

**ADD**

TP: Rs 2,690 | ▲ 5%

**BAJAJ AUTO**

Automobiles

21 May 2020

## Strong operational performance

**Bajaj Auto's (BJAUT) Q4 operating performance was well ahead of estimates. At Rs 12.5bn, EBITDA rose 8% YoY aided by a sharp sequential uptick in ASP and healthy gross margins. Management expects a subdued first half, but a pickup in H2FY21 aided by pent-up demand and preference for personal mobility. BJAUT has been astutely tweaking its 2W product mix, aiding profitability. While we pare volume forecasts, our EPS estimates has seen a modest rise as we build in higher ASP and margins. Maintain ADD with a revised TP of Rs 2,690 (vs. Rs 2,630).**

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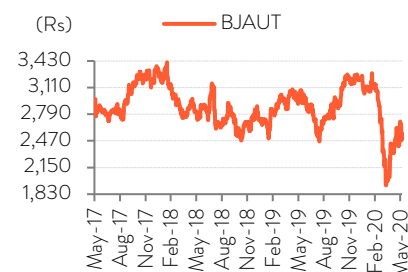
**Large operational beat:** While Q4 volumes dropped 17% YoY, the decline in net sales was restricted to 8% YoY due to a strong 8% QoQ jump in ASP. EBITDA margin at 18.4% expanded 270bps YoY aided by healthy gross margins. A solid product mix and favourable currency movement spurred margin performance. Above-expected other income (partly boosted by Rs 1.1bn of dividend income from KTM) drove a 23% YoY rise in adj. PAT.

Ticker/Price	BJAUT IN/Rs 2,558
Market cap	US\$ 9.8bn
Shares o/s	289mn
3M ADV	US\$ 26.7mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

**Subdued near-term outlook but expect pickup in H2:** Current retail run-rate stands at ~ 25%/35% for domestic/export against normal. Healthy farm-level income, pent-up demand and a shift towards personal mobility should aid demand recovery in H2FY21. While the company expects downtrading, the same is likely in variants and not between engine (CC) segments. BJAUT believes that small 3W demand should gain at the expense of larger sized 3Ws given sharp BS-VI-led price hikes and the social distancing norms that will prevail for some time to come.

## STOCK PERFORMANCE



Source: NSE

**Maintain ADD:** While we cut our volume forecasts for FY21-FY22 by 3-4%, our EPS estimates have seen a modest increase due to higher ASP and margin estimates following a solid Q4 performance. We continue to like BJAUT for its low fixed cost structure and strong balance sheet.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	251,649	302,500	299,187	279,728	316,607
EBITDA (Rs mn)	47,834	49,820	50,962	42,067	51,338
Adj. net profit (Rs mn)	40,921	44,187	51,000	41,574	49,387
Adj. EPS (Rs)	141.4	153.3	176.2	143.7	170.7
Adj. EPS growth (%)	6.9	8.4	15.0	(18.5)	18.8
Adj. ROAE (%)	22.1	21.2	23.9	19.4	20.7
Adj. P/E (x)	18.1	16.7	14.5	17.8	15.0
EV/EBITDA (x)	13.0	11.8	11.0	13.3	10.9

