

28 January 2025

Bajaj Auto

Healthy demand outlook; maintaining a Buy

Rating: **Buy**

Target Price: Rs.10,000

Share Price: Rs.8,398

Broadly in line with our estimate, Bajaj Auto's Q3 standalone EBITDA grew 6% y/y to Rs25.8bn. Our positive stance on the company is backed by 1) expectations of cyclical upturns in 2Ws (domestic/exports); 2) its vigorous EV strategy and 3) margin expansion from rising economies of scale and cost-cutting measures. We expect strong 12/15/17/17% volume/revenue/EBITDA/core PAT growth over FY25-27, driven by an upturn in domestic/export markets and new products in CNG 2Ws, EVs and the Triumph range. **We retain a Buy with a lower sum-of-parts TP of Rs10,000 (earlier Rs14,000)**, based on 25x FY27e core EPS (Rs360) at Rs9,100/sh, Investment in Pierer Mobility/KTM at Rs59/sh (based on a 20% discount to the MCap), Bajaj Auto Credit at Rs124/sh (1.5x P/B FY26e, BV Rs23bn) and cash/shares at Rs708 each.

EBITDA in line with estimates. Q3 standalone revenue grew 6% y/y to Rs128.1bn (est.: Rs125.7bn), broadly in line with our estimate. Volumes grew 2% to 1.2m units and realisation, 3% to Rs104,591/unit. EBITDA grew 6% y/y to Rs25.8bn, broadly in line with our estimated Rs25.3bn. Accordingly, PAT grew 3% to Rs21.1bn (est.: Rs21bn), in line with our estimate. Cash reserves were Rs150bn in Dec'24 vs. Rs163.9bn in Sep'24.

Outlook. Management expects 6-8% growth in domestic 2W and over 20% growth in exports.

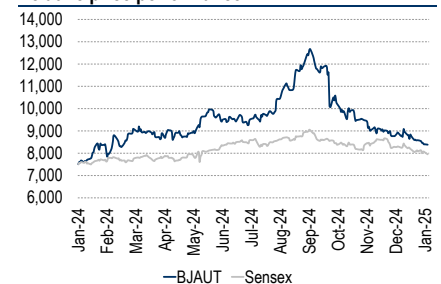
Valuation. We lower our FY25e-27e 7-12% mainly due to lower volumes on lack of success in CNG 2W and lower exports. We expect strong 15/17% revenue/EBITDA CAGRs over FY25-27, despite the cut in assumptions. We maintain our Buy, with a lower Rs10,000 TP (earlier Rs14,000). We have reduced our core multiple from 32x to 25x on the EPS cuts. **Key risks:** Less-than-expected demand in key regions, keener competition, failure of new products and adverse movements in commodity prices and currency rates.

Key data	BJAUT IN / BAJA.BO
52-week high / low	Rs12774 / 7475
Sensex / Nifty	75901 / 22957
3-m average volume	\$51.5m
Market cap	Rs.2345bn / \$27103.7m
Shares outstanding	279m

Shareholding pattern (%)	Dec'24	Sept'24	Jun'24
Promoters	55.0	55.0	56.0
- of which, Pledged	0.0	0.0	0.0
Free float	45.0	45.0	44.0
- Foreign institutions	12.5	14.3	14.2
- Domestic institutions	10.1	8.8	8.8
- Public	22.5	21.9	21.0

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	-5.0	-11.0	-10.8
EBITDA	-5.9	-11.8	-11.5
EPS	-7.2	-11.5	-11.4

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	3,64,276	4,46,852	5,04,414	5,86,906	6,67,489
Net profit (Rs m)	56,276	74,788	82,048	98,691	1,13,018
EPS (Rs)	198.9	267.9	293.9	353.5	404.8
PE (x)	42.2	31.3	28.6	23.8	20.7
EV / EBITDA (x)	32.9	24.4	21.2	17.8	15.4
PBV (x)	9.2	9.4	9.0	8.5	8.0
RoE (%)	21.6	29.7	32.2	36.8	39.8
RoCE (%)	18.3	24.4	27.2	30.7	33.7
Dividend yield (%)	1.7	1.0	3.0	3.6	4.1
Net debt / equity (x)	-0.8	-0.8	-0.7	-0.7	-0.7

