

Bajaj Auto

Margin beat

Bajaj's 2QFY21 results were above estimates as EBITDA margin came in at 17.7% (+110bp YoY). The demand is reviving across overseas geographies (80-90% of pre-COVID levels) and domestic markets, with festive sales equivalent to that of last year. The high margin domestic 3W segment will witness a gradual pick-up in sales as cities gradually normalise. We raise our FY21/22 estimates by 8/2% to factor in a healthy 2Q performance and set a revised target price of Rs 3,270 at 18x Sep-22E EPS (at a 5% premium to the 10-year historic average trading multiple). The key risks are slower-than-expected recovery on the downside and firming up of oil prices on the upside.

- 2QFY21 financials:** Volumes declined 10% YoY to ~1mn units (vs. 440K QoQ). However, realisations grew 3% YoY (-2% QoQ) due to BSVI transition. Revenue at Rs 71.5bn came in line with estimates (-7% YoY). EBITDA margin at 17.7% surprised positively and expanded 100/440bps YoY/QoQ. Other expenses declined 23% YoY due to delayed festive season, lower marketing spends, and operating cost controls. PAT at Rs 11.3bn increased more than 2x QoQ (-19% YoY).
- Key takeaways: Domestic segment:** Management's strategy of launching a downsized Pulsar 125 (ahead of the BSVI rollout) is now bearing fruit as the OEM recorded healthy sales of this variant. In the ongoing festive season, 2W sales have been equivalent to last year. While 3W domestic demand has bottomed, the pick-up is expected to be gradual. **Export markets:** Internationally, the company is gaining market share and has achieved its highest exports in Sep-20. Demand has recovered to 80-90% of pre-COVID levels for 2Ws and 75-80% for 3Ws. However, frontier markets such as Nigeria have witnessed social unrest recently. While the situation is expected to normalise, we will monitor the demand trends in this key market. Any further rise in oil prices will lead to a faster recovery in the African region.

Financial Summary (Standalone)

YE Mar (Rs mn)	2Q		YoY (%)	1Q		FY19	FY20	FY21E	FY22E	FY23E
	FY21	FY20		FY21	QoQ (%)					
Net Sales	71,559	77,073	(7.2)	30,792	132.4	303,576	299,187	261,567	294,469	338,502
EBITDA	12,663	12,781	(0.9)	4,085	210.0	51,925	50,962	43,943	49,647	58,730
APAT	11,382	14,024	(18.8)	5,280	115.6	44,366	51,000	43,550	48,637	56,326
Adj. EPS (Rs)	39.3	48.5	(18.8)	18.2	115.6	153.3	176.2	150.5	168.1	194.6
APAT Growth(%)						8.5	15.0	(14.6)	11.7	15.8
P/E (x)						19.5	17.0	19.9	17.8	15.4
RoE (%)						21.7	24.5	20.8	21.1	22.1

Source: Company, HSIE Research

Change in estimates

Rs mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	261,567	294,469	338,502	261,491	294,353	338,353	0	0	0
EBITDA	43,943	49,647	58,730	38,962	46,979	55,997	13	6	5
EBITDA margin (%)	16.8	16.9	17.4	14.9	16.0	16.6	190 bps	90 bps	80 bps
PAT	43,550	48,637	56,326	40,435	47,838	55,890	8	2	1
EPS	150.5	168.1	194.6	139.7	165.3	193.1	8	2	1

Source: Company, HSIE Research

ADD

CMP (as on 22 Oct 2020)	Rs 3,006
Target Price	Rs 3,270
NIFTY	11,896

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 3,230	Rs 3,270
EPS %	FY21E 8%	FY22E 2%

KEY STOCK DATA

Bloomberg code	BJAUT IN
No. of Shares (mn)	289
MCap (Rs bn) / (\$ mn)	870/11,811
6m avg traded value (Rs mn)	2,822
52 Week high / low	Rs 3,315/1,789

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.7	26.3	(3.7)
Relative (%)	(6.4)	(2.9)	(7.8)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	53.7	53.7
FIs & Local MFs	9.1	10.4
FPIs	13.7	13.6
Public & Others	23.5	22.3
Pledged Shares	0.0	0.0

Source : BSE

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Disclosure:

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