

Bajaj Auto

Refer to important disclosures at the end of this report

Domestic 2W recovery on track

- In an interaction with Emkay, new CFO Mr. Dinesh Thapar reiterated expectations of a strong recovery in domestic 2Ws and an aggressive focus on EVs. He expects domestic 2W recovery from FY23E onward, with signs of a demand pickup in rural, student and salaried segments.
- BJAUT is focusing on the EV space and has planned a slew of launches in 2Ws/3Ws across various use-cases over the next 2-3 years. In Jun'22, BJAUT plans to launch an E-3W and commission an E-2W plant with an annual capacity of 500,000 units.
- We expect an 11% CAGR in total volumes over FY22-24E, driven by a recovery in domestic 2W/3W volumes (13%/26% CAGR). We estimate revenue/earnings CAGRs of 15%/18% over FY22-24E, with average FCF generation of Rs32bn.
- We maintain Buy with a TP of Rs4,350 based on 17x Jun'24E Core EPS, value of investments at Rs224/share and cash reserves of Rs725/share. Our target multiple is based on a two-stage DCF model.

Key takeaways from management interaction:

FY23 demand outlook

- Exports:** Management expects double-digit growth in retail sales, led by healthy demand in key markets and a continuous focus on network expansion. Since the share of Sri Lanka/Nepal markets in exports is small, no major negative impact is expected due to weak economic conditions in these countries. The company is in discussions with the Egyptian government about the re-commencement of exports, and hopes for a solution in six months. **Management expects wholesales growth to be positive, and does not expect a decline.**
- Domestic 2Ws:** Management expects strong growth in volumes, with a focus on profitable categories. It is seeing strong demand due to the marriage season in Q1FY23. Rural demand is improving on better sentiments. The rural share stands at ~45%. Student demand could see a recovery this year. The pre-Covid share for this segment was at ~20%
- The share of first-time buyers stands at ~60% of demand, while the remaining portion is contributed by replacement/additional vehicle buyers.
- Domestic 3Ws:** Management expects strong double-digit growth, owing to improving demand and an increasing share of CNG vehicles.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	277,411	331,447	385,461	440,637	489,704
EBITDA	49,285	52,586	64,978	78,182	87,751
EBITDA Margin (%)	17.8	15.9	16.9	17.7	17.9
APAT	45,546	47,761	56,576	66,447	73,467
EPS (Rs)	157.4	165.1	195.5	229.6	253.9
EPS (% chg)	(10.7)	4.9	18.5	17.4	10.6
ROE (%)	20.2	18.4	21.0	24.1	26.0
P/E (x)	22.7	21.6	18.3	15.5	14.1
EV/EBITDA (x)	16.8	15.5	12.6	10.6	9.5
P/BV (x)	4.1	3.9	3.8	3.7	3.6

Source: Company, Emkay Research

CMP	Target Price
Rs 3,569 as of (May 10, 2022)	Rs 4,350 (■) 12 months
Rating	Upside
BUY (■)	21.9 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(0.4)/ (0.3)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	195.5	229.6
Consensus	196.4	228.6
Mean Consensus TP (12M)	Rs 4,184	

Stock Details

Bloomberg Code	BJAUT IN
Face Value (Rs)	10
Shares outstanding (mn)	289
52 Week H/L	4,348 / 3,027
M Cap (Rs bn/USD bn)	1,033 / 13.33
Daily Avg Volume (nos.)	417,191
Daily Avg Turnover (US\$ mn)	19.4

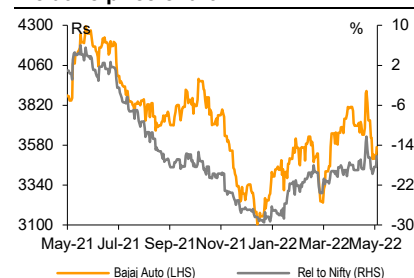
Shareholding Pattern Mar '22

Promoters	53.8%
FIIIs	10.5%
DIIIs	13.2%
Public and Others	22.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	-	(6)	(8)
Rel. to Nifty	2	7	4	(16)

