

Marginally Weaker Performance; Outlook Remains Stable

Bajaj Auto results came in slightly lower than our expectations. The company reported net revenues of Rs 7,386 Cr (our estimate – Rs 7,494 Cr) v/s Rs 8,596 Cr in Q4FY21, resulting in a decline of 14% QoQ. The revenue decline was led by a 14% QoQ decline in volumes and a marginal decline in ASPs. Therising raw material costs impacted Gross Margins at 27% in Q1FY22 (our estimate – 27.5%) – a 118 bps decline QoQ. EBITDA margin came in at 15.2% (our estimate - 16.3%), 257 bps QoQ contraction. The absolute EBITDA came in at Rs 1,120 Cr (our estimate - Rs 1,219 Cr), a decline of 26.5% QoQ. The EBITDA was impacted due to the negative operating leverage and higher staff costs. The same was partially offset by higher USD realization and improved product mix. The company reported an adjusted net profit of Rs 1,061 Cr (our estimate - Rs 1,119 Cr) against a net profit of Rs 1,332 Cr in Q4FY21. We cut our FY22E EBITDA/EPS estimates by 2%/5%, respectively by factoring in RM price pressures. **We maintain our BUY rating on the stock and keep our TP unchanged at Rs 4,250 (which includes Rs 200/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.** Key downside risks to our estimates – a) Higher-than-expected commodity inflation, b) Slowdown in exports markets, and c) Unfavorable forex fluctuations.

Key concall takeaways

- Domestic 2W Industry:** The management has guided for flattish YoY domestic sales volumes in Q2FY22. It anticipates better retail sales in Q2FY22 given pent-up demand but believes the wholesale segment would lag retail owing to higher dealer inventory. In the domestic motorcycle market, the company expects the recovery to be faster in the 125 cc+ segment as compared to the economy segment, led by premiumisation in the two-wheeler segment. The company plans to launch new platforms and upgrades in the domestic 2W segment from Sep'21 onwards which will continue over the next 12-18 months. In Q1FY22, Bajaj's overall 2W motorcycle market share improved from 17.3% in Q4FY21 to 19.7% in Q1FY22.
- Strong Performance in Exports market:** Exports revenues came in at Rs 4,500 Cr (US\$ 580 Mn). Exports markets continue to perform well for the company. It sold over 648,000 units in various international markets despite challenges in the availability of containers. The management noted that most markets where Bajaj operates are back to normalcy. However, few key ASEAN and South Asian countries such as Sri Lanka, Indonesia, Philippines, Nepal, as well as Cambodia, and Uganda have been impacted by the Covid-19 second wave and are struggling. By region, Africa and LATAM continued to record strong sales. Given high crude oil and commodity prices, demand from key regions like Africa and Latin America is expected to remain strong. Bajaj has increased its market share in almost all key export markets. More than 85% of export revenue was generated from geographies where Bajaj Auto is either No. 1 or No. 2 player with atleast 25% market share.
- Focus on EVs:** The company has received board approval to incorporate a wholly-owned subsidiary catering to electric mobility and Hybrid vehicles in the 2W/3W and light 4W categories. While the company did not share more details currently, this signals its clear focus on EVs. The management also noted that Chetak will soon be eligible for FAME incentives (not eligible currently due to lower-than-stipulated localization levels). It will also launch its electric 3W by the end of CY21.

Valuation & Outlook

Bajaj Auto is well placed to capitalize on demand normalization and premiumisation trends in the 2W industry, which should support profitability and operational performance going forward. Moreover, we expect the company to gain further market share in exports, driven by its market leadership, brand equity, and enhanced distribution network. The company's margins are expected to improve aided by premiumisation in 2Ws, higher exports, depreciating rupee, RoDTEP scheme incentives, and an increase in the share of 3Ws (higher margins) in product mix over the medium to long term. Bajaj Auto remains our preferred pick in the 2W segment given reasonable valuations and strong medium-term growth prospects. **We maintain our BUY rating on the stock keeping our TP of Rs 4,250 unchanged (which includes Rs 200/share for the company's stake in KTM) as we value the stock at 17x its FY23E EPS.**

