

CMP: INR 8,411

Rating: Buy

Target Price: INR 10,248

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 Bn)	2343
52w H/L (INR)	12772/7,475
Avg Yearly Vol (in 000')	29

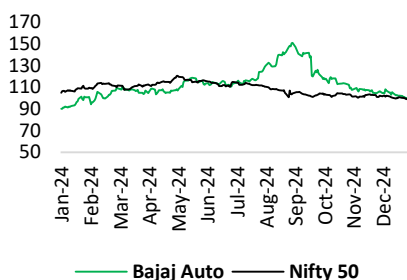
Shareholding Pattern %

(As on Dec, 2024)

Promoters	55.06
Public & Others	44.94

Stock Performance (%)	1m	3m	12m
Bajaj Auto	-5.9	-11.5	10.5
Nifty	-3.6	-5.6	7.5

Bajaj Auto Vs Nifty



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Bajaj Auto's reported revenue below estimate; Margin & PAT largely in line. Standalone revenue stood at INR 128,069 Mn, below our estimate of INR 130,280 Mn registering a growth of 5.7% YoY/down by 2.4% QoQ. EBITDA stood at INR 25,807 Mn, largely in line with our estimate of INR 25,840 Mn, registering a growth of 6.2% YoY/down by 2.7% QoQ. On the margins front, EBITDA margin down by 5 bps QoQ/+9bps YoY to 20.15%, above our estimate of 19.8%. Standalone PAT grew 3.3% YoY/5.2% QoQ to INR 21,087 Mn largely in-line our estimate of INR 21,660 Mn. Due to changes in tax laws under the Finance (No. 2) Act, 2024, the Company increased its deferred tax provision by INR 2112.6 Bn for investments in debt mutual funds, and by INR 758.0 Mn for investments in Bajaj Holdings & Investment Limited and Yulu Bikes Private Limited, reflecting changes in tax rates and the withdrawal of indexation benefits on long-term capital gains. EPS stood at INR 75.5 in Q3FY25 against INR 71.9 in Q2FY25 (INR 72.2 in Q3FY24). Delivered ~100K electric vehicles, nearly achieved leadership by doubling its share in e2Ws and tripling in e3Ws, while moving from a loss to a marginally positive EBITDA. Through its subsidiary BAIHBV, holds a 49.9% stake in Pierer Bajaj AG. PBAG's subsidiary, Pierer Mobility AG, is listed on multiple stock exchanges. BAIHBV's investment in PBAG is valued at €474 mn. For Q2 FY25, the Company reported its share of PBAG's consolidated loss of €63.08 mn. However, for the Q3 FY25, it has not accounted for PBAG's profit/loss due to differences in financial reporting schedules between India and Europe. PBAG's results are shared biannually, so the Company will account for them once received. Additionally, PMAG's major subsidiary, KTM AG, along with two others, entered restructuring proceedings on 29 November 2024, expected to conclude in Q4 FY25.

Strong export traction in across key markets: Exports grew by 27% in Q3, nearly double the estimated market growth rate. Latin America became the largest emerging market for motorcycles, with Bajaj's exports increasing by over 40%. Despite a 50% drop in KTM exports, Bajaj's growth surpassed industry estimates across ASEAN, Asia, and Africa. In Nigeria, retail remained steady at 35k units per month, maintaining a 55% MS. Bajaj Brazil reached its highest retail and production levels, with plans to expand to 50k+ units per year by Q4FY26. Expect exports to continue 20%+ YoY growth in near term.

Opportunity to expand in E-Rickshaw: Bajaj Auto plans to launch an e-rickshaw product by the end of FY2025, likely in March or April. The e-rickshaw market currently retails about 45,000 units per month, representing nearly 50% of the seat mobility market in regions like North and East India. With a fragmented market, Bajaj aims to introduce a more organized and standardized product. They expect a significant scale-up in e-rickshaw business starting in Q1 FY26 and view it as a new growth opportunity. This initiative aligns with their strategy to expand their electric vehicle portfolio.

