

BAJAJ AUTO LIMITED | Auto & Auto Components

Domestic gain v/s exports pain

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Bajaj Auto Ltd (BAL) reported healthy margin performance in Q4 FY23 despite challenging environment in exports markets. Topline growth was down 4.6% qoq while 11.7% up yoy as volumes in the domestic markets were offset by fall in the exports markets. The total volumes in the quarter were down 13% qoq and 12.5% yoy, while the realizations grew by 27.6% yoy and 9.7% qoq on better product mix (tilted towards premium ssegment of 2Ws and solid performance at domestic 3Ws). During the quarter, domestic motorcycles grew by 22% yoy and fell by 9% qoq. The strong yoy surge was due to strong launches in the >125 ccc segment as well as the premium segments in the domestic markets. Exports motorcycles de-grew by 40% yoy and 22% qoq, while 3Ws fell by 49% yoy and 21% qoq. The exports deceleration was on account of sharp depreciation in currencies in Africa v/s US\$ and unavailability of US\$. EBITDA was up by 26% yoy to Rs17.1 bn, while margins moved up by 220 bps yoy and 20 bps qoq upto 19.3%. Margins were up mainly on favorable domestic product mix and higher realizations. All other cost items below operating levels remaining more or less range bound, bottomline adjusted for a one time income of Rs3152 mn in the base quarter, was 24% up yoy and down by 4% qoq at Rs14.3 bn. Tax rate was steady at 24% qoq.

Domestic volumes zoom; USD availability remains a concern as demand bottoms out

Domestic motorcycle volumes witnessed a rise of 22% yoy, though they seasonally fell by 9% qoq. The company started gaining the lost market share especially in the sports and executive segment of >125 cc. In the executive business, the success of Pulsar 125 NS and CT 125, launch of Pulsar NS160 and NS200 in sport segment led to winning back of some market share which was lost in H1. The success of Platina 110cc with ABS feature remained the highlight of the quarter. The company has 20 models now in the >125cc segment and contributes 60% v/s 30% 3 years ago of BAL's domestic 2W portfolio. Management expects the domestic 2W industry to grow at 6-8% in FY 24E. We expect BAL to grow at a higher pace than the industry.

Steady progress has being made on building EV portfolio as Chetak scooter sales jumped to 5,500 units again in the quarter and aspires to sell 10,000 units per month from June 23 through its wide network of dealers spread out over 85 towns in the country. BAL has planned a capacity of 0.5 mn EV scooters (Chetak) viewing its heartwarming response at their Chakan plant. Along with this, the facility will be also used to produce the Triumph motorcycles once the national launch happens post the global launch of the first Triumph global model at London on June 27th.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Revenues (Rs bn)	331.4	364.3	439.0	531.0
EBITDA (%)	15.9	18.0	18.4	18.8
PAT (%)	14.6	15.9	15.8	15.8
EPS (Rs)	173.4	198.9	234.5	284.6
EPS growth (%)	10.2%	14.7%	17.9%	21.4%
P/E (x)	24.8	21.6	18.3	15.1
P/B(x)	4.7	4.8	4.5	4.2
EV/EBITDA (x)	23.8	18.7	15.5	12.5
ROE(%)	18.8%	22.1%	24.7%	27.5%
Dividend yield (%)	3.3%	3.3%	3.8%	4.6%

Rating	Buy
Current Market Price (₹)	4,300
12 M Price Target (₹)	4,696
Potential upside (%)	9

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	1,222
Free Float Market Cap (₹ bn) :	492
52-Week High / Low (₹) :	4,375 / 3,460
1 Yr Avg. Dly Traded Volume (in lakh)	4
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

