

## Equity Research Desk



## ALPHA

14 SEP 2021

## Bajaj Auto Ltd. – Market's Favourite Auto Stock

Market Data	
CMP	Rs. 3755
Date	14-Sep-21
Target Price	Rs. 4284
Upside Potential	14.00%
52 Week High/Low	4361/2822
Market Cap	Large Cap
Sector	Automobile
Rating	Buy

Bajaj Auto, the flagship company of Bajaj Group, is a two-wheeler and three-wheeler manufacturing company that exports to 70+ countries across several countries in Latin America, Southeast Asia, and many more. Its headquarter is in Pune, India. It has acquired 48% of the KTM Brand which manufactures sports and super sports two-wheelers, which was 14% in 2007 when the company first acquired KTM. Bajaj Auto had set up an assembly line capacity in its Waluj plant in Aurangabad, Maharashtra, to manufacture quadricycles (branded as Qute), which it started exporting apart from catering to the domestic market. The company has a total capacity to manufacture 54 lakh units of motorcycles and 9.3 lakh units of commercial vehicles (passenger carrier, goods carrier, and quadricycles) at its plants in Waluj and Chakan in Maharashtra; and Pantnagar in Uttarakhand.

**Products:**

The company manufactures various products under four segments namely Mileage, Sports, Super Sports, Scooter and 3W & Qute.

**Mileage Segment** – CT100, Platina 100, Pulsar 125, etc.

**Sports Segment** – Pulsar 150, Pulsar NS160, Pulsar 180, Pulsar NS200, Pulsar 220, Avenger Street 160, Avenger Cruise 220.

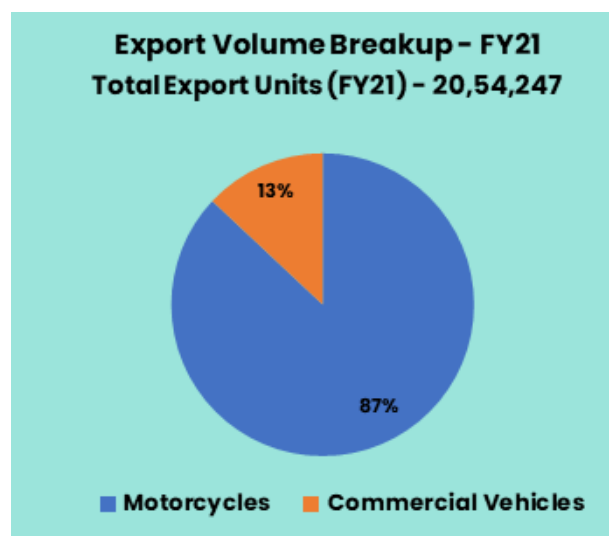
**Super Sports Segment** – KTMs, Husqvarnas, Pulsar RS200, Dominar 400 & 250.

**Scooter Segment** – Chetak Premium & Urbane

**3W & Qute** – RE, Maxima Z and Maxima C

SHP	Jun - 21 (%)	Mar - 21 (%)	Change
Promoters	53.70	53.70	0.00
FPI	11.82	11.99	-0.17
DII	12.71	12.29	0.42
Public & Others	21.77	22.02	-0.25
Pledged	0.01	0.01	0.00

**Subsidiaries:** Bajaj Auto International Holdings BV (BAIH BV), Bajaj Auto (Thailand) Ltd and PT Bajaj Auto Indonesia.





## Key Rationale

- **Healthy market position in the motorcycle segment** - Bajaj Auto continues to be the 2nd largest player in the domestic motorcycle segment with a market share of 19% as of Jul'21. It is the largest exporter of two-wheelers, accounting for nearly 59% of total motorcycle exports for FY21. Over the past few years, the company has demonstrated robust product development capabilities as reflected in model launches under the KTM and Husqvarna brands in the premium segment, CT, Platina, and Pulsar brands in the economy and executive segment. The segmental share of Bajaj Auto in the 125cc motorcycle market has grown to 19% in FY21 from 2% in FY19. The segmental performance of the company is expected to remain stable over the medium term, driven by a healthy market position, strong product development capabilities and a diversified product portfolio.
- **Leadership in the three-wheeler passenger carrier segment** - The company is the single largest player in the domestic 3W segment with a market share of ~60% as of Jul'21. For the same period, it also stood as the largest exporter of 3Ws with a 65% market share. Domestic 3W volumes declined by 66% YoY in FY21. While the domestic 3W industry was severely impacted in FY21, recovery is expected to be led by the reopening of institutions such as offices, schools, and entertainment avenues. Steady accrual from this segment provides considerable strength to the company's overall business risk profile, helps it diversify its revenue base, and improves its ability to weather intense competition in the motorcycle segment.
- **Robust financial risk profile** - The company is expected to maintain its near debt-free status given that its annual FY22 Capex requirement of Rs.600-800crs (~Rs.650crs for a new plant in Chakan over the next 2 years) will be met through the internal accruals. A substantial portfolio of investments and cash surplus (over Rs.25,000crs as of Mar'21) provides steady treasury income as well as enhances the company's financial flexibility. The strong financial risk profile will help Bajaj to withstand any competitive challenge in terms of pricing flexibility and meet the necessary expenditure for in-house research and development, product launches and upgrades, or any sluggishness in revenue growth.
- **EV Space** - The Company wants to be a dominant player in the EV space. The company started 100% subsidiary for EVs with the authorized share capital of Rs.100crs and Paid-Up share capital of Rs.5crs. The Company has filed an application of Chetak with the FAME and waits for its approval. The management expects the EV to contribute some meaningful volume only after 5 years as there is a significant acquisition cost between IC and EV vehicles. Electric 3W (lithium) is expected to be launched in FY22. The company will not enter the Electric 3W (lead acid) segment.

