

HOLD

TP: Rs 5,139 | ▼ 6%

BAJAJ AUTO

| Automobiles

| 19 October 2023

On firm ground

- **Healthy product mix in 2Ws and buoyancy in 3Ws aid 6% YoY increase in Q2 revenue**
- **Prudent cost checks, easing raw material inflation and realisation gains boost gross/EBITDA margins to 29%/20%**
- **FY24/FY25 EPS estimates raised 5-6% for a revised TP of Rs 5,139 (vs. Rs 4,837); retain HOLD on limited upside**

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Revenue gains YoY backed by pricing: BJAUT's Q2FY24 revenue increased 6% YoY (+5% QoQ) to Rs 108bn aided by healthy realisation growth of 16% YoY (+2% QoQ) to Rs 102.5k/unit that was driven by judicious price hikes and a prudent product mix. Volumes grew 2% QoQ to 1.05mn units largely led by domestic recovery. At 50k-60k units/month, CV volumes are closing in on pre-Covid levels of ~60k.

Gross margin up 90bps QoQ: Raw material cost as a percentage of sales fell to 71% from 71.9% in Q1FY24 and 73.4% in Q2FY23 following softening costs of key inputs. Consequently, gross margin expanded 240bps YoY and 90bps QoQ to 29%. EBITDA increased 22% YoY (+9% QoQ) to Rs 21.3bn with margin expansion of 265bps YoY and 85bps QoQ to 19.8%. Although BJAUT launched new models in Q2, implying higher advertisement expenses, other expenditure stayed flat QoQ at 5.7% of sales (6% in Q2FY23).

Strong demand across segments: BJAUT's *Triumph* brand maintained its strong traction with a 10k-unit order book in Q2. The *Pulsar* brand sold 5mn+ units in H1FY24 vs. 1.8mn units in H1FY23 as management placed an increased emphasis on the 125cc+ segment, which grew to 70% of the volume mix (vs. 60% in Q1FY23). EV 3W volumes surged 2x QoQ and 3x YoY despite the Fame-II subsidy cut. BJAUT is targeting 10k units/month for the *Chetak* scooter vs. 20k in Q1FY24.

Exports improving MoM: BJAUT's export volumes increased 8% QoQ in Q2 backed by growth in its top 15 markets. African markets, including Nigeria, grew in double digits while LATAM recovery was slow and the ASEAN market grew <10%.

Maintain HOLD: We raise our FY24/FY25 EPS estimates by 5%/6% factoring in BJAUT's healthy product pipeline, EV launches and gradual export revival. Our gross/EBITDA margin forecasts remain at ~29%/19% for both years. Estimate revision leads to a higher TP of Rs 5,139 (Rs 4,837 earlier), based on an unchanged 17x FY25E P/E multiple which is in line with the 10Y average. The stock has rallied in recent months and is trading at 18x FY25E EPS, capping upside potential. HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BJAUT IN/Rs 5,483
Market cap	US\$ 19.3bn
Free float	46%
3M ADV	US\$ 25.3mn
52wk high/low	Rs 5,495/Rs 3,520
Promoter/FPI/DII	54%/10%/13%