Key Financials (Standalone)

(Rs Cr)	FY20A	FY21A	FY22E	FY23E
Net Sales	29,352	27,408	36,029	41,831
EBITDA	4,698	4,740	6,110	7,599
Net Profit	5,226	4,665	5,500	6,893
EPS (Rs.)	180.6	161.2	190.1	238.2
ROE (%)	22.8	19.0	19.7	23.6
ROCE (%)	22.2	18.6	19.3	23.1
PER (x)	11.2	22.8	20.3	16.2
P/BV (x)	2.9	4.2	4.3	4.2
EV/EBITDA (x)	12.4	22.3	18.2	14.7
Debt/ Equity (x)	0.0	0.0	0.0	0.0

Source: Company, Axis Research

(CMP as of July 22, 2021)

CMP (Rs)	3,853
Upside /Downside (%)	10%
High/Low (Rs)	4,361/2,823
Market cap (Cr)	1,11,482
Avg. daily vol. (6m) Shrs.	2,18,827
No. of shares (Cr)	29

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	53.7	53.7	53.7
FIIs	13.1	12.0	11.8
MFs / UTI	3.1	3.4	3.7
Banks / FIIs	0.0	0.1	0.1
Others	30.1	30.8	30.7

Financial & Valuations

Y/E Mar (Rs. Cr)	2021A	2022E	2023E
Net Sales	27,408	36,029	41,831
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EV/EBITDA (x)	22.3	18.2	14.7
P/BV (x)	4.2	4.3	4.2
ROE (%)	19.0	19.7	23.6

Change in Estimates (%)

Y/E Mar	FY22E	FY23E
Sales	3.3	3.6
EBITDA	(2.1)	1.1
PAT	(5.5)	(0.7)

Axis vs Consensus

EPS Estimates	2022E	2023E
Axis	190.1	238.2
Consensus	193.1	223.9
Mean Consensus TP (12M)		4,228

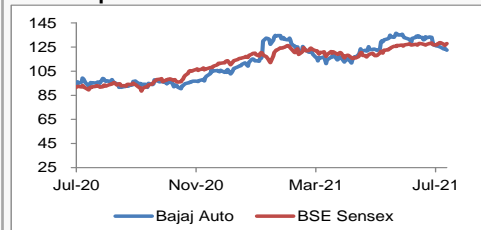
ESG Disclosure Score

Environmental Disclosure Score	13.2
Social Disclosure Score	42.1
Governance Disclosure Score	48.2
Total ESG Disclosure Score	28.1

Source: Bloomberg, Scale 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Q1FY22 Financial Highlights (Standalone)

(Rs Cr)	Q1FY22	Axis Sec Estimates	Axis Sec Var (%)	Q4FY21	QoQ growth (%)	Q1FY21	YoY growth (%)
Net Sales	7,386	7,494	(1.4)	8,596	(14.1)	3,079	139.9
Less:							
Net Raw Material consumed	5,394	5,433	(0.7)	6,177	(12.7)	2,067	161.0
Other Manufacturing & Sales Exp.	510	525	(2.7)	588	(13.3)	267	91.3
Personnel Cost	362	317	14.0	307	17.8	337	7.2
Total Expenditure	6,266	6,275	(0.1)	7,072	(11.4)	2,671	134.6
EBITDA	1,120	1,219	(8.2)	1,524	(26.5)	409	174.1
Less: Depreciation	64	66	(3.1)	66	(3.2)	64	0.4
EBIT	1,056	1,153	(8.4)	1,458	(27.6)	345	206.2
Less: Interest	2	2	36.6	2	12.3	1	141.1
Add: Other income	329	312	5.7	284	16.1	338	(2.5)
Profit Before Extra-ordinary items and Tax	1,383	1,463	(5.5)	1,739	(20.5)	682	102.8
Less: Extraordinary Expense/(Income)	0	0		0		0	
Profit Before Tax	1,383	1,463	(5.5)	1,739	(20.5)	682	102.8
Less: Total Tax	322	344	(6.5)	407	(21.1)	154	109.3
Profit After Tax	1,061	1,119	(5.2)	1,332	(20.3)	528	101.0
Adj. PAT	1,061	1,119	(5.2)	1,332	(20.3)	528	101.0
Shares Outstanding (Cr)	29	29	-	29		29	
Reported EPS (Rs.)	36.7	38.7	(5.2)	46.0	(20.3)	18.2	101.0
Adj. EPS (Rs.)	36.7	38.7	(5.2)	46.0	(20.3)	18.2	101.0