Source: Company, Anand Rath Research

Mumuksh Mandlesha
Research Analyst

Shagun Beria
Research Associate

Dishant Jain
Research Associate

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Quick Glance – Financials and Valuations (Standalone)

Fig 1 – Income statement (Rs m)

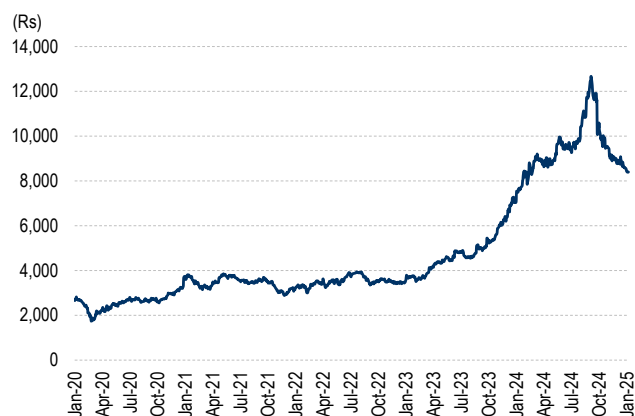
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Volumes (units)	39,27,860	43,50,933	47,30,320	54,61,369	59,41,861
Revenues	3,64,276	4,46,852	5,04,414	5,86,906	6,67,489
Growth (%)		22.7	12.9	16.4	13.7
Raw material	2,60,548	3,17,434	3,58,134	4,16,703	4,73,917
Employee & other exp.	38,237	41,189	44,636	49,663	54,287
EBITDA	65,491	88,229	1,01,644	1,20,539	1,39,285
EBITDA margins (%)	18.0	19.7	20.2	20.5	20.9
- Depreciation	2,824	3,498	3,914	4,315	4,743
Other income	11,814	14,025	13,814	14,367	14,975
Interest expense	395	535	669	736	809
PBT	74,086	98,220	1,10,876	1,29,856	1,48,708
Effective tax rates (%)	24.0	23.9	26.0	24.0	24.0
Adjusted income	56,276	74,788	82,048	98,691	1,13,018
Extraordinary items	-	-	-	-	-
Reported PAT	56,276	74,788	82,048	98,691	1,13,018
WANS	283	279	279	279	279
FDEPS (Rs)	198.9	267.9	293.9	353.5	404.8

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	74,086	98,220	1,10,876	1,29,856	1,48,708
+ Non-cash items	-4,302	-4,242	4,582	5,050	5,552
Oper. profit before WC changes	69,784	93,979	1,15,458	1,34,906	1,54,260
- Incr. / (decr.) in WC	-7,234	-10,171	2,470	907	1,167
Others incl. taxes	21,899	29,367	75,125	45,441	48,017
Operating cash-flow	55,119	74,783	37,863	88,558	1,05,076
- Capex (tangible + intangible)	8,421	7,989	8,000	8,500	9,000
Free cash-flow	46,698	66,794	29,863	80,058	96,076
- Div. (incl. buyback & taxes)	40,470	39,602	22,334	69,741	83,887
+ Equity raised	-30,939	-39,307	-	-	-
+ Debt raised	-	8,327	-	-	-
- Financial investments	-21,760	-6,597	10,000	10,000	12,000
- Misc. items (CFI + CFF)	75	300	669	736	809
Net cash-flow	-3,026	2,509	-3,140	-418	-620

