

HOLD

TP: Rs 3,636 | ▼ 1%

BAJAJ AUTO

| Automobiles

| 19 October 2022

Steady performance in a challenging environment

- Q2 revenue growth (16%) driven by realisation gains as volumes stayed flat YoY. Costs dented meaningful margin gains (17% vs. 16% YoY)
- Overall volume growth to stay range-bound as challenges to exports continue, especially in African markets
- We see limited positive triggers and assume coverage with HOLD for a TP of Rs 3,636 (17x FY24E EPS)

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Realisation-led revenue growth: BJAUT's Q2FY23 volumes grew 23% QoQ (flat YoY) to 1.15mn units. Revenue growth was a positive surprise at 16% YoY (+28% QoQ) to Rs 102bn, driven entirely by realisations at Rs 88.6k per unit (+16% YoY, +3% QoQ). This was despite a lower share of value-added export market volumes at ~40% vs. 62% in Q1FY23. An improved export mix and favourable currency movement contributed to realisation gains.

Margins rangebound as costs stay inflated: Gross margin contracted 120bps QoQ to 26.6% due to the impact of higher commodity costs (lag effect). EBITDA margin at 17.1% expanded 100bps QoQ. Reported PAT came in at Rs 15.2bn, up 20% YoY and 30% QoQ.

Market share loss in value-added motorcycle segment: BJAUT maintained its market share in the low-end motorcycle segment (180cc), but lost 2-4% share at the higher end. This will affect its performance in the medium term as the low-end segment typically exhibits slower recovery and is less remunerative than premium products which are recovering faster and have an edge in terms of margins.

Challenges in export markets to continue: Management indicated that inventory destocking has been completed in key markets in Q2, implying export volumes in H2FY23 are likely to be better than H1. However, with the blanket ban on motorcycles in Nigeria, adverse currency movement, and a rising inflation/rate cycle, the company expects demand to remain tepid.

HOLD, TP Rs 3,636: We expect BJAUT to report a revenue/EBITDA/PAT CAGR of 11%/14%/11% over FY22-FY25. Our gross margin estimates hovers around 28% given the inflated raw material cost structure, with EBITDA margin in the 16-17% range over our forecast period. Our FY23/FY24/FY25 EPS estimates are at Rs 189/Rs 213/Rs 239. We see limited growth triggers and little upside at current valuations of 214 FY24E EPS. We thus assume coverage with HOLD, valuing BJAUT at 17x FY24E EPS, in line with its long-term (10Y) average, for a TP of Rs 3,636.

Key changes

Target	Rating
▼	▼

Ticker/Price	BJAUT IN/Rs 3,656
Market cap	US\$ 12.7bn
Free float	46%
3M ADV	US\$ 19.0mn
52wk high/low	Rs 4,132/Rs 3,027
Promoter/FPI/DII	54%/10%/13%

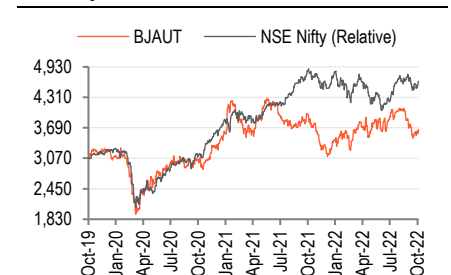
Source: NSE | Price as of 19 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	331,447	365,819	408,286
EBITDA (Rs mn)	52,586	60,039	68,647
Adj. net profit (Rs mn)	47,036	53,905	60,825
Adj. EPS (Rs)	173.4	189.6	213.9
Consensus EPS (Rs)	173.0	199.0	227.0
Adj. ROAE (%)	18.2	19.6	20.3
Adj. P/E (x)	21.1	19.3	17.1
EV/EBITDA (x)	20.2	18.0	15.5
Adj. EPS growth (%)	5.7	16.6	12.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights:

