

CMP: INR 3,847

Rating: Accumulate

Target Price: INR 4,449

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)	2,837
Mkt Cap (INR Mn)	10,50,900
52w H/L (INR)	4,132/3,125
Avg Yearly Vol (in 000')	427

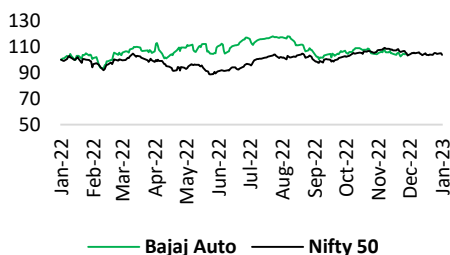
Shareholding Pattern %

(As on Dec, 2022)

Promoters	54.98
Public & Others	45.02

Stock Performance (%)	1m	3m	12m
Bajaj Auto	5.2	1.9	7.4
Nifty	-1.45	1.3	3.6

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 improved ASP: Standalone revenue stood at INR 93,151 Mn, against our estimate of INR 89,770 Mn registering a growth 3.3% YoY/ -8.7% QoQ on the back of ASP growth (up 24% YoY/up 7% QoQ) despite volume de-growth of 17%/-14% QoQ. The company exports continue to face headwinds from the macro issues (USD availability, inflation) in most emerging markets. The company foresees exports to remain weak until May/JunFY23, **but expects normalcy to return first in LATAM after that, followed by Africa. By the end of JunFY23, it expects macro issues to subside and foreign exchanges to start flowing.**

EBITDA largely in-line with the expectation: EBITDA stood at INR 17,768 Mn, registering a growth of 29.5%YoY/ 1%QoQ. On the margins front, EBITDA margin expansion by 387bps YoY/184 bps QoQ to 19.1%, against our estimate of 17.5%, led by judicious price increases (5% YoY), lower RM costs, and better foreign exchange realization. **Bajaj's Chetak EV-2W** sales volume stood at 10k units in Q3FY23 (flat QoQ) due to supply-chain issues. It has expanded to 50 cities in Q3FY23 against 40 cities in Q2 and targets to reach 100 cities by Apr FY23.

Domestic market sales: Majority of 2W industry growth is led by 125cc+ segment in 3Q. This segment accounts for ~66% of BJAUT's sales. In 3W, the company has 76% share (86% in CNG). 72% of Bajaj's portfolio is CNG – 17% higher ASPs and better for margins.

Bajaj's EV strategy: The company revolves around long-term sustainability which means being ready for different scenarios such as the possibility of a lower subsidy scenario in future. Its focus is on i) Building a strong R&D and supply chain, ii) Expanding the portfolio to adequately cover emerging segments iii) Building Chetak to be a premium and the perfect choice in the top 100 cities. Bajaj will set up an independent retail network (incl services) for EVs (currently sold through a pro-bike network) to offer a differentiated retail experience.

Outlook and valuation

Bajaj Auto has reported strong performance during Q3FY23 mainly driven by higher ASPs and the dollar realization (+9% YoY/+3% QoQ). The company has a strong presence in the growing 125cc+ segment. At a retail level, the company has gained ~2% MS on a sequential basis in the 125cc+ segment. The company's exports pick up from Q3FY24 will be the key monitorable and key trigger. EV launches over the next 12 months will be watched. We expect revenue growth at a CAGR of 13.6% during FY22-25E.

We value Bajaj Auto at a P/E of 16x its FY 25E EPS of INR 273 for a fair value of INR 4,367 and INR 82 for KTM stock valuation to arrive at a final increased target price of INR 4,449 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 4,155). We maintain our Accumulate rating on the stock.

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY22	331,447	52,586	50,188	173	15.87	22.1
FY23E	404,043	72,789	60,800	210	18.02	18.3
FY24E	457,977	83,138	68,763	238	18.15	16.2
FY25E	521,151	97,103	78,986	273	18.63	14.1

Source: Arihant Research, Company Filings

Q3FY23 Conference call

Exports: The company exports continue to face headwinds from the macro issues (USD availability, inflation) in most emerging markets. Industry retails in South Asia, Africa and LATAM were down 30% YoY in Q3FY23, except in ASEAN markets (emerging as a market leader in the Philippines) where retail grew by double-digit led by pent-up demand as they recover from COVID off-late, later than other economies. The company matched dispatches with lower levels of retail and minimized the exposure of its channel partners to currency volatility to navigate through this tough export market. The management foresees exports to remain weak until May/JunFY23, **but expects normalcy to return first in LATAM after that, followed by Africa. By the end of JunFY23, it expects macro issues to subside and foreign exchanges to start flowing.** Moreover, by Jun FY23, it expects a build-up of the pent-up demand in the affected markets. The company launched the Dominar brand in Brazil (currently only in Sao Paulo) and received good reception so far. It plans to extend its distribution footprint in Brazil by ensuring visible supply chain and brand building.