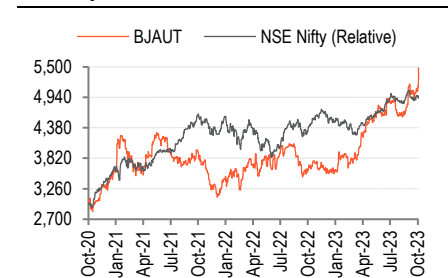
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,64,276	4,37,376	5,10,630
EBITDA (Rs mn)	65,491	81,685	97,483
Adj. net profit (Rs mn)	56,276	70,434	83,798
Adj. EPS (Rs)	197.9	247.7	294.7
Consensus EPS (Rs)	197.9	242.0	288.0
Adj. ROAE (%)	21.6	24.2	24.6
Adj. P/E (x)	27.7	22.1	18.6
EV/EBITDA (x)	24.6	19.3	16.2
Adj. EPS growth (%)	21.7	25.2	19.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our view
Volumes	Domestic motorcycle industry volumes grew 10% QoQ (retail) in Q2. Management expects 5-8% growth in industry retail volumes for FY24 (and ~20% QoQ growth pre-festive season).	Management expects the domestic motorcycle industry to grow at 4-6% over the next few months, primarily driven by the 125cc+ segment.	Higher industry growth estimates will help BJAUT to further scale up volumes in the motorcycle segment.
Exports	<p>BJAUT's Q2FY24 export volumes accounted for ~66% of its peak exports clocked in FY22, with both retail sales and shipments growing 8-10% QoQ driven by double-digit growth in African markets (incl. Nigeria). Asia, MENA and LATAM markets grew in single digits.</p> <p>Management expects steady export recovery back to peak levels.</p>	<p>Export markets have been improving due to forex availability and steady LATAM demand. South Asian and Middle East markets are picking up, albeit still lower sequentially. In Nigeria, BJAUT grew 41% QoQ vs. industry growth of 34% despite a slew of unfavourable reforms in forex, removal of fuel subsidy and inflation.</p> <p>Industry export volumes grew 2% QoQ in Q1, whereas the company grew 5%. Premium brands <i>Pulsar</i> and <i>Dominar</i> surged 40% QoQ.</p>	Revival in export demand across regions catered to by BJAUT would lend a fillip to volumes.
Three-wheelers (3W)	With 50k units sold in September alone, BJAUT's 3W volumes touched a new high of 130k units in Q2, growing 81% YoY and 34% QoQ. The company's market share held at 80% in September.	BJAUT continues to lead the industry in 3Ws, with volume recovery at over 100% of pre-Covid levels vs. 50% for the rest of the industry. The company's 3W market share was 80% in June.	3W volumes are likely to gain further traction as EV infrastructure falls into place and CNG vehicles transition to the EV space where BJAUT leads the market.
Electric vehicles (EV)	<p>In Q2, the company launched EV 3Ws in Agra and captured 70% market share. Management is looking to enter markets where traditional autorickshaws are not permitted, as EV autos do not need government permits.</p> <p>Management aims to expand sales of e-scooter <i>Chetak</i> to ~10,000 units per month.</p> <p>BJAUT held 11% market share in the 2W EV segment in September.</p>	<p>Management is building a new facility to manufacture EV 3W units in Walug, Aurangabad. EV-related capex is guided at Rs 4bn-5bn for FY24.</p> <p><i>Chetak</i> sold ~20,000 units in Q1FY24. EVs formed ~2% of sale volumes for the quarter and management expects this proportion to range from 2% to 4% by the end of FY24. <i>Chetak</i> volumes have doubled over the last quarter.</p>	EVs are clearly a focus area for BJAUT and will create further headroom for volume gains.
Price hikes	BJAUT did not undertake significant price hikes during the quarter.	No significant price hikes were taken during the quarter.	The strategy is to implement small price hikes that pass on cost inflation and guard margins.
Currency	USDINR realisations were at Rs 82.6.	USDINR realisations were at Rs 82.1.	
Commodities	Commodity costs have softened, particularly on the metals side, which has aided margins. Management expects commodity prices to remain flattish in Q3.	At the start of Q1, we saw inflation in steel, aluminium, copper, nickel and platinum. However, towards the quarter end, cost pressure started abating with prices returning close to Q4FY23 levels. Management expects prices to be stable.	Easing costs will aid margin improvement in the medium term.

