Axis Annual Analysis 2021

AAA

Bajaj Auto Ltd.

AXIS SECURITIES

Exports And Premiumization Story Continues; Strong Growth Prospects

Summary

Bajaj Auto (BA) delivered a resilient performance in FY21 despite the adverse impact of the Covid-19 outbreak. This was led by strong export performance, continuous premiumization of its portfolio, and the company's strong focus on cost-cutting measures. Prudent cost management by the company led to margin expansion. BA's exports business is doing better than ever, which helped it cover for the weakness in the domestic market. EV business and Triumph partnership will be the key future growth drivers moving forward.

Key Highlights

- **Financial Review:** In FY21, revenue from operations stood at Rs 27,741 Cr, down 7% YoY. (It represents the 3rd highest sales in BA's history). EBITDA increased by 1% YoY to Rs 4,740 Cr whereas PAT fell by 11% YoY to Rs 4,665 Cr. BA's overall volumes (2W + 3W) stood at 39.7 Lc units, down 14% YoY. The company's EBITDA margin improved by 130 bps YoY to 17.3% in FY21. The same was achieved by prudent cost management and cost savings in the form of a) Lower advertising expenses, b) Lower incentives, and c) Lower fixed costs.
- **Operational review:** Bajaj Auto's domestic motorcycle sales decreased by 13% to 18 Lc units and exports dropped by 3.9% to just under 18 Lc units. Its focus on exports and Premium Motorcycles helped it outperform the 2W industry in a tough year. The exports contribution to the company's net sales grew 480bps to 46.8% in FY21. In the domestic 3W segment, BA witnessed a market share decline of ~670bps to reach 50.6% primarily owing to the sharp impact of the COVID-19 on urban 3Ws. However, the company improved its market share in both Goods Carriers (+670bps to 33.7%) and the Diesel Passenger segment (41.7%). This, in turn, helped it gain a leadership position in all 3W segments. BA has approved a new dividend policy that links payout to the level of cash/cash equivalents on its books, in turn, increasing the payout up to 90% of PAT (v/s 50% payout under its old policy).
- **Strategies implemented:** The company has adopted a three-pronged strategy to achieve profitable growth in the domestic motorcycles - a) Volume expansion in the mid-segment (Pulsar 125), b) Upgrading the entry-level segment (CT100/110, Platina 110) and, c) Expanding market share in the premium segment. Furthermore, the company intends to unveil new launches/upgrades in each quarter that are focused on the 100-110cc, 125cc, and 250cc segments to support this strategy.
- **Key growth drivers:** a) Strong positioning and pricing power in the export markets (85% export revenue from the markets where it is No. 1 or No. 2 player), b) Increase in the market share in the premium motorcycle segment, c) Sharper recovery in the domestic 3W segment, d) Chetak e-scooter to drive re-entry into the Scooter segment.

Outlook & Recommendation

Bajaj Auto is well placed to capitalize on demand normalization and premiumization trends in the 2W industry which should support profitability and operational performance going forward. Moreover, we expect the company to gain further market share in exports, driven by its market leadership, brand equity, and enhanced distribution network. The company's margins are expected to improve, aided by premiumization in 2Ws, the higher share of exports, depreciating rupee, RoDTEP scheme incentives, and an increase in the share of 3Ws (higher margins) in the product mix over the medium to long term. Bajaj Auto remains our preferred pick in the 2W segment given its reasonable valuations and strong medium-term growth prospects. **We maintain our BUY rating on the stock and keep our TP unchanged at Rs 4,250 (which includes Rs 200/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.**

Key Financials (Standalone)

(Rs Cr)	FY20A	FY21A	FY22E	FY23E
Net Sales	29,352	27,408	36,029	41,831
EBITDA	4,698	4,740	6,110	7,599
Net Profit	5,226	4,665	5,500	6,893
EPS (Rs)	180.6	161.2	190.1	238.2
ROE (%)	22.8	19.0	19.7	23.6
ROCE (%)	22.2	18.6	19.3	23.1
PER (x)	11.2	22.8	19.8	15.8
P/BV (x)	2.9	4.2	4.2	4.1
EV/EBITDA (x)	12.4	22.3	17.5	14.0
Debt/Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

(CMP as of Sep 1, 2021)

CMP (Rs)	3,758
Upside /Downside (%)	13%
High/Low (Rs)	4,361/2,823
Market cap (Cr)	1,08,738
Avg. daily vol. (6m) Shrs.	2,05,930
No. of shares (Cr)	29

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	53.7	53.7	53.7
FIIs	13.1	12.0	11.8
MFs / UTI	3.1	3.4	3.7
Banks / FIs	0.0	0.1	0.1
Others	30.1	30.8	30.7

Financial & Valuations

Y/E Mar (RsCr)	FY21	FY22E	FY23E
Net Sales	27,408	36,029	41,831
EBITDA	4,740	6,110	7,599
Net Profit	4,665	5,500	6,893
EPS (Rs)	161.2	190.1	238.2
PER (x)	22.8	19.8	15.8
EV/EBITDA (x)	22.3	17.5	14.0
P/BV (x)	4.2	4.2	4.1
ROE (%)	19.0	19.7	23.6

Change in Estimates (%)

Y/E Mar	FY22E	FY23E
Sales	-	-
EBITDA	-	-
PAT	-	-

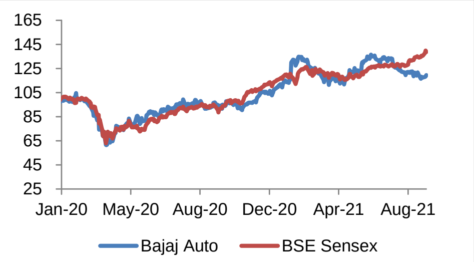
ESG Disclosure Score

Environmental Disclosure Score	13
Social Disclosure Score	42
Governance Disclosure Score	48
Total ESG Disclosure Score	28

Source: Bloomberg, Scale 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Company Overview

Bajaj Auto is the 2nd largest player (~18% market share) in the domestic motorcycle segment and continues to be the largest exporter of two-wheelers (2W) in India. The company is also the single-largest player in the domestic three-wheeler segment with a market share of ~60% in the 3W passenger carrier segment. Furthermore, it is the world's fourth-largest 3W and 2W manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South-East Asia. It exports to 70+ countries leading to a significant share of revenues coming from the Exports. The company has a total installed capacity of 6.33 Mn units/annum.

