

BAJAJ AUTO LIMITED

Volume drivers remain intact, margins remain superior

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Bajaj Auto Limited (Bajaj) reported Q2 FY25 topline growth of 20.6% yoy and 10% qoq as volumes in the domestic markets were up by 22% yoy on demand uptick seen in both 3W and 2W industry. During the quarter, domestic motorcycles grew by 26% yoy. The growth was due to success of >125 cc bikes, Triumph expansion, EV 3W and Chetak success. Exports grew steadily by 7% as well on a yoy basis as LATAM grew well and Africa showed slow recovery. Motorcycle exports grew by 5% yoy, while 3W exports grew by 21% yoy. Triumph and Chetak also pulled up a good show in Q2 as Chetak gained market share. EBITDA was up by 24.3% yoy to ₹26.5 bn, while margins moved up to 20.2% bps yoy from 19.8%, and flattish qoq. Margins were up mainly on better cost management, operating leverage, improved product mix, favorable forex and stable commodity costs. All other cost items below operating levels remained more or less range bound, however, bottomline adjusted for an exceptional item of ₹2.11 bn to account for a cumulative one-time impact on deferred tax on investment income due to changes in tax structure was up by 21% yoy.

Festive season starts on weak note, bounce back expected, executive portfolio remain buoyant

Company indicated that domestic 2W industry growth is being led by premium segments (125cc+). Bajaj has maintained strong position in 125+cc motorcycles (market share stands at 25%) and share of 125cc+ motorcycles increased to ~75% of its domestic sales (~60% during FY23). On the festive season, the company indicated that so far the demand has been flattish (below expectation of 5-6% growth). But the management is hopeful of demand bouncing back in the latter part of the festive season. Overall, the company expects domestic 2W industry to grow by between 5-8% in FY25 led by premium (125cc+) segment. In case of domestic 3Ws, growth going forward will be driven by E3Ws (new products + geography), expansion in CNG network and healthy retail finance penetration.

Export markets recovery led by LATAM, Africa improving gradually

Demand in the international market continued to improve. While LATAM is leading with 20%+ yoy growth, Asia is flattish and Africa continues to decline though at a lower rate (-9%). Demand in Nigeria is also gradually recovering (25k/15k vol. in 2Q/1Q against 5K yoy). New plant in Brazil which commenced production in Jun'24 has stabilised and operating at optimal utilisation level. Bajaj has approved further investment in this plant to expand its capacity to 35k units p.a for FY26. Colombia, Mexico and Peru are also driving the LATAM sales. Overall, the company indicated of continued growth momentum in exports business.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Revenues	364.3	446.9	536.3	639.9
EBITDA (%)	18.0	19.7	20.5	21.0
PAT (%)	15.9	17.2	17.5	17.9
EPS (₹)	198.9	267.9	325.5	398.0
EPS growth (%)	14.7%	34.7%	21.5%	22.3%
P/E (x)	51.5	38.3	31.5	25.8
P/B(x)	11.4	11.5	9.7	8.2
EV/EBITDA (x)	44.4	32.6	26.2	21.4
ROE(%)	22.1%	30.1%	30.9%	31.8%
Dividend yield (%)	1.4%	1.4%	1.6%	1.9%

Rating	Buy
Current Market Price (₹)	10,094
12 M Price Target (₹)	11,940
Potential upside (%)	18

Stock Data

Sector:	Auto & Auto Components
FV (₹):	10
Total Market Cap (₹ bn):	2,857
Free Float Market Cap (₹ bn):	1,132
52-Week High / Low (₹):	12,774 / 5,070
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg:	BJAUT IN

Shareholding Pattern

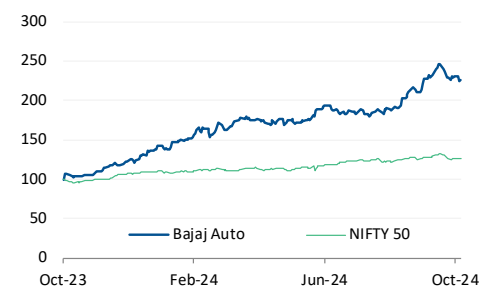
(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	55.06	55.06	54.94	54.98
FPIs	14.20	14.52	14.65	14.38
MFs	5.37	5.01	5.32	4.70
Bodies Corporate	4.63	4.59	4.45	4.42
Insurance	2.40	2.39	2.33	3.22
Others	18.34	18.43	18.31	18.30

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Bajaj Auto	-0.6%	19.5%	30.2%	125.9%
Nifty 50	-1.6%	1.5%	12.7%	26.0%

* To date / current date : October 17, 2024

Bajaj Auto vs Nifty 50

CNG bike update

Recently launched CNG bike “Freedom 125” is being received well owing to its value proposition. Customer profile for Freedom 125 customers has been wide (ranging from 100cc-150cc motorcycle and scooter customers). Bajaj has retailed 10k units of Freedom so far and the near-term focus is on ramping-up capacity from current 18k units per month to 30k / 40k units per month by 3Q / 4Q end. Bajaj also plans multiple product launches on this platform over medium-term.

