

HOLD
 TP: Rs 11,088 | ▼ 5%

BAJAJ AUTO

| Automobiles

| 17 October 2024

Well balanced growth strategy; valuations priced in

- BJAUT’s Q2FY25 revenue jumped 22%/10% YoY/QoQ to Rs 131bn aided by volume growth of 16% and favourable mix aiding faster growth
- RM cost inflation offset by price hikes helped gross margin to be steady ~29% (flat YoY), EBITDA margin improved 40bps YoY to 20.2%
- We raise FY25E/FY26E/FY27E EPS by 4%/6%/8% now valuing the stock at 26x 1-year forward earnings, new TP at Rs 11,088. Maintain HOLD

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Prudent mix helps realisation gains, healthy volume growth drives revenue:

BJAUT’s Q2FY25 revenue jumped ~22%/10% YoY/QoQ to Rs 131bn aided by volume growth of 16% YoY to 1.22mn units. Domestic markets grew by ~15% YoY and exports markets by 7% in Q2FY25. Prudent mix and timely price hikes to factor in input cost hike helped average realisation per vehicle gains of 5% YoY (flat QoQ) to Rs 107k. This helped revenue jump beat volume gains.

Price hikes offset RM cost inflation, cost savings help EBITDA margin gains:

Raw material as a percentage of sales rose to 71.3% vs ~70% QoQ (flat YoY) due to commodity cost inflation. Despite this, gross margin stayed flat YoY at ~29% (fell 130bps QoQ). However, EBITDA margin expansion was 40bps YoY, flat QoQ, to 20.2% due to cost rationalisation. Other expenditure fell to 5.5% of sales due to operating leverage offset by Triumph royalty payments and higher ad spends. Staff cost QoQ softened. EBITDA in 2Q rose 24%/10% YoY/QoQ to Rs 26.5bn.

Exports improve: Steady revival in overseas market continued with LATAM delivering 20% YoY growth and Asia at par YoY. Africa continues to decline though the decline has reduced to 9%. Q2 exports 8% higher than Q1 and management further expects Q3 to continue in the same trajectory of a QoQ 10% improvement.

Healthy response to Bajaj Freedom: Freedom 125 was launched in Q1FY25. BJAUT clocked retail sales of 10k units of Bajaj Freedom till September and expects to touch 18k units in October. To cater to demand, capacity will be hiked to 30k/month in Q3 and 40k/month in the near term.

Raise earnings and add multiple: We raise our FY25/FY26/FY27 EPS estimates by 4%/6%/8% to factor in BJAUT’s focus on high-end segment growth, 3W segment revival, 2W electric vehicle (EV) products and exports recovery. Also, we have raised volume estimates to factor in the green portfolio. Factoring in the positives, we now value the stock at 26x P/E (24x earlier) 1-year forward taking into account FY26E and FY27E earnings with due weightage and arriving at a TP of Rs 11,088 (from Rs 9,286). We maintain HOLD rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BJAUT IN/Rs 11,617
Market cap	US\$ 40.0bn
Free float	46%
3M ADV	US\$ 55.1mn
52wk high/low	Rs 12,774/Rs 5,070
Promoter/FPI/DII	54%/10%/13%