Parameter	Q2FY24	Q1FY24	Our view
Cash position	Surplus cash totalled Rs 175bn with net free cash flow addition of Rs 36bn in Q2.	Surplus cash totalled Rs 195bn. Net free cash flow addition in Q1FY24 was Rs 20bn.	The company's healthy balance sheet can facilitate further capex with ease.
Key product segments	<p>The 125cc segment accounted for ~65% of sales volume in Q2 vs. 70% in Q1.</p> <p>Management expects 2Ws to continue outperforming the industry based on product differentiation and sharp positioning.</p> <p><i>Triumph's</i> pending order book as on Q2 is ~10k units.</p> <p>Spares revenue stood at Rs 12bn-12.5bn</p>	<p>The 125cc segment accounted for close to 70% of sales volumes in Q1 vs. 60% in FY23.</p> <p>Management expects the domestic 2W segment, especially the 125cc segment, to outperform the industry in FY24.</p> <p>Spares revenue stood at ~Rs 12bn.</p>	A focus on high-end motorcycles and new launches will help BJAUT boost sales as well as margins.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY23	H1FY24	YoY (%)
Volume	1,050,975	1,151,012	(8.7)	1,027,091	2.3	2,084,658	2,078,066	1,050,975
Avg. Realisation per Vehicle	102,545	88,641	15.7	100,378	2.2	87,341	101,474	16.2
Net Revenues	107,773	102,027	5.6	103,098	4.5	182,077	210,870	15.8
Total Income (A)	107,773	102,027	5.6	103,098	4.5	182,077	210,870	15.8
Operating Expenses:								
Raw materials consumed	76,511	74,862	2.2	74,127	3.2	132,638	150,637	13.6
Employee Expenses	3,816	3,598	6.1	3,842	(0.7)	7,394	7,658	3.6
Other Expenses	6,118	6,071	0.8	5,590	9.4	11,578	11,708	1.1
Total Expenditure (B)	86,444	84,531	2.3	83,558	3.5	151,610	170,003	12.1
EBITDA (A-B)	21,329	17,496	21.9	19,539	9.2	30,467	40,868	34.1
Other Income	3,614	3,339	8.2	3,463	4.3	6,532	7,077	8.3
Depreciation	876	675	29.9	835	4.9	1,348	1,712	27.0
EBIT	24,066	20,160	19.4	22,167	8.6	35,650	46,233	29.7
Finance Costs	65	109	(40.2)	121	(46.0)	153	186	22.0
PBT after excep items	24,000	20,051	19.7	22,046	8.9	35,498	46,047	29.7
Tax expense	5,639	4,838	16.6	5,399	4.5	8,552	11,038	29.1
Reported PAT	18,361	15,213	20.7	16,648	10.3	26,946	35,009	29.9
Adjusted PAT	18,361	17,194	6.8	16,648	10.3	28,927	35,009	21.0
EPS (Rs)	63.5	59.4	6.8	57.5	10.3	100.0	121.0	21.0
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin (%)	29.0	26.6	238	28.1	91	27.2	28.6	141
EBITDA Margin (%)	19.8	17.1	264	19.0	84	16.7	19.4	265
EBIT Margin (%)	22.3	19.8	257	21.5	83	19.6	21.9	235
PBT Margin (%)	22.3	19.7	262	21.4	89	19.5	21.8	234
Tax Rate (%)	23.5	24.1	(63)	24.5	(99)	24.1	24.0	(12)
Adj PAT Margin (%)	17.0	16.9	18	16.1	89	15.9	16.6	71

Source: Company, BOBCAPS Research

Valuation methodology

BJAUT's strategy of focusing on premium products and also catering to the 100cc-110cc mass segment helps it reach a cross-section of customers and benefits margins. We expect the company's EV focus, especially in 3Ws, to lend an impetus to growth and help consolidate its leadership in the 3W category, while launches of electric 2Ws will expand this segment as well. The gradual improvement in export markets is another key positive.

We raise our FY24/FY25 EPS estimates for BJAUT by 5-6% factoring in a healthy product pipeline, EV launches and gradual export revival gradually reflected in the Q2 earnings. Note, we have baked in slowing demand for the company's *Chetak* e-scooter following the withdrawal of Fame-II norms. Our gross/EBITDA margin forecasts remain at 29%/19% for both years.