FY21 Performance Round-up

- **A mixed bag financial performance:** In FY21, the company reported revenue from operations of Rs 27,741 Cr, down 7% YoY. FY 21 revenues represent the 3rd highest sales in BA's history. EBITDA increased by 1% YoY to Rs 4,740 Cr whereas PAT fell by 11% YoY to Rs 4,665 Cr. BA's overall volumes (2W + 3W) stood at 39.7 Lc units, down 14% YoY. The company's EBITDA margin improved by 130bps YoY to 17.3% in FY21. The same was achieved by prudent cost management and cost savings in the form of a) Lower advertising expenses, b) Lower incentives, and c) Lesser fixed costs.
- **The domestic market:** Bajaj Auto's domestic motorcycle sales decreased by 13% to 18 Lc units and exports dropped by 3.9% to just under 18 Lc units. Its focus on exports and Premium Motorcycles helped it to outperform the 2W industry even during the tough year. The contribution of exports to net sales grew 480bps to 46.8% in FY21. In the domestic 3W segment, it lost ~670bps market share to reach 50.6% due to the adverse impact of the COVID-19 on the urban 3W segment. However, it improved its market share in both Goods Carriers (+670 bps to 33.7%) and the Diesel Passenger segment (41.7%) and thereby gained leadership in all segments of 3Ws.
- **Exports market:** The contribution of exports to the company's net sales grew 480bps to 46.8% in FY21. Total exports declined by 5.4% in FY21 to 20.5 Lc units (Motorcycles fell 4% to 17.9 Lc units).This is the third consecutive year that BA exported over 20 Lc vehicles despite the COVID-19 outbreak in FY21.Exports to Egypt grew 255% YoY on a low base as there were regulatory issues in FY20.Among export markets, the share of Latin America grew to 20% while that of ASEAN/South Asia and Middle East/Africa fell to 7%/23%/50% respectively.
- **Robust growth in Motorcycles:** Growth in over 150cc Motorcycles stood at 21% YoY. The Dominar brands (both 250cc and 400cc) grew 91% YoY over a smaller base of FY20. It recorded the highest ever volumes in Latin American countries such as Mexico, Guatemala, Nicaragua, Honduras, Peru, and Bolivia. Furthermore, by exporting 10 Lc Motorcycles for the second consecutive year, the company continued its dominance in Africa.
- **Global slowdown impacts 3W segment:** However, 3W exports fell 14.6% YoY to 2.5 Lc units as the Commercial Vehicles business was affected globally. The increased focus on the Cargo segment and the launch of new and refreshed RE variants led to a recovery in H2FY21.
- **Implementing new dividend policy:** The company has approved a new dividend policy that links payout to the level of cash/cash equivalents on its books, in turn increasing the payout up to 90% of PAT (v/s 50% payout under its old policy).The total dividend (including interim dividend) for FY21 amounts to Rs140 per equity share (versus Rs120 per equity share in FY20).

Segment-wise Performance

Motorcycles

Domestic sales of all motorcycles across the industry in FY21 declined by 10.7% to a bit over 1 Cr units while the exports declined by 3.2% to just over 30 Lc units.Bajaj Auto's domestic sales decreased by 13% to 18 Lc units and exports dropped by 3.9% to just under 18 Lc units. The company's share in the domestic motorcycles market decreased by 50bps to 18% and exports share dropped by 50bps to 59.1%. However, BA was able to hold on to its consolidated share in domestic + exports.

Exhibit 2: Sale of Motorcycles, Domestic and Exports

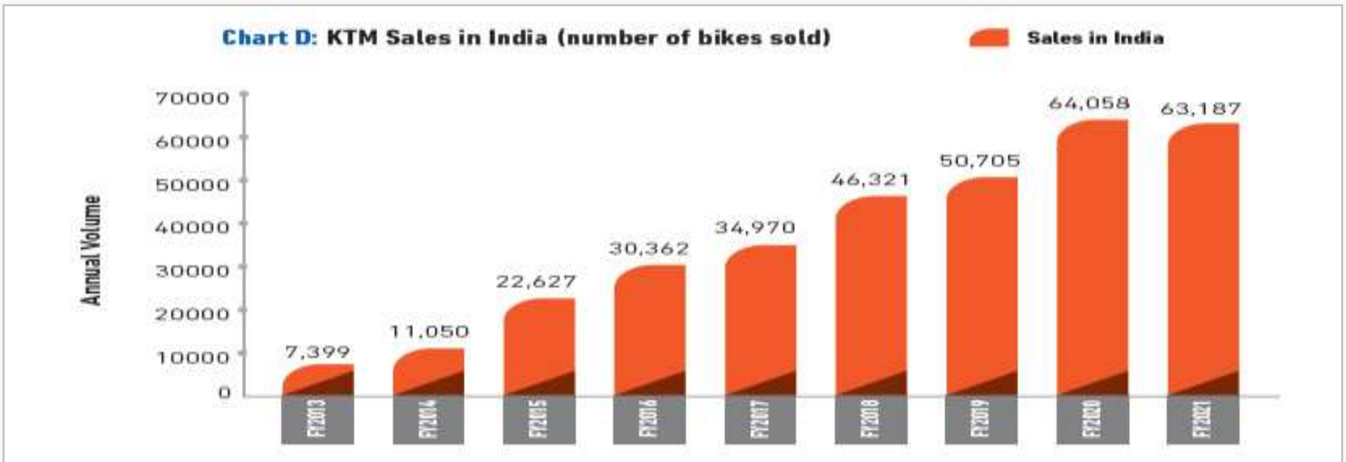
Year ended 31 March	Industry sales (nos.)	Industry growth	BAL's sales (nos.)	BAL's growth	BAL's market share
2016	12,909,398	(0.7%)	3,358,252	2.0%	26.0%
2017	13,120,072	1.6%	3,219,932	(4.1%)	24.5%
2018	15,096,538	15.1%	3,369,334	4.6%	22.3%
2019	16,465,529	9.1%	4,236,873	25.7%	25.7%
2020	14,351,159	(12.8%)	3,947,356	(6.8%)	27.5%
2021	13,057,275	(9.0%)	3,604,498	(8.7%)	27.6%

Source: Company, Axis Research

Domestic Market

- **Mileage' or 'M' segment:** FY21 was the 2nd consecutive year of a sales downturn in the mileage segment of India's motorcycle market. Though Bajaj Auto also faced a decline but performed better than others and increased its market share by 90bps to 15.2% by introducing Pulsar 125 which received encouraging traction in the market.
- **Sports segment:** The sports 150-220cc segment volumes contracted by 15%. While Bajaj Auto experienced a drop in volume by 29.3% in Q1FY21, it strategically renounced its volumes over the next three quarters by launching five models of Pulsar ranging from 150cc to 220cc and two variants of the Avenger. Furthermore, it also retained its top position with a market share of 37.3% in FY21.Bajaj continues to be the leader in this segment and the management expects to lead in this segment with the nearest competitor having around 22.7% market share.
- **Super Sports (Premium):** Bajaj offers models such as KTMs, Pulsar 200NS and Dominars in the super-sport segment and currently commands an 11.6% market share and intends to increase it further. This segment saw a modest decline of 4.4% in FY21. However, Bajaj was able to beat the market trend and grew at a rate of 10.8% against an overall decline in the industry.
- **KTM and Probiking:** The KTM & Probiking business which comprises of brands KTM and Husqvarna and four forms of motorbikes (Naked Sport, Street, Racing, and Adventure) showed an excellent performance in these challenging times. These recovered 99% of its FY20 sales and the sales of KTM in India alone registered 63,187 units, slightly lower than 64,058 units in FY20.

Exhibit 3: KTM India Sales



Source: Company, Axis Research

Three-Wheelers

Bajaj Auto is the world's largest manufacturer and seller of three-wheelers. In the 3W segment, BA's domestic sale of three-wheelers fell to 1 Lc units primarily due to a reduction in passenger 3W sales across the industry on account of the Covid-19. However, it continued to be the market leader commanding 50.6% of all 3W sales and 60.9% of PV sales. In the Goods Carriers segment, BA accounts for 33.7% of the domestic market, up 27% YoY. It continues to be the dominant exporter among the Indian sellers accounting for the market share of 64.7% in FY21 up from 59.1% in FY20. BA is now the leader in the Big Diesel Passenger Segment with a 41.7% market share. Bajaj has 3 models in the 3W segment – RE, Maxima Z, and Maxima C. The company is working towards a relatively more profitable 125cc sub-segment.

