

CMP: INR 4,849

Rating: Hold

Target Price: INR 5,187

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)	12,26,945
52w H/L (INR)	4,989/3,462
Avg Yearly Vol (in 000')	363

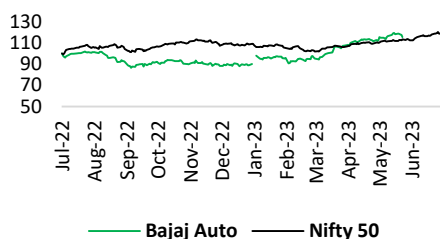
Shareholding Pattern %

(As on June, 2022)

Promoters	54.98
Public & Others	45.02

Stock Performance (%)	1m	3m	12m
Bajaj Auto	5.4	12.2	21.2
Nifty	5.3	10.6	18.2

Bajaj Auto Vs Nifty



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Bajaj Auto slight miss in its performance on all fronts led by the commuter motorcycle sales followed a slightly lower trend compared to the usual seasonal pattern. Standalone revenue stood at INR 103,098 Mn, against our estimate of INR 104,010 Mn registering a growth of 28.8% YoY/15.8% QoQ led by growth in volume and improving exports. EBITDA stood at INR 19,539 Mn, slightly below our estimate of INR 20,300 Mn, registering a growth of 51%YoY/ 14%QoQ. On the margins front, EBITDA margin expansion by 275 bps YoY/ -32bps QoQ to 19.0%, below our estimate of 19.5%. Standalone PAT grew 42%YoY/16.2%QoQ to INR 16,648 Mn below our estimate of INR 16,800 Mn. EPS stood at INR 58.9 in Q1FY24 against INR 50.7 in Q4FY23 (INR 40.6 in Q1FY23). Total Volume increased by 10%YoY/19.8% QoQ to 1,027,407 units. Bajaj Auto EBITDA per Vehicle was increased by 20.3% YoY/-16.5% QoQ of INR 16,708 Mn against 20,012 Mn in Q4FY23 (INR 13,892Mn in Q1FY23).

Objective is to enhance the revenue contribution from the EV business by the FY24: The passenger EV has received an excellent response, surpassing range expectations. Expansion is planned from September, targeting markets where ICE and CNG vehicles are not allowed. In India, nearly 300 RTOS out of 1700 have been covered. Electric passenger pricing is set at 3 lakh rupees, while CNG passengers cost 2 lakh rupees. Last quarter, 20,000 Chetak units and a few hundred EV 3Ws were sold, making up about 2% of overall sales. The aim is to achieve 10,000 units of Chetak and 3W each per month, targeting 3-4% of total sales from EVs by year-end.

Export performance is showing signs of improvement, and the outlook for Q2 is cautiously optimistic: Bajaj is leading with a strong 5% global retail growth, and motorcycle sales have surged by 7%. Dominar and Pulsar continue to be significant brands. The recovery varies across regions, with Africa and Latin America showing stability, but Bangladesh and ASEAN facing declines. Nigeria and the Philippines present challenges. However, there are improvements in forex rates and demand. Looking ahead to Q2, the outlook is cautiously optimistic, with expectations of gradual growth.

Outlook and valuation

Bajaj Auto has reported slight miss performance during Q1FY24 led by the commuter motorcycle sales followed a slightly lower trend compared to the usual seasonal pattern. Global retail growth was robust with Bajaj leading at 5%, and motorcycle sales up by 7%. The company plans to expand its EV business and aims to cover 60% of the addressable market with Triumph and KTM. The passenger EV received an excellent response, and EV sales as a percentage of overall sales are expected to reach 3-4% by the end of the year. In the future, the upsurge in demand for premium motorcycles and the decline in raw material prices will aid in enhancing the operating leverage, which is a key factor in the overall expansion. **Hence, we value Bajaj Auto at a PE of 19x its FY 26E EPS of INR 268.6 for a fair value of INR 5,103 and INR 84 for KTM stock valuation to arrive at a final increased target price of INR 5,187 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 4,906). We downgrade our rating to Hold from Accumulate earlier on the stock.**

Q1FY24 Conference call

Excellent beginning to the financial year. Record-breaking domestic revenues, EBITDA, and profit attained.

