

## Bajaj Auto Ltd

Analyst Recommendation: Buy

BSE Code: 532977

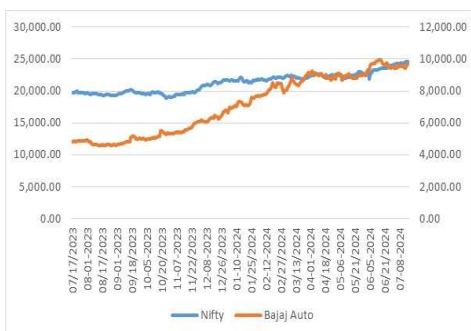
NSE: BAJAJ-AUTO

Bloomberg Code: BJAUT IN

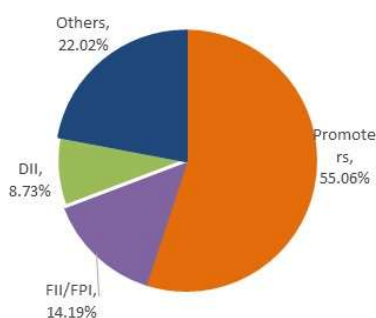
**CMP: Rs 9,718**  
**2 Year Target: Rs 11,160**

Face Value	10.0
Market Cap (Rs Billion)	2,706
52 week high/low	10039/4541
Beta	0.79
Shares O/S (Cr)	27.9
Book Value per Share (Rs)	890.5
Sensex	80,664
Nifty	24,613

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 30<sup>th</sup> June 2024



### Investor's Rationale

- Bajaj Auto has sustained EBITDA margins above 20.0% for the third consecutive quarter (20.1%/20.1%/20.2% in Q3FY24/Q4FY24/Q1FY25, respectively), as cost rationalisation efforts offset the drag from ramp-up in e-2W sales. Pricing was flat QoQ as judicious price hikes in the ICE portfolio offset the price cuts taken in the electric portfolio. The input costs also remained steady in the quarter owing to neutral RM basket and cost-cutting initiatives in the EV portfolio. The company has started recording PLI accruals from this quarter, while the actual cash inflows have not started yet. PLI has contributed positively (less than 50 bps) to the EBITDA margin in the quarter. Other expenses increased on account of higher CSR spends, step-up in variable costs due to volumes and extended warranty in the electric portfolio
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### Valuation

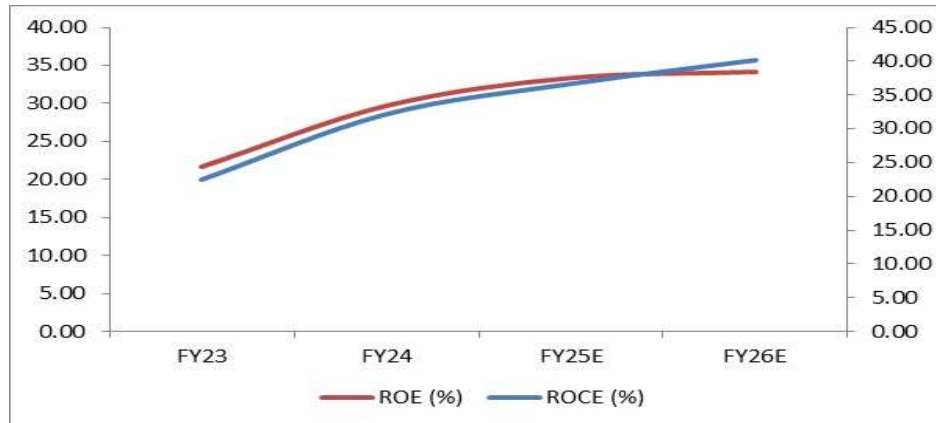
We broadly maintain our estimates for FY25E-FY26E (EPS estimate increased by 1.7%/0.6% for FY25E/FY26E, respectively). We expect Revenue/EBITDA/Adj. PAT CAGR of 15.4%/19.1%/ 17.5% over FY24-FY26E. At CMP Rs 9,718, Bajaj Auto is trading at 30.5x/26.3x FY25E/26E P/E. We follow a SOTP approach, valuing the standalone business at 30x FY26E EPS of Rs 369.9. We add Rs 103 as value per share for the stake held in Pierer Mobility AG (15% discount to market cap) and retain our target price of Rs 11,160 (an upside of 15.2%) with a BUY rating. Key risks to our estimates are delay in export recovery, stagnation in domestic demand and delay/failure to ramp-up of new business

