

Bajaj Auto Ltd.



Bajaj Auto Ltd.

Strong topline and margin performance despite challenging exports market

CMP INR 3,941	Target INR 4,564	Potential Upside 17.9%	Market Cap (INR Mn) 11,15,135	Recommendation BUY	Sector Automobile
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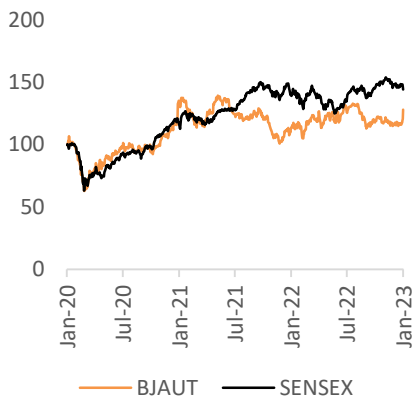
Result highlights

- For Q3FY23, Bajaj Auto reported net operating income of INR 93,185 mn (+3.3% YoY/ -8.7% YoY). Total vehicles sold during the quarter were 9,83,276 units (-16.8% YoY/ -14.6% QoQ). For 9MFY23, net operating income was at INR 2,75,262 mn (+9.4% YoY). Total vehicles sold for 9MFY23 declined by 7.9% YoY to 30,67,934 units.
- EBITDA for the quarter improved by 28.2% YoY/ 0.4% QoQ to INR 17,573 mn. This is the highest-ever EBITDA for Bajaj Auto, aided by judicious pricing, better FX realization and richer product mix. EBITDA margin improved by 366 bps YoY/ 171 bps QoQ to 18.9%. For 9MFY23, EBITDA and EBITDA margin improved by 23.2% YoY and 196 bps YoY, respectively.
- PBT before share of associates was at INR 19,445 mn (+18.1% YoY/ -3.0% QoQ) in Q3FY23 and INR 54,838 mn (+17.2% YoY) in 9MFY23.

MARKET DATA

Shares O/S (Mn)	283
Mkt Cap (INR Mn)	11,15,135
52 Wk H/L (INR)	4,132/ 3,125
Volume Avg (3m K)	276
Face Value (INR)	10
Bloomberg Code	BJAUT IN

SHARE PRICE PERFORMANCE



KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,77,411	3,31,447	3,75,006	4,32,595	4,70,865
EBITDA	49,247	52,499	66,861	79,710	86,640
PAT	48,570	61,659	61,618	71,687	77,130
EPS (INR)	167.8	213.1	217.8	253.3	272.6
EBITDA Margin	17.8%	15.8%	17.8%	18.4%	18.4%
NPM	17.5%	18.6%	16.4%	16.6%	16.4%

Source: Company, KRChoksey Research

Domestic revenue growth offset drop in exports: For Q3FY23, Bajaj Auto reported net operating income of INR 93,185 mn (+3.3% YoY/ -8.7% QoQ). Total vehicles sold during the quarter were 9,83,276 units (-16.8% YoY/ -14.6% QoQ). Double-digit revenue growth in the domestic business offset a drop in exports. Spares revenue came in at an all-time high. The average calculated realization for the quarter improved by 23.5% YoY/ 6.9% QoQ. Revenue improvement was led by a better USDINR rate (81.7 in Q3FY23 vs 75.1 in Q3FY22 and 79.8 for Q2FY23), price hikes (5.0% YoY, flattish QoQ), and a richer mix through higher domestic 3-wheelers, sports segment, and a lower mix of domestic and exports entry-level bikes. In the domestic 2-wheelers segment, BJAUT has continued to focus on profitable growth, driving market share, and enriching the product mix. Export markets continued to face significant headwinds and industry retails in South Asian, Latam, and Africa declined by 30.0% YoY. ASEAN was an exception and has seen double-digit volume growth YoY due to pent-up demand.