Exhibit 4: Three-Wheeler Sales, Industry and Bajaj Auto (In Number)

	Total sales		Domestic sales		Export sales	
Particulars	**FY2021**	**FY2020**	**FY2021**	**FY2020**	**FY2021**	**FY2020**
Passenger carriers						
Industry sales	521,424	1,020,865	134,087	525,015	387,337	495,850
Bajaj Auto sales	332,572	629,326	81,618	334,714	250,954	294,612
Bajaj Auto market share	63.8%	61.6%	60.9%	63.8%	64.8%	59.4%
Goods carriers						
Industry sales	87,714	117,873	82,110	111,554	5,604	6,319
Bajaj Auto sales	30,932	32,191	27,686	30,103	3,246	2,088
Bajaj Auto market share	35.3%	27.3%	33.7%	27.0%	57.9%	33.0%
Total three-wheelers						
Industry sales	609,138	1,138,738	216,197	636,569	392,941	502,169
Bajaj Auto sales	363,504	661,517	109,304	364,817	254,200	296,700
Bajaj Auto market share	59.7%	58.1%	50.6%	57.3%	64.7%	59.1%

Source: Company, Axis Research

EV – 2 Wheeler

Bajaj made an entry into the electric scooter segment, initially planned to be launched in 2020, but was re-launched in Apr'21 owing to the Covid-19 led delays. The company launched 2 models – Chetak premium and Chetak Urbane, which use lithium-based batteries and can run for around 95km on a single charge in Eco mode. Bajaj has received an overwhelming response for these launches and started taking bookings and delivery has started for bookings done in Apr'21. BA has made a strategic investment of Rs 122 Cr in Yulu Bikes, a Bengaluru-based start-up. Yulu Bikes operates in the lithium-battery powered electric 2W and bicycle space.

Exhibit 5: Bajaj Chetak EV

Source: Company, Axis Research

International Business

BA exported 20 Lc vehicles, making FY21 the 3rd year in succession in which the company exported over 20 Lc vehicles.In a difficult global market scenario, BA exported almost 18 Lc motorcycles though the growth performance in the 1st and 2nd halfof the year contrasted sharply. Motorcycles and commercial vehicles witnessed a decline of 33% and 35%respectively in H1FY21 but registered a growth of 25% for motorcycles and 9% forcommercial vehicles in H2FY21.Except forthe ASEAN region, all regions have exhibited strong recovery in the 2nd half of FY21.

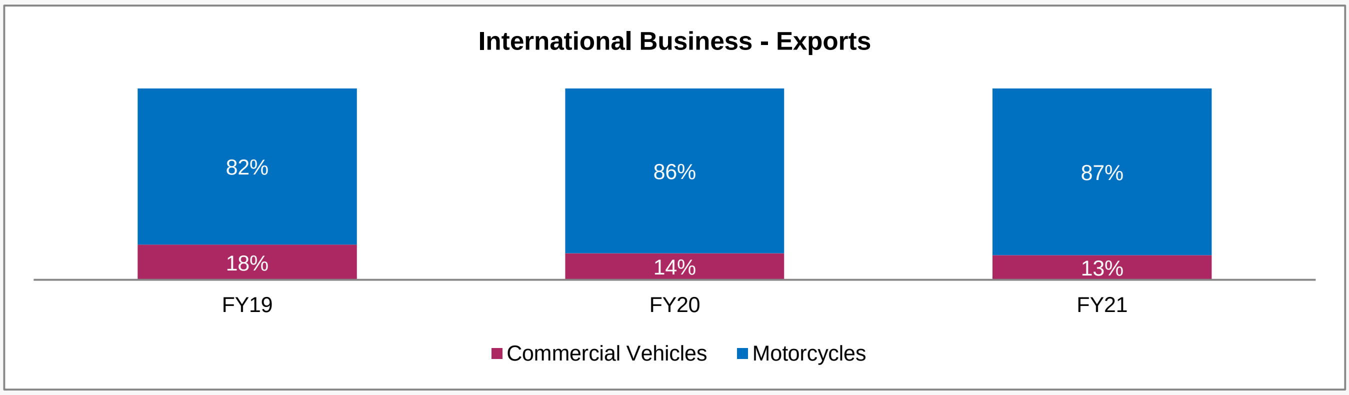
Exhibit 6: Exports in units and revenue for Bajaj Auto

Particulars	FY2021	FY2020	Change
Units			
Motorcycles	1,796,518	1,869,220	-3.9%
Commercial Vehicles	257,729	301,885	-14.6%
Total numbers	**2,054,247**	**2,171,105**	**-5.4%**
Exports in ₹ (crore)	**12,687**	**12,216**	**3.9%**
Exports in USD (million)	**1,651**	**1,642**	**0.5%**

Source: Company, Axis Research

Segment-wise Breakup:

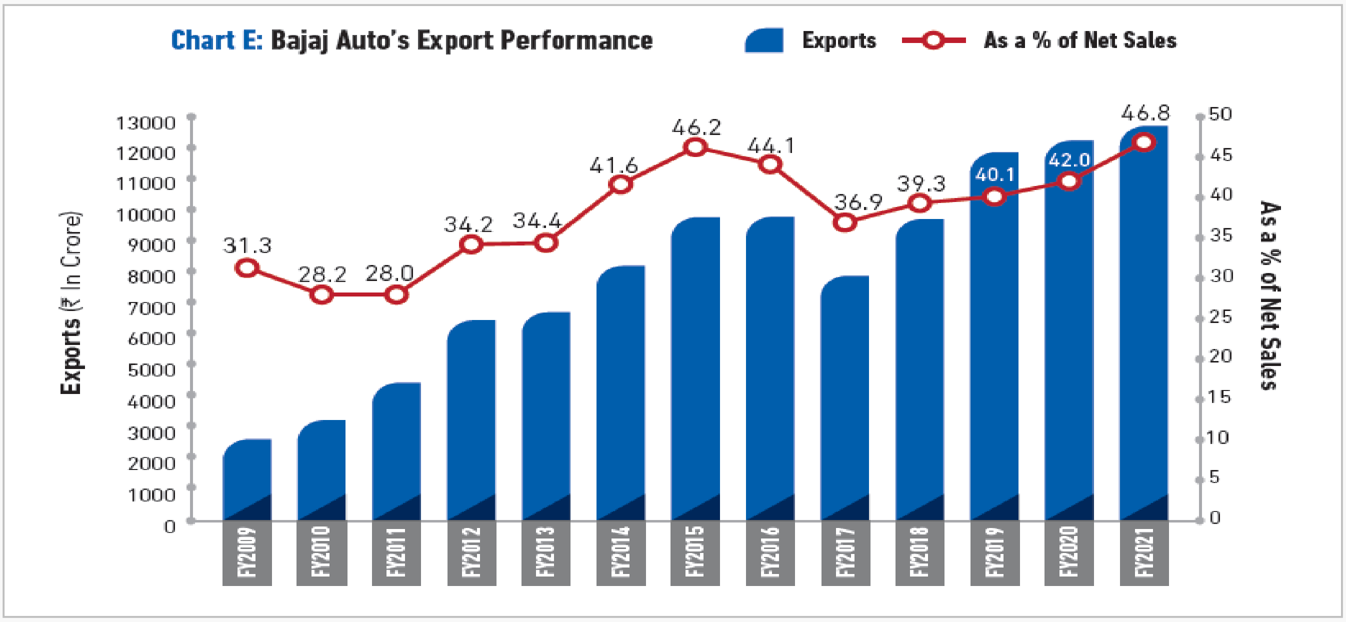
Exhibit 7: International Sales – Segment-wise Breakup



