

India

HOLD (previously ADD)

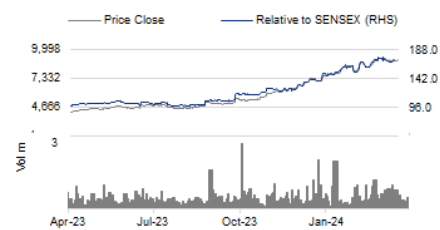
Consensus ratings*: Buy 22 Hold 11 Sell 12

Current price:	Rs9,021
Target price:	Rs9,205
Previous target:	Rs5,775
Up/downside:	2.0%
InCred Research / Consensus:	17.9%
Reuters:	BAJA.NS
Bloomberg:	BJAUT IN
Market cap:	US\$30,147m
	Rs2,518,564m
Average daily turnover:	US\$47.3m
	Rs3952.3m
Current shares o/s:	279.2m
Free float:	45.0%

*Source: Bloomberg

Key changes in this note

- FY25-26F sales raised by 2-4%.
- FY25-26F EBITDA upgraded by 6%.
- FY25-26F PAT upgraded by 6.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.9	27.4	114.3
Relative (%)	5.2	25.9	76.1

Major shareholders	% held
Bajaj Family	55.0
LIC	5.0
SBI Mutual Fund	1.2

Research Analyst(s)



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Bajaj Auto

Momentum seems priced-in at rich valuation

- 4Q EPS growth of 35% yoy beat our (8%) & Bloomberg consensus estimate (2%), driven by ASP (7% qoq) and contribution margin expansion (80bp).
- CNG bike and a larger Pulsar bike launch in 1H to be the drivers of domestic volume growth while Brazil plant and Qute launch in Egypt in case of exports.
- With forward P/E valuation's steep rerating leading to it being +3SD above 10-year mean, we downgrade rating to HOLD for an adverse risk-reward situation.

Product mix-driven ASP and margin expansion beat estimates

Bajaj Auto's 4QFY24 EBITDA rose by 35% yoy but dipped 5% qoq to Rs23.1bn, as the EBITDA margin sustained qoq, thereby beating our estimate (10%) and Bloomberg (5%) consensus estimate. A favourable product mix towards three-wheelers (3W) and exports helped scale best contribution margin for the year at 19.7%. However, higher interest costs (88% qoq) and lower other income (-5% qoq) limited the PAT beat to just 8%.

Management conference-call highlights

Management gave guidance of export volume growth in FY25F, after two years of decline, driven by new geography expansion, new plant in Brazil and new product launch in Egypt. Management indicated that domestic growth will beat industry growth with the help of new launches – CNG bike, large Pulsar, Triumph and KTM variants. It expects the 3W industry's growth to normalize now, as the Covid-19 pandemic normalization is in place. In permit-restricted markets, it expects to push E3Ws, where its products have been proved for the production-linked incentive or PLI scheme. The E2W business remains a drag, but management will look at operating leverage and cost reduction to limit the impact.

EBITDA upgrade by around 6% for FY25F-26F

Taking into consideration the gradual export recovery in the context of the Middle East crisis being compensated by new product-driven domestic volume growth, we maintain our FY25F-26F volume estimates. The superior product mix benefit on ASP and profit margin led to our 6% EBITDA upgrade for FY25F-26F. We expect it to maintain historic peak EBITDA margin of 20% aided by INR depreciation's benefit on exports. The Rs22.5bn equity infusion in captive finance arm Bajaj Auto Credit (BACL) for FY25F looks ambitious to us against peers' investment of Rs15-19bn spread over the last few years (Fig. 8).