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 – STANDALONE**

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Net Revenues</b>	68,159	73,952	(7.8)	76,397	(10.8)	299,187	302,106	(1.0)
Raw Materials	46,653	53,450	(12.7)	53,422	(12.7)	210,083	218,243	(3.7)
% of Net Sales	68.4	72.3	-	69.9	-	70.2	72.2	-
Personnel	3,421	3,126	9.4	3,482	(1.8)	13,892	12,554	10.7
% of Net Sales	5.0	4.2	-	4.6	-	4.6	4.2	-
Manufacturing & Other Exp	5,557	5,754	(3.4)	5,820	(4.5)	24,249	21,882	10.8
% of Net Sales	8.2	7.8	-	7.6	-	8.1	7.2	-
Total Expenditure	55,631	62,329	(10.7)	62,725	(11.3)	248,224	252,679	(1.8)
<b>EBITDA</b>	12,528	11,623	7.8	13,672	(8.4)	50,962	49,427	3.1
<b>EBITDA Margin (%)</b>	18.4	15.7	-	17.9	-	17.0	16.4	-
Depreciation	633	608	4.0	617	2.6	2,464	2,657	(7.2)
EBIT	11,895	11,014	8.0	13,055	(8.9)	48,498	46,770	3.7
Interest Expenses	9	3	213.8	5	93.6	32	45	(29.5)
Non-operating income	5,327	4,327	23.1	3,662	45.4	17,336	16,886	2.7
Extraordinary income/(expense)	0	3,420	-	0	-	0	3,420	-
PBT	17,212	18,759	(8.2)	16,713	3.0	65,802	67,032	(1.8)
Tax-Total	4,109	5,703	(27.9)	4,097	0.3	14,802	20,280	(27.0)
<b>Tax Rate (%) - Total</b>	23.9	30.4	(21.5)	24.5	-	22.5	30.3	(25.6)
<b>Reported PAT</b>	13,103	13,056	0.4	12,616	3.9	51,000	46,752	9.1
Adj. PAT	13,103	10,662	22.9	12,616	3.9	51,000	43,332	17.7
PAT Margin	19.2	14.4	-	16.5	-	17.0	14.3	-

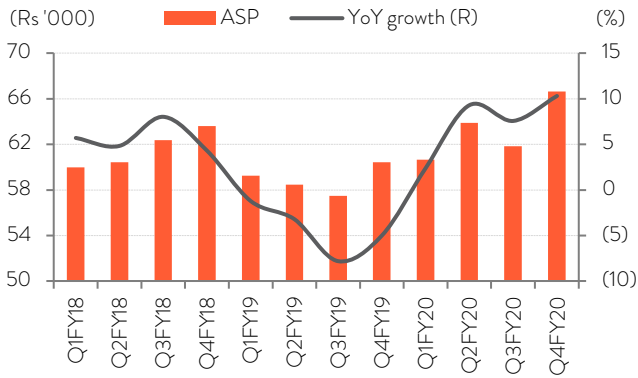
Source: Company, BOBCAPS Research

**FIG 2 – PER UNIT PARAMETERS**

Y/E Mar (Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Sales Volume (nos)</b>	<b>991,961</b>	<b>1,195,572</b>	<b>(17.0)</b>	<b>1,202,486</b>	<b>(17.5)</b>	<b>4,615,212</b>	<b>5,021,485</b>	<b>(8.1)</b>
Net Realisation/Vehicle	68,711	61,855	11.1	63,532	8.2	64,826	60,163	7.8
Material Cost/Vehicle	47,031	44,707	5.2	44,427	5.9	45,520	43,462	4.7
Gross Profit/Vehicle	21,680	17,148	26.4	19,106	13.5	19,307	16,701	15.6
Employee Cost/Vehicle	3,449	2,614	31.9	2,896	19.1	3,010	2,500	20.4
Other Expenses/Vehicle	5,602	4,812	16.4	4,840	15.8	5,254	4,358	20.6
EBITDA/Vehicle	12,629	9,721	29.9	11,370	11.1	11,042	9,843	12.2
Net Profit/Vehicle	13,209	8,918	48.1	10,492	25.9	11,050	8,629	28.1

