Bajaj Auto (BAAUTO)

CMP: ₹ 3,700 | Target: ₹ 4,220 (14%) | Target Period: 12 months | HOLD

October 28, 2021

Steady quarter; input costs to continue to pinch…

About the stock: Bajaj Auto (BAL) is the second largest motorcycle manufacturer and largest 3-W OEM domestically (FY21 market share at 18%, 50.6% respectively).

- Exports comprised ~52% of FY21 volumes; >125 cc motorcycles constituted ~28% of FY21 volumes with Pulsar 125 enjoying good success
- Strong b/s with ~₹ 17,500 crore surplus cash on books (H1FY22), history of >20% return ratios & one of the highest dividend yields among Nifty stocks

Q2FY22 Results: BAL reported steady Q2FY22 results.

- Net revenues were at ₹ 8,762 crore, up 18.6% QoQ
- Reported EBITDA margins at 16% were higher by 83 bps sequentially
- Consequent reported PAT was up 20.1% QoQ to ₹ 1,275 crore

What should investors do? BAL's stock price has outperformed Nifty Auto index over the past five years, having grown at ~6% CAGR (~₹ 2,800 in October 2016).

- We maintain **HOLD** on margin pressures, lack of immediate triggers

Target Price and Valuation: We value BAL at ₹ 4,220 on SOTP basis (21x PE on FY23E standalone EPS, stake in PMAG; previous target ₹ 4,275).

Key triggers for future price performance:

- We expect volume, net sales CAGR of 13.5%, 19.2% over FY21-23E (2-W CAGR 12.4%, 3-W CAGR 24.1%) aided by low base, pent-up demand
- Difficulty in passing on cost increases to continue to pressurise margins over medium term; seen margins at 15.7% by FY23E
- Revised dividend distribution policy (up to 90% payout for surplus funds in excess of ₹ 15,000 crore) to ensure high dividend yield in future
- Ramping up of electric 2-W production; electric 3-W introduction

Alternate Stock Idea: In our auto OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,000

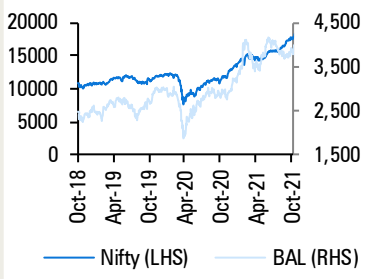
Particulars

Particular	₹ crore
Market Capitalization	1,07,067
Total Debt (FY21)	0.0
Cash & Liquid Invests (FY21)	21,925
EV	85,142
52 week H/L (₹)	4,361 / 2,823
Equity capital (₹)	289.4
Face value (₹)	₹ 10

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	53.7	53.7	53.7	53.7
FII	13.1	12.0	11.8	11.2
DII	9.1	12.3	12.7	12.9
Other	24.1	22.0	21.8	22.2

Price Chart



Recent event & key risks

- Posted steady Q2FY22 results
- **Key Risk:** (i) Prolonged slowdown in domestic 3-W, (ii) easing of commodity cost pressures

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23)
Net Sales	30,250.0	29,918.6	27,741.1	4.2%	34,432.7	39,447.1	19.2%
EBITDA	4,982.0	5,096.2	4,928.5	0.6%	5,198.1	6,175.6	11.9%
EBITDA Margins (%)	16.5	17.0	17.8		15.1	15.7	
Net Profit	4,675.1	5,100.0	4,554.6	3.0%	4,772.0	5,536.5	10.3%
EPS (₹)	161.6	176.2	157.4		164.9	191.3	
P/E	22.9	21.0	23.5		22.4	19.3	
RoNW (%)	19.9	25.6	18.1		18.6	21.1	
RoCE (%)	21.1	23.9	18.2		18.9	22.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results:

- Blended ASPs were at ₹ 76,565/unit, up 4.3% QoQ. Total volumes were at 11.4 lakh units, up 13.8% QoQ (2-W up 14.6%, 3-W up 7.3%)
- Gross reported margins were lower by 70 bps QoQ. Q2FY22 results were supported by accounting of export benefits (amounting to ~₹ 142 crore) for the earlier period post notification of revised export incentive scheme (RoDTEP); adjusting for which EBITDA margins stood at 14.6%
- BAL would be setting up of a wholly-owned subsidiary (NBFC), Bajaj Auto Consumer Finance, for captive financing of 2-W/3-W & light 4-W

