

# Bajaj Auto

## HOLD

Margin Resilience Commendable

### Summary

Bajaj Auto (BJAUT) Q1FY23 PAT was in-line our estimates. The average realization per unit increased by 16.8% YoY is the key highlight of the result. As per the Management, in the domestic market, the demand recovery is better witnessed in semi-urban areas compared to rural areas. Going forward, the Company is planning to roll out its EV product (Chetak) aggressively over the next 12 months. We retain our volume and PAT estimates for FY23 and FY24 respectively given the sluggish domestic demand environment and volatile raw material prices. At CMP, BJAUT stock is quoting at PER of 18.0x FY24E earnings. We retain our HOLD rating on the stock with a price target of Rs 4,208 (PE of 18x FY24E + KTM value of Rs95).

### Result Highlights and Investment Rationale

- Business Outlook:** Going forward, we expect domestic 2W market to pick up growth momentum post Q1FY23 onwards, while full recovery is expected during H2FY23. International market continues to show improvement for BJAUTO and likely to post decent volume growth in FY23.
- Retain Estimates:** We expect BJAUTO to report overall 11.3% volume CAGR over FY22-24E. Despite sluggish domestic demand environment and volatile raw material prices, we have kept our volume and PAT estimates unchanged for FY23E and FY24E respectively. We see upside to our Chetak's volume estimates given the Company's growth plans.
- Retain Hold:** At CMP of Rs 3,878, BJAUTO stock is quoting at PER of 18.0x FY24E earnings. We retain our HOLD rating on the stock with a price target of Rs 4,208 (PE of 18x FY24E + KTM value of Rs95).

TP **Rs 4,208**

CMP **Rs 3,878**

Potential upside/downside 9%

Previous Rating HOLD

### Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	(0.7)	1.5
Rel to Sensex	(4.6)	1.1	(4.6)

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	191.7	215.9
Consensus	194.1	229.7
% difference	(1.2)	(6.0)

### Key Stock Data

Bloomberg/Reuters	BJAUT IN/BAJA.BO
Sector	Automobile
Shares o/s (mn)	288
Market cap. (Rs mn)	1,115,822
3-m daily avg Trd value (Rs mn)	79.0
52-week high / low	Rs4,092 / 3,028
Sensex / Nifty	55,816 / 16,642

### Shareholding Pattern (%)

Promoters	53.8
FII	11.2
DII	12.4
Public	22.6

### Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,99,187	2,77,411	3,31,447	3,79,228	4,19,395
Change (yoy, %)	(1)	(7)	19	14	11
EBITDA	50,962	49,285	52,586	62,455	70,391
Change (yoy, %)	(2)	(3)	7	19	13
EBITDA Margin(%)	17.0	17.8	15.9	16.5	16.8
Adj.PAT	51,000	45,546	50,189	55,486	62,472
EPS (Rs)	176.2	157.4	173.4	191.7	215.9
Change (yoy, %)	9	(11)	10	11	13
PE(x)	22	25	22	20	18
Dividend Yield (%)	5	4	4	4	4
EV/EBITDA (x)	22	23	21	18	16
RoE (%)	24	20	19	20	22
RoCE (%)	23	21	19	22	23

Source: IDBI Capital Research

**Concall Highlights:**

- The Management expects inventory levels to build up in Q2FY23 compared to Q1FY23 where severe inventory depletion was seen due to inadequate availability of semiconductors.
- In the Domestic market, the demand recovery is better in semi-urban areas compared to rural where the 125cc segment has expanded and gained market share. The Pulsar NS 125 model continues to be significant contributor to 125cc segment. The overall demand recovery is also seen across the industry.
- In exports, the LATAM and ASEAN markets are performing well where company clocked highest ever sales of Dominar and Pulsar models in LATAM region.
- With the pandemic receding, the month on month improvement is seen across company's key exports market. Currently the only headwinds are in Africa region where retail prices have gone up by 2-3 times along with rising demand. The market share in Africa is gone up from 40% to now 69%.
- The Chetak EV sales doubled sequentially and now has footprints across 27 cities and 43 dealership across nation. The company also commissioned new plant for Chetak at Akurdi, Pune. The new plant will have capacity of 0.5mn per annum for span of 18-24 months. The Management aims on taking Chetak footprint across 100 cities.
- The Company has also introduced e-3W which is under trail in Pune. The target market for this product will be Delhi where the fuel and electricity cost is low. Also the e-3W's in Delhi are almost in par with CNG which provides penetration opportunity with rising CNG cost.
- In terms of overall 3W recovery, it is still at 50% of FY20 levels and will take time to reach full levels in selected markets due to unavailability of drivers and higher fuel cost. The company market share is growing well backed by CNG segment.
- On the commodity costs, although the metals prices are seen softening, the energy prices remains stiff. Going forward, the improving supplies and domestic business recovery will impact mix along with rupee depreciation and commodity price softening will aid to margins.

