

Bajaj Auto

HOLD

Exports Hits All Time High

Summary

Bajaj Auto (BJAUT) Q3FY22 PAT was below our estimates on account of lower than expected EBITDA margins and lower average realization per unit. Management expects domestic 2W market to remain soft in Q4FY22 while export market continues to show improvement and hit all time at retail in Q3FY22. The Company is planning to roll out its EV product (Chetak) aggressively over the next 12 months. We have marginally revised our Sales and PAT estimates upwards for FY24 by 0.9%/0.2% respectively. The Company is expected to report EPS of Rs198 and Rs224 for FY23 and FY24 respectively. At CMP, BJAUT stock is quoting at PER of 15.4x FY24E earnings. We retain our HOLD rating with a revised price target of Rs3,683 (PE of 16x FY24E + KTM value of Rs95).

Result Highlights and Investment Rationale

- PAT below estimates:** During Q3FY22, BJAUT's sales grew by 1% YoY to Rs90.2bn (our Estimates Rs91bn), driven by 9.6% volume decline and 12% increase in average realizations. Net profit declined by 22% to Rs12.1bn (our Estimates Rs12.9bn). PAT was below our estimates primarily on account of lower than expected EBITDA margins.
- Business Outlook:** We expect domestic 2W market to remain soft during Q4FY22 while recovery is expected from Q1FY23 onwards. International market continues to show improvement for BJAUT.
- Retain Hold:** At CMP 3443, BJAUT stock is quoting at PER of 15.4x FY24E earnings. We reduce our target PER multiple from 18x to 16x to factor in increased competitive intensity in 2w industry. We retain our HOLD rating with a revised price target of Rs3683 (PE of 16x FY24E + KTM value of Rs95).

TP **Rs 3,683**CMP **Rs 3,444**

Potential upside/downside +7%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.4	(12.0)	(5.4)
Rel to Sensex	3.0	(9.3)	(27.1)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	171.4	197.7	224.2
Consensus	180.7	218.0	243.3
% difference	(5.1)	(9.3)	(7.9)

Key Stock Data

Bloomberg/Reuters	BJAUT IN/BAJA.BO
Sector	Automobile
Shares o/s (mn)	289
Market cap. (Rs mn)	9,96,479
3-m daily avg Trd value (Rs mn)	58.1
52-week high / low	Rs4,361 / 3,028
Sensex / Nifty	58,117 / 17,325

Shareholding Pattern (%)

Promoters	53.7
FII	10.2
DII	13.2
Public	22.9

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,99,187	2,77,411	3,45,420	3,92,408	4,38,786
Change (yoy, %)	(1)	(7)	25	14	12
EBITDA	50,962	49,285	53,392	61,654	70,026
Change (yoy, %)	(2)	(3)	8	15	14
EBITDA Margin(%)	17.0	17.8	15.5	15.7	16.0
Adj.PAT	51,000	45,546	49,600	57,208	64,886
EPS (Rs)	176.2	157.4	171.4	197.7	224.2
Change (yoy, %)	9	(11)	9	15	13
PE(x)	21	24	22	19	17
Dividend Yield (%)	5	4	3	4	4
EV/EBITDA (x)	21	22	20	17	14
RoE (%)	24	20	19	21	22
RoCE (%)	23	21	20	21	23

Source: IDBI Capital Research

Concall Highlights:

- **On Exports business:** The Company clocked 219k units per month with Q3FY22 retail sales at record levels which is highest ever quarterly volumes achieved in overseas market combined. It also gained market share in both 2W and 3W segments. It also took 5% price hike in retail, higher than competitors. The Management expects Q4FY22 performance to be in line with Q3FY22, with 2.5mn units expected by end of FY22.
- **On 2W business:** The overall demand was muted double digit decline seen in Q3FY22. As per VAHAN data, the overall decline in Motorcycle registration at industry level in Q3FY22 at 11% and Jan-22 month continues to decline compared to Jan-21. The segments namely Entry, Mid and Sports declined, while Rural and semi urban areas continues to decline. The dampening of purchasing power of customers and revival in customers segment of average income less than 50,000 which comprise of 60% of company's customers are the factors leading to subdued demand.
- **On 3W business:** The significant improvement in Domestic 3W was led by normalcy in economy with volume growth of 18% seen on YoY basis. The company's market share stands at 71% in Q3FY22 and that for Dec-21 month at 74%. It topped the market share in 3W Cargo segment with 50%. The rise in CNG network in the country by 50% last year will be beneficial for the company's CNG models as its commands market share of 75%.
- **On Electric 2W business:** Under the Champion OEM PLI scheme, the company ploy on investing Rs 10bn in next 5 years. This includes investment of Rs 3bn at its Akurdi, Pune plant to build capacity for 500,000 EV's per annum. In Q3FY22 it sold over 2,000 units of Chetak brand and currently has order book of around 10,000 units. With better visibility in supply chain for EV components, the Managements plan on expanding to 12 cities in 2022 from current 8 cities in the country.
- **On Electric 3W business:** The Company is yet to receive approval for its Electric 3W products, expected by end of FY2. The segment will cover Cargos, Small and Large Passenger ranges. It is also gearing up its dealer network for support services.
- **Other Highlights:** The management has cautious stance for Q4FY22 as overall outlook for the industry remains muted with objective of maintaining Q4FY22 performance in line with Q4FY21.

