

Freedom 125 launch: Redefining Affordability & Sustainability

Back in 1990s, RE attempted to lower TCO of a motorcycle by launching a diesel-powered 'Taurus', offering cost effective solution. The bike was later discontinued owing to higher NVH and CO2 emission, lower power output, etc. As another step towards not just eco-friendly but also affordable commute, Bajaj Auto (BJAUT) has taken a bold step by launching world's first CNG-integrated motorcycle, 'Freedom 125.' The bike is priced attractively (and competitively!), in our view and targets both commuter (100cc) and executive (125cc) segment owing to its favourable TCO, as per our calculations. The company also plans to export the model. Bookings have commenced. BJAUT aims vol. of 10k units/month initially and plans to gradually ramp-up to 30k-40k units/month by FY25 end. Given the launch price, the model is likely to be margin dilutive initially. Backed by successful track record of product intervention by BJAUT in the last few years, we remain positive on the stock. We have increased Vol./EPS estimate by 2-4% / 1-2% for FY25-26E. Maintain BUY with Mar'25 TP of INR 10,850 (28x PE vs.25x earlier). Customer response remains a key monitorable.

- Rising CNG network enabling shift towards eco-friendly vehicles:** Back in 1999, Bajaj Auto was the first OEM in India to introduce factory-fitted CNG 3Ws owing to its affordability and ability to offer better total cost of ownership (TCO) over petrol/diesel 3Ws. Its CNG 3Ws penetration stands at 70%+ (~60% for industry) (Exh.1). Similarly, in case of PVs, MSIL was the first OEM in India to introduce factory-fitted CNG vehicles, way back in 2010. And, its CNG sales have grown 5x in the last 5 years driving its CNG penetration to ~20%+ (Exh.2). GOI's rampant efforts towards expanding CNG stations (~6,500+ as of today) and favourable TCO has enabled this shift. Today, CNG network covers ~70% of the domestic motorcycle population and the government targets to rapidly increase CNG network to 17,000+ stations covering entire nation by 2030 (Exh.3).
- Bajaj Auto launches Freedom 125 CNG – Looks promising:** Freedom 125 is powered by a 125cc horizontally mounted single-cylinder engine that produces 9.5hp at 8,000rpm and 9.7Nm at 6,000rpm and has a claimed mileage of 65kpl (petrol) / 102km per kg (CNG). It can run on either CNG or petrol at the flip of a switch and emits ~26.7% less CO2 and 43% less NOx than a petrol motorcycle. The CNG tank is cradled in a trellis frame, which acts as a protective cage and has passed 11 safety tests including truck runaway test. Freedom 125's seat is longest in its segment and has Mono-Linked Suspension, LED headlamps, Digital Speedometers, and Bluetooth Connectivity. Freedom 125 is available in 3 variants with ex-showroom price ranging between INR 95k-110k.
- Targets both commuter and 125cc customers; plans to export as well:** Freedom 125 is priced attractively (and competitively!) at a price similar to its ICE motorcycle peers. Our calculation suggests (Exh.8) TCO of Freedom 125 is favourable not just vis-à-vis its 125cc peers but also with respect to popular 100cc motorcycle model. The company indicated that CNG network covers ~70% of the motorcycle population today which in itself is a large addressable opportunity (Exh.9). The company has opened booking for Freedom 125 for deliveries in Maharashtra and Gujarat initially and the company plans pan-India expansion in the coming months. Capacity is planned at 10k units/month initially and the company plans to gradually ramp it up to 30-40k units/month by FY25 end. Further, BJAUT plans to export this model to Egypt, Tanzania, Columbia, Peru, Bangladesh and Indonesia owing to availability of CNG network in these regions.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	10,850
Upside/(Downside)	12.6%
Previous Price Target	9,500
Change	14.2%

Key Data – BJAUT IN

Current Market Price	INR9,636
Market cap (bn)	INR2,690.1/US\$32.2
Free Float	38%
Shares in issue (mn)	289.4
Diluted share (mn)	279.2
3-mon avg daily val (mn)	INR3,887.3/US\$46.6
52-week range	10,039/4,541
Sensex/Nifty	79,997/24,324
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-0.9	38.1	99.3
Relative*	-5.0	23.2	62.7

