

HOLD

TP: Rs 4,188 | ▼ 4%

BAJAJ AUTO

| Automobiles

| 27 April 2023

Rural economy revival key for growth; Maintain HOLD

- Despite 13% lower volumes YoY, realisations steered topline growth of 12% in Q4 on the back of a better product mix
- Easing of raw material cost helped margins along, though cost trends have now reversed
- Retain HOLD with a revised TP of Rs 4,188 (vs. Rs 3,636) as we roll valuations over to Mar'25

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Price-led revenue growth: BJAUT's Q4FY23 revenue grew 12% YoY (-4% QoQ) to Rs 89bn aided by healthy realisations that rose 28% YoY (+10% QoQ) to Rs 104.1k/unit. Volumes dropped 12.5% YoY (-13% QoQ) to 0.86mn units as exports remained weak. Higher realisations were driven by judicious price hikes, a prudent product mix and sound forex management.

Healthy product mix aids margins: Raw material cost as a percentage of sales fell to 69.8% from 71.9% in Q4FY22 (70.6% in Q3FY23) due to softening commodity inflation and energy prices, though this trend has currently reversed. Other expenditure increased by 8% YoY (+1% QoQ) due to negative operating leverage that was partly offset by better pricing owing to a tilt towards high-end products. EBITDA grew 26% YoY (-3% QoQ) to Rs 17.2bn with a margin of 19.3% against 17.1% in Q4FY22. Gross margin improved to 30% from 29% in Q3. Adj. PAT increased 24% YoY (netting off the extraordinary income of Rs 3.2bn in 4QFY22) to Rs 14.3bn, but slipped 3% YoY upon including this one-off gain.

Premiumisation-driven growth: BJAUT's market share for *Pulsar* in the 150-250cc class is back to over 50% in Q4. Market share in the 125cc segment has also improved, and currently 60% of domestic motorcycle sales are contributed by this segment (vs. ~50% pre-Covid in FY20).

Exports remain weak: Export volumes contracted 20% sequentially due to a paucity of US dollars for trade across North African and LATAM markets. Per management, this stifled the otherwise healthy demand trends (ex-Nigeria).

Maintain HOLD: We revise our FY24/FY25 EPS estimates marginally to Rs 212/ Rs 243. Our gross margin forecasts for these years remain around 28% given the inflated raw material cost structure, with EBITDA margin expected in the 16-17% range. We see limited growth triggers and little upside at current valuations of 18x FY25E EPS, leading us to retain our HOLD rating. Our TP stands revised to Rs 4,188 (vs. Rs 3,636) as we roll valuations over to FY25E while continuing to value the stock at a target P/E multiple of 17x on FY25E, in line with its 10Y average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BJAUT IN/Rs 4,343
Market cap	US\$ 15.3bn
Free float	46%
3M ADV	US\$ 19.0mn
52wk high/low	Rs 4,375/Rs 3,460
Promoter/FPI/DII	54%/10%/13%

