Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Bajaj Auto (BJAUT IN)

Rating: HOLD | CMP: Rs3,571 | TP: Rs3,865

October 16, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	3,865		3,765	
Sales (Rs. m)	3,98,776	4,31,330	3,83,152	4,22,274
% Chng.	*4.1*	*2.1*		
EBITDA (Rs. m)	69,586	76,130	67,052	74,743
% Chng.	*3.8*	*1.9*		
EPS (Rs.)	232.7	250.5	224.8	245.8
% Chng.	*3.5*	*1.9*		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	3,31,447	3,59,179	3,98,776	4,31,330
EBITDA (Rs. m)	52,587	59,803	69,586	76,130
Margin (%)	*15.9*	*16.7*	*17.5*	*17.7*
PAT (Rs. m)	53,552	58,265	66,011	71,042
EPS (Rs.)	185.1	205.4	232.7	250.5
Gr. (%)	*10.2*	*11.0*	*13.3*	*7.6*
DPS (Rs.)	140.0	140.0	150.0	160.0
Yield (%)	*3.9*	*3.9*	*4.2*	*4.5*
RoE (%)	*20.6*	*21.4*	*23.0*	*23.3*
RoCE (%)	*19.1*	*20.8*	*23.1*	*23.7*
EV/Sales (x)	2.4	2.2	1.9	1.8
EV/EBITDA (x)	15.3	13.0	11.1	10.0
PE (x)	19.3	17.4	15.3	14.3
P/BV (x)	3.9	3.6	3.4	3.2

Key Data

Key Data	BAJA.BO | BJAUT IN
52-W High / Low	Rs.4,132 / Rs.3,027
Sensex / Nifty	57,920 / 17,186
Market Cap	Rs.1,033bn/ $ 12,545m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.1660.07m

Shareholding Pattern (%)

Promoter's	53.77
Foreign	11.16
Domestic Institution	12.40
Public & Others	22.68
Promoter Pledge (Rs bn)	0.05

Stock Performance (%)

	1M	6M	12M
Absolute	(7.3)	(3.4)	(10.0)
Relative	(3.4)	(2.7)	(4.7)

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Uncertainties around export markets

Quick Pointers:

- Exports majorly a concern due to rising inflation and currency devaluation.
- EBITDA margin improvement of 100bps QoQ led by better realisations.

Bajaj Auto's 2QFY23 performance came ahead of our estimates, led by better-than-expected realization (at Rs 88.6k, +16/3% YoY/QoQ); which in turn led to better margins at 17.2% (+100bps QoQ, PIe:16.5%). This was driven by improved mix in exports and favorable currency realization. Domestic volumes doubled QoQ owing to festive season demand and restoration of supply chain. Management expects single-digit growth from this festive season. In export markets, company took inventory correction measures, which led to lower exports (~40% of volumes vs 62% sequentially).

There remains concerns on the export side of the business given (1) currency devaluation against USD in developing markets (eg: USD/Naira; 50%+ exports volumes from Africa), (2) poor availability of USD for trade, (3) retail price increase and (4) higher interest rates. Also, overall 3W demand still remains weak along with ban in Egypt. Sustainability of domestic 2W demand recovery in questionable with entry-level demand being still under pressure and Bajaj's market share loss (~300bps since FY20). We increase our FY23/24 estimates marginally to factor in better-than-expected 2Q performance. Maintain HOLD with a target price of Rs 3,865 (at 16x Sep-24E EPS).

- **2QFY23 performance:** Volumes at 1.15mn units grew by 23% QoQ. Revenue at Rs 102bn (+16/28% YoY/QoQ) surprised positively, led by better-than-expected realizations (at Rs 88.6k, +16/3%), despite lower share of exports (~40% of volumes vs 62% sequentially). This was driven by improved mix in exports, favourable currency realization and higher OOI. Gross margins at 26.6% contracted 120bps QoQ due to the lag impact of higher commodity costs. EBITDA margin at 17.2% expanded 100bps QoQ (PIe:16.5%). Company reported a PAT of Rs 15.3bn (+20/30% YoY/QoQ) vs our estimate of Rs 14bn.

