ArihantCapital
Generating Wealth

Q1FY25 - Result Update
18th July 2024

# Bajaj Auto Ltd.

**Enhanced product mix to fuel**

## CMP: INR 9,673

## Rating: Hold

## Target Price: INR 10,369

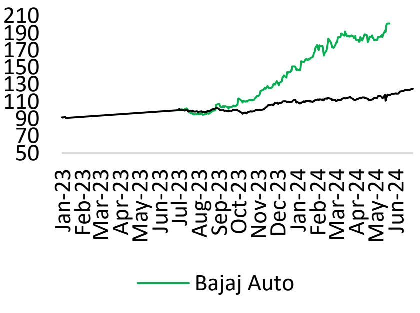
| Stock Info | |
|---|---|
| BSE | 532977 |
| NSE | BAJAJ-AUTO |
| Bloomberg | BJAUT IN |
| Reuters | BAJA.BO |
| Sector | Auto-2&3 wheelers |
| Face Value (INR) | 10 |
| Equity Capital (INR mn) | 2,829 |
| Mkt Cap (INR Mn) | 27,10,249 |
| 52w H/L (INR) | 10,037/4,544 |
| Avg Yearly Vol (in 000') | 391 |

**Shareholding Pattern %**
*(As on March, 2024)*

| | |
|---|---|
| Promoters | 55.06 |
| Public & Others | 44.94 |

| Stock Performance (%) | 1m | 3m | 12m |
|---|---|---|---|
| Bajaj Auto | -2.4 | 8.9 | 101.0 |
| Nifty | 4.8 | 11.1 | 25.8 |

**Bajaj Auto Vs Nifty**





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**Bajaj Auto Ltd reported strong set of numbers in Q1FY25. Standalone revenue stood at INR 119,280 Mn, above our estimate of INR 119,180 registering a growth of 15.7% YoY/3.9% QoQ led by strong vehicles sales and good spares revenue. On the margins front, EBITDA margin expansion by 130bps YoY/ 17 bps QoQ to 20.2%, above our estimate of 20%, led by driven by the better realization and a richer product mix. Standalone PAT grew 19.4%YoY/2.7%QoQ to INR 19,883 Mn above our estimate of INR 19,697Mn.**

**Strong traction in recent launch CNG bike**: The company will continue creating scalable growth platforms, focusing on the middleweight segment in India and overseas. Recent initiatives like the CNG bike, sub-1 lac electric scooter, and the new plant in Manaus, Brazil, will boost market access. Despite challenges in Africa, positive trends are seen in the Middle East, North Africa, Asia, and LATAM. The company MS in the 150 cc+ segment reached 40%, driven by the Pulsar ns400z, while the Freedom 125 CNG bike targets the 100-125 cc segment with 50% fuel savings and strong initial reception.

**Potential for growth in Triumph portfolio: Triumph delivers >60k (19k in Q1FY25) units & >INR 1200 cr** of sales since its launch.The Triumph business, three key initiatives are in focus: scaling up the domestic network to 150 stores in H1, developing the brand to offer a top-class experience, and supporting Triumph UK in expanding overseas. The initiatives are on track, with Triumph now present in 100 locations, enabling mass-level brand building. Over the past year, over 60k bikes have been sold in 57 countries. The captive finance company, BACL, is steadily rolling out, covering 50% of Bajaj Auto markets and stores, with a goal of 100% coverage by March 25. The positive reception in India and overseas markets, along with new growth platforms, creates optimism about the forthcoming quarters. Increasing production capacity will help increase volumes both locally and internationally, leading to enhancements in overall product mix.

**Notable shift from e-rickshaws to e-autos in major markets**: Electric 3Ws currently make up 9-10% of the 3W portfolio, with a strategic focus on markets like North UP and East where CNG availability is limited, and no immediate plans to enter existing CNG markets. There's a notable shift from e-rickshaws to e-autos in major markets, with e-rickshaws comprising approximately 40% of our total 3W sales. Operators show strong demand, supported by increased financing options. Initial uptake of our E-3W models has been promising in newly entered markets, bolstered by strong nationwide brand recognition. Looking ahead, we anticipate continued positive growth momentum, with ICE powertrains growing steadily and E-3Ws experiencing substantial growth from a smaller base, alongside our expanding network.

