

CMP: INR 11,623

Rating: Reduce

Target Price: INR 10,497

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)	319,8000
52w H/L (INR)	12774/5032
Avg Yearly Vol (in 000')	42.1

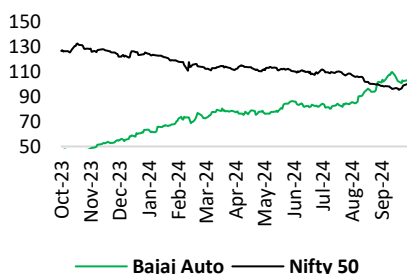
Shareholding Pattern %

(As on June, 2024)

Promoters	55.06
Public & Others	44.94

Stock Performance (%)	1m	3m	12m
Bajaj Auto	-1.75	18.1	126.2
Nifty	-1.2	1.8	27.0

Bajaj Auto Vs Nifty



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Bajaj Auto Ltd reported below our estimate across all counts in Q2FY25. Standalone revenue stood at INR 131,275 Mn, below our estimate of INR 134,850 Mn registering a growth of 21.8% YoY/10.1% QoQ led by growth in domestic and steady in export performance. EBITDA stood at INR 26,522 Mn, below our estimate of INR 27,560 Mn, registering a growth of 24.3%YoY/ 9.8%QoQ. On the margins front, EBITDA margin expansion by 41 bps YoY/ -5 bps QoQ to 20.2%, below our estimate of 20.4%, led by drag from the e2Ws. Standalone PAT grew 9.2%YoY/0.8%QoQ to INR 20,050 Mn below our estimate of INR 22,670 Mn. EPS stood at INR 71.9 in Q2FY25 against INR 71.2 in Q1FY25 (INR 64.9 in Q2FY24). The ICE 3W segment to e3Ws, as the segment exit market share reached 35%, having doubled from the end of last year. The company has approved the additional investment in the equity share capital of Bajaj Brazil, a wholly owned subsidiary of the Company of up to USD 10 mn (equivalent to INR 840 Mn)

One-off in Q2FY25 in PAT: The profits of the company were affected by one-off items during the quarter. A deferred tax exceptional item was recorded to the tune of ~INR 2110 Mn on account of the recently announced Finance Act which withdrew the indexation benefit on long-term capital gains on debt mutual funds which were purchased prior to April 2023 and the tax rate with respect to long-term capital gains for the said asset class was changed from 20% plus surcharge and cess (with indexation) to 12.5%+ surcharge and cess (without indexation). Due to this effect, a one-time provision led to the exceptional tax cost.

Loss from associates was ~INR 5800 Mn due to losses incurred in PBAG (Pierer Bajaj AG), an associate whose ~50% stake is owned by Bajaj Auto International Holdings (BAIH), the wholly owned subsidiary of the company. PBAG posted its half-yearly results which had to be consolidated in the current quarter. The main drivers of the loss were the decline in sales due to the volatile & difficult economic environment (particularly in USA), expenses in connection with the restructuring of the bicycle segment as well as the production and personnel costs in Europe. This had an impact on the profits.

Steady margin sequentially led by investment: Significant investments made in e-2 wheelers have moved the volumes from 40,000 units in Q1 FY25 to 70,000 units in Q2 FY25 but impacted EBITDA slightly QoQ. Additionally, investments in Freedom have also had an impact leading to a flat EBITDA margin of 20.2% down by 5 QoQ.

Outlook and valuation

Bajaj Auto reported weak Q2FY25 performance driven by a better product mix. The company has been losing market share in the 100cc space, which declined by 6%, while the 125cc segment grew by 8%, resulting in a total 25% MS in the 125cc category. They aim to outpace industry growth in the E2W market through the new Chetak portfolio and efficient execution. Although the costs of raw materials like copper, metals, platinum, and rubber will be monitored, they are not expected to have a significant impact. In Q3FY25, exports are projected to rise by 10% compared to the previous quarter, with revenue and EBITDA growth expected to surpass volume growth due to a richer product mix, strong performance in LATAM, and a favorable exchange rate. Nigeria, which contributes to about 50% of volumes for Bajaj in Africa, continues to be under pressure due to rising inflationary conditions in the region. We project revenue growth at a CAGR of ~14% during FY25-27E. **Hence, we value Bajaj Auto at a P/E of 26x its FY 27E EPS of INR ~394 for a fair value of INR 10,231 and INR 266 for KTM stock valuation to arrive at a final increased target price of INR 10,497 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 12,071). We downgrade our rating to Reduce from Hold earlier.**