- On new product development in battery swapping, the company is looking into penetrating in B2B segment where it aims to target e-commerce companies where it will leverage the technology of partner YULU.
- The spares business now contributes 20% to overall company's turnover.

## Exhibit 1: Quarterly Snapshot

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ(%)
<b>Volumes</b>	<b>10,41,493</b>	<b>10,06,014</b>	<b>3.5</b>	<b>9,76,416</b>	<b>6.7</b>
<b>Net Sales</b>	<b>80,050</b>	<b>73,860</b>	<b>8.4</b>	<b>79,748</b>	<b>0.4</b>
<b>Expenditure</b>	<b>67,080</b>	<b>62,663</b>	<b>7.0</b>	<b>66,092</b>	<b>1.5</b>
<i>as % of sales</i>	83.8	84.8	-	82.9	-
Consumption of RM	57,776	53,944	7.1	57,357	0.7
<i>as % of sales</i>	72.2	73.0	-	71.9	-
Employee Cost	3,796	3,615	5.0	3,059	24.1
<i>as % of sales</i>	4.7	4.9	-	3.8	-
Other expenditure	5,558	5,124	8.5	5,700	(2.5)
<i>as % of sales</i>	6.9	6.9	-	7.1	-
Expenses capitalised	(51)	(21)	-	(23)	-
<b>EBITDA</b>	<b>12,970</b>	<b>11,198</b>	<b>15.8</b>	<b>13,656</b>	<b>(5.0)</b>
Depreciation	673	641	5.1	697	(3.4)
<b>EBIT</b>	<b>12,297</b>	<b>10,557</b>	<b>16.5</b>	<b>12,959</b>	<b>(5.1)</b>
Other Income	3,193	3,293	(3.0)	2,889	10.5
Interest	43	23	89.5	29	50.7
<b>PBT</b>	<b>15,447</b>	<b>13,827</b>	<b>11.7</b>	<b>15,819</b>	<b>(2.4)</b>
Total Tax	3,714	3,215	15.5	4,282	(13.3)
<b>Adjusted PAT after MI</b>	<b>11,733</b>	<b>10,612</b>	<b>10.6</b>	<b>11,537</b>	<b>1.7</b>
Extra ordinary items Loss/(Gain)	0	0		0	
<b>Reported PAT</b>	<b>11,733</b>	<b>10,612</b>	<b>10.6</b>	<b>11,537</b>	<b>1.7</b>
<b>Adjusted EPS</b>	<b>40.5</b>	<b>36.7</b>	<b>10.6</b>	<b>39.9</b>	<b>1.7</b>
<b>Margins (%)</b>			<b>YoY (bps)</b>		<b>QoQ (bps)</b>
EBIDTA	16.2	15.2	104	17.1	(92)
EBIT	15.4	14.3	107	16.3	(89)
EBT	19.3	18.7	58	19.8	(54)
PAT	14.7	14.4	29	14.5	19
Effective Tax rate	24.0	23.3	79	27.1	(303)

