

**CMP: INR 5,137**

**Rating: Hold**

**Target Price: INR 5,612**

**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)	12
52w H/L (INR)	5,274/3,520
Avg Yearly Vol (in 000')	350

**Shareholding Pattern %**

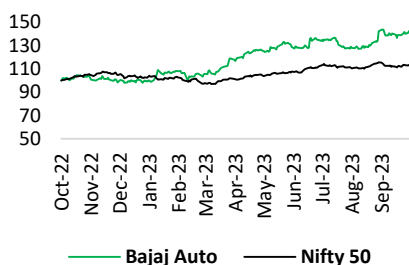
(As on June, 2023)

Promoters	54.99
Public & Others	45.01

**Stock Performance (%)**

	1m	3m	12m
Bajaj Auto	-0.07	5.6	42.2
Nifty	-2.3	-0.4	12.4

**Bajaj Auto Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Bajaj Auto reported good set of numbers in Q2FY24. Standalone revenue stood at INR 107,773 Mn, above our estimate of INR 106,820 Mn registering a growth of 21% YoY/4.5% QoQ led by growth in volume and improving exports. EBITDA stood at INR 21,329 Mn, above our estimate of INR 20,500 Mn, registering a growth of 24.3%YoY/ 9.2%QoQ. On the margins front, EBITDA margin expansion by 51 bps YoY/ 84bps QoQ to 19.8%, above our estimate of 19.2%, led by driven by the better realization and a richer product mix, which more than covered the drag arising from investments on growing electric scooters. Standalone PAT grew 28.1%YoY/10.3%QoQ to INR 18,361 Mn above our estimate of INR 17,415 Mn. EPS stood at INR 64.9 in Q2FY24 against INR 58.90 in Q1FY24 (INR 50.7 in Q2FY23).

**Three-Wheeler Commercial Segment's Exceptional Quarter:** In the commercial vehicles segment, the 3w business had a record-breaking quarter, with quarterly volumes reaching 132,000 units and September sales surpassing 50,000 units, reflecting a 34% QoQ growth and 81% YoY increase, while maintaining an 80% MS in September. The exceptional performance is attributed to the shift from diesel to CNG in markets, as well as increased shares in cargo and diesel segments, all achieved while improving EBITDA and pricing premium over competitors.

**Export performance is showing signs of gradual recovery's cautiously optimistic:** Overall, exports are still at about 66% or 2/3 of the peak recorded in FY22, with 8-10% QoQ improvement in both retail and shipments across all regions. Africa is experiencing double-digit improvement driven by Nigeria on a QoQ basis, while Asia, MENA, and LATAM show single-digit improvements. The expectation is for the recovery to continue at this overall pace, with the return to peak levels of performance being a slow and steady process rather than a quick one. Looking ahead to Q3, the outlook is cautiously optimistic, with expectations of gradual growth.

**Outlook and valuation**

Bajaj Auto's focus on the 125cc+ segment aligns with industry trends as commuter motorcycle sales decrease. The company maintains brand value through exclusive dealership networks for various brands, and the recent introduction of Triumph motorcycles will help fill portfolio gaps. While the company has a strong domestic IC engine franchise, gradual recovery in exports and the electric vehicle market will be key indicators. **Hence, we value Bajaj Auto at a PE of 19x its FY 26E EPS of INR 291 for a fair value of INR 5,531 and INR 81 for KTM stock valuation to arrive at a final increased target price of INR 5,612 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 5,187). We maintain our rating to Hold on the stock.**

**Exhibit 1: Key Financial (Standalone)**

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY23	3,64,276	65,491	56,276	197	17.98	26.0
FY24E	4,37,570	85,185	69,896	247	19.47	20.8
FY25E	4,78,907	93,781	76,064	269	19.58	19.1
FY26E	5,19,451	1,02,562	82,370	291	19.74	17.6

**Q2FY24 Conference call**

**The priority is to sustain profit and margin delivery by dynamically managing the P&L, anticipating stable commodity costs in the upcoming quarter, while maintaining a focus on business growth and margin sustainability.**

