

CMP: INR 3,571

Rating: Accumulate

Target Price: INR 4,155

Stock Info

BSE	532977
NSE	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
Sector	Auto-2&3 wheelers
Face Value (INR)	10
Equity Capital (INR mn)	2,837
Mkt Cap (INR Mn)	10,33,180
52w H/L (INR)	4,130/3,028
Avg Yearly Vol (in 000')	456

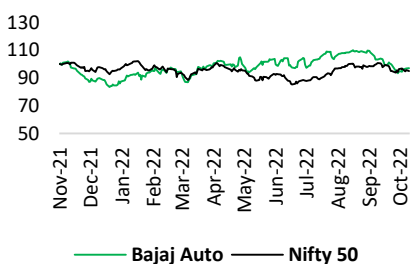
Shareholding Pattern %

(As on June, 2022)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)	1m	3m	12m
Bajaj Auto	-7.2	-7.5	-9.9
Nifty	-4.5	7.8	-6.2

Bajaj Auto Vs Nifty



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Revenue ahead of estimates, led by improved mix: Standalone revenue stood at INR 10,02,028 Mn, against our estimate of INR 98,575 Mn registering a growth 16.4% YoY/ 27.5% QoQ aided by the recovery of volumes on improvement of semi-conductor supplies. Other operating revenue, ~INR 305 Mn towards incentive receivable from State Government of Maharashtra under Package Scheme of Incentive.

EBITDA largely in-line with the expectation: EBITDA stood at INR 17,587 Mn, registering a growth of 25.5%YoY/ 35.6%QoQ. On the margins front, EBITDA margin expansion by 125 bps YoY/104 bps QoQ to 17.2%, against our estimate of 16.9%, led by judicious price increases, dynamic cost management, and better foreign exchange realization. Steady progress being made on building EV portfolio - Chetak 2W sales volume and footprint scaling up. Chetak 2W exit run rate up -2X over previous quarter average continued emphasis on unlocking supply constraints

Rebound in domestic motorcycle market share: Total Volume increased by 0.6%YoY/ 23.3% QoQ to 1,151,012 units. Rebound in domestic motorcycle market share, led by the robust momentum of the sports portfolio. Bajaj Auto EBITDA per Vehicle was increased by 24.8% YoY/10% QoQ of INR 15,015 against 13,892 in Q2FY22.

Exports market headwinds and expecting improvement on the margin front: The key issue in quarter two of the dramatic downturn in seven overseas markets, which are mostly emerging market economies. 2W export volumes are likely to be subdued in the near term (build in 150k/month in H2) due to issues in Africa (lack of dollar availability and currency depreciation). The company is seeing supply improvement in 3Ws and better USD realization improved topline & margins. Metals softened & rupee depreciated further, which will benefit in Q3FY23. The company will be very selective in passing on benefits of soft metals & rupee depreciation. It will mostly reduce product prices in exports to improve some demand.

Outlook and valuation

Bajaj Auto has reported strong performance during Q2FY23 mainly driven by higher ASPs in exports markets aided by a better mix and the benefit of rupee depreciation. Supply chain visibility is much better and expects Q3 to be a lot better than Q2. The operating income was quite strong as the benefit came out from export incentives. In Q2FY23 Bajaj Auto has 60% (FY20: 46%) of its portfolio in 125cc plus segment as compared to industry average of 50%, which is a key driver for improved profitability, and a superior competitive position. Considering the current scenario, we expect better demand improvement in the urban market as well as in rural demand. We value Bajaj Auto at a P/E of 16x to its FY 25E EPS of INR 255 for a fair value of INR 4,081 and INR 74 for KTM stock valuation to arrive at a final reduced target price of INR 4,155 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 4,523). We maintain our Accumulate rating on the stock.

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY22	3,31,447	52,586	50,188	173	15.87	20.6
FY23E	3,97,107	69,783	58,559	202	17.57	17.7
FY24E	4,41,327	78,888	65,396	226	17.88	15.8
FY25E	4,91,539	90,454	73,815	255	18.40	14.0

