

India

**ADD** (no change)

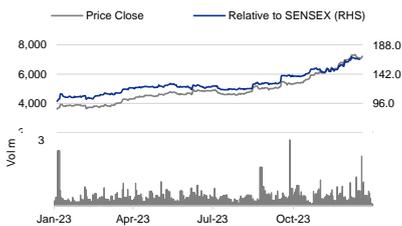
Consensus ratings\*: Buy 24 Hold 12 Sell 10

Current price:	Rs7,213
Target price:	Rs8,090
Previous target:	Rs5,775
Up/downside:	12.2%
InCred Research / Consensus:	22.7%
Reuters:	BAJA.NS
Bloomberg:	BJAUT IN
Market cap:	US\$24,569m
	Rs2,042,533m
Average daily turnover:	US\$33.3m
	Rs2771.5m
Current shares o/s:	279.0m
Free float:	45.0%

\*Source: Bloomberg

**Key changes in this note**

- FY24F-26F sales upgrade by 1-3%.
- FY24F-26F EBITDA upgrade by 3-5%.
- FY24F-26F EPS upgrade by 6-9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.2	33.4	95.7
Relative (%)	13.3	20.3	65.8

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

**Research Analyst(s)**



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# Bajaj Auto

## The excitement runs across divisions

- 3QFY24 EPS growth of 11% qoq and 36% yoy was 5% above our estimate, driven by sustained qoq EBITDA margin expansion.
- Considering that all its divisions are on a strong growth path trajectory via segmental tailwinds or product actions, we upgrade FY24F-26F PAT by 3-5%.
- Bajaj Auto may consolidate in the near term but considering its successful transition to electric vehicles with least impact on profitability, we retain ADD.

### Sustained EBITDA margin expansion is impressive

Bajaj Auto's 3QFY24 EBITDA rose 36% yoy and 13% qoq to Rs24.1bn, as the EBITDA margin qoq expansion sustained to touch a high of 19.9%. The 5% EBITDA beat was driven by lower expenses across major heads. Management stated that lower precious metal cost was the key reason for the lower raw material cost benefit. PAT rose 11% qoq and 36% yoy to Rs20.3bn, 5% above our estimate. Management has announced a Rs40bn stock buyback program at Rs10,000 per share, leading to 1.4% share capital reduction.

### Management conference-call highlights

Management gave guidance of a gradual recovery in the export volume, as Africa's two-wheeler industry demand recovery is gradual. In the fast-recovering Latin America. In the domestic market, plans to launch a slew of new bikes in the coming months. For Triumph bike, management gave volume guidance of 10,000 per month soon, as exports have just commenced to global markets. In select cities where large premium bikes are being sold, management claimed a 20% market share there in the above 350cc bike segment. Electric three-wheeler or E3W distribution to be doubled to 50 cities in the Mar 2024F quarter, as the company claims a 50% market share in the cities where it was launched recently.

### EPS upgrade by 6-9% for FY24F-26F

The strong festive season sales and new product ramp-up leads to our 1-3% net sales upgrade for FY24F-26F. The sustained EBITDA margin expansion (despite low-margin EV headwinds) aiming at a historic peak margin of 21% is impressive. We upgrade our EBITDA estimates by 2-5% for FY24F-26F. Considering the share buyback offer leading to a reduction in equity capital, we have raised our EPS estimates by 6-9% for FY24F-26F.

