Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bajaj Auto Ltd

Riding on premiumization

Automobiles	Sharekhan code: BAJAJ-AUTO
Reco/View: Buy ↔	CMP: Rs. 6,664 / Price Target: Rs. 7,567 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We reiterate a Buy rating on Bajaj Auto with a revised PT of Rs. 7,567 on its superior profitability, play on premiumisation, and expectation of a gradual recovery in exports.
- Store addition for Triumph would continue as it is aiming for 100 stores in near term.
- It would continue to focus on high-margin trajectory on its premiumization play.
- Stock trades at P/E multiple of 19.8x and EV/EBITDA multiple of 14.2x its FY26 E estimates.

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		↔	

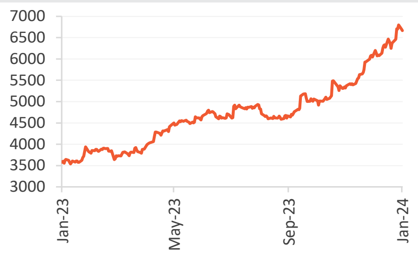
Company details

Market cap:	Rs. 188,563 cr
52-week high/low:	Rs. 6,832/3,522
NSE volume: (No of shares)	4.1 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Free float: (No of shares)	12.7 cr

Shareholding (%)

Promoters	55.0
FII	13.7
DII	9.6
Others	21.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.4	31.5	43.3	85.1
Relative to Sensex	2.1	22.5	30.2	66.9

Sharekhan Research, Bloomberg

We reiterate our Buy on Bajaj Auto (BAL) with revised PT of Rs. 7,567 on (1) It's a brand-focused play in domestic market (2) Ramp-up in Triumph's distribution network (3) Market share gain in EV segment (4) its new product launch strategy and (5) Expectation of gradual improvement in exports. BAL has been witnessing healthy retail trends even after strong festive season lead its structural play in above 125 cc segment. Further, it has strongly established its brand – Chetak in the EV market and harnessed a 12% market share, given BAL has been assumed to be a late entrant in the EV segment. Its brand-focussed play has been paying healthy dividend as Triumph 400 is cornering 15-20% market share in some city specific market as Triumph 400 has yet to be available on pan-India basis. The shipments have been delayed to some of the parts in Latin America and Africa in December 2023 due to Red Sea issue but has not materially affected its performance so far. The management has indicated that it has not lost volumes due to ocean transportation issue and assumes that the disruptions would not last long. While refreshed versions of Pulsar range of products are performing well, BAL is planning for number of new launches in coming months.

Focus on 'brand' over product: While BAL has witnessed healthy uptick in retails during the festive season, it has not observed a significant drop in demand even after festive season, given it has been largely focussing on the 125+ cc segment and demand has been continuing to be better in the above 125 cc segment in comparison to entry level segment. Further the dealer checks indicates that the improvement in two wheelers market is also supported by better footfalls in rural region during this festive season and marriage season as compared to previous year as the rural segment was impacted due to unseasonal rains in certain parts in previous year. BAL has been benefitting from the rising demand trend in premium segment. We continue to believe that BAL's approach to cater numerous segments via segment specific brands is helping in gaining eyeballs when the demand in premium segment is surpassing the demand in entry-level product segments. BAL has been continuously focussing on brand proposition to gain the weight in the market and commoditization of the technology leaves limited room for product differentiation in mass-market play. In line with its strategy to strengthen its position in the domestic market the company is expected to launch few more new products in upcoming months. With KTM it is catering to sporty consumer segment and Pulsar ranges caters to the mass premium motorcycle segment. The addition of Triumph 400 makes it able to penetrate in iconic premium motorcycle segment.