**Outlook and valuation**

Bajaj Auto reported strong Q1FY25 performance driven by a better product mix. We expect revenue and margins to improve, supported by the company's strong presence in the 125cc+ segment. New product launches and increased market share in the 125cc segment, along with positive demand momentum and network expansion in E-3W/2W, should further boost volumes. Major markets are recovering, with Nigeria's sales rising from 5k to 15k per month. KTM and Triumph are performing well, with KTM launching high-end motorcycles in Q2 and Triumph expanding to 150 stores by H1. We project revenue growth at a CAGR of 15.8% during FY24-27E.

**Since our recommendation in January, FY22, the stock has delivered a remarkable return of 191%. In the near term, we anticipate some profit-taking; however, we remain optimistic about the long-term outlook. We believe new launches and a robust domestic market in the 125cc segment will drive growth, while recovery in the export market offers significant potential for future performance.**

**Hence, we value Bajaj Auto at a P/E of 25x its FY 27E EPS of INR 404 for a fair value of INR 10,103 and INR 266 for KTM stock valuation to arrive at a final increased target price of INR 10,369 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 9,901). We downgrade our rating to Hold from Accumulate earlier.**

**Q1FY25 Conference call**

The company reported a strong Q1FY25 with good sales in spares, robust performance in domestic and export markets, and significant growth in its electric vehicle portfolio. The company anticipates further growth with new model launches and expanded production capacities.

•Exports: Major markets are showing steady recovery, except for Africa. Nigeria's sales decreased from 50k per month to 5k but have since risen to 15k per month. Year-over-year growth: Asia 17%, Latin America 26%. The new plant in Brazil started production in June with a 20k annual capacity. Dominor sales are strong, and management expects Brazil to become a top 3 market shortly. Q2 is anticipated to outperform Q1.

•Domestic Market: The 125cc segment (51% of the overall industry) remains robust. The 150cc segment holds over 40% market share, driven by Pulsar and Pulsar 400nz (~2,400 bookings). New PulsarN and PulsarNS models account for about 70% of Bajaj's motorcycle segment. The new CNG bike Freedom in the <125cc segment is well-received. This segment's sales are approximately 1 million, with 60% of demand coming from this category. Estimated market size is 450-500k units per month. Currently available in Maharashtra and Gujarat, expanding to Delhi and Kerala by Q2. Production capacity is 10k per month, expected to reach ~40k per month by Q4.

•Commercial Vehicles: The 3W business unit is performing well, with an expected 100k units per quarter.

•Chetak: Store count increased to 250 in June, 500 by July, and ~1,000 by September. Recent volume growth and market share improvements are due to lower prices and network expansion. Customers appreciate the build quality, reliability, and styling, reducing the market share of new entrants from ~45% to 15%.

•KTM and Triumph: Both brands continue to perform well. Q2 will see the launch of high-end KTM motorcycles. Triumph aims to expand to 150 stores by H1 (currently 100), focusing on brand building. Triumph sales, including overseas markets, are expected to fetch ~INR 1,200 cr.

•New Platforms: The company expects to launch 5-6 new platforms in FY25, compared to 2-3 last year.

•Commodity Prices: Aluminum, copper, rubber, rhodium, and platinum prices have risen, while steel, nickel, and palladium have decreased as of Q2. A 50-70bps increase is expected, with slight price adjustments made to mitigate the impact.

•Currency Realization: USD/INR is 83.4 compared to 83 last quarter and 82.1 last year.

•Volume Growth: Increased sales of Chetak and Triumph models contributed to volume growth.

•Exports Revenue: $460 mn.

•EV Revenue: FY23 EV revenue from Chetak was INR 500 cr, with FY24 expected to reach INR 2,000 cr from the entire electric portfolio.

•EV Revenue Share: 14% of Q1FY25 revenue came from EVs.

•Margins: The 20.2% margin was driven by better realization and cost reduction, supported by improved USD realization.