Super-rich valuation makes the risk-reward ratio unfavourable

We raise our target P/E to 25x one-year forward and raise subsidiaries' value to Rs183 for a mark-to-market valuation of KTM subsidiary, leading to a SOTP-based target price of Rs9,205. The sharp stock price rally in recent months has pulled up forward P/E valuation to 28.2x FY25F, which is +3SD above the 10-year mean levels. We downgrade our rating to HOLD as the risk-reward ratio is unfavourable while the new product momentum makes it our preferred 2W OEM play. Key downside risk is export weakness from geopolitical tension and the upside risk is market share gain with the help of captive financing.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	330,031	364,276	446,852	525,331	601,997
Operating EBITDA (Rsm)	51,171	65,492	88,229	106,356	119,143
Net Profit (Rsm)	50,188	56,276	74,788	89,485	100,236
Core EPS (Rs)	164.7	201.6	267.9	320.5	359.0
Core EPS Growth	1.0%	22.4%	32.9%	19.7%	12.0%
FD Core P/E (x)	50.18	44.75	33.68	28.15	25.13
DPS (Rs)	140.0	140.0	160.0	200.0	240.0
Dividend Yield	1.61%	1.57%	1.77%	2.22%	2.66%
EV/EBITDA (x)	44.47	34.93	25.72	21.20	18.70
P/FCFE (x)	61.25	68.71	26.10	38.76	29.20
Net Gearing	(86.4%)	(83.8%)	(91.8%)	(85.2%)	(83.6%)
P/BV (x)	9.44	9.91	10.13	8.92	7.98
ROE	17.7%	21.6%	29.7%	33.7%	33.5%
% Change In Core EPS Estimates			3.42%	6.47%	6.56%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Momentum seems priced-in at rich valuation

