

Bajaj Auto Ltd.



Bajaj Auto Ltd.

Demand continues to surge but margins under pressure

CMP INR 3,836	Target INR 4,352	Potential Upside 13.4%	Market Cap (INR Mn) INR 1,110,023	Recommendation ACCUMULATE	Sector Automobile
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Result highlights of Q1FY22

- For Q1FY22, Bajaj Auto reported total revenue from operations of INR 73,860 Mn, growth of 140% YoY (-14% QoQ).
- Domestic Volumes grew by 84.2% YoY at 342,552 units whereas Export volume grew by 160% YoY at 556,753 units.
- As the quarter witnessed sharp increase in the input cost, EBITDA margin contracted by 270 bps QoQ to 15.5% (+165 bps YoY), EBITDA for the quarter stood at INR 11,177 Mn (+174% YoY).
- For the quarter, Net Profit stood at INR 11,699 Mn (+122% YoY), with NPM at 16.2% (-168 bps YoY).

MARKET DATA

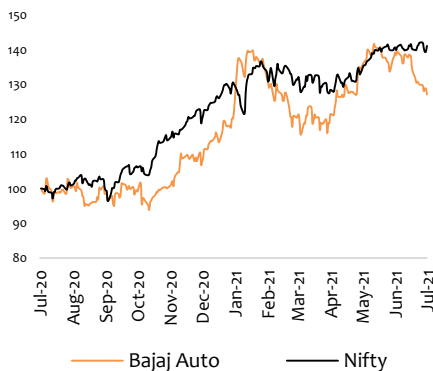
Shares O/S (Mn)	289
Mkt Cap (INR Mn)	1,110,023
52 Wk H/L (INR)	4,361/2,822
Volume Avg (3m K)	517
Face Value (INR)	10
Bloomberg Code	BJAUT IN

KEY FINANCIALS

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	303,576	299,187	277,411	291,320	325,855
EBITDA	51,895	50,956	49,247	47,468	54,888
PAT	49,276	52,119	48,570	47,726	52,105
EPS (INR)	170	180	168	165	180
EBITDA Margin	17.1%	17.0%	17.8%	16.3%	16.8%
NPM	16.2%	17.4%	17.5%	16.4%	16.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Demand led volume growth

For Q1FY22, Bajaj Auto reported total revenue from operations of INR 73,860 Mn, a growth of 140% YoY (-14% QoQ). For Q1FY22 2-W domestic volumes grew by 84.2% YoY at 342,552 units whereas 2-W Export volume has outperformed the domestic business with a growth of 160% YoY at 556,753. After four consecutive quarters the CV segment has witnessed robust growth, Domestic CV grew by 176% YoY, the CV exports grew by 143% YoY. In Q1FY22, the domestic 2-W continued to grow on the back of robust demand for Pulsar, Dominar, KTM and Husqvarna. The average realization for Q1FY22 stood at INR 71,734 per unit (+7.8% YoY) as against INR 66,543 per unit in Q1FY21. The realization growth was led by price hike across all the models in the range of 1.5-2%. The average realization has beat our estimates of INR 69,204 per unit (actual realization per unit reported +3.7% than our estimates).

Margin were under pressure due to rise prices of key raw materials

Gross margins contracted by 590 bps YoY and 110 bps QoQ due to inflationary trends in raw material costs however, it was partially offset by price hike and favorable forex. As the quarter witnessed sharp increase in the input cost and higher employee cost, EBITDA margin contracted on QoQ basis by 260 bps however, it expanded by 165 bps YoY. EBITDA for the quarter stood at INR 11,177 Mn (+174% YoY). For the quarter, Net Profit stood at INR 11,699 Mn (+122% YoY), with NPM at 16.2% (-168 bps YoY).

Market share gain – a key focus area

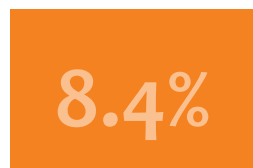
The key focus area for Bajaj Auto would be on capturing market share and it is positive on demand outlook from overseas market. The company may face supply side constraints due to the current pandemic situation in India. The other focus area for Bajaj Auto would be premiumization of the segments going forward. The company is already facing inflation pressure due to higher commodity prices which may continue in H1FY22. The company expects cost to increase by 3.0% in Q1FY22 of which it would recover ~2.0% through price hikes. The management will be focusing on cost optimization measures to improve margins in the coming quarters. The company expects FY22 to be the best year for exports. It expects inflection point in between 3-5 years in EV (electric vehicle) segment.