Q2FY22 Earnings Conference Call highlights

- Festive season has been slightly negative on a YoY basis, with rural and entry level segment suffering the most. Backed by uptick towards Diwali, BAL expects flattish YoY performance
- The 2-W retail market share has increased to 20% vs. 17% in FY21 amid upgrading observed for electric start and 125 cc portfolio
- BAL's domestic 3-W market share is now at 68%. It is the market leader across categories and fuel types. October retails are seen at ~20,000 units (regaining March 2020 levels). The 3-W segment is expected to post sequential improvement in Q3FY22E, with exports also placed well
- Key Philippines market has recovered to 50% of usual levels. BAL garners 90% of exports revenues from markets where it is a top-two player. FY22E exports revenues are expected at >US$2 billion
- Going forward, EV capacity could be 5 lakh units annually. Present Chetak capacity is ~5,000 units per month. Chetak orderbook is at four to five months and the company is ramping up supply chain. Electric 3-W prototype is ready, with launch slated for March-May 2022
- Chip shortages have affected premium portfolio (KTM, Dominar, Pulsar). BAL expects the challenge to persist for three to four quarters
- Excluding exports benefits, Q2FY22 margins were at 15%, down 60 bps QoQ amid under-recovery of raw material costs. The company had taken ~3% price hike in Q2FY22 and another <1% hike in the beginning of October. Raw material costs are seen rising by 2% QoQ in Q3FY22E but passing on these costs via price increases is proving to be difficult in domestic as well as exports markets
- Present inventory levels are at seven to eight weeks of retails and BAL wants to reduce the same to below six weeks
- Q2FY22 export, spares sales: ₹ 4,150 crore & ₹ 1,100 crore, respectively
- Profitability of upcoming Pulsar would be similar to existing levels

Peer comparison

Exhibit 1: ICICI Direct coverage universe (2-W OEMs)

Company	CMP	TP	Rating	Mcap	2-W Lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bajaj Auto (BAAUTO)	**3,700**	**4,220**	**Hold**	**1,07,067**	**36**	**41**	**46**	**17.8**	**15.3**	**16.0**	**18.2**	**18.9**	**22.0**	**23.5**	**22.4**	**19.3**
Hero Moto (HERHON)	2,665	3,115	Hold	53,220	58	62	70	13.0	12.3	12.8	20.8	20.1	22.3	18.0	17.1	14.1
Eicher Motors (EICMOT)	2,532	2,920	Buy	69,200	6	7	8	20.4	21.3	24.2	11.3	13.7	17.8	51.4	39.0	26.3

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	8,762	8,701	7,156	22.4	7,386	18.6	Revenues were broadly in line with estimates
Raw Material Expenses	6,456	6,394	5,058	27.6	5,394	19.7	Gross margins declined by 70 bps sequentially
Employee Expenses	352	361	325	8.3	362	-2.8	
Other Expenses	559	582	510	9.6	512	9.0	
EBITDA	1,401.1	1,365.6	1,266.3	10.6	1,119.8	25.1	
EBITDA Margin (%)	16.0	15.7	17.7	-170 bps	15.2	83 bps	Reported margins stood slightly higher than expected on the back of operating leverage gains. Adjusted for export incentive benefits, however, margins were at 14.6%.
Other Income	318.3	323.8	285.8	11.4	329.3	-3.3	
Depreciation	65.6	66.6	64.3	2.0	64.1	2.4	
Interest	2	1	3	-35.8	2	-25.8	
PBT	1652	1621	1485	11.2	1383	19.5	
Total Tax	378	381	347	8.9	322	17.4	
Reported PAT	1274.5	1240.4	1138.2	12.0	1061.2	20.1	PAT adjusted for export incentive benefits was placed at ₹1,133 crore
EPS (₹)	44.0	42.9	39.3	12.0	36.7	20.1	
Key Metrics							
Blended ASP (₹/ unit)	76565	76029	67936	12.7	73419	4.3	Blended ASPs came in slightly above our estimates