- **Key takeaways: (1) Uncertainty in exports:** Inventory destocking is now done is most markets; hence, export volumes in 3QFY23 is expected to be better than 2QFY23. However, we believe, demand is likely to remain tepid, given currency devaluation against USD in developing markets, proposal of a blanket ban on motorcycles in Nigeria and rising inflation/interest rates. **(2) Domestic demand recovered in 2QFY23:** Domestic motorcycle volumes doubled in 2QFY23 over the last quarter. This was supported by festive season demand and ECU supply normalizing. Management expects the industry to post single-digit growth in this festive season. It also highlighted, demand for entry-level segment still remains weak; however, demand for 125cc+ bikes is improving. **(4) Margin improvement in quarters ahead:** Correction in commodity prices, along with favorable currency is likely to cause margin expansion in 2HFY23. **(4) Improvement in EV volumes:** Chetak's volumes double in 2Q owing to restoration of supply. With better supply visibility is better, management targets monthly run-rate of 6k vs ~2k currently.

Exhibit 1: Q2FY23 Result Overview (Rs mn)

Y/e Mar	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Net Revenues	**102,028**	**87,622**	***16.4***	**80,050**	***27.5***	**182,077**	**161,482**	***12.8***
Raw Materials	74,861	64,565	*15.9*	57,776	*29.6*	132,637	118,508	*11.9*
% of Net Sales	*73.4*	*73.7*		*72.2*		*72.8*	*73.4*	
Personnel	3,522	3,516	*0.2*	3,796	*(7.2)*	7,318	7,131	*2.6*
% of Net Sales	*3.5*	*4.0*		*4.7*		*4.0*	*4.4*	
Manufacturing & Other Exp	6,057	5,530	*9.5*	5,507	*10.0*	11,565	10,634	*8.8*
% of Net Sales	*5.9*	*6.3*		*6.9*		*6.4*	*6.6*	
Total Expenditure	84,440	73,611	*14.7*	67,080	*25.9*	151,519	136,273	*11.2*
EBITDA	**17,588**	**14,011**	***25.5***	**12,970**	***35.6***	**30,558**	**25,209**	***21.2***
EBITDA Margin (%)	*17.2*	*16.0*		*16.2*		*16.8*	*15.6*	
Depreciation	670	656	*2.1*	673	*(0.5)*	1,343	1,297	*3.6*
EBIT	**16,918**	**13,355**	***26.7***	**12,297**	***37.6***	**29,215**	**23,912**	***22.2***
Interest Expenses	109	17	*542.4*	43	*151.6*	153	40	*282.5*
Non-operating income	3,332	3,183	*4.7*	3,193	*4.3*	6,525	6,476	*0.7*
Extraordinary Expenses	-	-		-		-	-	
PBT	**20,140**	**16,521**	***21.9***	**15,447**	***30.4***	**35,587**	**30,349**	***17.3***
Tax-Total	4,840	3,776	*28.2*	3,714	*30.3*	8,553	6,991	*22.3*
Tax Rate (%) - Total	*24.0*	*22.9*	*5.1*	*24.0*		*24.0*	*23.0*	*4.3*
Reported PAT	**15,300**	**12,746**	***20.0***	**11,733**	***30.4***	**27,033**	**23,357**	***15.7***
Adj. PAT	**15,300**	**12,746**	***20.0***	**11,733**	***30.4***	**27,033**	**23,357**	***15.7***
PAT Margin (%)	*15.0*	*14.5*		*14.7*		*14.8*	*14.5*	

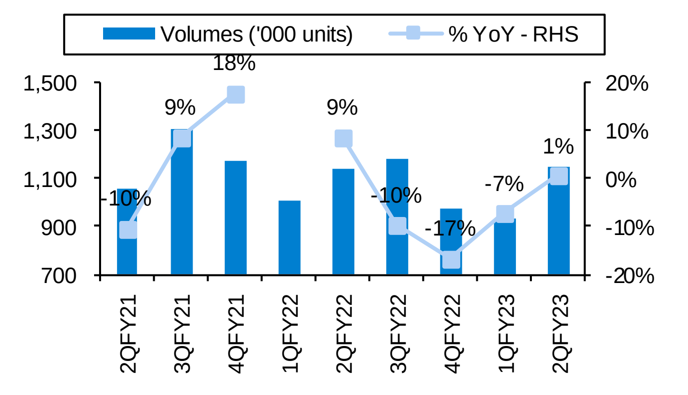
Source: Company, PL

Exhibit 2: Operating Metrics (Rs mn)