Management conference-call highlights➤

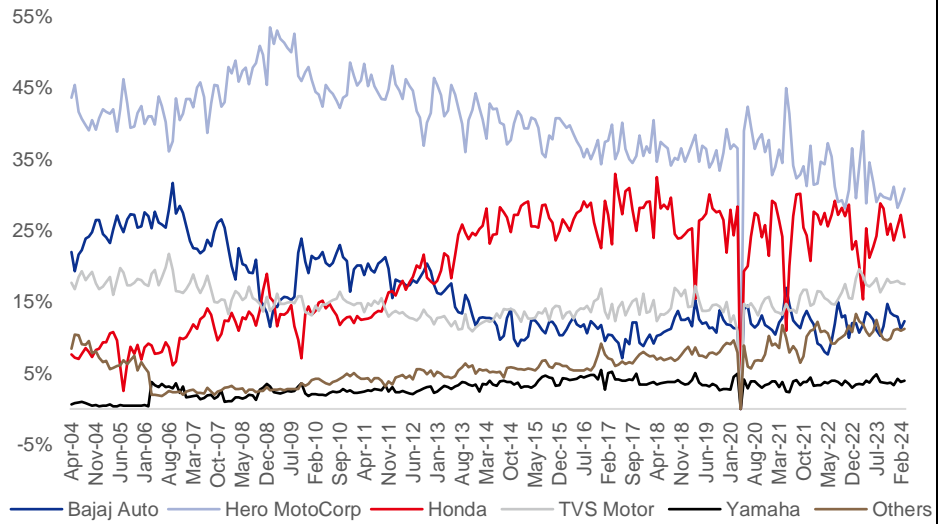
- **Outlook:** Management expects the 2W industry to grow at 7-8% in FY25F. The 125cc and above bike segments are expected to grow at a faster rate. The 3W segment is expected to grow in single digits.
- **Exports:** Export grew by 24% yoy and stood at US\$460m on a low base. The macroeconomic situation remains challenging, especially in countries such as Nigeria, Kenya, Bangladesh, and Argentina, whereas the Latin America and ASEAN regions are registering growth. Management expects growth in FY25F. The company plans to start exporting quadricycles to Egypt from this month, which should support volume. It is also planning to enter the European market for E-2Ws.
- **Commodities front:** During the quarter, commodity costs remain flat sequentially. However, the prices of aluminum and copper have increased in recent weeks. This impact is likely to be partially offset by price hikes and favourable currency movement.
- **Upcoming launches:** The company is planning four–six launches in FY25F.
 - Pulsar 400 to be launched in May 2024F.
 - Competitively priced E-2W expected in 1QFY25F.
 - CNG 2W expected in Jun 2024F.
- **CNG motorcycle:** The company is targeting the 100–125cc segment, as consumers are sensitive to the cost of ownership. The motorcycle shall halve commuting expenses. The targeted market stands at 600,000 units/month. Of this, 60% of the market has CNG fuel stations' availability.
- **Electric vehicle space:**
 - **In EV2W,** growth is likely to continue in FY25F. The number of stores is expected to increase from 200 currently to 600 by 1HFY25F. Plans to launch two new Chetak model in the coming months.
 - **In EV3W,** Bajaj Auto has a presence in 60 cities. The market share in E-3W is over 30% in cities, where the company is present since over three months. In 4QFY24, E-3W volume stood at 6,000 units. The transition from FAME to EMPS scheme shall have an impact of Rs200m due to 7,500 units of channel inventory that does not qualify under the new scheme.
 - The company has received PLI incentive approvals for all its E-2W and E-3W models. The PLI scheme for E-2W shall not lead to unit-level profitability but cover most of the losses. E-3W with PLI shall be as profitable as ICE-3W.
- **KTM:** The company is planning to launch higher displacement motorcycles in select cities in FY25F.
- **Triumph:** Models have expanded in the overseas markets to 16 countries. The company is planning to increase its presence in India from 56 cities to 150 by 1HFY25F. In 2HFY25F, the product portfolio shall be expanded with a new launch.
- **Bajaj Auto Credit:** The company has incorporated a subsidiary called Bajaj Auto Credit to enhance finance penetration. This finance entity currently covers 35% of the company's dealer network, which is expected to expand to 100% in FY25F. The company's board has approved Rs22.5bn investment in addition to Rs6bn committed earlier. Finance penetration stands at 75% for motorcycles and 90% for 3Ws. In motorcycles, 70% of the finance is provided by Bajaj Finance.
- **Spare parts business:** 4QFY24 spare part sales grew by 13% to Rs13bn.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	4QFY24	4QFY23	yoy % chg	3QFY24	qoq % chg	FY24	FY23	yoy % chg	Comments
Revenue	1,14,847	89,047	29.0	1,21,135	(5.2)	4,46,852	3,64,276	22.7	4% above our estimate.
Raw material costs	80,702	62,135	29.9	86,096	(6.3)	3,17,434	2,60,548	21.8	
RM costs as a % of revenue	70.3	69.8	49.2	71.1	(80.5)	71.0	71.5	(48.7)	
EBITDA	23,063	17,166	34.4	24,299	(5.1)	88,229	65,492	34.7	10% above our estimate.
EBITDA margin (%)	20.1	19.3	80.4	20.1	2.2	19.7	18.0	176.6	108bp above our estimate.
Depreciation & amortization	906	742	22.1	881	2.8	3,498	2,824	23.9	9% below our estimate.
EBIT	22,157	16,424	34.9	23,418	(5.4)	84,731	62,667	35.2	
Interest expenses	228	157	44.7	121	88.3	535	395	35.5	
Other Income	3,487	2,598	34.2	3,461	0.7	14,025	11,814	18.7	8% below our estimate.
Pre-tax profit	25,416	18,865	34.7	26,758	(5.0)	98,220	74,087	32.6	5% above our estimate.
Tax	6,056	4,536	33.5	6,339	(4.5)	23,432	17,810	31.6	
Tax rate (%)	24	24	(22)	24	14	24	24	(18)	
Normalized net profit	19,360	14,329	35.1	20,419	(5.2)	74,788	56,276	32.9	8% above our estimate.
Exceptionals	-	-	nm	-	nm	-	-	nm	
Other comprehensive Income	-	-	nm	-	na	-	-	nm	
Reported net profit	19,360	14,329	35.1	20,419	(5.2)	74,788	56,276	32.9	
Normalized EPS (Rs)	69.3	50.6	36.9	73.1	(5.2)	267.9	198.9	34.7	
Volumes (nos)	10,68,576	8,55,050	25.0	10,29,478	3.8	43,50,933	39,22,984	10.9	
Net realization (Rs)	1,07,476	1,04,143	3.2	1,17,667	(8.7)	1,02,703	92,857	10.6	
EBITDA/vehicle	21,582	20,076	7.5	23,603	(8.6)	20,278	16,694	21.5	

