

Bajaj Auto

BSE SENSEX

60,224

S&P CNX

17,711

CMP: INR3,724

TP: INR4150(+11%)

Neutral



Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	1077.6 / 13.2
52-Week Range (INR)	4130 / 3126
1, 6, 12 Rel. Per (%)	-3/-6/6
12M Avg Val (INR M)	1595
Free float (%)	45.0

Financials Snapshot (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	372	414	452
EBITDA	66.6	77.7	84.5
EBITDA (%)	17.9	18.7	18.7
Adj. PAT	60.3	68.2	75.4
EPS (INR)	213	241	266
EPS Gr. (%)	16.0	13.2	10.5
BV/Sh. (INR)	856	884	918

Ratios

RoE (%)	23.7	27.7	29.6
RoCE (%)	22.1	25.4	26.2
Payout (%)	88.8	87.9	78.8

Valuation

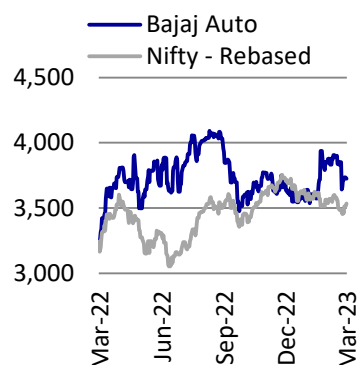
P/E (x)	17.5	15.4	14.0
P/BV (x)	4.3	4.2	4.1
Div. Yield (%)	4.8	5.4	5.6
FCF Yield (%)	3.8	4.9	5.4

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	55.0	54.8	53.7
DII	11.0	11.6	13.2
FII	11.8	11.6	10.2
Others	22.2	22.0	22.8

FII Includes depository receipts

Stock Performance (1-year)



EV foray primed for scale up

Exports to remain weak with recovery likely from 2QFY24

We met with the management of Bajaj Auto (BJAUT) to receive updates on its existing businesses, new growth drivers, and EV plans. While export volumes are bottoming out and likely to recover only from 2QFY24E, its entry in Brazil and the upcoming Triumph launch are the new growth drivers. BJAUT's EV plans are gathering momentum with the recent launch of low-speed 2Ws under Yulu brand as well as the upcoming e-3W launches. However, the management cautioned on commodity cost inflation that is gaining in strength from the lows of 3QFY23.

Exports are largely stable at lower levels

The management expects exports to remain stable over the next few months at lower levels of Jan'23. Its key market (Nigeria) is having multiple headwinds in the form of elections, FX unavailability and recent demonetization. LatAm, which was looking good until 3QFY23, has shown some signs of softening of late. All the markets have seen inventory correction and the inventory levels are now in sync with current levels of retails. The company forecasts a couple of quarters of weakness before recovery begins from 2QFY24 onwards.

Brazil – a huge untapped opportunity

BJAUT recently entered this market, which is a sports market dominated by Japanese players (concentrated market share at 75-80% with Honda and 15-16% with Yamaha). Brazil is 10% of India's motorcycle volumes, but 33% of value. BJAUT has set up a marketing company and will have local assembly through local partners.

Egypt ban hurting market share

BJAUT's volumes are down 35-40% from the peak level. India's 3W export market share loss has largely been led by the ban on 3W in Egypt (8-10k units/ month for BJAUT) where BJAUT had a quasi-monopoly. The management is in active discussion with the government through its local distributor. It is offering alternates in the form of CNG/Quite quadricycle. Recently, there were transitory issues in Iraq due to GSO standard.

Focusing on >125cc in the domestic motorcycle market

In domestic motorcycle, BJAUT is very well positioned in the 125-200cc segment. In the festive season, the company grew 2.5x of the market in this segment. The new Pulsar platform should further fortify its positioning in this segment; the platform is currently serving the 150cc and 160cc segments and would be extended to all Pulsar segments over the next 12 months. The supply-side issues, which hit its market share, are largely behind now.

