

CMP: INR 3,884

Rating: Accumulate

Target Price: INR 4,523

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)	2894
Mkt Cap (INR Mn)	11,45,600
52w H/L (INR)	4,091/3,027
Avg Yearly Vol (in 000')	466

Shareholding Pattern %

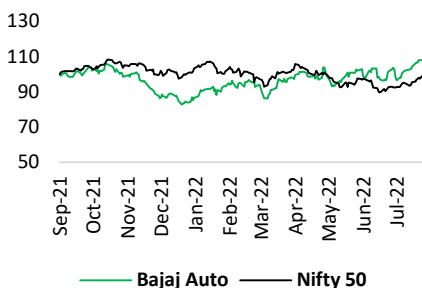
(As on June, 2022)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)

	1m	3m	12m
Bajaj Auto	3.1	1.0	2.4
Nifty	5.0	-4.1	4.2

Bajaj Auto Vs Nifty



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Beat on Revenue: Standalone revenue stood at INR 80,049.7 Mn, against our estimate of INR 76,950 Mn registering a growth 8.4% YoY/ 0.4% QoQ. While, total volume declined by 7.2%YoY/-4.4% QoQ to 933,646 units. The decline due to significant constraints by the inadequate availability of semi-conductors, hence the situation improved in the latter part as new supply sources were developed.

Buoyancy in exports with caution ahead: Exports gross volume increased by 271% YoY/59% QoQ backed by strong growth in ASEAN and LATAM markets with overall market share counting to expand despite challenges macros in few markets. Sri Lanka would be down for some time. Africa is where the problem is. Nigerian currency has devalued and the retail price of 2Ws has increased by 2-3x!! This has impacted demand sentiment. Market share has increased from 49% to 60%. Africa is 50% of the export business. Overall, looking at ~10% y/y growth in export markets. Overall export revenues in Q1 stood at INR 42,700 Mn.

Traction in operating margin and strong PAT: EBITDA stood at INR 12,970 Mn, against our estimate of INR 12,110 Mn, Registering a growth of 15.8%YoY/ -5.0%QoQ. On the margins front, EBITDA margin expansion by 104bps YoY/ -92bpsQoQ to 16.2%, against our estimate of 15.7% backed by positive net income of price hike, better foreign exchange realization and favorable mix offset the material cost inflation and enabled margin improvement. Standalone PAT saw a growth of 10.6%YoY/ 1.7%QoQ to INR 11,733 Mn against our estimate of INR 9,920 Mn.

Semiconductor: In particular, the management of ECU- The company face significant shortfalls in issue availabilities of about 20% to 25% in fact with the domestic business being hit the hardest with shortfalls of up to 40%. This has resulted in severe depression of channel stock and indeed some loss of market share at the retail level.

Outlook and valuation

Bajaj Auto is relatively better positioned than its peers owing to its strength in exports and the Premium Motorcycle segment. On the sales front May was the lowest point and June were better than May and July only a few days left now is looking like better than June. This trajectory is expected to continue and Q2FY23 inventories is likely to be back to normal levels. In 3Ws, business suffered impairment of 40% with oss of market share and channel stocks are down to ~10 days. Also, on the exports front, some weakness seen due to issue with Africa and Nigerian markets. We expect domestic volume to witness a growth in FY23 due to better demand in urban market and expectation of improvement in rural demand.

We value Bajaj Auto at P/E of 21x to its FY 24E EPS of INR 211.8 for a fair value of INR 4,448 and INR 75 for KTM stock valuation to arrive at a final revised target price of INR 4,523 using SOTP method for Bajaj's stake in KTM. (Previous target price was INR 4,950). We downgrade our rating to Accumulate from Buy earlier.

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	P/E (x)
FY21	277,411	49,285	45,546	157.4	17.77	24.68
FY22	331,447	52,586	50,188	173.4	15.87	22.39
FY23E	397,107	65,143	55,210	190.8	16.40	20.36
FY24E	441,327	73,299	61,292	211.8	16.61	18.34

