

CMP: INR 3,309

Rating: Buy

Target Price: INR 4,075

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)	9,91,690
52w H/L (INR)	4,361/3,027
Avg Yearly Vol (in 000')	567

Shareholding Pattern %

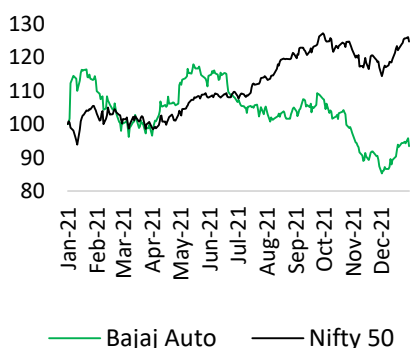
(As on December, 2021)

Promoters	53.7
Public & Others	46.3

Stock Performance (%)

	1m	3m	12m
Bajaj Auto	7.9	-12.3	-5.8
Nifty	5.7	-2.5	23.7

Bajaj Auto Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Bajaj Auto reported revenue, and PAT in line with our estimates while the EBITDA margin was slightly above estimates.

- Standalone revenue stood at INR 90,217 Mn, against our estimate of INR 90,903 Mn registering +1.3% YoY/3% QoQ.
- EBITDA stood at INR 13,721 Mn, against our estimate of INR 13,636 Mn, Registering a de-growth of 20.7%YoY/2.1%QoQ.
- On the margins front, EBITDA margin contraction by 420bps YoY/-78bpsQoQ to 15.2%, against our estimate of 15% backed by positive net income pf price hike, less material cost increase, and beneficial export realization for US\$ to INR
- Standalone PAT saw a de-growth of 22%YoY/4.7% QoQ to INR 12,142 Mn against our estimate of INR 12,230 Mn.
- EPS stood at INR 42.0 in Q3FY22 against INR 53.80 in Q3FY21 (INR 44.10 in Q2FY22).
- Total Volume was declined by 9.6%YoY/+3.2% QoQ to 11,81,361 units.
- The company cash and cash equivalents stood at INR 17,883 crores as against ~17,526 crores as of 30th September 2021.
- The company exports continue to record strong sales with average monthly volumes in excess of 219,000 units. For the CY21, exports, by volume exceeded 2.5 mn units - highest ever.

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. However, 3W recovering back on a low base on easing of Covid restrictions. Bajaj's auto strategy on EV is focused on strong R&D (1500 employees) with a target on combined supply chain and more updates on the EV front is a key watch out.

Going forward, we believe new launches with Triumph along with new variants of pulsar will drive the domestic 2W market.

We value Bajaj Auto at P/E of 18x to its FY 24E EPS of INR 222.1 for a fair value of INR 3,997 and INR 80 for KTM stock valuation to arrive at a final target price of INR 4,075 using SOTP method for Bajaj's stake in KTM. We maintain our Buy rating on the stock.

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY20	2,99,187	50,962	51,000	176.2	17.03	18.77
FY21	2,77,411	49,285	45,546	157.4	17.77	21.02
FY22E	3,54,488	56,084	49,126	169.8	15.82	19.49
FY23E	3,93,983	64,767	55,333	191.2	16.44	17.30
FY24E	4,37,828	76,716	64,262	222.1	17.52	14.90

