

**SELL**

TP: Rs 2,800 | ▼ 24%

**BAJAJ AUTO**

Automobiles

21 January 2021

## Operating performance healthy but unsustainable

**Bajaj Auto's (BJAUT) Q3FY21 revenue was in line with projections. EBITDA margin at 19.4% came in ahead of our estimate due to better operating efficiencies and lower staff expense. EBITDA grew 27% YoY and adj. PAT was up 23% to Rs 15.6bn. We expect operating performance to come under pressure given steep RM cost increases coupled with a likely QoQ drop in volumes. We continue to model for a muted 2% earnings CAGR over FY20-FY23. Our Mar'22 TP stays at Rs 2,800, set at 15x one-year forward EPS. Retain SELL.**

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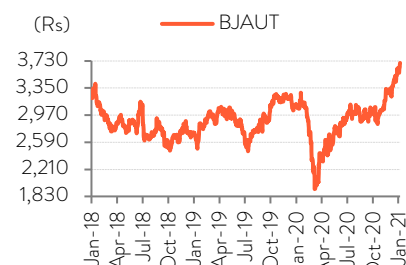
**Operating performance ahead of estimates:** At Rs 89.1bn, Q3 revenue grew 17% YoY, in line with our estimate. EBITDA margin at 19.4% was better than our projection of 16.7% led by operating efficiencies and lower staff costs (as a percentage of sales). EBITDA was 15% ahead of our forecast at Rs 17.3bn (+27% YoY) and adj. PAT grew 23% YoY to Rs 15.6bn.

Ticker/Price	BJAUT IN/Rs 3,703
Market cap	US\$ 14.7bn
Shares o/s	289mn
3M ADV	US\$ 37.1mn
52wk high/low	Rs 3,807/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

**RM costs a concern:** With global markets opening up, BJAUT expects steady momentum in exports going ahead. But the sharp rise in prices of key inputs such as aluminium and steel is likely to weaken gross margins by >300bps in Q4 from Q3 levels of 29.2%. The company took price hikes of ~1% in Q3 followed by a further >1% increase in 2Ws during Jan'21 to mitigate the RM cost but would require further hikes to fully pass on the impact. We believe this pass-through would lag cost pressures, undermining operating performance.

## STOCK PERFORMANCE



Source: NSE

**Maintain SELL:** Assuming a 13% decline in FY21 sales, we project a volume CAGR of 1% for BJAUT over FY20-FY23. Operating margins are likely to come off from current levels given RM cost pressure. We build in a revenue/EBITDA/PAT CAGR of 5%/5%/2% over our forecast period and retain our Mar'22 TP of Rs 2,800, set at an unchanged 15x FY23E EPS.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	276,627	315,247	350,681
EBITDA (Rs mn)	49,820	50,962	47,520	52,215	58,776
Adj. net profit (Rs mn)	46,752	50,999	45,639	49,365	54,366
Adj. EPS (Rs)	152.2	176.2	157.7	170.6	187.9
Adj. EPS growth (%)	14.9	9.1	(10.5)	8.2	10.1
Adj. ROAE (%)	22.9	24.5	21.5	20.7	20.4
Adj. P/E (x)	24.3	21.0	23.5	21.7	19.7
EV/EBITDA (x)	21.4	20.7	22.4	20.1	17.7