* To the BSE Sensex

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Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	3,21,360	3,53,592	4,35,789	5,21,165	6,03,010
Sales Growth (%)	18.4	10.0	23.2	19.6	15.7
EBITDA	52,586	65,491	88,229	1,08,314	1,28,505
EBITDA Margin (%)	15.9	18.0	19.7	20.3	20.8
Adjusted Net Profit	47,036	56,276	74,788	91,035	1,08,069
Diluted EPS (INR)	162.5	198.9	267.9	326.1	387.1
Diluted EPS Growth (%)	3.3	22.4	34.7	21.7	18.7
ROIC (%)	179.2	212.9	448.4	486.6	339.2
ROE (%)	18.1	21.6	29.7	33.3	33.4
P/E (x)	59.3	48.5	36.0	29.6	24.9
P/B (x)	10.5	10.7	10.8	9.0	7.7
EV/EBITDA (x)	48.6	39.3	29.1	23.4	19.3
Dividend Yield (%)	1.5	1.5	0.8	1.6	2.1

Source: Company data, JM Financial. Note: Valuations as of 05/Jul/2024

Exhibit 6. Bajaj Freedom 125 CNG - Front view



Source: Company, JM Financial

Exhibit 7. Bajaj Freedom 125 CNG - Side view



Source: Company, JM Financial

Exhibit 8. TCO of Freedom 125 CNG vs. popular models

Models	Freedom Drum	Honda SP125	Honda Shine	Super Splendor	Xtreme 125R	TVS Raider 125	Bajaj Pulsar 125	TVS Radeon	Hero Splendor	Hero Passion+
Engine Capacity	125cc	125cc	125cc	125cc	125cc	125cc	125cc	110cc	100cc	100cc
Average usage per year assumed at 10k kms	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
On-road price (INR) (Mumbai)	113,370	104,545	98,223	100,810	117,335	116,176	104,647	94,139	90,915	95,500
CNG cost (INR/kg) / Fuel Cost (INR per ltr/kg)	75 / 105	105	105	105	105	105	105	105	105	105
Mileage (km per ltr/kg) (CNG / Petrol)	102 / 65	65	57	55	66	57	50	65	60	60
Fuel cost (INR/km)	1.07	1.6	1.9	1.9	1.6	1.8	2.1	1.6	1.8	1.8
Total fuel cost (INR)	53,254	80,769	92,593	95,455	79,545	92,105	105,000	80,769	87,500	87,500
Maintenance cost (INR)	12,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
TCO of vehicle over 50,000 kms (INR)	179,124	195,314	200,816	206,265	206,880	218,281	219,647	184,908	188,415	193,000
Cost of ownership / year (INR)	35,825	39,063	40,163	41,253	41,376	43,656	43,929	36,982	37,683	38,600
Cost relative to Freedom 125 CNG		9%	12%	15%	15%	22%	23%	3%	5%	8%

Source: Company, Industry, Bikewale, JM Financial

Exhibit 9. Addressable opportunity for Freedom 125 CNG in domestic market

Particulars	No of units
Total domestic motorcycle industry	11,653,237
Upto 110cc motorcycles	5,650,755
>110cc and upto 125cc motorcycles	3,194,934
Upto 125cc motorcycle segment – total	8,845,689
CNG network coverage across India (approx.)	70%
Addressable opportunity for Freedom 125 CNG	6,191,982
As a % of total motorcycle industry	53.1%
Addressable opportunity for Freedom 125 CNG (per month)	516,000

