

**HOLD**  
 TP: Rs 9,286 | ▼ 4%

**BAJAJ AUTO**

| Automobiles

| 17 July 2024

**Driving a strong path with favourable portfolio mix**

- BJAUT’s Q1FY25 revenue jumped 16% YoY (4% QoQ) to Rs 119bn aided by volume growth of 7% and favourable mix aiding faster growth
- Gross margin rose 187bps YoY but remained flat QoQ at 30%. However, EBITDA margin expansion was limited at 130bps to 20.2%
- We raise FY25E/FY26E EPS by 3%/2% now valuing the stock at 24x 1-year forward earnings, TP increased to Rs 9,286, upgrade to HOLD

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**Revenue gains YoY backed by volumes-led expansion and favourable mix:**

BJAUT’s Q1FY25 revenue jumped 16% YoY (4% QoQ) to Rs 119bn aided by volume growth of 7% to 1.1mn units. Both domestic and exports markets showed double-digit growth during the quarter. Average realisation per vehicle grew 8%/1% YoY/QoQ to Rs 108.2k. The revenue jump beat the volume jump due to favourable mix helping better traction.

**Gross margin expands, operating efficiencies aided EBITDAM:** Raw material as a percentage of sales fell to 70% vs ~72% YoY (flat QoQ). Effectively, gross margin rose 187bps YoY but remained flat QoQ. However, EBITDA margin expansion was limited to 130bps YoY, flat QoQ, to 20.2% as staff cost and other expenses inched up. Other expenditure rose ~26% YoY owing to CSR spends, high packing and costs incurred on extended warranties in the electric portfolio. EBITDA for the quarter rose 24% YoY (5% QoQ) to Rs 24bn.

**Exports improve:** Exports volume grew 7% YoY but remained flat QoQ aided by revival in the markets including stress markets. Although Africa stayed weak, other regions showed signs of improvement. The LATAM region delivered 26% growth YoY reaching benchmark levels of FY23.

**Launch of Bajaj Freedom, first CNG motorcycle:** Freedom 125 was launched in Q1FY25. BJAUT will start with a capacity of 10k units per month from Q2FY25 and plans to scale up to 40k units per month by Q4FY25 depending on customer response. BJAUT’s market share in the 100cc to 125cc space is currently at ~15%.

**Raise multiple; upgrade to HOLD:** We raise our FY25E/FY26E EPS estimates by +3%/2% to factor in BJAUT’s focus on the high-end segment growth (domestic and exports), 3W segment revival and 2W electric vehicle (EV) products. We have only limited assumptions on the CNG motorcycle due to its early days. Factoring in the positives, we now value the stock at 24x P/E (19x earlier) with 1-year forward taking into account FY26E and FY27E earnings with due weightage and arriving at a TP of Rs 9,286 (from Rs 6,823). Effectively, we upgrade the stock to HOLD from SELL.

**Key changes**

	Target	Rating
	▲	▲

Ticker/Price	BJAUT IN/Rs 9,718
Market cap	US\$ 34.2bn
Free float	46%
3M ADV	US\$ 46.9mn
52wk high/low	Rs 10,039/Rs 4,541
Promoter/FPI/DII	54%/10%/13%