Source: Company, Axis Research

- **Motorcycles:** In FY21, motorcycle exports de-grew by 3.9% YoY at 18 Lc units on account of Covid-19 induced economic regression in the company's operating countries. Even though exports fell, the market share increased to 46.8% from 42%. In the 2W segment, 150cc+ segments grew 21% in Exports. In the super sports segment, the Dominar models (both 250cc & 400cc) grew at 91%. Bajaj continues to be the most dominant exporter for motorcycles to Africa with the export of over 10 Lc units recorded two years in a row. Bajaj recorded its highest ever sales volumes in Latin America in many key countries such as Mexico, Guatemala, Nicaragua, Honduras, Peru, and Bolivia.
- **3Ws export:** Due to Covid-19 related restrictions in most countries, recovery in the 3Ws business has been slow. However, an increased focus on new segments such as Cargo plus the launch of new and refreshed RE variants led to a recovery in H2FY21. Egypt, where exports were impacted by regulatory issues last year, has grown by 255% in FY21.

Exhibit 8: Bajaj Auto Export Performance



Source: Company, Axis Research

Subsidiary-wise Performance

Bajaj Auto International Holdings BV (BAIH BV)

Bajaj Auto International Holdings BV (BAIH BV) is a 100% Netherlands based subsidiary of Bajaj Auto Ltd.Over the years, Bajaj Auto has invested a total of €198.1 Mn (Rs 1,219 Cr) through this subsidiaryand holds ~48% stake in KTM AG of Austria (KTM) – the fastest growing motorcycle brand in the world. KTM sold 2.08 Lc motorcycles versus 2.13 Lc in the previous year. Profit after tax was at €71.2 Mn (Rs 638 Cr) versus €84.6 Mn (Rs 670 Cr). **The proportionate profit to Bajaj Auto Ltd. €34.1 Mn (Rs 306 Cr) as against €40.6 Mn (Rs 322 Cr) in the previous year**, which shows up in the consolidated results. During the year, Bajaj Auto manufactured 1.48 Lc units of KTM and Husqvarna at its Chakan plant. Of these, 63,187 units were sold through the Pro-biking network and 79,832 were exported.

Bajaj Auto (Thailand) Ltd.

Bajaj Auto (Thailand) Ltd. was incorporated as a wholly-owned subsidiary in Thailand with an issued and subscribed share capital of Thai Baht (THB) 45 Mn (Rs 11 Cr). It has obtained all necessary approvals from the local authorities to set up an International Business Centre (IBC) and an Engineering Design Centre (EDC) under this subsidiary.

The EDC,which was initially delayed owing to the pandemic, is now operational and international designers are operating from this new facility in Bangkok. It marks a new beginning for Bajaj Auto's R&D expanding its design centre to trend-defining markets around the globe. Full-scale operations including IBC is likely to commence in the coming year.

Key Operational Activities

- **New Launches:** BA's R&D team successfully delivered 41 projects in various product segments to meet BA's domestic and export requirements in Commuter (nine launches), Sport (six), Super Sports (three) and Commercial (23) segments.Some of the strategic products launched in FY21 are Platina 110 ABS, KTM Adventure 250 (complementing the more premium 390cc variant), gaseous fuel 3W (with the instant switchover from petrol to gas and vice versa), and RE 250 3W for Nigeria (with a bigger engine and wheel).BA entered the E-scooter space with the launch of Chetak (available in 2 models – Premium and Urbane). Some of the launched strategic products are:

Exhibit 9: New Product Launches

Source: Company, Axis Research

Capacity Updates & Capex:

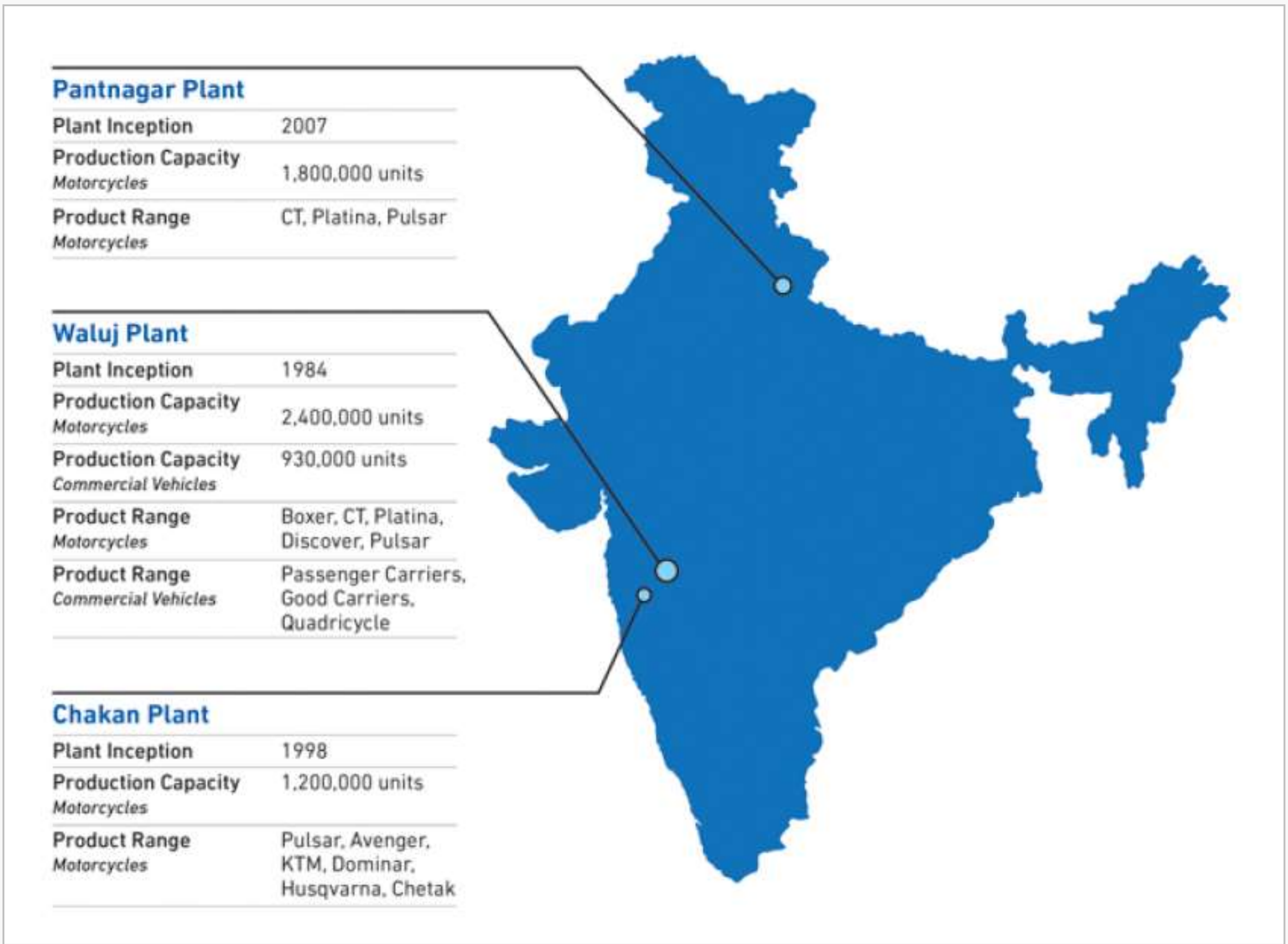
The company incurred a Capex of Rs 182.6 Cr during the FY21.

