

Decent Numbers; Exports to drive the growth

CMP: INR 3,701

Rating: Accumulate

Target Price: INR 4,309

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)	1,087,311
52w H/L (INR)	4,361/2,823
Avg Yearly Vol (in 000')	662

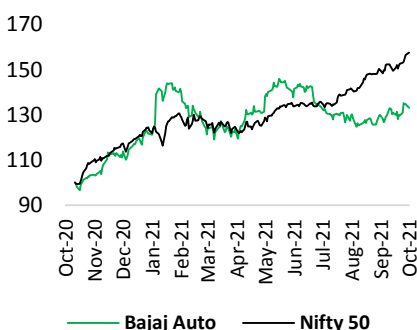
Shareholding Pattern %

(As on September, 2021)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)	1m	3m	12m
Bajaj Auto	1.6	14.8	53.7
Nifty	14.7	21.3	53.5

Bajaj Auto Vs Nifty



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Bajaj Auto beat estimate on the PAT, EBITDA & in-line with the revenue in Q2FY22

- Standalone revenue stood at INR 87,622 Mn, against our estimate of INR 87659 Mn registering +22.4% YoY/18.6% QoQ.
- EBITDA stood at INR 14,011 Mn, against our estimate of INR 13,145 Mn, Registering growth of 25.1%YoY/10.7%QoQ.
- On the margins front, EBITDA margin contraction by 170bps YoY/+83QoQ to 16%, against our estimate of 15%.
- Standalone PAT saw a growth of 20.1%YoY/+12% QoQ to INR 12,746 Mn against our estimate of INR 11,935 Mn due to driven by exports and improved domestic demand.
- EPS stood at INR 44.10 in Q2FY22 against INR 39.30 in Q2 FY21 (INR 36.70 in Q1 FY22).
- Total Volume was up by 13.8%YoY/8.6% QoQ to 11,44,407 units.
- 2W demand in India, however, has suffered because of increased cost of vehicles ever since the transition to the stricter BS VI emission standards. Higher raw-material prices have prompted at least three price hikes this year alone. On the other side, costlier fuel has been hurting sales, especially in smaller cities and towns.

Outlook and valuation

Going ahead, we believe Bajaj Auto is well placed to capitalize on demand normalization and premiumization trends in the 2W industry which should support profitability and operational performance. Moreover, we expect the company to gain further momentum in market share in exports, driven by its market leadership, brand equity, and enhanced distribution network. Hence, higher raw material price and scarcity of semiconductor are matter of concern for the near term but we believe margins will improve going forward backed by premiumization in 2Ws, the higher share of exports and RoDTEP scheme incentives.

We value Bajaj Auto at P/E of 21x to its FY 24E EPS of INR 201.3 for a fair value of INR 4,228 and INR 80 for KTM stock valuation to arrive at a final target price of INR 4,309 using SOTP method for Bajaj's stake in KTM. We assign Accumulate rating on the stock

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY20	299,187	50,962	51,000	176.2	17.0	21.0
FY21	277,411	49,285	45,546	157.4	17.8	23.5
FY22E	346,892	58,406	56,861	146.2	16.8	25.3
FY23E	395,799	67,298	67,021	172.3	17.0	21.5
FY24E	435,304	76,624	78,327	201.3	17.6	18.4

