

Strong Exports, Premiumisation & EVs to Drive Growth; Outlook Stable

Bajaj Auto (BAL) Q3FY22 results stood slightly ahead of our expectations, particularly on the margin front. The company reported net revenues of Rs 9,022 Cr (our estimate – Rs 8,928 Cr) v/s Rs 8,910 Cr in Q3FY21, posting a flattish growth YoY. This was led by a 10% volume decline during the quarter being offset by an 11.6% YoY increase in ASPs. The revenue growth has largely been aided by the price hikes undertaken by the company to compensate for the surge in raw material costs during the quarter. Gross margins stood at 25.3% (our estimate – 25%) contracting by 394 bps YoY due to RM inflation. The company's EBITDA margins came in at 15.2% (our estimate – 14.4%), a contraction of 420bps YoY. The beat on margins was largely for two reasons: (1) Positive net impact of price hikes as compared to RM cost increase and (2) Favorable export realization for USD to INR. The absolute EBITDA came in at Rs 1,372 Cr (our estimate: Rs 1,287 Cr), a de-growth of 20.7% YoY. The company reported an adjusted net profit of Rs 1,214 Cr (our estimate – Rs 1,186 Cr) against Rs 1,556 Cr in Q3FY21. We revise our estimates downwards to account for lower volumes on the back of a gradual recovery in the domestic market. **We maintain our BUY rating on the stock with a revised TP of Rs 4,250/share (Rs 4,500 earlier) (which includes Rs 320/share for the company's stake in PMAG) as we value the stock at 17x its FY24E EPS.**

Key Concall Takeaways

- Domestic 2W Industry:** The domestic 2W volumes witnessed a 20% drop on a high base of Q3FY21. It was still lower than a 23% decline for the industry. The decline was on account of (a) Muted festive season – double-digit decline and (b) Chip shortages impacting sales of the premium segment. Also, customers' dampening purchasing power and revival in customers segment of average income less than Rs 50,000 (which comprise 60% of the company's customers) are other contributing factors to subdued demand. The management noted that demand has been sluggish both in urban and rural markets and across segments with the entry segment being the worst hit. The company's retail market share in domestic 2Ws improved to 19.2% in Q3FY22 as against 18.6% last year, driven by premiumization efforts in the Commuter segment and sustained momentum in the Executive segment with Pulsar 125 and NS125 (22% of total Pulsar 125 sales).
- Strong Performance in the Exports market:** Exports demand remained robust for Bajaj and is expected to continue to grow at a steady pace led by normalizing demand across key regions, market share gains both in 2W and 3W segments, and an improving mix of premium segments. Exports contributed 56% of the company's total volumes v/s 53% in Q3FY21. Despite restrictions in Sri Lanka (import ban) and Egypt (new rules to shift to CNG in 3Ws), 3W export volumes have been resilient mainly due to ramp-up in newer markets like the Philippines, Iraq, Cambodia, Mexico, and the Dominican Republic. During Q3FY22, the company undertook a price hike of ~5% which was higher than any of its peers. The management expects Q4FY22 performance to be in line with Q3FY22 with 2.5 Mn units expected by the end of FY22.
- 3W Business:** The 3W demand has seen a smart recovery in Q3FY22 led by the normalisation of economic activity with BAL achieving market leadership in all 3W segments leading to an all-time high market share of 71%. The rise in the CNG network in the country by 50% last year will be beneficial for the company's CNG models as it commands a market share of 75%.

Valuation & Outlook

Overall FY21 has been a challenging year for the domestic 2W industry due to the COVID-19 outbreak. However, Bajaj Auto has performed well on the account of good recovery in the domestic market (led by the Pulsar 125cc) and faster recovery in the export markets (its key markets were the least impacted by the pandemic). BAL is relatively better-positioned than its peers owing to its strength in exports and the Premium Motorcycle segment. It is well placed to capitalize on demand normalization and premiumisation trends in the 2W industry which should support profitability and operational performance going forward. The company's margins are expected to improve aided by premiumisation in 2Ws, higher exports, depreciating rupee, and 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 attractive valuations and strong medium-term growth prospects. We revise our estimates downwards to account for lower volumes on the back of a gradual recovery in the domestic market. **We maintain our BUY rating on the stock with a revised TP of Rs 4,250/share (which includes Rs 320/share for the company's stake in PMAG) as we value the stock at 17x its FY24E EPS. TP implies an upside potential of 28% from CMP.**

