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Steady performance, accelerating greener fuel play

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

Q2FY25 Results: Bajaj Auto reported steady performance in Q2FY25. Total operating income for the quarter came in at ₹13,127 crore, up 22% YoY amidst 16% YoY growth in volumes at 12.2 lakh units. EBITDA stood at ₹2,652 crore with EBITDA margins at 20.2% (flat QoQ). PAT in Q2FY25 stood at ₹2,005 crore (up 9.2% YoY) which includes an exceptional one-time deferred tax provision. Excluding this provision, PAT grew 21% YoY to ₹2,216 crores.

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 and CV space in close proximity of its earlier peak. However, the 2-W space has lagged behind, still operating below its pre-Covid highs. Nonetheless, recent prints in 2W space are encouraging with H1FY25 volumes up ~16% YoY, thereby achieving ~56% of FY24 sales volume. On high base, the industry commentary is cautious on the growth prospects in PV & CV space for FY25E, with 2-W emerging as a sole shining star and expected to outperform the industry, driven by both revival in domestic demand & recovery in export volumes. Bajaj Auto with prominent market share in this space is expected to be key beneficiary from this outperformance.
- Accelerating presence in alternate fuels including E-mobility:**
Bajaj Auto was a late entrant to domestic e-mobility space, but it has since established a sizeable presence in this segment. The Chetak brand has been gaining traction in E-2W domain, securing ~19% market share in Q2FY25, while E-3W saw a steady growth with ~35% market share in the same timeframe. Recently, the company also launched the world's first CNG motorcycle offering a range of ~330 km. Bajaj Auto has implemented these strategies in a highly capital efficient way and continues to strengthen its position in this alternate fuel ecosystem through series of product launches, opening of new stores and expansion into new markets, which is structurally positive, ensuring long-term growth prospects.

Rating and Target Price

- Bajaj Auto has had a stellar run in recent past (stock up >100% in past 1 year) largely driven by its successful navigation of premiumisation drive in the domestic motorcycle segment. It has also made sizeable & calibrated entry in EV space (both 2-W and 3-W domains). However, it now trades at >25x PE to its core forward earnings which shall limit the stock price appreciation in our view. Consequently, we continue to assign **HOLD rating** and value Bajaj Auto at ₹ **11,820** on SoTP basis (Avg. of FY26-27E).



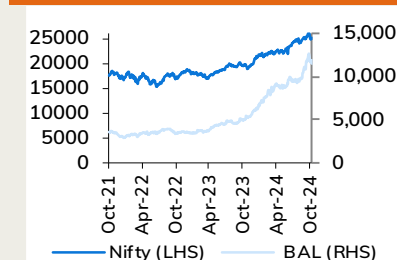
Particulars

Particular	₹ crore
Market Capitalization	2,90,926
Total Debt (FY24)	834
Cash & Invsts (FY24)	19,788
EV	2,71,972
52 week H/L (₹)	12,774 / 5,236
Equity capital (₹)	279.2
Face value (₹)	₹ 10

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	55.0	55.0	55.1	55.1
FII	14.4	14.6	14.5	14.2
DII	9.0	8.7	8.5	8.7
Other	21.6	21.8	21.9	22.0

Price Chart



Recent event & key risks

- Reports steady Q2FY25. Paints dim picture of festive demand
- Key Risk: (i) lower than expected recovery in export volumes (ii) any value unlocking event at its EV segment – stake sale etc.

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Bhavish Doshi
bhavish.doshi@icicisecurities.com

Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	27,741	33,145	36,428	44,685	8.1%	52,791	61,306	69,265	15.7%
EBITDA	4,928	5,259	6,549	8,823	12.1%	10,692	12,576	14,525	18.1%
EBITDA Margins (%)	17.8	15.9	18.0	19.7		20.3	20.5	21.0	
Net Profit	4,555	5,019	5,628	7,479	9.9%	8,482	10,062	11,503	15.4%
EPS (₹)	157.4	173.4	198.9	264.3		303.8	360.4	412.0	
P/E	66.2	60.1	52.4	39.4		34.3	28.9	25.3	
RoNW (%)	18.1	17.6	22.1	30.1		31.2	33.6	34.8	
RoCE (%)	18.2	18.4	24.3	32.3		36.7	39.7	41.7	