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

Q1FY23 Conference call

- **Outlook:** The company demand is improving for motorcycles in the domestic markets. Industry performance from post-Diwali last year was -15% in both quarters. This has now come down to -3%. Going forward it sees demand to improve by 1-4% in subsequent quarters. Urban has done much better than rural. Growth will be better in the 125cc segment vs 100cc segments.
- **EBITDA margins** were better in Q1. The company has recovered ~50% off RM inflation through price increases. USD/INR realization is 77.4; For Q1, 1st half of quarter RM was up. Improved from 2nd half onwards. Looking forward the view on metals and energy is relatively comfortable. Commodities have started to show signs of cooling off coupled with better dollar realization, and margins would improve. Domestic business is low on margins. Margins would be stable at current levels.
- **Booking system:** Across all business units, has indeed helped to mitigate these short falls to some extent. Also discussed earlier about very robust effort launched to gross based, sourcing, in short-testing, validation and integration of new resources into production systems. The company is delighted to it to confirm. These plans have been largely on schedule and the company is now under execution, the process of rebuilding severely inventories has truly commenced.
- **Sales:** May was the lowest point and June were better than may and July only a few days left now is looking like better than June. This trajectory is expected to continue and to Q2FY22 will not only build the inventories back to normal levels. There is the only exception to this will be electric scooter Chetak were bike MoM dispatches are improving, supplies that still trail behind demand in the short-term.
- **Distribution:** The stock form in general is 6week so the company has a lot of covering up to do in the month for Q2. During the quarter took care to funnel the short supplied ECU due to the semiconductor into the expanding 125cc segment. And there the company has handsome gains in market share reaching 25%. The premium 125cc which is a NS125.
- **Performance:** This continues outstanding performance continues, most expensive 125cc in the market. If keep the size the KTM, as it is now become a very significant contributor to 125cc. Portfolio, obviously making a good impact on the blind EBITDA As of this segment including KTM, severely affected by the shortfalls. The penetration of KTM finance group and particularly Bajaj Finance amongst all the cash sales were actually almost stagnant.
- **Finance:** The finance sales grew by 4x or 5x that of caches, demands recovery in urban and semi urban areas was experienced to be fast. New platform in Pulsar has been received extremely well by both the experts and amateur , expanding on the Twin 250cc class, introductions of the Pulsar F250 at the N250, also introduced the towards channel, DS160 to this platform. The rollout with the West-Bengal and UP. Introduced the all blackTwins Channel TVS versions in the 250CC of the back of popular demand with a lot of requests for the this type of the color and raping.
- **3Ws:** Domestic business suffered impairment of 40%. Loss of market share and channel stocks are down to ~10 days. The introduction of electric 3Ws has now commenced and product trails are underway in Pune. Delhi: Despite 3W volumes available for drivers, sales have been substantially down. Working with drivers on giving them the necessary knowledge.
- **Chetak:** Sales have doubled from 3,300units in Q4 to now ~6,500units in Q1. Dealerships have expanded and Bajaj now has 43 exclusive Chetak centres. The New Akurdi plant has a capacity of 0.5mn units annually to manufacture Chetak. Also in discussion with battery swapping players; also in talks with businesses for EV products for them, largely addressing the B2B segment. Would leverage Yulu for the same. For Chetak, it plans to double sales further in subsequent quarters. Volumes of 6000+ in Q1 and expect to double in Q2. Currently present in 18 cities. Targeting 100 cities by year-end.
- Domestic spare business has grown significantly by ~40% y/y and now stands at ~20% of overall turnover. Spares revenues in Q1: INR 1035cr (domestic & exports).
- Macro environment has started to weaken on the back of forex depreciation. Despite that, Bajaj posted a strong set of numbers.

Other Highlights

- **Operating economics:** Electric 3Ws are now almost at par with CNG. Costs have increased for CNG as well in the past and are now at 55-70% levels of diesel.
- Costs went up by 3% and the company raised prices by 2% during the quarter. For Q2, it sees energy-related inflation to continue along with a few metals. It expects to come down by 1-1.5% q/q.
- **FY23 Export:** There is stability in Latam. Key markets like the Philippines have come back and mom sales are building up strong. Expects similar demand from Malaysia, Bangladesh and Nepal.
- The Exports business unit turned in a steady performance was over 200K units, 193K for months to be precise. Exports remain steady, even after taking price increases which were generally ahead of competition, the company acquired market share in LTAM and maintained in the Africa region. the outstanding performance of Twin brands Dominar and Pulsar in the sport segment of LATAM In fact the twin dominant models 250cc and 400cc but expanding the this segment all across Latin America. Latin America is the very attractive sports segment.

