Equity Research Report Auto

BAJAJ AUTO

Equity Research

Date: January 29, 2025

Analyst Recommendation: HOLD

BSE Code: 532977 **NSE: BAJAJ-AUTO**

CMP:	**Rs 8,648**
3 Year Target -	**Rs 8,962**

Face Value	10.00
Market Cap (Rs Bill)	2415
Stock PE	29.6
Dividend Yield	2.16%
Shares O/S (Cr)	27.9
Book Value per Share (Rs)	1,223
Nifty	23,163

Investor's Rationale

Uncertain outlook with elevated valuations, Exports outlook strong

The company reported slightly below estimated numbers. Overall, in domestic 2W, company continues to face headwinds & underperform the industry growth especially in motorcycle segment. The outlook for exports is improving with anticipation of strong 20% growth largely led by robust growth in Latin America, ASEAN, African & Nigerian markets. Favorable forex and a higher spares mix helped the company to sustain margins of 20%+ despite a rising EV mix. New product launches are planned, particularly in the two-wheeler segment, including e-2Ws and e- 3Ws. We forsee some challenges for the company:

(1) The Japanese trio (HMSI, Suzuki, and Yamaha) are expected to introduce their electric two-wheelers in the Indian market soon, potentially impacting or reducing Chetak's market share.

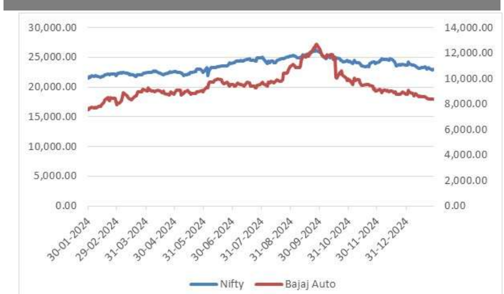
(2) Underperformance in motorcycle segment is sign of weakness & could potentially hurt its market share in the long run.

(3) The scooterization trend in ICE provides a natural advantage for TVS Motor and HMSI. Bajaj's domestic motorcycle market share declined to ~17% in Q3FY25 from 18.2% in FY24. Despite decent correction, most of the positives is in the price. However, slew of new launches in E3W & 2W could help the company regain its lost market share, however, the journey seems to be a long affair. The only solace is the rebound in export market wherein company looks to tap newer markets along with penetrating exisiting geographies.

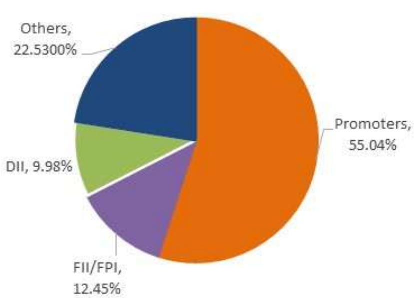
We roll forward our valuations to March 27E. The standalone business is valued at Rs 8,437 (23x March 27E EPS of Rs 368), KTM is valued at Rs 73 per share, and Chetak is valued at Rs 416 per share (Assigned 4x multiple for Chetak on March 27E estimated revenues).

Hence, we are Hold on the stock with a revised fair value of Rs 8,962 per share, as we believe most of the positives are already factored into the price, making the valuation appear expensive.

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Dec 2024



YE March (Rs mn)	FY24	FY25e	FY26e	FY27e
Revenues	446852	505123	576995	649798
EBITDA	88229	101559	116751	131668
PAT	74788	81521	92662	102851
ROE	29.7	32	34.9	37.5
ROCE	29.4	31.7	35.1	37.6
P/E	21.7	29.6	26.1	23.5
Basic EPS (reported)	265	292	332	368

Q3FY25 – Key takeaways from the management call

- Exports: The management expects strong growth of 20%+ to continue in near term. The LATAM market is expected to be a big driver for exports growth with an opportunity size 2x of African market. African market is also witnessing positive growth. Nigeria sales run rate is 35k units per month with a market share of ~55%. Exports were impacted due to issues with KTM Australia which is undergoing restructuring process leading to volume drop of ~50% in KTM exports.

