

BAJAJ AUTO LIMITED | Auto & Auto Components**LKP**

80% payout to shareholders truly impressive

Bajaj Auto Limited (BAL) reported impressive and better than expected results in Q4 FY22 led by 3Ws and exports. Topline fall at 8% yoy and 12% qoq was lower than expected despite volumes dipping by about 17% yoy in the quarter offset by ASP growth at 10% on price hikes taken and better product & geography mix. This was a sequential fall of 12%. Sequentially the volume fall was 17% as well. During the quarter, domestic motorcycles de-grew by 30% yoy, while 3Ws were up by 8% yoy. Exports motorcycles de-grew by 7% yoy, while 3Ws fell by 11%. EBITDA dropped by 10% yoy to ₹13.7 bn, while margins moved upto 17.7%, a growth of 210 bps qoq, while remaining flat yoy. Margins moved up sequentially as RM costs to sales eased a bit (74.2% as % of sales) and some arresting of employee costs was also seen. All other cost items below operating levels remaining more or less range bound, bottomline came in 13% down yoy and 5% down qoq at ₹11.53 bn as tax rate was up at 27%. During FY22, revenues grew by 18.4%, led by 8% volume growth and 10% ASP hike. EBITDA margins were down at 15.9% on severe cost pressure stemming from RM costs. Adjusted Bottomline was at ₹47 bn, up by 3.3%.

3Ws bounce back to normalcy ; domestic 2Ws to benefit from new launches, supply chain easing

Domestic motorcycle volumes witnessed a 30% dip on a high base of last year. The company's market share in domestic 2Ws stood at 20% v/s 19.2% qoq and 18% yoy, led by success of the models such as the CT 110X and Pulsar NS 125 in the entry commuters and executive segments respectively. The 2W industry in the year declined by 12%, while BAL posted a lower decline of 9% leading to market share gain. Chetak scooter sold about 3,300 units in the quarter and has an order book of 10,000 units. The product is now present in 20 cities and is planning to be in 50 cities in the next one year. Management also stated that despite Covid wave #2 impacting the markets, premium segment brands like Pulsar and KTM also have seen a good traction in the fiscal. Pulsar 125 NS remained the top seller while contributing 22% of its executive segment. The newly launched 250 cc platform is also performing well with both Pulsar 250 NS models attracting good response. Even in the sports segment, Dominar 400 is being received well. Management expects a full new range of new Pulsar variants along with new platforms to launch in the coming 6-9 months to drive their business. Management expects supply issue to normalize by July post which the demand can be easily catered to.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Revenues (₹ bn)	277.4	331.4	408.2	493.8
EBITDA (%)	17.8	15.9	16.9	17.9
PAT (%)	16.8	14.6	15.0	15.4
EPS (₹)	157.4	173.4	207.3	258.5
EPS growth (%)	-10.7%	10.2%	19.5%	24.7%
P/E (x)	24.5	22.2	18.6	14.9
P/B(x)	4.4	4.2	4.0	3.8
EV/EBITDA (x)	22.7	21.3	16.2	12.6
ROE(%)	18.1%	18.8%	21.5%	25.5%
Dividend yield (%)	3.7%	3.6%	4.3%	5.4%

Rating	Buy
Current Market Price (₹)	3,848
12 M Price Target (₹)	4,395
Potential upside (%)	14

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	1,114
Free Float Market Cap (₹ bn) :	509
52-Week High / Low (₹) :	4,347 / 3,027
2-Year High / Low (₹) :	4,361 / 2,362
1 Yr Avg. Dly Traded Volume (in lakh)	5
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

Shareholding Pattern

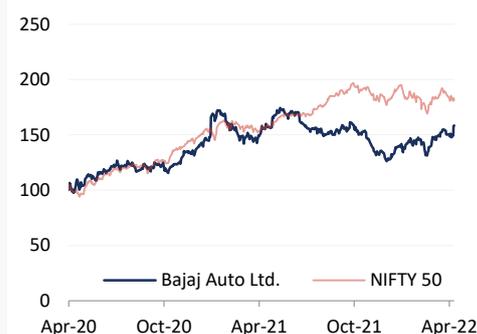
(%)	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	53.77	53.73	53.70	53.70
FPIs	10.49	10.20	11.21	11.82
MFs	4.80	5.03	4.88	3.65
Insurance	8.03	7.85	7.70	8.95
Others	22.91	23.19	22.51	21.88

