

Soaring High

Bajaj's 3Q EBITDA and PAT rose 37% YoY to new all-time highs (both inline with JEFe). We continue to like Bajaj as we believe Indian 2W industry is poised for a strong cyclical recovery; exports appear to be bottoming too. Bajaj is expanding its EV portfolio and network, and has risen to #3 position in Indian E2Ws. We expect 19% EPS CAGR over FY24-26E and our FY25-26 EPS are 7-11% above street. We fine-tune estimates and retain Buy with a revised Rs9,000 PT.

Another strong quarter: Bajaj's 3Q EBITDA and PAT grew 37% YoY to new all-time highs (both inline with JEFe). Volumes grew 22% YoY as the strong 43% YoY growth in domestic more than offset the 4% YoY decline in exports. ASPs fell a slight 1% QoQ on weaker mix (lower share of 3Ws in volumes). EBITDA margin still expanded 30bp QoQ to 20.1%, boosted by softer commodity prices; EBITDA/vehicle was flat QoQ at Rs20K.

Indian 2Ws poised for strong rebound: We believe Indian 2W industry is poised for a strong cyclical recovery; we expect industry volumes to grow 11% in FY24E followed by 15% CAGR over FY24-26E. Bajaj said that demand has held up well in December post the festive season, and it expects motorcycle industry to grow 8-10% in coming months. Bajaj also has a strong product launch pipeline with 2-3 upgrades every month till April-May, launch of a bigger Pulsar in 1QFY25 and a CNG based motorcycle in FY25.

Exports bottoming: Local currency depreciation, FX availability constraints and high inflation, along with the Red Sea issue, are posing headwinds for exports; however, the worst seems to be behind. Bajaj's export volumes, although down 4% YoY, rose 2% QoQ in 3Q - third consecutive quarter of sequential improvement. Bajaj said that Latin American and Middle Eastern markets have surpassed previous peaks; however, African and South Asian regions are still 50-70% of previous peaks. We factor Bajaj's monthly export volumes rising from 141K in 3Q to 151K/171K in FY25/26E (FY22 was 209K).

Rising focus on electrification: Bajaj has risen to #3 position in Indian E2Ws in Oct-Dec, surpassing Ather, with market share of 13%. Bajaj intends to expand its E2W availability from 140 cities currently to 200 cities and further ramp up volumes in coming months. It also plans to launch a new E2W, and start E2W exports in FY25. Bajaj's electric 3W is also getting good reception and the company plans to expand presence from 23 cities currently to 50 cities by March-end and 200 cities by mid-FY25.

Retain Buy: We fine-tune estimates and expect a strong 30% EPS growth in FY24E, followed by 19% CAGR over FY24-26E; our FY25-26E EPS are 7-11% above street. Stock is trading at 23x FY25E PE vs last 10-year average of 17x; however, we believe a premium is justified given the strong growth outlook in coming years. Stock also offers 3-4% dividend yield. We retain Buy with a revised Rs9,000 PT at 24x FY26E PE.

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (MM)	364,276	439,838	527,578	616,505
EBITDA (MM)	65,491.4	86,113.4	105,758.4	124,252.0
Net Profit	56,276.0	73,103.7	88,223.3	102,877.8
EPS	198.89	258.36	311.79	363.58

TARGET | ESTIMATE CHANGE

RATING BUY

PRICE INR7,211.40*

PRICE TARGET | % TO PT
↑ INR9,000 (INR8,400) | +25%

52W HIGH-LOW INR7,420.00 - INR3,613.05

FLOAT (%) | ADV MM (USD) 39.5% | 52.53

MARKET CAP INR2.0T | \$24.5B

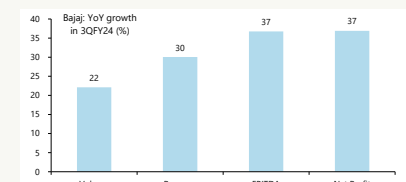
TICKER BJAUT IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFe		JEF vs CONS	
	2024	2025	2024	2025
REV	NM	NM	+1%	+6%
EPS	<1%	NM	+1%	+7%

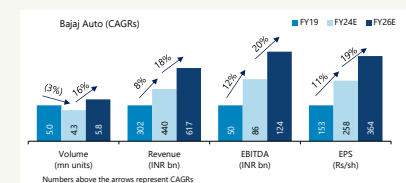
2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	↑258.36
PREV					256.60

