

India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 11 Sell 13

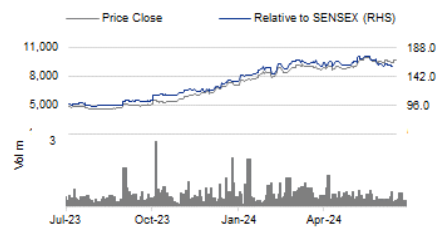
Current price: Rs9,718
 Target price: ▲ Rs9,811
 Previous target: Rs9,205
 Up/downside: 1.0%
 InCred Research / Consensus: 6.8%

Reuters:
 Bloomberg: BJAUT IN
 Market cap: US\$37,364m
 Rs2,713,167m
 Average daily turnover: US\$57.3m
 Rs4159.0m
 Current shares o/s: 279.2m
 Free float: 45.0%

*Source: Bloomberg

Key changes in this note

- Sales upgrade by 2-6% for FY25F-27F.
- FY25F-27F EBITDA upgrade by 4-6%.
- FY25F-27F EPS upgrade by 3-5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.4)	9.0	100.0
Relative (%)	(6.9)	(1.5)	65.0

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

Research Analyst(s)



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Bajaj Auto

Hopes build in for CNG bike; in-line 1Q

- 1QFY25 EPS growth of 19% yoy & 3% qoq to Rs71.2 was in line with our/Bloomberg consensus estimates. Strong ASP & higher gross margin impress.
- We raise our EPS estimates by 3-5% for FY25F-27F because of better ASP and PLI benefits on the EBITDA margin, beginning from this quarter.
- We raise our SOTP-based TP to Rs9,811, but retain HOLD rating as the P/E +3SD above the 10-year mean level makes the risk-reward ratio unfavourable.

In-line 1QFY25 PAT performance

Bajaj Auto's 1QFY25 EBITDA at Rs24bn rose 23% yoy and 4% qoq, which was 4% above our estimate but in line with Bloomberg consensus estimate. The EBITDA margin at 20.1% was up 132bp yoy and 17bp qoq, aided by the better product mix benefit and lower raw material costs at 114bp yoy. PAT stood at Rs19.9bn, up 19% yoy and 3% qoq, in line with estimate. Management indicated Rs5bn of fund infusement in the vehicle finance business subsidiary, Bajaj Auto Credit, during the quarter while the surplus cash stood at Rs167bn.

EV portfolio accounts for 14% of revenue in 1QFY25

Management indicated that CNG bike Freedom garnered bookings for 4,200 bikes in recent days, with most of the bookings for the top variant. Management gave guidance of Mar 2025F-end capacity plan of 40,000 units per month. It intends to expand market share in entry-level bikes from 15% to 25%, with CNG variants across platforms. Electric vehicle or EV sales formed 14% of 1QFY25 revenue and profit neutrality as profits from E3Ws and the PLI scheme absorb the losses from the launch of a new entry-level scooter. The PLI incentive for two of its five EVs aided the EBITDA margin by around 50bp in 1QFY25.

Raise EPS by 3-5% for FY25F-27F

The strong start to ASP in 1QFY25 (+7% yoy) and the better-than-expected pricing of CNG bike Freedom led us to upgrade our sales estimates by 2-6% for FY25F-27F. Considering the change in consumer behaviour needed for CNG bikes, we build in sales of just 20,000 units per month for FY26F, lower than management's capacity plan. Strong export recovery and better-than-expected PLI benefit led to our EBITDA upgrade of 3-5% for FY25F-27F.