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Triumph launch nearing, factory ready

Triumph launch will happen soon and FY24 would see the full benefit of this launch. The new factory (focused on KTM and Triumph) is getting commissioned at Chakan. Management aspires to have at least similar market share in this segment as it has in the domestic motorcycle market (17-18%). Triumph will be launched globally through the Triumph network, except some markets where BJAUT has stronger presence.

e-2Ws primed for ramp-up

Chetak is primed for ramp-up in FY24E and BJAUT expects this to reflect in the next couple of months. The company plans to extend its range of products in FY24E in both 2Ws and 3Ws. It has very recently launched two products under Yulu brand in the low-speed segments, targeting B2B and personal categories. These products are developed and will be manufactured by BJAUT, and marketed by Yulu. Over a period, Yulu will pivot towards B2B and goods. The e-3W launch would happen in a couple of months (instead of Mar'23 stated earlier).

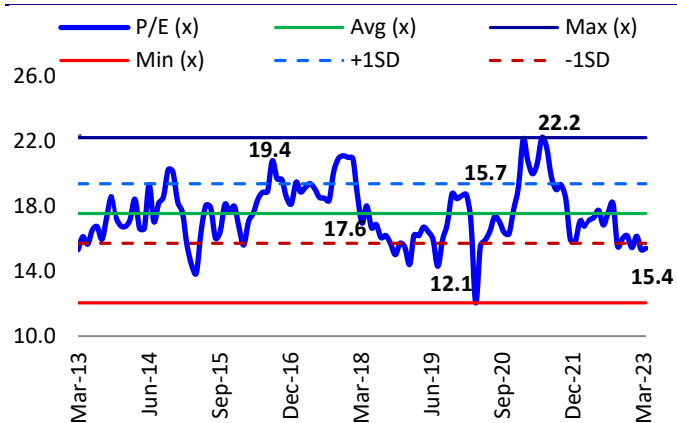
Commodity cost mounting

An EBITDA margin has several moving parts, especially as commodity prices have started moving up after bottoming out in 3QFY23. While there are tailwinds of FX and operating leverage, mix could normalize if Africa recovers. Additionally, there could be tailwinds from Brazil and the Triumph launch.

Valuation and view

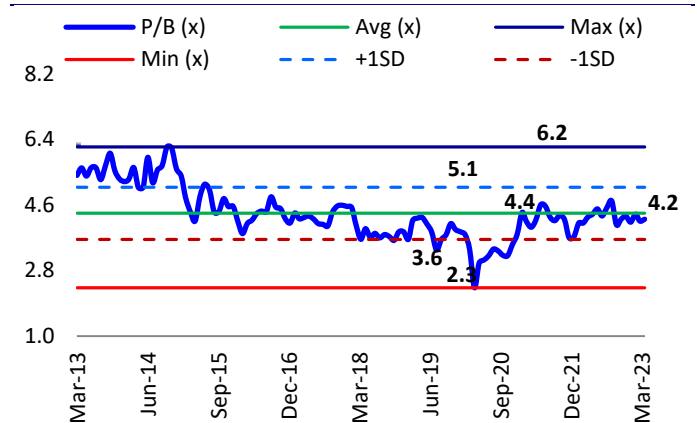
Both domestic and export volumes are likely to recover from the low base in FY24 and beyond, driving healthy earnings recovery. We expect BJAUT to benefit from market share gains over the long term, fueled by: 1) the premiumization trend, 2) the opportunity in exports, and 3) the potential sizeable position in the Scooter market via EVs. However, a large part of its India profit pool (of premium motorcycle and 3Ws) is vulnerable to the possible disruption from electrification. At 15.4x/14x FY24E/FY25E consolidated EPS, the stock's valuation fairly reflects the expected recovery as well as the risk from EVs. BJAUT's dividend yield of 5.0-5.5% should support the stock. We reiterate our **Neutral** rating with a TP of INR4,150 (premised on 16x Dec-24E consolidated EPS).