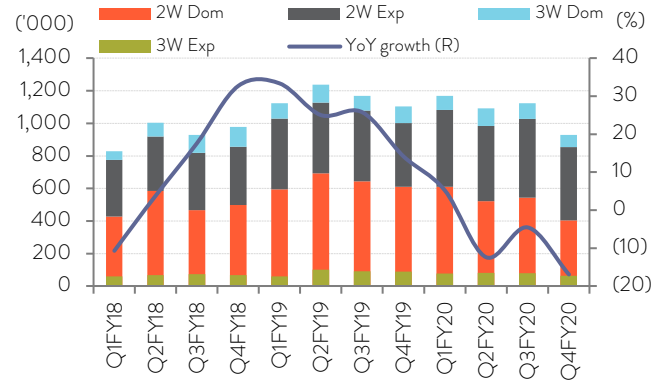
Source: Company, BOBCAPS Research

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



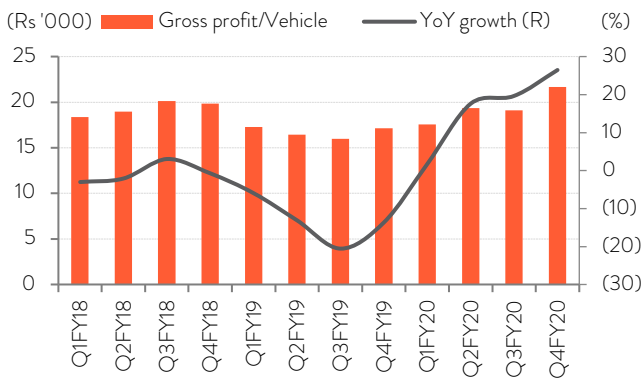
Source: Company, BOBCAPS Research

**FIG 4 – VOLUME GROWTH TREND**



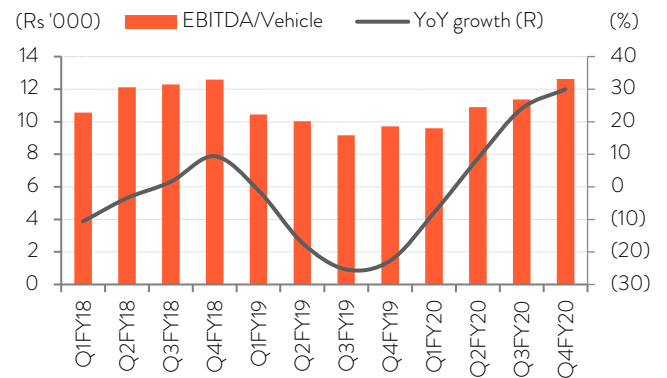
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 5 – GROSS PROFIT/VEHICLE**