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

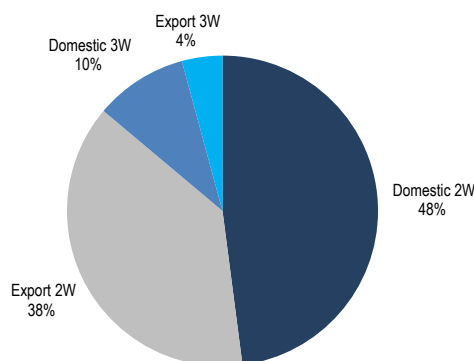
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	2,830	2,792	2,792	2,792	2,792
Net worth	2,54,259	2,48,605	2,60,912	2,75,716	2,92,669
Debt (incl. Pref)	1,242	9,599	9,599	9,599	9,599
Minority interest					
DTL / (Assets)	3,452	5,069	6,178	6,048	5,900
Capital employed	2,58,952	2,63,273	2,76,689	2,91,363	3,08,167
Net tangible assets	26,660	31,498	35,113	39,251	43,462
CWIP (tang. & intang.)	819	275	746	793	839
Investments (strategic)	40,615	49,839	54,839	59,839	64,839
Investments (financial)	1,89,119	1,95,575	2,00,575	2,05,575	2,12,575
Current assets (excl. cash)	51,207	59,954	65,788	76,987	85,422
Cash	2,858	5,366	2,226	1,808	1,187
Current liabilities	52,325	79,233	82,598	92,890	1,00,158
Working capital	-1,118	-19,279	-16,810	-15,903	-14,736
Capital deployed	2,58,952	2,63,273	2,76,689	2,91,363	3,08,167
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	42.2	31.3	28.6	23.8	20.7
EV / EBITDA (x)	32.9	24.4	21.2	17.8	15.4
EV / Sales (x)	6.4	5.3	4.7	4.0	3.5
P/B (x)	9.2	9.4	9.0	8.5	8.0
RoE (%)	21.6	29.7	32.2	36.8	39.8
RoCE (%) - after tax	18.3	24.4	27.2	30.7	33.7
RoIC (%) - after tax	180.8	327.7	465.5	404.2	376.2
DPS (Rs)	140.0	80.0	249.8	300.5	344.1
Dividend yield (%)	1.7	1.0	3.0	3.6	4.1
Div. payout (%)	70.4	29.9	85.0	85.0	85.0
Net debt / equity (x)	-0.8	-0.8	-0.7	-0.7	-0.7
Receivables (days)	18	17	17	18	18
Inventory (days)	14	14	14	15	15
Payables (days)	41	46	43	42	40
CFO: PAT (%)	98	100	46	90	93
FCF: PAT (%) – incl. M&A	83	89	36	81	85

Source: Company, Anand Rathi Research

Fig 6 – Q3FY25 volume mix (%)