Q2FY25 Conference call

The company's key focus areas will include driving leadership in the 125cc segment, expanding upgraded models, and scaling up the Triumph portfolio and KTM franchise. They aim to outpace industry growth in E2W through the new Chetak portfolio and efficient execution, while also aspiring for leadership in the e-auto segment. Although costs of raw materials like copper, metals, platinum, and rubber will be monitored, they are not expected to have a significant impact. In Q3FY25, exports are projected to rise by 10% over the previous quarter, with revenue and EBITDA growth surpassing volume growth due to a richer product mix, strong performance in LATAM, and a favorable exchange rate. The company anticipates a steady recovery in Nigeria but remains cautious about currency fluctuations, expressing cautious optimism for the region.

Chetak: 3 variants of Chetak, one in the ~INR 1,35,000 range, one in the INR 1,15,000 and the other in INR 96,000-INR 1,00,000 range, 2 of them receive PLI while for the last variant the certification has been received during the Q2FY25. Chetak was in the number three position in the overall EV industry. An upgraded range of models would be launched in mid-November which would boost volumes & sales along with the margin structure. They would be available in ~4,000 stores by January, with 250 exclusive Chetak stores.

125cc: The 125 cc plus segment was ~55% of the industry in Q2FY25. The 125 cc+ segment grew by ~8% while 100 cc declined by ~6%. Bajaj gained 25% MS in the 125 cc segment, with over ~75% of their sales coming from the top end of the pyramid, thereby positively adding to topline and bottomline. They have introduced a new 125 cc Pulsar bike in Q2FY25. Their previously introduced model (NS400Z) in the 150 cc segment touched ~3,000 units in the retail market. They witnessed significant traction for Freedom 125 and have touched ~10,000 units in the retail segment as of September 2024 and expect to hit more than 18,000 units in October. For the same, they would expand capacities to ~30,000 units per month in Q3FY25 and ~40,000 units per month in Q4FY25. In the domestic motorcycle business, the company maintained its strong position in the 125+ cc segment.

Triumph's volume growth was higher by ~50% QoQ.

Bajaj Finance: BACL now covers ~70% of the company's auto market financing and are now on track to reach ~100% coverage by January 2025. In September, BACL posted cash profits.

The AUM of BACL was ~INR 40K Mn as of Q2FY25 with 2,50,000 accounts on-boarded till date. Further expansion is expected from Q4 FY25 onwards with AUM to reach INR 100,000 Mn by FY25 end. Capital infusion would be ~INR 23000 Mn in FY25, with INR 12000-INR 14000 Mn during H2FY25.

The captive financing for E2W is ~30% while for ICE is 50%.

E2W & E3W: In the commercial vehicle space, the company achieved E3W volumes of 1,40,000 units in Q2 FY25, of which ~16,000 units were e-autos. E-autos are now available in 700+ locations with market share rising to ~35%. The ICE segment continued to lead with MS of ~78%. The EV portfolio stood at ~14% of the total domestic revenue. Furthermore, the green energy portfolio which comprises of E2W and EV-3wheeler along with CNG vehicles was ~44% of domestic revenue.

Exports: Steady revival in the overseas market continued during the quarter with the number of stressed regions now reducing. The LATAM region grew by ~20% YoY, Asia was almost at par this quarter while Africa declined across all major segments by 9%. The benchmark in Nigeria was set at ~15,000 units which had declined to ~5,000 units in April 2024 and now recovered to ~25,000 units as of September 2024. LATAM witnessed significant growth in Mexico. Additionally, their new plant in Brazil commenced in June and is functioning at planned levels of capacity. The expansion of the Brazil plant has been initiated and they plan to increase yearly capacity to ~35,000 units by FY26. For the same, the board has approved for increased investments of ~\$10 mn. Exports from Pulsar segment resulted in revenue of ~\$450 mn in Q2 FY25.