Exhibit 1: P/E band



Source: MOFSL

Exhibit 2: P/BV band



Source: MOFSL

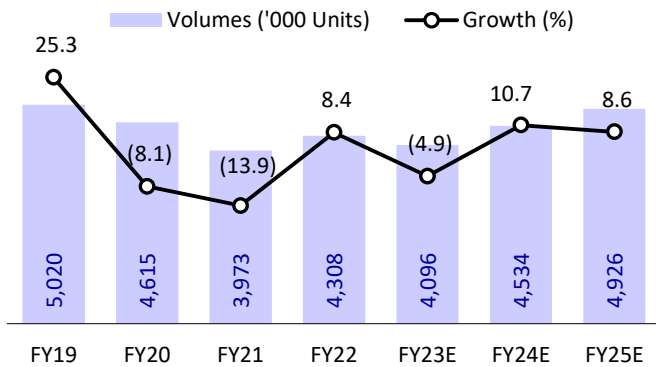
Exhibit 3: Key operating metrics

000 units	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Motorcycles (units)							
Domestic	2,541	2,078	1,809	1,641	1,854	2,003	2,143
Growth (%)	28.7	-18.2	-12.9	-9.3	13.0	8.0	7.0
% of total volumes	50.6	45.0	45.5	38.1	45.3	44.2	43.5
Exports	1,696	1,869	1,797	2,196	1,757	1,932	2,087
Growth (%)	21.6	10.2	-3.9	22.2	-20.0	10.0	8.0
% of total volumes	33.8	40.5	45.2	51.0	42.9	42.6	42.4
Total M/Cycles	4,237	3,948	3,606	3,837	3,611	3,935	4,230
Growth (%)	25.7	-6.8	-8.7	6.4	-5.9	9.0	7.5
% of total volumes	84.4	85.5	90.8	89.1	88.2	86.8	85.9
3Ws							
Domestic	399	366	109	161	286	320	340
Growth (%)	8.1	-8.4	-70.1	47.1	78.0	12.0	6.0
% of total volumes	8.0	7.9	2.8	3.7	7.0	7.1	6.9
Exports	383	302	258	311	199	219	236
Growth (%)	43.1	-21.2	-14.6	20.6	-36.0	10.0	8.0
% of total volumes	7.6	6.5	6.5	7.2	4.9	4.8	4.8
3Ws	783	668	367	472	485	539	576
Growth (%)	22.8	-14.7	-45.0	28.5	2.9	11.2	6.8
% of total volumes	15.6	14.5	9.2	10.9	11.8	11.9	11.7
Total Volumes	5,020	4,615	3,973	4,308	4,096	4,534	4,926
Growth (%)	25.3	-8.1	-13.9	8.4	-4.9	10.7	8.6
Avg. Net Realn (INR/unit)	52,928	56,462	60,588	65,467	78,042	78,790	79,075
Growth (%)	-5.1	6.7	7.3	8.1	19.2	1.0	0.4
Net Revenue (INR B)	296	291	271	321	363	405	442
Growth (%)	19.7	-1.5	-6.8	18.4	13.0	11.5	9.1
EBITDA (INR B)	52	51	49	51	67	78	85
EBITDA margins (%)	17.1	17.0	17.8	15.5	17.9	18.7	18.7
EBITDA (INR/Unit)	10,345	11,042	12,405	11,877	16,266	17,128	17,156
Growth (%)	7.3	-1.9	-3.3	3.8	30.2	16.6	8.8
Consol. PAT (INR B)	47	52	49	53	60	68	75
Consol. EPS	162	180	168	184	213	241	266