Source: Company, Anand Rathi Research

Concall highlights

- **Domestic.** Expects volumes to grow 6-8%. OBD 2B norms from Apr'25 would increase blended cost 1% and launch would start from Q4. About nine variants of current products would be launched in Dec'24-Mar'25. Market-share loss largely due to share loss in the economy category and inventory correction
- **Chetak.** New 35 series would add volumes at the premium end with better margins. Available at 250 exclusive stores and Bajaj's 3,000 touch points
- **Freedom CNG** bike retailed ~50,000 units since launch in Aug'24. Delhi and Kerala have over 10% CNG penetration in the 125cc segment. Seeing demand traction of buyers who have high daily running of ~70km and like gig workers. Adoption is good at areas of 40 vehicles/pump, while it is low at 100 vehicles/pump
- **E-autos (L5).** Retail at ~17,000 units in Q3. Market share increased to 35% in Q3 from 13% the year-ago quarter. The product is available across 800 touch points. It would be marketed under a separate brand, Bajaj Gogo. EV portfolio to further expand next month with large size product. Ahead, L5 market to grow 4-6% y/y. Passenger market-share at 37% and mid-20% in cargo. Also, plans to enter e-rick (L3) in Q4 FY25
- New Triumph Speed refresh would be launched in Q4
- **Exports.** Expects volumes to continue to grow 20% y/y. Exports grew 40% in LatAm in Q3 with 60% mix of premium brands of Pulsars and Dominars. Industry across regions recorded growth in Q3. Nigeria volumes at 35,000 units/month with 55% market-share. Brazil plant production is now already at peak capacity (volumes from the Dominar brand) and capacity to be expanded from 35,000 units to 50,000 a year by Q4 FY26. KTM exports in Q3 fell due to issues faced by global KTM
- Chetak Technology has been renamed Bajaj Auto Technology. Will be a pure technology company, focusing particularly on EVs. Develop new tech in electronics, electric powertrains, controls, hybrids and fuel cells software, and spearhead designs and offer them for use to Bajaj Auto and partners. Employs over 500 people. Revenue source will be royalty from IP and service charges rendered to Bajaj Auto and partners
- Bajaj Auto Credit. Financed ~520,000 vehicles and with Rs70bn AUM. PAT at Rs520m in Q3. Delinquency low and collection at 98.5%. Share with Bajaj at 70%
- **Margins.** Q3 RM cost stable q/q. Increase in rubber, ABS, polypropylene and platinum negated by softer steel, nickel and lead. Expects slight inflation ahead led by alloys and noble metals. Price reduction in e-autos to improve market competitiveness (in areas like UP). EV (2W/3W) margins have improved further to slightly positive EBITDA with breakeven also for 2Ws
- Rs4.5bn capex (2/3rd in EVs), investment in BAC at Rs16bn in 9M FY25
- Committed to KTM and restructuring outcome would be known by 25th Feb'25
- Bajaj's brand dealer network at 650 with 1,500 branches and 3,000-4,000 secondary touch points.

Fig 7 – Quarterly performance - standalone

(Rs m)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Y/Y (%)	Q/Q (%)	FY25YTD	FY24YTD	YoY(%)
Revenue	1,21,135	1,14,847	1,19,280	1,31,275	1,28,069	5.7	(2.4)	3,78,623	3,32,006	14.0
Expenditure	96,836	91,784	95,128	1,04,753	1,02,261	5.6	(2.4)	3,02,142	2,66,839	13.2
as % of sales	79.9	79.9	79.8	79.8	79.8			79.8	80.4	
Consumption of RM	86,096	80,702	83,527	93,639	91,327	6.1	(2.5)	2,68,492	2,36,733	13.4
as % of sales	71.1	70.3	70.0	71.3	71.3			70.9	71.3	
Employee cost	3,846	3,872	4,350	3,935	3,865	0.5	(1.8)	12,149	11,503	5.6
as % of sales	3.2	3.4	3.6	3.0	3.0			3.2	3.5	
Other expenditure	6,895	7,210	7,251	7,180	7,070	2.5	(1.5)	21,501	18,603	15.6
as % of sales	5.7	6.3	6.1	5.5	5.5			5.7	5.6	1.3
EBITDA	24,299	23,063	24,153	26,522	25,807	6.2	(2.7)	76,482	65,167	17.4
EBITDA margins (%)	20.1	20.1	20.2	20.2	20.2	0.5	(0.3)	20.2%	19.6%	
Depreciation	881	906	937	956	997	13.1	4.3	2,890	2,593	11.4
EBIT	23,418	22,157	23,216	25,566	24,811	5.9	(3.0)	73,592	62,574	17.6
Other income	3,461	3,487	3,209	3,845	3,347	(3.3)	(13.0)	10,402	10,538	(1.3)
Interest	121	228	207	159	143	18.3	(10.1)	509	307	65.7
PBT	26,758	25,416	26,218	29,252	28,015	4.7	(4.2)	83,485	72,804	14.7
Total tax	6,339	6,056	6,335	9,202	6,927	9.3	(24.7)	22,464	17,377	29.3
Adj. PAT	20,419	19,360	19,883	20,050	21,087	3.3	5.2	61,021	55,428	10.1
Extraordinary items	0	0	0	0	0			0	0	
Reported PAT	20,419	19,360	19,883	20,050	21,087	3.3	5.2	61,021	55,428	10.1
Adj. EPS (Rs)	72.1	69.3	71.2	71.8	75.5	4.7	5.2	218.5	195.8	11.6