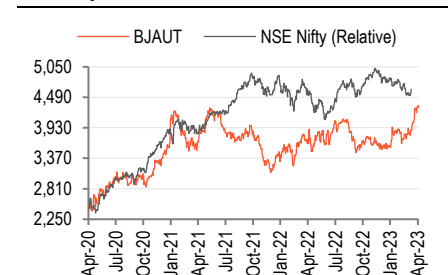
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	3,31,447	3,64,276	4,10,239
EBITDA (Rs mn)	52,586	65,491	69,092
Adj. net profit (Rs mn)	47,036	56,276	60,309
Adj. EPS (Rs)	173.4	197.9	212.1
Consensus EPS (Rs)	173.0	199.0	227.0
Adj. ROAE (%)	18.2	21.6	18.9
Adj. P/E (x)	25.0	21.9	20.5
EV/EBITDA (x)	24.0	19.6	18.1
Adj. EPS growth (%)	5.7	21.7	7.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our View
Volumes	Management expects the industry to grow by 6-8% over the next few quarters.	Management expected the industry to grow at 3-5%.	Revival in rural markets remains the key to growth.
Exports	<p>Despite healthy demand trends, exports remained weak (-20% QoQ) mainly due to the non-availability of US dollars in North African and LATAM markets. Also, the key market of Nigeria was soft on account of election-related unrest and demonetisation. However, retail sales in this market have bounced back post elections and BJAUT indicated some improvement in March and in April as well.</p> <p>New <i>Pulsars</i> launched in LATAM countries have been received well and new products in the <i>Boxer</i> range in Africa should allow BJAUT to achieve higher share in weaker segments. <i>Dominar</i> has received good response, and demand in the month of April outpaced supply, resulting in a 90-day waiting period.</p> <p>Management expects improvement in export volumes as soon as the availability of foreign currency improves. As retail sales pick up, BJAUT will need to rebuild stocks, which management is confident achieving.</p>	<p>Exports continued to face strong headwinds due to the difficult macroeconomic environment, inflation, dollar unavailability and local currency devaluation in most emerging markets. Industry retail sales in South Asia, Africa and LATAM were down by 30% YoY. ASEAN markets were an exception and recorded double-digit growth, largely due to the release of pent-up demand from Covid-19.</p> <p>Management expects BJAUT's largest market of Nigeria to be depressed and volatile till the elections conclude in the end of February and the effects of recent demonetisation settle.</p> <p>Management expects normalcy by May or June, first in Latin America, then Africa.</p>	Export headwinds are likely to continue due to multiple moving parts, including dollar scarcity, country-specific issues (Nigeria) and fears of slowdown.
Three-wheelers (3W)	Domestic 3Ws continued to deliver strong and steady improvement QoQ, reflected in a recovery to 109% of pre-Covid volume growth levels for BJAUT vs. 45% for the rest of the industry. Leadership in this category has strengthened even further with an all-time high market share of 78% in March.	Domestic 3W market share increased to 76% in Q3FY23 and recovered to 75% of pre-Covid levels.	We expect BJAUT to remain the leader in this segment, consolidating its position and adding strength to its overall product portfolio. EV introduction in the segment will further augment its position and is likely to hit the unorganised segment hard.
Electric vehicles	<p>Electric 3Ws have completed testing and management expects a limited launch of both the passenger and cargo versions by end-April.</p> <p><i>Chetak</i> is present in ~85 stores and should be in 120-150 stores by end-H1FY24.</p>	<p>Electric 3Ws were in round two of field testing and dispatch should start by the end of March.</p> <p>Management is aiming to position <i>Chetak</i> as a premium product and expects it to reach 85 cities by end-March and 100 cities by end-April.</p>	EV introduction in the 3W segment will further enhance BJAUT's position and erode the unorganised segment.
Price hikes	Material inflation and costs for onboard diagnostics (OBD) compliance account for a 1.5% cost increase. Price hikes to cover two-thirds of this cost are guided for Q1FY24.	Price increases of ~5% were taken in the last 12 months, though flat QoQ.	Regulatory norm-driven price hikes will be possible without any challenges to the growth, in our view.