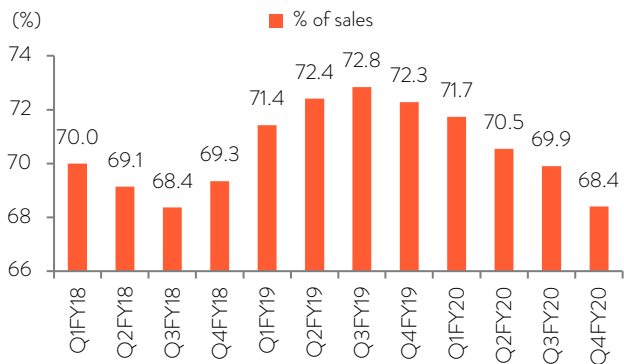
Source: Company, BOBCAPS Research

**FIG 6 – EBITDA/VEHICLE**



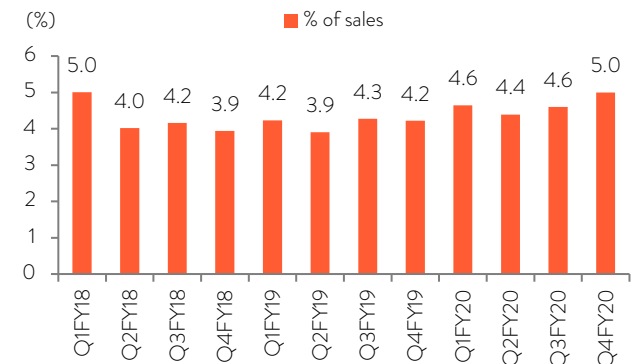
Source: Company, BOBCAPS Research

**FIG 7 – RM COST/SALES TREND**



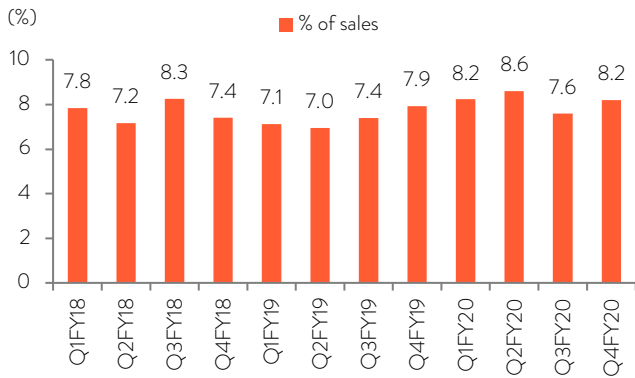
Source: Company, BOBCAPS Research

**FIG 8 – EMPLOYEE COST/SALES TREND**



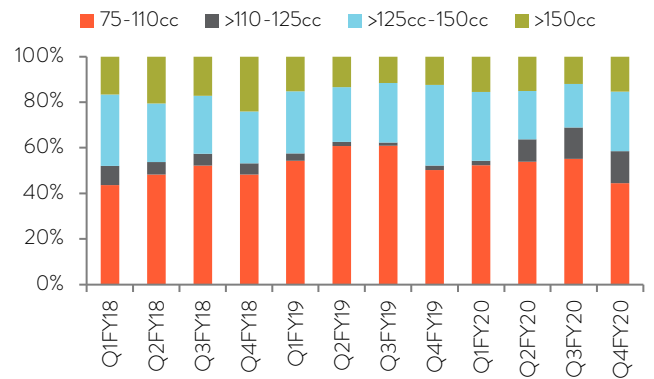
Source: Company, BOBCAPS Research

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



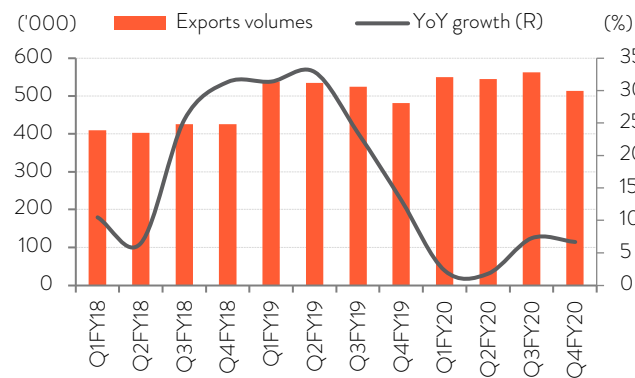
Source: Company, BOBCAPS Research

**FIG 10 – MOTORCYCLE MIX**



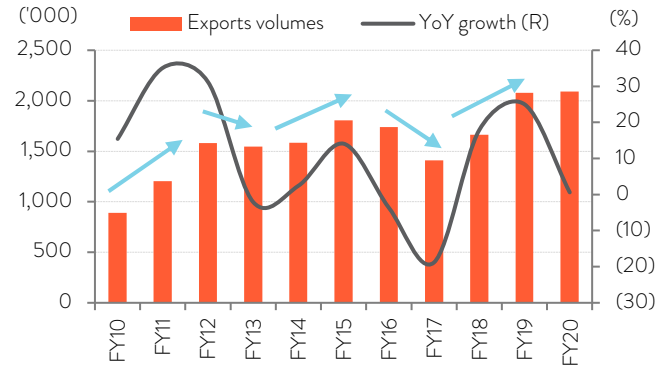
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 11 – QUARTERLY EXPORT SALES TREND**



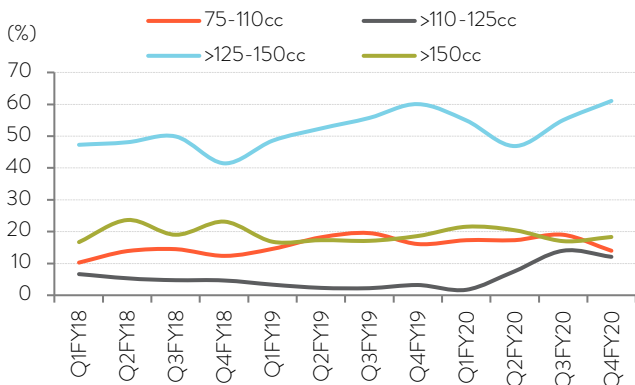
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 12 – YEARLY EXPORT SALES TREND**