Exhibit 10: Plant-wise Capacities (In Unit per annum)

Plant	As on 31 March 2021		Product Range
Waluj	Motorcycles	2,400,000	Boxer, CT, Platina, Discover, Pulsar
	Commercial Vehicles	930,000	Passenger Carriers, Good Carriers, Quadricycle
		3,330,000	
Chakan	Motorcycles	1,200,000	Pulsar, Avenger, KTM, Dominar, Husqvarna, Chetak
Pantnagar	Motorcycles	1,800,000	CT, Platina and Pulsar
		6,330,000	

Source: Company, Axis Research

Exhibit 11: Plant-wise Capacities (In Unit per annum)



Source: Company, Axis Research

Research & Development Activities

In FY21, Bajaj Auto's R&D achieved all the product launches that were planned for the yeardespite Covid-19 challenges.R&D successfully delivered 4 projects in various product segments to meet the company's domestic and export requirements. These were:

a) Commuter segment: 9 launches.

b) Sports segment: 6 launches.

c) Super-sport or Premium segment: 3 launches.

d) Commercial segment: 23 launches.

A few of the strategic products launched include a) ABS technology on the Platina 110, b) Addition of sportier split seat variant in Pulsar 125, and c) 250cc variant of KTM Adventure series, among others.

R&D has introduced gaseous fuel 3W with an innovative capability to instantly switch between gas and petrol. This can be done while the vehicle is moving as against competitorsmodels that need to stop and wait for minutes to burn off the fuel in the carburettor before switching fuels. This was implemented across the entire range of Bajaj Auto's gaseous 3W portfolio.

The company's R&D successfully supported all the BS-VI launches to ensure a smooth transition.

R&D Facilities

The EV Laboratory

In Oct'20, BAL's R&D went live with a 25,000 square feet EV Laboratory to design and develop EV technologies. The laboratory is equipped with critical capabilities for manufacturing and testing EV components and vehicles.The EV lab is being continuously augmented in both capacity and capability to meet all the emergingneeds of creating EV products.

Electro-Magnetic Compatibility (EMC) Chamber

Increasing electronics on vehicles and stringent norms on components regarding EMC and electro-magnetic interference have made the design and validation of EMI/EMC performance of both components and vehicles a prime necessity. BAL has created a new EMI/EMC facility in R&D to meet this need. This will also enable Bajaj Auto to reduce its dependence on external agencies for conducting such tests, resulting in savings of both time and costs.

Key Competitive Strengths

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. We expect its market share to sustain driven by the robust positioning of its key brands. 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 theeconomy and executive segment. The segmental share of Bajaj Auto in the 125cc motorcycle market has grown to 19% in FY21 and 24% as of Jul'21 from 2% inFY19. 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, an established brand, and a diversified product portfolio. The company is also looking to gain a crucial edge in the electric two-wheeler market with Bajaj Chetak.

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 3Wvolumes 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 600-800 Cr (~Rs650 Cr 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 16,000 Cr as of Mar'21) provides steady treasury income as well as enhances the company's financial flexibility. The strong financial risk profile will help BA 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. Even though the revised dividend policy will result in limited accretion to networth and lower net cash accruals, the financial risk profile is expected to remain robust with a strong liquidity surplus.

Key Growth Drivers

Premiumization Strategy

The company has adopted a three-pronged strategy for profitable growth in domestic motorcycles comprising

1) Volume expansion in the mid-segment (Pulsar 125),

2) Upgrading the entry-level segment (CT100/110, Platina 110) and,

3) Expanding its market share in the premium segment.

The company plans to offer new launches/upgrades each quarter focused on the 100-110cc, 125cc and 250cc segments to support this strategy. Increasing traction in Pulsar 125cc (commands 24% market share in the 125cc segment despite being the most expensive amongst competition) is helping the company to gain market share in the 125cc segment where Hero and HMSI have a strong presence with their brands such as Glamour, Splendor, and CB Shine. The success of Pulsar 125cc can be attributed to its classy look and appeal which the younger customers are looking for in the Entry-level segment. The under-40 generation having the wallet size and sufficient access to bank credit will drive sales in the Sports and Super Sports segment. The company expects to further strengthen its position in the premium segment with upper-end Pulsars, KTMs, Dominars, and Husqvarnas, and the soon to be launched Triumphs.

Strong positioning and pricing power in export markets

The export volume outlook is upbeat led by increasing traction in personal mobility and entering into new geographies. Market share of the premium motorcycle segment (Pulsar and Dominar) is improving. It aims to deepen market share in existing markets (its overall market share is ~30-34% in its targeted markets). ~85% of its revenues come from markets where it is either market leader or close number 2 player and has a minimum 25% market share. We expect the company will continue to gain market share in the export market led by superior product offerings, better distribution network, lean cost structure due to high economies of scale, and higher resale value. Due to Covid-19 related restrictions in most countries, recovery in 3Wsbusiness has been slow. However, an increased focus on new segments such as Cargo plus the launch of new and refreshed RE variants led to the recovery in the H2FY21.3W export growth is recovering well, driven by the company's entry into new markets and this will continue going forward.

Leadership in the domestic 3W segment

Despite a sharp volume decline in the 3W industry, the company was able to improve its market share by 160bps to 60% led by a significant gain in the export market share. Bajaj has 3 models in the 3W segment – RE, Maxima Z, and Maxima C. This year, the domestic 3W volumes are down 66% due to the pandemic, as commuters shy away from shared mobility to personal. Commercial 3Ws have come back to pre COVID levels, but passenger 3Ws, which is almost 80% of the company's sales and is yet to see recovery. This is mainly as this segment is operating at only 50-60% utilization. As schools, colleges, and offices open up, the utilizations will improve, which in turn would improve the demand scenario as well. While this is expected to take 1-2 quarters to show effect, improving 3W sales should support overall margins for Bajaj as 3Ws generate superior profitability to that in the 2Ws.

Bajaj Triumph Partnership

The company has entered a non-equity global partnership with Triumph Motorcycles UK to manufacture a new range of mid-capacity motorcycles in India. The alliance will build a new engine and vehicle platform in mid-capacity (200-800cc) and offer multiple options to address different segments in this class. The partnership aims to leverage Triumph's global brand presence and technology along with Bajaj Auto's cost-efficient manufacturing capabilities and vast sales network, to bring to market an affordable range of motorcycles.

Bajaj Auto Dec'20 announced its intent to set up a new manufacturing plant in Chakan, Pune. The company has signed an MoU with the Government of Maharashtra to set up a manufacturing facility with a proposed investment of Rs 650 Cr. The facility is expected to start production in 2023 and will be used to manufacture high-end KTM, Husqvarna, and Triumph motorcycles. This new plant will play a critical role in boosting the company's manufacturing capacity for high-end motorcycles and in turn help BA increases its share in the Indian and Global 2W markets. Having pulled off a successful synergy with KTM almost a decade ago, we believe Bajaj can repeat the same with Triumph (while continuing its growth journey with KTM) in the coming years.