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

Q2FY22 Conference call

- The domestic 2W H1 industry performance smoothen the last year performance in Q2FY22 in the first 6month there is so many ups & down but most of the pent up demand exhausted in the end of September.
- In the wholesale billing term industry grew by 6% against Q2FY21 and the growth higher than 13% leading to market share improvement.
- **Market share:** Entirely led by Vahan data, only 85% of the performance which indicated exclude this time of Telangana and Chhattisgarh. Close to 20% market share and up by 70% FY20-21 largely driven by entry commuters from converting, up trending, kick-start to electric-start and by the pulsar 125cc segment through and customer from 100cc segment.
- **New Launches:** The company has introduced 2 new products in the April CT110x Bajaj Pulsar NS125 and both had done well during Q1&Q2 FY22.
- Finance sale grew faster than cash sales and grew higher than medium to large scale compare to rural and metro areas.
- **Intercity business unit:** Domestic 2W business recover very swiftly after the 2nd wave largely driven by opening up of the school and shopping area. Superb performance leveraging the relationship and deep connect with franchise. Market share has increased by 68% in Q2FY22 and Bajaj auto is the leader in every single segment like in small passenger and in Cargo which the company entered into recently into the last 2-3 years.
- The company expect to cross 20k units in October as last time they did in March FY20.
- **Exports Business units:** Continue deliver good performance despite the shipping issue. The company has maintained 2k per month despite the issue in key market like Phillipine (among top 5 market operating at the 50% level), Sri-lanka continues to be, sales 90% sales coming up from where the Bajaj auto on the number 1 & 2. The company has clocked highest ever sales in Latin America in the pulsar brand. Dominar 250cc started to performing in serval market along with 400 doing well in the key markets.
- Bajaj auto believes that they are top performing 250cc in 7 key markets turkey, Mexico and other markets Latin America and premimastion overall strengthen the brand equity of Bajaj. •150cc to 250 cc overwhelming response 45% market share in all emerging market.
- **Chetak booking** open in Chennai and Hyderabad and seeing very good response from their and now present in 8 cities. Calibrating rollout plan for the supply chain visibility and target to reach 30 cities by March FY22. The company over 4-5 month booking and restrain rollout in new geography.
- **Financial:** GST resulted in 82 cr Q4 FY21 and Q1FY22 received the benefits April to Dec as an additional 60 cr. Without this effect underlying EBITDA stand at 15% Q2FY22 which is decline from 15.6% in Q1FY22.
- **Semiconductor issue:** Do not severe as the 4W but impacted the 20% for the motorcycle portfolio. India seeing 50% impact due to stock out in the market, which effect the in KTM Dominar & Pluser.
- **EV subsidiary:** this is a big move in term of the growth. PLI scheme there is fussiness and Bajaj auto subsidiary will be going to count 10000 cr PLI scheme but the company already ask for the clarification from the SIAM.
- **Festive seasons:** Demand, if compare to last year is in negative. Rural demand lags urban demand and entry segment taking bigger debt. The company view for the next 10-15 days' mark uptick toward Diwali and Dhanteresh most likely post similar performance like Q2FY22. Planning product in Nov- Dec. Stock is in period 7-8 weeks and get them under to 6 weeks
- **3W business:** Q3FY22 to better than Q2FY22 200,000/ month units. Cross exports almost 2.2-2.3 mn units and also cross highest ever \$2bn mark in FY20.
- **Cost:** Another directionally cost increase of 2% in Q3FY22.
- **Margin:** 1) Commodity, 2) supply constraint due to semiconductor shortage leading to margin pressure.
- Captive finance subsidiary: Capital will not be heavy in this subsidiary, at least debt is the option. INR 500cr dividend going forward but too early to comment.
- **2W:** convenience, operating cost. Conversion from the ICE to EV it will take longer time. Migration in EV in 2W strong but weaker in the 3W EV.
- **Pulsar:** intrinsic EBITDA of the product. Standalone it can't make diff.
- **Exports:** lower CV volume in Q2FY22 very small because of the pricing and the company will overcome that going ahead. Pricing is the big issue in the exports front.

Quarterly result summary

Standalone (INR mn)	Q2FY22	Q1FY22	Q2FY21
Net sales	87,622	73,860	71,558.6
- Raw material	64565	53944	50581
(% of net sales)	73.7	73.0	70.7
- Staff expenditure	3516	3615	3246
(% of net sales)	4.0	4.9	4.5
- Other expenditure	5530.4	5103.4	5069.4
(% of net sales)	6.3	6.9	7.1
Total expenditure	73,611	62,663	58,896
EBITDA	14,011	11,198	12,662
EBITDA Margin (%)	16.0	15.2	17.7
Depreciation	656	640.7	643.2
EBIT	13,355	10,557	12,019
Interest	17	22.9	26.5
Other Income	3183.2	3293	2858
PBT	16,521	13,827	14,851
Tax	3775.9	3215.4	3468.6
Adjusted PAT	12,746	10,612	11,382
Reported PAT	12746	10612	11382
Adjusted EPS (INR)	44.10	36.70	39.30
Total Volumes (Nos)	1,144,407	1,006,014	1,053,337
Net Realisation (INR)	76,565	73,419	67,935
EBITDA / Vehicle (INR)	12,243	11,131	12,021
Geographical mix			
	Q2FY22	Q1FY22	Q2FY21
Revenues (INRm):			
Domestic	79,650	58,041	41,422
Exports	7,972	15,820	30,137
Total	87,622	73,860	71,559
Volumes (In nos):			
Domestic	1,017,499	754,174	573,586
Exports	126,908	251,840	479,751
Total	1,144,407	1,006,014	1,053,337
Realisations (INR):			
Domestic	78,280	76,959	72,216
Exports	62,817	62,817	62,817
Total	76,565	73,419	67,935