- ICE Domestic 2Ws: The company will focus on 125cc+ segment and increase market share with launch of new products in the segment. Expect 1-2 launches every quarter. The market share in 125cc+ segment has remained steady, while lost market share in 100cc segment due to staying away from giving price discounts. The industry is expected to grow by 6-8% for FY25, with 125cc+ segment growing faster than 100cc. KTM is retailing close to ~6k units drive by refreshers and Triumph has delivered highest quarterly retails.

- Chetak: The new Chetak 35 series, to help increase market share in the upper half of EV segment and will support bottom line. The new 35 series is almost break even at unit economics level. To introduce E-ricks by end of FY25 in order to cater to huge opportunity in unorganized e-ricks market. To launch larger size E-Auto in Q4FY25, to cater to increasing demand in semi-urban and rural markets. A fully refreshed range of electric two-wheelers will be launched starting in November 2024, which is expected to further improve margins. Currently, the company has a presence in 3,000 stores and 250 exclusive stores, with plans to expand to 4,000 stores within the next 3-4 months. The total network for ICE two-wheelers is over 5,000 stores.

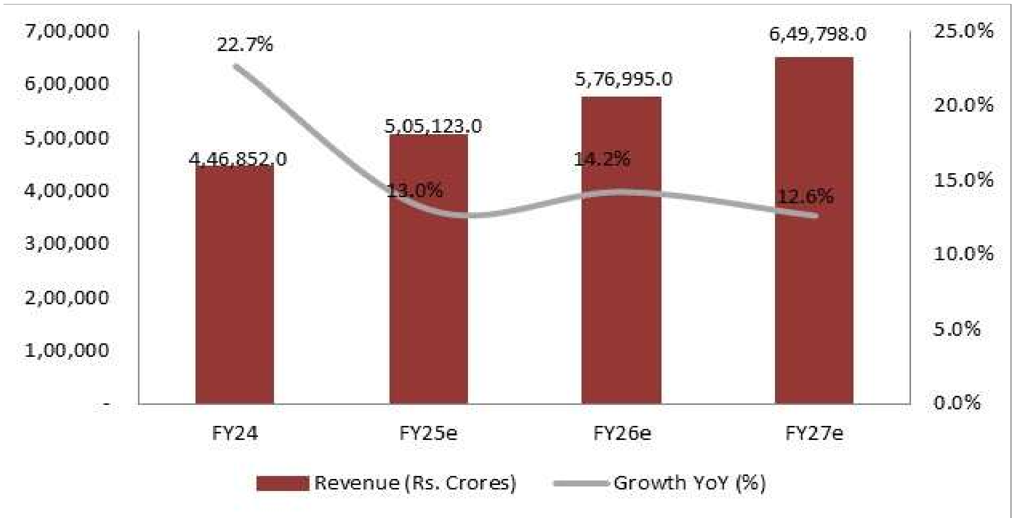
- 2W CNG: Capacity has increased to 30,000 units per month during the topline and expected capacity increase to 40,000 units per month in Q4. The product has seen good growth in areas with higher CNG network. Expect steady demand to continue going ahead. To focus on brand awareness and target gig worker, taxi operators, etc to drive growth in future.

- NBFC: The NBFC arm has covered 70% of the market where Bajaj Auto is present, with a goal of reaching 100%. Till last quarter It was generating cash profit with AUM of Rs 40bn. The company has plans to invest Rs 12-14 billion in H2FY25.