Chetak e-scooter to drive re-entry into the Scooter segment

In the scooter segment, Bajaj made an entry into the electric scooter segment which was planned to be launched in 2020 but was re-launched in Apr'21 due to the Covid-19 disruptions.The company launched 2 models – Chetak premium and Chetak Urbane which use lithium-based batteries and can run for around 95km on a single charge in Eco mode.Bajaj has received an overwhelming response for these launches and started taking bookings and delivery has started for bookings done in April 2021.

To cater for the emerging opportunity for the EV future, BA is focusing on a) An in-housetechnology to reincarnate brand Chetak in an e-scooter, b) Collaboration with Peirer Mobility (associate partner of KTM) forproduction of high power e-2Ws at KTM AG, and (c) Supporting Bangalorebasede-2W start-up Yulu (~invested $8 Mn). We expect thesecollaborations to provide an edge in terms of technical expertise as well as during product launches.

Business Outlook & Recommendation

The company has refrained from giving any guidance or outlook in light of prevailing business uncertainties induced by the advent of the Covid-19.

Bajaj Auto is well-placed to capitalize on demand normalization and premiumization trends in the 2W industry which should support profitability and operational performance going forward. Moreover, we expect the company to gain further market share in exports, driven by its market leadership, brand equity, and enhanced distribution network.

The company's margins are expected to improve with premiumization in 2Ws, a higher share of exports, depreciating rupee, RoDTEP scheme incentives, andan increase in the share of 3Ws (higher margins) in the product mix over the medium to long term.

Bajaj Auto remains our preferred pick in the 2W segment given reasonable valuations and strong medium-term growth prospects. We maintain our BUY rating on the stock and keep our TP of Rs 4,250 unchanged (which includes Rs 200/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.

Risks and Mitigation

a) Risk: Absence in the scooter segment and a modest presence in the economy segment

The Economy segment accounted for 54% of the domestic motorcycle volumes in FY21. Although Bajaj is the 2nd largest player in the economy segment, its market share has remained modest at 14-18%. Furthermore, the share in this segment has reduced from about 17% in FY20 to 14% in FY21. Bajaj has also been absent from the scooter segment.

Mitigation: The company is looking to gain a crucial edge in the electric 2W market with Bajaj Chetak and thereby is entering into the scooter segment. Moreover, it is focusing more on premiumization, thereby upgrading its customers to higher CC products and launching upgraded versions of the economy segment models.

b) Risk: 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.

Mitigation: The company has been able to maintain its healthy market share over the years through strong product development and diversified product portfolio and is expected to continue toprotect and grow its market share moving forward.

c) Risk: Commodity Cost Inflation

Rising RM costs headwinds may have an impact on the company's margins and profitability.

Mitigation: BA should be able to achieve better operational performance in the medium term backed by its solid premiumization strategy, improving mix, and tighter cost controls. Moreover, any meaningful softening in the commodity costs (steel, aluminium, palladium, rhodium) should drive the margin trajectory higher.

d) Risk: 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.

Mitigation: The semiconductor issue is expected to normalize going forward in the 2nd half of the year. It is primarily impacting the production of KTM and EV bikes which are a small part of overall sales. The container availability is expected to improve as the world economy opens up and freight rates are also expected to normalize going forward.

Financial Statement Analysis

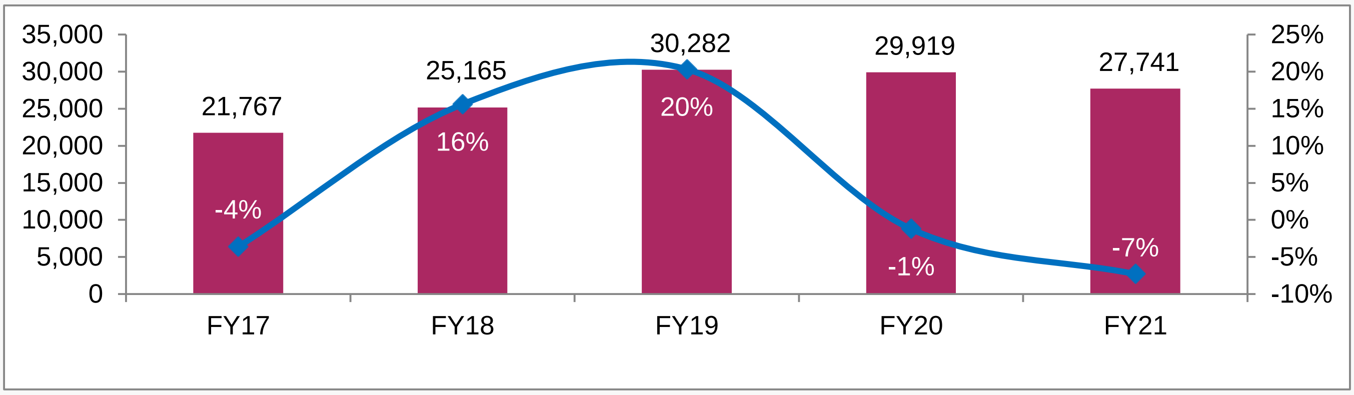
Profitability Analysis

(Rs Cr)

Particulars	FY20	FY21	Change	Comments
Sales	29,919	27,741	(7%)	Revenue declined led by a 15% fall in the domestic revenue, partially offset by a 4% increase in the exports and 6% in the spare parts
Raw Materials	21,008	19,610	(7%)	Total RM cost declined in proportion to the revenue decline in FY21.However, it increased slightly as the % of total revenue due to the commodity cost inflation.
Gross Profits	8,910	8,131	(9%)	Gross Margins fell by 47bps to 29.3% in FY21 attributed to an increase in the raw material prices and the inability to immediately pass on all the cost increases.
Operating Expenses	3,814	3,203	(16%)	Operating expenses were lower on account of lower staff costs and other cost control initiatives undertaken by the company throughout the year.
Interest	3	7	111%	
EBIT	4,850	4,669	(4%)	EBIT declined marginally on account of lower Gross Margins.
PAT	5,100	4,555	(11%)	Profits declined by 11% in line with a decrease in sales and overall margins.
EPS	176	157	(11%)	

Source: The company; Axis Securities

Exhibit 12: Revenue (Rs Cr) & Revenue Growth Trend (%)



Source: Company, Axis Research

Growth Indicators

Particulars	FY20	FY21	Change	Comments
Revenue	29,919	27,741	(7)	Revenue declined led by a 15% fall in the domestic revenue, partially offset by a 4% increase in the exports and 6% in the spare parts
EBITDA	5,096	4,929	(3%)	EBITDA declined on account of high commodity inflation impacting Gross Margins
PAT	5,100	4,555	(11%)	PAT declined on account of an overall decline in revenues, volumes, and margins
EPS	176	157	(11%)	EPS decline in line with PAT

