

**BAJAJ AUTO LIMITED** | Auto & Auto Components**Strong Q1, good prospects ahead****LKP**  
Since 1948**Trust • Invest • Grow**

Bajaj Auto Limited (BAL) reported healthy margin performance in Q1 FY24 despite exports markets not yet out of the woods. Topline growth was up 16% qoq and 29.3% up yoy as volumes in the domestic markets were quite strong at 73% yoy on low base of last year and demand uptick seen in 2W industry lately. The total volumes in the quarter were up 10% yoy and 20% qoq, while the realizations grew by 17% yoy and dropped by 3% qoq. The sequential drop was on account of negative product mix tilted towards commuter motor cycles, Chetak and 3W EVs. During the quarter, domestic motorcycles grew by 73% yoy and 31% 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. The rate of decline in the exports motorcycles has reduced at 35% from 40% seen last quarter as we are seeing recovery in Africa. Motorcycle exports grew by 12% qoq, while 3W exports grew by 15% qoq. EBITDA was up by 51% yoy to ₹19.5bn, while margins moved up by 280 bps yoy to 19%, down 30 bps qoq. Margins were up mainly on better realizations and stable commodity costs. All other cost items below operating levels remaining more or less range bound, bottomline was 42% up yoy and 16% qoq at ₹16.6bn. Tax rate was steady at 24.5% qoq.

**Domestic volumes zoom, exports outlook is cautiously optimistic**

Domestic motorcycle volumes witnessed a rise of 73% yoy, and 31% qoq. The company started gaining the lost market share especially in the sports and executive segment of >125 cc since H2 of last fiscal. In the executive business, the success of Pulsar 125 NS and CT 125, and Pulsar N series in sport segment led to a good market share win. The company has 20 models now in the >125cc segment and contributes 70% (60% at the end of FY23) of BAL's domestic 2W portfolio. Management expects the domestic 2W industry to grow at 4-6% in the coming few months. We believe BAL to grow at a higher pace than the industry and win market share.

Steady progress has being made on building EV portfolio as Chetak scooter sales jumped 2x qoq and 3x yoy and is spreading its network of dealers over 120 cities in the country with 140 stores. 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.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Revenues (₹ bn)	331.4	364.3	431.4	512.4
EBITDA (%)	15.9	18.0	18.9	19.4
PAT (%)	14.6	15.9	16.3	16.4
EPS (₹)	173.4	198.9	236.7	284.5
EPS growth (%)	10.2%	14.7%	19.0%	20.2%
P/E (x)	28.2	24.6	20.7	17.2
P/B (x)	5.3	5.4	5.2	4.7
EV/EBITDA (x)	27.1	21.3	17.5	14.3
ROE (%)	18.8%	22.1%	24.9%	27.5%
Dividend yield (%)	2.9%	2.9%	3.4%	4.1%

Rating	Buy
Current Market Price (₹)	4,870
12 M Price Target (₹)	5,548
Potential upside (%)	14

**Stock Data**

FV (₹) :	10
Total Market Cap (₹ bn) :	1,375
Free Float Market Cap (₹ bn) :	551
52-Week High / Low (₹) :	4,995 / 3,461
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

**Shareholding Pattern**

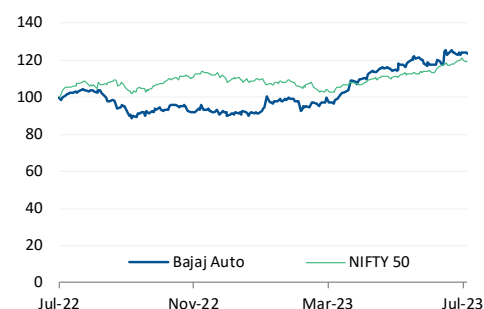
(%)	Jun-23	Mar-23	Sep-22	Jun-22
Promoter	54.99	54.98	54.98	54.84
FPIs	13.67	12.35	11.82	11.56
MFs	3.75	3.55	3.86	3.60
Bodies Corporate	4.32	4.25	4.35	4.29
Insurance	4.76	6.10	5.85	6.71
Others	18.51	18.77	19.14	19.00

Source: BSE

**Price Performance**

(%)	1M	3M	6M	1YR
Bajaj Auto	5.7%	13.3%	31.0%	24.1%
Nifty 50	5.8%	11.0%	10.5%	20.0%

\* To date / current date : July 26, 2023

**Bajaj Auto vs Nifty 50**

The management mentioned that the withdrawal of the FAME subsidy (₹45,000 on EV 2Ws) led 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.

The company along with Triumph launched two 400 cc sports bikes – Speed and Scrambler. They collectively have an order book of 17K units. The deliveries should start within couple of days through their 50 stores. The company expects production to hit 5K units by Q2 end and to commence exports by October.