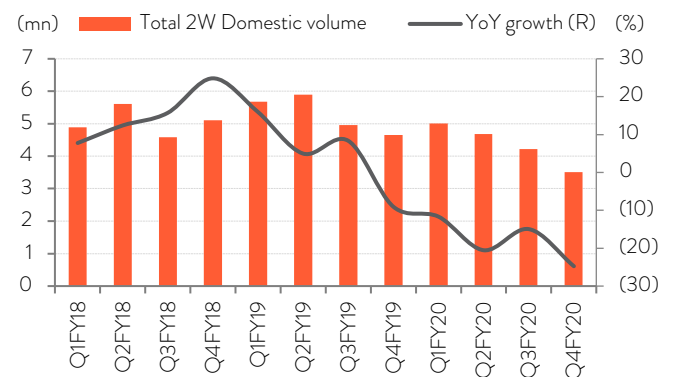
Source: SIAM, ET Autolytics, BOBCAPS Research

**FIG 13 – BJAUT'S DOMESTIC MOTORCYCLE MARKET SHARE TRENDS**



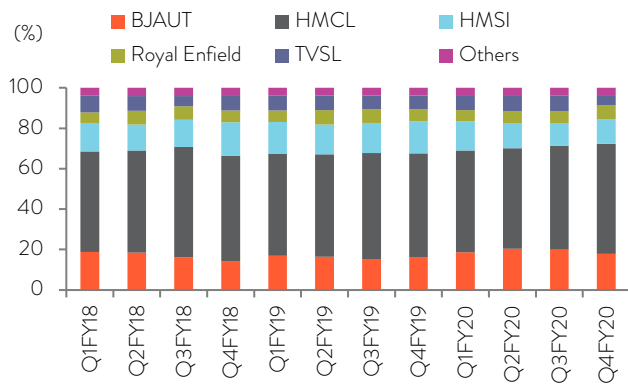
Source: SIAM, ET Autolytics, Company, BOBCAPS Research

**FIG 14 – INDUSTRY VOLUME GROWTH**



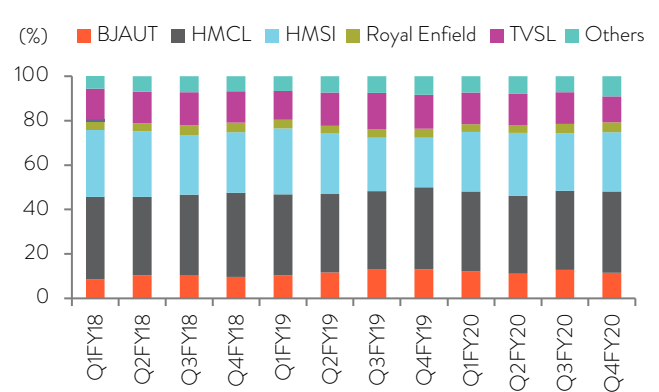
Source: SIAM, ET Autolytics, Company, BOBCAPS Research

**FIG 15 – DOMESTIC MOTORCYCLE MARKET SHARE**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 16 – DOMESTIC 2W MARKET SHARE**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

### Earnings call highlights

- In domestic markets, close to 50-60% of dealerships have reopened since early-May. BJAUT’s current retail volumes are tracking ~75% below normal YoY. Services revenue to dealers are back to 65-70% of normal. In export markets, retail sales are at 35% of the normal rate.
- Management expects social distancing norms to encourage private ownership of vehicles in the near future which can have a positive impact on sales. Nonetheless, muted sentiments and lack of affordability remain near-term headwinds. Rural areas should do better than urban locations given normal monsoon expectations and a good harvest in FY21.
- Management does not expect downtrading to occur between engine segments (CC). Downtrading could be limited to selecting a cheaper variant in the same segment.
- Nigeria which is BJAUT’s key export market is witnessing a dual problem in terms of Covid-19 and falling crude oil prices. Currency devaluation in African countries is a key concern.
- The company commands a strong 38% market share in the African continent, followed by fragmented Chinese players that command a minute share.
- Management is consciously working to improve its entry-level segment mix. It has improved the 100cc/110cc ratio to 43%/57% from 10%/90% earlier.