Source: Company; Axis Securities

Other Key Concall Takeaways

- 1) **RM outlook and price hikes:** Management noted that the rise in commodity prices impacted margins by ~370 bps in Q1FY22 whereas negative op. leverage resulted in another 160 bps impact. This was partially offset by the benefit of price hikes (170 bps) and due to a slightly better product mix (130 bps) and higher forex realization (Rs 74.25/ USD vs 72.9 QoQ). Commodity costs continue to increase and management expects a further 300 bps impact in Q2 which will be partially offset by a 2% price hike taken by Bajaj across segments in July.
- 2) **Margin Outlook:** In the near term, though margins will remain under pressure on account of commodity cost headwinds, we expect the same to improve over the medium to long term. The potential drivers to offset input cost pressures and improve margins include (1) benefits of rupee depreciation (Q1FY22 realization was 74.25), (2) operating leverage benefit as volumes recover, (3) RoDTEP scheme incentives whenever they come in (4) increase in the share of 3W mix once the demand for 3Ws starts picking up.
- 3) **Domestic 3W demand:** After a return to slight normalcy in Q4FY21, the domestic 3W market again faced headwinds due to the 2nd wave of Covid19. However, management is encouraged by the pick-up in retails seen in June (7k units vs. expectations of 5k). Bajaj improved its market share in all categories of 3Ws viz. to 65.3% in domestic CV business (900 bps QoQ improvement), 72% in passenger 3Ws, and 38% in cargo 3Ws. As a result, management expects a strong volume pick-up for Bajaj when the industry recovers.
- 4) **Other takeaways:**
 - ✓ Production of high-end bikes like KTM has been impacted by semi-conductor shortages.
 - ✓ The shortage of shipping containers is also impacting export volumes and leading to an increase in shipping costs.
 - ✓ Bajaj's share in the 125cc segment increased to 25% (from 22% in Q4FY21) led by continued robust demand for Pulsar 125 and the launch of another variant - Pulsar 125 NS in May.
 - ✓ Bajaj Auto has close to 85-90% market share in CNG 3Ws.
 - ✓ Exports revenue for the quarter came in at Rs 4,500Cr.
 - ✓ Forex realization was at Rs 74.25/USD.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	36,029	41,831	34,866	40,371	3.3%	3.6%
EBITDA	6,110	7,599	6,238	7,513	-2.1%	1.1%
PAT	5,500	6,893	5,818	6,945	-5.5%	-0.7%
EPS	190.1	238.2	201.1	240.0	-5.5%	-0.7%

Source: Company, Axis Research

Financials (Standalone)
Profit & Loss
(Rs Cr)

Y/E March	FY20A	FY21A	FY22E	FY23E
Net revenues	29,352	27,408	36,029	41,831
Operating expenses	24,655	22,668	29,919	34,232
EBIDTA	4,698	4,740	6,110	7,599
EBIDTA margin (%)	16.0	17.3	17.0	18.2
Other income	2,295	1,609	1,330	1,660
Interest	3	7	10	10
Depreciation	246	259	263	268
Profit Before Tax	6,580	5,939	7,166	8,981
Tax	1,480	1,384	1,666	2,088
Reported Net Profit	5,100	4,555	5,500	6,893
Net Margin (%)	17.4	16.6	15.3	16.5
Adjusted Net Profit	5,226	4,665	5,500	6,893

