

RESEARCH**BAJAJ AUTO | TARGET: Rs 11,088 | -5% | HOLD**

Well balanced growth strategy; valuations priced in

PHARMACEUTICALS | Q2FY25 PREVIEW

Another strong quarter

SUMMARY**BAJAJ AUTO**

- 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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PHARMACEUTICALS: Q2FY25 PREVIEW

- 2QFY25E to report another healthy quarter driven by good traction across geographies, cost rationalisation leading to margin increment
- Domestic sales growth for our coverage companies to report 9.6% surpassing IPM growth of ~8% driven by value growth and new launches
- US sales growth for our coverage companies to be 7.9%, driven by niche, specialty and complex new product launches

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HOLD
 TP: Rs 11,088 | ▼ 5%

BAJAJ AUTO

| Automobiles

| 17 October 2024

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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% |

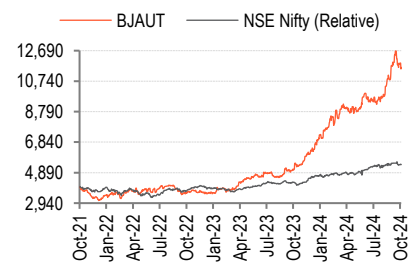
Source: NSE | Price as of 16 Oct 2024

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



Another strong quarter

- **2QFY25E to report another healthy quarter driven by good traction across geographies, cost rationalisation leading to margin increment**
- **Domestic sales growth for our coverage companies to report 9.6% surpassing IPM growth of ~8% driven by value growth and new launches**
- **US sales growth for our coverage companies to be 7.9%, driven by niche, specialty and complex new product launches**

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All round growth in 2QFY25E: We expect sales for our coverage companies to grow by 7.4% YoY, driven by 9.6% growth in the domestic region and 7.9% growth in the US region. We expect EBITDA growth of 13.8% YoY and 3% QoQ to be driven by healthy product mixes, EBITDA margins to increase by 139bps YoY and 26bps QoQ to 26% and expect PAT growth of 15.6% YoY from our coverage companies. We expect ALKEM to post strong sequential growth of 16.9%, and ALPM 10% QoQ growth.

Healthy traction in both Acute and Chronic sales to drive domestic growth: We expect domestic sales for our coverage companies to grow by 9.6% YoY against IPM growth of 8% driven by (1) seasonality in the acute segment, (2) value growth, (3) new product launches, (4) increase in MR productivity, (5) pick up in trade generics and (6) steady traction in the Chronic segment. From our coverage companies, we believe domestic sales for LPC, DRRD and SUNP will grow by 15%, 12% and 12% respectively.

US sales growth to be driven by niche launches: We expect US sales for our coverage companies to grow by 7.9% YoY and -0.8% QoQ and driven by (1) easing of price erosion in generics and (2) new launches in specialty and complex products. From our coverage companies, we expect LPC to report 20% growth in the US driven by g Myrbetriq and CIPLA 11% growth in the US driven by g Lanreotide.

Margins continue to expand due to healthy product mix: We expect margins of our coverage companies to expand by 139bps YoY and 26bps QoQ to 26% driven by increasing productivity and healthy traction in chronic sales. We expect ERIS to report 36% EBITDA margin due to its heavy chronic portfolio, and SUNP to report 29.5% due to its specialty portfolio during the quarter.



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Note: Recommendation structure changed with effect from 21 June 2021

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