

CMP: ₹ 8,750

Target: ₹ 8,500 (-3%)

Target Period: 12 months

HOLD

April 19, 2024

## Stepping up product launches; positives priced in...

**About the stock:** Bajaj Auto (BAL) is the second largest motorcycle manufacturer and largest 3-W OEM domestically. It also has a healthy presence in export markets.

- Exports comprised ~38% of FY24 volumes; 2-W:3-W mix at ~86:14 (overall)
- Domestic market share: Motorcycle: 18.2% and 3-W: 67% (up 560 bps YoY)

**Q4FY24 Results:** BAL reported healthy performance in Q4FY24. Total operating income for the quarter came in at ₹11,485 crore, up 29% YoY amidst 25% YoY growth in volumes at 10.7 lakh units. EBITDA for the quarter came in at ₹2,306 crore with corresponding EBITDA margins at 20.1% (flat QoQ). PAT in Q4FY24 stood at ₹1,936 crore (up 35% YoY). Company declared a final dividend of ₹ 80/share which along with amount spent on buyback resulted in >95% payout to investors for FY24.

### Investment Rationale:

- 2-W space to outperform industry in FY25, BAL a key beneficiary**  
Domestic auto industry has witnessed a remarkable recovery over the past two years with PV space already surpassing its pre-Covid highs in FY23. Even in CV space the cyclical recovery has been robust with industry up ~70% from Covid lows and is close proximity to its pre-Covid highs. The volume recovery in 2-W space however is lacklustre (1.8 crore units in FY24) and is still well below its pre-Covid highs (2.1 crore units in FY19). The recent prints however in the 2-W space are very encouraging with Jan-Feb24 volumes up 25%+ on YoY basis. On high base & impending union election industry commentary is cautious on growth prospects in the PV & CV space for FY25E, with 2-W emerging as a sole shining star and expected to outperform the industry going forward, driven by both revival in domestic demand & bottoming out of export volumes. Bajaj Auto with ~18% market share in domestic motorcycle segment is expected to benefit going forward.

### Rating and Target Price:

- Bajaj Auto has outperformed its peers in the domestic 2-W & 3-W segment and successfully played the premiumisation drive in the motorcycle segment (125cc space). It has also made sizeable & calibrated entry in the EV space with successful launches of Electric 2-W & Electric 3-W. It is now stepping up play though aggressive product launches across both EV & ICE domains.
- However, post sharp run-up in the stock price in recent past, it now trades at a premium valuation (2 year forward PE at ~23x) to its historical averages (2 year forward PE at ~16-18x) which will limit the stock price appreciation going forward in our view. Consequently, we assign **HOLD** rating on stock.
- We value Bajaj Auto at ₹ 8,500 on SoTP basis (base business at 22x PE)



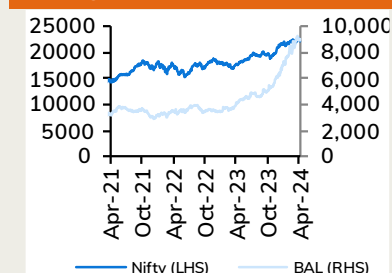
### Particulars

Particular	₹ crore
Market Capitalization	2,53,199
Total Debt (FY24P)	834.1
Cash & Invsts (FY24P)	20,941
EV	2,33,092
52 week H/L (₹)	9,358 / 4,280
Equity capital (₹)	283.0
Face value (₹)	₹ 10

### Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	55.0	55.0	55.0	55.0
FII	12.4	13.7	14.4	14.6
DII	10.8	9.6	9.0	8.7
Other	21.9	21.8	21.6	21.8

### Price Chart



### Recent event & key risks

- BAL reports healthy Q4FY24
- Key Risk: (i) lower than anticipated margin gains going forward over FY25E-26E, (ii) any value unlocking event at its EV segment resulting in valuation pegging of its EV business

### Research Analyst

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### Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24P-26E)
Net Sales	30,250.0	29,918.6	27,741.1	33,144.7	36,427.6	44,685.3	8.1%	54,082.5	61,917.5	17.7%
EBITDA	4,982.0	5,096.2	4,928.5	5,258.7	6,549.1	8,823.0	12.1%	11,183.6	13,022.6	21.5%
EBITDA Margins (%)	16.5	17.0	17.8	15.9	18.0	19.7		20.7	21.0	
Net Profit	4,675.1	5,100.0	4,554.6	5,018.9	5,627.6	7,478.8	9.9%	9,239.3	10,596.9	19.0%
EPS (₹)	161.6	176.2	157.4	173.4	198.9	264.3		330.9	379.5	
P/E	54.2	49.6	55.6	50.4	44.0	33.1		26.4	23.1	
RoNW (%)	19.9	25.6	18.1	17.6	22.1	30.1		33.4	34.4	
RoCE (%)	21.1	23.9	18.2	18.4	24.3	32.3		37.8	40.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q4FY24 Results: Reports healthy performance