Growth of the 125cc+ segment propels the domestic motorcycle demand to positive territory. The management said the Domestic motorcycle retails grew by 14% in Q3FY23, led by festive October, and on a normalized level (after adjusting for the base effect of last year) it estimates the industry is growing at 3-5% and expect this trend to continue here onwards. Management expects the growth will be led by the 125cc+ segment which has grown by ~28% in Q3FY23 in retail terms, taking its segment share up by 5ppt now to 50%. The market is now evenly divided between the below-125cc and above-125cc segments.

New launches: In the 125cc+ segment assist in market share gain in the growing segment as the entry-level 100cc segment demand continues to remain weak on soft rural demand, Baja has selectively focused on the 125cc+ segment and has also enriched its mix in each sub-segments by new launches. In the 125cc segment, the company launched the Carbon Fibre edition of the Pulsar 125 in OctFY22 (85% of its 125cc sales). In 150cc to 200cc segments, it launched the new Pulsar 150, and Dual Channel Pulsar N160 ABS, leading to a 40% market share in the segment. It also enriched its 110cc segment by launching Platina 110cc with the first in-segment ABS feature and added safety features. At a retail level, Bajaj has gained ~2% market share on a QoQ basis in the 125cc+ segment. The 125cc+ segment now accounts for 66% of its sales with a portfolio of 20 models between the 125cc and the 400cc against 13 to 14 models for the competitors.

Domestic 3W: Market share of 76% in Q3FY23 is almost at the company's pre-Covid levels while the industry is still recovering to 75% of pre-COVID levels. The outperformance has been driven by the success of its products in the expanding CNG segment. The company's market share in the CNG is at a robust 86%, driving higher ASPs.

Electric 3Ws: The company has worked on Electric 3Ws, improving its range which was the key requirement of commercial drivers. It now plans to launch the e-3Ws in selective markets by the end of Mar FY23.

Bajaj's Chetak EV-2W sales volume stood at 10k units in Q3FY23 (flat QoQ) due to supply-chain issues. It has expanded to 50 cities in Q3FY23 (against 40 cities in Q2) and targets to reach 100 cities by Apr FY23.

Bajaj's EV strategy revolves around long-term sustainability which means being ready for different scenarios such as the possibility of a lower subsidy scenario in future. Its focus is on 1) Building a strong R&D and supply chain, 2) Expanding the portfolio to adequately cover emerging segments 3) Building Chetak to be a premium and the perfect choice in the top 100 cities. Bajaj will set up an independent retail network (incl services) for EVs (currently sold through a pro-bike network) to offer a differentiated retail experience.

Exhibit 2: Quarterly result summary-Strong performance

Standalone (INR mn)	Q3FY23	Q2FY23	Q3FY22	YoY (%)	QoQ (%)
Net sales	93,151	102,028	90,217	3.3	(8.7)
- Raw material	65775	74861	67433	(2.5)	(12.1)
(% of net sales)	70.6	73.4	74.7	-413bps	-276bps
- Staff expenditure	3511	3522	3399	3.3	(0.3)
(% of net sales)	3.8	3.5	3.8	0bps	32bps
- Other expenditure	6096.7	6057.8	5664.1	7.6	0.6
(% of net sales)	6.5	5.9	6.3	27bps	61bps
Total expenditure	75,383	84,440	76,495	(1.5)	(10.7)
EBITDA	17,768	17,587	13,721	29.5	1.0
EBITDA Margin (%)	19.1	17.2	15.2	387bps	184bps
Depreciation	739.5	670	698.3	5.9	10.4
EBIT	17,029	16,917	13,023	30.8	0.7
Interest	84.8	109.2	17.9	373.7	(22.3)
Other Income	2691.2	3636.5	2727.6	(1.3)	(26.0)
PBT	19,635	20,445	15,733	24.8	(4.0)
Tax	4720.8	4839.7	3590.9	31.5	(2.5)
Adjusted PAT	14,914	15,605	12,142	22.8	(4.4)
Reported PAT	14914	15605	12142	22.8	(4.4)
Adjusted EPS (INR)	52.70	53.50	42.00	25.5	(1.5)
Total Volumes (Nos)	983,276	1,151,012	1,181,361	(16.8)	(14.6)
Net Realisation (INR)	94,736	88,642	76,367	24.1	6.9
EBITDA / Vehicle (INR)	18,070	15,280	11,615	55.6	18.3

