

## Bajaj Auto

HOLD

Market weakness persists...

## Summary

Bajaj Auto (BJAUT) Q2FY22 PAT was above our estimates on account of higher than expected EBITDA margins and higher average per unit realizations. We expect domestic 2W market to remain soft in Q3FY22 and likely to post recovery during Q4FY22 while export market continues to show improvement for BJAUT. The Company is anticipated to face margin pressure during Q3FY22, due to high raw material prices. To factor in weakness in domestic 2W market and raw material cost inflation, we revise our Sales and PAT estimates by -1.9%/-12% and -1.2%/-11.2% for FY22E and FY23E respectively. The Company is expected to report EPS of Rs201 and Rs224 for FY23 and FY24 respectively. At CMP, BJAUT stock is quoting at PER of 16.1x FY24E earnings. We retain our HOLD rating on the stock with a revised price target of Rs4,124 (PE of 18x FY24E + KTM value of Rs95).

## Result Highlights and Investment Rationale

- PAT below estimates:** During Q2FY22, BJAUT's sales grew by 22.4% YoY to Rs87.6bn (our Estimates Rs85.7bn), driven by 8.6% volume growth and a 12.7% increase in average realizations. EBITDA margins during the quarter contracted by 155bps YoY to 16% (Our estimates 15%) on account of gross margin compression of 300bps. PAT increased by 12% YoY to Rs12.7bn against our estimates of Rs11.8bn.
- Business Outlook and Earning Revision:** We expect domestic 2W market to remain soft while recovery is expected from Q4FY22 onwards. International market continues to show improvement for BJAUT. To factor in weakness in domestic 2W market and raw material cost inflation, we revise our Sales and PAT estimates by -1.9%/-12% and -1.2%/-11.2% for FY22E and FY23E respectively.
- Retain Hold:** At CMP 3701, BJAUT stock is quoting at PER of 16.1x FY24E earnings (Net of KTM). We understand, business environment for BJAUT to improve across its markets in coming quarters. We retain our HOLD rating on the stock with a revised price target of Rs4124 (PE of 18x FY24E + KTM value of Rs95).

TP	Rs4,124
CMP	Rs3,701
Potential upside / downside	+11%
Previous Rating	HOLD

## V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	175.8	200.7	223.8
Consensus	182.2	217.5	246.7
% difference	(3.5)	(7.7)	(9.3)

## Shareholding Pattern (%)

Promoters	53.7
FII	11.2
DII	12.9
Public	22.2

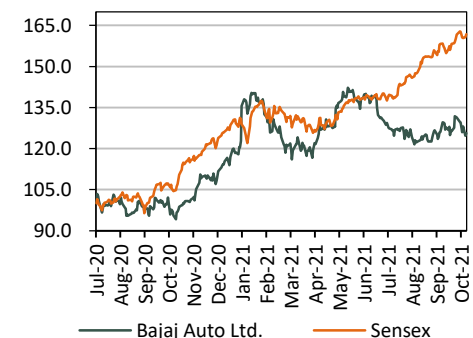
## Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.4)	(3.1)	25.5
Rel to Sensex	(5.3)	(17.2)	(22.6)

## Key Stock Data

Bloomberg / Reuters	BJAUT IN/BAJA.BO
Sector	Automobile
Shares o/s (mn)	289
Market cap. (Rs mn)	1,070,832
Market cap. (US\$ mn)	14,286
3-m daily avg Trd value (Rs mn)	79.0
52-week high / low	Rs4,361 / 2,823
Sensex / Nifty	59,985 / 17,857

## Relative to Sensex (%)



## Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	2,99,187	2,77,411	3,51,019	3,94,997	4,34,797
EBITDA	50,962	49,285	54,630	62,464	69,806
EBITDA (%)	17.0	17.8	15.6	15.8	16.1
Adj. PAT	51,000	45,546	50,879	58,073	64,764
EPS (Rs)	176.2	157.4	175.8	200.7	223.8
EPS Growth (%)	9.1	(10.7)	11.7	14.1	11.5
PE (x)	21.8	24.4	21.9	19.2	17.2
Dividend Yield (%)	4.7	3.6	3.2	3.7	4.1
EV/EBITDA (x)	21.8	22.5	19.9	17.1	15.0
RoE (%)	24.5	20.2	19.6	21.0	22.0
RoCE (%)	23.4	21.0	20.1	21.7	22.7

