



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## BAJAJ AUTO

### WHAT WE LIKE

#### ENDURING BRAND CREATION & MAKING STRATEGIC PIVOTS

**1970s & 1980s:** 'Humara Bajaj', the aspirational scooter brand for the mass commuters of India.

**2001:** Launching the iconic brand "Pulsar" & going from a scooter to a motorcycle company.

**2020:** Setting sights abroad. >50% of revenues are derived from exports. Products are sold to 79 countries around the world. Positioning Bajaj brand as "The World's Favourite Indian". Market position of #1 or #2 in >25 countries.

#### RESURGENCE OF PULSAR BRAND

Although the brand has been here for more than 15 years, Bajaj Auto has been able to keep it fresh and relevant by expanding into the 125cc segment. The Pulsar sold over 4,20,000 units in Q3FY21 which was its highest volumes sold in a quarter. Pulsar 125 was instrumental in this resurgence with the model capturing a market share of 22.8% despite being launched almost a year ago.

#### SUCCESS WITH KTM & GOOD RESPONSE TO 250CC+ BRANDS

India is now the largest market for KTM (partly owned by Bajaj Auto). Bajaj Auto is also seeing good response to its other brands in the 250cc+ segment like Dominar, Husqvarna, Duke 250. It will start selling Triumph brand in India soon and has already signed an MoU with Govt of Maharashtra to set up a plant for Rs 650 Cr which will be making high-end motorcycles.



#### STRONG FINANCIALS

- Best operating margin in industry (17% YTM)
- Debt free Balance Sheet
- Surplus Cash of Rs 16240 Cr as on 31st Dec '20.
- Free Cash Flow positive for several years
- 5 year average ROE above 24%
- Record export volumes since 2 quarters.

### WHAT WE DON'T LIKE

#### DOMESTIC 3 WHEELER MARKET SLOWDOWN

Domestic 3 wheeler market in India has been on a prolonged slowdown since 2019. This decline was further pushed down by the COVID-19 pandemic which shut down all forms of public transportation especially short transit segment which was where the majority of 3 wheelers were deployed in India. Although exports have mitigated the fall in domestic market to some extent, the segment still declined 36% YoY in Q3FY21 where domestic segment had fallen 65% YoY in contrast to domestic 2 wheelers which rose 8% YoY in the same period. Recovery for this segment is expected to be slow and likely to start from FY22 onwards.

#### UNCERTAINTY ON MEIS

Bajaj Auto is major exporter from India and was a major recipient of export incentives from the MEIS scheme. But currently due to the overhaul of the MEIS scheme by the govt of India, all export incentives have been temporarily put on hold. This has forced Bajaj Auto to institute price rises to cope with the lack of the incentives which can hurt demand in the short term for the company.

#### THREAT OF DISRUPTION FROM ELECTRIC VEHICLES

Electric Vehicles (2W&3W) in India has not yet picked up meaningful volumes. However, there many VC-funded startups making good in-roads in this field. With the breakthrough of newer technology, these nimble start-ups have the potential to disrupt the industry meaningfully.

Bajaj Auto has forayed into this space with the re-launch of their erstwhile famous brand Chetak in an all electric avatar. However, it is too early to say, how far they can go on this.

#### DELAY IN CHETAK

Bajaj Auto has not been able to deliver on its promise on launching all electric Chetak due to the industry slowdown during COVID-19. The management has stated in the latest investor conference call that it has stopped bookings as there are still a lot of vulnerabilities in the sourcing of RM from Wuhan and shortage in semiconductors worldwide along with the lack of charging infra in India.

We at Smart Sync believe that this announcement has dampened most of hype from the comeback of the Chetak brand and that the new model launch will take a lot longer than anticipated.

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