Geographical mix	Q3FY23	Q2FY23	Q3FY22	YoY(%)	QoQ (%)
Revenues (INRm):					
Domestic	65,569	73,343	58,041	13.0	(10.6)
Exports	27,582	28,685	43,162	(36.1)	(3.8)
Total	93,151	102,028	101,203	(8.0)	(8.7)
Volumes (In nos):					
Domestic	544,188	694,375	523,299	4.0	(21.6)
Exports	439,088	456,637	658,062	(33.3)	(3.8)
Total	983,276	1,151,012	1,181,361	(16.8)	(14.6)
Realisations (INR):					
Domestic	120,490	105,625	110,913	8.6	14.1
Exports	62,817	62,817	65,590	(4.2)	(0.0)
Total	94,736	88,642	85,666	10.6	6.9

Source: Arianth Research, Company Filings

Comments on the Performance

- The company beat our estimates on the revenue and Margin front due to lower RM cost and higher realization.
- The company is doing better on the domestic sales front due to industry festive demand, particularly in the top end commuter/sports segment.
- The company's CV maintained their path of recovery to pre-covid levels (now at -75%), as the quarter saw strong growth with stepped up volumes and market share hitting an all-time high across segments.
- The company has planned multiple launches in FY24. It has decided to set up an independent network of Chetak stores and is preparing for the near-future, considering a scenario of lower subsidiaries on EVs.

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

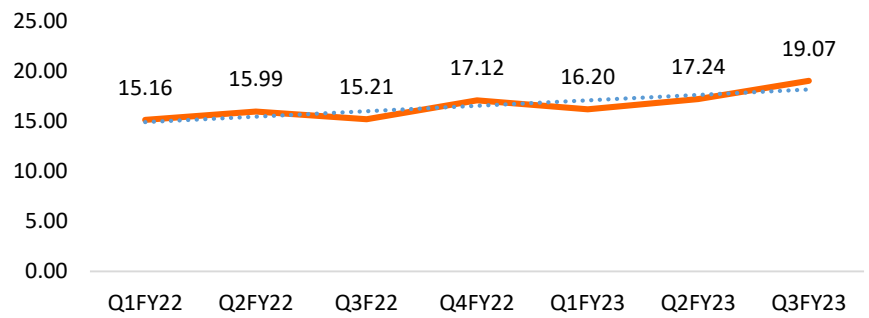


Exhibit 4: The volume increase due to the robust momentum of the sports portfolio

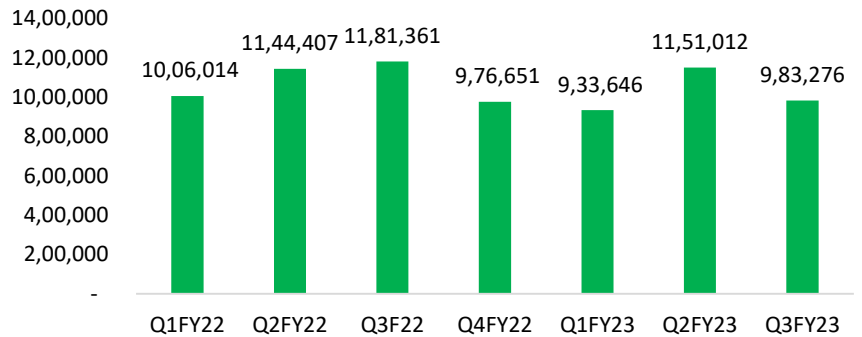


Exhibit 5: The company EBITDA/Vehicle showing growth due to higher contribution from the premium segment.

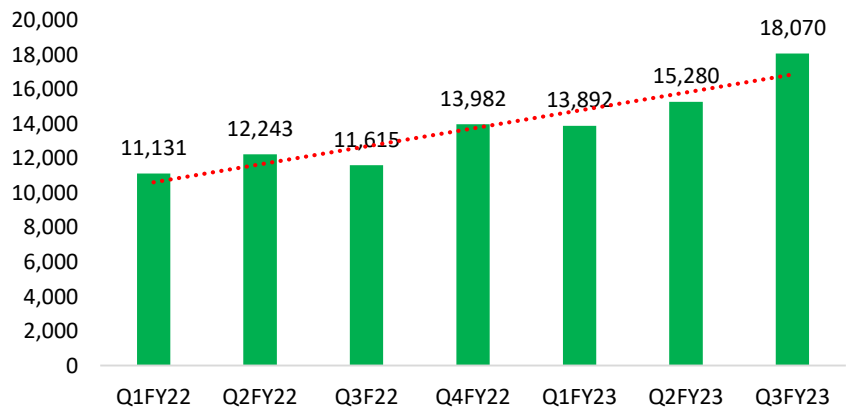
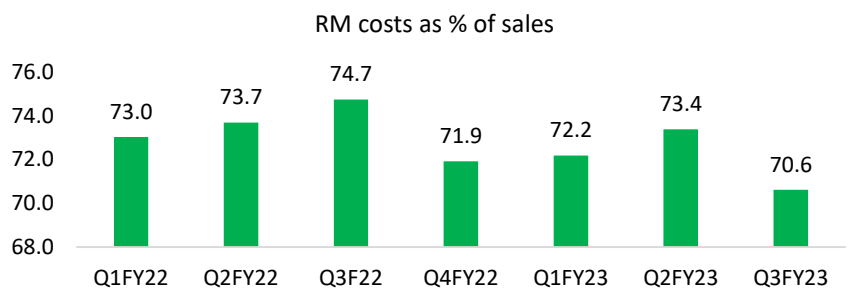