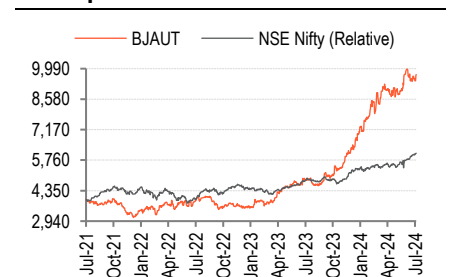
Source: NSE | Price as of 16 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,20,494	6,05,304
EBITDA (Rs mn)	88,229	1,02,886	1,22,850
Adj. net profit (Rs mn)	74,788	86,266	1,02,601
Adj. EPS (Rs)	267.9	309.0	367.5
Consensus EPS (Rs)	267.7	309.0	361.0
Adj. ROAE (%)	30.1	25.0	25.5
Adj. P/E (x)	36.3	31.5	26.4
EV/EBITDA (x)	31.7	27.0	22.6
Adj. EPS growth (%)	35.4	15.3	18.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Volumes	Management expects the industry to grow 6-8% with more demand weightage from the high end. The company expects to beat industry growth by a margin.	Management expects the industry to grow 7-8% with more demand weightage from the higher end of the demand pyramid.	The company is expanding its presence across the bikes portfolio aggressively, and that leads to confidence of higher growth than the industry.
Exports	Revival in the markets including the stress markets as pointed by BJAUT. Exports are up by 20% in the Middle East and 70% in Asia led by the Philippines and Nepal. LATAM delivered ~26% growth YoY, reaching the benchmark levels of FY23. However, Africa, as a whole, continues to underperform, followed by Nigeria. BJAUT expects Q2FY25 to be better than Q1FY25 and will continue to grow in the exports business unit.	The Red Sea price issue has disrupted lead times, sharply inflating container freight rates. The industry remains 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 revival is encouraging overcoming the issues faced earlier.
Three-wheelers (3W)	In E-Autos, BJAUT continues to gain market share. Chetak continues to be in a healthy spot largely indicated by the Chetak 2901. Management expects to expand to ~1,000 stores by Sep'24 from the current 250.	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.	In addition to the market share increase, the Productivity-Linked Incentive (PLI) certification to five commercial vehicle products will boost volumes and encourage cost effectiveness.
Electric and CNG vehicles (EV)	Launch of CNG Vehicle Freedom 125. It targets the mileage-conscious customer in the 100cc to 125cc segment. BJAUT estimates an addressable market of 450k to 500k customers per month. Vehicle Freedom 125 has been launched in Maharashtra, Gujarat, Delhi and Kerala. BJAUT is starting with a capacity of 10k units/month in Q2FY25 and plans to increase this to 40k/month by Q4FY25.	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. Chetak delivered its highest quarterly numbers of nearly 40,000 units, significantly gaining market share of 13% YoY from 5%.	The launch of a completely new bike in an uncharted, untapped market will be an exciting challenge and provide a boost to BJAUT's volume in the near term.
Currency	Dollar realisation stood at 83.4 during Q1FY25 compared to 83.0/82.1 in Q4FY24/Q1FY24.	USDINR realisations were at Rs 83.0.	Favourable currency helps export markets.
Commodities	Commodities like aluminium, copper, rubber and some noble metals were in the inflationary mode in Q1FY25, but some relief was observed in steel, nickel, lead, etc.	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 costs were flat.	Commodity costs 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.

Parameter	Q1FY25	Q4FY24	Our view
Cash position	BJAUT has given a capex guidance of Rs 7bn-8bn with major spends towards commissioning a new electric 3-wheeler facility in Baluch. Cash levels stood at about Rs 167bn at the end of Q1FY25, adding Rs 17.5bn of free cash in the quarter.	BJAUT's free cash flow addition was Rs 66bn in FY24. This was up 40% YoY. This is after spending Rs 7bn-8bn on gross capital expenditure strategically directed towards enhancing capacity and capabilities in the EV 2W/3W segment and premium motorcycles. The net surplus funds at over Rs 160bn indicates strong balance sheet strength.	The company's healthy balance sheet can facilitate further capex with ease, especially in the capex-intensive EV space. Brazil plant has commenced production with a single shift capacity of 20k units per annum scalable to 50k p.a.
Key product segments	Triumph continues to be on track with a presence in more than 100 locations. BJAUT has sold 60k bikes which has contributed to Rs12bn.  BJAUT has infused Rs 5.5bn in Bajaj Auto Credit (BACL). BACL covers 50% of Bajaj Auto's market and BJAUT expects this to rise to 100% by Mar'25.	Triumph's 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.  BJAUT's board approved a further capital infusion of Rs 22.5bn in a phased manner in Bajaj Auto Credit.	The focus on high-end motorcycles and new launches will help BJAUT boost sales, but new launches may keep margins listless. A revival in the export markets especially in the LATAM region will further boost growth.

