

SELL

TP: Rs 6,823 | ▼ 23%

BAJAJ AUTO

| Automobiles

| 19 April 2024

Spotless performance priced in by rich valuations

- Q4 revenue grew 29% YoY backed by healthy domestic 2W volume growth and decent realisation gains. Export volume was steady
- Gross margin rose to ~30% (29% QoQ) despite neutral input cost; operating leverage boosted EBITDA margin by 80bps YoY
- We raise TP to Rs 6,823 (from Rs 6,272) on a higher target P/E of 19x (vs. 18x) and increase our EPS 3%/6% for F25E/FY26E. Maintain SELL

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Revenue gains YoY backed by motorcycle volumes/realisation gains: BJAUT's Q4FY24 revenue jumped 29% YoY (-5% QoQ) to Rs 115bn aided by healthy volume growth of 25% ~to 1.1mn units. Growth was driven by BJAUT's focus on the 125cc+ segment which outpaced the industry average. Average realisation per vehicle grew by 4%/7% YoY/QoQ to Rs 107.4k despite volume gains.

Gross margin inched up, operating efficiencies aided EBIDTAM: Raw material cost as a percentage of sales was stable at 70% QoQ following indifferent key input costs. Even so, gross margin was flat YoY but inched up QoQ to 30% due to better product pricing. Better operating leverage and cost management aided EBITDA margin expansion of 80bps YoY (flat QoQ) to 20.1%. Other expenditure fell 6% YoY to Rs 6.8k per vehicle. EBITDA for the quarter rose 34% (-5% QoQ) to Rs 23bn.

Triumph gains strong traction, other segments fare well: Triumph exported ~19,000+ bikes and commenced retail in Q4FY24 (15k in Q3). Chetak delivered its highest quarterly numbers of nearly 40k units with significant share gain, to 13% YoY from 5% (>10k units in Q3). EV 3-wheelers have a market share of ~30%.

Exports improved sequentially: Exports continued to be impacted by Red Sea-related headwinds. The industry volume remains about 20-25% below its peak year of FY22 (a liquidity abundant year). Volume was flattish QoQ, but up 20% against the low YoY base. Hence, recovery from a low base is 20% YoY.

Positives priced in; maintain SELL: We raise our FY25E/FY26E EPS estimates by +3%/6% to factor in high-end segment growth (domestic and exports), 3-wheeler (3W) segment revival and 2-wheeler (2W) electric vehicle (EV) products besides a strong Pulsar show through new launches. We now factor in an EBITDA/PAT CAGR of 22%/21% over FY23-FY26. On FY26E earnings we value the stock at 19x P/E, 18x earlier (20% premium over the 10-year average), and arrive at a higher TP of Rs 6,823 (previously Rs 6,272). However, the current valuation of 25x FY26E P/E appears rich, prompting us to maintain SELL.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BJAUT IN/Rs 8,805
Market cap	US\$ 31.0bn
Free float	46%
3M ADV	US\$ 56.2mn
52wk high/low	Rs 9,358/Rs 4,252
Promoter/FPI/DII	54%/10%/13%

