

CMP: INR 3,853

Rating: Hold

Target Price: INR 4,162

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)	11,37,443
52w H/L (INR)	4,361/ 2,823
Avg Yearly Vol (in 000')	806

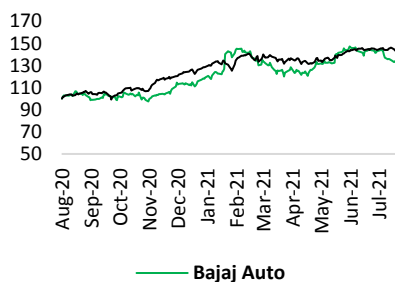
Shareholding Pattern %

(As on June, 2021)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)	3m	6m	12m
Bajaj Auto	6.7	-3.9	31.6
Nifty	9.7	9.96	41.9

Bajaj Auto Vs Nifty



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Bajaj Auto has reported a below our estimate on all fronts in Q4FY21. Standalone revenue stood at INR 73,860 Mn, against our estimate of INR 75,421 Mn registering +139.9% YoY/-14.1% QoQ. EBITDA stood at INR 11,198 Mn, against our estimate of INR 13,218 Mn, Registering +174.1%YoY/-26.5%QoQ due to sharp increase in input costs. On the margins front, EBITDA margin was up by 189bps YoY/-257bps QoQ to 15.2%, against our estimate of +151bps YoY to 17.5%. The Company has been delivering improved EBITDA sequentially from Q2 onwards. Standalone PAT saw an increase of 101%YoY/-20.3% QoQ to INR 10,612 Mn vs below our estimate of INR 11,989 Mn. Total Volume was up by 127%YoY/86% QoQ to 10,06,014 units.

Bajaj auto said that it will set up a wholly-owned subsidiary to tap growth opportunities in the electric and hybrid 2W, 3W, and light 4W categories. The company will further disclose the details of their strategy in the EV space over the coming quarters.

Bajaj Auto Q1 FY22 Concall highlights

- **Covid-19 response:** As the educational/Public place/Office institutions remain partially open and traffic is low and restoration of normal retail is, therefore, higher 2W and lower 3W segment. This situation will improve as the vaccination advances
- **International:** International level more countries like Africa, Latin in near normalcy and situation in South Asia, Nepal, Sri Lanka and Bangladesh still difficult. An important part of the company is Ajayan Cambodia, which remains closed.
- **Outlook:** The company is using three-fold strategies to gain market share in the domestic 2W market that is aggressive product launches in 125cc segment, retaining dominant position in sports motorcycle segment (>250cc segment) and providing innovative offerings in top-end of the entry motorcycle.
- **Domestic CV Business:** The company CV business was interrupted in the May month after the clarity of the 2nd Covid-19 wave. Whereas retail outlet was down from the previous year benchmark but overall, much better than the company expectations in month of June. The company expects strong volume growth on a YoY and QoQ basis and expects financing situation to improve going forward. The transition from CNG-powered 3Ws (to electric) is not easy as the government is increasing the CNG footprint (~9k CNG pumps by 2025) and CNG is INR 1.25/km cheaper than diesel variants

Valuation

At CMP of INR 3853, Bajaj Auto is currently trading at a P/E of 23.6x, to its FY23E EPS of INR 163.2. Bajaj auto would benefit from 1) the premiumization trend and 2) Robust performance in exports. Whereas the company has agility to recover in key segment and overseas market as the market return to normalcy. We expect Bajaj Auto to post Revenue/EBITDA/PAT CAGR of 15.8%/19.5%/11.6% in FY23E.