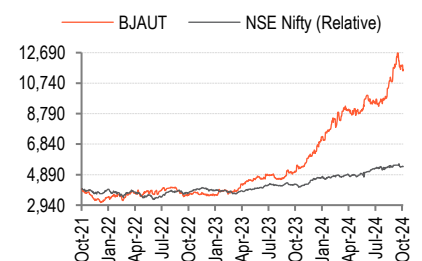
Source: NSE | Price as of 16 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,37,559	6,37,192
EBITDA (Rs mn)	88,229	1,07,050	1,30,710
Adj. net profit (Rs mn)	74,788	89,279	1,08,742
Adj. EPS (Rs)	267.9	319.8	389.5
Consensus EPS (Rs)	267.7	318.0	387.0
Adj. ROAE (%)	30.1	25.6	26.4
Adj. P/E (x)	43.4	36.3	29.8
EV/EBITDA (x)	38.0	31.0	25.4
Adj. EPS growth (%)	35.4	19.4	21.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volumes	Management expects the industry to grow 5-8%.	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.	The company is expanding its presence across the bike's portfolio, including CNG and EV with a top gear. That leads to confidence of higher growth than the industry.
Exports	Steady revival in exports continues with the number of stress countries slowly reducing. LATAM grew 20% YoY supported by Mexico growing at 25% YoY. Asia was at par YoY. Africa continues to decline, though the decline has fallen to 9%. Nigeria is recovering to some extent, however BJAUT is watchful of the currency fragility. BJAUT expects exports in Q2 was better versus Q1 and further expects a 10% QoQ improvement in Q3.	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 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.	Exports revival is encouraging and will handsomely contribute to volume growth.
Three-wheelers (3W)	The 3-wheeler segment clocked volumes of 140k units, of which 16k was E-autos. E-autos are now available in 700 plus locations with a market share of 35%. Chetak continues to be in a healthy spot largely indicated by the Chetak 2901. It is currently available with the 3,000-dealer network. Management expects to expand the network to ~4,000 by Q3/Q4FY25.	BJAUT continues to gain market share in E-autos. Chetak continues to be in a healthy spot largely indicated by the Chetak 2901. Management expects to expand stores by Sep'24 from the current 250.	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)	BJAUT has managed to retail 10k units of Bajaj Freedom till September and expects to touch the 18k mark in October. To cater to the demand BJAUT is increasing its capacity to 30k/month in Q3 and 40k/month going forward. Its green energy portfolio consists of 44% of domestic revenue.	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 strong response to the CNG product has prompted capacity expansion. This will also be reflected in growth in FY26E/FY27E.
Currency	Dollar realisation stood at 83.8 during Q2FY25, compared to 83.4/82.6 in Q1FY25/Q2FY24.	Dollar realisation stood at 83.4 during Q1FY25, compared to 83.0/82.1 in Q4FY24/Q1FY24.	Favourable currency helps export markets.
Commodities	Slight inflation across commodities led by copper, natural rubber, cast iron, aluminium, and noble metals with steel as the only relief. Overall, the impact of material cost inflation was 50bps QoQ.	Commodities like aluminium, copper, rubber and some noble metals were in inflationary mode in Q1FY25, but some relief was observed in steel, nickel, lead, etc.	Commodity costs inched up in the early parts of 2QFY25. BJAUT anticipated that for 2QFY25, and has accounted for a slight pricing cushion from 1QFY25 to overcome the impact.
Cash position	In H1FY25 BJAUT invested Rs 2.45bn in the form of capex primarily for the EV vertical. Cash levels stood at about Rs 164bn at the end of Q2FY25, adding Rs 20bn of free cash in the quarter.	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	The company's healthy balance sheet can facilitate further capex with ease, especially in the capex-intensive EV space.

Parameter	Q2FY25	Q1FY25	Our view
		Rs 167bn at the end of Q1FY25, adding Rs 17.5bn of free cash in the quarter.	
Key product segments	<p>Triumph continues to be on track with a presence in more than 120 stores. BJAUT sold more than 10k bikes in Q2, up 50% over Q1.</p> <p>BJAUT has infused a total of Rs 9.55bn in Bajaj Auto Credit (BACL) and BACL now covers 70% of Bajaj Auto's market and BJAUT is on track to reach 100% by Jan'25. BACL managed to become cash profitable in Sep'24.</p> <p>Also, BJAUT launched a new 125cc Pulsar on 16 Oct'24 and the launch of Pulsar NS400Z has already clocked 3,000 retail bookings.</p>	<p>Triumph continues to be on track with a presence in more than 100 locations. BJAUT has sold 60k bikes, which has contributed to Rs12bn.</p> <p>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.</p>	<p>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 and Africa regions, will further boost growth.</p> <p>The encouraging response to BACL, quicker than expected, will only facilitate the volume growth.</p>

