

CMP: INR 4,343

Rating: Accumulate

Target Price: INR 4,906

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)	2,829
Mkt Cap (INR Mn)	12,26,945
52w H/L (INR)	4,375/3,461
Avg Yearly Vol (in 000')	391

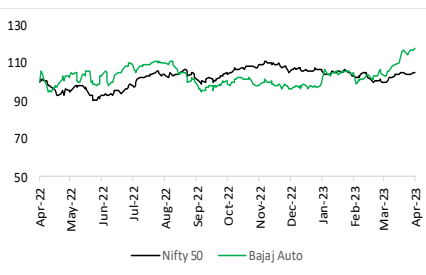
Shareholding Pattern %

(As on Dec, 2022)

Promoters	54.98
Public & Others	45.02

Stock Performance (%)	1m	3m	12m
Bajaj Auto	13.3	16.68	17.77
Nifty	4.94	-0.62	4.88

Bajaj Auto Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Revenue ahead of estimates, led by better product mix: Standalone revenue stood at INR 89,047 Mn, against our estimate of INR 84,200 Mn registering a growth of 11.7% YoY/-4.4% QoQ led by significant volume-led revenue growth of >50% would have noticed from monthly professionals that volumes on the domestic business grew upwards of 30% revenue came in upwards of 50%. Annual basis judicious pricing better foreign exchange realization standard richer product mix. All three levers have contributed to this revenue growth and more than offset the decline that the company seen overall volume that was aggravated by slowing exports on space.

EBITDA beat our expectation on the back of richer product mix of higher CV: EBITDA stood at INR 17,166 Mn, above our estimate of INR 16,035 Mn, registering a growth of 25.7%YoY/ -3.4%QoQ. On the margins front, EBITDA margin expansion by 215 bps YoY/ 20bps QoQ to 19.3%, above our estimate of 19%, led by on the back of richer product mix of higher CV and higher sports motorcycle sales which has offset the operating leverage impact the negative operating leverage impact of a smaller revenue quarter this time.

Strong three-wheeler sales since pandemic: Total Volume de-increased by 12.2%YoY/ -12.8% QoQ to 857,788 units. Three-wheeler sales crossed the 100K unit's milestone for the first-time since the pandemic, reflecting the strong rebound to pre-Covid levels for Bajaj (>100%) compared to ~45% for the rest of the industry- also reflected in the new high on MS 78% in March. The continuous expansion of the CNG segment solid support by Bajaj Auto Finance has driven both market share and profitability.

Bajaj's EV strategy: The EV supply chain has been restructured and a number of development programs in collaboration with important vendors have made very good headway. This not only assures the availability of more than defends going forward from June onwards, but it also lower costs that will enable status to be at taxable to more customers. While the retail jumped from 3k, to ~5k levels, bookings grew to ~8k levels. The current presence in 85 town and by end of H1FY24, they should be in 120 town and 150 stores.

Outlook and valuation

Bajaj Auto has reported strong performance during Q4FY23 mainly driven by better product mixed. We believe, revenue and margins to Improve going Forward led by the company has a strong presence in the growing 125cc+ segment. At a retail level, The company is coming up with new Lunches and increase their Market share in the 125 cc segment. They also plan to expand their Presence in the EV space and going through various Capex. The company's exports pick up from Q2FY24 will be the key monitorable and key trigger. EV launches will be watched. We expect revenue growth at a CAGR of 19.2% during FY23-25E. **Since our recommendation on January 21, FY22, the stock has shown a significant return of 31%. Despite the recent increase in the stock price, we still believe that it has potential for future performance. Hence, we value Bajaj Auto at a P/E of 17.3x its FY 25E EPS of INR 278.8 for a fair value of INR 4,823 and INR 83 for KTM stock valuation to arrive at a final increased target price of INR 4,906 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 4,449). We maintain our Accumulate rating on the stock.**