We value Bajaj Auto at PE of 25x to its FY23E EPS of INR 163.2 for a fair value of INR 4,081 and INR 81 for KTM stock valuation to arrive at a final target price of INR 4,162 using SOTP method for Bajaj's stake in KTM. **We assign Hold rating on the stock.**

Quarterly result summary

Standalone (INR mn)	Q1FY22	Q4FY21	Q1FY21	YoY (%)	QoQ (%)
Net sales	73,860	85,961	30,792	139.9	(14.1)
- Raw material	53944	61767	20666	161.0	(12.7)
(% of net sales)	73.0	71.9	67.1	592bps	118bps
- Staff expenditure	3615	3070	3373	7.2	17.8
(% of net sales)	4.9	3.6	11.0	-606bps	132bps
- Other expenditure	5103.4	5883.7	2668.4	91.3	(13.3)
(% of net sales)	6.9	6.8	8.7	-176bps	6bps
Total expenditure	62,663	70,720	26,707	134.6	(11.4)
EBITDA	11,198	15,241	4,085	174.1	(26.5)
EBITDA Margin (%)	15.2	17.7	13.3	189bps	-257bps
Depreciation	640.7	661.7	637.9	0.4	(3.2)
EBIT	10,557	14,579	3,447	206.2	(27.6)
Interest	22.9	20.4	9.5	141.1	12.3
Other Income	3293	2836	3378.8	(2.5)	16.1
PBT	13,827	17,395	6,817	102.8	(20.5)
Tax	3215.4	4074.2	1536.3	109.3	(21.1)
Adjusted PAT	10,612	13,321	5,280	101.0	(20.3)
Reported PAT	10612	13321	5280	101.0	(20.3)
Adjusted EPS (INR)	36.70	46.10	18.30	-	-
Total Volumes (Nos)	10,06,014	11,69,664	4,43,103	127.0	86.0
Net Realisation (INR)	73,419	73,492	69,493	5.6	(0.1)
EBITDA / Vehicle (INR)	11,131	13,030	9,220	20.7	(14.6)

Margin was down led by 1) lower revenue from operations resulted in loss on spread of fixed costs by ~160 bps. 2) Increase in cost of raw-material, 3) partially off-set from higher US\$ realization and improved mix

Sold over 648,000 units in various international markets, despite challenges in availability of containers. By region, Africa, SAME and LA TAM continued to record strong sales.

Numbers cannot be compared as last year was largely impacted by lockdown due to Covid-19.

Geographical mix	Q1FY22	Q4FY21	Q1FY21	YoY(%)	QoQ (%)
Revenues (INRm):					
Domestic	10,665	45,936	14,973	(28.8)	(76.8)
Exports	63,195	43,162	15,820	299.5	46.4
Total	73,860	89,099	30,792	189.4	(17.1)
Volumes (In nos):					
Domestic	3,57,137	5,34,119	1,91,263	86.7	(33.1)
Exports	6,48,877	6,35,545	2,51,840	157.7	2.1
Total	10,06,014	11,69,664	4,43,103	127.0	(14.0)
Realisations (INR):					
Domestic	29,864	86,004	78,282	9.9	(65.3)
Exports	97,391	67,914	62,817	8.1	43.4
Total	73,419	76,175	69,493	9.6	(3.6)

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

Other Concall highlights

- Highlights for Q1 FY22: Motorcycle:** share of 125cc top half 45% of the demand pyramid increased from 22%-25% in Q1 FY22 on number 2 position. 125 cc plus segment account for almost 60% of sales, while in the industry account for 45% this growth led by pulsar 125 where the company has launched Bajaj Pulsar NS 125 (Most expensive in 125cc) in the month of May and all-time high market share 28%.
- In the bottom half of the pyramid, which is 55% in the industry continue to upgrade the customer through different prices and more customer sensitive. from kick start to electric start 100cc-110cc provide customers very small step and upgrade opportunities in it. The company launched new model that is CT110X and Platina 100 Electric Start. Domestic Market share increased by 1.5%
- 2W:** The company expects domestic 2W space retail to improve from 2Q FY22E onwards. Whereas, the company expects domestic 2W wholesales volume growth will be flattish on a YoY basis due to higher inventory levels in the system.
- Export:** The company has now continuously breaching 200,000 sales per month mark performed robustly despite dropping sales in Ajayan where Philippines very big market for the company and Number 1 in Philippines. Cambodia this is a huge market for 3W. Uganda is a 90% share of Bajaj in east Africa this is high volume market but suffered due to lockdown and huge drop in retail despite that the company has achieved 200,000+ level. In Export this is the 2nd highest quarter in history. Global Market share has estimated to increase by 2% in Motorcycle and 6% in 3W.
- Chetak booking is open in Pune and Bangalore and closed within 48 hours with and very strong response. Due to uncertainty the company has set the strike rate of 1k unit per month.
- Bajaj auto has announced to entering into 4 market Nagpur, Mysore, Aurangabad, and Mangalore.
- Management stated that the company performance is mostly driven by 125 cc and some of the new models in the commuter segment, where the company is offering a little upgrade.