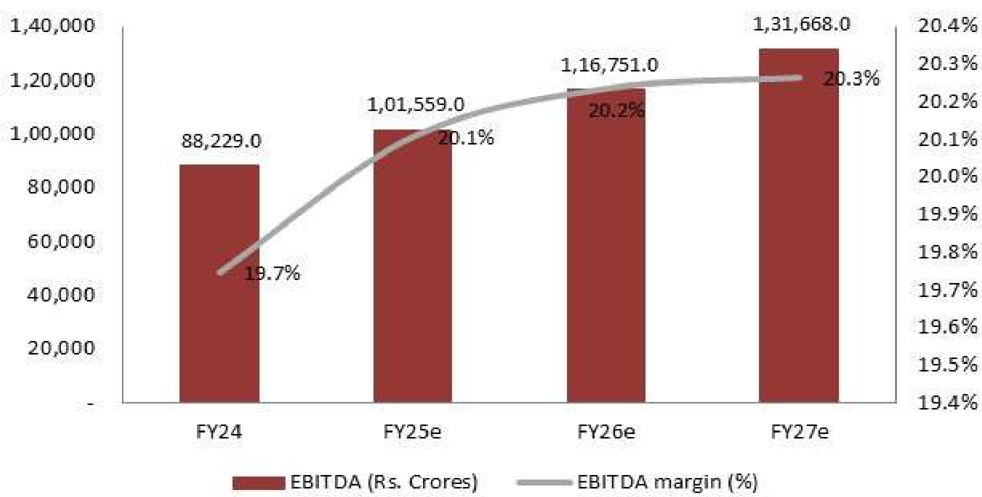
- Margins: Commodity prices has started to inch up. Steel & Aluminium prices are on the rise. The electric vehicles portfolio (2W+3W) EBITDA was marginally positive in Q3FY25 due to the scaling up of profitable e3Ws and cost reductions.

- Other key highlights: The USD realization stood at Rs 84.3 in Q3 vs Rs 83.8 in Q2. Spares revenue stood at Rs 15bn in Q3, nearly flat on QoQ basis.

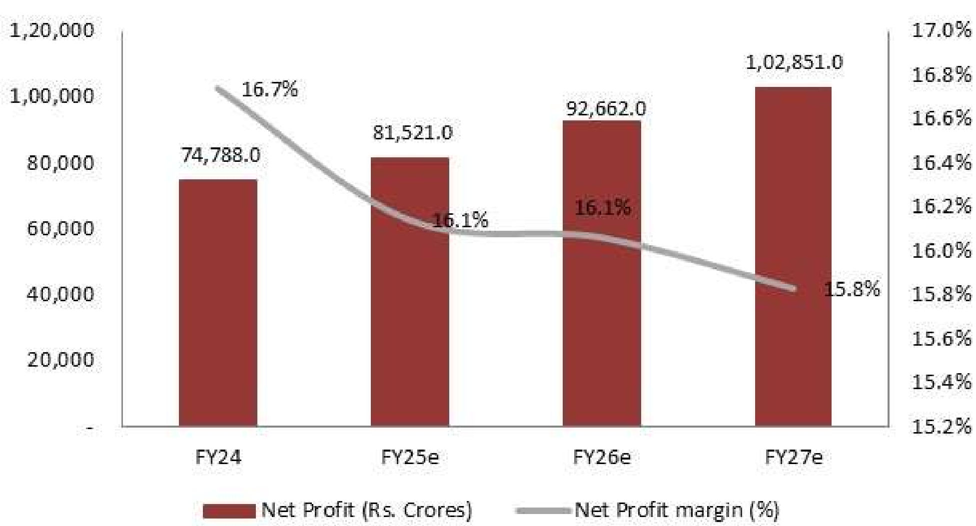
Revenue growth to be steady



EBITDA to grow going ahead



Net profit to surge going ahead



Outlook and Valuation

We roll forward our valuations to March 27E. The standalone business is valued at Rs 8,437 (23x March 27E EPS of Rs 368), KTM is valued at Rs 73 per share, and Chetak is valued at Rs 416 per share (Assigned 4x multiple for Chetak on March 27E estimated revenues).

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Company Overview

Bajaj Auto, the flagship company of Bajaj Group, is a two-wheeler and three-wheeler manufacturing company that exports to 79 countries across several countries in Latin America, Southeast Asia, and many more. Its headquarter is in Pune, India.