MARKET INFO

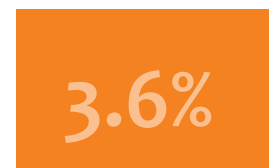
SENSEX	52,852
NIFTY	15,825

SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	53.7	53.7	53.7
FIIs	11.8	12.0	13.1
DIIIs	12.7	12.3	9.1
Others	21.8	22.0	24.1
Total	100	100	100



Revenue CAGR between FY21 and FY23E



EBITDA CAGR between FY21 and FY23E

Bajaj Auto Ltd.

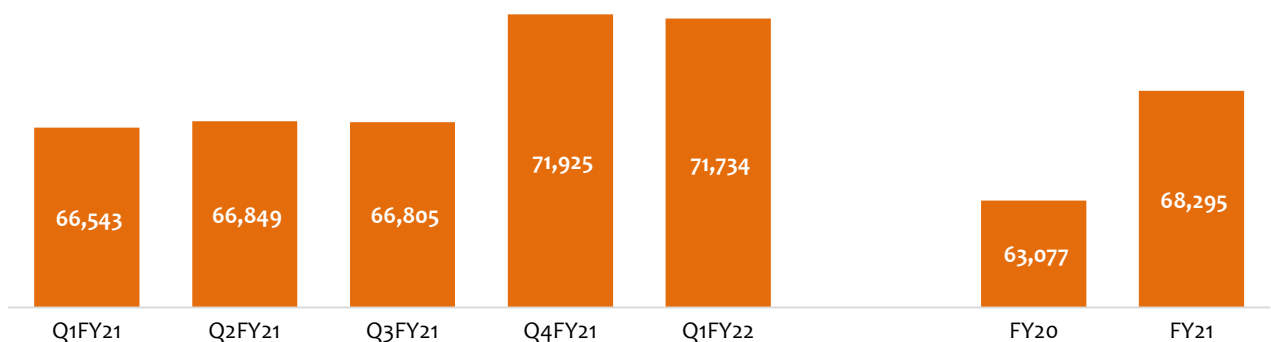
Key Concall Highlights:

(i) The domestic 2-w may recover at a slower pace than previous year due piling up of inventory at the distribution level. (ii) The hype of COVID cases during second wave in the month of April and May has disrupted the pace of normalcy; however, the month of June has witnessed strong signs of recovery (iii) The company expects to perform well in the 125cc segment aided by new offerings in the portfolio. (iv) The rising NPAs in the 3-w segment is the area of concern; however, the leadership position of Bajaj Auto in all the segments of 3-w will help to have less impact on the books of Bajaj Auto. (v) Export business volume stood at ~200,000 units per month despite weak economic conditions in the regions like South Asia, Africa and LATAM. The share of premium motorcycles (Pulsar and Dominar brand) in exports increased from ~13.0% in FY20 to ~16.0% in FY21, further strengthening the financial performance of the company. (vi) The input cost increased by ~4% in Q1FY22, a part of which was recovered through a price hike of 1.5% due to demand sensitivity; a further ~3% cost inflation is expected in Q2FY22, of which ~2% is expected to be offset through price hike. (vii) Exports for the KTM brand currently is about 8,000 units per month. (viii) New version of Pulsar, three upgraded variants of Platina & CT110 were introduced and distributed to dealers and distributors in Q1FY22. (ix) The electric scooter, Chetak was launched in four cities – Nagpur, Aurangabad, Mysore and Mangalore; the approval for FAME-2 subsidy is expected soon. (x) Bajaj Auto would be launching its own e-3w by the end of CY21.

