUT's Q1 revenue declined 14% QoQ on lower volumes (-14%) and flat ASP. High RM cost further pulled down profitability
- Management expects RM headwinds to continue in Q2 and domestic volumes to stay flat YoY on elevated dealer inventory
- We maintain our Mar'22 TP of Rs 3,200 based on 17x FY23E EPS and reiterate SELL

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Higher RM cost dents profitability: BJAUT's Q1FY22 sale volumes declined 14% QoQ to 10mn units impacted by the second Covid wave coupled with flattish ASP, resulting in a 14% QoQ decline in revenue to Rs 73.9bn (Rs 76bn est.). Export revenue stood at Rs 45bn (US\$ 580mn). Gross margin contracted 120bps QoQ while higher staff cost and lack of operating leverage further weakened EBITDA margin, which slipped 260bps QoQ to 15.2% (16.9% est.). Better forex realisation at Rs 74.25/USD cushioned the fall in EBITDA at 27% QoQ to Rs 11.2bn. Adj. PAT declined 20% QoQ to Rs 10.6bn.

Flat volumes and cost headwinds in Q2: Management has guided for flattish domestic sale volumes YoY in Q2FY22 but expects exports to improve on a softer base. The company anticipates better retail sales in Q2 given pent-up demand but believes the wholesale segment would lag retail owing to higher dealer inventory. Raw material costs are likely to remain high and management expects under-recovery of these costs in H1FY22.

EV update: BJAUT has received board approval to incorporate a wholly-owned subsidiary catering to electric mobility in the 2W/3W and light 4W categories. After introducing its electric scooter 'Chetak' in Bengaluru, Nagpur and Pune, the company is expanding availability and plans to sell this product in 22 cities by next year. It also aims to launch an electric 3W by CY21-end.

Maintain SELL: We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +13%/+12%/+10% over FY21-FY24 with EBITDA margin at ~17%. Our FY22/FY23 EPS estimates are at Rs 175/Rs 190, ~10-15% lower than consensus as we bake in softer gross margin assumptions. We continue to value BJAUT at 17x FY23E EPS – in line with its 10-year average – for a Mar'22 TP of Rs 3,200. Reiterate SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BJAUT IN/Rs 3,853
Market cap	US\$ 15.0bn
Free float	46%
3M ADV	US\$ 28.0mn
52wk high/low	Rs 4,361/Rs 2,822
Promoter/FPI/DII	54%/14%/9%

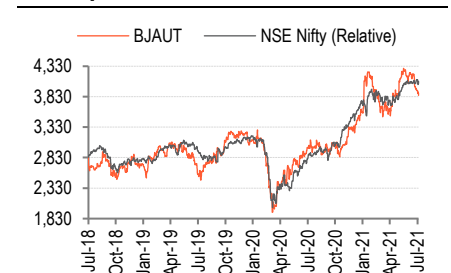
Source: NSE | Price as of 22 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	277,411	334,691	366,372
EBITDA (Rs mn)	49,285	56,474	62,619
Adj. net profit (Rs mn)	45,546	50,551	55,022
Adj. EPS (Rs)	157.4	174.7	190.1
Consensus EPS (Rs)	157.5	193.4	224.5
Adj. ROAE (%)	20.2	20.0	21.4
Adj. P/E (x)	24.5	22.1	20.3
EV/EBITDA (x)	22.4	20.1	18.1
Adj. EPS growth (%)	(10.7)	11.0	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume (nos)	1,006,014	443,103	127.0	1,169,664	(14.0)	3,972,914	4,615,212	(13.9)
Avg. Realisation per Vehicle (Rs)	73,419	69,493	5.6	73,492	(0.1)	69,826	64,826	7.7
Net Revenues	73,860	30,792	139.9	85,961	(14.1)	277,411	299,186	(7.3)
Total Income (A)	73,860	30,792	139.9	85,961	(14.1)	277,411	299,186	(7.3)
Operating Expenses:								
Raw materials consumed	53,944	20,666	161.0	61,767	(12.7)	196,097	210,083	(6.7)
Employee Expenses	3,615	3,373	7.2	3,070	17.8	12,860	13,892	(7.4)
Other Expenses	5,103	2,668	91.3	5,884	(13.3)	19,170	24,249	(20.9)
Total Expenditure (B)	62,663	26,707	134.6	70,720	(11.4)	228,126	248,224	(8.1)
EBITDA (A-B)	11,198	4,085	174.1	15,241	(26.5)	49,285	50,962	(3.3)
Other Income	3,293	3,379	(2.5)	2,836	16.1	12,765	17,336	(26.4)
Depreciation	641	638	0.4	662	(3.2)	2,593	2,464	5.2
EBIT	13,850	6,826	102.9	17,415	(20.5)	59,457	65,833	(9.7)
Finance Costs	23	10	141.1	20	12.3	67	32	110.8
PBT after exceptional items	13,827	6,817	102.8	17,395	(20.5)	59,390	65,802	(9.7)
Tax expense	3,215	1,536	109.3	4,074	(21.1)	13,844	14,802	(6.5)
Reported PAT	10,612	5,280	101.0	13,321	(20.3)	45,546	51,000	(10.7)
Adjusted PAT	10,612	5,280	101.0	13,321	(20.3)	45,546	51,000	(10.7)
EPS (Rs)	36.7	18.2	101.0	46.0	(20.3)	157.4	176.2	(10.7)