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

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



**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volume (nos)	1,306,810	1,202,486	8.7	1,053,337	24.1	2,803,250	3,623,251	(22.6)
Avg. Realisation per Vehicle (Rs)	68,180	63,532	7.3	67,935	0.4	68,296	63,763	7.1
Net Revenues	89,099	76,397	16.6	71,559	24.5	191,450	231,028	(17.1)
<b>Total Income (A)</b>	<b>89,099</b>	<b>76,397</b>	<b>16.6</b>	<b>71,559</b>	<b>24.5</b>	<b>191,450</b>	<b>231,028</b>	<b>(17.1)</b>
<b>Operating Expenses:</b>								
Raw materials consumed	63,082	53,422	18.1	50,581	24.7	134,330	163,430	(17.8)
Employee Expenses	3,172	3,482	(8.9)	3,246	(2.3)	9,790	10,471	(6.5)
Other Expenses	5,548	5,820	(4.7)	5,069	9.4	13,286	18,692	(28.9)
<b>Total Expenditure (B)</b>	<b>71,803</b>	<b>62,725</b>	<b>14.5</b>	<b>58,896</b>	<b>21.9</b>	<b>157,406</b>	<b>192,593</b>	<b>(18.3)</b>
<b>EBITDA (A-B)</b>	<b>17,296</b>	<b>13,672</b>	<b>26.5</b>	<b>12,662</b>	<b>36.6</b>	<b>34,044</b>	<b>38,435</b>	<b>(11.4)</b>
Other Income	3,692	3,662	0.8	2,858	29.2	9,929	12,009	(17.3)
Depreciation	650	617	5.4	643	1.1	1,931	1,832	5.4
EBIT	20,338	16,718	21.7	14,877	36.7	42,041	48,612	(13.5)
Finance Costs	10	5	117.0	27	(61.5)	46	23	105.3
PBT after exceptional items	20,328	16,713	21.6	14,851	36.9	41,995	48,590	(13.6)
Tax expense	4,765	4,097	16.3	3,469	37.4	9,770	10,693	(8.6)
Reported PAT	15,563	12,616	23.4	11,382	36.7	32,225	37,897	(15.0)
<b>Adjusted PAT</b>	<b>15,563</b>	<b>12,616</b>	<b>23.4</b>	<b>11,382</b>	<b>36.7</b>	<b>32,225</b>	<b>37,897</b>	<b>(15.0)</b>
<b>EPS (Rs)</b>	<b>53.8</b>	<b>43.6</b>	<b>23.4</b>	<b>39.3</b>	<b>36.7</b>	<b>111.4</b>	<b>131.0</b>	<b>(15.0)</b>

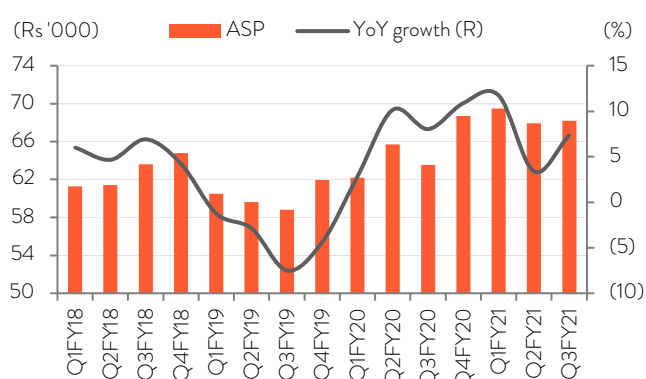
Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	29.2	30.1	(87)	29.3	(12)	29.8	29.3	58
EBITDA margin	19.4	17.9	152	17.7	172	17.8	16.6	115
EBIT margin	22.8	21.9	94	20.8	204	22.0	21.0	92
PBT margin	22.8	21.9	94	20.8	206	21.9	21.0	90
Tax rate	23.4	24.5	(107)	23.4	8	23.3	22.0	126
Adj PAT margin	17.5	16.5	95	15.9	156	16.8	16.4	43