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 has exceeded pre-covid levels with their market share reaching 80% which is all time high, due to CNG expansion, in which BAL has >80% market share. CNG now contributes >70% of the overall 3W industry. 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 gradual sequential recovery in Africa. LatAm market is stable, while ASEAN was seasonally weak. Bangladesh and Philippines (due to temporary regulatory issues) also underperformed this quarter. The sequential recovery was observed in Africa in both 2W and 3W segments. Nigeria saw retail growing at 41% qoq and is expected to improve further. However, issues related with removal of fuel subsidy, slew of reforms, forex and inflation still remain concerns in Nigeria. Kenya, Colombia and Argentina are facing inflationary pressures. 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 further fillip to this business. BAL has launched 3 models of Dominar in the Sao Paulo city of Brazil in Q3 and is fetching solid response with 60 days waiting period itself currently. BAL shall rapidly expand its coverage across the country in FY24 as this launch has received an encouraging response over there. BAL plans to expand its presence in Brazil through setting up a new capacity in next 12 months.

#### **Margins to post steady performance**

BAL's EBITDA margins came at 19% in Q1, up strongly yoy and slightly down qoq, though this growth was slightly impacted due to adverse product mix. The margin growth was also due to better cost management, favorable currency movement and reversal of commodities hike seen in the first half of the quarter. Management believes that the current slowdown in metal prices should continue going forward and this augurs well for margins. Management took about 1% price increase in April to offset input cost rise and OBD-2 implementation. Management believes 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). Stable currency movement 4). Expected easing of pressure in exports and 5). Stable commodity prices 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 considering the commodities support. We therefore expect margins to be at 18.9%/19.4% in FY24E/25E respectively.

## Quarterly Financial Snapshot

YE Mar (₹ mn)	Q1 FY24	Q4 FY23	% qoq	Q1 FY23	% yoy
Net Sales	100,486	86,315	16.4%	77,689	29.3%
Other op. Income	2,612	2,732	-4.4%	2,361	10.6%
Total Income	103,098	89,047	15.8%	80,050	28.8%
RM Cost	74,127	62,135	19.3%	57,776	28.3%
Employee Cost	3,842	3,620	6.1%	3,796	1.2%
Other Expenses	5,590	6,126	-8.8%	5,507	1.5%
EBITDA	19,539	17,166	13.8%	12,970	50.6%
EBITDA Margins %	19.0	19.3	(30 bps)	16.2	280 bps
Other income	3,463	2,598	33.3%	3,193	8.5%
Depreciation	835	742	12.6%	673	24.1%
Interest	121	157	-23.2%	43	178.6%
PBT	22,047	18,865	16.9%	15,447	42.7%
Tax	5,399	4,536	19.0%	3,714	45.4%
Adj PAT	16,648	14,329	16.2%	11,733	41.9%
Adj PAT Margins%	16.1	16.1	0 bps	14.7	110 bps
Exceptional items	-	-	-	-	-
Reported PAT	16,648	14,329	16.2%	11,733	41.9%

Source: Company, LKP Research

Per unit parameters	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22
Gross Realisation per Unit (₹)	97,835	100,948	92,015	86,107	83,210	79,129	74,538	73,276
Net Realisation per Unit (₹)	97,835	100,948	92,015	86,107	83,210	79,129	74,538	73,276
Total Cost per unit (₹)	81,354	84,067	76,665	73,362	71,847	67,672	64,752	64,322
Material Cost per unit (₹)	72,171	72,668	66,894	65,039	61,883	58,729	57,080	56,417
Staff Cost per unit (₹)	3,740	4,234	3,571	3,060	4,066	3,132	2,877	3,072
Other Expn per unit (₹)	5,635	7,311	6,267	5,295	5,953	5,836	4,822	4,882
EBITDA per unit (₹)	19,024	20,076	18,070	15,280	13,892	13,982	11,616	12,244
PAT per unit (₹)	16,209	16,758	15,168	13,293	12,567	11,813	10,278	11,137

Source: Company, LKP Research

### Outlook and Valuation

BAL posted solid margin performance in Q1 despite driven by the challenges in the exports business. Going forward, we believe export volumes have bottomed out as demand is improving now month on month, 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 Triumph models this year should all provide the required fillip to both volumes and margins. On the exports front, markets like Africa is seeing recovery while Latam is stable. ASEAN markets are facing temporary lull and are expected to rise in coming quarters. Brazil is providing a new stream of volumes for BAL. 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 Q1, touching new highs, on CNG success. EV 3W launch should further aid the business. Neutral RM and currency price movement, 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 3.4% and zero financial leverage, we believe the stock still looks attractive at 17.2x FY 25E earnings. We therefore maintain our BUY rating on the stock with a target price of ₹5,548 (at 19.5x FY 25E earnings).

## Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
<b>Total Revenues</b>	<b>331,447</b>	<b>364,276</b>	<b>431,366</b>	<b>512,420</b>
Raw Material Cost	243,298	260,548	306,941	363,885
Employee Cost	13,588	14,449	15,557	17,543
Other Exp	21,975	23,788	27,307	31,470
<b>EBITDA</b>	<b>52,586</b>	<b>65,491</b>	<b>81,561</b>	<b>99,521</b>
<i>EBITDA Margin(%)</i>	<i>15.9</i>	<i>18.0</i>	<i>18.9</i>	<i>19.4</i>
Other income	12092	11814	12100	12500
Depreciation	2,692	2,824	3,168	3,381
Interest	87	395	350	300
<b>PBT</b>	<b>61,901</b>	<b>74,086</b>	<b>90,143</b>	<b>108,340</b>
<i>PBT Margin(%)</i>	<i>19.3</i>	<i>21.0</i>	<i>21.4</i>	<i>21.6</i>
Exceptional items	-3153	0	0	0
Tax	14,865	17,810	21,634	26,002
<b>APAT</b>	<b>50,189</b>	<b>56,276</b>	<b>68,509</b>	<b>82,339</b>
<i>APAT Margins (%)</i>	<i>15.1</i>	<i>15.4</i>	<i>15.9</i>	<i>16.1</i>
<b>PAT</b>	<b>47,036</b>	<b>56,276</b>	<b>68,509</b>	<b>82,339</b>
<i>PAT Margin (%)</i>	<i>14.6</i>	<i>15.9</i>	<i>16.3</i>	<i>16.4</i>

## Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
<b>Per Share Data (₹)</b>				
Adj. EPS	173.4	198.9	236.7	284.5
CEPS	166.3	182.7	208.9	247.7
BVPS	921.5	898.6	949.6	1034.9
DPS	139.9	143.0	165.7	199.2
<b>Growth Ratios(%)</b>				
Total revenues	19.5%	9.9%	18.4%	18.8%
EBITDA	6.7%	24.5%	24.5%	22.0%
PAT	10.2%	12.1%	21.7%	20.2%
EPS Growth	10.2%	14.7%	19.0%	20.2%
<b>Valuation Ratios (x)</b>				
PE	28.2	24.6	20.7	17.2
P/CEPS	26.8	23.4	19.8	16.5
P/BV	5.3	5.4	5.2	4.7
EV/Sales	5.2	4.3	4.0	3.4
EV/EBITDA	27.1	21.3	17.5	14.3
<b>Operating Ratios (Days)</b>				
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)
<b>Profitability Ratios (%)</b>				
ROE	18.8%	22.1%	24.9%	27.5%
Dividend yield	2.9%	2.9%	3.4%	4.1%

## Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholder's funds</b>				
Share capital	2,894	2,830	2,830	2,830
Reserves and surplus	263,794	251,429	271,982	296,683
Total networkth	266,688	254,259	274,811	299,513
<b>Non current liabilities</b>				
Long term borrowings & provs	1,604	1,585	1,686	1,786
Deferred tax liabilities	4,033	3,452	3,452	3,452
<b>Current liabilities</b>				
Current liabilities & provisions	36,363	39,704	47,738	56,588
Other current liabilities	10,532	12,276	12,276	12,276
<b>Total equity and liabilities</b>	<b>319,220</b>	<b>311,275</b>	<b>339,963</b>	<b>373,615</b>
<b>ASSETS</b>				
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	189,008	185,539	207,539	232,539
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	219,275	222,572	245,904	270,822
<b>Current assets</b>				
Current investments	49,691	44,193	42,193	40,193
Inventories	12,305	13,979	16,127	18,676
Trade receivables	15,164	17,761	21,427	25,816
Cash and cash bank	5,883	2,858	4,400	8,194
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	94,059	102,792
<b>Total Assets</b>	<b>319,220</b>	<b>311,275</b>	<b>339,963</b>	<b>373,615</b>

## Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	65,053	74,086	90,143	108,340
Depreciation	2,692	2,824	3,168	3,381
Interest	13	15	0	0
Chng in working capital	6,009	7,233	2,220	1,912
Tax paid	(17,015)	(19,184)	(21,634)	(26,002)
Other operating activities	0	0	0	0
<b>Cash flow from operations (a)</b>	<b>42,076</b>	<b>55,118</b>	<b>74,247</b>	<b>87,932</b>
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
<b>Cash flow from investing (b)</b>	<b>(959)</b>	<b>13,339</b>	<b>(23,836)</b>	<b>(26,300)</b>
<b>Free cash flow (a+b)</b>	<b>41,116</b>	<b>68,457</b>	<b>50,411</b>	<b>61,632</b>
Inc/dec in borrowings	36	(114)	100	100
Dividend paid (incl. tax)	(40,490)	(40,469)	(47,956)	(57,637)
Other financing activities	0	0	0	0
<b>Cash flow from financing (c)</b>	<b>(40,532)</b>	<b>(71,901)</b>	<b>(48,206)</b>	<b>(57,837)</b>
<b>Net chng in cash (a+b+c)</b>	<b>584</b>	<b>(3,444)</b>	<b>2,205</b>	<b>3,795</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,639</b>	<b>2,195</b>	<b>4,400</b>	<b>8,194</b>

**DISCLAIMERS AND DISCLOSURES**

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, 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 or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.