Key Financials (Standalone)

(Rs Cr)	FY21A	FY22E	FY23E	FY24E
Net Sales	27,408	34,515	39,077	43,729
EBITDA	4,740	5,334	6,464	7,486
Net Profit	4,665	4,834	5,830	6,689
EPS (Rs)	161.2	167.1	201.5	231.2
ROE (%)	19.0	17.5	20.8	23.8
ROCE (%)	18.6	17.1	20.4	23.3
PER (x)	22.8	19.8	16.4	14.3
P/BV (x)	4.2	3.8	3.9	3.7
EV/EBITDA (x)	22.3	17.9	14.8	12.7
Debt/ Equity (x)	0.0	0.0	0.0	0.0

Source: The company, Axis Research

(CMP as of Jan 20, 2021)

CMP (Rs)	3,310
Upside /Downside (%)	28%
High/Low (Rs)	4,361/3,028
Market cap (Cr)	95,769
Avg. daily vol. (6m) Shrs.	2,07,567
No. of shares (Cr)	29

Shareholding (%)

	Jun-21	Sep-21	Dec-21
Promoter	53.7	53.7	53.7
FII's	11.8	11.2	10.2
MFs / UTI	3.7	4.9	5.0
Banks / FI's	0.1	0.3	0.3
Others	30.7	29.9	30.7

Financial & Valuations

Y/E Mar (Rs Cr)	2022E	2023E	2024E
Net Sales	34,515	39,077	43,729
EBITDA	5,334	6,464	7,486
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EPS (Rs)	167.1	201.5	231.2
PER (x)	19.8	16.4	14.3
EV/EBITDA (x)	17.9	14.8	12.7
P/BV (x)	3.8	3.9	3.7
ROE (%)	17.5	20.8	23.8

Change in Estimates (%)

Y/E Mar	2022E	2023E	2024E
Sales	(2.1)	(3.5)	(5.5)
EBITDA	(3.9)	(5.4)	(7.9)
PAT	(5.0)	(6.0)	(8.0)

Axis vs Consensus

EPS Estimates	2022E	2023E	2024E
Axis	167.1	201.5	231.2
Consensus	172.2	207.0	236.5
Mean Consensus TP (12M)			

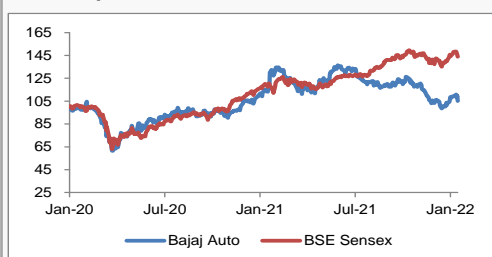
ESG Disclosure Score

Environmental Disclosure Score	13.2
Social Disclosure Score	47.4
Governance Disclosure Score	48.2
Total ESG Disclosure Score	29.3

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 2021 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Q3FY22 Financial Highlights (Standalone)