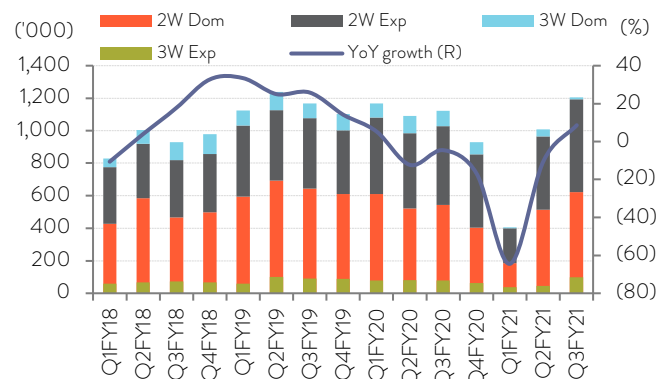
Source: Company, BOBCAPS Research

**FIG 3 – AVERAGE SELLING PRICE (ASP)**



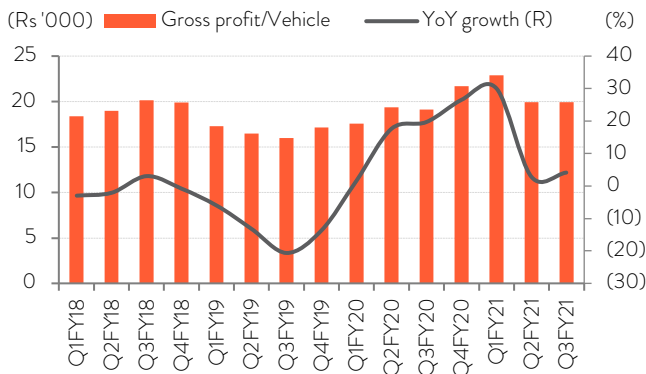
Source: Company, BOBCAPS Research

**FIG 4 – VOLUME GROWTH TREND**



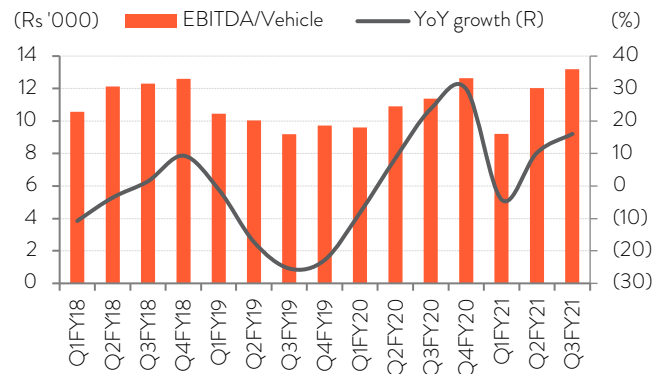
Source: Company, BOBCAPS Research

**FIG 5 – GROSS PROFIT/VEHICLE**



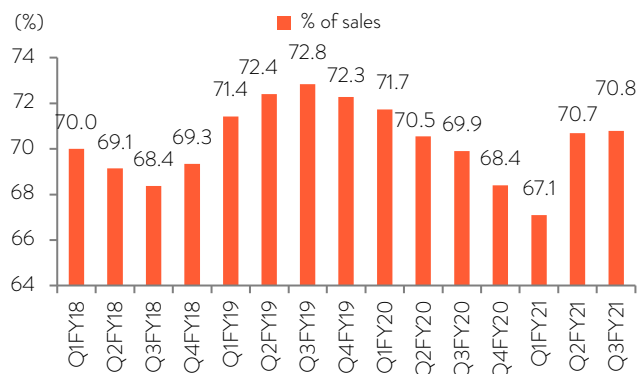
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA/VEHICLE**



