

Bajaj Auto Ltd.



Bajaj Auto Ltd.

Margin beat due to lower input costs, price hikes, and FX realizations

CMP INR 3,630	Target INR 4,483	Potential Upside 23.5%	Market Cap (INR Mn) 10,29,758	Recommendation BUY	Sector Automobile
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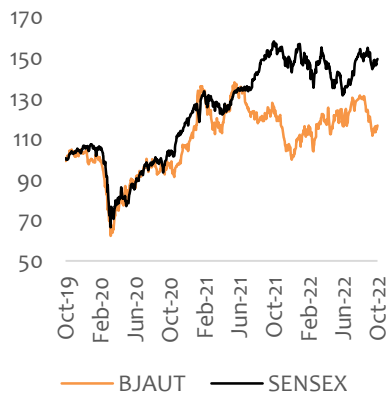
Result highlights

- For Q2FY23, BJAUT reported net operating income of INR 1,02,027 mn, growth of 16.4% YoY and 27.5% QoQ. The total volumes for Q2FY23 increased by 0.6% YoY and 23.3% QoQ. Volumes improved due to improvement in semiconductor supplies.
- EBITDA for Q2FY23 was at INR 17,496 mn, grew by 25.0% YoY/ 36.0% QoQ. EBITDA margin improved by 117 bps YoY and 108 bps QoQ to 17.1% for the quarter. Margin expansion was aided by judicious price increases, cost management and better FX realization.
- Net Profit for the quarter was at INR 17,194 mn, down 15.7% YoY/ up by 47.8% QoQ. Net Profit is not comparable on a YoY and QoQ basis due to exceptional items in Q2FY22 and half-yearly accounting of share of profit of associates. Excluding exceptional items, the Adj. Net Profit grew by 11.8% YoY/ 47.8% QoQ.

MARKET DATA

Shares O/S (Mn)	284
Mkt Cap (INR Mn)	10,29,758
52 Wk H/L (INR)	4,132/ 3,027
Volume Avg (3m K)	403
Face Value (INR)	10
Bloomberg Code	BJAUT IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	58,411
NIFTY	17,312

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,99,187	2,77,411	3,31,447	3,86,190	4,43,264
EBITDA	50,956	49,247	52,499	66,877	79,508
PAT	52,119	48,570	61,659	61,912	71,949
EPS (INR)	180.2	167.8	213.1	218.8	254.3
EBITDA Margin	17.0%	17.8%	15.8%	17.3%	17.9%
NPM	17.4%	17.5%	18.6%	16.0%	16.2%

Source: Company, KRChoksey Research

Highest-ever revenue despite some macro challenges persisting: BJAUT's revenue crossed the INR 1,00,000 mn mark for the first time in Q2FY23. Total volumes for Q2FY23 increased by 0.6% YoY and 23.3% QoQ owing to improvement in semiconductor supplies. Domestic/ Exports wholesale volumes of 2-wheelers were +27.2%/ -26.6% YoY, respectively. The Domestic/ Exports wholesale volumes for CVs were +66.2%/ -16.6% YoY, respectively. The average realization per vehicle increased by 17.5% YoY and 3.5% QoQ in Q2FY23. Despite deterioration in the product mix the realizations improved QoQ due to higher FX realization (USD-INR rate of 79.8 in Q2FY23 vs. 77.4 in Q1FY23). Export realizations improved due to a better mix within exports.

Exports were under pressure in Q2FY23, while domestic volumes improved: 2-wheeler retail sales in the export market were impacted due to the devaluation of emerging market currencies, sharp appreciation and poor availability of USD. Markets in Africa and LATAM were impacted, while ASEAN had a strong performance. BJAUT's wholesales were even lower than retail levels in order to bring dealer inventory to manageable levels. Retail in export markets have started improving in August and September, and wholesales will now match retails after the correction, leading to an improvement in export volumes in Q3FY23E. In the domestic 2-wheeler segment, BJAUT restored its inventory levels back to normal post easing of the supply chain issues. The 3-wheelers segment also saw a ramp-up due to improved supplies and dealer inventory has been restored to normal levels. BJAUT expects the 3-wheeler industry to keep recovering at a slow pace.

