



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

| | | | |
|----------------------|------------|-----------|------------|
| | + | = | - |
| Right Sector (RS) | ✓ | ■ | ■ |
| Right Quality (RQ) | ✓ | ■ | ■ |
| Right Valuation (RV) | ✓ | ■ | ■ |
| | + Positive | = Neutral | - Negative |

What has changed in 3R MATRIX

| | | | |
|----|-----|---|-----|
| | Old | | New |
| RS | ■ | ↔ | ■ |
| RQ | ■ | ↔ | ■ |
| RV | ■ | ↔ | ■ |

ESG Disclosure Score **NEW**

| | | | | |
|------------------------|--------------|-------|-------|--------|
| ESG RISK RATING | 17.08 | | | |
| Updated Jun 08, 2023 | | | | |
| Low Risk | | | | |
| NEGL | LOW | MED | HIGH | SEVERE |
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ |

Source: Morningstar

Company details

| | |
|-------------------------------|-------------------|
| Market cap: | Rs. 138,168 cr |
| 52-week high/low: | Rs. 4,902 / 3,462 |
| NSE volume: (No of shares) | 3.3 lakh |
| BSE code: | 532977 |
| NSE code: | BAJAJ-AUTO |
| Free float: (No of shares) | 12.7 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 55.0 |
| FII | 12.4 |
| DII | 10.9 |
| Others | 21.8 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|------|------|------|
| Absolute | 3.6 | 25.6 | 37.4 | 26.2 |
| Relative to Sensex | -0.9 | 14.4 | 29.0 | 2.4 |

Sharekhan Research, Bloomberg

| | | | |
|-----------------------|-----------------------------------|-----------------------|----------------------------------|
| Automobiles | Sharekhan code: BAJAJ-AUTO | | |
| Reco/View: Buy | ↔ | CMP: Rs. 4,914 | Price Target: Rs. 5,600 ↑ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | |

Summary

- We maintain a Buy on Bajaj Auto Limited (BAL) with a revised PT of Rs. 5,600, on its consistent focus on profitability and its brand focus play in premium segment.
- With affordable Triumphs, BAL has entered into a global iconic premium motorcycle segment as it launched Triumph Speed 400 at an aggressive pricing of Rs 2.33 lakh in India.
- BAL is following a multiband approach for a holistic motorcycle play, which in our view would help it to sustain its profitability.
- The stock is currently trading at P/E multiple of 18.6x and EV/EBITDA multiple of 12.8x its FY25 E estimates

BAL has launched Triumph Speed 400 and Triumph Scrambler 400X in association with Triumph in India after unveiling them at a global stage in London. The Triumph Speed 400 is priced at an attractive price tag of Rs 2.33 lakh, and the newly launched Speed 400 cc would be offered at Rs 2.23 lakh to the first 10k customers. Speed 400 is expected to be available in the market by July 2023, and Scrambler 400X would come into the market by October 2023. Given that Triumph has been a combination of classic iconic style and modern technology, the affordable-priced Triumph would attract a new set of aspirational customers for BAL, given currently Triumph in India is available in a price band of Rs 8 lakhs to Rs 20 lakhs. We believe that BAL is selectively targeting individual subsegments of the premium market via separate brand focus and hence would continue to enjoy a leading position in the premium motorcycle segment via multi-brand approach.