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Volume (nos)	12,21,504	10,53,953	15.9	11,02,056	10.8
Avg. Realisation per Vehicle (Rs)	1,07,470	1,16,324	(7.6)	1,08,234	(0.7)
Net Revenues	1,31,275	1,22,600	7.1	1,19,280	10.1
Total Income (A)	1,31,275	1,22,600	7.1	1,19,280	10.1
Operating Expenses:					
Raw materials consumed	93,639	85,531	9.5	83,527	12.1
Employee Expenses	3,935	3,984	(1.2)	4,350	(9.5)
Other Expenses	7,180	7,901	(9.1)	7,251	(1.0)
Total Expenditure (B)	1,04,753	97,416	7.5	95,128	10.1
EBITDA (A-B)	26,522	25,183	5.3	24,153	9.8
Other Income	3,845	2,845	35.2	3,209	19.8
Depreciation	956	821	16.4	937	2.0
EBIT	29,411	27,207	8.1	26,425	11.3
Finance Costs	159	134	18.8	207	(23.0)
PBT after exceptional items	27,139	27,073	0.2	26,218	3.5
Tax expense	9,202	6,836	34.6	6,335	45.3
Reported PAT	17,938	20,237	(11.4)	19,883	(9.8)
Adjusted PAT	20,050	20,237	(0.9)	19,883	0.8
EPS (Rs)	76.6	69.9	9.5	68.7	11.5
Key Ratios (%)			(bps)	(bps)	
Gross Margin	28.7	30.2	(157)	30.0	(130)
EBITDA Margin	20.2	20.5	(34)	20.2	(5)
EBIT Margin	22.4	22.2	21	22.2	25
PBT Margin	22.3	22.1	20	22.0	30
Tax Rate	33.9	25.3	865	24.2	974
Adj PAT Margin	15.3	16.5	(123)	16.7	(140)

Source: Company, BOBCAPS Research

Valuation methodology

We raise our EPS estimates for FY25 by 4%, FY26 by 6% and FY27 by 8% 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 now factored in growth with weightage to the CNG motorcycle given its strong response.

We now pencil in an EBITDA/PAT CAGR of 26%/25% 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. We feel strong cost rationalisation and control measures will have minimal impact on the overall margin portfolio due to the EV segment increasing presence for BJAUT (current impact of 100bps).

Factoring in the positives, we now value the stock at 26x P/E (24x earlier) 1-year forward, taking into account FY26E and FY27E earnings with due weightage and arriving at a TP of Rs 11,088 (from Rs 9,286). We maintain a HOLD rating on the stock. In our view, intense competition leading to margin pressures arising from the electric vehicle space will be rationalised. Additionally, increasing presence in the high-end of the ICE motorcycle business and sustainability of exports revival help partially offset the competition. 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	5,37,559	6,37,192	7,45,052	5,20,494	6,05,304	6,96,315	3.3	5.3	7.0
EBITDA	1,07,050	1,30,710	1,51,575	1,02,886	1,22,850	1,39,457	4.0	6.4	8.7
Adj PAT	89,279	1,08,742	1,25,419	86,266	1,02,601	1,16,472	3.5	6.0	7.7
Adj EPS (Rs)	319.8	389.5	449.2	309.0	367.5	417.2	3.5	6.0	7.7

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24	FY25E	FY26E	FY27E
2W volume (nos)	37,27,923	42,87,111	48,65,871	54,74,105
3W volume (nos)	6,23,010	6,97,771	7,88,481	8,83,099
ASP (Rs)	1,02,703	1,07,838	1,12,690	1,17,198
Revenues (Rs mn)	4,46,852	5,37,559	6,37,192	7,45,052
EBITDA (Rs mn)	88,229	1,07,050	1,30,710	1,51,575
EBITDA margin (%)	19.7	19.9	20.5	20.3
Adj. PAT (Rs mn)	74,788	89,279	1,08,742	1,25,419
EPS (Rs)	267.9	319.8	389.5	449.2