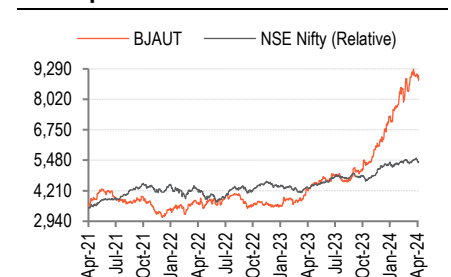
Source: NSE | Price as of 19 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,11,199	5,93,730
EBITDA (Rs mn)	88,176	99,533	1,19,771
Adj. net profit (Rs mn)	74,735	83,706	1,00,253
Adj. EPS (Rs)	267.7	299.8	359.1
Consensus EPS (Rs)	267.7	309.0	361.0
Adj. ROAE (%)	30.1	24.7	25.5
Adj. P/E (x)	32.9	29.4	24.5
EV/EBITDA (x)	28.8	25.2	21.2
Adj. EPS growth (%)	35.3	12.0	19.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes	Management expects the industry to grow 7-8% with more demand weightage from the higher end of the demand pyramid.	Domestic motorcycle industry (retail) volumes grew ~11% YoY in Q3FY24 and management expected the industry to grow 8-10% in the next few months.	The company is expanding its presence across the bikes portfolio aggressively, and BJAUT expects to beat industry growth by a margin.
Exports	The Red Sea price issue has disrupted lead times, sharply inflating container freight rates. The industry volume remains about 20-25% below its peak in FY22 (a liquidity-abundant year). Volume was flattish QoQ, but up 20% against the low YoY. Hence, recovery from a low base is 20% YoY.	Exports in Q3FY24 fell 4% YoY (grew 2% QoQ) and stood at 70% of peak levels achieved in FY22. African and South Asian markets were at 50% of peak levels whereas LATAM, the Philippines and Middle East markets grew 103-107% above FY22 peaks. Management expected exports markets to recover steadily.	Egypt's market is opening up for quadracycles (following the end of a government ban imposed in FY22) and could boost performance in FY25.
Three-wheelers (3W)	BJAUT's electric vehicle three-wheelers have a market share of ~30%. The overall market share of 78% in FY24 was up by 5% over FY23. The recovery in this sector is nearly complete in most regions and organic growth led by the expansion of the CNG network will be the key.	The monthly sales run rate for 3Ws in Dec exceeded 40k units (30k units for the whole of Q3FY23). BJAUT's market share in Q3FY24 was ~80% in the passenger segment and ~85% in CNG 3Ws (which accounted for ~60% of the industry).	The Productivity-Linked Incentive (PLI) certification to five commercial vehicle products will boost volumes and encourage cost effectiveness
Electric vehicles (EV)	The 3W industry saw modest growth compared to previous quarters with the E-auto. Its contribution to the industry is now at over 10%. BJAUT sustained increased sales of over 0.1mn units for the third time. <i>Chetak</i> delivered its highest quarterly numbers of nearly 40,000 units, significantly gaining market share of 13% YoY from 5%.	In Dec'23, ~1.8k units of electric 3Ws (E3W) were sold across 23 cities. Management intends to expand its EV presence to ~50 cities by Q4FY24. <i>Chetak</i> volumes breached the monthly 10k-unit mark in Q3FY24 and management targeted crossing ~15k units by Q4FY24. Market share for <i>Chetak</i> EV increased to 14% in Dec'23 from 4% in FY23.	Though EVs are a focus area for BJAUT, competition is intense and could dilute its overall margin profile as reflected in its past performance. However, PLI certification to two EV products will help boost volume.
Currency	USDINR realisations were at Rs 83.0.	USDINR realisations were at Rs 83.2.	Favourable currency helps export markets.
Commodities	The overall basket was neutral. Key materials like steel, aluminium, lead and rubber were flat in 4QFY24. Zinc and ABS hardened and the precious metals portfolio rhodium, platinum and palladium and nickel softened. Effectively QoQ commodity pricing and cost were flat.	Commodity cost softened during Q3FY24, particularly on the noble metals side, except steel and lead where slight inflation was observed in the beginning of Q3FY24. Management expected a slight increase in commodity cost in Q4FY24.	Commodity cost inched up in the early parts of 1QFY25. Aluminium and copper have inflated, however steel is maintaining earlier prices. BJAUT anticipated that for 1QFY25 and has accounted for a slight pricing cushion from 1QFY25 to overcome the impact.
Cash position	BJAUT's free cash flow addition was Rs66bn in FY24. This was up 40% YoY. This is after spending Rs 7bn-8bn on gross capital expenditure strategically directed towards	Cash position as on Q3FY24 was ~Rs 185bn and management expected to close FY24 with a surplus of ~Rs 200bn after	The company's healthy balance sheet can facilitate further capex with ease,

Parameter	Q4FY24	Q3FY24	Our view
	enhancing capacity and capabilities in EV 2W/3W segment and premium motorcycles. The net surplus funds at over Rs160bn indicates strong balance sheet strength.	adjusting for the Rs 40bn buyback announced in Q4FY24.	especially in the capex-intensive EV space.
Key product segments	<p><i>Triumph's</i> domestic network scaled up to 150 stores in 1HFY24. It developed the brand and supported Triumph UK in successfully expanding its business overseas. BJAUT exported ~19,000+ bikes to 57 countries and commenced retail in 50.</p> <p>BJAUT's board approved a further capital infusion of Rs22.5bn in a phased manner in Bajaj Auto Credit.</p>	<p>The 125cc segment accounted for ~70% of sales volume in Q3.</p> <p>Management intended to enter the 100cc segment and convert customers to 125cc where it enjoyed segment leadership.</p> <p><i>Triumph</i> did not have any pending order book and was available off the shelf.</p> <p>Spares revenue stood at ~Rs 13bn.</p>	The focus on high-end motorcycles and new launches will help BJAUT boost sales, new launches may keep margins listless.