- Booking begins in overseas markets:** Triumph Speed and Triumph Scrambler 400x are the first co-produced products by Triumph Motorcycles and BAL. While Triumph would care of brand, design and product, BAL would focus on development, co-design, engineering, sourcing, and manufacturing. Triumph 400 cc, which would be manufactured in India, would be exported to overseas markets also. As Triumph 400cc has been first unveiled in London, it has already started receiving bookings from Triumphs's existing markets.
- Capacity is not a constraint** would be manufactured at BAL's new plant at Chakan2. Chakan 2 has a capacity of 25k units/ month. The capacity at Chakan 2 would be distributed between the manufacturing of KTM and Triumph. Initially, Triumph would have a capacity of 5k units/ month. Overall capacity at the Chakan plant can be expanded beyond 40k units. Triumph speed is priced at Rs 2.33 lakh and would be offered at Rs 2.23 lakh for the first 10k customers. Triumph in India is available in the 660 cc to 2500 cc segment in a price band of Rs 7.5 lakh to Rs 20 lakhs. Hence the newly launched Triumph under 400 cc would expand the Triumph brand on-boarding of new set of customers.
- Distribution network expansion is on the card:** Triumph motorcycles would be sold exclusively through Triumph dealerships in India. Given that BAL owns the sales and marketing operations of Triumph in the domestic market, BAL would distribute and market the Triumph brand in India. Along with that, we understand it would also distribute and market the newly launched products in few of the export markets. Triumph currently has 15 dealerships in the domestic market. BAL is planning to expand Triumph's dealerships from existing 15 to over 100 in next few months. The stores in metros would keep existing Triumphs and recently launched Triumphs, while the small towns stores would sell newly launched Triumphs. We believe that BAL would come out with multiple products with the new Triumphs platform to keep momentum in the market and justify the financial feasibility of exclusive showrooms. BAL has separate dealerships for individual categories of products as it operates with 4 dealership networks for KTM, Bajaj Motorcycles, Chetak Electric and 3-wheelers.

Our Call

Maintain Buy with an upward revised target price of Rs 5,600: BAL and Triumph have launched their co-produced Triumphs at a competitive price point, which we believe would attract a new set of customers for BAL on offering an aspirational brand at an affordable price point. In our view, initially the focus of the company would remain on stabilising the new products under a global brand in the market along with volume ramp up and hence customers acceptability at ground is the key thing to watch out in near term than volumes. We believe that an affordable product from an aspirational brand gets easy favouritism from the customers, as seen in the case Hunter 350cc from Royal Enfield. BAL has now ventured into the realm of iconic premium motorcycles, expanding its dominance from the mass premium motorcycle segment. We believe that BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolios in multiple segments. A focussed approach on an individual motorcycle segment via a specific brand has been helping BAL in gaining space in premium motorcycle segment with a healthy profitability and hence despite headwinds BAL has been maintaining its EBITDA margin (above 15%) led by appropriate product mix. We continue to maintain our BUY rating on the stock with an upward revised target price of Rs 5,600 on its consistent focus on profitability and its brand focus play in premium segment.

Key Risks

A continued slowdown in export markets and unfavorable forex fluctuations can affect the company's profit. Sales of premium bikes will be affected adversely if chips shortage situation aggravates again.

Valuation (Standalone)

| Particulars | FY21 | FY22 | FY23P | FY24E | FY25E |
|---------------|--------|--------|--------|--------|--------|
| Net Sales | 27,741 | 33,145 | 36,428 | 42,584 | 47,885 |
| Growth (%) | -7.3 | 19.5 | 9.9 | 16.9 | 12.4 |
| EBIDTA | 4,916 | 5,245 | 6,521 | 7,665 | 8,907 |
| OPM (%) | 17.7 | 15.8 | 17.9 | 18.0 | 18.6 |
| Recurring PAT | 4,542 | 4,690 | 5,600 | 6,497 | 7,490 |
| Growth (%) | -10.9 | 3.3 | 19.4 | 16.0 | 15.3 |
| EPS (Rs) | 161 | 177 | 198 | 230 | 265 |
| PE (x) | 30.6 | 27.8 | 24.8 | 21.4 | 18.6 |
| P/BV (x) | 5.5 | 5.2 | 5.5 | 5.0 | 4.5 |
| EV/EBIDTA (x) | 23.6 | 21.9 | 17.8 | 15.0 | 12.8 |
| RoNW (%) | 18.0 | 17.6 | 22.0 | 23.2 | 24.2 |
| RoCE (%) | 17.9 | 17.8 | 22.0 | 23.2 | 24.2 |