Outlook and valuation

Bajaj Auto reported decent strong Q3FY25 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. In the 3W segment, expansion is planned for Q4, including price interventions. The e-rickshaw market is growing by 37%, and cargo segment sales are up by mid-20%. There's a strong need for larger electric vehicles in the PV and cargo segments. We project revenue growth at a CAGR of 14.3% during FY24-27E. 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 399 for a fair value of INR 9,982 and INR 266 for KTM stock valuation to arrive at a final increased target price of INR 10,248 using the SOTP method for Bajaj's stake in KTM. (Previous target price was INR 10,497). We upgrade our rating to Buy from Reduce earlier.

Q3FY25 Conference call

Strong commentary on exports, targeting 20%+ growth in the near term, with Bajaj focusing on the 125cc+ segment due to better margins and product differentiation opportunities. KTM is undergoing a court-supervised restructuring process with a definitive timeline, expected to conclude by February 25th.

The e-rickshaw opportunity is expected to launch by the March- April. ~50% of mobility in the electric space comes from e-rickshaws, with around 45k e-rickshaws sold monthly.

The company's green energy portfolio (electric and CNG vehicles) now accounts for 44% of domestic revenue.

New 3w MS increased from 13% in Q3FY24 to 35% Q3FY25. 2w increased from 13% to 22% YoY

100k 2W and E3W progress over 18-24 months is in line with expectations, continuing strong momentum.

Export growth outlook is 20% for the near term, despite macro uncertainties, with growth expected to pick up in the next 3-6 months. Nigeria is growing at over 55%, and key markets like Latin America, the Philippines, and Sri Lanka are performing well.

The company launched new variants in the 125cc segment to offer more choices and price points.

KTM is undergoing a court-supervised restructuring process with a definitive timeline, expected to conclude by February 25th. Bajaj is closely monitoring the situation with KTM exports, which were impacted by restructuring in Austria. KTM exports from India 2% of Bajaj's total exports in Q3FY25, down from their usual level of 5% in FY24.

India KTM: The Indian KTM business ~6,000 units that is produced and sold through Bajaj dealerships in India is not impacted and continues normally.

Margins are resilient at 20%+ due to commodity pricing, which remains largely flat.

Lower exports and the impact of new models have slightly affected margins, but the portfolio is improving, with breakeven at the economic unity level.

New Chetak 35 series was launched in December, with EBITDA breakeven, and more models are expected in Q4 and Q1.

Bajaj Finance turned profitable in its first year, posting a profit of INR 520M for Q3FY25, with financing share rising to 70% from 60%, financing 520K vehicles, and building an AUM of INR 70,000Mn+.

Has surplus cash of INR 150,000 Mn, reflecting a strong cash position.

RM: Expect slight inflation in commodity costs, led by alloys and noble metals.

Bajaj is expanding its Brazil operations to 50k units per annum capacity by Q4FY26.

The company will soon roll out updated prices for products complying with OBD2 norms.

The company is working on improving unit economics for its electric vehicle portfolio.

Capex is about INR 4500 Mn, with INR 3000 Mn allocated to EVs.

PLI: Committed to delivering INR 10,000 Mn in capex under the PLI scheme over 5 years, meeting annual targets and fulfilling capex conditions for PLI incentives.

The company is building scale for new launches, including both Chetak and EV 3W, focusing on sustaining margins and managing commodity cost inflation.

In the 3W segment, expansion is planned for Q4, including price interventions. The e-rickshaw market is growing by 37%, and cargo segment sales are up by mid-20%. There's a strong need for larger electric vehicles in the PV and cargo segments.

The company is optimistic about Q4 growth in geographies where market share is lower. Margin interventions are taking place in competitive regions, especially in Uttar Pradesh.

Confidence in CNG vehicle adoption is growing, although dealer and sales performance is still moderate.

The adoption rate is high for vehicles with a density of 40 vehicles, but availability of CNG pumps remains a challenge.

Continues to see growth through word-of-mouth and is confident about the increasing adoption in quick commerce sectors.

Bajaj Auto is also diversifying its product pipeline with a broad spectrum of offerings at different price points, making it easier for customers to access.

For both 3W and ICE vehicles, the company expects growth across all segments, with a focus on differentiation in pricing and performance.