- **Margin:** Driven by dynamic price and cost management, improved foreign exchange realization, and a richer product mix, offsetting the drag from electric scooter investments. QoQ, margins improved by 80 bps, following an 18% increase last quarter, primarily due to seasonal mix effects, driven by softer commodity costs and a better product mix, particularly from higher 3w sales, mitigating the mix impact from increased volumes in Nigeria.
- **Exports:** 8-10% QoQ improvement in both retail and shipments worldwide, with Africa up by double digits, and single-digit gains in Asia, MENA, and LATAM, indicating a gradual path to recovery amid uncertain macroeconomic and geopolitical conditions.
- **Domestic:** The domestic motorcycles business unit saw retail growth of 5-6% YoY in July and August, followed by a 20% spike in September, resulting in a 10% growth for Q2.
- **125cc+:** The 125 cc plus segment outpaced the 100 cc segment with a 36% growth, elevating MS to 30%, and the segment now constitutes 65% of Bajaj Auto's volumes. Despite a decline in billing terms, it's important to consider the skewed Q2FY23 due to semiconductor supply issues and a strong performance in Q1.
- In the 125cc plus segment, Bajaj Auto's product differentiation and strategic positioning, including Pulsar 160, 200NS, and new Pulsar N160 upgrades, along with well-received Pulsar N150, have led to a commanding market share of over 40%.
- **Festive:** The festive season has shown promise, with a strong start in retail over the last three days. Based on this and positive consumer sentiment during festivals like Ganesh Chaturthi and Onam, the anticipation is for industry growth of 12-15% compared to Q2FY23, despite the festive season being 33 days (15 days shorter due to the calendar).
- 6 upcoming launches and upgrades in the next six months aim to strengthen position in the 125cc plus segment, driving MS to new heights.
- **Bajaj Auto's EV 3w holds 70% Agra MS;** Phase II expansion to 40 cities, with 10 already entered. Focus on markets where Autos are not permitted to bring in new business. E-3w business not margin dilutive; high customer service standard. Sold 600 3w in Q2FY24; PLI for 3w is about 13%
- **Chetak's capacity increase,** MS up from 4% to 11% in Q2FY24. Targeting 10k sales in Q2FY24 and expanding the range in Q1.
- **New launches:** Triumph's premium parking business expands to over 100 cities. Launch of SCRAMBLER 400 X, export plans. New Generation 3 KTM Duke 390s and 250s launched, with a refreshed portfolio expected to boost sales performance.
- **5 business area:** 1) Pluser franchise through new launches. 2) 80% MS in 3w and steadily expand e-autos, 3) Steady export recovery with a QoQ improvement in sales in every market, 4) Expand the Chetak business to 10k month based on new launches and good supply chain support and finally, 5) Scale up the Triumph sales in India and in due course in overseas markets too.
- **Change in dividend Policy:** Bajaj auto board adopts the revised dividend distribution policy payout >70% if surplus funds is >15,000 cr payout up to 70% if surplus funds is between 7,500 cr to 15,000 cr payout up to 50% if surplus funds is less than 7,500 cr.
- **CNG:** Country promoting CNG over diesel, leading to higher market share in CNG vehicles with best-in-class products.
- Guiding for NeoCart margins bridging e-Auto and ICE Auto, reflecting fuel type diagnostic across markets, offering incremental growth opportunities.
- **Factory:** The company is establishing a new three-wheeler factory in Waluj without significantly increasing fixed costs, ensuring favorable economics.
- **PLI:** In the case of 3w, the company is comfortably positioned with well over 50% towards the PLI.
- Egypt's impact predates the Q2 downturn; no significant variations in other CV markets, but the higher cost of 3w acquisition.
- Finance: Bajaj Finance's share will constitute 43% of the total.
- Spares number of INR 12,500 Mn.