Relative price chart



Source: Bloomberg

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Key takeaways (continued)

Electric Vehicles

- An E-3W launch is expected in Jun'22. The ramp-up of vehicle availability across cities is expected to be gradual. Management believes fleet operators are still favoring CNG vehicles over EVs due to range anxiety. TCO (total cost of ownership) is broadly similar for EVs and CNG vehicles.
- E-2W availability has been expanded to over 20 cities, and further expansion to 100 cities is expected as supplies improve. The order book stands at over 16,000 units.
- An E-2W plant with an annual capacity of 500,000 units is expected to be commissioned in Jun'22. Production ramp-up would depend on chip supplies.
- E-3Ws will be manufactured at a temporary assembly line till a dedicated facility at Waluj is established.
- Investments are not large to convert an ICE assembly line to an EV, as most assembly operations are common.
- The company is working on a range of products across low/high-speed categories targeted at private/commercial segments. It is working on both fixed and swappable battery options.

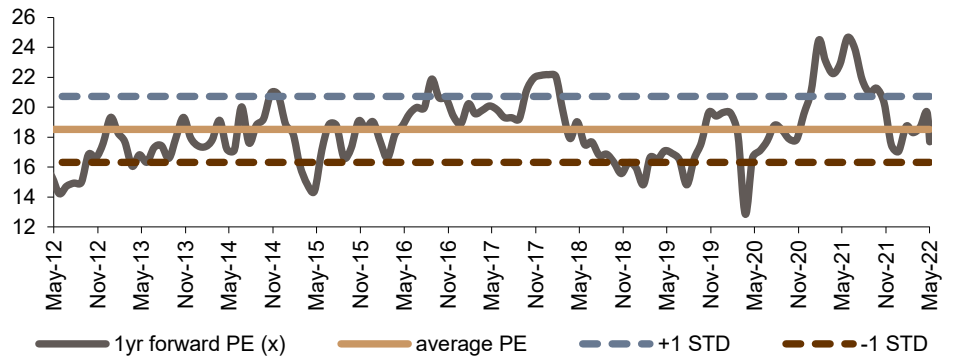
Others

- **Bajaj-Triumph vehicles:** Models are expected to be launched in CY23 in the 250-750cc category with prices below Rs200,000, targeted at both domestic and export markets.
- **Margin pressures in Q1FY23:** Commodity inflation is expected to impact margins by 350-400bps in Q1FY23. To partially offset it, BJAUT has taken price hikes of 150-200bps. In addition, the USD-INR realization is expected to be better at Rs75.5-76/USD in comparison with Rs75.5 in Q4FY22. Commodities such as precious metals have corrected from recent peaks, and company has monthly procurement contracts.

Exhibit 1: Key revenue assumptions; Expect revenue CAGR of 15% over FY22-24E

Volumes (units)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR (%) FY22-24E
Domestic Motorcycles	2,541,320	2,078,348	1,809,375	1,641,084	1,803,315	2,079,522	2,225,089	13
Growth (%)	28.7	(18.2)	(12.9)	(9.3)	9.9	15.3	7.0	
Export Motorcycles	1,695,553	1,869,220	1,796,518	2,195,772	2,404,299	2,596,643	2,804,374	9
Growth (%)	21.6	10.2	(3.9)	22.2	9.5	8.0	8.0	
Domestic 3Ws/Quadricycles	399,453	365,759	109,292	160,723	207,861	253,564	291,580	26
Growth (%)	8.1	(8.4)	(70.1)	47.1	29.3	22.0	15.0	
Export 3Ws/Quadricycles	383,177	301,885	257,729	310,854	338,350	365,418	394,652	8
Growth (%)	43.1	(21.2)	(14.6)	20.6	8.8	8.0	8.0	
Total volumes	5,019,503	4,615,212	3,972,914	4,308,433	4,753,825	5,295,147	5,715,694	11
Growth (%)	25.3	(8.1)	(13.9)	8.4	10.3	11.4	7.9	
Realizations (Rs/unit)	60,479	64,826	69,826	76,930	81,084	83,215	85,677	4
Growth (%)	(3.9)	7.2	7.7	10.2	5.4	2.6	3.0	
Revenues (Rs mn)	303,576	299,187	277,411	331,447	385,461	440,637	489,704	15
Growth (%)	20.4	(1.4)	(7.3)	19.5	16.3	14.3	11.1	