### Peak profit margins, despite export & EV challenges, are impressive

We have raised our sum-of-the-parts or SOTP-based target price sharply from Rs5,775 to Rs8,090, rolling forward our EPS estimates, upgrading the target P/E to 24x one-year forward, which is near +2SD above the 10-year mean to reflect strong profit margin performance, despite challenges to its product portfolio in respect of EVs and exports. We assign Rs159/share valuation to its holding in Pierer Mobility. Considering the strong performance across divisions and scaling up of new divisions without impacting its core profitability, there can be a rerating of the stock to a new valuation trajectory. Retain ADD rating on the stock as it remains a preferred 2W play. Downside risks: Export volume weakness due to developments regarding the Red Sea.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	330,031	364,276	446,723	516,911	579,629
Operating EBITDA (Rsm)	51,171	65,492	85,626	100,417	112,839
Net Profit (Rsm)	50,188	56,276	70,434	83,994	94,007
Core EPS (Rs)	164.8	201.7	259.0	301.1	336.9
Core EPS Growth	1.0%	22.4%	28.4%	16.2%	11.9%
FD Core P/E (x)	40.10	35.76	28.57	23.96	21.41
DPS (Rs)	140.0	140.0	170.0	200.0	240.0
Dividend Yield	2.01%	1.97%	2.36%	2.77%	3.33%
EV/EBITDA (x)	34.58	27.20	20.50	17.27	15.24
P/FCFE (x)	48.94	54.90	69.86	28.55	26.74
Net Gearing	(86.4%)	(83.8%)	(84.1%)	(82.2%)	(79.2%)
P/BV (x)	7.55	7.91	7.16	6.51	5.99
ROE	17.7%	21.6%	27.0%	28.5%	29.1%
% Change In Core EPS Estimates			6.62%	7.30%	6.65%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## The excitement runs across divisions

### Management conference-call highlights >

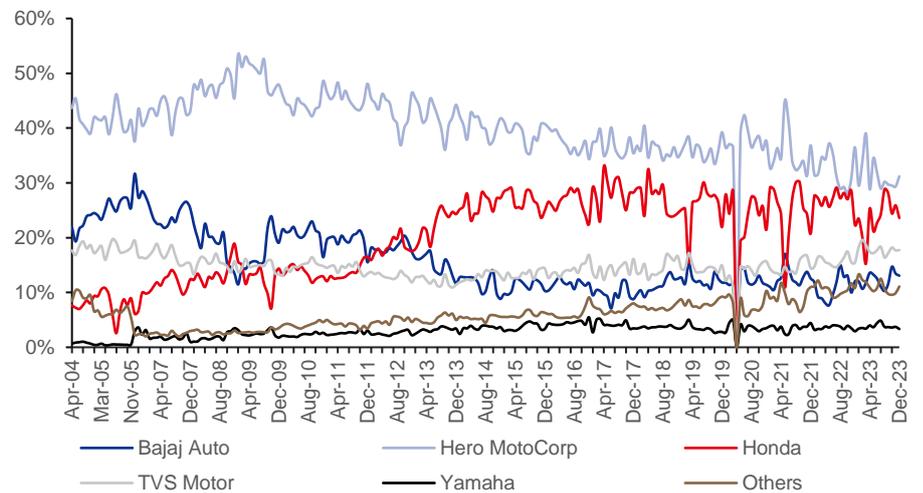
- **Outlook:** The macroeconomic environment remains uncertain the Houthi rebels. The attacks on ships in the Red Sea is likely to impact dispatches and increase freight costs. High inflation and currency unavailability still impacting Africa (notably Nigeria), while LATAM (Mexico registers the highest retail sales) and Asian countries are scaling new peaks in volume terms. The domestic market is likely to witness a volume growth of 8-10% next quarter and Bajaj Auto plans to grow faster than the industry, led by new vehicle launches.
- **Financial performance:** Revenue for the quarter grew by 30% yoy, primarily led by volume growth and the EBITDA margin standing at 20% up 80bp, driven by better realization, cost management initiatives and operating leverage which more than absorbed the drag from competitive investments on a growing scale in electric scooters.
- **Chetak E2W:** Volume in the case of Chetak E2W (scooter) rose 3x yoy during the quarter, with the market share rising to 14% (5% in the previous year), primarily led by an improvement in the supply chain and competitive pricing. Chetak E2W is now available in 160 cities and the target is to reach 200 cities by the end of the financial year, with a target sales volume of 15,000 units per month. Management plans to launch it in the international market in 1HFY25F.
- **Triumph:** Bajaj Auto delivered ~15k units till date, and it is available in 41 cities currently, which management plans to double going ahead. In large cities like Bengaluru, management indicated that it has already cornered a 20% market share in the above 350cc bike segment. Management plans to ramp up the production volume to 20,000 units per month, as it sees incremental demand.
- **125cc+ segment:** Currently, the segment accounts for 50% of the two-wheeler industry and Bajaj Auto has 70% of its products in this segment with a market share of 31%. Going ahead, the company plans to launch a bigger Pulsar bike variant with a slew of launches in the 150-250cc segment. Pulsar bike is now contributing 28% to export sales vs. 19% in 3QFY23.
- **Commercial vehicles:** The monthly volume run-rate stood at 40k units during the quarter while it was 30k units in 2QFY24. Bajaj Auto remains the leader in the space with a market share of 77%. The company stated that compressed natural gas or CNG penetration has increased to 65%. As regards E3W, it is currently available in 28 cities, with work in progress on doubling this in the coming months. Management indicated that it has cornered a 50% market share in the cities where it currently has EV dealers.
- **Commodity prices:** Softening was witnessed during the quarter in the case of steel and lead battery. Going ahead, the company expects an increase from the current levels.
- **Exports and spare parts revenue:** Export revenue was at US\$450m, up 2% yoy, and spare parts revenue at Rs1,300m.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	Comments
Revenue	1,21,653	93,151	30.6	1,08,382	12.2	In line with our estimate.
Raw material costs	86,545	65,775	31.6	77,034	12.3	
RM costs as a % of revenue	71.1	70.6	53.0	71.1	6.5	Rich product mix effect.
EBITDA	24,149	17,768	35.9	21,301	13.4	-
<b>EBITDA margin (%)</b>	<b>19.9</b>	<b>19.1</b>	<b>77.6</b>	<b>19.7</b>	<b>19.7</b>	<b>76bp above our estimate.</b>
Depreciation & amortization	929	740	25.6	918	1.2	
EBIT	23,220	17,029	36.4	20,383	13.9	
Interest expenses	121	85	42.7	65	85.0	
Other income	3,563	2,691	32.4	3,686	(3.3)	8% above our estimate.
Pre-tax profit	26,662	19,635	35.8	24,004	11.1	5% above our estimate.
Tax	6,336	4,721	34.2	5,640	12.3	
Tax rate (%)	24	24	(28)	23	27	
<b>Normalized net profit</b>	<b>20,326</b>	<b>14,914</b>	<b>36.3</b>	<b>18,364</b>	<b>10.7</b>	<b>5.4% above our estimate.</b>
Exceptionals	-	-	nm	-	nm	
Other comprehensive income	-	-	nm	1,837	na	
Reported net profit	20,326	14,914	36.3	20,201	0.6	
Normalized EPS (Rs)	71.8	52.7	36.3	64.9	10.7	
Volume (nos)	12,00,997	9,83,304	22.1	10,53,953	14.0	
Net realization (Rs)	1,01,294	94,733	6.9	1,02,834	(1.5)	
EBITDA/vehicle	20,107	18,070	11.3	20,211	(0.5)	