Source: Company, ICICI Direct Research

Q2FY25 Earnings Conference Call Highlights

- **Industry:** The 125cc+ segment is currently constituting 55% of overall industry sales volumes, with segment growing healthy by 8% YoY in Q2FY25. In contrast, the 100-cc segment declined by 6% YoY.
- **Domestic 2-Wheeler:** BAL has maintained a 25% of market share in the 125cc+ segment, which is only 2% short of being the leader in this segment. The upper half of the market, which includes 125cc+ segment contributes over 75% of sales of the company. Recently, BAL has launched new sporty 125cc targeting the youth segment. Moreover, the recent launches of Pulsar NS400Z (in the 150-cc segment) and upgraded 250 cc models have recorded retail sales of 3,000 units.
- **CNG Bike:** As per BAL, the Freedom 125 has received a positive response owing to its dual-fuel capability of both CNG and petrol. Retail sales reached 10,000 units in Sept'24 and are expected to exceed 18,000 retail sales in Oct'24. Its plans to increase its capacity to 30,000 units per month in Q3FY25, with further expansion to 40,000 per month units in Q4FY25.
- **Chetak and Triumph:** BAL's Chetak electric scooter is currently in the number three position, with market share growing to 19% in Q2FY25, almost double the share it held in Q2FY24. To further increase market share, BAL plans to launch new and refreshed ranges Chetak scooters by mid of Nov'24. It has expanded its stores reach to 3,000 touchpoints and aiming to exceed 4,000 touchpoints by Jan'25. Additionally, Triumph sales increase by more than 50% QoQ, driven by two major launches including an upgraded Speed 400
- **Export:** BAL's Export segment reported a revenue of \$450 million, grew by 11% YoY in Q2FY25. LATAM grew by 20% YoY while African market witness a continuous decline with Nigeria down by 9% YoY. However, there are signs of recovery in Africa, with sales volumes increasing from low of 5,000 per month in April'24 to 25,000 levels in Sept'24. It has secured a market leadership position in one of a segment in Mexico, which is now the fourth largest motorcycle market globally.
- **Domestic 3-Wheeler:** BAL has maintained 78% market share in domestic 3-wheeler in Q2FY25. Out of ~1.4 lakh units, ~16,000 units contribution comes from E-3W segment for Q2FY25. Its market share in this space has also reached to 35%, which has been doubled from last year levels.
- **Raw Material:** BAL witnessed an uptick in raw material prices particularly for aluminum and copper, while steel remained stable in this quarter. Overall raw material cost increased by 50 bps in Q2FY25. It implemented selective price hikes at the start of Q2FY25, offsetting half of raw material cost inflation. The currency remained stable, with realization coming at ₹83.8 per \$1 in Q2FY25 vs to ₹83.4 in Q1FY25 vs ₹82.6 in Q2FY24.
- **Capex and Others:** BAL invested ₹1,200 crores in H1FY25. Out of which ₹955 crores were allocated to its financing business, Bajaj Auto Credit (BACL) and the balance were allocated for capex, which primarily focused on expanding its electric vehicle business. Oversea Brazil facility, having annual capacity of 20,000 units, has been commissioned in June'24. It will be further expanding this capacity to 35,000 units with a capex outlay of ₹84 crores. It generated >₹ 2,000 crore as FCF during the quarter with surplus cash as of Q2FY25 stands at ~₹ 16,400 crore.
- **BACL:** Bajaj Auto's financing arm, BACL is now present at ~70% of company's two-wheeler and three-wheeler stores. It aims to cover 100% of Bajaj Auto's network by Jan'25. Its assets under management stands at ₹4,000 crores as of now with aim to reach ₹10,000 crores by end of FY25.

EV and CNG portfolio, including E-2W & E-3W, contributed ~44% of the BAL's domestic revenue in Q2FY25. However, Electric Vehicles delivered a flat EBITDA, supported by cost reduction efforts and scaling up the highly profitable electric three-wheeler portfolio.

