

Results Miss Estimates; Exports Recovery Expected in H2FY24

Est. Vs. Actual for Q1FY24: Revenue – **Slight MISS**; EBITDA Margin – **MISS**; PAT – **Slight MISS**

Change in Estimates post Q1FY24:

FY24E/FY25E: Revenue 2%/8%; EBITDA 2.6%/10.5%; PAT 3%/10%

Recommendation Rationale

- **Demand outlook on premium motorcycles:** Domestic bookings for recently launched Triumph models have crossed 17k units. The Company is ramping up production to reach 5k by Sep'23 and exports are expected to start from Oct'23. The management expects to launch at least one model under the Triumph brand annually.
- **Exports recovery a mixed bag:** As per management, export demand seems to have bottomed out and inventory levels remain low (trailing behind retail). The motorcycle recovery in Q1FY24 over Q4FY23 has largely been driven by demand from Africa; though LATAM has held steady volumes and improvements can be witnessed in South Asia and the Middle East while Bangladesh is a laggard. Hence underlying recovery is a mixed bag and the management is cautiously optimistic for Q2FY24. (Dollar availability is expected to improve post Q2FY24)
- **EV Industry Outlook:** Post Fame II subsidy reduction, the industry is expected to grow in low double digits YoY vs triple digit growth achieved in prior years. As of Q1FY24, Chetak is present in 100 cities and will expand to 120 towns (140 stores) by Q2FY24. The company informed that it has launched a 3W passenger EV in Agra and 3W commercial EV in Pune, targeting the towns which have some restrictions for plying ICE 3Ws. A new facility in Waluj for E-3Ws is being set up. The capex in FY24E for EV is expected to be Rs 400-500 Cr.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: The management is focused on the 125cc+ segment which formed 70% of the overall volumes in Q1 (66% in FY23). It expects the domestic MC industry to grow at 4-6% (earlier 6-8% guidance in Q4FY23) over the next few quarters. On exports, the management informed that retails have outpaced wholesale dispatches and there is substantial headroom for growth to build back the inventory. Nevertheless, due to macroeconomic situation and geopolitical challenges gradual recovery is expected post Q2FY24. Triumph, KTM and Husqvarna to aid in product premiumisation and higher ASP. Furthermore, EV launches in the next 12 months across segments along with network expansion to aid in faster growth than the industry.

Current Valuation: 17x P/E on core Jun'25E EPS plus PMAG stake and cash reserves at 1x book value (Earlier: 17x P/E on FY'25 EPS)

Current TP: Rs 5,400/share (Earlier TP: Rs 4,785/share)

Recommendation: Competitive position in the 125cc+ segment, venturing into the premium MC segment, expanding EV portfolio, and enough operational levers to maintain margins and exports pick up reaffirms our **BUY** rating on the stock.

Financial Performance: Revenue for the quarter stood at Rs 10,310 Cr (2% miss) up 29% YoY, led by a 10% YoY increase in overall sales volumes; higher ASP, up 17.5% YoY on account of a higher share of 125+cc MC segment and 3W's; price hikes taken during the year and favourable FX impact. EBITDA stood at Rs 1,954 Cr (5% miss) up 51%/14% YoY/QoQ and EBITDA margins came in at 19% (62 bps below estimates) was up 275 bps YoY but down 32 bps QoQ led by GMs which improved by 28 bps YoY but down 212 bps QoQ. The QoQ margin decline was due to RM headwinds (benefits to accrue in later quarters), and weaker sales mix sequentially partly offset by lower other expenses. Adj PAT reported at Rs 1,665 Cr (2% miss) grew by 42%/16% YoY/QoQ, mainly on account of higher other income.

Outlook: Products positioning towards the growing 125cc+ segment, expected export recovery to drive growth. The key risk will be the failure of actual exports to pick up from H2FY24 onwards and the increase in RM costs.

Valuation & Recommendation: We model 11.6% CAGR in volumes, and forecast 17%/28%/16% CAGR in Revenue/EBITDA/PAT over FY23-26E on the back of (1) Higher ASP led by a recovery in the exports market and higher sale mix of premium motorcycles + 3W's + EVs (2) Improvement in GM on account of commodity softening and operating leverage. We therefore value the stock at 17x its Jun'25E core EPS (Rs 4,348/share), add for the company's stake in PMAG and surplus cash reserves at 1x book value to arrive at our TP of Rs 5,400/share (from Rs 4,785/share earlier), implying 11.5% upside from the CMP. We **maintain** our **BUY** rating on the stock.

