

Bajaj Auto Ltd

Domestic stable, exports bottomed-out, EVs & Triumph is next!

Beat across all parameters led by a better than expected increase in the realization driven by QoQ increase in exports (+500bps to 44.7% of volumes), 3Ws (+200bps to 13.4%), higher spare parts sales (Rs11bn) & better USD realization (\$82). Realization and EBITDA per unit is at historic highs. Bajaj Auto touched 19%+ EBITDA Margin after eight quarters owing to higher than expected benefits from soft commodity prices, and better mix (geographic & product). We anticipate continued strong show in domestic business (~2.16mn, +20% in FY23e) across segments, refreshed models & special emphasis on EV product launches to support volume growth. Whereas, believe exports bottomed out and a gradual QoQ increase expected starting Q1FY24 (export volumes ~1.94mn, -23% in FY23e). EBITDA Margin is healthy at 19.1%, but will normalize to 18.5% in FY24e as overall domestic contribution is inching-up. A good number of e2W launches projected with increasing reach, whereas e3W launch is on cards by end of FY23e. Overall, we have factored in largely all negatives/positives and believes that the company is trading at reasonably attractive valuations. Upgrade from ACCUMULATE to BUY due to exceptional Q3 numbers, rollover to FY25e with a fair value of Rs 4,375 apiece

Exports bottomed out, seen cyclical downturns in the past, QoQ improvement on the cards

- Based on our past multi-year analysis, Bajaj has faced the impact on volumes maximum for six quarters & sales bounced back consequently.
- Similarly, we anticipate pain in exports to remain for one more quarter & a gradual revival anticipated in the subsequent quarters starting Q1FY24. Export volumes expected is ~1.94mn, -23% in FY23e, projected ~8% CAGR FY23e-FY25e to touch ~2.26mn units by FY25e.

3Ws upcycle to get further strengthened

- 3Ws are in cyclical upturn, expect the momentum to continue. Bajaj known for quality will launch its e3W in the coming few months should support volumes.
- The industry is moving towards CNG, and Bajaj is best placed with higher market share. 3W CNG has higher ASPs/margins, should support financials.
- Projected ~295K units for domestic 3Ws, and would cross its peak FY19 numbers (~400K) by FY25e (~413K units).

Rural to join the race, refreshed models to pull customers, EV & Triumph is next.

- Bajaj has been working silently on building capabilities in-house for electric vehicles, multiple e2W launches on cards to serve diverse segments. Expanding network and will be displaying EV products in a separate showrooms to provide a differentiated experience.
- Bajaj-Triumph product is developed, is under field-testing and will update further near to the launch date. The opportunity size is good with better ASPs/Margins.
- We projected domestic 2W volumes to touch ~1.87mn units in FY23e with a 10.5% CAGR (incl. EV sales) between FY23e-FY25e.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Volumes (No)	983,276	1,181,361	(16.8)	1,151,012	(14.6)	983,276	-
Realization (Rs)	94,736	76,367	24.1	88,642	6.9	89,971	5.3
EBITDA/unit (Rs)	18,070	11,615	55.6	15,280	18.3	16,215	11.4
Total Income	93,151	90,217	3.3	102,028	(8.7)	88,467	5.3
Gross margin (%)	29.4	25.3	413 bps	26.6	276 bps	-	-
EBITDA	17,768	13,721	29.5	17,587	1.0	15,944	11.4
EBITDA margin (%)	19.1	15.2	387 bps	17.2	184 bps	18.0	105 bps
Other income	2,691	2,728	(1.3)	3,332	(19.2)	-	-
PBT	19,635	15,733	24.8	20,140	(2.5)	-	-
Taxes paid	4,721	3,591	31.5	4,840	(2.5)	-	-
Effective tax rate (%)	24.0	22.8	122 bps	24.0	1 bps	-	-
Reported PAT	14,914	12,142	22.8	15,300	(2.5)	13,846	7.7
PAT margin (%)	16.0	13.5	255 bps	15.0	101 bps	15.7	36 bps

Source: Company, SMIFS Institutional research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	277,411	(7.3)	49,285	17.8	45,546	(10.7)	157	20.2	20.2	20.0	14.0
FY22	331,447	19.5	52,586	15.9	47,824	5.0	165	18.4	18.4	22.5	16.0
FY23e	374,061	12.9	67,300	18.0	57,888	21.0	205	21.3	21.4	18.6	12.5
FY24e	429,195	14.7	79,190	18.5	67,613	16.8	239	24.0	24.2	15.9	10.6
FY25e	479,103	11.6	90,812	19.0	76,365	12.9	270	25.8	25.9	14.1	9.1

