Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Bajaj Auto Ltd

Beats expectation on operational front; Steady outlook

Automobiles	Sharekhan code: BAJAJ-AUTO
Reco/View: Buy ↔	CMP: **Rs. 3,889** / Price Target: **Rs. 4,800** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 16.31

Updated Jul 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

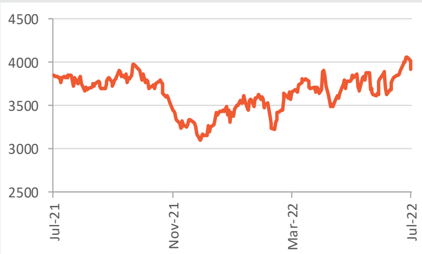
Company details

Market cap:	Rs. 1,12,525 cr
52-week high/low:	Rs. 4,092 / 3,028
NSE volume: (No of shares)	4.84 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	13.4 cr

Shareholding (%)

Promoters	53.8
FII	11.2
DII	12.4
Others	22.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	0.9	12.5	1.9
Relative to Sensex	-1.9	4.5	22.3	-2.7

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Bajaj Auto Limited (BAL) with an unchanged PT of Rs. 4,800, factoring strong business outlook and comfortable valuations. The stock trades below the historical average P/E multiple of 15.6x and EV/EBITDA multiple of 10.2x its FY2024E.
- BAL reported better-than-expected operational performance during Q1FY2023, led by higher average sales realisation, improved USD realisation, and better product mix, despite higher input costs.
- Management remains positive on growth prospects in domestic and export markets. BAL is expected to gain market share across regions, driven by brand recall, product launches, and improving premiumisation of its product portfolio.
- We expect BAL's earnings to report a 24% CAGR during FY2022-FY2024E, driven by a 15.3% revenue CAGR and a 250-bps improvement in EBITDA margin from 15.9% in FY2022 to 18.4% in FY2024E.

Bajaj Auto Limited (BAL) reported strong operational performance for Q1FY2023, led by higher average sales realisation, improved USD realisation, and better product mix, despite higher input costs. Net revenue, EBITDA, and PAT were 7.9%, 10.7%, and 10.5% above our expectations, respectively. Net operating revenue increased 8.4% y-o-y to Rs. 8,005 crore, led by a robust 16.8% increase in average realisation, partially offset by a 7.2% decline in volumes. EBITDA margin contracted by 90 bps q-o-q to 16.2% in Q1, led by increased commodity prices and negative operating leverage, resulting in 15.8% EBITDA growth and 10.6% adjusted PAT growth. Management expects steady growth in domestic as well as exports going forward. We continue to remain positive on BAL's performance going forward, led by its expected market share gains in domestic 125cc+ markets and continued dominancy in key export markets. BAL is aggressively planning to establish a foothold in the electric vehicle (EV) space and has laid down its plans to manufacture e-two-wheeler (2W) and e-three-wheeler (3W) in its Akurdi (Pune) plant. Moreover, the company will benefit from 3W sales across its sub-segments, small/large passenger vehicles (PV), and cargo vehicles. The company dominates in every sub-segment of 3Ws with 70-80% market share in each sub-segment. We maintain Buy on the stock, given its strong business outlook and comfortable valuations.

Key positives

- Average realisation per vehicle improved 16.8% y-o-y and 5% q-o-q to Rs. 85,739/vehicle, led by price hikes and improved product mix.
- BAL continues to increase its market share in Latin America and ASEAN regions, despite price hikes (due to currency movement), while maintaining its dominancy in Africa. Exports are expected to report steady growth going forward, led by its dominant market share and increasing premiumisation in key export markets.
- The company's e-scooter, Chetak, is gaining traction and Q1FY2023 sales have doubled to ~6.2k units.
- Sales through financing have improved 4x-5x as compared to cash sales that remain stagnant.

Key negatives

- BAL witnessed 20-25% shortfall in overall sales and ~40% shortfall in domestic sales due to ECU supply constraints.

Management Commentary

- Management expects raw-material prices to stabilise in the near term and expects volumes to improve in FY2023E.
- The company expects to ramp up inventory in the near term, as the demand scenario remains positive.
- EV plans are well in control and the company expects robust sequential growth in e-scooters going forward.