Key Financials (Standalone)

| (Rs Cr) | Q1FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|----------------|--------|---------|---------|-----------|----------|
| Net Sales | 10,049 | 16.4% | 29.3% | 10,259 | -2.0% |
| EBITDA | 1,954 | 13.8% | 50.6% | 2,060 | -5.1% |
| EBITDA Margin | 18.95% | -32 | 275 | 19.57% | -62 |
| Adj Net Profit | 1,665 | 16.2% | 41.9% | 1,696 | -1.8% |
| Adj EPS (Rs) | 58.9 | 16.2% | 45.3% | 60.0 | -1.9% |

Source: Company, Axis Research

(CMP as of 26th Jul 2023)

| | |
|----------------------------|-------------|
| CMP (Rs) | 4,843 |
| Upside /Downside (%) | 11.5% |
| High/Low (Rs) | 4,988/3,462 |
| Market cap (Cr) | 1,22,891 |
| Avg. daily vol. (6m) Shrs. | 4,19,274 |
| No. of shares (Cr) | 28 |

Shareholding (%)

| | Dec-22 | Mar-23 | Jun-23 |
|------------------------|--------|--------|--------|
| Promoter | 55.0 | 55.0 | 55.0 |
| FII | 11.8 | 12.4 | 13.7 |
| Mutual Funds / UTI | 3.9 | 3.6 | 3.8 |
| Financial Institutions | 0.0 | 0.0 | 0.0 |
| Others | 29.3 | 29.1 | 27.6 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY23 | FY24E | FY25E |
|-----------------|--------|--------|--------|
| Net Sales | 44,113 | 51,857 | 57,447 |
| EBITDA | 8,472 | 10,023 | 11,107 |
| Adj. Net Profit | 7,120 | 8,245 | 9,029 |
| EPS (Rs.) | 251.9 | 291.7 | 319.4 |
| PER (x) | 15.4 | 13.3 | 12.2 |
| EV/EBITDA (x) | 12.9 | 10.8 | 9.5 |
| P/BV (x) | 4.1 | 3.7 | 3.3 |
| ROE (%) | 24.6 | 26.6 | 26.6 |

Change in Estimates (%)

| Y/E Mar | FY23E | FY24E | FY25E |
|---------|-------|-------|-------|
| Sales | 0.0% | 2.1% | 8.3% |
| EBITDA | 0.0% | 2.6% | 10.5% |
| PAT | 0.0% | 2.8% | 9.9% |

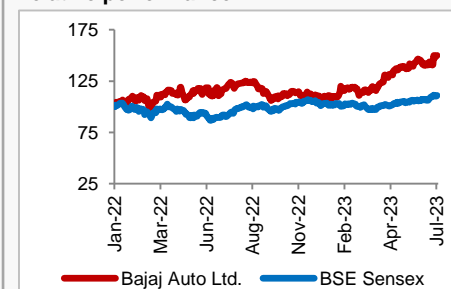
ESG disclosure Score**

| | |
|----------------------------|-------|
| Environmental Disclosure | 16.46 |
| Social Disclosure Score | 26.96 |
| Governance Disclosure | 84.86 |
| Total ESG Disclosure Score | 42.81 |
| Sector Average | 46.43 |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **Exports outlook:** The company is witnessing some early signs of ease and expects markets to be bottoming out. With the retails continuing to outstrip wholesale dispatched sufficient headroom exists to build back depleted inventory levels. The situation however remains quite turbulent caused by a mix of macroeconomic challenges, geopolitical issues and the continued strain on dollar liquidity. Hence outlook on Q2 is cautiously optimistic.
- **Domestic motorcycles:** Retail sales of the domestic Motorcycle industry have grown by 19% YoY in Q1FY24 (over the low base of Q1FY23), largely coming in from the planned seasonal demand of commuter segment MC. Management expects an industry growth of 4-6% (6-8% guidance earlier) over the next few quarters, driven by the 125cc+ motorcycles. The company has strategically focussed on the 125cc+ segment and has launched 6 new models in the last 6 months taking the tally to 20 models in the 125cc+ segment compared to 15 models of the next competitor. The company's market share in the 125cc segment has improved and 70% of its domestic motorcycle sales come from this segment as compared to 60% in FY23
- **Chetak:** The EV supply chain has been restructured and several development programs in collaboration with important vendors have made headway. Currently, Chetak is available in 100 cities and by the end of H1, it will be expanded to 120 towns and 140 stores. This would cover 75% of the market in India.
- **Domestic 3W:** The company has reported sales of 1.37 Lc units against 86k in Q1FY23 and 1.33 Lc units in Q4FY23.
- **E-3W:** The company informed us that it sold a few hundred units of E-3W in the quarter. E-3W Passenger vehicle was launched in Agra while the commercial vehicle was launched in Pune; thereby targeting the towns which have some restrictions for plying ICE 3Ws. A new facility in Waluj for 3W EVs is being set up. The company wants to take it step by step, as it is very important to give a stable product to commercial users. The capex for EV is expected to be Rs 400-500 Cr this year.
- **Spare revenue** was ~Rs 1,200 Cr in Q1FY24 split between domestic and exports in an 80:20 ratio.
- **Cash Surplus** in Q1FY24 end was Rs 19,500 Cr with net free cash flows of Rs 2,000 Cr during the quarter.