	FY23	FY24	FY25E	FY26E
Revenue (Rs. Million)	3,64,276.0	4,46,852.0	5,25,442.0	5,95,322.0
EBITDA (Rs. Million)	65,491.0	88,229.0	1,06,951.0	1,25,056.0
Adj. profit (Rs Million)	56,276.0	74,789.0	88,905.0	1,03,265.0
Adj. EPS (Rs.)	197.3	264.6	318.5	369.9
P/E (x)	49.3	36.7	30.5	26.3
ROE (%)	21.60	29.70	33.40	34.20
ROCE (%)	22.40	32.10	36.60	40.10

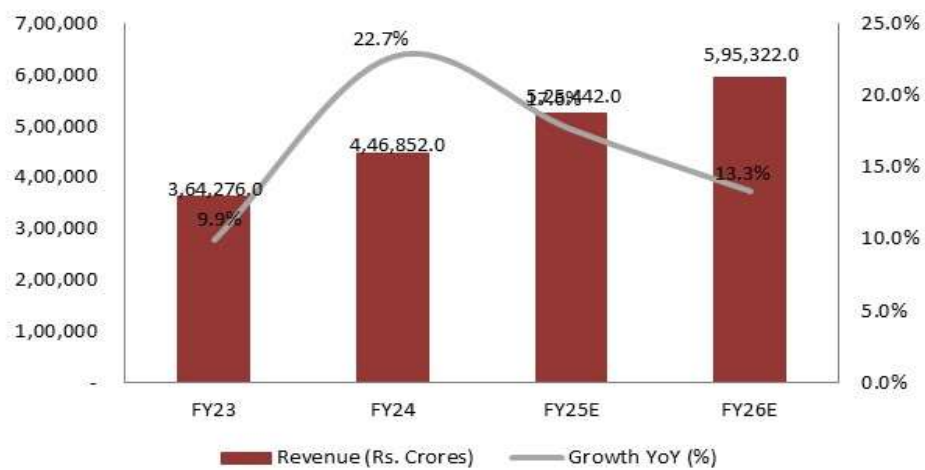
## Con-Call Key Take Away

- Premiumisation in domestic 2W continues: Bajaj Auto maintained its strong performance in the 125cc+ motorcycle segment which contributes to 51.0% of domestic motorcycle volumes for the industry and 75.0% for the company. Bajaj Auto's market share was 25.0% in the segment, with an even higher market share of 40.0% in the 150cc+ segment.
  - Premium Pulsar portfolio strengthens: The biggest-ever Pulsar model- NS400Z, received a good response from the market since its launch, with 2,400 bookings and a 1,000 units delivered, so far. The N and NS series introduced in FY24 along with high-end Pulsars contribute 70.0% to the portfolio.
  - Good initial response for Freedom 125cc: The world's first CNG motorcycle 'Freedom 125' was launched in July with an addressable market of 450k-500k customers per month. The model has seen good initial response (4,200 bookings) in the first phase of its launch in Maharashtra and Gujarat, owing to its favourable fuel economy, comfortable range, dual fuel capacity and the comfort in riding. The initial capacity of 10,000 units per month will be ramped up to 40,000 units by Q4FY25E.
  - Export markets: Africa markets continue to be under pressure, led by Nigeria. The latter saw currency stability in the last few weeks, but the impact of devaluation and hyperinflation on demand persists. Management expects sequential improvement in export volumes in Q2FY25E owing to improvement in most other markets, while only Africa remains impacted led by Nigeria.
  - Commencement of manufacturing in Brazil: The new plant in Brazil was operationalized in June this year with a single-shift capacity of 20,000 units annually. This could be scaled up to 50,000 units per annum. In the medium term, Brazil can be among the Top 3 international markets for the company.