Source: IDBI Capital Research;

**Concall Highlights:****On demand outlook & industry headwinds**

- In wholesale the industry grew by 7% compared to same period last year while the company grew by 13% led by market share improvement. The domestic 3W business is gaining traction led by opening up of educational institutes and shopping areas across the nation. As per the management, the Q3FY22 is expected to be better than Q2FY22, with 3W very well poised for growth.
- The semiconductor shortages impacted the company's 20% of premium bike portfolio. The raw material inflation also impacted the margins. As per the management, once the industry overcomes the chips crisis the demand for metals is expected to come back swiftly which will lead to higher prices. Further the margins are expected to remain under pressure with no further prediction of outcome from the management beyond Q3FY22.
- The general auto industry slowdown in 2019, followed by Covid-19 pandemic in 2020 led to accelerated decline in demand for 2W. As per the management, the sales of 2W sales is reflection of bottom part of the economy, comprises of mass consumption groups (lower middle class and other socio-economic groups) which has been impacted due to the unprecedented events in the last two years' time span.
- On the demand pattern, the rural & entry level demand lags urban demand which has been hit severely. The festive period (Diwali and Dhanteras) is expected to deliver similar performance compared to same period last year.
- The company's gross cost increase was up sequentially at 3.5-4% in Q2FY22 while price increases were in the tune of 3%. It also took price hike on October 1<sup>st</sup>, 2021 which was of smaller quantum.

**On exports performance:**

- The company's exports had better performance where Philippines being amongst the top five market places. It also clocked highest ever sales in Latin America. The company's 90% of export share is derived from its number one & two markets in which it has increased its share and in some maintained it respectively.
- The company's main area of focus in exports being the upgradation and premiumization of products. The expected exports in Q3FY22 to cross 200,000 per month and is the exports to be seeing crossing \$2bn mark in FY22. The USD/INR realization in the quarter was at 74.9 and the exports in rupee terms at Rs41.5 bn.

**On EV and future outlook:**

- The company's Chetak EV model has opened up booking in Chennai and Hyderabad now with strong head start. The booking span for Chetak is 4 to 5 months.
- On the distribution front for Chetak, it comprises of one experience centre and KTM stores are used for retail sales with availability online customer purchase program.
- The company is planning for installing manufacturing facility for 2W of 0.5 million units/annum. The location for this facility will be company's existing space in Akurdi, Pune of 160 acres which only has R&D facility currently, while the investment in 3W space will be done at Waluj near Aurangabad which is planning phase currently of which the announcement of commencement will be made in few quarters time.
- The company current 2W EV capacity is 5000 per month which is sufficient to cater the demand. The supply chain shortages has impacted the space.
- The 3W debut testing will be performed from January to March 2022, post which it will be launched between March & May months. The management stated that, the transition from ICE to Li-ion battery to be of longer duration, but government mandates and subsidies will be favored for early adoption of EV's. The migration of 2W's is stronger compared to 3W's.

