

ICICI Securities Limited
is the author and
distributor of this report

Company update and
reco change

Automobiles

Target price: Rs3,575

Earnings revision

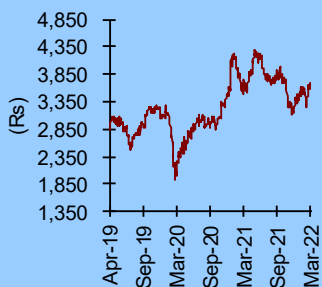
(%)	FY22E	FY23E	FY24E
Sales	↓ 4.0	↑ 4.0	↑ 3.4
EBITDA	↓ 11.6	↓ 13.9	↓ 2.2
EPS	↓ 9.6	↓ 11.7	↓ 2.0

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	56.4	56.4	56.4
Institutional investors	38.6	38.5	38.9
MFs and others	7.5	7.5	7.3
FIs/Banks	8.0	8.2	7.8
FIs	23.1	22.8	23.8
Others	5.0	5.1	4.7

Source: BSE

Price chart



Research Analysts:

Basudeb Banerjee

Basudeb.banerjee@icicisecurities.com
+91 22 6807 7260

Pratit Vajani

pratit.vajani@icicisecurities.com
+91 22 6807 7161

INDIA

Bajaj Auto

HOLD

Downgrade from *Add*

Rs3,652

Perfectly priced amid headwinds galore

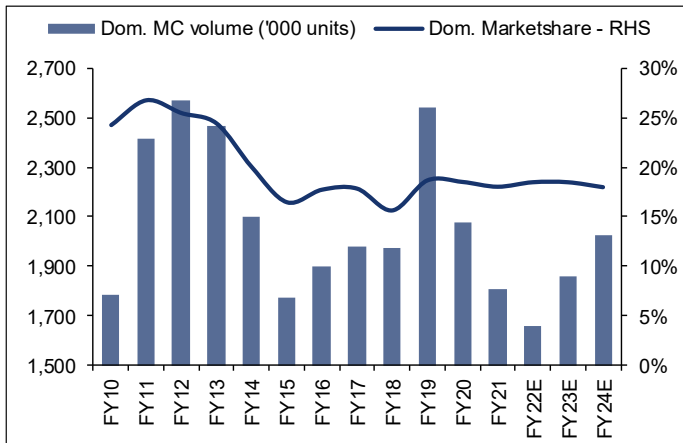
Since its Q3FY22 result, Bajaj Auto (BJAUT) has outperformed NIFTY50 by ~15% amid worsening outlook on profitability, rising fuel prices and flattish demand outlook in key export markets. Though we keep our FY23E revenue estimates largely unchanged, we trim FY23E EBITDA margin by ~300bps to ~14.5% due to surge in RM costs, resulting in 2% cut in FY24E earnings. Though recent cost inflation would get partially reflected in Q4FY22, bulk of it would come Q1FY23E onward. We continue to build-in 12% domestic motorcycle volume CAGR in FY22E-FY24E with market share at 18.5%. With key 2W overseas markets either showing static demand or a declining bias, we expect BJAUT's 2W export volumes to grow at 8% CAGR in FY22-FY24E. Cost of key input commodities like steel, aluminum and plastic/polymer has increased by 15-40% QoQ and blended RM/unit in Q3FY22 was at ~Rs57k. A ~15% increase in RM basket cost would require a price hike of ~Rs9k/unit, to keep gross profit/unit neutral. We downgrade the stock to *HOLD* from *Add*, with an unchanged DCF based target price of Rs3,575, implying 15.5x FY24E core earnings, Rs785/share cash and Rs130/share value of stake in KTM entity.