Source: Company, MOFSL

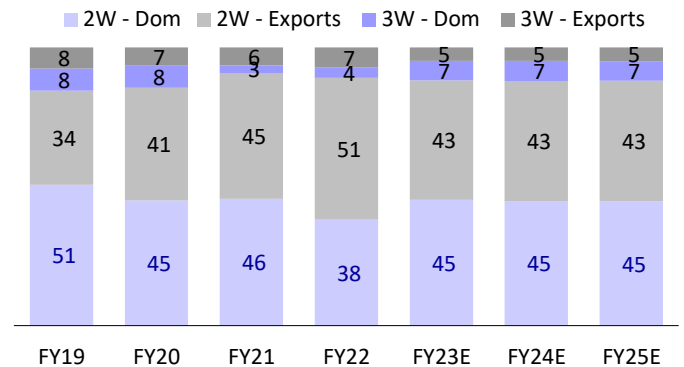
Stories in charts

Exhibit 1: Trends in volume and volume growth



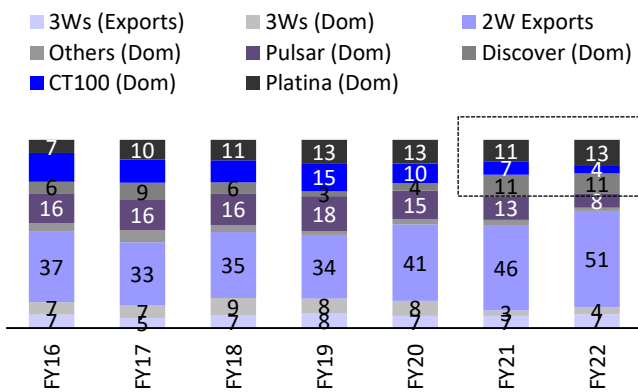
Sources: Company reports, MOFSL estimates

Exhibit 2: Product mix trend



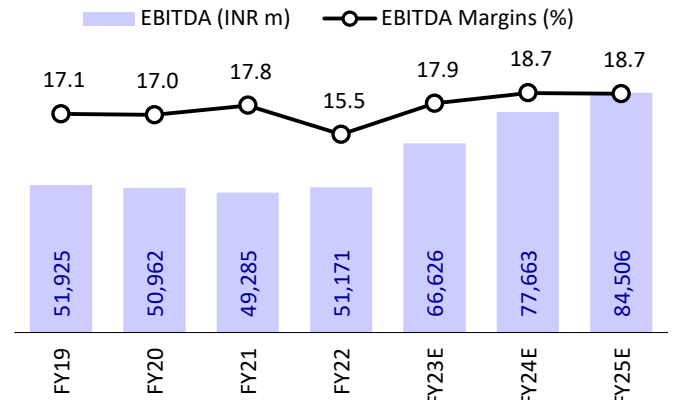
Sources: Company reports, MOFSL estimates