Q4FY23 Conference call

- The Company was facing Supply Chain challenges in Q1 but now this has settled down in the Recent Quarter.
- They have seen a Sharp Decline in The Exports majorly due to Shift in the Currency Market.
- Nigeria was a Major Country where they Exported but now their Largely business have come to a near standstill on account of elections related unrest, as well as demonetization. They had a severe Impact in February, but now retail has bounced back.
- They see a rise in sales and a strong increase in Operational Performance Despite a drop in Export. The availability of US dollars for trading central banks in most countries continue to take a cautious view and for exports to fully resume besides demand moving up this not of the US dollar being available needs to unravel and it is difficult to predict when precisely this will occur.
- In June, there will be a launch of new products in London, and their sales will start in the upcoming quarters. The company's hoping to be better from Q2FY24 onwards.
- The waiting time for their Dominator bike is 90 days.
- The 125 cc Segment Alone Contributes About 60% of Domestic Revenue. This section is expanding rapidly, and in the upcoming quarters, it will account for 50% of the company's total revenue.
- Pulsar, a 150–250 cc motorcycle, currently has a market share of about 50% and is expected to rise as the business introduces new models.
- The market for premium motorcycles is also doing well. KTM motorcycles in the 250–390 cc segment have achieved their highest sales ever.
- The company is planning to grow. They currently have stores in 85 towns, but they intend to expand to 120 towns and add 150 additional stores. They would cover 80% of the Indian high-speed market.
- They are increasing their market share in EVs. Both passenger and cargo versions of electric three-wheelers would be introduced. In Pune, a new capacity has been created for the production of electric vehicles. They are making Significant Investments in this area, including in new stores and innovative ideas.
- At the beginning of FY24, fresh launches and collaborations would be developed.
- Owing to their innovation and execution, there iconic motorcycle brands like Dominars and KTM has registered there lifetime high revenues.
- Domestic motorcycles will see continued momentum, especially with the large markets coming through in this quarter. On commercial vehicles, the sales momentum, will remain active. The business is doing well in good stead. And this will be aided by the much-anticipated launch of the electric three wheelers . In FY24 they will scale up there EV Business and are looking for more dealerships with many more experience centers.

Exhibit 2: Quarterly result summary-Strong performance

Standalone (INR mn)	Q4FY23	Q3FY23	Q4FY22	YoY (%)	QoQ (%)
Net sales	89047.2	93,151	79,748	11.7	(4.4)
- Raw material	62134.9	65775	57357	8.3	(5.5)
(% of net sales)	69.8	70.6	71.9	-215bps	-83bps
- Staff expenditure	3620.2	3511	3059	18.4	3.1
(% of net sales)	4.1	3.8	3.8	23bps	30bps
- Other expenditure	6126.4	6096.7	5676.6	7.9	0.5
(% of net sales)	6.9	6.5	7.1	-24bps	34bps
Total expenditure	71,882	75,383	66,092	8.8	(4.6)
EBITDA	17,166	17,768	13,656	25.7	(3.4)
EBITDA Margin (%)	19.3	19.1	17.1	215bps	20bps
Depreciation	741.6	739.5	696.7	6.4	0.3
EBIT	16,424	17,029	12,959	26.7	(3.5)
Interest	157.4	84.8	28.8	446.5	85.6
Other Income	2598.3	2691.2	2888.6	(10.0)	(3.5)
PBT	18,865	19,635	15,819	19.3	(3.9)
Tax	4536.2	4720.8	4282.4	5.9	(3.9)
Adjusted PAT	14328.8	14,914	14,690	(2.5)	(3.9)
Reported PAT	14328.8	14914	11537	24.2	(3.9)
Adjusted EPS (INR)	50.7	52.70	41.00	23.7	(3.8)
Total Volumes (Nos)	857,788	983,276	976,651	(12.2)	(12.8)
Net Realisation (INR)	103,810	94,736	81,655	27.1	9.6
EBITDA / Vehicle (INR)	20,012	18,070	13,982	43.1	10.7

Geographical mix	Q4FY23	Q3FY23	Q4FY22	YoY(%)	QoQ (%)
Revenues (INRm):					
Domestic	60354	65,569	41,422	45.7	(8.0)
Exports	32797	27,582	30,137	8.8	18.9
Total	93151	93,151	71,559	30.2	0.0
Volumes (In nos):					
Domestic	335,683	544,188	389,155	(13.7)	(38.3)
Exports	522,105	439,088	587,496	(11.1)	18.9
Total	857,788	983,276	976,651	(12.2)	(12.8)
Realisations (INR):					
Domestic	179,795	120,490	106,441	68.9	49.2
Exports	62,817	62,817	51,297	22.5	0.0
Total	108,595	94,736	73,269	48.2	14.6

Source: Arihant Research, Company Filings

Comments on the Performance

- The company beat our estimates on the revenue and Margin front due to richer product mix.
- The company is doing better on the domestic sales front due to industry momentum in sports portfolio.
- The company's CV maintained their path of recovery to pre-covid levels (now at >100%).
- The company has planned to expand EV in >120 town with strong booking.
- The continuous expansion of the CNG segment solid support by Bajaj Auto Finance has driven both market share and profitability.