- **Rise in commodity basket cost to hurt FY23E profitability post a weak FY22:** In CY22-TD, key input commodity costs (steel aluminium, plastic/polymer, etc.) have increased by ~15-40%, not factoring-in the inflated power/fuel costs impacting conversion costs and logistics costs. Our analysis suggests a 15% increase each in RM basket cost and in power/fuel costs warrants ~Rs9k-10k/unit price hike on a blended basis to keep gross profit/unit neutral. This in turn would hurt gross margin by ~250bps, though per unit profitability would remain same. Thus, we reduce our FY23E EBITDA margin estimate by ~300bps to ~14.5%, similar to FY22 levels.
- **Revenue estimates largely unchanged with slight cut in volumes being balanced by rise in ASP:** On a benign FY22E base, we continue to build in ~12% volume CAGR in BJAUT's domestic 2W portfolio in FY22-FY24E, with market share at ~18%. Key export markets for 2Ws are showing signs of consolidation in the past 4-5 months, with volumes either stabilising or declining. Post ~23% volume growth in FY22E 2W exports, we estimate ~8% CAGR in FY22-FY24E. On a benign base with covid impact gradually waning, we expect ~35% volume CAGR in domestic 3Ws vs 8% for export 3Ws in FY22-FY24E. We have cut overall volume estimates for FY23E/FY24E by ~2% and increased ASPs by ~3%, to pass on commodity inflation (thus maintaining revenue estimates largely similar).
- **Expect ~8% CAGR in 10-year earnings with limited triggers to push growth:** Past 5yr/10yr earnings CAGR for the company has been ~3.5%/4%, with EBITDA margin declining from ~20% levels to 15%. For next 10 years, we are building-in ~8% earnings CAGR, assuming profitability to bottom out in FY23E at 14.5% and stabilising at ~17%. Our DCF valuation of BJAUT at Rs3,575 factoring-in 4.5% terminal growth rate and 12% WACC, which implies 15.5x FY24E core P/E, on which we see limited upside.

Market Cap	Rs1057bn/US\$13.9bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	BJAUT.BO/BAJA IN	Revenue (Rs mn)	2,77,411	3,28,351	3,74,065	4,11,471
Shares Outstanding (mn)	289.4	Net Income (Rs mn)	45,546	45,445	50,903	64,082
52-week Range (Rs)	4295/3105	EPS (Rs)	157.4	157.1	175.9	221.5
Free Float (%)	46.3	% Chg YoY	(10.7)	(0.2)	12.0	25.9
FII (%)	23.8	P/E (x)	23.2	23.3	20.8	16.5
Daily Volume (US\$/'000)	20,418	CEPS (Rs)	166.4	166.2	185.7	232.0
Absolute Return 3m (%)	12.4	EV/E (x)	18.7	19.0	16.9	13.1
Absolute Return 12m (%)	2.9	Dividend Yield (%)	3.8	3.9	4.3	5.5
Sensex Return 3m (%)	0.7	RoCE (%)	20.8	18.3	20.1	24.8
Sensex Return 12m (%)	19.5	RoE (%)	20.2	17.9	19.6	24.2

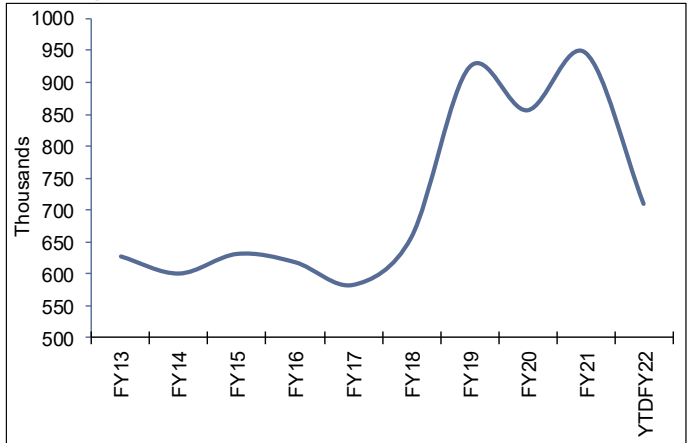
Please refer to important disclosures at the end of this report

Chart 1: Domestic motorcycle market share has remained steady; market itself going down since FY19