Maintain HOLD rating on the stock

We roll forward our target price to Rs9,811, keeping the target P/E intact at 25x one-year forward and subsidiaries' value at Rs116/share post 20% holding company discount. The sharp erosion in KTM subsidiary's listed price disappoints. We introduce Bajaj Auto Credit's value of Rs23/share at 1.2x P/BV, as investment allocation to this business rises. The sharp stock price rally in recent months on the back of CNG bike launch has lifted forward P/E valuation to +3SD above the 10-year mean level. We retain our HOLD rating on the stock as the risk-reward ratio is unfavourable. Key downside risk is export weakness from geopolitical tensions, while the upside risk is market share gain with the help of captive financing arm and CNG bike.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	330,031	364,276	446,852	534,208	627,398
Operating EBITDA (Rsm)	51,171	65,492	88,229	110,203	125,899
Net Profit (Rsm)	50,188	56,276	74,788	92,409	105,370
Core EPS (Rs)	164.7	201.6	267.9	331.0	377.4
Core EPS Growth	1.0%	22.4%	32.9%	23.6%	14.0%
FD Core P/E (x)	54.06	48.21	36.28	29.36	25.75
DPS (Rs)	140.0	140.0	160.0	200.0	240.0
Dividend Yield	1.49%	1.46%	1.65%	2.06%	2.47%
EV/EBITDA (x)	48.28	37.90	27.93	22.19	19.17
P/FCFE (x)	65.98	74.02	28.12	39.80	29.59
Net Gearing	(86.4%)	(83.8%)	(91.8%)	(85.4%)	(84.1%)
P/BV (x)	10.17	10.67	10.91	9.51	8.39
ROE	17.7%	21.6%	29.7%	34.6%	34.6%
% Change In Core EPS Estimates				3.27%	5.12%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Hopes build in for CNG bike; in-line 1Q

Management conference-call highlights➤

- **Outlook:** Management expects the domestic market to grow in the range of 6-8%, with the above 125cc segment (51% of overall industry) likely to grow faster than the bottom half of the industry.
- **Market share:** Bajaj Auto has a market share of ~25% in the above 125cc segment, 2% less compared to the leader and ~15% in the below 125cc segment, which it targets to improve led by the newly launched Freedom 125cc CNG motorcycle. Management believes the company has lost market share in the below 125cc segment due to its failure to participate in rural market recovery with its existing models CT 100cc and Platina 125cc. In the 150cc plus segment, market share advanced to 40%, driven by makeover of the Pulsar portfolio last year.
- **EV portfolio:** Total EV portfolio (EV2W and EV3W) contributed 14% to total revenue. Management stated that while the EV3W business has turned profitable, the EV2W business remains a drag on the profitability.
- **Export business:** Bajaj Auto has been witnessing currency stabilization for the last few weeks in Nigeria. The company's benchmark motorcycle sales in Nigeria of 50,000 vehicles per month, which had dropped to under 5,000 in Apr 2024, have now recovered to the 15,000 level in Jun 2024. On a yoy basis, volume is down by 40% in Africa but up by 20% in the Middle East and North Africa, and up by 70% in Asia led by the Philippines and Nepal while the LATAM region witnessed volume growth of 26%. The new plant in Brazil commenced production in Jun 2024, which has a single-shift capacity of 20,000 vehicles per annum but scalable to 50,000 vehicles. Exports of Qute bike to Egypt commenced in 1Q, with 500 vehicles.
- **Freedom 125cc bike:** Bajaj Auto is targeting mileage-conscious customers in the 100-125cc segment. The addressable market is about 450,000 to 500,000 customers per month. Initially launched in Maharashtra and Gujarat but will be later introduced in Delhi and Kerala in 2QFY25F. The company is starting with a capacity of 10,000 vehicles per month next quarter and 40,000 by 4QFY25F.
- **Three-wheeler business:** In the CNG 3W industry, the company has a market share of 78% in 1QFY25. In EV3W, the market share increased to 26%, up 9% qoq, while the company expanded its presence to 140 locations.
- **Chetak business:** In the EV2W industry, Chetak bike's market share in 1QFY25 was 12% and stood at the No.3 position in billing terms, largely led by the new Chetak 2901, launched in the price range of Rs96,000 to Rs100,000. Currently, the company has 250 such stores in Jun 2024, which should be 500 by Jul 2024F and 1,000 by Sep 2024F.
- **Triumph business:** Sold 60k units in the last one year, and the bike contributed Rs12bn to the top line since its launch. The company has scaled up the domestic sales network to 250 stores and is now present at 100 locations.
- **Bajaj Auto Credit (BACL):** About 50% of Bajaj Auto's markets and stores have now been covered by BACL and it's on track to reach 100% by Mar 2025F.
- **Capex:** Management plans to incur a capex of Rs7-8bn during the year, a large part of which will primarily go towards the commissioning of the new electric three-wheeler facility in Baluch and other capabilities for electric vehicles.
- **Commodities scenario:** The prices of commodities like aluminium, copper, rubber and noble metals like rhodium and platinum saw an uptick. However, steel, nickel, lead and palladium prices were stable.
- **Production-linked incentive or PLI scheme:** 13% of the total revenue in 1QFY25 was contributed by the PLI scheme. Currently, of the five vehicles in the electric portfolio, only Chetak, and electric three-wheeler have PLI (production-linked incentive) certificates. The Chetak 2901 is under testing at government agencies and management expects to get the PLI certificate soon.

