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Bajaj Auto Ltd

Mixed Q1; premiumisation to set growth pace

Automobiles	Sharekhan code: BAJAJ-AUTO	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 3,852**	
Price Target: **Rs. 4,800**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 1,11,455 cr
52-week high/low:	Rs. 4,361 / 2,823
NSE volume: (No of shares)	7.1 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	13.4 cr

Shareholding (%)

Promoters	53.7
FII	11.8
DII	12.7
Others	21.8

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	7.0	6.5	28.3
Relative to Sensex	-8.4	-3.7	-0.7	-12.9

Sharekhan Research, Bloomberg

Summary

- Bajaj Auto's Q1FY22 revenue and PAT were in line with estimates, while EBITDA margin missed expectations.
- Management remained positive on growth prospects, especially exports, where BAL expects to gain market share in key regions, driven by brand recall, product launches and value-for-money proposition.
- We expect BAL's earnings to report a 23.2% CAGR during FY2021-FY2023E, driven by a 21.4% revenue CAGR and 120 bps rise in EBITDA margin in FY23E. Stock trades below historical average P/E multiple of 14.5x and EV/EBITDA multiple of 9.4x its FY2023E estimates.
- We maintain a Buy on stock with an unchanged PT of Rs. 4,800, factoring strong business outlook and comfortable valuations.

Q1FY22 results were in line with estimates at revenue and PAT levels, while EBITDA margin missed estimates. Revenue declined by 14.1% q-o-q at Rs. 7,386 crore, led by a 14% q-o-q decline in total volumes and flat average realisations. Exports remained buoyant with a monthly run-rate of 2,16,292 units in Q1FY22 versus 2,11,848 units in Q4FY21, a growth of 2.1% q-o-q at high base. Among regions, Africa, South Asia and Middle East (SAAME) and Latin America continue to clock strong sales, despite challenges in container availability. BAL's share in domestic market improved 240 bps q-o-q to 19.7% in Q1FY22, while its market share in domestic CV business improved 900 bps q-o-q to 65.3% in Q1FY22. EBITDA margin contracted 250 q-o-q to 15.2% in Q1FY22, led by an increase in raw material costs and negative operating leverage, partially mitigated by a higher US Dollar realisations and improved mix. PAT dropped 20.3% q-o-q to Rs. 1,061 crore in Q1FY22. The company is witnessing positive action in the two-wheeler markets lately, as economic activities are picking up after lockdown restrictions were eased in Q1FY22. In the domestic motorcycle market, the company expects recovery to be faster in the 125 cc+ segment as compared to 100-115 cc motorcycles, led by premiumisation in the two-wheeler segment. BAL remains positive on export volumes, as most export destinations were less impacted by the second wave of COVID-19. However, some export markets have seen sluggish sales growth due to COVID-19. BAL has positioned itself strongly in export markets with a focus on Nigeria, Bangladesh, Philippines, and Colombia, which account for ~50% of its two-wheeler export revenue. BAL has improved its brand equity in these markets, which will help to improve its market share going forward. In Q1FY2022, BAL generated 85% of its revenue from markets, where it is the leader, displaying its commitment towards increasing market share. In FY2022, we expect demand to arise from urban markets as well, where we believe BAL will be a major beneficiary in the two-wheeler space, given its dominant position in the premium bikes segment. Demand for three-wheelers is also expected to improve. This will help BAL improve margins aided by a richer product mix and operating efficiencies. BAL will also benefit from the new launches in the premium segment, which it has lined up in the premium segment over the next 12-18 months. The management continues to focus on profitability-led growth, while introducing at least one model (either new or upgraded model) every quarter. BAL expects the trend of premiumisation to continue in the domestic two-wheeler industry, which would enable it to gain market share, especially in 125cc+ markets. Given a robust outlook, we expect BAL's earnings to report a 23.2% CAGR during FY2021-FY2023E, driven by a 21.4% revenue CAGR and 120 bps improvement in EBITDA margin to 19% in FY23E from 17.8% in FY21. We retain a Buy rating on the stock.

Key positives

- BAL's domestic market share improved 240 bps q-o-q to 19.7%, while its market share in the domestic CV business improved 900 bps q-o-q to 65.3% in Q1FY22.
- The company's management is cautiously optimistic on growth outlook and expects domestic sales to recover.