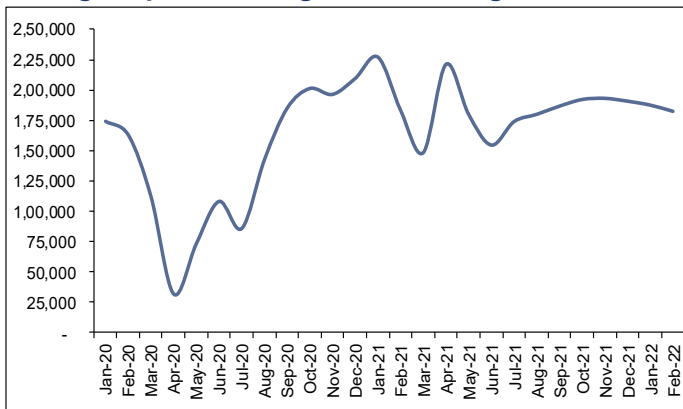
Source: SIAM, I-Sec research

Chart 2: Brand Pulsar grew at a mere 3% CAGR in FY14-FY22E despite launches across categories during the period



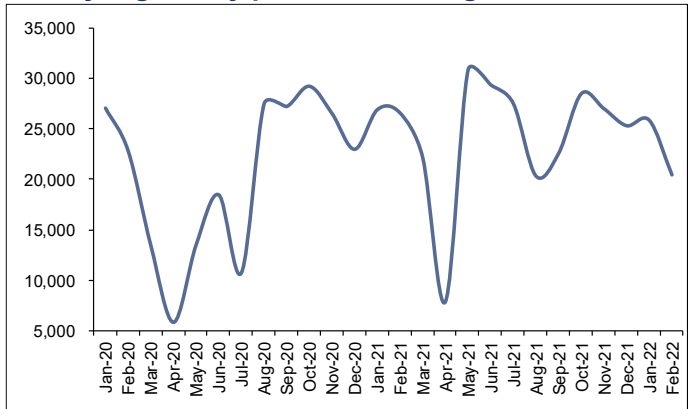
Source: SIAM, I-Sec research

Chart 3: Export motorcycle volumes gradually easing off post starting FY22 on a high



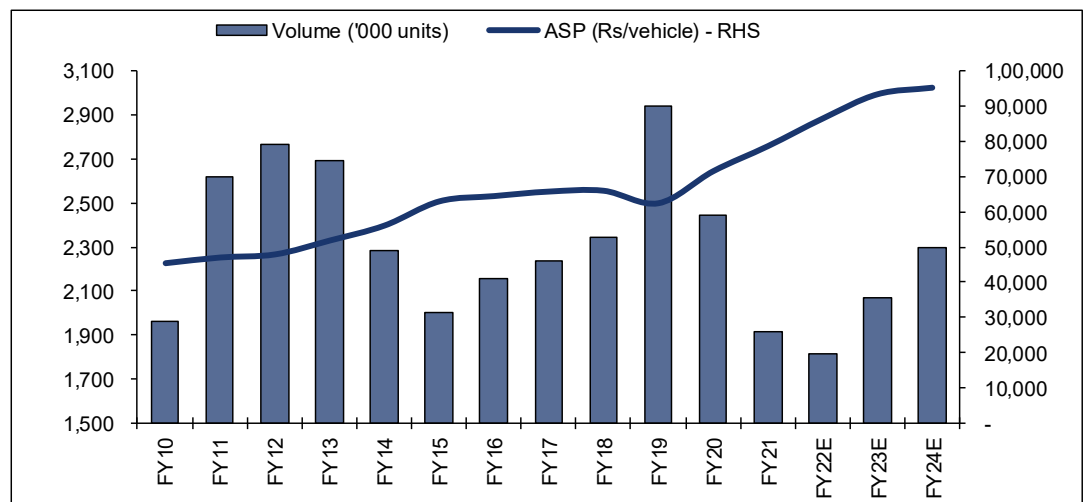
Source: SIAM, I-Sec research

Chart 4: 3W export volumes on a contraction mode led by regulatory pressures in target markets



