

Beat estimates; Exports drive the growth

**CMP: INR 3,906**

**Rating: Buy**

**Target Price: INR 4,950**

**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)         | 13,30,170         |
| 52w H/L (INR)            | 4,347/3,027       |
| Avg Yearly Vol (in 000') | 427               |

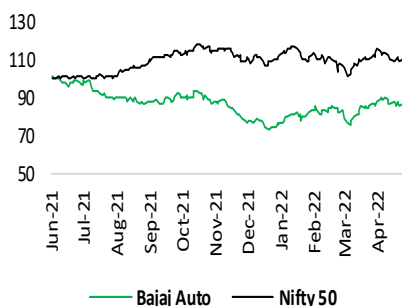
**Shareholding Pattern %**

(As on December, 2021)

|                 |      |
|-----------------|------|
| Promoters       | 53.7 |
| Public & Others | 46.3 |

| Stock Performance (%) | 1m    | 3m   | 12m  |
|-----------------------|-------|------|------|
| Bajaj Auto            | 6.8   | 11.5 | 3.1  |
| Nifty                 | -0.19 | 0.51 | 15.6 |

**Bajaj Auto Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Bajaj Auto beat our estimates on all fronts, reported standalone revenue stood at INR 79,748.4 Mn, against our estimate of INR 75,646 Mn registering a de-growth 7.2% YoY/-11.6% QoQ. EBITDA stood at INR 13,656 Mn, against our estimate of INR 10,835 Mn, Registering a de-growth of 10.4%YoY/0.5%QoQ. On the margins front, EBITDA margin contraction by 61bps YoY/+191bpsQoQ to 17.1%, against our estimate of 14.3% backed by positive net income of price hike. Standalone PAT saw a growth of 21%YoY/10.3% QoQ to INR 14,690 Mn against our estimate of INR 10,123 Mn. EPS stood at INR 58.8 in Q4FY22 against INR 42 in Q3FY22 (INR 46.10 in Q4FY21). Total Volume declined by 16.5%YoY/+17.3% QoQ to 976,651 units. The international business recorded its highest ever sales of over 2.5 million vehicles for FY22. With sales of over US\$ 2 billion, exports now contribute over 52% of our Net sales. The company continues to face severe supply-chain challenges, especially in Q4 FY22, impacting sales of motorcycles and commercial vehicles. Bajaj Auto EBITDA per Vehicle was increased by 7.3% YoY/20.4% QoQ of INR 13,982 against 13,030 in Q4FY21. Two-wheeler demand in India remained stressed as affordability took a hit in the last 2 years. That's on account of the increased cost of vehicles amid the transition to stricter emission standards, price hikes due to escalating input costs, costlier fuel, and dented purchasing power due to the pandemic. The Board of Directors has recommended a dividend of INR 140 per share.

**Exports, steady clocking over 200,000 units and expects to continue this momentum.** 65 of 70 markets, Bajaj has leadership positions (dealers, mfg., advertising, etc.). Most of the regions are in the growth phase. Barring some currency fluctuations, it is seeing fairly improving demand which would lead to higher market share. The main products here are Pulsar 250 and Dominor. Expects to deliver double-digit growth. Looking at doubling the international business in the next 5 years. Would also be entering new markets like Brazil and Europe.

**Outlook and valuation**

Bajaj auto is relatively better positioned than its peers owing to its strength in exports and the Premium Motorcycle segment. It is well placed to capitalize on demand normalization and premiumisation trends in the 2W industry which should support profitability and operational performance going forward. We expect the marriage season to aid volumes in May. However, there will be a wait and watch scenario for June and July to fundamentally access the demand scenario. In 3Ws, it is expected that the normal demand momentum should continue. Going forward, we believe new launches (EV-3w) with Triumph along with new variants of pulsar will drive the domestic 2W market.