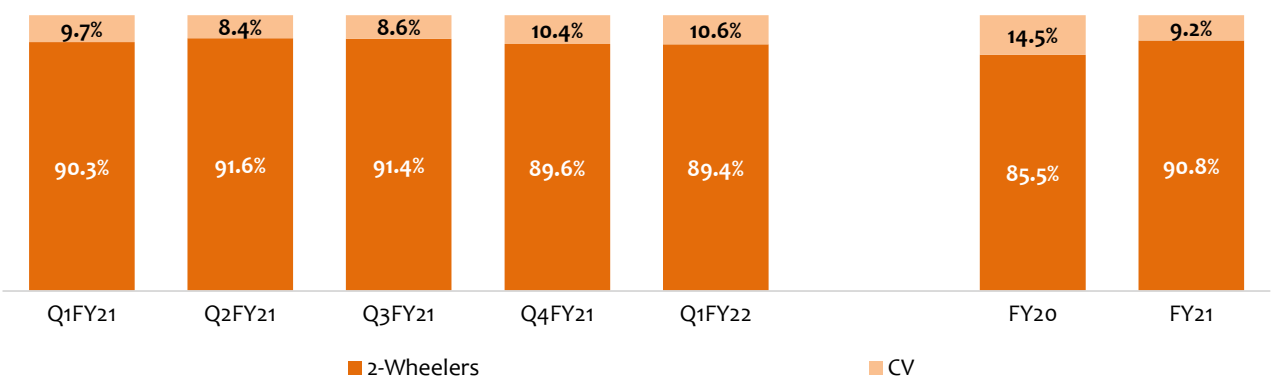
Valuation and view

Taking cues from the Q1FY22 performance, both the domestic and export market is expected to witness a slower recovery due to piling up of inventory. Margins were under pressure due to increase in raw material prices. On the other hand, the domestic demand continued to remain under pressure. However, the earnings of the company has witnessed a CAGR growth of 4% from EPS INR 140 in FY16 to EPS INR 168 in FY21, the fall in earnings was mainly due to disruption in production and sales amid nationwide lockdown. We retain our positive stance on Bajaj Auto based on its resilient performance especially in the export markets and the company's ability to control costs amid demand slowdown. **We continue to assign a P/E multiple of 24x on FY23E EPS of INR 180 per share and maintain our Target Price of INR 4,352 per share; implying an upside potential of 13.4% over the CMP.** Accordingly, we reiterate a “ACCUMULATE” recommendation on the shares of Bajaj Auto Ltd.

Average Realization per unit (INR)



Revenue Share (%)



Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

Quarterly P&L (INR Mn)	Q1FY22	Q4FY21	Q1FY21	QoQ	YoY
No. of Vehicles Sold	1,006,014	1,169,664	443,103	-14.0%	127.0%
Revenue From Operations	73,860	85,961	30,792	-14.1%	139.9%
Other Income	3,293	2,836	3,379	16.1%	-2.5%
Total Revenue	77,153	88,797	34,171	-13.1%	125.8%
Total Expenditure	63,348	71,428	27,359	-11.3%	131.5%
Cost of Raw Material	48,801	58,454	16,959	-16.5%	187.8%
Purchase of Traded goods	3,842	5,978	898	-35.7%	328.1%
Changes in Inventory	1,301	-2,665	2,809	-148.8%	-53.7%
COGS	53,944	61,767	20,666	-12.7%	161.0%
Employee Expenses	3,623	3,081	3,377	17.6%	7.3%
Other expenses	5,136	5,951	2,683	-13.7%	91.4%
Capitalized Expenses	(21)	(57)	(17)	-62.9%	22.8%
EBITDA	11,177	15,216	4,081	-26.5%	173.9%
EBITDA Margin	15.5%	18.1%	13.8%	-260bps	165bps
Depreciation	642	662	638	-3.1%	0.6%
EBIT	10,535	14,554	3,443	-27.6%	206.0%
EBIT Margin	14.6%	17.3%	11.7%	-270bps	292bps
Interest	23	20	10	12.3%	141.1%
EBT	14,915	19,584	6,812	-23.8%	118.9%
Tax	3,215	4,074	1,536	-21.1%	109.3%
PAT	11,699	15,510	5,276	-24.6%	121.7%
PAT Margin	16.2%	18.4%	17.9%	-222bps	-168bps
EPS (INR)	40.4	53.6	18.3	-24.6%	120.9%

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

Profit & Loss Statement INR Mn	FY19	FY20	FY21	FY22E	FY23E
Sales	295,673	291,115	271,329	283,572	317,188
Other operating revenue	7,904	8,071	6,082	7,748	8,667
Revenue from operations	303,576	299,187	277,411	291,320	325,855
Cost of sales	217,977	210,083	196,097	206,109	228,750
Gross profit	85,599	89,104	81,314	85,211	97,105
Employee benefit expense	12,569	13,908	12,881	14,566	16,293
Finance cost	45	32	67	73	81
Depreciation	2,657	2,464	2,594	3,827	3,573
Other expenses	21,437	24,539	19,309	23,306	26,068
Capitalised expenses	(301)	(300)	(123)	(129)	(144)
Total expenses	254,383	250,726	230,824	247,752	274,621
EBITDA	51,895	50,956	49,247	47,468	54,888
EBIT	49,238	48,492	46,653	43,641	51,314
Share of profit by associates	3,498	3,215	3,063	4,214	3,246
PBT before exp	66,136	66,921	62,414	61,187	69,473
Exceptional items	(3,420)	0	0	0	0
PBT	69,556	66,921	62,414	61,187	69,473
Income tax expense	20,280	14,802	13,844	13,461	17,368
Non controlling interests	(0.10)	0.00	0.00	0.00	0.00
Net profit	49,276	52,119	48,570	47,726	52,105
EPS (INR)	170	180	168	165	180