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	34,836	34,433	-1.2	39,539	39,447	-0.2	We marginally cut FY22E revenue estimates
EBITDA	5,317	5,198	-2.2	6,317	6,176	-2.2	
EBITDA Margin (%)	15.3	15.1	-17 bps	16.0	15.7	-32 bps	Ongoing commodity cost inflation leads us to marginally reduce our margin estimates
PAT	4,854	4,772	-1.7	5,603	5,536	-1.2	PAT estimates are revised downwards due to some reduction in revenue and margin estimates
EPS (₹)	167.7	164.9	-1.7	193.6	191.3	-1.2	

Source: ICICI Direct Research

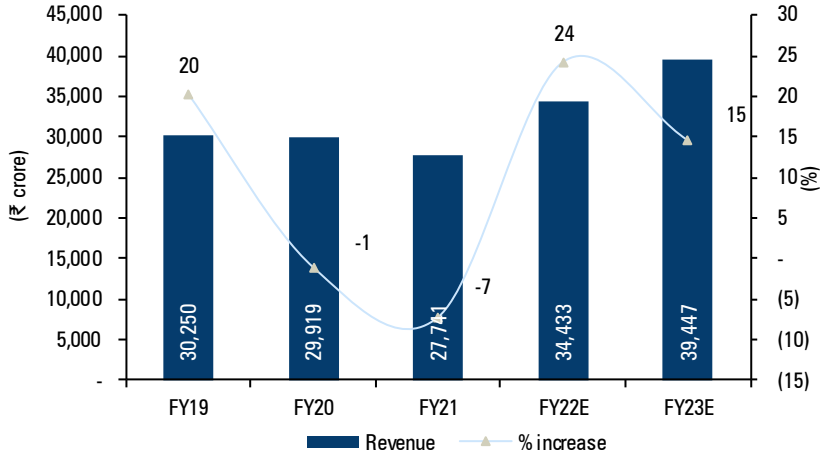
Exhibit 4: Assumptions

					Current		Earlier		Comments
Units (lakh)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Motorcycle volumes	33.7	42.4	39.5	36.1	40.9	45.5	41.4	45.6	BAL volumes are expected to grow at 13.5% CAGR over FY21-23E led by 15% growth in exports. Riding on low base, 3-W volume growth is expected at 24.1%. Blended ASPs are expected to grow at 5.1% CAGR in this time.
Three-Wheeler volumes	6.4	7.8	6.7	3.7	4.8	5.7	4.6	5.4	
Total volumes	40.1	50.2	46.2	39.7	45.7	51.2	46.0	51.0	
Export volumes	16.6	20.8	21.7	20.5	25.0	28.0	24.8	27.7	
Domestic revenues (₹ crore)	15,396	18,099	17,169	14,609	16,590	19,335	17,713	19,851	
Export revenues ($ mn)	1,400	1,642	1,677	1,694	2,268	2,568	2,209	2,512	
US$INR Realisation rate	67	70	71	74	75	75	74	75	
Export ASP ($/unit)	872	790	772	822	906	919	890	906	
Blended ASP (₹/unit)	62,640	58,905	63,077	68,295	73,264	75,400	74,043	75,880	

Source: ICICI Direct Research

Financial story in charts....

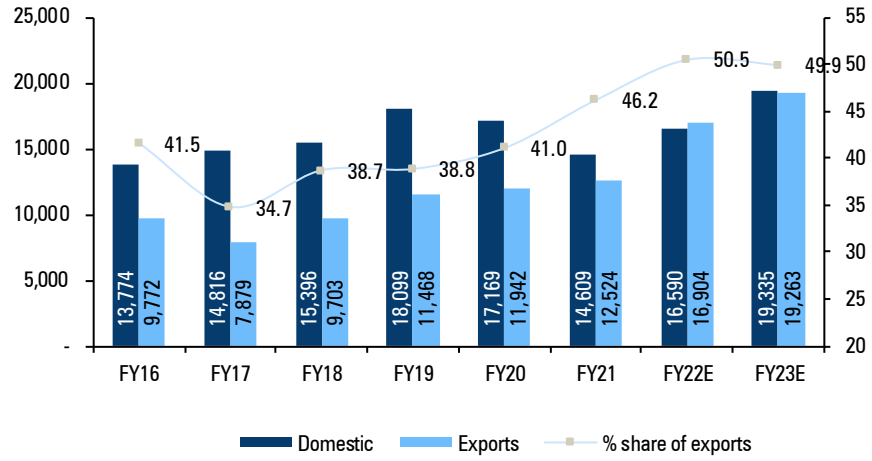
Exhibit 5: Trend in topline



We expect net sales to grow at 19.2% CAGR over FY21-23E on the back of 13.5% volume CAGR

