

THE 2025 EDITION

NS400
APEX PREDATOR



43 PS
Power



Ride
Modes

NEW



Sensorless
Quick Shifter



Radial
Tyres



Sintered
Brake Pads

pulsar
DEFINITELY DARING

JUNE, 2025

FINANCIAL REPORT



Key Highlights

- ✓ DCF Valuation (FCFF & Excess Return)
- ✓ Scenario Forecasting & Sensitivity Analysis
- ✓ Monte Carlo Simulations & Value at Risk (VaR)
- ✓ Business Resilience & Industry Analysis
- ✓ DuPont, Altman Z-Score & Ratio Screening
- ✓ Relative Valuation (CCA) & Key Value Drivers
- ✓ Economic, Strategic & Competitive Outlook

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BAJAJ AUTO LTD | ₹8275

BSE: 532977 | NSE: BAJAJ-AUTO

bajajauto.com



Company Overview

Bajaj Auto, the flagship company of Bajaj Group, is a two-wheeler and three-wheeler manufacturing company that exports to 79 countries across several countries in Latin America, Southeast Asia, and many more. Its headquarter is in Pune, India.

It has acquired 48% of the KTM Brand which manufactures sports and super sports two-wheelers, which was 14% in 2007 when the company first acquired KTM.

Market Cap	₹231,191 Cr.	As of	August 11, 2025
Sector	Consumer Discretionary		
Industry	Automobiles		
Founded	1945.00		

Valuation Output Ranges

Current Price ₹ 8,275.0 ₹ 7,088.0 52W Range ₹ 12,774.0

Free Cash Flow to Firm	₹2128.1 - ₹4568.5
Excess Return Model	₹3002.8 - ₹4983.4
Relative Valuation	₹4327.3 - ₹6671.3

P/L Highlights

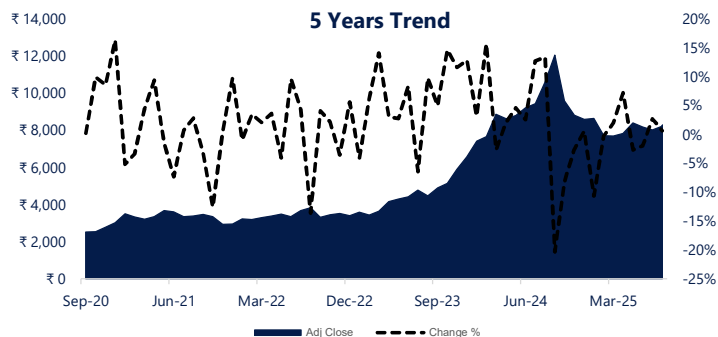
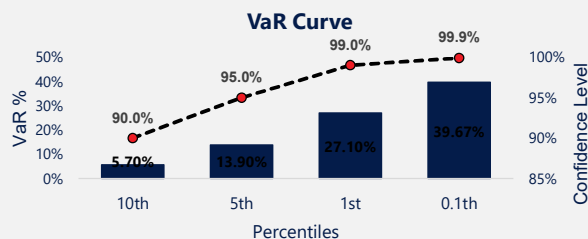
Sales tm	₹52,196 Cr.	YoY Growth	13.6%
EBITDA tm	₹11,623 Cr.	Core Margin	21.4%
Profit tm	₹7,593 Cr.	Net Margin	14.5%

Balance Sheet Overview

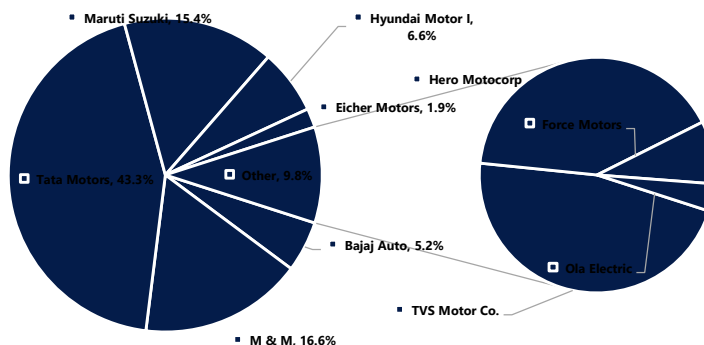
Cash & Cash Equivalents	Mar-25	2,848
Total Debt		9,364
Total Liabilities		18,921
Total Shareholders' Equity		35,189
Debt-to-Equity		26.6%
Equity Ratio		65.0%
Debtor Turnover Ratio		24.0x
Creditor Turnover Ratio		6.0x

Cash Flow Overview

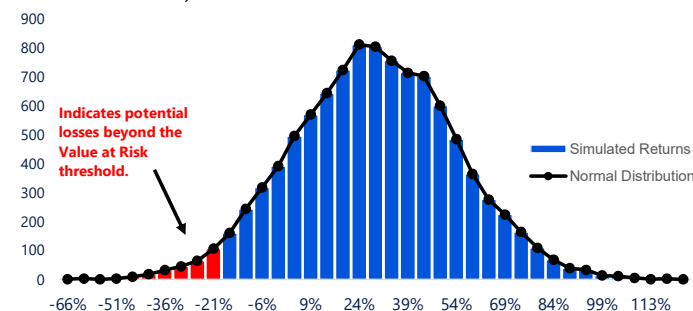
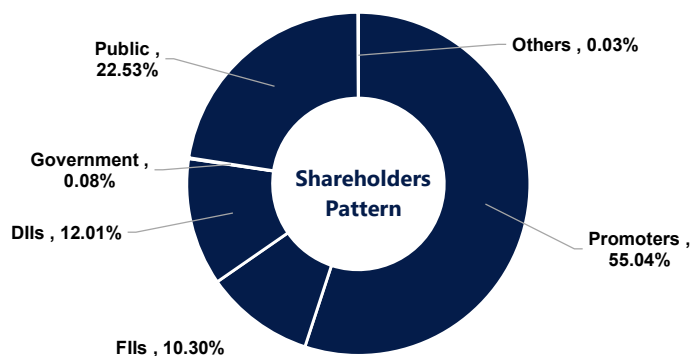
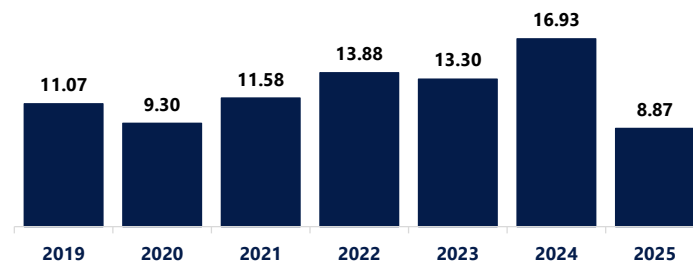
Cash from Operating Activity	Mar-25	(1,406)
Cash from Investing Activity		(1,053)
Cash from Financing Activity		4,230
Net Cash Flow		1,771
CFO/Sales		-2.8%
CFO/Total Assets		-2.6%
CFO/Total Debt		-15.0%



Market Share (Top Peers)



Altman's Z-Score



1. Executive Summary

Bajaj Auto delivered a **record FY2025**, with consolidated revenue reaching ~INR 50,000Cr and PAT exceeding INR 8,000Cr for the first time. This was led by strong demand across segments. **Exports** saw a 20% volume jump in Q4, powered by premium Pulsar/Dominar models, and Bajaj outpaced the industry by growing 31% in its top 30 emerging markets. Notably, Latin America has emerged as Bajaj's largest motorcycle market, with exports up ~18%. In **domestic motorcycles**, Bajaj remains #2 in the 125cc+ segment (FY25 share ~24%), although share dipped modestly from 26% in FY24. Management has responded by launching six new Pulsar variants and recalibrating pricing post-OBD II norms, alongside aggressively promoting the CNG-powered "Freedom" bike (60k sold, ~10–11% share in select regions) to restore growth.

Bajaj's **electric vehicle business** saw dramatic gains: the new Chetak 35-series scooter lifted Bajaj's EV market share from 13% (Q4 FY24) to 25% (Q4 FY25), making Chetak the #1 EV two-wheeler in India. In 3W autos, Bajaj's ICE models hold ~75% share and it doubled its EV auto share from 17% to 33% in FY25. The recent GoGo brand launch (EV autos) and upcoming e-rick (launch ~July '25) aim to capitalize on an emerging ~40k unit 3W EV segment. The **ProBiking** arm (KTM, Triumph) saw ~100k unit sales (+12% YoY); Triumph domestic volumes doubled (to 11k) with a vastly expanded dealer network. The captive financier BACL turned profitable (full-year PAT) and disbursed over INR 10,000 Cr, financing roughly 40% of Bajaj bikes and 50% of 3W sales.

Management's forward plan includes seven "key thrusts" for FY26: leadership in 125cc+, export share gains (esp. LATAM), scaling new growth platforms (Chetak EV, GoGo EV3W, Freedom CNG, Brazil production) and a KTM turnaround, plus spare-parts growth and balanced profitability. These aim to deliver another record year. **Risks** include commodity and regulatory headwinds: new OBD II emission norms have increased costs, and EV growth faces China's rare-earth magnet export controls. Geopolitical and FX uncertainties (volatile emerging-market currencies) could dampen. On the positive side, macro tailwinds prevail: RBI projects India GDP ~6.5% and CPI ~3.7% in FY26 (with repo rate at 5.50% to spur growth), which should support consumer demand. Bajaj's strong ESG credentials – over INR 1,300Cr invested in skill-building, health and water projects since – also reinforce brand equity. In summary, Bajaj's diversified portfolio (ICE and EV 2/3-wheelers, financing, spares), new product pipeline, and strategic initiatives position it to capitalize on industry growth and deliver steady value to stakeholders.

2. Business Model & Revenue Segmentation

Bajaj Auto operates a diversified model spanning **two-wheelers, three-wheelers and financing**:

- ❑ **Domestic motorcycles:** Bajaj manufactures a range from entry-level commuters (Platina) to sporty 125cc+ bikes (Pulsar, Avenger, Dominar). The 125cc+ segment is the core profit driver (recently ~24% share), where Bajaj has #2 positioning. FY25 domestic volumes were modestly below peak, reflecting a 2% Q4 industry decline, but Bajaj's focus on new Pulsar launches and the CNG "Freedom" bike is intended to reverse share loss. Approximately 60–70% of total sales (by volume) come from domestic two-wheelers.
- ❑ **Export two-wheelers:** Exports historically account for a large volume share (~40–45% of total production). Bajaj ships primarily to emerging markets in Africa, Latin America, Asia and the Middle East. FY25 exports recovered strongly: Q4 volumes +20%, outpacing the 15–20% industry growth in key markets. Bajaj's premium products (Pulsar/Dominar) now make up ~65% of export mix. Brazil, Bajaj's biggest export market, hit record quarterly retail (7k bikes in Q4) and its factory capacity is being ramped to 50k units/yr by year-end. Management expects overall exports to grow ~15–20% YoY in FY26, with further benefit from resumption of KTM exports (recently halted) and any free-trade deals. In FY25, the **auto (3W) exports** (KTM, Triumph) were minimal (<1% of Bajaj revenue) due to KTM's restructuring; these will restart once KTM Austria resumes production.
- ❑ **Commercial vehicles (3-wheelers):** Bajaj dominates India's auto-rickshaw market. In FY25, it achieved ~75% share in petrol/diesel 3W. The company has a legacy ICE portfolio (RE, Maxima) and a growing EV line. The EV segment grew ~60% industry-wide in FY25; Bajaj doubled its EV auto share to ~33% (vs. 17% last year). The new "GoGo" brand is dedicated to EV autos, while a modern e-rick model is launching mid-2025 to capture an estimated ~40k unit market.
- ❑ **ProBiking (KTM & Triumph):** Bajaj manages the Indian business of these premium motorcycle brands. In FY25, combined KTM+Triumph sales were ~100k units (+12% YoY). KTM posted strong second-half growth (new Duke 200/250, and the Adventure 390). Triumph's domestic volumes doubled to ~11k (upgraded Speed 400, new Tiger 400), supported by an expanding dealer network (136 stores in 100 cities). Bajaj intends to acquire a controlling stake in Pierer Bajaj (KTM's parent), post which it will execute a comprehensive KTM turnaround. This should revive KTM exports (previously 5–6% of Bajaj's volumes) and further strengthen Bajaj's premium-bike portfolio.
- ❑ **Captive finance (BACL):** Bajaj Auto Credit Ltd (BACL) provides retail financing for Bajaj vehicles. BACL achieved profitable scale in FY25: it turned PAT-positive in Q3 and posted a full-year profit, a first since inception. By year-end its loan book was ~INR 9,500 Cr, with ~INR 2,400 Cr capital invested.

- ❑ **Spare parts & services:** Bajaj also earns service revenues (spare parts, accessories). The spare parts business grew 18% in FY25, delivering its highest ever quarterly results, reflecting overall fleet size growth. This aftermarket segment is a stable, high-margin revenue stream that Bajaj plans to further expand.

This **portfolio balance** – domestic vs. international, ICE vs. EV, core vs. new growth – is central to Bajaj’s model. Approximately 35–40% of sales are generated domestically (mostly motorcycles), with the remainder from exports and new business lines. Each business unit is managed as a semi-autonomous P&L. Management has highlighted the strategic contribution of each: for example, exports now contribute >65% of Bajaj’s premium motorcycle volumes, while new EV and financing platforms (Chetak, GoGo, BACL) are now material revenue drivers. The diversity reduces single-market risk, and synergies (e.g. BACL cross-selling, shared powertrain R&D with KTM) enhance margins. Total FY25 EBITDA crossed INR 10,000Cr, and margins held around 20.2%, indicating solid operating leverage despite product investment.

3. Industry Overview & Value Chain

Bajaj Auto operates at the intersection of several industry trends. In **India**, the two-wheeler market is mature but shifting: small commuter bikes (100cc and below) still dominate unit volumes (~60–70% market share), while the faster-growing segments are 125cc+ motorcycles and scooters. In FY25, the 125cc+ class grew ~12% vs. flat growth in the entry segment. Bajaj targets this high-growth 125cc+ class (where it is #2) and concurrently expands fuel-efficient alternatives (CNG) and EVs.

The **global two-wheeler industry** is driven by urbanization and rising incomes in emerging economies. Bajaj’s export markets span Latin America, Asia, Africa and the Middle East. Emerging markets grew sharply in FY25 (the top 30 markets grew 26% in Q4), reflecting pent-up demand. Latin America has become especially important: it is now the world’s largest growth region for motorcycles, as Bajaj’s Brazil facility shows. In **tricycle/autorickshaw** markets (Asia, Africa), Bajaj’s 3-wheelers are a common urban transport mode. The ICE 3W segment still rules (~75% Bajaj share), but battery-electric models are taking off (industry EV-3W +60% in FY25).

Value chain: Bajaj sources standard automotive inputs from global markets. Key materials include steel and aluminum for chassis (their prices have been relatively soft recently), precious metals like palladium/rhodium for catalytic converters (these spiked on automotive demand), and electronics/semiconductor chips (global shortage pressures remain sporadic). EVs introduce new inputs: high-performance **battery cells** (sourced largely from China/Korea) and **rare-earth magnets** for motors. The latter is a critical constraint: Bajaj’s CFO warned that new Chinese export rules on rare-earth magnets could “seriously impact production” of EV motors by mid-2025. Hence Bajaj is increasingly sensitive to geopolitical supply risks.

On the distribution side, Bajaj’s products reach customers via dealerships in India and networks of distributors/assemblies abroad. (For example, Bajaj partially assembles CKD shipments in some African countries to comply with import rules.) The aftermarket (spare parts and service) is an important revenue segment, reflecting the high utilization of Bajaj vehicles.

Regulatory dynamics shape the industry. India’s tightening emissions and safety norms (e.g. BS-VI and forthcoming OBD-II regulations) have raised manufacturing costs. Government incentives (PLI schemes, FAME subsidies) are accelerating EV adoption – Bajaj’s EV business benefits from the PLI program, helping fund competitive pricing. Globally, trade policies (tariffs, FTAs) influence export competitiveness. Bajaj notes that recent global tariffs (e.g. on trucks) did not directly hurt it, since vulnerable segments (KTM/Tr. bikes) were <1% of revenue. However, persistent issues like currency devaluations in export markets (inflationary, dampening demand) and geopolitical tensions remain key industry risk.

Overall, the industry value chain analysis shows Bajaj positioned in a competitive, asset-light manufacturing role with exposure to commodity and currency cycles, but with a robust engine of product development and distribution to drive sustainable growth.

4. Market Share & Competitive Positioning

In its core segments, Bajaj Auto holds leading positions:

- ❑ **Domestic 125cc+ motorcycles:** Bajaj is the #2 player. According to Vahan data, Bajaj’s share in 125cc+ rose from ~21% in FY’23 to 26% in FY’24, then moderated to ~24% in FY’25. Competitors here include TVS (Raider/Duramax), Honda and Royal Enfield (for larger displacement). Bajaj’s Pulsar and Dominar brands are well-recognized, but competition is intense. Management aims to reclaim lost share through new model launches and targeted campaigns.
- ❑ **Domestic 100cc and below:** Bajaj’s presence is smaller, as other OEMs (Hero, Honda, TVS) dominate this segment. Bajaj deliberately deprioritized 100cc growth, focusing instead on >100cc and premium niches. This strategy left Bajaj about 2–3% of the low-cc market, prioritizing higher-ASP segments where margins are better.
- ❑ **Export markets:** Bajaj enjoys strong share in many emerging markets. Its long-standing presence and localized products give it an edge. For example, in Latin America Bajaj’s share is very high (factories in Brazil have cut costs and boosted volumes), making it a market leader among affordable bikes. In Africa and parts of Asia (Bangladesh, Nepal), Bajaj often leads or is #2 behind local assembling manufacturers. Its dominant share of exported Pulsar/Dominar in the *premium* segment (65% of mix) suggests Bajaj is the go-to brand for higher-end models abroad.

- ❑ **Three-wheelers (3W) – ICE:** Bajaj is the dominant leader in India with ~75% market share. Its main competitor, Piaggio (Vespa Ape), holds most of the remainder. Bajaj's focus on performance and fuel economy helps defend this position.
- ❑ **Three-wheelers – EV:** Bajaj has quickly become #1 in electric auto-rickshaws. Its share jumped from 17% in FY24 to 33% in FY25, making it the segment leader as of May 2025. Chinese OEMs (e.g. Chetak's competitors) and start-ups (Ola Electric, Tork for e-scooters; Kinetic Green for 3Ws) are battling for share, but Bajaj's early mover advantage (GoGo e-autos, upcoming e-rick) gives it a strong position.
- ❑ **ProBiking (KTM & Triumph):** Bajaj and KTM's alliance has historically dominated the high-end performance segment in India. KTM India is #1 in the 250cc+ and adventure categories. Triumph is #1 in its premium segment. With KTM restructured, Bajaj plans to be its turnaround partner, potentially reclaiming lost European production volume.
- ❑ **Financing (BACL):** As a captive NBFC, BACL's penetration (~40–50%) is well above industry norms for Bajaj customers. Its growth has helped Bajaj achieve higher vehicle offtake in rural areas compared to peers. While most OEMs rely on third-party financiers, Bajaj's control of BACL gives it a competitive advantage in customer acquisition and loyalty.

In summary, Bajaj's market position is strongest in areas it targets (125cc+ bikes, 3W, premium segments). The company cedes ground in segments it chooses not to prioritize (budget 100cc). Its strategy leverages brand strength (e.g. "Pulsar" is synonymous with performance in India) and geographic diversification. Key competitive pressures remain: Hero MotoCorp in lower cc bikes, TVS and Honda in adjacent segments, and global two-wheeler trends towards electrification and localization. Bajaj's focus on new product launches (CNG, EVs) and after-sales service aim to defend and extend its market footprint.

5. Technological Trends & Strategic Initiatives

Bajaj is aggressively aligning with evolving technology trends:

- ❑ **Electrification:** Bajaj has made EVs a strategic priority. The Chetak electric scooter (revived from its iconic brand) now leads India's EV 2W market. In late FY25 Bajaj launched the new "35 series" Chetak platform, featuring longer range, faster charging and advanced digital displays. These upgrades have won strong consumer uptake. Bajaj plans further Chetak variants (one launched May 2025, another due June 2025) to cover more sub-segments. In the 3W space, Bajaj created "GoGo" as a distinct EV brand for autos, and has completed 10,000 km testing of its e-rick prototype. These moves tap growing urban demand for clean last-mile vehicles. Importantly, Bajaj's EV line benefits from India's Production-Linked Incentive (PLI) scheme: CFO commentary confirms that PLI incentives have largely funded competitive pricing and R&D in the electric portfolio.
- ❑ **Alternative fuels:** Bajaj was first to market with a CNG motorcycle ("Freedom"), targeting long-distance commuters. The Freedom 125 has sold ~60,000 units, achieving 10–11% penetration in CNG-rich regions like Kerala and Delhi. This innovation leverages India's push for cleaner fuels and a fuel-cost-sensitive customer base (50% fuel savings).
- ❑ **Product innovation (ICE bikes):** On the ICE side, Bajaj continues technical refreshes. In FY25 it launched six new Pulsar variants (125–400cc class) to specifically address market gaps in sporty and commuter niches. These are backed by calibrated pricing post-OBD II norms. Bajaj also updated its ProBiking portfolio: new KTM Duke 200/250 engines, Adventure 390, and Triumph Tiger 400. Bajaj design/engineering teams work closely with KTM AG, and future collaborations (post-Pierer stake) may bring more advanced tech (e.g. the new KTM 690, or electrified motorcycles).
- ❑ **Digital/Connected Services:** Bajaj is slowly rolling out digital enhancements. Chetak EVs already have an onboard display and smartphone connectivity (for navigation and vehicle health). Bajaj is investing in dealer-network IT and CRM, as seen by doubling Triumph's network with new digital touchpoints. It also participates in industry efforts on telematics for two-wheelers (e.g. insurance-linked IoT). However, these remain nascent compared to global peers. Bajaj's strategic emphasis is on core mechanical and battery technology, outsourcing most software.
- ❑ **Supply chain & partnerships:** Strategic alliances are key to tech capability. The Bajaj-KTM partnership (since 2007) brings high-performance engineering and export synergies. Bajaj plans to acquire a controlling stake in KTM's holding (PBAG) once regulatory clearances complete, enabling tighter R&D integration (e.g. share platforms, engine development). On batteries, Bajaj is developing relationships with global cell suppliers (Japan/Korea) and exploring alternate magnet materials to mitigate China's restrictions.
- ❑ **Sustainability tech:** While not a revenue driver, Bajaj is upgrading its plants with cleaner processes (energy-efficiency, water recycling). It sources a portion of electricity from renewables (solar power is mentioned in company filings, though details are proprietary).
- ❑ These initiatives position Bajaj to capitalize on the **industry shift to electrified, low-emission vehicles**. By improving its EV product technology, leveraging government incentives, and maintaining ICE innovation, Bajaj aims to sustain growth as regulatory and consumer trends evolve.