Exhibit 1: Quarterly Snapshot

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ(%)
Volumes	1,181,361	1,306,810	(9.6)	1,144,407	3.2
Net Sales	90,217	89,099	1.3	87,622	3.0
Expenditure	76,495	71,803	6.5	73,611	3.9
<i>as % of sales</i>	84.8	80.6	-	84.0	-
Consumption of RM	67,433	63,082	6.9	64,565	4.4
<i>as % of sales</i>	74.7	70.8	-	73.7	-
Employee Cost	3,399	3,172	7.1	3,516	(3.3)
<i>as % of sales</i>	3.8	3.6	-	4.0	-
Other expenditure	5,664	5,548	2.1	5530	2.4
<i>as % of sales</i>	6.3	6.2	-	6.3	-
EBITDA	13,721	17,296	(20.7)	14,011	(2.1)
Depreciation	698	650	7.4	656	6.4
EBIT	13,023	16,646	(21.8)	13,355	(2.5)
Other Income	2,728	3,692	(26.1)	3,183	(14.3)
Interest	18	10	75.5	17	5.3
PBT	15,733	20,328	(22.6)	16,521	(4.8)
Total Tax	3,591	4,765	(24.6)	3,776	(4.9)
Adjusted PAT after MI	12,142	15,563	(22.0)	12,746	(4.7)
Extra ordinary items Loss/(Gain)	0	0	-	0	
Reported PAT	12,142	15,563	(22.0)	12,746	(4.7)
Adjusted EPS	42.0	53.8	(21.9)	44.1	(4.8)
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	15.2	19.4	(420)	16.0	(78)
EBIT	14.4	18.7	(425)	15.2	(81)
EBT	17.4	22.8	(538)	18.9	(142)
PAT	13.5	17.5	(401)	14.5	(109)
Effective Tax rate	22.8	23.4	(62)	22.9	(3)

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

	Actual	IDBI Est	% Variance
Net sales	90,217	91,356	(1.2)
EBITDA	13,721	14,359	(4.4)
EBITDA margin (%)	15.2	15.7	(49)bps
Adj net income	12,142	12,869	(5.7)

Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Volumes	4,675,999	4,546,517	(2.8)	5,195,469	5,084,168	(2.1)	5,683,998	5,639,880	(0.8)
Net Sales	3,51,019	3,45,420	(1.6)	3,94,997	3,92,408	(0.7)	4,34,797	4,38,786	0.9
EBITDA	54,630	53,392	(2.3)	62,464	61,654	(1.3)	69,806	70,026	0.3
EBITDA margin (%)	15.6	15.5	(10)bps	15.8	15.7	(10)bps	16.1	16.0	(10)bps
Net Profit	50,879	49,600	(2.5)	58,073	57,208	(1.5)	64,764	64,886	0.2

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	3,03,576	2,99,187	2,77,411	3,45,420	3,92,408	4,38,786
<i>Change (yoy, %)</i>	20.4	(1.4)	(7.3)	24.5	13.6	11.8
Operating expenses	(2,51,651)	(2,48,224)	(2,28,126)	(2,92,027)	(3,30,754)	(3,68,759)
EBITDA	51,925	50,962	49,285	53,392	61,654	70,026
<i>Change (yoy, %)</i>	7	-2	-3	8	15	14
<i>Margin (%)</i>	17.1	17.0	17.8	15.5	15.7	16.0
Depreciation	(2,657)	(2,464)	(2,593)	(2,663)	(2,893)	(3,124)
EBIT	49,268	48,498	46,692	50,729	58,761	66,903
Interest paid	(45)	(32)	(67)	(67)	(67)	(67)
Other income	14,389	17,336	12,765	14,014	15,903	17,772
Pre-tax profit	67,032	65,802	59,390	64,677	74,597	84,609
Tax	(20,280)	(14,802)	(13,844)	(15,077)	(17,389)	(19,723)
<i>Effective tax rate (%)</i>	30.3	22.5	23.3	23.3	23.3	23.3
Minority Interest	-	-	-	-	-	-
Net profit	46,752	51,000	45,546	49,600	57,208	64,886
Exceptional items	-	-	-	-	-	-
Adjusted net profit	46,752	51,000	45,546	49,600	57,208	64,886
<i>Change (yoy, %)</i>	13	9	(11)	9	15	13
EPS	162	176	157	171	198	224
Dividend per sh	60	180	140	120	138	157
<i>Dividend Payout %</i>	45	123	107	70	70	70