Exhibit 1 - Good growth in 3Q



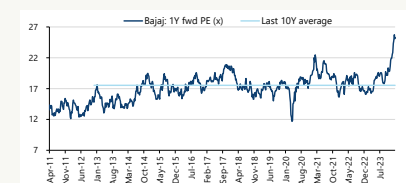
Source: Company data, Jefferies

Exhibit 2 - Strong outlook



Source: Company data, Jefferies estimates

Exhibit 3 - Valuations rich but justified



Source: FactSet, Jefferies

Nitij Mangal * | Equity Analyst

91 22 4224 6124 | nmangal@jefferies.com

Sagar Sahu, CFA * | Equity Associate

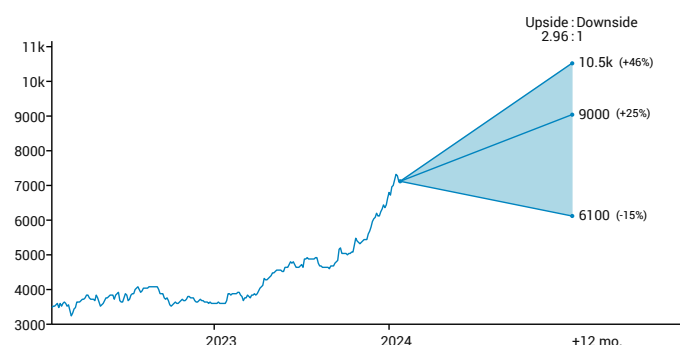
+91 22 4224 6119 | ssahu@jefferies.com

The Long View: Bajaj Auto Limited

Investment Thesis / Where We Differ

- Domestic 2W business should benefit from the expected demand recovery.
- Export demand is improving sequentially and has large headroom for long-term expansion.

Risk/Reward - 12 Month View



Base Case, INR9000, +25%

- Bajaj's total volumes to grow at 11%/17%/15% in FY24-26E
- EBITDA margin remains in the 19.6-20.2% range over FY24-26E
- EPS to rise to Rs258/Rs312/ Rs364 in FY24-26E
- Price target of Rs9,000 based on 24x FY26E EPS.

Upside Scenario, INR10500, +46%

- Bajaj's total volumes to grow at 11%/22%/20% in FY24-26E
- FY25E-26E EBITDA margins higher by ~100bps vs the base case
- EPS rising to Rs258/Rs337/ Rs409 in FY24-26E
- Price target of Rs10,500 based on 25x FY26E EPS

Downside Scenario, INR6100, -15%

- Bajaj's total volumes to grow at 11%/12%/10% in FY24-26E
- FY25E-26E EBITDA margins lower by ~100bps vs the base case
- EPS rising to Rs258/Rs287/ Rs324 in FY24-26E
- Price target of Rs6,100 based on 18x FY26E EPS

Sustainability Matters

Top Material Issue(s): 1) Emissions - With rising focus on climate change and cutting GHG emissions, we believe life-cycle vehicle emissions is a key ESG metric for Bajaj. **2) Product safety** - India consumers are increasingly conscious of safety aspect of vehicles, and government has introduced multiple regulations. **3)** Other factors include labor & governance, waste management, and material efficiency & recycling.

Company Target(s): 1) Bajaj is planning a drive to maximize supplies from vendors within the plant cluster to reduce supply chain length and carbon footprint. **2)** Bajaj is continually looking to reduce and optimize energy consumption at all its manufacturing facilities and corporate office. Similar measures are being taken to reduce water consumption.

Qs to Mgmt: 1) What are various initiatives taken by Bajaj to reduce life-cycle emissions of vehicles? How do EVs fit in the product roadmap? **2)** What steps has Bajaj taken to enhance vehicle safety across the product portfolio? **3)** What are the various metrics that the company looks at to track its progress on ESG?

[ESG Sector Integration: Indian Autos](#)

Catalysts

- Improving domestic demand.
- Gradual recovery in exports.
- Expansion of EV portfolio.

Exhibit 4 - Bajaj Auto: 3QFY24 results summary

(in Rs mn)	3QFY23	2QFY24	3QFY24	% QoQ	% YoY
Total operating income	93,151	107,773	121,135	12	30
Raw Material consumed	57,650	72,225	78,908	9	37
Purchase of traded goods	5,676	6,231	6,487	4	14
Change in stock	2,449	(1,946)	701		
Staff Cost	3,511	3,816	3,846	1	10
Other Expenditure	6,163	6,173	6,972	13	13
Expenses capitalized	(66)	(55)	(77)		
Total operating costs	75,383	86,444	96,836	12	28
Ebitda	17,768	21,329	24,299	14	37
Depreciation	740	876	881	1	19
Ebit	17,029	20,452	23,418	14	38
Financial income	2,691	3,614	3,461	(4)	29
Finance costs	85	65	121	85	43
PBT before exceptional items	19,635	24,000	26,758	11	36
Exceptional gains/(losses)	0	0	0		
PBT after exceptional items	19,635	24,000	26,758	11	36
Tax expense	4,721	5,639	6,339	12	34
Reported PAT	14,914	18,361	20,419	11	37
Recurring PAT	14,914	18,361	20,419	11	37