Source: Company, SMIFS Institutional research estimates



Rating: **Buy** Upside/(Downside): **17.7%**
Current Price: **3,717** Target Price: **4,375**

| Earlier recommendation

Previous Rating:	Accumulate
Previous Target Price:	4,015

| Market data

Bloomberg:	BJAUT IN
52-week H/L (Rs):	4,130/3,126
Mcap (Rs bn/USD bn):	1,076/13.2
Shares outstanding (mn):	283
Free float:	44.0%
Daily vol. (3M Avg):	0.28mn
Face Value (Rs):	10

Source: Bloomberg, SMIFS Institutional research

| Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	55.0	54.8	53.8	53.8
FII's	11.8	11.6	11.2	10.5
DII's	11.0	11.6	12.4	13.2
Public/others	22.2	22.0	22.6	22.5

Source: BSE

| Promoters pledging (%)

Promoter pledged shares	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%) *

	1M	3M	12M	36M
Nifty 50	0.5	1.3	3.6	46.1
Nifty 500	0.8	0.1	2.3	50.5
BJAU	5.0	1.7	7.2	20.9

*As on 25th Jan 2023; Source: AceEquity, SMIFS research

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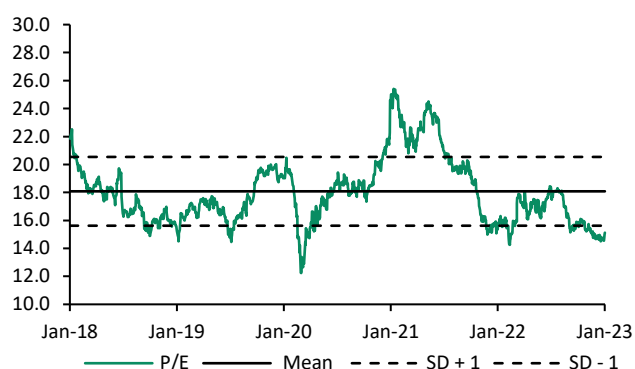
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Outlook and Valuations

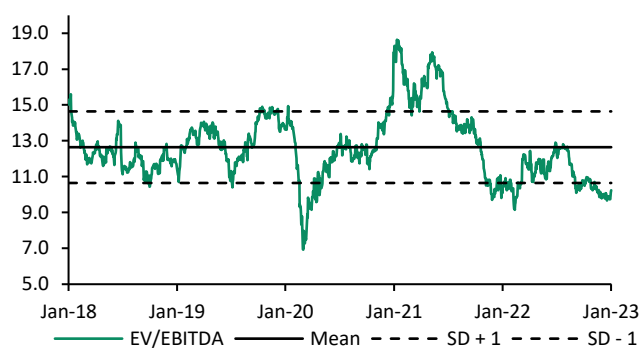
- Tweaked estimates marginally looking at strong Q3 margin performance offset by changing dynamics in domestic & exports. Our EPS is largely remain intact for FY23e/FY24e/FY25e. Rollover from Sep '24e to FY25e EPS, reduced multiple from 16x to 15x due to uncertainty & competition.
- Upgrade from ACCUMULATE to BUY rating on the stock for a **target price of Rs 4,375** (15x FY25e EPS of Rs 270 and valued KTM at Rs 327/share). **On standalone basis, the stock is trading attractively at ~14.1x FY25e EPS.**

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Institutional research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Institutional research

Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Total Volumes (No)	4,101,129	4,544,386	4,955,970	4,435,578	4,934,066	5,339,873	-7.5%	-7.9%	-7.2%
Revenue	374,061	429,195	479,103	392,572	453,433	502,114	-4.7%	-5.3%	-4.6%
Gross profit	105,905	122,802	139,957	107,809	125,883	141,406	-1.8%	-2.4%	-1.0%
Gross margin (%)	28.3	28.6	29.2	27.5	27.8	28.2	85 bps	85 bps	105 bps
EBITDA	67,300	79,190	90,812	68,006	80,846	91,807	-1.0%	-2.0%	-1.1%
EBITDA margin (%)	18.0	18.5	19.0	17.3	17.8	18.3	67 bps	62 bps	67 bps
PAT	57,888	67,613	76,365	58,474	68,923	77,169	-1.0%	-1.9%	-1.0%
EPS (Rs)	205	239	270	202	238	267	1.3%	0.4%	1.1%

Source: Company, SMIFS research estimates

Q3FY23 – Key takeaways from the management call

Exports

- It continued to face strong headwinds due to macro-economic factors. The industry was down 30% YoY in Q3 in LatAm, Africa, etc. However, ASEAN reported double-digit growth. Bajaj's market share in key territories remains steady & strong.
- Retails bottomed out now, and holding steady. Going forward, will see retails improving as customers will digest new higher prices.
- Nigeria will still be depressed due to elections in Feb '23, and in general, dollar availability is a cause of concern.
- Expect recovery may start from May/Jun '23 in LatAm, followed by Africa.
- Exports revenue in Q3FY23 was \$415mn.

