

SELL

TP: Rs 2,750 | ▼ 9%

BAJAJ AUTO

Automobiles

22 October 2020

Hazy near-term 2W outlook, 3Ws continue to lag

Bajaj Auto's (BJAUT) Q2FY21 operating performance was in line with our estimates, but adj. PAT fell short (-19% YoY to Rs 11.4bn) owing to below-expected other income. Our 2W channel checks suggest a flattish festive season ahead – this along with weakening 3W sales could hurt BJAUT's profitability. We remain cautious and continue to model for a muted 3% earnings CAGR for the company during FY20-FY23. Our Sep'21 TP stays unchanged at Rs 2,750, set at 15x one-year forward EPS. Maintain SELL.

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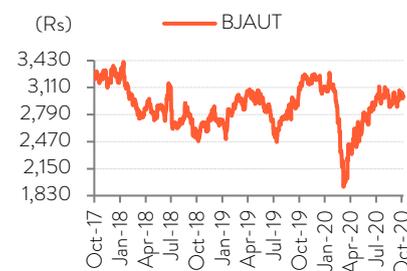
Q2 performance hit by lower other income: At Rs 71.6bn, Q2 revenue dipped 7% YoY, in line with our estimate. Despite BSVI changes and favourable forex tailwinds, the average blended realisation for the quarter inched up only 3% YoY to ~Rs 67.9k due to an adverse sales mix (lower 3W volumes). EBITDA margin at 17.7% was slightly lower than our projection of 18.7%. Adj. PAT was also short of estimates, falling 19% YoY to Rs 11.4bn due to lower other income (Rs 2.8bn vs. Rs 3.6bn est.) as investment yields declined.

Ticker/Price	BJAUT IN/Rs 3,006
Market cap	US\$ 11.8bn
Shares o/s	289mn
3M ADV	US\$ 39.1mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

Remain cautious on near-term demand: BJAUT currently has 45-48 days of 2W inventory. We believe 2W festive sales in the domestic market would remain flattish at best. Lower 3W sales visibility is likely to result in a weaker sales mix in the near term and could adversely impact operating performance.

STOCK PERFORMANCE



Maintain SELL: Assuming a 17% decline in FY21 sales, we project a volume CAGR of 1% for BJAUT over FY20-FY23. Operating margins are likely to sustain at ~17%, and we build in a revenue/EBITDA/PAT CAGR of 4%/6%/3% over our forecast period. The stock currently trades at 17.6x/15.6x FY22E/FY23E EPS. We retain our Sep'21 TP of Rs 2,750, set at an unchanged 15x one-year forward EPS. Maintain SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	265,586	308,932	340,320
EBITDA (Rs mn)	49,820	50,962	46,179	53,885	60,551
Adj. net profit (Rs mn)	46,752	50,999	43,584	49,286	55,780
Adj. EPS (Rs)	152.2	176.2	150.6	170.3	192.8
Adj. EPS growth (%)	14.9	9.1	(14.5)	13.1	13.2
Adj. ROAE (%)	22.9	24.5	18.2	15.0	13.1
Adj. P/E (x)	19.8	17.1	20.0	17.6	15.6
EV/EBITDA (x)	17.3	16.8	17.3	13.6	11.4

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume (nos)	1,053,337	1,173,591	(10.2)	443,103	137.7	1,496,440	2,420,765	(38.2)
Avg. Realisation per Vehicle (Rs)	67,935	65,673	3.4	69,493	(2.2)	68,396	63,877	7.1
Net Revenues	71,559	77,073	(7.2)	30,792	132.4	102,351	154,631	(33.8)
Total Income (A)	71,559	77,073	(7.2)	30,792	132.4	102,351	154,631	(33.8)
Operating Expenses:								
Raw materials consumed	50,581	54,370	(7.0)	20,666	144.8	71,247	110,008	(35.2)
Employee Expenses	3,246	3,384	(4.1)	3,373	(3.8)	6,618	6,989	(5.3)
Other Expenses	5,069	6,539	(22.5)	2,668	90.0	7,738	12,872	(39.9)
Total Expenditure (B)	58,896	64,293	(8.4)	26,707	120.5	85,603	129,869	(34.1)
EBITDA (A-B)	12,662	12,781	(0.9)	4,085	209.9	16,748	24,762	(32.4)
Other Income	2,858	3,934	(27.4)	3,379	(15.4)	6,237	8,347	(25.3)
Depreciation	643	613	4.9	638	0.8	1,281	1,215	5.5
EBIT	14,877	16,102	(7.6)	6,826	117.9	21,703	31,895	(32.0)
Finance Costs	27	12	113.7	10	178.9	36	18	102.2
PBT after exceptional items	14,851	16,089	(7.7)	6,817	117.9	21,667	31,877	(32.0)
Tax expense	3,469	2,065	68.0	1,536	125.8	5,005	6,596	(24.1)
Reported PAT	11,382	14,024	(18.8)	5,280	115.6	16,662	25,281	(34.1)
Adjusted PAT	11,382	14,024	(18.8)	5,280	115.6	16,662	25,281	(34.1)
EPS (Rs)	39.3	48.5	(18.8)	18.2	115.6	57.6	87.4	(34.1)