Spares business crossed 15000 Mn , contributing to the improved mix.

Exhibit 2: Quarterly result summary-Strong performance

Standalone (INR mn)	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY (%)
Revenue	1,28,069	1,31,275	1,21,135	(2.4)	5.7
- Raw material	91327	93639	86096	(2.5)	6.1
(% of net sales)	71	71	71	-2bps	24bps
- Staff expenditure	3864.5	3934.9	3845.6	(1.8)	0.5
(% of net sales)	3.0	3.0	3.2	2bps	-16bps
- Other expenditure	7069.7	7179.5	6895.2	(1.5)	2.5
(% of net sales)	5.5	5.5	5.7	5bps	-17bps
Total expenditure	1,02,261	1,04,753	96,836	(2.4)	5.6
EBITDA	25,807	26,522	24,299	(2.7)	6.2
EBITDA Margin (%)	20.15	20.20	20.06	-5bps	9bps
Depreciation	996.7	956	881.2	4.3	13.1
EBIT	24,811	25,566	23,418	(3.0)	5.9
Interest	143.1	159.2	121	(10.1)	18.3
Other Income	3347	3845.4	3461.1	(13.0)	(3.3)
PBT	28,015	29,252	26,758	(4.2)	4.7
Tax	6927.2	9201.6	6338.8	(24.7)	9.3
Adjusted PAT	21087.3	20050.4	20418.8	5.2	3.3
Reported PAT	21087.3	20050.4	20418.8	5.2	3.3
Adjusted EPS (INR)	75.50	71.90	72.20	5.0	4.6
Total Volumes (Nos)	12,24,472	12,21,504	12,00,997	0.2	2.0
Net Realisation (INR)	1,04,591	1,07,470	1,00,862	(2.7)	3.7
EBITDA / Vehicle (INR)	21,076	21,712	20,232	(2.9)	4.2
Geographical mix	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY(%)
Revenues (INRm):					
Domestic	95569	103334	94581	10.6	83.7
Exports	32500	27941	26554	8.1	(14.8)
Total	128069	131275	121135	10.1	47.4
Volumes (In nos):					
Domestic	7,07,105	7,76,711	7,78,281	12.5	21.8
Exports	5,17,367	4,44,793	4,22,716	8.1	6.8
Total	12,24,472	12,21,504	12,00,997	10.8	15.9
Realisations (INR):					
Domestic	1,35,155	1,33,041	1,21,526	(1.7)	50.8
Exports	62,817	62,817	62,817	0.0	(20.2)
Total	1,04,591	1,07,470	1,00,862	(0.7)	27.2

Source: Arianth Research, Company Filings

Exhibit 3: 20%+ margin maintained by the company in Q3FY25

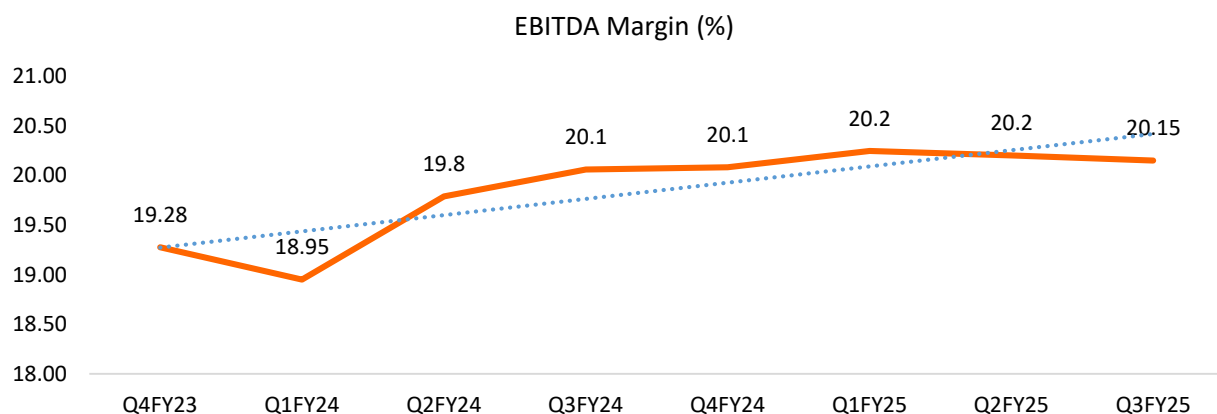


Exhibit 4: Exports saw a broad-based recovery that led to the return of >500K units after 9 quarters