Y/e Mar	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Sales Volume (nos)	1,151,012	1,144,407	*0.6*	933,646	*23.3*	2,084,658	2,150,421	*(3.1)*
Net Realization/Vehicle	88,642	76,565	*15.8*	85,739	*3.4*	87,342	75,093	*16.3*
Material cost / vehicle	65,039	56,418	*15.3*	61,883	*5.1*	63,625	55,109	*15.5*
Gross Profit / vehicle	23,603	20,148	*17.1*	23,856	*(1.1)*	23,716	19,984	*18.7*
Employee cost /vehicle	3,060	3,072	*(0.4)*	4,066	*(24.7)*	3,510	3,316	*5.9*
Other expenses / vehicle	5,263	4,833	*8.9*	5,899	*(10.8)*	5,547	4,945	*12.2*
EBITDA/vehicle	15,280	12,243	*24.8*	13,892	*10.0*	14,659	11,723	*25.0*
Net Profit/vehicle	13,293	11,137	*19.4*	12,567	*5.8*	12,968	10,862	*19.4*

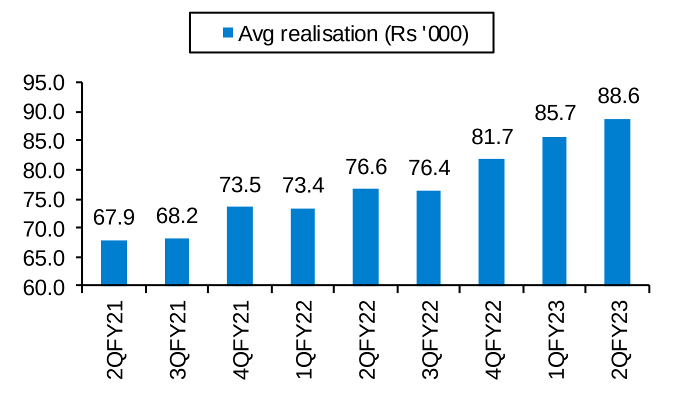
Source: Company, PL

Exhibit 3: Volumes improved 23% QoQ



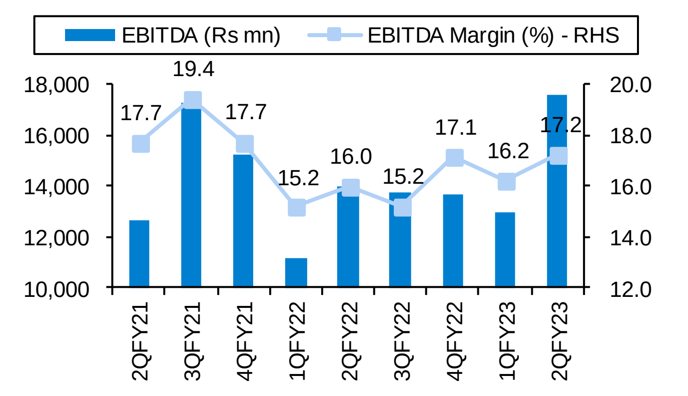
Source: Company, PL

Exhibit 4: ASPs improved led favorable currency rates



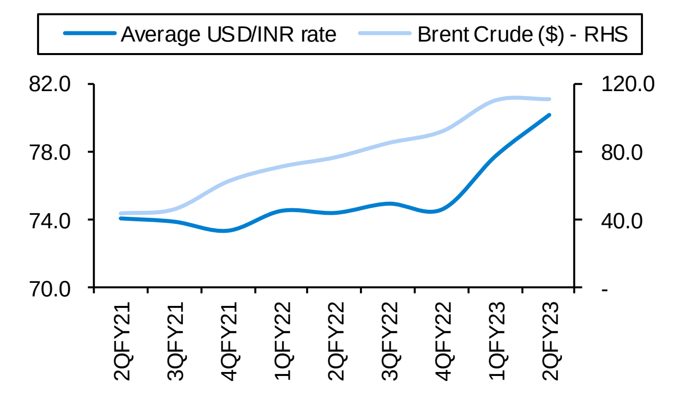
Source: Company, PL

Exhibit 5: EBITDA margin expanded 100bps QoQ



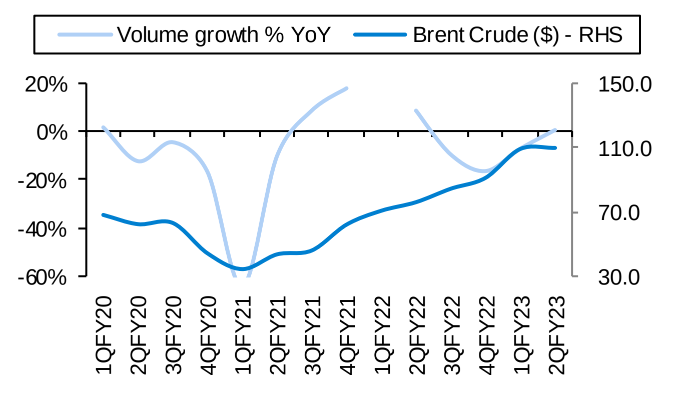
Source: Company, PL

Exhibit 6: USD/INR rates appreciated sharply



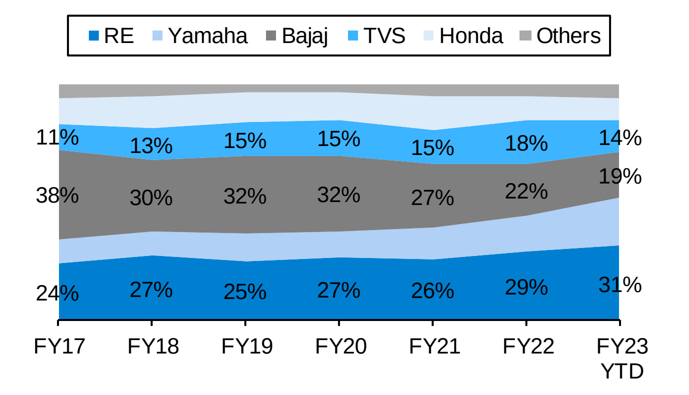
Source: Bloomberg, PL

Exhibit 7: Correlation between Bajaj Auto's volumes and crude prices



Source: Company, Bloomberg, PL

Exhibit 8: Bajaj Auto has lost market share in the above 12cc segment



Source: SIAM, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**3,31,447**	**3,59,179**	**3,98,776**	**4,31,330**
YoY gr. (%)	*19.5*	*8.4*	*11.0*	*8.2*
Cost of Goods Sold	2,43,298	2,61,482	2,87,119	3,10,558
Gross Profit	88,149	97,697	1,11,657	1,20,772
Margin (%)	*26.6*	*27.2*	*28.0*	*28.0*
Employee Cost	13,588	14,726	15,951	17,253
Other Expenses	21,974	23,167	26,120	27,389