Source: SIAM, I-Sec research

Chart 5: Overall volume decline of 4% CAGR in FY17-FY22E vs ~6% CAGR rise in ASP

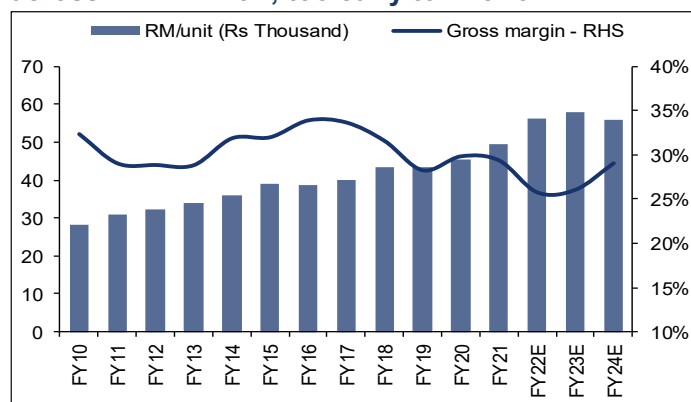


Source: Company data, I-Sec research

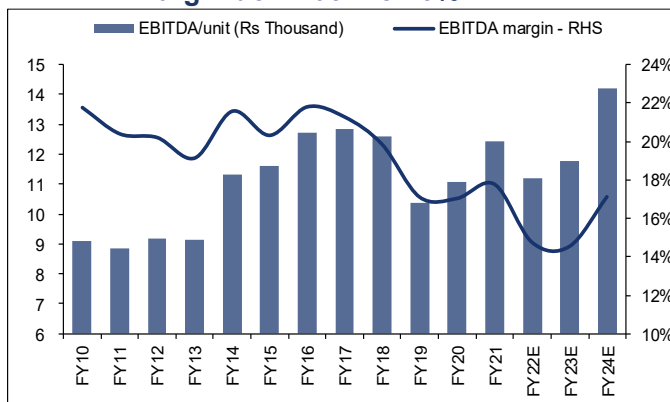
Table 1: Africa/LatAm contribute 52%/22% to overall 2W exports from India; key markets are either stagnating or on a decline mode since Q3FY22 (highlighted)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Nigeria	81,720	58,390	48,880	66,890	64,120	61,520	63,200	61,660	71,540	96,890	106,580	98,850
Nepal	23,009	39,790	36,070	20,550	25,970	28,200	30,640	36,010	28,600	15,530	22,700	22,810
Colombia	17,442	27,120	33,210	29,590	24,570	35,100	28,950	32,070	37,400	34,010	24,550	21,540
Congo D. Rep.	19,160	23,680	19,350	15,490	11,210	17,070	25,100	16,940	12,990	16,060	13,400	20,300
Philippines	16,940	19,590	15,820	12,550	8,620	11,770	12,120	14,200	15,420	8,070	16,890	14,600
Kenya	6,788	25,560	17,090	18,810	8,970	17,670	19,070	17,540	19,210	11,430	10,170	14,020
Uganda	11,960	21,380	18,170	18,980	11,020	7,330	8,520	11,310	18,790	10,720	12,310	11,840
Mexico	7,524	10,080	12,980	10,320	13,910	16,730	19,290	19,480	13,290	9,310	13,080	8,950
Guatemala	7,081	13,010	10,690	15,930	12,560	13,840	11,990	8,730	8,910	8,660	7,960	7,440
Guinea	5,012	15,500	13,450	3,540	12,340	16,660	25,620	18,310	12,880	12,600	5,340	7,090
Total exports	324,890	344,560	299,390	304,570	291,930	307,770	334,190	316,300	321,980	296,430	320,270	297,550