BAL witnessed ~1- 2% YoY volume growth in the festive season so far, which is below the expectation. This subdued performance was mainly attributed to weaker demand in 100cc segment, whereas the 125cc+ segment saw a marginal positive growth. However, it remains positive and expects an industry growth of 3-5% YoY for the current festive period vs. the initial industry expectation of ~5-8% YoY growth.

BAL expects exports volume continue to grow by more than 10% QoQ in Q3FY25.

Key tables and charts

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	13,127	10,777	21.8	11,928	10.1	Topline growth in steady with marginal QoQ decline in ASP's
Raw Material Expenses	9,364	7,651	22.4	8,353	12.1	RM costs came in a tad higher at 71.3% of sales largely led by rise in commodity costs
Employee Expenses	393	382	3.1	435	-9.5	
Other Expenses	728	617	17.9	732	-0.5	Other expenses were well contained at 5.5% of sales, down 60 bps QoQ
EBITDA	2,652	2,133	24.3	2,415	9.8	
EBITDA Margin (%)	20.2	19.8	41 bps	20.2	12 bps	EBITDA margins came in flattish QoQ at 20.2%, marginally below our expectations
PBT	2,925	2,400	21.9	2,622	11.6	
Total Tax	920	564	63.2	634	45.3	
Reported PAT	2,005	1,836	9.2	1,988	0.8	Reported PAT included one time tax provision impact on certain long term investments
Key Metrics						
Total Volumes (units)	12,21,504	10,53,953	15.9	11,02,056	10.8	Total sales volume were up healthy double digit on both QoQ and YoY basis
Blended ASP (₹/unit)	1,03,872	99,805	4.1	1,04,780	-0.9	Blended ASP's came in a tad lower than expected at ₹ 1.04 lakh/unit

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Units (lakh)	Current								
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Motorcycle volumes	42.4	39.5	36.1	38.4	34.4	37.3	42.1	48.0	52.6
Three-Wheeler volumes	7.8	6.7	3.7	4.7	4.9	6.2	7.0	7.7	8.4
Total volumes	50.2	46.2	39.7	43.1	39.3	43.5	49.0	55.7	61.0
Export volumes	20.8	21.7	20.5	25.1	18.2	16.4	18.1	21.3	23.8
Domestic revenues (₹ crore)	18,099	17,169	14,609	14,924	20,608	29,377	35,196	40,226	44,730
Export revenues (\$ mn)	1,642	1,677	1,694	2,298	1,847	1,716	1,896	2,250	2,596
Blended ASP (₹/unit)	58,905	63,077	68,295	74,589	90,070	1,00,160	1,04,151	1,06,549	1,09,910

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

Change in estimates	FY25E			FY26E			FY27E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Revenue	52,755	52,791	0.1	60,702	61,306	1.0	69,265	Broadly retained sales estimates for FY25E & FY26E. Introduced FY27E. We expect sales at Bajaj Auto to grow at 15.7% CAGR of 15.7% over FY24-27E	
EBITDA	10,791	10,692	-0.9	12,723	12,576	-1.2	14,525		
EBITDA Margin (%)	20.5	20.3	-20 bps	21.0	20.5	-45 bps	21.0	Marginally reduced margin estimates for FY25E, 26E.	
PAT	8,810	8,482	-3.7	10,274	10,062	-2.1	11,503		
EPS (₹)	316	304	-3.7	368	360	-2.1	412	Introduced FY27E. We expect PAT at Bajaj Auto to grow at a CAGR of 15.4% over FY24-27E	

Source: ICICI Direct Research

Exhibit 4: SOTP valuation

SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY26-27E Average EPS (₹)	386		
PE Multiple (x)	30.0		Ahead of long period averages; at ~2x PEG
Value per share (₹, A)		11,585	
Market Capitalisation of PMAG (₹ crore)	17,864		PMAG houses KTM AG
BAL's effective stake (%)	36.7		
BAL's stake value (₹ crore)	6,556		
Value per share (₹, B)		235	
Total Value per Share (₹, A+B)		11,820	