EVs: Gaining market share While BAL has been considered a late entrant in the electric two-wheeler market, but the company has cornered significant space in the domestic electric two-wheeler market. Unlike to the new age players BAL has been making strong efforts in offering strong and value-added product offering in the two-wheeler segment in place of gaining volumes in initial days. A steady movement along with a supportive value chain BAL has now established Chetak in domestic EV market, which has been reflected in sharp market share gain as BAL's market share in YTD 8MFY24 stands at 10% (source SMEV) compared to 5% in FY23. In electric two-wheeler segment, we understand that BAL is targeting to sustain monthly run rate ~ 10k units in near term and looking for a volume of near about 20,000 units in FY25. Further, the management claims that its electric three-wheeler business is not a margin dilutive. E-3W volumes are currently ~1,000/month and enjoys healthy margins closer to that of ICE 3W. We believe that the growth momentum in its electric business would be supported by network expansion and product expansion. We believe once establishing its existing products BAL would gradually expand its product portfolio in electric vehicle space. Beyond that, the company has also plans to introduce its three wheelers in selective overseas markets at a suitable time.

Exports: expect to improve gradually: While exports have yet to reach its previous peaks (average monthly run rate of two lakh units) yet but export volumes appear to be bottomed out and is expected to gradually in line with the improvement in the overseas markets. Although BAL has been facing volume growth constraints in the overseas markets it has been maintain its profitability and not investing in market makings via artificial rise in promotional activities. Average monthly export volume run rate in Q3FY24 stands at 140,905 units compared to 133,708 units in H1FY24. The management is expecting export volume run rates in Q4FY24 would be better than Q3FY24. We believe the improvement in export volumes would be gradual one and would be visible in term of improvement in export volumes on quarter-on-quarter basis as headwinds persists in African markets. However, exports to LATAM (~ 20% to the total exports) are doing relatively better.

Triumph riding well: With its monthly capacity of 5000 units, Triumph 400 has been receiving healthy response in the market in initial days as it dispatched around 8000 units in Q2FY24. Currently the company is expanding its dealerships for Triumph brand and hence its retails are hovering around 2500 units on monthly basis. The company has plans to expand its Triumph's dealerships from 40 -45 stores (26 in Q2FY24) to 100 stores in near term. Triumph is gaining 15-20% market share in few of the markets like Trivandrum, Cochin, Bangalore etc, given Triumph is not available on the pan India basis.

Our Call

Our Call: Maintain Buy with revised PT of Rs 7567: With a healthy festive sale, BAL is continue to gain traction in the above 125 cc segment supported by its strong position in mass premium motorcycle markets. Export volumes are appearing bottomed out and export volumes are expected to improve gradually. Further, its three-wheeler business has been reviving on return in demand and rise in CNG network in the domestic market. The management has indicated that the Red Sea issue has not materially hit its exports so far and assumes that this issue would not last long. With the launch of Triumph 400, BAL has entered the iconic premium motorcycle segment, given it has already been a leading player in the mass premium motorcycle segment. We believe BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolios in multiple segments. Further we believe that the listing of OLA electric would unlock the valuation for its EV business as it also enjoys around 10% market share in electric two wheeler market and indicating that its electric 3 wheeler business in not a margin dilutive proposition. we retain our Buy rating on the stock with a revised PT of Rs. 7567 on its superior profitability, play on premiumisation, and expectation of a gradual recovery in exports.

Valuations (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	33,145	36,428	43,014	48,371	55,876
Growth (%)	19.5	9.9	18.1	12.5	15.5
EBIDTA	5,245	6,521	8,216	9,529	11,454
OPM (%)	15.8	17.9	19.1	19.7	20.5
Recurring PAT	4,690	5,600	6,909	7,995	9,517
Growth (%)	3.3	19.4	23.4	15.7	19.0
EPS (Rs)	177	198	244	283	336
PE (x)	37.7	33.7	27.3	23.6	19.8
P/BV (x)	7.1	7.4	6.6	6.0	5.3
EV/EBIDTA (x)	31.3	25.4	20.0	17.1	14.2
RoNW (%)	17.6	22.0	24.4	25.4	26.8
RoCE (%)	17.8	22.0	24.3	25.3	26.8