Margin improvement despite an adverse mix: BJAUT reported the highest-ever quarterly EBITDA in Q2FY23, at INR 17,496 mn. EBITDA margin improved by 117 bps YoY and 108 bps QoQ to 17.1% for Q2FY23. Raw material cost inflation for Q2FY23 came in at the lower end of the earlier expected range of 1.0% to 1.5%. The impact was almost entirely offset by pricing actions. Further, operating leverage and higher FX realizations, partly offset by an adverse mix due to lower exports, led to sequential margin improvement. Going forward, the softening of commodity costs, especially the metals basket, and FX realizations should be a tailwind for margins.

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	53.8	53.8	53.7
FIIs	11.2	10.5	10.2
DIIIs	12.4	13.2	13.2
Others	22.7	22.6	22.9
Total	100	100	100

15.6%

Revenue CAGR between FY22 and FY24E

23.1%

EBITDA CAGR between FY22 and FY24E

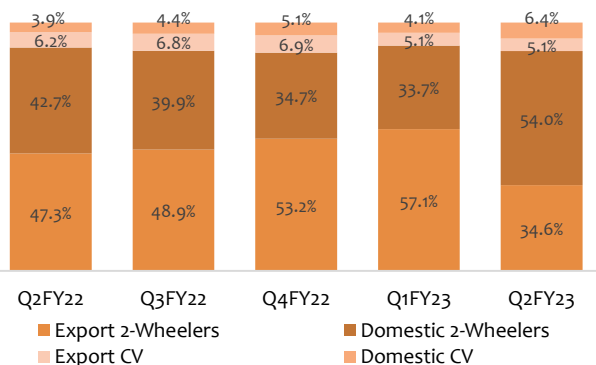
Bajaj Auto Ltd.

Key Concall Highlights: (1) BJAUT’s ECU supplies were restored to almost 98.0% levels, with some issues remaining in the top-end models and some 3-wheelers, which will also get resolved in October 2022. (2) 2-wheeler exports were impacted in Q2FY23 due to a double-digit YoY fall in retail volumes due to sharp appreciation in USD, double-digit devaluation in most emerging market currencies, and poor availability of the USD for trade. (3) Africa and LATAM were impacted, while the ASEAN market saw a strong performance, especially in the Philippines, as the industry revived to pre-covid levels and BJAUT registered the highest-ever sales in Q2. (4) There was a recovery in the retail volumes in export markets in August and September after the low point in July 2022. Q3FY23E demand should be better as the declines in Africa reduce and LATAM eases a bit. On the other hand, ASEAN growth will taper down a bit. (5) BJAUT’s 2-wheeler export shipments were lower than retail in the last couple of months to bring the distributors’ inventory down to manageable levels. The shipments and retails will now match, leading to better volumes in Q3FY23E. (6) Pulsar and Dominar’s contribution to the export portfolio reached 21.0% and combined market share at 40.0%, making BJAUT the leader in sports segment across LATAM, ASEAN, and Africa. (7) In the domestic 2-wheelers segment, the easing of supply chains led to building back inventory levels to about 5 weeks, which is adequate for the festive season. By end of September, BJAUT’s retail market share was almost restored to levels before the supply chain disruption. (8) Within the domestic 2-wheelers industry, the entry commuter segment comprising 100cc bikes is declining sharply, while the 125cc+ segment is growing. The 125cc+ segment now contributes about 50.0% of the industry vs. about 42.0%, 2 years ago. For BJAUT, 60.0% of its portfolio in Q2FY23 was of 125cc+ bikes vs. 46.0% in FY20, which is a driver for profitability and competitiveness. (9) The domestic 2-wheeler industry can expect a small single-digit growth in the festive season. BJAUT expects to grow in line with the industry, but expects to beat industry growth in the 125cc+ segment. (10) BJAUT launched dual-channel ABS Pulsar N160 and the CT 125 in Q2FY23. (11) The new Pulsar platform will be further expanded in the coming quarters. (12) The domestic 3-wheeler industry has reached its highest-ever CNG penetration level of 67.0%. Chetak e-scooter volumes increased from 6,200 units in Q1FY23 to almost 10,000 units in Q2FY23. BJAUT expects Q3FY23 performance to be even better. As supply chain visibility increases, BJAUT will work on advancing the network of dealers to about 85 cities by end of FY23E. (13) Over the next 18 months, BJAUT will introduce 3 to 4 products under the Chetak brand. (14) BJAUT does not plan to pass on the lower commodity costs benefit on a blanket basis and will be very selective and pass on the benefit only if a product market segment requires it. BJAUT will focus on driving volume growth and market share improvement. (15) BJAUT closed its buyback program on 10th October 2022. (16) The electric 3-wheeler trials have been extended and are now expected to be completed by end of Q3FY23E, with commercial launch expected by end of FY23E. (17) Capex in H1FY23 was about INR 3,400 mn with FY23E Capex expected at INR 7,500 mn.

