

Margins impacted by higher input costs

The base quarter for yoy comparison was impacted by Covid-19 pandemic Wave #1 due to which we saw depleted numbers. Based on it, Bajaj Auto's topline expanded by 144% yoy. However, sequentially the top line declined by 14.2% on a strong Q4 which saw a lesser impact of Covid. Also Q1 FY22 was impacted by Covid-19 Wave #2. Volumes in the quarter moved up by 127% yoy while falling by 14% qoq. During the quarter, domestic motorcycles grew by 84% yoy, while 3Ws zoomed by 176% yoy. Exports of motorcycles grew by 160% yoy, while 3Ws growth was at 147%. Realizations grew by 7.8% yoy in Q1, which were very well supported by export realizations, price hikes, currency benefits and favorable product mix. EBITDA excelled by 174% yoy to 11.2 bn, while margins dropped to 15.2%. Margin drop stemming from higher RM costs (74.5% as % of sales) was somewhat arrested by the lower other expenses (led by reduction in advertising and promotion expenses), currency benefit and higher exports. Bottomline came in 101% up yoy at ₹10.6 bn.

Exports demand to strengthen, 3Ws on revival path

Domestic motorcycle volumes witnessed a triple digit growth in Q1 on a very weak base. Its executive segment witnessed a strong market share win of upto 25% from 22% qoq while post Pulsar 125 NS launch in May, it went upto 28%. The executive segment now contributes 60% of Bajaj's total portfolio as compared to 40% of the industry. In the mass segment, the company launched two bikes namely – CT 110X and Platina electric start. These two also got a very good response. Chetak scooter bookings were closed just within 2 days of opening in Pune and Bengaluru as a result of very much encouraging response. Management also stated that despite Covid wave #2 impacting the markets, higher segment brands like Pulsar and KTM also have seen a good traction, while the supply side constraints became starker. We believe that the pent up demand will again rise viewing suppressed demand in April and May. Management mentioned that retail demand has risen in June again which we believe to become robust in the following months as the pandemic is on a descending path. With 3 more launches coming up in the executive segment soon, 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 excluding April and May. June onwards, we have seen a bounce back once again and we expect it to continue. The company has maintained its market share in the range of 85-90% in small passenger 3W segment. While in the big 3W passenger segment the company has maintained its #1 position.

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	16.5	17.5
PAT (%)	17.5	16.8	15.4	16.0
EPS (₹)	176.2	157.4	185.6	237.6
EPS growth (%)	9.1%	-10.7%	17.9%	28.0%
P/E (x)	21.9	24.5	20.8	16.2
P/B (x)	5.6	4.4	4.3	4.2
EV/EBITDA (x)	22.0	22.8	18.9	14.6
ROE (%)	25.6%	18.1%	20.9%	26.0%
Dividend yield (%)	5.6%	3.7%	4.3%	5.6%

Rating	Buy
Current Market Price (₹)	3,853
12 M Price Target (₹)	4,277
Potential upside (%)	11

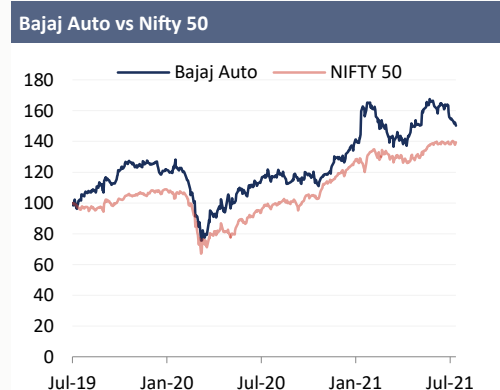
Stock Data	
FV (₹) :	10
Market Cap Full (₹ bn) :	1,115
Market Cap Free Float (₹ bn) :	502
52-Week High / Low (₹) :	2,823 / 4,361
2-Year High / Low (₹) :	1,789 / 4,361
1 Year Avg. Dly Traded Volume (in lakh)	8
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

Shareholding Pattern (%)				
	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	53.70	53.70	53.70	53.69
FPIs	11.82	11.99	13.06	13.56
MFs	3.65	3.40	3.09	2.96
Insurance	8.95	8.74	6.03	7.18
Others	21.88	22.60	24.42	23.63

Source: BSE

Price Performance (%)				
(%)	1M	3M	6M	1YR
Bajaj Auto	-8.7%	4.7%	-5.8%	29.1%
Nifty 50	0.3%	9.8%	10.1%	42.1%

* To date / current date : July 22, 2021



In the CNG segment it has a market share of ~90% and with expansion of CNG stations the company can fancy its chances of further increasing it. Bajaj is also planning to launch an EV 3W by the end of this year.