Exhibit 3: Trend in volume mix



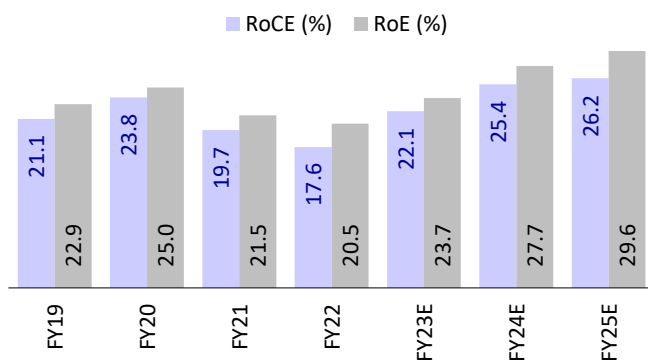
Sources: Company reports, MOFSL

Exhibit 4: EBITDA and EBITDA margin trends



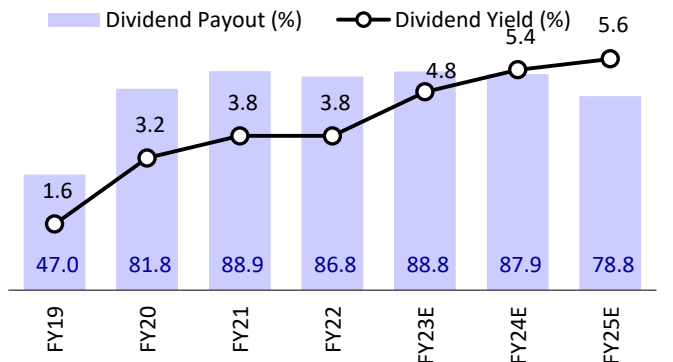
Sources: Company reports, MOFSL

Exhibit 5: Trend in return ratios



Sources: Company reports, MOFSL estimates

Exhibit 6: Dividend payout to remain healthy



Sources: Company reports, MOFSL estimates

Financials and valuations

Income Statement							(INR M)
Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
Volumes	50,19,503	46,15,212	39,72,914	43,08,433	40,96,076	45,34,317	49,25,826
Change (%)	25.3	-8.1	-13.9	8.4	-4.9	10.7	8.6
Net Sales	3,03,576	2,99,187	2,77,411	3,30,032	3,71,527	4,14,282	4,52,139
Change (%)	20.4	-1.4	-7.3	19.0	12.6	11.5	9.1
Total Expenditure	2,51,651	2,48,224	2,28,126	2,78,861	3,04,901	3,36,619	3,67,634
EBITDA	51,925	50,962	49,285	51,171	66,626	77,663	84,506
Change (%)	7.3	-1.9	-3.3	3.8	30.2	16.6	8.8
EBITDA Margins (%)	17.1	17.0	17.8	15.5	17.9	18.7	18.7
Depreciation	2,657	2,464	2,593	2,692	2,828	3,231	3,567
EBIT	49,268	48,498	46,692	48,480	63,798	74,432	80,939
Int. & Fin. Charges	45	32	67	87	325	300	300
Other Income	14,389	17,336	12,765	12,092	12,010	11,200	10,836
Non-recurring Exp.	-3,420	0	0	-4,568	0	0	0
PBT	67,032	65,802	59,390	65,054	75,484	85,332	91,475
Tax	20,280	14,802	13,844	14,865	18,157	20,921	22,488
Effective Rate (%)	30.3	22.5	23.3	22.8	24.1	24.5	24.6
PAT	46,752	51,000	45,546	50,189	57,326	64,411	68,987
Change (%)	14.9	9.1	-10.7	10.2	14.2	12.4	7.1
Share in profit of ass. & others	2,524	1,119	3,024	11,469	2,936	3,795	6,375
Adj. Consol PAT	46,891	52,119	48,570	53,122	60,263	68,206	75,361
Change (%)	10.6	11.1	(6.8)	9.4	13.4	13.2	10.5

Balance Sheet							(INR M)
Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
Share Capital	2,894	2,894	2,894	2,894	2,830	2,830	2,830
Net Worth	2,17,799	1,99,255	2,52,023	2,66,688	2,42,285	2,50,105	2,59,670
Deferred Tax	5,427	3,464	5,221	4,033	5,543	7,250	9,079
Loans	1,685	1,669	1,601	1,588	1,588	1,588	1,588
Capital Employed	2,24,910	2,04,388	2,58,845	2,72,309	2,49,416	2,58,942	2,70,337
Gross Fixed Assets	42,956	41,573	43,443	46,312	53,780	59,580	65,580
Less: Depreciation	25,317	24,583	26,794	27,972	30,800	34,030	37,597
Net Fixed Assets	17,639	16,990	16,649	18,340	22,981	25,550	27,983
Capital WIP	480	602	160	768	800	1,000	1,000
Investments	1,91,594	1,81,960	2,26,310	2,38,188	2,07,388	2,07,388	2,07,388
Current Assets	64,091	48,181	72,183	61,923	74,400	87,619	1,02,302
Inventory	9,615	10,635	14,939	12,305	15,268	17,025	18,581
Sundry Debtors	25,597	17,251	27,169	15,164	20,358	22,700	24,775
Cash & Bank Balances	9,054	2,773	5,051	5,883	6,611	12,028	19,805
Loans & Advances	380	386	372	87	98	110	120
Others	19,445	17,136	24,653	28,484	32,065	35,755	39,022
Current Liab. & Prov.	48,894	43,345	56,457	46,910	56,152	62,614	68,336
Sundry Creditors	37,867	31,997	45,738	36,332	40,900	45,607	49,774
Other Liabilities	9,475	8,964	9,175	9,028	10,163	11,333	12,368
Provisions	1,552	2,385	1,544	1,551	5,089	5,675	6,194
Net Current Assets	15,197	4,836	15,727	15,013	18,247	25,004	33,966
Application of Funds	2,24,911	2,04,387	2,58,845	2,72,309	2,49,416	2,58,942	2,70,337