## Exhibit 2: Quarterly result summary

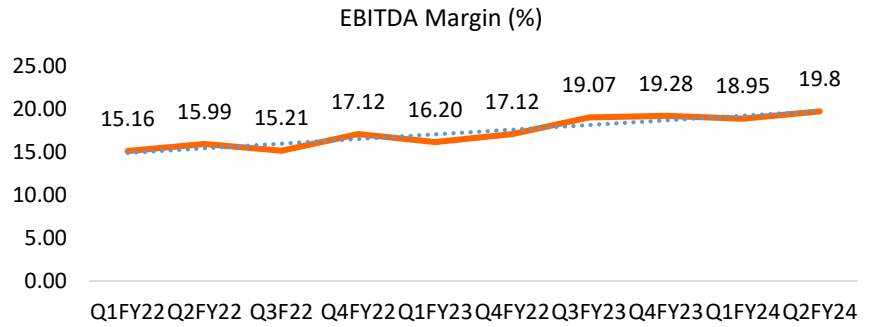
Standalone (INR mn)	Q2FY24	Q1FY24	Q2FY23	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>1,07,773</b>	<b>103098</b>	<b>102028</b>	<b>5.6</b>	<b>4.5</b>
- Raw material	76511	74126.5	74860.8	2.2	3.2
(% of net sales)	71	71.9	73.4	(3.2)	-91bps
- Staff expenditure	3816.1	3841.6	3521.7	8.4	(0.7)
(% of net sales)	3.5	3.7	3.5	9bps	-19bps
- Other expenditure	6117.5	5590.3	6057.8	1.0	9.4
(% of net sales)	5.7	5.4	5.9	-26bps	25bps
Total expenditure	86,444	83,558	84,440	2.4	3.5
<b>EBITDA</b>	<b>21,329</b>	<b>19,539</b>	<b>17,587</b>	<b>21.3</b>	<b>9.2</b>
<b>EBITDA Margin (%)</b>	<b>19.8</b>	<b>19.0</b>	<b>17.2</b>	<b>255bps</b>	<b>84bps</b>
Depreciation	876.3	835.3	670	30.8	4.9
EBIT	20,452	18,704	16,917	20.9	9.3
Interest	65.3	120.9	109.2	(40.2)	(46.0)
Other Income	3613.5	3463.3	3636.5	(0.6)	4.3
PBT	24,000	22,046	20,445	17.4	8.9
Tax	5639	5398.7	4839.7	16.5	4.5
<b>Adjusted PAT</b>	<b>18361.4</b>	<b>16647.7</b>	<b>15605</b>	<b>17.7</b>	<b>10.3</b>
<b>Reported PAT</b>	<b>18361.4</b>	<b>16647.7</b>	<b>15605</b>	<b>17.7</b>	<b>10.3</b>
Adjusted EPS (INR)	64.90	58.90	53.50	21.3	10.2
Total Volumes (Nos)	10,53,953	10,27,407	11,51,012	(8.4)	2.6
Net Realisation (INR)	1,02,256	1,00,347	88,642	15.4	1.9
EBITDA / Vehicle (INR)	20,237	19,018	15,280	32.4	6.4

Geographical mix	Q2FY24	Q1FY24	Q2FY23	YoY(%)	QoQ (%)
<b>Revenues (INRm):</b>					
Domestic	56250	78860	73343	(23.3)	(28.7)
Exports	32797	24238	28685	14.3	35.3
<b>Total</b>	<b>89047</b>	<b>103098</b>	<b>102028</b>	<b>(12.7)</b>	<b>(13.6)</b>
<b>Volumes (In nos):</b>					
Domestic	6,37,556	6,41,556	6,94,375	(8.2)	(0.6)
Exports	4,16,397	3,85,851	4,56,637	(8.8)	7.9
<b>Total</b>	<b>10,53,953</b>	<b>10,27,407</b>	<b>11,51,012</b>	<b>(8.4)</b>	<b>2.6</b>
<b>Realisations (INR):</b>					
Domestic	88,228	1,22,919	1,05,625	(16.5)	(28.2)
Exports	78,764	62,817	62,817	25.4	25.4
<b>Total</b>	<b>84,489</b>	<b>1,00,347</b>	<b>88,642</b>	<b>(4.7)</b>	<b>(15.8)</b>

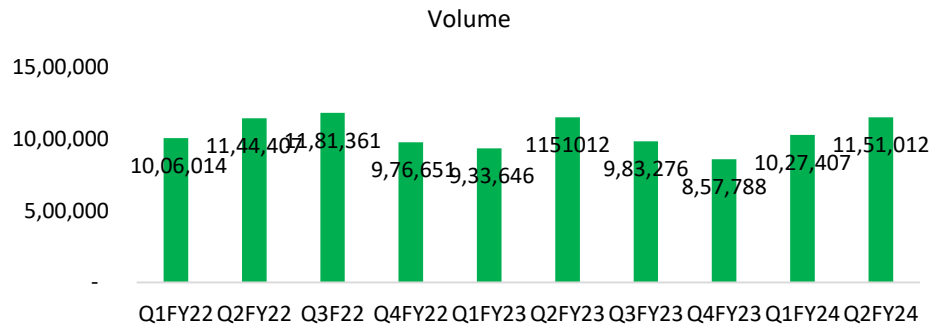
Source: Arihant Research, Company Filings

Total Volume decreased by 8%YoY/+2.6% QoQ to 1,053,953 units. Bajaj Auto EBITDA per Vehicle was increased by 32.4% YoY/ 6.4% QoQ of INR 20,237 Mn against 19,018 Mn in Q1FY24 (INR 15,280 Mn in Q2FY23).