Parameter	Q4FY23	Q3FY23	Our View
Currency realisation	USDINR realisations were at Rs 81.5.	USDINR realisations were at Rs 81.7.	We see no real fears on the currency front in the near future.
Commodities	Q4 has been a mixed bag as hardening of commodities such as aluminium, nickel bars, steel and a few noble metals was offset by softening of rubber polypropylene and petroleum-linked products. This led to a flattish quarter QoQ in terms of material costs. Management expects some cost inflation, largely led by steel, in Q1FY24.	Margins improved on account of softer commodity prices (except rubber and plastic), which accounted for close to 70% of the margin expansion QoQ. Management expected a flattish or slight uptick in operating margin during Q4 as the softening was already reflected in Q3.	EBITDA accretion will be challenging given only passthrough price hikes due to hardening of commodity inflation.
Cash position	Surplus cash totalled Rs 175bn. Capex of Rs 10bn was incurred towards setting up a new plant at Chakan (Pune) for the Triumph partnership and investments towards the EV business. Spares revenue stood at Rs 11.5bn	Surplus cash stood at ~Rs 150bn after paying out Rs 31bn towards buyback including tax. Spares revenue was Rs 11bn.	Balance sheet position is getting stronger, helping BJAUT to avail of capex levers.
Key product segments	Growth in the 100cc segment has remained weak for BJAUT with overall volumes driven by the 125cc plus segment. The 100cc and above 125cc segments each account for 50% of the motorcycle industry.	NA	BJAUT has shifted its focus to the higher end segment in 2Ws which we believe is a step in the right direction.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	YoY (%)
Volume	855,050	976,651	(12.5)	983,276	(13.0)	4,308,433	3,922,984	(8.9)
Avg. Realisation per Vehicle	104,143	81,655	27.5	94,736	9.9	76,930	92,857	20.7
Net Revenues	89,047	79,748	11.7	93,151	(4.4)	331,447	364,275	9.9
Total Income (A)	89,047	79,748	11.7	93,151	(4.4)	331,447	364,275	9.9
Operating Expenses:								
Raw materials consumed	62,135	57,357	8.3	65,775	(5.5)	243,298	260,549	7.1
Employee Expenses	3,620	3,059	18.4	3,511	3.1	13,588	14,525	6.9
Other Expenses	6,126	5,677	7.9	6,125	0.0	21,975	23,830	8.4
Total Expenditure (B)	71,882	66,092	8.8	75,412	(4.7)	278,861	298,904	7.2
EBITDA (A-B)	17,166	13,656	25.7	17,740	(3.2)	52,586	65,372	24.3
Other Income	2,598	2,889	(10.0)	2,691	(3.5)	12,092	11,821	(2.2)
Depreciation	742	697	6.4	740	0.3	2,692	2,829	5.1
EBIT	19,022	15,848	20.0	19,691	(3.4)	61,987	74,364	20.0
Finance Costs	157	29	446.5	85	85.6	87	395	355.9
PBT after excep items	18,865	15,819	19.3	19,606	(3.8)	61,901	73,969	19.5
Tax expense	4,536	4,282	5.9	4,721	(3.9)	14,865	17,809	19.8
Reported PAT	14,329	11,537	24.2	14,886	(3.7)	47,036	56,160	19.4
Adjusted PAT	14,329	11,537	24.2	14,886	(3.7)	47,036	56,160.5	19.4
EPS (Rs)	50.6	39.9	27.0	52.6	(3.7)	162.5	203.2	25.0
Key Ratios (%)								
			(bps)		(bps)			(bps)
Gross Margin (%)	30.2	28.1	215	29.4	83	26.6	28.5	188
EBITDA Margin (%)	19.3	17.1	215	19.0	23	15.9	17.9	208
EBIT Margin (%)	21.4	19.9	149	21.1	22	18.7	20.4	171
PBT Margin (%)	21.2	19.8	135	21.0	14	18.7	20.3	163
Tax Rate (%)	24.0	27.1	-303	24.1	-3	24.0	24.1	6
Adj PAT Margin (%)	16.1	14.5	162	16.0	11	14.2	15.4	123

Source: Company, BOBCAPS Research

Valuation methodology

41We revise our FY24/FY25 EPS estimates marginally to Rs 212/Rs 243. Our gross margin forecasts for these years remain around 28% given the inflated raw material cost structure, with EBITDA margin expected in the 16-17% range. We see limited growth triggers and little upside at current valuations of 18 FY25E EPS, leading us to retain our HOLD rating. Our TP stands revised to Rs 4,188 (vs. Rs 3,636) as we roll valuations over to FY25E while continuing to value the stock at a target P/E multiple of 17x on FY25E, in line with its 10Y average.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	4,10,239	4,66,403	408286	456371	0.5	2.2
EBITDA	69,092	79,695	68647	76956	0.6	3.6
Adj PAT	60,309	69,237	60825	67962	(0.8)	1.9
Adj EPS (Rs)	212	243	213.9	239	(0.9)	1.7

Source: Company, BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
2W volume (nos)	38,36,856	34,42,839	36,47,146	39,02,446
3W volume (nos)	471,577	458,018	5,33,520	5,81,537
ASP (Rs)	76,930	92,742	98,128	1,04,015
Revenues	331,447	364,275	4,10,239	4,66,403
EBITDA	52,586	65,372	69,092	79,695
EBITDA margin (%)	15.9	17.9	16.8	17.1
Adj. PAT	47,035.9	56,160.5	60,309.2	69,236.9
EPS (Rs)	162.5	203.2	212.1	243.5

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Bajaj Auto	BJAUT IN	HOLD	4,188	212.0	243.0	20.9	21.8
TVS Motor	TVSL IN	HOLD	1,252	41.4	48.8	29.9	28.5
Eicher Motors	EIM IN	HOLD	3,543	120.3	142.2	23.3	22.8

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected demand recovery in the domestic market in the lower-end segment and in export markets, which can boost demand ahead of estimates,
- above-expected relief on commodity pricing, and
- incremental efforts to gain market share, especially in the high-end motorcycle segment.

