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Q3FY21 result review
and earnings revision

Automobiles

Target price: Rs4,419

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 6.1	↑ 7.1	↑ 7.4
EBITDA	↑ 9.2	↑ 1.3	↑ 5.5
EPS	↑ 10.8	↑ 3.5	↑ 7.3

Target price revision

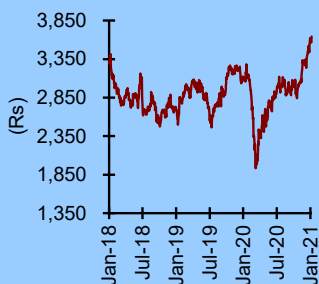
Rs4,419 from Rs3,820

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	53.7	53.7	53.7
Institutional investors	22.8	24.0	22.2
MFs and other	3.2	3.0	3.1
Banks & FIs	0.9	0.3	0.0
Insurance Cos	5.0	7.1	6.0
FIs	13.7	13.6	13.1
Others	23.5	22.3	24.1

Source: NSE

Price chart



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INDIA

Bajaj Auto



BUY

Maintained

Higher exports, premium share boost margins **Rs3,706**

Bajaj Auto's (BAL) Q3FY21 operating numbers were a beat on consensus expectations at 19.4% (up 152bps YoY). BAL margin resilience was driven by i) acceleration in export business coupled with improving mix, ii) pivot towards premium models leading to better motorcycle mix (higher Pulsar-125cc sales) even as it had to contend with the headwind of delayed recovery in domestic 3Ws (high profitability) segment. Management expects near term margins to be under pressure due to rising commodity costs; however, expects to manage the same via operating leverage, price increases and mix. We believe BAL's key medium-term risk remains to domestic 3-W business on account of rising adoption of e-rickshaws. The stock remains attractive at ~15x PE /4.2% FCF yield on FY23E basis. We maintain BUY.

- **Key highlights of the quarter:** BAL reported 16.6% growth in revenue as ASP rose 7.3% YoY to ~Rs68.2k/unit supported by product mix, price hikes. EBITDA margin expanded ~152bps YoY due to tight control as employee costs (down 100bps YoY) and other expenses (down 139bps). Gross margin contracted 87bps due to higher RM costs as commodity basket prices edge higher (more inflation in 4Q). BAL reported highest ever PAT at ~Rs15.6bn with 23% YoY growth.
- **Key takeaways from earnings call:** Management indicated: a) Highest ever exports (~Rs41bn); BAL sold highest ever Pulsar motorcycles with 125cc variant leading the charge (164k units), with ~85% sales from geographies where BAL enjoys leadership position; b) South Asia (ex-Sri Lanka) is back to pre-covid levels, LatAm – 80-90%, while ASEAN still lagging at ~50%; c) BAL is pivoting towards premiumisation with highest-ever sales of Pulsar (420k units) recorded in Q3 and robust demand for higher-end KTM and Husqvarna models; Pulsar 125 is driving market share higher in 125cc segment (up to 25% vis-à-vis 13% in FY20); d) financing levels have risen in Q3 to 63% albeit down YoY (70%); Bajaj Finance holds ~60% share of the financing availed; e) BAL expects RM cost rise of ~3% as share of revenue in Q4 due to higher base metal prices; company has undertaken blended price increase of ~1-1.5% till post Q2; f) Q4 would surpass Q3 in terms of exports growth as underlying demand remains strong and g) in 3W category, sales are still lagging, services have recovered to 90%; cargo 3W stood at 70% of pre-covid levels.
- **Maintain BUY:** BAL continues to remain strong in exports market while improving mix in motorcycle segment via product and pricing lever. On 3Ws, demand recovery in FY22 is likely to happen on account of normalisation of public transportation. We revise our earnings estimates upwards by ~11%/4%/7% for FY21E/22E/23E, respectively, and value BAL at a target multiple of 18x FY23E EPS (earlier: 17x) and maintain our **BUY** rating with a revised target price of Rs4,419 (earlier: Rs3,820).

