Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Auto Ltd

Operational excellence in a tough time

Automobiles	Sharekhan code: BAJAJ-AUTO

Reco/View: Buy ↔	CMP: Rs. 4,343	Price Target: Rs. 4,782 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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 16.04

Updated Mar 08, 2023

Low Risk

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

Source: Morningstar

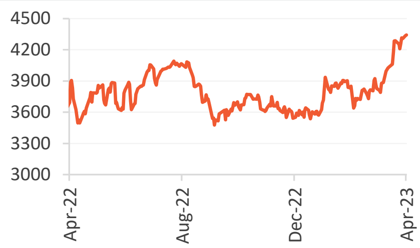
Company details

Market cap:	Rs. 125,661 cr
52-week high/low:	Rs. 4,375 / 3,461
NSE volume: (No of shares)	3.3 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	13.0 cr

Shareholding (%)

Promoters	55.0
FII	12.4
DII	10.9
Others	21.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.1	20.4	20.5	18.7
Relative to Sensex	9.8	21.3	15.4	12.2

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Bajaj Auto Limited (BAL) with a revised PT of Rs. 4,782, factoring its continued focus on EBITDA margin and an entry into the electric three-wheeler segment.
- We believe export volumes have reached their bottom and would pick up once dollar availability situation improves in the overseas market.
- The strategic partnership with Triumph would help it to garner additional market share in the premium motorcycle segment.
- The stock is currently trading at a P/E multiple of 16.4x and EV/EBITDA multiple of 10.9x its FY2025 estimates.

Despite pressure on volumes Bajaj Auto Limited (BAL) reported better-than-expected results on account of a richer product mix. While revenue topped our estimates by 7.1%, EBITDA margin was 90 bps ahead of our estimates. Though volumes fell by 12.8% q-o-q, revenue was down by mere 4.4% on account of a 9.6% q-o-q increase in ASPs. We attribute the sharp jump in ASPs to better product mix as high-end motorcycles (Pulsar + KTM) contributed 44.5% to total motorcycle volumes in Q4FY2023 compared to 38.0% in Q3FY2023, while entry-level products (Boxer + Platina) contributed 35.9% to the total volumes in Q4FY2023 compared to 43.6% in Q3FY2023. Gross margin expanded by 80 bps q-o-q to 30.2% and translated into 20 bps q-o-q expansion in EBITDA margin to 19.3%. With this operating performance, BAL reported mere 3.9% q-o-q decline in APAT to Rs. 1,433 crore. This was the consecutive third quarter when BAL reported EBITDA above Rs. 1,700 crore and the second consecutive quarter when BAL reported EBITDA margin above 19%. Further, the company has announced a dividend of Rs. 140/share. While BAL has been performing in line with the industry in the domestic market, export volumes are reaching towards their bottom. Management observes a green shoot in retail sales in overseas markets, while it sees the unavailability of Dollar in overseas markets as a key concern. Along with the premium two-wheeler (2W) segment, BAL has been recovering faster in the three-wheeler (3W) 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 BAL's diversified geography mix and strong presence in the domestic premium motorcycle segment allow it to support its operating performance even in a weak business scenario.

Key positives

- Realisation improved by 9.6% q-o-q on account of a richer product mix.
- Gross margin expanded by 80 bps q-o-q more due to topline performance than the benefit of soft raw-material (RM) cost.
- Despite a weak export mix (40.2% in Q4FY2023 vs. 44.7% in Q3FY2023), BAL reported 20 bps q-o-q expansion in EBITDA margin and sustained EBITDA margin above 19% consecutively for the second quarter.
- Spare part business reported 4.5% q-o-q growth to Rs. 11,500 crore and contributed 13% to the topline.

Key negatives

- RM basket remained flat on a q-o-q basis.
- BAL lacks operating leverage benefit in Q4FY2023 compared to Q3FY2023.
- Dollar availability continues to be a challenge in key export markets.

Management Commentary

- BAL will launch electric 3W in steps by the end of April as testing rounds are completed. The company would gradually expand its presence in the high-speed electric 3W market.
- The domestic 2W industry is expected to register 6-8% growth in the next few quarters and above 125 cc segment would continue to do well in the medium term.
- Inventory situation in the overseas market is under control, while Dollar unavailability is still a cause of concern.