6. Regulatory & Geo-Political

❑ **Regulatory Environment (India):** Bajaj's businesses are impacted by India's automotive regulations. Emissions norms have tightened substantially: BS-VI Phase 2 (OBD-II B) became mandatory from April 2025. Bajaj reports recalibrating model prices to offset the higher costs of OBD-II compliance. Compliance has raised input costs (injectors, electronics) materially, squeezing margins if not passed to customers. On the safety front, anti-lock braking systems (ABS) are mandatory on 125cc+ bikes, which adds cost but also increases Bajaj's model safety credentials.

The government's **EV and green policies** are a significant regulatory tailwind. The PLI scheme for electric 2/3-wheelers provides subsidies on production; Bajaj has benefited fully under this program. Other incentives (FAME subsidies, tax breaks for EVs) support Bajaj's Chetak and GoGo sales. However, EV policy is evolving: rules for battery-swapping, local manufacturing norms, and subsidy phasing are in flux, requiring Bajaj to adapt strategy quickly.

Trade policy also matters: India is negotiating free trade agreements (FTAs) with multiple partners. The RBI notes that an FTA with the UK is now concluded, which should support. Conversely, protectionist moves by other countries can hit exporters. Bajaj notes that recent global tariff disputes (e.g. on trucks from some countries) had limited impact because only a tiny portion of its business (KTM/Tr. exports) would have been subject. Nevertheless, any new import duties or localization requirements in key markets (Nigeria's historical assembly mandates, for example) remain a risk to Bajaj's sales and margins.

❑ **Regulatory (Global):** In export markets, safety and emission rules vary. Bajaj must meet diverse homologation standards for 50+ countries. Tighter CO₂ or emission norms (e.g. Euro 5) on 3-wheelers in some countries could require redesigns. Also, export-limiting currency controls or shifting import-export regulations in crisis-hit economies (Pakistan, Sri Lanka) can reduce demand.

❑ **Geopolitical Risks:** Bajaj is exposed to global geopolitical factors in two ways. First, commodity supply: as noted, Chinese export controls on rare-earth magnets and separation chemicals threaten Bajaj's EV production. Any prolonged disruption could force product delays or cost increases. Second, currency and macro risk in key markets: CFO comments highlight that "devaluation in many emerging markets [is] leading to retail inflation and depression of demand". For example, a weaker naira or Kenyan shilling makes Bajaj's products more expensive locally. Bajaj mitigates this partly by pricing in local currencies and holding inventory judiciously, but these macro factors remain largely out of its control. Finally, global tensions (e.g. in the Middle East or Africa) pose uncertainty. Bajaj explicitly warns that geopolitical tensions and trade uncertainties are downside risks to India's 6.5% GDP— the same risks would ripple through Bajaj's markets.

In summary, **compliance costs** (OBD norms, ABS, etc.) and **political/regulatory changes abroad** are significant risk factors for Bajaj. On balance, supportive EV policies in India are a net positive, but global protectionism and supply-chain controls could challenge Bajaj's strategic plans if not navigated carefully.

7. Client Mix & Geography-Based Risk Analysis

Bajaj's revenue sources span domestic retail customers and a broad array of international markets.

❑ **Domestic Customer Mix:** Within India, Bajaj sells mainly to individual retail and small-fleet owners (rental/taxi, delivery services). The end-market breakdown is roughly 50:50 urban vs. rural, though Bajaj has traditionally been strong in rural and semi-urban regions thanks to durable, fuel-efficient models and BACL financing reach. The captive-finance arm now underwrites ~40% of motorcycle sales (50% of 3W sales), indicating deep penetration into its own customer base. Key domestic segments are male riders age 18–35 for Pulsars, commuter workers for Platina, and commercial drivers for 3Ws. Bajaj has limited business-to-business sales (no large fleet contracts), so customer credit risk is relatively diffuse, managed via BACL underwriting.

❑ **Export Geography:** Bajaj exports to 60+ countries across five continents. Its top 30 emerging markets (in Latin America, Africa, Middle East, and Asia) cumulatively represent over 70% of industry volume. Within this mix, **Latin America** (notably Brazil, Mexico, Colombia, Peru) is now Bajaj's largest region. Investments there (a wholly-owned plant in Brazil) provide some hedging against currency swings. **Africa** (Nigeria, Ethiopia, Kenya, etc.) is the next largest, although that region's business is sensitive to policy (e.g. import tariffs, the Lagos motorcycle ban) and FX volatility. Bajaj's commentary explicitly warns of an "uncertain trading environment" in Africa, requiring careful inventory management. **Asia & Middle East** markets (Bangladesh, Nepal, Sri Lanka, GCC) are steady contributors, with relatively stable currency regimes. Bajaj's penetration in the Middle East (UAE, Saudi) is high in the 3W segment (ethnic Indian diaspora and local demand for easy transport).

This geographic mix entails concentration risk. For example, if the Brazilian real were to crash, or Kenyan/Shilling devalue, Bajaj's peso/rupee realizations could suffer and local demand could slump. Indeed, Bajaj's CFO noted emerging-market devaluations are already dampening retail demand. Conversely, a stronger USD/INR has helped Bajaj's reported export revenues: Q4 FY25 saw USD/INR at ~86.5 (vs. 83 a year earlier), boosting rupee income from exports. But INR strength late in Q4 forced some adverse forex restatements.

In fiscal terms, no single country dominates more than ~10–15% of Bajaj's exports, providing some diversification. However, macro shocks in multiple markets can still aggregate: e.g. simultaneous currency weakness across emerging markets can limit Bajaj's pricing power globally.

Bajaj mitigates this by local partnerships (e.g. partial assembly), conservative receivables management (temporarily halting KTM shipments during its restructuring), and a policy of not holding large unsold inventory in any one country. On the domestic front, Bajaj's customer base is broad, but high interest rates or credit shortages (addressed partly by BACL's growth) could constrain sales.

In summary, Bajaj's **client mix** is skewed toward retail consumers in emerging markets and Indians, with financing support. The geographic distribution (Latin America, Africa, South Asia) offers high growth potential but also currency and policy exposure. Effective hedging, localized production and a strong balance sheet are key to managing these regional risks.

8. ESG Profile

Bajaj Auto has a well-defined Environmental, Social and Governance (ESG) framework that contributes to its reputation:

- ❑ **Environmental:** Bajaj is transitioning toward greener mobility. Its product portfolio now includes electric scooters (Chetak) and EV autos (GoGo), directly lowering tailpipe emissions. The company reports using increased renewable energy in factories and has implemented initiatives to reduce water and energy usage (though specifics are proprietary). Notably, the Bajaj Water Conservation Project covers ~150 villages (~100,000 hectares) in Maharashtra, indicating a strong focus on environmental. These projects, run with NGOs and local communities, enhance resource sustainability. Bajaj's plants also follow pollution control norms (ISO 14001 certified) and have waste treatment systems – common practices in Indian auto manufacturing.
- ❑ **Social:** Bajaj's CSR investments underscore a social focus. Since 2014, the Bajaj Group has spent over INR 1,300Cr on social projects in. Key areas are skill-development in STEM and livelihoods. For example, Bajaj sponsors vocational training (Engineering Skills Training – BEST, and Manufacturing Systems – BMS) to bridge India's technician skill. Other programs include entrepreneurship mentoring (1,500+ micro-enterprises created) and support for Army veterans to start. Bajaj also undertakes quality-of-life projects around its factories (water, education, health) in cities like Pune and Aurangabad. These initiatives benefit local communities and foster goodwill.
- ❑ **Governance:** Bajaj Auto is a publicly traded company with a reputed governance track record. The promoter group (Bajaj family) holds a substantial stake, but the board includes independent directors and professional managers. There have been no major governance controversies reported; Bajaj adheres to strict compliance and disclosure norms. Its Code of Conduct and investor materials emphasize ethical practices. In the FY25 call, management highlighted that its finance arm BACL is run at arm's length with an independent board, reflecting disciplined governance even for subsidiaries. Bajaj's ratings from agencies are strong (AAA/Stable) with no history of default. In ESG rating terms, Bajaj features in regional sustainability indices (e.g. MSCI EM), though specific scores vary.

Stakeholder Impact: Bajaj's ESG efforts contribute to brand image. Its focus on safety (ABS on new bikes), rider education (sponsor of safety events), and social programs is viewed positively by regulators and customers. The shift to EVs also aligns with national climate goals. On governance, steady dividend payouts and transparent communication build investor trust. However, areas of scrutiny remain: battery recycling and end-of-life management (as EV volumes rise) will become important, and supply-chain labor standards (for parts suppliers) will need monitoring.

In summary, Bajaj has embedded ESG considerations into its operations. The company's CSR investments, product portfolio shifts, and governance practices suggest **strong social responsibility and ethical standards**. Continued focus on environmental performance (e.g. further reducing carbon intensity) and supplier audits will be key to maintaining this reputation.

9. Economic Outlook & Impact

- ❑ **Macro (India):** The RBI's June 2025 policy report projects India's GDP growth at ~6.5% for FY2025-, up slightly from 6.5% in FY25. Inflation is expected to remain modest (CPI ~3.7% for, with recent readings around 3.2%). This benign inflation path allowed the RBI to cut the policy repo rate by 50 bp to 5.50% in, to spur demand. Lower interest rates should ease financing costs for consumers, potentially boosting two-wheeler sales and making loans (via BACL and others) more affordable.

However, risks to growth persist. RBI notes that global uncertainties (downward revisions of world GDP) and geopolitical tensions (trade wars, oil price shocks, weather events) are material downside. Slowing global growth could weaken demand in export markets for Bajaj, while volatile oil prices (though moderate currently) can affect disposable incomes and operating costs. On currency, the rupee remained relatively stable in mid-2025; a weaker INR would help Bajaj's export revenues (in Q4 it peaked at ~86.5/USD) but a sudden depreciation could raise input costs for imports. Conversely, a strong INR squeezes export margins.

- ❑ **Global Economy:** Key markets for Bajaj (LATAM, Africa) are themselves facing varied outlooks. Latin America is recovering modestly (Brazil ~2–3% growth) while African economies are uneven (some hampered by political instability, others by high food prices/inflation). Emerging-market inflation is generally above developed market levels; if local central banks raise rates to contain inflation, that could dampen consumer spending on discretionary items like motorcycles.

- **Interest Rates:** Globally, major central banks are in a disinflation phase. The US Fed paused rate hikes and inflation has eased to ~3% (as of mid-2025). This global easing trend reduces the risk of a steep slowdown, but rates in advanced economies remain historically high. Indian long-term interest rates have been stable in mid-2025 (10-yr G-sec ~7%), supporting corporate investment. Bajaj faces long-duration liabilities primarily in BACL; lower rates improve BACL's funding costs, helping maintain credit spreads.
- **FX and Commodities:** Commodity prices are a mixed bag: RBI notes broad moderation in metals/energy prices. Oil prices have come down from 2022 highs, which helps consumers' disposable income (benefiting fuel-driven bike sales) and eases raw material freight costs. Inflationary pressures on raw materials were benign in Q4 FY25, partly offset by softness in steel/aluminum. However, input costs remain sensitive to global cycles (e.g. a sudden surge in palladium could affect auto-catalyst costs). Currency-wise, a stable or modestly weaker INR (vs. USD) would boost export margins; policy shifts affecting INR volatility will directly influence Bajaj's INR-denominated results.
- **Impact on Bajaj:** Given this outlook, Bajaj is poised for demand growth in India (reflecting GDP growth) and strong export demand in developing markets. Lower borrowing costs and moderate inflation should favor two-wheeler sales. However, management is mindful that geopolitical flare-ups or global recessions could slow exports. Bajaj's strategy of geographically diversified revenues and price flexibility (adjusting to FX moves) should mitigate but not eliminate these risks. Commodity tailwinds and soft input prices in late FY25 helped margin recovery, but any rebound in costs (steel, energy) will test pricing power. Overall, macro conditions in FY26 appear supportive of auto demand, albeit with continued uncertainty. Bajaj's plan to "dynamically balance growth and profitability" reflects an awareness of this volatile environment.

10. Forward-Looking Commentary

Looking ahead, Bajaj's **strategic roadmap** (as articulated by management) targets sustained, profit-driven growth. Key priorities include: **125cc+ Leadership:** Bajaj aims to "firmly [road] towards eventual leadership" in the 125cc+ motorcycle segment. This will hinge on new model introductions (recent Pulsar variants and an upcoming 125cc entry Pulsar model) and intensified marketing. If successful, Bajaj could recapture share from TVS/Honda and drive higher ASP/margins (125cc+ bikes sell at a premium to 100cc commuters).

- ❑ **Accelerated Exports (LATAM focus):** Management expects exports to grow ~15–20% per quarter in FY26. Latin America is the centerpiece: Bajaj plans to "make a quantum shift in market share" there. With the Brazil plant scaling to 50k capacity and expanded dealer networks in Mexico, Peru, etc., Bajaj could capitalize on improving Latin demand. Africa's outlook is more cautious (political instability persists), but if conditions stabilize, Bajaj stands to regain momentum via competitive pricing and localized support.
- ❑ **EV and New Platforms:** Bajaj will "scale up" its new growth platforms – namely Chetak electric scooters, GoGo electric autos, Freedom CNG bikes, and the Brazilian business. This suggests continued R&D investment, wider rollout of EV variants, and expanding Chetak and GoGo dealer footprint (Chetak already at 3,000+ outlets). Profitability in EV is improving (aided by PLI incentives and cost cuts), so Bajaj aims for "sustainable leadership" in EV2W and EV3W. It will monitor raw material supply (rare-earth magnets) closely; resolving China's export restrictions is vital to avoid production halts.
- ❑ **KTM Turnaround:** Execution of a KTM turnaround is underway. Bajaj's team will work "very closely" with KTM AG post-Pierer stake purchase. The plan includes resuming KTM exports (recouping ~5% of exports) and possibly collaborating on R&D. A successful turnaround would not only stabilize Bajaj's investment but also boost margins by supplying India-made KTMs globally. FY26 should see some benefit as KTM Austria (re)launches, assuming European demand recovers.
- ❑ **Spare Parts & Services:** Bajaj will further "strengthen" its spare-part business. A larger installed base (from record FY25 sales) should drive aftermarket revenues. Bajaj may expand parts distribution (e.g. door-step service initiatives) to capture this demand, aiming for its best-ever parts performance. This steady, high-margin cash flow will help offset any motorcycle volume swings.
- ❑ **Regional Finance (BACL):** BACL is now fully pan-India; growth in FY26 will depend on market share and regulatory environment. Management has indicated balanced growth – it capitalized INR 2,100 Cr in FY25 and expects another INR 1,200–1,400 Cr in FY26.
- ❑ **Consensus Outlook:** Independent analysts view Bajaj as well-placed for FY26. Broader auto-sector reports highlight steady demand in India and recoveries in key export markets. If Bajaj's execution matches its guidance, FY26 should see volume growth in both domestic 125cc bikes and EV segments, enabling the revenue and profit "record" that management envisions. Key sensitivities will be commodity cost trends, currency swings, and the pace of competitor EV launches. Bajaj's under-penetration in smaller-cc scooters (like Ola, TVS iQube) means it must guard market share in these emerging niches; conversely, its early-mover advantage in EV 3Ws and strong brand in performance bikes are hard for rivals to match.

In conclusion, Bajaj Auto's forward strategy – combining product launches (both ICE and EV), geographic expansion, and operational efficiency – is aimed at capturing secular growth opportunities. Stakeholders should watch FY26 for execution milestones: new model rollouts, dealer expansions (EV/BTLs), and early results of the KTM turnaround. Given the company's track record and current momentum, the outlook is cautiously optimistic, contingent on navigating the highlighted macro and regulatory risks.

Historical Financial Statements - BAJAJ AUTO LTD



Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	TTM
# Income Statement (Rs. crore)											
Revenue and Cost of Goods Sold (COGS):											
Revenues	22,574	21,755	25,210	30,358	29,919	27,741	33,145	36,455	44,870	50,995	52,196
Revenue Growth	-	-3.6%	15.9%	20.4%	-1.4%	-7.3%	19.5%	10.0%	23.1%	13.6%	-
Cost of sales	16,742	16,268	19,133	23,807	23,219	21,594	26,640	28,476	34,407	38,182	-
Gross Profit	5,832	5,487	6,077	6,551	6,700	6,147	6,505	7,980	10,464	12,813	-
Gross Margin	25.8%	25.2%	24.1%	21.6%	22.4%	22.2%	19.6%	21.9%	23.3%	25.1%	-
Operating Expenses:											
Selling, General and Administrative Expenses	1,039	1,058	1,231	1,353	1,591	1,209	1,246	1,515	1,699	3,258	-
EBITDA	5,987	5,896	6,250	7,226	6,942	6,507	7,930	8,167	10,465	11,027	11,623
EBITDA Margin	26.5%	27.1%	24.8%	23.8%	23.2%	23.5%	23.9%	22.4%	23.3%	21.6%	22.3%
Depreciation and Amortization	307	307	315	266	246	259	270	286	365	414	437
Total operating expenses	1,346	1,365	1,546	1,618	1,837	1,469	1,516	1,801	2,064	3,672	-
EBIT	5,680	5,589	5,935	6,960	6,695	6,248	7,660	7,881	10,100	10,612	11,186
EBIT Margin	25.2%	25.7%	23.5%	22.9%	22.4%	22.5%	23.1%	21.6%	22.5%	20.8%	21.4%
Non-operating Items and Taxes:											
Other income, net	1,194	1,468	1,404	2,028	1,832	1,570	2,671	1,703	1,700	1,472	1,648
Interest Expense	1	1	1	4	3	7	9	40	60	389	566
Earnings Befor Tax (EBT)	5,679	5,588	5,933	6,956	6,692	6,241	7,652	7,842	10,040	10,224	10,620
EBT Margin	25.2%	25.7%	23.5%	22.9%	22.4%	22.5%	23.1%	21.5%	22.4%	20.0%	-
Tax	1,618	1,508	1,714	2,028	1,480	1,384	1,486	1,782	2,332	2,899	3,027
Effective Tax Rate	28.5%	27.0%	28.9%	29.2%	22.1%	22.2%	19.4%	22.7%	23.2%	28.4%	-
Net Profit	4,061	4,079	4,219	4,928	5,212	4,857	6,166	6,060	7,708	7,325	7,593
Net Margin	18.0%	18.8%	16.7%	16.2%	17.4%	17.5%	18.6%	16.6%	17.2%	14.4%	14.5%
Share Statistics:											
Adjusted Equity Shares in Cr	28.94	28.94	28.94	28.94	28.94	28.94	28.94	28.30	27.92	27.93	27.93
Per Share Information:											
Earnings Per Share (EPS)	140.33	140.96	145.78	170.27	180.09	167.83	213.06	214.14	276.08	262.25	271.87
EPS Growth	-	0.4%	3.4%	16.8%	5.8%	-6.8%	26.9%	0.5%	28.9%	-5.0%	-
Dividend Per Share	54.99	54.99	59.99	59.99	119.99	139.99	139.99	139.98	79.99	209.97	-
Payout Ratio	39.2%	39.0%	41.2%	35.2%	66.6%	83.4%	65.7%	65.4%	29.0%	80.1%	-
Retention Ratio	60.8%	61.0%	58.8%	64.8%	33.4%	16.6%	34.3%	34.6%	71.0%	19.9%	-

# Balance Sheet (Rs. Crores)											
Assets:											
Current Assets:											
Trade Receivables	718	953	1,492	2,560	1,725	2,717	1,516	1,752	2,076	2,125	-
Cash & Cash Equivalents	867	301	793	933	316	539	958	690	955	2,848	-
Inventory	719	728	743	962	1,064	1,494	1,231	1,564	1,689	2,077	-
Other Current Assets	1,791	2,134	1,285	1,965	1,732	2,482	2,859	2,020	3,285	14,408	-
Total Current Assets	4,095	4,117	4,312	6,420	4,837	7,232	6,564	6,026	8,005	21,459	-
Non-Current Assets:											
Net Block (PPE + Intangibles)	2,026	2,002	1,878	1,764	1,699	1,668	1,836	2,842	3,217	3,677	-
Capital Work-in-Progress (CWIP)	52	42	56	48	60	16	77	85	35	61	-
Investments	11,067	15,477	18,895	20,603	19,914	24,687	26,634	26,183	28,087	28,914	-
Total Non-Current Assets	13,145	17,521	20,829	22,415	21,673	26,370	28,547	29,110	31,339	32,651	-
Total Assets	17,240	21,638	25,141	28,834	26,510	33,602	35,111	35,136	39,344	54,110	-
Liabilities & Shareholders' Equity:											
Current Liabilities:											
Trade Payables	2,027	2,236	3,244	3,787	3,200	4,574	3,632	4,121	5,597	6,373	-
Other Current Liabilities	1,075	1,425	1,351	1,689	1,522	1,633	1,497	1,530	2,873	3,184	-
Total Current Liabilities	3,102	3,661	4,595	5,476	4,722	6,207	5,129	5,651	8,470	9,557	-
Borrowings	118	120	121	125	126	121	123	124	1,912	9,364	-
Non-Current Liabilities	118	120	121	125	126	121	123	124	1,912	9,364	-
Total Liabilities	3,220	3,781	4,716	5,601	4,848	6,328	5,252	5,775	10,381	18,921	-
Shareholders' Equity:											
Equity Share Capital	289	289	289	289	289	289	289	283	279	279	-
Reserves	13,731	17,567	20,136	22,944	21,373	26,984	29,570	29,079	28,683	34,909	-
Shareholders' Equity (Less Minority Interest)	14,020	17,857	20,425	23,234	21,662	27,273	29,860	29,362	28,962	35,189	-
Non-Controlling Interest	0	0	0	0	0	0	0	0	0	0	-
Total Shareholders' Equity	14,020	17,857	20,425	23,234	21,662	27,273	29,860	29,362	28,962	35,189	-
Total Liabilities & Equity	17,240	21,638	25,141	28,834	26,510	33,602	35,111	35,136	39,344	54,110	-
Validation	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	-
Total Invested Capital	13,271	17,675	19,753	22,425	21,471	26,856	29,024	28,795	29,919	41,705	-

# Cash Flow Statements (Rs. Crores)											
Cash from Operating Activity	3,690	3,267	4,328	2,487	3,850	3,120	4,197	5,277	6,558	(1,406)	-
Cash from Investing Activity	(68)	(3,610)	(1,954)	(273)	1,766	(2,869)	276	1,211	(72)	(1,053)	-
Cash from Financing Activity	(3,384)	(190)	(1,885)	(2,074)	(6,247)	(20)	(4,056)	(7,181)	(6,167)	4,230	-
Net Cash Flow	238	(532)	488	140	(630)	231	417	(692)	319	1,771	-

Ratio Analysis - BAJAJ AUTO LTD



Bajaj Auto Ltd's ratio analysis over the fiscal years ending March 2016 to March 2025 reveals a company navigating through fluctuating market conditions, with periods of robust growth interspersed with challenges from external factors. Sales exhibited volatility, contracting in FY17, FY20, and FY21, but rebounding strongly in subsequent years, particularly FY19 and FY24. Profitability margins remained resilient, generally above 20% for EBITDA and EBIT, underscoring operational efficiency in a competitive automotive sector. Cost structures showed discipline, though spikes in certain years highlight sensitivity to input prices. Solvency strengthened over time but deteriorated in later years due to increased leverage, while returns on capital were consistently healthy, averaging around 25-30%. Efficiency ratios indicated effective asset utilization, with a negative cash conversion cycle reflecting strong working capital management.