Highest-ever EBITDA for 2nd consecutive quarter: EBITDA for the quarter improved by 28.2% YoY/ 0.4% QoQ to INR 17,573 mn. This is the highest-ever EBITDA for Bajaj Auto, aided by judicious pricing, better FX realization and richer product mix. EBITDA margin improved by 366 bps YoY/ 171 bps QoQ to 18.9%. The all-time high EBITDA was despite the challenging situation in export market. Commodity costs across the basket including steel, aluminium, and noble metals softened in Q3FY23. Rubber and plastics saw marginal inflation while conversion costs remained tight due to utilities and energy costs. Almost 70% of QoQ margin improvement was on account of softening of input costs.

Exports to remain soft in the immediate term: Retails in export markets should improve going ahead as consumers adjust to the new pricing. Nigeria, which is the largest export market for BJAUT is expected to remain depressed and volatile till elections get over in Feb-23 and a peaceful transition of the government takes place. The overall export market should see some normalcy returning from May/ Jun-23, with Latam expected to improve first followed by Africa. Post this, BJAUT will start building back inventory and expects to see the benefit of pent-up demand.

MARKET INFO

SENSEX	59,331
NIFTY	17,604

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Jun-22	Mar-22
Promoters	55.0	53.8	53.8
FIIIs	11.8	11.2	10.5
DIIIs	11.0	12.4	13.2
Others	22.2	22.7	22.6
Total	100.0	100	100

12.4%

Revenue CAGR between FY22 and FY25E

18.2%

EBITDA CAGR between FY22 and FY25E

Bajaj Auto Ltd.

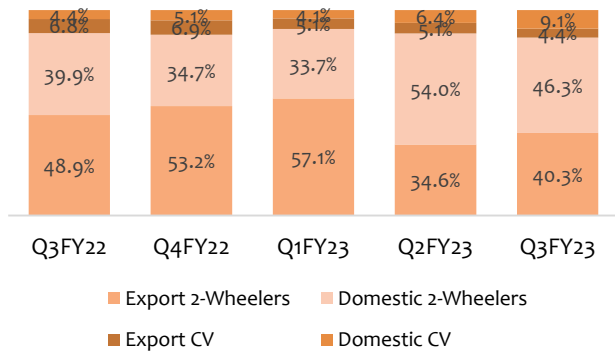
Key Concall Highlights:

(1) Demand in Emerging markets has been depressed due to devaluation-led price increases, erosion of purchasing power due to overall inflation, and lower availability of FX. Retail sales in the last 3 months have started bottoming out, however operating environment still remains challenging. (2) While facing issues in the export markets, BJAUT’s focus has remained on expanding its competitive position by continuing with new product launches and minimizing the FX volatility exposure of channel partners. BJAUT’s market share in key territories has remained strong. (3) ASEAN market continues to do well and BJAUT continues to improve its market share led by the Philippines. (4) BJAUT launched the Dominar brand in Brazil in Q3FY23 and has seen a good consumer response. (5) Domestic motorcycle industry retails have grown by 14.0% YoY in Q3FY23. Sanitizing for the base effect, the industry is growing by ~3.0% to 5.0% YoY and should continue at these levels. Growth is led by the 125cc+ segment, which has seen retail industry growth of 28.0% YoY in Q3FY23. (5) Entry-level motorcycles in the domestic market continue to be impacted due to lower rural demand. (6) In the domestic market, BJAUT has launched new products in all 3 months of Q3FY23. In Oct-22, BJAUT launched the carbon fibre addition of Pulsar 125. 85% of orders within 125cc now come from this model and it has improved ASPs and margins for BJAUT. In Nov-22, BJAUT launched the new Pulsar 150 which now accounts for 15.0% of this segment. The Pulsar 150 along with the Pulsar N160 are growing the segment rapidly and improving market share. In Dec-22, BJAUT launched the Platina 110 cc with the first in-segment ABS feature. (6) 125cc+ segment now accounts for 66.0% of total sales for BJAUT. BJAUT has 20 models in the segment vs. 13 for the nearest competitor. BJAUT is well-positioned to continue to grow faster than the market in this high-growth segment. (7) In the domestic 3-wheeler segment, the industry has recovered to ~75.0% of pre-covid levels while BJAUT is almost at pre-covid levels. (8) BJAUT’s performance in the 3-wheeler segment was driven by the performance of products in the expanding CNG segment. Almost 45.0% of India is now covered by CNG pumps with 65.0% of 3-wheelers now driven by CNG. Market share of BJAUT in CNG is 86.0% and BJAUT’s portfolio comprises 72.0% of CNG vehicles. (8) ASP of CNG 3-wheelers is 15.0% higher than petrol, and even better for margins. (9) BJAUT expects to launch electric 3-wheelers in select markets by end of FY23E. (10) Chetak e-scooter sales crossed 10,000 vehicles mark in Q3FY23. With clarity on supply chain, BJAUT has launched an expansion drive in new cities. BJAUT plans to set up independent Chetak stores to offer a differentiated customer experience. (11) BJAUT had the highest-ever spares revenue in Q3FY23 and expects to maintain the growth trajectory. (12) Commodity prices are expected to flattish to slightly inflated QoQ in Q4FY23E as prices of aluminium, nickel, and copper have seen some uptick. (13) BJAUT will commence supply of vehicles designed and manufactured by it to Yulu in Q4FY23E. (14) BJAUT thinks that its partnership with Triumph has a bigger scale of opportunity than the successful partnership with KTM. The products are under testing currently.

