

Retail Equity Research

Bajaj Auto Limited

Automobiles

BSE CODE: 532977

NSE CODE: BAJAJ-AUTO

Bloomberg CODE: BJAUT:IN

SENSEX: 48,719

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 3,853 TARGET Rs. 4,450 RETURN 15%
(Closing: 03-05-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Decent quarter; Outlook improved on exports

Bajaj Auto is the world's sixth-largest manufacturer of motorcycles and the second-largest in India. It is also the world's largest three-wheeler manufacturer. The company is based in Pune, Mumbai with plants in Chakan (Pune), Waluj (near Aurangabad) and Pantnagar in Uttarakhand. Bajaj Auto is India's largest exporter of motorcycles and three-wheelers.

- Q4FY21 revenue rose 26.1% YoY primarily driven by volume growth for two-wheelers (+23% YoY) and higher exports (+24% YoY).
- As a result, EBITDA grew 21.5% YoY, despite margin contracting 70bps YoY to 17.7% on higher input costs. PAT also rose 14.6% YoY.
- Overall exports are set to grow further from current levels in the coming months. Company witnessed improved demand not only for its premium range of motorcycles, but also for EV scooters.
- With improved outlook, we upgrade our rating on the stock to BUY with a revised TP of Rs. 4,450 based on 19x FY23E adj. EPS.

Higher exports aid topline

Q4FY21 revenue from operations surged 26.1% YoY to Rs. 8,596cr with total volumes growing 17.8% YoY to 1,170k units. In the Domestic market, 2W volumes grew 21.0% YoY to 488k units, while those of the commercial vehicles declined 38.2% YoY to 46k. Overall market share in the domestic motorcycle market remained steady at 27.6%. CV volumes remained impacted (-12% YoY to 122k units) owing to inadequate demand. Company managed to expand its market share for 3 Wheelers market to 46.9% and cargo segment to 33.7%.

Margins impacted by higher input costs

EBITDA margin contracted 70bps YoY to 17.7%, primarily on higher input costs. Nevertheless, EBITDA rose 21.5% YoY to Rs. 1,522cr, aided by topline growth. As a result, reported PAT also rose 14.6% YoY to Rs. 1,551cr. In the coming months company expects volumes and pricing to improve further, which should offset the input cost pressure, thereby aiding margin expansion.

Key concall highlights

- Estimating a swift recovery in demand, management remains upbeat on export volumes and expects FY22 to be the best year for exports.
- Bottlenecked by supply-side constraints for components from abroad suppliers, company has temporarily suspended new bookings for its EV variant of Chetak scooters. Management expects to resume further bookings from Q2FY22 to cater to the high demand.
- Domestic Pulsar sales tripled to over 128k units during Q4FY21, as against ~51k units in Q4FY20, with total overall sales of over 1.25mn units.
- KTM & Husqvarna combined overall sales improved to highest ever levels with over 143k units sold during the quarter.

Valuation

Significant demand for its EV scooters, growing export volumes, better pricing and ongoing capacity building measures bode well for the company. Focus on development of 125cc EV 3-Wheelers using proven battery technologies opens up new avenues in a high growth market. Company's overall sales for the month of April have risen 5.0% sequentially to 388k units and is expected to improve further from hereon. With improved outlook, we upgrade our rating on the stock to BUY with a revised TP of Rs. 4,450 using 19x FY23 adj. EPS.

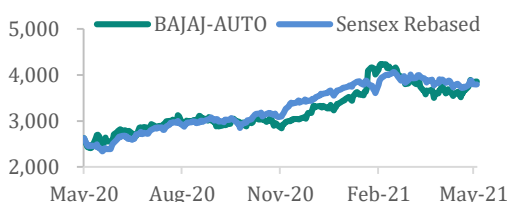
Company Data

Market Cap (cr)	Rs. 111,470
Enterprise Value (cr)	Rs. 110,783
Outstanding Shares (cr)	28.9
Free Float	45.0%
Dividend Yield	3.6%
52 week high	Rs. 4,361
52 week low	Rs. 2,363
6m average volume (lacs)	0.4
Beta	0.8
Face value	Rs. 10