Revision in estimates – We expect BAL's earnings to report a 24% CAGR during FY2022-FY2024E, driven by a 15.3% revenue CAGR and a 250-bps improvement in EBITDA margin from 15.9% in FY2022 to 18.4% in FY2024E.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 4,800: BAL's business outlook remains positive with recovery expected in FY2023E, as economic activities normalise in the domestic market. Management expects exports to remain a key growth driver going forward. We expect BAL to continue to increase its market share in domestic and export markets, given its strong portfolio of premium brands and cost-effective entry-level electronic injection systems. Operating profit margin (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. The stock trades below historical average P/E multiple of 15.6x and EV/EBITDA multiple of 10.2x its FY2024E. Hence, we retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 4,800.

Key Risks

BAL can lose its market share if EV penetration rises rapidly in the domestic 3W market. Moreover, BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can affect the company's profit. Sales of premium bikes will be affected adversely if chips shortage situation aggravates any further.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net Sales	27,741	33,145	39,702	44,037
Growth (%)	(7.3)	19.5	19.8	10.9
EBIDTA	4,928	5,259	7,221	8,104
OPM (%)	17.8	15.9	18.2	18.4
Recurring PAT	4,555	4,704	6,505	7,229
Growth (%)	(10.7)	3.3	38.3	11.1
EPS (Rs.)	157.5	162.6	224.9	250.0
PE (x)	24.7	23.9	17.3	15.6
P/BV (x)	5.4	4.6	4.0	3.7
EV/EBIDTA (x)	18.9	17.0	11.8	10.2
RoNW (%)	21.9	19.4	23.3	23.5
RoCE (%)	23.0	21.2	25.3	25.8

Source: Company; Sharekhan estimates

Key Highlights of Conference Call

- **Strong operational improvement in Q1FY2023:** BAL reported strong operational performance during Q1FY2023, led by higher average sales realisation, improved USD realisation, and better product mix, despite higher input costs. Sales, EBITDA, and PAT were 7.9%, 10.7%, and 10.5% above our estimates, respectively. EBITDA margin was 40bps higher than our expectations at 16.2% in Q1. Net operating revenue increased 8.4% y-o-y to Rs. 8,005 crore, led by a robust 16.8% increase in average realisation, partially offset by a 7.2% decline in volumes. The volume decline was because of chips shortage. The improvement in average realisation was aided by price hikes taken by the company during the year and better product mix. Exports volumes declined by 10.5% y-o-y in Q1FY2023 due to a tough macro environment, while the company continued to increase its market share in ASEAN and LATAM regions. EBITDA margin contracted by 90 bps q-o-q to 16.2% in Q1, led by increased commodity prices and negative operating leverage. Raw-material cost per vehicle increased 11.2% y-o-y and 2.9% q-o-q, while average sales realisation increased 15.4% y-o-y and 5.4% q-o-q. EBITDA for Q1 increased 15.8% y-o-y to Rs. 1,297 crore and adjusted PAT improved 10.6% y-o-y to Rs. 1,173 crore.
- **Chips shortage continues to affect sales:** The company's retails sales were hampered due to unavailability of electronic control unit (ECU) components. The company has a strong presence in the premium motorcycle segment, where ECU uses are relatively high. As per management, the company witnessed 20-25% shortfall in overall sales and ~40% shortfall in domestic sales due to ECU supply issues. The supply shortfall led to a decline in market share in India.
- **Management outlook:** Management expects raw-material prices to stabilise in the near term and expects volumes to improve in FY2023E. The company expects to ramp up inventory in the near term, as the demand scenario remains positive. EV plans are well in control and the company expects robust sequential growth in e-scooters going forward.
- **Channel stocks at low levels:** Management expects to ramp up inventory in the near term, as the demand scenario remains positive. Management expects improvement in domestic sales and recovery across sub-segments, viz. entry, executive, and premium. Management further expects faster recovery in the premium segment, where it has better presence.
- **Entry-level bikes:** Management expects its entry-level segment to improve sequentially, driven by rural demand. However, it expects the premium segment to grow at a faster pace compared to entry-level bikes.
- **Exports:** The company is witnessing steady performance in exports with monthly run-rate of ~200,000 units. ECU shortage is estimated to impact export volumes by 10%. The company's dominance in export destinations remains intact. Market share in Latin America and ASEAN regions improved in Q1FY2023, despite price hikes. Price hikes were necessitated due to dollar appreciation. Market share remains on similar levels in Africa, which contributes ~50% to total export volumes. The sport segment is witnessing robust growth in export markets. Dominar brands (both 250cc and 400cc bikes) are now exported to more than 26 countries.
- **Chetak e-scooters gaining traction:** The company's e-scooter, Chetak, is gaining traction and Q1FY2023 sales have doubled to ~6.2k units. The company is ramping its production capacity in the new plant at Akurdi. The new plant will have a production capacity of half million scooters in the first phase.
- **3W sales:** The company is selling less than 10% e-3W of total 3W sales. The company is running trials for its e-3W products and would expand to different cities once management is comfortable with the products. 3W sales are recovering but are still significantly lower to peak volumes in FY2020.
- **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 24% CAGR during FY2022-FY2024E, driven by a 15.3% revenue CAGR and a 250-bps improvement in EBITDA margin from 15.9% in FY2022 to 18.4% in FY2024E.