**We value Bajaj Auto at P/E of 23x to its FY 24E EPS of INR 211.8 for a fair value of INR 4,872 and INR 78 for KTM stock valuation to arrive at a final target price of INR 4,950 using SOTP method for Bajaj's stake in KTM. We maintain our Buy rating on the stock.**

| YE March<br>(INR Mn) | Net Sales | EBITDA | PAT    | EPS (INR) | EBITDA<br>Margin % | P/E (x) |
|----------------------|-----------|--------|--------|-----------|--------------------|---------|
| FY21                 | 277,411   | 49,285 | 45,546 | 157.4     | 17.77              | 24.82   |
| FY22                 | 331,447   | 52,586 | 50,189 | 173.6     | 15.87              | 22.50   |
| FY23E                | 397,107   | 65,143 | 55,210 | 190.8     | 16.40              | 20.47   |
| FY24E                | 441,327   | 73,299 | 61,292 | 211.8     | 16.61              | 18.44   |

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

**Q4FY22 Conference call**

- **Bajaj auto reported reasonably strong performance in Q4** on the back of weak demand sentiment and semiconductor shortages. Reported record quarterly and annual profits. Entry-level segments, KTM high end the product mix helped improve margins.
- **Exports:** Remains strong and steady. Witnessed resolute performance in FY22 every month consistently. Managed a ~US\$2bn revenue.
- **Market Share (MS):** The company market share grew by 2% in FY22 in regions like Latam, Africa, South Asia, Middle East and ASEAN. 85% of export revenues came from markets where it held the #1 position. Retail market share in India stands at ~20% in FY22 from 18% in FY21. Export 60% of overall volumes in Q4 vs 55% last quarter. Exports enjoy superior profitability. Revenue from exports INR 40000 mn.
- **Share of Business from Pulsar Dominar** has increased and is at its highest as of now. Also, it is securing leadership positions in many countries. The large order book for the Dominar brand in Latam and Asia. Positive for Bajaj, dealers, partners, etc.
- **Supply-side challenges** continue to pose challenges in Q4FY22. With the availability of semiconductors, volumes could have been higher by 5%.
- Demand remained weak. As per Wahan data volume decline was 12% across the 2W industry over Q4FY21. The decline was visible across segments. FY22 was the worst year for the industry in a decade, said mgmt. 2W segment customer has not recovered from the pandemic problems and economic hardships.
- **Domestic Outlook:** The company's expects the marriage season to aid volumes in April and May. However, in a wait and watch stance for June and July to fundamentally access the demand scenario.
- **Pulsar 250 twins and NS have received** outstanding reception and enabled the company to grow its market share. For CT110, it is showing good resilience despite price increases. This has helped to improve profitability in the segment. Mid-segment, NS 125, has done well too and the product is aimed towards the youth (below 25yrs of age).
- **Domestic 3W business continued** to see improvement as economic activity resumes. Retail market share of over ~70%. It sold over 52k units in Q4 (15% YoY growth). Maintains leadership across segments, passengers and cargo. Market Share in the CNG segment is ~77%. The segment has moved from 24% in FY21 to 60% in Q4 of FY22.
- **2W EVs (Bajaj Chetak):** 3,300 units sold during the quarter and has an order book of 15,000 units. Overall it is present in 20 cities as of now. Great opportunity for Bajaj Auto for domestic and export markets. Volumes are low due to supply-side constraints. Would be focusing on building capabilities for the next 18 months to scale up operations in EV. Would also launch an E3W by end of June.
- INR 310 Mn and INR 3150 Mn in the form of incentives from the State Govt. of Maharashtra.
- Expects a shortfall of 15-20% for semiconductors in the next months. Would mostly impact domestic production and some part of export production. Can expect a loss in market share in Q1, however, expects it to normalize from Q2FY23 onwards.
- **Price Hike: 1%.** Further, it raised prices by 1.5-2% on 1st April 2022 to mitigate RM pressure. There is still some under-recovery. Mgmt. believes the recovery has only been 1/3rd. Depending on the demand in June and July, would be raising prices accordingly. Will be looking at it q/q basis.
- **Electric 3W would not impact** the top-line and profitability of the 3W business as compared to ICE, as it plans to take it slow by launching in a couple of cities and gradually expand to other cities.
- **Price increases in the Export business** and 3W is ahead of the competition and has been digested very well with customers. This did not lead to any loss of market share.
- **Srilanka- Has been facing a forex crisis** for some time. Govt banned the imports of auto products and other categories. Bajaj's exports to Srilanka were smaller in FY22. Should be close to less than 1% of the overall exports. Nepal- Does about 5k 3Ws in the market and maintains a leadership position. Their festive is close to Dusshera. Realization in exports is 75.5k.
- Material inflation would be 3.5-4% in Q1FY23. Steel and Alloys are seeing inflation of 10-15% already. Pricing action needs to recover almost 3/4th of the RM impact, which it would take in subsequent quarters.
- Colleges, Work from Office, IT companies coming back, acts as a positive play for the entire 2W segment.
- Spares: Domestic spares part showed good performance, revenue INR 9800 Mn. Penetration was at 18% from 14% a few years back.
- Prioritized the use of chips towards high profitability products and geographies. This led to a reduction of volumes in Platina and CT brands. Taking action towards pushing the customer to upgrade their purchases. Eg. moving the customer from the 100cc segment to the 120cc segment.