Key negatives

- EBITDA margin contracted 250 q-o-q to 15.2% in Q1FY22, led by increase in raw material costs and negative operating leverage, partially mitigated by higher US Dollar realisations and an improved mix.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 4,800: BAL's business outlook remains positive with a recovery expected in FY2022, as economic activities normalise and lockdown restrictions ease in the domestic market. The management expects exports to remain a key growth driver in FY2022. We expect BAL to continue to increase its market share in the domestic and export markets, given its strong portfolio of premium brands and cost-effective, entry-level electronic injection systems. OPM would expand because of a richer product mix, operating leverage and cost-control measures. The company has strong long-term revenue visibility, given its leadership position in the premium bikes segment and key export destinations. We expect BAL's earnings to report a 23.2% CAGR during FY2021-FY2023E, driven by a 21.4% revenue CAGR and 120 bps improvement in EBITDA margin to 19% in FY23E from 17.8% in FY21. We have introduced FY24E estimates. The stock trades below its historical average P/E multiple of 14.5x and EV/EBITDA multiple of 9.4x its FY2023E estimates. Hence, we retain our Buy rating on the stock with an unchanged price target of Rs. 4,800.

Key risk

BAL can lose its market share if electric vehicle penetration rises rapidly in the domestic three-wheeler market. Moreover, BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can affect the company's profits.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	27,741	34,914	40,873	45,331
Growth (%)	-7.3	25.9	17.1	10.9
EBIDTA	4,928	6,354	7,759	8,695
OPM (%)	17.8	18.2	19.0	19.2
Recurring PAT	4,555	5,822	6,908	7,671
Growth (%)	-10.7	27.8	18.6	11.1
EPS (Rs)	157.5	201.3	238.9	265.3
PE (x)	24.5	19.1	16.1	14.5
P/BV (x)	5.4	4.6	4.0	3.6
EV/EBIDTA (x)	18.7	13.9	10.9	9.4
RoNW (%)	21.9	24.0	24.5	24.6
RoCE (%)	23.0	25.5	26.9	27.3

Source: Company; Sharekhan estimates

Key Highlights of Conference Call

- **Q1FY22's revenue and PAT inline, EBITDA margin miss expectations:** Q1FY22 results were in line with estimates at revenue and PAT levels, while EBITDA margin missed estimates. Revenue declined by 14.1% q-o-q at Rs. 7,386 crore, led by a 14% q-o-q decline in total volumes and flat average realisations. Exports remained buoyant with a monthly run-rate of 2,16,292 units in Q1FY22 versus 2,11,848 units in Q4FY21, a growth of 2.1% q-o-q at high base. Among regions, Africa, SAAME and Latin America continue to clock strong sales, despite challenges in container availability. BAL's share in domestic market improved 240 bps q-o-q to 19.7% in Q1FY22, while its market share in domestic CV business improved 900 bps q-o-q to 65.3% in Q1FY22. EBITDA margin contracted 250 q-o-q to 15.2% in Q1FY22, led by an increase in raw material costs and negative operating leverage, partially mitigated by a higher US Dollar realisations and improved mix. Gross margins were down 110 bps q-o-q at 27%. Raw material cost per vehicle increase by 1.5% q-o-q to Rs. 53,621 per vehicle versus a flat average realisations. PAT dropped 20.3% q-o-q to Rs. 1,061 crore in Q1FY22 and the EPS for the quarter stood at Rs. 36.7. Net profit margin declined 110 bps q-o-q to 14.4% in Q1FY22. As on June 30, 2021, surplus cash & cash equivalents stood at Rs. 19,097 crore as against Rs. 17,689 crore as on March 31, 2021.
- **Cautious outlook for domestic business:** The company is witnessing a positive action in the two-wheeler markets lately, as economic activities are picking up after lockdown restrictions in Q1FY22. The company remains cautious and would observe how demand shapes up. In the domestic motorcycle markets, the company expects recovery to be faster in 125cc+ segment as compared to 100-115cc motorcycles, led by premiumisation trend in the two-wheeler segments.
- **Exports continue to be the driving force:** BAL remains positive on export volumes, as most export destinations were less impacted by the second wave of COVID-19. However, some export markets have seen sluggishness in sales due to COVID-19. The company has reported growth in average monthly export dispatches in April and May at 2,32,289 vehicles (two-wheelers and three-wheelers) as against average monthly export dispatches of 2,13,194 units during August 2020 to March 2021, which reflects demand recovery after first wave of COVID-19. The company expects to maintain average monthly exports run-rate of 1,90,000-2,00,000 vehicles over FY22. BAL exports to ~80 countries, with 50-55% contribution from Africa region followed by ~22-25% from South Asia and Middle East (SAAME), around 15% from Latin America and balance from ASEAN countries. The company has reached to pre-COVID levels in most of the destinations. Africa continues to remain the key growth driver for the company, followed by Latin America and SAAME. Export revenue for Q1FY22 was at Rs. 4,500 crore or $580 million.
- **Well-set to boost market share in export destinations:** BAL has positioned itself strongly in export markets with a focus on Nigeria, Bangladesh, Philippines, and Colombia, which account for ~50% of its two-wheeler export revenue. In 3W exports, BAL has a strong presence in Nigeria, Egypt, Cambodia, and Iraq. Products are well-diversified and BAL has a favourable sales mix in underpenetrated markets such as Africa. BAL has improved its brand equity in these markets, which will help to improve its market share. In Q1FY2022, BAL generated 85% of its revenue from markets, where it is among the top two players. Export growth is organic and will continue to be a long-term driver for BAL. The company has gained market share in all international destinations and aims to further improve its market share, driven by increased distribution reach. BAL is focusing to increase the proportion of high-end Pulsar bikes and other bikes in the export market to improve its product mix. Africa is largely a market for taxis and BAL has a 30-35% market share. The company expects major growth to come from Africa, as it expects to further gain market share, led by brand recall and value for money proposition. In addition, penetration levels are quite low in Africa. In Latin America, the markets are mixed, selling bikes across the segments – commuter as well as sports. In the ASEAN region, BAL has a dominant market share in Philippines. The trends in SAAME regions such as Bangladesh and Nepal have trends similar to that of India's.
- **Domestic outlook remains firm:** In FY2022, we expect demand to arise from urban markets as well, where we believe BAL will be a major beneficiary in the two-wheeler space, given its dominant position in the premium bike segment. Demand for 3W is also expected to improve and help BAL to improve its margin because of richer product mix and operating efficiencies. BAL will also benefit from new launches in the premium segment, which it has lined up in the premium segment over the next 12-18 months. Management continues to focus on new launches and expects to launch at least one model (either new or upgraded