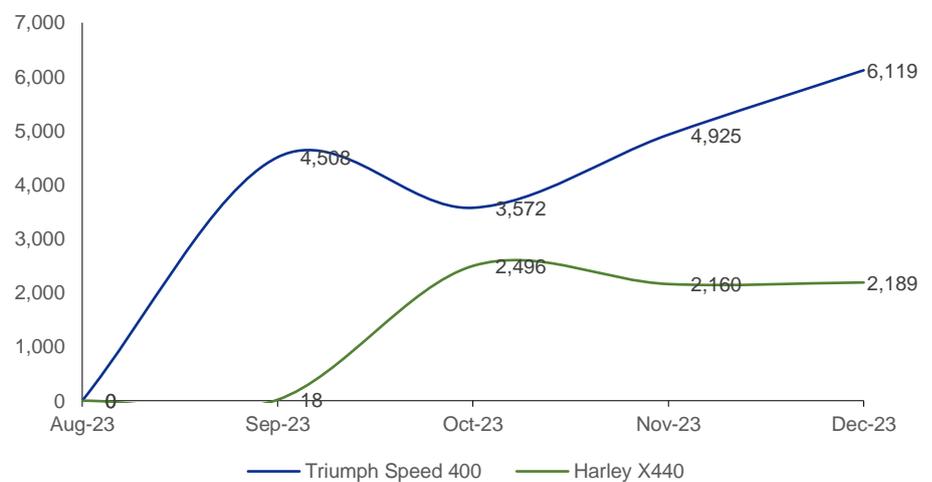
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Domestic motorcycle segment's market share trend