- **Pulsar NS400Z:** Received bookings for 2,400 vehicles, of which the company has delivered 1,000 vehicles.
- **Spare parts business:** Spare parts now account for 11% of the company's revenue.
- **Yulu:** Baja Auto holds ~19% equity ownership in the company and is supplying 1,000 vehicles per month to the latter's fleet.

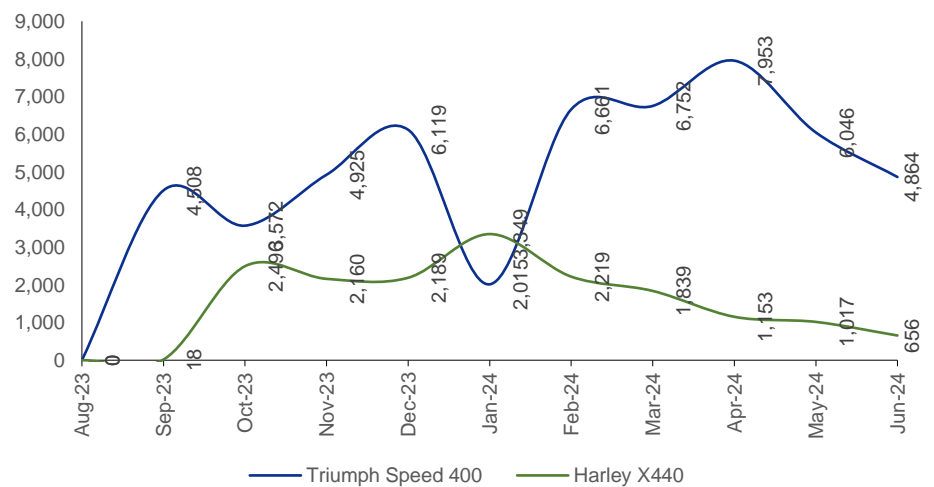
Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments
Revenue	1,19,280	1,03,098	15.7	1,14,847	3.9	2% above our estimate.
Raw material costs	83,527	74,127	12.7	80,702	3.5	
RM costs as a % of revenue	70.0	71.9	(187.4)	70.3	(24.3)	77bp below our estimate.
EBITDA	24,153	19,539	23.6	23,063	4.7	4.4% above our estimate.
EBITDA margin (%)	20.2	19.0	129.6	20.1	16.8	52bp above our estimate.
Depreciation & amortization	937	835	12.2	906	3.5	1.4% below our estimate.
EBIT	23,216	18,704	24.1	22,157	4.8	
Interest expenses	207	121	71.0	228	(9.3)	
Other income	3,209	3,463	(7.3)	3,487	(8.0)	38% below our estimate.
Pre-tax profit	26,218	22,046	18.9	25,416	3.2	20% above our estimate.
Tax	6,335	5,399	17.3	6,056	4.6	
Tax rate (%)	24	24	(33)	24	34	
Normalized net profit	19,883	16,647	19.4	19,360	2.7	In line with our estimate.
Exceptional items	-	-	nm	-	nm	
Other comprehensive income	-	-	nm	-	na	
Reported net profit	19,883	16,647	19.4	19,360	2.7	
Normalized EPS (Rs)	71.2	59.6	19.4	69.3	2.7	
Volume (nos)	10,90,056	10,06,183	8.3	10,22,867	6.6	
Net realization (Rs)	1,09,426	1,02,464	6.8	1,12,279	(2.5)	
EBITDA/vehicle	22,157	19,419	14.1	22,547	(1.7)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