Domestic two-wheelers

- Retail growth in Q3 was 14% supported by Oct's festive season. The industry should continue to grow at 3-5% level, higher growth in top segment, while entry level continues to suffer & rural remained soft.
- Launched three new products in 110cc, 125cc & 150cc.
- On Triumph partnership, Bajaj is hoping to replicate the success of Bajaj-KTM. The scale of the opportunity is bigger vs. KTM in India, will cover larger segment with this partnership.
- Bajaj-Triumph product is developed and is under field-testing in India, the UK, etc. Working on front-end operations, and will announce plans very soon.

Domestic three-wheelers

- Bajaj is best placed, as the industry is moving towards CNG.
- Bajaj's CNG products are 15% higher than diesel/petrol, and margin too is better.

Electric vehicles

- Electric 3W is on field-testing, will deliver best in class range and expect it to launch by end of March in select markets. Bajaj will go slow & steady in e3Ws.
- eChetak sales was ~10K units in Q3, launched an expansion drive in new cities as supplies are supporting now with additional new sources.
- To launch a range of products serving different segments from low speed to premium to fleet operators, etc.
- Bajaj adheres to battery quality standards. Lower subsidy scenario can come in the future.
- Electric 2W need differentiated experience, hence will start displaying it in separate showrooms. Existing dealers are more than happy to setup new showrooms exclusive for EVs.
- Bajaj Auto does not have volumetric ambition, the aim is to build capabilities, bring down the cost & preparing for lower subsidies. 10 years ago, export subsidy was 10%, which is now 2%. Similar thing can happen in the EV case as well.
- In FY24e, will see the outcome of all preparatory work ongoing.

Margins

- QoQ EBITDA Margin will be near flattish in Q4FY23 as some commodities started inching-up, offset by operating leverage.
- The biggest driver for QoQ margin improvement in Q3FY23 was lower RM cost.
- No price increased so far in Q4FY23.

Other key highlights

- Dollar realization was 82, up 3% QoQ, 9% YoY, and supported financials.
- Spare parts revenue is highest at Rs11bn in Q3, supported in Q3 financials/margins.
- Semiconductor situation has now stabilized and added further alternate sources.
- Cash available is Rs150bn, have sufficient money to invest in growth opportunities.

Quarterly financials, operating metrics & key performance indicators

Fig 3: Quarterly Financials

Y/E March (Rs Mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	85,961	73,860	87,622	90,217	79,748	80,050	102,028	93,151
Raw Materials	(61,767)	(53,944)	(64,565)	(67,433)	(57,357)	(57,776)	(74,861)	(65,775)
Employee Costs	(3,070)	(3,615)	(3,516)	(3,399)	(3,059)	(3,796)	(3,522)	(3,511)
Other Expenditure	(5,884)	(5,103)	(5,530)	(5,664)	(5,677)	(5,507)	(6,058)	(6,097)
EBITDA	15,241	11,198	14,011	13,721	13,656	12,970	17,587	17,768
Depreciation	(662)	(641)	(656)	(698)	(697)	(673)	(670)	(740)
Interest	(20)	(23)	(17)	(18)	(29)	(43)	(109)	(85)
Other Income	2,836	3,293	3,183	2,728	2,889	3,193	3,332	2,691
Exceptional items	-	-	-	-	3,153	-	-	-
PBT	17,395	13,827	16,521	15,733	18,972	15,447	20,140	19,635
Tax	(4,074)	(3,215)	(3,776)	(3,591)	(4,282)	(3,714)	(4,840)	(4,721)
Tax rate (%)	23.4	23.3	22.9	22.8	22.6	24.0	24.0	24.0
Reported PAT	13,321	10,612	12,746	12,142	14,690	11,733	15,300	14,914
Adjusted PAT	13,321	10,612	12,746	12,142	12,325	11,733	15,300	14,914
YoY Growth (%)								
Revenue	26.1	139.9	22.4	1.3	(7.2)	8.4	16.4	3.3
EBITDA	21.7	174.1	10.7	(20.7)	(10.4)	15.8	25.5	29.5
PAT	1.7	101.0	12.0	(22.0)	(7.5)	10.6	20.0	22.8
QoQ Growth (%)								
Revenue	(3.5)	(14.1)	18.6	3.0	(11.6)	0.4	27.5	(8.7)
EBITDA	(11.9)	(26.5)	25.1	(2.1)	(0.5)	(5.0)	35.6	1.0
PAT	(14.4)	(20.3)	20.1	(4.7)	1.5	(4.8)	30.4	(2.5)
Margin (%)								
RMC/revenue (%)	71.9	73.0	73.7	74.7	71.9	72.2	73.4	70.6
Gross margin (%)	28.1	27.0	26.3	25.3	28.1	27.8	26.6	29.4
Employee cost/revenue (%)	3.6	4.9	4.0	3.8	3.8	4.7	3.5	3.8
Other expenses/revenue (%)	6.8	6.9	6.3	6.3	7.1	6.9	5.9	6.5
EBITDA margin (%)	17.7	15.2	16.0	15.2	17.1	16.2	17.2	19.1
PAT margin (%)	15.5	14.4	14.5	13.5	15.5	14.7	15.0	16.0