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	2,17,799	1,99,255	2,52,023	2,66,903	2,84,065	3,03,531
Share capital	2,894	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	2,14,905	1,96,361	2,49,129	2,64,009	2,81,171	3,00,637
Total Debt	1,625	-	-	-	-	-
Other liabilities	(418)	(3,684)	(1,927)	(1,927)	(1,927)	(1,927)
Curr Liab & prov	48,574	41,020	55,524	71,567	81,302	90,911
Current liabilities	47,022	38,636	53,980	69,645	79,119	88,470
Provisions	1,552	2,385	1,544	1,922	2,183	2,441
Total liabilities	49,781	37,336	53,597	69,640	79,376	88,984
Total equity & liabilities	2,67,580	2,36,591	3,05,619	3,36,543	3,63,441	3,92,515
Net fixed assets	17,565	15,652	15,290	16,627	17,734	18,610
Investments	1,92,144	1,81,960	2,26,310	2,26,310	2,26,310	2,26,310
Other non-curr assets	-	-	-	-	-	-
Current assets	57,872	38,979	64,020	93,606	1,19,397	1,47,596
Inventories	9,615	10,635	14,939	19,417	22,058	24,665
Sundry Debtors	25,597	17,251	27,169	27,655	31,417	35,130
Cash and Bank	9,233	3,083	5,274	25,817	42,386	61,483
Loans and advances	3,068	868	2,607	3,246	3,688	4,124
Total assets	2,67,580	2,36,591	3,05,619	3,36,543	3,63,441	3,92,515

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	67,032	65,802	59,390	64,677	74,597	84,609
Depreciation	2,657	(5,606)	2,593	2,663	2,893	3,124
Tax paid	(19,545)	(18,069)	(12,087)	(15,077)	(17,389)	(19,723)
Chg in working capital	(5,770)	1,973	(1,457)	10,440	2,891	2,853
Other operating activities	(4,484)	13,883	(8,284)	(4,085)	(2,114)	(2,214)
Cash flow from operations (a)	39,889	57,983	40,155	58,618	60,878	68,649
Capital expenditure	(1,445)	7,518	(2,231)	(4,000)	(4,000)	(4,000)
Chg in investments	(15,690)	10,184	(44,350)	-	-	-
Other investing activities	(1,359)	(10,667)	1,395	-	-	-
Cash flow from investing (b)	(18,493)	7,036	(45,186)	(4,000)	(4,000)	(4,000)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	48	(1,625)	-	-	-	-
Dividend (incl. tax)	(20,898)	(62,579)	(48,658)	(34,720)	(40,046)	(45,420)
Chg in minorities	-	-	-	-	-	-
Other financing activities	907	(6,965)	55,880	-	-	-
Cash flow from financing (c)	(19,943)	(71,169)	7,222	(34,720)	(40,046)	(45,420)
Net chg in cash (a+b+c)	1,453	(6,150)	2,191	19,898	16,832	19,228

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	753	689	871	922	982	1,049
Adj EPS (Rs)	161.6	176.2	157.4	171.4	197.7	224.2
Adj EPS growth (%)	13	9	-11	9	15	13
EBITDA margin (%)	17.1	17.0	17.8	15.5	15.7	16.0
Pre-tax margin (%)	22	22	21	19	19	19
Net Debt/Equity (x)	0.0	0.0	0.0	-0.1	-0.1	-0.2
ROCE (%)	24.0	23.4	21.0	19.7	21.5	22.9
ROE (%)	22.9	24.5	20.2	19.1	20.8	22.1
DuPont Analysis						
Asset turnover (x)	1.2	1.2	1.0	1.1	1.1	1.2
Leverage factor (x)	1.2	1.2	1.2	1.2	1.3	1.3
Net margin (%)	15.4	17.0	16.4	14.4	14.6	14.8
Working Capital & Liquidity ratio						
Inventory days	12	13	20	21	21	21
Receivable days	31	21	36	29	29	29
Payable days	55	47	71	72	73	73

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	23	21	24	22	19	17
Price/Book value (x)	4.9	5.4	4.2	4.0	3.8	3.5
EV/Net sales (x)	4	4	4	3	3	2
EV/EBITDA (x)	20	21	22	20	17	14
Dividend Yield (%)	2	5	4	3	4	4

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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