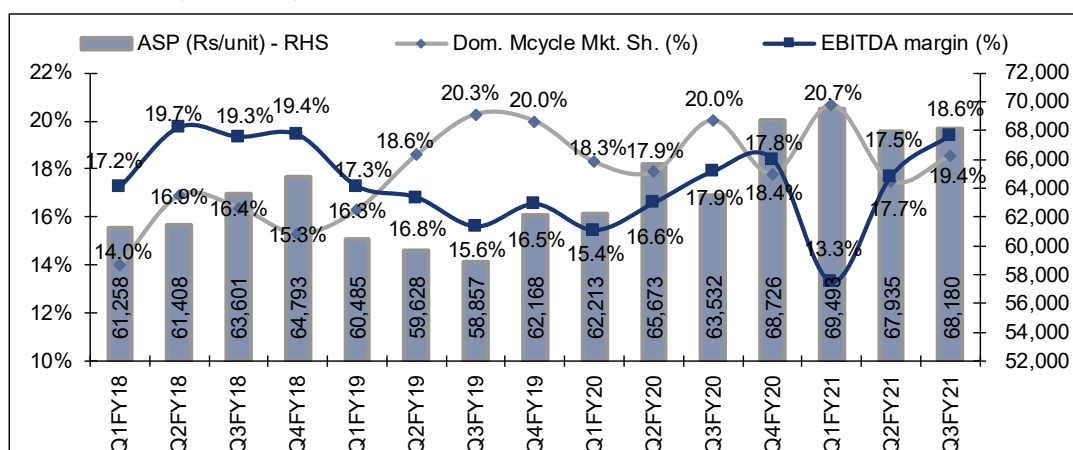
Market Cap	Rs1072bn/US\$14.7bn
Reuters/Bloomberg	BJAUT.BO/BAJA IN
Shares Outstanding (mn)	289.4
52-week Range (Rs)	3703/1936
Free Float (%)	46.3
FII (%)	13.1
Daily Volume (US\$/'000)	39,303
Absolute Return 3m (%)	22.7
Absolute Return 12m (%)	24.9
Sensex Return 3m (%)	22.1
Sensex Return 12m (%)	21.6

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	2,99,187	2,71,524	3,55,725	4,04,703
Rec. Net Inc (Rs mn)	47,368	46,524	57,471	71,033
EPS (Rs)	163.7	160.8	198.6	245.5
% Chg YoY	14.7	(1.8)	23.5	23.6
P/E (x)	22.6	23.1	18.7	15.1
CEPS (Rs)	172.2	169.8	208.8	257.1
EV/E (x)	19.4	18.9	14.9	12.0
Dividend Yield (%)	3.2	3.2	3.9	4.9
RoCE (%)	21.1	21.1	24.4	28.1
RoE (%)	21.1	20.9	24.3	28.0

Table 1: Q3FY21 result summary (standalone)*(Rs mn, year ending March 31)*

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Volumes	13,06,810	12,02,486	8.7	10,53,337	24
Net Realization/unit (Rs)	68,180	63,532	7.3	67,935	0.4
Total Operating Income	89,099	76,397	16.6	71,559	25
RM Costs	63,082	53,422	18.1	50,581	25
Employee Costs	3,172	3,482	(8.9)	3,246	(2)
Other Costs	5,548	5,820	(4.7)	5,069	9
Total operating expenses	71,803	62,725	14.5	58,896	22
Reported EBITDA	17,296	13,672	26.5	12,662	37
EBITDA Margin (%)	19.4	17.9	152 bps	17.7	172 bps
Depreciation	650	617	5	643	1
Other Income	3,692	3,662	1	2,858	29
Interest	10	5	117	27	(62)
PBT	20,328	16,713	22	14,851	37
Exceptional Items	-	-	-	-	-
Tax	4,765	4,097	16	3,469	37
PAT	15,563	12,616	23	11,382	37
Adjusted PAT	15,563	12,616	23	11,382	37