  - Commencement of shipment of Qute to Egypt: In Q1, 500 units of Qute were shipped to Egypt.
  - Domestic e-3W network expansion: Distribution network for e-3W was expanded from 70 to 140 locations in the quarter, which shall lead to 50.0% QoQ growth in e-3W sales in Q2FY25E. e-3Ws account for around 10.0% of domestic 3W sales. Bajaj Auto's market share in e-3W expanded to 26.0%, a rise of 900 bps QoQ. The company targets to have a full range of the domestic 3W market across all fuel categories, which would also include launching a new product to target the e-rick market.
  - Chetak's market position improves: 'Chetak' is firmly a #3 e-2W player now. With the launch of Chetak 2901, the company's maiden offering priced below-Rs 1 lakh, it will be able to target 50.0% of the e-2W industry and improve its market share. The company's market share is 12.0% in total e-2W industry, with a 20.0%+ share of the above-Rs 1 lakh segment. Chetak was available in 250 stores in June and the network is expected to expand to 500 by July-end and 1,000 by September'24. Improvement in the market share of Bajaj Auto in the last year is a function of its price cuts, network expansion and differentiating features of its vehicles.
  - Cost rationalisation in e-2W continues: While the business unit is still loss-making, there is no incremental drag on consolidated performance from rising volumes of 'Chetak'. This was achieved as a result of the company's cost rationalisation efforts.
  - EV portfolio: EV (2W + 3W combined) contributed to 14.0% of domestic revenue in the quarter. Of this, 60.0% came from e-2W and 40.0% from e-3W. A large part of the Rs 7,000-8,000 mn capex planned for FY25E will be for the new e-3W manufacturing facility and other capability building for the EV portfolio.
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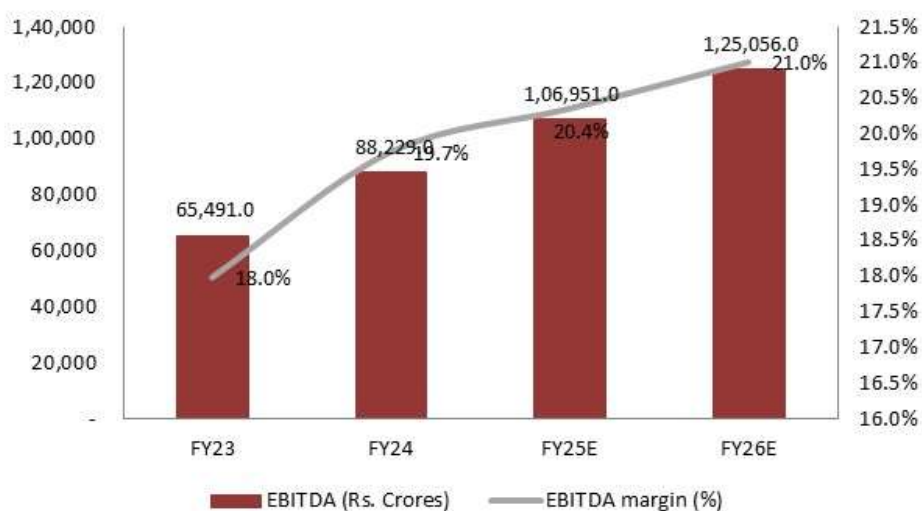
### Return ratios to show growth in future