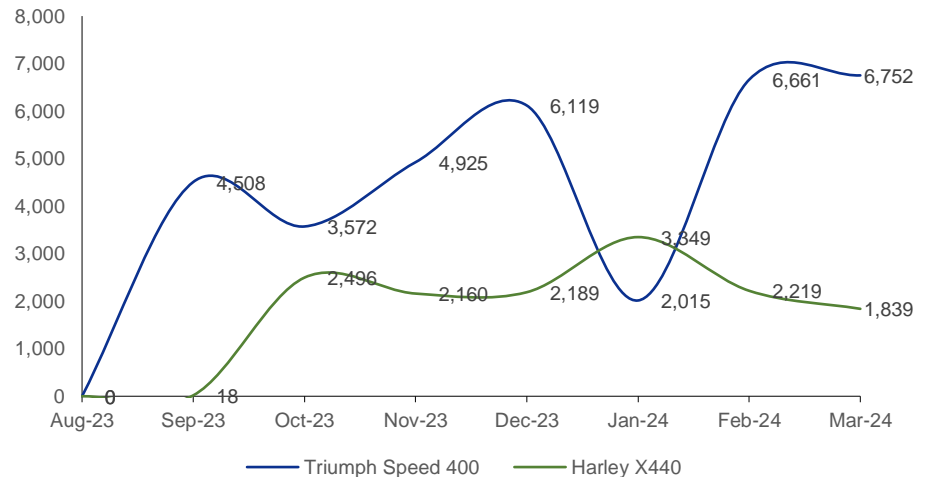
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Domestic motorcycle segment's market share trend



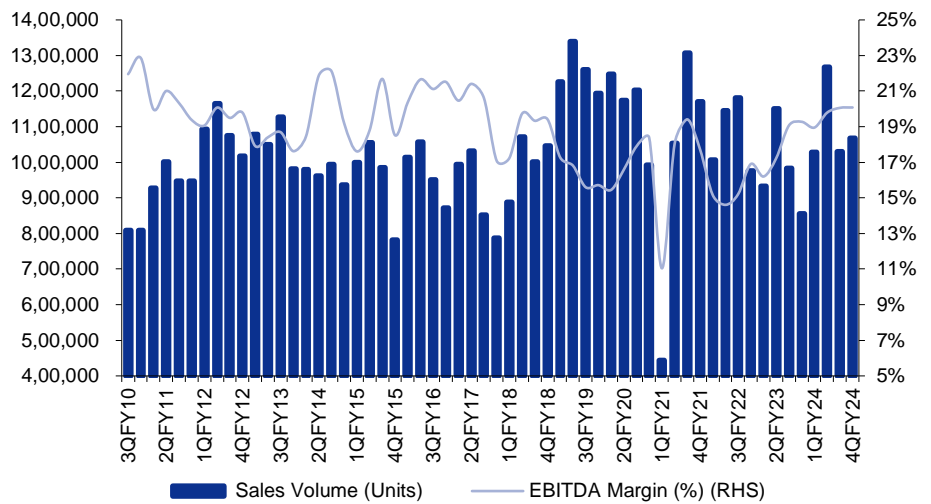
SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM), INCRED RESEARCH, COMPANY REPORTS

Figure 3: Impressive Triumph bikes' volume ramp-up while Harley X440 is yet to catch up



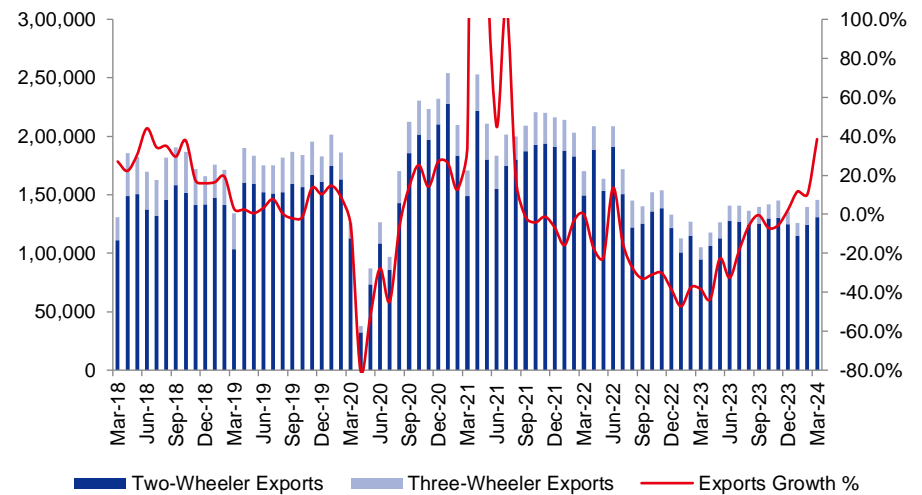
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: EBITDA margin scaling close to peak margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Export volume on a gradual recovery path to enter the growth phase