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Bajaj Auto	6.9%	11.6%	3.4%	3.2%
Nifty 50	-0.7%	-0.4%	-6.4%	16.3%

* To date / current date : April 27, 2022

Bajaj Auto vs Nifty 50

On the EV front, BAL is chalking out an investment of ₹10 bn over the next 5 years. The first tranche of this investment will be of ₹3 bn at Akurdi, Pune for setting up a capacity of 0.5 mn per annum. BAL will get certain benefits under the Maharashtra Govt scheme for providing benefits for EV push. First EV launch coming from this facility will be in June 2022. The company also plans its first 3W EV with a cautious introduction in the coming quarter.

Domestic 3Ws are showing a very strong performance in all the sub-segments within the segment. The company has substantially increased its market share to 70% in overall 3W segment as normalcy is back with opening of markets. In the CNG segment it has a market share of ~77% and with expansion of CNG stations the company can fancy its chances of further increasing it. CNG now contributes 62% of the overall 3W industry as compared to 24% a year ago. BAL being a sole leader in the CNG segment, 3Ws will even more strongly contribute to the numbers going forward.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Net sales	77,281.3	88,055.7	-12.2%	84,128.0	-8.1%
Other op. income	2,467.1	2,161.5	14.1%	1,833.0	34.6%
Total income	79,748	90,217	-11.6%	85,961	-7.2%
RM cost	57,357	67,433	-14.9%	61,767	-7.1%
Employee cost	3,059	3,399	-10.0%	3,070	-0.4%
Other expenses	5,677	5,664	0.2%	5,884	-3.5%
EBITDA	13,656	13,722	-0.5%	15,241	-10.4%
EBITDA Margins %	17.7	15.6	210 bps	17.7	0 bps
Other income	2,889	2,728	5.9%	2,836	1.9%
Depreciation	697	698	-0.2%	662	5.3%
Interest	29	18	60.9%	20	N/A
PBT	15,819	15,734	0.5%	17,395	-9.1%
Tax	4,282	3,591	19.3%	4,074	5.1%
Adj PAT	11,537	12,143	-5.0%	13,321	-13.4%
Adj PAT Margins%	14.5	13.5	100 bps	15.5	(100 bps)
Exceptional items	(3,152.8)	-	N/A	-	N/A
Reported PAT	14,690	12,143	21.0%	13,321	10.3%

Source: Company, LKP Research

Exports strongly contributed to the volumes in Q4 contributing >60% of total volumes v/s 54% yoy. The company is observing strong traction across markets including LatAm despite it having observed strong Covid surge. The company will launch a new Pulsar in LatAm in the coming quarter. Pulsar 250NS is receiving a very good response in that continent. The exports growth is expected to be in double digit on resilience in Africa, LatAm, Middle East and South East Asia despite Phillipines and Malaysia yet to come out of the woods. The company's share in the premium bikes has gone up on strong demand for Dominar 250 and 400 in Turkey, Mexico and Latin America. The company's share in sporty commuter segment (150-250 cc) range was the highest at 45% during the quarter. The overall market share in exports is up by 2%. In 3Ws, BAL de-grew by 11% yoy as the growth was impacted by ban on them in Egypt. Going forward, strong sales in other countries is expected to offset Egypt weakness. Nepal is also slowly getting back on track and is expected to be completely normal just before the festive season.