Key ratios

Volumes (K units)	983	1,054	1,201	14	22
Net realizations (Rs/vehicle)	91,997	99,805	98,526	(1)	7
Gross profit /vehicle (Rs)	27,836	29,662	29,175	(2)	5
EBITDA/vehicle (Rs)	18,067	20,237	20,232	(0)	12
Gross margins (%)	29.4	29.0	28.9	(0.1)	(0.5)
Staff costs/sales (%)	3.8	3.5	3.2	(0.4)	(0.6)
Other expenses/sales (%)	6.5	5.7	5.7	0.0	(0.9)
EBITDA margin (%)	19.1	19.8	20.1	0.3	1.0
EBIT margin (%)	18.3	19.0	19.3	0.4	1.1
Effective tax rate (%)	24.0	23.5	23.7	0.2	(0.4)
PAT margin (%)	16.0	17.0	16.9	(0.2)	0.8

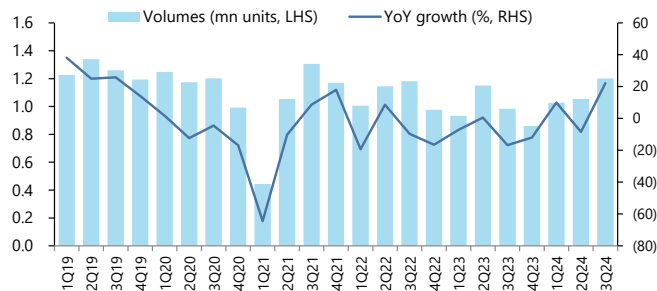
Source: Company data, Jefferies

Exhibit 5 - Bajaj Auto: 9MFY24 results summary

(in Rs mn)	9M'24	9M'23	% YoY
Volumes (units)	3,282,357	3,068,129	7
Revenues	332,006	275,229	21
EBITDA	65,167	48,326	35
Pre-ex PBT	72,804	55,221	32
Recurring PAT	55,428	41,947	32
EBITDA margin (%)	19.6	17.6	2.1