model) every quarter. The company could launch a new platform in H2FY22. Demand in the domestic motorcycle industry is also improving with positive sales growth from August 2020. BAL expects the trend of premiumisation to continue in the domestic two-wheeler industry, which would enable it to gain market share, especially in the 125cc+ segment. Three-wheeler volumes are also improving on m-o-m basis, as the economy is moving towards normalcy. Domestic 3W sales are expected to improve with the opening of schools, colleges, other educational institutions and corporates.

- **Focus on high-end premium and super premium bikes:** In Q4FY21, BAL had signed an MOU with the Government of Maharashtra to set a facility in Chakan. The plant is expected to commence production in 2023. Investment in the proposed facility is estimated to be around Rs. 650 crore. The facility will be primarily used for manufacturing high-end bikes such as KTM, Husqvarna, and Triumph. Moreover, BAL plans to manufacture electric vehicles starting with Chetak from this plant. At Chakan, the company already has a facility, which has installed capacity of 12 lakh units and manufactures premium bikes such as Pulsar, Avenger, KTM, Dominar, Husqvarna, and Chetak. BAL's total installed capacity stands at 66.3 lakh units per annum currently.
- **Electrification in two-wheeler/ three-wheeler segments will be gradual:** BAL has proposed to form a wholly owned subsidiary company in India to carry out business in the manufacturing of electric and hybrid vehicles in the two-wheeler, three-wheeler and light four-wheeler segments. The management expects the electrification of vehicles to be gradual in India and that the EV adoption would take 3-5 years, till it starts contributing significantly to overall industry sales. BAL is well positioned to expedite capex, if EV adoption is faster than expectations. The formation of separate company for EVs is a first step towards BAL's commitment towards e-mobility business.
- **Strong balance sheet to drive stability in cash flow generation:** The company is debt-free and generates strong cash flows, which are enough to expand capacity through internal accruals. The company has a strong long-term revenue visibility, given its leadership position in the premium bikes segment and key export destinations. We expect BAL's earnings to report a 23.2% CAGR during FY2021-FY2023E, driven by a 21.4% revenue CAGR and 120 bps improvement in EBITDA margin to 19% in FY23E from 17.8% in FY21.

