Bajaj Auto Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	9279	8006	15.90%	7442	24.68%	20138	24304	-17.14%
PBT	2033	1671	21.66%	1485	36.90%	4200	4859	-13.56%
PAT	1556	1262	23.30%	1138	36.73%	3223	3790	-14.96%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	9279	8006	15.90%	7442	24.68%	20138	24200	-16.79%
PBT	2193	1732	26.62%	1541	42.31%	4283	4927	-13.07%
PAT	1716	1322	29.80%	1194	43.72%	3306	3858	-14.31%

Detailed Results:

- The revenues for the quarter were at its highest ever levels exceeding Rs 9000 Cr with a rise of 16% YoY and an improvement of 30% YoY in PAT for Q3. 9M figures remain subdued with revenues down 17% YoY and profits down 14% YoY.
- The volumes sold for the quarter stood at 1,306,810 units which is a rise of 9% YoY.
- The export volumes were at 687,111 units in Q3 which was up 22% YoY.
- EBITDA margin was at 19.8% vs 18.4% last year.
- The YoY changes in volumes for the quarter & H1 are as follows:
  - Domestic:

Domestic	Q3FY21	9MFY21
Motorcycles	8%	-21%
CV	-65%	-78%
Total	-3%	-30%

  - Exports:

Exports	Q3FY21	9MFY21
Motorcycles	26%	-13%

CV	0%	-24%
Total	22%	-14%

- Total:

Total	Q3FY21	9MFY21
Motorcycles	16%	-17%
CV	-36%	-54%
Total	9%	-23%

- The overall share in the domestic motorcycle market grew close to 18.6% in Q3FY21 from 17.5% last year.
- Pulsar and Boxer had their highest ever sales in a quarter of over 420,200 & 380,000 units respectively.
- Domestic CV volumes continue to remain muted and are dependent on the return of adequate short distance mobility demand.
- Export continues to perform very well, with highest ever export volumes. This is despite the shortage of shipping containers which
- Pulsar125 witnessed strong traction with sales of over 164,000 units; growth of 32% over Q2FY21; market share for Pulsar125 in its segment has grown to 22.8% for Q3FY21.
- The company maintained surplus cash and cash equivalents at Rs 16891 Cr as of 31st Dec 2020.
- The company signed an MoU with Maharashtra Govt to set up a new manufacturing facility at Chakan, Maharashtra for the manufacture of high-end motorcycles and electric vehicles, at a proposed investment of Rs 650 Cr. Production at the facility is expected to commence from 2023 onwards.

Investor Conference Call Highlights

- The management acknowledged that a rebound effect or pent-up demand is returning as economies emerge from the pandemic.
- The export recovery and rise was mainly due to the company's top 2 position in most export countries which helped it capture much of the economic recovery in those regions.
- South Asia, with the exception of Sri Lanka, is back to pre-COVID levels.
- The Philippines is still at 50% of pre-COVID levels.
- In three-wheelers, LatAM is back to 50%; ASEAN is struggling at 25%; & for all others in Africa & Middle East are at or higher than pre-covid levels.
- The container availability posed a huge challenge with 15% of order book getting spilt over to the next month.
- Despite the rise of Pulsar 125, the core Pulsar segment of 150+ cc is protected and cannibalization is well maintained.
- The company is looking to build the 250+ cc segment around 4 models in Bajaj, KTM and Husqvarna. KTM and Husqvarna have seen 35% growth in these brands in India.

- The company has seen some cannibalization action in 150 Neon due to the Pulsar 125 and the raising of prices for entry-level 150.
- Sales of CVs have recovered only to 40% levels. the cargo three-wheeler segment is outperforming others and is back to about 70% level of normal times.
- The company is expecting high growth in Q4 due to continued momentum and low base in Q4FY20.
- The company did price increases in Jan to offset RM cost rise and MEIS in international markets.
- The cost increase in Q3 was 3% of revenues. This was mainly due to rise in prices of steel and aluminium. The company is not getting any indication from any steel or aluminium manufacturer that they're going to roll back these prices anytime soon.
- The company is running with export stocks slightly behind retail right now.
- The main reason for the company's robust export performance is the competitive positioning where 85% of exports are to countries where it has more than 25% market share and wide dealer network with assembly plants and service facility.
- KTM added around Rs 160 Cr to consolidated profits. KTM has done very well in e-bicycles which have boomed since the start of COVID-19.
- The management has stated that other expenses which are primarily advertising and promotion will come back to pre-covid levels as consumer schemes run down.
- The company expects to capture the rise of 3 wheelers fast when demand rises because three-wheeler is almost 100% financed which shall aid in fast sales whenever needed.
- There shouldn't be any noticeable rise greater than 1-2% in employee costs as ramping up production does not require additional manpower for the company.
- The company expects the 3 wheeler industry to show 15-20% growth in FY22 once normalcy comes back. The company is not in a hurry to launch electric 3 wheelers as it is more focussed on the development of necessary infrastructure for charging and cost reductions.
- The management has stated that the Pulsar 125 experience has inspired the company to push the industry into better products and premium products in the bottom half of the industry. Although competition is tough in this segment, the management is confident that Bajaj Auto can compete on the basis of getting the customer to upgrade to better products and better formats.
- The management has stated that given the targeted promotion plans and their intensity, there shouldn't be any durable cost savings in other expenses going forward as compared to pre-covid times.
- The company is expected to have a blended tax rate of 23.5%.
- The company will be looking to retire the Pulsar 150 Neon as the price increase has been pushing most customers to Pulsar 125. But the overall market share gain from Pulsar 125 is much greater than for Pulsar 150 Neon.
- Electric start is now 75% of all motorcycles for the company and Bajaj is aiming to bring this number up to 100%.
- Overall price increases were 1% in Jan across all models.
- The company will be focussing on comprehensive brand building in the higher segments to be able to compete with the like of Royal Enfield.
- The dollar realization in Q3 was around $20 million.
- Overall spare parts revenue was at Rs 990 Cr.
- The proposed plant at Chakan will be making primarily high-end bikes for KTM, Husqvarna and Triumph. It will also have some capacity to make electric vehicles but it will not be making the company's flagship models like Pulsar.

- The company has pulled back on bookings for the electric Chetak as there were a lot of vulnerabilities in the sourcing from Wuhan and shortage in semiconductors worldwide. The company will be looking to fix these weaknesses first before looking to go forward with the launch. The management expects this product to have rolled out in top 24 cities in India by the end of FY22.
- The management has stated that it is planning for 1-2 launches in each quarter in 2021.

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. The company has seen a phenomenal quarter with its highest ever revenues, export volumes and export revenues in Q3. The company has seen good momentum continue in Pulsar 125 which has managed to capture 23% market share despite being the most expensive bike in the category, all within 6+ months of launch. The recovery of the 3 wheeler segment on the other hand continues to be slow but Bajaj is confident of capturing the recovery momentum when it comes. It remains to be seen whether the recent rise in demand is sustainable and how will the RM costs fare out in the near future. 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.