We continue to value the stock at 17x FY25E EPS – in line with the 10-year average – and have a revised TP of Rs 5,139 (Rs 4,837 earlier) based on our new estimates. The stock has rallied in recent months and is trading at 18x FY25E EPS, capping upside potential, which leads us to maintain our HOLD rating. Sustained growth in domestic 2W volumes, deeper export revival and continued traction in the CV segment represent key triggers for a stock rerating.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	4,37,376	5,10,630	4,27,263	4,95,405	2.4	3.1
EBITDA	81,685	97,483	77,533	91,423	5.4	6.6
Adj PAT	70,434	83,798	67,114	78,874	4.9	6.2
Adj EPS (Rs)	248	295	236	277	5.0	6.4

Source: Company, BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
2W volume (nos)	38,36,856	34,40,704	37,50,367	40,87,900
3W volume (nos)	4,71,577	4,85,018	6,54,774	7,36,621
ASP (Rs)	76,930	92,792	99,288	1,05,841
Revenues (Rs mn)	3,31,447	3,64,276	4,37,376	5,10,630
EBITDA (Rs mn)	52,586	65,491	81,685	97,483
EBITDA margin (%)	15.9	18.0	18.7	19.1
Adj. PAT (Rs mn)	47,035.9	56,276.0	70,433.8	83,798.2
EPS (Rs)	173.4	197.9	247.7	294.7

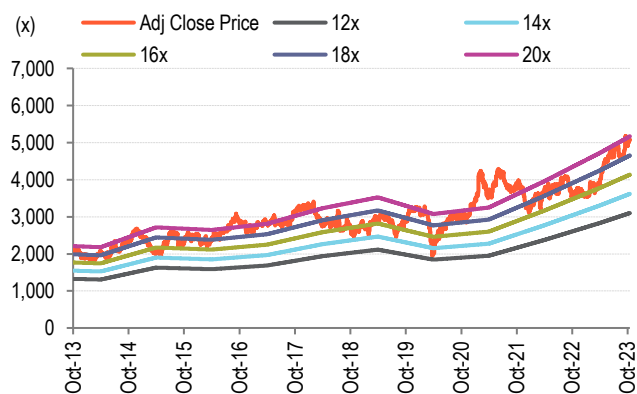
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY24E	FY25E	FY24E	FY25E
Bajaj Auto	BJAUT IN	HOLD	5,130	247.7	294.7	25.8	26.5
TVS Motor	TVSL IN	HOLD	1,440	40.8	55.4	28.1	29.4
Eicher Motors	EIM IN	HOLD	3,601	119.9	138.1	23.1	22.1

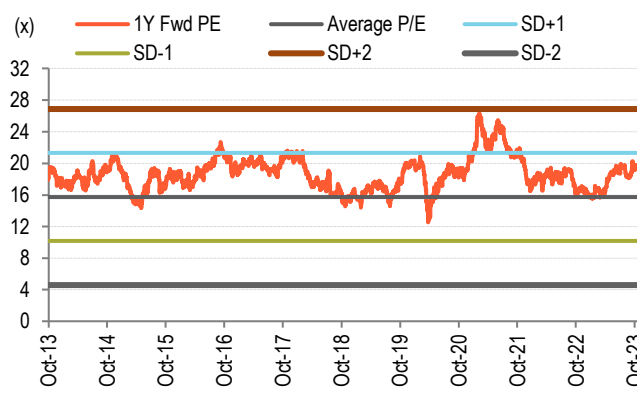
Source: BOBCAPS Research

Fig 6 – Recent run up in the stock leaves limited space for upside



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – The stock trades near +1SD



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- market share gains, especially in the high-end motorcycle segment,
- faster-than-expected domestic demand recovery in the lower-end segment, and
- higher commodity price relief than assumed.

