

April 25, 2023

RESULT REPORT Q4 FY23 | Sector: Automobile

Bajaj Auto Ltd

Margins to bottom out; Downgrade to ADD

Valuation and View – Outperformance continues

BJAUT's 4QFY23 results were better than expected with Revenue/EBITDA/Adj.PAT beat our/consensus by 5.9%/10.6%/8.7% and 3.9%/9.2%/6%. This was led by record ASP at Rs103.4k/unit (est ~Rs98k, +9.3% QoQ) and superior mix supported better gross margins at 30.2% (est 29.6%, +240bp YoY/ +80bp QoQ). We believe margins to bottom out led by 1) cost inflation (due to steel), 2) mix to moderate given QoQ exports volume recovery led by Africa and 3) increased contribution from EVs (2W ramp-up to 10k units by Jun'23 and 3W launch by Apr'23 end). Overall demand outlook yet remained mix but improving as 1) domestic volumes recovery continues to remain hopeful, 2) exports - near-term volumes to see recovery in dispatches contingent upon currency availability, 3) 3W volumes expected to stabilize given healthy recovery over past year. However, going ahead, INR depreciation, Triumph contribution favoring overall mix, remain an upside risk to our margins.

Bajaj Auto is upping the game in domestic EV space now as it targets volume ramp-up for Chetak as well as EV 3W launch for pax and cargo segment. The near-term focus is to 1) increase distribution for Chetak (to 120 cities by 1HFY24 from 85 cities now) and 2) new product launches under Triumph brand by July'23. To factor in the same as well as better ASP, we raise FY24/25 EPS by 6-9%. We build in revenue/EBITDA/Adj. PAT CAGR of 10.4%/16.6%/12% over FY23-25E. However, we downgrade the stock to ADD (from BUY) with revised TP of Rs4,873 (v/s Rs4,479 earlier) at 18x Mar'25 EPS. Significant ramp-up in EV 2Ws/3Ws and success of Triumph remain key re-rating triggers ahead. We like TVSL/EIM over BJAUT/HMCL.

Result Highlights- QoQ gross margins expansion came in as surprise

- Revenues grew ~12% YoY/-4.4% QoQ at Rs89b (est Rs84b) led by 27.35 YoY/ +9.3% QoQ growth in ASPs at record Rs103.5/unit (est Rs98k/unit) while volumes declined by ~12-12.5% YoY/QoQ. ASP growth was led by +mix and price hikes.
- Gross margins expanded ~240bp QoQ (+80bp YoY) at 30.2% (est at 29.6%) and sustained cost control resulting in EBITDA growth of ~28.6% YoY/ -3.4% QoQ at Rs17.2b (est Rs15.5b, cons at Rs15.7b). Consequently, margins expanded 250bp YoY/ +20bp QoQ at 19.3% (est at 18.5%, cons at 18.3%). Led by better op. performance, Adj. PAT came in better at Rs14.3b (+20% YoY/-4% QoQ, cons at Rs13.5b) wherein other income came in at Rs2.58b (-10% YoY/ -3.5% QoQ).
- KTM's FY23 consol profit came in at Rs5.3b (v/s Rs5.8b in FY22). Its 1HY23 profit was at ~Rs1.98b (v/s Rs3.76b in 1HFY22).
- Cash and equivalents stood at Rs174.4b as of FY23 (v/s Rs155.4b as on 30th Sep'22). FY23 final dividend at Rs140/share (v/s Rs140/share in FY22).

Exhibit 1: Actual vs estimates

Rs m	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	89,047	84,074	85,671	5.9	3.9	BJAUT outperformed our and street estimates for the second consecutive quarter.
EBITDA	17,166	15,524	15,719	10.6	9.2	
EBITDA %	19.3	18.5	18.3	80bp	90bp	
Adjusted PAT	14,329	13,182	13,528	8.7	5.9	

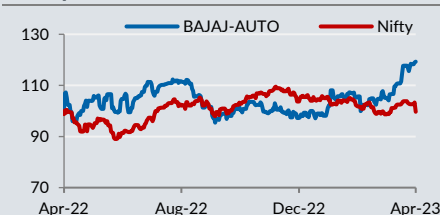
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 4,343
Target Price	: Rs 4,873
Potential Return	: +12.2%