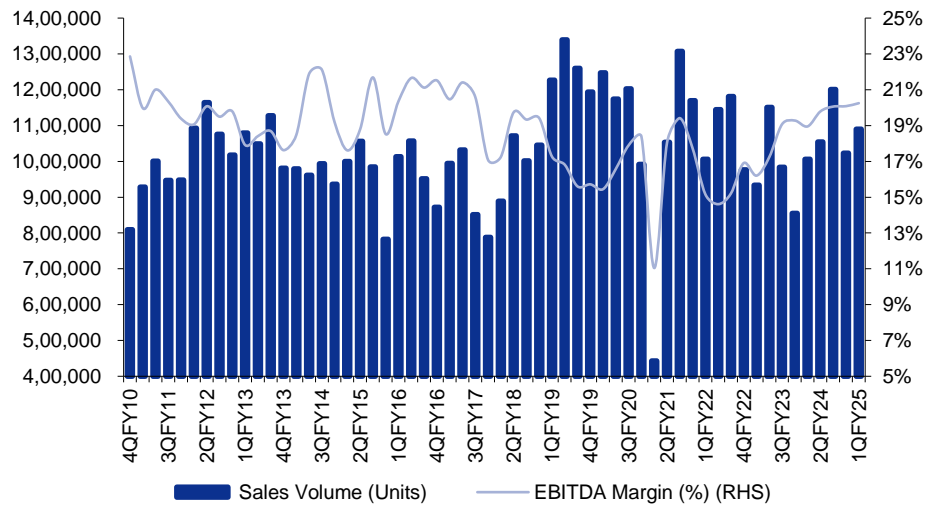
The company sold ~60k Triumph motorcycles in the last one year. Management plans to increase awareness of the bike in the next three-to-six months to drive volume growth.

Figure 2: Impressive Triumph bikes' volume ramp-up while Harley X440 is yet to catch up



SOURCE: INCRED RESEARCH, COMPANY REPORTS

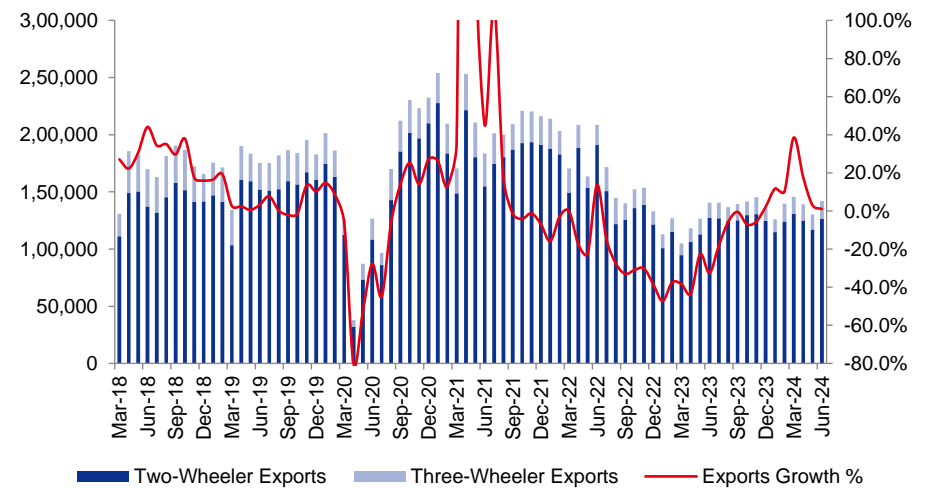
Figure 3: EBITDA margin scaling close to peak margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Africa remains under pressure, mainly led by Nigeria, while the other regions are witnessing growth.

Figure 4: Export volume growth moderates from last quarter's high



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Bajaj Auto has a market share of 25% in the above 125cc segment, while it has 15% in the below 125cc segment.