Key downside risks are:

- excessive competitive pressure that constrains price hikes, and
- any new restrictive norms by the government

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.3	177	210	BUY
Bajaj Auto	BJAUT IN	19.3	5,483	5,139	HOLD
Eicher Motors	EIM IN	11.6	3,501	3,601	HOLD
Escorts	ESCORTS IN	5.3	3,316	2,343	SELL
Hero MotoCorp	HMCL IN	7.9	3,266	3,009	HOLD
Mahindra & Mahindra	MM IN	23.9	1,570	1,824	BUY
Maruti Suzuki	MSIL IN	39.6	10,772	10,533	HOLD
TVS Motor	TVSL IN	9.2	1,599	1,440	HOLD
VST Tillers Tractors	VSTT IN	0.4	3,697	3,464	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	2,77,411	3,31,447	3,64,276	4,37,376	5,10,630
EBITDA	48,251	52,586	65,491	81,685	97,483
Depreciation	2,593	2,692	2,824	3,152	3,502
EBIT	58,423	61,987	74,481	92,267	1,09,316
Net interest inc./(exp.)	(67)	(87)	(395)	(80)	(85)
Other inc./(exp.)	12,765	12,092	11,814	13,734	15,335
Exceptional items	0	3,153	0	0	0
EBT	58,356	65,053	74,086	92,187	1,09,231
Income taxes	13,844	14,865	17,810	21,753	25,433
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	44,512	50,189	56,276	70,434	83,798
Adjustments	0	(3,153)	0	0	0
Adjusted net profit	44,512	47,036	56,276	70,434	83,798

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	45,738	36,332	40,739	43,109	50,833
Other current liabilities	9,170	9,385	9,916	7,838	9,242
Provisions	1,544	1,551	1,668	1,960	2,311
Debt funds	2,249	1,231	1,242	1,367	1,503
Other liabilities	392	3	0	0	0
Equity capital	2,894	2,894	2,830	2,830	2,830
Reserves & surplus	2,48,094	2,63,790	2,51,429	2,88,624	3,37,610
Shareholders' fund	2,50,988	2,66,684	2,54,258	2,91,453	3,40,440
Total liab. and equities	3,10,080	3,15,185	3,07,823	3,45,727	4,04,329
Cash and cash eq.	5,273	5,884	2,858	2,968	4,111
Accounts receivables	27,169	15,164	17,761	19,767	24,674
Inventories	14,939	12,305	13,979	17,570	22,077
Other current assets	14,406	25,053	18,396	24,524	29,683
Investments	2,26,310	2,38,188	2,29,233	2,48,485	2,84,914
Net fixed assets	16,649	18,340	27,160	34,008	40,505
CWIP	160	768	819	475	395
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,224)	(4,033)	(3,452)	(4,002)	(4,312)
Other assets	10,399	3,518	1,071	1,931	2,281
Total assets	3,10,080	3,15,187	3,07,825	3,45,727	4,04,329

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	25,544	38,850	56,778	47,769	66,436
Capital expenditures	(1,810)	(4,991)	(11,695)	(9,656)	(9,920)
Change in investments	(44,350)	(11,878)	8,954	(19,252)	(36,429)
Other investing cash flows	12,765	12,092	11,814	13,734	15,335
Cash flow from investing	(33,395)	(4,777)	9,073	(15,173)	(31,014)
Equities issued/Others	0	0	(64)	0	0
Debt raised/repaid	993	(1,018)	12	124	137
Interest expenses	(67)	(87)	(395)	(80)	(85)
Dividends paid	(40,511)	(40,511)	(39,811)	(39,811)	(39,811)
Other financing cash flows	1,761	(1,191)	(582)	550	310
Cash flow from financing	(37,825)	(42,807)	(40,840)	(39,217)	(39,450)
Chg in cash & cash eq.	(45,676)	(8,734)	25,011	(6,622)	(4,027)
Closing cash & cash eq.	5,273	5,884	2,858	2,968	4,111