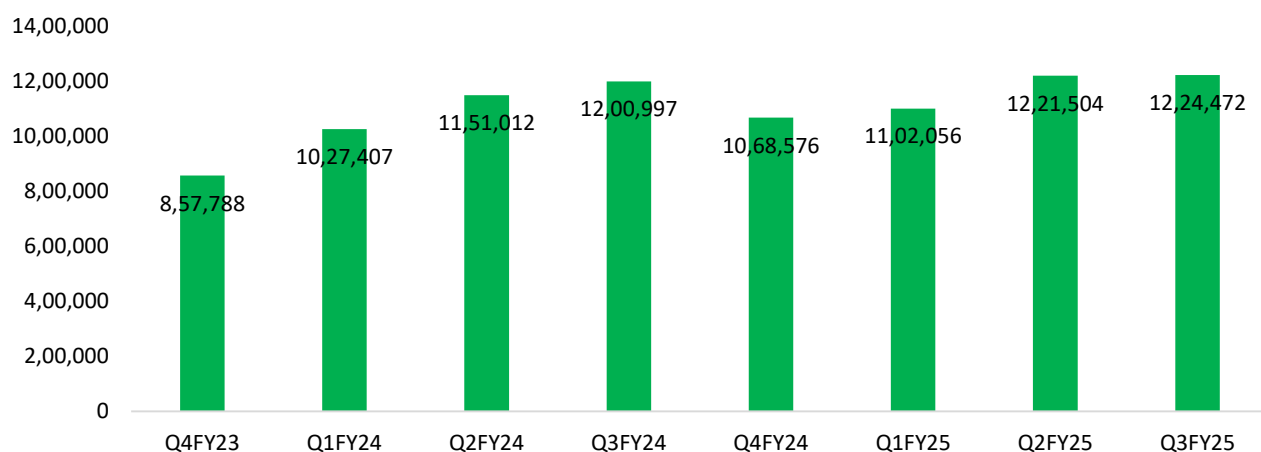
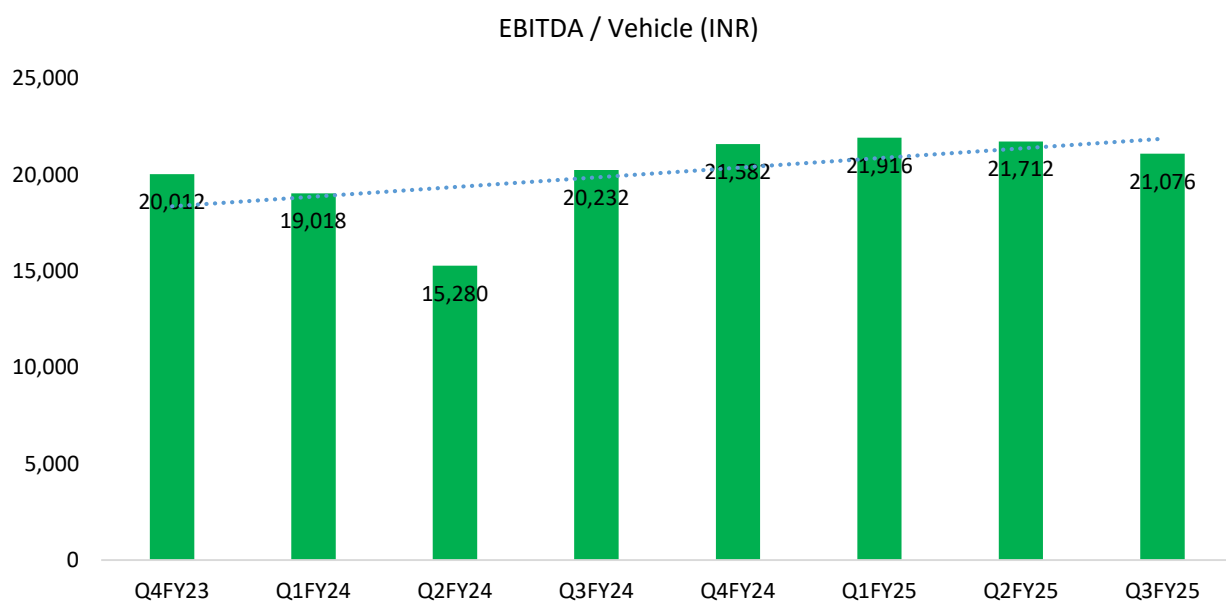