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	53.7	53.7	53.7
FII's	13.6	13.1	12.0
MFs/Insti	10.4	9.1	12.3
Public	15.7	15.5	15.5
Others	6.6	8.7	6.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.1%	32.2%	46.6%
Absolute Sensex	-3.1%	21.0%	44.5%
Relative Return*	-6.0%	11.2%	2.2%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	27,741	33,758	38,467
Growth (%)	(7.3)	21.7	14.0
EBITDA	4,925	5,904	7,069
EBITDA Margin (%)	17.8	17.5	18.4
Adj. PAT	4,857	5,766	6,782
Growth (%)	(6.8)	18.7	17.6
Adj. EPS	167.9	199.3	234.5
Growth (%)	(6.8)	18.7	17.6
P/E	21.9	19.3	16.4
P/B	3.9	3.8	3.5
EV/EBITDA	21.5	18.8	15.6
ROE (%)	17.8	19.5	21.0
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	8,596	6,816	26.1	8,910	(3.5)	27,741	29,919	(7.3)
EBITDA	1,522	1,253	21.5	1,729	(12.0)	4,925	5,096	(3.4)
EBITDA margins	17.7	18.4	(70bps)	19.4	(170bps)	17.8	17.0	72
Depreciation	66	63	4.7	65	1.9	259	246	5.3
EBIT	1,456	1,189	22.4	1,664	(12.5)	4,665	4,849	(3.8)
Interest	2	1	124.2	1	100.0	7	3	110.8
Other Income	505	577	(12.4)	530	(4.7)	1,583	1,846	(14.3)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,959	1,765	11.0	2,193	(10.7)	6,241	6,692	(6.7)
Tax	407	411	(0.9)	477	(14.5)	1,384	1,480	(6.5)
Sh. of profit from Associate	222	149	48.6	161	37.6	306	322	(4.7)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	1,551	1,354	14.6	1,716	(9.6)	4,857	5,212	(6.8)
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	1,551	1,354	14.6	1,716	(9.6)	4,857	5,212	(6.8)
No. of shares	28.9	28.9	-	28.9	-	28.9	28.9	-
Adj. EPS (Rs.)	53.6	46.8	14.6	59.3	(9.6)	167.9	180.2	(6.8)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	33,558	37,763	33,758	38,467	0.6	1.9
EBITDA	6,058	7,004	5,904	7,069	(2.5)	0.9
Margins (%)	18.1	18.5	17.5	18.4	(60bps)	(10bps)
Adj. PAT	5,715	6,531	5,766	6,782	0.9	3.9
Adj. EPS	197.5	225.7	199.3	234.5	0.9	3.9

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	30,250	29,919	27,741	33,758	38,467
% change	18.3	(1.1)	(7.3)	21.7	14.0
EBITDA	4,979	5,096	4,925	5,904	7,069
% change	4.3	1.3	(3.7)	20.2	19.6
Depreciation	266	246	259	253	259
EBIT	4,713	4,849	4,665	5,651	6,810
Interest	4	3	7	11	14
Other Income	2,247	1,846	1,583	1,714	1,855
PBT	6,956	6,692	6,241	7,354	8,651
% change	17.2	(3.8)	(6.7)	17.8	17.6
Tax	2,028	1,480	1,384	1,588	1,869
Tax Rate (%)	29.2	22.1	22.2	21.6	21.6
Reported PAT	4,928	5,212	4,857	5,766	6,782
Adj*	(342)	-	-	-	-
Adj PAT	4,586	5,212	4,857	5,766	6,782
% change	7.9	13.7	(6.8)	18.7	17.6
No. of shares (cr)	28.9	28.9	28.9	28.9	28.9
Adj EPS (Rs.)	158.5	180.2	167.9	199.3	234.5
% change	7.9	13.7	(6.8)	18.7	17.6
DPS (Rs.)	60.0	120.0	140.0	99.7	117.2
CEPS (Rs.)	167.6	188.7	176.9	208.1	243.4