Shareholding Pattern

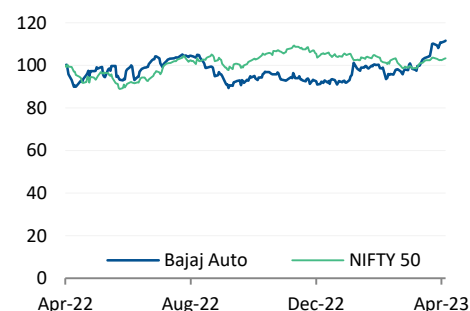
(%)	Mar-23	Sep-22	Jun-22	Mar-22
Promoter	54.98	54.98	54.84	53.77
FPIs	12.35	11.82	11.56	11.16
MFs	3.55	3.86	3.60	4.55
Bodies Corporate	4.25	4.35	4.29	4.32
Insurance	6.10	5.85	6.71	7.75
Others	18.77	19.14	19.00	18.45

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
Bajaj Auto	13.4%	16.8%	18.8%	11.2%
Nifty 50	4.9%	-0.7%	0.6%	4.3%

* To date / current date : April 25, 2023

Bajaj Auto vs Nifty 50

The management mentioned that the withdrawal of the FAME subsidy (Rs45,000 on EV 2Ws) from March 2024 would lead to temporary contraction of demand. However, we believe this to impact marginal players more, while BAL may witness a quick bounce back in demand given its strong position.

Domestic 3Ws reported strongest ever show as chip issue resolved for this segment and CNG demand is reaching new highs. The company's 3W demand is now >100% (v/s 45% for the industry) of pre-covid levels with their market share reaching 78% which is all time high, due to CNG expansion, in which BAL has >80% market share. CNG now contributes about 70% of the overall 3W industry as compared to 25% a year ago. BAL being a sole leader in the CNG segment, 3Ws will even more strongly contribute to the numbers going forward.

Within exports, the company is observing strong traction in markets like ASEAN and Middle East. LatAm market is also bouncing back a bit, but Africa is yet to revive. Also markets like Bangladesh and Sri Lanka are into negative due to their own country specific issues. The sequential declines were observed in Africa in both 2W and 3W segments. African weakness was mainly due to huge devaluation of currencies in various countries led by the biggest one- Nigeria (due to elections and demonetization). This led to non availability of US\$ leading to sharp rise in acquisition cost leading to decline in retail demand. However, management is seeing a slight month on month improvement in demand there and thus believe that demand has bottomed out in February and now we may see a bounce back. However, availability of USD still remains uncertain and a concern. A long standing ban on 3Ws in Egypt is also impacting the 3W demand in exports. We believe new launches (Boxer variant launched in Africa in Q4) and easing of chip issue (not seen in Africa) should provide some fillip to this business. BAL has launched the Dominar in Brazil in Q3 and is fetching solid response with 90 days waiting period itself currently. BAL shall rapidly expand its coverage across the country in FY 24 as this launch has received an encouraging response over there.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Net sales	86,315.4	90,476.5	-4.6%	77,281.3	11.7%
Other op. income	2,731.7	2,674.9	2.1%	2,467.1	10.7%
Total income	89,047	93,151	-4.4%	79,748	11.7%
RM cost	62,135	65,775	-5.5%	57,357	8.3%
Employee cost	3,620	3,511	3.1%	3,059	18.4%
Other expenses	6,126	6,097	0.5%	5,677	7.9%
EBITDA	17,166	17,768	-3.4%	13,656	25.7%
EBITDA Margins %	19.3	19.1	20 bps	17.1	220 bps
Other income	2,598	2,691	-3.5%	2,889	-10.0%
Depreciation	742	740	0.3%	697	6.4%
Interest	157	85	85.6%	29	446.5%
PBT	18,865	19,635	-3.9%	15,819	19.3%
Tax	4,536	4,721	-3.9%	4,282	5.9%
Adj PAT	14,329	14,914	-3.9%	11,537	24.2%
Adj PAT Margins%	16.1	16.0	10 bps	14.5	160 bps
Exceptional items	-	-	N/A	(3,152.8)	N/A
Reported PAT	14,329	14,914	-3.9%	14,690	-2.5%

