

BAJAJ AUTO | Auto & Auto Components*Margins tailwinds to be observed in the ensuing quarters***LKP****Decent performance**

Bajaj Auto's topline expanded by 27.3% yoy, in a quarter which remained buoyant even after the end of festive season. Sequentially the top line declined by just 3.4%, while it expanded by 27.3% yoy. Volumes in the quarter moved up by 17.9% yoy after falling by 64% yoy in Q1 and 10% in Q2 and moving up by 8.7% in Q3. During the year, domestic motorcycles de-grew by 12.9%, while 3Ws plummeted by 70%. Exports motorcycles fell by just 4% in 2W, while 3Ws de-growth was at 15%. Realizations grew by 7.9% yoy in Q4, which were very well supported by export realizations, price hikes and higher contribution of premium and executive segment bikes in India. EBITDA excelled by 21.7% yoy to 15.2 bn, while margins came in at 17.7%. Margin drop stemming from higher RM costs was arrested by the lower other expenses (led by reduction in advertising and promotion expenses), better forex, product mix tilted towards exports, premium domestic bikes and 3Ws. Bottomline came in 1.7% up yoy at ₹13.3 bn. The company has declared ₹140/share (FV-10) of dividend, which is at 90% payout and a dividend yield of healthy 3.7%.

Exports demand to continue, 3Ws to revive, domestic motorcycles to grow post temporary brakes

Domestic motorcycle volumes grew by 21% yoy in Q4 on strong executive and premium bikes driven by the Pulsar variants (especially Pulsar 125cc which has quickly secured 19% market share in Q4 from 7% in FY20 in the executive segment despite its high price among its peers in the segment) alongwith KTM and Dominar bikes. Management stated that there is no downtrading witnessed in 2W as expected by the markets, however higher segment brands like Pulsar and KTM have seen a good traction, while the supply side constraints are limited. We believe that the pent up demand is still prevailing and affordability is improving with job scenario getting brighter. This is directly assisting the performance of Bajaj's motor cycles. In Q1 FY22 we may witness softening of demand on the back of current second wave of the pandemic stifling production as well (Bajaj being Maharashtra centric). However, if things improve from Q2, then we may see a strong bounce back in motorcycle demand in India.

Domestic 3Ws are getting back slowly to normalcy as we observed improvement every month and it fell by 38% yoy in Q4 much lower than 65% in Q3. The company has maintained its market share at 85% in small passenger 3W segment, while in the big 3W passenger segment the company has increased it to 48% (12% ahead of #2 player). The cargo segment is also performing well for the company as it has narrowed the gap with the #1 player (6% currently) and has now achieved market share of 34%.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Revenues (₹ bn)	299.2	277.4	357.2	437.2
EBITDA (%)	17.0	17.8	18.1	18.4
PAT (%)	17.5	16.8	16.6	16.5
EPS (₹)	176.2	157.4	200.3	245.0
EPS Growth (%)	9.1%	-10.7%	27.3%	22.3%
P/E (x)	21.8	24.4	19.1	15.6
P/B(x)	5.6	4.4	4.3	4.2
EV/EBITDA (x)	21.9	22.6	17.2	13.8
ROE(%)	25.6%	18.1%	22.5%	26.8%
Dividend Yield (%)	5.6%	3.7%	4.7%	5.8%

Rating	Buy
Current Market Price (₹)	3,819
12 M Price Target (₹)	4,410
Potential upside (%)	15

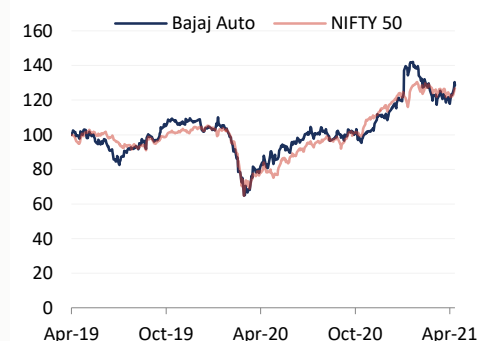
Stock Data	
FV (₹) :	10
Market Cap Full (₹ bn) :	1,105
Market Cap Free Float (₹ bn) :	500
52-Week High / Low (₹) :	2,361 / 4,361
2-Year High / Low (₹) :	1,789 / 4,361
1 Year Avg. Dly Traded Volume (in lakh)	9
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

Shareholding Pattern (%)				
	Mar-21	Dec-20	Sep-20	Jun-20
Promoter	53.70	53.70	53.69	53.69
FPIs	11.99	13.06	13.56	13.71
MFs	3.40	3.09	2.96	3.20
Insurance	8.74	6.03	7.18	4.98
Others	22.17	22.60	24.42	23.63

Source: BSE

Price Performance (%)				
(%)	1M	3M	6M	1YR
Bajaj Auto	6.6%	-4.2%	31.1%	53.5%
Nifty 50	2.7%	9.2%	27.6%	55.9%

* To date / current date : April 29, 2021

Bajaj Auto vs Nifty 50

Exports was the brightest spot in Q4, where motorcycles grew by 24% and 3Ws jumped by 19% yoy. Exports contributed 54% of total volumes v/s 52% yoy. The company is observing strong traction across markets including LatAm despite strong Covid wave over there. The company's share in the premium bikes has gone up to 16% from 13% yoy on robust demand for Pulsar and Dominar. KTM exports to US, Europe and Australia have expanded by 60% in the quarter, while the company achieved 77% of its volumes from the top 10 export markets.