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY20A	FY21A	FY22E	FY23E
Equity capital	289.4	289.4	289.4	289.4
Reserves & surplus	19,636	24,913	25,459	26,160
Shareholders' funds	19,925	25,202	25,749	26,450
Total Loans	126	122	122	122
Deferred tax liability	346	522	522	522
Total Liabilities and Equity	20,398	25,846	26,393	27,094
Gross block	4,078	4,291	4,786	5,325
Depreciation	2,419	2,679	2,942	3,210
Net block	1,659	1,613	1,844	2,115
Capital WIP	47	16	72	83
Investments	18,250	22,683	22,683	22,683
Inventory	1,064	1,494	1,967	2,251
Debtors	1,725	2,717	2,468	3,438
Cash & Bank Bal	308	527	375	270
Loans & Advances	1,721	2,480	2,199	2,193
Current Assets	4,818	7,218	7,009	8,152
Sundry Creditors	3,454	4,982	4,289	4,882
Other Current Liability	921	702	926	1,056
Current Liability & Provisions	4,375	5,684	5,215	5,939
Net current assets	443	1,535	1,794	2,213
Total Assets	20,398	25,846	26,393	27,094

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY20A	FY21A	FY22E	FY23E
EBIT	4,451	4,481	5,846	7,331
Other Income	2,295	1,609	1,330	1,660
Depreciation & Amortization	246	259	263	268
Interest Paid (-)	(3)	(7)	(10)	(10)
Tax paid (-)	(1,480)	(1,384)	(1,666)	(2,088)
Extra Ord Income	(162)	(144)	-	-
Operating Cash Flow	5,346	4,814	5,763	7,161
Change in Working Capital	419	(872)	(412)	(524)
Cash Flow from Operations	5,766	3,942	5,351	6,637
Capex	(195)	(183)	(550)	(550)
Strategic investments	(11)	-	-	-
Non-Strategic Investments	976	(4,433)	-	-
Cash Flow from Investing	770	(4,616)	(550)	(550)
Change in borrowing	1	(4)	-	-
Others	(2,965)	4,949	0	0
Dividends paid (-)	(4,186)	(4,051)	(4,954)	(6,192)
Cash Flow from Financial Activities	(7,150)	893	(4,954)	(6,192)
Change in Cash	(615)	219	(153)	(105)
Opening Cash	923	308	527	375
Closing Cash	308	527	375	270

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY20A	FY21A	FY22E	FY23E
Revenue Growth	(1.5)	(6.6)	31.5	16.1
EBITDA Margin	16.0	17.3	17.0	18.2
Net Profit Margin	17.8	17.0	15.3	16.5
ROCE (%)	22.2	18.6	19.3	23.1
ROE (%)	22.8	19.0	19.7	23.6
EPS (Rs)	180.6	161.2	190.1	238.2
P/E (x)	11.2	22.8	20.3	16.2
P / BV (x)	2.9	4.2	4.3	4.2
EV / EBITDA (x)	12.4	22.3	18.2	14.7
Fixed Asset Turnover Ratio (x)	17.2	16.8	18.8	19.0
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.0	3.9	3.1	2.7
Sales/Net Worth	1.5	1.1	1.4	1.6

Source: Company, Axis Securities

Bajaj Auto Price Chart and Recommendation History



Date	Reco	TP	Research
28-Aug-20	BUY	3,300	Initiating Coverage
03-Sep-20	BUY	3,300	Company Update
28-Sep-20	BUY	3,300	Auto Sector Update
23-Oct-20	BUY	3,500	Result Update
23-Nov-20	BUY	3,500	Pick of the week
22-Jan-21	BUY	4,150	Result Update
12-Mar-21	Hold	4,150	Company Update
30-Apr-21	BUY	4,250	Result Update
23-Jul-21	BUY	4,250	Result Update

Source: Axis Securities

About the analyst**Analyst:** Darshan Gangar**Contact Details:** darshan.gangar@axissecurities.in**Sector:** Auto**Analyst Bio:** Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.**Disclosures:**

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