Key Risks to our Estimates and TP

- .Commodity prices rising from the current level, which would impact the company's gross margins negatively.
- Chip shortage impacts the supply of premium bikes (KTM and Triumph).
- Lower EV demand scenario post reduction in FAME II subsidy which may hamper the off-take of vehicles in the domestic market.

Change in Estimates

| | Revised | | | Old | | | % Change | | |
|-------------------------|---------|--------|--------|--------|--------|--------|----------|--------|--------|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY23E | FY24E |
| Revenue | 35,756 | 44,113 | 51,857 | 35,756 | 43,199 | 47,869 | 0.0% | 2.1% | 8.3% |
| EBITDA | 6,021 | 8,472 | 10,023 | 6,021 | 8,254 | 9,067 | 0.0% | 2.6% | 10.5% |
| PAT | 5,737 | 7,120 | 8,245 | 5,737 | 6,924 | 7,502 | 0.0% | 2.8% | 9.9% |
| EPS | 201.2 | 249.6 | 289.1 | 201.2 | 242.7 | 263.0 | 0.0% | 2.8% | 9.9% |
| Sales Volume (Mn units) | 3.93 | 4.35 | 5.01 | 3.93 | 4.23 | 4.60 | 0.0% | 2.79% | 8.99% |
| EBITDA % | 17% | 19% | 19% | 17% | 19% | 19% | 0.0% | 21 bps | 33 bps |