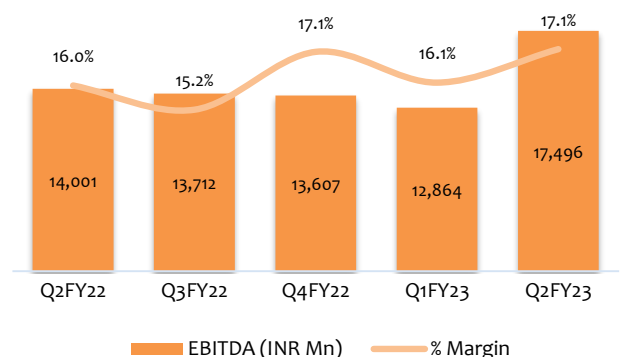
Valuation and view

BJAUT has overcome its supply chain constraints, which is evident in the Q2FY23 domestic wholesale volume recovery QoQ. In 2-wheeler exports, while Africa and LATAM will continue to be challenging due to macro issues, the subsequent quarters are expected to be better than Q2FY23. BJAUT is once again seeing the benefit of its diversified businesses and is delivering good revenue as well as profitability despite pressure in the export market. We expect margins to see further improvement due to the commodity costs softening, FX realizations, and operating leverage. The product mix will continue to fluctuate as the share of exports/ domestic, 2-wheelers/ 3-wheelers, and commuter/ premium bikes vary. We remain positive on BJAUT due to the gradual recovery seen in domestic 2-wheelers and 3-wheelers, recovery in exports over time as the macro issues stabilize, margin tailwinds, and strong financial position. **We assign a P/E multiple of 17.6x (18.0x earlier) on FY24E EPS of INR 254.3 (INR 249.1 earlier) to arrive at a target price of INR 4,483/share (unchanged); implying an upside potential of 23.5% from the CMP. Accordingly, we upgrade our rating to “BUY” from “ACCUMULATE” earlier, on the shares of Bajaj Auto.**