Source: Company; IDBI Capital Research

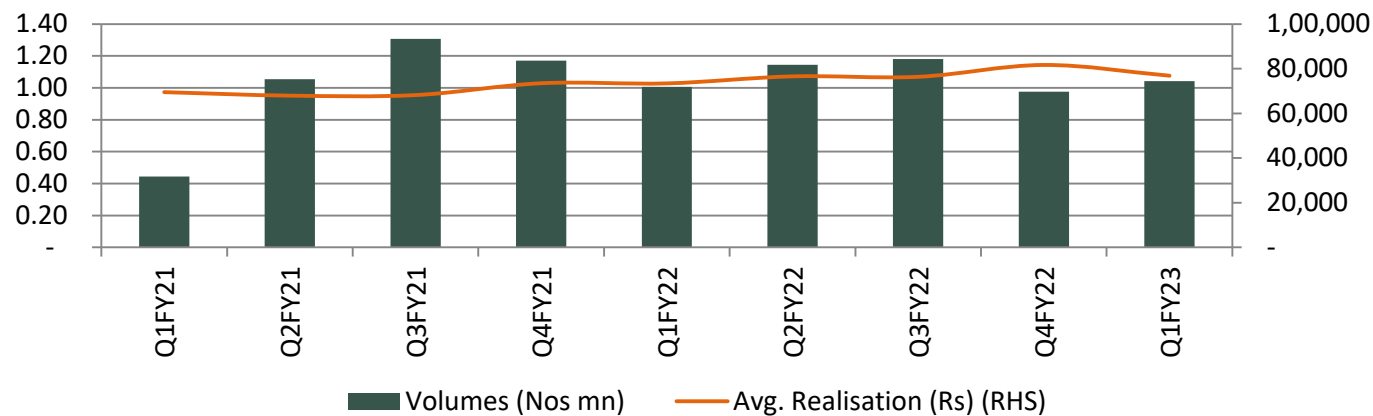
**Exhibit 2: Actual vs. Estimates**

(Rs mn)

	Actual	IDBI Est	% Variance
Net sales	80,050	77,001	4.0
EBITDA	12,970	13,031	(0.5)
EBITDA margin (%)	16.2	16.9	(72)bps
Adj net income	11,733	11,512	1.9