•Electric 3W: Electric 3Ws account for 9-10% of the 3W portfolio. Focused on markets like North UP and East with low CNG availability, with no plans to enter existing CNG markets. There is a shift from e-rickshaws to e-autos in major markets. E-rickshaws represent ~40% of total 3Ws.

•Triumph Exports: Managed by Triumph UK, exported to 57 countries. Positive reception in Europe, with gradual improvement in North America and ASEAN. Domestic sales are ~2k units per month, with store expansion from 42 to 100 in the last month.

•Industry Growth: Expected to grow 6-8%, with the 125cc segment expected to outpace other segments.

•Capex: INR 7-8k cr, primarily for commissioning a new 3W facility at Waluj and other EV facilities.

•Yulu: 19% equity ownership, currently producing 1k units per month.

•CNG Availability: Available in 335 towns (~70% of the market). Freedom bookings at 4,200, with 90% from Maharashtra and Gujarat. Most bookings are for the top end (INR 1.1 lakh).

•Q1FY25 Performance: EV-3W sales were 9,350 units, spares revenue was INR 1,350 cr, and financing penetration was 75% for motorcycles and 90% for 3Ws.

**Exhibit 2: Quarterly result summary-Strong performance**

| Standalone (INR mn) | Q1FY25 | Q4FY24 | Q1FY24 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| Net sales | 1,19,280 | 1,14,847 | 103098 | 3.9 | 15.7 |
| - Raw material | 83527 | 80702 | 74126.5 | 3.5 | 12.7 |
| (% of net sales) | 70 | 70 | 71.9 | -24bps | -187bps |
| - Staff expenditure | 4349.6 | 3872.3 | 3841.6 | 12.3 | 13.2 |
| (% of net sales) | 3.6 | 3.4 | 3.7 | 27bps | -8bps |
| - Other expenditure | 7251.4 | 7210.3 | 5590.3 | 4.6 | 29.7 |
| (% of net sales) | 6.1 | 6.3 | 5.4 | -20bps | 66bps |
| Total expenditure | 95,128 | 91,784 | 83,558 | 3.6 | 13.8 |
| EBITDA | 24,153 | 23,063 | **19,539** | 4.7 | 23.6 |
| EBITDA Margin (%) | 20.2 | 20.1 | **19.0** | 17bps | 130bps |
| Depreciation | 936.9 | 905.6 | 835.3 | 3.5 | 12.2 |
| EBIT | 23,216 | 22,157 | 18,704 | 4.8 | 24.1 |
| Interest | 206.7 | 227.8 | 120.9 | (9.3) | 71.0 |
| Other Income | 3209.4 | 3486.6 | 3463.3 | (8.0) | (7.3) |
| PBT | 26,218 | 25,416 | 22,046 | 3.2 | 18.9 |
| Tax | 6335 | 6055.7 | 5398.7 | 4.6 | 17.3 |
| Adjusted PAT | 19883.4 | 19360 | 16647.7 | 2.7 | 19.4 |
| Reported PAT | 19883.4 | 19360 | 16647.7 | 2.7 | 19.4 |
| Adjusted EPS (INR) | 71.20 | 68.50 | 58.90 | 3.9 | 20.9 |
| Total Volumes (Nos) | 11,02,056 | 10,68,576 | 10,27,407 | 3.1 | 7.3 |
| Net Realisation (INR) | 1,08,234 | 1,07,476 | 1,00,347 | 0.7 | 7.9 |
| EBITDA / Vehicle (INR) | 21,916 | 21,582 | 19,018 | 1.5 | 15.2 |

| Geographical mix | Q1FY25 | Q4FY24 | **Q1FY24** | QoQ (%) | YoY(%) |
|---|---|---|---|---|---|
| Revenues (INRm): | | | | | |
| Domestic | 93435 | 81616 | 78860 | 14.5 | 18.5 |
| Exports | 25845 | 26157 | 24238 | (1.2) | 6.6 |
| Total | 119280 | 107773 | 103098 | 10.7 | 15.7 |
| Volumes (In nos): | | | | | |
| Domestic | 6,90,621 | 6,57,330 | 6,41,556 | 5.1 | 7.6 |
| Exports | 4,11,435 | 4,11,246 | 3,85,851 | 0.0 | 6.6 |
| Total | 11,02,056 | 10,68,576 | 10,27,407 | 3.1 | 7.3 |
| Realisations (INR): | | | | | |
| Domestic | 1,35,291 | 1,24,163 | 1,22,919 | 9.0 | 10.1 |
| Exports | 62,817 | 63,604 | 62,817 | (1.2) | (0.0) |
| Total | 1,08,234 | 1,00,856 | 1,00,347 | 7.3 | 7.9 |

