

BAJAJ AUTO LIMITED

Exports recovery, new model launches to drive growth

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Bajaj Auto Limited (BAL) reported strong volume performance in Q4 FY24 despite exports markets not yet out of the woods completely, but showed signs of recovery. The numbers were overall below the Q3 FY24 levels on seasonality. Topline growth was up 29.5% yoy and down by 5.5% qoq as volumes in the domestic markets were quite strong at 28% yoy on low base of last year and demand uptick seen in 2W industry this fiscal. The total volumes in the quarter were up 24% yoy but down by 10.7% qoq, while the realizations grew by 3.6% yoy and 5.8% qoq. During the quarter, domestic motorcycles grew by 32% yoy. The strong yoy surge was due to various launches in the >125cc and Pulsar N Series launches in the premium segments in the domestic markets and Triumph & KTM sales ramp up. This is the first quarter since exports had started falling, to show a positive growth. Exports grew by 19% yoy from 35%-40% fall seen last year as we are seeing recovery in Africa and ASEAN markets, while other markets remained strong. Motorcycle exports grew by 19% yoy, while 3W exports grew by 20% yoy. Triumph and Chetak also pulled up a good show in Q4 as Chetak sold its highest ever quarterly volumes in Q4 and jumped to #3 position. EBITDA was up by 34.4% yoy to ₹23 bn, while margins moved up by 80 bps yoy to 20.1%, while remained flat qoq. Margins were up mainly on better cost management, operating leverage, improved product mix and stable commodity costs. All other cost items below operating levels remaining more or less range bound, bottomline was 35% up yoy at ₹19.4 bn.

Domestic volumes zoom; exports recovery on low base and some green shoots

Domestic motorcycle volumes witnessed a rise of 32% yoy in Q4, while saw a 25% growth in FY24. The company is strongly gaining market share especially in the sports and executive segment of >125 cc since H2 of last fiscal. In the executive business, the success was driven by its flagship brand Pulsar which continued to see new launches across different engine capacities. The company will launch 6 new models of Pulsar in H1 FY25. BAL's market share has increased in the 125cc segment in the mid 30s range. In the 150cc-250cc segment, BAL has zoomed up its market share to 40% from 32% in FY23 on the successful launches of N-series. BAL is also set to launch a CNG bike in H1 FY25, which would further boost its domestic 2W volumes.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Revenues (₹ bn)	364.3	446.9	575.4	730.0
EBITDA (%)	18.0	19.7	20.2	20.5
PAT (%)	15.9	17.2	17.2	17.1
EPS (₹)	198.9	267.9	347.4	440.8
EPS growth (%)	14.7%	34.7%	29.7%	26.9%
P/E (x)	44.0	32.6	25.2	19.8
P/B (x)	9.7	9.8	8.2	6.8
EV/EBITDA (x)	37.9	27.9	21.1	16.4
ROE (%)	22.1%	30.1%	32.6%	34.3%
Dividend yield (%)	1.6%	1.6%	2.0%	2.5%

Rating	Buy
Current Market Price (₹)	8,798
12 M Price Target (₹)	10,138
Potential upside (%)	15

Stock Data

Sector:	Auto & Auto Components
FV (₹) :	10
Total Market Cap (₹ bn) :	2,456
Free Float Market Cap (₹ bn) :	982
52-Week High / Low (₹) :	9,358 / 4,180
BSE Code / NSE Symbol	532977 / BAJAJ-AUTO
Bloomberg :	BJAUT IN

Shareholding Pattern

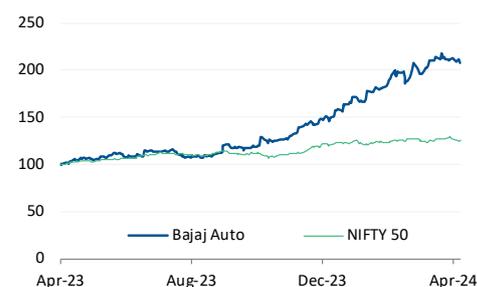
(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	54.94	54.98	54.99	54.98
FPIs	14.65	14.38	13.67	12.35
MFs	5.32	4.70	3.75	3.55
Bodies Corporate	4.45	4.42	4.32	4.25
Insurance	2.33	3.22	4.76	6.10
Others	18.31	18.30	18.51	18.77