Stock data (as on April 25, 2023)

Nifty	17,769
52 Week h/l (Rs)	4,375 / 3,460
Market cap (Rs/USD mn)	12,19,065 / 14,782
Outstanding Shares (mn)	283
6m Avg t/o (Rs mn):	1,359
Div yield (%):	3.8
Bloomberg code:	BJAUT IN
NSE code:	BAJAJ-AUTO

Stock performance



	1M	3M	1Y
Absolute return	13.4%	16.7%	17.8%

Shareholding pattern (As of Mar'23 end)

Promoter	55.0%
FII+DII	22.8%
Others	22.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	4,873	4,479

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	257.7	270.7
EPS (Old)	243.5	248.9
% change	5.8%	8.8%

Financial Summary

Y/E MARCH	2023	2024E	2025E
Sales	364.3	413.9	446.3
EBITDA	65.5	79.2	83.3
Adj. PAT	61.6	72.9	76.6
Adj. EPS (INR)	217.6	257.7	270.7
EPS Gr. (%)	17.6	18.4	5.0
BV/Sh. (INR)	899	971	1,034
RoE (%)	23.6	27.6	27.0
RoCE (%)	28.0	33.0	32.5
Payout (%)	68.9	64.0	69.1
P/E (x)	20.0	16.9	16.0
P/BV (x)	4.8	4.5	4.2
EV/EBITDA (x)	15.2	12.5	11.7
Div. Yield (%)	3.5	3.8	3.7

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs.mn)	Q4FY23	Q4FY22	YoY chg %	Q3FY23	FY23	FY22	YoY chg %
Net Revenues	89,047	79,443	12.1	93,151	364,276	331,142	10.0
Raw Materials	62,135	57,357	8.3	65,775	260,548	243,298	7.1
% of Net Sales	69.8%	72.2%		70.6%	71.5%	73.5%	
Personnel	3,620	3,059	18.4	3,511	14,449	13,588	6.3
% of Net Sales	4.1%	3.8%		3.8%	4.0%	4.1%	
Manufacturing & Other Exp	6,126	5,677	7.9	6,097	23,788	21,975	8.3
% of Net Sales	6.9%	7.1%		6.5%	6.5%	6.6%	
Total Expenditure	71,882	66,092	8.8	75,383	298,785	278,861	7.1
EBITDA	17,166	13,351	28.6	17,768	65,491	52,281	25.3
EBITDA Margin (%)	19.3%	16.8%		19.1%	18.0%	15.8%	
Depreciation	742	697	6.4	740	2,824	2,692	4.9
EBIT	16,424	12,654	29.8	17,029	62,667	49,590	26.4
Interest Expenses	157	29	446.5	85	395	87	355.9
Non-operating income	2,598	2,889	(10.0)	2,691	11,814	12,092	(2.3)
Extraordinary Expenses	-	(3,153)		-	-	(3,153)	
PBT	18,865	18,667	1.1	19,635	74,086	64,748	14.4
Tax-Total	4,536	4,282	5.9	4,721	17,810	14,865	19.8
Tax Rate (%) - Total	24.0%	22.9%		24.0%	24.0%	23.0%	
Reported PAT	14,329	14,385	(0.4)	14,914	56,276	49,884	12.8
Adj. PAT	17,640	12,573	40.3	14,914	61,569	53,247	15.6
PAT Margin	19.8%	15.8%		16.0%	16.9%	16.1%	
Sales Volume (nos)	859,923	976,651	(12.0)	983,276	3,927,857	4,308,433	(8.8)
Net Realisation/Vehicle	103,553	81,343	27.3	94,736	92,742	76,859	20.7
Material cost / vehicle	72,256	58,729	23.0	66,894	66,333	56,470	17.5
Gross Profit / vehicle	31,296	22,614	38.4	27,842	26,408	20,389	29.5
Employee cost /vehicle	4,210	3,132	34.4	3,571	3,679	3,154	16.6
Other expenses / vehicle	7,124	5,812	22.6	6,200	6,056	5,100	18.7
EBITDA/vehicle	19,962	13,670	46.0	18,070	16,674	12,135	37.4
Net Profit/vehicle	20,514	12,873	59.4	15,168	15,675	12,359	26.8