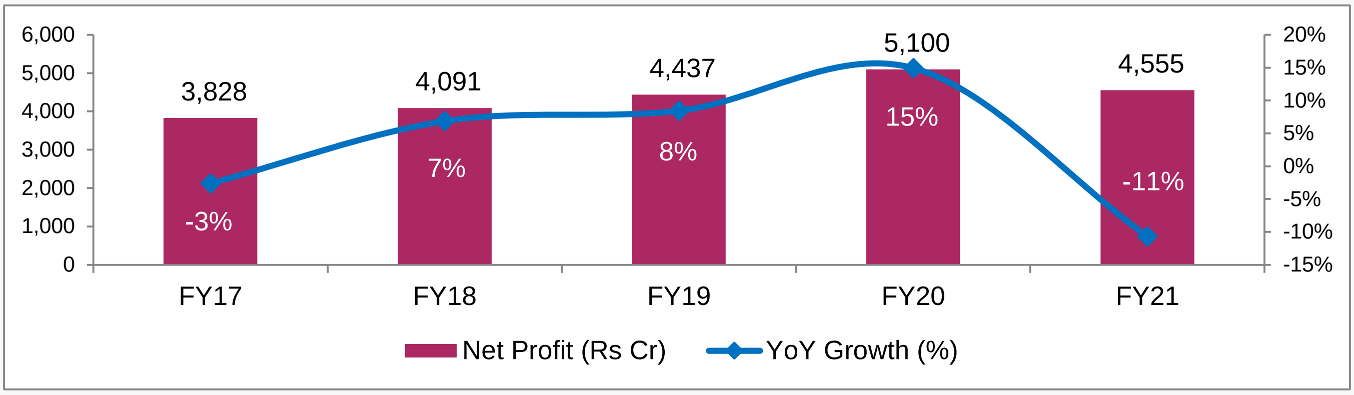
Source: The company; Axis Securities

Profitability Margins

Particulars	FY20	FY21	Change	Comments
GPM	29.8	29.3	(47 bps)	GPM was lower due to RM cost inflation
EBITDAM	17.0	17.8	73 bps	EBITDA margin improved due to better cost control measures undertaken and better product mix
PATM	17.0	16.4	(63 bps)	PAT margin was lower on account of higher interest income and lower-than-expected non-operating income

Source: The company; Axis Securities

Exhibit 13: Net Profit (Cr) & Net Profit Margin Trends (%)



Source: Company, Axis Research

Financial Ratios

Particulars	FY20	FY21	Change	Comments
ROE	22.8%	19.0%	(380 bps)	ROE contracted due to lower profits on account of Covid-19 related lockdown/disruptions
ROCE	22.2%	18.6%	(366 bps)	ROCE contracted due to Lower profits on account of Covid-19 related lockdown/disruptions
Debtors Turnover Ratio	16.9	10.0	(6.9)	Lower turnover due to Covid-19related lockdowns/disruptions and inc in o/s due to the challenging business environment
Inventory Turnover Ratio	19.8	13.1	(6.7)	Lower turnover due to Covid-19 related lockdown/disruptions and increase In the overall inventory value.
Current Ratio	1.6	2.5	0.9	Value of investments maturing within 1 year has gone up from Rs 2,780 Cr in FY20 to Rs 8,028Cr in FY21
Operating Profit Margin	16.7%	17.3%	60 bps	
Net Profit Margin	16.1%	15.7%	(40 bps)	
Return on Net Worth	25.6%	18.1%	(750 bps)	Lower profits due to Covid-19 related lockdown/disruptions

Source: The company; Axis Securities

Forex Analysis

The company has significant exports and is therefore exposed to foreign exchange risk arising from the foreign currency transactions, primarily with respect to the USD. The company's risk management policy permits the use of plain foreign exchange forward contracts and foreign currency option contracts including Foreign Currency - INR Option Cost Reduction Structures to hedge forecasted sales.

Exposure in USD Mn – Hedged

Particulars	FY20	FY21	Change	Comments/Analysis
Receivables	62.7	134.2	71.5	N.A.
Payables	24.2	15.8	(8.4)	N.A.
Others (EEFC Balances)	22.3	63.3	41.0	N.A.

Source: The company; Axis Securities

Contingent Liability Analysis

Particulars	FY20	FY21	Change	Comments/Analysis
Claims against the company not acknowledged as debts	223.1	205.3	(17.9)	The outflow is not probable and hence no provision has been made by the company
Excise, Service Tax and Customs matters under dispute	363.7	363.4	(0.3)	The outflow is not probable and hence no provision has been made by the company
Income tax matters	915.0	872.3	(42.6)	The outflow is not probable and hence no provision has been made by the company
Value Added Tax (VAT)/Sales tax matters under dispute	125.4	123.3	(2.1)	The outflow is not probable and hence no provision has been made by the company

Source: The Company, Axis Securities

Related Party Transactions

Particulars	FY20	FY21	Change	Comments/Analysis
PT.Bajaj Auto Indonesia	3.5	1.4	2.2	Transaction in the normal course of business with Subsidiary for services received
Bajaj Holdings & Investment Ltd.	26.2	42.3	16.1	Transaction in the normal course of business with Associates, Joint Ventures & Investing Parties for business support services received
Bajaj Finserv Ltd	67.8	51.4	(16.3)	Transaction in the normal course of business in which some directors/ KMP are interested
Bajaj Allianz General Insurance Co. Ltd.	17.0	15.4	1.6	Insurance premium paid
KTM AG & its subsidiaries	702.5	1314.0	611.5	Transaction in the normal course of business with Associates, Joint Ventures & Investing Parties for sale of vehicles & materials and royalty payments
Husqvarna Motorcycles GmbH	18.3	155.9	137.6	Same as above

Source: The Company, Axis Securities

Corporate Social Responsibility (CSR)

- The company's CSR function comprised initiatives in the areas of COVID-19 assistance, environment sustainability, water conservation, healthcare, education, among others, among others.
- The company spent Rs128 Cr in FY21 which is above ~2% of the average net profits of the company.

Key Balance Sheet Takeaways

- Net Worth increased to Rs 25,202 Cr in FY21 from Rs 19,925 Cr in FY20. The company has not raised any Equity Capital during the year leading to the unchanged Equity Share Capital at Rs 289.4 Cr. Reserves and Surplus increased to Rs 24,913 Cr from Rs 19,636 Cr in FY20.
- Book Value per share increased to Rs 871 from Rs 689 in FY20.
- Bajaj Auto remains a net cash company. Cash and cash equivalent stood at Rs 527 Cr.
- ROE/ROCE stood at 19%/18.6%.

Key Cash Flow Takeaways

Particulars	FY20	FY21	Change	Comments/Analysis
PBT	6,743	6,083	(10%)	PBT was lower on account of lower EBITDA
Non-cash expenses				
Depreciation	246	259	5%	Depreciation increased due to an increase in PPE
Finance Cost	3	7	133%	Interest cost more than doubled
Others	652	81		Lower due to falling in other income
Working Capital Adjustments	419	(872)	(308%)	Increased due to stretched payables & receivables during the year
CFO	5,766	3,942	(32%)	Declined 32% YoY due to adverse impact of covid on sales
CFI	770	(4,616)		Lower due to increasing in investments
CFF	(7,150)	893		Higher due to exclusion of dividend from CFF
Capex	(195)	(183)		The company incurred lower Capex as compared to LY
Free Cash Flow Generation	5,570	3,759		FCF generation was lower due to higher CFI outflow and lower CFO generation