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2FY23 Conference call

- **Guidance:** Management is seeing supply improvement in 3Ws and better USD realization improved topline & margins. Metals softened & rupee depreciated further, which will benefit in Q3FY23. The company will be very selective in passing on benefits of soft metals & rupee depreciation. It will mostly reduce product prices in exports to improve some demand.
- Supply chain visibility is much better, and management expects Q3 to be a lot better than Q2. The operating income was quite strong as the benefit is coming out from export incentives.
- Other operating income majorly includes export benefits. It was little higher in Q2FY23 as Bajaj has traded some RoDTEP benefits & received higher realization for the same. Apart from export incentives, other operating income also includes scrap sales, royalty, etc.
- There is no need to increase prices for cost recovery.
- Employee cost declined QoQ in Q2FY23, as Bajaj has given increments including one-off various retirement benefits, which is not present in Q2FY23.
- QoQ gross margins declined due to poor geographic and product mix. Q2FY23 has lower export contribution and built-back more commuter level bikes in domestic.
- **Exports:** The motorcycle industry's pace of growth it slow down into one, but in Q2, there was a dramatic double-digit form in gives compared to the same period last year. The signs were visible by the end of Q1, the root cause of this downturn has been a sharp appreciation of the US dollar. Extremely poor availability of the US dollar for trade ASEAN and the impact was not so severe in LATAM as it was in South Asia Middle East and made in Africa.
- The portfolio of exports to 21% than the combined market share has also increased beyond 40% level making as the undisputed leader in the sports category.
- **Retail:** The company is seeing some recovery in retail in both August and September of the normal point in July and Hopefully, this will continue and enable them to set up Q3 in exports to be better than Q2. ASEAN, the Philippines industry reviving back to pre-COVID level and Bajaj Auto registering its highest MOCs in Q2, which emerge as a clear leader in this very important.
- **Inventory:** The company is maintaining 5 week inventory.
- **Portfolio:** Bajaj Auto 60% of portfolio against to industry at 50%, 60% of portfolio in Q2 was 125cc plus segment as compared to only 46% in FY20, which is a key driver for improved profitability, and the superior competitive position.
- **3W:** Three-wheeler ban in Egypt remains. Through distribution partners, it is working out solution to satisfy their requirements. There is a huge need for mobility & transport in Egypt and the company is in talks with them, but it will take time. The management is positive about the outcome when it comes. Domestic 3Ws continue to see recovery, retails reached at 65% of the pre-Covid level.
- Bajaj's market share is at all-time high at 72% in 3Ws, and 80% in 3W CNG products, as per the management. Industry adoption is slow for 3Ws. Trails for electric 3Ws continuing, received feedback & found certain improvements are required. Coming out e3Ws as per requirements of auto drivers.
- Trials for e3Ws will get complete by the end of CY22 and will commercially launch the product by the end of FY23. Don't want to launch product in a hurry, need to get things right.
- **Festive:** The festive season underway it has been a bit up and down so far but overall management expect the industry to come to the single-digit growth and to be in line with the industry that's ahead of it in the 125 CC Plus segment.
- **Chetak:** Volumes grew by over 50% from about 6,200 units in Q1 to over 10,000 units in Q2. Increase presence >40 cities across the country. Also working towards expanding the EV portfolio to cover different emerging segments and geographies.
- **Buyback:** Buy back is over and it has taken three months to complete this exercise.
- **Capex:** The company expects INR 7.5bn capex in FY23, mostly for EVs, expansion of new site in Chakan for premium products and general routine capex.

Exhibit 2: Quarterly result summary-Strong performance

Standalone (INR mn)	Q2FY23	Q1FY23	Q2FY22
Net sales	102,028	80,050	87,622
- Raw material	74861	57776	64565
(% of net sales)	73.4	72.2	73.7
- Staff expenditure	3522	3796	3516
(% of net sales)	3.5	4.7	4.0
- Other expenditure	6057.8	5507.2	5530.4
(% of net sales)	5.9	6.9	6.3
Total expenditure	84,440	67,080	73,611
EBITDA	17,587	12,970	14,011.2
EBITDA Margin (%)	17.2	16.2	16.0
Depreciation	670	673.3	656
EBIT	16,917	12,297	13,355
Interest	109.2	43.4	17
Other Income	3636.5	3193.2	3183.2
PBT	20,445	15,447	16,521
Tax	4839.7	3713.7	3775.9
Adjusted PAT	15,605	11,733	12,746
Reported PAT	15605	11733	12746
Adjusted EPS (INR)	53.50	40.60	44.10
Total Volumes (Nos)	1,151,012	933,646	1,144,407
Net Realisation (INR)	88,642	85,739	76,565
EBITDA / Vehicle (INR)	15,280	13,892	12,243
Geographical mix	Q2FY23	Q1FY23	Q2FY22
Revenues (INRm):			
Domestic	73,343	43,565	49,166
Exports	28,685	36,485	38,456
Total	102,028	80,050	87,622
Volumes (In nos):			
Domestic	694,375	352,836	532,216
Exports	456,637	580,810	612,191
Total	1,151,012	933,646	1,144,407
Realisations (INR):			
Domestic	105,625	123,471	92,379
Exports	62,817	62,817	62,817
Total	88,642	85,739	76,565