### Valuation methodology

BJAUT currently trades at ~17.5x/15x on FY21E/FY22E EPS which is a little below its past five-year average. The company has smartly improved its product mix to drive profit improvement despite a sharp downturn in industry demand. We like BJAUT for its lean fixed cost structure and solid balance sheet.

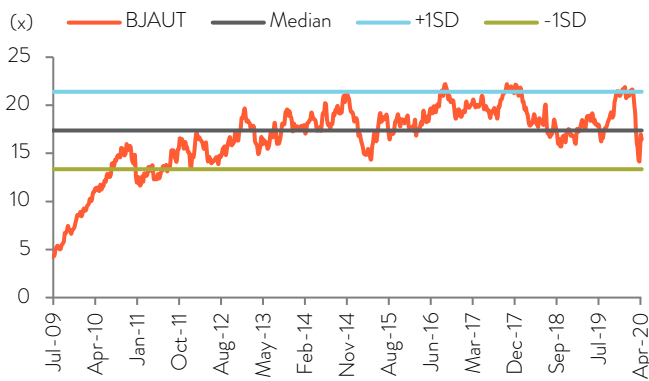
While we pare our volume forecasts for FY21-FY22 by 3-4%, our EPS estimates have seen a modest increase due to higher ASP and margin estimates following a solid Q4FY20 performance. Maintain ADD with a revised Mar'21 target price of Rs 2,690 (vs. Rs 2,630), set at 15.5x FY22E P/E.

**FIG 17 – REVISED ESTIMATES**

Change (%)	FY21E	FY22E
Volume	(4.3)	(3.6)
Income	(1.8)	(1.5)
EBITDA	0.0	0.5
EBITDA Margin (bps)	27	32
Profit	0.5	0.6
EPS (Rs)	0.5	0.6