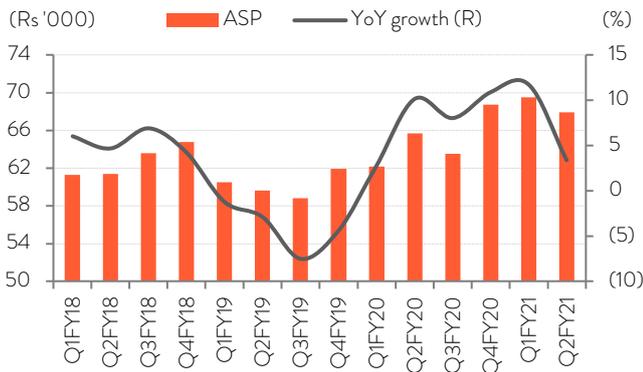
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin (%)	29.3	29.5	(14)	32.9	(357)	30.4	28.9	153
EBITDA Margin (%)	17.7	16.6	111	13.3	443	16.4	16.0	35
EBIT Margin (%)	20.8	20.9	(10)	22.2	(138)	21.2	20.6	58
PBT Margin (%)	20.8	20.9	(12)	22.1	(138)	21.2	20.6	55
Tax Rate (%)	23.4	12.8	1052	22.5	82	23.1	20.7	241
Adj PAT Margin (%)	15.9	18.2	(229)	17.1	(124)	16.3	16.3	(7)

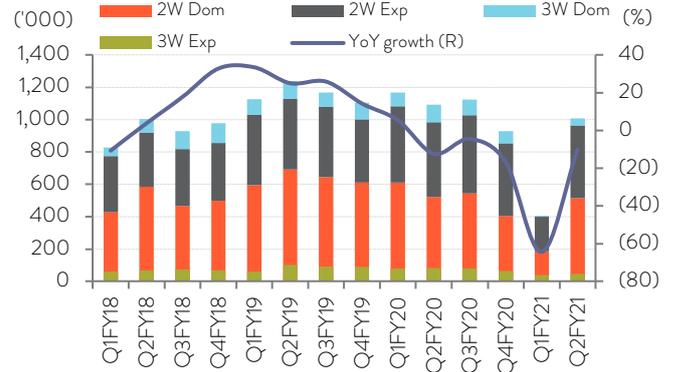
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



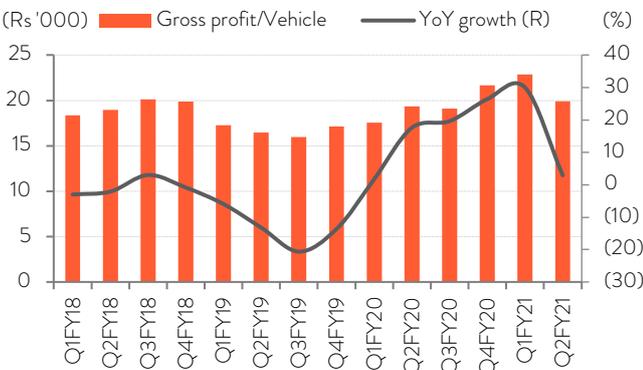
Source: Company, BOBCAPS Research

FIG 4 – VOLUME GROWTH TREND



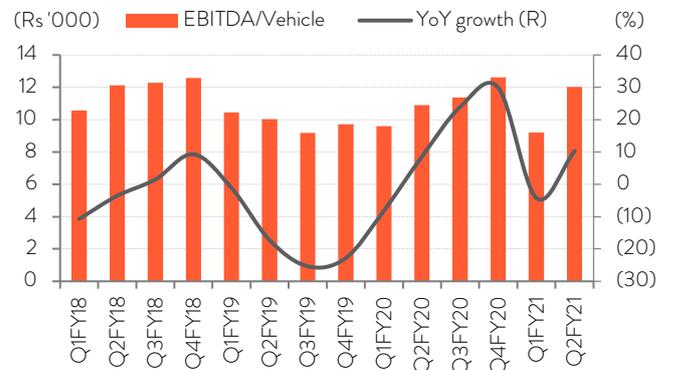
Source: Company, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