Share of Volume



EBITDA trends over the quarters



Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

Particulars (Mn)	Q2FY23	Q1FY23	Q2FY22	QoQ	YoY	H1FY23	H1FY22	YoY
No. Of. Vehicles Sold	11,51,012	9,33,646	11,44,407	23.3%	0.6%	20,84,658	21,50,421	-3.1%
Net Sales	99,111	77,689	83,858	27.6%	18.2%	1,76,800	1,56,024	13.3%
Other operating income	2,917	2,360	3,764	23.6%	-22.5%	5,277	5,459	-3.3%
Net Operating Income	1,02,027	80,049	87,622	27.5%	16.4%	1,82,076	1,61,482	12.8%
Other income	3,339	3,196	3,183	4.4%	4.9%	6,535	6,476	0.9%
Total revenue	1,05,366	83,246	90,805	26.6%	16.0%	1,88,611	1,67,958	12.3%
Total Expenditure	84,531	67,185	73,621	25.8%	14.8%	1,51,716	1,36,302	11.3%
Cost of raw materials	69,406	54,354	59,262	27.7%	17.1%	1,23,760	1,08,063	14.5%
Purchase of traded goods	4,896	4,684	4,887	4.5%	0.2%	9,579	8,729	9.7%
Change in inventory	560	-1,261	416	-144.4%	34.8%	-701	1,716	-140.8%
COGS	74,862	57,777	64,565	29.6%	15.9%	1,32,639	1,18,508	11.9%
Employee costs	3,598	3,836	3,529	-6.2%	2.0%	7,434	7,152	3.9%
Other expenses	6,108	5,623	5,584	8.6%	9.4%	11,731	10,720	9.4%
Capitalized expenses	-37	-51	-57	-26.1%	-34.6%	-88	-78	12.6%
EBITDA	17,496	12,864	14,001	36.0%	25.0%	30,360	25,181	20.6%
EBITDA Margin (%)	17.1%	16.1%	16.0%	108bps	117bps	16.7%	15.6%	108bps
Depreciation	675	676	657	-0.1%	2.6%	1,350	1,299	3.9%
EBIT	16,822	12,188	13,343	38.0%	26.1%	29,010	23,881	21.5%
EBIT Margin (%)	16.5%	15.2%	15.2%	126bps	126bps	15.9%	14.8%	114bps
Interest	109	43	17	151.6%	542.4%	153	40	282.5%
PBT before share of associates	20,051	15,341	16,510	30.7%	21.4%	35,392	30,318	16.7%
Exceptional items	0	0	-5,012	-100.0%	-100.0%	0	-5,012	-100.0%
Share of profit of associates	1,981	0	2,653	NA	-25.3%	1,981	3,762	-47.3%
Tax	4,838	3,708	3,776	30.5%	28.1%	8,546	6,991	22.2%
PAT	17,194	11,633	20,399	47.8%	-15.7%	28,828	32,101	-10.2%
PAT Margin (%)	16.9%	14.5%	23.3%	232bps	-643bps	15.8%	19.9%	-405bps
EPS (INR)	60.1	40.2	70.5	49.5%	-14.7%	100.2	111.0	-9.7%
Adj. PAT	17,194	11,633	15,386	47.8%	11.8%	28,828	27,088	6.4%
Adj. PAT Margin (%)	16.9%	14.5%	17.6%	232bps	-71bps	15.8%	16.8%	-94bps
Adj. EPS (INR)	60.1	40.2	53.2	49.5%	13.0%	100.2	93.7	7.0%

Source: Company, KRChoksey Research

Note: Share of profit of associates is accounted for on a half-yearly basis in Q2 and Q4.

Bajaj Auto Ltd.

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Sales	2,91,115	2,71,329	3,21,360	3,75,935	4,32,453
Other operating revenue	8,071	6,082	10,087	10,255	10,811
Revenue from operations	2,99,187	2,77,411	3,31,447	3,86,190	4,43,264
Cost of sales	2,10,083	1,96,097	2,43,298	2,80,109	3,17,368
Gross profit	89,104	81,314	88,149	1,06,081	1,25,897
Employee benefit expense	13,908	12,881	13,628	14,685	16,054
Finance cost	32	67	87	213	219
Depreciation	2,464	2,594	2,698	2,681	3,131
Other expenses	24,539	19,309	22,155	24,688	30,495
Capitalized expenses	-300	-123	-133	-168	-160
Total expenses	2,50,726	2,30,824	2,81,732	3,22,207	3,67,107
EBITDA	50,956	49,247	52,499	66,877	79,508
EBIT	48,492	46,653	49,802	64,196	76,376
Share of profit by associates	3,215	3,063	5,795	4,258	4,769
Other income	15,246	12,765	12,841	11,547	11,797
PBT before exp	66,921	62,414	68,352	79,789	92,724
Exceptional items	0	0	-8,165	0	0
PBT	66,921	62,414	76,517	79,789	92,724
Income tax expense	14,802	13,844	14,858	17,877	20,775
Net profit	52,119	48,570	61,659	61,912	71,949
EPS (INR)	180.2	167.8	213.1	218.8	254.3
Adj. Net Profit	52,119	48,570	53,494	61,912	71,949
Adj. EPS	180.3	167.8	184.9	218.8	254.3