Exhibit 3: The company seen margin expansion led by decline in RM cost

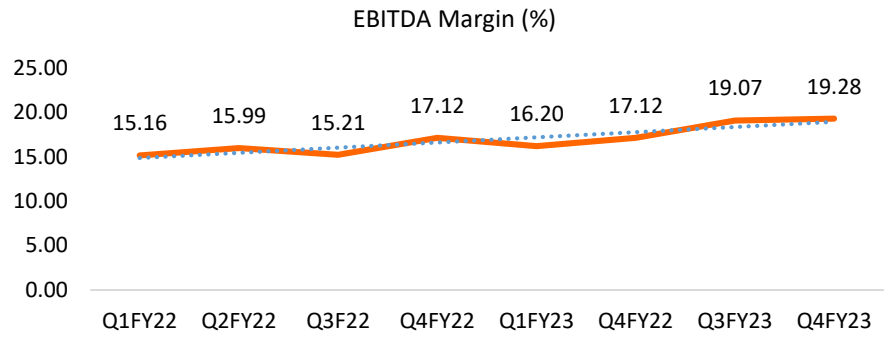


Exhibit 4: The volume increase due to the robust momentum of the sports portfolio

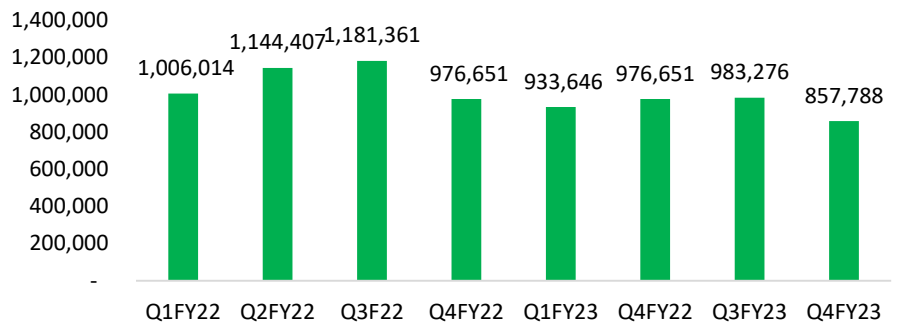


Exhibit 5: The company EBITDA/Vehicle showing growth due to higher contribution from the premium segment.

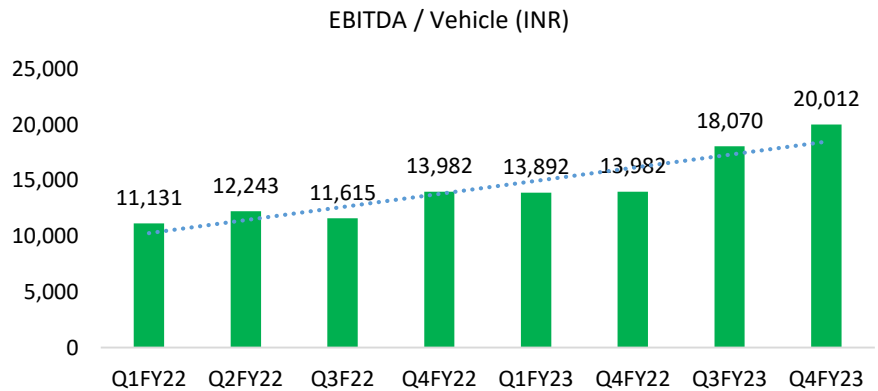
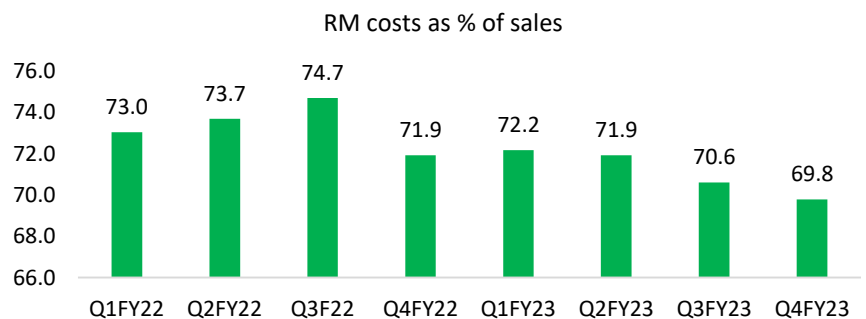