Margins (%)						(bps)	(bps)	(bps)	(bps)	(bps)
Gross	28.9	29.7	30.0	28.7	28.7	(24)	2	29.1	28.7	39
EBITDA	20.1	20.1	20.2	20.2	20.2	9	(5)	20.2	19.6	57
EBIT	19.3	19.3	19.5	19.5	19.4	4	(10)	19.4	18.8	59
PAT	16.9	16.9	16.7	15.3	16.5	(39)	119	0.2	0.2	(1)
Effective tax rates	23.7	23.8	24.2	31.5	24.7	104	(673)	0.3	0.2	3

Source: Company

Valuations

Our positive stance on the company is backed by 1) expectations of cyclical upturns in 2Ws (domestic/exports); 2) its vigorous EV strategy and 3) margin expansion from rising economies of scale and cost-cutting measures.

We expect strong 12/15/17/17% volume/revenue/EBITDA/core PAT growth over FY25-27 driven by an upturn in domestic/export markets and new products in CNG 2Ws, EVs and the Triumph range.

We recommend a Buy with sum-of-parts target price of Rs10,000, based on 25x FY27e core EPS (Rs360) at Rs9,100/sh. Investment in Pierer Mobility/KTM at Rs59/sh (based on a 20% discount to the MCap), Bajaj Auto Credit at Rs124/sh (1.5x P/B FY26e, BV Rs23bn) and cash/shares at Rs708 each.

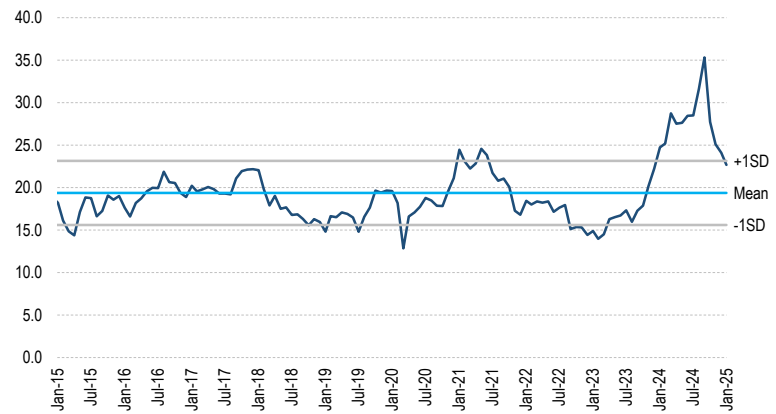
Fig 8 – Change in estimates

	Old			New			Change (%)		
(Rs m)	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e
Volumes (m units)	49.3	59.0	64.3	47.3	54.6	59.4	-4.0	-7.5	-7.6
Revenue (Rs bn)	531	659.3	748.1	504.4	586.9	667.4	-5.0	-11.0	-10.8
EBITDA (Rs bn)	108	136.6	157.3	101.6	120.5	139.3	-5.9	-11.8	-11.5
% of revenue	20.3	20.7	21.0	20.2	20.5	20.9			
Adj. PAT (Rs bn)	88.4	111.6	127.6	82.0	98.7	113.0	-7.2	-11.5	-11.4
EPS (Rs)	316.8	399.6	456.9	293.9	353.5	404.8	-7.2	-11.5	-11.4

