Bajaj Auto Ltd

Beats expectations on operational front, exports face challenges

Automobiles	Sharekhan code: BAJAJ-AUTO
Reco/View: Buy ↔	CMP: Rs. 3,569
	Price Target: Rs. 4,151 ↓

↑ 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 Aug 08, 2022

Low Risk

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

Source: Morningstar

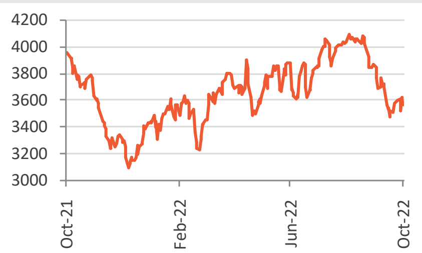
Company details

Market cap:	Rs. 1,03,266 cr
52-week high/low:	Rs. 4,130 / 3,028
NSE volume: (No of shares)	4.86 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	-7.7	-7.3	-6.1	-6.4
Relative to Sensex	-3.3	-14.8	-3.3	-2.9

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Bajaj Auto Limited (BAL) with a revised PT of Rs. 4,151, factoring positive domestic business outlook, while building the impact of bleak export outlook in select regions. The stock trades below the historical average P/E multiple of 15.9x and EV/EBITDA multiple of 10x its FY2024E.
- BAL reported better-than-expected operational performance for Q2FY2023, led by higher average sales realisations, improved US Dollar realisation and a better product mix.
- The management remains positive on growth prospects in domestic markets, led by new launches, recovery in three-wheeler sales and improving industry prospects, while remain concerned about exports in the near term, though expect Q3 exports to be better than Q2FY23.
- We expect BAL's earnings to report a 16.3% CAGR during FY2022-FY2024E, driven by a 11.6% revenue CAGR and a 160-bps improvement in EBITDA margin from 15.9% in FY2022 to 17.8% in FY2024E.

Bajaj Auto Limited (BAL) reported strong operational numbers for Q2FY2023, led by higher average sales realisation, improved USD realisation, and better product mix. Sales, EBITDA and PAT was higher than our estimates by 6.2%, 13% and 9.7% respectively. EBITDA margin was 100bps higher than our expectations at 17.2% in Q2. Net operating revenue increased 16.4% y-o-y to Rs. 10,203 crore, led by a robust 15.8% increase in average realisations, while flat 0.6% growth in volumes. EBITDA margin expanded 100 bps q-o-q to 17.2% in Q2, aided by improved product mix, operating leverage benefits, lower employee and other expenses, resulting in 25.5% EBITDA growth and 20% adjusted PAT growth. The management remains positive on growth prospects in domestic markets, while remain concerned about exports in the near term, though it expects Q3FY23 exports to be better than Q2FY23. We continue to remain positive on BAL's performance going forward, led by its expected market share gains in domestic 125cc+ markets and benefitting from ramping up the EV business. BAL is aggressively planning to establish a foothold in the EV space and has laid down its plans to ramp up production capacities for 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 (PVs) 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 with 12-month PT of Rs. 4,151.

Key positives

- Average realisation per vehicle improved 15.8% y-o-y and 3.4% q-o-q to Rs. 88,642/vehicle, led by price hikes, improved product mix and export realisation.
- Company gains market share in domestic retail markets in the motorcycle category.
- The company's e-scooter, Chetak, continues to gain traction in Q2FY2023.
- Availability of ECU continues to improve sequentially.

Key negatives

- Exports face challenges in select regions such as LaTAm and Africa, while ASEAN regions continues to perform well.

Management Commentary

- Management expects raw material prices to stabilise in the near term and expects domestic volumes to improve in FY2023E.
- Outlook for select export destinations such as LaTAm and Africa, is expected to remain muted in the near term.
- EV plans are well in control and the company expects robust sequential growth in e-scooters going forward.

Revision in estimates – We have reduced earnings estimates by 15.4%/10.2% for FY23E/FY24E to build in the impact of slowdown in exports. BAL's earnings report a 16.3% CAGR during FY2022-FY2024E, driven by a 11.6% revenue CAGR and a 160-bps improvement in EBITDA margin from 15.9% in FY2022 to 17.8% in FY2024E.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 4,151: BAL's business outlook remains positive with recovery expected in FY2023E, as economic activities normalise in the domestic market. The management expects exports to remain a key growth driver for the company in long run, while outlook for LaTAM and African regions remains bleak in the near term. 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. 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 15.9x and EV/EBITDA multiple of 10.2x its FY2024E estimates. Hence, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 4,151.