Our Call

Maintain Buy with an upward revised PT of Rs. 4,782: Post registering higher-than-expected performance in Q4FY2023, management continues to be optimistic on its performance in above 125 cc segment in the domestic market and aims to maintain its leadership position in the domestic 3W segment. While BAL is looking to expand its presence in the electric 2W segment, it is expected to launch electric 3W by the end of April. Further, BAL expects its export volumes have bottomed out and is likely to improve once the Dollar availability situation improves in the overseas market as inventory in the overseas market is below normal levels. Further, BAL is extending its non-equity strategic partnership with Triumph and has decided to unveil a mid-size motorcycle in London by the end of June 2023. Despite headwinds, BAL has been maintaining its EBITDA margin, led by an appropriate product mix, given that BAL registered EBITDA margin above 19% despite a 12.8% q-o-q decline in volumes. With a 9.8% volume CAGR over FY2023-FY2025E and 70 bps expansion in EBIDTA margin over FY2023-FY2025E, we expect BAL to register a 15.7% earnings CAGR over FY2023-FY2025E. We continue to maintain our Buy rating on the stock with an upward revised PT of Rs 4,782. The stock is currently trading at a P/E multiple of 16.4x and EV/EBITDA multiple of 10.9x its FY2025 estimates.

Key Risks

A continued slowdown in export markets and unfavourable forex fluctuations can affect the company's profit. Sales of premium bikes will be affected adversely if the chips shortage situation aggravates any further

Valuation (Standalone) Rs cr

Particulars	FY22	FY23P	FY24E	FY25E
Net Sales	33,145	36,428	42,584	47,885
Growth (%)	19.5	9.9%	16.9%	12.4%
EBIDTA	5,259	6,521	7,665	8,907
OPM (%)	15.9	17.9	18.0	18.6
Recurring PAT	5,019	5,600	6,497	7,490
Growth (%)	10.2	11.6%	16.0%	15.3%
EPS (Rs.)	174	198	230	265
PE (x)	25.0	21.9	18.9	16.4
P/BV (x)	4.6	4.8	4.4	4.0
EV/EBIDTA (x)	18.8	15.3	12.9	10.9
RoNW (%)	18.8	22.0	23.2	24.2
RoCE (%)	17.8	22.0	23.2	24.2

Source: Company; Sharekhan estimates

Key Highlights of Conference Call

Exports: Bottomed out

- Management believes export volumes have bottomed out and are likely to improve once the Dollar availability situation would improve in overseas markets.
- Most export markets, except Nigeria, are showing signs of recovery.
- Demand is returning in the export market; however, Dollar unavailability continues to be a concern.
- The inventory situation in most of the overseas markets is under control.
- The company introduced the new Pulsar in the LATM market and a new Boxer range in the African market.
- Export revenue stood at USD370 mn in Q4FY2023 compared to USD415 mn in Q3FY2023. USD/Re-realisation was at 81.5 in Q4FY2023 compared to 81.7 in Q3FY2023.

Domestic market: Steady performance expected

- While 3W segment and premium motorcycle segment are gaining traction in the domestic market; the entry-level motorcycle segment is still lagging.
- BAL continues to be a beneficiary of rising premiumisation in the domestic motorcycle market.
- Management assumes 6-8% growth in the domestic 2W industry in the near term
- BAL's new products, including Platina 110 CC with ABS, have been receiving healthy response in the market.
- With 78% market share, BAL continues to enjoy a leadership position in the domestic 3W market.

Electric vehicle market: BAL is expected to be aggressive in FY2024

- BAL is expected to enhance its focus on the EV space in FY2024.
- The company is targeting to launch an electric 3W by the end of April and aims to expand gradually in the high-speed 3W segment
- BAL has been building its electric 3W projects, which can sustain without subsidies.

