FIRST LIGHT

18 July 2024

RESEARCH

BAJAJ AUTO | TARGET: Rs 9,286 | -4% | HOLD

Driving a strong path with favourable portfolio mix

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India's Foreign Trade: Q1-FY25

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Read-across from production results of iron ore majors

LTIMINDTREE | NOT RATED

Current momentum could put FY25 growth a bit ahead of FY24

SUMMARY

BAJAJ AUTO

- 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

Click here for the full report.

INDIA ECONOMICS: MONSOON UPDATE

Despite the advancement of South West monsoon couple of days early across the country, rainfall still remains 2% below the LPA till 15 Jul 2024. The slowdown is more recent. Second week of July recorded 42.7mm rainfall, while the first week of July noted 79.1mm rainfall, following 137.5mm rainfall in Jun'24. Out of 36, 25 sub-divisions (69% of the country) have received normal or above normal rainfall during this period and 12 states are in the deficient zone. Region-wise, Central India reported small deviation from LPA (-4%), while South Peninsula has reported large excess in rainfall (+13%).

Click here for the full report.

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INDIA ECONOMICS: TRADE

India's merchandise trade deficit was higher in Q1FY25 at US$ 62.3bn versus US$ 56.2bn in Q1FY24, as imports have risen at a sharper pace than exports. Merchandise Imports have risen to US$ 172.2bn in Q1FY25 from US$ 160.1bn in Q1FY24. Exports on the other hand rose to US$ 110bn from US$ 103.9bn. However, going forward, we expect some correction in the trade deficit as exports are expected to pick up. An easier monetary policy will lend support to global growth thereby providing momentum for exports. However, headwinds for imports emanate from a pickup in non-oil non gold imports with domestic consumption gaining ground. Overall, we expect CAD to be in the range of 1-1.5% in FY25. This along with a recovery in FDI and FPI inflows will support the rupee.

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METALS & MINING

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LTIMINDTREE

- Better-than-expected revenue growth in 1QFY25. Indicates growth momentum to sustain in 2QFY25. Did not offer its view on 2HFY25
- A 2.5% CQGR could lead to ~6% growth in USD terms in FY25 (vs 4.4% in FY24). Short cycle business is making a selective comeback
- Consensus FY25 EPS may stay put. We are in the process of reinitiating coverage on the sector and on LTIM

Click here for the full report.

HOLD
TP: Rs 9,286 | ∀ 4%

BAJAJ AUTO | Automobiles | 17 July 2024

Driving a strong path with favourable portfolio mix

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- **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%

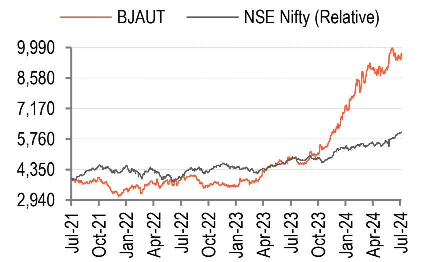
Source: NSE | Price as of 16 Jul 2024

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

MONSOON UPDATE

16 July 2024

Monsoon and Sowing progress

Sonal Badhan
Economist

Despite the advancement of South West monsoon couple of days early across the country, rainfall still remains 2% below the LPA till 15 Jul 2024. The slowdown is more recent. Second week of July recorded 42.7mm rainfall, while the first week of July noted 79.1mm rainfall, following 137.5mm rainfall in Jun'24. Out of 36, 25 sub-divisions (69% of the country) have received normal or above normal rainfall during this period and 12 states are in the deficient zone. Region-wise, Central India reported small deviation from LPA (-4%), while South Peninsula has reported large excess in rainfall (+13%).

Due to only marginal deviation in rainfall from LPA, there is an improvement noted in the sown area, with higher acreage of paddy, pulses and oilseeds, compared with last year. As majority of sowing occurs during the July and August period, rainfall distribution in the coming weeks will be critical for the agriculture sector.

Where does Kharif sowing stand?

As of 15th Jul 2024, overall sown area has improved by 10.3% compared with last year. Total sown area of rice (20.7%), pulses (26%) and oilseeds (22%) has risen notably. Within pulses, steep rise in acreage of Arhar has led to increase in the headline number. Apart from this, acreage of Urdbean (9%) was also up. In contrast, moong bean and other pulses have recorded notable decline so far. In case of oilseeds, sown area of soybean (31%) has jumped, while that of groundnut (-0.2%) has come down marginally. Amongst other major sub-heads, sown area of coarse cereals (-7%) and jute (-6.5%) has come down. Within cereals, sowing area of crops such as Bajra (-43.5%) and Jowar (-14.5%) has declined the most, while it has increased in case of Small Millets, Maize and Ragi. Sown area of cotton and sugarcane has also noted an increase.