1. Growth Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Sales Growth	-	-4%	16%	20%	-1%	-7%	19%	10%	23%	14%		10.0%	13.6%
EBITDA Growth	-	-2%	6%	16%	-4%	-6%	22%	3%	28%	5%		7.6%	5.4%
EBIT Growth	-	-2%	6%	17%	-4%	-7%	23%	3%	28%	5%		7.8%	5.1%
Net Profit Growth	-	0%	3%	17%	6%	-7%	27%	-2%	27%	-5%		7.5%	3.4%
Dividend Growth	-	0%	9%	0%	100%	17%	0%	0%	-43%	162%		27.3%	0.0%

❑ **Trends:** Sales growth fluctuated significantly, with contractions in FY17 (-3.6%), FY20 (-1.4%), and FY21 (-7.3%), followed by strong recoveries in FY18 (15.9%), FY19 (20.4%), FY22 (19.5%), and FY24 (23.1%), moderating to 13.6% in FY25. EBITDA and EBIT growth mirrored sales, showing declines in FY17, FY20, and FY21, but accelerations in FY19 (15.6% and 17.3%) and FY24 (28.1% and 28.2%), with FY25 slowing to around 5%. Net profit growth was more variable, peaking at 26.9% in FY22 but turning negative in FY23 (-1.7%) and FY25 (-5.0%). Dividend growth was erratic, with a 100% surge in FY20 and 162.5% in FY25, but flat or declining in other years.

❑ **Implications:** The inconsistent growth patterns suggest vulnerability to economic cycles and industry disruptions, yet the ability to rebound indicates resilient demand for Bajaj's products. Slower FY25 growth may pressure future earnings, while volatile dividends could affect shareholder expectations for stable income.

2. Profitability Margins

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Gross Margin	25.8%	25.2%	24.1%	21.6%	22.4%	22.2%	19.6%	21.9%	23.3%	25.1%		23.1%	22.9%
EBITDA Margin	26.5%	27.1%	24.8%	23.8%	23.2%	23.5%	23.9%	22.4%	23.3%	21.6%		24.0%	23.6%
EBIT Margin	25.2%	25.7%	23.5%	22.9%	22.4%	22.5%	23.1%	21.6%	22.5%	20.8%		23.0%	22.7%
EBT Margin	25.2%	25.7%	23.5%	22.9%	22.4%	22.5%	23.1%	21.5%	22.4%	20.0%		22.9%	22.7%
Net Profit Margin	18.0%	18.8%	16.7%	16.2%	17.4%	17.5%	18.6%	16.6%	17.2%	14.4%		17.1%	17.3%

❑ **Trends:** Gross margin trended downward from 25.8% in FY16 to a low of 19.6% in FY22, before recovering to 25.1% in FY25. EBITDA and EBIT margins were stable around 23-27%, dipping to 21.6% in FY25. EBT margin followed a similar path, declining from 25.2% in FY16 to 20.0% in FY25. Net profit margin remained in the 16-19% range, peaking at 18.8% in FY17 and 18.6% in FY22, but falling to 14.4% in FY25.

❑ **Implications:** The gradual erosion in margins points to rising competitive pressures or cost inflation, though the recent gross margin uptick in FY25 suggests improved pricing power or cost controls. Sustained high margins relative to peers imply strong operational leverage, but the FY25 decline could signal profitability headwinds if sales growth softens further.

3. Cost Structure Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
SalesExpenses%Sales	4.6%	4.9%	4.9%	4.5%	5.3%	4.4%	3.8%	4.2%	3.8%	6.4%		4.7%	4.5%
Depreciation%Sales	1.4%	1.4%	1.2%	0.9%	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%		1.0%	0.8%
OperatingExpenses%Sales	6.0%	6.3%	6.1%	5.3%	6.1%	5.3%	4.6%	4.9%	4.6%	7.2%		5.6%	5.6%

❑ **Trends:** Sales expenses as a percentage of sales hovered around 4-5%, with a low of 3.8% in FY22 and FY24, but spiking to 6.4% in FY25. Depreciation remained consistently low at 0.8-1.4% of sales. Operating expenses followed sales expenses, ranging from 4.6% to 7.2%, with an increase to 7.2% in FY25.

❑ **Implications:** Low and stable cost ratios demonstrate efficient overhead management, contributing to margin stability. The FY25 spike in sales and operating expenses may reflect heightened marketing or distribution costs amid growth, potentially eroding margins if not offset by revenue gains.

4. Solvency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debt-to-Equity	0.8%	0.7%	0.6%	0.5%	0.6%	0.4%	0.4%	0.4%	6.6%	26.6%		3.8%	0.6%
Debt Ratio	0.7%	0.6%	0.5%	0.4%	0.5%	0.4%	0.3%	0.4%	4.9%	17.3%		2.6%	0.5%
Interest Coverage Ratio	5409.5x	3992.1x	4530.3x	1553.6x	2118.8x	938.2x	884.6x	199.5x	167.3x	27.3x		1982.1x	1245.9x
Equity Ratio	81.3%	82.5%	81.2%	80.6%	81.7%	81.2%	85.0%	83.6%	73.6%	65.0%		79.6%	81.3%
Capital Employed to Total Assets	82.0%	83.1%	81.7%	81.0%	82.2%	81.5%	85.4%	83.9%	78.5%	82.3%		82.2%	82.1%

❑ **Trends:** Debt-to-equity and debt ratios were minimal (below 1%) until FY24 (6.6% and 4.9%), surging to 26.6% and 17.3% in FY25. Interest coverage plummeted from over 5000x in FY16 to 27.3x in FY25. Equity ratio declined from 81.3% in FY16 to 65.0% in FY25, while capital employed to total assets stayed high around 80-85%.

❑ **Implications:** Historically conservative leverage supported financial stability, but the sharp FY25 increase indicates aggressive borrowing, possibly for expansion, raising default risk despite still-high coverage. This shift could constrain flexibility in downturns but enable growth if deployed effectively.

5. Returns

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Return on Invested Capital	30.6%	23.1%	21.4%	22.0%	24.3%	18.1%	21.3%	21.2%	25.9%	18.2%		22.6%	21.7%
Return on Capital Employed	40.2%	31.1%	28.9%	29.8%	30.7%	22.8%	25.5%	26.7%	32.7%	23.8%		29.2%	29.3%
Retained Earnings%	60.8%	61.0%	58.8%	64.8%	33.4%	16.6%	34.3%	34.6%	71.0%	19.9%		45.5%	46.7%
Return on Equity	29.0%	22.8%	20.7%	21.2%	24.1%	17.8%	20.6%	20.6%	26.6%	20.8%		22.4%	21.0%
Self Sustained Growth Rate	17.6%	13.9%	12.2%	13.7%	8.0%	3.0%	7.1%	7.1%	18.9%	4.1%		10.6%	10.1%

□ **Trends:** Return on invested capital (ROIC) and return on capital employed (ROCE) averaged 20-30%, with peaks at 30.6% and 40.2% in FY16, dipping in FY21 (18.1% and 22.8%), and rebounding to 25.9% and 32.7% in FY24 before falling to 18.2% and 23.8% in FY25. Retained earnings percentage varied, at 100% from FY18-FY21, but dropping to 19.9% in FY25. Return on equity (ROE) followed suit, from 29.0% in FY16 to 20.8% in FY25. Self-sustained growth rate mirrored ROE trends, declining to 4.1% in FY25.

□ **Implications:** Consistently strong returns highlight efficient capital allocation and value creation for shareholders. The FY25 downturn suggests diminishing returns from investments, potentially limiting organic growth and signaling a need for strategic reinvestment to sustain ROE above 20%.

6. Efficiency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debtor Turnover Ratio	31.4x	22.8x	16.9x	11.9x	17.3x	10.2x	21.9x	20.8x	21.6x	24.0x		19.9x	21.2x
Creditor Turnover Ratio	8.3x	7.3x	5.9x	6.3x	7.3x	4.7x	7.3x	6.9x	6.1x	6.0x		6.6x	6.6x
Inventory Turnover	23.3x	22.3x	25.8x	24.8x	21.8x	14.5x	21.6x	18.2x	20.4x	18.4x		21.1x	21.7x
Sales to Capital (ICT)	1.70x	1.23x	1.28x	1.35x	1.39x	1.03x	1.14x	1.27x	1.50x	1.22x		1.3x	1.3x
WC Turnover Ratio	22.7x	47.8x	-89.0x	32.2x	260.4x	27.1x	23.1x	97.1x	-96.5x	4.3x		32.9x	25.1x

□ **Trends:** Debtor turnover improved from 31.4x in FY16 to 24.0x in FY25, with fluctuations (low of 10.2x in FY21). Creditor turnover stabilized around 6-8x. Inventory turnover ranged from 14.5x to 25.8x, settling at 18.4x in FY25. Sales to capital was steady at 1.0-1.7x. Working capital turnover showed volatility, with extremes like -89.0x in FY18 and 260.4x in FY20, ending at 4.3x in FY25.

□ **Implications:** High turnover ratios indicate efficient asset and receivable management, supporting liquidity. Volatility in working capital turnover reflects variable cycle dynamics, but overall efficiency aids in funding operations without excess capital, though FY25 moderation could imply slower collections if growth stalls.

7. Working Capital Cycle Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
Debtor Days	12	16	22	31	21	36	17	18	17	15		20	17
Payable Days	44	50	62	58	50	77	50	53	59	61		56	55
Inventory Days	16	16	14	15	17	25	17	20	18	20		18	17
Cash Conversion Cycle (in days)	-17	-18	-26	-13	-13	-16	-16	-15	-25	-26		-18	-17

□ **Trends:** CFO/sales was strong at 12-17% until FY19 (8.2%), recovering to 14.6% in FY24 but turning negative at -2.8% in FY25. CFO/total assets followed, from 21.4% in FY16 to -2.6% in FY25. CFO/total debt was exceptionally high (over 2000%) until FY24 (343.0%), flipping to -15.0% in FY25.

□ **Implications:** Robust cash generation historically supported dividends and investments, reflecting operational strength. The FY25 negativity signals potential cash outflows exceeding inflows, possibly from working capital strains or capex, which could necessitate external financing and heighten vulnerability to economic shifts.

8. Cash Flow Efficiency Ratios

Years	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Trend	Mean	Median
CFO/Sales	16.3%	15.0%	17.2%	8.2%	12.9%	11.2%	12.7%	14.5%	14.6%	-2.8%		12.0%	13.7%
CFO/Total Assets	21.4%	15.1%	17.2%	8.6%	14.5%	9.3%	12.0%	15.0%	16.7%	-2.6%		12.7%	14.8%
CFO/Total Debt	3130.7%	2725.1%	3583.5%	1997.2%	3065.9%	2568.6%	3418.8%	4248.1%	343.0%	-15.0%		2506.6%	2895.5%

□ **Trends:** CFO/sales was strong at 12-17% until FY19 (8.2%), recovering to 14.6% in FY24 but turning negative at -2.8% in FY25. CFO/total assets followed, from 21.4% in FY16 to -2.6% in FY25. CFO/total debt was exceptionally high (over 2000%) until FY24 (343.0%), flipping to -15.0% in FY25.

□ **Implications:** Robust cash generation historically supported dividends and investments, reflecting operational strength. The FY25 negativity signals potential cash outflows exceeding inflows, possibly from working capital strains or capex, which could necessitate external financing and heighten vulnerability to economic shifts.

Key Takeaways

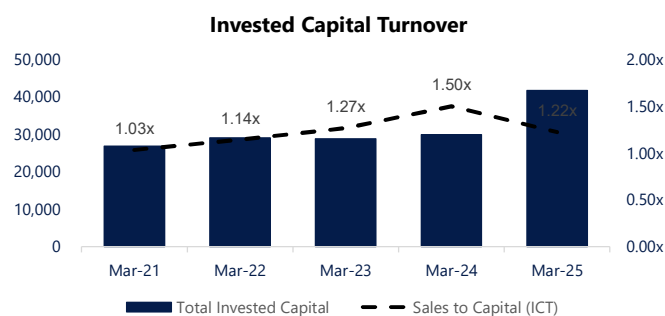
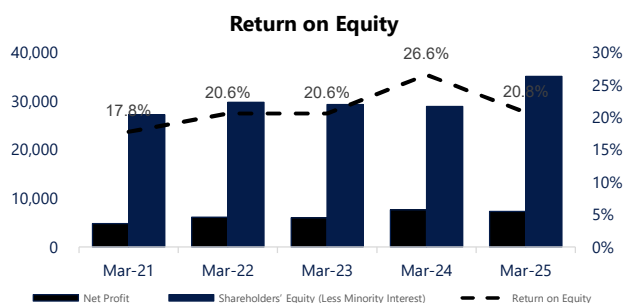
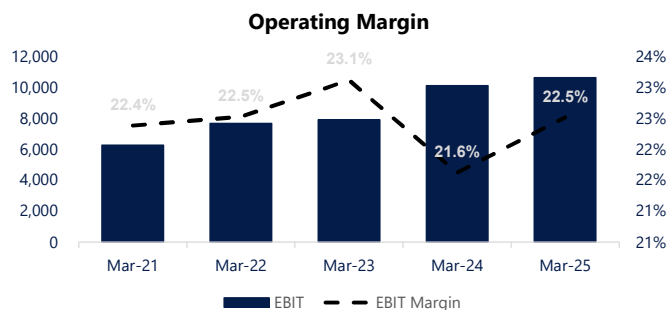
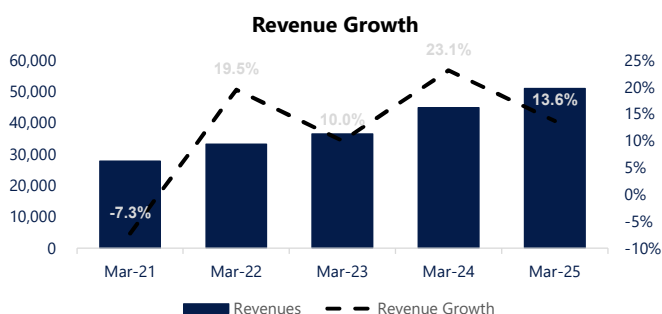
Key takeaways from Bajaj Auto's ratio analysis underscore a decade of resilient performance amid volatility: sales and profit growth rebounded post-contractions, margins held firm despite pressures, and efficiency in working capital and returns drove shareholder value. Strengths include a negative cash conversion cycle, low historical leverage, and consistent ROCE above 20%, positioning the company as operationally efficient with strong supplier leverage. Concerns emerge in FY25, with margin compression, surging debt, declining returns, and negative cash flows, potentially stemming from aggressive expansion or cost escalations. For investors, these imply a hold stance for income-focused portfolios given dividend volatility, but caution for growth-oriented ones due to moderating self-sustained growth and liquidity risks; monitoring FY26 leverage and cash recovery will be critical for valuation upside.

Financial Projections - BAJAJ AUTO LTD



This report provides a detailed 5-year financial projection for Bajaj Auto Ltd, spanning FY2026 to FY2030, based on the company's recent performance, management guidance from the earnings call, Wall Street analyst estimates, company fundamentals, industry trends in the Indian two-wheeler (2W) and three-wheeler (3W) sectors, and macroeconomic factors such as India's GDP growth (projected at 6-7% annually by IMF estimates), rising urbanization, fuel price volatility, and the shift toward electric vehicles (EVs) amid government incentives like PLI schemes. The projections incorporate FY2025 reported figures as the base: revenue of INR 50,995 Cr, EBIT margin of 20.8%, ROE of 25.29%, and invested capital turnover ratio of 1.22x. Key insights include robust export recovery (15-20% YoY growth guidance), domestic 2W industry growth of 5-6% led by 125cc+ segments, EV scaling (Chetak and GoGo brands targeting leadership), and spares business expansion (18% growth in FY2025).

Financial Highlights



1. Revenue Projection

(Mar-26 ----- Mar-30)

For FY2028-FY2030, projections use management guidance (e.g., 15-20% export growth, 5-6% domestic 2W industry growth, EV leadership scaling to 20-30% of domestic revenue), company fundamentals (strong 125cc+ position at 24% share, spares at 18% growth), industry trends (2W market growing 5-6% amid urbanization, EV penetration rising to 10-15% by 2030 per SIAM estimates), and macro factors (6-7% GDP growth supporting demand, but potential rural slowdowns). Total FY2025 revenue of INR 50,995 Cr is segmented as: Domestic Motorcycles INR 20,000 Cr (39%), Exports INR 15,000 Cr (29%), Commercial Vehicles INR 10,000 Cr (20%), Electric 2W INR 3,000 Cr (6%), ProBiking INR 1,500 Cr (3%), Spares INR 1,495 Cr (3%)—derived from earnings call details on segment highs (e.g., CV over INR 10,000 Cr, EV revenue INR 5,500 Cr combined, spares growth).

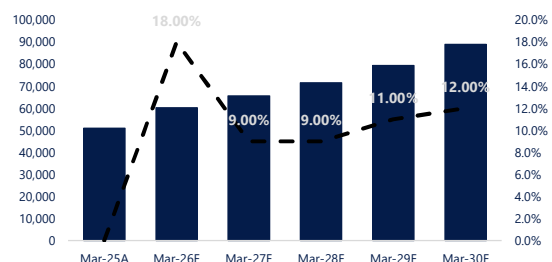
a) Base Case Scenario

In the base case, revenue grows moderately, aligning with analyst averages for FY2026-FY2027 and extending via management's 5-6% domestic growth, 15% export rise, and EV scaling to 25% market share. Rationale: Steady industry growth (5-6% for 2W per management), export revival in LATAM (30% of exports), but tempered by commodity inflation (1% material cost impact) and competition in 125cc+ (share at 24%). Spares grow 15% YoY on parts demand. EV (Chetak/GoGo) scales to leadership, contributing 20% of revenue by FY2030 amid PLI benefits. Macro support from 6% GDP, but rural inflation caps upside.

Projection: FY2026 revenue at INR 60,174 Cr (18% growth) uses analyst average. Breakdown: Domestic Motorcycles grow 6% to INR 21,200 Cr (industry-led), Exports 15% to INR 17,250 Cr (LATAM thrust), CV 10% to INR 11,000 Cr (ICE stability + EV doubling share to 33%), Electric 2W 50% to INR 4,500 Cr (25% market share), ProBiking 12% to INR 1,680 Cr (KTM revival), Spares 15% to INR 1,719 Cr. FY2027 at INR 65,548 Cr (9% growth) from analyst average, with similar drivers. FY2028-FY2030 assume 8-9% CAGR: Exports 15%, Domestic 6%, EV 40% initially tapering to 20%.