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volume	10,68,576	8,57,788	24.6	12,00,997	(11.0)
Avg. Realisation per Vehicle	1,07,476	1,03,810	3.5	1,00,862	6.6
Net Revenues	1,14,847	89,047	29.0	1,21,135	(5.2)
Total Income (A)	1,14,847	89,047	29.0	1,21,135	(5.2)
Operating Expenses:					
Raw materials consumed	80,702	62,135	29.9	86,096	(6.3)
Employee Expenses	3,872	3,620	7.0	3,846	0.7
Other Expenses	7,210	6,126	17.7	6,895	4.6
Total Expenditure (B)	91,784	71,882	27.7	96,836	(5.2)
EBITDA (A-B)	23,063	17,166	34.4	24,299	(5.1)
Other Income	3,487	2,598	34.2	3,461	0.7
Depreciation	906	742	22.1	881	2.8
EBIT	25,644	19,022	34.8	26,879	(4.6)
Finance Costs	228	157	44.7	121	88.3
PBT after exceptional items	25,416	18,865	34.7	26,758	(5.0)
Tax expense	6,056	4,536	33.5	6,339	(4.5)
Reported PAT	19,360	14,329	35.1	20,419	(5.2)
Adjusted PAT	19,360	14,329	35.1	20,419	(5.2)
EPS (Rs)	66.9	49.5	35.1	70.6	(5.2)
Key Ratios (%)			(bps)		(bps)
Gross Margin	29.7	30.2	(49)	28.9	81
EBITDA Margin	20.1	19.3	80	20.1	2
EBIT Margin	22.3	21.4	97	22.2	14
PBT Margin	22.1	21.2	94	22.1	4
Tax Rate	23.8	24.0	(22)	23.7	14
Adj PAT Margin	16.9	16.1	77	16.9	0

Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY25E/FY26E EPS estimates by +3%/6% to factor in high-end segment growth (domestic and exports), 3W segment revival and 2W EV products besides Pulsar's strong showing through its new launches. We now pencil in an EBITDA/PAT CAGR of 22%/21% over FY23-FY26. We base our growth projections on the company's healthy product pipeline in the entry-level and premium segments, EV launches (scooters), and export revival, especially in the 3W cargo space. Our gross/EBITDA margin forecasts remain at ~30%/20% over FY25-FY26.

We value the stock at 19x P/E (FY26E earnings), from 18x (a 20% premium over the 10-year average), arriving at a higher TP of Rs 6,823 (from Rs 6,272). We maintain our SELL rating as the current valuation of 25x FY26E P/E appears rich following the recent run-up in the stock's price. In our view, intense competition leading to margin pressures arising from the electric vehicle space, intense competitive headwinds in the motorcycle business, and sustainability of export revival are key monitorables for the stock.

Fig 3 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,11,199	5,93,730	505,765	582,961	1.1	1.8
EBITDA	99,533	1,19,771	98,229	1,16,315	1.3	3.0
Adj PAT	83,705.7	1,00,253.1	82,854	96,245	1.0	4.2
Adj EPS (Rs)	299.8	359.1	293	340	2.3	5.6

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
2W volume (nos)	34,40,704	37,27,923	41,00,715	45,51,794
3W volume (nos)	4,85,018	6,23,010	6,85,311	7,67,548
ASP (Rs)	92,792	1,02,703	1,06,811	1,11,617
Revenues (Rs mn)	3,64,276	4,46,852	5,11,199	5,93,730
EBITDA (Rs mn)	65,491	88,176	99,533	1,19,771
EBITDA margin (%)	18.0	19.7	19.5	20.2
Adj. PAT (Rs mn)	56,276.0	74,735.1	83,705.7	1,00,253.1
EPS (Rs)	197.9	267.7	299.8	359.1

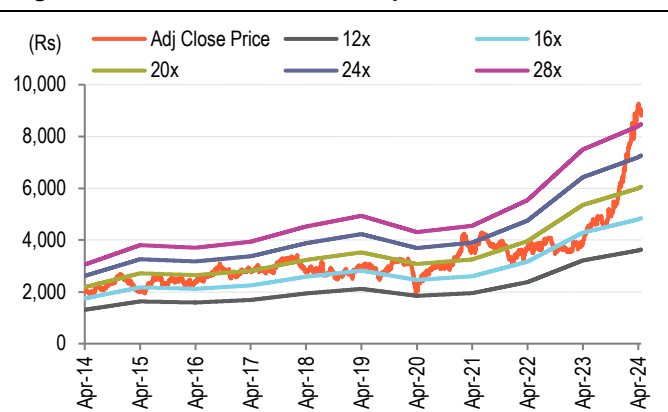
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Bajaj Auto	BJAUT IN	SELL	6,823	299.8	359.1	28.5	27.4
TVS Motor	TVSL IN	BUY	2,242	60.7	77.7	31.5	30.4
Eicher Motors	EIM IN	HOLD	4,045	142.3	158.9	22.5	20.9