Source: Company, BOBCAPS Research

Fig 2 – Key parameters

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	27.0	32.9	(592)	28.1	(118)	29.3	29.8	(47)
EBITDA margin	15.2	13.3	189	17.7	(257)	17.8	17.0	73
EBIT margin	18.8	22.2	(342)	20.3	(151)	21.4	22.0	(57)
PBT margin	18.7	22.1	(342)	20.2	(152)	21.4	22.0	(58)
Tax rate	23.3	22.5	72	23.4	(17)	23.3	22.5	82
Adj PAT margin	14.4	17.1	(278)	15.5	(113)	16.4	17.0	(63)

Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA/adj. PAT CAGR of +13%/+12%/+10% over FY21-FY24 with EBITDA margin at ~17%. Our FY22/FY23 EPS estimates are at Rs 175/Rs 190, ~10% lower than consensus as we bake in softer gross margin assumptions. We continue to value BJAUT at 17x FY23E EPS – in line with its 10-year average – for a Mar'22 TP of Rs 3,200. Reiterate SELL.

Fig 3 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
2W volume (nos)	3,605,893	4,002,541	4,282,719	4,625,337
3W volume (nos)	367,021	477,127	524,840	566,827
ASPs (Rs)	69,826	74,713	76,208	77,732
Revenues	277,411	334,691	366,372	403,596
EBITDA	49,285	56,474	62,619	69,160
OPM (%)	17.8	16.9	17.1	17.1
Adj. PAT	45,546	50,551	55,022	60,272
EPS	157.4	174.7	190.1	208.3

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Bajaj Auto	BJAUT IN	SELL	3,200	15.7	174.7	190.1	20.0	21.4	17
TVS Motors	TVSL IN	SELL	480	12.7	12.9	16.6	16.7	16.8	24
Hero Motocorp	HMCL IN	HOLD	2,900	12.3	170.2	192.1	20.0	19.9	15
Eicher Motors	EIM IN	SELL	2,200	20.7	66.0	86.8	16.7	19.0	24

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- higher volumes due to above-expected demand for 2Ws/3Ws in domestic as well as export markets,
- any significant market share gains which can spur better profitability, and
- fall in RM prices and favourable forex movement.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5	124	60	SELL
Bajaj Auto	BJAUT IN	15	3,853	3,200	SELL
Hero MotoCorp	HMCL IN	8	2,838	2,900	REDUCE
Mahindra & Mahindra	MM IN	13	758	630	SELL
Maruti Suzuki	MSIL IN	30	7,300	8,000	BUY
TVS Motor	TVSL IN	4	581	480	SELL
VST Tillers Tractors	VSTT IN	0	2,048	2,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 22 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	299,187	277,411	334,691	366,372	403,596
EBITDA	50,962	49,285	56,474	62,619	69,160
Depreciation	2,464	2,593	2,765	2,933	3,085
EBIT	65,833	59,457	67,652	73,629	80,647
Net interest inc./(exp.)	(32)	(67)	(70)	(70)	(70)
Other inc./(exp.)	17,335	12,765	13,942	13,942	14,572
Exceptional items	0	0	0	0	0
EBT	65,802	59,390	67,582	73,559	80,577
Income taxes	14,802	13,844	17,031	18,537	20,305
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	50,999	45,546	50,551	55,022	60,272
Adjustments	0	0	0	0	0
Adjusted net profit	50,999	45,546	50,551	55,022	60,272

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	31,997	45,738	33,503	36,543	40,082
Other current liabilities	8,955	9,170	6,581	8,274	9,075
Provisions	2,385	1,544	1,795	1,724	1,891
Debt funds	1,256	1,215	1,215	1,215	1,215
Other liabilities	421	392	392	392	392
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	196,361	249,129	251,066	257,475	269,133
Shareholders' fund	199,254	252,023	253,960	260,368	272,026
Total liab. and equities	244,269	310,081	297,445	308,515	324,680
Cash and cash eq.	3,083	5,277	3,022	4,214	5,489
Accounts receivables	17,251	27,169	26,832	27,850	30,588
Inventories	10,635	14,939	15,093	14,405	15,821
Other current assets	10,846	18,102	17,429	17,458	18,780
Investments	181,960	226,310	216,309	226,310	236,309
Net fixed assets	16,990	16,649	16,884	16,452	15,867
CWIP	602	160	400	350	350
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,464)	(5,225)	(5,225)	(5,225)	(5,225)
Other assets	6,366	6,700	6,700	6,700	6,700
Total assets	244,269	310,081	297,445	308,515	324,680