EV breaks even at operating levels, demand remains robust

Share of EV revenue for Bajaj stood at 20% of domestic revenue during Q2 FY25 (vs. 14% in Q2 FY24). E2Ws: Bajaj’s E2W retail market share expanded to ~19% (strong no. 3 position now) vs. 10% in Q2 FY24. This was led by recent launch of affordable variant (‘Chetak 2901’) and network expansion. Chetak currently has 250 exclusive outlets and also retailed through 3,000 existing dealer touch points. The company plans to expand its touch points to 4,000 stores by Q3 end. Bajaj also plans multiple new launches (variants) during Q3.

E3Ws: Bajaj’s E3W has been received very well. It is available through 700 touch points and has already garnered ~35% market share. Near-term focus is on expanding presence in markets where sale of ICE 3W is restricted and E-ricks have a sizable presence. Near-term focus is also on gaining leadership position in E3W segment. Margins on E3Ws (with PLI benefit) are similar to ICE 3Ws and so cannibalization, if at all, will not have an adverse impact.

Margins to post steady performance

EBITDA margin expanded by 40bps yoy led by higher realisation (better forex benefit) and higher operating leverage partially offset by ramp-up of EV business. Prices of raw materials are expected to largely remain stable in Q3 sequentially. Cost education efforts led by R&D helped Bajaj bring down the cost of EVs and have achieved EBITDA breakeven during 2Q in the EV segment. And, the company indicated of further reduction in cost with upcoming Chetak launches (during Q3) which can potentially improve margin performance going ahead.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Net sales	126,880.5	115,473.8	9.9%	105,190.2	20.6%
Other op. income	4,394.2	3,806.4	15.4%	2,582.5	70.2%
Total income	131,275	119,280	10.1%	107,773	21.8%
RM cost	93,639	83,527	12.1%	76,511	22.4%
Employee cost	3,935	4,350	-9.5%	3,816	3.1%
Other expenses	7,180	7,251	-1.0%	6,118	17.4%
EBITDA	26,522	24,153	9.8%	21,329	24.3%
EBITDA Margins %	20.2	20.2	0 bps	19.8	40 bps
Other income	3,845	3,209	19.8%	3,614	6.4%
Depreciation	956	937	2.0%	876	9.1%
Interest	159	207	-23.0%	65	143.8%
PBT	29,252	26,218	11.6%	24,000	21.9%
Tax	9,202	6,335	45.3%	5,639	63.2%
Adj PAT	22,160	19,883	11.5%	18,361	20.7%
Adj PAT Margins%	16.9	16.7	20 bps	17.0	(10 bps)
Exceptional items	2,110.0	-		-	
Reported PAT	20,050	19,883	0.8%	18,361	9.2%

Source: Company, LKP Research

Outlook and Valuation

Bajaj's EBITDA margin were steady qoq at 20.2%, while moved up by 40 bps yoy. This improvement was driven by better forex realization and higher operating leverage partially offset by EV ramp-up impact. Domestic 2W demand is being led by premium segment (125cc+). Festive season has started on a slow note but the company is hopeful of bounce-back towards the latter part (Diwali). Overall, 2W industry is expected to grow at 5 -8 % during FY25. Recently launched CNG-bike - Freedom125, is being received well and the company indicated of gradual ramp-up in volumes. Outlook for domestic 3W volume remains healthy led by rising EV penetration. Share of EVs is gradually expanding (20% of revenue now) led by portfolio expansion, ramp-up of production and distribution network for both E2Ws and E3Ws. Exports sales are also witnessing gradual recovery. Margins in the medium-term are likely to get support from favorable mix, higher operating leverage and cost reduction efforts esp. for EVs (EVs have broken even at EBITDA levels in Q2). Backed by successful track record of product intervention by Bajaj in the last few years, we remain sanguine on the stock. We estimate revenue / EPS CAGR of 19% / 22% over FY24-26E. Maintain BUY with FY26E TP of ₹11,940 (30x PE). Slowdown in domestic 2W market and slower than expected recovery in exports remain key risks to our argument.

Per unit parameters	Q2 FY25	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23
Gross Realisation per Unit (₹)	103,872	104,780	104,610	98,857	100,088	97,835	100,948	92,015
Net Realisation per Unit (₹)	103,872	104,780	104,610	98,857	100,088	97,835	100,948	92,015
Total Cost per unit (₹)	85,757	86,318	85,894	80,901	82,251	81,354	84,067	76,665
Material Cost per unit (₹)	76,658	75,792	75,523	71,928	72,800	72,171	72,668	66,894
Staff Cost per unit (₹)	3,221	3,947	3,624	3,213	3,631	3,740	4,234	3,571
Other Expn per unit (₹)	5,959	6,640	6,884	5,825	5,873	5,635	7,311	6,267
EBITDA per unit (₹)	21,712	21,916	21,582	20,300	20,294	19,024	20,076	18,070
PAT per unit (₹)	18,142	18,042	18,118	17,059	17,471	16,209	16,758	15,168