- Management expects BJAUT to grow in line with the industry in the motorcycle segment (single-digit growth), but to outperform in the 180cc segment in FY23.
- The company indicated that it has retained market share (aggregate) at 72% based on Vahaan registration numbers (18% share in retail market).
- Retail export sales were weaker in Q2FY23 due to devaluation of the currency and its poor visibility. LATAM performed relatively well, but North African markets have seen a double-digit decline. Per management, the situation has normalised now as inventory stock adjustment is complete.
- Other income was higher than normal due to improving yields. The government's package scheme of incentives (PSI) contributed to stronger other operating income.
- In the motorcycle segment, BJAUT has retained market share in the 180cc segment but lost ~2-4% share in the premium segment. However, management indicated that profitability is key and that it will not chase market share at the expense of profits.
- In two-wheelers, 'Chetak' is seeing a good response and new launches in new segments under the Chetak umbrella are being planned over the next 18 months.
- BJAUT stated that trials are underway for electric three-wheelers in the commercial segment but that norms are stringent. Per management, out of 4,500 new E-autorickshaw registrations in Delhi during the quarter, only 350 have been sold. Hence, acceptability of the product is also low due to various issues, including a lack of charging points.
- Management has guided for Rs 7.5bn of capex in FY23, of which Rs 3.5bn will be for an EV facility for two-wheelers and the balance for electric three-wheelers in Waluj and motorcycles in Chakan.

Fig 1 – Quarterly performance (Standalone)

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY22	H1FY23	YoY (%)
Volume	1,151,012	1,144,407	0.6	933,646	23.3	2,150,421	2,084,658	(3.1)
Avg. Realisation per Vehicle	88,641	76,565	15.8	85,739	3.4	75,093	87,341	16.3
Net Revenues	102,027	87,622	16.4	80,050	27.5	161,482	182,077	12.8
Total Income (A)	102,027	87,622	16.4	80,050	27.5	161,482	182,077	12.8
Operating Expenses:								
Raw materials consumed	74,862	64,565	15.9	57,776	29.6	118,508	132,638	11.9
Employee Expenses	3,598	3,516	2.3	3,796	(5.2)	7,131	7,394	3.7
Other Expenses	6,071	5,530	9.8	5,507	10.2	10,634	11,578	8.9
Total Expenditure (B)	84,531	73,611	14.8	67,080	26.0	136,273	151,610	11.3
EBITDA (A-B)	17,496	14,011	24.9	12,970	34.9	25,209	30,467	20.9
Other Income	3,339	3,183	4.9	3,193	4.6	6,476	6,532	0.9
Depreciation	675	656	2.9	673	0.2	1,297	1,348	4.0
EBIT	20,160	16,538	21.9	15,490	30.1	30,389	35,650	17.3
Finance Costs	109	17	542.4	43	151.6	40	153	282.5
PBT after exceptional items	20,051	16,521	21.4	15,447	29.8	30,349	35,498	17.0
Tax expense	4,838	3,776	28.1	3,714	30.3	6,991	8,552	22.3
Reported PAT	15,213	12,746	19.4	11,733	29.7	23,357	26,946	15.4
Adjusted PAT	15,213	12,746	19.4	11,733	29.7	23,357	26,946	15.4
EPS (Rs)	59.4	44.0	34.9	40.5	46.5	80.7	100.0	23.8
Key ratios (%)								
			(bps)		(bps)			(bps)
Gross Margin	26.6	26.3	31	27.8	(120)	26.6	27.2	54
EBITDA Margin	17.1	16.0	116	16.2	95	15.6	16.7	112
EBIT Margin	19.8	18.9	88	19.4	41	18.8	19.6	76
PBT Margin	19.7	18.9	80	19.3	36	18.8	19.5	70
Tax Rate	24.1	22.9	127	24.0	9	23.0	24.1	105
Adj PAT Margin	14.9	14.5	36	14.7	25	14.5	14.8	33

Source: Company, BOBCAPS Research

Valuation methodology

We expect BJAUT to report a revenue/EBITDA/PAT CAGR of 11%/14%/11% over FY22-FY25. Our gross margin estimates hovers around 28% given the inflated raw material cost structure, with EBITDA margin in the 16-17% range over our forecast period. Our FY23/FY24/FY25 EPS estimates are at Rs 189/ Rs 213/Rs 239. We see limited growth triggers and little upside at current valuations. We thus assume coverage with HOLD, valuing BJAUT at 17x FY24E EPS of Rs214, in line with its long-term (10-year) average, for a TP of Rs 3,636/sh.