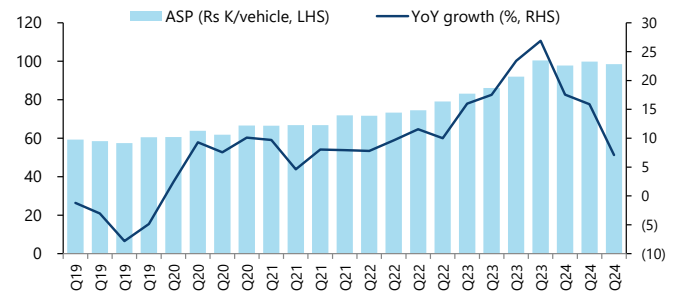
Source: Company data, Jefferies

Exhibit 6 - 3Q volumes up 22% YoY



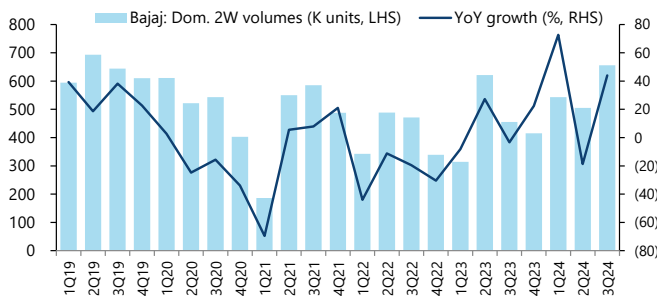
Source: Company data, Jefferies

Exhibit 7 - ASP slipped 1% QoQ



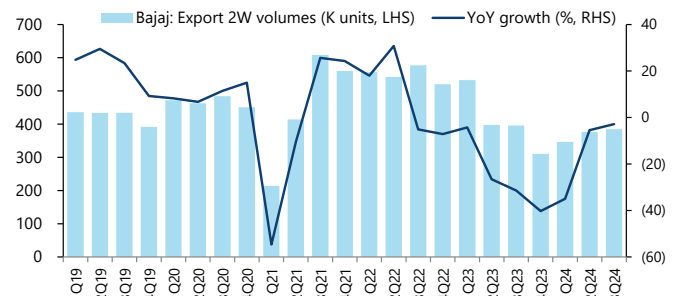
Source: Company data, Jefferies

Exhibit 8 - Domestic 2W wholesales rose 44% YoY in 3Q



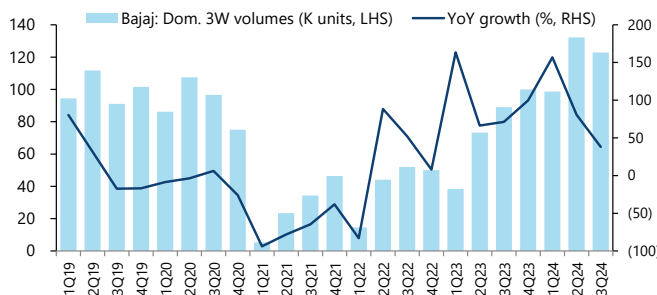
Source: Company data, Jefferies

Exhibit 9 - Export 2W volumes down 3% YoY



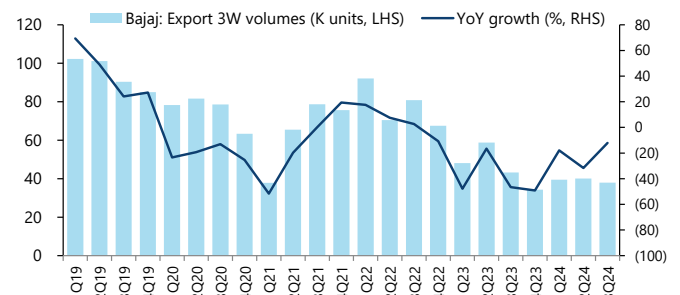
Source: Company data, Jefferies

Exhibit 10 - 3Q domestic 3W volumes up 38% YoY



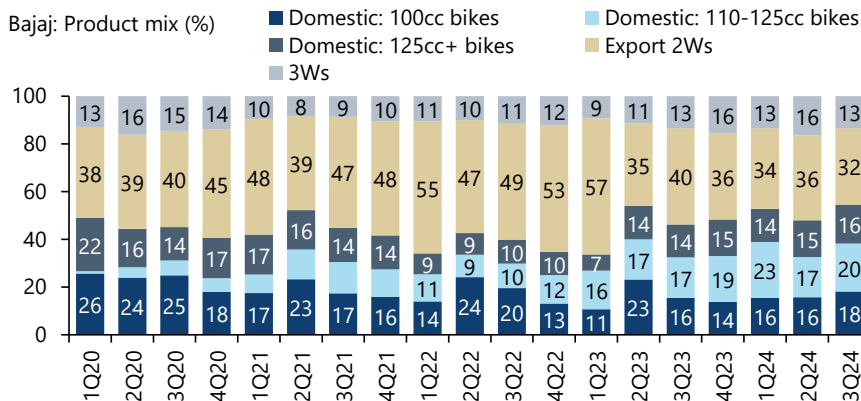
Source: Company data, Jefferies

Exhibit 11 - Export 3W volumes down 12% YoY



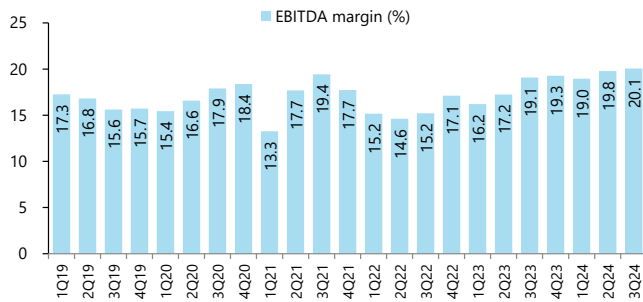
Source: Company data, Jefferies

Exhibit 12 - Share of 3Ws declined QoQ in 3Q