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

State of current demand and outlook for exports

- Business remained challenges in 4QFY23 as Nigeria business was standstill due to Election and demonetization especially in Feb. Post-election, retails have bounced back. Apr'23 is seeing MoM recovery. Taxi segment account for ~95% of the Africa regions volumes.
- Apart from Nigeria, all other regions witnessed slightly better retail QoQ hence retails weakness have bottomed out.
 - Fair bit of de-stocking is already in place and believe, there is a need to rebuild the stock. However, dollar availability remains a concern which may keep restocking under check.
- MS remain protected in almost all countries despite co have passed on cost inflations without compromising margins.
- Dominar – Had good start in Brazil with wait period of ~90 days correctly.
- 3W continues to be banned in Egypt and working with local government.

State of current demand and outlook for Domestic

- MC industry showing some growth as indicated in retails sales growth driven by 125cc+ segment where 100cc saw lower growth. Expect industry growth of 6-8% over 6-8 months led by 125cc segment.
- KTM – highest sales with quality of the portfolio contributed by >200cc segment.
- Triumph – Worldwide launch expected from UK on 27th June. Jointly developed product will be manufactured in Chakan (new facility).
 - For sales, Bajaj will take care of India and few exports while most of the other exports markets will be served by Triumph. Will have new exclusive identity for Triumph sales.
- Pulsar – new and refreshed launches have helped 150-200cc market share back to ~50% in FY23 and will continue to launch products.
- Platina 110 ABS launched to improve safety and first in the world to have ABS in 110cc segment.
- 3W – Volumes have achieved pre covid levels with MS of 78% in Mar'23. Finance support by Bajaj Finance is helping volumes.
- Chetak – Volume will be scaled up to ~10k from June'23 with improved supply chain now in place. Revision of Chetak pricing resulted in retails improving to 5.5k (v/s 3-3.5k run rate) where booking grew to ~8k units. Will build new identity/upgrades for exclusive for chetak.
 - Chetak distribution – available in ~85 towns currently and should be expanded to 120 town by 1HFY24 (~180 stores) which will cover ~80% of high-speed EV 2W market.
- EV 3W – will be launched by end of Apr'23 both for EV 3W Pax and EV 3W cargo segment. Will be slow atleast for initial 2-3 months in terms of dispatches.

Others key highlights

- RM inflation - RM was inflated for metal components in 4QFY23 but offset by decline in prices for electrical, rubber and polypropylene components leading to RM remaining flat overall. Expect steel led RM inflation to come through in 1QFY24. Co have taken price increase to pass on RM as well as OBD2 requirements.
- Inflation impact of ~1.5% (RM and OBD2) of which 2/3rd of the cost have been passed on.
- USD/INR at Rs81.5 in 4QFY23 v/s Rs81.7 in 3QFY23.
- Spares – Revenues at Rs11.5b in 4QFY23 (v/s Rs11b in 3QFY23 and Rs9.8b in 4QFY22).
- Exports – Revenues at USD370m (v/s USD415m in 3QFY23 and USD500m in 4QFY22).
- Financing subsidiary – under WIP and talks with RBI is underway.

FINANCIALS

Exhibit 3: Balance Sheet

Y/E March	2021	2022	2023	2024E	2025E
Share Capital	2,894	2,894	2,830	2,830	2,830
Reserves	249,129	263,794	251,429	272,005	289,641
Net Worth	252,023	266,688	254,259	274,834	292,471
Deferred Tax	5,221	4,033	3,452	3,452	(261)
Loans	1,606	1,591	1,578	1,578	1,578
Capital Employed	258,850	272,312	259,288	279,864	293,787
Gross Fixed Assets	42,746	45,616	57,271	67,090	77,090
Less: Depreciation	26,620	27,787	30,611	34,342	39,028
Net Fixed Assets	16,126	17,829	26,660	32,748	38,062
Capital WIP	160	768	819	1,000	1,000
Investments	226,833	238,699	229,733	231,733	231,733
Current Assets	72,183	61,923	54,061	87,629	104,446
Inventory	14,939	12,305	13,979	24,945	27,740
Sundry Debtors	27,169	15,164	17,761	28,346	31,522
Cash & Bank Balances	5,051	5,640	2,858	12,226	20,594
Loans & Advances	110	87	59	67	75
Others	24,915	28,727	19,405	22,046	24,516
Current Liab. & Prov.	56,452	46,907	51,986	73,247	81,455
Sundry Creditors	45,738	36,332	40,739	56,692	63,044
Other Liabilities	9,170	9,025	9,582	10,886	12,106
Provisions	1,544	1,551	1,665	5,669	6,304
Net Current Assets	15,732	15,016	2,075	14,382	22,991
Application of Funds	258,850	272,312	259,288	279,864	293,787