Source: Company, ICICI Direct Research

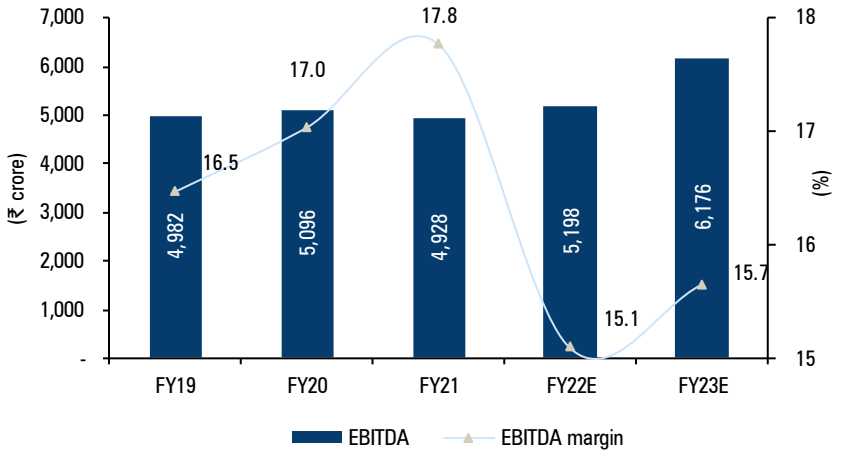
Exhibit 6: Trend in domestic and exports revenue mix



Exports are expected to grow to 49.9% of overall revenues by FY23E

Source: Company, ICICI Direct Research

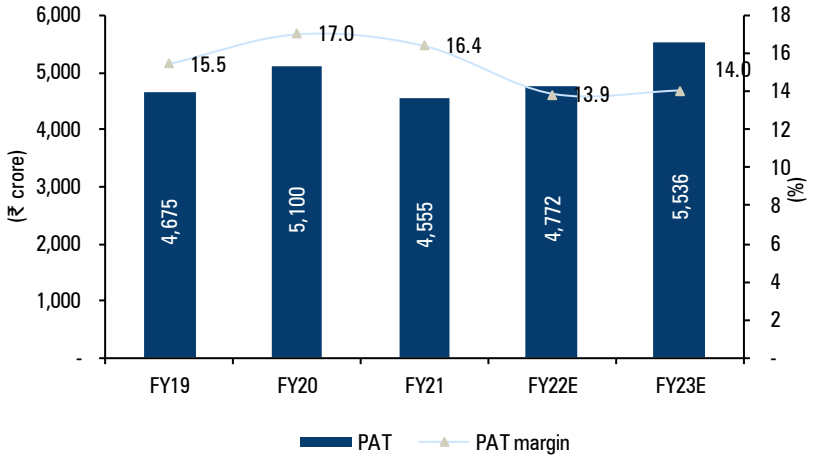
Exhibit 7: Trend in EBITDA and EBITDA margins



Margins are seen at 15.7% by FY23E amid ongoing elevated commodity costs

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT is expected to grow at 10.3% CAGR over FY21-23E to ₹5,536 crore

Source: Company, ICICI Direct Research

Exhibit 9: Valuation summary

`	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	30,250.0	20.2	161.6	14.9	22.9	17.7	19.9	21.1
FY20	29,918.6	(1.1)	176.2	9.1	21.0	17.6	25.6	23.9
FY21	27,741.1	-7.3	157.4	-10.7	23.5	17.3	18.1	18.2
FY22E	34,432.7	24.1	164.9	4.8	22.4	16.5	18.6	18.9
FY23E	39,447.1	14.6	191.3	16.0	19.3	13.8	21.1	22.0