Source: Company, Industry, JM Financial

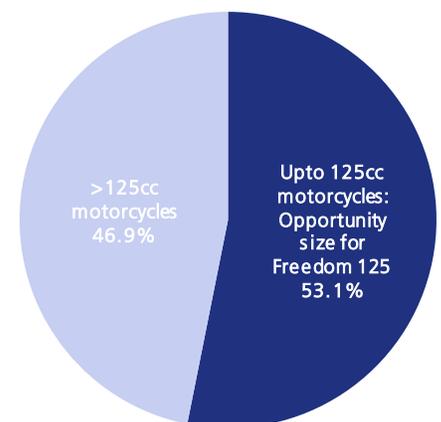


Exhibit 10. Change in estimates

Particulars	New assumption		Old assumption		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue (INR mn)	533,889	617,641	525,060	599,247	1.7%	3.1%
Volume (mn units)	4,944,118	5,513,281	4,831,618	5,287,906	2.3%	4.3%
Growth (%)	13.6%	11.5%	11.0%	9.4%		
EBITDA (INR mn)	108,314	128,505	107,398	125,670	0.9%	2.3%
EBITDA margin (%)	20.3%	20.8%	20.5%	21.0%	(20bps)	(20bps)
PAT (INR mn)	91,035	108,069	90,339	105,915	0.8%	2.0%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	3,21,360	3,53,592	4,35,789	5,21,165	6,03,010	
Sales Growth	18.4%	10.0%	23.2%	19.6%	15.7%	
Other Operating Income	10,087	10,685	11,064	12,723	14,632	
Total Revenue	3,31,447	3,64,276	4,46,852	5,33,889	6,17,641	
Cost of Goods Sold/Op. Exp	2,43,298	2,60,548	3,17,434	3,77,965	4,35,927	
Personnel Cost	13,588	14,449	15,376	17,136	18,812	
Other Expenses	21,975	23,788	25,813	30,474	34,398	
EBITDA	52,586	65,491	88,229	1,08,314	1,28,505	
EBITDA Margin	15.9%	18.0%	19.7%	20.3%	20.8%	
EBITDA Growth	6.7%	24.5%	34.7%	22.8%	18.6%	
Depn. & Amort.	2,692	2,824	3,498	3,660	3,856	
EBIT	49,895	62,667	84,731	1,04,654	1,24,649	
Other Income	12,092	11,814	14,025	16,128	18,547	
Finance Cost	87	395	535	1,000	1,000	
PBT before Excep. & Forex	61,901	74,086	98,220	1,19,783	1,42,196	
Excep. & Forex Inc./Loss(-)	3,153	0	0	0	0	
PBT	65,053	74,086	98,220	1,19,783	1,42,196	
Taxes	14,865	17,810	23,432	28,748	34,127	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	50,189	56,276	74,788	91,035	1,08,069	
Adjusted Net Profit	47,036	56,276	74,788	91,035	1,08,069	
Net Margin	14.2%	15.4%	16.7%	17.1%	17.5%	
Diluted Share Cap. (mn)	289.4	283.0	279.2	279.2	279.2	
Diluted EPS (INR)	162.5	198.9	267.9	326.1	387.1	
Diluted EPS Growth	3.3%	22.4%	34.7%	21.7%	18.7%	
Total Dividend + Tax	48,776	39,614	22,334	41,877	55,836	
Dividend Per Share (INR)	140.0	140.0	80.0	150.0	200.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	61,901	74,086	98,220	1,19,783	1,42,196	
Depn. & Amort.	2,692	2,824	3,498	3,660	3,856	
Net Interest Exp. / Inc. (-)	87	395	535	1,000	1,000	
Inc (-) / Dec in WCap.	1,635	10,500	19,150	-14,208	1,377	
Others	3,153	0	0	0	0	
Taxes Paid	-14,865	-17,810	-23,432	-28,748	-34,127	
Operating Cash Flow	54,602	69,995	97,971	81,487	1,14,302	
Capex	-4,991	-11,695	-7,781	-8,873	-8,975	
Free Cash Flow	49,611	58,300	90,190	72,614	1,05,327	
Inc (-) / Dec in Investments	-11,872	8,977	-15,690	-27,000	-27,000	
Others	-87	-395	-535	-1,000	-1,000	
Investing Cash Flow	-16,949	-3,113	-24,005	-36,873	-36,975	
Inc / Dec (-) in Capital	0	-64	-38	0	0	
Dividend + Tax thereon	-48,776	-39,614	-22,334	-41,877	-55,836	
Inc / Dec (-) in Loans	0	0	8,341	0	0	
Others	11,734	-30,230	-57,426	0	0	
Financing Cash Flow	-37,043	-69,909	-71,457	-41,877	-55,836	
Inc / Dec (-) in Cash	610	-3,026	2,509	2,737	21,491	
Opening Cash Balance	5,274	5,883	2,858	5,366	8,103	
Closing Cash Balance	5,883	2,858	5,366	8,103	29,594	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	2,66,688	2,54,259	2,48,605	2,97,763	3,49,996	
Share Capital	2,894	2,830	2,792	2,792	2,792	
Reserves & Surplus	2,63,794	2,51,429	2,45,813	2,94,971	3,47,204	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	0	0	8,341	8,341	8,341	
Def. Tax Liab. / Assets (-)	-1,990	-3,193	-2,549	-2,549	-2,549	
Total - Equity & Liab.	2,64,698	2,51,066	2,54,396	3,03,554	3,55,787	
Net Fixed Assets	19,108	27,979	32,262	37,475	42,593	
Gross Fixed Assets	47,652	59,296	67,621	75,896	84,769	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	29,312	32,136	35,635	39,294	43,150	
Capital WIP	768	819	275	873	975	
Investments	2,38,233	2,29,256	2,44,946	2,71,946	2,98,946	
Current Assets	54,385	45,917	56,242	74,090	1,06,179	
Inventories	12,305	13,979	16,956	19,990	23,129	
Sundry Debtors	15,164	17,761	21,224	28,557	33,042	
Cash & Bank Balances	5,883	2,858	5,366	8,103	29,594	
Loans & Advances	10,136	6,151	6,136	9,381	10,854	
Other Current Assets	10,897	5,168	6,560	8,060	9,560	
Current Liab. & Prov.	47,029	52,087	79,053	79,957	91,931	
Current Liabilities	45,478	50,419	77,162	75,787	87,107	
Provisions & Others	1,551	1,668	1,891	4,169	4,824	
Net Current Assets	7,356	-6,170	-22,811	-5,866	14,248	
Total - Assets	2,64,698	2,51,066	2,54,396	3,03,554	3,55,787	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	14.2%	15.4%	16.7%	17.1%	17.5%	
Asset Turnover (x)	1.3	1.4	1.7	1.9	1.9	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	18.1%	21.6%	29.7%	33.3%	33.4%	