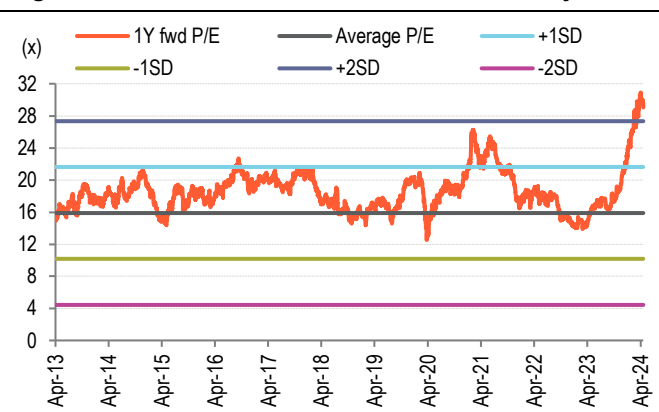
Source: BOBCAPS Research

Fig 6 – P/E band: Stock has run up of late...



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – ... and trades at +2SD which we feel is unjustified



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- market share gains, especially in the high-end motorcycle segment,
- better-than-expected relief (cost and price) in the EV segment, and
- higher commodity price easing than assumed.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ashok Leyland	AL IN	6.1	169	226	BUY
Bajaj Auto	BJAUT IN	31.0	8,805	6,823	SELL
Eicher Motors	EIM IN	14.4	4,344	4,045	HOLD
Escorts	ESCORTS IN	5.0	3,107	2,389	SELL
Hero MotoCorp	HMCL IN	10.2	4,214	4,671	HOLD
TVS Motor	TVSL IN	11.0	1,899	2,242	BUY
VST Tillers Tractors	VSTT IN	0.4	3,375	3,213	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Apr 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	3,31,447	3,64,276	4,46,852	5,11,199	5,93,730
EBITDA	52,586	65,491	88,176	99,533	1,19,771
Depreciation	2,692	2,824	3,498	3,552	4,152
EBIT	61,987	74,481	98,702	1,10,993	1,32,786
Net interest inc./(exp.)	(87)	(395)	(535)	(446)	(466)
Other inc./(exp.)	12,092	11,814	14,025	15,012	17,167
Exceptional items	3,153	0	0	0	0
EBT	65,053	74,086	98,167	1,10,547	1,32,320
Income taxes	14,865	17,810	23,432	26,841	32,067
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	50,189	56,276	74,735	83,706	1,00,253
Adjustments	(3,153)	0	0	0	0
Adjusted net profit	47,036	56,276	74,735	83,706	1,00,253

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	36,332	40,739	77,034	51,449	60,298
Other current liabilities	9,385	9,916	1,567	9,354	10,229
Provisions	1,551	1,668	1,891	2,339	2,423
Debt funds	1,231	1,242	8,341	9,175	10,092
Other liabilities	3	0	0	0	0
Equity capital	2,894	2,830	2,792	2,792	2,792
Reserves & surplus	2,63,790	2,51,429	2,45,760	3,36,246	3,90,667
Shareholders' fund	2,66,684	2,54,258	2,48,552	3,39,037	3,93,459
Total liab. and equities	3,15,185	3,07,823	3,37,384	4,11,354	4,76,502
Cash and cash eq.	5,884	2,858	5,345	8,789	15,130
Accounts receivables	15,164	17,761	21,224	24,936	29,515
Inventories	12,305	13,979	16,956	22,311	26,488
Other current assets	25,053	18,396	20,256	39,721	43,798
Investments	2,38,188	2,29,233	2,45,222	2,76,934	3,15,020
Net fixed assets	18,340	27,160	33,662	42,109	49,957
CWIP	768	819	475	395	395
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(4,033)	(3,452)	(5,069)	(5,379)	(5,689)
Other assets	3,518	1,071	1,188	1,538	1,888
Total assets	3,15,187	3,07,825	3,37,384	4,11,354	4,76,502