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	FY25E
Net Sales	27,741	33,145	36,031	41,253	45,728
Growth (%)	(7.3)	19.5	8.7	14.5	10.8
EBIDTA	4,928	5,259	6,063	7,210	8,154
OPM (%)	17.8	15.9	16.8	17.5	17.8
Recurring PAT	4,555	4,704	5,400	6,365	7,181
Growth (%)	(10.7)	3.3	14.8	17.9	12.8
EPS (Rs)	157.5	162.6	190.4	224.4	253.2
PE (x)	22.7	21.9	18.7	15.9	14.1
P/BV (x)	5.0	4.3	3.7	3.4	3.1
EV/EBIDTA (x)	17.0	15.2	12.3	10.0	8.5
RoNW (%)	21.9	19.4	19.8	21.4	22.1
RoCE (%)	23.0	21.2	21.7	23.7	24.5

Source: Company; Sharekhan estimates

Key Highlights of Conference Call

Strong operational improvement in Q2FY2023: BAL reported strong operational performance for Q2FY2023, led by higher average sales realisation, improved USD realisation, and better product mix. Sales, EBITDA and PAT was higher than our estimates by 6.2%, 13% and 9.7% respectively. EBITDA margin was 100bps higher than our expectations at 17.2% in Q2. Net operating revenue increased 16.4% y-o-y to Rs. 10,203 crore, led by a robust 15.8% increase in average realisation, while flat 0.6% growth in volumes. Strong domestic sales helped to recover the loss in sales. Export realization show improvement in average realization of 13-14%, led by a better product mix (lower share of commute bikes and higher share of CVs) and improved dollar realisations. EBITDA margin expanded 100 bps q-o-q to 17.2% in Q2, aided by improved product mix, operating leverage benefits, lower employee and other expenses. The raw material cost per vehicle increased 15.3% y-o-y and 5.1% q-o-q, while average sales realisation increased 15.8% y-o-y and 3.4% q-o-q. EBITDA for the Q1 increased 25.5% y-o-y to Rs. 1,759 crore and adj. PAT improved 20% y-o-y to Rs. 1,530 crore.

Semiconductor chip shortage situation eases: Retail sales were hampered due to unavailability of electronic control unit (ECU) components in previous quarters. Production has increased due to the availability of ECUs. The company has hired one additional vendor for ECU in the previous quarter, which helped then to ease pressure.

Management outlook: The management expects raw material prices to stabilise in the near term and expects domestic volumes to improve in FY2023E. Outlook for select export destinations such as LatAm and Africa, is expected to remain muted in the near term EV plans are well in control and the company expects robust sequential growth in e-scooters going forward.

Chetak e-scooters gaining traction: BAL is aggressively planning to establish a foothold in the electric vehicle (EV) space and has laid down its plans to ramp up production capacities for 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's e-scooter, Chetak, is gaining traction and is expected to do well. 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 share of three-wheelers in total volumes improved to 11.5% in Q2FY23 from 9.3% in Q1FY23. 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 16.3% CAGR during FY2022-FY2024E, driven by a 11.6% revenue CAGR and a 160-bps improvement in EBITDA margin from 15.9% in FY2022 to 17.8% in FY2024E.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Net Revenue	10,203	8,762	16.4	8,005	27.5
EBIDTA	1,759	1,401	25.5	1,297	35.6
Depreciation	67.0	65.6	2.1	67.3	(0.5)
Interest	11	2	542.4	4	151.6
Other Income	333	318	4.7	319	4.3
PBT	2,014	1,652	21.9	1,545	30.4
Tax	484	378	28.2	371	30.3
Reported PAT	1,530	1,275	20.0	1,173	30.4
Adjusted PAT	1,530	1,275	20.0	1,173	30.4
EPS	53.9	44.1	22.4	40.6	33.0

Source: Company, Sharekhan Research

Key ratios (Standalone)

Particulars	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)
Gross margin (%)	26.6	26.3	30	27.8	(120)
EBIDTA margin (%)	17.2	16.0	120	16.2	100
EBIT margin (%)	16.6	15.2	130	15.4	120
Net profit margin (%)	15.0	14.5	40	14.7	30
Effective tax rate (%)	24.0	22.9	120	24.0	-

Source: Company, Sharekhan Research

Volume analysis (Rs. /vehicle)

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %
Volumes (Units)	11,51,012	11,44,407	0.6	9,33,646	23.3
Average Realisation	88,642	76,565	15.8	85,739	3.4
RMC/Vehicle	65,039	56,418	15.3	61,883	5.1
EBITDA/vehicle	15,280	12,243	24.8	13,892	10.0
PAT/Vehicle	13,293	11,137	19.4	12,567	5.8

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - 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. Exports saw a notable recovery in volume sales offtake across regional markets – ASEAN, South Asia, Middle East, and Africa. However, there are near-term challenges in select regions. Original equipment manufacturers (OEMs) are positive on recovery and expect these markets to improve further. Most of the market has reached pre-COVID levels.