Exhibit 1: Quarterly result summary-Strong performance

Standalone (INR mn)	Q1FY23	Q4FY22	Q1FY22	YoY (%)	QoQ (%)
Net sales	80,050	79,748	73,860	8.4	0.4
- Raw material	57776	57357	53944	7.1	0.7
(% of net sales)	72.2	71.9	73.0	-86bps	-86bps
- Staff expenditure	3796	3059	3615	5.0	24.1
(% of net sales)	4.7	3.8	4.9	-15bps	-15bps
- Other expenditure	5507.2	5676.6	5103.4	7.9	0.2
(% of net sales)	6.9	7.1	6.9	-3bps	-3bps
Total expenditure	67,080	66,092	62,663	7.0	1.5
EBITDA	12,970	13,656	11,198	15.8	(5.0)
EBITDA Margin (%)	16.2	17.1	15.2	104bps	-92bps
Depreciation	673.3	696.7	640.7	5.1	(3.4)
EBIT	12,297	12,959	10,557	16.5	(5.1)
Interest	43.4	28.8	22.9	89.5	50.7
Other Income	3193.2	2888.6	3293	(3.0)	10.5
PBT	15,447	15,819	13,827	11.7	(2.4)
Tax	3713.7	4282.4	3215.4	15.5	(13.3)
Adjusted PAT	11,733	14,690	10,612	10.6	(20.1)
Reported PAT	11733	11537	10612	10.6	1.7
Adjusted EPS (INR)	40.60	41.000	36.700	10.6	(1.0)
Total Volumes (Nos)	933,646	976,651	1,006,014	(7.2)	(4.4)
Net Realisation (INR)	85,739	81,655	73,419	16.8	5.0
EBITDA / Vehicle (INR)	13,892	13,982	11,131	24.8	(0.6)
Geographical mix	Q1FY23	Q4FY22	Q1FY22	YoY(%)	QoQ (%)
Revenues (INRm):					
Domestic	21,401	41,422	58,041	(63.1)	(48.3)
Exports gross sales	58,649	30,137	15,820	270.7	94.6
Total	80,050	71,559	73,860	8.4	8.4
Volumes (In nos):					
Domestic	-	389,155	754,174	NA	NA
Exports	933,646	587,496	251,840	270.7	58.9
Total	933,646	976,651	1,006,014	(7.2)	(7.2)
Realisations (INR):					
Domestic	-	106,441	76,959	NA	NA
Exports	62,817	51,297	62,817	-	22.5
Total	85,739	73,269	73,419	12.7	4.3

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

Exhibit 2: The company taken price increases and work on containing costs and inflation which had helped improve margins. Bajaj auto would look to recover anywhere between 50% to about 2/3rd of the overall material cop to pricing.

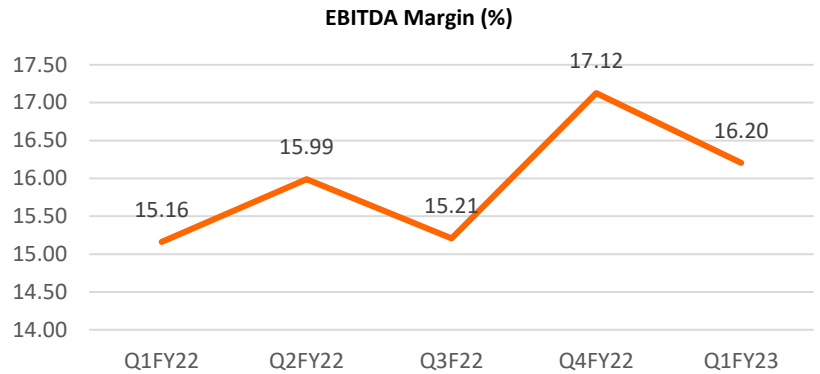


Exhibit 3: The volume decline due to significant constraints by the inadequate availability of semi-conductors, hence the situation improved in the latter part as new supply sources were developed.

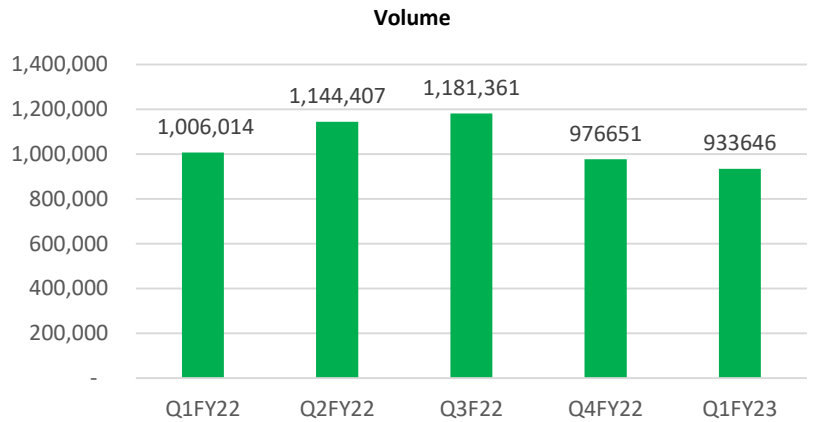
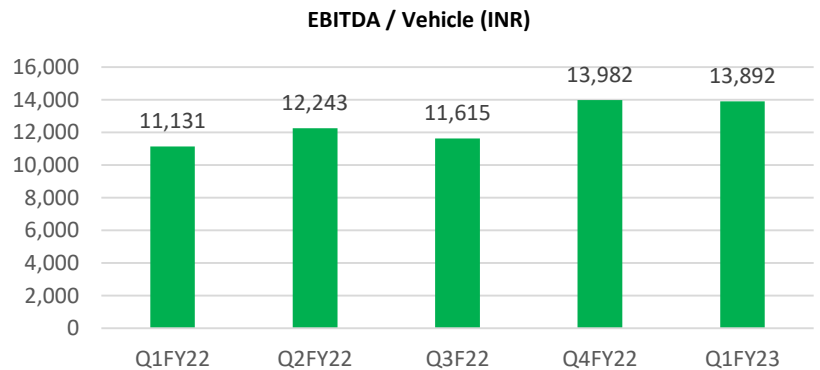


Exhibit 4: The company EBITDA/Vehicle showing steady growth due to higher contribution from the premium segment.