Mar-25A	50,995	
Mar-26E	60,174	18.00%
Mar-27E	65,589	9.00%
Mar-28E	71,492	9.00%
Mar-29E	79,356	11.00%
Mar-30E	88,879	12.00%

Projected Revenue - Base Case

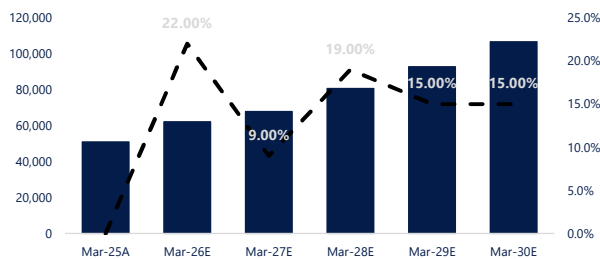


Year	Domestic Motorcycles (INR Cr)	Exports (INR Cr)	Commercial Vehicles (INR Cr)	Electric 2W (INR Cr)	ProBiking (INR Cr)	Spares (INR Cr)	Total Revenue (INR Cr)	YoY Growth (%)
FY2026	21,200 (6% growth on industry)	17,250 (15% on LATAM)	11,000 (10% on EV scale)	4,500 (50% on leadership)	1,680 (12% on KTM)	1,719 (15% steady)	60,148	18%
FY2027	22,472 (6%)	19,838 (15%)	12,100 (10%)	5,850 (30%)	1,882 (12%)	1,977 (15%)	65,548	9%
FY2028	23,821 (6%)	22,814 (15%)	13,310 (10%)	7,020 (20%)	2,108 (12%)	2,274 (15%)	71,347	9%
FY2029	25,250 (6%)	26,236 (15%)	14,641 (10%)	8,424 (20%)	2,361 (12%)	2,615 (15%)	79,527	11%
FY2030	26,765 (6%)	30,171 (15%)	16,105 (10%)	10,109 (20%)	2,644 (12%)	3,007 (15%)	88,801	12%

b) Bull Case Scenario

Mar-25A	50,995	-
Mar-26E	62,213	22.00%
Mar-27E	67,813	9.00%
Mar-28E	80,697	19.00%
Mar-29E	92,801	15.00%
Mar-30E	106,722	15.00%

Projected Revenue - Bull Case



Bull case assumes optimistic outcomes: Analyst high for FY2026-FY2027 (using FY2027 high of INR 67,654 Cr, extrapolating FY2026 high as INR 62,000 Cr based on 3% premium over average for upside). Rationale: Accelerated export growth (20% per management max), domestic share gain to 28% in 125cc+ via Pulsar/Freedom rejuvenation, EV dominance (30%+ share) amid no rare earth disruptions, spares at 18% (FY2025 high). Industry tailwinds: 7% 2W growth on urbanization, macro GDP at 7%, low competition in EVs.

Projection: FY2026 at INR 62,000 Cr (22% growth), with Exports surging 20% to INR 18,000 Cr (Brazil plant expansion to 50k units). Domestic Motorcycles 8% to INR 21,600 Cr (share gains). FY2027 at INR 67,654 Cr (9% growth). FY2028-FY2030 at 10-12% CAGR, EV growing 50% initially.

Year	Domestic Motorcycles (INR Cr)	Exports (INR Cr)	Commercial Vehicles (INR Cr)	Electric 2W (INR Cr)	ProBiking (INR Cr)	Spares (INR Cr)	Total Revenue (INR Cr)	YoY Growth (%)
FY2026	21,600 (8% on share gains)	18,000 (20% on Brazil)	11,500 (15% EV lead)	4,800 (60% dominance)	1,740 (16% KTM)	1,760 (18% high)	62,000	22%
FY2027	23,328 (8%)	21,600 (20%)	13,225 (15%)	6,720 (40%)	2,018 (16%)	2,077 (18%)	67,654	9%
FY2028	25,194 (8%)	25,920 (20%)	15,209 (15%)	9,408 (40%)	2,341 (16%)	2,451 (18%)	80,523	19%
FY2029	27,210 (8%)	31,104 (20%)	17,490 (15%)	11,290 (20%)	2,715 (16%)	2,892 (18%)	92,701	15%
FY2030	29,387 (8%)	37,325 (20%)	20,114 (15%)	13,548 (20%)	3,149 (16%)	3,413 (18%)	106,936	15%

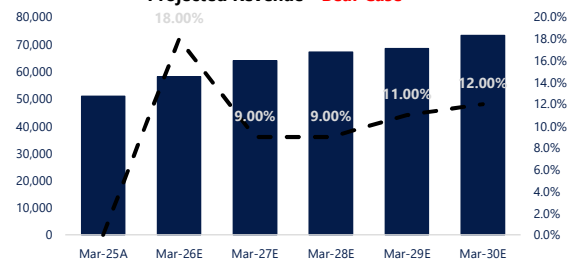
c) Bear Case Scenario

Bear case reflects caution: Analyst low for FY2026-FY2027 (FY2026 low as INR 58,000 Cr extrapolated 3% below average, FY2027 low INR 63,647 Cr). Rationale: Slower exports (10% vs. 15-20% guidance) due to Africa volatility, domestic share erosion to 22% amid competition, EV disruptions (rare earth issues impacting July production). Industry: 4% 2W growth on rural slowdowns, macro GDP at 5%, high inflation.

Projection: FY2026 at INR 58,000 Cr (14% growth), Exports 10% to INR 16,500 Cr. Domestic 4% to INR 20,800 Cr. FY2027 at INR 63,647 Cr (10% growth). FY2028-FY2030 at 6-7% CAGR, EV at 20% growth tapering.

Mar-25A	50,995	-
Mar-26E	58,134	14.00%
Mar-27E	63,947	10.00%
Mar-28E	67,145	5.00%
Mar-29E	68,487	2.00%
Mar-30E	73,282	7.00%

Projected Revenue - Bear Case



Year	Domestic Motorcycles (INR Cr)	Exports (INR Cr)	Commercial Vehicles (INR Cr)	Electric 2W (INR Cr)	ProBiking (INR Cr)	Spares (INR Cr)	Total Revenue (INR Cr)	YoY Growth (%)
FY2026	20,800 (4% slowdown)	16,500 (10% volatility)	10,500 (5% disruptions)	4,200 (40% issues)	1,620 (8% KTM drag)	1,844 (10% low)	58,000	14%
FY2027	21,632 (4%)	18,150 (10%)	11,025 (5%)	5,040 (20%)	1,750 (8%)	1,808 (10%)	63,647	10%
FY2028	22,498 (4%)	19,965 (10%)	11,576 (5%)	6,048 (20%)	1,890 (8%)	1,989 (10%)	66,966	5%
FY2029	23,398 (4%)	21,962 (10%)	12,155 (5%)	6,658 (10%)	2,041 (8%)	2,188 (10%)	68,402	2%
FY2030	24,334 (4%)	24,158 (10%)	12,763 (5%)	7,324 (10%)	2,204 (8%)	2,407 (10%)	73,190	7%

2. EBIT Margin Projection

(Mar-26 ----- Mar-30)

EBIT margins are projected annually for FY2026-FY2030, building on FY2025's 20.8%, influenced by economies of scale (cost reductions in EVs, PLI accruals), but varying by competition levels per scenarios. Management noted steady 20.2% margins, commodity volatility (flattish Q4, 1% inflation ahead), and currency headwinds (USD/INR softening).

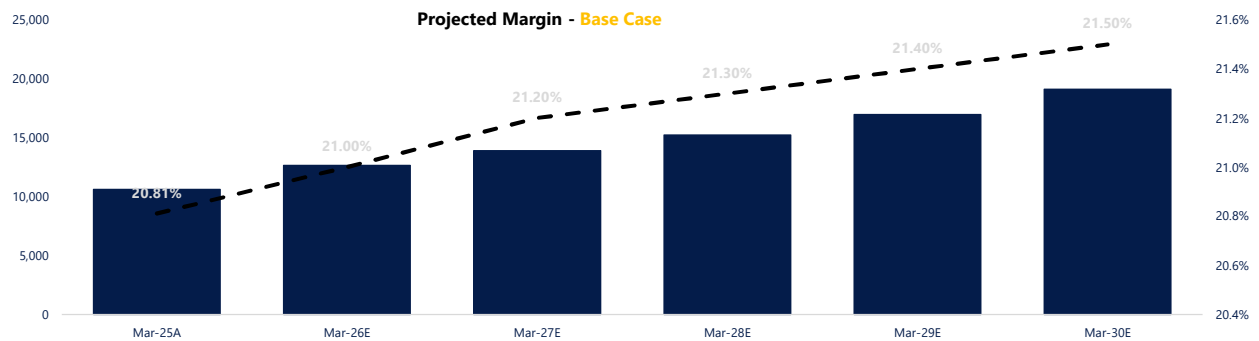
a) Base Case Scenario

Strong economies of scale from EV cost cuts (near EBITDA breakeven) and limited competition (solid #2 in 125cc+).

Rationale: Operating leverage, PLI funding pricing actions, but 1% material inflation caps at 21%. Margins rise gradually to 21.5% by FY2030 on scale.

Projections: FY2026: 21.0%, FY2027: 21.2%, FY2028: 21.3%, FY2029: 21.4%, FY2030: 21.5%.

	EBIT
Mar-25A	20.81% 10,612
Mar-26E	21.00% 12,636
Mar-27E	21.20% 13,905
Mar-28E	21.30% 15,228
Mar-29E	21.40% 16,982
Mar-30E	21.50% 19,109

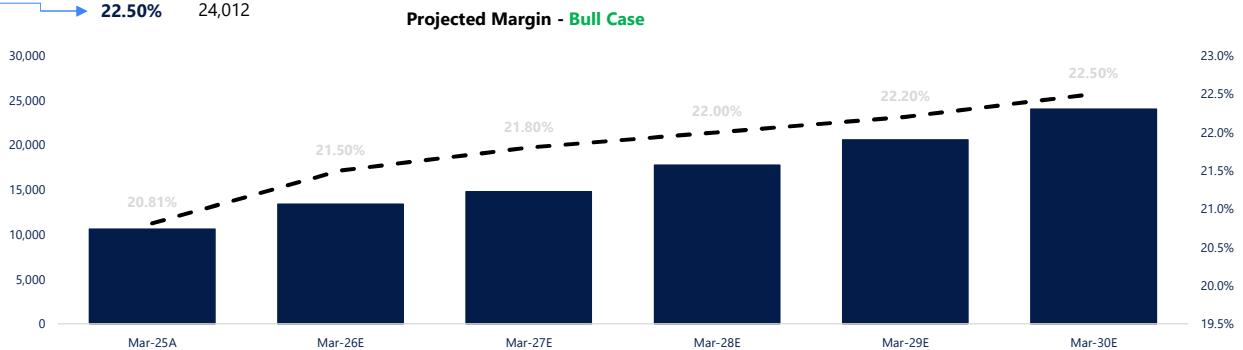


b) Bull Case Scenario

	EBIT
Mar-25A	20.81% 10,612
Mar-26E	21.50% 13,376
Mar-27E	21.80% 14,783
Mar-28E	22.00% 17,753
Mar-29E	22.20% 20,602
Mar-30E	22.50% 24,012

Strong economies of scale with no/very limited competition (EV leadership, Pulsar dominance). **Rationale:** Cost savings fund growth, no pricing pressure, export mix benefits (premium brands 65% in LATAM). Margins expand to 22.5% by FY2030.

Projections: FY2026: 21.5%, FY2027: 21.8%, FY2028: 22.0%, FY2029: 22.2%, FY2030: 22.5%.

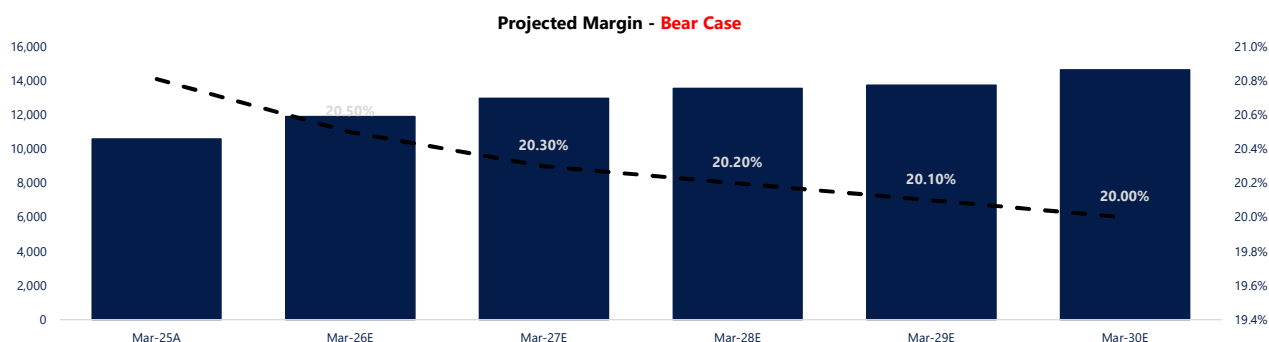


c) Bear Case Scenario

Strong economies of scale but high competition (share erosion, EV pricing wars). **Rationale:** Commodity/currency headwinds (1%+ impact), OBD IIb costs, rare earth disruptions dilute to 20%.

Projections: FY2026: 20.5%, FY2027: 20.3%, FY2028: 20.2%, FY2029: 20.1%, FY2030: 20.0%

		EBIT
Mar-25A	20.81%	10,612
Mar-26E	20.50%	11,917
Mar-27E	20.30%	12,981
Mar-28E	20.20%	13,563
Mar-29E	20.10%	13,766
Mar-30E	20.00%	14,656



Target Operating Margin (Terminal)

Historical Median -	22.72%
Peers Median -	12.87%
Industry Median (S&P Capital)	6.71%
Base	22.00%
Bull	23.00%
Bear	19.00%

- Base:** Year 10 target: 22% (mature scale, industry norm 18-22% per peers like Hero at 14%, but Bajaj's premium mix supports higher).
- Bull:** Year 10 target: 23% (optimal efficiency, macro stability enabling 25%+ ROE peers).
- Bear:** Year 10 target: 19% (intense rivalry, industry averages drop to 15-20% on macro volatility).
- *The target margin is calculated by taking reference the company's historical median and industry average from S&P Capital IQ.

3. Return on Equity Projection

(Mar-26 ----- Mar-30)

a) Base Case Scenario

Strong economies of scale, limited competition. **Rationale:** Steady profits, efficient capital use (BACL PAT positive), but rural drags limit to 25%. Assumptions: Net profit growth aligns revenue, equity base grows 10% YoY on retained earnings. Year 10 target: 26% (industry maturation, sustained GDP 6%).

ROE (FY2026-FY2030): 25%.

Mar-25A	25.29%
Mar-26E	25.00%
Mar-27E	25.00%
Mar-28E	25.00%
Mar-29E	25.00%
Mar-30E	25.00%

b) Bull Case Scenario

Mar-25A	25.29%
Mar-26E	27.00%
Mar-27E	27.00%
Mar-28E	27.00%
Mar-29E	27.00%
Mar-30E	27.00%

Strong economies of scale, no/very limited competition. **Rationale:** Higher margins, export/EBITDA boosts, KTM synergies. Assumptions: Profit surges 12%+ YoY, minimal leverage needs.

ROE (FY2026-FY2030): 27%.

c) Bear Case Scenario

Strong economies of scale, high competition. **Rationale:** Margin pressure, higher capex for competition. Assumptions: Profit growth 5-7%, equity dilution from losses.

ROE (FY2026-FY2030): 23%.

Mar-25A	25.29%
Mar-26E	23.00%
Mar-27E	23.00%
Mar-28E	23.00%
Mar-29E	23.00%
Mar-30E	23.00%

Target ROE (Terminal)

Historical Median -	21.01%
Peers Median -	18.05%
Industry Median (S&P Capital)	11.60%
Base	23.00%
Bull	25.00%
Bear	21.00%
Retention Ratio	66.00%

- Base:** Year 10 target: 23% (industry maturation, sustained GDP 6%).
- Bull:** Year 10 target: 25% (premium leadership, macro upcycle).
- Bear:** Year 10 target: 21% (competitive erosion, macro slowdowns to 5% GDP).

*The target ROE is calculated by taking reference the company's historical median and industry average from S&P Capital IQ.

4. Invested Capital Turnover (ICT) Projection

(Mar-26 ----- Mar-30)

As a stable company (decades-old, mature 2W leader), we assume "Efficient Future Growth" with a constant ratio of 1.6x for FY2026-FY2030 across all scenarios .

Industry benchmarks (Hero 1.3x, TVS 1.4x per recent reports), peer comparison (Bajaj's asset-light model via outsourcing), macro factors (urbanization drives sales efficiency, EV scale reduces fixed costs). Rationale: Capex efficiency (INR 700 Cr supports INR 50,000+ Cr revenue), surplus cash deployment, no major debt needs amid GDP growth. Projections (all cases): FY2026: 1.5x, FY2027: 1.5x, FY2028: 1.5x, FY2029: 1.5x, FY2030: 1.5x.

Current ICT	1.22x
Historical Median -	1.27x
Top Peers Median -	1.63x
Industry Median (S&P Capital)	1.33x
Predictaed in Year 5	1.60x

To forecast invested capital turnover (Sales / (Debt + Equity – Cash)), we use a fade-adjusted approach that blends the company's historical efficiency with industry norms. For younger companies, the industry benchmark carries greater weight, assuming the firm is still optimizing capital deployment. In contrast, mature businesses are projected primarily based on their historical capital efficiency. The 5-year target is reached through a gradual linear convergence from current levels, ensuring a smooth and realistic transition path that reflects business evolution over time.

Final Thought

In summary, Bajaj Auto's 5-year financial projections underscore a resilient growth trajectory, with base case revenues scaling to INR 88,801 Cr by FY2030 at a 10% CAGR, driven by export revival in Latin America, EV leadership through Chetak and GoGo, and sustained dominance in the 125cc+ motorcycle segment, albeit tempered by commodity volatility and potential rural slowdowns; while bull scenarios envision accelerated expansion to INR 106,936 Cr amid minimal competition and macro tailwinds, bear cases highlight risks from intensified rivalry and supply chain disruptions, projecting INR 73,190 Cr—ultimately positioning the company for steady EBIT margins around 21%, ROE of 25%, and efficient capital turnover at 1.5x, affirming its strategic pivot toward electrification and global markets as key to long-term value creation in India's evolving two-wheeler landscape.

Weighted Average Cost of Capital - BAJAJ AUTO LTD



This document presents the calculation of the Weighted Average Cost of Capital (WACC) for BAJAJ AUTO LTD. The WACC is a critical financial metric that represents the average rate of return required by all of the company's security holders, including equity investors and debt holders. It is used in financial modeling and valuation to discount future cash flows and assess investment opportunities. The following calculations are based on the latest available financial data and market information as of the date of this analysis.

Top Peers of BAJAJ AUTO LTD

All figures are in INR Cr. unless stated otherwise.

Name	Country	Mkt Value of Equity	Debt	Tax Rate ¹	Debt/Equity	Debt/Capital	Levered Beta ²	Unlevered Beta ³
Bajaj Auto	India	231,191	9,364	30%	4.05%	3.89%	1.13	1.10
M & M	India	395,955	129,025	30%	32.59%	24.58%	1.39	1.13
Tata Motors	India	240,844	71,540	30%	29.70%	22.90%	1.27	1.05
Maruti Suzuki	India	396,402	87	30%	0.02%	0.02%	0.84	0.84
Hyundai Motor I	India	174,876	847	30%	0.48%	0.48%	0.75	0.75
Eicher Motors	India	155,652	458	30%	0.29%	0.29%	1.16	1.16
TVS Motor Co.	India	141,638	28,609	30%	20.20%	16.80%	1.24	1.09
Hero Motocorp	India	91,260	700	30%	0.77%	0.76%	1.02	1.01
Force Motors	India	24,441	17	30%	0.07%	0.07%	1.27	1.27
Ola Electric	India	17,564	3,556	30%	20.25%	16.84%	1.44	1.26
Ather Energy	India	15,679	619	30%	3.95%	3.80%	0.00	0.00
Average				30.00%	10.22%	8.22%	1.05	0.97
Median				30.00%	3.95%	3.80%	1.16	1.09

Capital Structure

		Current	Target
Total Debt	9,364	3.89%	3.80%
Market Capitalization	231,191	96.11%	96.20%
Total Capitalization	240,555	100%	100%

Debt / Equity	4.05%	3.95%
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Cost of Debt

Interest Coverage Ratio	27.3x
Default Spread ⁵	0.45%
Pre-tax Cost of Debt	6.88%
Tax Rate	30.00%
After Tax Cost of Debt	4.81%

The cost of equity, estimated using the Capital Asset Pricing Model (CAPM), is 13.99%. The overall cost of capital (WACC) is calculated at 13.64%, incorporating multiple layers of risk including currency risk, country risk, company-specific risk, and credit (debt) risk. All inputs and assumptions have been carefully derived from reliable and credible data sources to ensure the highest possible accuracy.

Levered Beta

Peers Median Unlevered Beta	1.09
Target Debt/ Equity	3.95%
Tax Rate	30%
Levered Beta	1.12

Cost of Equity

Risk Free Rate ⁶	6.43%
Equity Risk Premium ⁷	6.77%
Levered Beta ⁴	1.12
Cost of Equity	13.99%

Weighted Average Cost of Capital

Cost of Equity	13.99%
Equity Weight	96.20%
Cost of Debt	4.81%
Debt Weight	3.80%
WACC	13.64%

Notes

1. The tax rate used in the calculations is the marginal tax rate applicable in India.
2. The levered beta is estimated using 5 years of monthly stock return data relative to the appropriate market index.
3. The unlevered beta is calculated using the formula: $\text{Unlevered Beta} = \text{Levered Beta} / (1 + (1 - \text{Tax Rate}) \times (\text{Debt} / \text{Equity}))$
4. The company's levered beta is calculated using the formula: $\text{Levered Beta} = \text{Unlevered Beta} / (1 + (1 - \text{Tax Rate}) \times (\text{Debt} / \text{Equity}))$
5. The default spread for the pretax cost of debt is determined using the synthetic rating method, which is based on the company's interest coverage ratio, which can be current or historical median, based on the current market scenario.
6. The risk-free rate is the yield on the 10-year Indian Treasury bond.
7. The equity risk premium is calculated as the sum of the equity risk premium for a developed market (specifically, the United States) and the country risk premium for India.