Financial Performance

Exhibit 1: Revenue trend

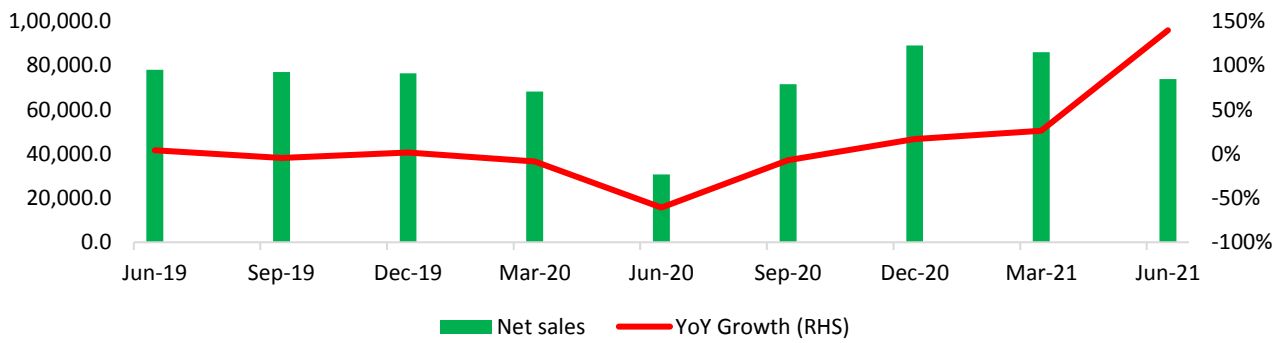


Exhibit 2: EBITDA Trend

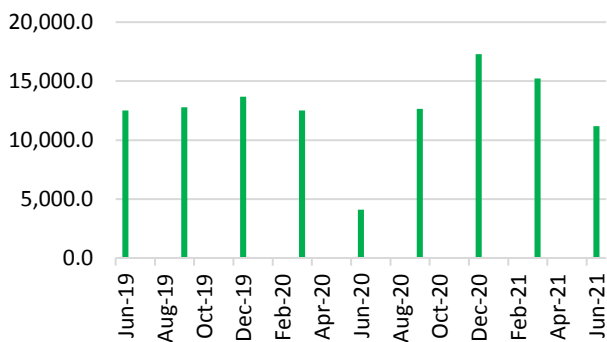


Exhibit 3: EBITDA/Vehicle (INR) trend

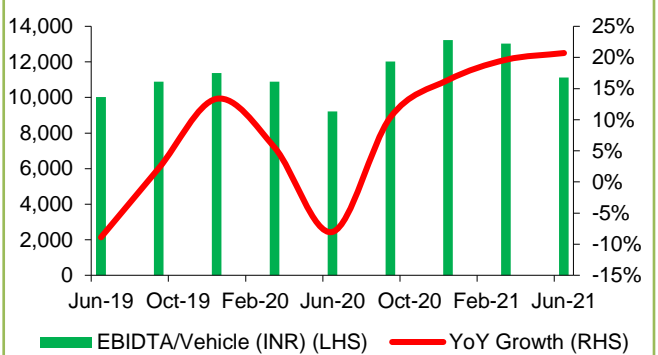


Exhibit 4: EBITDA Margin Trend

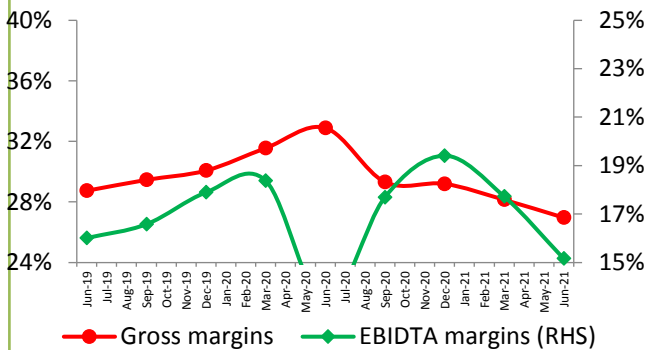


Exhibit 5: PAT Margin trend

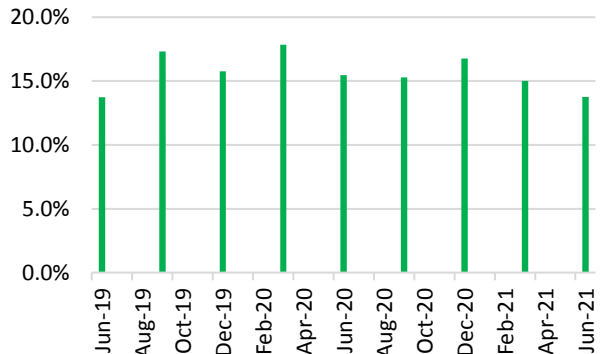
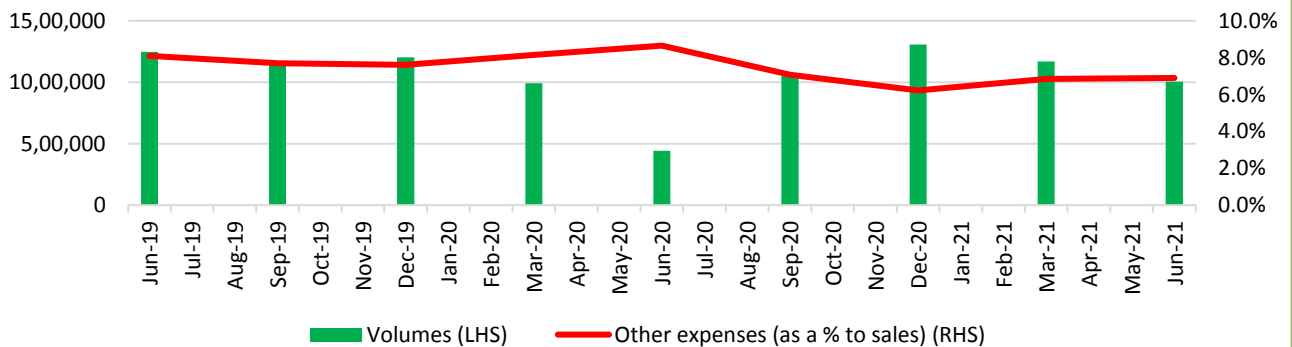


Exhibit 6: Volume Trend



Source: Company, Arianth Research

Financials (Standalone)

Profit & Loss Statement					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	3,03,575	2,99,187	2,77,411	3,57,349	4,00,907
Growth, %	21	-1	-7	29	12
RM expenses	2,17,977	2,10,083	1,96,097	2,53,360	2,81,437
Employee expenses	12,554	13,892	12,860	14,403	15,483
Other expenses	21,120	24,249	19,170	26,801	31,271
EBITDA (Core)	51,924	50,962	49,285	62,785	72,717
Growth, %	11	-2	-3	27	16
Margin, %	17.1	17.0	17.8	17.6	18.1
Depreciation	2,657	2,464	2,593	2,577	2,659
EBIT	49,268	48,498	46,692	60,207	70,058
Growth, %	13	-2	-4	29	16
Margin, %	16.2	16.2	16.8	16.8	17.5
Other income	14,389	17,336	12,765	13,020	13,542
Interest paid	45	32	67	51	49
Non-recurring Items	3,420	0	0	0	0
Pre-tax profit	67,031	65,802	59,390	73,176	83,551
Tax provided	20,280	14,802	13,844	17,562	20,052
Profit after tax	46,751	51,000	45,546	55,614	63,499
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	46,751	51,000	45,546	55,614	63,499
Growth, %	26	9	-11	22	14
Net Profit (adjusted)	46,751.4	51,000	45,546	55,614	63,499

