

Bajaj Auto

17 February, 2022

Reuters: BAJA.BO; Bloomberg: BJAUT IN

Exports holding strong; Focus shifting to EV

We recently hosted Mr. Rakesh Sharma, Executive Director, Bajaj Auto (BAL), as part of our 'Annual Investors Conference' to gain insights on the current business environment, demand trends, opportunity areas and headwinds. Following are the key takeaways:

Demand trend and outlook:

- Domestic motorcycle is witnessing muted demand environment on back of weak festive season. BAL gained market share by 1.5% despite decline in domestic 2W market.
- In domestic 3Ws, BAL has strengthened its market position during adverse situation and now commands ~70%+ market share in domestic 3Ws. Successful transition to BSVI and strong CNG promotion by government has helped gain market share.
- Third wave of Covid is easing out. Retail volumes in Feb'22 have seen sequential improvement (though still down on a YoY basis). Expect demand for both 2Ws & 3Ws to improve going forward on the back of opening up of offices, schools and colleges.

Export market:

- Barring ASEAN (Cambodia and Philippines are key markets) and Sri Lanka, which have recovered to 70%, most of the other export markets have recovered and are doing well. Overall, export volumes are likely to cross 2.5mn units (over USD2.4bn) in FY22 and management expects momentum to continue. Further, BAL is looking at opportunities in many new markets.
- Existing 3W order in Egyptian market is likely to be fulfilled by Mar'22. The Company is in discussion with Egyptian government to address issues related to clean fuel technology and launch of Bajaj Qute (4W).

New launches:

- BAL rolled out Pulsar on new platform in Jan'22 and is gaining good traction among the customers. Building on this, it plans to launch another 3-4 models on this new platform which will further elevate Pulsar experience. Management is optimistic about the new platform.

Electric Vehicles:

- BAL's PLI application has been approved and it has committed Rs3bn for new plant in Akurdi. If all conditions under PLI are complied, it will be eligible for 12-18% incentives on EVs.
- Start-ups who are not eligible under the PLI scheme will be at a significant disadvantage.
- Management believes that the EV transition will take place over a decade and BAL is currently focusing on building deep strength which are specific to BAL and is open to partnership/collaboration, if required, for capability building.
- Company intends to be present in all the sub-segments within E2W segment over time.

Supply chain headwinds:

- BAL continues to witness semiconductor shortage issue which is affecting premium motorcycle segment (comprising of Pulsar, Dominar and KTM) in addition to EV volumes.

Financial penetration:

- Retail financing is important in export market as well. Markets like ASEAN have high financial penetration while it is low in African market. Rise in financial penetration in markets like Africa can be a huge demand driver.
- BAL is looking to set up captive NBFC to integrate retail financing closely with buying process and make the entire process seamless. This can give it agility and speed in terms of financing. This will be in addition to its collaboration with existing financiers.

Our View: We remain constructive on BAL, underpinned by its solid export outlook, reliable strategy in the domestic market (premiumisation trends, addressing white gaps, improving profitability and new launches/platforms) and focus on margins (over volume), which we expect to support its operational performance. We value BAL on SoTP basis, with the core business valued at Rs3,285 (19x Sept'23E core EPS), cash of Rs690/share and investment in KTM at Rs225/share to arrive at a target price (TP) of Rs4,200.

BUY

Sector: Automobile

CMP: Rs3,599

Target Price: Rs4,200

Upside: 16.7%

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Key Data

Current Shares O/S (mn)	289.4
Mkt Cap (Rsbn/US\$bn)	1,041.3/13.9
52 Wk H / L (Rs)	4,348/3,027
Daily Vol. (3M NSE Avg.)	462,735

Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Auto	3.1	(5.5)	(13.6)
Nifty Index	(5.3)	4.4	14.0

Source: Bloomberg

[FY21 Annual report](#)
[3QFY22 result release](#)

Financials (standalone)