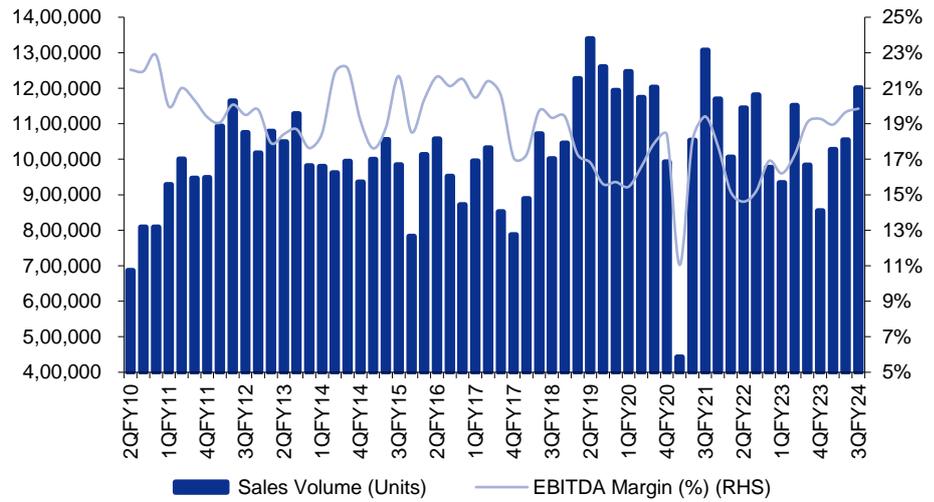
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



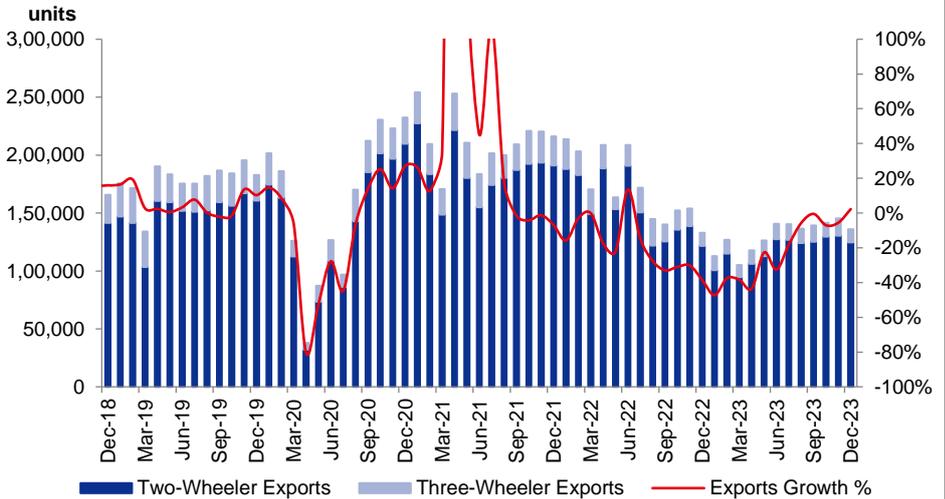
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: EBITDA margin scaling near peak margins



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



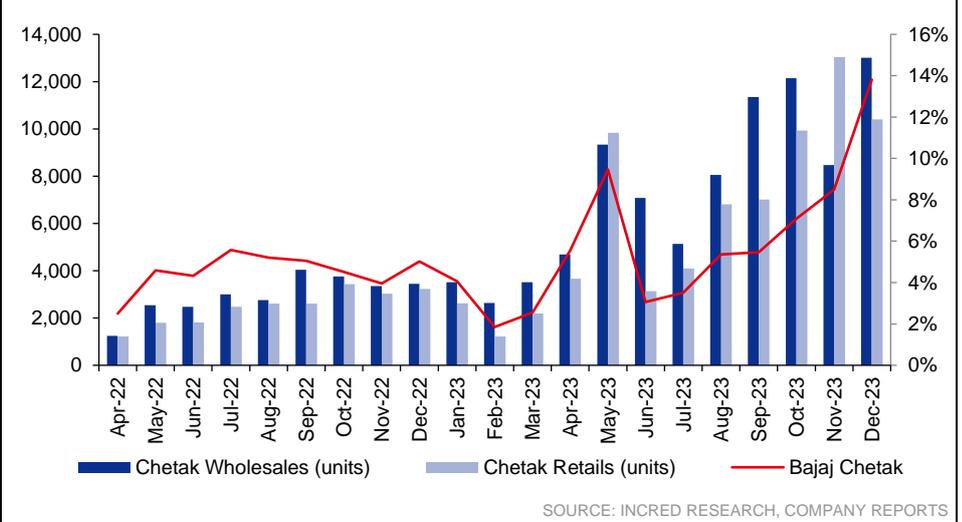
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