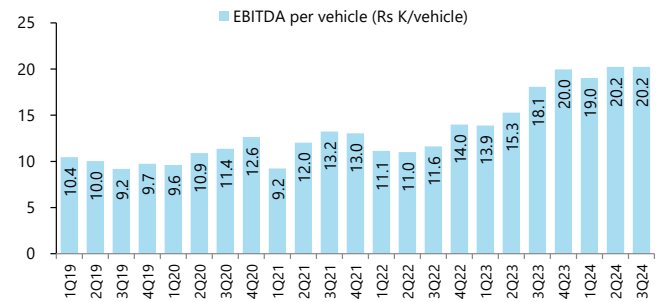
Source: Company data, Jefferies

Exhibit 13 - 3Q EBITDA margin up 30bp QoQ to 20.1%



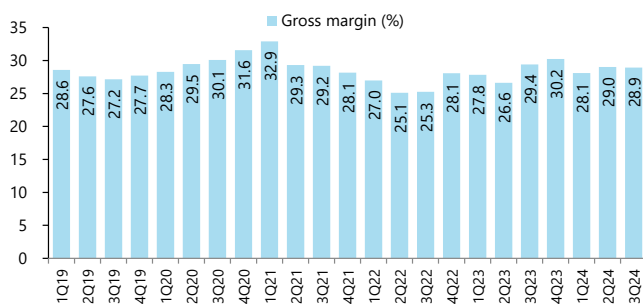
Source: Company data, Jefferies

Exhibit 14 - EBITDA/vehicle was flat QoQ



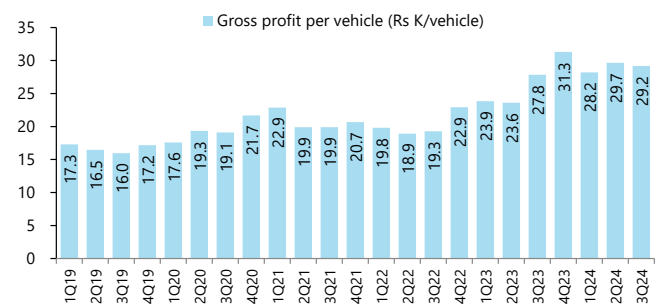
Source: Company data, Jefferies

Exhibit 15 - Gross margin down 10bp QoQ



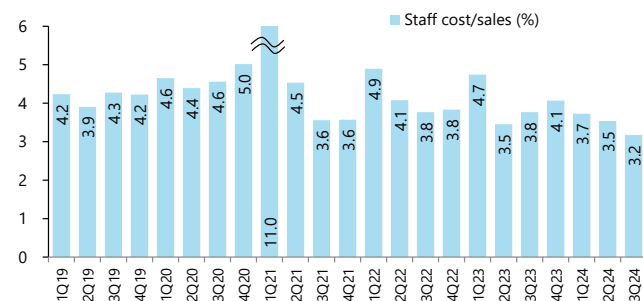
Source: Company data, Jefferies

Exhibit 16 - Gross profit/vehicle down 2% QoQ



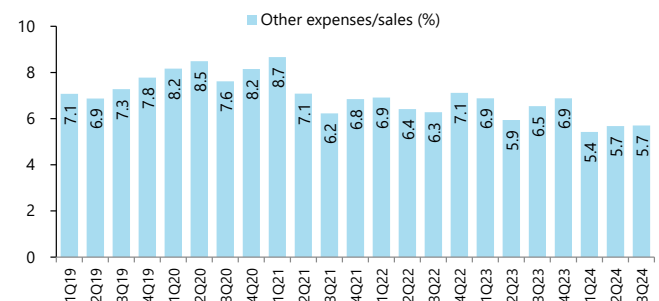
Source: Company data, Jefferies

Exhibit 17 - Staff cost/sales down 40bp QoQ



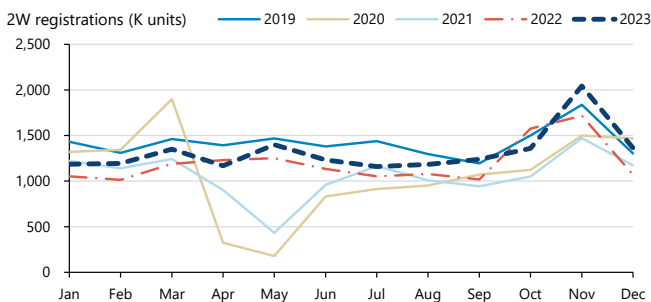
Source: Company data, Jefferies

Exhibit 18 - Other expenses/sales flat QoQ



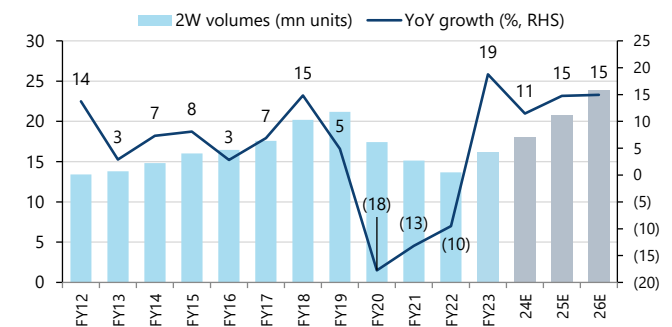
Source: Company data, Jefferies