Figure 5: Product mix improves with a better 3W and premium 2W mix

	1QFY25	1QFY24	% yoy	4QFY24	% qoq
CT100	18,029	19,448	-7%	15,664	15%
Platina	1,07,394	1,25,026	-14%	93,283	15%
Pulsar Family	3,84,390	3,50,982	10%	3,62,514	6%
Avenger	4,754	6,604	-28%	4,930	-4%
KTM / Dominar / Husqvarna	17,600	19,721	-11%	18,800	-6%
Chetak	40,854	20,834	96%	39,628	3%
2W domestic	5,79,497	5,42,615	7%	5,40,731	7%
2W Export	3,68,420	3,46,399	6%	3,69,936	0%
Total 2W	9,47,917	8,89,014	7%	9,10,667	4%
3W domestic (including Qute)	1,08,124	98,625	10%	1,10,449	-2%
3W Export (including Qute)	43,015	38,756	11%	41,310	4%
Total 3W	1,51,139	1,37,381	10%	1,51,759	0%
Total volume	10,99,056	10,26,395	7%	10,62,426	3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Chetak EV volume was driven by the newly launched Chetak 2901 model and expansion of its presence.

Figure 6: Chetak scooter sustains mid-teen E2W domestic market share

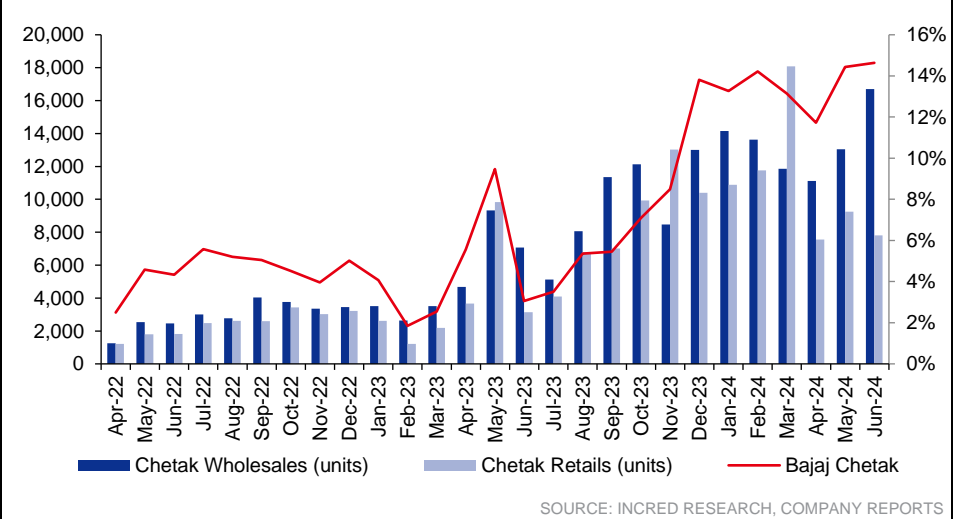


Figure 7: Key assumptions

Volume Break-Up	FY23A	FY24A	FY25F	FY26F	FY27F
(Number of vehicles)					
Domestic Motorcycles	18,01,010	22,50,585	26,42,877	31,17,730	35,05,577
Growth (%)	9.7%	25.0%	17.4%	18.0%	12.4%
Export Motorcycles	16,36,956	14,77,338	16,39,845	18,44,826	20,84,653
Growth (%)	-25.4%	-9.8%	11.0%	12.5%	13.0%
Total Motorcycle	34,37,966	37,27,923	42,82,723	49,62,555	55,90,231
Growth (%)	-10.4%	8.4%	14.9%	15.9%	12.6%
Total 2-wheelers	34,37,966	37,27,923	42,82,723	49,62,555	55,90,231
Growth (%)	-10.4%	8.4%	14.9%	15.9%	12.6%
3-wheelers	4,85,018	6,23,010	6,70,690	7,21,806	7,32,127
Growth (%)	2.9%	28.5%	7.7%	7.6%	1.4%
Total vehicles	39,22,984	43,50,933	49,53,413	56,84,361	63,22,357
Growth (%)	-8.9%	10.9%	13.8%	14.8%	11.2%
Per Vehicle assumptions					
In Rs.					
Net ASP/vehicle	92,857	1,02,703	1,07,846	1,10,373	1,11,179
Growth (%)	21.2%	10.6%	5.0%	2.3%	0.7%
Contribution/vehicle	26,441	29,745	31,815	31,787	31,575
Growth (%)	31.3%	12.5%	7.0%	-0.1%	-0.7%
EBITDA/vehicle	16,694	20,278	22,248	22,148	21,759
Growth (%)	40.6%	21.5%	9.7%	-0.4%	-1.8%
EBITDA margin (%)	18.0%	19.7%	20.6%	20.1%	19.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: EPS change summary