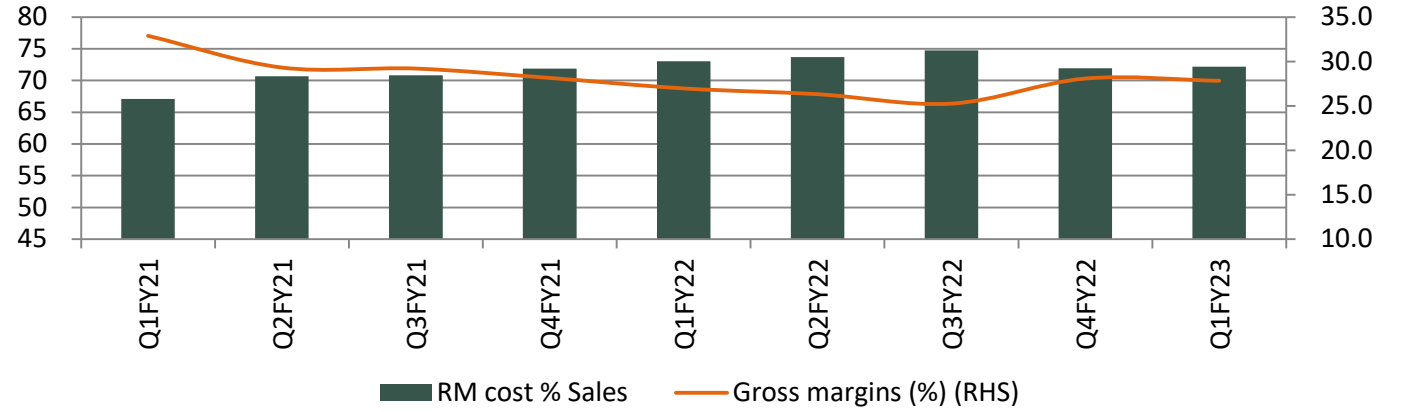
Source: Company; IDBI Capital Research

**Exhibit 3: Quarterly Sales volume and Realisations**



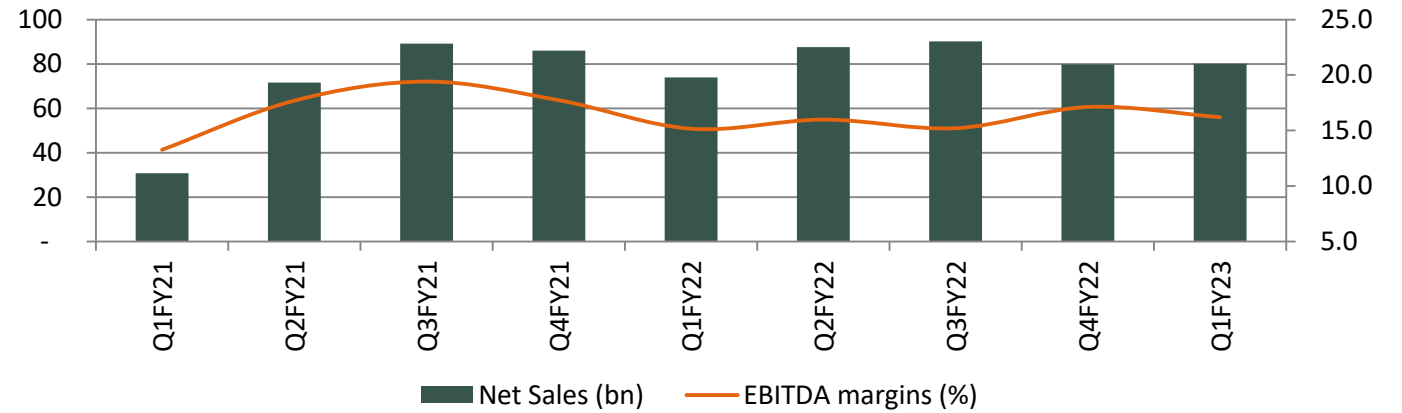
Source: Company; IDBI Capital Research

**Exhibit 4: RM Cost and Gross margins (%)**



Source: Company; IDBI Capital Research

**Exhibit 5: Quarterly Sales and EBITDA margins (%)**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>3,03,576</b>	<b>2,99,187</b>	<b>2,77,411</b>	<b>3,31,447</b>	<b>3,79,228</b>	<b>4,19,395</b>
<i>Change (yoy, %)</i>	20	(1)	(7)	19	14	11
Operating expenses	(2,51,651)	(2,48,224)	(2,28,126)	(2,78,861)	(3,16,773)	(3,49,005)
<b>EBITDA</b>	<b>51,925</b>	<b>50,962</b>	<b>49,285</b>	<b>52,586</b>	<b>62,455</b>	<b>70,391</b>
<i>Change (yoy, %)</i>	7	-2	-3	7	19	13
<i>Margin (%)</i>	17.1	17.0	17.8	15.9	16.5	16.8
Depreciation	(2,657)	(2,464)	(2,593)	(2,692)	(3,182)	(3,391)
<b>EBIT</b>	<b>49,268</b>	<b>48,498</b>	<b>46,692</b>	<b>49,895</b>	<b>59,273</b>	<b>67,000</b>
Interest paid	(45)	(32)	(67)	(87)	(87)	(87)
Other income	14,389	17,336	12,765	12,092	13,836	15,301
<b>Pre-tax profit</b>	<b>67,032</b>	<b>65,802</b>	<b>59,390</b>	<b>65,053</b>	<b>73,022</b>	<b>82,214</b>
Tax	(20,280)	(14,802)	(13,844)	(14,865)	(17,535)	(19,743)
<i>Effective tax rate (%)</i>	30.3	22.5	23.3	22.8	24.0	24.0
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>46,752</b>	<b>51,000</b>	<b>45,546</b>	<b>50,189</b>	<b>55,486</b>	<b>62,472</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>46,752</b>	<b>51,000</b>	<b>45,546</b>	<b>50,189</b>	<b>55,486</b>	<b>62,472</b>
<i>Change (yoy, %)</i>	13	9	(11)	10	11	13
EPS	162	176	157	173	192	216
Dividend per sh	60	180	140	140	153	173
<i>Dividend Payout %</i>	45	123	107	81	80	80

## Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>2,17,799</b>	<b>1,99,255</b>	<b>2,52,023</b>	<b>2,66,688</b>	<b>2,77,785</b>	<b>2,90,280</b>
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	2,63,794	2,74,892	2,87,386
<b>Total Debt</b>	<b>1,625</b>	-	-	-	-	-
Other liabilities	(418)	(3,684)	(1,927)	3,284	3,284	3,284
<b>Curr Liab &amp; provisions</b>	<b>48,574</b>	<b>41,020</b>	<b>55,524</b>	<b>46,626</b>	<b>53,348</b>	<b>58,999</b>
Current liabilities	47,022	38,636	53,980	45,089	51,589	57,053
Provisions	1,552	2,385	1,544	1,538	1,759	1,945
<b>Total liabilities</b>	<b>49,781</b>	<b>37,336</b>	<b>53,597</b>	<b>49,910</b>	<b>56,632</b>	<b>62,283</b>
<b>Total equity &amp; liabilities</b>	<b>2,67,580</b>	<b>2,36,591</b>	<b>3,05,619</b>	<b>3,16,599</b>	<b>3,34,417</b>	<b>3,52,562</b>
Net fixed assets	17,565	15,652	15,290	18,344	19,162	19,771
Investments	1,92,144	1,81,960	2,26,310	2,38,188	2,38,188	2,38,188
Other non-curr assets	-	-	-	-	-	-
<b>Current assets</b>	<b>57,872</b>	<b>38,979</b>	<b>64,020</b>	<b>60,067</b>	<b>77,068</b>	<b>94,604</b>
Inventories	9,615	10,635	14,939	12,305	14,079	15,570
Sundry Debtors	25,597	17,251	27,169	15,164	24,217	26,782
Cash and Bank	9,233	3,083	5,274	5,883	8,206	18,448
Loans and advances	3,068	868	2,607	9,855	11,276	12,470
<b>Total assets</b>	<b>2,67,580</b>	<b>2,36,591</b>	<b>3,05,619</b>	<b>3,16,599</b>	<b>3,34,417</b>	<b>3,52,562</b>



**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	67,032	65,802	59,390	65,053	73,022	82,214
Depreciation	2,657	(5,606)	2,593	12,391	3,182	3,391
Tax paid	(19,545)	(18,069)	(12,087)	(9,654)	(17,535)	(19,743)
Chg in working capital	(5,770)	1,973	(1,457)	(1,507)	(5,527)	400
Other operating activities	(4,484)	13,883	(8,284)	(4,085)	(2,114)	(2,214)
<b>Cash flow from operations (a)</b>	<b>39,889</b>	<b>57,983</b>	<b>40,155</b>	<b>62,198</b>	<b>51,028</b>	<b>64,048</b>
Capital expenditure	(1,445)	7,518	(2,231)	(15,445)	(4,000)	(4,000)
Chg in investments	(15,690)	10,184	(44,350)	(11,878)	-	-
Other investing activities	(1,359)	(10,667)	1,395	-	-	-
<b>Cash flow from investing (b)</b>	<b>(18,493)</b>	<b>7,036</b>	<b>(45,186)</b>	<b>(27,323)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	48	(1,625)	-	-	-	-
Dividend (incl. tax)	(20,898)	(62,579)	(48,658)	(40,490)	(44,389)	(49,977)
Chg in minorities	-	-	-	-	-	-
Other financing activities	907	(6,965)	55,880	-	-	-
<b>Cash flow from financing (c)</b>	<b>(19,943)</b>	<b>(71,169)</b>	<b>7,222</b>	<b>(40,490)</b>	<b>(44,389)</b>	<b>(49,977)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,453</b>	<b>(6,150)</b>	<b>2,191</b>	<b>(5,614)</b>	<b>2,639</b>	<b>10,071</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	753	689	871	922	960	1,003
Adj EPS (Rs)	161.6	176.2	157.4	173.4	191.7	215.9
Adj EPS growth (%)	13	9	(11)	10	11	13
EBITDA margin (%)	17.1	17.0	17.8	15.9	16.5	16.8
Pre-tax margin (%)	22	22	21	20	19	20
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	(0.1)
ROCE (%)	24	23	21	19	22	23
ROE (%)	23	24	20	19	20	22

### DuPont Analysis

Asset turnover (x)	1.2	1.2	1.0	1.0	1.1	1.2
Leverage factor (x)	1.2	1.2	1.2	1.2	1.2	1.2
Net margin (%)	15.4	17.0	16.4	15.1	14.6	14.9

### Working Capital & Liquidity ratio

Inventory days	12	13	20	14	14	14
Receivable days	31	21	36	17	23	23
Payable days	55	47	71	48	48	48

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	24	22	25	22	20	18
Price/Book value (x)	5.2	5.6	4.5	4.2	4.0	3.9
EV/Net sales (x)	4	4	4	3	3	3
EV/EBITDA (x)	21	22	23	21	18	16
Dividend Yield (%)	2	5	4	4	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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