- Total operating income for the quarter came in at ₹11,485 crore, up 29% YoY amidst 25% YoY growth in volumes at 10.7 lakh units (2-W volumes at 9.2 lakh units while 3-W volumes at 1.5 lakh units).
- EBITDA for the quarter came in at ₹2,306 crore with corresponding EBITDA margins at 20.1% (flat QoQ). Margin performance at the company came in healthy tracking ~80 bps gross margins gain amidst better product mix (both in terms of higher share of 3-W & cc upgrade in motorcycle segment)
- PAT in Q4FY24 stood at ₹1,936 crore (up 35% YoY). It declared a final dividend of ₹ 80/share which along with amount spent on buyback at ~₹ 5,000 crore (inclusive of tax) resulted in >95% payout to investors for FY24.
- Management commentary was positive around the Chetak brand in E-mobility space as well as Triumph bikes in the premium category. It is looking at aggressive product launches in the ICE as well as EV category as well as network expansion. It also shared that Pulsar is now a ₹ 10,000 crore brand and domestically company witnessed healthy market share gains in the 125-cc motorcycle category.

### Q4FY24 Earnings Conference Call highlights

- **Industry:** BAL expects domestic 2-W industry to grow by 7% to 8% in FY25 driven by improvement in consumer optimism, reflected in loan tenures and financial penetration. It also witnessing recovery in overseas market, except for stress market such as Nigeria, Bangladesh, Kenya, Egypt, and Argentina.
- **Domestic 2-Wheeler:** The 125cc+ segment has grown 4 times compared to the rest of the industry. It has increased its market share by 5%, reaching 27% in the upper half segment, 2% away from leadership position. It plans to launch six new models in H1 FY25, including the biggest pulsar in early May'24. Additionally, it will also launch CNG motorcycle in coming months.
- **Export Segment:** Export revenues benefited from higher realization in a rich product mix focused on sports & premium motorcycles. With the recognition of quadricycles category by Egyptian government, the company will commence its first exports of Qute to Egypt within this month. The new plant in Brazil is expected to be commissioned by June'24, serving pent-up demand and expanding the network in the region. It will plan to expand its presence in European market in Q1 FY25.
- **Domestic 3-Wheeler:** The overall market share of domestic 3-wheeler has grown by 5% to 78% in FY24. Growth is expected to be driven by e-autos especially in the markets restricting ICE autos. The EV-3 wheeler segment at BAL currently holds 30% of market share in the addressable market and plans to scale up with larger focus on end-of-life e-rickshaw segment.
- **Chetak and Triumph:** Chetak delivered its highest quarterly volume of 40,000 units in Q4FY24, with current market share stands at 13% from 5% last year. It will launch two new models of Chetak in next few months and expand its network from 200 stores to 600 stores in H1 FY25. It will launch big bikes of KTM in the selected cities in FY25 and invest in developing the sports category with a close partnership with KTM Australia. In Triumph segment, it has exported over 19000 bikes to 57 countries and plans to scale up the domestic network to 150 stores within H1 FY25.
- **PLI and Raw Material:** The company has received PLI certificates for electric 3-wheeler and Chetak model. The overall commodities basket, including steel, aluminium, lead, and rubber remained flat, whereas zinc and abs remained volatile. However, BAL is witnessing a rise in aluminium and copper prices. It has taken a marginal price hike to offer this price increase.
- **Others:** Financial penetration in 2-W & 3-W segments have reached ~75% and ~90%, respectively. Bajaj finance share in financing stood at ~70%. BAL's captive NBFC (Bajaj Auto Credit Ltd) has commenced operations in Jan 2024 with BAL to infuse ~₹ 2,250 crore in it in a phased manner.