Source: Commerce ministry, I-Sec research

Chart 6: RM/unit inflation to impact gross margin across FY22-FY23E; too early to infer on FY24E

Source: Company data, I-Sec research

Chart 7: Not much hit in terms of EBITDA/unit; EBITDA margin down at ~15-16%

Source: Company data, I-Sec research

Table 2: Growth assumptions

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Domestic 2W ('000 units)	1,975	2,541	2,078	1,808	1,659	1,858	2,025
Domestic 3W ('000 units)	370	399	365	109	157	212	269
Domestic volumes ('000 units)	2,344	2,940	2,443	1,917	1,816	2,070	2,294
Exports 2W ('000 units)	1,395	1,696	1,869	1,797	2,210	2,386	2,577
Exports 3W ('000 units)	266	379	297	254	301	331	351
Exports volumes ('000 units)	1,661	2,074	2,166	2,051	2,511	2,717	2,928
Blended ASP (Rs)	63,609	60,542	64,914	69,902	76,027	82,284	84,099
EBITDA Margin (%)	19.8%	17.1%	17.0%	17.8%	14.8%	14.6%	17.1%
EBITDA / unit (Rs)	12,590	10,355	11,057	12,421	11,202	11,757	14,219
Capex (Rs mn)	2,056	1,429	1,937	1,810	3,612	4,489	4,938
Dividend per share (Rs)	60	60	120	140	141	158	199

Source: Company data, I-Sec research

Table 3: Earnings revision

(Rs bn, year ending March 31)

	FY22E			FY23E			FY24E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Volume (mn)	4.3	4.3	-0.2%	4.9	4.8	-2.0%	5.3	5.2	-1.5%
Revenue	316	328	4.0%	360	374	4.0%	398	411	3.4%
EBITDA	55	48	-11.6%	63	54	-13.9%	72	70	-2.2%
EBITDA margin (%)	17.4%	14.8%	(261)	17.6%	14.6%	(304)	17.6%	17.1%	(47)
EPS (Rs)	174	157	-9.6%	199	176	-11.7%	226	221	-2.0%

Source: Company data, I-Sec research

Financial summary (standalone)

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenue (inc. other op income)	2,77,411	3,28,351	3,74,065	4,11,471
Operating expenditure	2,28,126	2,79,881	3,19,635	3,41,034
EBITDA	49,285	48,470	54,430	70,438
<i>EBITDA Margin (%)</i>	<i>17.8%</i>	<i>14.8%</i>	<i>14.6%</i>	<i>17.1%</i>
Depreciation	2,593	2,648	2,830	3,042
EBIT	46,692	45,822	51,599	67,395
Interest expenditure	67	67	67	67
Non-operating income	12,765	14,041	15,445	16,990
Adjusted PBT	59,390	59,797	66,978	84,319
Tax	13,844	14,351	16,075	20,236
Reported PAT	45,546	45,445	50,903	64,082
Adjusted PAT	45,546	45,445	50,903	64,082

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Shareholders' equity	2,894	2,894	2,894	2,894
Reserves & surpluses	2,49,129	2,53,673	2,58,764	2,65,172
Total networth	2,52,023	2,56,567	2,61,657	2,68,066
Debt	1,215	1,215	1,215	1,215
Deferred tax liability	5,221	5,221	5,221	5,221
Total liabilities	2,58,459	2,63,003	2,68,093	2,74,502
Gross block (inc. Goodwill on merger)	57,034	60,646	65,135	70,072
Net block (inc. Goodwill on merger)	16,649	17,613	19,272	21,168
CWIP	160	160	160	160
Investments (non-current)	12,333	12,333	12,333	12,333
Cash & cash equivalents	2,19,251	2,20,438	2,23,240	2,27,094
Debtors	27,169	22,490	25,621	28,183
Inventory	14,939	13,494	15,373	16,910
Loans & advances	24,802	27,780	30,543	32,947
Total current assets	2,86,160	2,84,202	2,94,776	3,05,134
Current liabilities	55,300	49,478	56,366	62,003
Provisions	1,544	1,827	2,081	2,289
Total current liabilities	56,843	51,304	58,447	64,292
Net current assets	2,29,317	2,32,897	2,36,329	2,40,842
Total assets	2,58,459	2,63,004	2,68,094	2,74,502