Key downside risks to our estimates are:

- Excessive competitive pressure restricting price hikes can impact earnings.
- New additional restrictive norms by the government that may increase cost and impact earnings.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	5.0	140	169	BUY
Bajaj Auto	BJAUT IN	15.3	4,343	4,188	HOLD
Eicher Motors	EIM IN	10.7	3,218	3,543	HOLD
Escorts	ESCORTS IN	3.2	1,966	1,742	SELL
Hero MotoCorp	HMCL IN	6.1	2,498	2,712	HOLD
Mahindra & Mahindra	MM IN	18.5	1,210	1,496	BUY
Maruti Suzuki	MSIL IN	31.2	8,469	9,989	HOLD
TVS Motor	TVSL IN	6.4	1,112	1,252	HOLD
VST Tillers Tractors	VSTT IN	0.3	2,433	2,802	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Apr 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	2,77,411	3,31,447	3,64,276	4,10,239	4,66,403
EBITDA	48,251	52,586	65,491	69,092	79,695
Depreciation	2,593	2,692	2,824	3,463	3,554
EBIT	58,423	61,987	74,481	79,118	90,406
Net interest inc./(exp.)	(67)	(87)	(395)	(80)	(85)
Other inc./(exp.)	12,765	12,092	11,814	13,489	14,265
Exceptional items	0	3,153	0	0	0
EBT	58,356	65,053	74,086	79,038	90,321
Income taxes	13,844	14,865	17,810	18,729	21,084
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	44,512	50,189	56,276	60,309	69,237
Adjustments	0	(3,153)	0	0	0
Adjusted net profit	44,512	47,036	56,276	60,309	69,237

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	45,738	36,332	45,208	41,661	47,040
Other current liabilities	9,170	9,385	5,447	7,575	8,553
Provisions	1,544	1,551	1,668	1,894	2,138
Debt funds	2,249	1,231	1,244	1,369	1,505
Other liabilities	392	3	0	0	0
Equity capital	2,894	2,894	2,830	2,830	2,830
Reserves & surplus	2,48,094	2,63,790	2,51,429	3,16,740	3,51,165
Shareholders' fund	2,50,988	2,66,684	2,54,259	3,19,569	3,53,995
Total liab. and equities	3,10,080	3,15,185	3,07,825	3,72,068	4,13,231
Cash and cash eq.	5,273	5,884	2,858	37,813	49,445
Accounts receivables	27,169	15,164	17,761	26,524	30,022
Inventories	14,939	12,305	13,979	16,445	19,214
Other current assets	14,406	17,561	18,037	20,772	22,381
Investments	2,26,310	2,38,188	2,29,592	2,39,592	2,56,592
Net fixed assets	16,649	18,340	29,050	33,588	38,283
CWIP	160	768	0	475	395
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,224)	(4,033)	(3,452)	(4,002)	(4,312)
Other assets	10,399	11,010	0	860	1,210
Total assets	3,10,080	3,15,187	3,07,825	3,72,068	4,13,231

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	25,544	38,848	58,207	34,185	56,817
Capital expenditures	(1,810)	(4,991)	(12,766)	(8,475)	(8,170)
Change in investments	(44,350)	(11,878)	8,596	(10,000)	(17,000)
Other investing cash flows	12,765	12,092	11,814	13,489	14,265
Cash flow from investing	(33,395)	(4,777)	7,644	(4,986)	(10,905)
Equities issued/Others	0	0	(64)	0	0
Debt raised/repaid	993	(1,018)	14	124	137
Interest expenses	(67)	(87)	(395)	(80)	(85)
Dividends paid	(40,511)	(48,614)	(39,811)	(39,811)	(39,811)
Other financing cash flows	1,761	(1,191)	(582)	550	310
Cash flow from financing	(37,825)	(50,909)	(40,839)	(39,217)	(39,450)
Chg in cash & cash eq.	(45,676)	(16,838)	25,012	(10,018)	6,463
Closing cash & cash eq.	5,273	5,884	2,858	37,813	49,445