Free Cash Flow to Firm Model (FCFF) - BAJAJ AUTO LTD



This report outlines a Free Cash Flow to Firm (FCFF)-based Discounted Cash Flow (DCF) valuation model. The model is designed using a methodology inspired by Ivy League professors and is widely accepted globally. Its purpose is to estimate the enterprise and equity value of a company by forecasting its cash flows over a multi-year period and discounting them to present value.

The model forecasts unlevered free cash flows over a 10-year horizon, incorporating company-specific operational drivers, macroeconomic conditions, and alternative data insights.

The DCF model employed in this analysis follows a structured three-stage framework, enabling a realistic projection of a company's financial trajectory:

1. High Growth Phase (Years 1–5): This initial stage captures a period of accelerated growth, driven by strong revenue expansion, improving margins, and reinvestment. The firm is expected to generate returns on invested capital (ROIC) significantly above its cost of capital.

2. Transition Phase (Years 6–10): During this intermediate stage, the company's growth rate and profitability gradually normalize. Key financial metrics such as ROIC, reinvestment rate, and cost of capital begin to converge toward stable long-term averages, reflecting a maturing business.

3. Stable Growth Phase (Terminal Year Onward): In the final stage, the firm reaches financial stability with modest, perpetual growth. Cash flows are assumed to grow at a constant rate, and excess returns diminish as the company becomes fully mature.

This multi-stage approach ensures a balanced valuation by capturing both near-term performance and long-term sustainability.

Forecast assumptions such as revenue growth rates, operating margins, and reinvestment rates (sales-to-capital ratio) are discussed in the **Financial Projections** section, while the cost of capital is detailed in the **WACC** section. The table presented here reflects the **Base Case Scenario**, as discussed in the financial projections. For alternate scenarios, refer to the upcoming **Scenario Analysis** section.

(Amount in INR Cr.)

Year	Mar-25A	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E	Mar-31E	Mar-32E	Mar-33E	Mar-34E	Mar-35E	Terminal Value
Revenue Growth Rate		18.00%	9.00%	9.00%	11.00%	12.00%	10.89%	9.77%	8.66%	7.54%	6.43%	6.43%
Revenues	50,995	60,174	65,589	71,492	79,356	88,879	98,554	108,184	117,549	126,415	134,541	143,190
EBIT Margin	20.81%	21.00%	21.20%	21.30%	21.40%	21.50%	21.60%	21.70%	21.80%	21.90%	22.00%	22.00%
EBIT	10,612	12,636	13,905	15,228	16,982	19,109	21,288	23,476	25,626	27,685	29,599	31,502
Tax Rate(T)	28.35%	28.35%	28.35%	28.35%	28.35%	28.35%	28.68%	29.01%	29.34%	29.67%	30.00%	30.00%
EBIT(1-T)	7,603	9,053	9,962	10,910	12,167	13,691	15,182	16,665	18,107	19,471	20,719	22,051
Sales to Capital	1.22x	1.30x	1.37x	1.45x	1.52x	1.60x	1.60x	1.60x	1.60x	1.60x	1.60x	1.60x
Less: Reinvestment		7,071	3,943	4,074	5,158	5,952	6,047	6,019	5,853	5,541	5,079	7,605
FCFF		1,983	6,020	6,837	7,009	7,739	9,135	10,646	12,253	13,929	15,641	14,446
Cost of Capital		13.64%	13.64%	13.64%	13.64%	13.64%	13.64%	13.64%	13.64%	13.64%	13.64%	13.64%
Discount Factor		0.880	0.774	0.681	0.600	0.528	0.464	0.409	0.360	0.316	0.278	
PV(FCFF)		1,745	4,662	4,659	4,203	4,084	4,242	4,351	4,406	4,408	4,355	
Invested capital	41,705	48,776	52,718	56,792	61,950	67,902	73,949	79,968	85,821	91,362	96,441	
ROIC	18.23%	18.56%	18.90%	19.21%	19.64%	20.16%	20.53%	20.84%	21.10%	21.31%	21.48%	18.64%

Calculation of Terminal Value		Calculation of Enterprise Value		Calculation of Intrinsic Value	
Terminal Cash flow	14,446	PV (CF over next 10 years)	41,114	Less: Debt	9,364
Terminal Cost of Capital	13.64%	Sum of PV	96,910	Less: Minority Interest	0
Terminal Value	200,367	Default Spread	0.45%	Add: Cash	2,848
PV(Terminal Value)	55,796	Synthetic Rating	Aaa/AAA	Value of Equity	89,407
		Probability of failure ²	2%	Number of Shares	27.93
		Distress Proceeds ¹	B 70%	Current Price	8275.00
		Proceeds if firm fails	31,187	Estimated value/share	₹ 3201.12
		Value of Operating Assets	95,924	Trading at Premium: Overvalued by -	158.50%

Notes:

1. Distress Proceeds (or Recovery Rate): This represents the expected percentage of debt value recoverable per ₹ 100 of face amount in a default scenario. Methodologically, we infer it by mapping the firm's synthetic credit spread—itsself derived from the Interest Coverage Ratio—to a corresponding credit-rating bucket, and then applying long-term empirical "distress proceeds" averages for that bucket (e.g. ~70% for AAA, ~55% for BBB, ~25% for CCC).

2. Probability of Failure: The one-year default probability reflects the market's implied likelihood of default, net of expected recoveries. We calculate it by first converting the ICR into a synthetic spread (using an approximate-match lookup of coverage bands), then applying the standard market-implied formula:

$$\text{Probability} = \text{Synthetic Spread} / (1 - \text{Recovery Rate})$$

3. Terminal Growth Rate: The terminal growth rate is set equal to the risk-free rate (typically the 10-year T-bond yield), representing the long-term sustainable growth ceiling aligned with the economy's risk-free expansion potential.

4. Terminal Cost of Capital: Mature firms tend to have cost of capital levels closer to the market average. A general rule is:

Risk-free rate + 4.5% for an average-risk mature firm

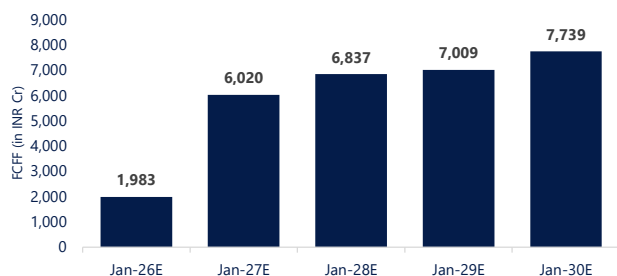
Risk-free rate + 6% for mature firms in riskier industries

Risk-free rate + 4% for safer, more stable mature companies

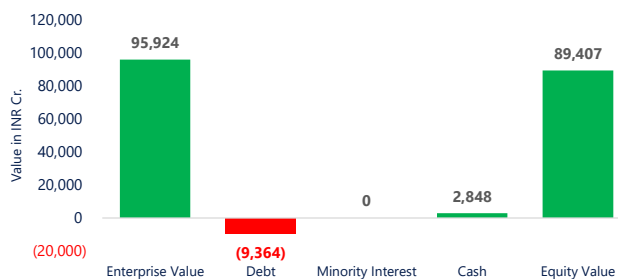
(This adjustment reflects the declining business risk profile over time.)

5. Terminal Return on Invested Capital (ROIC): The default assumption is that competitive advantages diminish over time, causing ROIC to converge to the cost of capital. This is a realistic scenario for most firms. However, firms with strong and sustainable competitive advantages (e.g., brand power or network effects) may continue earning **excess returns** beyond year 10. In such cases, a terminal ROIC slightly above the cost of capital may be justified, but should be capped—**not exceeding a 5% spread** for mature companies to avoid overestimation.

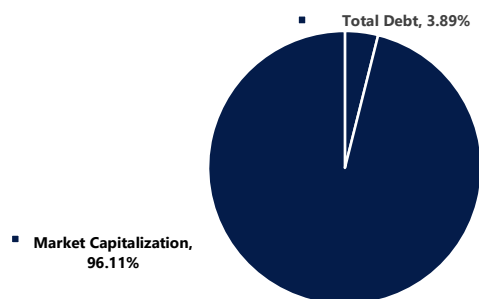
Free Cash Flow (Growth Phase)



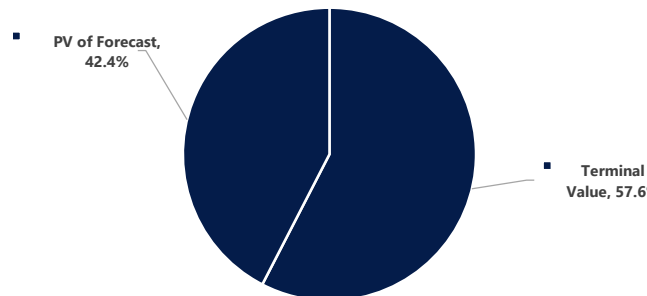
DCF Valuation Bridge



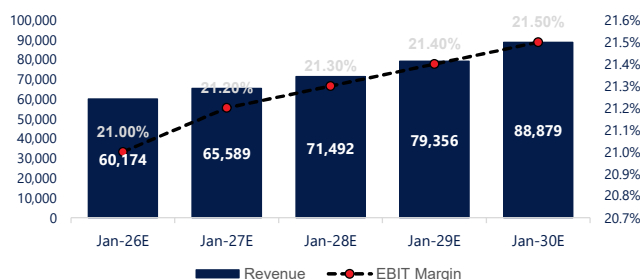
WACC Capital Structure Breakdown



Terminal Value vs PV of Forecasts



Revenue and EBIT Margin Forecast



Valuation vs Market Value



Model Output

Under the base case scenario, the FCFF valuation model estimates an enterprise value of ₹95,924 crore. After adjusting for net debt and minority interests, the resulting equity value is ₹89,407 crore, implying an intrinsic value of ₹3201.12 per share. In comparison to the current market price of ₹8275, the stock appears to be trading at a Premium of approximately 158.5%, suggesting Overvalued under the given assumptions.

Key Value Driver Sensitivity

While the Discounted Cash Flow (DCF) valuation using the Free Cash Flow to Firm (FCFF) approach provides a detailed intrinsic value estimate, it heavily depends on input assumptions. Given the inherent uncertainty in long-term forecasting, we conduct a **sensitivity analysis** to evaluate how changes in key variables affect the estimated fair value of the business. This adds a layer of robustness and transparency to our valuation by highlighting the range of potential outcomes.

Variables Selected for Sensitivity Testing:

After evaluating various drivers of the model, we selected the following two variables for sensitivity analysis:

1. Terminal Growth Rate (g): The **terminal value** contributes a significant portion of the total enterprise value in a DCF model—often over 50%. A slight change in the **terminal growth rate** materially affects the terminal value and thus the overall valuation. Since estimating growth in perpetuity is speculative and macro-driven, testing its impact helps investors understand best-case and worst-case long-term scenarios.

2. Weighted Average Cost of Capital (WACC): WACC is the discount rate applied to future free cash flows; even minor adjustments can cause large valuation shifts, especially in longer-duration cash flows. It reflects the **cost of equity, debt, and overall capital structure**—which may change due to market volatility, interest rate movement, or perceived business risk. Stress-testing the WACC helps gauge how sensitive the business's valuation is to changes in its risk premium or capital mix.

Sensitivity Table:

Below is the matrix showing how the Enterprise value and Intrinsic equity value per share changes with different combinations of WACC and terminal growth rate.

Implied Enterprise Value (INR Crores)						
		Terminal Growth Rate ➡				
		5.14%	5.79%	6.43%	7.07%	7.71%
WACC ↓	12.51%	104,959	108,618	112,944	118,167	124,644
	13.13%	96,612	99,562	102,992	107,050	111,958
	13.75%	89,373	91,785	94,550	97,769	101,583
	14.36%	83,033	85,029	87,291	89,887	92,912
	14.98%	77,435	79,104	80,976	83,101	85,541

Implied Value Per Share (INR)						
		Terminal Growth Rate ➡				
		5.14%	5.79%	6.43%	7.07%	7.71%
WACC ↓	12.51%	3,524.6	3,655.6	3,810.5	3,997.5	4,229.4
	13.13%	3,225.8	3,331.4	3,454.2	3,599.5	3,775.2
	13.75%	2,966.6	3,052.9	3,151.9	3,267.2	3,403.7
	14.36%	2,739.6	2,811.0	2,892.0	2,985.0	3,093.3
	14.98%	2,539.2	2,598.9	2,666.0	2,742.0	2,829.4

Sensitivity Table Output:

This sensitivity analysis demonstrates that the DCF output is particularly reactive to **WACC and terminal growth rate**—underscoring the importance of precision in estimating these inputs. The **lower range** of valuation occurs when WACC is high and terminal growth is low, indicating a pessimistic market and business environment. The **upper range** reflects optimistic growth expectations and lower capital costs.

In our base case, assuming a WACC of 13.75% and a terminal growth rate of 6.43%, we estimate: Enterprise Value of ₹94,550 Cr, Intrinsic Equity Value per Share of ₹3151.9. However, under reasonable variations, the valuation range spans: EV: ₹77,435 Cr to ₹124,644 Cr and Per Share: ₹2539.2 to ₹4229.4.

This range provides investors with a more realistic view of valuation risk under differing macro or business assumptions.

Scenario-Based Valuation Outlook



This section presents a scenario analysis for the Discounted Cash Flow (DCF) valuation using Free Cash Flow to the Firm (FCFF). The analysis evaluates the impact of varying four key inputs—revenue growth, operating margin, Weighted Average Cost of Capital (WACC), and terminal growth rate—across three scenarios: Base Case, Optimistic Case, and Pessimistic Case. The scenarios are designed to reflect potential economic, market, and operational conditions affecting the valuation. Detailed assumptions for revenue growth and operating margin are provided in the Projection section, while reasons for WACC and terminal growth rate variations are outlined below.

Statistical Forecast Validation: OLS Regression Cross-Check:

While the Base, Bull, and Bear case forecasts in this report are meticulously constructed using a combination of, **Historical financial performance**, **Management guidance from the latest earnings call**, and **Macroeconomic and industry-specific dynamics**, we recognize the importance of validating these scenario-based projections through an **objective, data-driven lens**.

To this end, we have employed a **linear regression model (OLS – Ordinary Least Squares)** based on historical trends of key financial metrics (e.g., Revenue). This regression provides a **statistically derived “intrinsic growth trajectory”**, free from any judgmental or qualitative bias. The intent here is **not to replace** scenario-based forecasting, but to **stress test and benchmark** its assumptions. If the Base Case projections significantly deviate from the OLS-estimated path, it may indicate either overly optimistic/pessimistic assumptions or a structural shift in business fundamentals.

Interpretation Framework:

To assess how closely the Cases aligns with the OLS estimate, we classify the deviation as follows:

- a) **> 25% deviation** = “Statistically Divergent” - Projections may reflect aggressive assumptions or a major anticipated shift
- b) **10 – 25% deviation** = “Statistically Marginal” - Projections differ but within a justifiable range given qualitative context
- c) **< 10% deviation** = “Statistically Aligned” - Projections closely follow historical patterns; assumptions appear validated

Key Assumptions:

(For detailed explanation refer Projections section)

1. Revenue Growth Rates					
	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	22.00%	9.00%	19.00%	15.00%	15.00%
Base	18.00%	9.00%	9.00%	11.00%	12.00%
Bear	14.00%	10.00%	5.00%	2.00%	7.00%
OLS	13.65%	13.24%	12.82%	12.41%	12.00%

(For detailed explanation refer Projections section)

2. Operating Margins					
	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E
Bull	21.50%	21.80%	22.00%	22.20%	22.50%
Base	21.00%	21.20%	21.30%	21.40%	21.50%
Bear	20.50%	20.30%	20.20%	20.10%	20.00%
OLS	21.00%	21.19%	21.39%	21.58%	21.77%

3. WACC (Cost of Capital): We adjust the WACC to reflect broad economic and market conditions. In the Bull scenario we assume a more favorable macro environment (lower risk premiums, stable rates), resulting in a lower WACC. In the Bear scenario we assume rising interest rates, higher credit spreads and risk aversion, yielding a higher WACC. WACC inputs (risk-free rate, equity premium, debt spread) vary with macroeconomic and capital market factors. For example, if central banks raise rates or investors demand higher returns for risk, the company's cost of capital increases (raising WACC).

4. Terminal Growth Rate: The terminal growth rate reflects long-term economic and industry factors. It is typically set in line with sustainable GDP or inflation rates, since a firm cannot grow perpetually faster than the economy. In our Base case we use a conservative long-term growth (e.g. near long-run GDP), the Bull case may allow a slightly higher rate if secular tailwinds are expected, and the Bear case assumes a lower terminal growth (mature industry or deflationary pressures). As valuation best practices note, terminal growth should remain realistic (often in the

	Bull	Base	Bear	OLS
WACC	13.02%	13.64%	14.26%	13.64%
Terminal	7.07%	6.43%	5.79%	6.43%

Scenario Output Comparison:

	Bull Case	Base Case	Bear Case	OLS
Enterprise Value (EV)	134,114	95,924	65,955	101,628
Equity Value	127,597	89,407	59,438	95,111
Intrinsic Value per Share	4,568.46	3,201.12	2,128.11	3,405.34

Statistically Aligned

The above scenario analysis yields an equity value per share of ₹4568.46, ₹3201.12, and ₹2128.11 under the Bull, Base, and Bear cases, respectively. Based on our OLS (Ordinary Least Squares) regression analysis, the Base Case projection is considered 'Statistically Marginal' with the historical statistical trend.

Excess Return Model (ERM) - BAJAJ AUTO LTD



The **Excess Return Model (ERM)** is an advanced equity valuation methodology widely accepted across global finance institutions and academic circles, especially those affiliated with Ivy League research¹. Unlike conventional Free Cash Flow to Firm (FCFF) or Free Cash Flow to Equity (FCFE) models that rely on estimating cash flows and discounting them using WACC or cost of equity, the ERM takes a more return-oriented view.

At its core, the ERM values a firm's equity as the **sum of the current equity capital invested** and the **present value of expected excess returns** generated on that equity over time:

$$\text{Value of Equity} = \text{Book Value of Equity} + \text{Present Value of Expected Excess Returns}$$

This method is particularly useful in valuing **firms**, where defining free cash flows and total capital invested is often challenging due to the nature of their operations and accounting. Therefore, ERM narrows its focus to **equity capital and returns to equity investors**, making it both practical and insightful for financial institutions.

To realistically capture the evolution of a firm's value, the Excess Return Model is applied in **three phases**:

1. High Growth Phase (Years 1–5): During this period, the firm is expected to earn **ROEs significantly above its cost of equity**, supported by competitive advantages, strong brand equity, and efficient capital allocation. The **reinvestment rate** or **retention ratio** during this phase is usually high, indicating aggressive growth.

2. Transition Phase (Years 6–10): As the firm matures, competitive pressures increase and incremental returns on new investments begin to decline. This phase reflects a **gradual convergence of ROE toward the cost of equity**.

3. Terminal Phase (Year 11 Onwards): In the final stage, the firm reaches financial stability with modest, perpetual growth. Cash flows are assumed to grow at a constant rate, and excess returns diminish as the company becomes fully mature.

Note: Forecast assumptions such as **Return on Equity (ROE)**, **Retention Ratios**, and **Growth** are discussed in the **Financial Projections** section, while **Cost of Equity** is detailed in the **WACC** section. The table presented here reflects the **Base Case Scenario**. For alternate outcomes, refer to the upcoming **Scenario Analysis** section.

Cash Flow Assumptions

All figures are in INR Cr. unless stated otherwise.