- ❖ **Exports:** Strong global retail growth with Bajaj leading at 5%. Motorcycle sales up 7%. Dominar and Pulsar remain key brands. Recovery mixed; Africa and Latin America steady, Bangladesh and ASEAN lower. Nigeria and Philippines pose challenges. Forex and demand improving. Q2 outlook cautiously optimistic for incremental growth.
- ❖ **Capacity:** Additional production capacity will be available within the next year. The industry is predicted to expand by 2-4% in the coming months. There was a notable increase in market share by 2% in the 125cc segment, now constituting 71% of total sales compared to the previous 65%.
- ❖ **EV 3-wheeler:** Last quarter, the EV 3W was launched in one city for both passenger and goods transportation. The response was positive, prompting plans to expand its availability starting from September 2023.
- ❖ **Chetak:** This quarter was challenging due to government intervention. The company would increase the portfolio and network starting from next quarter onwards.
- ❖ **Pro biking business** now has 3 brands. KTM Husqvarna and Triumph. Triumph received an outstanding reception. The company had 17,000 bookings as of 25th July 2023. Q2 would reach 42,000 units. It would start exports of this bike in October.
- ❖ New businesses of Chetak, EV3w and Triumph would be the levers for growth in the next few years.
- ❖ In the quarter, Pulsar achieved a milestone by surpassing 300,000 units sold. This remarkable accomplishment has occurred only once before this time.
- ❖ The Commodity Quarter began with inflationary trends, but it quickly reversed course and regained a sense of stability. Currently, it is almost at the same level as Q4. Throughout the quarter, price hikes were modest, ranging around 0.5%. Looking ahead to Q2, the prices are expected to remain at the same level as seen in Q4.
- ❖ Rupee was fairly stable at 81.4 vs the dollars and INR 79 last year.
- ❖ Net FCF of INR 20,000Mn and INE 190,000 Mn of cash in hand.
- ❖ Exports would take some time to come back to its peak levels. Company is gradually increasing the same.
- ❖ **EV related capex** for FY24 would be in the range of INR 400-500cr.
- ❖ **Gross Margins:** The expansion was driven by implementing price increases of 1% despite a decrease in raw material costs. Currency exchange rates also played a role in aiding the expansion. Moreover, there was an increase in demand for premium motorcycles, which contributed to the growth. Ultimately, the improvement in operating leverage was a key factor in the overall expansion.
- ❖ No material price hikes in Q2.
- ❖ **Triumph:** By year-end, the company aims to cover 60% of the addressable market with at least one store in each location. Potential cannibalization effects have not been fully studied, but discussions indicate a new set of customers, mainly from the 250-500cc segment. They target 5,000 units monthly sales by September, with a production capacity of 25,000 units for KTM and Triumph combined at the Chakan facility.
- ❖ **EV 3W:** The passenger EV has received an excellent response, surpassing expectations in terms of range. The company plans to expand its presence from September, catering to markets where ICE and CNG vehicles are not permitted. In India, it has nearly 300 RTOS out of 1700 RTOS. The pricing for electric passengers is set at 3 lakh rupees, while CNG passengers cost 2 lakh rupees.
- ❖ **EV sales as a % of overall sales:** In the last quarter, the company sold 20,000 units of Chetak and a few hundred EV 3Ws, accounting for around 2% of overall sales. The target is to reach 10,000 units of Chetak and a similar number for the 3W every month. The company aims to achieve 3-4% of total sales from EVs by the end of the year.
- ❖ **Launches:** Two new Triumph models have already been launched, with an equal number planned for the next year. Additionally, for Pulsar, the company intends to introduce a couple of new models in the coming months.

Exhibit 2: Quarterly result summary

Standalone (INR mn)	Q1FY24	Q4FY23	Q1FY23	YoY (%)	QoQ (%)
Net sales	103098	89047.2	80049.7	28.8	15.8
- Raw material	74126.5	62134.9	57776.4	28.3	19.3
(% of net sales)	71.9	69.8	72.2	-28bps	212bps
- Staff expenditure	3841.6	3620.2	3795.9	1.2	6.1
(% of net sales)	3.7	4.1	4.7	-102bps	-34bps
- Other expenditure	5590.3	6126.4	5507.2	1.5	(8.8)
(% of net sales)	5.4	6.9	6.9	-146bps	-146bps
Total expenditure	83,558	71,882	67,080	24.6	16.2
EBITDA	19,539	17,166	12,970	50.6	13.8
EBITDA Margin (%)	19.0	19.3	16.2	275bps	-32bps
Depreciation	835.3	741.6	673.3	24.1	12.6
EBIT	18,704	16,424	12,297	52.1	13.9
Interest	120.9	157.4	43.4	178.6	(23.2)
Other Income	3463.3	2598.3	3193.2	8.5	33.3
PBT	22,046	18,865	15,447	42.7	16.9
Tax	5398.7	4536.2	3713.7	45.4	19.0
Adjusted PAT	16647.7	14328.8	11733	41.9	16.2
Reported PAT	16647.7	14328.8	11733	41.9	16.2
Adjusted EPS (INR)	58.90	50.7	40.6	45.1	16.2
Total Volumes (Nos)	1,027,407	857,788	933,646	10.0	19.8
Net Realisation (INR)	100,347	103,810	85,739	17.0	(3.3)
EBITDA / Vehicle (INR)	19,018	20,012	13,892	36.9	(5.0)