Source: Company, Emkay Research

Exhibit 2: One –year forward P/E (average at 19x, +1 sd at 21x, -1 sd at 16x)

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	277,411	331,447	385,461	440,637	489,704
Expenditure	228,126	278,861	320,483	362,455	401,953
EBITDA	49,285	52,586	64,978	78,182	87,751
Depreciation	2,593	2,692	3,015	3,368	3,788
EBIT	46,692	49,895	61,963	74,814	83,963
Other Income	12,765	12,092	12,088	12,149	12,187
Interest expenses	67	87	95	105	115
PBT	59,390	61,901	73,955	86,858	96,035
Tax	13,844	14,139	17,379	20,412	22,568
Extraordinary Items	0	2,428	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	45,546	50,189	56,576	66,447	73,467
Adjusted PAT	45,546	47,761	56,576	66,447	73,467

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	249,129	263,794	269,452	276,097	283,443
Net worth	252,023	266,688	272,346	278,990	286,337
Minority Interest	0	0	0	0	0
Loan Funds	1,215	1,228	1,228	1,228	1,228
Net deferred tax liability	5,221	4,033	3,664	3,229	2,749
Total Liabilities	258,459	271,949	277,237	283,447	290,314
Net block	16,126	17,829	22,354	28,679	34,891
Investment	226,833	238,699	240,199	240,699	241,199
Current Assets	72,183	61,923	69,821	73,346	77,588
Cash & bank balance	5,274	5,883	2,942	850	91
Other Current Assets	14,032	16,859	16,965	17,001	17,036
Current liabilities & Provision	56,843	47,270	56,365	60,812	64,900
Net current assets	15,340	14,653	13,456	12,534	12,688
Misc. exp	0	0	0	0	0
Total Assets	258,459	271,949	277,237	283,447	290,314

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	46,625	52,961	61,867	74,709	83,848
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(5,105)	6,009	(2,406)	(1,903)	(1,659)
Operating Cashflow	18,374	29,983	35,078	47,281	57,471
Capital expenditure	(2,509)	(5,176)	(8,000)	(10,000)	(10,000)
Free Cash Flow	15,865	24,807	27,078	37,281	47,471
Investments	(26,808)	1,787	(1,500)	(500)	(500)
Other Investing Cash Flow	663	2,430	0	0	0
Investing Cashflow	(15,889)	11,133	2,588	1,649	1,687
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(53)	0	0	0	0
Dividend paid (incl tax)	(87)	(40,490)	(50,918)	(59,802)	(66,120)
Other Financing Cash Flow	(99)	57	10,406	8,884	6,318
Financing Cashflow	(294)	(40,506)	(40,607)	(51,023)	(59,917)
Net chg in cash	2,191	610	(2,941)	(2,092)	(759)
Opening cash position	3,083	5,274	5,883	2,942	850
Closing cash position	5,274	5,883	2,942	850	91

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	17.8	15.9	16.9	17.7	17.9
EBIT Margin	16.8	15.1	16.1	17.0	17.1
Effective Tax Rate	23.3	22.8	23.5	23.5	23.5
Net Margin	16.4	14.4	14.7	15.1	15.0
ROCE- (post tax)	15.2	14.1	17.0	20.0	22.0
ROE	20.2	18.4	21.0	24.1	26.0
RoIC- (post tax)	156.8	139.6	151.5	147.9	138.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	157.4	165.1	195.5	229.6	253.9
CEPS	166.4	174.4	205.9	241.3	267.0
BVPS	870.9	921.6	941.2	964.1	989.5
DPS	140.0	140.0	176.0	206.7	228.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	22.7	21.6	18.3	15.5	14.1
P/CEPS	23.4	22.4	18.9	16.2	14.6
P/BV	4.1	3.9	3.8	3.7	3.6
EV / Sales	3.0	2.5	2.1	1.9	1.7
EV / EBITDA	16.8	15.5	12.6	10.6	9.5
Dividend Yield (%)	3.9	3.9	4.9	5.8	6.4