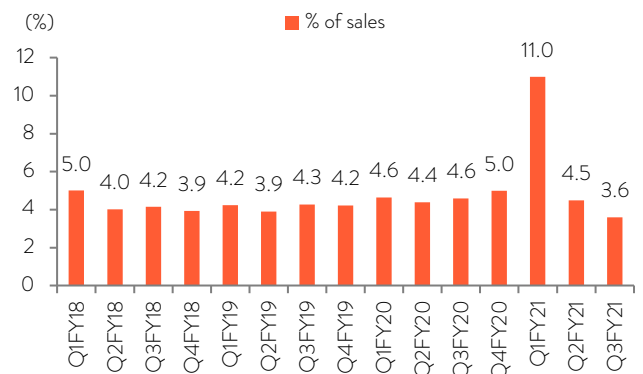
Source: Company, BOBCAPS Research

**FIG 7 – RM COST/SALES TREND**



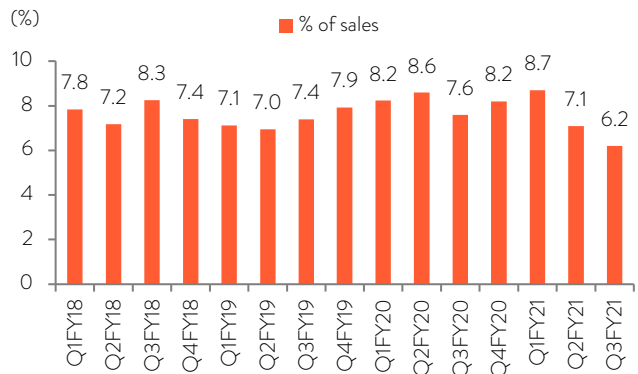
Source: Company, BOBCAPS Research

**FIG 8 – EMPLOYEE COST/SALES TREND**



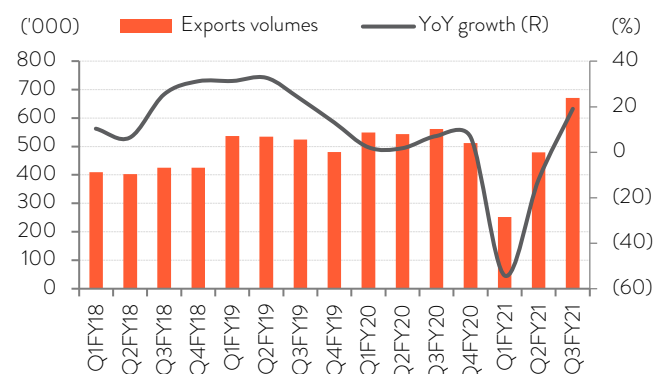
Source: Company, BOBCAPS Research

**FIG 9 – OTHER EXPENSES/SALES TREND**



Source: Company, BOBCAPS Research

**FIG 10 – QUARTERLY EXPORT SALES TREND**



Source: Company, BOBCAPS Research

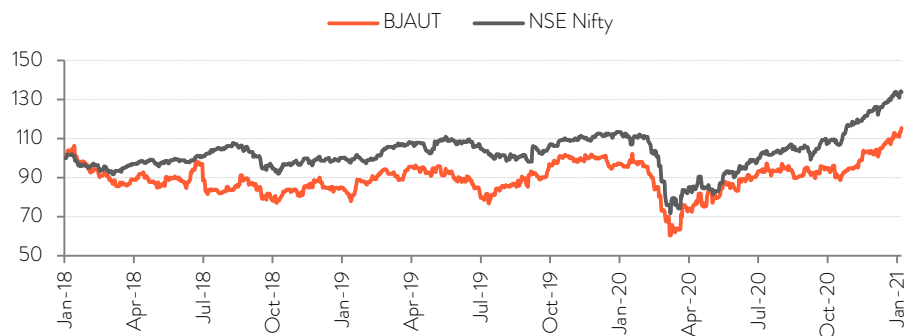
## Earnings call highlights

- Export demand for motorcycles and 3Ws has improved to ~90% of normal levels and BJAUT is growing ahead of industry.
- The domestic 3W business remains sluggish and is at 40% of normal levels. This has also hurt operating margins given higher profitability per vehicle in the business.
- Management expects raw material costs to inch up from current levels. Per management, this could impact gross margins negatively by >300bps in Q4FY21 (from Q3 levels).
- 2W financing was a challenge earlier but is now recovering. In Q3, ~63% of vehicles were financed.
- Q3 spares revenue stood at Rs 9.9bn while export revenue totalled Rs 40.8bn.