## Quarterly result summary

| Standalone (INR mn)          | Q4FY22        | Q3FY22        | Q4FY21        | YoY (%)       | QoQ (%)        |
|------------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>Net sales</b>             | 79,748        | 90,217        | 85,961        | <b>(7.2)</b>  | <b>(11.6)</b>  |
| - Raw material               | 57357         | 67433         | 61767         | <b>(7.1)</b>  | <b>(14.9)</b>  |
| (% of net sales)             | 71.9          | 74.7          | 71.9          | <b>7bps</b>   | <b>-282bps</b> |
| - Staff expenditure          | 3059          | 3399          | 3070          | <b>(0.4)</b>  | <b>(2.8)</b>   |
| (% of net sales)             | 3.8           | 3.8           | 3.6           | <b>26bps</b>  | <b>7bps</b>    |
| - Other expenditure          | 5676.6        | 5664.1        | 5883.7        | <b>(3.5)</b>  | <b>0.2</b>     |
| (% of net sales)             | 7.1           | 6.3           | 6.8           | <b>27bps</b>  | <b>84bps</b>   |
| Total expenditure            | 66,092        | 76,495        | 70,720        | <b>(6.5)</b>  | <b>(13.6)</b>  |
| <b>EBITDA</b>                | <b>13,656</b> | <b>13,721</b> | <b>15,241</b> | <b>(10.4)</b> | <b>(0.5)</b>   |
| EBITDA Margin (%)            | 17.1          | 15.2          | 17.7          | <b>-61bps</b> | <b>191bps</b>  |
| Depreciation                 | 696.7         | 698.3         | 661.7         | <b>5.3</b>    | <b>(0.2)</b>   |
| <b>EBIT</b>                  | <b>12,959</b> | <b>13,023</b> | <b>14,579</b> | <b>(21.8)</b> | <b>(0.5)</b>   |
| Interest                     | 28.8          | 17.9          | 20.4          | <b>41.2</b>   | <b>60.9</b>    |
| Other Income                 | 2888.6        | 2727.6        | 2836          | <b>1.9</b>    | <b>5.9</b>     |
| PBT                          | 15,819        | 15,733        | 17,395        | <b>(9.1)</b>  | <b>0.5</b>     |
| Tax                          | 4282.4        | 3590.9        | 4074.2        | <b>5.1</b>    | <b>19.3</b>    |
| <b>Adjusted PAT</b>          | <b>14,690</b> | <b>12,142</b> | <b>13,321</b> | <b>10.3</b>   | <b>21.0</b>    |
| Reported PAT                 | <b>11537</b>  | <b>12142</b>  | <b>13321</b>  | <b>(13.4)</b> | <b>(5.0)</b>   |
| Adjusted EPS (INR)           | 41.00         | 42.00         | 46.10         | <b>(11.1)</b> | <b>(2.4)</b>   |
| Total Volumes (Nos)          | 976,651       | 1,181,361     | 1,169,664     | <b>(16.5)</b> | <b>(17.3)</b>  |
| <b>Net Realisation (INR)</b> | <b>81,655</b> | <b>76,367</b> | <b>73,492</b> | <b>11.1</b>   | <b>6.9</b>     |
| EBITDA / Vehicle (INR)       | 13,982        | 11,615        | 13,030        | <b>7.3</b>    | <b>20.4</b>    |