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)							
Consol EPS	162.0	180.1	167.8	183.6	213.0	241.0	266.3
EPS growth (%)	10.6	11.1	-6.8	9.4	16.0	13.2	10.5
Consol Cash EPS	171.2	188.6	176.8	192.9	223.0	252.5	278.9
Book Value per Share	752.7	688.6	870.9	921.6	856.3	883.9	917.7
DPS	60.0	120.0	140.0	140.0	180.0	200.0	210.0
Payout (% of S/A PAT)	47.0	81.8	88.9	86.8	88.8	87.9	78.8
Valuation (x)							
P/E	23.0	20.7	22.2	20.3	17.5	15.4	14.0
Cash P/E	21.7	19.7	21.1	19.3	16.7	14.7	13.3
EV/EBITDA	16.9	17.6	17.2	16.3	12.6	10.8	9.8
EV/Sales	2.9	3.0	3.1	2.5	2.3	2.0	1.8
Price to Book Value	4.9	5.4	4.3	4.0	4.3	4.2	4.1
Dividend Yield (%)	1.6	3.2	3.8	3.8	4.8	5.4	5.6
Profitability Ratios (%)							
RoE	22.9	25.0	21.5	20.5	23.7	27.7	29.6
RoCE	21.1	23.8	19.7	17.6	22.1	25.4	26.2
RoIC	193	176	154	94	115	120	125
Turnover Ratios							
Debtors (Days)	31	21	36	17	20	20	20
Inventory (Days)	12	13	20	14	15	15	15
Creditors (Days)	46	39	60	40	40	40	40
Working Capital (Days)	-3	-5	-5	-10	-5	-5	-5
Asset Turnover (x)	1.3	1.5	1.1	1.2	1.5	1.6	1.7
Fixed Asset Turnover	6.8	7.1	6.5	7.4	7.4	7.3	7.2

Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
(INR M)							
Profit before Tax	67,032	65,802	59,390	65,053	75,484	85,332	91,475
Depreciation & Amort.	2,657	2,464	2,593	2,692	2,828	3,231	3,567
Direct Taxes Paid	-19,643	-16,777	-13,397	-17,015	-16,647	-19,215	-20,659
(Inc)/Dec in Working Capital	-7,030	3,765	-5,105	6,009	-2,507	-1,339	-1,186
Other Items	-18061	-16635	-12339	-11484	-11685	-10900	-10536
CF from Oper. Activity	24,954	38,620	31,142	45,255	47,471	57,109	62,661
Extra-ordinary Items	-58	-3	-4	-3,179	0	0	0
CF after EO Items	24,895	38,618	31,139	42,076	47,471	57,109	62,661
(Inc)/Dec in FA+CWIP	-1,082	-2,800	-2,509	-5,176	-7,500	-6,000	-6,000
Free Cash Flow	23,814	35,818	28,630	36,900	39,971	51,109	56,661
(Pur)/Sale of Invest.	-1,629	20,367	-26,157	4,252	42,810	11,200	10,836
CF from Inv. Activity	-2,710	17,567	-28,665	-924	35,310	5,200	4,836
Inc. / Dec.in Networth	0	0	0	0	-30,797	0	0
Inc/(Dec) in Debt	28	0	0	0	0	0	0
Interest Paid	-35	-21	-108	-74	-325	-300	-300
Dividends Paid	-20,733	-62,444	-87	-40,490	-50,932	-56,591	-59,421
CF from Fin. Activity	-20,741	-62,465	-195	-40,563	-82,054	-56,891	-59,721
Inc/(Dec) in Cash	1,444	-6,281	2,278	588	727	5,418	7,776
Add: Beginning Bal.	7,609	9,054	2,773	5,051	5,640	6,367	11,785
Closing Balance	9,054	2,773	5,051	5,640	6,367	11,785	19,561

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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