Source: Company, Axis Securities

Q1FY24 Results Review

| YE Mar (Rs Cr) | Q1FY24 | Axis Sec Estimates | Var (%) | Q4FY23 | QoQ (%) | Q1FY23 | YoY (%) | Consensus | Vs cons |
|--------------------------------------------------|------------------|--------------------|--------------|-----------------|--------------|-----------------|---------------|--------------|------------|
| Domestic | | | | | | | | | |
| 2W (Units) | 5,42,931 | 5,42,931 | 0.0% | 4,15,188 | 30.8% | 3,14,418 | 72.7% | | |
| CV :3W + quadricycle | 98,625 | 98,625 | 0.0% | 1,00,033 | -1.4% | 38,418 | 156.7% | | |
| Total Domestic | 6,41,556 | 6,41,556 | 0.0% | 5,15,221 | 24.5% | 3,52,836 | 81.8% | | |
| Exports | | | | | | | | | |
| 2W (Units) | 3,46,399 | 3,46,399 | 0.0% | 3,10,410 | 11.6% | 5,32,740 | -35.0% | | |
| CV :3W + quadricycle | 39,457 | 39,457 | 0.0% | 34,290 | 15.1% | 48,070 | -17.9% | | |
| Total Exports | 3,85,851 | 3,85,851 | 0.0% | 3,44,705 | 11.9% | 5,80,810 | -33.6% | | |
| Total | | | | | | | | | |
| 2W (Units) | 8,89,330 | 8,89,330 | 0.0% | 7,25,598 | 22.6% | 8,47,158 | 5.0% | | |
| CV :3W + quadricycle | 1,38,077 | 1,38,077 | 0.0% | 1,34,323 | 2.8% | 86,488 | 59.6% | | |
| Total Volume (Domestic + Exports) (Units) | 10,27,407 | 10,27,407 | 0.0% | 8,59,926 | 19.5% | 9,33,646 | 10.0% | | |
| Net Sales | 10,049 | 10,259 | -2.0% | 8,632 | 16.4% | 7,769 | 29.3% | 10,381 | -3% |
| Other Operating Income | 261 | 267 | -2.1% | 273 | -4.4% | 236 | 10.6% | | |
| Total Revenue | 10,310 | 10,526 | -2.1% | 8,905 | 15.8% | 8,005 | 28.8% | | |
| ASP (Rs/unit) | 97,805 | 99,852 | -2.0% | 1,00,375 | -2.6% | 83,210 | 17.5% | | |
| Less: | | | | | | | | | |
| Net Raw Material consumed | 7,413 | 7,347 | 0.9% | 6,213 | 19.3% | 5,778 | 28.3% | | |
| Other Manufacturing & Sales Exp. | 559 | 726 | -23.0% | 613 | -8.8% | 551 | 1.5% | | |
| Personnel Cost | 384 | 393 | -2.2% | 362 | 6.1% | 380 | 1.2% | | |
| Total Expenditure | 8,356 | 8,466 | -1.3% | 7,188 | 16.2% | 6,708 | 24.6% | | |
| EBIDTA | 1,954 | 2,060 | -5.1% | 1,717 | 13.8% | 1,297 | 50.6% | 1,976 | -1% |
| Less: Depreciation | 84 | 80 | 4.7% | 74 | 12.6% | 67 | 24.1% | | |
| EBIT | 1,870 | 1,980 | -5.5% | 1,642 | 13.9% | 1,230 | 52.1% | | |
| Less: Interest | 12 | 10 | 21.5% | 16 | -23.2% | 4 | 178.6% | | |
| Add: Other income | 346 | 262 | 32.3% | 260 | 33.3% | 319 | 8.5% | | |
| Profit Before Extra-ordinary and Tax | 2,205 | 2,232 | -1.2% | 1,887 | 16.9% | 1,545 | 42.7% | | |
| Less: Extraordinary Expenses (net) | 0 | 0 | NA | 0 | NA | 0 | NA | | |
| Profit Before Tax | 2,205 | 2,232 | -1.2% | 1,887 | 16.9% | 1,545 | 42.7% | | |
| Less: Total Tax | 540 | 536 | 0.8% | 454 | 19.0% | 371 | 45.4% | | |
| Profit After Tax | 1,665 | 1,696 | -1.8% | 1,433 | 16.2% | 1,173 | 41.9% | | |
| Adj. Profit After Tax | 1,665 | 1,696 | -1.8% | 1,433 | 16.2% | 1,173 | 41.9% | 1,650 | 1% |
| Diluted Shares Outstanding (Cr) | 28 | 28 | 0.0% | 28 | 0.0% | 29 | -2.3% | | |
| Reported EPS (Rs.) | 58.9 | 60.0 | -1.9% | 50.7 | 16.2% | 40.5 | 45.3% | | |
| Adj. EPS (Rs.) | 58.9 | 60.0 | -1.9% | 50.7 | 16.2% | 40.5 | 45.3% | 54.0 | 9% |

| Margin Analysis | Q1FY24 | Axis Sec Estimates | Change in bps | Q4FY23 | Change in bps | Q1FY23 | Change in bps |
|---------------------------|--------|--------------------|---------------|--------|---------------|--------|---------------|
| EBIDTA Margin | 19.0% | 19.6% | -62 | 19.3% | -32 | 16.2% | 275 |
| Adj. NPM | 16.1% | 16.1% | 3 | 16.1% | 6 | 14.7% | 149 |
| Effective Tax Rate | 24.5% | 24.0% | 49 | 24.0% | 44 | 24.0% | 45 |
| Cost Analysis | | | | | | | |
| Gross Margin | 28.1% | 30.2% | -210 | 30.2% | -212 | 27.8% | 28 |
| Other Expenses./Net Sales | 5.4% | 6.9% | -148 | 6.9% | -146 | 6.9% | -146 |
| Personnel/Net Sales | 3.7% | 3.7% | -1 | 4.1% | -34 | 4.7% | -102 |

Source: Company, Axis Securities, Bloomberg Consensus

Financials (Standalone)