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

- **INR 31cr incentive:** Govt. of Maharashtra announced it in 2007 to provide certain benefits for certain investments. Bajaj made an investment in the Waluj plant for a vehicle manufacturing. in Maharashtra and sold in the same state. This incentive would be available till FY24. Rs8cr pertains to Q4 and the balance is for 9M FY22. The INR 3150mn incentive is from FY15 to FY21
- For CNG and e3W, the total cost of ownership is almost at parity and mgmt. expects it to be in a similar range in subsequent years. Penetration would depend on how well a brand is able to reassure the driver of the resale value and robustness of the product. Accordingly, Bajaj has decided to take it slow in the first 6 months of launch. However, at some point in time, expects E3W would cannibalize sales of CNG and ICE powertrains.
- Seeing normal retail demand in April, however seeing problems in June and July for 2Ws. For 3Ws, it expects the normal demand momentum to continue.
- Geographic Split and demand (106.07/66): 50-55% Africa; ~20% LatAm; Balance is Asia and ASEAN.
- Domestic spare have grown by 25% YoY. would enhance the strategy which would allow them to engage with a larger base of retailers, thereby growing the business at a higher rate.
- **Chetak:** Production is impacted by semiconductors. Has a waiting period of 6-9 months which is a big problem for a customer. By end of the year, its objective is to be the most preferred brand in over 100 cities.

| Profit & Loss Statement      |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|
| Particulars (INR mn)         | FY21           | FY22           | FY23E          | FY24E          |
| <b>Net sales</b>             | <b>277,411</b> | <b>331,447</b> | <b>397,107</b> | <b>441,327</b> |
| 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         |
| <b>EBITDA (Core)</b>         | <b>49,285</b>  | <b>52,586</b>  | <b>65,143</b>  | <b>73,299</b>  |
| Growth, %                    | (3)            | 7              | 24             | 13             |
| Margin, %                    | 17.8           | 15.9           | 16.4           | 16.6           |
| Depreciation                 | 2,593          | 2,692          | 3,675          | 3,945          |
| <b>EBIT</b>                  | <b>46,692</b>  | <b>49,895</b>  | <b>61,468</b>  | <b>69,354</b>  |
| Growth, %                    | (4)            | 7              | 23             | 13             |
| Margin, %                    | 16.8           | 15.1           | 15.5           | 15.7           |
| <b>Other income</b>          | <b>12,765</b>  | <b>12,092</b>  | <b>12,431</b>  | <b>12,680</b>  |
| Interest paid                | 67             | 87             | 89             | 93             |
| Non-recurring Items          | 0              | 0              | 0              | 0              |
| <b>Pre-tax profit</b>        | <b>59,390</b>  | <b>61,901</b>  | <b>73,810</b>  | <b>81,941</b>  |
| Tax provided                 | 13,844         | 14,865         | 18,600         | 20,649         |
| <b>Profit after tax</b>      | <b>45,546</b>  | <b>47,036</b>  | <b>55,210</b>  | <b>61,292</b>  |
| Exceptional Items            | -              | -3152.8        | -              | -              |
| <b>Net Profit</b>            | <b>45,546</b>  | <b>50,189</b>  | <b>55,210</b>  | <b>61,292</b>  |
| Growth, %                    | (11)           | 10             | 10             | 11             |
| <b>Net Profit (adjusted)</b> | <b>45,546</b>  | <b>50,189</b>  | <b>55,210</b>  | <b>61,292</b>  |

