

Bajaj Auto Q1FY21

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)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3417	8197	-58.31%	7349	-53.50%
PBT	682	1579	-56.81%	1721	-60.37%
PAT	528	1126	-53.11%	1310	-59.69%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3417	8093	-57.78%	7243	-52.82%
PBT	549	1465	-62.53%	1765	-68.90%
PAT	396	1012	-60.87%	1354	-70.75%

Detailed Results:

- The revenues for the quarter were dismal with a fall of 58% YoY in both standalone and consolidated terms for Q1.
- Profits were also down with a fall in PAT of 53% and 61% YoY respectively in standalone and consolidated terms respectively.
- The volumes sold for the quarter stood at 443,103 units.
- The export volumes were at 251,840 units in Q1.
- The YoY changes in volumes for the quarter are as follows:
 - Domestic:

Domestic	Q1FY21
Motorcycles	-70%
CV	-94%
Total	-73%

- Exports:

Exports	Q1FY21
Motorcycles	-55%
CV	-52%
Total	-55%

- Total:

Total	Q1FY21
Motorcycles	-63%
CV	-74%
Total	-64%

- The domestic motorcycles industry declined 73% YoY in Q1 vs Bajaj decline of 70%.
- The overall share in the domestic motorcycle market grew close to 20.7% from 18.5% in FY20.
- In Q1FY21, CT sold 32,000 units. Platina sold over 45,000 units including Platina 110H.
- The recently launched Pulsar 125 sold over 32,000 units.
- Market share in the mileage segment was at 15.5% vs 14.3% in FY20.
- In the sports segment, the company continues to maintain its dominance. Pulsar, along with Avenger, sold over 69,000 units in Q1 with Pulsar 150 selling 49,000 units Market share in this segment rose to 59% vs 44.7% in FY20.
- In super sports segment, the company sold almost 6000 units with a market share of 8.8%
- KTM & Husqvarna sold over 3,400 units in Q1. RS200 & Dominar sold over 2,500 units.
- In the CV segment in Q1FY21, the company had a market share of 42.6%. The industry declined almost 91% in the quarter and Bajaj Auto suffered the most as the dominant player.
- In the RE brand, the company maintained a market share of 80%.
- In the MAXIMA brand, the company maintained a market share of 27%.
- In the Goods carrier segment, the company maintained a market share of 34%.
- In the international business segment, the company sold over 251,000 units.
- Africa declined 50% while South Asia & Middle East declined 63%. Latin America declined by 63% while ASEAN declined by 67%.
- The proportionate loss from KTM AG for the company in March Quarter FY21 was Rs 132 Cr.
- The company maintained surplus cash and cash equivalents at Rs 14232 Cr as of 30th June 2020.

Investor Conference Call Highlights

- Commodity prices have been adverse for the company and are not expected to provide any relief going forward.
- The management states that demand has come back to 75% in motorcycles in June.

- Most markets are now at 75% to 100% of demand in motorcycles and commercial vehicles are at 10% lower than motorcycles.
- The management states that Q2 should not see any price increases and motorcycle gross margins should improve as volumes come back to normal.
- The management expects the road to normalcy for 3 wheelers to take longer as it has been more severely impacted due to drop in ride-hailing and other major business areas for the industry division.
- The trend in 3 wheeler cargo vehicles is expected to be swift due to renewed demand for intracity movement of small cargo.
- The management does not expect any supply chain disruption as demand is slowly coming back and easing pressure on the supply chain.
- The company has seen 80-85% of demand in motorcycles in July.
- Motorcycle inventory levels are running at below 30 days.
- The overall margin profile has been kept buoyant by the good export margins.
- The company has indeed reduced its marketing and ad spend currently but the management assures that the company will indeed loosen its strings on advertising ahead of the demand curve as things return to normal.
- The management is satisfied with the decision to go with the electronic injection system as it reduces the dependence on the proprietary technology for pure fuel injection and decreases price sensitivity for the injection systems that have to be ordered from outside.
- The management has stated that electronic injection is far easier to service and maintain than fuel injection which makes it more convenient for the customer in the long run.
- The company's import content is <5% of requirements and it is mainly those things which are not available in India.
- The company has made a cost reduction of Rs 100 Cr per quarter other than a reduction in marketing and ad spend.
- The current utilization is at 65-70% of overall production capacity.
- The management expects demand from retail to come back swiftly as pent up demand rises driven by agribusiness led small urban areas.
- The management has reassured that there will not be any risk-sharing with Bajaj Finance but there indeed may be some cost-sharing in a product-focused way. The company will not become over-dependent on Bajaj Finance.
- The management has stated that it is difficult to gauge what the new normal level of demand will be since we are still in the middle of the pandemic and cannot accurately gauge how consumer behaviour will evolve in response.
- Around 95% of motorcycle dealerships are open while 85% of CV dealerships are open currently.
- The management is pleased that the quality of demand is not going down and there is no down-trading going on based on the sales figures. The compelling evidence for this is the emergence of Pulsar which is anchoring the company with 50% of total motorcycle sales. Even in the Pulsar brand, the highest-selling one is the more expensive disc brake variant.
- The company expects to hit 10000 units in pro biking sales by September.
- The currency volatility issues plaguing the company in the previous quarter have calmed down considerably.
- The management remains satisfied with the current EBITDA margin of 14.3% in Q1 and remains focused on maintaining the bottom line and market share dominance for the company.

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 mitigate the fall in performance for the company. Q1 was a dismal quarter for the company especially due to more than 68 days of manufacturing inactivity. The company did well to maintain its market dominance and increase market share in motorcycles despite the industry decline. 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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