



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 Updated Dec 08, 2022 **16.04**

Low Risk

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

Source: Morningstar

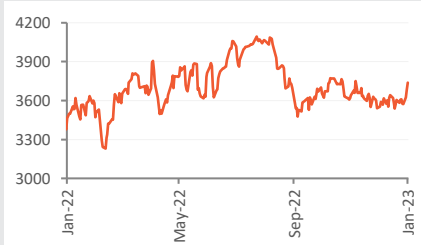
Company details

Market cap:	Rs. 1,08,185 cr
52-week high/low:	Rs. 4,130 / 3,125
NSE volume: (No of shares)	3.38 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	13.0 cr

Shareholding (%)

Promoters	55.0
FII	11.8
DII	11.0
Others	22.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.3	2.3	-6.6	13.0
Relative to Sensex	5.9	1.2	-16.5	11.7

Sharekhan Research, Bloomberg

Bajaj Auto Ltd

Reviving up for an exciting future

Automobiles

Sharekhan code: BAJAJ-AUTO

Reco/View: Buy

↔

CMP: Rs. 3,739

Price Target: Rs. 4,151

↔



Upgrade



Maintain



Downgrade

Summary

- We maintain a Buy on Bajaj Auto Limited (BAL) with an unchanged PT of Rs. 4,151, factoring sustenance of strong operating profitability. The stock is currently trading at P/E of 14.8x FY2025E EPS and 9x FY2025E EV/EBIDTA
- BAL reported better-than-expected operational performance for Q3FY2023, led by higher average sales realizations, improved US Dollar realization 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 remaining concerned about exports in the near term.
- BAL is aiming to expand its EV business and indicating a launch of an electric 3-wheeler in near term.

Despite weakness in the export business, BAL has come out with a decent set of numbers in Q3FY23. Revenue, EBITDA and PAT were surpassed our estimates by 4.1%, 12.8% and 4.9% respectively. With a healthy product mix, higher spare parts revenue, favourable foreign currency movement and 410 bps y-o-y gross margin expansion, EBITDA margin expanded by 390 bps y-o-y to 19.1% (against our estimate of 17.6%). With this operating performance, the reported PAT increased by 22.8% y-o-y. BAL's delivery of strong operating performance in a weak business environment indicates the strength of business model, which makes to believe that there is room for further improvement when macros would turn favourable. The management is expecting that the export volumes would reach to normal levels by May – June 2023, given its largest market Nigeria is expected to go in election season in Feb 2023. Along with its existing product portfolio BAL is planning to launch multiple products in electric vehicle segment in coming quarters. It is planning to introduce electric 3-wheeler in near term. In contrast to new age companies, the company is building its EV plans which can sustain without subsidies. 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. We maintain Buy on the stock with 12-month PT of Rs. 4,151.

Key positives

- Average realization increased by 24.1% y-o-y and 6.9% q-o-q led by better product mix and positive currency movement.
- The benefit of correction in RM cost resulted into healthy operating performance. Gross margin expanded by 410 bps y-o-y (and 280 bps q-o-q) and resulted in 390 bps y-o-y (and 180 bps q-o-q) expansion in EBITDA margin to 19.1%.
- A renewed focus on spare part business has begun delivering dividend as spare part business delivered revenue of Rs 1,100 cr in Q3FY23 and contributed 12% to the topline.

Key negatives

- BAL is facing challenges in export markets due to macro headwinds. The retail sales in the African market are below normal levels, while ASEAN regions continue to perform well.

Management Commentary

- Export volumes are likely to reach normal levels by May – June 2023
- BAL would expand its product portfolio in the electric 2-wheeler space from 2024 onwards and would launch electric three-wheeler in the near term.
- BAL has seen faster recovery in the 3-wheeler space compared to the 3-wheeler industry due to its strong penetration in CNG segment.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 4,151: Though BAL has been facing challenges in the export market but maintaining a leadership position in its key markets. This would accelerate its volume growth when business cycle returns to normal levels. Further it has been strengthening its domestic two-wheeler product portfolio with regular product intervention as it has been enjoying healthy brand equity in above 125 cc segment. Along with the premium two-wheeler segment BAL has been recovering faster in the 3-wheeler segment. 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 products. We believe that BAL's diversified geography mix and strong presence in the domestic premium motorcycle segment allows it to support its operating performance even in weak business scenario. We maintain our BUY rating on the stock and maintained PT at 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 foreign fluctuations can affect the company's profit. Sales of premium bikes will be affected adversely if chips shortage situation aggravates any further.