Margin profile to improve in FY 23 on multiple tailwinds

BAL's EBITDA margins came at 17.7% in Q4, up by 210 bps qoq in a scenario of higher RM costs. Going forward, we expect margins to improve. Management took a price hike of 1.5-2% in Q4 and may take further price hikes if required. Going further in FY 23, we believe margins to improve since - 1).there is a continuous month on month improvement in 3W volumes 2). Strong double digit growth expectations from exports lifting up the ASEAN markets as well 3). Higher contribution of high end bikes like Pulsar and KTM and 4). Price hikes taken to combat the RM cost. We therefore expect margins to be at 16.9%/17.9% in FY23E/24E respectively.

Outlook and Valuation

BAL posted impressive margin performance in Q4 despite driven by the challenges in the domestic 2W industry. Going forward, we believe there will be a short term pressure on volumes and margins on semi conductor chip issue and high RM prices in Q1. However, hoping the pandemic remains under control hereon, we expect a strong bounce back on new launches and supply issue easing. Therefore, in that scenario, 2W demand in the domestic markets is expected to move up with the ongoing marriage season in the North, rural demand coming back into play on good monsoon and company's EV push. With the pandemic getting less severe in export markets, we expect further strengthening of exports numbers, with new launches of Pulsar and Dominar & KTM bikes excelling at tandem. With higher capex associated with KTM Husky bike and Triumph (whenever it starts) at their Chakan plant shall further expand their market and ambit of portfolio. Robust 3W performance would support margins. With ultimate demand for personal mobility playing on along with EV and CNG models of 3W, we expect BAL to get its advantage. Chetak scooter should lend BAL the benefit of re-entering the high demand EV scooter segment. Improving product and geographic mix, favorable currency movement and price hikes should assist margins in the ensuing years. With strong balance sheet, robust return ratios, strong dividend payout (₹140/ share announced yesterday), hefty dividend yield of 3.6% in FY22 and zero financial leverage, we believe the stock looks attractive at 15x FY 24E earnings. We maintain our BUY rating on the stock with a higher target price of ₹4,395 (at 17x FY 24E earnings) on improving volume and margins expectations.

Per unit parameters	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY21	Q3 FY21	Q2 FY21	Q1 FY21
Gross Realisation per Unit (₹)	79,129	74,538	73,276	71,734	71,925	66,805	66,849	66,543
Net Realisation per Unit (₹)	79,129	74,538	73,276	71,734	71,925	66,805	66,849	66,543
Total Cost per unit (₹)	67,672	64,752	64,322	62,288	60,462	54,945	55,914	60,272
Material Cost per unit (₹)	58,729	57,080	56,417	53,621	52,807	48,272	48,020	46,639
Staff Cost per unit (₹)	3,132	2,877	3,072	3,594	2,624	2,427	3,081	7,612
Other Expn per unit (₹)	5,836	4,822	4,882	5,094	5,079	4,261	4,841	6,060
EBITDA per unit (₹)	13,982	11,616	12,244	11,131	13,030	13,235	12,021	9,220
PAT per unit (₹)	11,813	10,278	11,137	10,548	11,389	11,909	10,806	11,916

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
Total Revenues	2,77,411	3,31,447	4,08,220	4,93,840
Raw Material Cost	1,96,097	2,43,298	2,95,423	3,54,298
Employee Cost	12,860	13,588	16,368	19,414
Other Exp	19,170	21,975	27,609	31,950
EBITDA	49,285	52,586	68,820	88,179
<i>EBITDA Margin(%)</i>	<i>17.8</i>	<i>15.9</i>	<i>16.9</i>	<i>17.9</i>
Other income	12764	12092	12500	12900
Depreciation	2,593	2,692	2,825	3,193
Interest	67	87	80	90
PBT	59,389	61,901	78,415	97,796
<i>PBT Margin(%)</i>	<i>21.9</i>	<i>19.3</i>	<i>19.6</i>	<i>20.1</i>
Exceptional items	0	-3153	0	0
Tax	13,844	14,865	18,427	22,982
PAT	45,545	50,189	59,987	74,814
<i>PAT Margin (%)</i>	<i>16.4</i>	<i>15.1</i>	<i>14.7</i>	<i>15.1</i>
APAT	45,545	47,036	59,987	74,814
<i>APAT Margins (%)</i>	<i>16.8</i>	<i>14.6</i>	<i>15.0</i>	<i>15.4</i>

Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
Per Share Data (₹)				
Adj. EPS	157.4	173.4	207.3	258.5
CEPS	184.7	166.3	182.7	217.0
BVPS	870.8	921.5	963.0	1014.7
DPS	141.6	139.9	165.8	206.8
Growth Ratios(%)				
Total revenues	-7.3%	19.5%	23.2%	21.0%
EBITDA	-3.3%	6.7%	30.9%	28.1%
PAT	-10.7%	10.2%	19.5%	24.7%
EPS Growth	-10.7%	10.2%	19.5%	24.7%
Valuation Ratios (x)				
PE	24.5	22.2	18.6	14.9
P/CEPS	23.1	21.1	17.7	14.3
P/BV	4.4	4.2	4.0	3.8
EV/Sales	3.8	4.1	3.5	2.8
EV/EBITDA	22.7	21.3	16.2	12.6
Operating Ratios (Days)				
Inventory days	20.1	14.0	12.0	10.0
Receivable Days	36.5	17.2	20.0	22.0
Payables day	59.9	39.6	43.0	45.0
Net Debt/Equity (x)	-0.02	-0.02	-0.03	-0.04
Profitability Ratios (%)				
ROE	18.1%	18.8%	21.5%	25.5%
Dividend yield	3.7%	3.6%	4.3%	5.4%

Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,894	2,894	2,894	2,894
Reserves and surplus	2,49,129	2,63,794	2,75,792	2,90,755
Total network	2,52,023	2,66,688	2,78,686	2,93,649
Non current liabilities				
Long term borrow. & prov.	1,626	1,604	1,604	1,604
Deferred tax liabilities	5,221	4,033	4,033	4,033
Current liabilities				
Current liabilities & prov.	46,050	36,363	48,569	61,374
Other current liabilities	10,382	10,532	10,532	10,532
Total equity and liabilities	3,15,302	3,19,220	3,43,423	3,71,191
Net block	15,653	17,576	19,750	22,557
ASSETS				
Capital work in progress	160	768	868	500
Intangible assets	473	253	253	253
Non current investments	1,46,551	1,89,008	2,11,008	2,31,008
Long term loans & advances	314	660	660	660
Other non current assets	10,399	11,010	11,010	11,010
Total non current assets	1,73,551	2,19,275	2,43,549	2,65,988
Current assets				
Current investments	80,281	49,691	39,691	32,691
Inventories	14,939	12,305	13,125	13,297
Trade receivables	27,169	15,164	21,875	29,253
Cash and cash bank	5,274	5,883	8,282	13,060
Short term loans & adv.	57	42	x42	42
Other current assets	14,032	16,859	16,859	16,859
Total current assets	1,41,751	99,945	99,874	1,05,202
Total Assets	3,15,302	3,19,220	3,43,423	3,71,191

Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	59,390	65,053	78,415	97,796
Depreciation	2,593	2,692	2,825	3,193
Interest	12	13	-	-
Chng in working capital	-5,104	6,009	4,916	5,254
Tax paid	-13,397	-17,015	-18,427	-22,982
Other operating activities	-	-	-	-
Cash flow from operations (a)	31,140	42,076	67,809	83,350
Capital expenditure	-2,410	-5,507	-5,100	-5,632
Chng in investments	-23,327	4,428	-12,000	-13,000
Other investing activities	-	-	-	1
Cash flow from investing (b)	-28,654	-959	-17,100	-18,632
Free cash flow (a+b)	2,486	41,116	50,709	64,719
Inc/dec in borrowings	-	-	-	-
Dividend paid (incl. tax)	-87	-40,490	-47,990	-59,851
Other financing activities	-	-	-	-
Cash flow from financing (c)	-207	-40,528	-48,070	-59,941
Net chng in cash (a+b+c)	2,279	588	2,639	4,778
Closing cash & cash equivalents	5,055	5,643	8,282	13,060

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