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.8)	(0.8)	(0.8)	(0.7)	(0.7)
Net Debt/EBIDTA	(4.2)	(4.1)	(3.2)	(2.6)	(2.3)
Working Cap Cycle (days)	13.2	9.7	10.0	9.7	9.4

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(7.3)	19.5	16.3	14.3	11.1
EBITDA	(3.3)	6.7	23.6	20.3	12.2
EBIT	(3.7)	6.9	24.2	20.7	12.2
PAT	(10.7)	10.2	12.7	17.4	10.6

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	85,961	73,860	87,622	90,217	79,748
EBITDA	15,241	11,198	14,011	13,721	13,656
EBITDA Margin (%)	17.7	15.2	16.0	15.2	17.1
PAT	13,321	10,612	12,746	12,142	12,262
EPS (Rs)	46.0	36.7	44.0	42.0	42.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	53.7	53.7	53.7	53.7	53.8
FIs	12.0	11.8	11.2	10.2	10.5
DIs	12.3	12.7	12.8	13.2	13.2
Public and Others	22.0	21.8	22.3	22.8	22.6

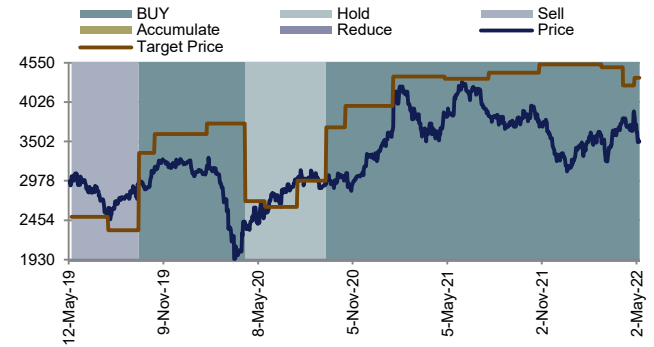
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Apr-22	3,834	4,350	12m	Buy	Raghunandhan NL
6-Apr-22	3,802	4,250	12m	Buy	Raghunandhan NL
24-Feb-22	3,479	4,490	12m	Buy	Raghunandhan NL
28-Oct-21	3,701	4,530	12m	Buy	Raghunandhan NL
23-Jul-21	3,842	4,420	12m	Buy	Raghunandhan NL
2-Jul-21	4,175	4,340	12m	Buy	Raghunandhan NL
18-Jun-21	4,167	4,340	12m	Buy	Raghunandhan NL
1-Jun-21	4,239	4,340	12m	Buy	Raghunandhan NL
30-May-21	4,200	4,340	12m	Buy	Raghunandhan NL
30-Apr-21	3,834	4,340	12m	Buy	Raghunandhan NL
21-Jan-21	3,703	4,370	12m	Buy	Raghunandhan NL
22-Oct-20	3,006	3,976	12m	Buy	Raghunandhan NL
11-Oct-20	3,060	3,691	12m	Buy	Raghunandhan NL
29-Sep-20	2,898	3,691	12m	Buy	Raghunandhan NL
15-Sep-20	2,937	3,691	12m	Buy	Raghunandhan NL
28-Aug-20	3,014	2,978	12m	Hold	Raghunandhan NL
22-Jul-20	2,985	2,978	12m	Hold	Raghunandhan NL
29-Jun-20	2,860	2,629	12m	Hold	Raghunandhan NL
21-May-20	2,640	2,629	12m	Hold	Raghunandhan NL
4-May-20	2,442	2,708	12m	Hold	Raghunandhan NL
13-Apr-20	2,398	2,708	12m	Hold	Raghunandhan NL
27-Feb-20	2,937	3,740	12m	Buy	Raghunandhan NL
31-Jan-20	3,180	3,740	12m	Buy	Raghunandhan NL
30-Jan-20	3,146	3,600	12m	Buy	Raghunandhan NL
27-Dec-19	3,242	3,600	12m	Buy	Raghunandhan NL
27-Nov-19	3,212	3,600	12m	Buy	Raghunandhan NL
1-Nov-19	3,233	3,600	12m	Buy	Raghunandhan NL
30-Oct-19	3,223	3,600	12m	Buy	Raghunandhan NL
23-Oct-19	3,163	3,600	12m	Buy	Raghunandhan NL
1-Oct-19	2,910	3,350	12m	Buy	Raghunandhan NL
26-Sep-19	2,970	3,350	12m	Buy	Raghunandhan NL
23-Sep-19	2,995	3,350	12m	Buy	Raghunandhan NL
3-Sep-19	2,764	2,320	12m	Sell	Raghunandhan NL
28-Aug-19	2,767	2,320	12m	Sell	Raghunandhan NL
26-Jul-19	2,619	2,320	12m	Sell	Raghunandhan NL
1-Jul-19	2,912	2,500	12m	Sell	Raghunandhan NL
27-Jun-19	2,866	2,500	12m	Sell	Raghunandhan NL
3-Jun-19	3,035	2,500	12m	Sell	Raghunandhan NL
29-May-19	2,926	2,500	12m	Sell	Raghunandhan NL
17-May-19	3,040	2,500	12m	Sell	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	4.41	4.41	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.00	NA	0	0.00	0
Ashok Leyland	0.18	0.18	0%	0	4.00	0
Atul Auto	0.00	0.00	NA	0	0.00	0
Bajaj Auto	0.48	0.39	-20%	-10	8.75	0
Bharat Forge	0.17	0.17	0%	0	3.86	0
Eicher Motors	0.34	0.34	0%	0	7.74	0
Escorts	0.00	0.02	NA	2	0.40	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.34	0.34	0%	0	7.66	0
Mahindra & Mahindra	0.89	0.92	2%	2	20.76	0
Maruti Suzuki India	1.02	1.04	2%	2	23.63	0
Motherson Sumi	0.00	0.00	NA	0	0.00	0
Motherson Sumi Wiring India	0.00	0.02	NA	2	0.42	0
Tata Motors	0.74	0.75	2%	1	17.09	0
Tata Motors DVR*	0.10	0.11	10%	1	2.43	0
TVS Motor	0.14	0.14	0%	0	3.25	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	10-May-21	9-Nov-21	9-Feb-22	8-Apr-22	9-May-22
EAP - Auto & Auto Ancillaries	100.0	119.2	141.4	140.6	131.4	125.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	119.5	140.4	139.4	130.6	125.0