Source: Company; Sharekhan estimates

Rising opportunity in three-wheelers in alternative fuel segment: Increased penetration of the CNG network in India is positively driving the volumes of CNG versions of three-wheelers and BAL has been emerging as a key beneficiary of the rise in demand of CNG three-wheelers due to its market leadership position. Three-wheeler growth is driven by conversion of diesel vehicles into CNG version, as CNG powered three- wheelers delivered much more power and economy of scale. Along with IC three-wheelers, BAL has been planning to expand in the electric three-wheeler space. Management is highlighting the electric three-wheeler business is not margin dilutive due to PLI benefit, low marketing cost, and less involvement of complexity.

Gradual recovery in exports: Export growth in the three-wheeler business has been lagging (compared with the two-wheeler business) as its large markets (Egypt) are still not coming back. Further, high price points of three-wheelers compared with two-wheelers is impacting three-wheeler demand, given the sluggish macros in most of the overseas markets. To substitute the three-wheeler volume deficit due to the ban of three-wheelers in Egypt, the company has been developing its market in 11 other markets. Over the period, the company is also planning to export electric two-wheelers and three-wheelers to suitable markets. While the overseas market is yet to recover fully, the management is hoping for improvement in export volumes on a q-o-q basis in the coming quarters, as retails and shipment are showing an improving trend.

Aiming to play at multiple price points in EVs: BAL has been targeting the whole spectrum of customers in the electric two-wheeler segment. Chetak (E-2W) has been well accepted in the market. BAL is now planning to expand its electric two-wheeler portfolio and indicated that it would begin launching new products in the electric two-wheeler space post the festive season. While EVs would grow in the coming period, ICs and EVs would continue to co-exist in the two-wheeler space. The electric two-wheeler market is also a price-sensitive market, as was reflected in the contraction in industry size on the cut down of the FAME subsidy.

Change in earnings estimates Rs cr

Particulars	Earlier			New			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY25E
Volumes	4383173	4738173	5183173	4383173	4738173	5183173	0.0%	0.0%	0.0%
Revenue	42,584	47,885	54,612	43,014	48,371	55,876	1.0%	1.0%	2.3%
EBITDA	7,921	9,002	10,485	8,216	9,529	11,454	3.7%	5.9%	9.2%
EBITDA margin	18.6%	18.8%	19.2%	19.1%	19.7%	20.5%			
APAT	6,688	7,562	8,693	6,909	7,995	9,517	3.3%	5.7%	9.5%
AEPS	236	267	307	244	283	336	3.3%	5.7%	9.5%

Source: Company; Sharekhan estimates

Outlook and Valuation

Sector view - Demand is steady in domestic market , recovery in export is awaited

We expect growth momentum to recover in FY2024E, driven by improvement in rural sentiments in the domestic market. The government's expenditure on infra segment coupled with 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 the two-wheeler exports from India.

