

Bajaj Auto Q4FY20

Financial Results & Highlights

Brief Company Introduction

Bajaj Auto Ltd has been one of the largest automobile players in India for a long time. They have been in operations since 1945. Bajaj Auto operates primarily in the entry level and premium segment motorcycles along with small and large three wheeler commercial vehicles segment. It is the largest three wheeler manufacturer and third largest motorcycle manufacturer in the world. They are now present in more than 70 countries around the world. Bajaj Auto also owns Force Motors and is a part owner of the popular Austrian motorcycle brand KTM.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	7349	7789	-5.65%	8006	-8.21%	31652	31796	-0.45%
PBT	1721	1876*	-8.26%	1671	2.99%	6580	6703*	-1.83%
PAT	1310	1306	0.31%	1262	3.80%	5100	4675	9.09%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	7243	7789	-7.01%	8006	-9.53%	31443	31702	-0.82%
PBT	1765	1979*	-10.81%	1732	1.91%	6692	6956*	-3.80%
PAT	1354	1408	-3.84%	1322	2.42%	5212	4928	5.76%

*Contains an exceptional item of reverse charge of Rs 342 Cr which was added to PBT

Detailed Results:

- The revenues for the quarter were dismal with a fall of 5.6% and 7% YoY respectively in both standalone and consolidated terms for Q4. FY20 revenues were mostly flat for the year.
- Profits were also down with fall in PAT of 0.3% and 3.8% YoY respectively in standalone and consolidated terms respectively. This was mainly due to the exceptional item mentioned above.
- The volumes sold for the quarter stood at 991,961 units. The volumes sold for the year was at 4,615,212 units.
- The export volumes were at the highest ever level at 562,772 units in Q3.
- The YoY changes in volumes for the quarter are as follows:
 - Domestic:

Domestic	Q4FY20	FY20
Motorcycles	-34%	-18%
CV	-27%	-8%
Total	-33%	-17%

○ Exports:

Exports	Q4FY20	FY20
Motorcycles	15%	10%
CV	-29%	-21%
Total	7%	4%

○ Total:

Total	Q4FY20	FY20
Motorcycles	-15%	-7%
CV	-28%	-15%
Total	-17%	-8%

- The domestic motorcycles industry declined 18% YoY in FY20.
- The overall share in the domestic motorcycle market grew close to 18.5% in FY20 vs 18.7% in FY19.
- In FY20, CT100 sold 480,000 units while CT110 sold 194,000 units. Platina sold 578,000 units while Platina 110H sold 154,000 units.
- The recently launched Pulsar 125 sold over 160,000 units.
- In the 150cc+ segment, the company continues to maintain its dominance. Pulsar, along with Avenger, sold over 747,000 units in FY20 and maintained a market share of 44.7%.
- KTM sold 64,000 units in FY20 which is a growth of 26% YoY. With the RS200 & Dominar, the company improved its market share 270 bps to 10.1% in FY20.
- The company launched 3 new bikes in the quarter which are Husqvarna Svartpilen 250, Husqvarna Vitpilen 250 and Dominar 250.
- In the CV segment in FY20, the company sold over 365,000 units and maintained a market share of 57.3%.
- In the RE brand, the company maintained a market share of 89.7% in FY20, an improvement of 360 bps YoY.
- In the MAXIMA brand, the company maintained a market share of 38.5% in FY20, an improvement of 140 bps YoY.
- In the Goods carrier segment, the division declined 2% YoY against an industry decline of 13% YoY and a market share of 27.2% in FY20, an improvement of 330 bps YoY.
- In the international business segment, the company sold over 2.17 million units which were 4% up YoY and generated revenues of \$1.642 billion.
- IN exports, Motorcycles sold over 1,849,000 units with a growth of 10% YoY in FY20.
- The commercial vehicle exports excluding Egypt grew 6% YoY. Total exports in this division was 301,000 units in FY20.
- The company is now selling in 79 countries with a top 2 position in 22 of these nations.
- The proportionate profit from KTM AG for the company in FY20 was Rs 322 Cr.
- The company declared and paid out a dividend of Rs 120 per share in Q4.
- The company maintained a surplus cash and cash equivalents position of Rs 14,332 Cr as of 31st March 2020.
- The company saw complete plant shutdown of 32 days in FY21 and although facilities have been opened in Chakan, Waluj and Pantnagar, they are not working at full pace.

