

HOLD
 TP: Rs 9,438 | ▲ 12%

BAJAJ AUTO

| Automobiles

| 29 January 2025

Striking balance between growth and earnings; Maintain HOLD

- BJAUT’s Q3FY25 revenue growth was muted at 6% YoY (down 2% QoQ) to Rs 128bn on account of slow volume and realisation growth
- Higher raw materials cost lowered the gross margins by 130bps YoY to ~28% (flat QoQ) , EBITDA margin listless at 20.2% flat YoY/QoQ
- We revise down FY25E/FY26E/FY27E EPS by 4%/8%/9%, now valuing the stock at 24x 1-year forward earnings, TP at Rs 9,438. Maintain HOLD

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Volume growth muted, realization follows suite: BJAUT’s Q3FY25 revenue increased ~6% YoY (down 3% QoQ) to Rs 128bn checked by muted volume growth of 2% YoY to 1.22mn units (flat QoQ). Domestic markets declined by ~9% YoY and exports markets grew by 22% in Q3FY25. Average realisation per vehicle gains was 4% YoY (down 3% QoQ) to Rs 104k following its focus on the EV segment.

RM cost inflation, cost inflation keeps EBITDA margins listless: Raw material as a percentage of sales rose to 71.3% vs ~70% QoQ (flat YoY) due to commodity cost inflation. Effectively, the gross margin fell YoY by 130 bps at ~28.7% (flat QoQ). Further, the EBITDA margin stayed listless at 20.2% flat YoY/QoQ, due to cost rationalisation. Other expenditure increased by 3% YoY (5.6% of sales) and staff cost QoQ was flat. EBITDA in 3Q rose 6% YoY (down 3% QoQ) to Rs 25.8bn.

Exports improve: Exports volume grew in volumes by 22% in Q3FY25. LATAM is now the largest emerging market region for motorcycles, with exports growing by over 40%. Nigeria market was steady with a market share of 55%. Bajaj Brazil is operating at peak capacity and the management has approved a further expansion of capacity to 50k units p.a. to be commissioned by Q4FY26.

Bajaj Freedom early response tapers off: Freedom 125 was launched in Q1FY25. BJAUT clocked retail sales of 10k units of Bajaj Freedom till September however the earlier strong response has slowed down considerable due to lack of fuel infrastructure (refill pumps).

Cut our earnings estimates: We lower our FY25/FY26/FY27 EPS estimates by 4%/8%/9% to factor in BJAUT’s 2W electric vehicle (EV) focus that will dilute earnings and slowing domestic market growth in the key motorcycle segment. Also, we have reduced our volume estimates to factor in tepid growth in 9MFY25. Factoring in the slow growth momentum in domestic markets, slow response to the CNG segment and earnings dilution from the EV segment, we now value the stock at 24x P/E (26x earlier) 1-year forward and arriving at a TP of Rs 9,438 (from Rs 11,088). We maintain HOLD rating on the stock

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BJAUT IN/Rs 8,398
Market cap	US\$ 28.1bn
Free float	46%
3M ADV	US\$ 50.5mn
52wk high/low	Rs 12,774/Rs 7,480
Promoter/FPI/DII	54%/10%/13%