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Bajaj Auto	1.8%	23.3%	60.5%	106.2%
Nifty 50	1.5%	2.4%	12.9%	25.7%

* To date / current date : April 19, 2024

Bajaj Auto vs Nifty 50

Company has also made strong inroads in the 2W EV portfolio as Chetak scooter sales clocked its highest ever quarterly sales at 40K units, even higher than FY23 sales and has secured #3 spot in the EV scooters space jumping from #7 spot a year ago, thus gaining market share of 13% from 5% yoy. Chetak is spreading its network of dealers over 164 cities in the country with 200 stores. The company plans to add 2 new models to the Chetak portfolio in Q1 FY25 as the company has adequate capacities. Triumph also succeeded in the quarter as the company exported 19K bikes to 57 countries during the quarter. On KTM front, the company is planning to launch big bikes soon.

Domestic 3Ws reported strongest ever show as CNG demand is reaching new highs. The company's 3W demand has exceeded pre-covid levels and the company has added 5% to their market share which is at all time high. CNG now contributes >60% of the overall 3W industry. BAL being a sole leader in the CNG segment, 3Ws will even more strongly contribute to the numbers going forward. In the EV 3W segment, BAL is present in 60 cities now v/s 23 cities qoq and sold ~6500 units in Q4. The company targets to expand upto 200 cities by end of CY24. Management expects that the EV 3W shall co-exist with the CNG version while cannibalise the largely unorganized E-Rickshaw market and the petrol and diesel variants at a faster rate.

Within exports, the company is observing recovery in Africa and ASEAN. LatAm market is strong, while SE Asia and Middle East continue to show resilience. Exports have reported 19% yoy growth on lower base and green shoots seen in Africa and ASEAN. Better product and geographic mix and realisations led to improved export performance as well. BAL's new plant in Manaus, Brazil shall start its production from Q1 FY25 with a monthly capacity of 20K shall intend to capture customers in one of the biggest 2W markets. Red Sea imbroglio led to heightened freight costs and lead times.

The Government of Egypt has approved the company's quadricycle 'Qute' and BAL is on the verge of exporting 250,000 units within weeks of approval. The company sees a huge opportunity of converting ~500,000 3Ws in Egypt to quadricycles with the government mandating such conversion to improve safety. The currency situation in Egypt is also improving post the various aid packages received in Egypt. We foresee this as a huge opportunity in a market which has been impacted since last few years due to regulatory hurdles. This can add significant amount of volumes to the company's exports.

We expect domestic volumes to grow at 17%/15% in FY 25E/26E respectively, while exports to grow at 15%/19% in the same period.

Margins to post steady performance

BAL's EBITDA margins came at 20.1% in Q4, up yoy and flat qoq, though this growth was slightly impacted due to higher EV 2Ws. The margin growth was also due to better cost management, better operating leverage, better export product mix and stable commodities. Management believes that the current tailwinds in metal prices may not continue going forward upto that extent as copper and aluminium prices have started to firm up, though steel has remained benign. However, management has taken price hikes related with this increase and may continue to do so going forward if the need be. We believe - 1). Favorable product mix on robust high margin 3W sales 2). Solid sales of premium portfolio bikes 3). Stable currency movement 4). Expected easing of pressure in exports and 5). Stable commodity prices shall aid margins. We therefore expect margins to be at 20.2%/20.5% in FY25E/26E respectively.

Outlook and Valuation

BAL posted solid sales performance in Q4 despite slow recovery in the exports business sequentially. Going forward, we believe export volumes to improve month on month subject to Red Sea issues, while domestic 2W volumes should continue their strong run. We also expect a strong traction coming from the recent launches which would drive overall demand. >125cc segment has provided new identity to BAL. Solid performance of premium Pulsar models, KTM bikes and Triumph models this year should all provide the required fillip to both volumes and margins. On the exports front, we expect recovery in Africa and ASEAN, strength in Latam, Middle East and SE Asia and upcoming plant in Brazil to provide fillip going forward. With 2W Chetak expanding its coverage and winning market share, we believe Chetak to add to the numbers substantially in the ensuing years.