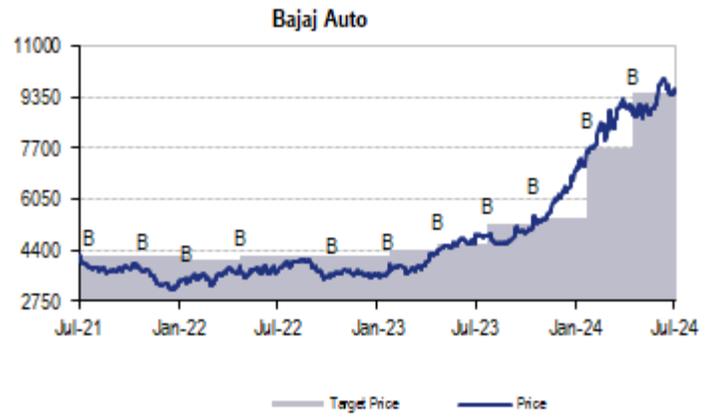
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	921.6	898.6	890.5	1,066.6	1,253.7	
ROIC	179.2%	212.9%	448.4%	486.6%	339.2%	
ROE	18.1%	21.6%	29.7%	33.3%	33.4%	
Net Debt/Equity (x)	-0.9	-0.8	-0.9	-0.8	-0.9	
P/E (x)	59.3	48.5	36.0	29.6	24.9	
P/B (x)	10.5	10.7	10.8	9.0	7.7	
EV/EBITDA (x)	48.6	39.3	29.1	23.4	19.3	
EV/Sales (x)	7.7	7.1	5.7	4.7	4.0	
Debtor days	17	18	17	20	20	
Inventory days	14	14	14	14	14	
Creditor days	60	62	79	65	65	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jan-20	Buy	3,550	
13-Apr-20	Buy	2,850	-19.7
20-May-20	Buy	2,850	0.0
22-Jul-20	Buy	2,975	4.4
22-Oct-20	Buy	3,350	12.6
21-Jan-21	Buy	4,200	25.4
30-Apr-21	Buy	4,200	0.0
23-Jul-21	Buy	4,200	0.0
28-Oct-21	Buy	4,250	1.2
20-Jan-22	Buy	4,100	-3.5
28-Apr-22	Buy	4,250	3.7
15-Oct-22	Buy	4,250	0.0
26-Jan-23	Buy	4,400	3.5
25-Apr-23	Buy	4,600	4.5
25-Jul-23	Buy	5,250	14.1
19-Oct-23	Buy	5,450	3.8
25-Jan-24	Buy	7,700	41.3
18-Apr-24	Buy	9,500	23.4

Recommendation History



APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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