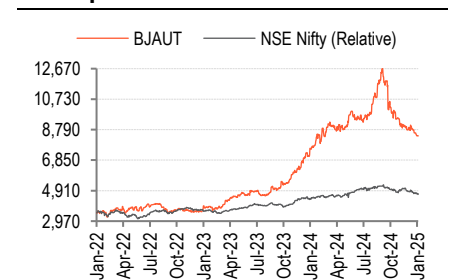
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,17,458	6,04,969
EBITDA (Rs mn)	88,229	1,02,068	1,20,458
Adj. net profit (Rs mn)	74,788	85,600	1,00,293
Adj. EPS (Rs)	267.9	306.6	359.2
Consensus EPS (Rs)	267.7	311.4	366.0
Adj. ROAE (%)	30.1	24.8	25.1
Adj. P/E (x)	31.4	27.4	23.4
EV/EBITDA (x)	27.4	23.4	20.0
Adj. EPS growth (%)	35.4	14.5	17.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volumes	Management indicated a near-term outlook of 6% - 8% growth in the industry with the 125cc+ segment growing faster than the 100cc segment.	Management expects the industry to grow 5-8%.	The industry in the motor cycle is missed by BJAUT thus far. The focus continues on the EV portfolio that may be a cause of concern for the company
Exports	Exports grew in volumes by 27% in Q3FY25. LATAM exports grew by over 40% in Q3FY25 with a rich mix of over 60% of premium brands of Pulsars and Dominars. Nigeria market steady with a market share of 55%. 50% drop in KTM exports due to the issues being faced by KTM overseas (share in exports down from 5% to 2%). Bajaj Brazil operating at peak capacity and the management has approved a further expansion of capacity to 50k units per annum to be commissioned by Q4FY26.	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.	Exports revival is encouraging and will handsomely contribute to volume growth.
Three-wheelers (3W)	3W clocked retail sales of 125k units in Q3FY25, of which 17k were EV. EV market share grew to 35% in Q3FY25 vs 13% YoY and the e-autos are now available in 800 locations. Management expects industry to grow at 4% to 6%. Chetak achieved a market share of 22% in Q3FY25 vs 13% YoY. Chetak is available in 250 stores across 3000 sales points.	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	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. However, fierce competitive pressure will also keep realisations under check
Electric and CNG vehicles (EV)	BJAUT has retailed almost 50k Bajaj Freedom bikes since it started in August. One more variant launched making it a portfolio of three to cover all segments of users from gig workers to long distance personal users. EV portfolio in Q3FY25 stands at 22% of domestic revenue with highest market share in both 2W and 3W. Green energy portfolio comprising EV and CNG across 2W and 3W is at 44% of BJAUT's domestic revenue.	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	The strong response to the CNG product has prompted capacity expansion. However, the growth has tepid after the initial strong response.
Currency	Dollar realisation stood at 84.3 during Q3FY25, compared to 83.8/83.2 in Q2FY25/Q3FY24.	Dollar realisation stood at 83.8 during Q2FY25, compared to 83.4/82.6 in Q1FY25/Q2FY24.	Favourable currency helps export markets.
Commodities	The commodity basket for Q3FY25 ended flattish in net terms. There was sharp inflation in rubber and a moderate uptick was seen in ABS, polypropylene and platinum as suggested by BJAUT. Metals softened led by steel, nickel and lead.	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.	Commodity costs inched up since the early parts of 2QFY25. BJAUT anticipated that for 2QFY25, but have not seen major changes in the realisation or price hikes taken by the company.
Cash position	In 9MFY25 BJAUT invested Rs 4.5bn in the form of capex primarily for the EV vertical. Cash levels stood at about Rs 150bn at the end of Q3FY25. BJAUT generated Rs 30bn of free cash flow in 9MFY25.	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.	The company's healthy balance sheet can facilitate further capex with ease, especially in the capex-intensive EV space.

Parameter	Q3FY25	Q2FY25	Our view
Key product segments	<p>Bajaj Auto Credit (BACL) financed about 520k vehicles with an AUM of Rs 70bn as at 31 December 2024. BJAUT has infused a total of Rs 16bn in BACL. BACL now covers 70% of BJAUT's market and posted profit in Q3FY25.</p> <p>The erstwhile Chetak Technology has been renamed Bajaj Auto Technology (BATL) and will develop new tech in areas like electronics, electric powertrains, controls, hybrids and fuel cells software and design. BATL is now fully operational and employs over 500 people.</p> <p>Spares crossed the Rs 15bn mark in revenue for the first time.</p> <p>Q4FY25 will also see the start of the cost impact of complying with OBD 2B norms that will come into effect from 1 April 2025.</p>	<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>No major surprises on the subsidiary business, dedicated research to help gain volume traction in the next 1-2 years,</p>

Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance (Standalone)