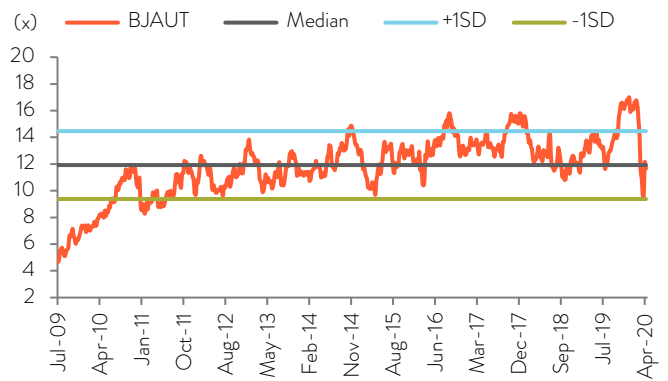
Source: BOBCAPS Research

**FIG 18 – P/E MULTIPLE**



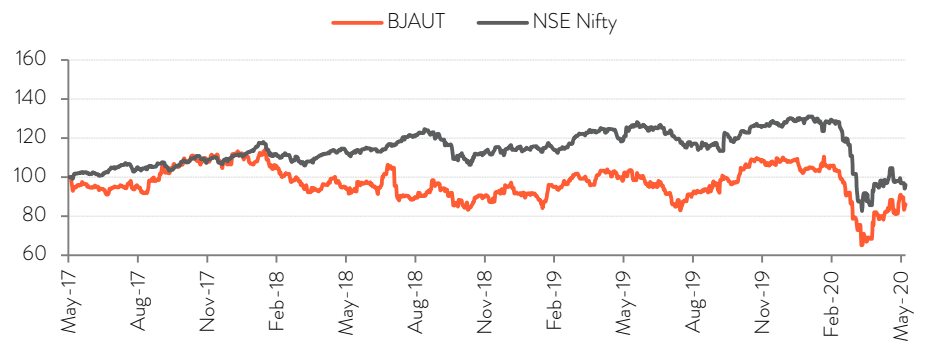
Source: Company, BOBCAPS Research

**FIG 19 – EV/EBITDA MULTIPLE**



Source: Company, BOBCAPS Research

**FIG 20 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Imposition of tariff barriers or regulatory changes impacting 2Ws/3Ws in BJAUT's key export markets could adversely affect its exports business.
- Significant downtrading in the 2W industry as a result of the BS-VI-led cost increase could impact BJAUT's market share given its strong presence in 150cc-and-above segments.
- Rapid shift of 3Ws to EVs could affect the company's dominant position and profitability in this segment.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>251,649</b>	<b>302,500</b>	<b>299,187</b>	<b>279,728</b>	<b>316,607</b>
EBITDA	47,834	49,820	50,962	42,067	51,338
Depreciation	3,148	2,657	2,464	2,439	2,737
EBIT	44,686	47,163	48,498	39,627	48,600
Net interest income/(expenses)	(13)	(45)	(32)	(35)	(38)
Other income/(expenses)	13,473	16,493	17,336	14,400	15,577
Exceptional items	(320)	3,420	0	0	0
EBT	57,826	67,032	65,802	53,992	64,139
Income taxes	17,145	20,280	14,802	12,418	14,752
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>40,681</b>	<b>46,752</b>	<b>51,000</b>	<b>41,574</b>	<b>49,387</b>
Adjustments	240	(2,565)	0	0	0
<b>Adjusted net profit</b>	<b>40,921</b>	<b>44,187</b>	<b>51,000</b>	<b>41,574</b>	<b>49,387</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	32,443	37,867	31,997	32,056	38,020
Other current liabilities	7,893	11,159	10,633	11,133	11,633
Provisions	2,378	1,552	2,385	2,635	2,885
Debt funds	1,208	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	188,145	214,905	196,361	218,749	245,462
Shareholders' fund	191,039	217,799	199,255	221,643	248,356
<b>Total liabilities and equities</b>	<b>234,961</b>	<b>268,377</b>	<b>244,269</b>	<b>267,466</b>	<b>300,894</b>
Cash and cash eq.	171,436	188,594	172,709	189,182	215,631
Accounts receivables	14,919	25,597	17,251	24,601	27,036
Inventories	7,426	9,615	10,635	8,849	10,029
Other current assets	12,839	19,651	17,213	18,313	19,413
Investments	12,227	12,227	12,333	12,333	12,333
Net fixed assets	18,783	17,639	16,990	17,051	19,314
CWIP	565	480	602	602	602
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,234)	(5,427)	(3,464)	(3,464)	(3,464)
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>234,961</b>	<b>268,377</b>	<b>244,269</b>	<b>267,466</b>	<b>300,894</b>

Source: Company, BOBCAPS Research



**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	43,829	49,409	53,464	44,013	52,125
Interest expenses	13	45	32	35	38
Non-cash adjustments	98	2,192	(1,963)	0	0
Changes in working capital	11,516	(11,815)	4,200	(5,855)	1,999
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>55,456</b>	<b>39,831</b>	<b>55,733</b>	<b>38,193</b>	<b>54,162</b>
Capital expenditures	(2,056)	(1,429)	(1,937)	(2,500)	(5,000)
Change in investments	0	0	(105)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(2,056)</b>	<b>(1,429)</b>	<b>(2,042)</b>	<b>(2,500)</b>	<b>(5,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	9	(1,208)	0	0	0
Interest expenses	(13)	(45)	(32)	(35)	(38)
Dividends paid	(20,575)	(20,930)	(41,860)	(19,186)	(22,674)
Other financing cash flows	592	939	(27,684)	0	0
<b>Cash flow from financing</b>	<b>(19,988)</b>	<b>(21,244)</b>	<b>(69,576)</b>	<b>(19,221)</b>	<b>(22,712)</b>
<b>Changes in cash and cash eq.</b>	<b>33,412</b>	<b>17,159</b>	<b>(15,885)</b>	<b>16,473</b>	<b>26,449</b>
<b>Closing cash and cash eq.</b>	<b>171,436</b>	<b>188,594</b>	<b>172,709</b>	<b>189,182</b>	<b>215,631</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	141.4	153.3	176.2	143.7	170.7
Adjusted EPS	141.4	153.3	176.2	143.7	170.7
Dividend per share	60.0	60.0	120.0	55.0	65.0
Book value per share	660.2	752.7	688.6	766.0	858.3