Margin profile to improve hereon

Bajaj's EBITDA margins came at 17.7% in Q4, impacted by unprecedented hike in steel and precious metals. RM costs as a % of sales was higher at 73.42% v/s 70.6% yoy and 72.3% qoq. Going forward, we expect margins to improve as 1).there is a continuous month on month improvement in 3W volumes 2). Expected recovery in ASEAN markets following the rest of the world markets 3). Higher contribution of high end bikes like Pulsar and KTM 4). Depreciating Rupee and 5). Price hikes taken to combat the RM cost. In Q4 the input costs moved up by 6 to 7% while Bajaj took price increases of close to 4% This will enable better margins for the company in FY 22E despite rising RM costs and other expenses getting back to normal.

Quarterly Financial Snapshot

(₹ mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Net Sales	84,128	87,301	-3.6%	66,109	27.3%
Other op. income	1,833	1,798	2.0%	2,050	-10.6%
Total income	85,961	89,099	-3.5%	68,159	26.1%
RM cost	61,767	63,082	-2.1%	46,653	32.4%
Employee cost	3,070	3,172	-3.2%	3,421	-10.3%
Other expenses	5,884	5,548	6.0%	5,557	5.9%
EBITDA	15,241	17,296	-11.9%	12,527	21.7%
EBITDA Margins %	17.7	19.4	(170 bps)	18.4	(70 bps)
Other income	2,836	3,692	-23.2%	5,327	-46.8%
Depreciation	662	650	1.8%	633	4.6%
Interest	20	10	100.0%	9	N/A
PBT	17,395	20,328	-14.4%	17,212	1.1%
Tax	4,074	4,765	-14.5%	4,109	-0.9%
Adj PAT	13,321	15,563	-14.4%	13,103	1.7%
Adj PAT Margins%	15.5	17.5	(200 bps)	19.2	(370 bps)
Exceptional items	-	-	N/A	-	N/A
Reported PAT	13,321	15,563	-14.4%	13,103	1.7%

Source: Company, LKP Research

Outlook and Valuation

Bajaj came out with decent set of numbers in Q4, thanks to its strength in the exports markets and domestic 3W recovery. Going forward, we believe there will be a short term pressure on volumes and margins as second wave of Covid is intensifying in Q1 FY22. However, hoping the pandemic coming under control in Q2, we expect a strong bounce back like last year. Therefore, in that scenario, 2W demand in the domestic markets is expected to continue its uptrend with strong rural demand driven by expected good monsoons, pent up demand and new model platforms. On the low base of FY21, we anticipate a strong FY22E. With exports bouncing back strongly and the current trend of high margin models performing well in the domestic markets, margins are expected to improve. Sequential 3W uptick which is happening, though a bit late, would support margins. With ultimate demand for personal mobility playing on, we expect Bajaj to get its advantage. With strong balance sheet, robust return ratios, 90% dividend payout ratio (yield of 3.7% in FY21) and zero financial leverage, we believe the stock looks attractive at 15x FY23E earnings. We maintain our BUY rating on the stock with a target price of ₹4,410 (at 18x FY23E earnings).

Per unit parameters	Q4 FY21	Q3 FY21	Q2 FY21	Q1 FY21	Q4 FY20	Q3 FY20	Q2 FY20	Q1 FY20
Gross Realisation per Unit (₹)	71,925	66,805	66,849	66,543	66,645	61,842	63,900	60,657
Net Realisation per Unit (₹)	71,925	66,805	66,849	66,543	66,645	61,842	63,900	60,657
Total Cost per unit (₹)	60,462	54,945	55,914	60,272	56,082	52,161	54,783	52,580
Material Cost per unit (₹)	52,807	48,272	48,020	46,639	47,031	44,427	46,328	44,611
Staff Cost per unit (₹)	2,624	2,427	3,081	7,612	3,449	2,896	2,883	2,891
Other Expn per unit (₹)	5,079	4,261	4,841	6,060	5,658	4,923	5,646	5,122
EBITDA per unit (₹)	13,030	13,235	12,021	9,220	12,629	11,372	10,890	9,608
PAT per unit (₹)	11,389	11,909	10,806	11,916	13,209	10,493	11,950	9,026