Valuation (Standalone)

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	6,363	7,315	8,148
OPM (%)	17.8	15.9	17.7	17.7	17.8
Recurring PAT	4,555	4,704	5,592	6,406	7,137
Growth (%)	-10.7	3.3	18.9	14.6	11.4
EPS (Rs)	157	163	197	226	252
PE (x)	23.6	22.9	18.9	16.5	14.8
P/BV (x)	5.2	4.4	3.8	3.5	3.2
EV/EBIDTA (x)	17.9	16.0	12.4	10.4	9.0
RoNW (%)	21.9	19.4	20.4	21.4	21.8
RoCE (%)	23.0	21.2	22.6	23.9	24.4

Source: Company; Sharekhan estimates

Key Highlights of Conference Call

- ♦ **Exports may pick up from May – June:** Diversified geography mix and well-accepted brands have helped BAL in registering strong operating performance in Q3FY23. The export markets are continuing to be challenging. In Q3FY23 few of the African markets have witnessed almost 30% kind of decline in two-wheeler retail sales. African markets are facing macro headwinds led by the unavailability of dollar and global inflationary pressures. BAL is doing well in Philippines market. As per the management retail sales are nearing to bottomed out and steady currently. Despite headwinds BAL has been maintaining its leadership position in its key export markets. The management assumes that the normalcy in its export volumes markets would come on surface after the completion of election (in Feb 2023) in Nigeria. The export volumes are expected to reach normalized levels by May – June 2023. Further the rupee depreciation is helping in registering better realizations. Realization of export stood at Rs.82/USD in 2QFY23 vs 79.75/USD in 2QFY23. 3-wheeler ban in Egypt continues and company is in talk with distribution partners and the Egyptian government to find a mutual way and expect a positive outcome ahead.
- ♦ **Strengthening its position in the domestic market:** With improvement in the semiconductor chips situation, the domestic two-wheeler business is improving. BAL is performing well in the above 125 CC segment led by its strong product portfolio and value propositions. Further the demand for premium product is continuing to be strong. Further, BAL's three-wheeler business recovered faster than the industry and is now commanding 76% market share in 3-wheeler segment.
- ♦ **Strong traction in EV space:** BAL has been steadily expanding its footprint in domestic E2W space. BAL has sold 10,351 units of electric scooter – Chetak in Q3FY23 compared to 9,799 units in Q2FY23. Based on the customer response the management is optimistic on its growth prospects in EV as it has been building up plans to sustain business without subsidies. Further BAL is planning to introduce electric 3 wheelers in coming months.

Other

- ♦ The company has not taken any price hike in Q3FY2023
- ♦ Spare part revenue stood at Rs 1,100 crore in Q3FY2023
- ♦ The commodity cost may go up marginally in Q4FY23 which would be compensated by operating leverage
- ♦ company has introduced Platina110CC with the first-in-segment ABS feature in Dec 2022 and receiving positive customer response from the market

Results (Standalone)

Particulars	Rs cr				
	Q3FY23	Q3FY22	%YoY	Q12FY23	%QoQ
Net Revenue	9,315	9,022	3.3	10,203	(8.7)
EBIDTA	1,777	1,372	29.5	1,759	1.0
Depreciation	74	70	5.9	67	10.4
Interest	8	2	373.7	11	(22.3)
Other Income	269	273	(1.3)	333	(19.2)
PBT	1,964	1,573	24.8	2,014	(2.5)
Tax	472	359	31.5	484	(2.5)
Reported PAT	1,491	1,214	22.8	1,530	(2.5)
Adjusted PAT	1,491	1,214	22.8	1,530	(2.5)
EPS	52.6	42.8	22.8	53.9	(2.5)

Source: Company, Sharekhan Research

Key ratios (Standalone)

Particulars	Q3FY23	Q3FY22	%YoY	Q12FY23	%QoQ
Gross margin (%)	29.4	25.3	410	26.6	280
EBIDTA margin (%)	19.1	15.2	390	17.2	180
EBIT margin (%)	18.3	14.4	380	16.6	170
Net profit margin (%)	16.0	13.5	260	15.0	100
Effective tax rate (%)	24.0	22.8	120	24.0	0

Source: Company, Sharekhan Research

Volume analysis

(Rs. /vehicle)

Particulars	Q3FY23	Q3FY22	%YoY	Q12FY23	%QoQ
Volumes (Units)	9,83,276	11,81,361	(16.8)	11,51,012	(14.6)
Average Realisation	94,736	76,367	24.1	88,642	6.9
RMC/Vehicle	66,894	57,080	17.2	65,039	2.9
EBITDA/vehicle	18,070	11,615	55.6	15,280	18.3
PAT/Vehicle	15,168	10,278	47.6	13,293	14.1

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.