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance (Standalone)**

(Rs mn)	1QFY25	1QFY24	YoY (%)	3QFY24	QoQ (%)
Volume (nos)	11,02,056	10,27,091	7.3	10,68,576	3.1
Avg. Realisation per Vehicle (Rs)	1,08,234	1,00,378	7.8	1,07,476	0.7
Net Revenues	1,19,280	1,03,098	15.7	1,14,847	3.9
<b>Total Income (A)</b>	<b>1,19,280</b>	<b>1,03,098</b>	<b>15.7</b>	<b>1,14,847</b>	<b>3.9</b>
<b>Operating Expenses:</b>					
Raw materials consumed	83,527	74,127	12.7	80,702	3.5
Employee Expenses	4,350	3,842	13.2	3,872	12.3
Other Expenses	7,251	5,590	29.7	7,210	0.6
<b>Total Expenditure (B)</b>	<b>95,128</b>	<b>83,558</b>	<b>13.8</b>	<b>91,784</b>	<b>3.6</b>
<b>EBITDA (A-B)</b>	<b>24,153</b>	<b>19,539</b>	<b>23.6</b>	<b>23,063</b>	<b>4.7</b>
Other Income	3,209	3,463	(7.3)	3,487	(8.0)
Depreciation	937	835	12.2	906	3.5
<b>EBIT</b>	<b>26,425</b>	<b>22,167</b>	<b>19.2</b>	<b>25,644</b>	<b>3.0</b>
Finance Costs	207	121	71.0	228	(9.3)
<b>PBT after exceptional items</b>	<b>26,218</b>	<b>22,046</b>	<b>18.9</b>	<b>25,416</b>	<b>3.2</b>
Tax expense	6,335	5,399	17.3	6,056	4.6
<b>Reported PAT</b>	<b>19,883</b>	<b>16,648</b>	<b>19.4</b>	<b>19,360</b>	<b>2.7</b>
<b>Adjusted PAT</b>	<b>19,883</b>	<b>16,648</b>	<b>19.4</b>	<b>19,360</b>	<b>2.7</b>
<b>EPS (Rs)</b>	<b>68.7</b>	<b>57.5</b>	<b>19.4</b>	<b>66.9</b>	<b>2.7</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Gross Margin	30.0	28.1	187	29.7	24
EBITDA Margin	20.2	19.0	130	20.1	17
EBIT Margin	22.2	21.5	65	22.3	(17)
PBT Margin	22.0	21.4	60	22.1	(15)
Tax Rate	24.2	24.5	(33)	23.8	34
Adj PAT Margin	16.7	16.1	52	16.9	(19)

Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY25E/FY26E EPS estimates by +3%/2% to factor in BJAUT's focus on high-end segment growth (domestic and exports), 3W segment revival, revival of the commercial segment in the export markets and 2W EV products. This is besides Pulsar's strong showing through its new launches. We have only limited assumptions on the CNG motorcycle due to its early days.

We now pencil in an EBITDA/PAT CAGR of 23%/22% over FY23-FY26E. We base our growth projections on the company's capital expenditure guidance, healthy product pipeline in the entry-level and premium segments, EV launches (scooters), and exports revival, especially in the 3W cargo space. Our gross/EBITDA margin forecasts remain at ~20% over FY25-FY26. Also, we introduce our FY27E earnings with EBITDA and earnings growth hovering at 13%/14% with our EPS estimate at Rs417/sh.

