

## Rating Rationale

December 21, 2023 | Mumbai

### Bajaj Auto Limited

Ratings reaffirmed at 'CRISIL AAA/Stable/CRISIL A1+'

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#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.891.75 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1+ (Reaffirmed)</b>

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on bank facilities of Bajaj Auto Limited (Bajaj Auto).À

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The ratings continue to reflect Bajaj Auto's strong business risk profile backed by its established market position in the motorcycle segment, leading position in the three-wheeler passenger carrier segment and diversified geographic profile with presence in over 70 countries. The rating also factors in robust financial risk profile aided by a strong balance sheet with adequate liquidity. These strengths are partially offset by modest presence in economy motorcycle and scooter segments.

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Revenues during fiscal 2023 were up by ~10.0% y-o-y led by higher realizations (up by 22% in comparison to fiscal 2022) despite lower total sales volume which was down by 9%. The decline in the volumes was owing to a 27% YoY de-growth in exports. This was, however, partially offset by a domestic sales recovery which grew by 17% YoY on the back of growth in both 2W as well as 3W segments. Operating margins in fiscal 2023 improved to 17.7% in comparison to 15.6% in fiscal 2022 primarily led by an improvement in gross margins.

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During fiscal 2024, Revenue is expected to grow by ~20-22% on back of healthy performance in 1<sup>st</sup> half of fiscal 2024 coupled with healthy festive season in Q3FY24. Growth is to be driven by a mix of growth in volumes & realizations.

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Credit metrics continues to remain strong on account of robust capital structure given debt free balance sheet, and Total Outside Liabilities / Net worth (TOL / NW) is 0.2 times. Liquidity continues to be superior, with a surplus of over Rs. 15,346 crores as on March 31, 2023, and unutilized bank limit.

#### Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Bajaj Auto and its subsidiaries, PT Bajaj Auto Indonesia, Bajaj Auto International Holdings BV, Chetak Technologies Limited, Bajaj Auto Consumer Finance Limited (BACFL), Bajaj Auto Spain SLU, Bajaj Do Brasil Comercio De Motocicletas Ltda and Bajaj Auto Thailand Limited because all seven companies are under a common management and have high operational linkages. The team has also factored in BAL's support to BACFL and has accordingly carried out adjustments to net worth in lines with the capital allocation criteria.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Diversified product portfolio supported by healthy market position in two-wheeler segment (motorcycles) in domestic and overseas markets.**

Bajaj Auto is the third-largest player in the domestic motorcycle segment, with a market share of 17.3% for the year ended 31<sup>st</sup> March 2023. It is the largest exporter of two-wheelers, accounting for nearly ~45.0% of total two-wheeler exports for fiscal 2023. CRISIL Ratings expects market share to sustain because of strong positioning of key brands and launch of new product under flagship brands.

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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.

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In fiscal 2023 exports contribution to total sales volumes declined to 46% (58% in FY22) owing to geopolitical uncertainties, inflation, and the unavailability of foreign currency in key importing nations.

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Performance is expected to remain stable over the medium term, driven by a healthy market position, strong product development capabilities, an established brand, and a diversified product portfolio. The company is also looking to gain crucial edge in the electric two-wheeler market with Bajaj Chetak.

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- Leadership in the three-wheeler passenger carrier segment**

The company is the single-largest player in the domestic three-wheeler segment, with a market share of ~62.0% in fiscal 2023. Passenger vehicles category within the three-wheeler segment account for ~87.0% of total Bajaj Auto's three-wheeler volumes, and under this segment, the Company has a domestic 72% market share as on March 31, 2023. BAL has also launched electric three-wheeler in cities like Agra and Delhi, which has gained good traction in market share in the respective cities. Steady accrual from this segment provides considerable strength to overall business risk profile, and top-line diversity.

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• **Robust financial risk profile**

The Company is likely to maintain near debt-free balance sheet. In fiscal 2023, the Company made a share buy-back of Rs. 3,000 crores. Cash Surplus as on 31<sup>st</sup> March 2023 stood strong at Rs. 15361 crores. Further, the Company's ability to generate strong cash flow from operations is more than sufficient to cover dividend payments and capex requirements. The strong financial risk profile will help withstand any competitive challenge in terms of pricing flexibility, and meet necessary expenditure for in-house research and development, product launches and upgrades, or any sluggishness in revenue growth.

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**Weaknesses:**

• **Profitability susceptible to macro-economic factors, industry cyclicality and raw material prices**

The automobile industry is subjected to macro-economic headwinds emanating from inflationary pressure and economic slowdown. Economic downturns impact consumer spending on discretionary items, and hence slowdown in economic activity can impact industry sales and thus impact Bajaj Auto. Further, raw materials and components prices are directly influenced by international commodity prices that constitutes 70.0% - 75.0% of revenues. As of fiscal 2023, high inflationary trends in key overseas markets have impacted Bajaj Auto's exports especially to Africa also due to dollar shortage. Further, the gross margins in fiscal 2023 expanded by ~220 bps on account improvement in realizations.

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• **Modest presence in the economy segment**

Although Bajaj Auto is the second largest player in the economy segment of >75 cc to <= 110 cc, its market share has remained declined to 11% in fiscal 2023 in comparison to 15% in fiscal 2022. However, the company is enhancing its focus on mid segment of >110 cc & <= 125 cc where the domestic market share increased from 21% in fiscal 2022 to 25% in fiscal 2023.

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• **Exposure to intense competition**

The Indian two-wheeler market remains highly competitive, with major players being Honda Motorcycles & Scooters India Pvt Ltd (HMSI), Hero Motocorp (HMCL) and TVS Motors Ltd. Furthermore, players continue to launch new models. The company has been able to maintain its healthy market share in the industry through strong product development and diversified product portfolio.