Rs m	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Sales Volume	49,22,413	49,53,413	54,51,051	56,84,361	59,43,074	63,22,357
Change		0.6%		4.3%		6.4%
Net Sales	5,25,331	5,34,208	6,01,997	6,27,398	6,63,447	7,02,910
Change		1.7%		4.2%		5.9%
EBITDA	1,06,356	1,10,203	1,19,143	1,25,899	1,30,234	1,37,566
Change		3.6%		5.7%		5.6%
PBT	1,17,744	1,21,591	1,31,890	1,38,645	1,44,178	1,51,510
Change		3.3%		5.1%		5.1%
EPS (Rs)	320.5	331.0	359.0	377.4	392.5	412.4
Change		3.3%		5.1%		5.1%

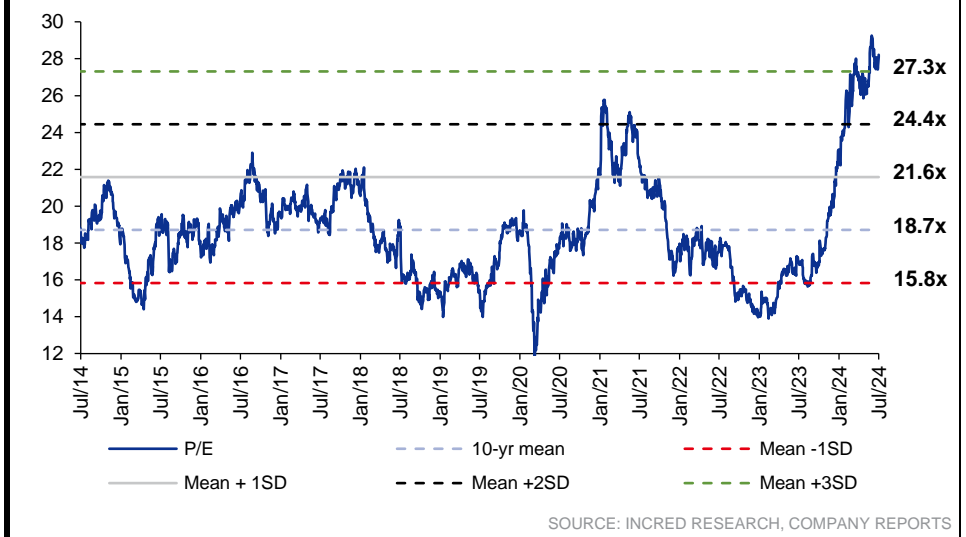
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: SOTP-based target price

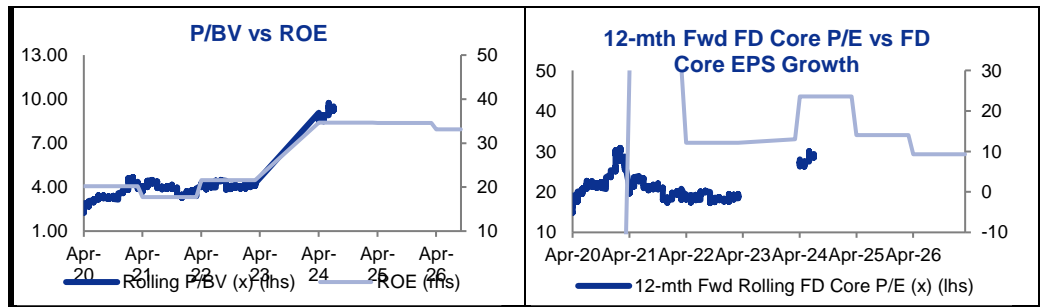
EPS (Rs.) (1-year forward)	387.8
P/E(x)	25.0
Value (Rs.)	9,695
Value of stake in PMAG post 20% holding discount	93
Value of stake in BACL post 20% holding discount	23
Target price (Rs)	9,811