(Rs Cr)	Q3FY22	Axis Sec Estimates	Axis Sec Var (%)	Q2FY22	QoQ growth (%)	Q3FY21	YoY growth (%)
Net Sales	9,022	8,928	1.1	8,762	3.0	8,910	1.3
Less:							
Net Raw Material consumed	6,743	6,696	0.7	6,456	4.4	6,308	6.9
Other Manufacturing & Sales Exp.	566	580	(2.4)	553	2.4	555	2.1
Personnel Cost	340	365	(6.8)	352	(3.3)	317	7.1
Total Expenditure	7,650	7,641	0.1	7,361	3.9	7,180	6.5
EBITDA	1,372	1,287	6.6	1,401	(2.1)	1,730	(20.7)
Less: Depreciation	70	66	6.0	66	6.4	65	7.4
EBIT	1,302	1,221	6.7	1,336	(2.5)	1,665	(21.8)
Less: Interest	2	2	(16.1)	2	5.3	1	75.5
Add: Other income	273	322	(15.2)	318	(14.3)	369	(26.1)
Profit Before Extra-ordinary items and Tax	1,573	1,541	2.1	1,652	(4.8)	2,033	(22.6)
Less: Extraordinary Expense/(Income)	0	0		0		0	
Profit Before Tax	1,573	1,541	2.1	1,652	(4.8)	2,033	(22.6)
Less: Total Tax	359	354	1.3	378	(4.9)	477	(24.6)
Profit After Tax	1,214	1,186	2.4	1,275	(4.7)	1,556	(22.0)
Adj. PAT	1,214	1,186	2.4	1,275	(4.7)	1,556	(22.0)
Shares Outstanding (Cr)	29	29	-	29		29	
Reported EPS (Rs)	42.0	41.0	2.4	44.0	(4.7)	53.8	(22.0)
Adj. EPS (Rs)	42.0	41.0	2.4	44.0	(4.7)	53.8	(22.0)

Source: The company; Axis Securities

Other Key Concall Takeaways

- 1) **Margin Outlook:** In the near term, though margins are expected to remain under pressure on account of commodity cost headwinds, we expect the same to improve over the medium to long term. Management expects commodity costs to increase by 1% QoQ in Q4 but it has taken further price hikes in both export and domestic markets to offset the impact and we see sequential improvement in margin in Q4. The potential drivers to offset input cost pressures and improve margins include (1) volume recovery, (2) price hikes and steady to declining commodity prices and (3) better product mix – a higher share of premium bikes and 3W.
- 2) **Focus on EVs:** BAL has applied for the Champion OEM PLI scheme and plans on investing Rs 1,000 Cr over the next 5 years. This includes an investment of Rs 300 Cr at its Akurdi, Pune plant to build capacity for 500,000 EVs per annum. Bajaj will be commencing commercial production from its Akurdi plant for 2W EVs by Jun'22. In Q3FY22 it sold over 2,000 units of the Chetak brand and currently has an order book of around 10,000 units. With better visibility in the supply chain for EV components, the Managements plan on expanding to multiple cities in 2022 from the current 8 cities in the country. The company re-iterated its 3-pronged strategy for EVs i.e. (a) to cover multiple segments in 2/3W, (b) indigenously build a supply chain and reduce reliance on imports and single vendors, wherein it has already reduced its dependence on a supplier of electric components and (c) focus on R&D to develop products, which suits multiple use cases both for domestic and export markets. The company's incremental Capex will be focused on developing an EV platform, except for 1 new platform in ICE 2W for the commuter segment. Simultaneously, it is working with KTM Europe to develop electric/off-road bikes and with Yulu to develop specialized EVs for last-mile delivery (expected to launch in 2022).
- 3) **3W EV Outlook:** The company expects the transition to electric in 3Ws to be gradual and not sudden – weighed by challenges such as higher initial ownership costs, the lack of charging infra, and the lack of retail finance – despite the operating cost of EVs being lower (by 10% v/s CNG and 30% v/s diesel). Also, there is no clarity on the resale value (for individual owners). Bajaj will be launching its first 3W EV in the market by 1QFY23 in the Cargo segment; it will also be equipped with telematics and other connected features which will aid better fleet management for operators. This will be followed by multiple launches across cargo and passenger segments.

Change in Estimates

(Rs Cr)

	Revised			Old			% Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	34,515	39,077	43,729	35,248	40,490	46,267	-2.1%	-3.5%	-5.5%
EBITDA	5,334	6,464	7,486	5,553	6,831	8,126	-3.9%	-5.4%	-7.9%
PAT	4,834	5,830	6,689	5,088	6,202	7,267	-5.0%	-6.0%	-8.0%
EPS	167.1	201.5	231.2	175.8	214.3	251.1	-5.0%	-6.0%	-8.0%