*Source: Arihant Research, Company Filings*

**Comments on the Performance**

- The company beat our estimates on the revenue and Margin front due to richer product mix.
- The company is doing better on the domestic sales front due to industry momentum in sports portfolio.
- The continuous expansion of the CNG segment solid support by Bajaj Auto Finance has driven both market share and profitability.
- Chetak remains steadfast in its commitment to innovation and expansion , as volume double YoY despite a flattish industry.
- Volume led double digit growth in Commercial vehicle, as it delivers over 100k units in a quarter for the fourth time in a row.

**Exhibit 3: The company seen margin expansion led by decline in RM cost**

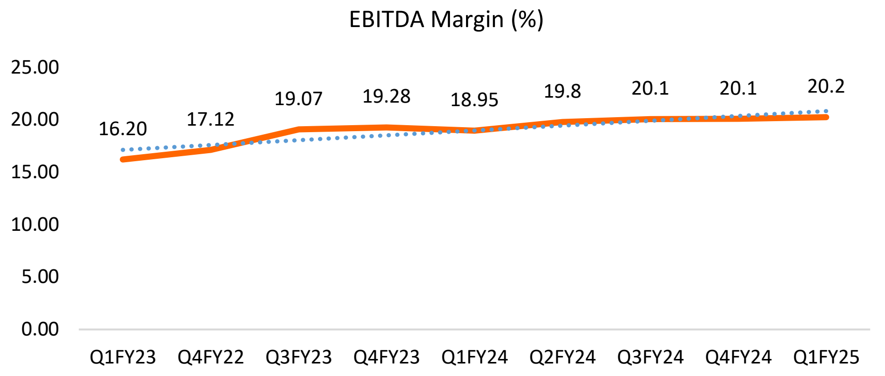



**Exhibit 4: The volume increase due to the robust momentum of the sports portfolio**

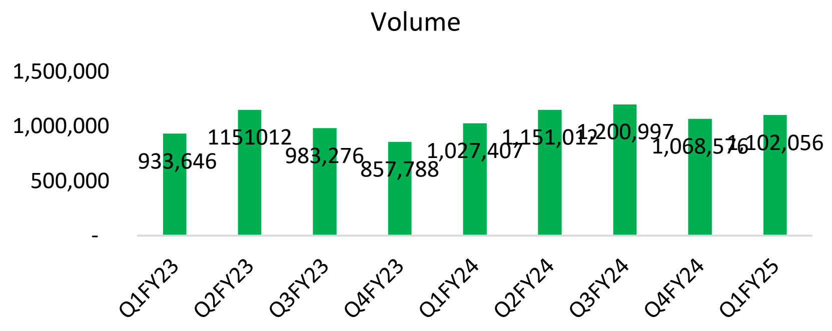



**Exhibit 5: The company EBITDA/Vehicle showing growth due to higher contribution from the premium segment.**

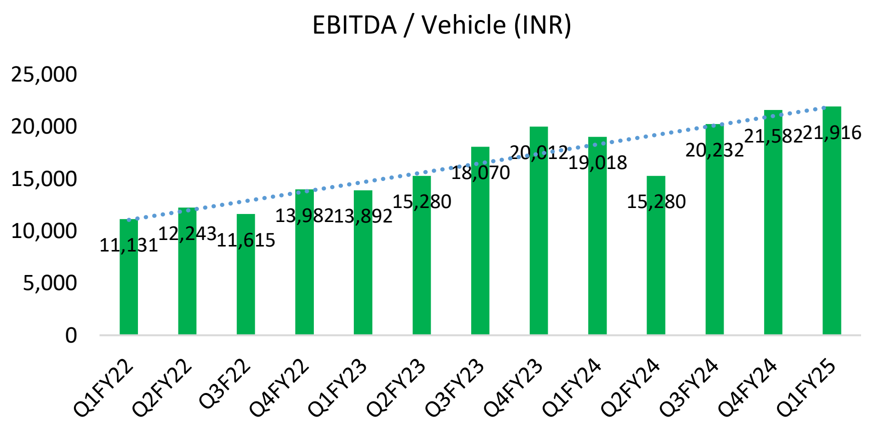
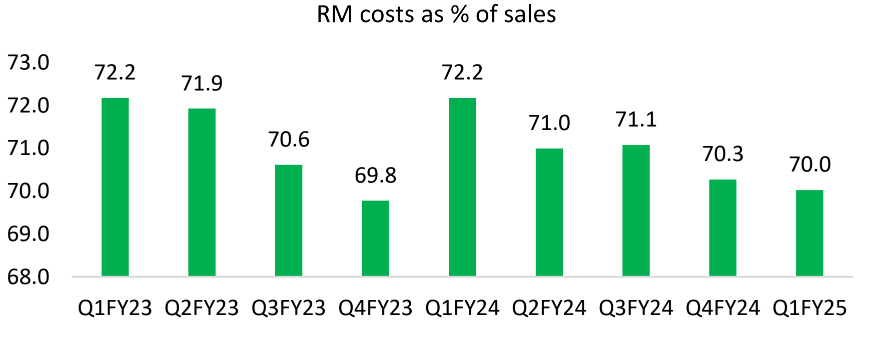



**Exhibit 6: The company seen decline in RM costs which is benefits for the Margin**




*Source: Arihant Research, Company Filings,*

| Profit & Loss Statement (Standalone) | | | | |
|---|---|---|---|---|