	3QFY24	3QFY23	% yoy	2QFY24	% qoq
CT100	24,053	30,537	-21%	25,446	-5%
Platina	1,61,312	1,27,701	26%	1,22,865	31%
Pulsar family	3,98,709	2,61,373	53%	2,98,769	33%
Avenger	5,280	4,608	15%	5,888	-10%
KTM / Dominar / Husqvarna	20,117	20,576	-2%	19,637	2%
Chetak	33,617	10,351	225%	21,548	56%
<b>2W domestic</b>	<b>6,43,088</b>	<b>4,55,146</b>	<b>41%</b>	<b>4,94,153</b>	<b>30%</b>
2W exports	3,84,576	3,95,901	-3%	3,76,263	2%
<b>Total 2W</b>	<b>10,27,664</b>	<b>8,51,047</b>	<b>21%</b>	<b>8,70,416</b>	<b>18%</b>
3W domestic (including Qute)	1,22,828	89,042	38%	1,32,236	-7%
3W exports (including Qute)	37,976	43,187	-12%	40,134	-5%
<b>Total 3W</b>	<b>1,60,804</b>	<b>1,32,229</b>	<b>22%</b>	<b>1,72,370</b>	<b>-7%</b>
<b>Total volume</b>	<b>11,88,468</b>	<b>9,83,276</b>	<b>21%</b>	<b>10,42,786</b>	<b>14%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Chetak scooter shows a significant improvement in EV market share post subsidy cut**



**Figure 8: Key assumptions**

Volume Break-Up	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
<b>(Number of vehicles)</b>						
Domestic Motorcycles	18,09,375	16,41,084	18,01,010	22,46,419	25,99,508	28,33,308
Growth (%)	-12.9%	-9.3%	9.7%	24.7%	15.7%	9.0%
Export Motorcycles	17,96,518	21,95,772	16,36,956	15,06,000	16,56,599	18,71,957
Growth (%)	-3.9%	22.2%	-25.4%	-8.0%	10.0%	13.0%
Total Motorcycle	36,05,893	38,36,856	34,37,966	37,52,418	42,56,108	47,05,265
Growth (%)	-8.7%	6.4%	-10.4%	9.1%	13.4%	10.6%
Total 2-wheelers	36,05,893	38,36,856	34,37,966	37,52,418	42,56,108	47,05,265
Growth (%)	-8.7%	6.4%	-10.4%	9.1%	13.4%	10.6%
3-wheelers	3,67,021	4,71,577	4,85,018	6,33,302	6,80,924	7,31,574
Growth (%)	-45.0%	28.5%	2.9%	30.6%	7.5%	7.4%
Total vehicles	39,72,914	43,08,433	39,22,984	43,85,721	49,37,032	54,36,840
Growth (%)	-13.9%	8.4%	-8.9%	11.8%	12.6%	10.1%
<b>Per Vehicle assumptions</b>						
In Rs.	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
Net ASP/Vehicle	69,826	76,601	92,857	1,01,859	1,04,701	1,06,611
Growth (%)	7.7%	9.7%	21.2%	9.7%	2.8%	1.8%
Contribution/vehicle	20,467	20,131	26,441	29,233	30,363	31,024
Growth (%)	6.0%	-1.6%	31.3%	10.6%	3.9%	2.2%
EBITDA/vehicle	12,405	11,877	16,694	19,524	20,340	20,755
Growth (%)	12.3%	-4.3%	40.6%	16.9%	4.2%	2.0%
EBITDA Margin (%)	17.8%	15.5%	18.0%	19.2%	19.4%	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: EPS change summary**