Table 1: Kharif Sowing

	Area sown in 2023-24 (lakh ha)	Area sown in 2024-25 (Lakh ha)	Growth (YoY %)
Coarse Cereals	105.0	97.6	(7.0)
Paddy	95.8	115.6	20.7
Pulses	49.5	62.3	26.0
Oilseeds	115.1	140.4	22.0
Cotton	93.0	95.8	3.0
Sugarcane	56.9	57.7	1.4
Jute and Mesta	6.0	5.6	(6.5)
All Crops	521.3	575.1	10.3

Source: CEIC, Bank of Baroda | Data as of 15 Jul 2024

TRADE

16 July 2024

India's Foreign Trade: Q1-FY25

Dipanwita Mazumdar
Economist

India's merchandise trade deficit was higher in Q1FY25 at US$ 62.3bn versus US$ 56.2bn in Q1FY24, as imports have risen at a sharper pace than exports. Merchandise Imports have risen to US$ 172.2bn in Q1FY25 from US$ 160.1bn in Q1FY24. Exports on the other hand rose to US$ 110bn from US$ 103.9bn. However, going forward, we expect some correction in the trade deficit as exports are expected to pick up. An easier monetary policy will lend support to global growth thereby providing momentum for exports. However, headwinds for imports emanate from a pickup in non-oil non gold imports with domestic consumption gaining ground. Overall, we expect CAD to be in the range of 1-1.5% in FY25. This along with a recovery in FDI and FPI inflows will support the rupee.

Trade performance in Jun'24: India's export growth weakened further and moderated to 2.6% in Jun'24 from 9.1% in May'24, despite a favourable base. Imports grew by 5% in Jun'24, lower than 7.7% seen in May'24. On a MoM basis, while exports declined by US$ 2.9bn and imports were lower by US$ 5.7bn (led by oil imports), thus leading to a narrowing of trade deficit. Trade deficit moderated to US$ 21bn from US$ 23.8bn in May'24. However, on a seasonally adjusted sequential basis, fall in exports is at a sharper pace of 7.3% while imports have declined by 4.4%.

Trade performance in Q1FY25: On a quarterly basis, exports improved by 5.8% in Q1FY25 compared with a decline of 14.1% in Q1FY24. In terms of commodity wise exports, considerable improvement was seen in the exports of engineering goods which have risen by 3.4% compared to -7.6% decline in Q1FY24. Drugs, pharma and chemicals also noted improvement in Q1FY25. Some volatility in oil prices has led to pick up in exports of petroleum products.

Table 1: Exports by major commodities

Item	Share in Q1FY25	Q1FY24, US$ bn	Q1FY25, US$ bn	Q1FY24, % YoY	Q1FY25, % YoY
Engineering goods	25.8	26.8	28.0	(7.6)	3.4
Oil	17.4	19.0	18.9	(29.3)	9.3
Agriculture and allied products	9.3	10.2	10.1	1.3	(1.0)
Textiles	7.7	8.0	8.4	(15.4)	4.3
Gems and jewellery	6.7	7.5	7.3	(26.4)	(3.5)
Drugs and pharmaceuticals	6.6	6.6	7.2	5.3	9.3
Chemicals	6.5	6.6	7.1	(19.2)	7.6

Source: CEIC, Bank of Baroda Research

METALS & MINING

17 July 2024

Read-across from production results of iron ore majors

- **Iron ore shipment recovery will mean range-bound iron ore pricing in H2CY24, despite weaker production recovery so far**
- **BHP's guidance of flat coking coal production growth over Jul'24-Jun'25 could mean slower easing of coking coal price ahead**
- **We have a neutral outlook on Indian ferrous majors in our coverage given the need for structural resolution of China's surplus in steel**

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Seaborne iron ore shipments recovered in Q2CY24…: Shipments for the three iron ore majors – BHP, Vale, Rio Tinto – recovered better than production, clocking 5.6% YoY growth in Q2CY24 and 5.0% growth in H1CY24.

… and are set to improve further seasonally in H2CY24: Reiteration of guidance by the three majors confirm a seasonal improvement in global seaborne supply ahead in the H2. However, their guidance do not yet suggest material YoY growth, with Rio Tinto's guidance implying only modest growth and Vale's implying a modest decline in H2 at the higher end of the guidance.