3W performance has been splendid over the past quarters, touching new highs, on CNG success. EV 3W is also ramping up at a great speed winning healthy market share. Neutral RM and currency price movement and prudent cost management should assist margins in the ensuing quarters. With strong balance sheet (surplus fund of ₹164 bn & ₹66 bn of free cash flow generated in FY24, up 45%), robust return ratios, minimum financial leverage, we believe the stock still looks attractive at 20x FY26E earnings. Expected above normal monsoons and premiumization theme in the urban markets should aid growth in the stock price further. We therefore maintain our BUY rating on the stock with a higher target price of ₹10,138 (valued at 23x FY26E earnings).

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY24	Q3 FY24	% qoq	Q4 FY23	% yoy
Net sales	111,783	118,329	-5.5%	86,315	29.5%
Other op. income	3,064	2,806	9.2%	2,732	12.1%
Total income	114,847	121,135	-5.2%	89,047	29.0%
RM cost	80,702	86,096	-6.3%	62,135	29.9%
Employee cost	3,872	3,846	0.7%	3,620	7.0%
Other expenses	7,210	6,895	4.6%	6,126	17.7%
EBITDA	23,063	24,299	-5.1%	17,166	34.4%
EBITDA Margins %	20.1	20.1	0 bps	19.3	80 bps
Other income	3,487	3,461	0.7%	2,598	34.2%
Depreciation	906	881	2.8%	742	22.1%
Interest	228	121	88.3%	157	44.7%
PBT	25,416	26,758	-5.0%	18,865	34.7%
Tax	6,056	6,339	-4.5%	4,536	33.5%
Adj PAT	19,360	20,419	-5.2%	14,329	35.1%
Adj PAT Margins%	16.9	16.9	0 bps	16.1	80 bps
Exceptional items	-	-	-	-	-
Reported PAT	19,360	20,419	-5.2%	14,329	35.1%

Source: Company, LKP Research

Per unit parameters	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23
Gross Realisation per Unit (₹)	104,610	98,857	100,088	97,835	100,948	92,015	86,107	83,210
Net Realisation per Unit (₹)	104,610	98,857	100,088	97,835	100,948	92,015	86,107	83,210
Total Cost per unit (₹)	85,894	80,901	82,251	81,354	84,067	76,665	73,362	71,847
Material Cost per unit (₹)	75,523	71,928	72,800	72,171	72,668	66,894	65,039	61,883
Staff Cost per unit (₹)	3,624	3,213	3,631	3,740	4,234	3,571	3,060	4,066
Other Expn per unit (₹)	6,884	5,825	5,873	5,635	7,311	6,267	5,295	5,953
EBITDA per unit (₹)	21,582	20,300	20,294	19,024	20,076	18,070	15,280	13,892
PAT per unit (₹)	18,118	17,059	17,471	16,209	16,758	15,168	13,293	12,567

Source: Company, LKP Research

Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	364,276	446,852	575,356	729,973
Raw Material Cost	260,548	317,434	409,359	519,239
Employee Cost	14,449	15,376	18,607	22,263
Other Exp	23,788	25,813	31,145	38,869
EBITDA	65,491	88,230	116,245	149,602
<i>EBITDA Margin(%)</i>	<i>18.0</i>	<i>19.7</i>	<i>20.2</i>	<i>20.5</i>
Other income	11814	14025	15000	16500
Depreciation	2,824	3,498	4,026	4,776
Interest	395	535	450	470
PBT	74,086	98,221	126,768	160,856
<i>PBT Margin(%)</i>	<i>21.0</i>	<i>22.5</i>	<i>22.5</i>	<i>22.4</i>
Exceptional items	0	0	0	0
Tax	17,810	23,432	29,791	37,801
APAT	56,276	74,789	96,978	123,055
<i>APAT Margins (%)</i>	<i>15.4</i>	<i>16.7</i>	<i>16.9</i>	<i>16.9</i>
PAT	56,276	74,789	96,978	123,055
<i>PAT Margin (%)</i>	<i>15.9</i>	<i>17.2</i>	<i>17.2</i>	<i>17.1</i>