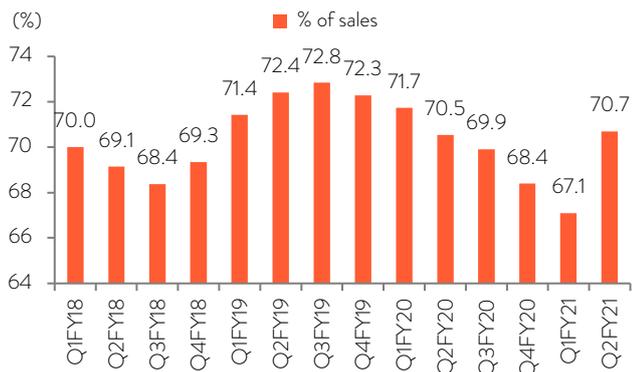
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



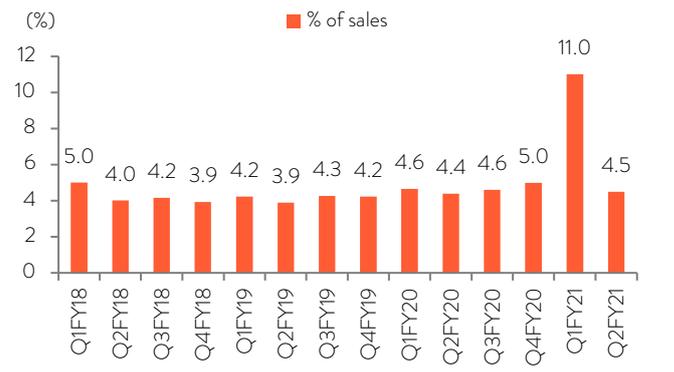
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



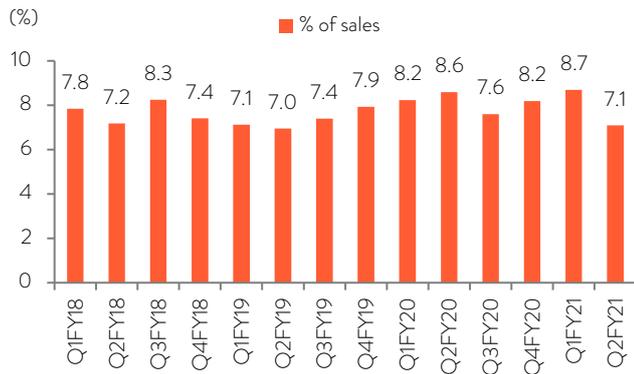
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND



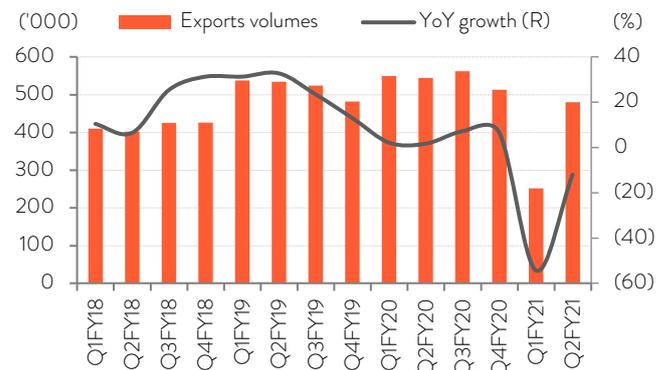
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND



Source: Company, BOBCAPS Research

FIG 10 – QUARTERLY EXPORT SALES TREND



Source: Company, BOBCAPS Research

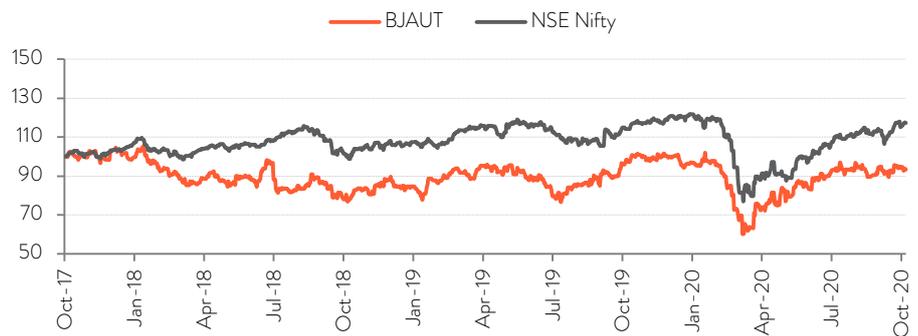
Earnings call highlights

- Domestic demand for motorcycles has been improving (currently at 90% of normal levels) and BJAUT is growing in line with industry. However, the company’s exports have been ahead of industry given strong understanding of respective markets.
- The sales in first few days of the festive season (~5 days) have been flattish YoY according to management.
- BJAUT is seeing healthy traction in the ‘Pulsar 125cc’ motorcycle and now commands 16% market share in the 125cc segment.
- The domestic 3W business remains sluggish and is at 25% of normal levels. This has also hurt operating margins given higher profitability per vehicle in the business. Financiers also remain cautious while lending in the 3W segment.
- Other expenses declined 23% YoY (against a 7% revenue fall) given management’s focus on rationalising ad spends and a mismatch in festive days against the base quarter.
- BJAUT expects raw material costs to inch up from current levels but believes this would be covered by judicious price hikes, rising exports and an increasing mix of CVs in sales. Also, favourable forex rates should act as a tailwind.
- Discounts on offer have been moderate in the current festive period and competitors are also being reasonable in this regard.
- 2W financing was a challenge earlier but is now returning to normal levels. In Q2, ~50% of vehicles were financed (of which ~60% were by Bajaj Finance).
- Inventory currently stands at 45-48 days which is at par with festive days.
- For Q2, spares revenue was at Rs 7.3bn while exports revenue stood at Rs 28bn. The realised forex rate for Q2 was at Rs 74/USD.

Valuation methodology

Assuming a 17% decline in FY21 sales, we project a volume CAGR of 1% for BJAUT over FY20-FY23. Operating margins are likely to sustain at ~17%, and we build in a revenue/EBITDA/PAT CAGR of 4%/6%/3% over our forecast period. The stock currently trades at 17.6x/15.6x FY22E/FY23E EPS. We retain our Sep'21 target price of Rs 2,750, set at an unchanged 15x one-year forward EPS. Maintain 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 drive better profitability and pose upward risks to our estimates.
- Reduction in raw material prices and favourable forex movement can improve operating performance.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	302,500	299,187	265,586	308,932	340,320
EBITDA	49,820	50,962	46,179	53,885	60,551
Depreciation	2,657	2,464	2,469	2,614	2,774
EBIT	67,076	65,833	58,307	65,930	74,612
Net interest income/(expenses)	(45)	(32)	(40)	(40)	(40)
Other income/(expenses)	19,913	17,335	14,597	14,659	16,834
Exceptional items	(2,724)	0	0	0	0
EBT	64,308	65,802	58,267	65,890	74,572
Income taxes	20,280	14,802	14,683	16,604	18,792
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	44,028	50,999	43,584	49,286	55,780
Adjustments	2,724	0	0	0	0
Adjusted net profit	46,752	50,999	43,584	49,286	55,780

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	37,867	31,997	30,713	30,410	32,525
Other current liabilities	9,306	8,955	6,466	5,973	7,364
Provisions	1,564	2,385	1,616	1,629	1,534
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	277,492	371,835	472,672
Shareholders' fund	217,799	199,254	280,386	374,729	475,566
Total liabilities and equities	268,377	244,269	320,858	414,419	518,666
Cash and cash eq.	9,228	3,083	74,505	144,260	214,375
Accounts receivables	25,597	17,251	23,983	23,610	24,903
Inventories	9,615	10,635	10,831	10,231	10,673
Other current assets	10,421	10,846	8,655	7,948	7,571
Investments	191,594	181,960	182,960	207,960	240,960
Net fixed assets	17,639	16,990	16,521	16,907	16,633
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	6,366	6,366	6,366	6,366
Total assets	268,377	244,269	320,858	414,419	518,666

