

**SELL**

TP: Rs 3,200 | ▼ 17%

**BAJAJ AUTO**

Automobiles

29 April 2021

**In-line Q4; maintain SELL**

**Bajaj Auto's Q4FY21 revenue was ahead of estimates at Rs 86bn. EBITDA margin was in line at 17.7% and is likely to remain stressed in the near term due to higher input cost. Based on an improving sales mix and higher export revenue, we raise FY22/FY23 EBITDA estimates 8%/7% and expect a stronger earnings CAGR of 10% over FY21-FY23. We assign a higher P/E multiple of 17x FY23E (vs. 15x), in line with the stock's 10Y average given better earnings visibility. Our Mar'22 TP rises to Rs 3,200 (vs. Rs 2,800). Retain SELL on rich valuations.**

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**Operating performance in line:** At Rs 86bn, Q4 revenue grew 26% YoY, ahead of our estimate led by better ASPs. EBITDA margin was in line at 17.7%, leading to EBITDA growth of 22% YoY to Rs 15.2bn. Adj. PAT increased just 2% YoY to Rs 13.3bn due to lower other income (-23% QoQ).

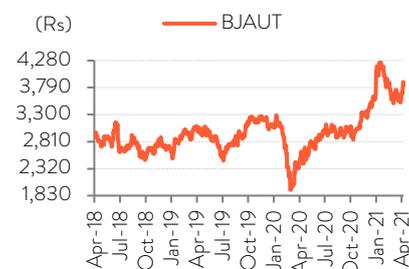
**Higher 3W sales, exports to aid growth:** We believe the company could clock annual 3W sales of ~0.5mn units in FY22, up 30% YoY. Rising export revenue (rupee depreciation benefit) and revival in 3Ws will aid earnings growth, albeit partly offset by rising input cost pressures. Management expects raw material costs to rise ~300bps QoQ in Q1FY22.

**Estimates raised; maintain SELL on expensive valuations:** Given the improving mix in favour of 3Ws and exports, we raise FY22/FY23 revenue estimates by 6%/5% and EBITDA by 8%/7%. We now expect BJAUT to post a revenue/PAT CAGR of 15%/10% over FY21-FY23 and peg FY23 EPS at Rs 190.

Considering the higher earnings visibility, we raise our target FY23E P/E multiple to 17x, in line with the stock's 10Y average. Even so, current valuations look expensive at 20x FY23E EPS, leading us to maintain our SELL rating.

Ticker/Price	BJAUT IN/Rs 3,836
Market cap	US\$ 15.0bn
Shares o/s	289mn
3M ADV	US\$ 36.5mn
52wk high/low	Rs 4,361/Rs 2,361
Promoter/FPI/DII	54%/14%/9%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	277,411	334,691	366,372
EBITDA (Rs mn)	49,820	50,962	49,285	56,474	62,619
Adj. net profit (Rs mn)	46,752	50,999	45,546	50,551	55,022
Adj. EPS (Rs)	152.2	176.2	157.4	174.7	190.1
Adj. EPS growth (%)	14.9	9.1	(10.7)	11.0	8.8
Adj. ROAE (%)	22.9	24.5	20.2	20.0	21.4
Adj. P/E (x)	25.2	21.8	24.4	22.0	20.2
EV/EBITDA (x)	22.1	21.5	22.3	20.0	18.0