| **Particulars (INR mn)** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| **Net sales** | **446,852** | **519,714** | **584,659** | **671,409** |
| Growth, % | 22.67 | 16.3 | 12.5 | 14.8 |
| RM expenses | 317,434 | 358,602 | 402,246 | 466,629 |
| Employee expenses | 15,376 | 16,575 | 17,868 | 18,046 |
| Other expenses | 25,813 | 40,226 | 45,603 | 46,999 |
| **EBITDA (Core)** | **88,229** | **104,311** | **118,943** | **139,735** |
| Growth, % | 35 | 18 | 14 | 17 |
| Margin, % | 19.7 | 20.1 | 20.3 | 20.8 |
| Depreciation | 3,498 | 3,351 | 3,423 | 3,448 |
| **EBIT** | **84,731** | **100,960** | **115,519** | **136,287** |
| Growth, % | 35 | 19 | 14 | 18 |
| Margin, % | 19.0 | 19.4 | 19.8 | 20.3 |
| **Other income** | **14,025** | **14,165** | **14,873** | **15,617** |
| Interest paid | 535 | 433 | 454 | 454 |
| Non-recurring Items | - | - | - | - |
| **Pre-tax profit** | **98,220** | **114,692** | **129,938** | **151,449** |
| | | | | |
| Tax provided | 23,432 | 28,673 | 31,835 | 37,105 |
| **Profit after tax** | **74,788** | **86,019** | **98,103** | **114,344** |
| Exceptional Items | - | - | - | - |
| **Net Profit** | **74,788** | **86,019** | **98,103** | **114,344** |
| Growth, % | 33 | 15 | 14 | 17 |
| **Net Profit (adjusted)** | **74,788** | **86,019** | **98,103** | **114,344** |