Source: Company, YES Sec

Exhibit 4: Income statement

Y/E March	2021	2022	2023	2024E	2025E
Volumes	3,972,914	4,308,433	3,927,857	4,348,670	4,766,245
Change (%)	-13.9	8.4	-8.8	10.7	9.6
Net Sales	277,411	331,447	364,276	413,852	446,310
Change (%)	(7.3)	19.5	9.9	13.6	7.8
Total Expenditure	228,126	278,861	298,785	334,622	362,989
EBITDA	49,285	52,586	65,491	79,230	83,321
Change (%)	(3.3)	6.7	24.5	21.0	5.2
EBITDA Margins (%)	17.8	15.9	18.0	19.1	18.7
Depreciation	2,593	2,692	2,824	3,731	4,686
EBIT	46,692	49,895	62,667	75,500	78,635
Int. & Fin. Charges	67	87	395	355	320
Other Income	12,765	12,092	11,814	13,361	14,508
Non-recurring Exp.	0	-3,153	0	0	0
PBT	59,390	65,053	74,086	88,505	92,823
Tax	13,844	14,865	17,810	21,241	22,277
Effective Rate (%)	23.3	22.8	24.0	24.0	24.0
PAT	45,546	50,189	56,276	67,264	70,545
Change (%)	(10.7)	10.2	12.1	19.5	4.9
Add: Share in profit of associates	3,063	5,795	5,293	5,663	6,060
Adj. PAT	48,609	53,552	61,569	72,928	76,605
Change (%)	(10.3)	10.2	15.0	18.4	5.0

Source: Company, YES Sec

Exhibit 5: Cash Flow Statement

Y/E March	2021	2022	2023	2024E	2025E
Profit before Tax	59,390	65,053	74,086	75,500	78,635
Interest/Div. Received	10,030	9,051	7,522	13,361	14,508
Depreciation & Amort.	2,593	2,692	2,824	3,731	4,686
Direct Taxes Paid	(13,397)	(17,015)	(19,184)	(21,241)	(25,990)
(Inc)/Dec in Working Capital	(5,105)	6,009	7,234	(2,938)	(242)
Other Items	(22,373)	(26,866)	(17,363)	(13,006)	(14,188)
CF from Oper. Activity	31,139	38,923	55,119	55,407	57,409
Extra-ordinary Items	-	3,153	-	-	-
CF after EO Items	31,139	42,076	55,119	55,407	57,409
(Inc)/Dec in FA+CWIP	(2,509)	(5,176)	(8,421)	(10,000)	(10,000)
Free Cash Flow	28,630	33,747	46,698	45,407	47,409
(Pur)/Sale of Invest.	(26,145)	4,217	21,760	(2,000)	-
CF from Inv. Activity	(28,654)	(960)	13,338	(12,000)	(10,000)
Inc. / Dec.in Networkth	-	-	(30,939)	(0)	0
Inc/(Dec) in Debt	(53)	-	-	-	-

Y/E March	2021	2022	2023	2024E	2025E
Interest Paid	(55)	(74)	(380)	(355)	(320)
Dividends Paid	(87)	(40,490)	(40,470)	(46,688)	(52,909)
CF from Fin. Activity	(195)	(40,563)	(71,789)	(47,044)	(53,229)
Inc/(Dec) in Cash	2,290	553	(3,332)	(3,637)	(5,820)
Add: Beginning Bal.	2,761	5,087	5,526	2,858	12,226
Closing Balance	5,051	5,640	2,194	(780)	6,406