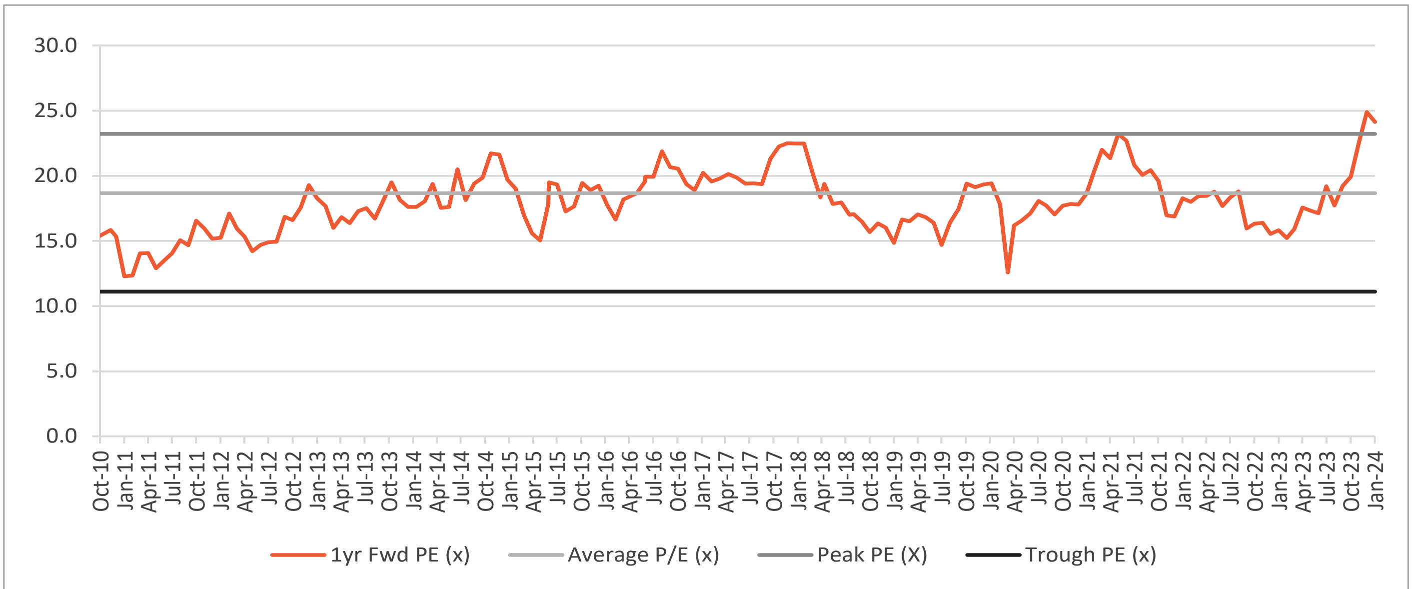
Company outlook - Well diversified business model

BAL has well diversified product mix and geography mix, which allows it to maintain its profitability even during 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 position in many of its overseas markets. BAL has healthy dividend pay-out ratio of up to 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 electric two-wheeler segment and expected to enter into electric three-wheeler segment soon.

Valuation - Maintain Buy with revised target price of Rs 7567

With a healthy festive sale, BAL is continue to gain traction in the above 125 cc segment supported by its strong position in mass premium motorcycle markets. Export volumes are appearing bottomed out and export volumes are expected to improve gradually. Further, its three-wheeler business has been reviving on return in demand and rise in CNG network in the domestic market. The management has indicated that the Red Sea issue has not materially hit its exports so far and assumes that this issue would not last long. With the launch of Triumph 400, BAL has entered the iconic premium motorcycle segment, given it has already been a leading player in the mass premium motorcycle segment. We believe BAL has been plugging the gaps in its portfolio and is playing with a bunch of brand portfolios in multiple segments. Further we believe that the listing of OLA electric would unlock the valuation for its EV business as it also enjoys around 10% market share in electric two wheeler market and indicating that its electric 3 wheeler business in not a margin dilutive proposition. we retain our Buy rating on the stock with a revised PT of Rs. 7567 on its superior profitability, play on premiumisation, and expectation of a gradual recovery in exports.

One-year forward P/E (x) band



Source: Sharekhan Research

About 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 a 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 not only domestically but also 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 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 affect the company's profits adversely.
- 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investments Ltd.	33.43%
2	Jamnalal Sons Pvt. Ltd.	9.08%
3	Life Insurance Corporation of India	3.77%
4	Jaya Hind Industries Pvt. Ltd.	3.37%
5	Maharashtra Scooters Ltd.	2.41%
6	Bajaj Sevashram Pvt. Ltd.	1.54%
7	SBI Funds Management Ltd	1.39%
8	Niraj Bajaj Trust	1.26%
9	Bachhraj & Co Pvt. Ltd.	1.26%
10	Vanguard Group Inc/The	1.01%

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

DISCLAIMER

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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