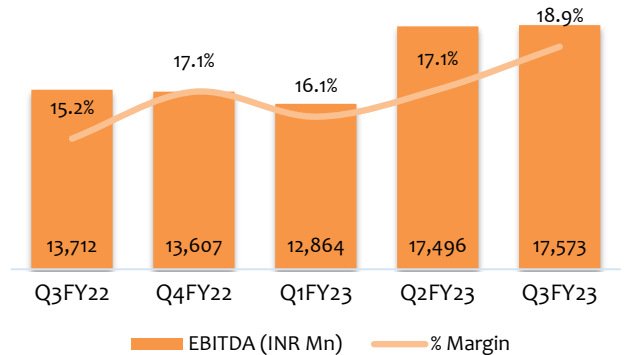
Valuation and view

BJAUT’s financial performance has been resilient despite the significant volume drop in the export market, bringing to light once again the benefit of its diversified business operations. BJAUT has continued to maintain its strong market position in the export market, which will benefit the company once the macro issues start subsiding after continuing to be depressed in the near term. In the domestic 2-wheelers segment, BJAUT’s strong presence in the high growth 125cc+ segment will lead to topline growth as well as improving product mix. Improving trajectory in the domestic 3-wheelers segment will also aid product mix. However, as entry-level 2-wheelers demand starts to come back, it could deteriorate the product mix. EBITDA margins could remain largely stable as the benefit of commodity costs softening is behind us and better scale of operations can be set off by variations in product mix. Our FY23E/ FY24E numbers remain broadly unchanged and we introduce FY25E estimates. We expect Revenue/ EBITDA/ PAT go grow by 12.4%/ 18.2%/ 7.8% CAGR between FY22 to FY25E. **We assign a P/E multiple of 16.7x on FY25E EPS of INR 273.3 to arrive at a target price of INR 4,564/share (INR 4,483/share previously); implying an upside potential of 15.8% from the CMP. Accordingly, we maintain our “BUY” rating on the shares of Bajaj Auto.**