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 3: The company taken judicious price increases, dynamic cost management, and better foreign exchange realization

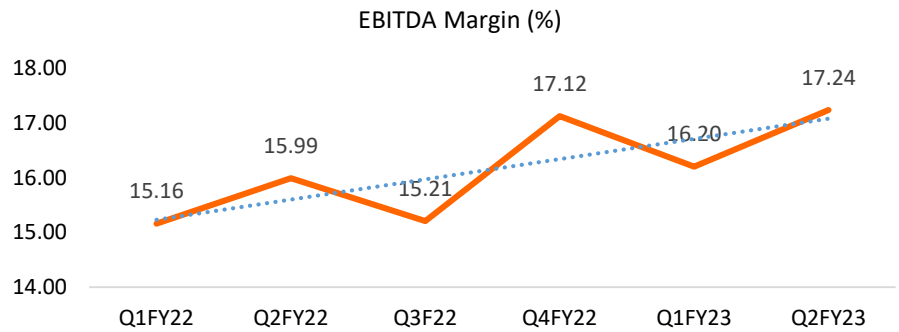


Exhibit 4: The volume increase due to the robust momentum of the sports portfolio

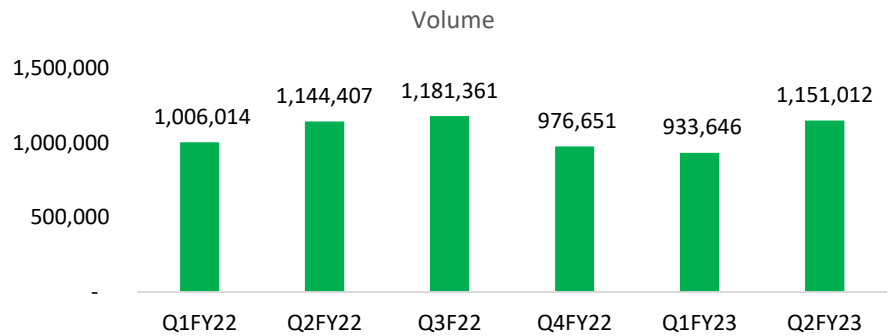


Exhibit 5: The company EBITDA/Vehicle showing steady growth due to higher contribution from the premium segment.

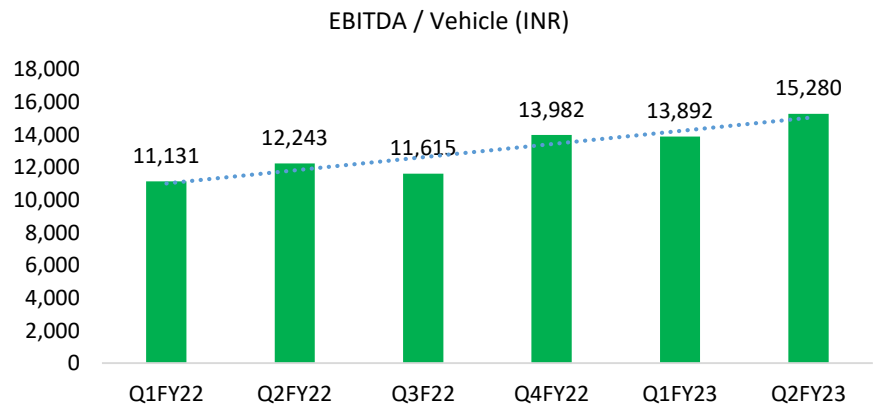
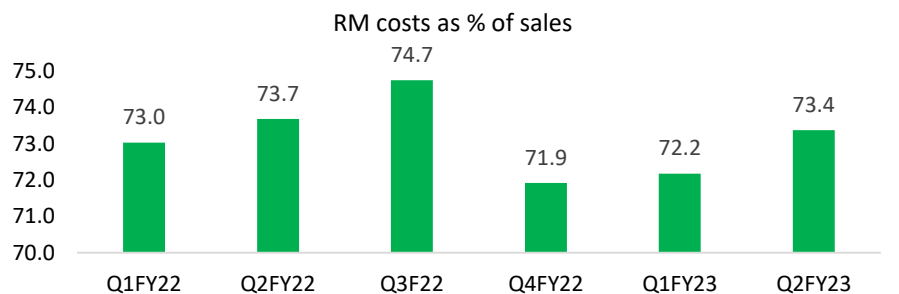


Exhibit 6: Expects the benefit of lower commodity prices to come in Q3 along with further benefits from rupee depreciation.