Source: Company, Axis Research

Financials (Standalone)
Profit & Loss
(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Net revenues	27,408	34,515	39,077	43,729
Operating expenses	22,668	29,180	32,613	36,243
EBITDA	4,740	5,334	6,464	7,486
EBIDTA margin (%)	17.3	15.5	16.5	17.1
Other income	1,609	1,223	1,394	1,501
Interest	7	8	9	9
Depreciation	259	273	279	292
Profit Before Tax	5,939	6,276	7,571	8,687
Tax	1,384	1,442	1,741	1,998
Reported Net Profit	4,555	4,834	5,830	6,689
Net Margin (%)	16.6	14.0	14.9	15.3
Adjusted Net Profit	4,665	4,834	5,830	6,689

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
Equity capital	289.4	289.4	289.4	289.4
Reserves & surplus	24,913	24,794	24,431	25,887
Shareholders' funds	25,202	25,083	24,721	26,177
Total Loans	122	122	122	122
Deferred tax liability	522	522	522	522
Total Liabilities and Equity	25,846	25,727	25,365	26,821
Gross block	4,291	4,797	5,347	5,897
Depreciation	2,679	2,951	3,230	3,522
Net block	1,613	1,845	2,117	2,374
Capital WIP	16	61	61	61
Investments	22,683	22,683	22,683	22,683
Inventory	1,494	2,080	2,355	2,756
Debtors	2,717	2,364	2,677	2,995
Cash & Bank Bal	527	366	529	744
Loans & Advances	2,480	2,492	2,111	2,862
Current Assets	7,218	7,302	7,671	9,357
Sundry Creditors	4,982	5,273	5,970	6,559
Other Current Liability	702	891	1,197	1,094
Current Liability & Provisions	5,684	6,164	7,167	7,654
Net current assets	1,535	1,138	504	1,703
Total Assets	25,846	25,727	25,365	26,821

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY21A	FY22E	FY23E	FY24E
EBIT	4,481	5,062	6,185	7,194
Other Income	1,609	1,223	1,394	1,501
Depreciation & Amortization	259	273	279	292
Interest Paid (-)	(7)	(8)	(9)	(9)
Tax paid (-)	(1,384)	(1,442)	(1,741)	(1,998)
Extra Ord Income	(144)	-	-	-
Operating Cash Flow	4,814	5,107	6,109	6,981
Change in Working Capital	(872)	235	796	(984)
Cash Flow from Operations	3,942	5,342	6,905	5,998
Capex	(183)	(550)	(550)	(550)
Strategic investments	-	-	-	-
Non-Strategic Investments	(4,433)	-	-	-
Cash Flow from Investing	(4,616)	(550)	(550)	(550)
Change in borrowing	(4)	-	-	-
Others	4,949	0	-	-
Dividends paid (-)	(4,051)	(4,954)	(6,192)	(5,233)
Cash Flow from Financial Activities	893	(4,954)	(6,192)	(5,233)
Change in Cash	219	(162)	163	215
Opening Cash	308	527	366	529
Closing Cash	527	366	529	744

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY21A	FY22E	FY23E	FY24E
Revenue Growth	(6.6)	25.9	13.2	11.9
EBITDA Margin	17.3	15.5	16.5	17.1
Net Profit Margin	17.0	14.0	14.9	15.3
ROCE (%)	18.6	17.1	20.4	23.3
ROE (%)	19.0	17.5	20.8	23.8
EPS (Rs)	161.2	167.1	201.5	231.2
P/E (x)	22.8	19.8	16.4	14.3
P / BV (x)	4.2	3.8	3.9	3.7
EV / EBITDA (x)	22.3	17.9	14.8	12.7
Fixed Asset Turnover Ratio (x)	16.8	18.1	17.9	18.0
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	3.9	2.8	2.4	2.2

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
22-Jul-21	BUY	4,250	Result Update
30-Aug-21	BUY	4,250	AAA
01-Oct-21	BUY	4,500	Top Picks
29-Oct-21	BUY	4,500	Result Update
01-Nov-21	BUY	4,500	Top Picks
03-Dec-21	BUY	4,500	Top Picks
20-Jan-22	BUY	4,200	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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