## Exhibit 1: Quarterly Snapshot

(Rs mn)	Q2FY22	Q2FY21	Q1FY22	YoY (%)	QoQ(%)
<b>Volumes</b>	<b>11,44,407</b>	<b>10,53,337</b>	<b>10,06,014</b>	<b>8.6</b>	<b>13.8</b>
<b>Net Revenue</b>	<b>87,622</b>	<b>71,559</b>	<b>73,860</b>	<b>22.4</b>	<b>18.6</b>
<b>Expenditure</b>	<b>73,611</b>	<b>58,896</b>	<b>62,662</b>	<b>25.0</b>	<b>17.5</b>
<i>as % of sales</i>	<i>84.0</i>	<i>82.3</i>	<i>84.8</i>	<i>170</i>	<i>(83)</i>
Consumption of RM	64,565	50,581	53,944	27.6	19.7
<i>as % of sales</i>	<i>73.7</i>	<i>70.7</i>	<i>73.0</i>	<i>300</i>	<i>65</i>
Employee Cost	3,516	3,246	3,615	8.3	(2.7)
<i>as % of sales</i>	<i>4.0</i>	<i>4.5</i>	<i>4.9</i>	<i>(52)</i>	<i>(88)</i>
Other expenditure	5530	5,069	5,103	9.1	8.4
<i>as % of sales</i>	<i>6.3</i>	<i>7.1</i>	<i>6.9</i>	<i>(77)</i>	<i>(60)</i>
<b>EBITDA</b>	<b>14,011</b>	<b>12,662</b>	<b>11,198</b>	<b>10.7</b>	<b>25.1</b>
Depreciation	656	643	641	2.0	2.3
<b>EBIT</b>	<b>13,355</b>	<b>12,019</b>	<b>10,557</b>	<b>11.1</b>	<b>26.5</b>
Other Income	3,183	2,858	3,293	11.4	(3.3)
Interest	17	27	23	(35.8)	(26.1)
<b>PBT</b>	<b>16,521</b>	<b>14,851</b>	<b>13,827</b>	<b>11.3</b>	<b>19.5</b>
Total Tax	3,776	3,469	3,215	8.9	17.4
<b>Adjusted PAT after MI</b>	<b>12,746</b>	<b>11,382</b>	<b>10,612</b>	<b>12.0</b>	<b>20.1</b>
Extra ordinary items Loss/(Gain)	0	0	0		
<b>Reported PAT</b>	<b>12,746</b>	<b>11,382</b>	<b>10,612</b>	<b>12.0</b>	<b>20.1</b>
<b>Adjusted EPS</b>	<b>44.1</b>	<b>39.3</b>	<b>36.7</b>	<b>12.2</b>	<b>20.2</b>
<b>Margins (%)</b>				<b>(bps)</b>	<b>(bps)</b>
EBIDTA	16.0	17.7	15.2	(170)	83
EBIT	15.2	16.8	14.3	(155)	95
EBT	18.9	20.8	18.7	(190)	13
PAT	14.5	15.9	14.4	(136)	18
Effective Tax rate	22.9	23.4	23.3	(50)	(40)

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

(Rs mn)

	Actual	IDBI Est	% Variance
Net sales	87,622	85,701	2.2
EBITDA	14,011	12,852	8.3
EBITDA margin (%)	16.0	15.0	99
Adj net income	12,746	11,782	7.6

Source: Company; IDBI Capital Research

**Exhibit 3: Change in estimates**

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Sales volume	48,07,527	46,75,999	(2.7)	52,92,969	51,95,469	(1.8)
Net sales	3,57,731	3,51,019	(1.9)	3,99,602	3,94,997	(1.2)
EBITDA	63,569	54,630	(14.1)	71,998	62,464	(13.2)
EBITDA margin (%)	17.8	15.6	(221)	18.0	15.8	(220)
Net Profit	57,806	50,879	(12.0)	65,377	58,073	(11.2)

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>2,77,411</b>	<b>3,51,019</b>	<b>3,94,997</b>	<b>4,34,797</b>
<i>Growth (%)</i>	<i>(7.3)</i>	<i>26.5</i>	<i>12.5</i>	<i>10.1</i>
Operating expenses	(2,28,126)	(2,96,389)	(3,32,534)	(3,64,991)
<b>EBITDA</b>	<b>49,285</b>	<b>54,630</b>	<b>62,464</b>	<b>69,806</b>
<i>Growth (%)</i>	<i>-3.3</i>	<i>10.8</i>	<i>14.3</i>	<i>11.8</i>
Depreciation	(2,593)	(2,794)	(3,036)	(3,278)
<b>EBIT</b>	<b>46,692</b>	<b>51,835</b>	<b>59,428</b>	<b>66,528</b>
Interest paid	(67)	(67)	(67)	(67)
Other income	12,765	16,070	18,070	19,890
<b>Pre-tax profit</b>	<b>59,390</b>	<b>67,839</b>	<b>77,431</b>	<b>86,352</b>
Tax	(13,844)	(16,960)	(19,358)	(21,588)
<i>Effective tax rate (%)</i>	<i>23.3</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>
<b>Net profit</b>	<b>45,546</b>	<b>50,879</b>	<b>58,073</b>	<b>64,764</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>45,546</b>	<b>50,879</b>	<b>58,073</b>	<b>64,764</b>
<i>Growth (%)</i>	<i>(10.7)</i>	<i>11.7</i>	<i>14.1</i>	<i>11.5</i>
<i>Shares o/s (mn nos)</i>	<i>289</i>	<i>289</i>	<i>289</i>	<i>289</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	59,390	67,839	77,431	86,352
Depreciation	2,593	2,794	3,036	3,278
Tax paid	(12,087)	(16,960)	(19,358)	(21,588)
Chg in working capital	(1,457)	10,731	2,699	2,442
Other operating activities	(8,284)	(4,085)	(2,114)	(2,214)
<b>Cash flow from operations (a)</b>	<b>40,155</b>	<b>60,320</b>	<b>61,694</b>	<b>68,270</b>
Capital expenditure	(2,231)	(4,000)	(4,000)	(4,000)
Chg in investments	(44,350)	-	-	-
Other investing activities	1,395	-	-	-
<b>Cash flow from investing (b)</b>	<b>(45,186)</b>	<b>(4,000)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(48,658)	(35,615)	(40,651)	(45,335)
Chg in minorities	-	-	-	-
Other financing activities	55,880	-	-	-
<b>Cash flow from financing (c)</b>	<b>7,222</b>	<b>(35,615)</b>	<b>(40,651)</b>	<b>(45,335)</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,191</b>	<b>20,704</b>	<b>17,043</b>	<b>18,935</b>

## Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	15,290	16,496	17,460	18,182
Investments	2,26,310	2,26,310	2,26,310	2,26,310
Other non-curr assets	-	-	-	-
<b>Current assets</b>	<b>64,020</b>	<b>95,202</b>	<b>1,20,762</b>	<b>1,47,705</b>
Inventories	14,939	19,705	22,174	24,408
Sundry Debtors	27,169	28,103	31,624	34,810
Cash and Bank	5,274	26,340	43,272	62,409
Marketable Securities	-	-	-	-
Loans and advances	2,607	3,299	3,712	4,086
<b>Total assets</b>	<b>3,05,619</b>	<b>3,38,007</b>	<b>3,64,531</b>	<b>3,92,197</b>
<b>Shareholders' funds</b>	<b>2,52,023</b>	<b>2,67,286</b>	<b>2,84,708</b>	<b>3,04,137</b>
Share capital	2,894	2,894	2,894	2,894
Reserves & surplus	2,49,129	2,64,393	2,81,815	3,01,244
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	(1,927)	(1,927)	(1,927)	(1,927)
<b>Curr Liab &amp; prov</b>	<b>55,524</b>	<b>72,647</b>	<b>81,749</b>	<b>89,986</b>
Current liabilities	53,980	70,694	79,551	87,567
Provisions	1,544	1,953	2,198	2,419
<b>Total liabilities</b>	<b>53,597</b>	<b>70,721</b>	<b>79,822</b>	<b>88,059</b>
<b>Total equity &amp; liabilities</b>	<b>3,05,619</b>	<b>3,38,007</b>	<b>3,64,531</b>	<b>3,92,197</b>
<b>Book Value (Rs)</b>	<b>871</b>	<b>924</b>	<b>984</b>	<b>1,051</b>

Source: Company; IDBI Capital Research

## Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	157.4	175.8	200.7	223.8
Adj. EPS growth (%)	-10.7	11.7	14.1	11.5
EBITDA margin (%)	17.8	15.6	15.8	16.1
Pre-tax margin (%)	21.4	19.3	19.6	19.9
ROE (%)	20.2	19.6	21.0	22.0
ROCE (%)	21.0	20.1	21.7	22.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.0	1.1	1.1	1.1
Leverage factor (x)	1.2	1.2	1.3	1.3
Net margin (%)	16.4	14.5	14.7	14.9
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.2
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	20	20	20	20
Receivable days	36	29	29	29
Payable days	71	72	73	73

## Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	24.4	21.9	19.2	17.2
Price / Book value (x)	4.4	4.2	3.9	3.7
PCE (x)	23.1	20.7	18.2	16.3
EV / Net sales (x)	4.0	3.1	2.7	2.4
EV / EBITDA (x)	22.5	19.9	17.1	15.0
Dividend Yield (%)	3.6	3.2	3.7	4.1



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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