



## ALPHA

12 OCT 2022

## Bajaj Auto Ltd. – Market's Favourite Auto Stock

Market Data	
CMP	Rs. 3529
Date	11-Oct-22
New Target Price	Rs.4120
Old Target Price	Rs.4284
Upside Potential	17.00%
52 Week High/Low	4132/3027
Market Cap	Large Cap
Sector	Automobile
Rating	ACCUMULATE

Bajaj Auto, the flagship company of Bajaj Group, is a two-wheeler and three-wheeler manufacturing company that exports to 70+ countries across Latin America, Southeast Asia, and many more. Its headquarters is in Pune, India. It has acquired 48% of the KTM Brand which manufactures sports and super sports two-wheelers, which was 14% in 2007 when the company first acquired KTM. Bajaj Auto had set up an assembly line capacity in its Waluj plant in Aurangabad, Maharashtra, to manufacture quadricycles (branded as Qute), which it started exporting apart from catering to the domestic market. The company has a total capacity to manufacture 57.2 lakh units of motorcycles and 9.3 lakh units of commercial vehicles (passenger carrier, goods carrier, and quadricycles) at its plants in Waluj and Chakan in Maharashtra; and Pantnagar in Uttarakhand.





**Products & Services:** The company manufactures various products under five segments namely Mileage, Sports, Super Sports, Scooter and 3W & Qute.

**Mileage Segment** – CT100, Platina 100, Pulsar 125, etc.

**Sports Segment** – Pulsar 150, Pulsar NS160, Pulsar 180, Pulsar NS200, Pulsar 220, Avenger Street 160, Avenger Cruise 220.

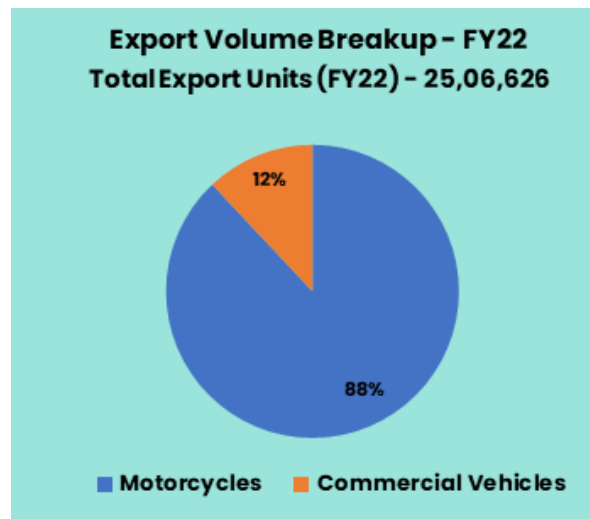
**Super Sports Segment** – KTMs, Husqvarnas, Pulsar RS200, Dominar 400 & 250.

**Scooter Segment** – Chetak Premium & Urbane.

**3W & Qute** – RE, Maxima Z and Maxima C

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	53.77	53.77	0.00
FPI	11.16	10.49	0.67
DII	12.40	13.17	-0.77
Public & Others	22.68	22.57	0.11
Pledged	0.01	0.01	0.00

**Subsidiaries:** As on Mar'22, The Company has five overseas subsidiaries and two Indian subsidiaries.



Margins - FY22	
Gross Profit	27%
EBITDA	16%
PAT	19%





## Key Rationale

- **Healthy market position in the motorcycle segment** – Bajaj Auto is the third-largest player in the domestic motorcycle segment, with a market share of 18.2% for the year ended 31st March 2022. It is the largest exporter of two-wheelers, accounting for nearly more than 50% of total motorcycles are exports for FY22. Over the past few years, the company has demonstrated robust product development capabilities, as reflected in model launches under the KTM, and Husqvarna brands in the premium segment, CT and Platina in the economy segment and Pulsar and Dominar brands in the executive segment. Bajaj Auto has strong market share in each of the above segments. The market share in Mileage segment has increased from 15.2% in FY2021 to 17.0% in FY2022. The stellar performer in this segment has been the Pulsar 125 which has a sale of over 37,500 units per month in FY2022. Consequently, the Company's market share in the Sports segment reduced from 28% in FY2021 to 23% in FY2022. Even so, Bajaj Auto has the second largest market share in this category.
- **Leadership position in the three-wheeler segment** – The company is the single-largest player in the domestic three-wheeler segment, with a market share of ~62% in fiscal 2022. Passenger vehicles category within the three-wheeler segment account for ~81% of total Bajaj Auto's three-wheeler volumes, and under this segment, the Company has 71% market share as on March 31, 2022. Steady accrual from this segment provides considerable strength to the company's overall business risk profile, helps it diversify its revenue base, and improves its ability to weather intense competition in the motorcycle segment.
- **Robust financial risk profile** – The Company is likely to maintain near debt-free balance sheet. The Company has a cash surplus of ~Rs.23,530 crores as on March 31, 2022. Further, the Company's ability to generate strong cash flow from operations is more than sufficient to cover dividend payments and capex requirements. For fiscal 2023, the Company's capex requirement is Rs.600 to 800 crores, and the same is expected to be covered through internal cash accruals and surplus. The strong financial risk profile will help withstand any competitive challenge in terms of pricing flexibility, and meet necessary expenditure for in-house R&D, product launches and upgrades, or any sluggishness in revenue growth.
- **EV Space** – On EV front, Bajaj Chetak has expanded to 27 cities in Q1FY23 vs. 12 cities till Q4FY22 with ultimate target of expanding to 100 cities backed by strong demand. Also, company has commissioned EV manufacturing plant in Pune with 0.5 million units capacity for E-2W. Management guided that it is focusing for quality and would double sales in coming quarter but will not run behind market share so as to ensure quality experience for customers.