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	3QFY25E
Volume	12,24,472	12,00,997	2.0	12,21,504	0.2	12,24,472
Avg. Realisation per Vehicle	1,04,591	1,00,862	3.7	1,07,470	(2.7)	1,06,932
Net Revenues	1,28,069	1,21,135	5.7	1,31,275	(2.4)	1,30,936
Total Income (A)	1,28,069	1,21,135	5.7	1,31,275	(2.4)	1,30,936
Operating Expenses						
Raw materials consumed	91,327	86,096	6.1	93,639	(2.5)	92,653
Employee Expenses	3,865	3,846	0.5	3,935	(1.8)	4,255
Other Expenses	7,070	6,895	2.5	7,180	(1.5)	7,761
Total Expenditure (B)	1,02,261	96,836	5.6	1,04,753	(2.4)	1,04,670
EBITDA (A-B)	25,807	24,299	6.2	26,522	(2.7)	26,266
Other Income	3,347	3,461	(3.3)	3,845	(13.0)	3,555
Depreciation	997	881	13.1	956	4.3	957
EBIT	28,158	26,879	4.8	29,411	(4.3)	28,864
Finance Costs	143	121	18.3	159	(10.1)	161
PBT after excep items	28,015	26,758	4.7	27,139	3.2	28,703
Tax expense	6,927	6,339	9.3	9,202	(24.7)	6,889
Reported PAT	21,087	20,419	3.3	17,938	21,087	21,814
Adjusted PAT	21,087	20,419	3.3	20,050	21,087	21,814
EPS (Rs)	72.9	70.6	3.3	76.6	72.9	75.4
Key Ratios (%)			(bps)		(bps)	
Gross Margin	28.7	28.9	(24)	28.7	2	29.2
EBITDA Margin	20.2	20.1	9	20.2	(5)	20.1
EBIT Margin	22.0	22.2	(20)	22.4	(42)	22.0
PBT Margin	21.9	22.1	(21)	22.3	(41)	21.9
Tax Rate	24.7	23.7	104	33.9	(918)	24.0
Adj PAT Margin	16.5	16.9	(39)	15.3	119	16.7

Source: Company, BOBCAPS Research

Valuation methodology

We lower our FY25/FY26/FY27 EPS estimates by 4%/8%/9% to factor in BJAUT's focus on 2W electric vehicles (EV) that will dilute earnings and slowing domestic market growth for BJAUT in the key motorcycle segment. Also, we have reduced our volume estimates to factor in tepid growth in 9MFY25.

Factoring in the slow growth momentum in domestic markets, slow response to the CNG segment and earnings dilution from the EV segment, we now value the stock at 24x P/E (26x earlier) 1-year forward and arriving at a TP of Rs 9,438 (from Rs 11,088). We maintain HOLD rating on the stock.

In our view, intense competition leading to margin pressures arising from the electric vehicle space will be key concern. Additionally, increasing presence in the high-end of the ICE motorcycle business getting tepid response does not augur well. These will be the key monitorable for the stock.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,17,458	6,04,969	7,04,667	5,37,559	6,37,192	7,45,052	(3.7)	(5.1)	(5.4)
EBITDA	1,02,068	1,20,458	1,38,504	1,07,050	1,30,710	1,51,575	(4.7)	(7.8)	(8.6)
Adj PAT	85,600	1,00,293	1,14,496	89,279	1,08,742	1,25,419	(0.9)	(2.9)	(3.4)
Adj EPS (Rs)	306.6	359.2	410.1	319.8	389.5	449.2	(4.1)	(7.8)	(8.7)

Source: BOBCAPS Research

Fig 4 – Key assumptions

	FY24	FY25E	FY26E	FY27E
2W volume (nos)	37,27,923	41,00,715	45,92,801	51,43,937
3W volume (nos)	6,23,010	6,97,771	7,88,481	8,83,099
ASP (Rs)	1,02,703	1,07,838	1,12,421	1,16,918
Revenues (Rs mn)	4,46,852	5,17,458	6,04,969	7,04,667
EBITDA (Rs mn)	88,229	1,02,068	1,20,458	1,38,504
EBITDA margin (%)	19.7	19.7	19.9	19.7
Adj. PAT (Rs mn)	74,787.9	85,600.1	1,00,293.0	1,14,495.5
EPS (Rs)	267.9	306.6	359.2	410.1