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

Q3FY22 Conference call

- **Demand:** Q3FY22 was difficult to navigate due to uncertainty of demand environment even during the festive, cost increase, and supply chain disruption in semiconductor as well as in shipping. However, overseas demand recovers quite smartly and health steady. On the 3W side, demand also improves back of preceding lockdown.
- **Strategy:** Strengthen the company's competitive positions by upgrading the company across in within segment by capturing the greatest share of the company's leadership market like-overseas dealer thereby improving upon the financial results QoQ.
- **Exports: (56% of the revenue):** Q3FY22 was the highest ever sales crossing 219000 units per month. This is supported by the high level of retail in the market as Q3FY22 was a record high for the company on the retail achieved front in the overseas market. Also, the company has an increasing market share in both motorcycle and CV front and held to increase of all the regions in the world.
- **Price:** At the end of Q3FY22 the company has increased 5% and it is higher than competitors (out of India). This is navigated the all the shortages and shipping issues of semiconductors.
- Seeing steady volumes in exports 3Ws, doing better in the Philippines, Cambodia, Iraq & many other markets are supporting well, which will offset the loss due to Egypt's ban on 3Ws.
- Bajaj with its partner is in dialogue with the Egyptian government, working on various options like CNG and providing better-looking vehicles.
- **Outlook for the Exports:** The company is seeing that the exports remain steady and the topmost countries is in tight control and expecting the same performance in Q4FY22 as well. Due to year-end, some business pullover will see some back of that towards the end of the march.
- **Motorcycle business:** The demand for 2W continues subdued in Q3FY22. As Vahan data suggest registration declined by 11% for Motorcycle in Q3FY22 at an industry level. Retail data indicated a similar decline in January over FY21. Enter & mid-entry is declining more of the parts. All geography, semi-urban is similar decline, cash sales also decline but a bit more in finance sales while retail financing has done better because of the base change.
- Purchasing power especially for earners less than Rs 50K and poor sentiments impacting the demand.
- **Market Share:** Bajaj auto decline was lower than the industry resulting in a gain of market share on a retail basis. Vahan registration again indicates an increase of 1.6% gain and 22% YTD gain in FY22 against 18.4% in FY21 driven by upgrade strategy in 100cc move from 25%-75% in FY21 and FY23 and 95% in the past 100cc in Electric start. In pulsar 125cc, 25% sales came from premium pulsar 125 NS, target to youth and its more expensive pulsar 125 as 22% sales come from this variant.
- Sports segment: Launched 250cc Pulsars and both models received a good response from the market. Dominar 400cc upgrade also received well. The company will keep making new introductions at regular intervals. Also, developing one platform in the commuter segment.
- **Guidance:** Overall, domestic 2W outlook is muted, an additional uncertainty w.r.t. the 3rd wave is impacting demand. Cautious on Q4FY22 and expect negative YoY growth.
- **3W:** The domestic 3W business unit saw significant improvement backed of the normal economic activity >50k units in this quarter which was >18% QoQ basis and 52% more than last year. Q3FY22 end with 71% market share against 74%. Business unit not just leading overall but every single 3W segment market small/large passenger and cargo. In cargo market share is 50%. The rollout of the CNG network continues to proceed strongly by the government.
- Bajaj auto has a 75% market share in the CNG segment. Also along with the detailed finance support key drivers of expansion of market share in Q3FY22.
- **Inventory:** *The current inventory level is very much being in control. The current lockdown not impacting so much on the traffic side so we are expecting Q3FY22 performance will improve in Q4FY22.*
- **EV:** *The company has intended to invest in Auto PLI scheme INR 1000 cr in the next 5 years this includes earlier investment INR 300cr EV manufacturing facility in Pune which is expected to deliver a production capacity of 500,000 EVs 2w a year and first vehicle to roll out by June FY22.*
- **E-Chetak:** *The company sold-out 2k chetak and has an order book of ~10,000 vehicles.*
- **Supply-chain:** *The company is seeing better visibility on the supply chain side which allows the company to roll it 10 more cities in this year and progressively in the next 9 months as EV component performance improve will cover the entire country. The company is also working on the EVs portfolio to cover different emerging segments. The company also has plans to expand its EV portfolio. The aggressive rollout of the eChetak is the 1st task, expect better QoQ sales. Will gradually expand the Chetak platform, KTM platform, and Yulu platform.*

Quarterly result summary			
Standalone (INR mn)	Q3FY22	Q2FY22	Q3FY21
Net sales	90,217	87,622	89,099
- Raw material	67433	64565	63082
(% of net sales)	74.745196	73.7	70.8
- Staff expenditure	3399	3516	3172
(% of net sales)	3.8	4.0	3.6
- Other expenditure	5664.1	5530.4	5548.4
(% of net sales)	6.3	6.3	6.2
Total expenditure	76,495	73,611	71,803
EBITDA	13,721	14,011.2	17,296
EBITDA Margin (%)	15.2	16.0	19.4
Depreciation	698.3	656	650
EBIT	13,023	13,355	16,646
Interest	17.9	17	10.2
Other Income	2727.6	3183.2	3691.8
PBT	15,733	16,521	20,328
Tax	3590.9	3775.9	4765
Adjusted PAT	12,142	12,746	15,563
Reported PAT	12142	12746	15563
Adjusted EPS (INR)	42.00	44.10	53.80
Total Volumes (Nos)	11,81,361	11,44,407	13,06,810
Net Realisation (INR)	76,367	76,565	68,180
EBITDA / Vehicle (INR)	11,615	12,243	13,235

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

- **It has three key approaches on EVs:** 1) will build a robust, dependable brand. 2) to continue to build R&D and supply chain capabilities, including a partnership with KTM, etc. 3) to expand portfolio aggressively in domestic and export markets.
- On the negative side, there is a possibility that an electric scooter can cannibalize ICE motorcycles as well apart from ICE scooters.
- **EV-3W:** The management considers CNG as a very good option due to the Government's focus and less capital cost. EVs don't have strong retail finance support, which is a tall order in the current environment. Other short-term problems in e3Ws are lack of charging infrastructure, takes time to charge, need parking where a customer can charge, etc. In addition, customers are unsure about the e3Ws resale value after 3-5 years and what will happen to the battery. Hence, management feels that the transition will unfold only gradually towards e3Ws.
- **EBITDA Margin:** The company expects 0.3-0.5% QoQ margin improvement in Q4FY22. In Q4FY22, a cost increase of 1% is expected, which is already being passed on. The company expects to get a slight appreciation in the USD/INR rate, will see improvement in the margins QoQ.
- Bajaj to 1st launch cargo electric 3Ws by Q1FY23, it will be using the current brand name, gearing up a dealer network and the product will include certain new-age features like telematics, etc. for better fleet management.
- **Battery swapping:** The management believes that the industry needs at least twice the number of batteries than vehicles, but at present, battery cost is very high. Although, Bajaj is investing behind it its range of 2Ws will work on battery swapping in the future. R&D efforts are majorly focusing on electric vehicles.
- **Components:** The company over the last 6-9 months developed components on its own, put in a new supply-chain arrangement, and recently got the in-house tech-based eChetak approved. The roll-out of this model will happen by the end of December 2022.