Source: Company, SMIFS Institutional research

Fig 4: Key Assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
Two wheeler volume breakup	3,947,356	3,605,893	3,840,933	3,610,475	3,951,238	4,314,278
YoY Growth (%)	(6.8)	(8.7)	6.5	(6.0)	9.4	9.2
Domestic	2,078,136	1,809,375	1,645,161	1,868,119	2,052,032	2,282,081
YoY Growth (%)	(18.2)	(12.9)	(9.1)	13.6	9.8	11.2
Exports	1,869,220	1,796,518	2,195,772	1,742,355	1,899,206	2,032,197
YoY Growth (%)	10.2	(3.9)	22.2	(20.6)	9.0	7.0
Three wheeler volume breakup (incl. Quadricycle)	667,644	367,021	471,577	490,654	593,148	641,692
YoY Growth (%)	(14.8)	(45.0)	28.5	4.0	20.9	8.2
Domestic	366,257	109,292	160,723	295,184	380,068	413,582
YoY Growth (%)	(8.5)	(70.2)	47.1	83.7	28.8	8.8
Exports	301,387	257,729	310,854	195,470	213,080	228,109
YoY Growth (%)	(21.3)	(14.5)	20.6	(37.1)	9.0	7.1
Total vehicle sales	4,615,000	3,972,914	4,312,510	4,101,129	4,544,386	4,955,970
YoY Growth (%)	(8.1)	(13.9)	8.5	(4.9)	10.8	9.1
Net Revenues (Rs mn)	299,187	277,411	331,447	374,061	429,195	479,103
Realization per unit (Rs)	64,829	69,826	76,857	91,209	94,445	96,672
YoY Growth (%)	7.2	7.7	10.1	18.7	3.5	2.4
EBITDA per unit (Rs)	11,043	12,405	12,194	16,410	17,426	18,324
YoY Growth (%)	6.8	12.3	(1.7)	34.6	6.2	5.2

Source: Company, SMIFS Institutional research estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	277,411	331,447	374,061	429,195	479,103
Materials cost	196,097	243,298	268,156	306,393	339,147
% of revenues	70.7	73.4	71.7	71.4	70.8
Employee cost	12,860	13,588	14,403	15,844	17,428
% of revenues	4.6	4.1	3.9	3.7	3.6
Others	19,170	21,975	24,202	27,769	31,717
% of revenues	6.9	6.6	6.5	6.5	6.6
EBITDA	49,285	52,586	67,300	79,190	90,812
Other income	12,765	12,092	12,065	13,365	13,705
Depreciation & Amortisation	2,593	2,692	2,841	3,182	3,580
EBIT	59,457	61,987	76,525	89,373	100,937
Interest expenses	67	87	356	409	456
Core PBT	46,625	49,808	64,103	75,599	86,776
Exceptional items	-	3,153	-	-	-
PBT	59,390	65,053	76,169	88,965	100,480
Taxes	13,844	14,865	18,281	21,351	24,115
Effective tax rate (%)	23.3	22.8	24.0	24.0	24.0
PAT	45,546	50,189	57,888	67,613	76,365
Adjusted PAT	45,546	47,824	57,888	67,613	76,365