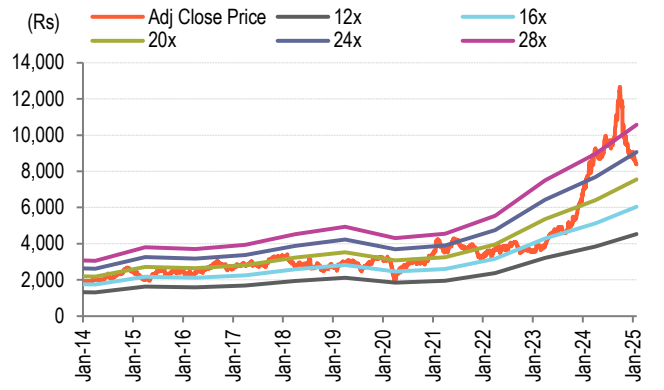
Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS (Rs)		ROE (%)	
				FY26E	FY27E	FY26E	FY27E
Bajaj Auto	BJAUT IN	HOLD	9,438	359.2	410.1	26.9	26.6
Eicher Motors	EIM IN	HOLD	4,885	165	185	22.3	21.1
TVS Motor	TVSL IN	HOLD	2,502	74.1	84.2	28.9	26.9

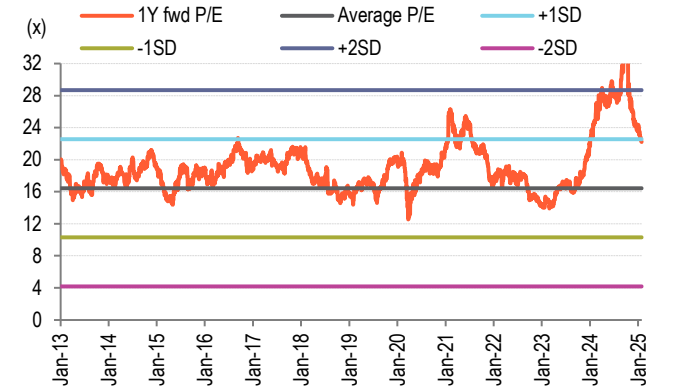
Source: BOBCAPS Research

Fig 6 – P/E band: Stock has moderated off late but still leaves limited investment opportunity...



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – ... and trades at +1SD 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	5,17,458	6,04,969	7,04,667
EBITDA	65,491	88,229	1,02,068	1,20,458	1,38,504
Depreciation	2,824	3,498	3,616	4,492	6,067
EBIT	74,481	98,755	1,13,588	1,32,511	1,51,163
Net interest inc./(exp.)	(395)	(535)	(548)	(573)	(599)
Other inc./(exp.)	11,814	14,025	15,136	16,545	18,726
Exceptional items	0	0	0	0	0
EBT	74,086	98,220	1,13,040	1,31,938	1,50,565
Income taxes	17,810	23,432	27,440	31,645	36,069
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	56,276	74,788	85,600	1,00,293	1,14,496
Adjustments	0	0	0	0	0
Adjusted net profit	56,276	74,788	85,600	1,00,293	1,14,496

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	40,739	56,102	51,714	61,253	71,465
Other current liabilities	9,916	21,241	30,088	36,095	43,390
Provisions	1,668	1,891	1,880	2,406	2,935
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	3,42,004	3,96,733	4,59,597
Shareholders' fund	2,54,258	2,48,605	3,44,796	3,99,525	4,62,389
Total liab. and equities	3,07,823	3,37,437	4,29,862	5,00,802	5,81,854
Cash and cash eq.	2,858	5,366	34,348	19,102	10,159
Accounts receivables	17,761	21,224	23,778	30,751	39,468
Inventories	13,979	16,956	18,494	23,064	28,704
Other current assets	18,396	20,586	26,749	32,269	38,201
Investments	2,29,233	2,44,925	2,81,538	3,20,112	3,60,844
Net fixed assets	27,160	31,987	48,370	78,878	1,07,811
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	4,29,862	5,00,802	5,81,854

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	56,778	81,888	67,377	86,326	98,633
Capital expenditures	(11,695)	(7,780)	(20,153)	(35,000)	(35,000)
Change in investments	8,954	(15,692)	(36,613)	(38,574)	(40,732)
Other investing cash flows	11,814	14,025	15,136	16,545	18,726
Cash flow from investing	9,073	(9,447)	(41,630)	(57,029)	(57,005)
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	(28,716)	(21,392)	(15,141)
Closing cash & cash eq.	2,858	5,366	34,348	19,102	10,159