Rs m	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Sales volume	43,89,981	43,85,721	48,68,383	49,37,032	51,49,457	54,36,840
Change		-0.1%		1.4%		5.6%
Net sales	4,42,099	4,46,723	5,07,997	5,16,911	5,62,584	5,79,629
Change		1.0%		1.8%		3.0%
EBITDA	83,453	85,626	95,448	1,00,417	1,09,170	1,12,839
Change		2.6%		5.2%		3.4%
PBT	92,528	95,092	1,05,543	1,10,518	1,20,290	1,23,693
Change		2.8%		4.7%		2.8%
EPS (Rs)	243.0	259.0	277.2	301.1	315.9	336.9
Change		6.6%		8.6%		6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: SOTP-based target price**

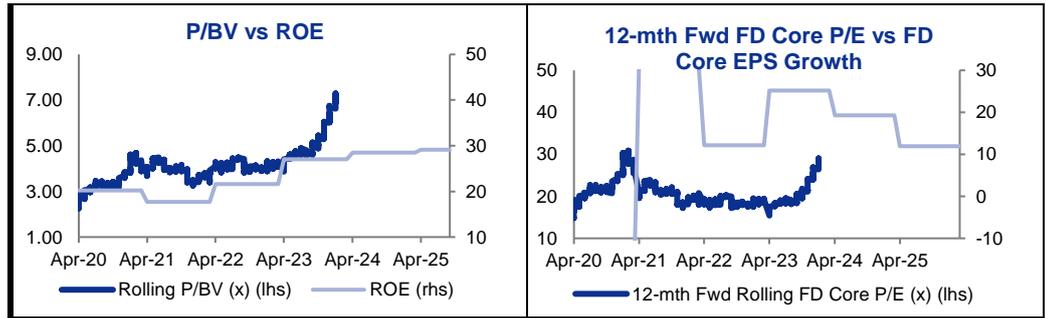
EPS (Rs.) (1-year forward)	330.5
P/E(x)	24.0
Value (Rs.)	7,930.9
Value of stake in PMAG post 20% holding discount	159.1
<b>Target Price (Rs)</b>	<b>8,090</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Forward P/E valuation near the mean level provides comfort



