Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Bajaj Auto Ltd

Decent Q1, Maintain Buy

Automobiles	Sharekhan code: BAJAJ-AUTO

Reco/View: Buy	↔	CMP: Rs. 4,843	Price Target: Rs. 5,600	↔

↑ 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 17.08

Updated Jun 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. 137,036 cr
52-week high/low:	Rs. 4,988/3,462
NSE volume: (No of shares)	4.0 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	12.7 cr

Shareholding (%)

Promoters	55.0
FII	13.7
DII	9.6
Others	21.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	11.7	35.6	21.5
Relative to Sensex	0.1	1.2	25.0	-0.2

Sharekhan Research, Bloomberg

Summary

- Bajaj Auto's (BAL's) reported PAT stood at Rs 1665 crore in Q1FY24 against estimate of Rs. 1670 crore on maintaining EBITDA margin at ~19%.
- With the Triumph 400 cc, BAL has now ventured into the realm of iconic premium motorcycles, expanding its dominance from the mass premium motorcycles.
- Stock trades at a P/E multiple of 18.3x and EV/EBITDA multiple of 12.5x its FY25 E estimates.
- We maintain a Buy on Bajaj Auto (BAL) with an unchanged target price of Rs. 5,600 owing to its superior profitability, play on premiumisation and expectation of gradual export recovery.

Q1FY24 numbers were close to estimates as bottom line met estimates on higher-than-expected other income and mere 4.7% miss in EBITDA estimates. Further, EBITDA margin came at 19% against estimate of 19.5% on a 2.1% miss in topline estimates. Despite inferior mix BAL holds the EBITDA margin at 19.0% on the back of benign raw material costs, improved product mix, higher spare parts revenue and favourable forex trends. BAL has increased prices by 1% in Q1FY24. Revenue increased by 15.8% q-o-q to Rs. 10,310 crore (vs exp of Rs. 10,529 crore) on 19.8% q-o-q increase in volumes and EBITDA increased by 13.8% q-o-q to Rs. 1954 crore (versus expenses of Rs 2,050 crore). EBITDA margins contracted by a mere 30 bps q-o-q to 19.0% (vs exp of 19.5%) on lower-than-expected gross margin expansion. Gross margin contracted by 210 bps q-o-q. However operating leverage benefit cushion the fall in EBITDA margin. Other income increased by 33.3% q-o-q to Rs. 346 crore. Consequently, adjusted PAT increased by 16.2% q-o-q to Rs. 1,665 crore (against an estimate of Rs. 1670 crore). With expectation of gradual improvement in export volumes and continuous premiumization in its product portfolio we maintain our Buy rating on the stock.

Key positives

- Favourable operating leverage benefit supported EBITDA Margin as it contracted by a mere 30 bps q-o-q to 19.0%
- This was the third consecutive quarter when BAL has reported EBITDA Margin at around ~19%.
- Other income increased by 33.3% q-o-q and supported 16.2% q-o-q increase in bottom-line.

Key negatives

- Gross margins contracted by 210 bps q-o-q to 28.1%.
- Average selling prices fell by 3.3% q-o-q, due to unfavourable mix as export mix reduced from 40.2% in Q4FY23 to 37.6% in Q1FY24.
- EBITDA per unit declined by 5.0% q-o-q to Rs 19,018.

Management Commentary

- Raw material cost to remain stable in coming quarters.
- Export volumes are expected to be better in Q2FY24 on sequential basis.
- The volume contribution from 125cc plus motorcycles has increased from 60% In Fy23 to 70% in Q1FY24.

Our Call

Maintain Buy with unchanged target price of Rs 5,600: Despite weakness in export volumes, BAL holds EBITDA margin at 19% range and delivered bottom line in line with estimates in Q1FY24. With the launch of Triumph 400, BAL has entered in an Iconic premium motorcycle segment given it has already been a leading player in the mass premium motorcycle segment. We believe that BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolio in multiple segments. Given that Triumph has been a combination of classic iconic style and modern technology, the affordably priced Triumph would attract a new set of aspirational customers for BAL. We believe that BAL is selectively targeting individual subsegments of premium market via separate brand focus and hence would continue to enjoy leading position in premium motorcycle segment via multi brand approach. We continue to maintain our Buy rating on the stock with an unchanged target price of Rs 5,600 on its superior profitability, play on premiumization, and expectation of gradual recovery in exports.