Bajaj – Triumph: Strategic partnership

- Bajaj and Triumph would work as strategic alliance partners for the mid-size motorcycle segment without participating as an equity partner initially.
- Both companies would co-develop a product, which would be manufactured at Bajaj's plant.
- A co-developed product would be unveiled in London on June 27, 2023.

Results (Standalone) **Rs cr**

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %
Net Revenue	8,905	7,975	11.7	9,315	(4.4)
EBIDTA	1,717	1,366	25.7	1,777	(3.4)
Depreciation	74	70	6.4	74	0.3
Interest	16	3	446.5	8	85.6
Other Income	260	289	(10.0)	269	(3.5)
PBT	1,887	1,582	19.3	1,964	(3.9)
Tax	454	428	5.9	472	(3.9)
Reported PAT	1,433	1,469	(2.5)	1,491	(3.9)
Adjusted PAT	1,433	1,225	17.0	1,491	(3.9)
EPS (Rs.)	50.5	51.8	(2.5)	52.6	(3.9)

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross margin (%)	30.2	28.1	210	29.4	80
EBIDTA margin (%)	19.3	17.1	220	19.1	20
Net profit margin (%)	16.1	15.4	70	16.0	10

Source: Company, Sharekhan Research

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %
Volumes (Units)	8,57,788	9,76,651	(12.2)	9,83,276	(12.8)
Average Realisation	1,03,810	81,655	27.1	94,736	9.6
RMC/Vehicle	72,436	58,729	23.3	66,894	8.3
EBITDA/vehicle	20,012	13,982	43.1	18,070	10.7
PAT/Vehicle	16,704	12,541	33.2	15,168	10.1

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Demand picking up in domestic; recovery in export is awaited

We expect growth momentum to recover in FY2024E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on the infra segment coupled with increased preference for personal transport is expected to improve volumes. With a rise in ownership cost due to price hikes and the implementation of new regulations, the entry-level segment is facing headwinds; however, the premium segment is continuously performing. Export volumes have been muted but are reaching their bottom levels. Export volumes are expected to improve gradually in the coming months. A positive recovery in African markets would augur well for 2W exports from India.

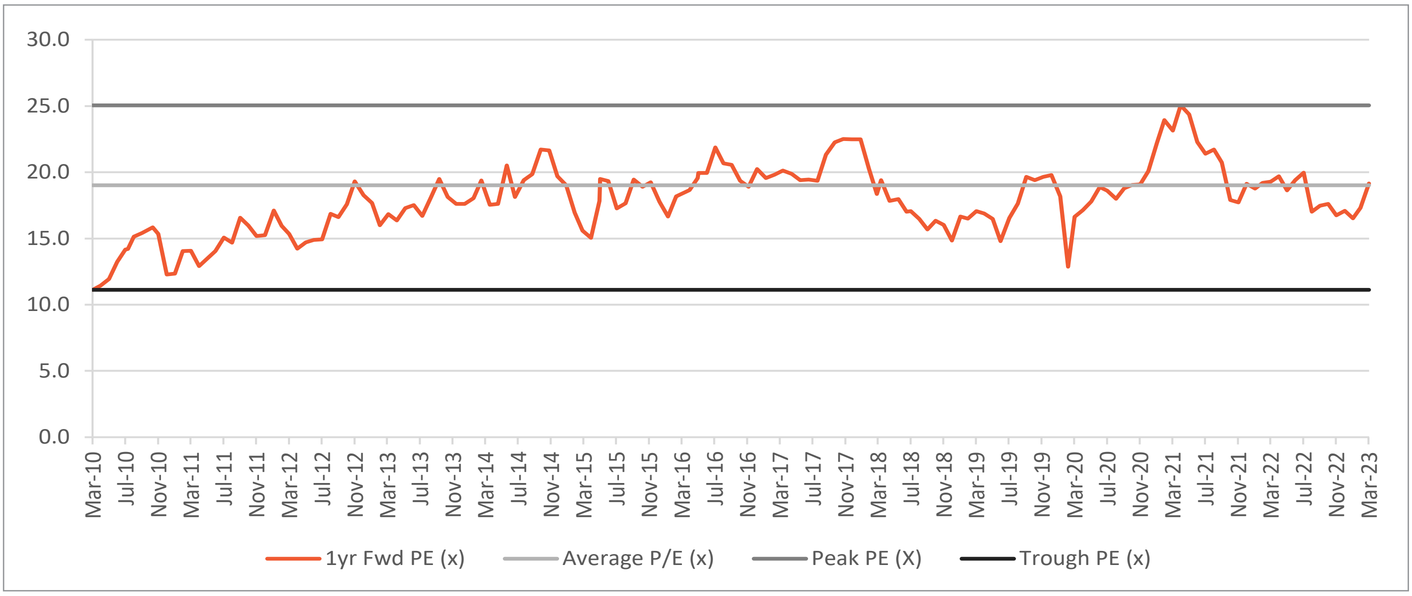
■ Company outlook - Well-diversified business model