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	5,193	5,458	5,116	6,019	7,042
Non-cash adj.	(1,417)	(2,334)	(564)	(261)	(314)
Changes in W.C	(1,289)	727	(1,432)	(368)	359
C.F. Operation	2,487	3,850	3,120	5,390	7,087
Capital exp.	(108)	(280)	(254)	(295)	(338)
Change in inv.	(254)	1,805	(2,701)	(1,470)	(2,467)
Other invest.CF	24	31	87	(6)	(6)
C.F - Investment	(338)	1,556	(2,868)	(1,770)	(2,811)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(1,736)	(5,195)	(9)	(2,884)	(3,393)
Other finance.CF	(338)	(1,051)	(11)	(588)	(692)
C.F - Finance	(2,074)	(6,247)	(20)	(3,472)	(4,085)
Chg. in cash	167	(840)	232	148	191
Closing cash	933	316	539	687	878

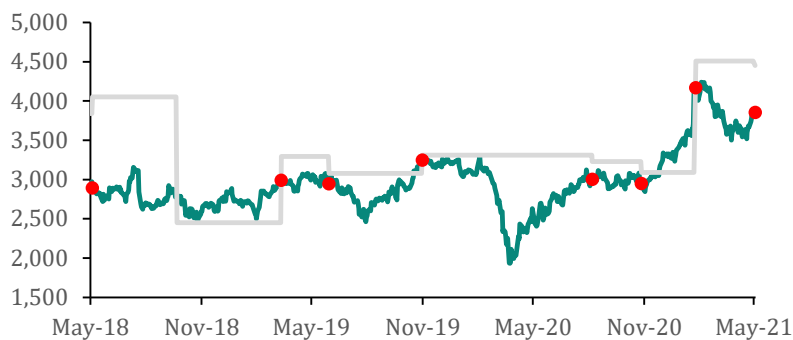
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	933	316	539	687	878
Accounts Receivable	2,560	1,725	2,717	3,207	3,270
Inventories	962	1,064	1,494	1,719	1,770
Other Cur. Assets	2,619	3,511	9,438	10,522	12,625
Investments	19,082	17,188	16,711	17,378	18,078
Gross Fixed Assets	4,196	4,021	4,265	4,562	4,901
Net Fixed Assets	1,689	1,602	1,574	1,609	1,687
CWIP	12	47	17	19	21
Intangible Assets	56	57	49	50	50
Def. Tax (Net)	584	715	715	729	744
Other Assets	339	286	348	359	364
Total Assets	28,834	26,510	33,602	36,277	39,485
Current Liabilities	4,874	4,253	5,644	6,003	6,489
Provisions	15	81	2	2	2
Debt Funds	-	-	-	-	-
Other Liabilities	712	514	683	693	704
Equity Capital	289	289	289	289	289
Reserves & Surplus	22,944	21,373	26,984	29,289	32,000
Shareholder's Fund	23,234	21,662	27,273	29,578	32,290
Minority Interest	0	0	0	0	0
Total Liabilities	28,834	26,510	33,602	36,277	39,485
BVPS (Rs.)	803	749	943	1,022	1,116

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	16.5	17.0	17.8	17.5	18.4
EBIT margin (%)	15.6	16.2	16.8	16.7	17.7
Net profit mgn.(%)	16.3	17.4	17.5	17.1	17.6
ROE (%)	21.2	24.1	17.8	19.5	21.0
ROCE (%)	20.3	22.4	17.1	19.1	21.1
W.C & Liquidity					
Receivables (days)	30.9	21.0	35.7	34.7	31.0
Inventory (days)	16.1	18.5	27.8	26.3	24.1
Payables (days)	63.3	55.6	85.1	75.3	73.4
Current ratio (x)	1.5	1.6	2.5	2.7	2.9
Quick ratio (x)	1.0	1.1	2.0	2.1	2.3
Turnover & Leverage					
Gross asset T.O (x)	7.0	7.3	6.7	7.6	8.1
Total asset T.O (x)	1.1	1.1	0.9	1.0	1.0
Int. coverage ratio (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	2.6	2.8	3.8	3.3	2.9
EV/EBITDA (x)	16.1	16.5	21.5	18.8	15.6
P/E (x)	17.7	16.2	21.9	19.3	16.4
P/BV (x)	3.5	3.9	3.9	3.8	3.5

Recommendation Summary



Dates	Rating	Target
20-Sep-18	BUY	2,451
12-Mar-19	BUY	3,294
30-May-19	HOLD	3,077
31-Oct-19	HOLD	3,310
07-Aug-20	HOLD	3,230
27-Oct-20	HOLD	3,090
25-Jan-21	HOLD	4,510
04-May-21	BUY	4,450

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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