Source: Company; Sharekhan estimates

- ◆ The Triumph Speed 400 and Scrambler 400X—are powered by 398.15 cc, liquid-cooled, four-valve, single-cylinder engines.
- ◆ The bikes carry features like USD forks, rear mono-shock, disc brakes on both wheels with dual-channel ABS, all-LED lighting, traction control, semi-digital instrument cluster, and alloy wheels wrapped inside tubeless tyres.
- ◆ Both Triumph and BAL are associated with non-equity partnership deal and has been working together for the last 16 years.
- ◆ 400 cc Triumph motorcycles would be manufactured in India but would be catered by Triumph in its overseas markets and we understand that along with the domestic market BAL would also market 400 CC Triumph in few of the export markets. However, the CKD units can be assembled at Triumph's plants at Thailand and Brazil
- ◆ Scrambler 400 X will be available in MATT Khaki Green with Fusion white, Carnival red with phantom black and Phantom black with silver ice.
- ◆ Speed 400 will be available in Carnival red with phantom black, Caspian blue with storm grey and phantom black with storm grey.
- ◆ Speed 400 is expected to be positioned as the entry-level roadster model.
- ◆ Scrambler 400X is expected to be positioned as the scrambler model.

Peer comparison

| Brand | Bajaj Auto | Hero Motocorp | Royal Enfield | Honda |
|---------------------|---------------|---------------|---------------|-----------|
| Model | Triumph Speed | Harley X440 | Himalyan | CB350 RS |
| Engine CC | 398.15 | 440 | 411 | 348.36 |
| Price range Rs lakh | 2.23 | 2.29-2.69 | 2.15-2.28 | 2.14-2.17 |

Source: Sharekhan Research; Media Research

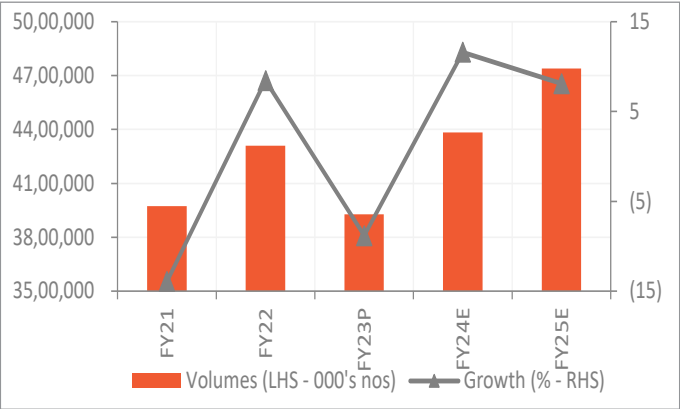
Mkt share in above 250 cc motorcycle segment

| OEMs | FY22 | FY23 |
|---------------|---------|---------|
| HMSI | 5.80% | 4.20% |
| Royal Enfield | 90.30% | 92.50% |
| Other | 3.90% | 3.30% |
| Total | 100.00% | 100.00% |