Exhibit 19 - Indian 2W demand is gradually improving



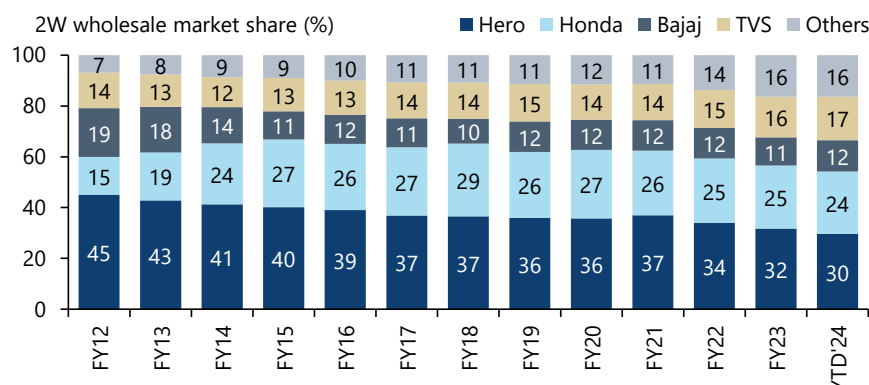
Source: Government of India, Jefferies

Exhibit 20 - We expect 15% CAGR for India 2W industry over FY24-26E



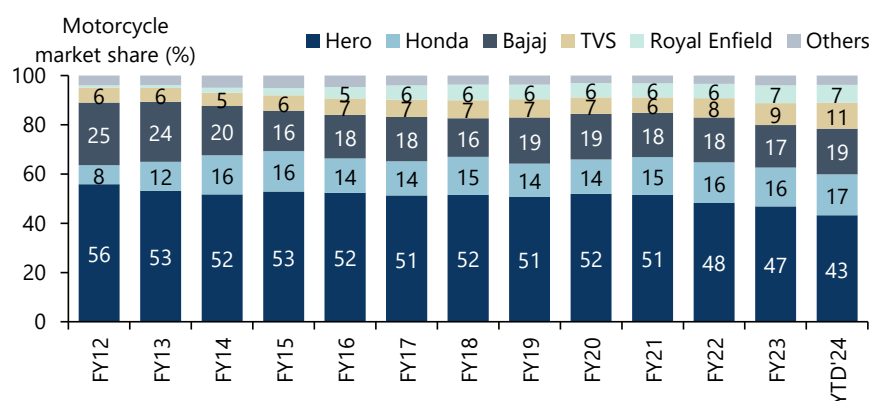
Source: CMIE, Jefferies estimates. Note: Incl. registration data for EV OEMs

Exhibit 21 - Bajaj's 2W market share has been broadly stable in recent years



Source: CMIE, Jefferies estimates

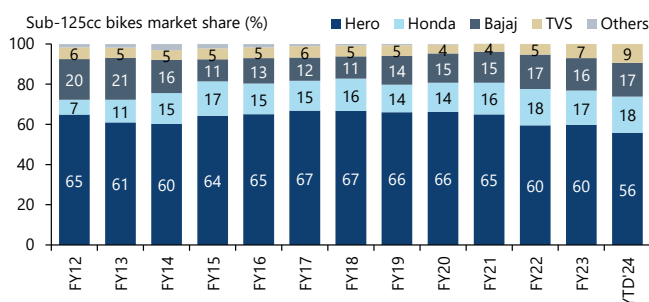
Exhibit 22 - Bajaj's motorcycle market share in 17-19% range in the last 5 years



Source: CMIE, Jefferies

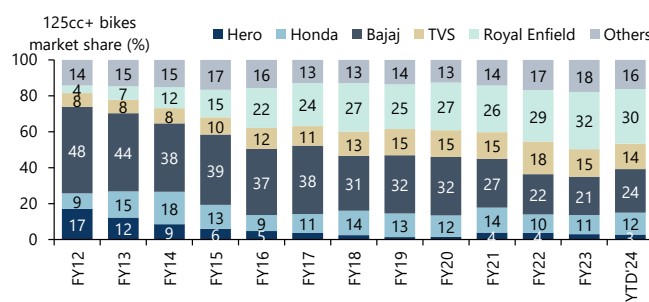
Bajaj's sub-125cc bike market share has improved 6ppt from 11% in FY18 to 17% in 9MFY24; however its premium (125cc+) bike share has slipped 6ppt over this period from 31% to 24%.