Results (Standalone) Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net Revenue	8,005	7,386	8.4	7,975	0.4
EBIDTA	1,297	1,120	15.8	1,366	(5.0)
Depreciation	67.3	64.1	5.1	69.7	(3.4)
Interest	4	2	89.5	3	50.7
Other Income	319	329	(3.0)	289	10.5
PBT	1,545	1,383	11.7	1,582	(2.4)
Tax	371	322	15.5	428	(13.3)
Reported PAT	1,173	1,061	10.6	1,154	1.7
Adjusted PAT	1,173	1,061	10.6	1,469	(20.1)
EPS (Rs.)	40.6	36.7	10.6	39.9	1.7

Source: Company; Sharekhan Research

Key ratios (Standalone)

Particulars	Q1FY23	Q1FY22	Y-o-Y (bps)	Q4FY22	Q-o-Q (bps)
Gross margin (%)	27.8	27.0	90	28.1	(30)
EBIDTA margin (%)	16.2	15.2	100	17.1	(90)
EBIT margin (%)	15.4	14.3	110	16.3	(90)
Net profit margin (%)	14.7	14.4	30	18.4	(380)
Effective tax rate (%)	24.0	23.3	80	27.1	(300)

Source: Company; Sharekhan Research

Volume analysis (Rs. /vehicle)

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Volumes (Units)	9,33,646	10,06,014	(7.2)	9,76,651	(4.4)
Average Realisation	85,739	73,419	16.8	81,655	5.0
RMC/Vehicle	61,883	53,621	15.4	58,729	5.4
EBITDA/vehicle	13,892	11,131	24.8	13,982	(0.6)
PAT/Vehicle	12,567	10,548	19.1	15,041	(16.4)
PBT	1,545	1,383	11.7	1,582	(2.4)
Tax	371	322	15.5	428	(13.3)
Reported PAT	1,173	1,061	10.6	1,154	1.7
Adjusted PAT	1,173	1,061	10.6	1,469	(20.1)
EPS (Rs.)	40.6	36.7	10.6	39.9	1.7

Source: Company; Sharekhan Research

Outlook and Valuation

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

We expect growth momentum to recover in FY2023E, driven by strong rural sentiments in the domestic market. The government's reform measures coupled with increased preference for personal transport are expected to improve volumes. Export markets have witnessed a notable recovery in volume sales offtake across regional markets – ASEAN, South Asia, Middle East, and Africa. Original equipment manufacturers (OEMs) are positive on recovery and expect these markets to improve further. Most of the market has reached pre-COVID levels.