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	364,276	446,852	536,293	639,861
Raw Material Cost	260,548	317,434	377,733	450,227
Employee Cost	14,449	15,376	17,690	18,656
Other Exp	23,788	25,813	30,805	36,562
EBITDA	65,491	88,230	110,065	134,416
<i>EBITDA Margin(%)</i>	<i>18.0</i>	<i>19.7</i>	<i>20.5</i>	<i>21.0</i>
Other income	11814	14025	15500	18500
Depreciation	2,824	3,498	3,865	4,299
Interest	395	535	550	470
PBT	74,086	98,221	121,150	148,147
<i>PBT Margin(%)</i>	<i>21.0</i>	<i>22.5</i>	<i>25.0</i>	<i>23.8</i>
Exceptional items	0	0	0	0
Tax	17,810	23,432	30,288	37,037
APAT	56,276	74,789	90,863	111,110
<i>APAT Margins (%)</i>	<i>15.4</i>	<i>16.7</i>	<i>16.9</i>	<i>17.4</i>
PAT	56,276	74,789	90,863	111,110
<i>PAT Margin (%)</i>	<i>15.9</i>	<i>17.2</i>	<i>17.5</i>	<i>17.9</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	198.9	267.9	325.5	398.0
CEPS	182.7	208.9	280.4	339.3
BVPS	898.6	890.5	1053.2	1252.2
DPS	143.0	141.9	162.7	199.0
Growth Ratios(%)				
Total revenues	9.9%	22.7%	20.0%	19.3%
EBITDA	24.5%	34.7%	24.7%	22.1%
PAT	12.1%	32.9%	21.5%	22.3%
EPS Growth	14.7%	34.7%	21.5%	22.3%
Valuation Ratios (x)				
PE	51.5	38.3	31.5	25.8
P/CEPS	49.1	36.6	30.2	24.8
P/BV	11.4	11.5	9.7	8.2
EV/Sales	9.1	8.1	6.6	5.5
EV/EBITDA	44.4	32.6	26.2	21.4
Operating Ratios (Days)				
Inventory days	14.4	14.2	16.0	17.0
Receivable Days	18.3	17.8	20.0	21.0
Payables day	42.1	47.0	45.0	44.0
Net Debt/Equity (x)	(0.01)	(0.02)	(0.01)	(0.01)
Profitability Ratios (%)				
ROE	22.1%	30.1%	30.9%	31.8%
Dividend yield	1.4%	1.4%	1.6%	1.9%

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,830	2,792	2,792	2,792
Reserves and surplus	251,429	245,813	291,244	346,800
Total networth	254,259	248,605	294,036	349,591
Non current liabilities				
Long term borrow & provisions	1,586	1,575	1,575	1,575
Deferred tax liabilities	3,452	5,069	5,069	5,069
Current liabilities				
Current liabilities & provisions	42,398	57,984	66,028	76,846
Other current liabilities	9,582	20,933	20,933	20,933
Total equity and liabilities	311,277	342,507	387,641	454,015
ASSETS				
Net block	26,352	31,379	37,513	48,214
Capital work in progress	819	243	543	843
Intangible assets	307	119	119	119
Non current investments	185,539	196,619	221,619	261,619
Long term loans and advances	359	297	297	297
Other non current assets	9,195	10,278	10,278	10,278
Total non current assets	222,572	238,935	270,369	321,371
Current assets				
Current investments	44,193	48,795	50,795	52,795
Inventories	13,979	16,956	22,807	28,963
Trade receivables	17,761	21,224	28,509	35,778
Cash, cash in bank and other bank balance	2,858	5,366	3,930	3,877
Short term loans & advances	36	32	32	32
Other current assets	9,876	11,199	11,199	11,199
Total current assets	88,703	103,572	117,272	132,644
Total Assets	311,275	342,507	387,641	454,015

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	74,086	98,220	121,150	148,147
Depreciation	2,824	3,498	3,865	4,299
Interest	15	16	0	0
Chng in working capital	7,233	10,171	(5,092)	(2,607)
Tax paid	(19,184)	(23,826)	(30,288)	(37,037)
Other operating activities	0	0	0	0
Cash flow from operations (a)	55,118	74,783	90,185	113,272
Capital expenditure	(9,433)	(8,077)	(10,300)	(15,300)
Chng in investments	13,988	26,450	(27,000)	(42,000)
Other investing activities	0	0	0	0
Cash flow from investing (b)	13,339	(1,392)	(37,300)	(57,300)
Free cash flow (a+b)	68,457	73,391	52,885	55,972
Inc/dec in borrowings	(114)	8,327	(8,341)	0
Dividend paid (incl. tax)	(40,469)	(39,602)	(45,431)	(55,555)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(71,901)	(71,101)	(53,441)	(56,025)
Net chng in cash (a+b+c)	(3,444)	2,290	(555)	(53)
Closing cash & cash equivalents	2,195	4,485	3,930	3,877

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