Share of Volume



EBITDA margins improve QoQ



Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

Particulars (Mn)	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY	9MFY23	9MFY22	YoY
No. Of. Vehicles Sold	9,83,276	11,51,012	11,81,361	-14.6%	-16.8%	30,67,934	33,31,782	-7.9%
Net Sales	90,506	99,111	88,055	-8.7%	2.8%	2,67,305	2,44,079	9.5%
Other operating income	2,680	2,917	2,162	-8.1%	24.0%	7,956	7,620	4.4%
Net Operating Income	93,185	1,02,027	90,217	-8.7%	3.3%	2,75,262	2,51,699	9.4%
Other income	2,705	3,339	3,477	-19.0%	-22.2%	9,240	9,953	-7.2%
Total revenue	95,891	1,05,366	93,693	-9.0%	2.3%	2,84,502	2,61,652	8.7%
Total Expenditure	75,613	84,531	76,505	-10.6%	-1.2%	2,27,328	2,12,806	6.8%
Cost of raw materials	58,295	69,406	60,370	-16.0%	-3.4%	1,82,055	1,68,432	8.1%
Purchase of traded goods	5,676	4,896	5,407	16.0%	5.0%	15,256	14,137	7.9%
Change in inventory	1,931	560	1,656	244.7%	16.6%	1,230	3,372	-63.5%
COGS	65,903	74,862	67,433	-12.0%	-2.3%	1,98,541	1,85,941	6.8%
Employee costs	3,616	3,598	3,408	0.5%	6.1%	11,050	10,560	4.6%
Other expenses	6,160	6,108	5,696	0.9%	8.2%	17,891	16,416	9.0%
Capitalized expenses	-66	-37	-32	76.7%	106.6%	-154	-110	39.9%
EBITDA	17,573	17,496	13,712	0.4%	28.2%	47,933	38,893	23.2%
EBITDA Margin (%)	18.9%	17.1%	15.2%	171bps	366bps	17.4%	15.5%	196bps
Depreciation	748	675	700	10.9%	6.9%	2,099	1,999	5.0%
EBIT	16,825	16,822	13,012	0.0%	29.3%	45,835	36,894	24.2%
EBIT Margin (%)	18.1%	16.5%	14.4%	157bps	363bps	16.7%	14.7%	199bps
Interest	85	109	18	-22.3%	373.7%	237	58	310.7%
PBT before share of associates	19,445	20,051	16,471	-3.0%	18.1%	54,838	46,789	17.2%
Exceptional items	0	0	0	NA	NA	0	-5,012	-100.0%
Share of profit of associates	0	1,981	1,413	-100.0%	-100.0%	1,981	5,175	-61.7%
Tax	4,718	4,838	3,586	-2.5%	31.6%	13,264	10,578	25.4%
PAT	14,727	17,194	14,297	-14.4%	3.0%	43,555	46,398	-6.1%
PAT Margin (%)	15.8%	16.9%	15.8%	-105bps	-4bps	15.8%	18.4%	-261bps
EPS (INR)	52.0	60.1	49.4	-13.4%	5.3%	152.3	160.3	-5.0%
Adj. PAT	14,727	17,194	14,297	-14.4%	3.0%	43,555	41,386	5.2%
Adj. PAT Margin (%)	15.8%	16.9%	15.8%	-105bps	-4bps	15.8%	16.4%	-62bps
Adj. EPS (INR)	52.0	60.1	49.4	-13.4%	5.3%	152.3	143.0	6.5%

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	FY21	FY22	FY23E	FY24E	FY25E
Sales	2,71,329	3,21,360	3,64,144	4,19,995	4,57,150
Other operating revenue	6,082	10,087	10,861	12,600	13,715
Revenue from operations	2,77,411	3,31,447	3,75,006	4,32,595	4,70,865
Cost of sales	1,96,097	2,43,298	2,69,423	3,07,575	3,34,785
Gross profit	81,314	88,149	1,05,582	1,25,020	1,36,080
Employee benefit expense	12,881	13,628	14,541	15,693	17,179
Finance cost	67	87	292	219	230
Depreciation	2,594	2,698	2,860	3,131	3,572
Other expenses	19,309	22,155	24,375	29,777	32,421
Capitalized expenses	-123	-133	-194	-160	-160
Total expenses	2,30,824	2,81,732	3,11,297	3,56,235	3,88,027
EBITDA	49,247	52,499	66,861	79,710	86,640
EBIT	46,653	49,802	64,001	76,579	83,068
Share of profit by associates	3,063	5,795	4,258	4,888	5,475
Other income	12,765	12,841	12,009	11,797	12,047
PBT before exp	62,414	68,352	79,977	93,046	1,00,360
Exceptional items	0	-8,165	0	0	0
PBT	62,414	76,517	79,977	93,046	1,00,360
Income tax expense	13,844	14,858	18,359	21,359	23,038
Net profit	48,570	61,659	61,618	71,687	77,322
EPS (INR)	167.8	213.1	217.8	253.3	273
Adj. Net Profit	48,570	53,494	61,618	71,687	77,322
Adj. EPS	167.8	184.9	217.8	253.3	273.3