Source: Company data, I-Sec research

Chart 1: Story of margins, market share and ASPs

Source: Company data, I-Sec research

Table 2: Growth assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Export revenues (US\$ mn)	1,642	1,642	1,701	2,082	2,127
Export revenues (Rs mn)	1,21,156	1,23,853	1,28,210	1,55,747	1,59,645
Domestic revenues - core (Rs mn)	1,81,202	1,75,335	1,52,474	2,10,460	2,18,970
Domestic 2-W volumes	25,41,097	20,78,136	18,61,974	21,50,696	23,08,169
Domestic CV volumes	3,99,453	3,66,202	1,01,246	2,03,195	2,16,286
Export 2-W volumes	16,95,823	18,69,220	18,22,210	22,06,644	23,61,010
Export CV volumes	3,83,177	3,00,924	2,63,457	3,14,327	3,43,599
Total Volumes	50,19,550	46,14,482	40,48,887	48,74,861	52,29,064

Source: Company data, I-Sec research

Table 3: Earnings revision*(Rs mn)*

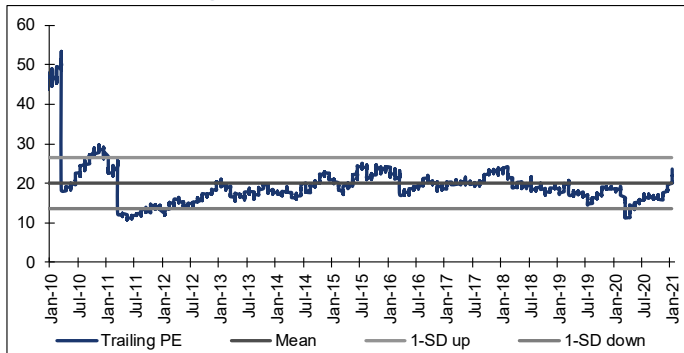
	FY21E			FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	255,943	271,524	6.1	332,134	355,725	7.1	376,993	404,703	7.4
EBITDA	43,253	47,219	9.2	57,913	58,682	1.3	68,210	71,954	5.5
PAT	41,991	46,524	10.8	55,535	57,471	3.5	66,189	70,393	7.3
EPS (Rs)	145	161	10.8	192	199	3.5	229	243	7.3

Source: Company data, I-Sec research

Valuation methodology

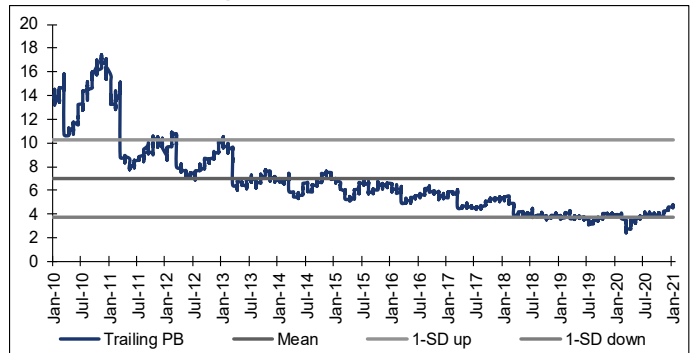
BAL continues to remain strong in exports market while improving mix both in domestic/export motorcycle segment via product and pricing lever. On 3Ws, demand recovery in FY22 is likely to happen on account of normalisation of public transportation. We revise our earnings estimates upwards by ~11%/4%/7% for FY21E/22E/23E, respectively, and value BAL at a target multiple of 18x FY23E EPS (earlier: 17x) and maintain our **BUY** rating with a revised target price of Rs4,419 (earlier: Rs3,820).

Chart 2: Trailing P/E



Source: I-Sec research, 12m trailing data

Chart 3: Trailing P/B



Source: I-Sec research, 12m trailing data

Financial summary (consolidated)

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	299,187	271,524	355,725	404,703
Operating Expenses	252,981	224,305	297,043	332,749
EBITDA	46,206	47,219	58,682	71,954
% margins	15.4	17.4	16.5	17.8
Depreciation & Amortisation	2,464	2,604	2,946	3,360
Gross Interest	32	51	40	32
Other Income	15,246	13,690	16,401	20,290
Recurring PBT	58,956	58,255	72,096	88,851
Add: Extraordinaries	-	-	-	-
Less: Taxes	14,802	13,981	17,664	21,769
Add: Income from associates	3,215	2,251	3,038	3,950
Net Income (Reported)	47,368	46,524	57,471	71,033
Recurring Net Income	47,368	46,524	57,471	71,033