Factoring in the positives, we now value the stock at 24x P/E (19x earlier) with 1-year forward taking into account FY26E and FY27E earnings with due weightage arriving at a higher TP of Rs 9,286 (from Rs 6,823). Effectively, we upgrade the stock to HOLD from our SELL rating earlier. In our view, intense competition leading to margin pressures arising from the electric vehicle space will continue but will be offset by its increasing presence in the high-end of the ICE motorcycle business and sustainability of export revival. These will be the key monitorables for the stock.

**Fig 3 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,20,494	6,05,304	6,96,315	5,11,199	5,93,730	NA	1.8	1.9	NA
EBITDA	1,02,886	1,22,850	1,39,457	99,533	1,19,771	NA	3.4	2.6	NA
Adj PAT	86,266	1,02,601	1,16,472	83,705.7	1,00,253.1	NA	3.1	2.3	NA
Adj EPS (Rs)	309.0	367.5	417.2	299.8	359.1	NA	3.1	2.3	NA

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

	FY24	FY25E	FY26E	FY27E
2W volume (nos)	37,27,923	41,75,274	46,34,554	51,44,355
3W volume (nos)	6,23,010	6,97,771	7,88,481	8,83,099
ASP (Rs)	1,02,703	1,06,811	1,11,617	1,15,524
Revenues (Rs mn)	4,46,852	5,20,494	6,05,304	6,96,315
EBITDA (Rs mn)	88,229	1,02,886	1,22,850	1,39,457
EBITDA margin (%)	19.7	19.8	20.3	20.0
Adj. PAT (Rs mn)	74,787.9	86,266.3	1,02,601.3	1,16,472.2
EPS (Rs)	267.9	309.0	367.5	417.2

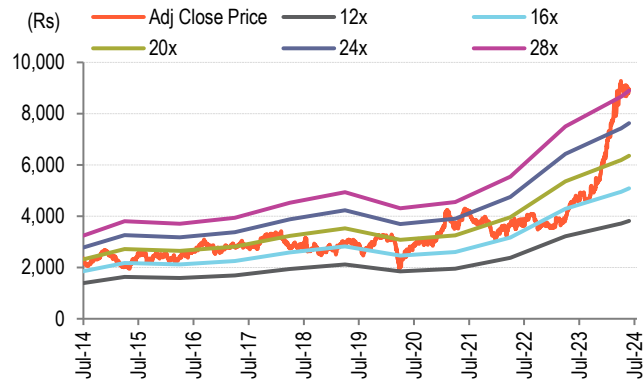
Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY25E	FY26E	FY25E	FY26E
Bajaj Auto	BJAUT IN	HOLD	9,286	309.0	367.5	25.0	25.5
Eicher Motors	EIM IN	HOLD	4,633	146.0	166.0	22.8	21.4
TVS Motor	TVSL IN	BUY	2,382	60.8	77.6	31.7	30.3