Exhibit 6: The company seen decline in RM costs which is benefits for the Margin



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Net sales	331,447	404,043	457,977	521,151
Growth, %	19	22	13	14
RM expenses	243,298	289,780	325,850	369,236
Employee expenses	13,588	14,403	15,556	16,769
Other expenses	21,975	27,071	33,432	38,044
EBITDA (Core)	52,586	72,789	83,138	97,103
Growth, %	7	38	14	17
Margin, %	15.9	18.0	18.2	18.6
Depreciation	2,692	3,848	3,921	4,471
EBIT	49,894	68,941	79,217	92,631
Growth, %	7	38	15	17
Margin, %	15.1	17.1	17.3	17.8
Other income	12,092	12,431	12,804	13,060
Interest paid	87	89	93	96
Non-recurring Items	-	-	-	-
Pre-tax profit	61,900	81,283	91,929	105,596
Tax provided	14,865	20,483	23,166	26,610
Profit after tax	47,036	60,800	68,763	78,986
Exceptional Items	-3152.8	-	-	-
Net Profit	50,188	60,800	68,763	78,986
Growth, %	10	21	13	15
Net Profit (adjusted)	50,188	60,800	68,763	78,986

Balance Sheet (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Cash & bank	5,883	20,804	40,212	73,638
Investments	238,188	240,569	242,975	245,405
Debtors	15,164	18,485	20,953	23,843
Inventory	12,305	15,000	17,003	19,348
Loans & advances	87	87	87	87
Other current assets	28,484	29,053	29,634	30,227
Total current assets	61,923	83,430	107,889	147,143
Gross fixed assets	59,960	67,963	77,963	87,963
Less: Depreciation	41,535	45,383	49,304	53,776
Add: Capital WIP	768	768	768	768
Net fixed assets	19,193	23,348	29,426	34,955
Total assets	272,036	293,068	322,119	361,394
Current liabilities	45,717	52,698	56,558	64,464
Provisions	1,551	1,582	1,613	1,645
Total current liabilities	47,267	54,280	58,171	66,109
Non-current liabilities	224,769	238,788	263,949	295,285
Total liabilities	5,348	5,348	5,348	5,348
Paid-up capital	2,894	2,837	2,837	2,837
Reserves & surplus	263,794	284,883	313,934	353,209
Shareholders' equity	266,688	287,719	316,771	356,046
Total equity & liabilities	272,036	293,068	322,119	361,394

Cash Flow (Standalone)				
Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	65,053	81,283	91,929	105,596
Depreciation	2,692	3,848	3,921	4,471
Chg in working capital	1,294	426	-1,160	2,110
Total tax paid	-17,015	-20,483	-23,166	-26,610
CFO	36,772	46,813	46,009	59,543
Capital expenditure	-4,693	-8,003	-10,000	-10,000
Chg in marketable securities	-	-	-	-
Chg in investments	-11,878	-2,382	-2,406	-2,430
CFI	-4,479	2,046	398	630
Free cash flow	32,079	38,810	36,009	49,543
Debt raised/(repaid)	-284	-	-	-
Dividend (incl. tax)	-40,490	-39,711	-39,711	-39,711
CFF	-40,861	-39,858	-39,804	-39,807
Net chg in cash	(8,567)	9,001	6,603	20,366
Opening cash balance	5,274	5,883	20,804	40,212
Closing cash balance	5,883	20,804	40,212	73,638

Ratios				
Particulars	FY22	FY23E	FY24E	FY25E
EPS (INR)	173.4	210.1	237.6	273.0
PER (x)	22.1	18.3	16.2	14.1
Price/Book (x)	4.3	4.0	3.6	3.2
EV/EBITDA (x)	10.2	10.9	9.4	7.9
EV/Net sales (x)	2.5	2.2	1.9	1.6
RoE (%)	19.4	21.9	22.8	23.5
RoCE (%)	23	29	30	31
Fixed Asset turnover (x)	5.5	5.9	5.9	5.9
Dividend Yield (%)	3.6	3.5	3.5	3.5
Receivable (days)	16	17	17	17
Inventory (days)	16	16	16	16
Payable (days)	48	46	44	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