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	49,409	53,464	46,053	51,900	58,554
Interest expenses	(45)	(32)	(40)	(40)	(40)
Non-cash adjustments	(19,913)	(17,335)	(14,597)	(14,659)	(16,834)
Changes in working capital	(13,060)	4,189	(9,280)	898	2,054
Other operating cash flows	0	0	0	0	0
Cash flow from operations	16,391	40,286	22,136	38,099	43,733
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	17,335	14,597	14,659	16,834
Cash flow from investing	2,774	25,032	11,699	(13,441)	(18,716)
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)	62,579	37,548	45,057	45,057
Other financing cash flows	2,192	(1,963)	0	0	0
Cash flow from financing	(15,177)	60,596	37,508	45,017	45,017
Changes in cash and cash eq.	3,988	125,914	71,342	69,675	70,035
Closing cash and cash eq.	9,228	3,083	74,505	144,260	214,375

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	161.6	176.2	150.6	170.3	192.8
Adjusted EPS	152.2	176.2	150.6	170.3	192.8
Dividend per share	60.0	(216.3)	(129.8)	(155.7)	(155.7)
Book value per share	752.7	688.6	969.0	1,295.0	1,643.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.9	2.9	3.0	2.4	2.0
EV/EBITDA	17.3	16.8	17.3	13.6	11.4
Adjusted P/E	19.8	17.1	20.0	17.6	15.6
P/BV	4.0	4.4	3.1	2.3	1.8

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	22.0	21.3	21.9
Asset turnover (Revenue/Avg TA)	146.3	142.3	110.0	93.8	79.7
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.9	24.5	18.2	15.0	13.1

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)	(11.2)	16.3	10.2
EBITDA	3.7	2.3	(9.4)	16.7	12.4
Adjusted EPS	14.9	9.1	(14.5)	13.1	13.2
Profitability & Return ratios (%)					
EBITDA margin	16.5	17.0	17.4	17.4	17.8
EBIT margin	22.2	22.0	22.0	21.3	21.9
Adjusted profit margin	15.5	17.0	16.4	16.0	16.4
Adjusted ROAE	22.9	24.5	18.2	15.0	13.1
ROCE	22.2	24.3	18.1	15.0	13.1
Working capital days (days)					
Receivables	24	26	28	28	26
Inventory	10	12	15	12	11
Payables	59	61	62	52	49
Ratios (x)					
Gross asset turnover	0.1	0.1	0.2	0.2	0.1
Current ratio	1.1	1.0	3.0	4.9	6.2
Net interest coverage ratio	(1,497.2)	(2,083.3)	(1,457.7)	(1,648.3)	(1,865.3)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

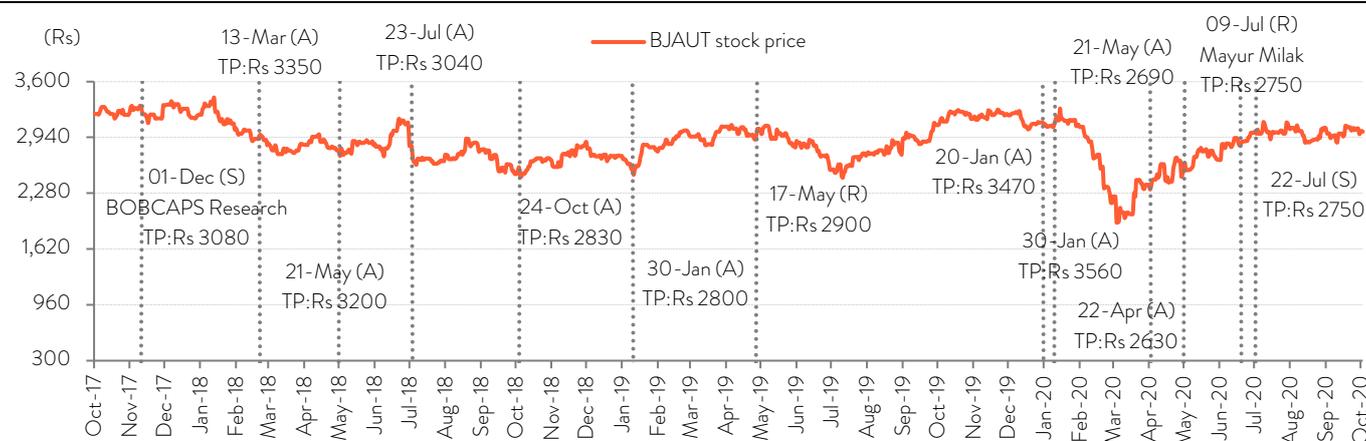
ADD – Expected return from >+5% to +15%

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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