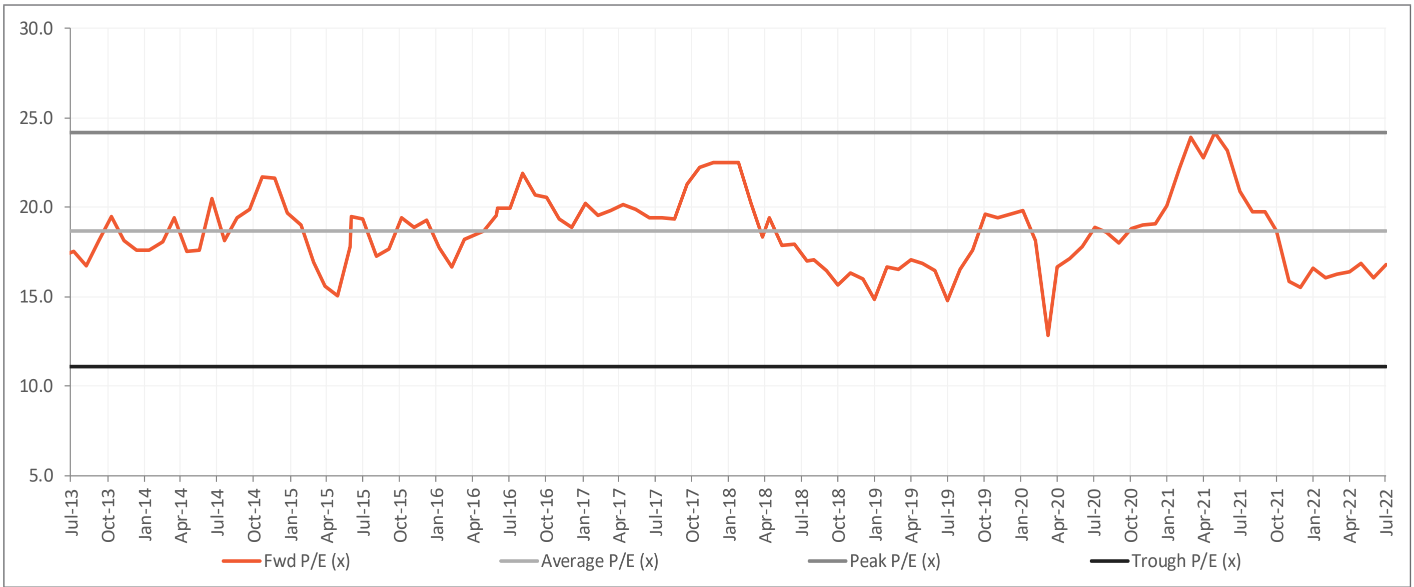
■ Company Outlook – Strong earnings growth; Upgrade earnings estimates

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 a 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. The company has cash and cash equivalents of Rs. 19,090 crore with strong return ratios. BAL has healthy dividend payout ratio of 90%. BAL is uniquely positioned to benefit from domestic 2W 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 recovery expected in FY2023E, as economic activities normalise in the domestic market. Management expects exports to remain a key growth driver going forward. We expect BAL to continue to increase its market share in domestic and export markets, given its strong portfolio of premium brands and cost-effective entry-level electronic injection systems. Operating profit margin (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. The stock trades below historical average P/E multiple of 15.6x and EV/EBITDA multiple of 10.2x its FY2024E. Hence, we retain our Buy rating on the stock with an unchanged PT of Rs. 4,800.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hero MotoCorp	2,782	22.5	18.3	14.7	14.0	10.4	7.9	20.1	21.1	22.0
Bajaj Auto	3,889	23.9	17.3	15.6	17.0	11.8	10.2	21.2	25.3	25.8
TVS Motor	849	43.7	28.5	24.5	21.0	15.8	13.5	21.3	26.4	26.2

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 3Ws 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 contributes 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 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 key markets. The company generates more than 85% of its export revenue from geographies where BAL is either a 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.
- Sales of premium bikes will be affected adversely if chips shortage situation further aggravates.

Additional Data

Key management personnel

Niraj Bajaj	Chairman
Rajiv Bajaj	Managing Director
Rakesh Sharma	Executive Director
Kevin D'sa	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	7.1
4	Jaya Hind Industries Ltd.	3.4
5	Maharashtra Scooters Ltd.	2.3
6	SBI Consumption Opportunities Fund	1.6
7	Bajaj Sevashram Pvt. Ltd.	1.5
8	Niraj Bajaj As A Trustee Of Yamuna Trust	1.3
9	Bachhraj & Co. Pvt. Ltd.	1.3
10	Norges Bank	1.1

Source: Bloomberg

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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