Profit & Loss

(Rs Cr)

| Y/E March (Rs. Cr) | FY23 | FY24E | FY25E | FY26E |
|----------------------------|--------------|--------------|---------------|---------------|
| Net revenues | 35,756 | 44,113 | 51,857 | 57,447 |
| Operating expenses | 29,734 | 35,641 | 41,834 | 46,340 |
| EBIDTA | 6,021 | 8,472 | 10,023 | 11,107 |
| EBITDA margin (%) | 16.8 | 19.2 | 19.3 | 19.3 |
| Other income | 1,853 | 1,285 | 1,252 | 1,252 |
| Interest | 39 | 42 | 37 | 37 |
| Depreciation | 282 | 333 | 388 | 442 |
| Profit Before Tax | 7,409 | 9,382 | 10,849 | 11,880 |
| Tax | 1,781 | 2,262 | 2,604 | 2,851 |
| Reported Net Profit | 5,628 | 7,120 | 8,245 | 9,029 |
| Net Margin (%) | 15.7 | 16.1 | 15.9 | 15.7 |
| Adjusted Net Profit | 5,737 | 7,120 | 8,245 | 9,029 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March (Rs. Cr) | FY23 | FY24E | FY25E | FY26E |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Equity capital | 283.0 | 283.0 | 283.0 | 283.0 |
| Reserves & surplus | 25,143 | 26,603 | 29,189 | 32,559 |
| Shareholders' funds | 25,426 | 26,886 | 29,472 | 32,841 |
| Total Loans | 124 | 124 | 124 | 124 |
| Deferred tax liability | 345 | 345 | 345 | 345 |
| Total Liabilities and Equity | 25,895 | 27,356 | 29,942 | 33,311 |
| Gross block | 5,435 | 6,447 | 7,417 | 8,367 |
| Depreciation | 2,769 | 3,102 | 3,490 | 3,932 |
| Net block | 2,666 | 3,345 | 3,927 | 4,435 |
| Capital WIP | 82 | 70 | 100 | 150 |
| Investments | 22,973 | 21,973 | 21,973 | 21,973 |
| Inventory | 1,398 | 1,725 | 1,636 | 1,812 |
| Debtors | 1,776 | 2,191 | 2,576 | 2,854 |
| Cash & Bank Balance | 286 | 938 | 1,725 | 4,411 |
| Loans & Advances | 1,947 | 3,224 | 3,357 | 3,581 |
| Current Assets | 5,406 | 8,078 | 9,294 | 12,658 |
| Sundry Creditors | 4,309 | 5,026 | 4,117 | 4,561 |
| Other Current Liability | 923 | 1,085 | 1,235 | 1,344 |
| Current Liability & Provisions | 5,232 | 6,111 | 5,352 | 5,905 |
| Net current assets | 174 | 1,968 | 3,942 | 6,753 |
| Total Assets | 25,895 | 27,356 | 29,942 | 33,311 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March (Rs Cr) | FY23 | FY24E | FY25E | FY26E |
|--------------------------------------------|----------------|----------------|----------------|----------------|
| EBIT | 5,739 | 8,139 | 9,634 | 10,665 |
| Other Income | 1,853 | 1,285 | 1,252 | 1,252 |
| Depreciation & Amortization | 282 | 333 | 388 | 442 |
| Interest paid(-) | (39) | (42) | (37) | (37) |
| Tax paid(-) | (1,781) | (2,262) | (2,604) | (2,851) |
| Extra Ord Income | (144) | - | - | - |
| Operating Cash Flow | 5,910 | 7,453 | 8,633 | 9,471 |
| Change in Working Capital | 989 | (1,141) | (1,187) | (125) |
| Cash flow from Operations | 6,899 | 6,312 | 7,446 | 9,346 |
| Capex | (1,171) | (1,000) | (1,000) | (1,000) |
| Strategic Investment | (538) | - | - | - |
| Non-Strategic Investment | 1,435 | 1,000 | - | - |
| Cash flow from Investing | (274) | - | (1,000) | (1,000) |
| Change in borrowing | 1 | - | - | - |
| Other | (2,878) | 0 | (0) | - |
| Dividends paid(-) | (4,051) | (5,659) | (5,659) | (5,659) |
| Cash Flow from Financial Activities | (6,927) | (5,659) | (5,659) | (5,659) |
| Change in Cash | (303) | 652 | 787 | 2,686 |
| Opening cash | 588 | 286 | 938 | 1,725 |
| Closing cash | 286 | 938 | 1,725 | 4,411 |