Exports was the brightest spot in Q1 as well, where motorcycles grew by 160% and 3Ws jumped by 143 % yoy. Exports contributed 64% of total volumes v/s 57% 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 19% from 16% yoy on robust demand for Pulsar and Dominar. KTM exports to US, Europe and Australia have expanded by 48% qoq in the quarter. ASEAN markets were weak due to higher case load, while Uganda and West Africa are facing competitive pressures from Chinese players. Exports markets are also facing challenges surrounding container availability which impacted exports a bit during the quarter.

Quarterly Financial Snapshot

(₹ mn)	Q1 FY22	Q4 FY21	% qoq	Q1 FY21	% yoy
Net sales	72,166	84,128	-14.2%	29,485	144.8%
Other op. income	1,695	1,833	-7.5%	1,307	29.6%
Total income	73,860	85,961	-14.1%	30,792	139.9%
RM cost	53,944	61,767	-12.7%	20,666	161.0%
Employee cost	3,615	3,070	17.8%	3,373	7.2%
Other expenses	5,103	5,884	-13.3%	2,668	91.3%
EBITDA	11,198	15,241	-26.5%	4,086	174.1%
EBITDA Margins (%)	15.2	17.7	(250 bps)	13.3	220 bps
Other income	3,293	2,836	16.1%	3,378	-2.5%
Depreciation	641	662	-3.2%	638	0.4%
Interest	23	20	12.3%	10	N/A
PBT	13,827	17,395	-20.5%	6,816	102.9%
Tax	3,215	4,074	-21.1%	1,536	109.3%
Adj PAT	10,612	13,321	-20.3%	5,280	101.0%
Adj PAT Margins (%)	14.4	15.5	(110 bps)	17.1	(270 bps)
Exceptional items	-	-	N/A	-	N/A
Reported PAT	10,612	13,321	-20.3%	5,280	101.0%

Source: Company, LKP Research

Margin profile to improve hereon, good growth expected in H2

Bajaj's EBITDA margins came at 15.2% in Q1, impacted by unprecedented hike in steel and precious metals. RM costs as a % of sales was higher at 74.8% v/s 70% yoy and 73.4% 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 Q1 the input costs moved up by 3.7% while Bajaj took price increases of close to 1.5%. The company mentioned that there were under recoveries of cost hikes in Q1, which may continue in Q2 as well, but the endeavours would be to increase the pricing to recover these. In line with this Bajaj took a price increase in July as well. In H2 the margins are supposed to improve further as operating leverage comes into play. This will enable better margins for the company in H2 of FY 22E despite higher RM costs and other expenses getting back to normalcy.

Outlook and Valuation

Bajaj came out with decent set of numbers in Q1 despite the intense Wave #2 of the Covid-19 pandemic. This was due 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 on uncertainty of Covid. However, hoping the pandemic remains 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 the current good monsoons, pent up demand and new model platforms. On the low base of FY21, FY22 has kick started well with a very high growth in Q1, which may not sustain given the recovery in H2 of FY21. But still we will witness a robust double digit growth in most of the segments this fiscal. With the pandemic getting less severe in export markets except ASEAN, we expect further strengthening of exports numbers, with Pulsar, Dominar and KTM bikes excelling. Bajaj also announced capex of ₹6.5 bn to manufacture KTM Husky bike and Triumph (whenever it starts) at their Chakan plant, which shows the intent to further expand their market and ambit of portfolio. Also the company is forming an EV subsidiary to reap the benefit of the expected EV wave. 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. Improving product and geographic mix, favorable currency movement and price hikes should assist margins, mainly in H2. With strong balance sheet, robust return ratios and zero financial leverage, we believe the stock looks attractive at 16.2x FY 23E earnings. We maintain our BUY rating on the stock with a slightly pruned down target price of ₹4,277 (at 18x FY23E earnings). We have trimmed the estimates a bit on the impact of Wave #2 and margin disappointment in Q1.