## Key tables and charts

### Exhibit 1: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	11,485	8,905	29.0	12,114	-5.2	Topline for the quarter came in at ₹11,485 crore, up 29% YoY amidst 25% YoY growth in volumes
Raw Material Expenses	8,070	6,213	29.9	8,610	-6.3	Savings were realised on the RM costs and were down 80 bps QoQ
Employee Expenses	387	362	7.0	385	0.7	
Other Expenses	736	625	17.7	697	5.5	
EBITDA	2,306	1,717	34.4	2,430	-5.1	EBITDA for Q4FY24 came in at ₹2,306 crore with EBITDA margins at 20.1% (flat QoQ).
EBITDA Margin (%)	20.1	19.3	80 bps	20.1	2 bps	Margins came in ahead of street estimates
Other Income	349	260	34.2	346	0.7	
Depreciation	91	74	22.1	88	2.8	Depreciation was on expected lines
Interest	23	16	44.7	12	88.3	
PBT	2542	1887	34.7	2676	-5.0	PBT grew healthy 25% YoY
Total Tax	606	454	33.5	634	-4.5	
Reported PAT	1936	1433	35.1	2042	-5.2	PAT in Q4FY24 stood at ₹1,936 crore (up 35% YoY). Sequential decline in PAT is due to lower volumes (festive bump in Q3FY24)
EPS (₹)	68.4	50.6	35.1	72.2	-5.2	
<b>Key Metrics</b>						
Blended ASP (₹/unit)	1,04,610	1,00,626	4.0	98,526	6.2	ASP's were a beat and stood at ₹ 1.05 lakh/unit, a single digit growth on both QoQ & YoY basis

Source: Company, ICICI Direct Research

### Exhibit 2: Assumptions

Units (lakh)	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Motorcycle volumes	42.4	39.5	36.1	38.4	34.4	37.3	42.4	47.5
Three-Wheeler volumes	7.8	6.7	3.7	4.7	4.9	6.2	6.9	7.7
<b>Total volumes</b>	<b>50.2</b>	<b>46.2</b>	<b>39.7</b>	<b>43.1</b>	<b>39.3</b>	<b>43.5</b>	<b>49.3</b>	<b>55.2</b>
Export volumes	20.8	21.7	20.5	25.1	18.2	16.4	19.0	21.8
<b>Domestic revenues (₹ crore)</b>	<b>18,099</b>	<b>17,169</b>	<b>14,609</b>	<b>14,924</b>	<b>20,608</b>	<b>29,377</b>	<b>34,744</b>	<b>39,177</b>
<b>Export revenues (\$ mn)</b>	<b>1,642</b>	<b>1,677</b>	<b>1,694</b>	<b>2,298</b>	<b>1,847</b>	<b>1,716</b>	<b>2,145</b>	<b>2,498</b>
US\$INR Realisation rate	70	71	74	75	80	83	84	85
Export ASP (\$/unit)	790	772	822	917	1012	1049	1130	1144
Blended ASP (₹/unit)	58,905	63,077	68,295	74,589	90,070	1,00,160	1,07,032	1,09,481

Source: ICICI Direct Research

### Exhibit 3: SOTP valuation

SOTP Valuation	Estimated value	Per share (₹)	Remark
<b>Core Business</b>			
FY26E EPS (₹)	379.5		
PE Multiple (x)	22.0		Ahead of long period averages (30% premium)
<b>Value per share (₹, A)</b>		<b>8,335</b>	
<b>Market Capitalisation of PMAG (₹ crore)</b>	<b>12,662</b>		PMAG houses KTM AG
BAL's effective stake (%)	36.7		
BAL's stake value (₹ crore)	4,647		
<b>Value per share (₹, B)</b>		<b>165</b>	
<b>Total Value per Share (₹, A+B)</b>		<b>8,500</b>	

Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	36,428	44,685	54,083	61,917	
Growth (%)	9.9	22.7	21.0	14.5	
Raw Material Expenses	26,055	31,743	38,092	43,477	
Employee Expenses	1,445	1,538	1,748	1,933	
Other expenses	2,407	2,629	3,123	3,559	
Total Operating Expenditure	29,878	35,862	42,899	48,895	
<b>EBITDA</b>	<b>6,549</b>	<b>8,823</b>	<b>11,184</b>	<b>13,023</b>	
Growth (%)	24.5	34.7	26.8	16.4	
Depreciation	282	350	406	458	
Interest	39	54	40	30	
Other Income	1,181	1,402	1,500	1,501	
PBT	7,409	9,822	12,237	14,036	
Total Tax	1,781	2,343	2,998	3,439	
<b>PAT</b>	<b>5,628</b>	<b>7,479</b>	<b>9,239</b>	<b>10,597</b>	
Growth (%)	12.1	32.9	23.5	14.7	
<b>EPS (₹)</b>	<b>199</b>	<b>264</b>	<b>331</b>	<b>380</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	5,628	7,479	9,239	10,597	
Add: Depreciation	282	350	406	458	
Sub: Other Income	1,181	1,402	1,500	1,501	
(Inc)/dec in Current Assets	272	-776	-1,604	-948	
Inc/(dec) in CL and Provisions	453	1,559	1,093	998	
<b>CF from operating activities</b>	<b>5,548</b>	<b>8,397</b>	<b>8,018</b>	<b>9,924</b>	
(Inc)/dec in Investments	1,810	-1,542	-400	-1,500	
(Inc)/dec in Fixed Assets	-1,169	-778	-765	-765	
Others	-763	35	-1,295	-1,295	
Add: Other Income	1,181	1,402	1,500	1,501	
<b>CF from investing activities</b>	<b>1,059</b>	<b>-883</b>	<b>-960</b>	<b>-2,059</b>	
Inc/(dec) in loan funds	0	834	-500	-250	
Dividend paid & dividend tax	-3,961	-2,264	-6,422	-7,399	
Inc/(dec) in Sec. premium	0	0	0	0	
Others	-2,949	-5,834	-54	-44	
<b>CF from financing activities</b>	<b>-6,910</b>	<b>-7,264</b>	<b>-6,976</b>	<b>-7,693</b>	
Net Cash flow	-302	251	82	173	
Opening Cash	588	286	537	619	
<b>Closing Cash</b>	<b>286</b>	<b>537</b>	<b>619</b>	<b>792</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24P	FY25E	FY26E	
<b>Liabilities</b>					
Equity Capital	283	279	279	279	
Reserve and Surplus	25,143	24,581	27,385	30,569	
<b>Total Shareholders funds</b>	<b>25,426</b>	<b>24,860</b>	<b>27,664</b>	<b>30,848</b>	
Total Debt	0	834	334	84	
Deferred Tax Liability	345	507	507	507	
Other non-current liabilities	0	0	0	0	
<b>Total Liabilities</b>	<b>25,930</b>	<b>26,359</b>	<b>28,673</b>	<b>31,617</b>	
<b>Assets</b>					
Gross Block	5,695	6,546	7,273	8,023	
Less: Acc Depreciation	3,009	3,359	3,765	4,223	
Net Block	2,685	3,187	3,509	3,800	
Capital WIP	82	28	50	50	
<b>Total Fixed Assets</b>	<b>2,767</b>	<b>3,214</b>	<b>3,559</b>	<b>3,850</b>	
Investments	22,923	24,493	26,143	28,893	
Inventory	1,398	1,696	2,223	2,545	
Debtors	1,776	2,122	2,963	3,393	
Loans and Advances	4	3	4	4	
Other current assets	988	1,120	1,355	1,552	
<b>Cash</b>	<b>286</b>	<b>537</b>	<b>619</b>	<b>792</b>	
Total Current Assets	4,451	5,478	7,164	8,285	
Creditors	4,074	5,610	6,668	7,634	
Provisions	166	188	224	256	
Other current liabilities	511	1,542	1,866	2,136	
Total Current Liabilities	5,198	7,892	9,329	10,618	
<b>Net Current Assets</b>	<b>-747</b>	<b>-2,414</b>	<b>-2,165</b>	<b>-2,333</b>	
Deferred Tax asset	0	0	0	0	
<b>Application of Funds</b>	<b>25,930</b>	<b>26,359</b>	<b>28,673</b>	<b>31,617</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24P	FY25E	FY26E
<b>Per share data (₹)</b>				
EPS	199	264	331	380
Cash EPS	209	277	345	396
BV	899	879	991	1,105
DPS	140	80	230	265
Cash Per Share	10	19	22	28
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.0	19.7	20.7	21.0
PBT / Net sales	17.2	19.0	19.9	20.3
PAT Margin	14.7	15.0	16.0	16.1
Inventory days	14.0	13.9	15.0	15.0
Debtor days	17.8	17.3	20.0	20.0
Creditor days	40.8	45.8	45.0	45.0
<b>Return Ratios (%)</b>				
RoE	24.3	32.3	37.8	40.0
RoCE	22.1	30.1	33.4	34.4
RoC	95.8	161.9	153.3	151.5
<b>Valuation Ratios (x)</b>				
P/E	44.0	33.1	26.4	23.1
EV / EBITDA	35.7	26.4	20.8	17.7
EV / Net Sales	6.4	5.2	4.3	3.7
Market Cap / Sales	7.0	5.7	4.7	4.1
Price to Book Value	9.7	10.0	8.8	7.9
<b>Solvency Ratios</b>				
Current Ratio	0.9	0.7	0.7	0.7
<b>Quick Ratio</b>	<b>0.6</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

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Sell: <-15%



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