Source: Arianth Research, Company Filings,

Profit & Loss Statement				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	3,31,447	3,97,107	4,41,327	4,91,539
Growth, %	19	20	11	11
RM expenses	2,43,298	2,85,123	3,14,666	3,48,403
Employee expenses	13,588	14,403	15,556	16,800
Other expenses	21,975	27,797	32,217	35,882
EBITDA (Core)	52,586	69,783	78,888	90,454
Growth, %	7	33	13	15
Margin, %	15.9	17.6	17.9	18.4
Depreciation	2,692	3,837	4,048	4,608
EBIT	49,894	65,946	74,840	85,846
Growth, %	7	32	13	15
Margin, %	15.1	16.6	17.0	17.5
Other income	12,092	12,431	12,680	12,933
Interest paid	87	89	93	96
Non-recurring Items	0	0	0	0
Pre-tax profit	61,900	78,287	87,428	98,684
Tax provided	14,865	19,728	22,032	24,868
Profit after tax	47,036	58,559	65,396	73,815
Exceptional Items	-3152.8	-	-	-
Net Profit	50,188	58,559	65,396	73,815
Growth, %	10	17	12	13
Net Profit (adjusted)	50,188	58,559	65,396	73,815

Balance Sheet				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	5,883	18,903	37,960	69,117
Investments	2,38,188	2,40,569	2,42,975	2,45,405
Debtors	15,164	18,168	20,191	22,488
Inventory	12,305	14,743	16,384	18,249
Loans & advances	87	87	87	87
Other current assets	28,484	29,053	29,634	30,227
Total current assets	61,923	80,955	1,04,257	1,40,168
Gross fixed assets	59,960	67,460	74,460	81,460
Less: Depreciation	41,535	45,373	49,421	54,028
Add: Capital WIP	768	768	768	768
Net fixed assets	19,193	22,855	25,807	28,199
Total assets	2,72,036	2,90,827	3,16,511	3,50,616
Current liabilities	45,717	51,971	54,914	61,511
Provisions	1,551	1,582	1,613	1,645
Total current liabilities	47,267	53,552	56,527	63,156
Non-current liabilities	2,24,769	2,37,274	2,59,984	2,87,460
Total liabilities	5,348	5,348	5,348	5,348
Paid-up capital	2,894	2,837	2,837	2,837
Reserves & surplus	2,63,794	2,82,642	3,08,327	3,42,431
Shareholders' equity	2,66,688	2,85,479	3,11,164	3,45,268
Total equity & liabilities	2,72,036	2,90,827	3,16,511	3,50,616

Cash Flow				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	65,053	78,287	87,428	98,684
Depreciation	2,692	3,837	4,048	4,608
Chg in working capital	1,294	274	-1,271	1,875
Total tax paid	-17,015	-19,728	-22,032	-24,868
CFO	36,772	44,409	42,906	54,527
Capital expenditure	-4,693	-7,500	-7,000	-7,000
Chg in marketable securities	-	-	-	-
Chg in investments	-11,878	-2,382	-2,406	-2,430
CFI	-4,479	2,549	3,274	3,503
Free cash flow	32,079	36,909	35,906	47,527
Debt raised/(repaid)	-284	-	-	-
Dividend (incl. tax)	-40,490	-39,711	-39,711	-39,711
CCF	-40,861	-39,858	-39,804	-39,807
Net chg in cash	-8,567	7,100	6,377	18,224
Opening cash balance	5,274	5,883	18,903	37,960
Closing cash balance	5,883	18,903	37,960	69,117

Ratios				
Particulars	FY22	FY23E	FY24E	FY25E
EPS (INR)	173.4	202.4	226.0	255.1
PER (x)	20.6	17.6	15.8	14.0
Price/Book (x)	3.9	3.6	3.3	3.0
EV/EBITDA (x)	9.0	10.0	8.7	7.4
EV/Net sales (x)	2.2	2.0	1.7	1.5
RoE (%)	19.4	21.2	21.9	22.5
RoCE (%)	23	28	29	30
Fixed Asset turnover (x)	5.5	5.9	5.9	6.0
Dividend Yield (%)	3.9	3.8	3.8	3.8
Receivable (days)	16	17	17	17
Inventory (days)	16	16	16	16
Payable (days)	48	46	44	44
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Arianth Research, Company Filings,

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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