Exhibit 6: The company seen decline in RM costs which is benefits for the Margin



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY22	FY23	FY24E	FY25E
Net sales	331,447	364,276	455,962	517,815
Growth, %	19	10	25	14
RM expenses	243,298	260,548	319,629	361,435
Employee expenses	13,588	14,449	15,605	16,822
Other expenses	21,975	23,788	36,477	41,425
EBITDA (Core)	52,586	65,491	84,251	98,133
Growth, %	7	25	29	16
Margin, %	15.9	18.0	18.5	19.0
Depreciation	2,692	2,824	3,985	4,535
EBIT	49,894	62,667	80,266	93,598
Growth, %	7	26	28	17
Margin, %	15.1	17.2	17.6	18.1
Other income	12,092	11,814	12,050	12,291
Interest paid	86.6	395	413	433
Non-recurring Items	-	-	-	-
Pre-tax profit	61,900	74,086.4	91,904	105,457
Tax provided	14,865	17,810	23,160	26,575
Profit after tax	47,036	56,276	68,744	78,882
Exceptional Items	-3152.8	-	-	-
Net Profit	50,188	56,276	68,744	78,882
Growth, %	10	12	22	15
Net Profit (adjusted)	50,188	56,276	68,744	78,882

Balance Sheet (Standalone)				
Particulars (INR mn)	FY22	FY23	FY24E	FY25E
Cash & bank	5,883	2,858	21,813	55,507
Investments	238,188	229,233	231,526	233,841
Debtors	15,164	17,761	20,860	23,690
Inventory	12,305	13,979	16,928	19,224
Loans & advances	87	59	59	59
Other current assets	28,484	19,408	19,796	20,192
Total current assets	61,923	54,064	79,456	118,672
Gross fixed assets	59,960	69,113	79,113	89,113
Less: Depreciation	41,535	44,360	48,344	52,879
Add: Capital WIP	768	819	819	819
Net fixed assets	19,193	25,572	31,588	37,053
Total assets	272,036	259,011	288,141	327,409
Current liabilities	45,717	49,154	53,710	61,425
Provisions	1,551	704	718	732
Total current liabilities	47,267	49,858	54,428	62,158
Non-current liabilities	224,769	209,153	233,713	265,251
Total liabilities	5,348	4,753	4,753	4,753
Paid-up capital	2,894	2,830	2,830	2,830
Reserves & surplus	263,794	251,429	280,559	319,826
Shareholders' equity	266,688	254,259	283,388	322,656
Total equity & liabilities	272,036	259,011	288,141	327,409

Cash Flow (Standalone)				
Particulars (INR mn)	FY22	FY23	FY24E	FY25E
Pre-tax profit	65,053	74,086	91,904	105,457
Depreciation	2,692	2,824	3,985	4,535
Chg in working capital	1,294	7,424	-1,866	2,207
Total tax paid	-17,015	-19,184	-23,160	-26,575
CFO	24,772	41,917	37,465	61,473
Capital expenditure	-4,693	-9,204	-10,000	-10,000
Chg in marketable securities	-	-	-	-
Chg in investments	-11,878	8,954	-2,292	-2,315
CFI	-4,479	11,565	-242	-24
Free cash flow	20,079	32,713	27,465	51,473
Debt raised/(repaid)	-284	(28.40)	-	-
Dividend (incl. tax)	-40,490	-39,614	-39,614	-39,614
CFF	-40,861	-40,102	-40,027	-40,047
Net chg in cash	(20,567)	13,380	(2,804)	21,403
Opening cash balance	5,274	5,883	2,858	21,813
Closing cash balance	5,883	2,858	21,813	55,507

Ratios (Standalone)				
Particulars	FY22	FY23	FY24E	FY25E
EPS (INR)	173.4	197.3	242.9	278.8
PER (x)	25.0	22.0	17.9	15.6
Price/Book (x)	4.7	4.8	4.3	3.8
EV/EBITDA (x)	11.5	8.8	10.7	9.0
EV/Net sales (x)	2.8	2.5	2.1	1.8
RoE (%)	19.4	21.6	25.6	26.0
RoCE (%)	23	28	34	35
Fixed Asset turnover (x)	5.5	5.3	5.8	5.8
Dividend Yield (%)	3.2	3.2	3.2	3.2
Receivable (days)	16	17	17	17
Inventory (days)	16	17	17	16
Payable (days)	48	50	43	44
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

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