Per unit parameters	Q1 FY22	Q4 FY21	Q3 FY21	Q2 FY21	Q1 FY21	Q4 FY20	Q3 FY20	Q2 FY20
Gross Realisation per Unit (₹)	71,734	71,925	66,805	66,849	66,543	66,645	61,842	63,900
Net Realisation per Unit (₹)	71,734	71,925	66,805	66,849	66,543	66,645	61,842	63,900
Total Cost per unit (₹)	62,288	60,462	54,945	55,914	60,272	56,082	52,161	54,783
Material Cost per unit (₹)	53,621	52,807	48,272	48,020	46,639	47,031	44,427	46,328
Staff Cost per unit (₹)	3,594	2,624	2,427	3,081	7,612	3,449	2,896	2,883
Other Expn per unit (₹)	5,094	5,079	4,261	4,841	6,060	5,658	4,923	5,646
EBITDA per unit (₹)	11,131	13,030	13,235	12,021	9,220	12,629	11,372	10,890
PAT per unit (₹)	10,548	11,389	11,909	10,806	11,916	13,209	10,493	11,950

Source: Company, LKP Research

Income Statement

(₹ 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	2,57,061	3,09,010
Employee Cost	13,892	12,860	15,738	17,167
Other Exp	24,249	19,170	24,657	33,500
EBITDA	50,962	49,285	59,086	76,303
<i>EBITDA Margin(%)</i>	<i>17.0</i>	<i>17.8</i>	<i>16.5</i>	<i>17.5</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	70,223	88,157
<i>PBT Margin(%)</i>	<i>22.6</i>	<i>21.9</i>	<i>20.1</i>	<i>20.5</i>
Exceptional items	0	0	0	0
Tax	14,802	13,844	16,502	19,394
APAT	51,000	45,545	53,721	68,762
<i>APAT Margins (%)</i>	<i>17.0</i>	<i>16.4</i>	<i>15.0</i>	<i>15.7</i>
PAT	51,000	45,545	53,721	68,762
<i>PAT Margin (%)</i>	<i>17.5</i>	<i>16.8</i>	<i>15.4</i>	<i>16.0</i>

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	176.2	157.4	185.6	237.6
CEPS	170.7	184.7	166.3	195.3
BVPS	688.5	870.8	889.4	913.2
DPS	215.8	141.6	167.1	213.8
Growth Ratios(%)				
Total revenues	-1.1%	-7.3%	28.8%	22.4%
EBITDA	2.3%	-3.3%	19.9%	29.1%
PAT	9.1%	-10.7%	17.9%	28.0%
EPS Growth	9.1%	-10.7%	17.9%	28.0%
Valuation Ratios (x)				
PE	21.9	24.5	20.8	16.2
P/CEPS	20.9	23.2	19.7	15.5
P/BV	5.6	4.4	4.3	4.2
EV/Sales	3.8	3.9	4.1	3.2
EV/EBITDA	22.0	22.8	18.9	14.6
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	-0.03
Profitability Ratios (%)				
ROE	25.6%	18.1%	20.9%	26.0%
Dividend yield	5.6%	3.7%	4.3%	5.6%

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	2,54,501	2,61,377
Total network	1,99,255	2,52,023	2,57,395	2,64,271
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	3,25,975	3,47,696
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 and 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	7,753	9,873
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	1,28,117	1,24,805
Total Assets	2,47,733	3,15,302	3,25,975	3,47,696

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	65,802	59,390	70,223	88,157
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	-16,502	-19,394
Other operating activities	0	0	0	0
Cash flow from operations (a)	38,618	31,140	57,998	82,186
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	51,117	64,086
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	-51,951	-87	-48,349	-61,886
Other financing activities	0	0	0	0
Cash flow from financing (c)	-62,465	-207	-48,419	-61,966
Net chng in cash (a+b+c)	-6,300	2,279	2,698	2,120
Closing cash & cash equivalents	2,776	5,055	7,753	9,873

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