Source: Sharekhan Research; Media Research

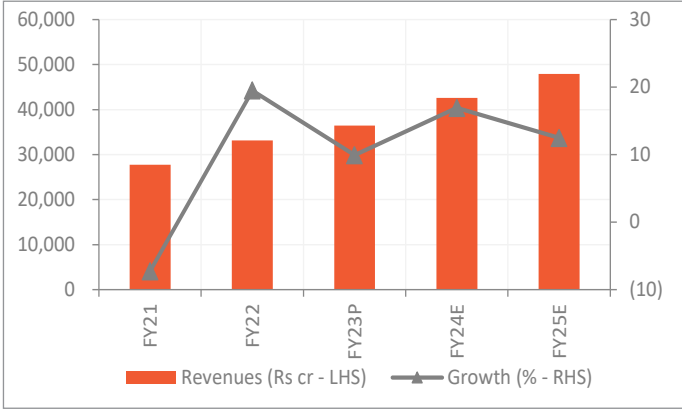
Financials in charts

Volumes Trends



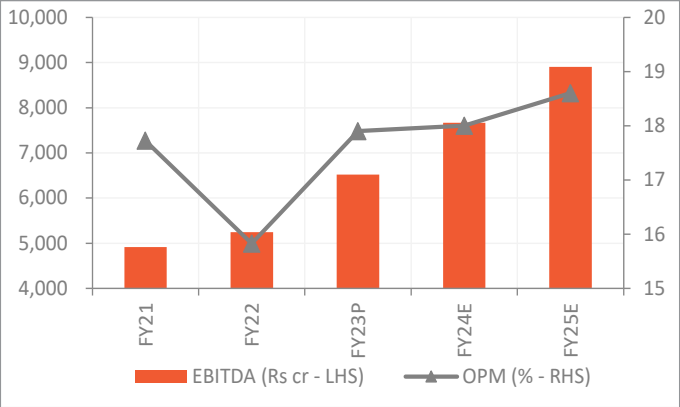
Source: Company, Sharekhan Research

Revenue and Growth Trend



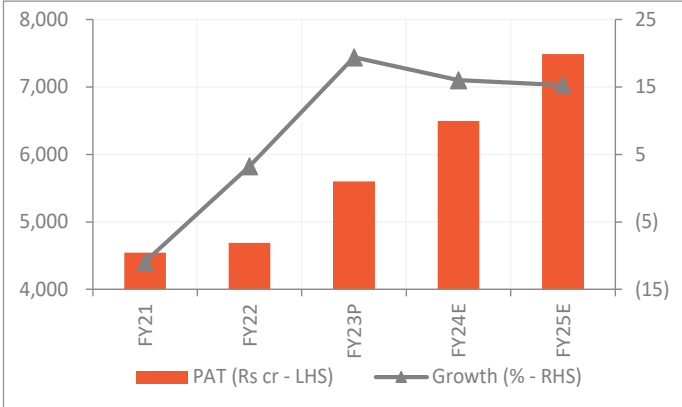
Source: Company, Sharekhan Research

EBITDA and OPM Trends



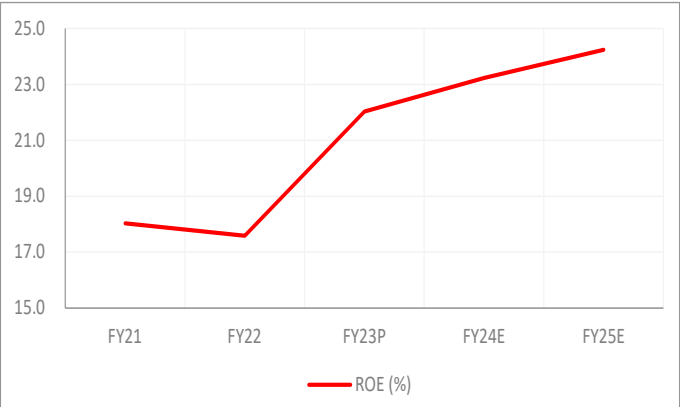
Source: Company, Sharekhan Research

PAT and Growth Trends



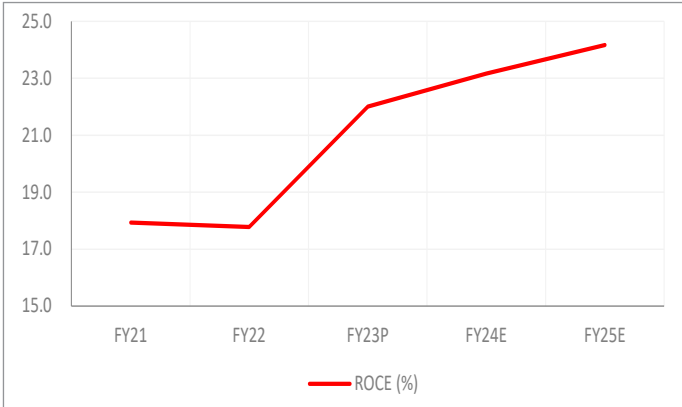
Source: Company, Sharekhan Research

ROE Trends



Source: Company, Sharekhan Research

ROCE Trends



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Demand picking up in domestic, and recovery in export is awaited

We expect growth momentum to recover in FY2024E, driven by improved rural sentiments in the domestic market. The government's expenditure on the infra segment and increased preference for personal transport are expected to improve volumes. With a rise in ownership cost due to price hikes and implementation of new regulations the entry level segment is facing headwinds, however, the premium segment is continuously performing. While export volumes have been muted but reaching to bottom. The export volumes are expected to improve gradually in coming months. A positive recovery in African markets would augur well for two-wheeler exports from India.