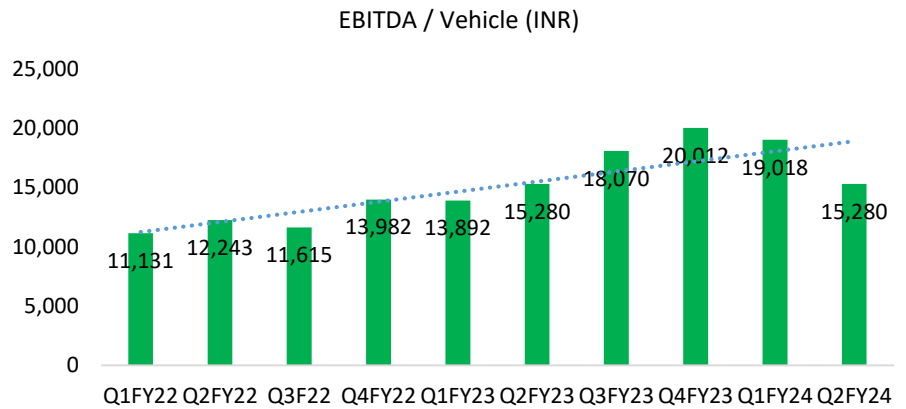
**Exhibit 3: The company seen margin expansion led by decline in RM cost**



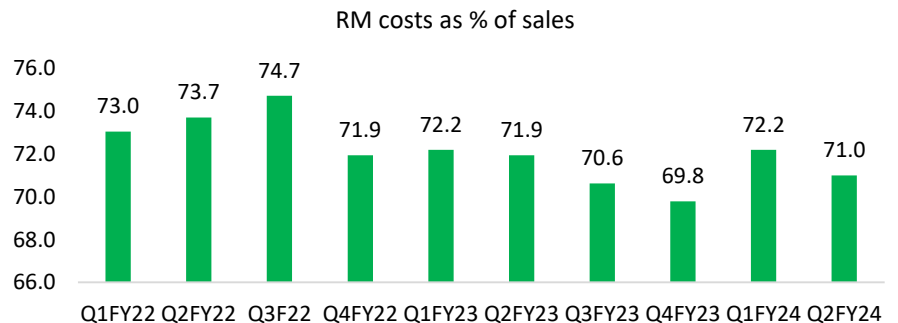
**Exhibit 4: The volume increase due to the robust momentum of the sports portfolio**



**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)	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>3,64,276</b>	<b>4,37,570</b>	<b>4,78,907</b>	<b>5,19,451</b>
Growth, %	10	20.12	9	8
RM expenses	2,60,548	3,02,799	3,30,925	3,57,902
Employee expenses	14,449	15,894	17,134	18,470
Other expenses	23,788	33,693	37,067	40,517
<b>EBITDA (Core)</b>	<b>65,491</b>	<b>85,185</b>	<b>93,781</b>	<b>1,02,562</b>
Growth, %	25	30	10	9
Margin, %	18.0	19.5	19.6	19.7
Depreciation	2,824	3,260	3,710	4,160
<b>EBIT</b>	<b>62,667</b>	<b>81,925</b>	<b>90,071</b>	<b>98,402</b>
Growth, %	26	31	10	9
Margin, %	17.2	18.7	18.8	18.9
<b>Other income</b>	<b>11,814</b>	<b>11,932</b>	<b>12,052</b>	<b>12,172</b>
Interest paid	395	413	433	454
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>74,086.4</b>	<b>93,444</b>	<b>1,01,690</b>	<b>1,10,120</b>
Tax provided	17,810	23,548	25,626	27,750
<b>Profit after tax</b>	<b>56,276</b>	<b>69,896</b>	<b>76,064</b>	<b>82,370</b>
Exceptional Items	-	-	-	-
<b>Net Profit</b>	<b>56,276</b>	<b>69,896</b>	<b>76,064</b>	<b>82,370</b>
Growth, %	12	24	9	8
<b>Net Profit (adjusted)</b>	<b>56,276</b>	<b>69,896</b>	<b>76,064</b>	<b>82,370</b>