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	197.9	267.9	306.6	359.2	410.1
Adjusted EPS	197.9	267.9	306.6	359.2	410.1
Dividend per share	140.0	141.9	161.7	181.1	202.8
Book value per share	894.1	890.5	1,235.0	1,431.1	1,656.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.7	5.4	4.6	4.0	3.4
EV/EBITDA	37.4	27.4	23.4	20.0	17.5
Adjusted P/E	42.4	31.4	27.4	23.4	20.5
P/BV	9.4	9.4	6.8	5.9	5.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.0	76.1	75.7	76.0	76.0
Interest burden (PBT/EBIT)	99.5	99.5	99.5	99.6	99.6
EBIT margin (EBIT/Revenue)	20.4	22.1	22.0	21.9	21.5
Asset turnover (Rev./Avg TA)	139.2	174.0	171.2	161.9	162.9
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
Adjusted ROAE	21.6	29.7	28.9	26.9	26.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	9.9	22.7	15.8	16.9	16.5
EBITDA	24.5	34.7	15.7	18.0	15.0
Adjusted EPS	21.7	35.4	14.5	17.2	14.2
Profitability & Return ratios (%)					
EBITDA margin	18.0	19.7	19.7	19.9	19.7
EBIT margin	20.4	22.1	22.0	21.9	21.5
Adjusted profit margin	15.4	16.7	16.5	16.6	16.2
Adjusted ROAE	21.6	30.1	24.8	25.1	24.8
ROCE	21.6	29.3	28.5	27.0	26.6
Working capital days (days)					
Receivables	16	16	16	16	18
Inventory	13	13	13	13	13
Payables	54	56	53	48	48
Ratios (x)					
Gross asset turnover	0.2	0.1	0.2	0.2	0.2
Current ratio	1.0	0.8	1.2	1.1	1.0
Net interest coverage ratio	(188.7)	(184.6)	(207.1)	(231.2)	(252.4)
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

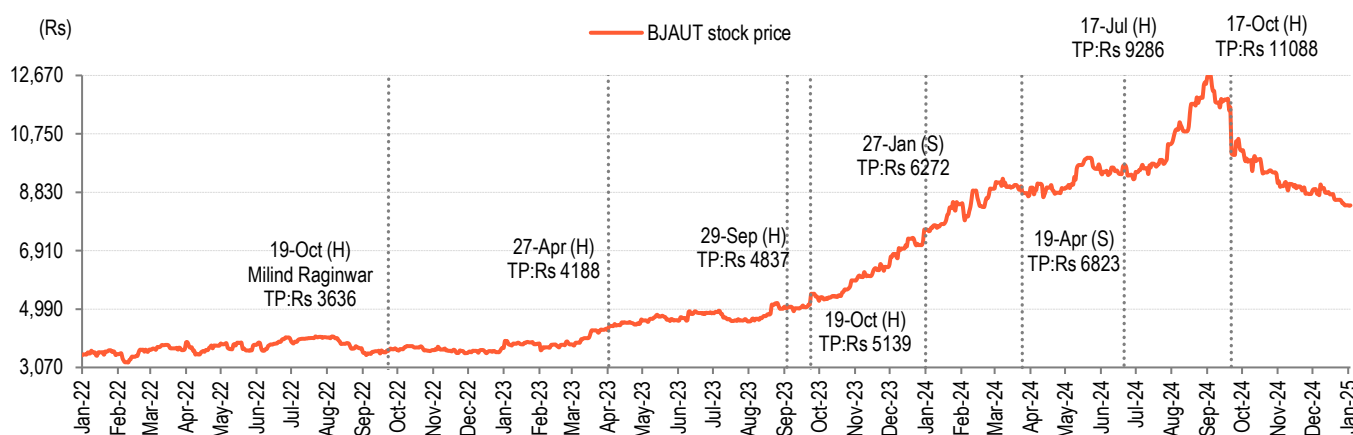
HOLD – Expected return from -6% to +15%

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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