Profit & Loss Statement					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Net sales	2,99,187	2,77,411	3,54,488	3,93,983	4,37,828
Growth, %	-1	-7	28	11	11
RM expenses	2,10,083	1,96,097	2,54,877	2,82,486	3,10,420
Employee expenses	13,892	12,860	18,003	18,364	18,731
Other expenses	24,249	19,170	25,523	28,367	31,961
EBITDA (Core)	50,962	49,285	56,084	64,767	76,716
Growth, %	-2	-3	14	15	18
Margin, %	17.0	17.8	15.8	16.4	17.5
Depreciation	2,464	2,593	2,929	3,663	3,932
EBIT	48,498	46,692	53,156	61,104	72,783
Growth, %	-2	-4	14	15	19
Margin, %	16.2	16.8	15.0	15.5	16.6
Other income	17,336	12,765	12,573	12,925	13,184
Interest paid	32	67	52	54	56
Non-recurring Items	0	0	0	0	0
Pre-tax profit	65,802	59,390	65,676	73,975	85,911
Tax provided	14,802	13,844	16,550	18,642	21,650
Profit after tax	51,000	45,546	49,126	55,333	64,262
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	51,000	45,546	49,126	55,333	64,262
Growth, %	9	-11	8	13	16
Net Profit (adjusted)	51,000	45,546	49,126	55,333	64,262

Balance Sheet				
Particulars (INR mn)	FY21	FY22E	FY23E	FY24E
Cash & bank	5,274	16,579	39,089	67,416
Investments	2,26,310	2,24,046	2,19,565	2,15,174
Debtors	27,169	34,963	38,859	43,183
Inventory	14,939	19,424	21,588	23,991
Loans & advances	372	409	450	495
Other current assets	24,431	25,652	26,935	28,282
Total current assets	72,183	97,027	1,26,920	1,63,366
Gross fixed assets	55,875	58,913	59,413	59,914
Less: Depreciation	38,843	41,772	45,435	49,367
Add: Capital WIP	160	160	160	160
Net fixed assets	17,191	17,300	14,137	10,706
Total assets	2,58,841	2,67,455	2,82,276	3,03,131
Current liabilities	55,300	69,221	76,615	84,348
Provisions	1,544	1,698	1,732	1,766
Total current liabilities	56,843	70,919	78,347	86,115
Non-current liabilities	2,01,997	1,96,536	2,03,930	2,17,017
Total liabilities	6,818	6,818	6,818	6,818
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	2,49,129	2,57,743	2,72,565	2,93,420
Shareholders' equity	2,52,023	2,60,637	2,75,458	2,96,313
Total equity & liabilities	2,58,841	2,67,455	2,82,276	3,03,131

Cash Flow					
Particulars (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	65,802	59,390	65,676	73,975	85,911
Depreciation	2,464	2,593	2,929	3,663	3,932
Chg in working capital	4,189	-8,726	537	45	-351
Total tax paid	-15,473	-13,481	-16,550	-18,642	-21,650
CFO	11,966	63,826	9,314	12,545	17,869
Capital expenditure	-2,322	-1,806	-3,038	-500	-501
Chg in investments	9,634	-44,350	2,263	4,481	4,391
CFI	24,429	-33,392	30,976	24,028	24,940
Free cash flow	9,643	62,020	6,276	12,045	17,368
Debt raised/(repaid)	-641	-4	0	0	0
Dividend (incl. tax)	-51,951	-87	-40,512	-40,512	-43,406
CFF	-52,623	-158	-40,564	-40,566	-43,462
Net chg in cash	-16,228	30,277	-274	-3,992	-652
Opening cash balance	9,228	3,083	5,274	16,579	39,089
Closing cash balance	3,083	5,274	16,579	39,089	67,416

Ratios				
Particulars	FY21	FY22E	FY23E	FY24E
EPS (INR)	157.4	169.8	191.2	222.1
PER (x)	21.0	19.5	17.3	14.9
Price/Book (x)	3.8	3.7	3.5	3.2
EV/EBITDA (x)	7.6	16.7	14.2	11.5
EV/Net sales (x)	2.3	2.0	1.8	1.6
RoE (%)	36.6	9.7	10.8	12.3
RoCE (%)	47	23	25	27
Fixed Asset turnover (x)	5.0	6.0	6.6	7.3
Dividend Yield (%)	4.2	4.2	4.2	4.5
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: Arianth Research, Company Filings,

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880