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	330,031	364,276	446,852	534,208	627,398
Gross Profit	73,278	89,558	114,518	140,667	161,384
Operating EBITDA	51,171	65,492	88,229	110,203	125,899
Depreciation And Amortisation	(2,692)	(2,824)	(3,498)	(4,000)	(4,500)
Operating EBIT	48,479	62,667	84,731	106,203	121,399
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	121,591	138,645
Exceptional Items					
Pre-tax Profit	60,485	74,087	98,220	121,591	138,645
Taxation	(14,500)	(17,810)	(23,432)	(29,182)	(33,275)
Exceptional Income - post-tax	4,203				
Profit After Tax	50,188	56,276	74,788	92,409	105,370
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	50,188	56,276	74,788	92,409	105,370
Recurring Net Profit	45,985	56,276	74,788	92,409	105,370
Fully Diluted Recurring Net Profit	45,985	56,276	74,788	92,409	105,370

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	51,171	65,492	88,229	110,203	125,899
Cash Flow from Invt. & Assoc.					
Change In Working Capital	5,232	136	8,923	(1,822)	(2,348)
(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)	(29,182)	(33,275)
Cashflow From Operations	51,182	67,668	107,003	77,589	107,322
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	12,335	24,680
Free Cashflow To Equity	41,122	36,653	96,498	68,171	91,683
Free Cashflow To Firm	41,195	37,033	97,016	68,829	92,183

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	231,587	214,227	229,407	244,742	273,422
Total Debtors	15,164	17,761	21,224	26,344	32,659
Inventories	12,305	13,979	16,956	19,027	24,065
Total Other Current Assets	28,571	19,467	21,774	24,500	27,000
Total Current Assets	287,627	265,433	289,361	314,613	357,145
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	61,470	70,475
Other Current Liabilities	9,388	9,918	29,581	15,000	17,000
Total Current Liabilities	45,720	50,656	85,683	76,470	87,475
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	84,940	96,244
Shareholders Equity	266,688	254,259	248,605	285,178	323,546
Minority Interests					
Total Equity	266,688	254,259	248,605	285,178	323,546

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	19.0%	10.4%	22.7%	19.5%	17.4%
Operating EBITDA Growth	3.8%	28.0%	34.7%	24.9%	14.2%
Operating EBITDA Margin	15.5%	18.0%	19.7%	20.6%	20.1%
Net Cash Per Share (Rs)	825.13	762.89	817.21	872.35	975.08
BVPS (Rs)	955.25	910.73	890.48	1,021.49	1,158.91
Gross Interest Cover	559.80	158.73	158.38	177.01	242.80
Effective Tax Rate	24.0%	24.0%	23.9%	24.0%	24.0%
Net Dividend Payout Ratio	88.1%	70.4%	59.7%	60.4%	63.6%
Accounts Receivables Days	23.41	16.50	15.92	16.25	17.16
Inventory Days	19.37	17.46	16.99	16.69	16.88
Accounts Payables Days	58.34	51.20	53.18	54.52	51.67
ROIC (%)	131.4%	164.0%	267.5%	7,932.5%	379.0%
ROCE (%)	22.8%	28.1%	38.4%	44.7%	44.8%
Return On Average Assets	14.5%	18.1%	23.3%	26.3%	26.8%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	9.7%	21.2%	10.6%	5.0%	2.3%
Unit sales grth (% , main prod./serv.)	8.4%	(8.9%)	10.9%	13.8%	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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