**Ratios - FY22**

ROE	21%
ROCE	26%
Div. Yield	3.93%
PE Ratio	17.00
Face Value	10.00
EPS	Rs.213.08

**Industry Analysis**

The automobile industry in India is the world's fifth largest. Currently, the automobile industry contributes 7.1% of India's GDP and 49% of its manufacturing GDP. The Indian automobile industry has historically been a good indicator of how well the economy is doing, as the automobile sector plays a key role in both macroeconomic expansion and technological advancement. India enjoys a strong position in the global heavy vehicles market as it is the largest tractor producer, second-largest bus manufacturer, and third-largest heavy trucks manufacturer in the world. India's annual production of automobiles in FY22 was 22.93 million vehicles. In that, two wheelers consist of 78% of the overall vehicles at 17.86 million. India exported close to 5.6 million vehicles in FY22, up 36% YoY compared with FY21. The strong export growth is attributed to the lower base in FY21 and manufacturers tapping the export market to enjoy the benefits of a strong dollar.

**Growth Drivers**

A wide-spread charging infrastructure is essential for EV adoption. In this regard, on April 22, 2022, NITI Aayog released a draft battery swapping policy which will be valid until March 31, 2025. The policy will be implemented over a period of 1-2 years from the date of launch of the policy and will cover all metropolitan cities with a population greater than four million.

The EV market is expected to grow at CAGR of 49% between 2022-2030 and is expected to hit 10 mn-unit annual sales by 2030. The EV industry will create 50 mn direct and indirect jobs by 2030.

The Government of India expects the automobile sector to attract US\$ 8-10 billion in local and foreign investments by 2023.





## Peer Analysis

**Competitors:** Hero Motocorp Ltd., TVS Motors Ltd., etc.

TVS Motors and Hero MotoCorp are the two Direct peers for Bajaj Auto. Financially, Bajaj Auto has a strong balance sheet with a zero Debt/equity ratio whereas Hero MotoCorp with 0.04 and TVS motors with a high ratio of 3.60.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Bajaj	3529	99997	21.00%	26.00%	17	213.08
TVS	1055	50133	18.00%	11.00%	66	15.93
Hero	2548	50918	14.00%	18.00%	22	115.95

## Outlook

The Management expects inventory levels to build up in Q2FY23 compared to Q1FY23 where severe inventory depletion was seen due to inadequate availability of semiconductors. In the Domestic market, the demand recovery is better in semi-urban areas compared to rural where the 125cc segment has expanded and gained market share. The Pulsar NS 125 model continues to be significant contributor to 125cc segment. The overall demand recovery is also seen across the industry. With the pandemic receding, the month-on-month improvement is seen across company's key exports market. Currently the only headwinds are in Africa region where retail prices have gone up by 2-3 times along with rising demand. The market share in Africa is gone up from 40% to now 69%. On new product development in battery swapping, the company is looking into penetrating in B2B segment where it aims to target e-commerce companies where it will leverage the technology of partner YULU. Going forward, the domestic 2W market is likely to pick up growth momentum post Q1FY23 onwards, while full recovery is expected during H2FY23. International market continues to show improvement for the company and likely to post decent volume growth in FY23.





## Valuation

As the company, currently has higher exposure to export markets, there are challenges in terms of rising inflation, global recession, currency devaluation and higher interest rates. However, domestic 2W segment has witnessed some recovery on the back of normalcy from covid phase i.e., opening up of offices, revenge travel, etc. We expect this trend to continue, as the semiconductor issue is now easing out. Hence, we recommend an ACCUMULATE rating in the stock with the target price (TP) of Rs.4120, 15x FY24E EPS.

## Risks

- **Exposure to intense competition** - The Indian 2W market remains highly competitive with 12 players, including Honda Motorcycles & Scooters India Pvt Ltd (HMSI), Hero Motocorp (HMCL), Eicher Motors (Royal Enfield) and TVS Motors Ltd. Furthermore, players continue to launch new models at short intervals.
- **Supply chain issues** - Supply chain issues such as semi-conductor shortage, low container availability, and high freight rates, among others, are hampering production and causing delays.
- **Forex volatility** - As Bajaj Auto derives more than 50% of its revenues from exports, volatility in forex rates could impact its profitability.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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