Source: Company, LKP Research

Margins to post steady performance

BAL's EBITDA margins came at 19.3% in Q4, up strongly both yoy and qoq, though this growth was slightly due to commodities. The margin growth was also due to better cost management, higher 3W & premium bike sales and favorable currency movement. Management believes that steel inflation may be seen along with other metals like copper, nickel and aluminium while these may get offset by falling rubber, electrical and petroleum prices. Management took about 1% price increase in April to offset input cost rise.. 1). Favorable product mix on robust high margin 3W sales and BAL's dominance in that segment 2). Solid sales of premium portfolio bikes 3). Rupee depreciation against dollar 4). Expected easing of pressure in exports in FY 24 shall aid margins. Higher contribution from domestic markets especially the low end segment once the rural recovery gains speed and lower business from exports markets like Africa may slightly dampen the margins, but the net-net impact should be positive, though commodity impact is expected to be slightly unfavorable this fiscal. We therefore expect margins to be at 18.4%/18.8% in FY24E/25E respectively.

Outlook and Valuation

BAL posted solid margin performance in Q4 despite the challenges in the exports business. Going forward, we believe export volumes have bottomed out as demand is improving now month on month (however availability of USD remains an uncertain area), while domestic 2W volumes should continue their strong run. We also expect a strong traction coming from new launches which would drive overall demand. >125cc segment has provided new identity to BAL. Solid performance of premium Pulsar models, KTM bikes and expected launch of Triumph this year should all provide the required fillip to both volumes and margins. On the exports front, markets like ASEAN and Latam markets should be able to somewhat offset weakness in Africa. With 2W Chetak expanding its coverage and fetching good response, we believe Chetak to add to the numbers substantially in H2 of FY24. The withdrawal of FAME subsidy remains a concern for the EV 2Ws, but we believe it to impact BAL little. 3W performance was robust in Q4, touching new highs, on CNG success. EV 3W launch should further aid the business. Favorable product mix and currency movement, neutral RM prices, price hikes planned and prudent cost management should assist margins in the ensuing quarters. With strong balance sheet, robust return ratios, hefty dividend yield of 3.3% in FY23 and zero financial leverage, we believe the stock looks attractive at 15.1x FY 25E earnings. We therefore maintain our BUY rating on the stock with a target price of Rs 4,696 (at 16.5x FY 25E earnings).

Per unit parameters	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22
Gross Realisation per Unit (Rs)	1,00,948	92,015	86,107	83,210	79,129	74,538	73,276	71,734
Net Realisation per Unit (Rs)	1,00,948	92,015	86,107	83,210	79,129	74,538	73,276	71,734
Total Cost per unit (Rs)	84,067	76,665	73,362	71,847	67,672	64,752	64,322	62,288
Material Cost per unit (Rs)	72,668	66,894	65,039	61,883	58,729	57,080	56,417	53,621
Staff Cost per unit (Rs)	4,234	3,571	3,060	4,066	3,132	2,877	3,072	3,594
Other Expn per unit (Rs)	7,311	6,267	5,295	5,953	5,836	4,822	4,882	5,094
EBITDA per unit (Rs)	20,076	18,070	15,280	13,892	13,982	11,616	12,244	11,131
PAT per unit (Rs)	16,758	15,168	13,293	12,567	11,813	10,278	11,137	10,548

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	3,31,447	3,64,276	4,39,011	5,30,983
Raw Material Cost	2,43,298	2,60,548	3,13,377	3,77,363
Employee Cost	13,588	14,449	16,696	20,272
Other Exp	21,975	23,788	28,236	33,683
EBITDA	52,586	65,491	80,702	99,666
EBITDA Margin(%)	15.9	18.0	18.4	18.8
Other income	12092	11814	12100	12500
Depreciation	2,692	2,824	3,168	3,381
Interest	87	395	350	400
PBT	61,901	74,086	89,284	1,08,385
PBT Margin(%)	19.3	21.0	20.9	20.9
Exceptional items	-3153	0	0	0
Tax	14,865	17,810	21,428	26,012
APAT	50,189	56,276	67,856	82,373
APAT Margins (%)	15.1	15.4	15.5	15.5
PAT	47,036	56,276	67,856	82,373
PAT Margin (%)	14.6	15.9	15.8	15.8