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	38,850	56,778	83,424	25,569	83,398
Capital expenditures	(4,991)	(11,695)	(7,781)	(13,795)	(12,000)
Change in investments	(11,878)	8,954	(15,989)	(31,711)	(38,086)
Other investing cash flows	12,092	11,814	14,025	15,012	17,167
Cash flow from investing	(4,777)	9,073	(9,745)	(30,494)	(32,920)
Equities issued/Others	0	(64)	(38)	0	0
Debt raised/repaid	(1,018)	12	7,098	834	917
Interest expenses	(87)	(395)	(535)	(446)	(466)
Dividends paid	(40,511)	(39,811)	(39,811)	(45,385)	(50,831)
Other financing cash flows	(1,191)	(582)	1,618	310	310
Cash flow from financing	(42,807)	(40,840)	(31,668)	(44,687)	(50,070)
Chg in cash & cash eq.	(8,734)	25,011	42,010	(49,612)	409
Closing cash & cash eq.	5,884	2,858	5,345	8,789	15,130

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	162.5	197.9	267.7	299.8	359.1
Adjusted EPS	173.4	197.9	267.7	299.8	359.1
Dividend per share	140.0	140.0	142.6	162.6	182.1
Book value per share	921.6	894.1	890.3	1,214.4	1,409.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	7.7	7.1	5.7	4.9	4.3
EV/EBITDA	48.5	39.2	28.8	25.2	21.2
Adjusted P/E	50.8	44.5	32.9	29.4	24.5
P/BV	9.6	9.8	9.9	7.3	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	72.3	76.0	76.1	75.7	75.8
Interest burden (PBT/EBIT)	104.9	99.5	99.5	99.6	99.6
EBIT margin (EBIT/Revenue)	18.7	20.4	22.1	21.7	22.4
Asset turnover (Rev./Avg TA)	127.1	139.2	174.4	169.0	158.0
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	18.2	21.6	29.7	28.5	27.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	19.5	9.9	22.7	14.4	16.1
EBITDA	9.0	24.5	34.6	12.9	20.3
Adjusted EPS	5.7	21.7	35.3	12.0	19.8
Profitability & Return ratios (%)					
EBITDA margin	15.9	18.0	19.7	19.5	20.2
EBIT margin	18.7	20.4	22.1	21.7	22.4
Adjusted profit margin	14.2	15.4	16.7	16.4	16.9
Adjusted ROAE	18.2	21.6	30.1	24.7	25.5
ROCE	18.3	21.6	29.3	27.8	26.8
Working capital days (days)					
Receivables	23	16	16	16	17
Inventory	15	13	13	14	15
Payables	62	54	68	64	48
Ratios (x)					
Gross asset turnover	0.1	0.2	0.1	0.2	0.1
Current ratio	1.2	1.0	0.8	1.5	1.6
Net interest coverage ratio	(715.8)	(188.7)	(184.5)	(248.9)	(285.0)
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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BUY – Expected return >+15%

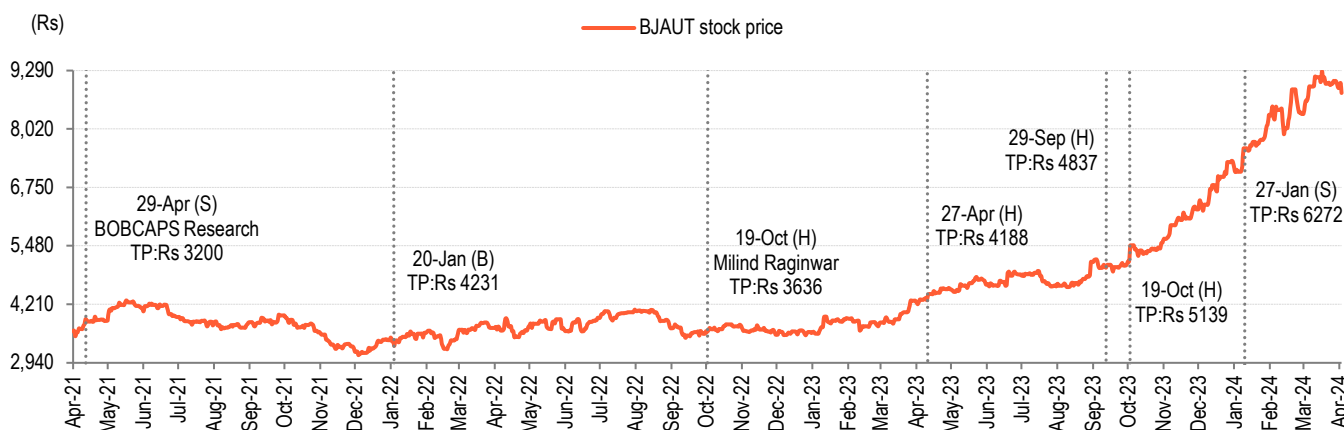
HOLD – Expected return from -6% to +15%

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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