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

Profit & Loss Statement

Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Net sales	277,411	346,892	395,799	435,304
Growth, %	(7)	25	14	10
RM expenses	196,097	247,681	280,622	306,019
Employee expenses	12,860	14,789	17,007	18,708
Other expenses	19,170	26,017	30,872	33,954
EBITDA (Core)	49,285	58,406	67,298	76,624
Growth, %	(3)	19	15	14
Margin, %	17.8	16.8	17.0	17.6
Depreciation	2,593	2,050	2,068	2,085
EBIT	46,692	56,355	65,231	74,539
Growth, %	(4)	21	16	14
Margin, %	16.8	16.2	16.5	17.1
Other income	12,765	16,594	20,742	25,928
Interest paid	67	51	49	47
Non-recurring Items	0	0	0	0
Pre-tax profit	59,390	72,899	85,924	100,420
Tax provided	13,844	16,038	18,903	22,092
Profit after tax	45,546	56,861	67,021	78,327
Others (Minorities, Associates)	-	-	-	-
Net Profit	45,546	56,861	67,021	78,327
Growth, %	(11)	25	18	17
Net Profit (adjusted)	45,546	56,861	67,021	78,327

Balance Sheet

Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Cash & bank	5,274	22,643	55,460	96,009
Investments	226,310	224,046	219,565	215,174
Debtors	27,169	34,214	39,038	42,934
Inventory	14,939	19,008	21,688	23,852
Loans & advances	372	409	450	495
Other current assets	24,431	25,652	26,935	28,282
Total current assets	72,183	101,926	143,570	191,572
Gross fixed assets	55,875	58,913	59,413	59,914
Less: Depreciation	38,843	40,893	42,961	45,047
Add: Capital WIP	160	160	160	160
Net fixed assets	17,191	18,179	16,611	15,027
Total assets	258,841	275,190	301,699	336,620
Current liabilities	55,300	67,264	76,316	83,387
Provisions	1,544	1,698	1,732	1,766
Total current liabilities	56,843	68,962	78,048	85,153
Non-current liabilities	201,997	206,228	223,651	251,467
Total liabilities	6,818	6,818	6,818	6,818
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	249,129	265,478	291,987	326,908
Shareholders' equity	252,023	268,372	294,881	329,802
Total equity & liabilities	258,841	275,190	301,699	336,620

Cash Flow

Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Pre-tax profit	59,390	72,899	85,924	100,420
Depreciation	2,593	2,050	2,068	2,085
Chg in working capital	-8,726	-255	259	-347
Total tax paid	-13,481	-16,038	-18,903	-22,092
CFO	63,826	15,896	22,725	30,249
Capital expenditure	-1,806	-3,038	-500	-501
Chg in marketable securities	0	0	0	0
Chg in investments	-44,350	2,263	4,481	4,391
CFI	-33,392	30,976	24,028	24,940
Free cash flow	62,020	12,858	22,225	29,748
Debt raised/(repaid)	-4	0	0	0
Dividend (incl. tax)	-87	-40,512	-40,512	-43,406
CFF	-158	-40,562	-40,560	-43,453
Net chg in cash	30,277	6,310	6,193	11,737
Opening cash balance	3,083	5,274	22,643	55,460
Closing cash balance	5,274	22,643	55,460	96,009

Ratios

Particulars	FY21	FY22E	FY23E	FY24E
EPS (INR)	157.4	146.2	172.3	201.3
PER (x)	23.5	25.3	21.5	18.4
Price/Book (x)	3.0	5.4	4.9	4.4
EV/EBITDA (x)	5.6	23.8	19.4	15.7
EV/Net sales (x)	1.7	3.4	2.9	2.5
RoE (%)	36.6	12.7	14.3	15.9
RoCE (%)	47	26	28	29
Fixed Asset turnover (x)	5.0	5.9	6.7	7.3
Dividend Yield (%)	5.3	2.8	2.8	3.0
Receivable (days)	32	37	37	37
Inventory (days)	24	22	22	22
Payable (days)	73	66	67	67
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.9)

Source: Arihant 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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