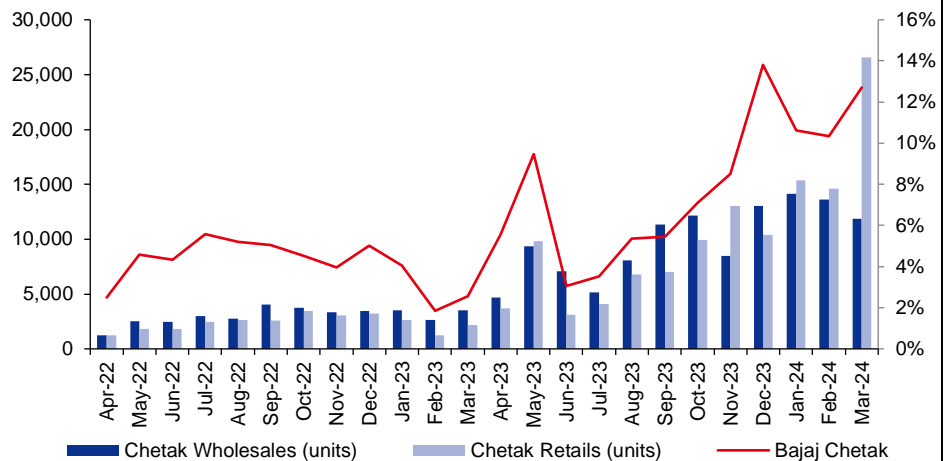
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Product mix improves with a better 3W and premium 2W mix

	4QFY24	4QFY23	% yoy	3QFY24	% qoq
CT100	15,664	14,126	11%	24,053	-35%
Platina	93,283	1,00,107	-7%	1,61,312	-42%
Pulsar Family	3,62,514	2,64,637	37%	3,98,709	-9%
Avenger	4,930	5,948	-17%	5,280	-7%
KTM / Dominar / Husqvarna	18,800	20,468	-8%	20,117	-7%
Chetak	39,628	9,663	310%	33,617	18%
2W domestic	5,40,731	4,14,949	30%	6,51,430	-17%
2W Export	3,69,936	3,10,415	19%	3,84,576	-4%
Total 2W	9,10,667	7,25,364	26%	10,27,664	-11%
3W domestic (including Qute)	1,10,449	1,00,033	10%	1,05,569	5%
3W Export (including Qute)	41,310	34,290	20%	37,976	9%
Total 3W	1,51,759	1,34,323	13%	1,43,545	6%
Total volume	10,62,426	8,59,687	24%	11,71,209	-9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Chetak scooter shows a significant improvement in EV market share



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: OEMs' investments in their NBFC subsidiaries till date

	Holding	Total Investments (Rs.bn)
TVS Motor -TVS Credit Services (FY23)	85.63%	19.61
Hero MotoCorp- Hero FinCorp (FY23)	41.19%	14.69
Bajaj Auto - Bajaj Auto Credit (FY25F)	100%	28.50