Investor Conference Call Highlights

- The demand for motorcycles in Nigeria has certainly been affected by COVID-19 but the biggest concern for the company in the country remains the issue of currency devaluation.
- Overall, the company is seeing retail sales of 35% of the normal rate since the start of COVID-19 including all of its international markets.
- Almost 50-60% of dealerships for the company are in green zones. They are seeing 50% productivity in sales. Service is seeing 65-70% of normal levels.
- The company saw margin improvement in the quarter mainly due to the shift in product mix towards CVs and exports in Q4. Favourable forex has also helped bring up realizations.
- The management believes that there should be a case of positive demand coming from the fall in the use of public transport due to the COVID-19 pandemic and the change in consumer behaviour post the pandemic. But it is still too early to predict when and how this demand will rise.
- The management believes that Q2 shall also be a quarter for disentanglement of demand for the company and Q3 onwards the company should see steady demand coming in.
- The management does not believe that there will be widespread down trading as the customers who have graduated to a higher segment will not be willing to go back down a segment. But within the segment boundaries, the customer will definitely be looking for value for money.
- The management has stated that financing is much higher in three-wheelers than in motorcycles and three-wheeler portfolios of financiers have seen serious drop off during the lockdown. This is expected to reverse quickly when the lockdown is lifted and normal economic activity resumes.
- The management believes that due to the restriction on the number of people that can travel in a three-wheeler, the amount of damage done is greater for big three-wheelers than in small three-wheelers where the company has the dominant brand of RE. This is in addition to the fact that the price increases for large three wheelers from BSVI have been greater than those in small three-wheelers like RE.
- The company is not facing any issues with inventory and can run at 50-75% utilization at its plants whenever required in case of a shortage in inventory.
- The price increases that the company implemented is mainly a way to reshape the portfolio mix.
- The management has admitted that the number of inquiries has gone down but the conversion ratio is expected to rise significantly as only serious buyers are expected to make an inquiry for June and complete the sale.
- The company has seen good market capture in Africa and the management expects the company's market share to rise to 38% for the whole continent soon. The threat from Chinese competitors in this continent is low mainly due to the small size and fragmented nature of competition here.
- The management does not believe that there will be any threat of shift from the bike taxis in Africa as there isn't any suitable alternative in place to replace this transportation medium since public transport is nil here. But still the company is focused on developing the private ownership segment here which is still minuscule and has good potential in mature markets and industrialized nations in the continent.
- The management has clarified that the company does not need to fear much from the bike taxi ban in Lagos as the Lagos market is just 10-15% of the overall bike taxi market in the country.
- The management believes that the sales of entry-level motorcycles should suffer the most in the short term since this the segment which is most cash-driven. It has also stated that financiers will hesitate to finance this customer segment which may lead to lower sales in this division. The third reason will be the mandatory price increases due to BSVI.

- Other than the running cost advantages of the smaller three-wheelers, the management believes that the economics of going for CNG will also play out in favor of smaller three-wheelers as compared to large three-wheelers.
- The % of first buyers for the company was at 56-59% depending on the segment.
- The management believes that financing for three-wheelers may have become more difficult as compared to two-wheelers as three-wheelers are used for business which has been affected by negatively affected by COVID-19 while there isn't a direct threat to two-wheelers as it is a personal vehicle.
- The management has refrained from maintaining any guidance on the EBITDA margin as the margin is heavily dependent on product mix which is hard to predict at the moment.
- In terms of hedges, the company has already covered around 70-75% of its post lockdown targets.
- The management has identified ASEAN as the next frontier for the company. The management will also look for entry into Brazil and Europe.

Analyst's View:

Bajaj Auto has been a long performing player in the automobile sector that has established itself as a dominant player in all the segments that it operates in both in India and abroad. Despite the expected decline in domestic business, the export business has helped raise the overall performance of the company. Q4 was a dismal quarter for the company especially in terms of domestic sales. The company did well to maintain its market share in the industry decline and rapidly raise its export proportion. The lockdown due to COVID-19 has hit the auto industry particularly hard and the company is no exception. But the company is expected to have managed better than its competitors mainly due to its performance in international markets. It remains to be seen how long will it take for the auto industry to revive from the triple threats of demand slowdown, BSVI price increases, and COVID-19 disruption. Nonetheless, given the company's position in export markets and its strong presence in all market segments in the two-wheeler market and three-wheeler markets, Bajaj Auto remains a pivotal auto sector stock to watch out for.

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