Key Risks

Continued slowdown in export markets and unfavorable forex fluctuations can affect the company's profit. Sales of premium bikes will be affected adversely if the chip shortage situation aggravates again.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23	FY24E	FY25E
Net Sales	27,741	33,145	36,428	42,584	47,885
Growth (%)	-7.3	19.5	9.9	16.9	12.4
EBIDTA	4,916	5,245	6,521	7,665	8,907
OPM (%)	17.7	15.8	17.9	18.0	18.6
Recurring PAT	4,542	4,690	5,600	6,497	7,490
Growth (%)	-10.9	3.3	19.4	16.0	15.3
EPS (Rs)	161	177	198	230	265
PE (x)	30.2	27.4	24.5	21.1	18.3
P/BV (x)	5.4	5.1	5.4	4.9	4.4
EV/EBIDTA (x)	23.2	21.5	17.5	14.7	12.5
RoNW (%)	18.0	17.6	22.0	23.2	24.2
RoCE (%)	17.9	17.8	22.0	23.2	24.2

Source: Company; Sharekhan estimates

Focusing on 125 cc plus segment in domestic market

- BAL has been gaining healthy market share in 125 cc plus segment. The company has gained 2% market share in 125 cc segment and this category constituted 70% of BAL's volumes in Q1FY24 as compared to 60% in FY23.
- Domestic two-wheeler retail market is expected to grow by 4-6% in coming months compared to 2% in Q1FY24

Export market: cautiously optimistic

- Export volumes in Q2FY24 are likely to be better than export volumes in Q1FY24, though BAL continue to cautious on the export front.
- With increase in retail volume the dealer inventory has been reducing in overseas markets.
- Retail volumes have been higher than dispatches in the export market for last 4 quarters
- BAL's top 15 markets which account for 80% of its volumes registered 4% q-o-q growth and BAL registered 7% q-o-q increase in volumes.
- Premium products like Pulsar and Dominar are receiving healthy response in the export market and registered 40% q-o-q increase in volumes
- Nigeria has yet to come up fully as it has been going through major reforms.
- Philippines is expected to reach normalcy in next 1- 2 months as the demand has impacted due to implementation of new registration norm and process.
- After launch of Dominar in Brazil, BAL has gained 15% market share in Sao Paulo City.

Triumph: Looking to expand dealership network

- BAL has already integrated 15 dealerships of Triumph with its business.
- Triumph 400 has been receiving healthy response in the market as it has received a booking for 17000 units in short span of time.
- Deliveries of Triumph 400 are expected to commence soon.
- Plans to expand Triumph's dealership from 17 towns to 44 towns by the end of Q2FY24.
- Exports of Triumph 400 is expected to begin from October 2023 onwards.

EV: Eyeing wider product portfolio

- BAL has sold 20,834 units of EVs in Q1FY24
- BAL continue to focus on the expansion of its product portfolio in EV space.
- Total dealer network has been expanded to100 cities and likely to reach to 120 cities by the end of Q2FY24.
- Company plans to invest around Rs 400 to Rs 600 on EV segment in FY24.

Others

- **Exports** - Realization of export stood at Rs.82.5/USD in Q1 vs Rs. 81.5/USD in Q4FY23.
- **Capex** - During FY24 Company is expected to spend Rs. 400-500 crore on EV-related Capex.
- Revenues from spare part sales stood at Rs. 1200 crore in Q1FY24.

Results (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Net Revenue	10,310	8,005	28.8	8,905	15.8
EBIDTA	1,954	1,297	50.6	1,717	13.8
Depreciation	84	67	24.1	74	12.6
Interest	12	4	178.6	16	(23.2)
Other Income	346	319	8.5	260	33.3
PBT	2,205	1,545	42.7	1,887	16.9
Tax	540	371	45.4	454	19.0
Reported PAT	1,665	1,173	41.9	1,433	16.2
Adjusted PAT	1,665	1,173	41.9	1,433	16.2
EPS	58.8	41.5	41.9	50.6	16.2

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	28.1	27.8	30	30.2	-210
EBIDTA margin (%)	19.0	16.2	270	19.3	-30
Net profit margin (%)	16.1	14.7	150	16.1	10
Effective tax rate (%)	24.5	24.0	40	24.0	40

Source: Company, Sharekhan Research

Volume Analysis (Rs/vehicle)

Particulars	Q1FY24	Q1FY23	%Y oY	Q4FY23	% QoQ
Volumes (Units)	10,27,407	9,33,646	10.0	8,57,788	19.8
Average Realisation	1,00,347	85,739	17.0	1,03,810	(3.3)
RMC/Vehicle	72,149	61,883	16.6	72,436	(0.4)
EBITDA/vehicle	19,018	13,892	36.9	20,012	(5.0)
PAT/Vehicle	16,204	12,567	28.9	16,704	(3.0)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Domestic demand steady, recovery in exports awaited