**Liquidity: Superior**

Liquidity is expected to remain superior in the absence of debt; unutilized bank limit; and strong cash accrual as against capex requirements of ~Rs. 1000 crores should support liquidity over the medium term. Bajaj Auto has a healthy surplus of over Rs. 15,361 crores as of March 31, 2023, which is sufficient to cover near term fixed obligations.

**Outlook: Stable**

CRISIL Ratings believes Bajaj Auto will maintain its credit risk profile over the medium term on the back of well-diversified revenue and a robust financial risk profile.

**Rating Sensitivity factors**

**Downward factors:**

- Sustained decline in market share in the motorcycle segment to below 10.0%, or a sharp fall in the operating profitability margin to below 10.0%
- Sizeable cash outflow in the form of dividends, share buyback, or large acquisition, severely depleting cash surpluses, or increasing dependence on debt.

**About the Company**

Erstwhile Bajaj Auto was incorporated in 1945 as Bachhraj Trading Corporation Pvt Ltd to import scooters and motorised three-wheelers from Piaggio & Company. The entity's name was changed to Bajaj Auto Pvt Ltd in June 1960, and then to its current one in August 1960, after it was reconstituted as a public limited company. Currently, Bajaj Auto has a significant market share in the three-wheeler segment, and a strong position in the motorcycle segment in both domestic and export markets.

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The company has a total capacity to manufacture 5.7 million units of motorcycles and 0.9 million units of commercial vehicles (passenger carrier, goods carrier, and quadricycles) at its plants in Waluj and Chakan in Maharashtra; and Pantnagar in Uttarakhand.

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**Update on H1FY24 performance of BAL:**

- For H1FY24, operating revenue was reported at Rs. 21,150 crores, an increase of 16.2% YoY, which was entirely due to improvement in average selling price of 16.9% YoY while volumes declined by 0.2% YoY.
- Cash Surplus in H1FY24 end was Rs 17,326 Cr with net free cash flows of Rs 3,600 Cr during H1FY24.
- Interest coverage remains comfortable at over 400 times on account of debt-free balance sheet.

**Key Financial Indicators (CRISIL Ratings adjusted)**

For period ended March 31,	Unit	2023	2022
Revenue	Rs crore	36,331	33,017
Profit after tax (PAT)	Rs crore	6,060	6,166
PAT margin	%	16.7	18.7
Adjusted debt/adjusted net worth	Times	0.00	0.00
Interest coverage	Times	202	801

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	335	NA	CRISIL A1+
NA	Cash Credit	NA	NA	NA	97	NA	CRISIL AAA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	48	NA	CRISIL AAA/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	411.75	NA	CRISIL A1+

\*Interchangeable with letter of credit to the extent of Rs 290 crores

**Annexure â€” List of entities consolidated**

Company name	Holding/Subsidiary/Associate	% of shares held
PT. Bajaj Auto Indonesia	Subsidiary	99.25%
Bajaj Auto International Holdings BV	Subsidiary	100%
Bajaj Auto (Thailand) Ltd	Subsidiary	100%
Chetak Technologies Limited	Subsidiary	100%
Bajaj Auto Consumer Finance Limited	Subsidiary	100%
Bajaj Do Brasil Comercio De Motocicletas Ltda	Subsidiary	100%
Bajaj Auto Spain SL	Subsidiary	100%

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**Annexure - Rating History for last 3 Years**

Instrument	Type	Current		2023 (History)		2022Ã		2021Ã		2020Ã		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	145.0	CRISIL AAA/Stable	Ã	--	06-10-22	CRISIL AAA/Stable	28-07-21	CRISIL AAA/Stable	28-08-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Non-Fund Based Facilities	ST	746.75	CRISIL A1+	Ã	--	06-10-22	CRISIL A1+	28-07-21	CRISIL A1+	28-08-20	CRISIL A1+	CRISIL A1+
Fixed Deposits	LT	Ã	--	Ã	--	Ã	--	Ã	--	28-08-20	Withdrawn	F AAA/Stable

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee*	80	HDFC Bank Limited	CRISIL A1+
Bank Guarantee*	80	Axis Bank Limited	CRISIL A1+
Bank Guarantee*	5	Central Bank Of India	CRISIL A1+
Bank Guarantee*	70	State Bank of India	CRISIL A1+
Bank Guarantee*	55	ICICI Bank Limited	CRISIL A1+
Bank Guarantee*	45	Citibank N. A.	CRISIL A1+
Cash Credit	1	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Cash Credit	10	Axis Bank Limited	CRISIL AAA/Stable
Cash Credit	1	Standard Chartered Bank Limited	CRISIL AAA/Stable
Cash Credit	5	Central Bank Of India	CRISIL AAA/Stable
Cash Credit	20	State Bank of India	CRISIL AAA/Stable
Cash Credit	45	Citibank N. A.	CRISIL AAA/Stable
Cash Credit	5	ICICI Bank Limited	CRISIL AAA/Stable
Cash Credit	10	HDFC Bank Limited	CRISIL AAA/Stable
Proposed Fund-Based Bank Limits	48	Not Applicable	CRISIL AAA/Stable
Proposed Non Fund based limits	411.75	Not Applicable	CRISIL A1+

\*Interchangeable with letter of credit to the extent of Rs 290 crores

**Criteria Details**

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for the Two-Wheeler Industry</a>
<a href="#">CRISILs Criteria for Consolidation</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

**CRISILs Criteria for rating short term debt**

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