Balance Sheet					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	9,228	3,083	5,274	22,300	36,279
Investments	1,91,594	1,81,960	2,26,310	2,24,046	2,35,249
Debtors	25,597	17,251	27,169	35,245	39,542
Inventory	9,615	10,635	14,939	19,581	21,968
Loans & advances	380	386	372	409	450
Other current assets	19,271	16,827	24,431	25,652	26,935
Total current assets	64,091	48,181	72,183	1,03,187	1,25,173
Gross fixed assets	51,790	53,763	55,875	58,913	59,413
Less: Depreciation	33,786	36,250	38,843	41,421	44,079
Add: Capital WIP	115	465	160	160	160
Net fixed assets	18,120	17,978	17,191	17,652	15,493
Total assets	2,24,471	2,04,360	2,58,841	2,73,943	2,96,930
Current liabilities	47,781	41,374	55,300	69,245	77,253
Provisions	1,552	2,385	1,544	1,698	1,732
Total current liabilities	49,333	43,758	56,843	70,942	78,984
Non-current liabilities	1,75,138	1,60,602	2,01,997	2,03,000	2,17,946
Total liabilities	6,672	5,105	6,818	6,818	6,818
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	2,14,905	1,96,361	2,49,129	2,64,231	2,87,218
Shareholders' equity	2,17,799	1,99,255	2,52,023	2,67,125	2,90,112
Total equity & liabilities	2,24,471	2,04,361	2,58,841	2,73,943	2,96,930

Cash Flow					
Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	63,611	65,802	59,390	73,176	83,551
Depreciation	2,657	2,464	2,593	2,577	2,659
Chg in working capital	-13,060	4,189	-8,726	122	36
Total tax paid	-18,186	-15,473	-13,481	-17,562	-20,052
CFO	21,967	11,966	63,826	14,838	134
Capital expenditure	-1,429	-2,322	-1,806	-3,038	-500
Chg in marketable securities	0	0	0	0	0
Chg in investments	-15,711	9,634	-44,350	2,263	-11,202
CFI	9,528	24,429	-33,392	30,976	27,438
Free cash flow	20,538	9,643	62,020	11,800	-366
Debt raised/(repaid)	-181	-641	-4	0	0
Dividend (incl. tax)	-20,314	-51,951	-87	-40,512	-40,512
CFF	-20,540	-52,623	-158	-40,562	-40,560
Net chg in cash	10,955	-16,228	30,277	5,252	-12,989
Opening cash balance	7,780	9,228	3,083	5,274	22,300
Closing cash balance	9,228	3,083	5,274	22,300	36,279

Ratios					
Particulars	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	161.6	176.2	157.4	143.0	163.2
PER (x)	23.8	21.9	24.5	26.9	23.6
Price/Book (x)	3.5	3.8	4.4	5.6	5.2
EV/EBITDA (x)	8.8	8.8	9.2	25.3	23.2
EV/Net sales (x)	2.0	2.1	2.8	3.5	3.3
RoE (%)	28.2	32.4	36.6	12.0	13.1
RoCE (%)	37	39	47	26	34
Fixed Asset turnover (x)	5.9	5.6	5.0	6.1	6.7
Dividend Yield (%)	2.3	4.5	3.6	2.7	2.7
Receivable (days)	32	22	32	37	37
Inventory (days)	14	16	24	22	23
Payable (days)	55	47	73	67	68
Net D/E ratio (x)	(0.9)	(0.8)	(0.8)	(0.7)	(0.4)

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

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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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