Exhibit 23 - Bajaj has gained share in sub-125cc motorcycles since FY18



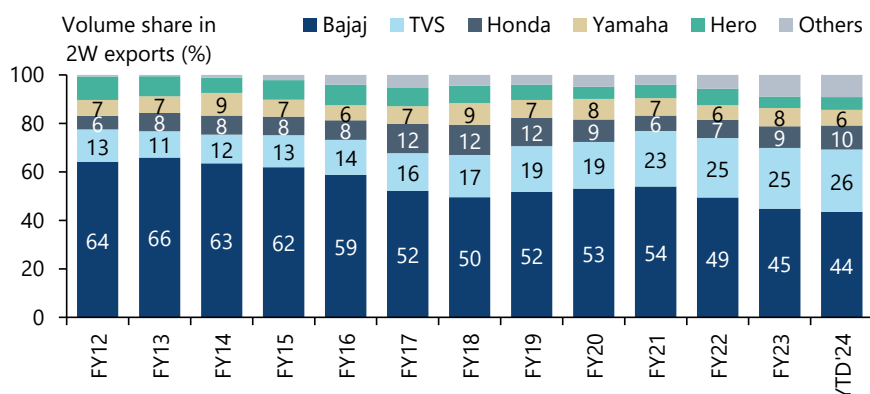
Source: CMIE, Jefferies

Exhibit 24 - ...but has lost share in 125cc+ motorcycles in last 5Y



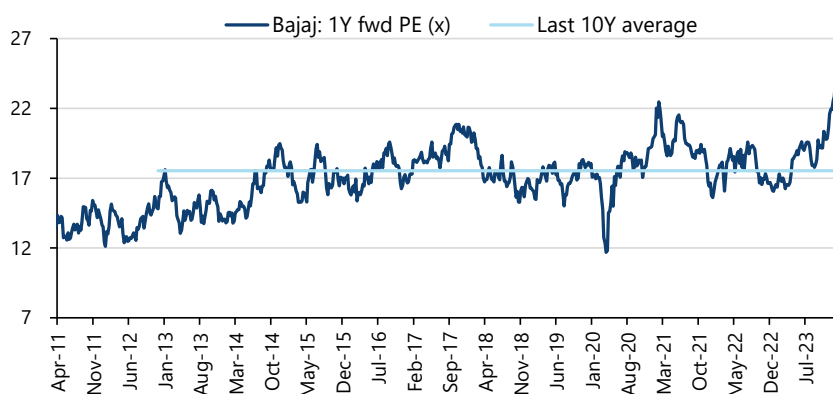
Source: CMIE, Jefferies

Exhibit 25 - Bajaj's share in India's 2W exports has also slipped



Source: CMIE, Jefferies

Exhibit 26 - Bajaj trading at 23x FY25E PE on our estimates



Source: FactSet, Jefferies

Bajaj has traded at a long-term average of 17x 1-year forward PE.

Exhibit 27 - Bajaj Auto: Volume assumptions

Volumes (K units)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic 2Ws	2,541	2,078	1,809	1,641	1,806	2,274	2,783	3,288
Export 2Ws	1,696	1,869	1,797	2,196	1,637	1,457	1,646	1,860
Total 2Ws	4,237	3,948	3,606	3,837	3,443	3,730	4,429	5,148
Domestic 3Ws	399	366	109	161	301	463	486	511
Export 3Ws	383	302	258	311	184	149	169	191
Total 3Ws	783	668	367	472	485	612	655	701
Total volumes	5,020	4,615	3,973	4,308	3,928	4,343	5,084	5,849
YoY growth (%)								
Domestic 2Ws	29	(18)	(13)	(9)	10	26	22	18
Export 2Ws	22	10	(4)	22	(25)	(11)	13	13
Total 2Ws	26	(7)	(9)	6	(10)	8	19	16
Domestic 3Ws	8	(8)	(70)	47	87	54	5	5
Export 3Ws	43	(21)	(15)	21	(41)	(19)	13	13
Total 3Ws	23	(15)	(45)	28	3	26	7	7
Total volumes	25	(8)	(14)	8	(9)	11	17	15