Source: Company, KRChoksey Research

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Cash from operations activities	38,504	31,198	41,971	65,271	75,614
Cash from investing activities	15,561	(28,679)	(808)	(12,500)	(12,535)
Cash from financing activities	(62,465)	(195)	(40,563)	(39,689)	(48,110)
Net inc/dec in cash equivalents	(6,324)	2,324	4,134	13,082	14,968
Opening Balance cash	9,156	2,854	5,166	9,336	22,418
End Cash	2,854	5,166	9,336	22,419	37,387

Source: Company, KRChoksey Research

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	17.0%	17.8%	15.8%	17.3%	17.9%
Tax rate (%)	22.1%	22.2%	19.4%	22.4%	22.4%
Net Profit Margin (%)	17.4%	17.5%	18.6%	16.0%	16.2%
RoE (%)	23.2%	19.9%	21.6%	20.0%	21.6%
RoCE (%)	22.4%	17.1%	16.7%	20.0%	22.2%
Current Ratio (x)	1.6x	2.5x	2.2x	2.4x	2.6x
EPS (INR per share)	180.2	167.8	213.1	218.8	254.3
P/E	20.1x	21.6x	17.0x	16.6x	14.3x

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
PPE	16,020	15,680	17,596	22,415	26,819
Capital WIP	465	160	772	772	772
Investment property	539	523	511	511	511
Intangible assets	431	473	253	253	253
Intangible assets under development	137	0	0	0	0
Investments in associate of subsidiary	29,509	32,890	40,638	40,638	40,638
Financial assets	1,42,186	1,34,014	1,76,672	1,76,672	1,76,672
Income tax assets	7,148	7,148	7,492	8,242	9,066
Other non current assets	2,505	3,254	3,522	3,874	4,261
Total non current assets	1,98,940	1,94,141	2,47,456	2,53,376	2,58,992
Inventories	10,635	14,937	12,305	14,167	16,051
Investments	27,798	80,281	49,691	54,691	59,691
Trade receivables	17,251	27,169	15,164	17,668	20,279
Cash and cash eq	2,854	5,166	9,337	22,419	37,387
Other bank balances	309	222	244	244	244
Loans	61	57	42	42	42
Other financial assets	880	2,235	5,963	5,963	5,963
Other current assets	6,372	11,807	10,911	10,911	10,911
Total current assets	66,160	1,41,875	1,03,656	1,26,104	1,50,568
Total Assets	2,65,100	3,36,015	3,51,112	3,79,480	4,09,560
Equity share capital	2,894	2,894	2,894	2,830	2,830
Other equity	2,13,727	2,69,841	2,95,703	3,18,001	3,41,847
Non-controlling interests	0	0	0	0	0
Total Equity	2,16,621	2,72,734	2,98,597	3,20,830	3,44,676
Sales tax deferral	1,256	1,215	1,228	1,228	1,228
Provisions	805	20	13	13	13
DTL	3,464	5,221	4,027	4,228	4,440
Govt grant	413	387	360	360	360
Other non current liabilities	8	5	3	3	3
Total non current liabilities	5,946	6,847	5,631	5,832	6,043
Trade payables	31,998	45,741	36,322	41,817	47,379
Other financial liabilities	5,483	4,074	3,970	4,169	4,377
Other current liabilities	3,289	4,828	4,788	5,027	5,279
Provisions	1,580	1,524	1,538	1,538	1,538
Govt grant	27	25	27	27	27
Current tax liabilities	157	242	242	242	242
Total current liabilities	42,533	56,433	46,885	52,818	58,840
Total Equity & liabilities	2,65,100	3,36,015	3,51,112	3,79,480	4,09,560

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

Bajaj Auto Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
18-Oct-22	3,630	4,483	BUY	Buy	More than 15%
04-Aug-22	4006	4,483	ACCUMULATE	Accumulate	5% – 15%
29-Jul-22	3,858	4,168	ACCUMULATE	Hold	0 – 5%
07-Jun 22	3,818	4,168	ACCUMULATE	Reduce	-5% – 0
24-Jan-22	3,382	4,168	BUY	Sell	Less than – 5%
01-Nov-21	3,707	4,710	BUY		

ANALYST CERTIFICATION:

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