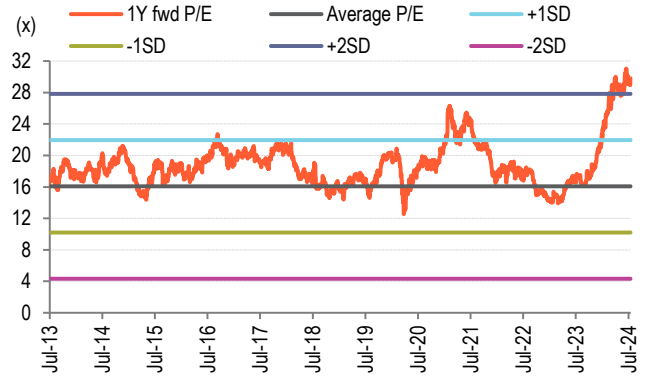
Source: BOBCAPS Research

**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 upside/downside risks**

- Higher commodity price, inflating in excess of our assumptions.
- Market share gains, especially in the high-end motorcycle segment.
- Better-than-expected relief (cost and price) in the EV segment.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>3,64,276</b>	<b>4,46,852</b>	<b>5,20,494</b>	<b>6,05,304</b>	<b>6,96,315</b>
EBITDA	65,491	88,229	1,02,886	1,22,850	1,39,457
Depreciation	2,824	3,498	3,416	4,016	4,616
EBIT	74,481	98,755	1,14,465	1,35,983	1,54,260
Net interest inc./(exp.)	(395)	(535)	(548)	(573)	(599)
Other inc./(exp.)	11,814	14,025	14,995	17,149	19,419
Exceptional items	0	0	0	0	0
EBT	74,086	98,220	1,13,916	1,35,410	1,53,661
Income taxes	17,810	23,432	27,650	32,808	37,189
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>56,276</b>	<b>74,788</b>	<b>86,266</b>	<b>1,02,601</b>	<b>1,16,472</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>56,276</b>	<b>74,788</b>	<b>86,266</b>	<b>1,02,601</b>	<b>1,16,472</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	40,739	56,102	51,877	61,437	71,027
Other current liabilities	9,916	21,241	30,183	36,204	43,124
Provisions	1,668	1,891	1,886	2,414	2,917
Debt funds	1,242	9,599	1,384	1,523	1,675
Other liabilities	0	0	0	0	0
Equity capital	2,830	2,792	2,792	2,792	2,792
Reserves & surplus	2,51,429	2,45,813	3,42,670	3,99,708	4,64,549
Shareholders' fund	2,54,258	2,48,605	3,45,462	4,02,500	4,67,340
<b>Total liab. and equities</b>	<b>3,07,823</b>	<b>3,37,437</b>	<b>4,30,792</b>	<b>5,04,077</b>	<b>5,86,083</b>
Cash and cash eq.	2,858	5,366	49,090	60,921	78,197
Accounts receivables	17,761	21,224	22,527	27,759	33,878
Inventories	13,979	16,956	18,552	23,133	28,529
Other current assets	18,396	20,586	26,832	32,366	37,965
Investments	2,29,233	2,44,925	2,76,635	3,14,719	3,54,911
Net fixed assets	27,160	31,987	40,570	48,554	55,938
CWIP	819	274	427	427	427
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,452)	(5,069)	(5,379)	(5,689)	(5,999)
Other assets	1,071	1,188	1,538	1,888	2,238
<b>Total assets</b>	<b>3,07,825</b>	<b>3,37,437</b>	<b>4,30,792</b>	<b>5,04,077</b>	<b>5,86,083</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>56,778</b>	<b>81,888</b>	<b>69,357</b>	<b>89,308</b>	<b>1,00,620</b>
Capital expenditures	(11,695)	(7,780)	(12,153)	(12,000)	(12,000)
Change in investments	8,954	(15,692)	(31,710)	(38,084)	(40,192)
Other investing cash flows	11,814	14,025	14,995	17,149	19,419
<b>Cash flow from investing</b>	<b>9,073</b>	<b>(9,447)</b>	<b>(28,868)</b>	<b>(32,935)</b>	<b>(32,773)</b>
Equities issued/Others	(64)	825	(863)	0	0
Debt raised/repaid	12	8,357	(8,215)	138	152
Interest expenses	(395)	(535)	(548)	(573)	(599)
Dividends paid	(39,811)	(39,602)	(45,146)	(50,564)	(56,631)
Other financing cash flows	(582)	1,618	310	310	310
<b>Cash flow from financing</b>	<b>(40,840)</b>	<b>(29,337)</b>	<b>(54,462)</b>	<b>(50,688)</b>	<b>(56,768)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>25,011</b>	<b>43,104</b>	<b>(13,974)</b>	<b>5,684</b>	<b>11,079</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,858</b>	<b>5,366</b>	<b>49,090</b>	<b>60,921</b>	<b>78,197</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	197.9	267.9	309.0	367.5	417.2
Adjusted EPS	197.9	267.9	309.0	367.5	417.2
Dividend per share	140.0	141.9	161.7	181.1	202.8
Book value per share	894.1	890.5	1,237.4	1,441.7	1,674.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.8	6.3	5.3	4.6	4.0
EV/EBITDA	43.3	31.7	27.0	22.6	19.8
Adjusted P/E	49.1	36.3	31.5	26.4	23.3
P/BV	10.9	10.9	7.9	6.7	5.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.0	76.1	75.7	75.8	75.8
Interest burden (PBT/EBIT)	99.5	99.5	99.5	99.6	99.6
EBIT margin (EBIT/Revenue)	20.4	22.1	22.0	22.5	22.2
Asset turnover (Rev./Avg TA)	139.2	174.0	172.0	161.2	159.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>21.6</b>	<b>29.7</b>	<b>29.0</b>	<b>27.4</b>	<b>26.8</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	9.9	22.7	16.5	16.3	15.0
EBITDA	24.5	34.7	16.6	19.4	13.5
Adjusted EPS	21.7	35.4	15.3	18.9	13.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	18.0	19.7	19.8	20.3	20.0
EBIT margin	20.4	22.1	22.0	22.5	22.2
Adjusted profit margin	15.4	16.7	16.6	17.0	16.7
Adjusted ROAE	21.6	30.1	25.0	25.5	24.9
ROCE	21.6	29.3	28.7	27.4	26.8
<b>Working capital days (days)</b>					
Receivables	16	16	15	15	16
Inventory	13	13	12	13	14
Payables	54	56	53	48	49
<b>Ratios (x)</b>					
Gross asset turnover	0.2	0.1	0.1	0.1	0.1
Current ratio	1.0	0.8	1.4	1.4	1.5
Net interest coverage ratio	(188.7)	(184.6)	(208.7)	(237.3)	(257.6)
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