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	153.8	162.5	197.9	212.1	243.5
Adjusted EPS	153.8	173.4	197.9	212.1	243.5
Dividend per share	140.0	168.0	140.0	140.0	140.0
Book value per share	867.4	921.6	894.1	1,123.8	1,244.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	4.4	3.8	3.5	3.0	2.6
EV/EBITDA	25.6	24.0	19.6	18.1	15.4
Adjusted P/E	28.2	25.0	21.9	20.5	17.8
P/BV	5.0	4.7	4.9	3.9	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	76.3	72.3	76.0	76.3	76.7
Interest burden (PBT/EBIT)	99.9	104.9	99.5	99.9	99.9
EBIT margin (EBIT/Revenue)	21.1	18.7	20.4	19.3	19.4
Asset turnover (Rev./Avg TA)	122.1	127.1	139.2	142.3	137.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	19.8	18.2	21.6	21.0	20.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(7.3)	19.5	9.9	12.6	13.7
EBITDA	(5.3)	9.0	24.5	5.5	15.3
Adjusted EPS	(12.7)	5.7	21.7	7.2	14.8
Profitability & Return ratios (%)					
EBITDA margin	17.4	15.9	18.0	16.8	17.1
EBIT margin	21.1	18.7	20.4	19.3	19.4
Adjusted profit margin	16.0	14.2	15.4	14.7	14.8
Adjusted ROAE	19.8	18.2	21.6	18.9	19.6
ROCE	19.6	18.3	21.6	20.9	20.5
Working capital days (days)					
Receivables	29	23	16	20	22
Inventory	17	15	13	14	14
Payables	72	62	57	54	49
Ratios (x)					
Gross asset turnover	0.2	0.1	0.2	0.2	0.2
Current ratio	1.1	1.1	1.0	2.0	2.1
Net interest coverage ratio	(877.2)	(715.8)	(188.7)	(989.0)	(1,063.6)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

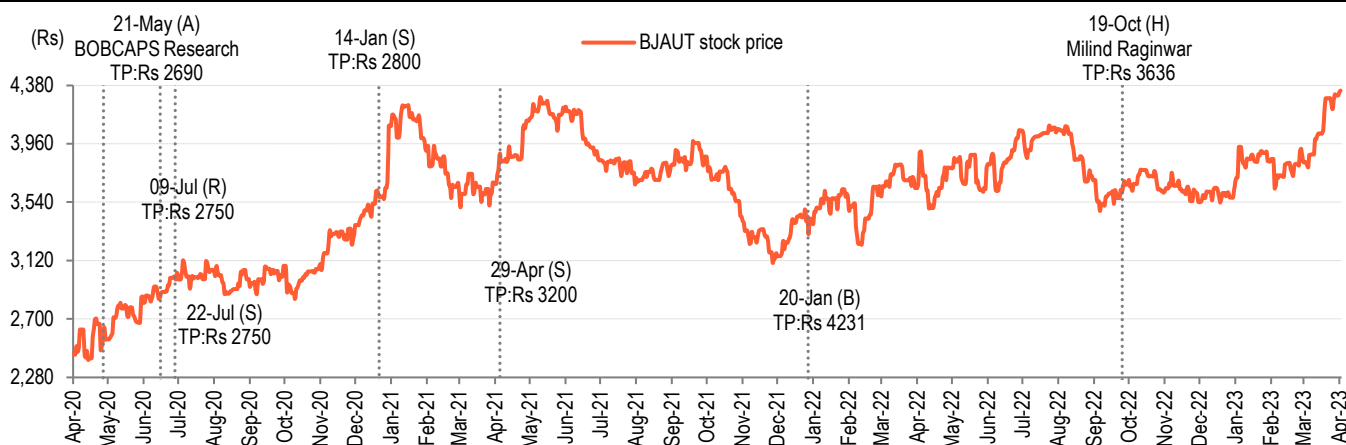
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ AUTO (BJAUT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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