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	198.9	267.9	347.4	440.8
CEPS	182.7	208.9	280.4	361.8
BVPS	898.6	890.5	1064.2	1284.6
DPS	143.0	141.9	173.7	220.4
Growth Ratios(%)				
Total revenues	9.9%	22.7%	28.8%	26.9%
EBITDA	24.5%	34.7%	31.8%	28.7%
PAT	12.1%	32.9%	29.7%	26.9%
EPS Growth	14.7%	34.7%	29.7%	26.9%
Valuation Ratios (x)				
PE	44.0	32.6	25.2	19.8
P/CEPS	41.9	31.2	24.2	19.1
P/BV	9.7	9.8	8.2	6.8
EV/Sales	7.7	7.0	5.6	4.3
EV/EBITDA	37.9	27.9	21.1	16.4
Operating Ratios (Days)				
Inventory days	14.4	14.2	16.0	17.0
Receivable Days	18.3	17.8	20.0	21.0
Payables day	42.1	47.0	45.0	44.0
Net Debt/Equity (x)	(0.01)	(0.02)	(0.02)	(0.04)
Profitability Ratios (%)				
ROE	22.1%	30.1%	32.6%	34.3%
Dividend yield	1.6%	1.6%	2.0%	2.5%

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,830	2,792	2,792	2,792
Reserves and surplus	251,429	245,813	294,302	355,829
Total networth	254,259	248,605	297,094	358,621
Non current liabilities				
Long term borrow & provs	1,586	1,575	1,575	1,575
Deferred tax liabilities	3,452	5,069	5,069	5,069
Current liabilities				
Current liabilities & provisions	42,398	57,984	71,399	88,456
Other current liabilities	9,582	20,933	20,933	20,933
Total equity and liabilities	311,277	342,507	396,070	474,655
ASSETS				
Net block	26,352	31,379	37,352	47,576
Capital work in progress	819	243	543	843
Intangible assets	307	119	119	119
Non current investments	185,539	196,619	221,619	261,619
Long term loans and advances	359	297	297	297
Other non current assets	9,195	10,278	10,278	10,278
Total non current assets	222,572	238,935	270,208	320,732
Current assets				
Current investments	44,193	48,795	50,795	52,795
Inventories	13,979	16,956	24,717	33,449
Trade receivables	17,761	21,224	30,896	41,320
Cash, cash in bank & other bank balance	2,858	5,366	8,223	15,129
Short term loans & advances	36	32	32	32
Other current assets	9,876	11,199	11,199	11,199
Total current assets	88,703	103,572	125,861	153,923
Total Assets	311,275	342,507	396,070	474,655

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	74,086	98,220	126,768	160,856
Depreciation	2,824	3,498	4,026	4,776
Interest	15	16	0	0
Chng in working capital	7,233	10,171	(4,018)	(2,098)
Tax paid	(19,184)	(23,826)	(29,791)	(37,801)
Other operating activities	0	0	0	0
Cash flow from operations (a)	55,118	74,783	97,436	126,203
Capital expenditure	(9,433)	(8,077)	(10,300)	(15,300)
Chng in investments	13,988	26,450	(27,000)	(42,000)
Other investing activities	0	0	0	0
Cash flow from investing (b)	13,339	(1,392)	(37,300)	(57,300)
Free cash flow (a+b)	68,457	73,391	60,136	68,903
Inc/dec in borrowings	(114)	8,327	(8,341)	0
Dividend paid (incl. tax)	(40,469)	(39,602)	(48,489)	(61,527)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(71,901)	(71,101)	(56,398)	(61,997)
Net chng in cash (a+b+c)	(3,444)	2,290	3,737	6,906
Closing cash & cash equivalents	2,195	4,485	8,223	15,129

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