Fig 2 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY24E
2W volume (nos)	4,118,567	4,283,310	4,497,475	4,722,349
3W volume (nos)	471,577	518,735	570,608	621,963
ASP (Rs)	72,208	76,180	80,560	85,394
Revenues	331,447	365,819	408,286	456,371
EBITDA	52,586	60,039	68,647	76,956
BITDA margin (%)	15.9	16.4	16.8	16.9
Adj. PAT	47,035.9	53,904.8	60,824.6	67,962.5
EPS (Rs)	173.4	189.6	213.9	239.0

Source: Company, BOBCAPS Research

Key risks

Upside risks to our estimates include:

- 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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	277,411	331,447	365,819	408,286	456,371
EBITDA	48,251	52,586	60,039	68,647	76,956
Depreciation	2,593	2,692	2,828	3,131	3,252
EBIT	58,423	61,987	70,449	79,787	88,751
Net interest inc./(exp.)	(67)	(87)	(70)	(80)	(85)
Other inc./(exp.)	12,765	12,092	13,238	14,271	15,047
Exceptional items	0	3,153	0	0	0
EBT	58,356	65,053	70,379	79,707	88,666
Income taxes	13,844	14,865	16,474	18,883	20,703
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	44,512	50,189	53,905	60,825	67,962
Adjustments	0	(3,153)	0	0	0
Adjusted net profit	44,512	47,036	53,905	60,825	67,962

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	45,738	36,332	41,495	41,639	46,431
Other current liabilities	9,170	9,385	3,458	7,571	8,442
Provisions	1,544	1,551	1,729	1,893	2,111
Debt funds	2,249	1,231	1,228	1,350	1,486
Other liabilities	392	3	3	3	3
Equity capital	2,894	2,894	2,844	2,844	2,844
Reserves & surplus	248,094	263,790	280,069	297,279	321,628
Shareholders' fund	250,988	266,684	282,912	300,123	324,472
Total liab. and equities	310,080	315,185	330,825	352,580	382,945
Cash and cash eq.	5,273	5,884	5,008	3,889	5,294
Accounts receivables	27,169	15,164	22,924	26,510	29,612
Inventories	14,939	12,305	14,327	16,436	18,951
Other current assets	14,406	17,561	15,935	18,159	19,546
Investments	226,310	238,188	243,188	253,188	270,188
Net fixed assets	16,649	18,340	23,013	27,882	32,879
CWIP	160	768	700	475	395
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,224)	(4,033)	(4,320)	(4,870)	(5,180)
Other assets	10,399	11,010	10,050	10,910	11,260
Total assets	310,080	315,187	330,825	352,580	382,945

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	25,544	38,848	35,642	45,246	54,611
Capital expenditures	(1,810)	(4,991)	(7,432)	(7,775)	(8,170)
Change in investments	(44,350)	(11,878)	(5,000)	(10,000)	(17,000)
Other investing cash flows	12,765	12,092	13,238	14,271	15,047
Cash flow from investing	(33,395)	(4,777)	806	(3,504)	(10,123)
Equities issued/Others	0	0	(50)	0	0
Debt raised/repaid	993	(1,018)	(3)	123	135
Interest expenses	(67)	(87)	(70)	(80)	(85)
Dividends paid	(40,511)	(48,614)	(48,614)	(48,614)	(48,614)
Other financing cash flows	1,761	(1,191)	287	550	310
Cash flow from financing	(37,825)	(50,909)	(48,450)	(48,021)	(48,254)
Chg in cash & cash eq.	(45,676)	(16,838)	(12,001)	(6,279)	(3,765)
Closing cash & cash eq.	5,273	5,884	5,008	3,889	5,294