Geographical mix	Q1FY24	Q4FY23	Q1FY23	YoY(%)	QoQ (%)
Revenues (INRm):					
Domestic	78860	56250	43565	81.0	40.2
Exports	24238	32797	36485	(33.6)	(26.1)
Total	103098	89047	80050	28.8	15.8
Volumes (In nos):					
Domestic	641,556	335,683	352,836	81.8	91.1
Exports	385,851	522,105	580,810	(33.6)	(26.1)
Total	1,027,407	857,788	933,646	10.0	19.8
Realisations (INR):					
Domestic	122,919	167,569	123,471	(0.4)	(26.6)
Exports	62,817	62,817	62,817	(0.0)	(0.0)
Total	100,347	103,810	85,739	17.0	(3.3)

Source: Arianth Research, Company Filings

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

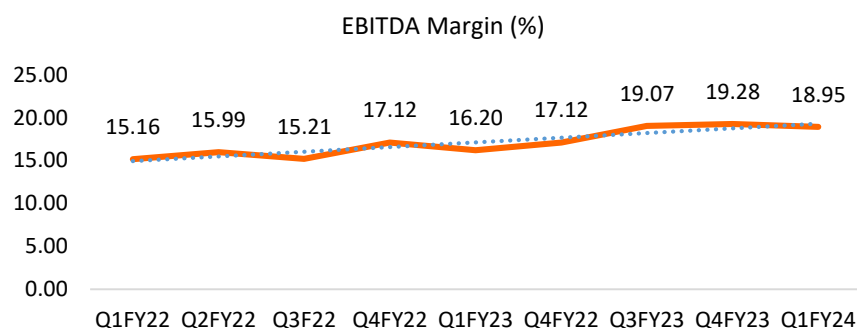


Exhibit 4: The volume increase due to the robust momentum of the sports portfolio

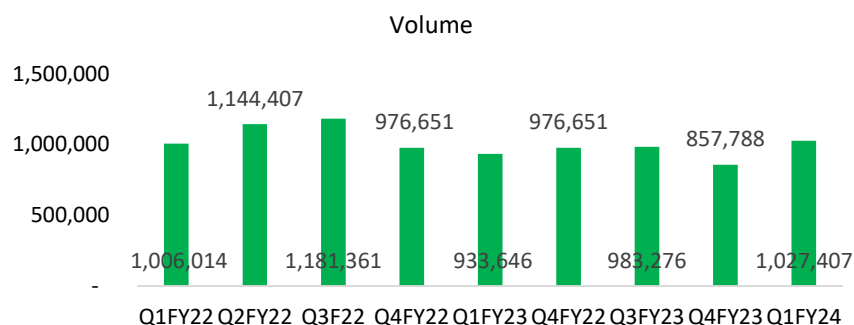


Exhibit 5: The company EBITDA/Vehicle showing growth due to higher contribution from the premium segment.

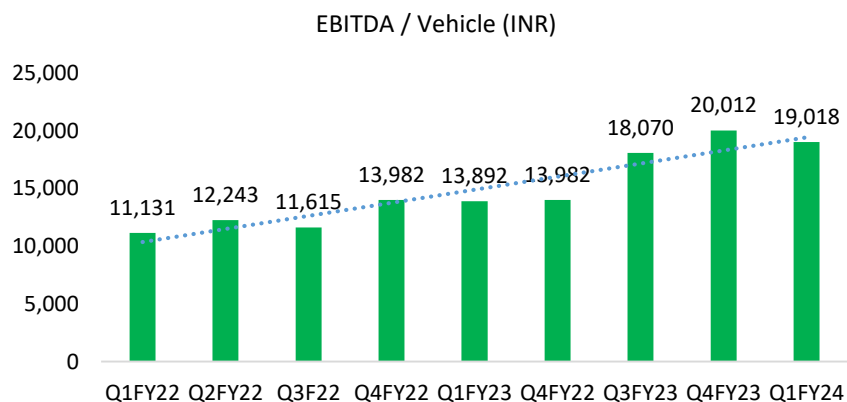
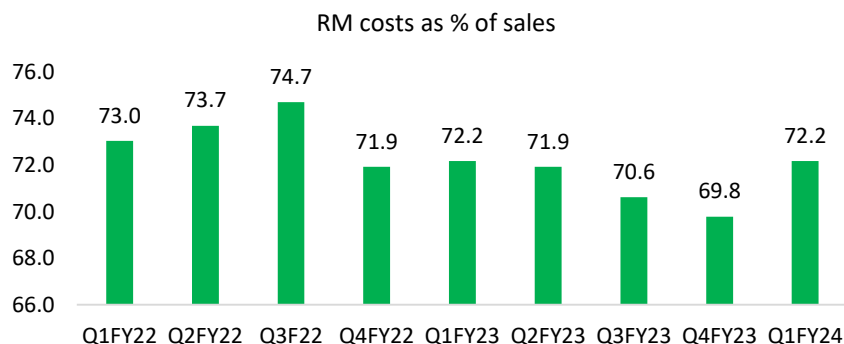