It has acquired 48% of the KTM Brand which manufactures sports and super sports two-wheelers, which was 14% in 2007 when the company first acquired KTM

The company is the 2nd-largest player in the domestic motorcycle segment in terms of volume. It is the largest 3W producer in the world and the largest exporter of 2W and 3W from India

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Balance sheet (Consolidated)

YE March (Rs mn)	FY24	FY25e	FY26e	FY27e
Sources of funds				
Capital	2792	2792	2792	2792
Reserves & Surplus	245813	257539	267564	275494
Shareholders' Fund	248605	260331	270356	278286
Total loan funds	8341	-	-	-
Other liabilities	6645	6646	6647	6648
Total Liabilities	**263590**	**266976**	**277003**	**284934**
Application of funds				
Gross Block	62325	65548	68401	70637
Net Block	31987	32411	32378	31673
Capital WIP	275	275	275	275
Quasi Investments	175246	176256	177410	177410
Investments	20884	42884	67884	97884
Other Non-Current Assets	10543	10701	10895	11092
Inventory	16956	19167	21895	24657
Sundry debtors	21224	23992	27405	30265
Current Investments	48795	23539	16539	1539
Cash & bank balances	5366	8519	4986	3208
Other current assets	11231	18413	21033	23687
Total Current Assets	103572	93630	91858	83355
Sundry creditors	56102	63418	74298	83673
Other current liabilities	22815	25763	29399	33082
Total current liabilities	78917	89180	103697	116755
Net Current Assets	24655	4450	-11839	-33400
Total Assets	**263590**	**266976**	**277003**	**284934**

Profit & Loss Account (Consolidated)

YE March (Rs mn)	FY24	FY25e	FY26e	FY27e
Revenues	**446852**	**505123**	**576995**	**649798**
Materials cost	317434	358615	408775	459728
% of revenues	71	71	70.8	70.7
Employee cost	15376	15991	18389	21148
% of revenues	3.4	3.2	3.2	3.3
Others	25813	28959	33079	37253
% of revenues	5.8	5.7	5.7	5.7
EBITDA	**88229**	**101559**	**116751**	**131668**
Other income	14025	13943	13996	12999
Depreciation &	3498	3915	4097	4250
Amortisation	0	0	0	0
EBIT	**98755**	**111586**	**126650**	**140417**
Interest expenses	535	674	579	484
Core PBT	84196	96970	112075	126935
Exceptional items	-	-	-	-
PBT	**98220**	**110913**	**126071**	**139934**
Taxes	23432	29392	33409	37082
Effective tax rate (%)	23.9	26.5	26.5	26.5
PAT	**74788**	**81521**	**92662**	**102851**

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Cash Flow (Consolidated)

YE March (Rs mn)	FY24	FY25e	FY26e	FY27e
Operating profit before WC	88438	101559	116751	131668
Net chg in working capital	10171	-2054	5563	4587
Income tax paid	-23826	-29392	-33409	-37082
Cash flow from operating	74783	70112	88905	99173
Adjusted OCF	74264	69439	88326	98689
Capital expenditure	-8077	-4350	-4075	-3556
Adjusted FCF	66187	65089	84251	95133
Cash flow from investing	-1392	11850	-9222	-5546
Debt Issuance/(repayment)	8327	-8341	-	-
Dividend Paid	-39602	-69795	-82637	-94921
Interest and Lease Expenses	-519	-674	-579	-484
Cash flow from financing	-71101	-78809	-83216	-95405
Net chg in cash (a+b+c)	2292	3153	-3533	-1778

Key Ratios & Valuations (Consolidated)

YE March	FY24	FY25e	FY26e	FY27e
Return Ratios (%)				
ROE	29.7	32	34.9	37.5
ROCE	29.4	31.7	35.1	37.6
Turnover Ratios (days)				
Gross Block Turnover (x)	7.6	7.9	8.6	9.3
Adjusted OCV/PAT (%)	99.3	85.2	95.3	96
Valuation				
P/E	21.7	29.6	26.1	23.5
P/BV	6.5	9.3	8.9	8.7
EV/EBITDA	15.9	21.7	19	17
EV/Sales	3.1	4.4	3.8	3.4
Dividend				
DPS (Rs.)	80	250	296	340
Dividend Yeild (%)	1.4	2.9	3.4	3.9
Dividend Payout (%)	30.2	85.6	89.2	92.3
Per share (Rs.)				
Basic EPS (reported)	265	292	332	368
Adjusted EPS	265	292	332	368
CEPS	277	306	347	384
BV	880	932	968	997

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Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Between 10% & -5%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than -5%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*

Member: BSE, NSE, MCX, MCX-SX, CDSL

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