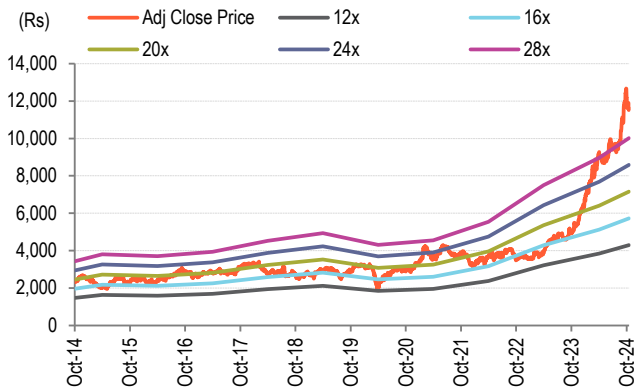
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY25E	FY26E
Bajaj Auto	BJAUT IN	HOLD	11,088	389.5	449.2	28.6	28.0
Eicher Motors	EIM IN	HOLD	4,724	144.5	165.0	23.1	22.3
TVS Motor	TVSL IN	HOLD	2,363	57.7	74.0	30.5	29.7

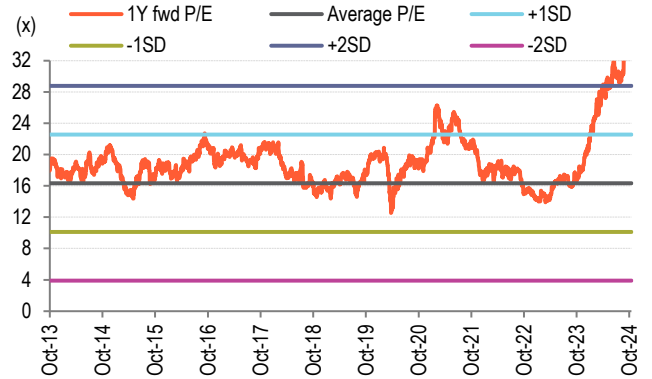
Source: BOBCAPS Research

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
Total revenue	3,64,276	4,46,852	5,37,559	6,37,192	7,45,052
EBITDA	65,491	88,229	1,07,050	1,30,710	1,51,575
Depreciation	2,824	3,498	3,616	4,267	5,505
EBIT	74,481	98,755	1,18,428	1,43,592	1,65,490
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	1,17,880	1,43,019	1,64,891
Income taxes	17,810	23,432	28,601	34,277	39,472
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	56,276	74,788	89,279	1,08,742	1,25,419
Adjustments	0	0	0	0	0
Adjusted net profit	56,276	74,788	89,279	1,08,742	1,25,419

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	40,739	56,102	52,793	64,107	75,428
Other current liabilities	9,916	21,241	30,716	37,778	45,795
Provisions	1,668	1,891	1,920	2,519	3,098
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	3,45,683	4,08,861	4,82,649
Shareholders' fund	2,54,258	2,48,605	3,48,475	4,11,653	4,85,441
Total liab. and equities	3,07,823	3,37,437	4,35,288	5,17,579	6,11,437
Cash and cash eq.	2,858	5,366	44,594	50,252	59,650
Accounts receivables	17,761	21,224	22,925	28,966	35,976
Inventories	13,979	16,956	18,879	24,139	30,296
Other current assets	18,396	20,586	27,300	33,774	40,340
Investments	2,29,233	2,44,925	2,76,635	3,14,719	3,54,911
Net fixed assets	27,160	31,987	48,370	69,103	93,599
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
Total assets	3,07,825	3,37,437	4,35,288	5,17,579	6,11,437