Volume Analysis (Rs/vehicle)

Particulars	Q1FY22	Q1FY20	%YoY	Q4FY21	%QoQ
Volumes (Units)	10,06,014	4,43,103	127.0	11,69,664	-14.0
ASP	73,419	69,493	5.6	73,492	-0.1
RMC/Vehicle	53,621	46,639	15.0	52,807	1.5
EBITDA/vehicle	11,131	9,220	20.7	13,030	-14.6
PAT/Vehicle	10,548	11,917	-11.5	11,388	-7.4

Source: Company Data; Sharekhan estimates

Results Rs cr

Particulars	Q1FY22	Q1FY20	%YoY	Q4FY21	%QoQ
Net Revenue	7,386	3,079	139.9	8,596	-14.1
EBIDTA	1,120	409	174.1	1,524	-26.5
EBIDTA Margins (%)	15.2	13.3	190 bps	17.7	(250 bps)
Depreciation	64	64	0.4	66	-3.2
Interest	2	1	141.1	2	12.3
Other Income	329	338	-2.5	284	16.1
PBT	1,383	682	102.8	1,739	-20.5
Tax	322	154	109.3	407	-21.1
Reported PAT	1,061	528	101.0	1,332	-20.3
Adjusted PAT	1,061	528	101.0	1,332	-20.3
EPS	37	18	101.0	46	-20.3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Demand picking up in domestic as well as export markets

Two-wheeler demand improved m-o-m and continued through the festive season in October-November last year. We expect growth momentum to continue in FY2022 after normalisation of COIVD-19 wave, driven by strong rural sentiments, supported by higher kharif sowing and positive outlook for monsoon this year. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. We expect recovery from FY2022, driven by normalisation of economic activity and pent-up. Export markets have witnessed a notable recovery in volume sales offtake across regional markets - ASEAN, South Asia, Middle East, and Africa. OEMs are positive on recovery and expect these markets to improve further. Most of the market have reached to pre-COVID levels.

■ Company Outlook – Strong earnings growth; Upgrade earnings estimates

BAL is India's second-largest motorcycle player with a market share of about 20%. The company is the market leader in the premium motorcycle segment (125-200 cc) with a market share of 41%. With new launches, BAL aims to increase its market share further and is targeting market share of ~25% over the next few years. With network expansion, BAL aims to retain its leadership position in motorcycle exports. BAL has a strong, debt-free balance sheet. It has cash & cash equivalents of Rs. 16,240 crore with strong return ratios. BAL has healthy dividend pay-out ratio of 90%. BAL is uniquely positioned to benefit from domestic two-wheeler demand and the export market, driven by its brand equity and value proposition.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 4,800

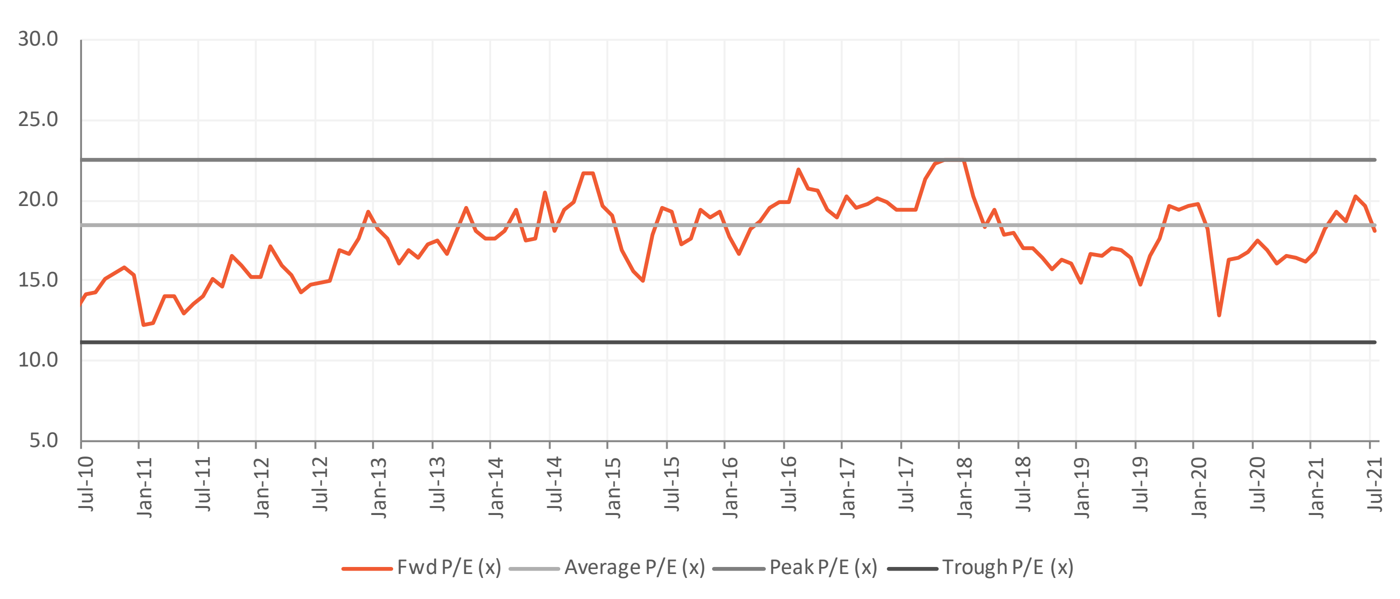
BAL's business outlook remains positive with a recovery expected in FY2022, as economic activities normalise and lockdown restrictions ease in the domestic market. The management expects exports to remain a key growth driver in FY2022. We expect BAL to continue to increase its market share in the domestic and export markets, given its strong portfolio of premium brands and cost-effective, entry-level electronic injection systems. OPM would expand because of richer product mix, operating leverage, and cost-control measures. The company has a strong long-term revenue visibility, given its leadership position in the premium bikes segment and key export destinations. We expect BAL's earnings to report a 23.2% CAGR during FY2021-FY2023E, driven by a 21.4% revenue CAGR and 120 bps improvement in EBITDA margin to 19% in FY23E from 17.8% in FY21. We have introduced FY24E estimates. The stock trades below its historical average P/E multiple of 14.5x and EV/EBITDA multiple of 9.4x its FY2023E estimates. Hence, we retain our Buy rating on the stock with an unchanged price target of Rs. 4,800.