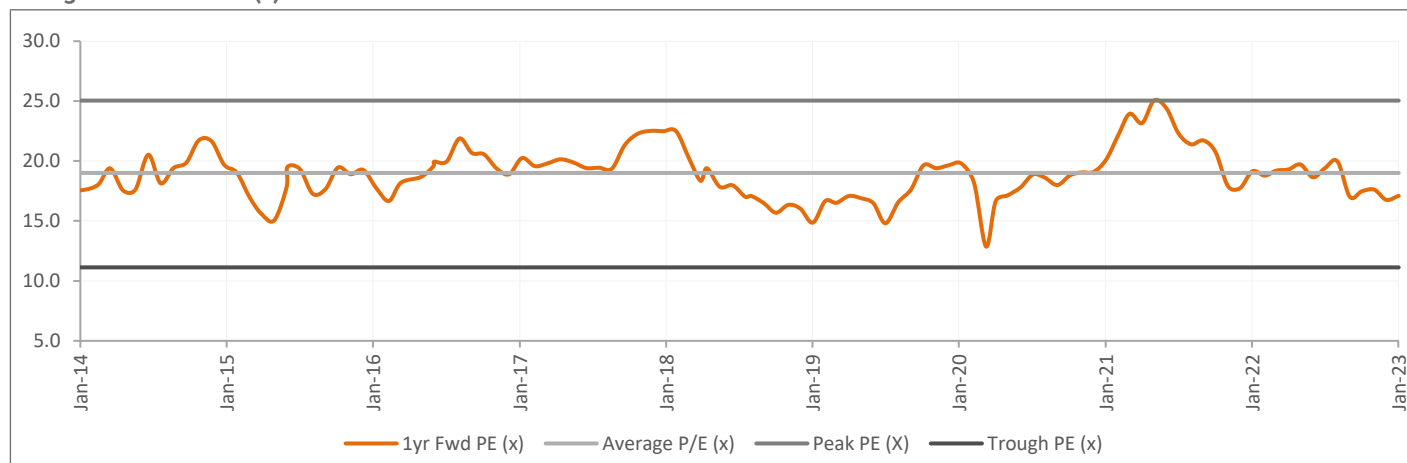
■ Company Outlook – Strong earnings growth; Upgrade earnings estimates

BAL is India's second-largest motorcycle player, with a market share of about 17%. The company is the market leader in the premium motorcycle segment (125-200 cc). 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. 14,894 crore with strong return ratios. BAL has healthy dividend pay-out 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 an unchanged PT of Rs. 4,151

Though BAL has been facing challenges in the export market but maintaining leadership position in its key markets. This would accelerate its volumes growth when business cycle returns to normal levels. Further it has been strengthening its domestic two-wheeler product portfolio with regular product intervention as it has been enjoying healthy brand equity in above 125 cc segment. Along with premium two-wheeler segment BAL has been recovering faster in the 3-wheeler segment. 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 products. We believe that BAL's diversified geography mix and strong presence in domestic premium motorcycle segment allows it to support its operating performance even in weak business scenario. We maintain our BUY rating on the stock and maintained PT at 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	3,717	22.9	18.9	16.5	16.0	12.4	10.4	21.2	22.6	23.9
Hero MotoCorp	2,785	22.5	18.3	14.7	14.0	10.4	7.9	20.1	21.1	22.0
TVS Motor	1,037	53.3	32.9	24.9	25.5	17.8	13.8	21.3	28.1	30.6
Eicher Motor	3,221	52.4	30.9	23.8	40.1	25.2	20.8	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 the 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 17%. 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. Besides premium motorcycles, BAL is also the leader in the 3W segment. During normal times - 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. The company generates more than 85% of its export revenue from geographies where BAL is either a No. 1 or 2 player. Export growth is organic and will continue to be a long-term driver for BAL. We remain positive about 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
Dinesh Thapar	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	5.1
4	Jaya Hind Industries Ltd	3.4
5	Maharashtra Scooters Ltd	2.4
6	Bajaj Sevashram Pvt Ltd	1.5
7	Bachhraj & Co Pvt Ltd	1.3
8	SBI Funds	1.1
9	HDFC Pension Mgmt	1.0
10	Blackrock	1.0

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 deteriorating 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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.