| Balance Sheet                         |                |                |                |
|---------------------------------------|----------------|----------------|----------------|
| Particulars (INR mn)                  | FY22           | FY23E          | FY24E          |
| Cash & bank                           | 5,883          | 22,810         | 43,708         |
| Investments                           | 238,188        | 240,569        | 242,975        |
| Debtors                               | 15,164         | 18,168         | 20,191         |
| Inventory                             | 12,305         | 14,743         | 16,384         |
| Loans & advances                      | 87             | 87             | 87             |
| Other current assets                  | 28,484         | 29,053         | 29,634         |
| <b>Total current assets</b>           | <b>61,923</b>  | <b>84,862</b>  | <b>110,005</b> |
| Gross fixed assets                    | 59,960         | 59,613         | 60,114         |
| Less: Depreciation                    | 41,535         | 45,210         | 49,156         |
| Add: Capital WIP                      | 768            | 768            | 768            |
| <b>Net fixed assets</b>               | <b>19,193</b>  | <b>15,170</b>  | <b>11,726</b>  |
| <b>Total assets</b>                   | <b>272,036</b> | <b>286,734</b> | <b>307,514</b> |
| Current liabilities                   | 45,717         | 52,286         | 55,579         |
| Provisions                            | 1,551          | 1,582          | 1,613          |
| <b>Total current liabilities</b>      | <b>47,267</b>  | <b>53,868</b>  | <b>57,192</b>  |
| Non-current liabilities               | 224,769        | 232,866        | 250,321        |
| <b>Total liabilities</b>              | <b>5,348</b>   | <b>5,348</b>   | <b>5,348</b>   |
| Paid-up capital                       | 2,894          | 2,894          | 2,894          |
| Reserves & surplus                    | 263,794        | 278,492        | 299,272        |
| Shareholders' equity                  | 266,688        | 281,386        | 302,166        |
| <b>Total equity &amp; liabilities</b> | <b>272,036</b> | <b>286,734</b> | <b>307,514</b> |

| Cash Flow                    |                |                |                 |                 |
|------------------------------|----------------|----------------|-----------------|-----------------|
| Particulars (INR mn)         | FY21           | FY22           | FY23E           | FY24E           |
| <b>Pre-tax profit</b>        | <b>59,390</b>  | <b>65,053</b>  | <b>73,810</b>   | <b>81,941</b>   |
| 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         |
| <b>CFO</b>                   | <b>63,826</b>  | <b>74,694</b>  | <b>11,963</b>   | <b>-926</b>     |
| 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          |
| <b>CFI</b>                   | <b>-33,392</b> | <b>-4,479</b>  | <b>18,013</b>   | <b>18,143</b>   |
| 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         |
| <b>CFF</b>                   | <b>-168</b>    | <b>-40,861</b> | <b>-40,601</b>  | <b>-40,604</b>  |
| <b>Net chg in cash</b>       | <b>30,266</b>  | <b>29,355</b>  | <b>(10,626)</b> | <b>(23,387)</b> |
| Opening cash balance         | 3,083          | 5,274          | 5,883           | 22,810          |
| <b>Closing cash balance</b>  | <b>5,274</b>   | <b>5,883</b>   | <b>22,810</b>   | <b>43,708</b>   |

| Ratios                   |       |       |       |
|--------------------------|-------|-------|-------|
| Particulars              | FY22  | FY23E | FY24E |
| EPS (INR)                | 173.6 | 190.8 | 211.8 |
| PER (x)                  | 22.5  | 20.5  | 18.4  |
| Price/Book (x)           | 4.2   | 4.0   | 3.7   |
| EV/EBITDA (x)            | 10.1  | 20.5  | 20.9  |
| EV/Net sales (x)         | 2.5   | 2.2   | 1.9   |
| RoE (%)                  | 27.4  | 7.7   | 5.8   |
| RoCE (%)                 | 38    | 22    | 20    |
| Fixed Asset turnover (x) | 5.5   | 6.7   | 7.3   |
| Dividend Yield (%)       | 3.6   | 3.6   | 3.6   |
| Receivable (days)        | 16    | 17    | 17    |
| Inventory (days)         | 16    | 15    | 15    |
| Payable (days)           | 48    | 42    | 39    |
| Net D/E ratio (x)        | (0.8) | (0.8) | (0.9) |

Source: Arianth Research, Company Filings,

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

| Head Office   | Registered Office  |
|---|--|
| #1011, Solitaire Corporate Park<br>Building No. 10, 1 <sup>st</sup> Floor<br>Andheri Ghatkopar Link Road<br>Chakala, Andheri (E)<br>Mumbai – 400093<br>Tel: (91-22) 42254800<br>Fax: (91-22) 42254880 | Arihant House<br>E-5 Ratlam Kothi<br>Indore - 452003, (M.P.)<br>Tel: (91-731) 3016100<br>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<br>Registration No. | Contact                 | Website  | Email Id   |
|--------------------------------------|-------------------------|--|--|
| INH000002764                         | SMS: 'Arihant' to 56677 | <a href="http://www.arihantcapital.com">www.arihantcapital.com</a> | <a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a> |

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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