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (Rs)				
Adj. EPS	173.4	198.9	234.5	284.6
CEPS	166.3	182.7	208.9	245.4
BVPS	921.5	898.6	948.9	1034.3
DPS	139.9	143.0	164.1	199.2
Growth Ratios(%)				
Total revenues	19.5%	9.9%	20.5%	20.9%
EBITDA	6.7%	24.5%	23.2%	23.5%
PAT	10.2%	12.1%	20.6%	21.4%
EPS Growth	10.2%	14.7%	17.9%	21.4%
Valuation Ratios (x)				
PE	24.8	21.6	18.3	15.1
P/CEPS	23.5	20.6	17.5	14.5
P/BV	4.7	4.8	4.5	4.2
EV/Sales	4.6	3.8	3.5	2.9
EV/EBITDA	23.8	18.7	15.5	12.5
Operating Ratios (Days)				
Inventory days	14.0	14.4	14.0	13.6
Receivable Days	17.2	18.3	18.6	18.8
Payables day	39.6	39.3	40.0	40.0
Net Debt/Equity (x)	-0.02	-0.01	-0.01	-0.02
Profitability Ratios (%)				
ROE	18.8%	22.1%	24.7%	27.5%
Dividend yield	3.3%	3.3%	3.8%	4.6%

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,894	2,830	2,830	2,830
Reserves and surplus	2,63,794	2,51,429	2,71,786	2,96,497
Total networth	2,66,688	2,54,259	2,74,615	2,99,327
Non current liabilities				
Long term borrowings & provs	1,604	1,585	1,686	1,786
Deferred tax liabilities	4,033	3,452	3,452	3,452
Current liabilities				
Current liabilities and provs	36,363	39,704	48,576	58,622
Other current liabilities	10,532	12,276	12,276	12,276
Total equity and liabilities	319220	311275	340605	375463
ASSETS				
Net block	17,576	26,352	27,184	26,803
Capital work in progress	768	819	1,319	1,619
Intangible assets	253	307	307	307
Non current investments	1,89,008	1,85,539	2,07,539	2,32,539
Long term loans and advances	660	359	359	359
Other non current assets	11,010	9,195	9,195	9,195
Total non current assets	2,19,275	2,22,572	2,45,904	2,70,822
Current assets				
Current investments	49,691	44,193	42,193	40,193
Inventories	12,305	13,979	16,421	19,367
Trade receivables	15,164	17,761	21,816	26,772
Cash and cash bank	5,883	2,858	4,359	8,395
Short term loans and advances	42	36	36	36
Other current assets	16,859	9,877	9,877	9,877
Total current assets	99,945	88,703	94,701	1,04,640
Total Assets	3,19,220	3,11,275	3,40,605	3,75,463

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	65,053	74,086	89,284	1,08,385
Depreciation	2,692	2,824	3,168	3,381
Interest	13	15	0	0
Chng in working capital	6,009	7,233	2,375	2,143
Tax paid	-17,015	-19,184	-21,428	-26,012
Other operating activities	0	0	0	0
Cash flow from operations (a)	42,076	55,118	73,748	88,297
Capital expenditure	-5,507	-9,433	-4,500	-3,300
Chng in investments	4,428	13,988	-20,000	-23,000
Other investing activities	0	0	1	1
Cash flow from investing (b)	-959	13,339	-23,836	-26,300
Free cash flow (a+b)	41,116	68,457	49,912	61,997
Inc/dec in borrowings	36	-114	100	100
Dividend paid (incl. tax)	-40,490	-40,469	-47,499	-57,661
Other financing activities	0	0	0	0
Cash flow from financing (c)	-40,532	-71,901	-47,749	-57,961
Net chng in cash (a+b+c)	584	-3,444	2,164	4,036
Closing cash & cash equivalents	5,639	2,195	4,359	8,395

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