## Valuation methodology

Assuming a 13% decline in FY21 sales, we project a volume CAGR of 1% for BJAUT over FY20-FY23. Operating margins are likely to come off from current levels given raw material cost pressure. We build in a revenue/EBITDA/PAT CAGR of 5%/5%/2% over our forecast period and retain our Mar'22 target price of Rs 2,800, set at an unchanged 15x FY23E 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 spur 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
<b>Total revenue</b>	<b>302,500</b>	<b>299,187</b>	<b>276,627</b>	<b>315,247</b>	<b>350,681</b>
EBITDA	49,820	50,962	47,520	52,215	58,776
Depreciation	2,657	2,464	2,554	2,704	2,869
EBIT	67,076	65,833	59,563	64,170	72,741
Net interest income/(expenses)	(45)	(32)	(60)	(60)	(60)
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	59,503	64,110	72,681
Income taxes	20,280	14,802	13,864	14,745	18,316
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>44,028</b>	<b>50,999</b>	<b>45,639</b>	<b>49,365</b>	<b>54,366</b>
Adjustments	2,724	0	0	0	0
<b>Adjusted net profit</b>	<b>46,752</b>	<b>50,999</b>	<b>45,639</b>	<b>49,365</b>	<b>54,366</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	37,867	31,997	31,739	32,164	34,182
Other current liabilities	9,306	8,955	6,682	6,318	7,739
Provisions	1,564	2,385	1,670	1,723	1,612
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	223,225	248,184	278,144
Shareholders' fund	217,799	199,254	226,119	251,078	281,038
<b>Total liabilities and equities</b>	<b>268,377</b>	<b>244,269</b>	<b>267,888</b>	<b>292,961</b>	<b>326,249</b>
Cash and cash eq.	9,228	3,083	20,850	21,837	21,224
Accounts receivables	25,597	17,251	24,452	24,324	25,542
Inventories	9,615	10,635	11,043	10,540	10,947
Other current assets	10,421	10,846	8,746	8,067	7,662
Investments	191,594	181,960	182,960	207,960	240,960
Net fixed assets	17,639	16,990	16,436	16,731	16,362
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
<b>Total assets</b>	<b>268,377</b>	<b>244,269</b>	<b>267,888</b>	<b>292,961</b>	<b>326,249</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	49,409	53,464	48,193	52,069	57,235
Interest expenses	(45)	(32)	(60)	(60)	(60)
Non-cash adjustments	(19,913)	(17,335)	(14,597)	(14,659)	(16,834)
Changes in working capital	(13,060)	4,189	(8,754)	1,424	2,108
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>16,391</b>	<b>40,286</b>	<b>24,782</b>	<b>38,773</b>	<b>42,449</b>
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
<b>Cash flow from investing</b>	<b>2,774</b>	<b>25,032</b>	<b>11,699</b>	<b>(13,441)</b>	<b>(18,716)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	38	11	0	0	0
Interest expenses	(45)	(32)	(60)	(60)	(60)
Dividends paid	(17,362)	(62,579)	(18,774)	(24,406)	(24,406)
Other financing cash flows	2,192	(1,963)	0	0	0
<b>Cash flow from financing</b>	<b>(15,177)</b>	<b>(64,563)</b>	<b>(18,834)</b>	<b>(24,466)</b>	<b>(24,466)</b>
<b>Changes in cash and cash eq.</b>	<b>3,988</b>	<b>756</b>	<b>17,647</b>	<b>867</b>	<b>(733)</b>
<b>Closing cash and cash eq.</b>	<b>9,228</b>	<b>3,083</b>	<b>20,850</b>	<b>21,837</b>	<b>21,224</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	161.6	176.2	157.7	170.6	187.9
Adjusted EPS	152.2	176.2	157.7	170.6	187.9
Dividend per share	60.0	216.3	64.9	84.3	84.3
Book value per share	752.7	688.6	781.4	867.7	971.2