KTM witnessed steady growth. In partnership with KTM Austria, investments are being made to focus on young riders.

Revenue from Spare segment was ~INR 15000 Mn in Q2FY25.

Surplus cash was INR 163,920 Mn, post-infusion of money into BACL (Bajaj Auto Credit Limited)

EV capex to the tune of ~INR 12000 Mn, out of which BACL infusion was ~INR 9550 Mn and dividend payments of INR 22,330 Mn. The company added ~INR 20,000 Mn as free cash in Q2FY25

Exhibit 2: Quarterly result summary-Strong performance

Standalone (INR mn)	Q2FY25	Q1FY25	Q2FY24	QoQ (%)	YoY (%)
Net sales	131,275	119,280	107,773	10.1	21.8
- Raw material	93639	83527	76511	12.1	22.4
(% of net sales)	71	70	71	130bps	34bps
- Staff expenditure	3934.9	4349.6	3816.1	(9.5)	3.1
(% of net sales)	3.0	3.6	3.5	-65bps	-54bps
- Other expenditure	7179.5	7251.4	6117.5	(1.0)	17.4
(% of net sales)	5.5	6.1	5.7	-61bps	-21bps
Total expenditure	104,753	95,128	86,444	10.1	21.2
EBITDA	26,522	24,153	21,329	9.8	24.3
EBITDA Margin (%)	20.2	20.2	19.8	-5bps	41bps
Depreciation	956	936.9	876.3	2.0	9.1
EBIT	25,566	23,216	20,452	10.1	25.0
Interest	159.2	206.7	65.3	(23.0)	143.8
Other Income	3845.4	3209.4	3613.5	19.8	6.4
PBT	29,252	26,218	24,000	11.6	21.9
Tax	9201.6	6335	5639	45.3	63.2
Adjusted PAT	20050.4	19883.4	18361.4	0.8	9.2
Reported PAT	20050.4	19883.4	18361.4	0.8	9.2
Adjusted EPS (INR)	71.90	71.20	64.90	1.0	10.8
Total Volumes (Nos)	1,221,504	1,102,056	1,053,953	10.8	15.9
Net Realisation (INR)	107,470	108,234	102,256	(0.7)	5.1
EBITDA / Vehicle (INR)	21,712	21,916	20,237	(0.9)	7.3
Geographical mix	Q2FY25	Q1FY25	Q2FY24	QoQ (%)	YoY(%)
Revenues (INRm):					
Domestic	103334	93435	56250	10.6	83.7
Exports	27941	25845	32797	8.1	(14.8)
Total	131275	119280	89047	10.1	47.4
Volumes (In nos):					
Domestic	776,711	690,621	637,556	12.5	21.8
Exports	444,793	411,435	416,397	8.1	6.8
Total	1,221,504	1,102,056	1,053,953	10.8	15.9
Realisations (INR):					
Domestic	133,041	135,291	88,228	(1.7)	50.8
Exports	62,817	62,817	78,764	0.0	(20.2)
Total	107,470	108,234	84,489	(0.7)	27.2

Source: Arianth Research, Company Filings

Exhibit 3: The company seen margin expansion YoY

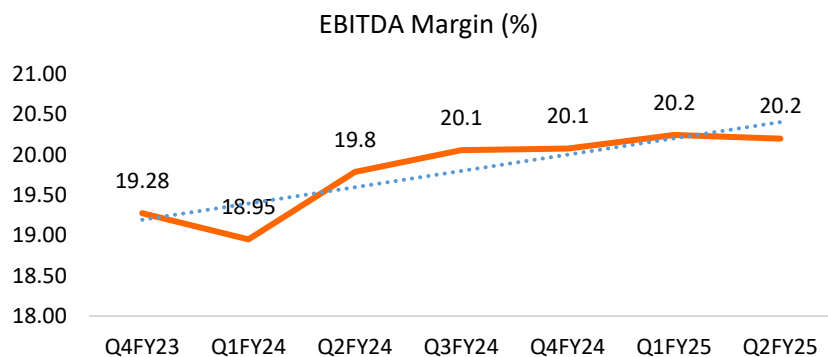


Exhibit 4: The volume increase due to the robust momentum of the sports portfolio