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	41,088	47,384	56,146	65,888
of which cash & cash eqv.	3,163	6,588	5,923	6,695
Total Current Liabilities & Provisions	43,163	39,144	52,258	57,235
Net Current Assets	(2,074)	8,240	3,888	8,652
Investments	199,675	201,675	219,675	231,675
of which				
Strategic/Group	30,048	30,048	30,048	30,048
Other Marketable	169,627	171,627	189,627	201,627
Net Fixed Assets	17,189	17,585	19,638	22,279
Capital Work-in-Progress	602	632	664	697
Goodwill	-	-	-	-
Total Assets	214,790	227,500	243,201	262,606
Liabilities				
Interest Free Borrowings	1,695	1,695	1,695	1,695
Minority Interest	0	0	0	0
Equity Share Capital	2,894	2,894	2,894	2,894
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	2,13,727	226,146	241,487	260,447
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	216,621	229,040	244,380	263,341
Total Liabilities	214,790	227,500	243,201	262,606

Source: Company data, I-Sec research

Table 8: Quarterly trend (standalone)

(Rs mn, year ending March 31)

	Mar-20	Jun-20	Sep-20	Dec-20
Volumes (units)	9,91,749	4,43,103	10,53,337	13,06,810
Net sales	68,159	30,792	71,559	89,099
% growth (YoY)	-8%	-60%	-7%	17%
EBITDA	12,528	4,085	12,662	17,296
Margin (%)	18.4	13.3	17.7	19.4
Other income	5,327	3,379	2,858	3,692
Net profit	13,103	5,280	11,382	15,563

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	28,955	35,509	45,048	54,937
Working Capital Changes	4,715	(6,669)	3,016	(4,383)
Capital Commitments	(1,721)	(3,000)	(5,000)	(6,000)
Free Cashflow	31,949	25,840	43,065	44,554
Cashflow from Investing Activities	24,985	11,690	(1,599)	8,290
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(16)	-	-	-
Dividend paid	(34,724)	(34,105)	(42,130)	(52,072)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	(6,168)	3,425	(665)	772

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	163.7	160.8	198.6	245.5
Diluted EPS	163.7	160.8	198.6	245.5
Recurring Cash EPS	172.2	169.8	208.8	257.1
Dividend per share (DPS)	120	118	146	180
Book Value per share (BV)	749	792	845	910
Growth Ratios (%)				
Operating Income	(1.1)	(9.2)	31.0	13.8
EBITDA	2.2	2.2	24.3	22.6
Recurring Net Income	14.7	(1.8)	23.5	23.6
Diluted Recurring EPS	14.7	(1.8)	23.5	23.6
Diluted Recurring CEPS	5.2	(1.4)	23.0	23.1
Valuation Ratios (x)				
P/E	22.6	23.1	18.7	15.1
P/CEPS	21.5	21.8	17.7	14.4
P/BV	5.0	4.7	4.4	4.1
EV / EBITDA	19.4	18.9	14.9	12.0
EV / Operating Income	3.0	3.3	2.5	2.1
EV / Operating FCF	25.8	34.5	20.3	19.4
Operating Ratios (%)				
Raw Material/Sales	70.2	70.8	72.6	72.1
SG&A/Sales	3.8	2.9	2.6	2.5
Other Income / PBT	25.9	23.5	22.7	22.8
Effective Tax Rate	25.1	24.0	24.5	24.5
NWC / Total Assets	(81.4)	(74.7)	(78.8)	(76.0)
Inventory Turnover (days)	21	20	25	23
Receivables (days)	27	24	20	22
Payables (days)	61	58	48	51
D/E Ratio	(0.8)	(0.7)	(0.5)	(0.3)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	15.8	17.1	16.2	17.6
RoCE	21.1	21.1	24.4	28.1
RoNW	21.1	20.9	24.3	28.0
Dividend Payout Ratio	73	73	73	73
Dividend Yield	3.2	3.2	3.9	4.9
EBITDA Margins	15.4	17.4	16.5	17.8

Source: Company data, I-Sec research

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