Higher use of lower quality iron ore – sign of weaker steel demand: Usage of lower-quality fines and pellets increased 56% YoY and 192% YoY, respectively, during H1CY24. Their share in collective sales mix increased to 12.3% (from 8.2% in H1CY23) for fines and to 9.4% (from 3.4%) for pellets. Higher use of low-quality iron ore by steel mills imply lower focus on productivity and weaker steel demand so far.

Iron ore production recovery slow: Higher proportion of low quality SP10 in Rio Tinto's sales mix and higher reliance on third-party purchases by Vale imply that improvement in availability of high-quality iron is limited. However, this is less of an issue while global steel demand recovery is slow.

Coking coal production growth slower than prior expectation: BHP's Australian coking coal production recovery is running slower than our prior expectation with BHP shifting focus on improving supply chain stability. BHP's guidance for FY25 (ending Jun'25) suggests only flat production ahead. With BHP accounting for more than 10% of seaborne supply, this will weigh on coking coal price ahead.

Read-across for Indian ferrous coverage: Seasonal recovery in iron ore supply means that iron ore price will remain range bound ahead, which is supportive of our current forecasts of US$101/t for FY25 and US$95/t for FY26. Slower recovery in Australian coal production means an upside risk to our coking coal price forecast of US$248/t in FY25 and US$225/t in FY26.

NOT RATED

LTIMINDTREE | IT Services | 18 July 2024

Current momentum could put FY25 growth a bit ahead of FY24

- **Better-than-expected revenue growth in 1QFY25. Indicates growth momentum to sustain in 2QFY25. Did not offer its view on 2HFY25**
- **A 2.5% CQGR could lead to ~6% growth in USD terms in FY25 (vs 4.4% in FY24). Short cycle business is making a selective comeback**
- **Consensus FY25 EPS may stay put. We are in the process of reinitiating coverage on the sector and on LTIM**

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Revenue growth beats but margins are in line: 1QFY25 revenue growth of 2.6% in QoQ constant currency (CC) terms (2.5% in USD terms) was better than consensus estimates of ~2%. We believe the EBIT margin at 15% was in line with consensus. LTIM indicated that the revenue momentum will be maintained in 2QFY25 but declined to give a view beyond that.

Pickup in growth driven by BFSI and Hi-Tech sectors: The pickup in growth in 1Q (QoQ) was driven by the BFSI and Hi-Tech & Media verticals. After four quarters of successive declines (in USD terms) 1QFY25 was the first quarter of decent growth of 2.9% for the BFSI vertical. Growth is expected to continue for the next two quarters. The Hi-Tech, Media and Communications sector grew the fastest QoQ by 7.9% in USD terms. Communications did not play a role in this growth. There was no pass-through revenue impact in 1Q on a QoQ basis.

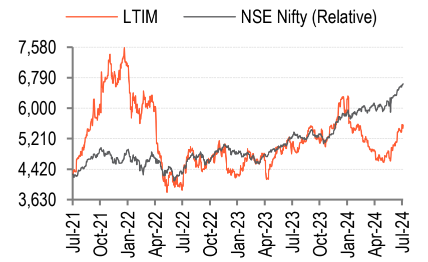
Selective pick-up in short cycle spend: While the company did not call out the return of discretionary spending, it stated that select priority projects are being taken up by clients in the BFSI and in the Hi-Tech arena especially in digital engineering and data modernisation. Many of these are short-cycle T&M (time & material) projects. For BSFI, LTIM specifically talked about regulatory and compliance, Data + AI are key areas. For Hi-Tech & Media it indicated business model transformation and platform operations being areas of spend.

Growth in FY25 may be better than FY24: In a recent media interview, Sudhir Chaturvedi, President, Sales, of LTIM, had indicated that FY25 would be a better year than FY24 (when it saw 4.2% revenue growth in CC terms and 4.4% in USD terms). Even if we have 2.5% CQGR in the next three quarters (same as in 1QFY25) we will get ~6.2% YoY growth in USD terms in FY25.

Ticker/Price	LTIM IN/Rs 5,562
Market cap	US$ 11.9bn
Free float	25%
3M ADV	US$ 28.3mn
52wk high/low	Rs 6,442/Rs 4,514
Promoter/FPI/DII	75%/8%/10%

Source: NSE | Price as of 16 Jul 2024

Stock performance



Source: NSE

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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