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.5	3.5	3.8	3.3	3.0
EV/EBITDA	21.4	20.7	22.4	20.1	17.7
Adjusted P/E	24.3	21.0	23.5	21.7	19.7
P/BV	4.9	5.4	4.7	4.3	3.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	72.7	77.5	76.7	77.0	74.8
Interest burden (PBT/EBIT)	95.9	100.0	99.9	99.9	99.9
EBIT margin (EBIT/Revenue)	22.2	22.0	21.5	20.4	20.7
Asset turnover (Revenue/Avg TA)	146.3	142.3	129.0	131.2	131.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.9	24.5	21.5	20.7	20.4

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	19.9	(1.1)	(7.5)	14.0	11.2
EBITDA	3.7	2.3	(6.8)	9.9	12.6
Adjusted EPS	14.9	9.1	(10.5)	8.2	10.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.5	17.0	17.2	16.6	16.8
EBIT margin	22.2	22.0	21.5	20.4	20.7
Adjusted profit margin	15.5	17.0	16.5	15.7	15.5
Adjusted ROAE	22.9	24.5	21.5	20.7	20.4
ROCE	22.2	24.3	21.3	20.6	20.3
<b>Working capital days (days)</b>					
Receivables	24	26	28	28	26
Inventory	10	12	14	12	11
Payables	59	61	59	52	49
<b>Ratios (x)</b>					
Gross asset turnover	0.1	0.1	0.2	0.1	0.1
Current ratio	1.1	1.0	1.6	1.6	1.5
Net interest coverage ratio	(1,497.2)	(2,083.3)	(992.7)	(1,069.5)	(1,212.4)
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%

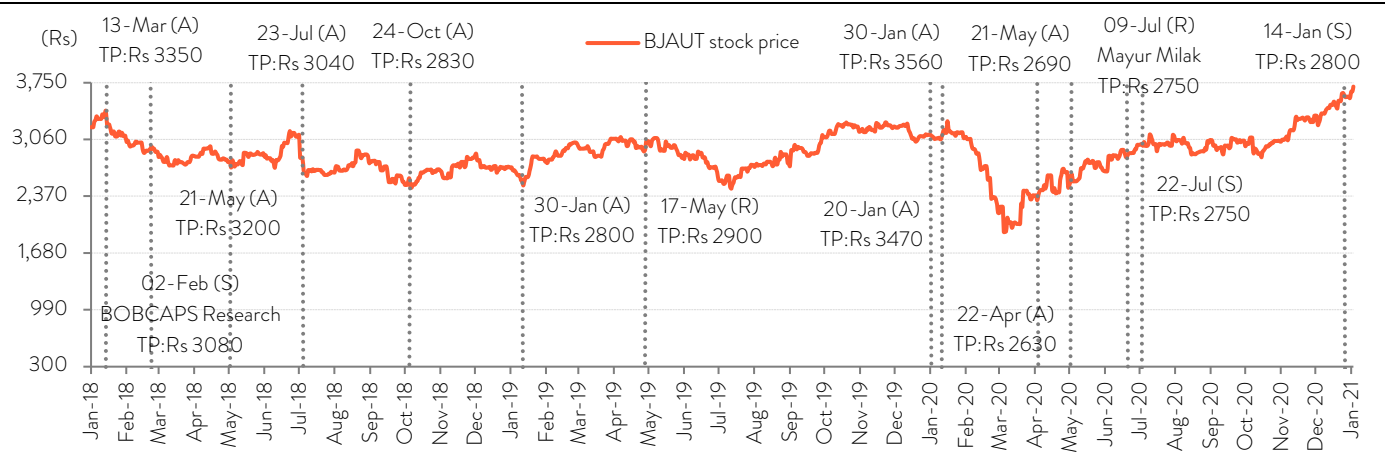
**ADD** – Expected return from >+5% to +15%

**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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