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	56,778	81,888	72,860	96,135	1,10,741
Capital expenditures	(11,695)	(7,780)	(20,153)	(25,000)	(30,000)
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
Cash flow from investing	9,073	(9,447)	(36,868)	(45,935)	(50,773)
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
Cash flow from financing	(40,840)	(29,337)	(54,462)	(50,688)	(56,768)
Chg in cash & cash eq.	25,011	43,104	(18,470)	(488)	3,200
Closing cash & cash eq.	2,858	5,366	44,594	50,252	59,650

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	197.9	267.9	319.8	389.5	449.2
Adjusted EPS	197.9	267.9	319.8	389.5	449.2
Dividend per share	140.0	141.9	161.7	181.1	202.8
Book value per share	894.1	890.5	1,248.2	1,474.5	1,738.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.3	7.5	6.2	5.2	4.5
EV/EBITDA	51.7	38.0	31.0	25.4	21.9
Adjusted P/E	58.7	43.4	36.3	29.8	25.9
P/BV	13.0	13.0	9.3	7.9	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.0	76.1	75.7	76.0	76.1
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	176.8	167.0	165.5
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	21.6	29.7	29.9	28.6	28.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	9.9	22.7	20.3	18.5	16.9
EBITDA	24.5	34.7	21.3	22.1	16.0
Adjusted EPS	21.7	35.4	19.4	21.8	15.3
Profitability & Return ratios (%)					
EBITDA margin	18.0	19.7	19.9	20.5	20.3
EBIT margin	20.4	22.1	22.0	22.5	22.2
Adjusted profit margin	15.4	16.7	16.6	17.1	16.8
Adjusted ROAE	21.6	30.1	25.6	26.4	25.8
ROCE	21.6	29.3	29.5	28.6	28.0
Working capital days (days)					
Receivables	16	16	15	15	16
Inventory	13	13	12	12	13
Payables	54	56	52	47	48
Ratios (x)					
Gross asset turnover	0.2	0.1	0.2	0.2	0.2
Current ratio	1.0	0.8	1.3	1.3	1.3
Net interest coverage ratio	(188.7)	(184.6)	(216.0)	(250.6)	(276.4)
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%

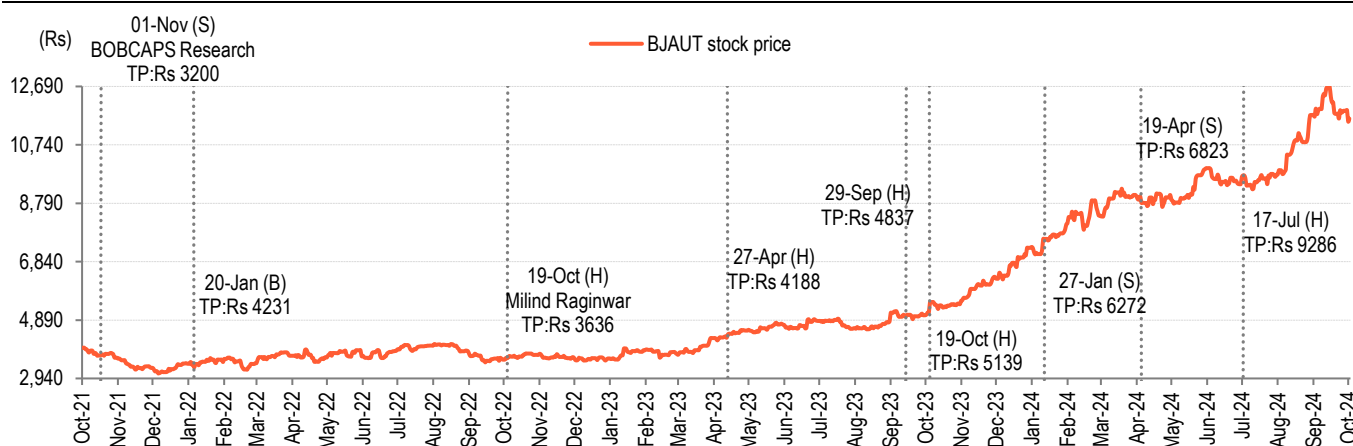
HOLD – Expected return from -6% to +15%

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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