EBITDA	**52,587**	**59,803**	**69,586**	**76,130**
YoY gr. (%)	*6.7*	*13.7*	*16.4*	*9.4*
Margin (%)	*15.9*	*16.7*	*17.5*	*17.7*
Depreciation and Amortization	2,692	2,751	2,886	3,307
EBIT	**49,895**	**57,053**	**66,701**	**72,823**
Margin (%)	*15.1*	*15.9*	*16.7*	*16.9*
Net Interest	87	310	227	151
Other Income	12,092	12,831	12,860	12,762
Profit Before Tax	**65,054**	**69,573**	**79,334**	**85,434**
Margin (%)	*19.6*	*19.4*	*19.9*	*19.8*
Total Tax	14,865	17,393	19,833	21,358
Effective tax rate (%)	*22.8*	*25.0*	*25.0*	*25.0*
Profit after tax	**50,189**	**52,180**	**59,500**	**64,075**
Minority interest	-	-	-	-
Share Profit from Associate	5,795	6,085	6,511	6,967
Adjusted PAT	**53,552**	**58,265**	**66,011**	**71,042**
YoY gr. (%)	*10.2*	*8.8*	*13.3*	*7.6*
Margin (%)	*16.2*	*16.2*	*16.6*	*16.5*
Extra Ord. Income / (Exp)	2,432	-	-	-
Reported PAT	**55,985**	**58,265**	**66,011**	**71,042**
YoY gr. (%)	*15.2*	*4.1*	*13.3*	*7.6*
Margin (%)	*16.9*	*16.2*	*16.6*	*16.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	55,985	58,265	66,011	71,042
Equity Shares O/s (m)	**289**	**284**	**284**	**284**
EPS (Rs)	**185.1**	**205.4**	**232.7**	**250.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	**46,127**	**53,895**	**63,895**	**73,895**
Tangibles	46,127	53,895	63,895	73,895
Intangibles	-	-	-	-
Acc: Dep / Amortization	**27,787**	**30,537**	**33,423**	**36,730**
Tangibles	27,787	30,537	33,423	36,730
Intangibles	-	-	-	-
Net fixed assets	**18,340**	**23,358**	**30,472**	**37,165**
Tangibles	18,340	23,358	30,472	37,165
Intangibles	-	-	-	-
Capital Work In Progress	768	1,000	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	12,484	12,484	12,484	12,484
Net Deferred tax assets	(4,033)	(3,667)	(3,333)	(3,030)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	2,25,703	2,28,703	2,31,703	2,34,703