Exhibit 1: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	299,187	277,411	327,119	391,721	437,783
% Growth	(2.0)	(7.3)	17.9	19.7	11.8
Raw material	210,083	196,097	243,703	289,090	319,581
Staff costs	29.8	29.3	25.5	26.2	27.0
Gross margin (%)	13,892	12,860	13,903	14,494	15,322
Selling & distribution	6,035	2,903	3,838	4,607	6,014
Other expenses	18,215	16,267	16,233	17,701	20,453
Total expenses	248,224	228,126	277,677	325,891	361,371
EBITDA	50,963	49,285	49,442	65,830	76,412
% Growth	(3.3)	(3.3)	0.3	33.1	16.1
EBITDA margin (%)	17.0	17.8	15.1	16.8	17.5
Other income	17,335	12,765	14,314	15,158	16,316
Interest costs	32	67	75	75	75
Depreciation	2,464	2,593	2,629	3,078	3,433
Profit before tax (before exceptional items)	65,802	59,390	61,052	77,835	89,220
Exceptional items	-	-	-	-	-
Tax	14,802	13,844	14,347	18,291	20,967
Adj PAT	51,000	45,546	46,704	59,544	68,253
% Growth	17.7	(10.7)	2.5	27.5	14.6
Adj PAT margin (%)	17.0	16.4	14.3	15.2	15.6
EPS (Rs)	176.2	157.4	161.4	205.8	235.9
% Growth	17.7	(10.7)	2.5	27.5	14.6
DPS (Rs)	120.0	140.0	130.0	120.0	110.0
Payout (incl. div. tax) (%)	78.3	102.3	92.6	67.1	53.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	2,894	2,894	2,894	2,894	2,894
Reserves	196,361	249,129	258,217	283,037	319,461
Net worth	199,255	252,023	261,110	285,931	322,355
Total debt	-	-	-	-	-
Deferred tax liability	3,464	5,221	5,221	5,221	5,221
Capital employed	202,719	257,244	266,332	291,152	327,576
Gross block	41,573	43,443	49,603	55,963	62,422
Depreciation	24,583	26,794	29,423	32,501	35,934
Net block	16,990	16,649	20,180	23,462	26,489
Capital work-in-progress	602	160	160	160	160
Investments	181,960	226,310	216,310	236,310	256,310
Inventories	10,635	14,939	19,277	23,140	29,424
Debtors	17,251	27,169	30,668	33,658	40,016
Cash	3,083	5,274	6,565	5,247	5,626
Loans & advances	386	372	427	492	565
Other current assets	16,827	24,431	28,095	32,310	37,156
Total current assets	48,181	72,183	85,032	94,846	112,787
Creditors	31,997	45,738	41,182	47,332	49,432
Other current liabilities & provisions	13,017	12,320	14,168	16,293	18,737
Total current liabilities	45,014	58,058	55,350	63,625	68,169
Net current assets	3,167	14,125	29,682	31,221	44,618
Application of funds	202,719	257,244	266,332	291,152	327,576

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22E	FY23E	FY24E
OP/(loss) before tax	48,499	46,692	46,813	62,752	72,978
Depreciation & amortization	2,464	2,593	2,629	3,078	3,433
Other income	17,335	12,765	14,314	15,158	16,316
(Inc.)/dec. in working capital	4,200	(8,767)	(14,265)	(2,857)	(13,018)
Direct taxes paid	(16,765)	(12,087)	(14,347)	(18,291)	(20,967)
Extra-ordinary Items	0	0	0	0	0
Cash flow from operations (after E/O)	55,733	41,196	35,143	59,840	58,744
Capital expenditure (-)	(1,937)	(1,810)	(6,160)	(6,360)	(6,460)
Net cash after capex	53,796	39,386	28,983	53,480	52,284
Other investing activities	9,634	(44,350)	10,000	(20,000)	(20,000)
Dividends paid (-)	(39,932)	(46,587)	(43,259)	(39,932)	(36,604)
Inc./(dec.) in total borrowings	(32)	(67)	(75)	(75)	(75)
Others	(29,612)	53,809	5,643	5,208	4,774
Cash from financial activities	(69,576)	7,155	(37,692)	(34,798)	(31,905)
Opening cash balance	9,228	3,083	5,274	6,565	5,247
Closing cash balance	3,083	5,274	6,565	5,247	5,626
Change in cash balance	(6,145)	2,191	1,291	(1,318)	379