Source: Company, KRChoksey Research

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash from operations activities	31,198	41,971	64,692	75,417	81,210
Cash from investing activities	(28,679)	(808)	-12,500	-12,354	-13,005
Cash from financing activities	(195)	(40,563)	-39,769	-48,110	-48,394
Net inc/dec in cash equivalents	2,324	4,134	12,424	14,952	19,812
Opening Balance cash	2,854	5,166	9,336	21,761	36,713
End Cash	5,166	9,336	21,761	36,713	56,525

Source: Company, KRChoksey Research

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	17.8%	15.8%	17.8%	18.4%	18.4%
Tax rate (%)	22.2%	19.4%	23.0%	23.0%	23.0%
Net Profit Margin (%)	17.5%	18.6%	16.4%	16.6%	16.4%
RoE (%)	19.9%	21.6%	19.9%	21.6%	21.6%
RoCE (%)	17.1%	16.7%	20.0%	22.3%	22.3%
Current Ratio (x)	2.5x	2.2x	2.4x	2.6x	2.9x
EPS (INR per share)	167.8	213.1	217.8	253.3	273.3
P/E	23.5x	18.5x	18.1x	15.6x	14.4x

Source: Company, KRChoksey Research

Bajaj Auto Ltd.

KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
PPE	15,680	17,596	22,236	26,459	30,891
Capital WIP	160	772	772	772	772
Investment property	523	511	511	511	511
Intangible assets	473	253	253	253	253
Investments in associate of subsidiary	32,890	40,638	40,638	40,638	40,638
Financial assets	1,34,014	1,76,672	1,76,672	1,76,672	1,76,672
Income tax assets	7,148	7,492	8,242	9,066	9,972
Other non current assets	3,254	3,522	3,874	4,261	4,687
Total non current assets	1,94,141	2,47,456	2,53,197	2,58,632	2,64,397
Inventories	14,937	12,305	13,626	15,556	16,932
Investments	80,281	49,691	54,691	59,691	64,691
Trade receivables	27,169	15,164	17,157	19,791	21,542
Cash and cash eq	5,166	9,337	21,761	36,713	56,525
Other bank balances	222	244	244	244	244
Loans	57	42	42	42	42
Other financial assets	2,235	5,963	5,963	5,963	5,963
Other current assets	11,807	10,911	10,911	10,911	10,911
Total current assets	1,41,875	1,03,656	1,24,394	1,48,911	1,76,849
Total Assets	3,36,015	3,51,112	3,77,591	4,07,542	4,41,246
Equity share capital	2,894	2,894	2,830	2,830	2,830
Other equity	2,69,841	2,95,703	3,17,707	3,41,291	3,70,228
Total Equity	2,72,734	2,98,597	3,20,536	3,44,121	3,73,057
Sales tax deferral	1,215	1,228	1,228	1,228	1,228
Provisions	20	13	13	13	13
DTL	5,221	4,027	4,228	4,440	4,662
Govt grant	387	360	360	360	360
Other non current liabilities	5	3	3	3	3
Total non current liabilities	6,847	5,631	5,832	6,043	6,265
Trade payables	45,741	36,322	40,222	45,917	49,979
Other financial liabilities	4,074	3,970	4,169	4,377	4,596
Other current liabilities	4,828	4,788	5,027	5,279	5,543
Provisions	1,524	1,538	1,538	1,538	1,538
Govt grant	25	27	27	27	27
Current tax liabilities	242	242	242	242	242
Total current liabilities	56,433	46,885	51,223	57,378	61,923
Total Equity & liabilities	3,36,015	3,51,112	3,77,591	4,07,542	4,41,246

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
30-Jan-23	3,941	4,564	BUY	Buy	More than 15%
17-Oct-22	3,630	4,483	BUY	Accumulate	5% – 15%
04-Aug-22	4006	4,483	ACCUMULATE	Hold	0 – 5%
29-Jul-22	3,858	4,168	ACCUMULATE	Reduce	-5% – 0
07-Jun 22	3,818	4,168	ACCUMULATE	Sell	Less than – 5%
24-Jan-22	3,382	4,168	BUY		

ANALYST CERTIFICATION:

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