

# Bajaj Auto

## Good show but headwinds ahead

Driven by a better mix and higher sales of spare parts, Bajaj Auto's Q2 revenue grew 21% YoY to INR 127bn (HSIE INR 128bn). Freedom 125 retail sales stood at 10k till Sept-24, with an expectation to hit 18k by Oct-24. Based on positive feedback, BAL is increasing capacity for Freedom 125 to 30k units per month in Q3, then to 40k units per month in Q4. BAL aspires to attain leadership in the 125cc segment, through the aggressive scale-up of Freedom 125, the new Pulsar lineup, and building the Triumph franchise. It is also focused on making a steady comeback in the export market. While the RM outlook is steady for Q3, we expect higher ad spending for promoting new launches, and slower recovery in key export markets to weigh on margins in the near term. Rural recovery remains a key monitorable in 2HFY25. Maintain SELL with a SOTP target price of INR 8,433, based on Sept-26 earnings.

- Q2 earnings in line with estimates:** Revenue growth of 21% was driven by domestic volumes, recovery in exports, and spare parts sales. Notwithstanding a higher share of EV, Bajaj Auto's EBITDA margin remained steady QoQ at 20.2%. Margin sustenance is being driven by a better product mix. Due to the withdrawal of indexation benefit on long-term gains on debt mutual funds, and a change in tax rate, a one-time provision amounting to INR 2.1bn has been made for deferred tax. USD exchange rate was 83.8.
- Call takeaways:** (1) The investments in the green portfolio (CNG, electric 2W and 3W) have begun yielding results, with the portfolio now contributing to 44% of domestic revenues. The share of EVs stood at 20% of domestic revenue. (2) There has been a steady revival in the export market, with LatAm reporting 20% YoY growth. The key markets of Africa continue to remain stressed, with a steady recovery expected in Nigeria. Nigeria volumes recovered from 5k in Apr-24 to 15k in Jun-24, which improved to 25k in Sept-24. Sequentially 10% growth is expected in the export market in Q3FY25. (3) The new plant in Brazil is running at planned levels, further capacity expansion to 35,000 units per annum has been approved. The Board has approved an investment of up to USD 10mn to be made in a phased manner. (4) Pro biking segment (KTM and Triumph): With investments made and 2 new models launched in Sept-24, domestic sales are up 50% QoQ. (5) While copper, natural rubber, and noble metals prices witnessed an uptrend, steel prices remained steady during Q2. Sequentially, RM (as % of sales) has increased 130bps, of which 50bps was due to higher RM prices. 25bps impact of higher RM prices was offset by price hikes taken. The balance (100bps) increase is attributed to the expansion of Chetak. (6) BAL expects 6-8% growth in the domestic motorcycle industry in FY25. (7) Capex during 1H stood at INR 12bn, of which INR 9.5bn was invested in Bajaj Auto Credit. The balance is capex for electric vehicle businesses.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY25	Q2 FY24	YoY (%)	Q1 FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	126,881	105,190	20.6	115,474	9.9	435,789	497,687	589,058	676,386
EBITDA	26,523	21,329	24.4	24,153	9.8	88,229	101,026	118,975	139,108
APAT	20,051	18,361	9.2	19,883	0.8	74,788	81,525	98,116	114,298
Diluted EPS (INR)	71.8	64.9	10.7	71.2	0.8	267.9	292.0	351.4	409.4
P/E (x)						43.4	39.8	33.1	28.4
EV / EBITDA (x)						36.8	32.1	27.3	23.2
RoCE (%)						38.6	41.9	45.3	47.6

Source: Company, HSIE Research

## SELL

CMP (as on 16 Oct 24) INR11,617

Target Price INR 8,433

NIFTY 24,971

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 8,409	INR 8,433
EPS %	FY26E	FY27E
	0.3%	0.3%

### KEY STOCK DATA

Bloomberg code	BJAUT IN
No. of Shares (mn)	279
MCap (INR bn) / (\$ mn)	3,244/38,621
6m avg traded value (INR mn)	4,325
52 Week high / low	INR 12,774/5,032

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.5	30.2	128.8
Relative (%)	18.6	18.5	105.7

### SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	55.06	55.06
FIs & Local MFs	8.54	8.81
FPIs	14.52	14.20
Public & Others	21.88	21.93
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

**Maitreyee Vaishampayan**

maitreyee.vaishampayan@hdfcsec.com

+91-22-6171-7308