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

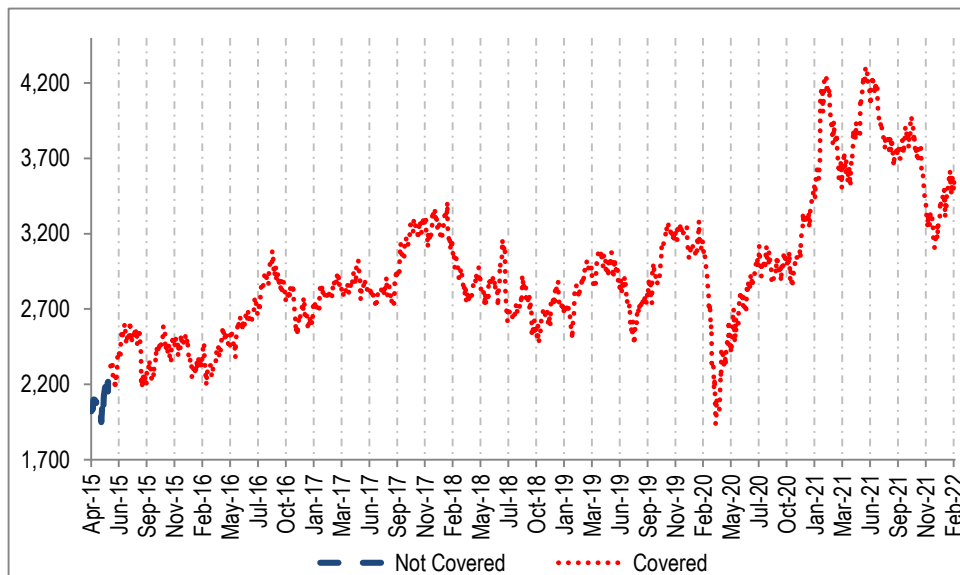
Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per share (Rs)					
EPS	176.2	157.4	161.4	205.8	235.9
EPS Growth (%)	17.7	(10.7)	2.5	27.5	14.6
Cash EPS	184.8	166.4	170.5	216.4	247.7
Book value per share	688.6	870.9	902.3	988.1	1,114.0
DPS	120.0	140.0	130.0	120.0	110.0
Payout (incl. div. tax) %	78.3	102.3	92.6	67.1	53.6
Valuation (x)					
P/E	20.4	22.8	22.2	17.4	15.2
Cash P/E	19.4	21.6	21.0	16.6	14.5
EV/Sales	2.9	3.0	2.5	2.1	1.8
EV/EBITDA	16.7	16.4	16.5	12.1	10.2
P/BV	5.2	4.1	4.0	3.6	3.2
Dividend yield (%)	3.3	3.9	3.6	3.3	3.1
Return ratios (%)					
RoCE	32.5	23.1	23.0	26.8	27.3
RoE	25.6	18.1	17.9	20.8	21.2
Profitability ratios (%)					
EBITDA margin	17.0	17.8	15.1	16.8	17.5
Adj PAT margin	17.0	16.4	14.3	15.2	15.6
Turnover ratios					
Debtors (days)	22	37	35	32	34
Inventory (days)	13	20	22	22	25
Creditors (days)	40	62	47	45	42
Asset turnover (x)	1.4	1.1	1.2	1.3	1.3
Leverage Ratio					
Debt/equity (x)	0.0	0.0	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Accumulate	2,302	2,401
27 July 2015	Accumulate	2,497	2,451
9 October 2015	Accumulate	2,431	2,451
26 October 2015	Accumulate	2,516	2,472
27 May 2016	Accumulate	2,505	2,594
29 July 2016	Accumulate	2,655	2,702
1 November 2016	Accumulate	2,884	3,042
1 February 2017	Accumulate	2,833	2,950
14 February 2017	Accumulate	2,801	3,117
19 May 2017	Accumulate	2,973	3,035
21 July 2017	Accumulate	2,815	3,022
23 October 2017	Accumulate	3,218	3,298
6 February 2018	Accumulate	3,186	3,376
22 May 2018	Accumulate	2,720	3,097
24 July 2018	Accumulate	2,684	2,820
26 October 2018	Buy	2,480	3,024
31 January 2019	Buy	2,500	3,024
29 July 2019	Accumulate	2,624	2,751
24 October 2019	Accumulate	3,159	3,107
28 January 2020	Accumulate	3,079	3,195
31 January 2020	Accumulate	3,142	3,195
30 March 2020	Buy	2,059	2,635
21 May 2020	Buy	2,556	2,982
23 July 2020	Buy	2,931	3,429
22 September 2020	Buy	2,982	3,671
23 October 2020	Buy	2,996	3,671
6 January 2021	Buy	3,490	4,141
22 January 2021	Buy	3,727	4,290
21 March 2021	Buy	3,650	4,250
30 April 2021	Buy	3,836	4,413
22 July 2021	Buy	3,853	4,413
7 October 2021	Buy	3,828	4,536
28 October 2021	Buy	3,700	4,308
6 January 2022	Buy	3,418	4,308
21 January 2022	Buy	3,308	4,200
17 February 2022	Buy	3,599	4,200

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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