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.5	1.9	1.9	2.0	1.8
EV/EBITDA	13.0	11.8	11.0	13.3	10.9
Adjusted P/E	18.1	16.7	14.5	17.8	15.0
P/BV	3.9	3.4	3.7	3.3	3.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	69.7	77.5	77.0	77.0
Interest burden (PBT/EBIT)	129.4	142.1	135.7	136.2	132.0
EBIT margin (EBIT/Revenue)	17.8	15.6	16.2	14.2	15.4
Asset turnover (Revenue/Avg TA)	114.4	120.2	116.7	109.3	111.4
Leverage (Avg TA/Avg Equity)	121.7	123.1	122.9	121.6	120.9
Adjusted ROAE	21.4	20.4	25.6	18.8	19.9

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	15.6	20.2	(1.1)	(6.5)	13.2
EBITDA	8.2	4.2	2.3	(17.5)	22.0
Adjusted EPS	6.9	8.4	15.0	(18.5)	18.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.0	16.5	17.0	15.0	16.2
EBIT margin	17.8	15.6	16.2	14.2	15.4
Adjusted profit margin	16.3	14.6	17.0	14.9	15.6
Adjusted ROAE	22.1	21.2	23.9	19.4	20.7
ROCE	29.8	28.5	32.5	24.0	25.5
<b>Working capital days (days)</b>					
Receivables	22	31	21	32	31
Inventory	11	12	13	12	12
Payables	47	46	39	42	44
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.3	1.4	1.2	1.2
Current ratio	4.8	4.8	4.8	5.3	5.2
Net interest coverage ratio	3,411.2	1,052.8	1,534.7	1,140.0	1,271.1
Adjusted debt/equity	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

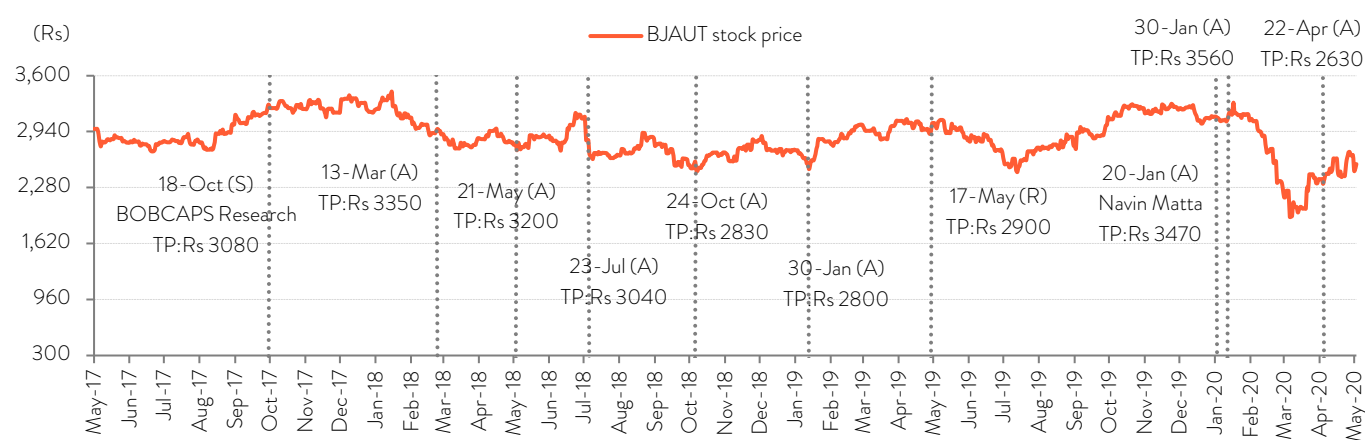
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: BAJAJ AUTO (BJAUT IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

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