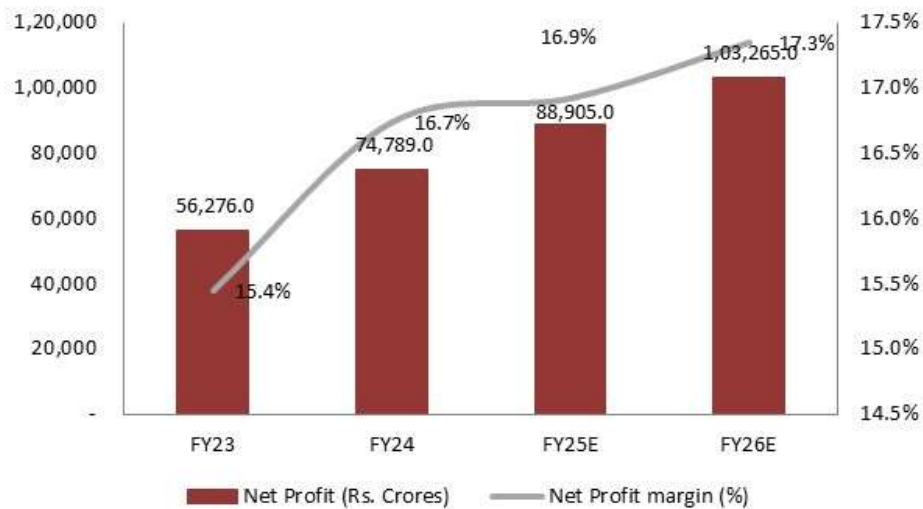
### Revenue will experience growth



### EBITDA will experience strong growth



## Net profit will experience a growth trajectory



## Outlook and Valuation

We continue to remain positive on the company's prospects as we believe there will be continued benefit in revenue and margins as a result of gradual improvement in export volumes and domestic premiumisation. Incremental performance improvement will be coming from new businesses. Triumph, e-3W and e-2W will see growth owing to consistent network expansion. Exports growth will be aided by focus on new markets, such as Brazil and Egypt. With these growth levers in place and the strength of FCF generation and balance sheet, we believe the company is in a position to continue its trajectory of strong performance.

We broadly maintain our estimates for FY25E-FY26E (EPS estimate increased by 1.7%/0.6% for FY25E/FY26E, respectively). We expect Revenue/EBITDA/Adj. PAT CAGR of 15.4%/19.1%/ 17.5% over FY24-FY26E. At CMP Rs 9,718, Bajaj Auto is trading at 30.5x/26.3x FY25E/26E P/E. We follow a SOTP approach, valuing the standalone business at 30x FY26E EPS of Rs 369.9. We add Rs 103 as value per share for the stake held in Pierer Mobility AG (15% discount to market cap) and retain our target price of Rs 11,160 (an upside of 15.2%) with a BUY rating. Key risks to our estimates are delay in export recovery, stagnation in domestic demand and delay/failure to ramp-up of new businesses

## Bajaj Auto Ltd - Company Overview

Bajaj Auto Limited is an Indian multinational two-wheeler and three-wheeler manufacturing company based in Pune, Maharashtra. It manufactures motorcycles, scooters and auto rickshaws. Bajaj Auto is a part of the Bajaj Group. It was founded by Jammalal Bajaj in Rajasthan in the 1940s. The company has plants in Chakan (Pune), Waluj (near Aurangabad) and Pantnagar in Uttarakhand. The oldest plant at Akurdi (Pune) houses the R&D centre 'Ahead'.

Bajaj Auto is the world's third-largest manufacturer of motorcycles and the second-largest in India. It is the world's largest three-wheeler manufacturer.