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

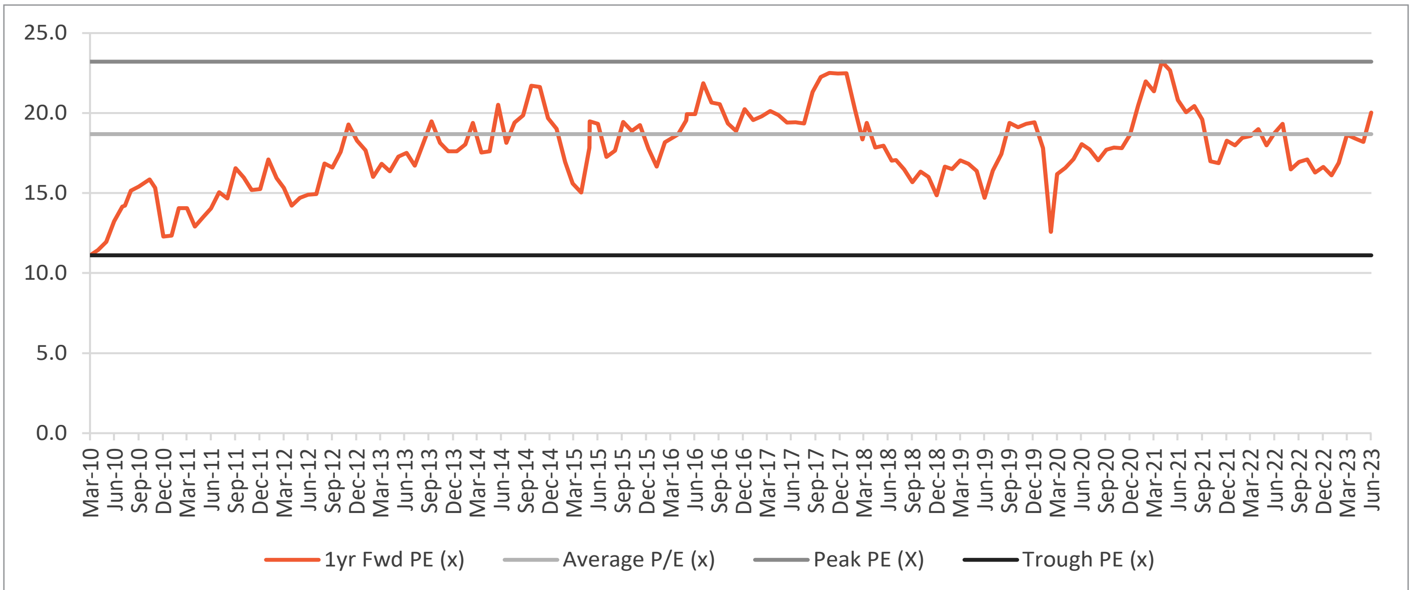
■ Company outlook - Well diversified business model

BAL has a well-diversified product mix and geography mix, which allows it to maintain its profitability even during 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 healthy dividend pay-out ratio of upto 90%. BAL is uniquely positioned to benefit from domestic two-wheeler demand and the export market, driven by its brand equity and value proposition. Along with its existing portfolio in ICs segment, BAL has been gradually building up its space in electric two-wheeler segment and expected to enter into electric three-wheeler segment soon.

■ Valuation - Maintain Buy with unchanged target price of Rs 5,600

Despite weakness in export volumes, BAL holds EBITDA margin at 19% range and delivered bottom line in line with estimates in Q1FY24. With the launch of Triumph 400, BAL has entered in an Iconic premium motorcycle segment given it has already been a leading player in the mass premium motorcycle segment. We believe that BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolio in multiple segments. Given that Triumph has been a combination of classic iconic style and modern technology, the affordably-priced Triumph would attract a new set of aspirational customers for BAL. We believe that BAL is selectively targeting individual subsegments of premium market via separate brand focus and hence would continue to enjoy leading position in premium motorcycle segment via multi brand approach. We continue to maintain our Buy rating on the stock with an unchanged target price of Rs 5,600 on its superior profitability, play on premiumisation, and expectation of gradual recovery in exports.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Bajaj Auto	4,843	24.5	21.1	18.3	17.5	14.7	12.5	22.0	23.2	24.2
Hero Motocorp	3,137	21.5	18.5	16.2	13.0	10.8	9.4	17.0	18.2	19.1
Eicher Motors	3,325	31.2	26.2	22.9	23.3	19.2	16.9	17.3	18.2	17.9

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 domestic market, BAL is a largest two wheeler 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 time - 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. Its key brands in the premium segment are Pulsar, Avenger, KTM, Dominar, and Husqvarna. The company generates 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 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	LIC New Pension Plus Secured Fund	5.26%
4	Life Insurance Corporation of India	4.92%
5	Jaya Hind Industries Pvt. Ltd.	3.37%
6	Maharashtra Scooters Ltd.	2.41%
7	Bajaj Sevashram Pvt. Ltd.	1.54%
8	Yamuna trust	1.26%
9	Niraj Bajaj Trust	1.26%
10	Bachhraj & Co Pvt. Ltd.	1.26%

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/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 information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/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 information/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 recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 might have dealt or traded directly or indirectly in securities of the company and that all 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 either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might 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. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has 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 Ltd 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.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/ investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600