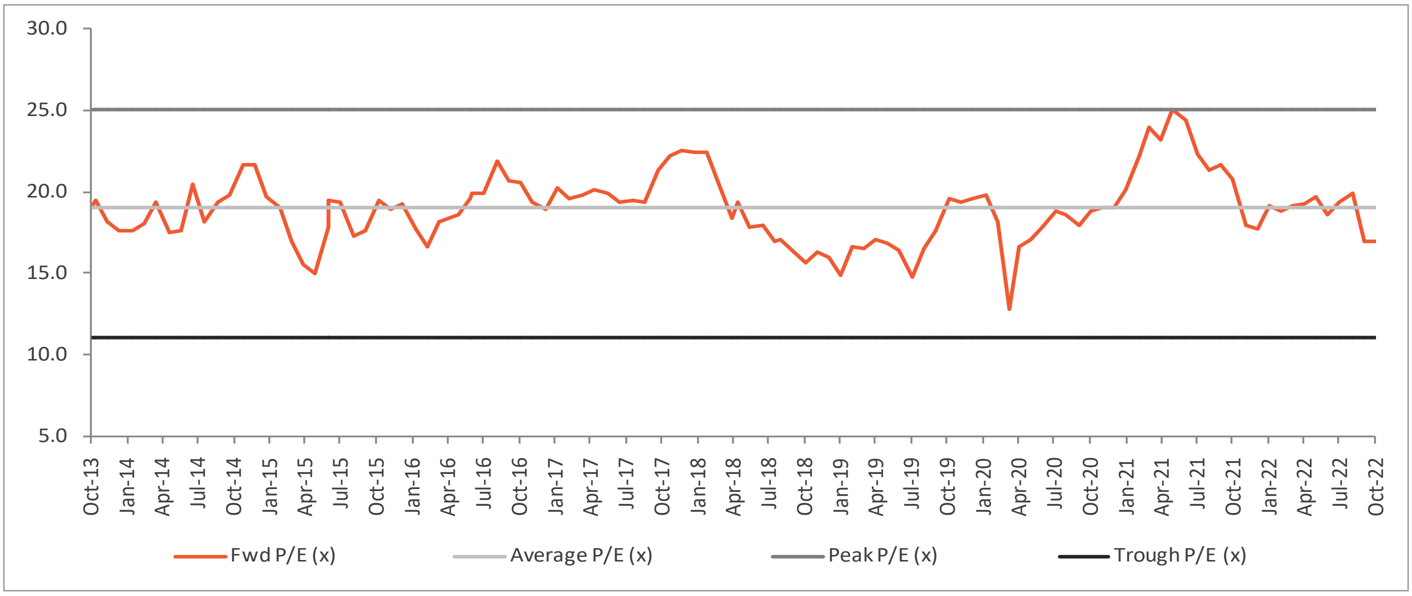
■ Company outlook - Strong earnings growth; Upgrade earnings estimates

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 two-wheeler demand and the export market, driven by its brand equity and value proposition.

■ Valuation - Maintain Buy with a revised PT of Rs. 4,151

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 for the company in long run, while outlook for the LatAm and African regions remains bleak in the near term. 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. 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 15.9x and EV/EBITDA multiple of 10.2x its FY2024E estimates. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 4,151.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bajaj Auto	3,569	21.9	18.7	15.9	15.2	12.3	10.0	21.2	21.7	23.7
Hero MotoCorp	2,534	20.5	16.7	13.4	12.5	9.2	7.0	20.1	21.1	22.0
TVS Motor	1,079	55.5	31.6	25.2	26.6	18.1	14.5	21.3	29.5	30.6
Eicher Motor	3,478	56.6	33.3	25.7	43.3	27.2	22.5	14.1	20.7	22.1

Source: Company; Sharekhan Research

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

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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