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	(7.3)	19.5	12.9	14.7	11.6
EBITDA	(3.3)	6.7	28.0	17.7	14.7
Net Profit	(10.7)	5.0	21.0	16.8	12.9
Margin Ratio (%)					
Gross Margin	29.3	26.6	28.3	28.6	29.2
EBITDA Margin	17.8	15.9	18.0	18.5	19.0
EBIT Margin	21.4	18.7	20.5	20.8	21.1
PBT margins	16.8	15.0	17.1	17.6	18.1
Adj. PAT Margin	16.4	14.4	15.5	15.8	15.9
Return Ratios (%)					
ROE	20.2	18.4	21.3	24.0	25.8
ROCE	20.2	18.4	21.4	24.2	25.9
Turnover Ratios (days)					
Gross Block Turnover (x)	6.5	7.4	7.6	7.8	7.7
Adjusted OCV/PAT (%)	67.5	87.0	83.1	84.2	86.4
Inventory	24	20	20	20	20
Debtors	29	23	23	23	23
Creditors	72	62	62	62	62
Cash Conversion Cycle	(19)	(18)	(18)	(18)	(18)
Solvency ratio (x)					
Debt-equity	-	-	-	-	-
Net Debt-Equity	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
Gross Debt/EBITDA	-	-	-	-	-
Current ratio	2.5	2.1	2.0	1.9	2.0
Interest coverage ratio	893	716	215	219	221
Dividend					
DPS (Rs.)	140	140	168	197	197
Dividend Yield (%)	4.5	3.8	4.4	5.2	5.2
Dividend Payout (%)	88.9	80.7	84.0	84.3	74.6
Per share (Rs.)					
Basic EPS (reported)	157	173	205	239	270
Adjusted EPS	157	165	205	239	270
CEPS	166	175	215	250	282
BV	871	922	975	1,012	1,081
Valuation					
P/E	20.0	22.5	18.6	15.9	14.1
P/BV	3.6	4.0	3.9	3.8	3.5
EV/EBITDA	14.0	16.0	12.5	10.6	9.1
EV/Sales	2.5	2.5	2.2	1.9	1.7
Adj Mcap/Core PBT	14.8	16.9	13.1	11.1	9.5
Adj Mcap/Adj OCF	22.5	20.2	17.5	14.7	12.5

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	2,894	2,894	2,830	2,830	2,830
Reserves & Surplus	249,129	263,794	273,069	283,677	303,037
Shareholders' Fund	252,023	266,688	275,899	286,507	305,867
Total loan funds	-	-	-	-	-
Other liabilities	6,847	5,637	5,639	5,641	5,643
Total Liabilities	258,870	272,325	281,538	292,148	311,509
Application of funds					
Gross Block	43,443	46,312	51,865	58,732	66,347
Net Block	16,649	18,340	22,604	27,915	33,664
Capital WIP	160	768	768	768	768
Investments	226,310	238,188	243,050	247,772	253,042
Other Non-Current Assets	10,713	11,670	12,128	12,721	13,258
Inventory	14,939	12,305	15,014	17,155	18,988
Sundry debtors	27,169	15,164	23,887	27,408	30,595
Cash & bank balances	5,274	5,883	5,071	4,750	12,408
Other current assets	14,089	16,901	16,128	18,934	21,136
Total Current Assets	61,470	50,253	60,100	68,247	83,128
Sundry creditors	45,738	36,332	45,228	51,677	57,201
Other current liabilities	10,694	10,563	11,886	13,599	15,149
Total current liabilities	56,432	46,894	57,114	65,275	72,350
Net Current Assets	5,038	3,359	2,986	2,972	10,778
Total Assets	258,870	272,325	281,538	292,148	311,509

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	49,644	53,085	67,300	79,190	90,812
Net chg in working capital	(5,108)	6,006	(896)	(897)	(683)
Income tax paid	(13,397)	(17,015)	(18,281)	(21,351)	(24,115)
Cash flow from operating activities (a)	31,139	42,076	48,123	56,941	66,014
Adjusted OCF	30,730	41,620	48,123	56,941	66,014
Capital expenditure	(2,410)	(5,507)	(7,116)	(8,504)	(9,341)
Adjusted FCF	28,320	36,113	41,007	48,437	56,673
Cash flow from investing activities (b)	(28,654)	(959)	98	152	(895)
Debt Issuance/(repayment)	-	-	-	-	-
Dividend Paid	(87)	(40,490)	(48,614)	(57,005)	(57,005)
Interest and Lease Expenses	(55)	(74)	(356)	(409)	(456)
Cash flow from financing activities (c)	(195)	(40,563)	(49,033)	(57,414)	(57,461)
Net chg in cash (a+b+c)	2,278	588	(812)	(321)	7,658

Source: Company, SMIFS research estimates

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