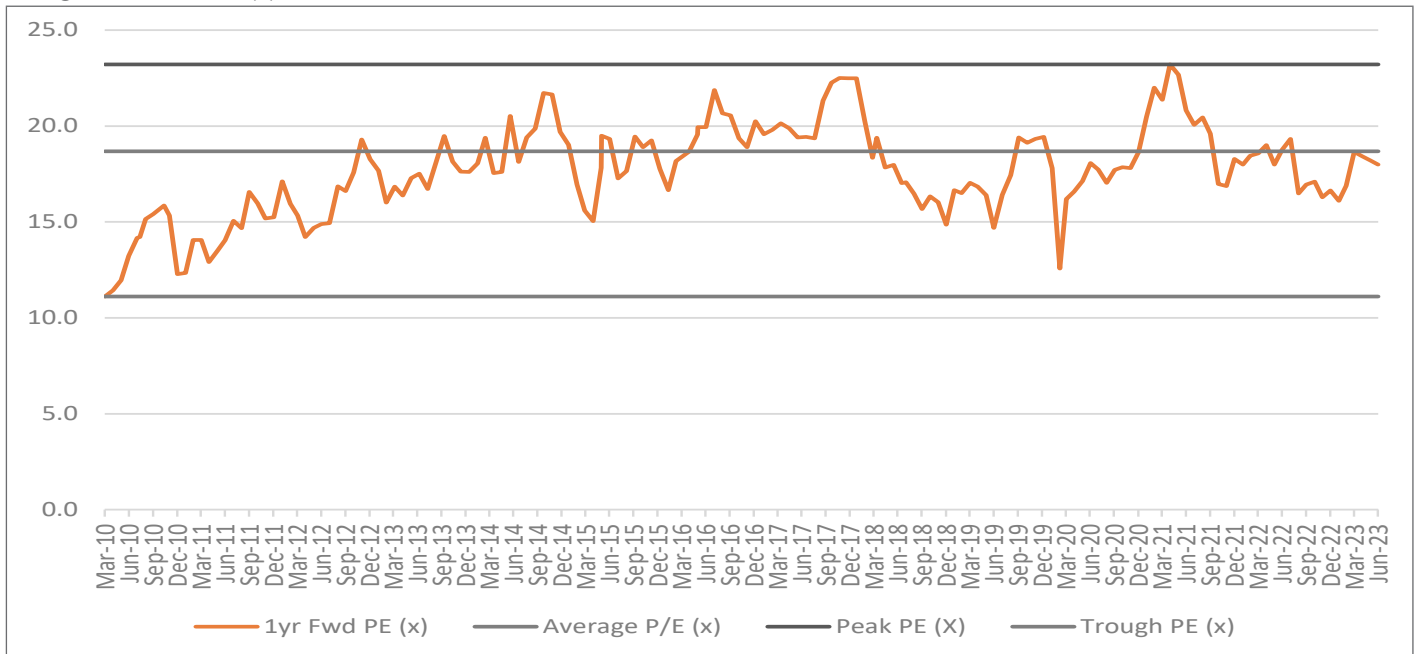
■ Company Outlook – Well diversified business model

BAL has well-diversified product mix and geography mix, which allows it to maintain its profitability even during a challenging period. Further, its cash rich balance sheet supports its growth plans. BAL dominates the premium motorcycle segment in the domestic market and enjoys leadership in many of its overseas markets. BAL has a healthy dividend pay-out ratio of upto 90%. BAL is uniquely positioned to benefit from domestic two-wheeler demand and the export market, driven by its brand equity and value proposition. Along with its existing portfolio in ICs segment, BAL has been gradually building up its space in the electric two-wheeler segment and is expected to enter into electric three wheeler segment soon.