**Ratios - FY21**

ROE	18%
ROCE	23%
Div. Yield	3.78%
PE Ratio	22.00
Face Value	10.00
EPS	Rs.167.85

**Industry Analysis**

The automobile industry in India is the world's fifth largest. India was the world's fifth largest manufacturer of cars and seventh largest manufacturer of commercial vehicles in 2019. Indian automotive industry (including component manufacturing) is expected to reach Rs. 16.16-18.18 trillion (US\$ 251.4-282.8 billion) by 2026. Domestic automobile production increased at 2.36% CAGR between FY16-FY20 with 26.36 million vehicles being manufactured in the country in FY20. Overall, domestic automobiles sales increased at 1.29% CAGR between FY16-FY20 with 21.55 million vehicles being sold in FY20. Two wheelers and passenger vehicles dominate the domestic Indian auto market. Two-wheeler sales stood at 1,195,445 units in March 2021, compared with 1,846,613 units in March 2020, recording a decline of 35.26 %. India's electric vehicle (EV) market is estimated to be a Rs.50,000crs (US\$ 7.09 billion) opportunity by 2025, with two and three-wheelers expected to drive higher electrification of the vehicles.

**Growth Drivers**

In Union Budget 2021-22, the Government introduced the voluntary vehicle scrappage policy, which is likely to boost demand for new vehicles after removing old unfit vehicles currently plying on the Indian roads.

The Union Cabinet outlaid Rs.57,042crs (US\$ 7.81 billion) for automobiles & auto components sector in production-linked incentive (PLI) scheme under the Department of Heavy Industries.

In February 2019, the Government of India approved FAME-II scheme with a fund requirement of Rs.10,000crs (US\$ 1.39 billion) for FY20-22.



## Peer Analysis

**Competitors:** Hero Motocorp Ltd., TVS Motors Ltd., etc.

TVS Motors and Hero MotoCorp are the two direct listed peers for Bajaj Auto. Financially, Bajaj Auto has a strong balance sheet with a zero Debt/equity ratio whereas Hero MotoCorp with 0.04 and TVS motors with a high ratio of 3.18.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Bajaj	3755	108644	18.00%	23.00%	22	167.85
TVS	549	26080	16.00%	11.00%	44	12.51
Hero	2846	56861	19.00%	24.00%	19	146.05

## Outlook

Restoration of normal retail is higher in motorcycles and lower in 3W. The management expects improvement to continue due to higher vaccination. The Company expects a steady improvement in domestic 3Ws by Q2FY22. The bottom of the pyramid has impacted higher. The Middle class will continue to do better in the next 12 months as job loss, salary cuts are over and the segment is in better shape. The commodity price increased further by 3+% and the company was able to mitigate only 2/3rd through price hikes in July in domestic and overseas markets. The improvement in ASEAN countries will help in boosting exports. The management expects better operating leverage, better FOREX and better product mix to support EBITDA Margin in Q2.

Margins - FY21	
Gross Profit	29%
EBITDA	18%
PAT	14%



## Valuation

While significant challenges exist on supply side and commodity prices for the auto segment as a whole, with easing of trade activities across most countries and even domestically, we expect margins to gradually improve on new product launches and better product mix. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.4284, 22x FY22E EPS.

## Risks

- **Exposure to intense competition** - The Indian 2W market remains highly competitive with 12 players, including Honda Motorcycles & Scooters India Pvt Ltd (HMSI), Hero Motocorp (HMCL) and TVS Motors Ltd. Furthermore, players continue to launch new models at short intervals.
- **Supply chain issues** - Supply chain issues such as semi-conductor shortage, low container availability, and high freight rates, among others, are hampering production and causing delays.
- **Forex volatility** - As BAL derives more than 40% of its revenues from exports, volatility in forex rates could impact its profitability. Currently the gradually weakening Rupee favourably impacts its revenues and margins.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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