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	153.8	162.5	197.9	247.7	294.7
Adjusted EPS	153.8	173.4	197.9	247.7	294.7
Dividend per share	140.0	140.0	140.0	140.0	140.0
Book value per share	867.4	921.6	894.1	1,024.9	1,197.2

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.6	4.8	4.4	3.6	3.1
EV/EBITDA	32.4	30.3	24.6	19.3	16.2
Adjusted P/E	35.6	31.6	27.7	22.1	18.6
P/BV	6.3	5.9	6.1	5.3	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	76.3	72.3	76.0	76.4	76.7
Interest burden (PBT/EBIT)	99.9	104.9	99.5	99.9	99.9
EBIT margin (EBIT/Revenue)	21.1	18.7	20.4	21.1	21.4
Asset turnover (Rev./Avg TA)	122.1	127.1	139.2	159.5	160.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	19.8	18.2	21.6	25.8	26.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(7.3)	19.5	9.9	20.1	16.7
EBITDA	(5.3)	9.0	24.5	24.7	19.3
Adjusted EPS	(12.7)	5.7	21.7	25.2	19.0
Profitability & Return ratios (%)					
EBITDA margin	17.4	15.9	18.0	18.7	19.1
EBIT margin	21.1	18.7	20.4	21.1	21.4
Adjusted profit margin	16.0	14.2	15.4	16.1	16.4
Adjusted ROAE	19.8	18.2	21.6	24.2	24.6
ROCE	19.6	18.3	21.6	25.7	26.4
Working capital days (days)					
Receivables	29	23	16	16	16
Inventory	17	15	13	13	14
Payables	72	62	54	49	47
Ratios (x)					
Gross asset turnover	0.2	0.1	0.2	0.1	0.1
Current ratio	1.1	1.2	1.0	1.2	1.3
Net interest coverage ratio	(877.2)	(715.8)	(188.7)	(1,153.3)	(1,286.1)
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

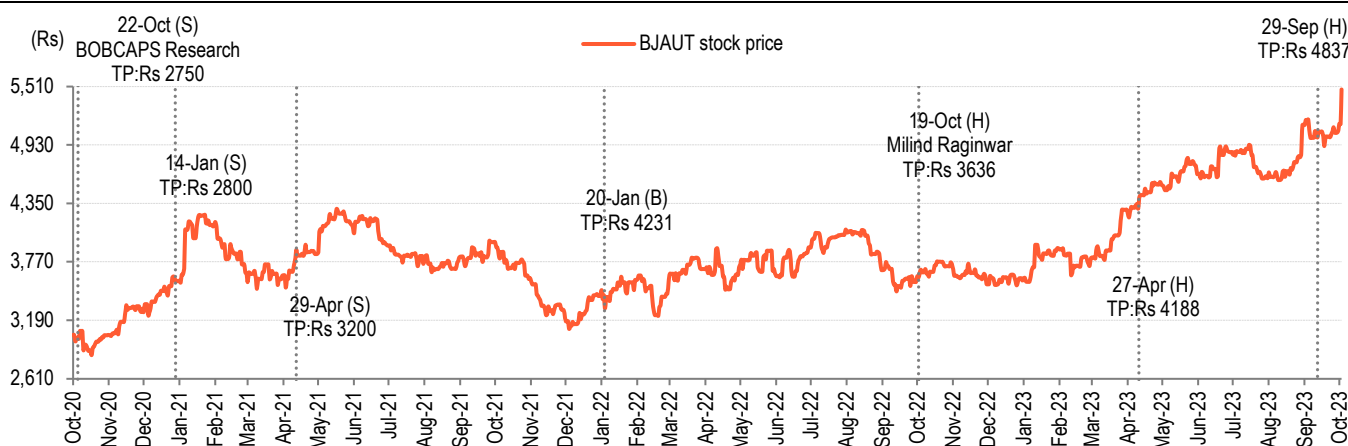
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BAJAJ AUTO (BJAUT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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