Source: The Company, Axis Securities

Working Capital Management

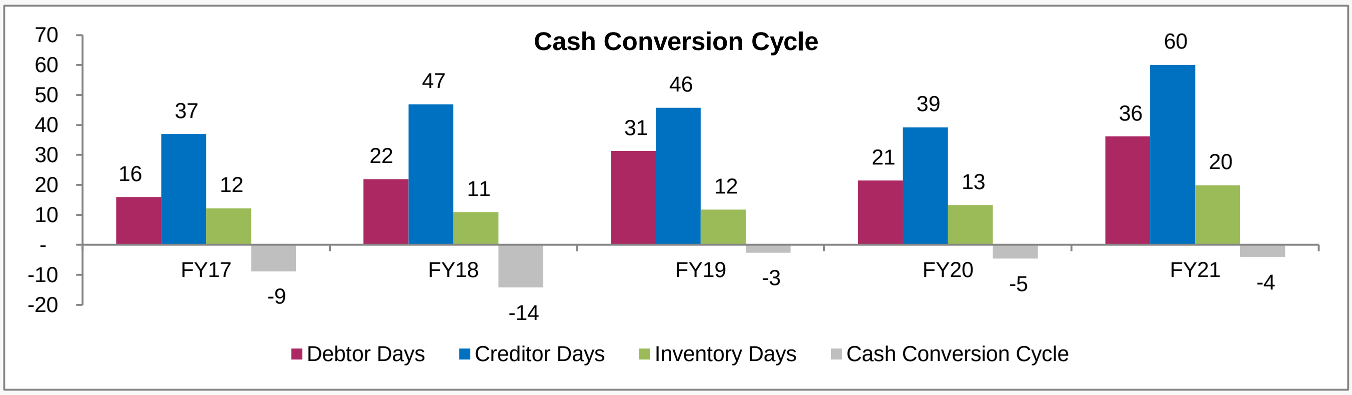
Despite a challenging FY21,the company has managed its working capital cycle efficiently. Inventory days increased to 20 days from 13 days YoY and stood at Rs 1,494 Cr due to lower dispatches in Q1FY21 due to the Covid-19 restrictions. Debtor days increased significantly to 36 days versus 21 days YoY. Creditors' payable days increased to 60 days from 39 days in FY20. The cash conversion cycle stood at -5 days in FY21.

Cash Conversion Cycle

Particulars	FY20	FY21	Change	Comments
Inventory Days	13	20	7	Inventory days increased due to lower dispatches in the 1st quarter
Trade Receivables	21	36	15	Receivable days increased due to higher & liberal credit terms offered to debtors in the wake of Covid-19
Trade Payables	39	60	21	Trade payable days increased due to better credit terms with suppliers
Cash Conversion Cycle	(5)	(5)		Overall CC remained stable at negative 5 days

Source: The Company, Axis Securities

Exhibit 14: Cash Conversion Cycle



Source: Company, Axis Research

Financials

Profit & Loss

(Rs Cr)

Y/E March	FY20A	FY21A	FY22E	FY23E
Net revenues	**29,352**	**27,408**	**36,029**	**41,831**
Operating expenses	24,655	22,668	29,919	34,232
EBITDA	**4,698**	**4,740**	**6,110**	**7,599**
EBIDTA margin (%)	**16.0**	**17.3**	**17.0**	**18.2**
Other income	2,295	1,609	1,330	1,660
Interest	3	7	10	10
Depreciation	246	259	263	268
Profit Before Tax	6,580	5,939	7,166	8,981
Tax	1,480	1,384	1,666	2,088
Reported Net Profit	**5,100**	**4,555**	**5,500**	**6,893**
Net Margin (%)	17.4	16.6	15.3	16.5
Adjusted Net Profit	**5,226**	**4,665**	**5,500**	**6,893**

Source: The company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20A	FY21A	FY22E	FY23E
Equity capital	289.4	289.4	289.4	289.4
Reserves & surplus	19,636	24,913	25,459	26,160
Shareholders' funds	**19,925**	**25,202**	**25,749**	**26,450**
Total Loans	126	122	122	122
Deferred tax liability	346	522	522	522
Total Liabilities and Equity	**20,398**	**25,846**	**26,393**	**27,094**
Gross block	4,078	4,291	4,786	5,325
Depreciation	2,419	2,679	2,942	3,210
Net block	1,659	1,613	1,844	2,115
Capital WIP	47	16	72	83
Investments	18,250	22,683	22,683	22,683
Inventory	1,064	1,494	1,967	2,251
Debtors	1,725	2,717	2,468	3,438
Cash & Bank Bal	308	527	2,091	2,359
Loans & Advances	1,721	2,480	2,199	2,193
Current Assets	**4,818**	**7,218**	**8,725**	**10,242**
Sundry Creditors	3,454	4,982	6,005	6,972
Other Current Liability	921	702	926	1,056
Current Liability& Provisions	4,375	5,684	6,931	8,028
Net current assets	443	1,535	1,794	2,213
Total Assets	**20,398**	**25,846**	**26,393**	**27,094**

Source: The company, Axis Securities

Cash Flow **(Rs Cr)**

Y/E March	FY20A	FY21A	FY22E	FY23E
EBIT	4,451	4,481	5,846	7,331
Other Income	2,295	1,609	1,330	1,660
Depreciation & Amortization	246	259	263	268
Interest Paid (-)	(3)	(7)	(10)	(10)
Tax paid (-)	(1,480)	(1,384)	(1,666)	(2,088)
Extra Ord Income	(162)	(144)	-	-
Operating Cash Flow	**5,346**	**4,814**	**5,763**	**7,161**
Change in Working Capital	419	(872)	1,304	(151)
Cash Flow from Operations	**5,766**	**3,942**	**7,067**	**7,010**
Capex	(195)	(183)	(550)	(550)
Strategic investments	(11)	-	-	-
Non-Strategic Investments	976	(4,433)	-	-
Cash Flow from Investing	**770**	**(4,616)**	**(550)**	**(550)**
Change in borrowing	1	(4)	-	-
Others	(2,965)	4,949	0	0
Dividends paid (-)	(4,186)	(4,051)	(4,954)	(6,192)
Cash Flow from Financial Activities	**(7,150)**	**893**	**(4,954)**	**(6,192)**
Change in Cash	(615)	219	1,564	268
Opening Cash	923	308	527	2,091
Closing Cash	308	527	2,091	2,359

Source: The company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY20A	FY21A	FY22E	FY23E
Revenue Growth	19.8	(1.5)	(6.6)	31.5
EBITDA Margin	15.7	16.0	17.3	17.0
Net Profit Margin	15.1	17.8	17.0	15.3
ROCE (%)	20.5	22.2	18.6	19.3
ROE (%)	21.0	22.8	19.0	19.7
EPS (Rs)	155.8	180.6	161.2	190.1
P/E (x)	18.7	11.2	22.8	19.8
P / BV (x)	3.9	2.9	4.2	4.2
EV / EBITDA (x)	17.9	12.4	22.3	17.5
Fixed Asset Turnover Ratio (x)	17.0	17.2	16.8	18.8
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.8	2.0	3.9	3.0
Sales/Net Worth	1.4	1.5	1.1	1.4

Source: The company, Axis Securities

Bajaj Auto Price Chart and Recommendation History

Date	Reco	TP	Research
28-Aug-20	BUY	3,300	Initiating Coverage
03-Sep-20	BUY	3,300	Company Update
28-Sep-20	BUY	3,300	Auto Sector Update
23-Oct-20	BUY	3,500	Result Update
23-Nov-20	BUY	3,500	Pick of the week
22-Jan-21	BUY	4,150	Result Update
12-Mar-21	HOLD	4,150	Company Update
30-Apr-21	BUY	4,250	Result Update
22-Jul-21	BUY	4,250	Result Update
02-Sep-21	BUY	4,250	AAA

Source: Axis Securities

About the analyst

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Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.

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