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating Income	44,685	52,791	61,306	69,265
Growth (%)	22.7	18.1	16.1	13.0
Raw Material Expenses	31,743	37,373	43,321	48,848
Employee Expenses	1,538	1,634	1,780	1,877
Other expenses	2,629	3,128	3,676	4,071
Total Operating Expenditure	35,862	42,099	48,730	54,739
EBITDA	8,823	10,692	12,576	14,525
Growth (%)	34.7	21.2	17.6	15.5
Depreciation	350	396	444	502
Interest	54	68	61	55
Other Income	1,402	1,264	1,257	1,268
PBT	9,822	11,492	13,327	15,236
Total Tax	2,343	3,010	3,265	3,733
PAT	7,479	8,482	10,062	11,503
Growth (%)	32.9	13.4	18.6	14.3
EPS (₹)	264	304	360	412

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	7,479	8,482	10,062	11,503
Add: Depreciation	350	396	444	502
Sub: Other Income	1,402	1,264	1,257	1,268
(Inc)/dec in Current Assets	-776	-1,014	-1,129	-1,109
Inc/dec in CL and Provisions	1,559	928	1,085	1,014
CF from operating activities	8,397	6,840	9,411	10,833
(Inc)/dec in Investments	-390	2,000	-1,200	-1,700
(Inc)/dec in Fixed Assets	-778	-765	-765	-765
Others	-1,118	-2,345	-1,045	-1,045
Add: Other Income	1,402	1,264	1,257	1,268
CF from investing activities	-883	154	-1,753	-2,242
Inc/dec in loan funds	834	-500	-250	-50
Dividend paid & dividend tax	-2,264	-6,142	-7,259	-8,376
Inc/dec in Sec. premium	0	0	0	0
Others	-5,834	-82	-75	-69
CF from financing activities	-7,264	-6,724	-7,584	-8,495
Net Cash flow	251	269	73	95
Opening Cash	286	537	806	879
Closing Cash	537	806	879	975

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	279	279	279	279
Reserve and Surplus	24,581	26,906	29,695	32,808
Total Shareholders funds	24,860	27,186	29,975	33,087
Total Debt	834	334	84	34
Deferred Tax Liability	507	507	507	507
Other non-current liabilities	0	0	0	0
Total Liabilities	26,359	28,194	30,743	33,816
Assets				
Gross Block	6,546	7,273	8,023	8,773
Less: Acc Depreciation	3,359	3,755	4,200	4,702
Net Block	3,187	3,518	3,824	4,072
Capital WIP	28	50	50	50
Total Fixed Assets	3,214	3,568	3,874	4,122
Investments	24,493	24,793	26,993	29,693
Inventory	1,696	2,025	2,351	2,657
Debtors	2,122	2,603	3,191	3,795
Loans and Advances	3	4	4	5
Other current assets	1,120	1,323	1,536	1,736
Cash	537	806	879	975
Total Current Assets	5,478	6,761	7,963	9,168
Creditors	5,610	6,508	7,558	8,539
Provisions	188	218	254	286
Other current liabilities	1,542	766	889	1,005
Total Current Liabilities	7,892	8,064	9,292	10,442
Net Current Assets	-2,414	-1,303	-1,330	-1,275
Deferred Tax asset	0	0	0	0
Application of Funds	26,359	28,194	30,743	33,816

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	264	304	360	412
Cash EPS	277	318	376	430
BV	879	974	1,074	1,185
DPS	80	220	260	300
Cash Per Share	19	29	31	35
Operating Ratios (%)				
EBITDA Margin	19.7	20.3	20.5	21.0
PBT / Net sales	19.0	19.5	19.8	20.2
PAT Margin	15.0	16.0	16.1	15.4
Inventory days	13.9	14.0	14.0	14.0
Debtor days	17.3	18.0	19.0	20.0
Creditor days	45.8	45.0	45.0	45.0
Return Ratios (%)				
RoE	32.3	36.7	39.7	41.7
RoCE	30.1	31.2	33.6	34.8
RoIC	132.7	103.8	108.5	112.6
Valuation Ratios (x)				
P/E	39.4	34.3	28.9	25.3
EV / EBITDA	30.8	25.6	21.6	18.6
EV / Net Sales	6.1	5.2	4.4	3.9
Market Cap / Sales	6.5	5.5	4.7	4.2
Price to Book Value	11.9	10.7	9.7	8.8
Solvency Ratios				
Current Ratio	0.7	0.8	0.8	0.8
Quick Ratio	0.4	0.5	0.5	0.6

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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