Source: Company, ICICI Direct Research

Exhibit 10: SOTP valuation

SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY23E EPS (₹)	191.3		
Multiple (x)	21.0		~2x PEG to 10.3% earnings CAGR over FY21-23E
Value per share (₹)		**4,020**	
Market Capitalisation of PMAG (₹ crore)	**15,496**		PMAG houses KTM AG
BAL's effective stake (%)	36.7		
BAL's stake value (₹ crore)	5,687		
Value per share (₹)		**200**	
Total Value per Share (₹)		**4,220**	

Source: ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	29918.6	27741.1	34432.7	39447.1
Growth (%)	-1.1	-7.3	24.1	14.6
Raw Material Expenses	21,008.3	19,609.7	25,488.6	29,128.5
Employee Expenses	1,389.2	1,286.0	1,428.7	1,543.9
Other expenses	2,454.9	1,929.3	2,336.5	2,624.2
Total Operating Expenditure	24,822.4	22,812.6	29,234.6	33,271.5
EBITDA	**5096.2**	**4928.5**	**5198.1**	**6175.6**
Growth (%)	2.3	-3.3	5.5	18.8
Depreciation	246.4	259.3	258.2	284.0
Interest	3.2	6.7	5.5	2.8
Other Income	1,733.6	1,276.5	1,285.2	1,348.4
PBT	6,580.2	5,939.0	6,219.5	7,237.2
Total Tax	1,480.2	1,384.4	1,447.5	1,700.7
PAT	**5100.0**	**4554.6**	**4772.0**	**5536.5**
Growth (%)	9.1	-10.7	4.8	16.0
EPS (₹)	**176.2**	**157.4**	**164.9**	**191.3**

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	5,100.0	4,554.6	4,772.0	5,536.5
Add: Depreciation	246.4	259.3	258.2	284.0
Sub: Other Income	1,733.6	1,276.5	1,285.2	1,348.4
(Inc)/dec in Current Assets	1,054.4	-2,110.7	-374.2	-872.9
Inc/(dec) in CL and Provisions	-569.6	1,368.5	-339.6	638.8
CF from operating activities	**4050.0**	**2823.3**	**3179.6**	**4352.9**
(Inc)/dec in Investments	973.7	-4,434.7	550.0	100.0
(Inc)/dec in Fixed Assets	-193.7	-181.0	-515.0	-515.0
Others	-216.8	19.7	-95.0	-95.0
Add: Other Income	1,733.6	1,276.5	1,285.2	1,348.4
CF from investing activities	**2296.7**	**-3319.5**	**1225.2**	**838.4**
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,186.2	-4,051.2	-4,340.6	-4,919.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-2,771.4	4,766.6	-19.5	-16.7
CF from financing activities	**-6957.6**	**715.4**	**-4360.1**	**-4936.0**
Net Cash flow	-610.8	219.3	44.7	255.3
Opening Cash	918.8	308.0	527.3	572.0
Closing Cash	**308.0**	**527.3**	**572.0**	**827.3**