| Balance Sheet (Standalone) | | | | |
|---|---|---|---|---|
| **Particulars (INR mn)** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| Cash & bank | 5,366 | 38,600 | 94,139 | 166,652 |
| Investments | 244,925 | 247,374 | 249,848 | 252,346 |
| Debtors | 21,224 | 24,685 | 27,769 | 31,890 |
| Inventory | 16,956 | 22,782 | 25,629 | 29,432 |
| Loans & advances | 52 | 52 | 52 | 52 |
| Other current assets | 21,721 | 22,155 | 22,598 | 23,050 |
| Total current assets | 65,319 | 108,273 | 170,187 | 251,075 |
| Gross fixed assets | 77,113 | 85,113 | 93,113 | 101,113 |
| Less: Depreciation | 47,858 | 51,209 | 54,632 | 58,080 |
| Add: Capital WIP | 243 | 243 | 243 | 243 |
| Net fixed assets | 29,497 | 34,147 | 38,723 | 43,275 |
| **Total assets** | **254,985** | **301,926** | **361,045** | **436,304** |
| Current liabilities | 82,866 | 85,940 | 95,746 | 108,386 |
| Provisions | 1,891 | 1,928 | 1,967 | 2,006 |
| Total current liabilities | 84,757 | 87,869 | 97,713 | 110,392 |
| Non-current liabilities | 170,228 | 214,057 | 263,332 | 325,912 |
| **Total liabilities** | **6,380** | **6,387** | **6,387** | **6,387** |
| Paid-up capital | 2,792 | 2,792 | 2,894 | 2,894 |
| Reserves & surplus | 245,813 | 292,747 | 351,765 | 427,024 |
| Shareholders' equity | 248,605 | 295,539 | 354,659 | 429,918 |
| **Total equity & liabilities** | **254,985** | **301,926** | **361,045** | **436,304** |

| Cash Flow (Standalone) | | | | |
|---|---|---|---|---|
| **Particulars (INR mn)** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| **Pre-tax profit** | **98,220** | **114,692** | **129,938** | **151,449** |
| Depreciation | 3,498 | 3,351 | 3,423 | 3,448 |
| Chg in working capital | 26,153 | -6,609 | 32,326 | 4,304 |
| Total tax paid | -22,836 | -28,673 | -31,835 | -37,105 |
| **CFO** | **48,767** | **14,583** | **90,396** | **77,721** |
| Capital expenditure | -7,424 | -8,000 | -8,000 | -8,000 |
| Chg in marketable securities | - | - | - | - |
| Chg in investments | -15,692 | -2,449 | -2,474 | -2,498 |
| **CFI** | **-9,091** | **3,715** | **4,399** | **5,118** |
| Free cash flow | 41,343 | 6,583 | 82,396 | 69,721 |
| Debt raised/(repaid) | - | - | - | - |
| Dividend (incl. tax) | -39,085 | -39,085 | -39,085 | -39,085 |
| **CFF** | **-39,658** | **-39,518** | **-39,539** | **-39,563** |
| **Net chg in cash** | **18** | **(21,219)** | **55,256** | **43,276** |
| Opening cash balance | 2,858 | 5,366 | 38,600 | 94,139 |
| **Closing cash balance** | **5,366** | **38,600** | **94,139** | **166,652** |

| Ratios (Standalone) | | | | |
|---|---|---|---|---|
| **Particulars** | **FY24** | **FY25E** | **FY26E** | **FY27E** |
| EPS (INR) | 264.6 | 304.0 | 346.7 | 404.1 |
| PER (x) | 36.6 | 31.8 | 27.9 | 23.9 |
| Price/Book (x) | 11.0 | 9.3 | 7.7 | 6.4 |
| EV/EBITDA (x) | 25.1 | 21.4 | 18.5 | 15.4 |
| EV/Net sales (x) | 5.5 | 4.6 | 4.0 | 3.4 |
| RoE (%) | 29.7 | 31.6 | 30.2 | 29.2 |
| RoCE (%) | 39 | 42 | 39 | 38 |
| Fixed Asset turnover (x) | 5.8 | 6.1 | 6.3 | 6.6 |
| Dividend Yield (%) | 1.4 | 1.4 | 1.4 | 1.4 |
| Receivable (days) | 18 | 18 | 18 | 18 |
| Inventory (days) | 17 | 16 | 17 | 18 |
| Payable (days) | 57 | 49 | 49 | 50 |
| Net D/E ratio (x) | (0.9) | (0.9) | (0.9) | (0.9) |

*Source: Arihant Research, Company Filings*

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| **Stock Rating Scale** | **Absolute Return** |
|---|---|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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