Source: Company, KRChoksey Research

Cash Flow Statement (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
Cash from operations activities	24,869	38,504	31,198	51,242	55,257
Cash from investing activities	(3,384)	15,561	(28,679)	(16,574)	(18,291)
Cash from financing activities	(20,741)	(62,465)	(195)	(34,708)	(34,531)
Net inc/dec in cash equivalents	744	(8,400)	2,324	(40)	2,435
Opening Balance cash	7,756	9,156	2,854	5,170	5,130
End Cash	9,156	2,854	5,170	5,130	7,565

Source: Company, KRChoksey Research

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	17.1%	17.0%	17.8%	16.3%	16.8%
Tax rate (%)	29.2%	22.1%	22.2%	22.0%	25.0%
Net Profit Margin (%)	16.2%	17.4%	17.5%	16.4%	16.0%
RoE (%)	22.6%	23.2%	19.9%	17.1%	17.7%
RoCE (%)	21.2%	22.4%	17.1%	15.3%	16.9%
Current Ratio (x)	1.5x	1.6x	2.5x	2.4x	2.3x
EPS (INR per share)	170	180	168	165	180

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

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Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22E	FY23E
PPE	16,887	16,020	15,680	15,224	15,235
Capital WIP	115	465	160	160	160
Investment property	555	539	523	523	523
Intangible assets	198	431	473	473	473
Intangible assets under development	365	137	0	0	0
Investments in associate of subsidiary	26,662	29,509	32,890	32,890	32,890
Financial assets	163,919	142,186	134,014	147,383	162,090
Income tax assets	5,844	7,148	7,148	7,863	8,649
Other non current assets	3,068	2,505	3,254	3,579	3,937
Total non current assets	217,613	198,940	194,141	208,095	223,956
Inventories	9,615	10,635	14,937	15,700	17,424
Investments	15,765	27,798	80,281	80,281	80,281
Trade receivables	25,597	17,251	27,169	28,531	31,913
Cash and cash eq.	9,156	2,854	5,170	5,130	7,565
Other bank balances	174	309	222	222	222
Loans	63	61	57	57	57
Other financial assets	1,129	880	2,235	2,235	2,235
Other current assets	9,231	6,372	11,807	11,807	11,807
Total current assets	70,732	66,160	141,875	143,963	151,505
Total Assets	288,345	265,100	336,015	352,058	375,461
Equity share capital	2,894	2,894	2,894	2,894	2,894
Other equity	229,444	213,727	269,841	282,842	300,223
Total Equity	232,338	216,621	272,734	285,736	303,116
Sales tax deferral	1,245	1,256	1,215	1,215	1,215
Provisions	146	805	20	20	20
DTL	5,427	3,464	5,221	5,482	5,757
Govt grant	440	413	387	387	387
Other non current liabilities	11	8	5	5	5
Total non current liabilities	7,268	5,946	6,847	7,108	7,382
Trade payables	37,868	31,998	45,741	48,077	53,358
Other financial liabilities	3,709	5,483	4,074	4,278	4,492
Other current liabilities	5,570	3,289	4,828	5,070	5,323
Provisions	1,406	1,580	1,524	1,524	1,524
Govt grant	27	27	25	25	25
Current tax liabilities	157	157	242	242	242
Total current liabilities	48,738	42,533	56,433	59,214	64,963
Total liabilities	288,345	265,100	336,015	352,058	375,461

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

Bajaj Auto Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
26-Oct-20	2,895	3,236	ACCUMULATE	Buy	More than 15%
18-Aug-20	3,116	3,410	ACCUMULATE	Accumulate	5% – 15%
05-Jun-20	2,817	3,267	BUY	Hold	0 – 5%
21-May-20	2,627	3,051	BUY	Reduce	-5% – 0
03-Apr-20	2,051	2,513	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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