Source: Company, BOBCAPS Research | P – Provisional

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume (nos)	1,169,664	991,961	17.9	1,306,810	(10.5)	3,972,914	4,615,212	(13.9)
Avg. Realisation per Vehicle (Rs)	73,492	68,711	7.0	68,180	7.8	69,826	64,826	7.7
Net Revenues	85,961	68,159	26.1	89,099	(3.5)	277,411	299,186	(7.3)
<b>Total Income (A)</b>	85,961	68,159	26.1	89,099	(3.5)	277,411	299,186	(7.3)
<b>Operating Expenses:</b>								
Raw materials consumed	61,767	46,653	32.4	63,082	(2.1)	196,097	210,083	(6.7)
Employee Expenses	3,070	3,421	(10.3)	3,172	(3.2)	12,860	13,892	(7.4)
Other Expenses	5,884	5,557	5.9	5,548	6.0	19,170	24,249	(20.9)
<b>Total Expenditure (B)</b>	70,720	55,631	27.1	71,803	(1.5)	228,126	248,224	(8.1)
<b>EBITDA (A-B)</b>	15,241	12,528	21.7	17,296	(11.9)	49,285	50,962	(3.3)
Other Income	2,836	5,327	(46.8)	3,692	(23.2)	12,765	17,336	(26.4)
Depreciation	662	633	4.6	650	1.8	2,593	2,464	5.2
EBIT	17,415	17,221	1.1	20,338	(14.4)	59,457	65,833	(9.7)
Finance Costs	20	9	124.2	10	100.0	67	32	110.8
PBT after exceptional items	17,395	17,212	1.1	20,328	(14.4)	59,390	65,802	(9.7)
Tax expense	4,074	4,109	(0.9)	4,765	(14.5)	13,844	14,802	(6.5)
Reported PAT	13,321	13,103	1.7	15,563	(14.4)	45,546	51,000	(10.7)
<b>Adjusted PAT</b>	13,321	13,103	1.7	15,563	(14.4)	45,546	51,000	(10.7)
<b>EPS (Rs)</b>	46.0	45.3	1.7	53.8	(14.4)	157.4	176.2	(10.7)

Source: Company, BOBCAPS Research

**FIG 2 – KEY PARAMETERS**

(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	28.1	31.6	(341)	29.2	(105)	29.3	29.8	(47)
EBITDA margin	17.7	18.4	(65)	19.4	(168)	17.8	17.0	73
EBIT margin	20.3	25.3	(501)	22.8	(257)	21.4	22.0	(57)
PBT margin	20.2	25.3	(502)	22.8	(258)	21.4	22.0	(58)
Tax rate	23.4	23.9	(45)	23.4	(2)	23.3	22.5	82
Adj PAT margin	15.5	19.2	(373)	17.5	(197)	16.4	17.0	(63)

Source: Company, BOBCAPS Research

## Earnings call highlights

- After a return to normal in Mar'21, the domestic 3W market is once again facing headwinds due to the second wave of Covid-19. However, BJAUT improved market share in all three categories of 3Ws – viz. to 85% in small passenger 3Ws, 48% in larger passenger 3Ws and 34% in cargo 3Ws.
- The company has been ahead of competition in taking price hikes in both export and domestic markets.
- Management expects raw material costs to increase by ~300bps QoQ in Q1FY22, which will be offset by price increases and cost saving measures.
- Revenue from exports stood at Rs 39.9bn while spares revenues totalled Rs 10.9bn in Q4FY21. USD/INR realisation rate was at Rs 72.9/USD.
- Management indicated that it is closely monitoring developments in the 2W EV industry, which is seeing the influx of various start-ups. BJAUT believes a reduction in battery cost is the fundamental factor that will drive momentum for EVs and hence has been investing heavily to build capabilities in this space. The company expects transition to EVs to reach an inflection point in 3-5 years.

## Valuation methodology

We raise FY22/FY23 revenue estimates by 6%/5% to factor in rising export sales and revival in the 3W space. We also bake in a lower gross margin performance (vs. consensus) based on rising input costs. Our FY23 EPS forecast is thus ~10% lower than consensus at Rs 190.

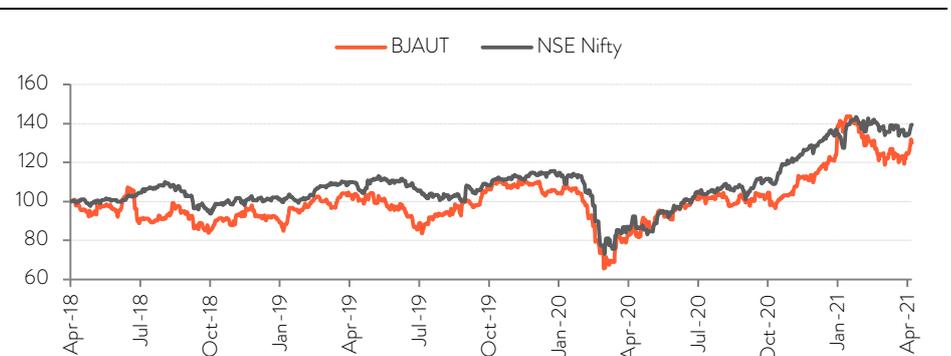
We now model for a revenue/PAT CAGR of 15%/10% over FY21-FY23. ROE and ROCE are expected to improve to 21.5% each (currently 20.1%). With higher earning visibility of 10% over FY21-FY23 (earlier ~2% over FY20-FY23), we raise our target P/E multiple from 15x to 17x FY23E, in line with the stock's 10-year average. Our Mar'22 target price thus stands revised to Rs 3,200 (from Rs 2,800). We find current valuations expensive at 20x FY23E earnings and hence maintain SELL.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	334,691	366,372	315,247	350,681	6.2	4.5
EBITDA	56,474	62,619	52,215	58,776	8.2	6.5
OPM (%)	16.9	17.1	16.6	16.8	31bps	33bps
Adj. PAT	50,551	55,022	49,365	54,366	2.4	1.2
EPS (Rs)	175	190	171	188	2.4	1.2