**BUY** – Expected return >+15%

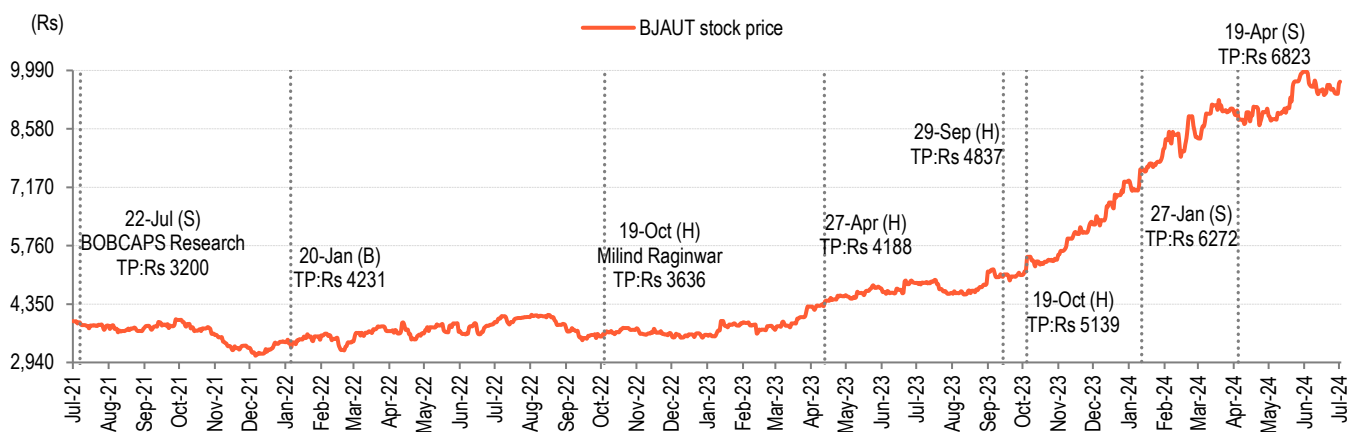
**HOLD** – Expected return from -6% to +15%

**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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