# Equity Research

## Balance sheet (Consolidated)

(Rs Million)	FY23	FY24	FY25E	FY26E
<b>Liabilities</b>				
Paid up capital	2830	2792	2792	2792
Reserves and Surplus	251429	245813	281268	317273
<b>Net worth</b>	<b>254259</b>	<b>248605</b>	<b>284059</b>	<b>320065</b>
Total Loans	-	-	-	-
Other non- current liabilities	5,038	6,645	6,898	7,164
<b>Total Liabilities</b>	<b>259297</b>	<b>255250</b>	<b>290957</b>	<b>327229</b>
<b>Assets</b>				
Total fixed assets	26353	31379	37318	43927
Intangibles	307	151	151	151
CWIP	819	243	243	243
Other non- current assets	27,560	31,619	31,618	31,619
Financial Assets	1,67,534	1,75,543	1,84,306	1,93,506
Net Current Assets	36724	16315	37321	57783
<b>Total Assets</b>	<b>259297</b>	<b>255250</b>	<b>290957</b>	<b>327229</b>

## Profit & Loss Account (Consolidated)

(Rs Million)	FY23	FY24	FY25E	FY26E
<b>Total operating Income</b>	<b>364276</b>	<b>446852</b>	<b>525442</b>	<b>595322</b>
Operating Expenses	298785	358623	418491	470266
<b>EBITDA</b>	<b>65491</b>	<b>88229</b>	<b>106951</b>	<b>125056</b>
Depreciation	2824	3498	4061	4720
<b>EBIT</b>	<b>62667</b>	<b>84731</b>	<b>102890</b>	<b>120336</b>
Interest cost	395	535	631	577
Other Income & Extraordinary Items	11814	14025	14607	15861
<b>Profit before tax</b>	<b>74086</b>	<b>98221</b>	<b>116866</b>	<b>135620</b>
Tax	17810	23432	27961	32355
<b>Profit after tax</b>	<b>56276</b>	<b>74789</b>	<b>88905</b>	<b>103265</b>
Minority Interests				
P/L from Associates				
Other			0	0
<b>Adjusted PAT</b>	<b>56276</b>	<b>74789</b>	<b>88905</b>	<b>103265</b>



# Equity Research

## Cash Flow (Consolidated)

Y.E March (Rs Million)	FY23	FY24	FY25E	FY26E
<b>PBT</b>	<b>74086</b>	<b>98220</b>	<b>116867</b>	<b>135621</b>
Add: Depreciation	2824	3498	4061	4720
Add: Interest	395	535	631	577
Other Adj and Change in WC	-3002	-3645	-12541	-14740
Tax	-19184	-23826	-27961	-32355
<b>Cash flow from operating activities</b>	<b>55119</b>	<b>74782</b>	<b>81057</b>	<b>93823</b>
Capex	-8064	-7957	-10000	-11330
Other Investment (Net of Exp)	21402	6565	-3915	-5050
<b>Cash flow from investing activities</b>	<b>13338</b>	<b>-1392</b>	<b>-13915</b>	<b>-16380</b>
Change in Borrowing	0	8327	0	0
Dividend	-40470	-39602	-53451	-67260
Others	-31319	-39826	-378	-311
<b>Cash flow from financing activities</b>	<b>-71789</b>	<b>-71101</b>	<b>-53829</b>	<b>-67571</b>
Net chg in cash	-3,332	2,289	13,313	9,872
Opening Cash	5529	2197	4486	17799
Closing Cash	2197	4486	17799	27671

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs Million)	FY23	FY24	FY25E	FY26E
<b>Per Share Data (Rs)</b>				
EPS	197.3	264.6	318.5	369.9
CEPS	194.8	267.9	290.3	336.1
BVPS	898.6	890.5	1017.5	1146.4
<b>Margin (%)</b>				
EBITDA	17.98%	19.74%	20.35%	21.01%
NPM	15.45%	16.74%	16.92%	17.35%
<b>Return Ratios (%)</b>				
RoE	21.6	29.7	33.4	34.2
ROCE	22.4	32.1	36.6	40.1
<b>Valuation(x)</b>				
P/E	49.3	36.7	30.5	26.3
P/Book Value	10.8	10.9	9.6	8.5
<b>Debt Ratios</b>				
Net Debt/ Equity	0	0	0	0
Net Debt/EBITDA	-0.7	-0.5	-0.6	-0.7



## Equity Research

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

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



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