*Performance measurement base date 1st April 2019

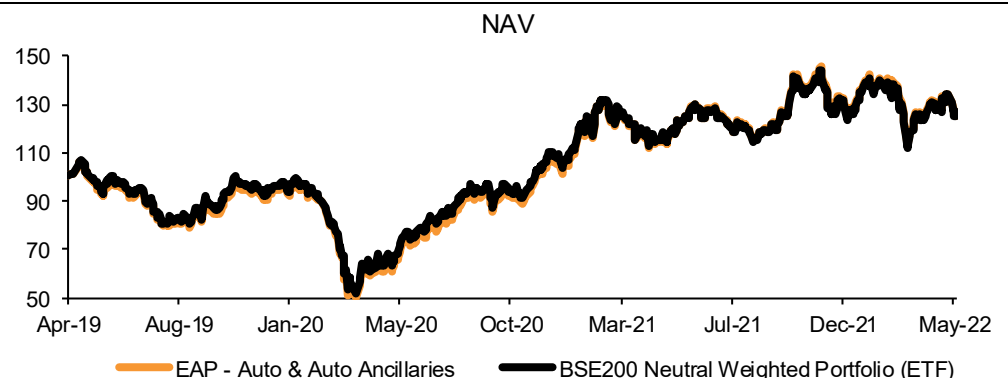
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	-4.6%	-10.8%	-11.3%	5.2%
BSE200 Neutral Weighted Portfolio (ETF)	-4.3%	-10.3%	-10.9%	4.7%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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