Inputs from Current Financials			
Net Income	7,325		
Book Value of Equity (Current)	35,189		
Book Value of Equity (Last Year)	28,962		
Current Earnings Per Share	262.25		
Current Dividends Per Share	209.97		
Number of Shares Outstanding	27.9		
Do we want to normalize the net income/earnings per share?	(Yes or No)	No	

Normalized Earnings Calculation (Not Applicable Here)			
Approach to normalized earnings:	1		
Approach 1: Average Net Income over last 5 years			
	Year	Net Income	
	-5	4,857	
	-4	6,166	
	-3	6,060	
	-2	7,708	
	Current	7,325	
	Average	6,423	

Approach 2: Normalized Return on Equity	18%
Normalized ROE	

Inputs for Discount Rate			
Beta of the stock	1.12		
Riskfree rate	6.43%		
Risk Premium	6.77%		

Inputs for High Growth Period			
Length of high growth period	10		
Inputs for fundamental growth and book value of equity:			
ROE	25.29%		
Retention	19.94%		
Do we want to change any of these inputs for the high growth period?	Yes		
If yes, specifying the values for these inputs as:			
ROE	25.00%		
Retention	66.00%		

Do we want to change any of these inputs for the stable growth period?	Yes
If yes, specifying the values for these inputs as:	
ROE	23.00%
Do we want to gradually adjust our inputs during the second half?	Yes

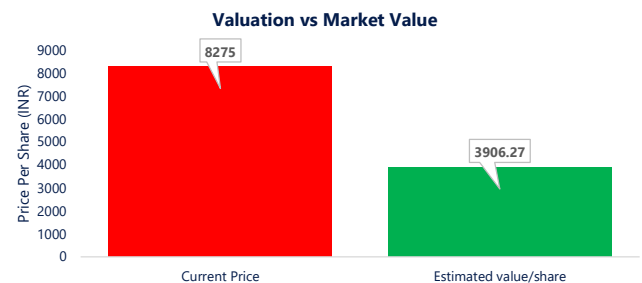
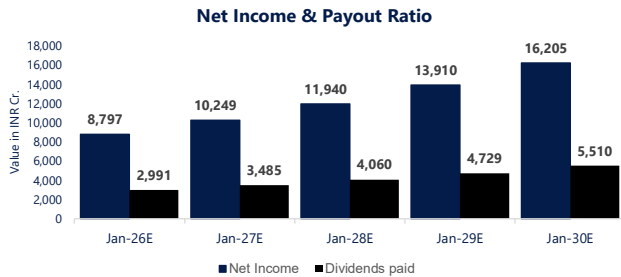
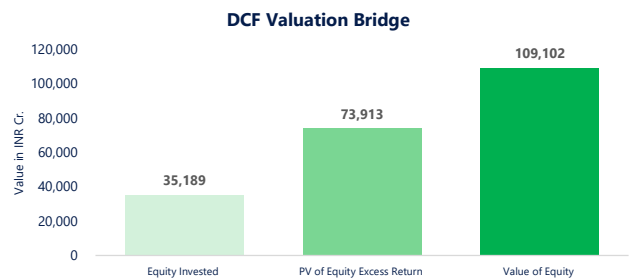
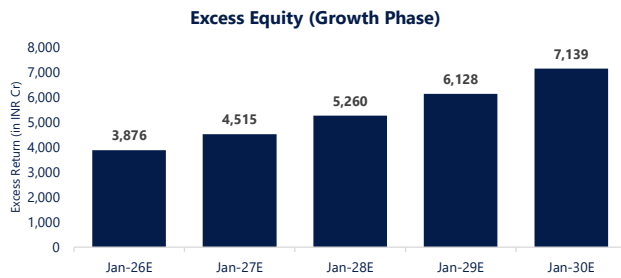
Inputs for Stable Growth Period			
Growth rate in stable growth period?	6.43%		
Stable payout ratio from fundamentals	72.05%		
Do we want to change this payout ratio?	(Yes or No)	No	
If yes, the stable payout ratio is given as:	53.26%		
Will the beta to change in the stable period?	(Yes or No)	No	
If yes, the beta for stable period is given as:	1.00		
The risk premium to be used in stable period	6.77%		

(Amount in INR Cr.)												
Year	Mar-25A	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E	Mar-31E	Mar-32E	Mar-33E	Mar-34E	Mar-35E	Terminal Value
Net Income	7,325	8,797	10,249	11,940	13,910	16,205	18,577	20,900	23,080	25,023	26,642	28,355
Less: Equity Cost (see below)		4,922	5,734	6,680	7,782	9,066	10,562	12,079	13,563	14,957	16,201	17,242
Excess Equity Return (ERM)		3,876	4,515	5,260	6,128	7,139	8,015	8,821	9,517	10,067	10,441	11,112
Cumulated Cost of Equity		1.140	1.299	1.481	1.688	1.924	2.193	2.500	2.850	3.248	3.703	
Terminal Value (ERM)											147,022	
Present Value		3,400	3,475	3,552	3,630	3,710	3,654	3,528	3,339	3,099	42,526	
Beginning BV of Equity	28,962	35,189	40,995	47,759	55,639	64,820	75,515	86,362	96,974	106,938	115,836	123,282
Cost of Equity		13.99%	13.99%	13.99%	13.99%	13.99%	13.99%	13.99%	13.99%	13.99%	13.99%	13.99%
Equity Cost		4,922	5,734	6,680	7,782	9,066	10,562	12,079	13,563	14,957	16,201	17,242
Return on Equity	25.29%	25.00%	25.00%	25.00%	25.00%	25.00%	24.60%	24.20%	23.80%	23.40%	23.00%	23.00%
Net Income	7,325	8,797	10,249	11,940	13,910	16,205	18,577	20,900	23,080	25,023	26,642	28,355
Dividend Payout Ratio	80.06%	34.00%	34.00%	34.00%	34.00%	34.00%	41.61%	49.22%	56.83%	64.44%	72.05%	72.05%
Dividends paid	5,864	2,991	3,485	4,060	4,729	5,510	7,730	10,287	13,117	16,126	19,196	
Retained Earnings	1,460	5,806	6,764	7,880	9,180	10,695	10,847	10,613	9,963	8,898	7,446	

Calculation of Growth Rate			
Cost of Equity	13.99%		
Return on Equity	25.00%		
Retention Ratio	66.00%		
Expected Growth Rate	16.50%		

Calculation of Equity Value			
Equity Invested	35,189		
PV of Equity Excess Return	73,913		
Value of Equity	109,102		

Calculation of Intrinsic Value			
Number of shares	27.93		
Current Price	8275		
Estimated value/share	₹ 3906.27		
Trading at Premium: Overvalued by -	111.84%		



Model Output

Under the base case scenario, the Excess Return Model estimates an equity value of ₹109,102 crore, implying an intrinsic value of ₹3906.27 per share. In comparison to the current market price of ₹8275, the stock appears to be trading at a Premium of approximately 111.84%, suggesting Overvalued under the given assumptions.

Notes:

1. Why Use ERM When FCFF Already Exists?

While FCFF is robust and widely used, the Excess Return Model offers several advantages in specific contexts:

- Focus on Economic Profitability:** Unlike FCFF, which aggregates cash flow, ERM emphasizes the quality of returns by isolating how much value the company creates *above* the required rate of return (cost of equity).
- Better Fit for Financial Institutions:** Since banks and NBFCs (Non-Banking Financial Companies) often have volatile or non-existent free cash flows, ERM's reliance on book value and ROE provides a more stable and interpretable framework.
- Direct Link to Value Creation:** ERM offers a direct assessment of whether a firm is creating or destroying shareholder value by comparing ROE to the cost of equity.
- Avoids Terminal Value Sensitivity:** ERM reduces dependence on distant terminal values, especially when value is driven by near-to-mid-term excess returns.

2. Key Inputs and Model Dynamics

The ERM relies on **two primary inputs**:

I. Equity Capital Invested: Measured as the **book value of equity**, this represents the shareholder capital currently employed in the business. For financial service firms, this is a relatively reliable metric due to:

- Assets often marked to market (e.g., loans, investments)
- Minimal depreciation or fixed asset distortions
- Less complex capital expenditure tracking than manufacturing

Adjustment Note: Stock buybacks and one-time losses may reduce book value, and adjustments might be required to reflect true economic capital.

II. Excess Returns on Equity: $\text{Excess Return} = (\text{ROE} - \text{Cost of Equity}) \times \text{Book Value of Equity}$

This component captures the firm's ability to generate economic profits. It reflects future expectations based on:

- Competitive positioning
- Regulatory environment
- Macroeconomic and interest rate trends
- Historical consistency of ROE

Key Value Driver Sensitivity



The valuation based on the **Excess Return Model (ERM)** is highly sensitive to the firm's ability to generate **economic profits** — returns above its cost of equity — over time. To evaluate the reliability and robustness of our base case valuation, we conduct a **sensitivity analysis** using two key variables that directly influence the present value of future excess returns: **Return on Equity (ROE)** and **Cost of Equity (Ke)**.

These two inputs are central to the model's excess return component: $\text{Excess Return} = (\text{ROE} - \text{Ke}) \times \text{Book Value of Equity}$

By testing a range of realistic ROE and Ke combinations, we present a valuation spectrum that reflects both optimistic and conservative scenarios, helping investors gauge the risk and opportunity embedded in the assumptions.

Key Variables Selected: We have chosen the following two variables for the ERM sensitivity analysis:

1. Return on Equity (ROE): ROE reflects the firm's profitability and ability to generate value from shareholder capital. It is the **primary driver** of excess returns and hence of equity value in the ERM. Small changes in ROE, especially when it hovers near the cost of equity, have a **non-linear impact** on valuation.

2. Cost of Equity (Ke): Cost of equity reflects the **required rate of return** by investors based on business risk, market volatility, and macroeconomic factors. It acts as the threshold over which value is created or destroyed. Even a $\pm 0.5\%$ change can materially affect the excess return stream, especially during the high-growth phase.

Sensitivity Table:

Below is the matrix showing how the Enterprise value and Intrinsic equity value per share changes with different combinations of WACC and terminal growth rate.

Implied Equity Value (INR Crores)						Implied Value Per Share (INR)							
Cost of ↓	Return on Equity (Growth Phase) ➡					Cost of ↓	Return on Equity (Growth Phase) ➡						
	20.00%	22.50%	25.00%	27.50%	30.00%		20.00%	22.50%	25.00%	27.50%	30.00%		
	12.81%	108,945	121,139	134,376	148,731		164,287	12.81%	3,900.7	4,337.2	4,811.2	5,325.2	5,882.1
	13.46%	96,658	107,584	119,444	132,306		146,240	13.46%	3,460.7	3,851.9	4,276.6	4,737.0	5,235.9
	14.10%	86,525	96,401	107,119	118,741		131,331	14.10%	3,097.9	3,451.5	3,835.3	4,251.4	4,702.1
	14.74%	78,042	87,034	96,791	107,369		118,827	14.74%	2,794.2	3,116.1	3,465.5	3,844.2	4,254.5
	15.38%	70,850	79,088	88,026	97,714		108,205	15.38%	2,536.7	2,831.7	3,151.7	3,498.5	3,874.2

Sensitivity Table Output:

The sensitivity analysis clearly demonstrates that the **intrinsic equity value** is highly responsive to variations in both **Return on Equity (ROE)** and **Cost of Equity (Ke)**: **Higher ROE** and **lower Ke** significantly expand excess returns, thereby increasing equity value. Conversely, **lower ROE** or **higher Ke** compresses excess returns, resulting in more conservative valuations — and in some cases, value destruction.

In our base case, assuming a COE of 13.99% and a growth phase ROE of 25%, we estimate: Equity Value of ₹107,119 Cr, Intrinsic Equity Value per Share of ₹3835.3
However, under reasonable variations, the valuation range spans: Equity: ₹70,850 Cr to ₹164,287 Cr and Per Share: ₹2536.7 to ₹5882.1

This analysis highlights the importance of sustaining superior ROE and managing risk (captured in Ke) to drive long-term shareholder value. It also equips investors with a clearer understanding of how changes in macro and business fundamentals might influence the fair value of equity..

Scenario-Based Valuation Outlook



Under the Excess Return Model, equity value is driven by “excess returns” – the amount ROE exceeds the cost of equity (CoE). By definition, value is created when ROE surpasses CoE and destroyed when ROE falls below CoE. In ERM, intrinsic value equals current book equity plus the present value of expected future excess earnings. This section sets up bull/base/bear cases with ROE and CoE assumptions around the central base case, using the 5-year historical ROE as a validation benchmark.

Statistical Forecast Validation:

We compare the base-case ROE forecasts against the company’s 5-year median historical ROE. The 5-year median ROE serves as a robust historical benchmark (less sensitive to outliers than a mean). If the forecasted ROE deviates materially from the median, the analyst should justify the deviation (e.g. cyclical tailwinds or structural shifts). In practice, the median ROE anchors expectations and flags any overly aggressive or conservative assumptions in the model.

Interpretation Framework:

To assess how closely the Cases aligns with the stats-based estimate, we classify the deviation as follows:

- a) > 25% deviation = "Statistically Divergent" - Projections may reflect aggressive assumptions or a major anticipated shift
- b) 10 – 25% deviation = "Statistically Marginal" - Projections differ but within a justifiable range given qualitative context
- c) < 10% deviation = "Statistically Aligned" - Projections closely follow historical

	Bull	Base	Bear	Stats-based
CoE	13.34%	13.99%	14.63%	13.99%
Terminal	5.79%	6.43%	7.07%	6.43%

(For detailed explanation refer Projections section)

	1. Return on Equity (Growth Phase)				
Bull	27.00%	27.00%	27.00%	27.00%	27.00%
Base	25.00%	25.00%	25.00%	25.00%	25.00%
Bear	23.00%	23.00%	23.00%	23.00%	23.00%
Stats-Based	21.01%	21.01%	21.01%	21.01%	21.01%

2. Cost of Equity (CoE): We input scenario-specific CoE to reflect macro conditions. In a Bull case, lower interest rates or a thinner equity risk premium would yield a lower CoE (raising valuations), whereas in a Bear case higher rates or risk aversion increase CoE. Thus CoE in each scenario encapsulates broad equity-risk expectations – it is not driven by firm operations but by market/interest-rate outlook. In practice, analysts often tie CoE to long-term bond yields plus a risk spread.

3. Terminal Growth Rate: The terminal growth rate reflects long-term economic and industry factors. It is typically set in line with sustainable GDP or inflation rates, since a firm cannot grow perpetually faster than the economy. In our Base case we use a conservative long-term growth (e.g. near long-run GDP), the Bull case may allow a slightly higher rate if secular tailwinds are expected, and the Bear case assumes a lower terminal growth (mature industry or deflationary pressures). As valuation best practices note, terminal growth should remain realistic (often in the low single digits) and congruent with broad economic growth

Scenario Output Comparison:

	Bull Case	Base Case	Bear Case	Stats-based
Equity Value	139,185	109,102	83,869	92,122
Intrinsic Value per Share	4,983.36	3,906.27	3,002.83	3,298.32

Statistically Marginal

The above scenario analysis yields an equity value per share of ₹4983.36, ₹3906.27, and ₹3002.83 under the Bull, Base, and Bear cases, respectively. Based on our stats-based analysis, the Base Case projection is considered 'Statistically Divergent' with the historical statistical trend.

Relative Valuation - BAJAJ AUTO LTD



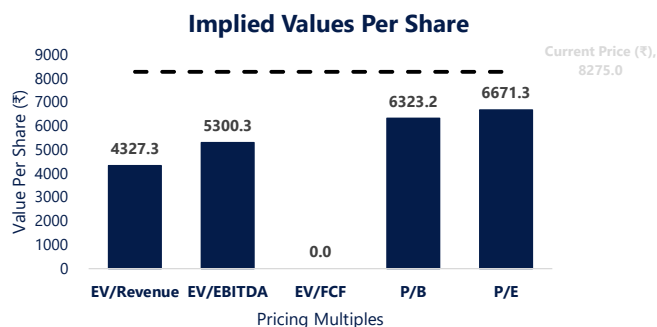
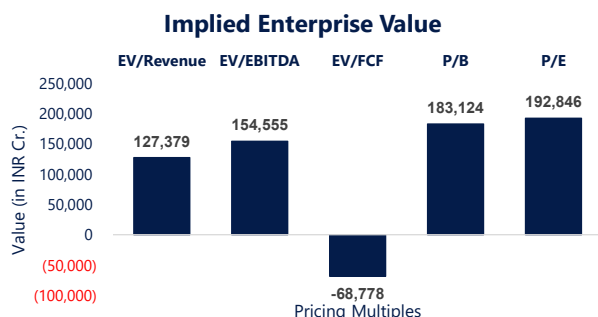
This report applies a **comparables (peer) valuation** framework using key pricing multiples. In a comparables analysis, we identify similar companies and compute standardized multiples (e.g. EV/Revenue, EV/EBITDA, EV/FCF, P/B, P/E). We then take a central tendency (commonly the median) of these peer multiples and apply it to the company's own financial metrics to estimate its value. This approach is straightforward and widely used, though it relies on the assumption that the company's growth, margins and risk profile are broadly in line with the peer group.

Peer Selection: Our peer set includes the largest publicly traded firms that operate in similar markets and business segments. We gather the latest market and financial data for each: share price and count, market capitalization, net debt (total debt less cash), revenue, EBITDA, free cash flow (FCF), book value and net income. These figures are taken from recent financial statements, stock exchange filings or financial databases as of the valuation date. Enterprise Value (EV) is computed as Equity Value + Debt – Cash. Net debt is defined as total interest-bearing debt minus cash/cash equivalents. All values are in ₹ (crore) for consistency.

Multiples and Percentiles: For each company we compute the following multiples: **EV/Revenue**, **EV/EBITDA**, **EV/FCF**, **P/B (Price/Book)**, and **P/E (Price/Earnings)**. (EV-based multiples are capital-structure-neutral, using EV in numerator and sales/EBITDA/FCF in denominator; equity multiples use share price and per-share metrics.) We then aggregate the peer multiples. To summarize these, we calculate the **25th percentile**, **median (50th percentile)**, and **75th percentile** of each multiple across the peer set. In practice, analysts often

(Amount in INR Cr.)

Company	Market Data			Financials				Pricing Multiples				
	Share Price	Shares Outstanding	Enterprise Value	Revenue	EBITDA	Free Cash Flow	Net Income	EV/Revenue	EV/EBITDA	EV/FCF	P/B	P/E
Bajaj Auto	8,275	27.93	237,708	52,196	11,624	-2,273	7,593	4.6x	20.5x	-104.6x	6.6x	30.4x
M & M	3,186	124.35	504,365	167,522	35,872	-6,633	14,904	3.0x	14.1x	-76.0x		26.6x
Tata Motors	654	368.17	271,550	437,968	58,272	26,034	21,494	0.6x	4.7x	10.4x	2.1x	11.2x
Maruti Suzuki	12,597	31.44	395,937	155,739	25,744	5,533	14,533	2.5x	15.4x	71.6x	4.1x	27.3x
Hyundai Motor I	2,152	81.25	167,588	66,705	9,436	-1,011	5,380	2.5x	17.8x	-165.8x	11.1x	32.5x
Eicher Motors	5,672	27.43	155,847	19,519	6,902	2,951	4,838	8.0x	22.6x	52.8x	7.3x	32.2x
TVS Motor Co.	2,981	47.51	165,860	46,089	7,031	1,044	2,538	3.6x	23.6x	158.9x	16.7x	55.8x
Hero Motocorp	4,562	20.01	91,386	40,440	7,546	3,463	5,049	2.3x	12.1x	26.4x	4.7x	18.1x
Force Motors	18,540	1.32	23,952	8,484	1,238	606	861	2.8x	19.4x	39.5x	8.1x	28.4x
Ola Electric	40	441.08	17,604	3,698	-1,359	-3,367	-2,357	4.8x	-13.0x	-5.2x	3.4x	-7.5x
Ather Energy	422	37.25	15,928	2,255	-531	-1,060	-812	7.1x	-30.0x	-15.0x	0.0x	-19.3x
Harmonic Mean								2.4x	13.3x	30.3x	5.0x	24.5x
75th Percentile								4.5x	19.0x	49.5x	8.1x	31.2x
Median								2.9x	14.7x	18.4x	4.7x	26.9x
25th Percentile								2.5x	6.5x	-12.6x	3.4x	12.9x
Low								0.6x	-30.0x	-165.8x	0.0x	-19.3x
Implied Enterprise Value								127,379	154,555	-68,778	183,124	192,846
Net Debt								6,517	6,517	6,517	6,517	6,517
Implied Market Value								120,862	148,039	-75,294	176,607	186,329
Shares Outstanding								27.93	27.93	27.93	27.93	27.93
Implied Value per Share (₹)								4327.33	5300.35	-2695.82	6323.21	6671.30
Implied Value per Share (₹)	(Based on Median)							4327.3	5300.3	-	6323.2	6671.3
Current Price (₹)	8275.0							↓	↓	↓	↓	↓
								Overpriced	Overpriced	-	Overpriced	Overpriced



Model Output

Based on the Harmonic Mean peer multiples, BAJAJ AUTO LTD's implied equity value per share ranges roughly from ₹4327.3 to ₹6671.3 depending on the chosen metric. We stress that this is a simplified illustrative exercise: true valuation would require adjustments for growth differences, one-time items, accounting variations, and forward ("next-twelve-months") estimates. Moreover, the use of historical or forward multiples, currency effects, and market timing can all sway the result. Analysts often present a valuation range (e.g. using the 25th–75th percentile of each multiple) to capture this uncertainty.

Monte Carlo Simulation & VaR Model



1-Year Value at Risk (VaR) Report

This report estimates the 1-year Value at Risk (VaR) for BAJAJ AUTO LTD using a Monte Carlo Simulation approach. By simulating 10,000 potential future price paths based on historical volatility and mean return, we quantify the risk of extreme loss under normal market conditions.