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	153.8	162.5	189.6	213.9	239.0
Adjusted EPS	153.8	173.4	189.6	213.9	239.0
Dividend per share	140.0	168.0	171.0	171.0	171.0
Book value per share	867.4	921.6	994.9	1,055.4	1,141.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.7	3.2	3.0	2.6	2.3
EV/EBITDA	21.5	20.2	18.0	15.5	13.8
Adjusted P/E	23.8	21.1	19.3	17.1	15.3
P/BV	4.2	4.0	3.7	3.5	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	76.3	72.3	76.6	76.3	76.7
Interest burden (PBT/EBIT)	99.9	104.9	99.9	99.9	99.9
EBIT margin (EBIT/Revenue)	21.1	18.7	19.3	19.5	19.4
Asset turnover (Rev./Avg TA)	122.1	127.1	132.5	139.4	145.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	19.8	18.2	19.6	20.9	21.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(7.3)	19.5	10.4	11.6	11.8
EBITDA	(5.3)	9.0	14.2	14.3	12.1
Adjusted EPS	(12.7)	5.7	16.6	12.8	11.7
Profitability & Return ratios (%)					
EBITDA margin	17.4	15.9	16.4	16.8	16.9
EBIT margin	21.1	18.7	19.3	19.5	19.4
Adjusted profit margin	16.0	14.2	14.7	14.9	14.9
Adjusted ROAE	19.8	18.2	19.6	20.3	20.9
ROCE	19.6	18.3	19.5	20.8	21.7
Working capital days (days)					
Receivables	29	23	19	22	22
Inventory	17	15	13	14	14
Payables	72	62	54	52	49
Ratios (x)					
Gross asset turnover	0.2	0.1	0.1	0.1	0.2
Current ratio	1.1	1.1	1.2	1.3	1.3
Net interest coverage ratio	(877.2)	(715.8)	(1,006.4)	(997.3)	(1,044.1)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

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

BUY – Expected return >+15%

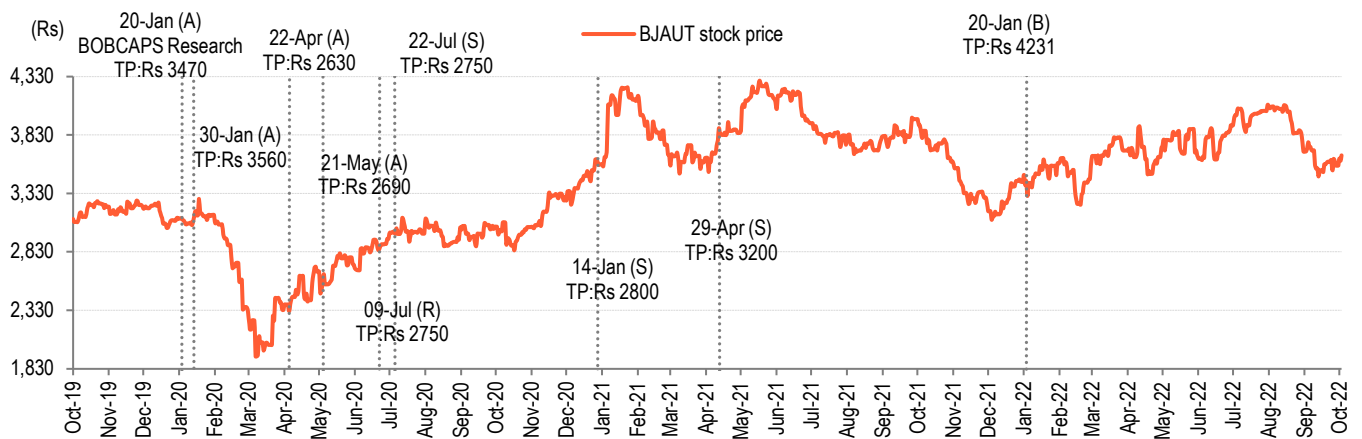
HOLD – Expected return from -6% to +15%

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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