■ Valuation – Buy with an upward revised target price of Rs 5,600

BAL and Triumph have launched their co-produced Triumphs at a competitive price point, which we believe would attract the new set of customers for BAL on offering an aspirational brand at an affordable price point. In our initially the focus of the company would remain on stabilising the new products under a global brand in the market and volume ramp up and hence customers acceptability at ground is the key thing to watch out in near term than volumes. We believe that an affordable product from an aspirational brand gets easy favouritism from the customers, as seen in the case Hunter 350cc from Royal Enfield. With this launches BAL has entered in an Iconic premium motorcycle segment, given it has already been a leading player in the mass premium motorcycle segment. We believe that BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolios in multiple segments. A focused approach on an individual motorcycle segment via a specific brand has been helping BAL in gaining space in premium motorcycle segment with a healthy profitability, and hence despite headwinds BAL has been maintaining its EBITDA margin (above 15%) led by appropriate product mix. We continue to maintain our BUY rating on the stock with an upward revised target price of Rs 5,600 on its consistent focus on profitability and its brand focus play in premium segment.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

| Companies | CMP (Rs / Share) | P/E (x) | | | EV/EBITDA (x) | | | ROCE (%) | | |
|---------------|------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
| | | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| Bajaj Auto | 4,914 | 24.8 | 21.4 | 18.6 | 17.8 | 15.0 | 12.8 | 22.0 | 23.2 | 24.2 |
| Hero Motocorp | 3,171 | 21.8 | 18.7 | 16.3 | 13.2 | 10.9 | 9.6 | 17.0 | 18.2 | 19.1 |
| Eicher Motors | 3,223 | 30.2 | 25.4 | 22.2 | 22.5 | 18.5 | 16.3 | 17.3 | 18.2 | 17.9 |

Source: Company; Sharekhan Research

About the company

BAL is one of the leading automobile manufacturers in India and is a leader in the premium motorcycle segment with a lion's share. The company also makes 3Ws and is a leader in the 3W segment. Beyond domestic market, BAL is the largest two-wheeler exporter from India.

Investment theme

BAL is the second largest motorcycle manufacturer in India with a market share of about 17%. Over the years, BAL has created a strong brand domestically and in export markets. BAL is the leader in the premium motorcycle segment. Apart from premium motorcycles, BAL is also the leader in the 3W segment. During normal time - motorcycles constitute about 85% of overall volumes, while 3W contributes 15% share. BAL is well positioned in the domestic as well as in global markets to deliver sustained growth in the long term. Its key brands in the premium segment are Pulsar, Avenger, KTM, Dominar, and Husqvarna. The company generates a significant portion of its export revenue from geographies where BAL is either a No. 1 or No. 2 player. Export growth is organic and will continue to be a long-term driver for BAL. We remain positive on the company's growth prospects going forward. Besides that, BAL has been ramping up EV volumes.

Key Risks

- ◆ BAL can lose its market share if EVs in the domestic 3W market rise faster than we expect.
- ◆ BAL has significant exposure to export markets. Any slowdown in export markets and unfavourable forex fluctuations can adversely affect the company's profits.
- ◆ Sales of premium bikes will be affected adversely if chips shortage situation further aggravates.

Additional Data

Key management personnel

| | |
|---------------|--------------------|
| Niraj Bajaj | Chairman |
| Rajiv Bajaj | Managing Director |
| Rakesh Sharma | Executive Director |
| Dinesh Thapar | CFO |

Source: Company Website

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|-------------------------------------|-------------|
| 1 | Bajaj Holdings & Investments Ltd. | 33.4 |
| 2 | Jamnallal Sons Pvt. Ltd. | 9.1 |
| 3 | Life Insurance Corporation of India | 4.9 |
| 4 | Jaya Hind Industries Pvt. Ltd. | 3.4 |
| 5 | Maharashtra Scooters Ltd. | 2.4 |
| 6 | Bajaj Sevashram Pvt. Ltd. | 1.5 |
| 7 | Yamuna trust | 1.3 |
| 8 | Bachhraj & Co Pvt. Ltd. | 1.3 |
| 9 | SBI Funds Management Ltd. | 1.1 |
| 10 | HDFC Pension Management Co Ltd. | 1.0 |

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

| Right Sector | |
|-----------------|--|
| Positive | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| Neutral | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| Negative | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality | |
| Positive | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| Neutral | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| Negative | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet |
| Right Valuation | |
| Positive | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| Neutral | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| Negative | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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