Date	Price	Returns	Replication	Simulated Returns	Simulated Price	VaR
22-Jan-2021	3576	10.4%	1	32.37%	11438	3163
19-Oct-2023	5304	6.7%	2	21.46%	10256	1981
15-Sep-2023	4963	5.9%	3	27.33%	10876	2601
27-Jan-2023	3695	5.9%	4	-11.20%	7398	-877
5-Jul-2023	4731	5.7%	5	13.55%	9476	1201
26-Apr-2022	3521	5.7%	6	-6.09%	7786	-489
25-Jan-2024	7350	5.3%	7	50.80%	13753	5478
18-May-2021	3557	5.2%	8	2.38%	8475	200
23-Aug-2024	####	5.0%	9	-24.62%	6469	-1806
3-Jan-2024	6759	4.8%	10	14.85%	9599	1324
12-May-2025	7841	4.6%	11	44.07%	12858	4583
19-May-2025	8632	4.3%	12	5.13%	8710	435
21-Oct-2024	####	4.3%	13	39.80%	12320	4045
17-Aug-2020	2725	4.3%	14	35.18%	11764	3489
23-Jun-2022	3424	4.1%	15	-31.70%	6027	-2248
11-Sep-2024	####	3.9%	16	2.56%	8489	214
6-Jun-2022	3453	3.9%	17	15.17%	9630	1355
2-Jan-2025	8855	3.9%	18	78.99%	18231	9956
5-Jun-2024	9289	3.8%	19	43.82%	12825	4550
27-Dec-2023	6491	3.8%	20	54.26%	14237	5962
5-Nov-2024	9631	3.7%	21	32.17%	11415	3140
1-Oct-2020	2611	3.6%	22	24.09%	10529	2254
7-Oct-2020	2691	3.5%	23	21.67%	10278	2003
1-Feb-2025	8929	3.5%	24	8.33%	8994	719
11-Jan-2024	7061	3.5%	25	5.50%	8743	468
16-Sep-2020	2657	3.4%	26	23.19%	10435	2160
2-Mar-2021	3449	3.4%	27	-15.72%	7071	-1204
21-Jan-2022	3094	3.4%	28	-15.72%	7071	-1204
16-Mar-2022	3230	3.4%	29	-18.17%	6900	-1375
23-Sep-2024	####	3.3%	30	-10.53%	7448	-827
12-Oct-2021	3600	3.3%	31	59.59%	15016	6741
22-Feb-2024	8222	3.2%	32	2.24%	8463	188
7-Mar-2024	8590	3.2%	33	11.68%	9300	1025
19-Mar-2025	7531	3.1%	34	59.31%	14974	6699
6-Mar-2024	8325	3.0%	35	29.55%	11120	2845
18-Dec-2023	6255	3.0%	36	39.29%	12257	3982
9-Feb-2022	3224	3.0%	37	-6.78%	7733	-542
23-Nov-2023	5732	3.0%	38	39.49%	12282	4007
7-Aug-2024	9468	3.0%	39	28.02%	10952	2677
15-Apr-2025	7798	2.9%	40	63.42%	15603	7328
2-Dec-2020	2919	2.9%	41	-41.52%	5463	-2812
15-Feb-2022	3247	2.9%	42	41.77%	12565	4290
21-Apr-2025	8044	2.9%	43	47.01%	13241	4966
11-Apr-2023	3921	2.9%	44	35.32%	11780	3505
26-Mar-2021	3148	2.8%	45	36.20%	11885	3610
3-Apr-2023	3749	2.8%	46	-6.26%	7773	-502
25-May-2023	4359	2.8%	47	50.02%	13645	5370
18-Jun-2021	3644	2.8%	48	28.49%	11002	2727
15-Jul-2025	8311	2.8%	49	23.43%	10460	2185
3-Jun-2024	9031	2.8%	50	13.44%	9466	1191
15-May-2025	8120	2.8%	51	52.58%	14000	5725
28-Apr-2021	3402	2.8%	52	5.02%	8701	426
26-Apr-2024	8682	2.7%	53	43.98%	12846	4571
29-Dec-2021	2952	2.7%	54	46.96%	13235	4960

..... Upto 10,000 rows

Descriptive Statistics (5Y - Daily)

Mean	0.10%
Standard Error	0.04%
Median	0.08%
Standard Deviation	1.56%
Sample Variance	0.00
Kurtosis	6.38
Skewness	-0.04
Range	0.23
Minimum	-12.89%
Maximum	10.43%
Sum	1.30
Count	1239

Monte Carlo Simulation 1-Year

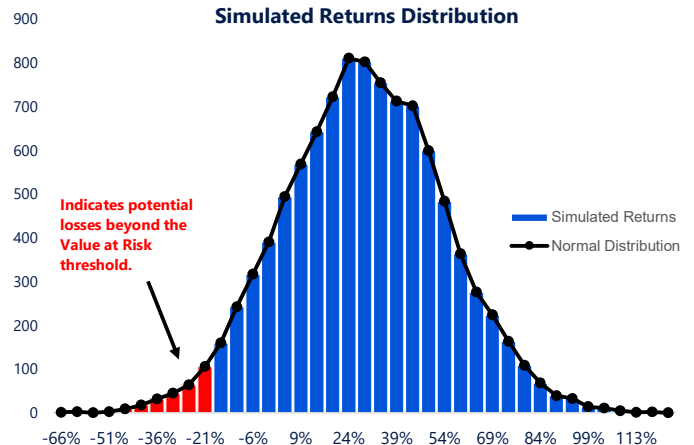
Current Price	₹ 8,275.00
Time Horizon (Days)	252
Mean	26.49%
Std Deviation	24.98%
Min	-78.75%
Max	136.84%

Output Summary

Average Simulated Price	₹ 11,126.63
Minimum Simulated Price	₹ 3,765.15
Maximum Simulated Price	₹ 32,511.92
5th Percentile Simulated Price	₹ 7,124.95
1-Year 95% VaR	₹ 1,150.05
1-Year 95% VaR (%)	13.90%

Percentile	Confidence Level	1 Year VAR	VaR %
10 th	90.0%	471.93	5.70%
5 th	95.0%	1150.09	13.90%
1 st	99.0%	2242.37	27.10%
0.1 th	99.9%	3282.48	39.67%

Simulated Returns Distribution



The results of the Monte Carlo simulation provide a probabilistic framework for assessing the downside risk in BAJAJ AUTO LTD's equity over a 1-year horizon. By generating 10,000 potential future price paths based on historically observed mean returns and volatility, we arrive at a 95% confidence Value at Risk (VaR) of ₹1150.05, or 13.9% of the current stock price.

This implies that, under normal market conditions, we can be 95% confident that BAJAJ AUTO LTD's share price will not fall below ₹7124.95 within one year. Conversely, there exists a 5% probability that the losses could exceed this threshold.

Interpretation in Context:

1) Volatility-Driven Exposure:

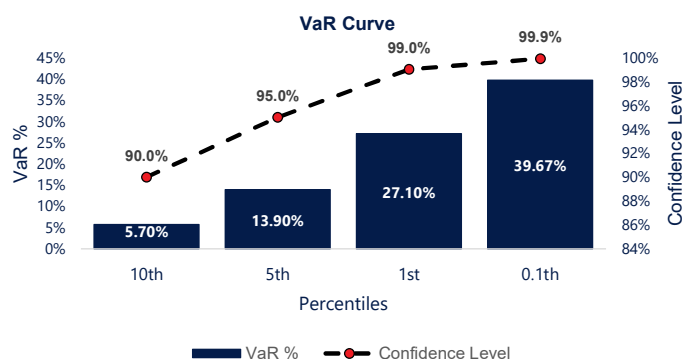
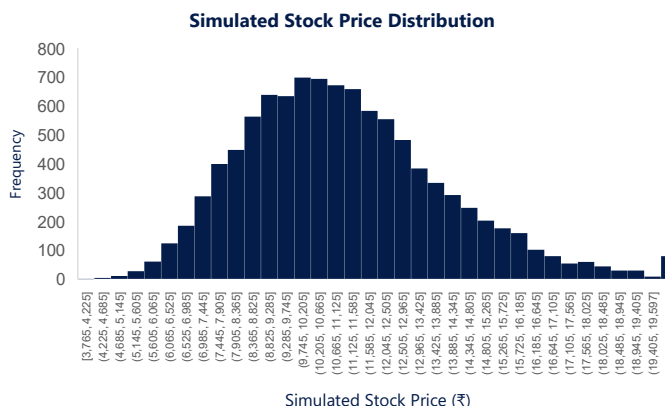
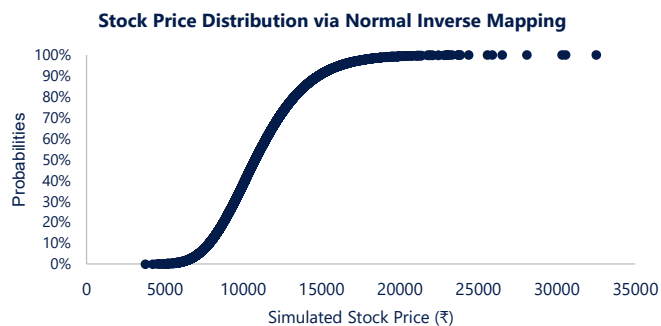
With a daily volatility of 1.56%, the risk profile of BAJAJ AUTO LTD over a 252-day trading horizon scales materially. The wide distribution of final simulated prices — from a low of ₹3765.15 to a high of ₹32511.92 — reflects both upside and downside tail exposures.

2) Positive Drift, But Non-negligible Tail Risk:

The simulation incorporates a small positive drift (daily mean return of 0.1%), consistent with historical equity returns. Despite this, the left tail remains significant due to the compounding impact of volatility over time.

3) Skewness Not Captured:

Since the simulation assumes normally distributed returns, it may understate extreme downside moves (negative skew, here skewness is equal to -0.043) that are often observed during market crises. This suggests that actual downside risk could be higher in a stressed environment.



Limitations & Enhancements:

While Monte Carlo simulation offers flexibility and a robust stochastic approach, certain limitations must be acknowledged:

- 1) The model assumes constant volatility and normally distributed returns, which may not hold in real-world equity markets.
- 2) Macroeconomic shocks, regime shifts, or company-specific events are not explicitly modeled but could materially alter risk estimates.

Notes and Disclosures:

1) Model Assumptions: The Monte Carlo simulation assumes returns follow a normal distribution and that stock prices evolve according to a Geometric Brownian Motion (GBM) process. Inputs for drift (mean return) and volatility are based on historical estimates and assumed constant throughout the simulation period.

2) Time Horizon: The simulation covers a one-year (252 trading days) investment horizon. Shorter- or longer-term results may differ materially and should be interpreted with caution.

3) Confidence Levels: Value at Risk (VaR) estimates are provided at 90%, 95%, and 99% confidence levels. For instance, a 95% confidence level indicates there is a 5% chance that losses will exceed the stated VaR amount over the simulated period.

4) Simulated Returns: For each simulated path, we draw a random probability via RAND() and convert it into a normally distributed annual log-return using Excel's NORM.INV function:

$$\text{Simulated Return} = \text{NORM.INV}(\text{RAND}(), \mu_1, \sigma_1)$$

Here, μ_1 (= daily_mean $\times$ 252) is the annualized expected return and σ_1 (= daily_volatility $\times$ $\sqrt{252}$) is the annualized volatility. By mapping a uniform [0,1] random draw through the inverse normal distribution, we generate realistic, normally distributed log-returns for each Monte Carlo trial.

5) Price Calculation Method: Simulated prices are computed using the formula:

$$\text{Price}_t = \text{Price}_0 \times e^{\text{Simulated Return}_t}$$

This approach assumes continuously compounded returns and ensures that prices remain positive, reflecting the log-normal nature of equity returns.

6) Historical Volatility and Drift: Volatility and mean return are calculated using historical daily return data. These are backward-looking and may not reflect future conditions or incorporate real-time market dynamics.

Bajaj Auto Limited (BAL), a leading Indian two-wheeler and three-wheeler manufacturer, demonstrated robust operational and financial performance in FY25, as highlighted in its Q4 FY25 earnings call. The company achieved record milestones, including revenue surpassing INR 50,000 crore, EBITDA exceeding INR 10,000 crore, and profit after tax (PAT) crossing INR 8,000 crore, underscoring its resilience amid volatile market conditions. This SWOT analysis evaluates BAL's internal strengths and weaknesses alongside external opportunities and threats, drawing on key performance indicators (KPIs) such as volume growth, market share, export recovery, and segment-specific margins. It aims to provide institutional investors with a comprehensive view of BAL's strategic positioning in a dynamic automotive landscape, emphasizing its adaptability in electric vehicles (EVs), exports, and premium segments.

Strengths

BAL's core strengths lie in its diversified product portfolio, financial robustness, and market leadership in high-growth segments, enabling sustained resilience against industry headwinds.

- ❑ **Record Financial Performance and Profitability:** BAL's FY25 financial KPIs reflect exceptional operational efficiency. Revenue grew 12% year-on-year (YoY) to over INR 50,000 crore, driven by a versatile business model that balanced domestic slowdowns with export rebounds. EBITDA margins remained steady at 20.2% across all quarters, marking six consecutive quarters above 20%, even as the EV portfolio expanded from under 10% to nearly 20% of domestic revenue—a margin-dilutive segment. This stability was achieved through dynamic profit and loss (P&L) management, including cost reductions in EVs and accrual of Production-Linked Incentive (PLI) benefits. PAT rose 9% YoY to over INR 8,000 crore, adjusting to 12% growth excluding a one-time deferred tax provision of INR 211 crore. Surplus cash of nearly INR 17,000 crore post-INR 2,100 crore investment in its captive financing arm (Bajaj Auto Credit Limited, BACL) and INR 700 crore capex highlights strong free cash flow (INR 6,500 crore in FY25), supporting dividend payouts of INR 210 per share (72% of PAT).
- ❑ **Leadership in Electric Vehicles and Innovation:** BAL has emerged as India's largest EV player in two- and three-wheelers, with FY25 EV revenue exceeding INR 5,500 crore. In electric two-wheelers (E2Ws), Chetak achieved a 25% market share in Q4 FY25 (up from 13% in Q4 FY24), positioning it as the segment leader. This was propelled by the 35 series platform launch in December 2024, offering superior range, charging speed, and boot space, with the portfolio nearing EBITDA breakeven (including PLI). In electric three-wheelers (E3Ws), market share doubled from 17% in FY24 to 33% in FY25, securing the No. 1 position in April-May 2025. The GoGo brand launch and upcoming e-rickshaw (targeting a 40,000-unit monthly segment) exemplify BAL's innovation, with pilots covering 10,000 km for reliability. Freedom, the world's first CNG motorcycle, retailed 60,000 units, penetrating 10-11% in CNG-dense areas like Kerala and Delhi, driven by 50% fuel cost savings for long-distance riders.
- ❑ **Strong Export Recovery and Premium Brand Equity:** Exports, comprising a significant revenue portion (INR 470 crore in Q4 FY25 from continuing business), grew 20% YoY in Q4, outpacing the 26% industry growth in top 30 emerging markets (accounting for 70% of global volumes). BAL's 31% growth in these markets was fueled by premium brands like Pulsar and Dominar (65% mix in Latin America). Brazil retails hit 7,000 units in Q4 (exceeding FY24 total), with plant capacity expanding from 20,000 to 50,000 units annually by December 2025. Premium partnerships (KTM and Triumph) reached nearly 100,000 units in FY25 (up 12% YoY), with Triumph doubling domestic volumes to 11,000 on models like T4 and Speed 400. Spare parts revenue grew 18% YoY to INR 1,566 crore in Q4, bolstering high-margin aftermarket streams.
- ❑ **Diversified Ecosystem and Financing Arm:** BACL turned PAT-positive in FY25 (INR 60 crore profit), with disbursements crossing INR 10,000 crore and assets under management (AUM) at INR 9,500 crore. Penetrating 40% in motorcycles and 50% in three-wheelers, it enhances ecosystem resilience without subvention reliance.

Weaknesses

Despite strengths, BAL faces internal challenges in market share dynamics and supply dependencies that could hinder short-term agility.

- ❑ **Market Share Erosion in Core Domestic Segments:** In domestic motorcycles, BAL's focus segment (125cc+) saw market share decline from 26% in FY24 to 24% in FY25 (Vahan registrations), amid flat 100cc performance and 12% industry growth in 125cc+. Q4 FY25 industry registrations dipped 2% YoY, with BAL's countermeasures (six new Pulsar variants and price recalibrations post-OBD IIB norms) yielding only marginal sequential gains. This erosion stems from competitive launch timings, highlighting a lag in feature-rich updates against rivals.
- ❑ **Supply Chain Vulnerabilities:** Rare earth magnets, critical for EV motors, pose a risk due to 90% reliance on China. Despite a defined certification process for non-military use (involving Indian and Chinese authorities), delays could disrupt production by July 2025, as approvals for ~30 applications remain pending. This vulnerability affects Chetak's scaling, already margin-dilutive despite improvements.

- ❑ **Exposure to Partner Dependencies:** The KTM alliance, while strategic, impacted Q4 results with suspended exports (less than 1% of revenue but profitable), due to KTM AG's liquidity crisis from e-bike demand volatility and debt buildup. BAL's share of KTM losses dragged consolidated PAT to INR 7,325 crore (versus standalone INR 8,151 crore), underscoring risks in joint ventures.
- ❑ **Operational Volatility in Emerging Markets:** Africa and Asia remain tentative, with uncertain trading environments risking stock buildups and partner exposures, despite steady performance.

Opportunities

External factors present avenues for BAL to capitalize on EV transitions, export expansions, and strategic acquisitions for long-term growth.

- ❑ **EV Market Expansion and New Platforms:** India's E2W and E3W segments offer immense potential, with BAL targeting sustainable leadership in FY26. Chetak's portfolio refresh (3503 variant in May 2025, upgraded 2903 in June) and network expansion (310 experience centers, 3,000+ sales points) could drive volumes, especially with PLI certification funding competitiveness. E3W growth (60% industry in FY25) and e-rickshaw launch (July 2025) target upgrading a fragmented 40,000-unit segment from lead-acid to lithium-ion, potentially adding 20% to commercial vehicle revenue (already over INR 10,000 crore in FY25).
- ❑ **Export Growth in High-Potential Regions:** Expecting 15-20% quarterly YoY export growth, BAL can leverage Latin America's dominance (30% of exports, 18% Q4 growth). Strong positions in sports segments (No. 1 in Mexico, Colombia, etc.) and KTM export resumption (previously 5-6% of exports) align with 26% industry revival in top markets. Asia's recovery (e.g., Sri Lanka at 80-85% BAL share) and Brazil's scaling provide quantum shifts.
- ❑ **Product Rejuvenation and Segment Leadership:** Pulsar rejuvenation (spanning 125-400cc) and Freedom's targeted marketing for long-distance riders in high-pump-density areas aim to reverse 125cc+ share erosion, targeting No. 1 position. Entry-level 125cc explorations and sub-segment branding could capture the 28% industry share in 125cc. Premium brands (KTM/Triumph) in India (136 stores in 100 cities) and spares (18% FY25 growth) offer high-margin upsides.
- ❑ **KTM Turnaround and Synergies:** Intent to acquire controlling stake in Pierer Bajaj AG (via Euro 800 million funding, including Euro 600 million debt) positions BAL to revamp governance, procurement, and joint development (expanding beyond 400cc to 990cc). This could restore KTM's momentum (EUR 2.6 billion revenue in 2023) and unlock synergies post-regulatory approvals (expected in 2-3 months).

Threats

Macroeconomic and competitive pressures threaten BAL's trajectory, necessitating vigilant risk management.

- ❑ **Commodity and Currency Volatility:** Q4 FY25 saw flattish material costs, but Q1 FY26 anticipates ~1% inflation from aluminum surges, OBD IIB norms, and firmness in steel/rubber, partially offset by precious metal declines. Currency tailwinds (USD/INR at 86.5 in Q4) may reverse, with softening realizations impacting margins on ~USD 500 million quarterly sales.
- ❑ **Regulatory and Geopolitical Risks:** Rare earth supply disruptions from China could halt EV production, exacerbating dependencies. Global tariffs (minimal direct impact at <1% revenue) and African uncertainties (currency devaluations, inflation) risk export stability.
- ❑ **Competitive and Demand Pressures:** Domestic slowdown (5-6% FY26 growth expected, led by 125cc+) amid rural/urban inflation and southern market weakness could intensify rivalry. EV pricing wars (market table declines) threaten Chetak's economics, despite cost reductions.
- ❑ **Economic and Industry Cycles:** Three-wheeler peculiarities (regulations, fuel shifts) and KTM's ongoing restructuring (production halts since December 2024) pose execution risks amid broader volatility.

Commentary

BAL's FY25 performance exemplifies resilience through diversified strengths in EVs, exports, and premium segments, offsetting weaknesses like domestic share erosion via strategic countermeasures. Opportunities in EV scaling, export expansions, and KTM synergies position BAL for outpacing 5-6% industry growth, targeting leadership in core areas. However, threats from supply chains and volatility demand proactive hedging and innovation. Overall, BAL's robust KPIs and ecosystem (e.g., BACL, spares) suggest a strong foundation for sustained value creation, making it a compelling proposition for long-term investors in India's mobility transition.

Bajaj Auto Ltd, a leading player in the Indian automotive sector, operates primarily in the two-wheeler (2W) and three-wheeler (3W) segments, encompassing internal combustion engine (ICE) vehicles, electric vehicles (EVs), and premium motorcycles through brands like Pulsar, Chetak, Freedom, KTM, and Triumph. The company's FY25 earnings call highlighted record revenues of INR 50,000 crores, EBITDA of INR 10,101 crores at 20.2% margins, and PAT of INR 8,151 crores (standalone), driven by domestic growth in premium segments, export recovery, and EV scaling. The Indian 2W and 3W industry, valued at millions of units annually, is characterized by evolving consumer preferences toward premium and sustainable mobility, with FY25 industry growth at 6% for domestic motorcycles and 60% for E-3W. This Porter's Five Forces analysis evaluates the competitive dynamics facing Bajaj Auto, drawing on key performance indicators (KPIs) such as market shares, volume growth, and segment revenues to assess industry attractiveness. Each force is rated as High, Moderate, or Low based on its intensity.

Threat of New Entrants (Moderate)

The threat of new entrants in the Indian 2W and 3W industry is moderate, influenced by high barriers to entry that deter casual players but allow well-funded disruptors, particularly in EVs, to penetrate. Capital requirements are substantial; establishing manufacturing facilities, R&D for emissions compliance (e.g., OBD IIB norms), and supply chains demands investments exceeding INR 1,000 crores, as evidenced by Bajaj's INR 700 crores capex in FY25, with 60% allocated to EVs. Brand loyalty and distribution networks further elevate barriers—Bajaj's network spans over 3,000 points of sale for Chetak and 136 premium stores for Triumph, contributing to its 24% market share in the 125cc+ motorcycle segment (down from 26% in FY24 but still 1.3x the third player).

Economies of scale are critical, with industry leaders like Bajaj achieving volumes of over 4 million units annually, enabling cost efficiencies in procurement and production. Regulatory hurdles, including PLI incentives (which Bajaj fully accrues for its EV portfolio) and BIS certifications, favor incumbents. However, the EV sub-segment lowers some barriers due to government subsidies and simpler assembly, attracting startups like Ola Electric and Ather Energy. For instance, the E-2W market grew to position Chetak as the leader with 25% share in Q4 FY25 (up from 13% in Q4 FY24), but new entrants have captured niches through aggressive pricing.