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Key assumptions

Volume Break-Up	FY22A	FY23A	FY24F	FY25F	FY26F
(Number of vehicles)					
Domestic Motorcycles	16,41,084	18,01,010	22,50,585	26,18,877	28,89,419
Growth(%)	-9.3%	9.7%	25.0%	16.4%	10.3%
Export Motorcycles	21,95,772	16,36,956	14,77,338	16,39,845	18,44,826
Growth(%)	22.2%	-25.4%	-9.8%	11.0%	12.5%
Total Motorcycle	38,36,856	34,37,966	37,27,923	42,58,723	47,34,245
Growth(%)	6.4%	-10.4%	8.4%	14.2%	11.2%
Total 2-wheelers	38,36,856	34,37,966	37,27,923	42,58,723	47,34,245
Growth(%)	6.4%	-10.4%	8.4%	14.2%	11.2%
3-wheelers	4,71,577	4,85,018	6,23,010	6,63,690	7,16,806
Growth(%)	28.5%	2.9%	28.5%	6.5%	8.0%
Total vehicles	43,08,433	39,22,984	43,50,933	49,22,413	54,51,051
Growth(%)	8.4%	-8.9%	10.9%	13.1%	10.7%
Per Vehicle assumptions					
In Rs.					
Net ASP/Vehicle	76,601	92,857	1,02,703	1,06,722	1,10,437
Growth(%)	9.7%	21.2%	10.6%	3.9%	3.5%
Contribution/vehicle	20,131	26,441	29,745	31,163	32,027
Growth(%)	-1.6%	31.3%	12.5%	4.8%	2.8%
EBITDA/vehicle	11,877	16,694	20,278	21,606	21,857
Growth(%)	-4.3%	40.6%	21.5%	6.5%	1.2%
EBITDA Margin (%)	15.5%	18.0%	19.7%	20.2%	19.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: EPS change summary

Rs m	FY25F		FY26F	
	Old	New	Old	New
Sales Volume	49,37,032	49,22,413	54,36,840	54,51,051
Change		-0.3%		0.3%
Net Sales	5,16,911	5,25,331	5,79,629	6,01,997
Change		1.6%		3.9%
EBITDA	1,00,417	1,06,356	1,12,839	1,19,143
Change		5.9%		5.6%
PBT	1,10,518	1,17,744	1,23,693	1,31,890
Change		6.5%		6.6%
EPS (Rs)	301.1	320.5	336.9	359.0
Change		6.5%		6.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: SOTP-based target price

	1-year forward
EPS (Rs.) (1-year forward)	360.9
P/E(x)	25.0
Value (Rs)	9,022
Value of stake in PMAG post 20% holding discount (Rs)	183
Target price (Rs)	9,205

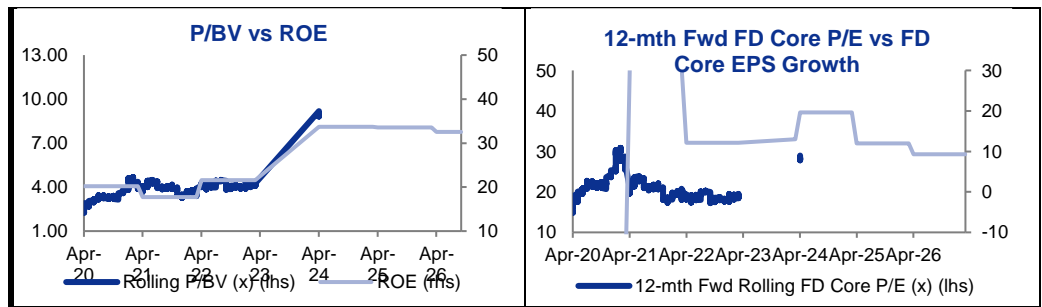
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Forward P/E valuation above +3SD of 10-year mean



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	330,031	364,276	446,852	525,331	601,997
Gross Profit	73,278	89,558	114,518	136,933	156,052
Operating EBITDA	51,171	65,492	88,229	106,356	119,143
Depreciation And Amortisation	(2,692)	(2,824)	(3,498)	(4,000)	(4,500)
Operating EBIT	48,479	62,667	84,731	102,356	114,643
Financial Income/(Expense)	(87)	(395)	(535)	(600)	(500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	12,092	11,814	14,025	15,988	17,747
Profit Before Tax (pre-EI)	60,485	74,087	98,220	117,744	131,890
Exceptional Items					
Pre-tax Profit	60,485	74,087	98,220	117,744	131,890
Taxation	(14,500)	(17,810)	(23,432)	(28,258)	(31,653)
Exceptional Income - post-tax	4,203				
Profit After Tax	50,188	56,276	74,788	89,485	100,236
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	50,188	56,276	74,788	89,485	100,236
Recurring Net Profit	45,985	56,276	74,788	89,485	100,236
Fully Diluted Recurring Net Profit	45,985	56,276	74,788	89,485	100,236