Source: Arihant Research, Company Filings,

Profit & Loss Statement				
Particulars (INR mn)	FY21	FY22	FY23E	FY24E
Net sales	277,411	331,447	397,107	441,327
Growth, %	(7)	19	20	11
RM expenses	196,097	243,298	288,696	319,962
Employee expenses	12,860	13,588	14,675	15,849
Other expenses	19,170	21,975	28,592	32,217
EBITDA (Core)	49,285	52,586	65,143	73,299
Growth, %	(3)	7	24	13
Margin, %	17.8	15.9	16.4	16.6
Depreciation	2,593	2,692	3,675	3,945
EBIT	46,692	49,894	61,468	69,354
Growth, %	(4)	7	23	13
Margin, %	16.8	15.1	15.5	15.7
Other income	12,765	12,092	12,431	12,680
Interest paid	67	87	89	93
Non-recurring Items	0	0	0	0
Pre-tax profit	59,390	61,900	73,810	81,941
Tax provided	13,844	14,865	18,600	20,649
Profit after tax	45,546	47,036	55,210	61,292
Exceptional Items	-	-3152.8	-	-
Net Profit	45,546	50,188	55,210	61,292
Growth, %	(11)	10	10	11
Net Profit (adjusted)	45,546	50,188	55,210	61,292

Balance Sheet				
Particulars (INR mn)	FY21	FY22	FY23E	FY24E
Cash & bank	5,274	5,883	22,811	43,708
Investments	226,310	238,188	240,569	242,975
Debtors	27,169	15,164	18,168	20,191
Inventory	14,939	12,305	14,743	16,384
Loans & advances	372	87	87	87
Other current assets	24,431	28,484	29,053	29,634
Total current assets	72,183	61,923	84,862	110,005
Gross fixed assets	55,875	59,960	59,613	60,114
Less: Depreciation	38,843	41,535	45,211	49,156
Add: Capital WIP	160	768	768	768
Net fixed assets	17,191	19,193	15,170	11,726
Total assets	258,841	272,036	286,734	307,514
Current liabilities	55,300	45,717	52,286	55,579
Provisions	1,544	1,551	1,582	1,613
Total current liabilities	56,843	47,267	53,868	57,192
Non-current liabilities	201,997	224,769	232,866	250,321
Total liabilities	6,818	5,348	5,348	5,348
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	249,129	263,794	278,492	299,272
Shareholders' equity	252,023	266,688	281,386	302,166
Total equity & liabilities	258,841	272,036	286,734	307,514

Cash Flow				
Particulars (INR mn)	FY21	FY22	FY23E	FY24E
Pre-tax profit	59,390	65,053	73,810	81,941
Depreciation	2,593	2,692	3,675	3,945
Chg in working capital	-8,726	1,294	589	-921
Total tax paid	-13,481	-17,015	-18,600	-20,649
CFO	63,826	74,694	11,963	-926
Capital expenditure	-1,806	-4,693	347	-501
Chg in marketable securities	0	0	0	0
Chg in investments	-44,350	-11,878	-2,382	-2,406
CFI	-33,392	-4,479	18,013	18,143
Free cash flow	62,020	70,001	12,310	-1,427
Debt raised/(repaid)	-14	-284	0	0
Dividend (incl. tax)	-87	-40,490	-40,512	-40,512
CFF	-168	-40,861	-40,601	-40,604
Net chg in cash	30,266	29,355	(10,626)	(23,387)
Opening cash balance	3,083	5,274	5,883	22,811
Closing cash balance	5,274	5,883	22,811	43,708

Ratios				
Particulars	FY21	FY22	FY23E	FY24E
EPS (INR)	157.4	173.4	190.8	211.8
PER (x)	24.7	22.4	20.4	18.3
Price/Book (x)	4.5	4.2	4.0	3.7
EV/EBITDA (x)	9.3	10.0	20.4	20.7
EV/Net sales (x)	2.8	2.5	2.2	1.9
RoE (%)	36.6	27.4	7.7	5.8
RoCE (%)	47	38	22	20
Fixed Asset turnover (x)	5.0	5.5	6.7	7.3
Dividend Yield (%)	3.6	3.6	3.6	3.6
Receivable (days)	32	16	17	17
Inventory (days)	24	16	15	15
Payable (days)	73	48	42	39
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.9)

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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