BAL has a well-diversified product mix and geography mix, which allows it to maintain its profitability even during a challenging period. Further, its cash-rich balance sheet supports its growth plans. BAL dominates the premium motorcycle segment in the domestic market and enjoys a leadership position in many of its overseas markets. BAL has a healthy dividend pay-out ratio of up to 90%. BAL is uniquely positioned to benefit from domestic 2W demand and the export market, driven by its brand equity and value proposition. Along with its existing portfolio in the IC segment, BAL has been gradually building up its space in the electric 2W segment and is expected to enter into the electric 3W segment soon.

■ Valuation - Maintain Buy with an upward revised PT of Rs. 4,782

Post registering higher-than-expected performance in Q4FY2023, management continues to be optimistic on its performance in above 125 cc segment in the domestic market and aims to maintain its leadership position in the domestic 3W segment. While BAL is looking to expand its presence in the electric 2W segment, it is expected to launch electric 3W by the end of April. Further, BAL expects its export volumes have bottomed out and is likely to improve once the Dollar availability situation improves in the overseas market as inventory in the overseas market is below normal levels. Further, BAL is extending its non-equity strategic partnership with Triumph and has decided to unveil a mid-size motorcycle in London by the end of June 2023. Despite headwinds, BAL has been maintaining its EBITDA margin, led by an appropriate product mix, given that BAL registered EBITDA margin above 19% despite a 12.8% q-o-q decline in volumes. With a 9.8% volume CAGR over FY2023-FY2025E and 70 bps expansion in EBIDTA margin over FY2023-FY2025E, we expect BAL to register a 15.7% earnings CAGR over FY2023-FY2025E. We continue to maintain our Buy rating on the stock with an upward revised PT of Rs 4,782. The stock is currently trading at a P/E multiple of 16.4x and EV/EBITDA multiple of 10.9x its FY2025 estimates.

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	4,343	25.0	21.9	18.9	18.8	15.3	12.9	17.8	22.0	23.2
Hero MotoCorp	2,498	19.6	18.0	14.2	11.9	10.0	7.3	20.1	19.3	20.7

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 a lion's share. The company also makes 3Ws and is a leader in the 3W segment. Beyond the domestic market, BAL is the largest 2W exporter from India.

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. Apart from 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 global markets to deliver sustained growth in the long term. The company's key brands in the premium segment are Pulsar, Avenger, KTM, Dominar, and Husqvarna. The company generates a significant portion of its export revenue from geographies where BAL is either a No. 1 or No. 2 player. Export growth is organic and will continue to be a long-term driver for BAL. We remain positive on the company's growth prospects going forward. Besides that, BAL has been ramping up EV volumes.

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 the 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investments Ltd.	33.43%
2	Jamnalal Sons Pvt. Ltd.	9.08%
3	Life Insurance Corporation of India	4.92%
4	Jaya Hind Industries Pvt. Ltd.	3.35%
5	Maharashtra Scooters Ltd.	2.41%
6	Bajaj Sevashram Pvt. Ltd.	1.54%
7	Yamuna Trust	1.26%
8	Bachhraj & Co. Pvt. Ltd.	1.26%
9	SBI Funds Management Ltd.	1.10%
10	HDFC Pension Management Co Ltd.	1.04%

Source: Bloomberg

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 detoriating 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

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