Source: Company data, Jefferies estimates

Exhibit 28 - Bajaj Auto: Financial snapshot

(Rs bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	302	299	277	330	364	440	528	617
Ebitda	49.8	51.0	49.3	51.6	65.5	86.1	105.8	124.3
PBT before exceptionals	63.6	65.8	59.4	60.9	74.1	96.2	116.1	135.4
Recurring PAT	44.4	51.0	45.5	47.0	56.3	73.1	88.2	102.9
Diluted EPS (Rs)	153.3	176.2	157.4	162.3	198.9	258.4	311.8	363.6
Networth	218	199	252	267	254	269	287	307
Gross debt	0	0	0	0	0	0	0	0
Current liabilities	49	43	56	47	52	60	70	80
Other liabilities	7	6	7	6	5	5	5	5
Total liabilities	274	248	315	319	311	334	362	392
Fixed assets	18	18	17	19	28	32	36	39
Cash & financial investments	179	166	207	213	191	204	220	240
Other assets	77	64	92	88	92	98	106	114
Total assets	274	248	315	319	311	334	362	392
Operating cash flow	24.9	38.6	31.1	42.1	55.1	64.9	80.1	94.0
Capex	(1.8)	(3.1)	(2.6)	(5.7)	(15.2)	(7.5)	(7.7)	(7.8)
Free cash flow	23.1	35.5	28.6	36.4	39.9	57.4	72.4	86.2
Net interest income	16.4	17.3	12.7	12.0	11.4	13.6	14.3	15.6
Free cash flow to Equity	39.5	52.8	41.3	48.4	51.4	71.0	86.7	101.7
Key metrics (%)								
Sales growth	19.9	(1.1)	(7.3)	19.1	10.2	20.7	19.9	16.9
Ebitda growth	3.0	2.3	(3.3)	4.6	27.0	31.5	22.8	17.5
EPS growth	8.5	15.0	(10.7)	3.1	22.6	29.9	20.7	16.6
Ebitda margin	16.5	17.0	17.8	15.6	18.0	19.6	20.0	20.2
Ebitda/vehicle (Rs K/vehicle)	9.9	11.0	12.4	12.0	16.7	19.8	20.8	21.2
Ebit margin	15.6	16.2	16.8	14.8	17.2	18.8	19.3	19.4
Net debt	(179)	(166)	(207)	(213)	(191)	(204)	(220)	(240)
Net debt/Equity	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
RoAE	21.7	24.5	20.2	18.1	21.6	27.9	31.8	34.7
RoACE	23.1	23.3	20.7	18.8	24.1	31.6	36.7	40.4
Num of shares (mn units)	289	289	289	289	283	283	283	283

Source: Company data, Jefferies estimates

Company Description

Bajaj Auto Limited

Bajaj Auto is an Indian auto OEM, which manufactures and sells motorcycles and three-wheelers in India and overseas markets.

Company Valuation/Risks

Bajaj Auto Limited

We value Bajaj at 24x FY26E PE, which is above its historical average trading multiple but justified given strong demand outlook. Key risk is elongated 2W demand slowdown in India and export markets.

Analyst Certification:

I, Nitij Mangal, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Sagar Sahu, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published January 24, 2024 , 15:30 ET.

Recommendation Distributed January 24, 2024 , 15:30 ET.

Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

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NC - Not covered. Jefferies does not cover this company.

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Jefferies Franchise Picks

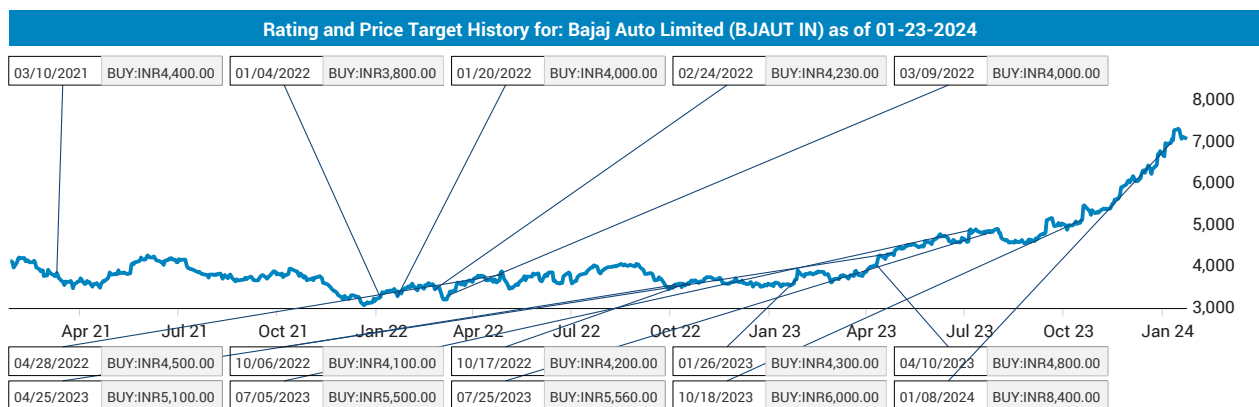
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Other Companies Mentioned in This Report

- Bajaj Auto Limited (BJAUT IN: INR7,211.40, BUY)



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
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HOLD	1226	36.73%	117	9.54%	20	1.63%
UNDERPERFORM	164	4.91%	5	3.05%	3	1.83%

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