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	289.4	289.4	289.4	289.4
Reserve and Surplus	19,636.1	24,912.8	25,330.2	25,933.4
Total Shareholders funds	**19,925.5**	**25,202.2**	**25,619.6**	**26,222.8**
Total Debt	-	-	-	-
Deferred Tax Liability	346.4	522.1	522.1	522.1
Other non-current liabilities	0.8	0.5	0.5	0.5
Total Liabilities	**20,520.1**	**25,886.9**	**26,314.3**	**26,927.5**
Assets				
Gross Block	4,090.9	4,248.7	4,464.7	4,664.7
Less: Acc Depreciation	2,435.0	2,631.1	2,889.4	3,173.4
Net Block	1,655.9	1,617.6	1,575.4	1,491.3
Capital WIP	46.5	16.0	300.0	600.0
Total Fixed Assets	**1,702.5**	**1,633.6**	**1,875.4**	**2,091.3**
Investments	18,196.3	22,631.0	22,131.0	22,081.0
Inventory	1,063.5	1,493.9	1,415.0	1,621.1
Debtors	1,725.1	2,716.9	2,830.1	3,242.2
Loans and Advances	6.1	5.7	7.1	8.2
Other current assets	714.3	1,403.2	1,741.6	1,995.3
Cash	**308.0**	**527.3**	**572.0**	**827.3**
Total Current Assets	3,817.0	6,147.0	6,565.9	7,694.1
Creditors	3,199.7	4,573.8	4,245.1	4,863.3
Provisions	158.0	152.4	141.4	162.0
Other current liabilities	347.3	509.6	632.5	724.6
Total Current Liabilities	4,253.3	5,643.2	5,446.5	6,197.4
Net Current Assets	**(436.3)**	**503.7**	**1,119.4**	**1,496.6**
Deferred Tax asset	-	-	-	-
Application of Funds	**20,520.1**	**25,886.9**	**26,314.3**	**26,927.5**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	176.2	157.4	164.9	191.3
Cash EPS	184.8	166.4	173.8	201.1
BV	688.6	870.9	885.4	906.2
DPS	120.0	140.0	150.0	170.0
Cash Per Share	10.6	18.2	19.8	28.6
Operating Ratios (%)				
EBITDA Margin	17.0	17.8	15.1	15.7
PBT / Net sales	16.2	16.8	14.3	14.9
PAT Margin	17.0	16.4	13.9	13.8
Inventory days	13.0	19.7	15.0	15.0
Debtor days	21.0	35.7	30.0	30.0
Creditor days	39.0	60.2	45.0	45.0
Return Ratios (%)				
RoE	23.9	18.2	18.9	22.0
RoCE	25.6	18.1	18.6	21.1
RoIC	164.1	123.4	111.7	128.9
Valuation Ratios (x)				
P/E	21.0	23.5	22.4	19.3
EV / EBITDA	17.6	17.3	16.5	13.8
EV / Net Sales	3.0	3.1	2.5	2.2
Market Cap / Sales	3.6	3.9	3.1	2.7
Price to Book Value	5.4	4.2	4.2	4.1
Solvency Ratios				
Current Ratio	0.9	1.1	1.2	1.2
Quick Ratio	**0.7**	**0.8**	**0.9**	**0.9**

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyre (APOTYR)	213	275	Buy	13,526	5.5	10.2	16.6	38.6	20.8	12.8	6.5	6.7	4.8	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	142	160	Buy	41,565	-1.1	0.4	4.6	-132.9	321.1	30.5	83.2	37.1	15.3	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	**3,700**	**4,220**	**Hold**	**1,07,067**	**157.4**	**164.9**	**191.3**	**23.5**	**22.4**	**19.3**	**17.3**	**16.5**	**13.8**	**18.2**	**18.9**	**22.0**	**18.1**	**18.6**	**21.1**
Balkrishna Ind. (BALIND)	2,483	2,825	Buy	48,001	59.8	67.0	78.4	41.5	37.1	31.7	27.1	23.8	20.6	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	765	1,000	Buy	35,616	-2.7	17.2	25.1	NM	44.5	30.5	44.2	20.8	16.3	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,532	2,920	Buy	69,200	49.3	64.9	96.4	51.4	39.0	26.3	34.6	26.6	18.0	11.3	13.7	17.8	11.8	14.0	18.0
Escorts (ESCORT)	1,520	1,325	Hold	18,632	71.2	67.7	78.2	21.3	22.5	19.4	13.9	14.9	12.3	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,665	3,115	Hold	53,220	148.4	155.9	188.8	18.0	17.1	14.1	11.2	10.6	8.5	20.8	20.1	22.3	19.5	18.6	20.3
M&M (MAHMAH)	886	1,000	Buy	1,10,148	2.3	33.6	39.1	393.5	26.4	22.7	16.5	15.4	13.5	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	7,350	6,000	Sell	2,22,029	140.0	88.4	200.0	52.5	83.1	36.7	33.5	40.8	20.8	4.3	2.5	8.9	8.2	5.0	10.6
Minda Industries (MININD)	765	835	Buy	21,849	7.6	10.7	19.4	100.7	71.4	39.4	31.3	25.1	17.9	9.1	10.3	15.9	9.2	9.5	14.8
Motherson (MOTSUM)	224	280	Buy	70,738	3.3	5.5	9.3	NM	40.5	24.1	15.6	11.2	8.0	6.7	12.6	19.9	8.8	12.9	19.4
Tata Motors (TATMOT)	480	515	Buy	1,83,792	-35.0	-2.6	36.2	NM	-188.0	13.2	7.1	6.9	4.6	6.3	7.1	14.6	-23.6	-1.8	19.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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