Inventories	12,305	21,649	22,943	23,635
Trade receivables	15,164	20,665	25,128	29,543
Cash & Bank Balance	5,883	6,300	9,875	16,135
Other Current Assets	27,870	30,506	33,869	36,634
Total Assets	**3,19,219**	**3,45,425**	**3,68,786**	**3,92,716**
Equity				
Equity Share Capital	2,894	2,837	2,837	2,837
Other Equity	2,63,794	2,76,263	2,93,216	3,11,907
Total Networth	**2,66,688**	**2,79,100**	**2,96,053**	**3,14,744**
Non-Current Liabilities				
Long Term borrowings	1,591	1,511	1,511	1,511
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	36,332	49,203	54,627	59,086
Other current liabilities	10,576	11,945	13,262	14,345
Total Equity & Liabilities	**3,19,219**	**3,45,425**	**3,68,786**	**3,92,716**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	65,054	69,573	79,334	85,434
Add. Depreciation	2,692	2,751	2,886	3,307
Add. Interest	87	310	227	151
Less Financial Other Income	12,092	12,831	12,860	12,762
Add. Other	(12,092)	(12,831)	(12,860)	(12,762)
Op. profit before WC changes	55,740	59,803	69,586	76,130
Net Changes-WC	1,325	(3,299)	(2,930)	(2,436)
Direct tax	(16,053)	(17,760)	(20,167)	(21,661)
Net cash from Op. activities	**41,012**	**38,744**	**46,489**	**52,032**
Capital expenditures	(4,991)	(8,000)	(10,000)	(10,000)
Interest / Dividend Income	-	-	-	-
Others	(167)	(80)	-	-
Net Cash from Invt. activities	**(5,158)**	**(8,080)**	**(10,000)**	**(10,000)**
Issue of share cap. / premium	4,988	(57)	-	-
Debt changes	-	-	-	-
Dividend paid	(40,512)	(39,711)	(42,548)	(45,384)
Interest paid	(87)	(310)	(227)	(151)
Others	-	-	-	-
Net cash from Fin. activities	**(35,611)**	**(40,078)**	**(42,774)**	**(45,535)**
Net change in cash	**244**	**(9,414)**	**(6,285)**	**(3,503)**
Free Cash Flow	36,021	30,744	36,489	42,032