Source: Company, BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Above-expected demand for 2Ws/3Ws in domestic as well as export markets can drive up volumes, leading to a better performance by the company.
- Any significant market share gains can spur better profitability and pose upside risks to our estimates.
- Fall in RM prices and favourable forex movement can improve performance.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>302,500</b>	<b>299,187</b>	<b>277,411</b>	<b>334,691</b>	<b>366,372</b>
EBITDA	49,820	50,962	49,285	56,474	62,619
Depreciation	2,657	2,464	2,593	2,765	2,933
EBIT	67,076	65,833	59,457	67,652	73,629
Net interest income/(expenses)	(45)	(32)	(67)	(70)	(70)
Other income/(expenses)	19,913	17,335	12,765	13,942	13,942
Exceptional items	(2,724)	0	0	0	0
EBT	64,308	65,802	59,390	67,582	73,559
Income taxes	20,280	14,802	13,844	17,031	18,537
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>45,546</b>	<b>50,551</b>	<b>55,022</b>
Adjustments	2,724	0	0	0	0
<b>Adjusted net profit</b>	<b>46,752</b>	<b>50,999</b>	<b>45,546</b>	<b>50,551</b>	<b>55,022</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	37,867	31,997	45,738	33,503	36,543
Other current liabilities	9,306	8,955	9,170	6,581	8,274
Provisions	1,564	2,385	1,544	1,795	1,724
Debt funds	1,245	1,256	1,215	1,215	1,215
Other liabilities	596	421	392	392	392
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	214,905	196,361	249,129	251,066	257,475
Shareholders' fund	217,799	199,254	252,023	253,960	260,368
<b>Total liabilities and equities</b>	<b>268,377</b>	<b>244,269</b>	<b>310,081</b>	<b>297,445</b>	<b>308,515</b>
Cash and cash eq.	9,228	3,083	5,277	3,022	4,214
Accounts receivables	25,597	17,251	27,169	26,832	27,850
Inventories	9,615	10,635	14,939	15,093	14,405
Other current assets	10,421	10,846	18,102	17,429	17,458
Investments	191,594	181,960	226,310	216,309	226,310
Net fixed assets	17,639	16,990	16,649	16,884	16,452
CWIP	480	602	160	400	350
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,427)	(3,464)	(5,225)	(5,225)	(5,225)
Other assets	9,229	6,366	6,700	6,700	6,700
<b>Total assets</b>	<b>268,377</b>	<b>244,269</b>	<b>310,081</b>	<b>297,445</b>	<b>308,515</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	49,409	53,464	48,139	53,316	57,954
Interest expenses	(45)	(32)	(67)	(70)	(70)
Non-cash adjustments	(19,913)	(17,335)	(12,765)	(13,942)	(13,942)
Changes in working capital	(13,060)	4,189	(8,727)	(13,717)	4,302
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>16,391</b>	<b>40,286</b>	<b>26,581</b>	<b>25,587</b>	<b>48,244</b>
Capital expenditures	(1,429)	(1,937)	(1,810)	(3,240)	(2,450)
Change in investments	(15,711)	9,634	(44,350)	10,000	(10,000)
Other investing cash flows	19,913	17,335	12,765	13,942	13,942
<b>Cash flow from investing</b>	<b>2,774</b>	<b>25,032</b>	<b>(33,395)</b>	<b>20,702</b>	<b>1,492</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	38	11	(41)	0	0
Interest expenses	(45)	(32)	(67)	(70)	(70)
Dividends paid	(17,362)	(62,579)	(40,511)	(48,614)	(48,614)
Other financing cash flows	2,192	(1,963)	1,761	0	0
<b>Cash flow from financing</b>	<b>(15,177)</b>	<b>(64,563)</b>	<b>(38,858)</b>	<b>(48,684)</b>	<b>(48,684)</b>
<b>Changes in cash and cash eq.</b>	<b>3,988</b>	<b>756</b>	<b>(45,673)</b>	<b>(2,395)</b>	<b>1,052</b>
<b>Closing cash and cash eq.</b>	<b>9,228</b>	<b>3,083</b>	<b>5,277</b>	<b>3,022</b>	<b>4,214</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	161.6	176.2	157.4	174.7	190.1
Adjusted EPS	152.2	176.2	157.4	174.7	190.1
Dividend per share	60.0	216.3	140.0	168.0	168.0
Book value per share	752.7	688.6	870.9	877.6	899.8