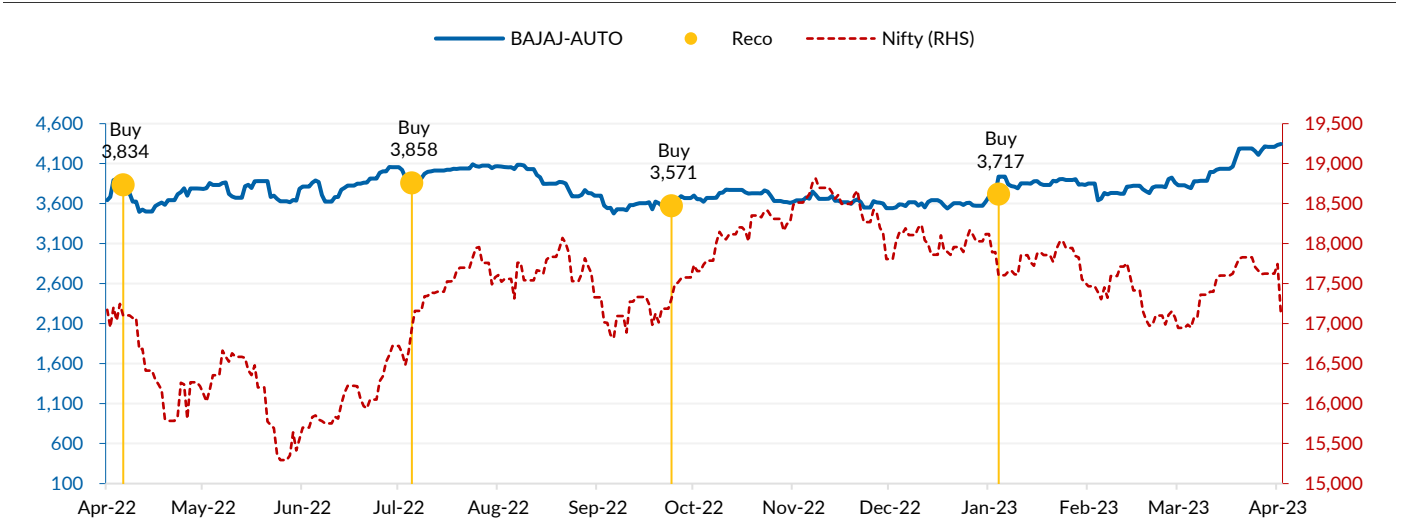
Source- Company, YES Sec

Exhibit 6: Growth and Ratio matrix

Y/E March	2021	2022	2023	2024E	2025E
Basic (INR)					
Consol EPS	168.0	185.1	217.6	257.7	270.7
EPS growth (%)	(10.3)	10.2	17.6	18.4	5.0
Consol Cash EPS	176.9	194.4	227.6	270.9	287.3
Book Value per Share	870.9	921.6	898.6	971.3	1,033.6
DPS	140.0	140.0	150.0	165.0	160.9
Payout (Incl. Div. Tax) %	83.3	75.7	68.9	64.0	69.1
Valuation (x)					
P/E	25.9	23.5	20.0	16.9	16.0
Cash P/E	24.5	22.3	19.1	16.0	15.1
EV/EBITDA	20.8	19.3	15.2	12.5	11.7
EV/Sales	3.7	3.1	2.7	2.4	2.2
Price to Book Value	5.0	4.7	4.8	4.5	4.2
Dividend Yield (%)	3.2	3.2	3.5	3.8	3.7
Profitability Ratios (%)					
RoE	21.5	20.6	23.6	27.6	27.0
RoCE	19.7	23.3	28.0	33.0	32.5
RoIC	156.1	110.9	123.7	127.7	116.0
Turnover Ratios					
Debtors (Days)	35.7	16.7	17.8	25.0	25.0
Inventory (Days)	19.7	13.6	14.0	22.0	22.0
Creditors (Days)	60.2	40.0	40.8	50.0	50.0
Working Capital (Days)	(4.8)	(9.8)	(9.0)	(3.0)	(3.0)
Asset Turnover (x)	1.1	1.2	1.4	1.5	1.5
Fixed Asset Turnover	6.6	7.5	7.1	6.7	6.2

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

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