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>330,031</b>	<b>364,276</b>	<b>446,723</b>	<b>516,911</b>	<b>579,629</b>
<b>Gross Profit</b>	<b>73,278</b>	<b>89,558</b>	<b>112,596</b>	<b>132,552</b>	<b>149,144</b>
<b>Operating EBITDA</b>	<b>51,171</b>	<b>65,492</b>	<b>85,626</b>	<b>100,417</b>	<b>112,839</b>
Depreciation And Amortisation	(2,692)	(2,824)	(3,700)	(4,000)	(4,500)
<b>Operating EBIT</b>	<b>48,479</b>	<b>62,667</b>	<b>81,926</b>	<b>96,417</b>	<b>108,339</b>
Financial Income/(Expense)	(87)	(395)	(420)	(300)	(200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	12,092	11,814	13,586	14,402	15,554
<b>Profit Before Tax (pre-EI)</b>	<b>60,485</b>	<b>74,087</b>	<b>95,092</b>	<b>110,518</b>	<b>123,693</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>60,485</b>	<b>74,087</b>	<b>95,092</b>	<b>110,518</b>	<b>123,693</b>
Taxation	(14,500)	(17,810)	(22,822)	(26,524)	(29,686)
Exceptional Income - post-tax	4,203		(1,837)		
<b>Profit After Tax</b>	<b>50,188</b>	<b>56,276</b>	<b>70,434</b>	<b>83,994</b>	<b>94,007</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>50,188</b>	<b>56,276</b>	<b>70,434</b>	<b>83,994</b>	<b>94,007</b>
Recurring Net Profit	45,985	56,276	72,270	83,994	94,007
<b>Fully Diluted Recurring Net Profit</b>	<b>45,985</b>	<b>56,276</b>	<b>72,270</b>	<b>83,994</b>	<b>94,007</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>51,171</b>	<b>65,492</b>	<b>85,626</b>	<b>100,417</b>	<b>112,839</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	5,232	136	2,016	(1,102)	(5,149)
(Incr)/Decr in Total Provisions	(3,935)	9,752	(3,119)	(2,900)	(3,100)
Other Non-Cash (Income)/Expense	(1,188)	(582)			
Other Operating Cashflow	4,203		(1,837)		
Net Interest (Paid)/Received	12,006	11,419	13,166	14,102	15,354
Tax Paid	(16,306)	(18,548)	(22,822)	(26,524)	(29,686)
<b>Cashflow From Operations</b>	<b>51,182</b>	<b>67,668</b>	<b>73,031</b>	<b>83,992</b>	<b>90,257</b>
Capex	(4,991)	(11,695)	(2,856)	(7,500)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,083)	(19,335)	(41,327)	(6,000)	(7,000)
<b>Cash Flow From Investing</b>	<b>(10,074)</b>	<b>(31,030)</b>	<b>(44,183)</b>	<b>(13,500)</b>	<b>(15,000)</b>
Debt Raised/(repaid)	13	15	(42)		
Proceeds From Issue Of Shares		(64)	(40)		
Shares Repurchased			40,000		
Dividends Paid	(40,512)	(39,614)	(47,430)	(55,800)	(66,960)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(40,499)</b>	<b>(39,664)</b>	<b>(7,512)</b>	<b>(55,800)</b>	<b>(66,960)</b>
Total Cash Generated	610	(3,026)	21,337	14,693	8,298
<b>Free Cashflow To Equity</b>	<b>41,122</b>	<b>36,653</b>	<b>28,806</b>	<b>70,492</b>	<b>75,257</b>
<b>Free Cashflow To Firm</b>	<b>41,195</b>	<b>37,033</b>	<b>29,268</b>	<b>70,792</b>	<b>75,457</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	231,587	214,227	237,563	255,256	267,553
Total Debtors	15,164	17,761	24,478	28,324	31,761
Inventories	12,305	13,979	14,687	18,411	23,820
Total Other Current Assets	28,571	19,467	25,000	29,500	33,000
<b>Total Current Assets</b>	<b>287,627</b>	<b>265,433</b>	<b>301,728</b>	<b>331,490</b>	<b>356,134</b>
Fixed Assets	19,108	23,835	27,135	30,635	34,135
Total Investments	12,484	17,864	20,864	23,864	26,864
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>31,593</b>	<b>41,699</b>	<b>47,999</b>	<b>54,499</b>	<b>60,999</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	36,332	40,739	50,180	56,648	60,345
Other Current Liabilities	9,388	9,918	12,000	13,200	13,200
<b>Total Current Liabilities</b>	<b>45,720</b>	<b>50,656</b>	<b>62,180</b>	<b>69,848</b>	<b>73,545</b>
Total Long-term Debt	1,228	1,242	1,200	1,200	1,200
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>1,228</b>	<b>1,242</b>	<b>1,200</b>	<b>1,200</b>	<b>1,200</b>
Total Provisions	5,584	5,120	5,452	5,852	6,252
<b>Total Liabilities</b>	<b>52,531</b>	<b>57,018</b>	<b>68,831</b>	<b>76,899</b>	<b>80,996</b>
Shareholders Equity	266,688	254,259	280,896	309,090	336,137
Minority Interests					
<b>Total Equity</b>	<b>266,688</b>	<b>254,259</b>	<b>280,896</b>	<b>309,090</b>	<b>336,137</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	19.0%	10.4%	22.6%	15.7%	12.1%
Operating EBITDA Growth	3.8%	28.0%	30.7%	17.3%	12.4%
Operating EBITDA Margin	15.5%	18.0%	19.2%	19.4%	19.5%
Net Cash Per Share (Rs)	825.66	763.39	847.18	910.60	954.68
BVPS (Rs)	955.88	911.33	1,006.80	1,107.86	1,204.80
Gross Interest Cover	559.80	158.73	195.06	321.39	541.70
Effective Tax Rate	24.0%	24.0%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	88.1%	70.4%	65.6%	66.4%	71.2%
Accounts Receivables Days	23.41	16.50	17.26	18.64	18.92
Inventory Days	19.37	17.46	15.66	15.72	17.90
Accounts Payables Days	58.34	51.20	49.66	50.72	49.60
ROIC (%)	131.4%	164.0%	258.7%	254.9%	225.3%
ROCE (%)	22.8%	28.1%	35.1%	37.0%	37.9%
Return On Average Assets	14.5%	18.1%	22.1%	22.9%	23.4%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
ASP (% chg, main prod./serv.)	9.7%	21.2%	9.7%	2.8%	1.8%
Unit sales grth (% , main prod./serv.)	8.4%	(8.9%)	11.8%	12.6%	10.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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