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	51,171	65,492	88,229	106,356	119,143
Cash Flow from Invt. & Assoc.					
Change In Working Capital	5,232	136	8,923	(2,090)	(2,637)
(Incr)/Decr in Total Provisions	(3,935)	9,752	17,579	(16,998)	(200)
Other Non-Cash (Income)/Expense	(1,188)	(582)	1,618		
Other Operating Cashflow	4,203				
Net Interest (Paid)/Received	12,006	11,419	13,490	15,388	17,247
Tax Paid	(16,306)	(18,548)	(22,836)	(28,258)	(31,653)
Cashflow From Operations	51,182	67,668	107,003	74,397	101,899
Capex	(4,991)	(11,695)	(7,781)	(3,360)	(8,639)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,083)	(19,335)	(2,741)	(6,000)	(7,000)
Cash Flow From Investing	(10,074)	(31,030)	(10,522)	(9,360)	(15,639)
Debt Raised/(repaid)	13	15	16	(58)	
Proceeds From Issue Of Shares		(64)	(38)		
Shares Repurchased			(49,282)		
Dividends Paid	(40,512)	(39,614)	(44,669)	(55,836)	(67,003)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(40,499)	(39,664)	(93,973)	(55,894)	(67,003)
Total Cash Generated	610	(3,026)	2,509	9,143	19,257
Free Cashflow To Equity	41,122	36,653	96,498	64,979	86,260
Free Cashflow To Firm	41,195	37,033	97,016	65,637	86,760

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	231,587	214,227	229,407	241,550	264,806
Total Debtors	15,164	17,761	21,224	25,907	31,337
Inventories	12,305	13,979	16,956	18,710	23,090
Total Other Current Assets	28,571	19,467	21,774	24,500	27,000
Total Current Assets	287,627	265,433	289,361	310,667	346,234
Fixed Assets	19,108	23,835	26,760	31,260	35,760
Total Investments	12,484	17,864	20,884	23,884	26,884
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	31,593	41,699	47,645	55,145	62,645
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	36,332	40,739	56,102	60,449	67,622
Other Current Liabilities	9,388	9,918	29,581	15,000	17,000
Total Current Liabilities	45,720	50,656	85,683	75,449	84,622
Total Long-term Debt	1,228	1,242	1,258	1,200	1,200
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,228	1,242	1,258	1,200	1,200
Total Provisions	5,584	5,120	6,960	7,269	7,569
Total Liabilities	52,531	57,018	93,902	83,918	93,391
Shareholders Equity	266,688	254,259	248,605	282,254	315,487
Minority Interests					
Total Equity	266,688	254,259	248,605	282,254	315,487

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	19.0%	10.4%	22.7%	17.6%	14.6%
Operating EBITDA Growth	3.8%	28.0%	34.7%	20.5%	12.0%
Operating EBITDA Margin	15.5%	18.0%	19.7%	20.2%	19.8%
Net Cash Per Share (Rs)	825.13	762.89	817.21	860.91	944.22
BVPS (Rs)	955.25	910.73	890.48	1,011.01	1,130.05
Gross Interest Cover	559.80	158.73	158.38	170.59	229.29
Effective Tax Rate	24.0%	24.0%	23.9%	24.0%	24.0%
Net Dividend Payout Ratio	88.1%	70.4%	59.7%	62.4%	66.8%
Accounts Receivables Days	23.41	16.50	15.92	16.37	17.35
Inventory Days	19.37	17.46	16.99	16.76	17.11
Accounts Payables Days	58.34	51.20	53.18	54.76	52.41
ROIC (%)	131.4%	164.0%	267.5%	7,645.2%	354.1%
ROCE (%)	22.8%	28.1%	38.4%	43.6%	43.4%
Return On Average Assets	14.5%	18.1%	23.3%	25.6%	26.0%

Key Drivers

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	9.7%	21.2%	10.6%	3.9%	3.5%
Unit sales grth (% , main prod./serv.)	8.4%	(8.9%)	10.9%	13.1%	10.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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