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	**90,217**	**79,748**	**80,050**	**1,02,028**
YoY gr. (%)	*1.3*	*(7.2)*	*8.4*	*16.4*
Raw Material Expenses	67,433	57,357	57,776	74,861
Gross Profit	22,784	22,391	22,273	27,167
Margin (%)	*25.3*	*28.1*	*27.8*	*26.6*
EBITDA	**13,721**	**13,656**	**12,970**	**17,588**
YoY gr. (%)	*(20.7)*	*(10.4)*	*15.8*	*25.5*
Margin (%)	*15.2*	*17.1*	*16.2*	*17.2*
Depreciation / Depletion	698	697	673	670
EBIT	**13,023**	**12,959**	**12,297**	**16,918**
Margin (%)	*14.4*	*16.3*	*15.4*	*16.6*
Net Interest	18	29	43	109
Other Income	2,728	2,889	3,193	3,332
Profit before Tax	**15,733**	**18,972**	**15,447**	**20,140**
Margin (%)	*17.4*	*23.8*	*19.3*	*19.7*
Total Tax	3,591	4,282	3,714	4,840
Effective tax rate (%)	*22.8*	*22.6*	*24.0*	*24.0*
Profit after Tax	**12,142**	**14,690**	**11,733**	**15,300**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**12,142**	**12,248**	**11,733**	**15,300**
YoY gr. (%)	*(22.0)*	*(8.1)*	*10.6*	*20.0*
Margin (%)	*13.5*	*15.4*	*14.7*	*15.0*
Extra Ord. Income / (Exp)	-	2,441	-	-
Reported PAT	**12,142**	**14,690**	**11,733**	**15,300**
YoY gr. (%)	*(22.0)*	*10.3*	*10.6*	*20.0*
Margin (%)	*13.5*	*18.4*	*14.7*	*15.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,142**	**14,690**	**11,733**	**15,300**
Avg. Shares O/s (m)	284	284	284	284
EPS (Rs)	**42.8**	**43.2**	**41.4**	**53.9**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	185.1	205.4	232.7	250.5
CEPS	194.4	215.1	242.9	262.1
BVPS	921.6	984.0	1,043.7	1,109.6
FCF	124.5	108.4	128.6	148.2
DPS	140.0	140.0	150.0	160.0
Return Ratio(%)				
RoCE	19.1	20.8	23.1	23.7
ROIC	131.1	108.5	105.3	97.4
RoE	20.6	21.4	23.0	23.3
Balance Sheet				
Net Debt : Equity (x)	(0.9)	(0.8)	(0.8)	(0.8)
Net Working Capital (Days)	(10)	(7)	(6)	(5)
Valuation(x)				
PER	19.3	17.4	15.3	14.3
P/B	3.9	3.6	3.4	3.2
P/CEPS	18.4	16.6	14.7	13.6
EV/EBITDA	15.3	13.0	11.1	10.0
EV/Sales	2.4	2.2	1.9	1.8
Dividend Yield (%)	3.9	3.9	4.2	4.5

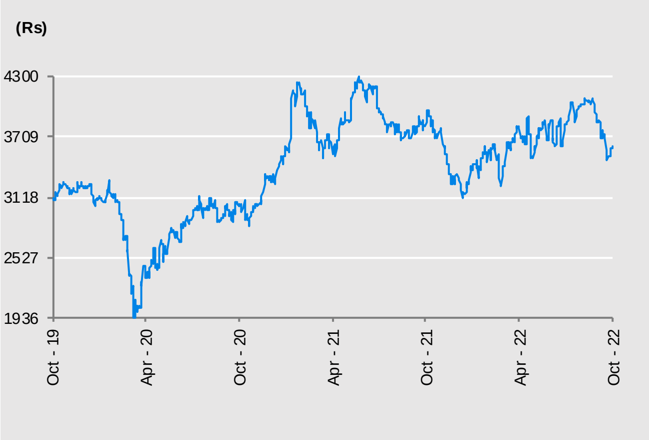
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Motorcycle volume (units)	38,36,856	39,12,214	42,25,191	44,76,291
Three-wheeler volume (units)	4,70,055	4,54,402	5,05,240	5,47,655
Net Realisation (Rs/unit)	76,957	82,256	84,300	85,855

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Hold	3,765	3,582
2	27-Jul-22	Hold	4,120	3,884
3	08-Jul-22	Accumulate	4,120	3,796
4	28-Apr-22	Accumulate	4,120	3,834
5	11-Apr-22	Accumulate	4,005	3,780
6	20-Jan-22	BUY	3,911	3,309
7	12-Jan-22	BUY	4,057	3,176
8	28-Oct-21	Accumulate	4,223	3,701

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,765	3,582
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,700	1,561
5	Eicher Motors	BUY	4,225	3,548
6	Endurance Technologies	BUY	1,590	1,412
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,615
9	InterGlobe Aviation	Hold	1,985	1,851
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	9,500	8,682
12	Tata Motors	BUY	570	408
13	TVS Motors	BUY	1,085	1,036

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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