Source: Company, Axis Securities

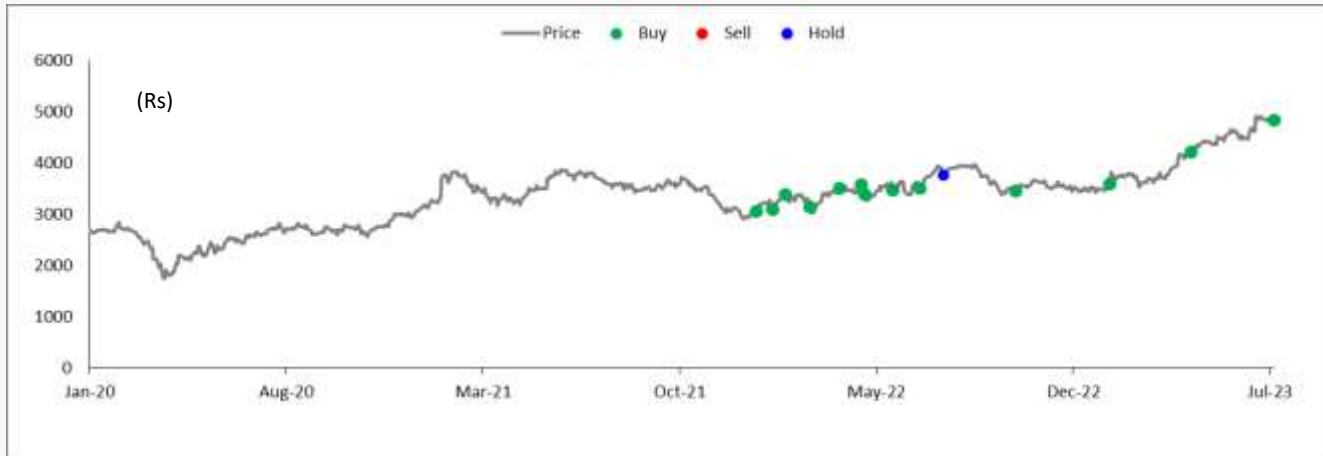
Ratio Analysis

(%)

| Y/E March | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|-------|-------|-------|-------|
| Revenue Growth | 10.1 | 23.4 | 17.6 | 10.8 |
| EBITDA Margin | 16.8 | 19.2 | 19.3 | 19.3 |
| Net Profit Margin | 16.0 | 16.1 | 15.9 | 15.7 |
| ROCE (%) | 20.2 | 24.3 | 26.3 | 26.3 |
| ROE (%) | 20.4 | 24.6 | 26.6 | 26.6 |
| EPS(Rs) | 201.2 | 251.9 | 291.7 | 319.4 |
| P/E (x) | 19.3 | 15.4 | 13.3 | 12.2 |
| P/ BV (x) | 4.4 | 4.1 | 3.7 | 3.3 |
| EV/ EBITDA (x) | 18.4 | 12.9 | 10.8 | 9.5 |
| Fixed Assets Turnover Ratio (x) | 13.0 | 12.9 | 12.9 | 12.5 |
| Debt / Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/ Sales (x) | 3.1 | 2.5 | 2.1 | 1.8 |

Source: Company, Axis Securities

Bajaj Auto Price Chart and Recommendation History



Source: Axis Securities

| Date | Reco | TP | Research |
|-----------|------|-------|---------------|
| 03-Jan-22 | BUY | 4,500 | Top Picks |
| 20-Jan-22 | BUY | 4,200 | Result Update |
| 03-Feb-22 | BUY | 4,250 | Top Picks |
| 02-Mar-22 | BUY | 4,250 | Top Picks |
| 04-Apr-22 | BUY | 4,250 | Top Picks |
| 29-Apr-22 | BUY | 4,350 | Result Update |
| 01-Jun-22 | BUY | 4,350 | Top Picks |
| 01-Jul-22 | BUY | 4,200 | Top Picks |
| 28-Jul-22 | HOLD | 4,130 | Result Update |
| 14-Oct-22 | BUY | 4,000 | Result Update |
| 27-Jan-23 | BUY | 4,170 | Result Update |
| 26-Apr-23 | BUY | 4,785 | Result Update |
| 26-Jul-23 | BUY | 5,400 | Result Update |
| | | | |

Source: Axis Securities

About the analyst

1. **Research Analyst: Aditya Welekar** is a PGDBM in Finance with 12 years of experience in Equity Market/Research.

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