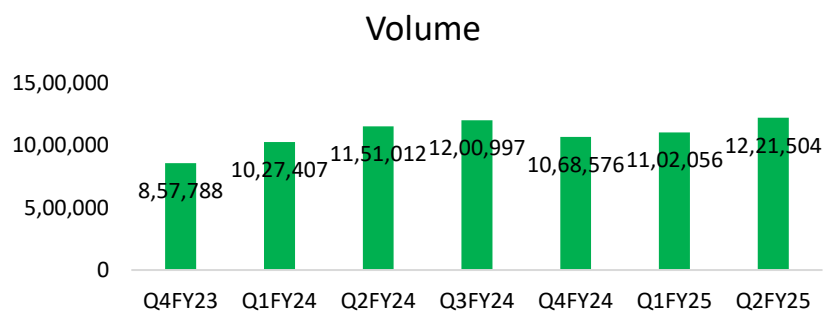


Exhibit 5: Steady growth in EBITDA/Vehicle

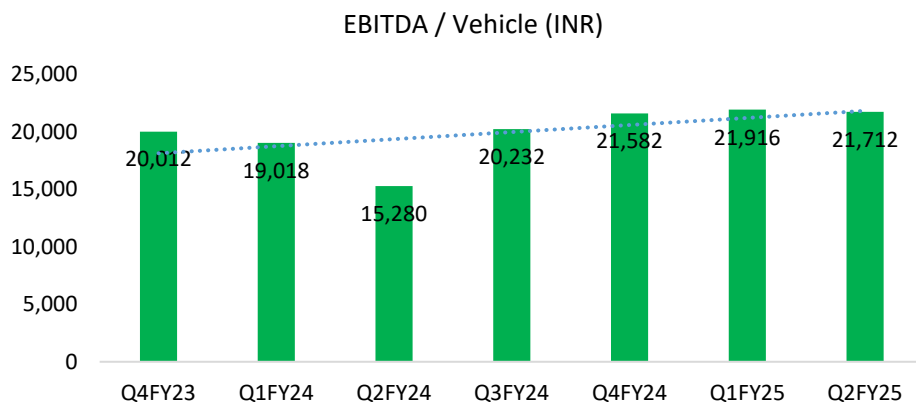
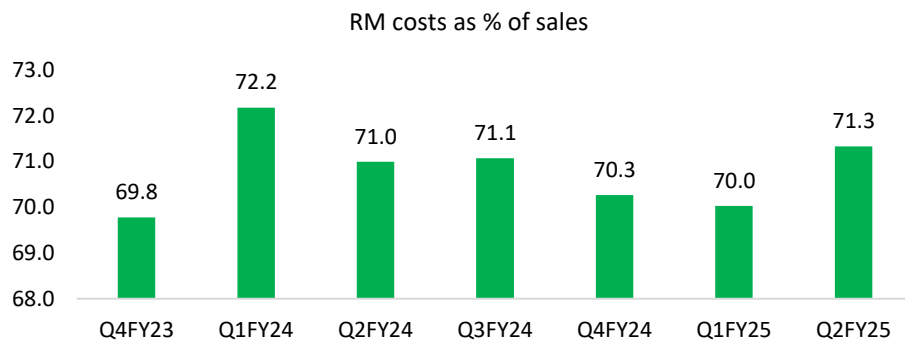


Exhibit 6: The company seen decline in RM costs which is benefits for the Margin



Source: Arihant Research, Company Filings,

Profit & Loss Statement (Standalone)

Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	4,46,852	5,07,110	5,70,108	6,57,833
Growth, %	22.67	13.5	12.4	15.4
RM expenses	3,17,434	3,49,906	3,92,234	4,57,194
Employee expenses	15,376	16,575	17,868	18,046
Other expenses	25,813	37,019	42,758	46,048
EBITDA (Core)	88,229	1,03,610	1,17,248	1,36,544
Growth, %	35	17	13	16
Margin, %	19.7	20.4	20.6	20.8
Depreciation	3,498	3,407	3,631	3,784
EBIT	84,731	1,00,203	1,13,616	1,32,760
Growth, %	35	18	13	17
Margin, %	19.0	19.8	19.9	20.2
Other income	14,025	14,165	14,448	15,170
Interest paid	535	433	454	454
Non-recurring Items	-	-	-	-
Pre-tax profit	98,220	1,13,936	1,27,610	1,47,477
Tax provided	23,432	28,484	31,265	36,132
Profit after tax	74,788	85,452	96,346	1,11,345
Exceptional Items	-	-	-	-
Net Profit	74,788	85,452	96,346	1,11,345
Growth, %	33	14	13	16
Net Profit (adjusted)	74,788	85,452	96,346	1,11,345

Cash Flow (Standalone)

Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Pre-tax profit	98,220	1,13,936	1,27,610	1,47,477
Depreciation	3,498	3,407	3,631	3,784
Chg in working capital	26,153	-6,828	30,927	4,321
Total tax paid	-22,836	-28,484	-31,265	-36,132
CFO	50,137	13,853	88,298	75,966
Capital expenditure	-7,424	-12,000	-12,000	-12,000
Chg in marketable securities	-	-	-	-
Chg in investments	-15,692	-2,449	-2,474	-2,498
CFI	-9,091	-285	-26	672
Free cash flow	42,713	1,853	76,298	63,966
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	-39,085	-39,085	-39,085	-39,085
CCF	-39,658	-39,518	-39,539	-39,563
Net chg in cash	1,388	-25,950	48,733	37,076
Opening cash balance	2,858	5,366	33,869	83,830
Closing cash balance	5,366	33,869	83,830	1,49,696

Balance Sheet (Standalone)

Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Cash & bank	5,366	33,869	83,830	1,49,696
Investments	2,44,925	2,47,374	2,49,848	2,52,346
Debtors	21,224	24,086	27,078	31,245
Inventory	16,956	22,229	24,991	28,837
Loans & advances	52	52	52	52
Other current assets	21,721	22,155	22,598	23,050
Total current assets	65,319	1,02,392	1,58,550	2,32,880
Gross fixed assets	77,113	89,113	1,01,113	1,13,113
Less: Depreciation	47,858	51,265	54,896	58,680
Add: Capital WIP	243	243	243	243
Net fixed assets	29,497	38,091	46,459	54,675
Total assets	2,54,985	3,01,358	3,58,721	4,30,981
Current liabilities	82,866	84,570	94,169	1,06,915
Provisions	1,891	1,928	1,967	2,006
Total current liabilities	84,757	86,498	96,136	1,08,921
Non-current liabilities	1,70,228	2,14,860	2,62,585	3,22,060
Total liabilities	6,380	6,387	6,387	6,387
Paid-up capital	2,792	2,792	2,894	2,894
Reserves & surplus	2,45,813	2,92,180	3,49,440	4,21,700
Shareholders' equity	2,48,605	2,94,972	3,52,334	4,24,594
Total equity & liabilities	2,54,985	3,01,358	3,58,721	4,30,981

Ratios (Standalone)

Particulars	FY24	FY25E	FY26E	FY27E
EPS (INR)	264.6	302.0	340.5	393.5
PER (x)	43.9	38.5	34.1	29.5
Price/Book (x)	13.2	11.1	9.3	7.7
EV/EBITDA (x)	30.6	26.3	23.1	19.6
EV/Net sales (x)	6.7	5.8	5.1	4.3
RoE (%)	29.7	31.4	29.8	28.7
RoCE (%)	39	41	39	38
Fixed Asset turnover (x)	5.8	5.7	5.6	5.8
Dividend Yield (%)	1.2	1.2	1.2	1.2
Receivable (days)	18	18	18	18
Inventory (days)	17	16	17	18
Payable (days)	57	50	50	50
Net D/E ratio (x)	(0.9)	(0.9)	(0.9)	(0.9)

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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