Exhibit 5: Steady growth in EBITDA/Vehicle



Source: Arianth Research, Company Filings,

Profit & Loss Statement (Standalone)				
Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Net sales	4,46,852	5,13,832	5,77,782	6,67,029
Growth, %	22.67	15.0	12.4	15.4
RM expenses	3,17,434	3,54,544	3,97,514	4,63,585
Employee expenses	15,376	16,575	17,868	18,046
Other expenses	25,813	38,024	43,045	46,692
EBITDA (Core)	88,229	1,04,689	1,19,356	1,38,705
Growth, %	35	19	14	16
Margin, %	19.7	20.4	20.7	20.8
Depreciation	3,498	3,407	3,631	3,784
EBIT	84,731	1,01,283	1,15,724	1,34,921
Growth, %	35	20	14	17
Margin, %	19.0	19.7	20.0	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	1,15,015	1,29,718	1,49,638
Tax provided	23,432	28,754	31,781	36,661
Profit after tax	74,788	86,261	97,937	1,12,976
Exceptional Items	-	-	-	-
Net Profit	74,788	86,261	97,937	1,12,976
Growth, %	33	15	14	15
Net Profit (adjusted)	74,788	86,261	97,937	1,12,976

Balance Sheet (Standalone)				
Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Cash & bank	5,366	34,796	86,362	1,53,885
Investments	2,44,925	2,47,374	2,49,848	2,52,346
Debtors	21,224	24,405	27,443	31,682
Inventory	16,956	22,524	25,327	29,240
Loans & advances	52	52	52	52
Other current assets	21,721	22,155	22,598	23,050
Total current assets	65,319	1,03,932	1,61,782	2,37,909
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	3,02,168	3,61,122	4,35,013
Current liabilities	82,866	85,301	95,001	1,07,911
Provisions	1,891	1,928	1,967	2,006
Total current liabilities	84,757	87,229	96,968	1,09,918
Non-current liabilities	1,70,228	2,14,939	2,64,154	3,25,095
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	2,92,989	3,51,841	4,25,732
Shareholders' equity	2,48,605	2,95,781	3,54,735	4,28,626
Total equity & liabilities	2,54,985	3,02,168	3,61,122	4,35,013

Cash Flow (Standalone)				
Particulars (INR mn)	FY24	FY25E	FY26E	FY27E
Pre-tax profit	98,220	1,15,015	1,29,718	1,49,638
Depreciation	3,498	3,407	3,631	3,784
Chg in working capital	26,153	-6,711	31,672	4,347
Total tax paid	-22,836	-28,754	-31,781	-36,661
CFO	49,406	14,779	90,634	77,624
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	41,982	2,779	78,634	65,624
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	657	-25,023	51,069	38,733
Opening cash balance	2,858	5,366	34,796	86,362
Closing cash balance	5,366	34,796	86,362	1,53,885

Ratios (Standalone)				
Particulars	FY24	FY25E	FY26E	FY27E
EPS (INR)	264.6	304.9	346.1	399.3
PER (x)	43.5	37.8	33.3	28.9
Price/Book (x)	13.1	11.0	9.2	7.6
EV/EBITDA (x)	30.3	25.8	22.5	19.1
EV/Net sales (x)	6.6	5.7	5.0	4.2
RoE (%)	29.7	31.7	30.1	28.9
RoCE (%)	39	42	39	38
Fixed Asset turnover (x)	5.8	5.8	5.7	5.9
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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