Source: Company, LKP Research

Income Statement Quarterly

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	2,99,187	2,77,411	3,57,243	4,37,181
Raw Material Cost	2,10,083	1,96,097	2,51,815	3,04,719
Employee Cost	13,892	12,860	13,990	17,167
Other Exp	24,249	19,170	26,086	33,500
EBITDA	50,962	49,285	64,652	80,595
<i>EBITDA Margin(%)</i>	<i>17.0</i>	<i>17.8</i>	<i>18.1</i>	<i>18.4</i>
Other income	17336	12764	14000	15000
Depreciation	2,464	2,593	2,793	3,067
Interest	32	67	70	80
PBT	65,802	59,389	75,789	92,449
<i>PBT Margin(%)</i>	<i>22.6</i>	<i>21.9</i>	<i>21.7</i>	<i>21.5</i>
Exceptional items	0	0	0	0
Tax	14,802	13,844	17,810	21,541
APAT	51,000	45,545	57,979	70,908
<i>APAT Margins (%)</i>	<i>17.0</i>	<i>16.4</i>	<i>16.2</i>	<i>16.2</i>
PAT	51,000	45,545	57,979	70,908
<i>PAT Margin (%)</i>	<i>17.5</i>	<i>16.8</i>	<i>16.6</i>	<i>16.5</i>

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	176.2	157.4	200.3	245.0
CEPS	170.7	184.7	166.3	210.0
BVPS	688.5	870.8	890.9	915.4
DPS	215.8	141.6	180.3	220.5
Growth Ratios(%)				
Total revenues	-1.1%	-7.3%	28.8%	22.4%
EBITDA	2.3%	-3.3%	31.2%	24.7%
PAT	9.1%	-10.7%	27.3%	22.3%
EPS Growth	9.1%	-10.7%	27.3%	22.3%
Valuation Ratios (x)				
PE	21.8	24.4	19.1	15.6
P/CEPS	20.8	23.0	18.3	15.0
P/BV	5.6	4.4	4.3	4.2
EV/Sales	3.8	3.8	4.1	3.2
EV/EBITDA	21.9	22.6	17.2	13.8
Operating Ratios (Days)				
Inventory days	13.3	20.1	18.0	18.0
Receivable Days	21.6	36.5	30.0	25.0
Payables day	39.9	59.9	52.0	55.0
Net Debt/Equity (x)	-0.01	-0.02	-0.03	-0.04
Profitability Ratios (%)				
ROE	25.6%	18.1%	22.5%	26.8%
Dividend yield	5.6%	3.7%	4.7%	5.8%

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,894	2,894	2,894	2,894
Reserves and surplus	1,96,361	2,49,129	2,54,927	2,62,018
Total network	1,99,255	2,52,023	2,57,821	2,64,912
Non current liabilities				
Long term borrowings & prov.	2,482	1,626	1,626	1,626
Deferred tax liabilities	3,464	5,221	5,221	5,221
Current liabilities				
Current liabilities & provisions	33,439	46,050	51,350	66,195
Other current liabilities	9,093	10,382	10,382	10,382
Total equity and liabilities	2,47,733	3,15,302	3,26,401	3,48,336
ASSETS				
Net block	16,020	15,653	17,860	20,793
Capital work in progress	465	160	260	360
Intangible assets	567	473	473	473
Non current investments	1,54,701	1,46,551	1,68,551	1,90,551
Long term loans & Advances	325	315	315	315
Other non current assets	9,685	10,399	10,399	10,399
Total non current assets	1,81,763	1,73,551	1,97,858	2,22,891
Current Assets				
Current investments	27,798	80,281	60,281	50,281
Inventories	10,636	14,939	17,248	21,165
Trade receivables	17,251	27,169	28,746	29,396
Cash and cash bank	3,082	5,274	8,179	10,514
Short term loans & Advances	61	57	57	57
Other current assets	7,142	14,032	14,032	14,032
Total current assets	65,970	1,41,751	1,28,543	1,25,445
Total Assets	2,47,733	3,15,302	3,26,401	3,48,336

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	65,802	59,390	75,789	92,449
Depreciation	2,464	2,593	2,793	3,067
Interest	11	12	0	0
Chng in working capital	3,766	-5,104	1,414	10,277
Tax paid	-16,777	-13,397	-17,810	-21,541
Other operating activities	0	0	0	0
Cash flow from operations (a)	38,618	31,140	62,256	84,332
Capital expenditure	-2,828	-2,410	-5,100	-6,100
Chng in investments	16,505	-23,327	-2,000	-12,000
Other investing activities	0	0	0	0
Cash flow from investing (b)	17,547	-28,654	-6,881	-18,100
Free cash flow (a+b)	56,166	2,486	55,375	66,232
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	-51,951	-87	-52,181	-63,817
Other financing activities	0	0	0	0
Cash flow from financing (c)	-62,465	-207	-52,251	-63,897
Net chng in cash (a+b+c)	-6,300	2,279	3,124	2,335
Closing cash & cash equivalents	2,776	5,055	8,179	10,514

DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.