Source: Anand Rath Research

Fig 9 – Key assumptions

Volumes (units)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e	CAGR (%) FY25-27e
Domestic 2Ws	19,74,577	25,41,320	20,78,348	18,09,375	16,41,084	18,05,886	22,50,585	23,80,457	26,19,708	28,05,232	9%
Growth (%)	(1.3)	28.7	(18.2)	(12.9)	(9.3)	10.0	24.6	5.8	10.1	7.1	
Export 2Ws	13,94,757	16,95,553	18,69,220	17,96,518	21,95,772	16,36,956	14,77,338	16,79,976	20,99,970	23,09,967	17%
Growth (%)	14.5	21.6	10.2	(3.9)	22.2	(25.4)	(9.8)	13.7	25.0	10.0	
Domestic 3Ws/Quadricycles	3,69,637	3,99,453	3,65,759	1,09,292	1,60,723	3,00,734	4,64,138	4,78,342	5,02,259	5,27,372	5%
Growth (%)	46.0	8.1	(8.4)	(70.1)	47.1	87.1	54.3	3.1	5.0	5.0	
Export 3Ws/Quadricycles	2,67,820	3,83,177	3,01,885	2,57,729	3,10,854	1,84,284	1,58,872	1,91,546	2,39,432	2,99,290	25%
Growth (%)	38.9	43.1	(21.2)	(14.6)	20.6	(40.7)	(13.8)	20.6	25.0	25.0	
Total volumes	40,06,791	50,19,503	46,15,212	39,72,914	43,08,433	39,27,860	43,50,933	47,30,320	54,61,369	59,41,861	12%
Growth (%)	9.3	25.3	(8.1)	(13.9)	8.4	(8.8)	10.8	8.7	15.5	8.8	
Realizations (Rs/unit)	62,940	60,479	64,826	69,826	76,930	92,742	1,02,703	1,06,634	1,07,465	1,12,337	3%
Growth (%)	6.0	(3.9)	7.2	7.7	10.2	20.6	10.7	3.8	0.8	4.5	
Revenues (Rs m)	2,52,189	3,03,576	2,99,187	2,77,411	3,31,447	3,64,276	4,46,852	5,04,414	5,86,906	6,67,489	15%
Growth (%)	15.9	20.4	(1.4)	(7.3)	19.5	9.9	22.7	12.9	16.4	13.7	

Fig 10 – Standard deviation of forward PE

Source: Bloomberg, Anand Rathi Research

Risks

- Less-than-expected demand in key regions
- Keener competition
- Failure of new products
- Adverse movement in commodity prices and currency rates.

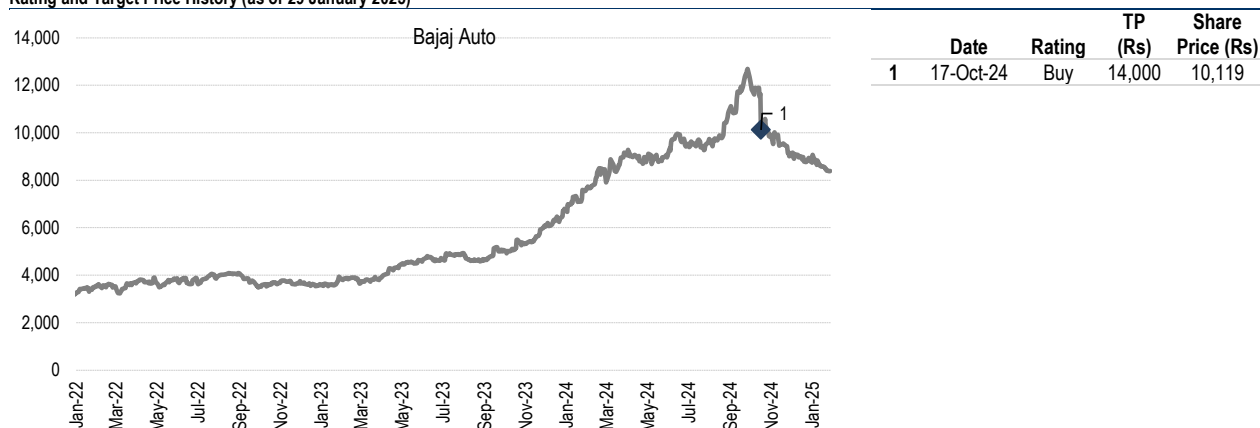
Appendix

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Rating and Target Price History (as of 29 January 2025)



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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.