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	40,286	26,581	25,587	48,244	47,746
Capital expenditures	(1,937)	(1,810)	(3,240)	(2,450)	(2,500)
Change in investments	9,634	(44,350)	10,000	(10,000)	(10,000)
Other investing cash flows	17,335	12,765	13,942	13,942	14,572
Cash flow from investing	25,032	(33,395)	20,702	1,492	2,072
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	11	(41)	0	0	0
Interest expenses	(32)	(67)	(70)	(70)	(70)
Dividends paid	(62,579)	(40,511)	(48,614)	(48,614)	(48,614)
Other financing cash flows	(1,963)	1,761	0	0	0
Cash flow from financing	(64,563)	(38,858)	(48,684)	(48,684)	(48,684)
Chg in cash & cash eq.	756	(45,673)	(2,395)	1,052	1,135
Closing cash & cash eq.	3,083	5,277	3,022	4,214	5,489

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	176.2	157.4	174.7	190.1	208.3
Adjusted EPS	176.2	157.4	174.7	190.1	208.3
Dividend per share	216.3	140.0	168.0	168.0	168.0
Book value per share	688.6	870.9	877.6	899.8	940.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	3.7	4.0	3.4	3.1	2.8
EV/EBITDA	21.6	22.4	20.1	18.1	16.1
Adjusted P/E	21.9	24.5	22.1	20.3	18.5
P/BV	5.6	4.4	4.4	4.3	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	77.5	76.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	100.0	99.9	99.9	99.9	99.9
EBIT margin (EBIT/Revenue)	22.0	21.4	20.2	20.1	20.0
Asset turnover (Rev./Avg TA)	142.3	122.1	131.5	141.6	150.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	24.5	20.2	20.0	21.4	22.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(1.1)	(7.3)	20.6	9.5	10.2
EBITDA	2.3	(3.3)	14.6	10.9	10.4
Adjusted EPS	9.1	(10.7)	11.0	8.8	9.5
Profitability & Return ratios (%)					
EBITDA margin	17.0	17.8	16.9	17.1	17.1
EBIT margin	22.0	21.4	20.2	20.1	20.0
Adjusted profit margin	17.0	16.4	15.1	15.0	14.9
Adjusted ROAE	24.5	20.2	20.0	21.4	22.2
ROCE	24.3	20.1	19.9	21.3	22.5
Working capital days (days)					
Receivables	26	29	29	27	26
Inventory	12	17	16	15	14
Payables	61	72	60	49	48
Ratios (x)					
Gross asset turnover	0.1	0.2	0.1	0.1	0.1
Current ratio	1.0	1.2	1.5	1.4	1.4
Net interest coverage ratio	(2,083.3)	(892.7)	(966.5)	(1,051.8)	(1,152.1)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

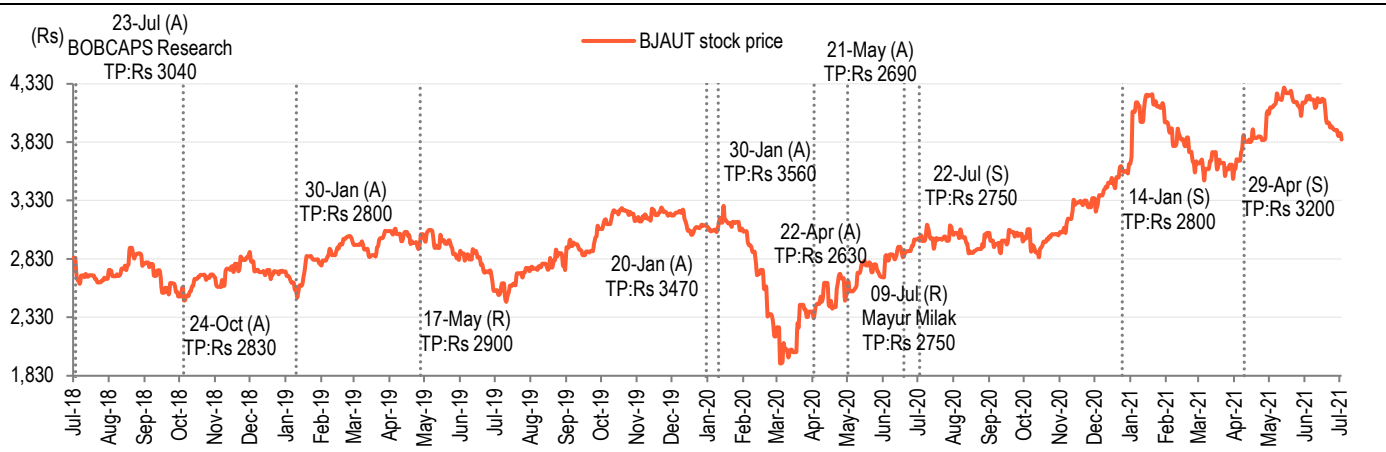
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ AUTO (BJAUT IN)



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

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