Balance Sheet (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Cash & bank	2,858	21,642	51,153	87,111
Investments	2,29,233	2,31,526	2,33,841	2,36,179
Debtors	17,761	20,019	21,910	23,765
Inventory	13,979	16,245	17,780	19,285
Loans & advances	59	59	59	59
Other current assets	19,408	19,796	20,192	20,596
<b>Total current assets</b>	<b>54,064</b>	<b>77,761</b>	<b>1,11,093</b>	<b>1,50,816</b>
Gross fixed assets	69,113	79,113	89,113	99,113
Less: Depreciation	44,360	47,620	51,330	55,490
Add: Capital WIP	819	819	819	819
<b>Net fixed assets</b>	<b>25,572</b>	<b>32,312</b>	<b>38,602</b>	<b>44,442</b>
<b>Total assets</b>	<b>2,59,011</b>	<b>2,89,293</b>	<b>3,25,743</b>	<b>3,68,563</b>
Current liabilities	49,154	51,588	57,061	62,127
Provisions	704	718	732	747
<b>Total current liabilities</b>	<b>49,858</b>	<b>52,306</b>	<b>57,793</b>	<b>62,874</b>
Non-current liabilities	2,09,153	2,36,988	2,67,950	3,05,688
<b>Total liabilities</b>	<b>4,753</b>	<b>4,753</b>	<b>4,753</b>	<b>4,753</b>
Paid-up capital	2,830	2,830	2,830	2,894
Reserves & surplus	2,51,429	2,81,711	3,18,161	3,60,916
Shareholders' equity	2,54,259	2,84,540	3,20,990	3,63,810
<b>Total equity &amp; liabilities</b>	<b>2,59,011</b>	<b>2,89,293</b>	<b>3,25,743</b>	<b>3,68,563</b>

Cash Flow (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
<b>Pre-tax profit</b>	<b>74,086</b>	<b>93,444</b>	<b>1,01,690</b>	<b>63,612</b>
Depreciation	2,824	3,260	3,710	4,160
Chg in working capital	7,424	-2,465	1,666	98
Total tax paid	-19,184	-23,548	-25,626	-27,750
<b>CFO</b>	<b>41,917</b>	<b>48,523</b>	<b>57,769</b>	<b>50,686</b>
Capital expenditure	-9,204	-10,000	-10,000	-10,000
Chg in marketable securities	-	-	-	-
Chg in investments	8,954	-2,292	-2,315	-2,338
<b>CFI</b>	<b>11,565</b>	<b>-360</b>	<b>-264</b>	<b>-166</b>
Free cash flow	32,713	38,523	47,769	40,686
Debt raised/(repaid)	(28.40)	-	-	-
Dividend (incl. tax)	-39,614	-39,614	-39,614	-39,614
<b>CFF</b>	<b>-40,102</b>	<b>-40,027</b>	<b>-40,047</b>	<b>-40,068</b>
<b>Net chg in cash</b>	<b>13,380</b>	<b>8,136</b>	<b>17,459</b>	<b>10,451</b>
Opening cash balance	5,883	2,858	21,642	51,153
<b>Closing cash balance</b>	<b>2,858</b>	<b>21,642</b>	<b>51,153</b>	<b>87,111</b>

Ratios (Standalone)				
Particulars	FY23	FY24E	FY25E	FY26E
EPS (INR)	197.3	247.0	268.8	291.1
PER (x)	26.0	20.8	19.1	17.6
Price/Book (x)	5.7	5.1	4.5	4.0
EV/EBITDA (x)	10.7	12.9	11.6	10.3
EV/Net sales (x)	3.0	2.7	2.4	2.2
RoE (%)	21.6	25.9	25.1	24.1
RoCE (%)	28	34	33	32
Fixed Asset turnover (x)	5.3	5.5	5.4	5.2
Dividend Yield (%)	2.7	2.7	2.7	2.7
Receivable (days)	17	17	17	17
Inventory (days)	17	17	16	17
Payable (days)	50	44	44	44
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Arian Research, Company Filings

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880