Source: Company data, I-Sec research

Table 6: Quarterly trends
(Rs mn, year ending March 31)

	Mar-21	Jun-21	Sep-21	Dec-21
Volumes (units)	11,69,664	10,06,014	11,44,407	11,81,361
Net sales	84,128.0	72,165.7	83,857.8	88,055.0
% growth (YoY)	27.3	144.8	19.1	0.9
EBITDA	15,241.0	10,761.6	13,628.2	13,721.4
Margin (%)	1.3	1.1	1.2	1.2
Other income	2,836.0	3,293.0	3,183.2	2,727.6
Net profit	13,320.7	10,175.6	12,745.5	12,141.9

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating cashflow before WC changes	39,865	48,160	53,800	67,191
(Incr) / decr in net working capital	(8,726)	(2,393)	(630)	(659)
Cashflow from operations	31,139	45,767	53,170	66,532
Capex (net)	(1,810)	(3,612)	(4,489)	(4,938)
(Incr) / decrease in investments	(23,327)	-	-	-
Other income (expenditure)	(3,517)	-	-	-
Cashflow from investments	(28,654)	(3,612)	(4,489)	(4,938)
Net borrowings	(41)	-	-	-
Interest paid	(55)	(67)	(67)	(67)
Dividend paid	(40,511)	(40,901)	(45,813)	(57,674)
Others	40,313	-	-	-
Cashflow from financing	(294)	(40,968)	(45,880)	(57,740)
Net change in cash	2,191	1,187	2,802	3,854
Free cashflow	29,329	42,155	48,682	61,595

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share data (Rs)				
EPS (Rs)	157.4	157.1	175.9	221.5
Diluted EPS (Rs)	157.4	157.1	175.9	221.5
CEPS (Rs)	166.4	166.2	185.7	232.0
Book value per share (Rs)	870.9	886.6	904.2	926.4
Dividend per share (Rs)	140.0	141.3	158.3	199.3
Growth Ratios (%)				
Operating Income	(7.3)	18.4	13.9	10.0
EBITDA	(3.3)	(1.7)	12.3	29.4
Recurring Net Income	(10.7)	(0.2)	12.0	25.9
Diluted Recurring EPS	(10.7)	(0.2)	12.0	25.9
Diluted Recurring CEPS	(10.0)	(0.1)	11.7	24.9
Valuation Ratios (x)				
P/E (x)	23.2	23.3	20.8	16.5
P/CEPS (x)	22.0	22.0	19.7	15.7
P/BV (x)	4.2	4.1	4.0	3.9
EV/Operating Income (x)	3.3	2.8	2.5	2.2
EV/EBITDA (x)	18.7	19.0	16.9	13.1
EV/Operating FCF (x)	31.4	21.8	18.9	14.9
Operating Ratios				
Raw Material/Sales (%)	70.7	74.3	74.0	71.0
Other Income / PBT (%)	21.5	23.5	23.1	20.1
Effective Tax Rate (%)	23.3	24.0	24.0	24.0
Inventory Turnover (days)	15.4	17.2	19.3	18.2
Receivables (days)	29.2	27.6	23.5	23.9
Payables (days)	63.6	58.2	51.6	52.5
D/E Ratio (x)	(0.9)	(0.9)	(0.8)	(0.8)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	16.4	13.8	13.6	15.6
RoCE	20.8	18.3	20.1	24.8
RoNW	20.2	17.9	19.6	24.2
Dividend Payout Ratio	88.9	90.0	90.0	90.0
Dividend Yield	3.8	3.9	4.3	5.5

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Basudeb Banerjee, MBA (Finance); Pratit Vajani, MBA (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is SEBI registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.

The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.