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	3.6	3.7	4.0	3.4	3.1
EV/EBITDA	22.1	21.5	22.3	20.0	18.0
Adjusted P/E	25.2	21.8	24.4	22.0	20.2
P/BV	5.1	5.6	4.4	4.4	4.3

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	72.7	77.5	76.7	74.8	74.8
Interest burden (PBT/EBIT)	95.9	100.0	99.9	99.9	99.9
EBIT margin (EBIT/Revenue)	22.2	22.0	21.4	20.2	20.1
Asset turnover (Revenue/Avg TA)	146.3	142.3	122.1	131.5	141.6
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	22.9	24.5	20.2	20.0	21.4

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	19.9	(1.1)	(7.3)	20.6	9.5
EBITDA	3.7	2.3	(3.3)	14.6	10.9
Adjusted EPS	14.9	9.1	(10.7)	11.0	8.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.5	17.0	17.8	16.9	17.1
EBIT margin	22.2	22.0	21.4	20.2	20.1
Adjusted profit margin	15.5	17.0	16.4	15.1	15.0
Adjusted ROAE	22.9	24.5	20.2	20.0	21.4
ROCE	22.2	24.3	20.1	19.9	21.3
<b>Working capital days (days)</b>					
Receivables	24	26	29	29	27
Inventory	10	12	17	16	15
Payables	59	61	72	60	49
<b>Ratios (x)</b>					
Gross asset turnover	0.1	0.1	0.2	0.1	0.1
Current ratio	1.1	1.0	1.2	1.5	1.4
Net interest coverage ratio	(1,497.2)	(2,083.3)	(892.7)	(966.5)	(1,051.8)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

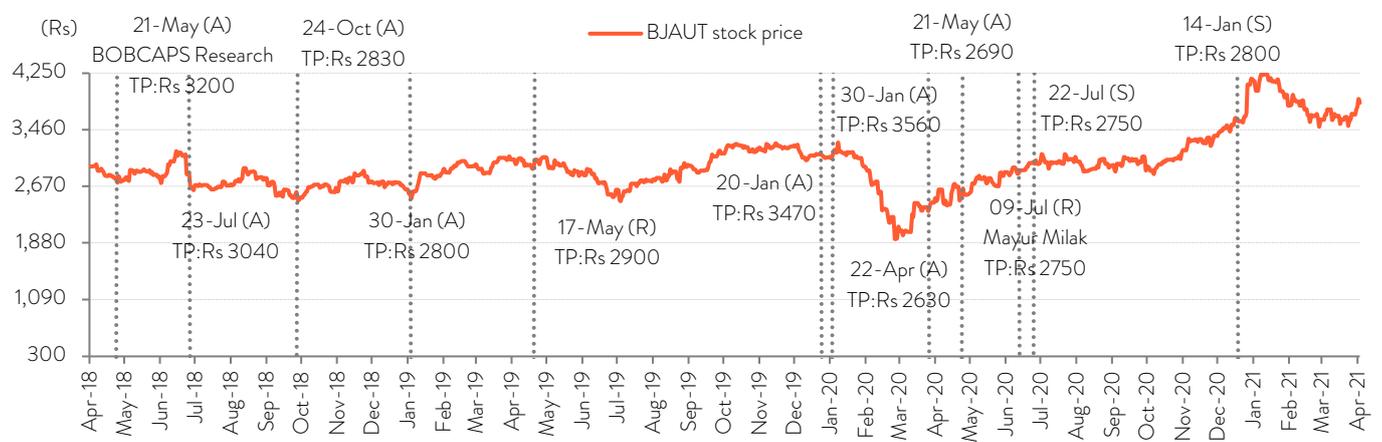
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): BAJAJ AUTO (BJAUT IN)



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

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