Price Target Calculation

Particulars	Rs/ Share
FY23E EPS (Rs per share)	238.9
Target P/E Multiple (x)	20
Target Price (Rs per share)	4,800
Upside (%)	**25**

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bajaj Auto	3,852	24.5	19.1	16.1	18.7	13.9	10.9	23.0	25.5	26.9
Hero MotoCorp	2,838	19.5	14.9	13.4	12.1	9.1	7.5	25.3	30.7	27.2
TVS Motor	581	45.1	28.1	23.1	20.4	14.6	12.3	16.2	22.1	23.5

Source: Company, Sharekhan estimates

About company

BAL is one of the leading automobile manufacturers in India and is a leader in the premium motorcycle segment with a lion's share. The company also makes three-wheelers (3W) and is a leader in the 3W segment. Motorcycles constitute around 85% of overall volumes, while 3W contributes around 15% share.

Investment theme

BAL is the second largest motorcycle manufacturer in India with a market share of about 20%. Over the years, BAL has created a strong brand not only domestically but also in export markets. BAL is the leader in the premium motorcycle segment having a market share of 41%. Apart from premium motorcycles, BAL is also the leader in the 3W segment, commanding a market share of about 57%. Motorcycles constitute about 85% of overall volumes, while 3W contribute 15% share. BAL is well positioned in the domestic as well as in global markets to deliver sustained growth in the long term. The company is a leader in the premium segment bikes such as Pulsar, Avenger, KTM, Dominar, and Husqvarna. Exports currently constitute about 45% of overall volumes, with Africa, Southeast Asia, and Latin America among the key markets. The company generates more than 85% of its export revenue from geographies where BAL is either No. 1 or No. 2 player. Export growth is organic and will continue to be a long-term driver for BAL. We remain positive on the company's growth prospects going forward.

Key Risks

- BAL can lose its market share if EVs in the domestic 3W market rise faster than we expect.
- BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can affect the company's profits adversely.

Additional Data

Key management personnel

Niraj Bajaj	Chairman
Rajiv Bajaj	Managing Director
Rakesh Sharma	Executive Director
Soumen Ray	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	33.4
2	Jamnalal Sons Pvt Ltd	9.1
3	Life Insurance Corp of India	8.3
4	Jaya Hind Industries Ltd	3.4
5	Maharashtra Scooters Ltd	2.3
6	Bajaj Sevashram Pvt Ltd	1.5
7	Sbi Consumption Opportunities Fund	1.4
8	Bachhraj & Co Pvt Ltd	1.3
9	Niraj Bajaj As A Trustee Of Yamuna Trust	1.3
10	Norges Bank	1.1

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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