Exhibit 6: The company seen decline in RM costs which is benefits for the Margin



Source: Arihant Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Net sales	3,64,276	4,32,000	4,63,927	4,87,077
Growth, %	10	19	7	5
RM expenses	2,60,548	2,98,944	3,20,574	3,35,596
Employee expenses	14,449	15,894	17,134	18,470
Other expenses	23,788	34,560	37,114	38,966
EBITDA (Core)	65,491	82,602	89,106	94,045
Growth, %	25	26	8	6
Margin, %	18.0	19.1	19.2	19.3
Depreciation	2,824	3,260	3,710	4,160
EBIT	62,667	79,342	85,396	89,885
Growth, %	26	27	8	5
Margin, %	17.2	18.4	18.4	18.5
Other income	11,814	11,932	12,052	12,172
Interest paid	395	413	433	454
Non-recurring Items	-	-	-	-
Pre-tax profit	74,086.4	90,861	97,015	1,01,603
Tax provided	17,810	22,897	24,448	25,604
Profit after tax	56,276	67,964	72,567	75,999
Exceptional Items	-	-	-	-
Net Profit	56,276	67,964	72,567	75,999
Growth, %	12	21	7	5
Net Profit (adjusted)	56,276	67,964	72,567	75,999

Balance Sheet (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Cash & bank	2,858	19,633	45,499	74,821
Investments	2,29,233	2,31,526	2,33,841	2,36,179
Debtors	17,761	19,764	21,225	22,284
Inventory	13,979	16,038	17,223	18,083
Loans & advances	59	59	59	59
Other current assets	19,408	19,796	20,192	20,596
Total current assets	54,064	75,290	1,04,198	1,35,842
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
Net fixed assets	25,572	32,312	38,602	44,442
Total assets	2,59,011	2,87,361	3,20,314	3,56,763
Current liabilities	49,154	51,049	55,594	58,953
Provisions	704	718	732	747
Total current liabilities	49,858	51,767	56,327	59,700
Non-current liabilities	2,09,153	2,35,594	2,63,987	2,97,062
Total liabilities	4,753	4,753	4,753	4,753
Paid-up capital	2,830	2,830	2,830	2,894
Reserves & surplus	2,51,429	2,79,779	3,12,731	3,49,116
Shareholders' equity	2,54,259	2,82,608	3,15,561	3,52,010
Total equity & liabilities	2,59,011	2,87,361	3,20,314	3,56,762

Cash Flow (Standalone)				
Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
Pre-tax profit	74,086	90,861	97,015	63,612
Depreciation	2,824	3,260	3,710	4,160
Chg in working capital	7,424	-2,542	1,518	-1,634
Total tax paid	-19,184	-22,897	-24,448	-25,604
CFO	41,917	47,981	54,124	42,583
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
CFI	11,565	-360	-264	-166
Free cash flow	32,713	37,981	44,124	32,583
Debt raised/(repaid)	(28.40)	-	-	-
Dividend (incl. tax)	-39,614	-39,614	-39,614	-39,614
CFF	-40,102	-40,027	-40,047	-40,068
Net chg in cash	13,380	7,593	13,814	2,348
Opening cash balance	5,883	2,858	19,633	45,499
Closing cash balance	2,858	19,633	45,499	74,821

Ratios (Standalone)				
Particulars	FY23	FY24E	FY25E	FY26E
EPS (INR)	197.3	240.2	256.5	268.6
PER (x)	24.6	20.2	18.9	18.1
Price/Book (x)	5.4	4.9	4.3	3.9
EV/EBITDA (x)	10.0	12.4	11.3	10.5
EV/Net sales (x)	2.8	2.6	2.4	2.2
RoE (%)	21.6	25.3	24.3	22.8
RoCE (%)	28	34	32	30
Fixed Asset turnover (x)	5.3	5.5	5.2	4.9
Dividend Yield (%)	2.9	2.9	2.9	2.9
Receivable (days)	17	17	17	17
Inventory (days)	17	17	16	17
Payable (days)	50	43	44	44
Net D/E ratio (x)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Arianth 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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