Case in point: The E-3W segment, growing 60% in FY25, saw Bajaj double its share to 33%, yet fragmented players with subpar quality (e.g., lead-acid battery e-rickshaws at 90% of the 40,000-unit monthly market) persist due to low entry costs. Bajaj's upcoming GoGo-branded e-rickshaw launch in July 2025 aims to upgrade this segment, leveraging its engineering prowess tested over 10,000 km. Overall, while traditional ICE segments remain protected, EV disruption moderates the threat, as seen in Bajaj's strategic scaling of EVs to INR 5,500 crores revenue (20% of domestic), making it India's largest E-2W and E-3W player.

Bargaining Power of Suppliers (High)

Supplier bargaining power is high, particularly for critical components like rare earth magnets, batteries, and commodities, where dependency on global sources exposes the industry to volatility and geopolitical risks. Bajaj's earnings call underscored this with warnings on rare earth magnets from China (90% global supply), essential for EV motors—delays in export approvals could disrupt production by July 2025, despite a defined certification process involving Indian ministries and the Chinese embassy. This dependency affects KPIs like EV volumes; Chetak's 35 series platform drove Q4 FY25 leadership, but supply chain hiccups could erode margins already improved through cost reductions and PLI accruals.

Commodity prices add pressure: Q4 FY25 saw flattish material inflation, but noble metals like palladium surged, offset by softness in steel and aluminum. FY26 outlook projects 1% margin impact from commodities and OBD IIB norms, with pricing recovering only 30-50%. Suppliers' power is amplified in specialized areas—e.g., lithium-ion batteries for EVs, where Bajaj targets the top 10% of the e-rickshaw market to avoid lead-acid vulnerabilities. Diversification efforts, such as Bajaj's in-house development and vendor declarations (30 applications pending in China), mitigate but do not eliminate risks.

In exports, currency fluctuations (USD/INR at 86.5 in Q4 FY25 vs. 83 YoY) provide tailwinds but highlight supplier-linked forex exposure. Case study: Bajaj's Brazil plant expansion from 20,000 to 50,000 units annually by December 2025 relies on local sourcing to counter tariffs, yet global component reliance persists. High power stems from concentrated suppliers (e.g., China for magnets), low switching costs for buyers in commoditized items, but forward integration like Bajaj's captive finance arm (BACL, with INR 10,000 crores disbursements) indirectly strengthens bargaining by controlling ecosystems.

Bargaining Power of Buyers (Moderate)

Buyer bargaining power is moderate, driven by abundant choices in a fragmented market but tempered by brand differentiation and switching costs.

Consumers in the 125cc+ segment (12% FY25 growth) prioritize features like range and cost savings—Bajaj's Freedom CNG motorcycle, retailing 60,000 units, appeals to long-distance riders with 50% fuel cost reduction, achieving 10-11% penetration in high-pump-density areas like Kerala and Delhi. However, price sensitivity is evident; industry-wide pricing drops in EVs forced Bajaj to introduce affordable variants like Chetak 2903 and 3503, impacting margins but boosting share.

KPIs reflect this: Domestic motorcycle registrations declined 2% in Q4 FY25, with Bajaj's 125cc+ share at 24%, eroded by competitive launches. Buyers' power rises in exports (20% volume growth Q4), where 70% of emerging markets (top 30 countries grew 26% collectively) demand premium mixes—over 65% Pulsar/Dominar in Latin America, Bajaj's largest region at 30% of exports. Low individual purchase volumes (e.g., 7,000 retails in Brazil Q4, up from FY24 total) limit single-buyer leverage, but channel partners' exposure risks (e.g., in volatile Africa) amplify indirect power.

Substitutes like financing influence dynamics—BACL's 40% penetration in motorcycles and 50% in 3W eases access, reducing buyer leverage. Case: In E-3W (75% ICE share for Bajaj), buyers favor reliability, enabling leadership in April-May 2025. Overall, differentiation via innovation (six Pulsar variants in Q4) moderates power, though commoditization in entry segments heightens it.

Threat of Substitute Products (Low)

The threat of substitutes is low, as 2W and 3W remain essential for affordable, last-mile mobility in India, with limited viable alternatives. Public transport, cars, and bicycles fall short in congested urban/rural settings—2W penetration per 1,000 people is low outside ASEAN/India/China, driving export growth (31% Bajaj outpacing 26% industry in top 30 markets). KPIs: Domestic 2W grew 6% FY25, led by 125cc+; 3W volumes hit records with 75% ICE share, E-3W at 60% growth.

EVs enhance rather than substitute, with Bajaj's Chetak (25% E-2W share) and GoGo (33% E-3W) scaling to combat fuel costs. Substitutes like ride-hailing (e.g., Uber) compete indirectly but boost 3W demand for last-mile. Case: Freedom CNG addresses fuel volatility, substituting petrol bikes without industry disruption. In exports, low penetration in Latin America/Africa (e.g., Mexico as second-largest 2W market) underscores indispensability. Regulatory pushes (e.g., diesel-to-CNG conversion) favor incumbents, keeping threat low despite emerging micromobility.

Rivalry Among Existing Competitors (High)

Rivalry is high in this oligopolistic yet fragmented industry, with intense competition from Hero MotoCorp, Honda, TVS, and EV players like Ola. Price wars, product launches, and market share battles define dynamics—Bajaj's 125cc+ share slipped to 24% amid competitive benchmarking, prompting price recalibrations and six Pulsar variants. KPIs: Industry FY25 growth at 6%, but Q4 decline of 2%; Bajaj aims for leadership via Pulsar rejuvenation and Freedom scaling.

In EVs, rivalry spikes—Chetak's 12-point share gain to 25% in Q4 contrasts with pricing pressures funding competitiveness via PLI/cost cuts. 3W sees Bajaj at 75% ICE dominance but fragmented E-rickshaw (40,000 units/month). Exports: Bajaj leads sports segments in Latin America (e.g., No.1 in Mexico, Colombia), growing 18% Q4, but currency volatility intensifies rivalry. Premium alliances (KTM/Triumph at 100,000 units, up 12%) face global challenges, with Bajaj's intent to control KTM post-restructuring (EUR 800 million funding) aiming to unlock synergies.

Case: ProBiking's Adventure 390 sets benchmarks, but e-bike downturn at KTM AG highlights rivalry's risks. High fixed costs (e.g., marketing spends) fuel aggressive tactics, with Bajaj's seven FY26 thrusts targeting outperformance.

Commentary

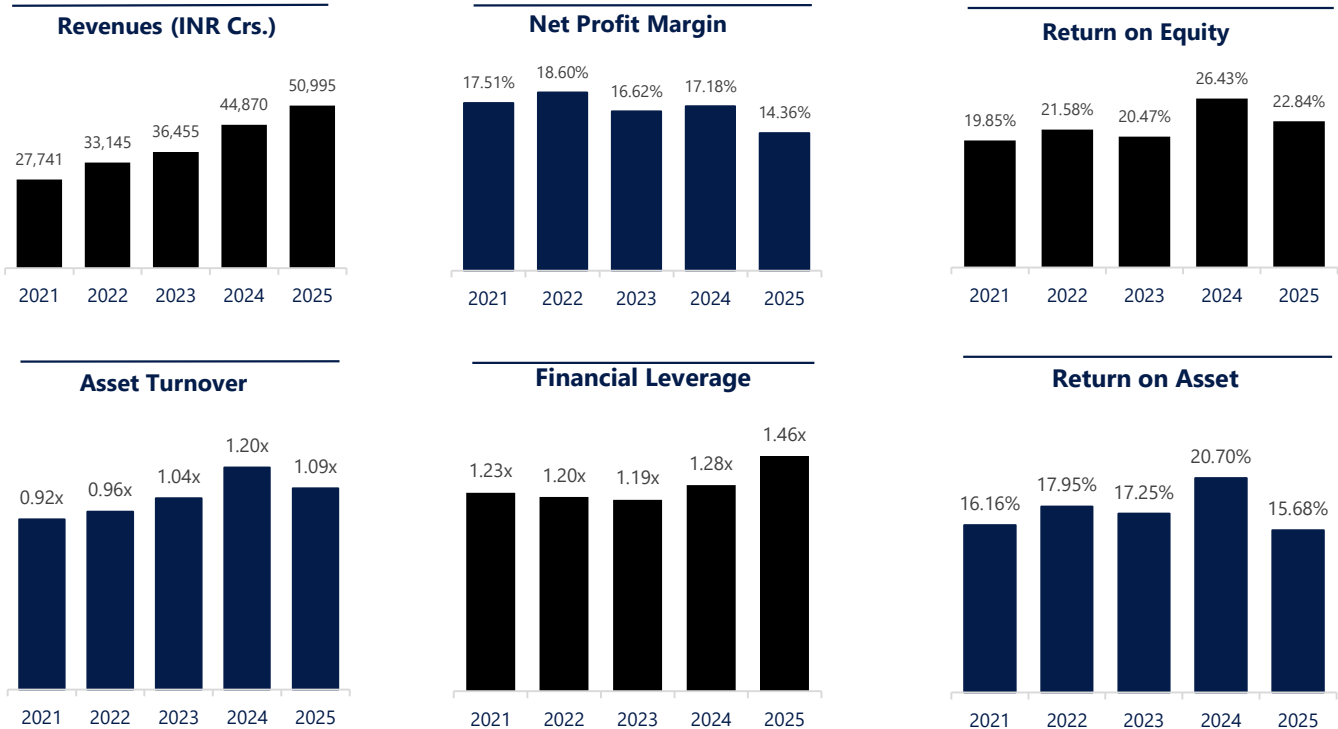
The Indian 2W and 3W industry presents moderate attractiveness for Bajaj Auto, with high rivalry and supplier power posing challenges, offset by low substitute threats and moderate entry barriers/entry. Bajaj's strengths—24% share in core segments, EV leadership (INR 5,500 crores revenue), and export momentum (15-20% growth outlook)—position it well to navigate forces through innovation and synergies (e.g., KTM turnaround). Sustained focus on cost management and regulatory advocacy will be key to enhancing profitability amid volatility, potentially yielding superior returns in a growing market.

Dupont Analysis - BAJAJ AUTO LTD



This DuPont Analysis report provides a comprehensive evaluation of BAJAJ AUTO LTD's financial performance by dissecting its Return on Equity (ROE) and Return on Assets (ROA) through the DuPont framework. By breaking down these key metrics into their underlying components, this report aims to uncover the operational, financial, and strategic factors influencing profitability.

Financial Summary



Return on Equity (ROE) Analysis

Return on Equity (ROE)							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	4,928	5,212	4,857	6,166	6,060	7,708	7,325
Average Shareholder Equity	21,830	22,448	24,468	28,567	29,611	29,162	32,076
Return on Equity	22.57%	23.22%	19.85%	21.58%	20.47%	26.43%	22.84%

ROE - Dupont Equation							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	4,928	5,212	4,857	6,166	6,060	7,708	7,325
Revenue	30,358	29,919	27,741	33,145	36,455	44,870	50,995
Net Profit Margin (A)	16.23%	17.42%	17.51%	18.60%	16.62%	17.18%	14.36%
Revenue	30,358	29,919	27,741	33,145	36,455	44,870	50,995
Average Total Asset	26,988	27,672	30,056	34,356	35,124	37,240	46,727
Asset Turnover Ratio (B)	1.12x	1.08x	0.92x	0.96x	1.04x	1.20x	1.09x
Average Total Asset	26,988	27,672	30,056	34,356	35,124	37,240	46,727
Average Shareholder Equity	21,830	22,448	24,468	28,567	29,611	29,162	32,076
Equity Multiplier (C)	1.24x	1.23x	1.23x	1.20x	1.19x	1.28x	1.46x
Return on Equity (A*B*C)	22.57%	23.22%	19.85%	21.58%	20.47%	26.43%	22.84%

1. Key Observations

- ❑ **Overall ROE Performance:** The company's ROE has averaged approximately 22.28% over the seven-year period from March 2019 to March 2025, indicating a solid return for shareholders relative to equity invested, with values ranging from a low of 19.85% in March 2021 to a high of 26.43% in March 2024.
- ❑ **Component Contributions:** ROE is driven by the DuPont factors—net profit margin (A), asset turnover ratio (B), and equity multiplier (C). The net profit margin has remained relatively stable around 16-18%, while asset turnover has shown variability (0.92x to 1.20x), and the equity multiplier has trended modestly upward in recent years (from 1.19x to 1.46x), suggesting increasing leverage as a key enhancer of ROE.
- ❑ **Peak and Trough Insights:** The peak ROE of 26.43% in March 2024 reflects a combination of improved asset turnover (1.20x) and higher leverage (1.28x), despite a moderate profit margin (17.18%). Conversely, the trough of 19.85% in March 2021 was primarily due to a sharp decline in asset turnover (0.92x), even as profit margin reached a near-high of 17.51%.
- ❑ **Leverage Impact:** The equity multiplier's gradual increase, particularly to 1.46x in March 2025, highlights growing reliance on debt to amplify returns, which boosted ROE to 22.84% despite a declining profit margin (14.36%) and softening asset turnover (1.09x).

2. Trend Analysis

- ❑ **Early Period Stability (Mar-2019 to Mar-2020):** ROE improved slightly from 22.57% to 23.22%, supported by a rising profit margin (16.23% to 17.42%) amid stable revenue and assets. Asset turnover dipped marginally (1.12x to 1.08x), but the consistent equity multiplier (around 1.23x-1.24x) maintained overall stability, reflecting efficient operations without significant leverage shifts.
- ❑ **Downturn in Efficiency (Mar-2020 to Mar-2021):** A notable decline to 19.85% occurred, driven by a 15% drop in asset turnover to 0.92x amid falling revenue (from 29,919 to 27,741) and rising average total assets (to 30,056). Profit margin edged up to 17.51%, but this was insufficient to offset the efficiency loss, with the equity multiplier holding steady at 1.23x, indicating no compensatory leverage increase.
- ❑ **Recovery Phase (Mar-2021 to Mar-2023):** ROE rebounded to 21.58% in March 2022 and 20.47% in March 2023, fueled by recovering asset turnover (0.96x to 1.04x) as revenue grew (27,741 to 36,455) against moderating asset growth. Profit margin peaked at 18.60% in March 2022 before dipping to 16.62%, while the equity multiplier trended downward slightly (1.20x to 1.19x), suggesting a focus on operational improvements over leverage.
- ❑ **Strong Surge (Mar-2023 to Mar-2024):** ROE jumped to 26.43%, the highest in the period, propelled by a 15% increase in asset turnover to 1.20x on robust revenue growth (36,455 to 44,870) and controlled asset expansion (to 37,240). Profit margin recovered to 17.18%, and the equity multiplier rose to 1.28x, amplifying returns through moderate leverage amid rising net profit (6,060 to 7,708).
- ❑ **Moderation in Recent Year (Mar-2024 to Mar-2025):** ROE moderated to 22.84%, aligning with the long-term average, as profit margin fell sharply to 14.36% despite continued revenue growth (to 50,995) and net profit (to 7,325). Asset turnover eased to 1.09x with faster asset growth (to 46,727), but a significant rise in the equity multiplier to 1.46x provided a buffer, indicating heightened leverage to sustain ROE.

Return on Assets (ROA) Analysis

Return on Asset							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	4,928	5,212	4,857	6,166	6,060	7,708	7,325
Average Total Asset	26,988	27,672	30,056	34,356	35,124	37,240	46,727
Return on Asset	18.26%	18.83%	16.16%	17.95%	17.25%	20.70%	15.68%

ROA - Dupont Equation							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Net Profit	4,928	5,212	4,857	6,166	6,060	7,708	7,325
Revenue	30,358	29,919	27,741	33,145	36,455	44,870	50,995
Net Profit Margin (A)	16.23%	17.42%	17.51%	18.60%	16.62%	17.18%	14.36%
Revenue	30,358	29,919	27,741	33,145	36,455	44,870	50,995
Average Total Asset	26,988	27,672	30,056	34,356	35,124	37,240	46,727
Asset Turnover Ratio (B)	1.12x	1.08x	0.92x	0.96x	1.04x	1.20x	1.09x
Return on Asset (A*B)	18.26%	18.83%	16.16%	17.95%	17.25%	20.70%	15.68%

1. Key Observations

Overall ROA Performance: ROA has averaged around 17.83% from March 2019 to March 2025, demonstrating consistent profitability from asset utilization, with a range from 15.68% in March 2025 to a peak of 20.70% in March 2024.

Component Drivers: As a product of net profit margin (A) and asset turnover ratio (B), ROA reflects operational efficiency without leverage effects. The profit margin's stability (14-18%) combined with variable asset turnover (0.92x-1.20x) underscores that fluctuations in ROA are largely tied to how effectively assets generate revenue.

High and Low Points: The highest ROA of 20.70% in March 2024 highlights strong efficiency from elevated asset turnover (1.20x) and a solid margin (17.18%). The lowest at 15.68% in March 2025 stems from a declining margin (14.36%) and reduced turnover (1.09x), despite revenue highs.

Efficiency Focus: Unlike ROE, ROA isolates core operations, revealing that asset-intensive periods (e.g., rising average total assets) pressure returns unless offset by revenue growth or margin improvements.

2. Trend Analysis

Initial Strength (Mar-2019 to Mar-2020): ROA rose from 18.26% to 18.83%, driven by improving profit margin (16.23% to 17.42%) despite a slight drop in asset turnover (1.12x to 1.08x). This period showed resilient profitability amid stable revenue and modest asset growth (26,988 to 27,672).

Efficiency Dip (Mar-2020 to Mar-2021): A decline to 16.16% was evident, primarily from weakened asset turnover (to 0.92x) as revenue fell (to 27,741) while assets increased (to 30,056). Profit margin's minor uptick to 17.51% mitigated some impact, but overall asset utilization suffered.

Gradual Rebound (Mar-2021 to Mar-2023): ROA improved to 17.95% in March 2022 and 17.25% in March 2023, supported by recovering asset turnover (0.96x to 1.04x) on revenue expansion (to 36,455). Profit margin reached 18.60% in 2022 before easing to 16.62%, reflecting operational recovery but sensitivity to margin volatility.

Peak Efficiency (Mar-2023 to Mar-2024): ROA surged to 20.70%, the period's high, fueled by strong asset turnover growth to 1.20x amid accelerating revenue (to 44,870) and controlled assets (to 37,240). Profit margin's rebound to 17.18% amplified this, indicating optimized asset use.

Recent Softening (Mar-2024 to Mar-2025): ROA dropped to 15.68%, the lowest observed, due to a sharp profit margin decline to 14.36% and reduced asset turnover to 1.09x, even as revenue hit a high (50,995). Rapid asset growth (to 46,727) outpaced revenue gains, highlighting emerging inefficiencies in asset deployment.

Commentary

The DuPont analysis reveals a company with robust but fluctuating profitability metrics, where ROE has benefited from increasing leverage to offset operational variabilities, averaging 22.28% and peaking at 26.43% in March 2024. ROA, at an average of 17.83%, underscores core operational strength but highlights vulnerabilities in asset efficiency and margins, with a recent downturn to 15.68% in March 2025 signaling potential challenges. Overall, trends suggest a resilient business model focused on revenue growth, though sustaining ROE and ROA will require balancing margin pressures, asset utilization, and leverage to maintain shareholder value.

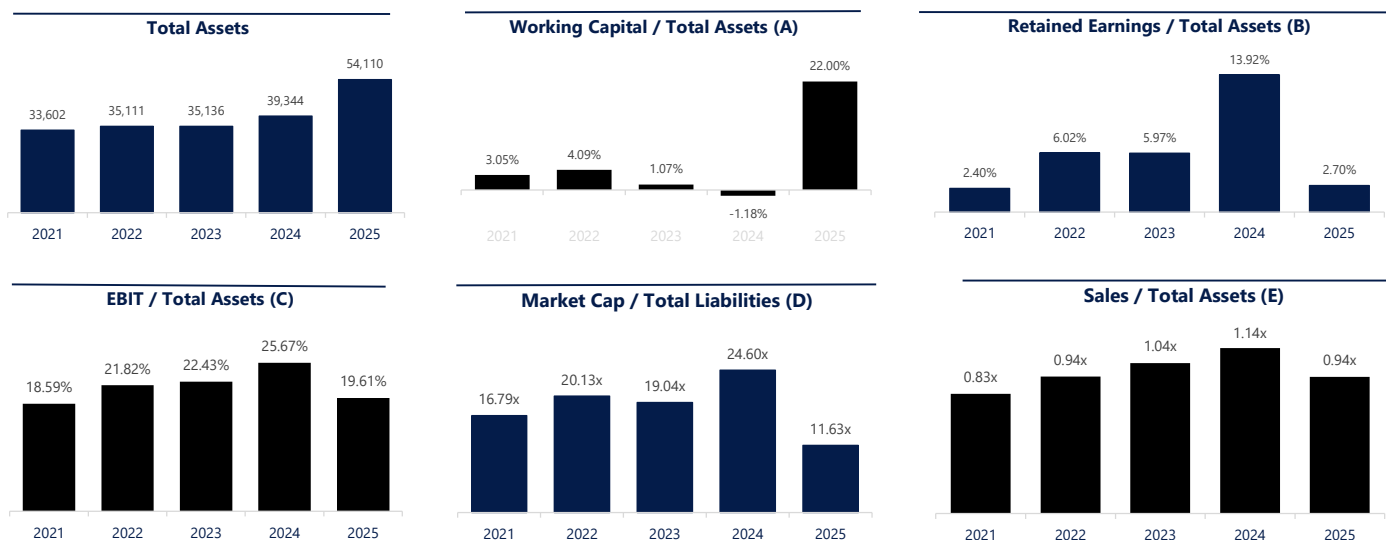
**** Concept Behind DuPont Analysis :** The DuPont Analysis, developed by the DuPont Corporation in the early 20th century, is a financial performance framework that decomposes ROE and ROA into their constituent parts to reveal the drivers of profitability. This methodology enables a granular understanding of how operational efficiency, asset utilization, and financial leverage contribute to shareholder returns.

Corporate Default Probability Screening



This Corporate Default Probability Screening Analysis report provides a comprehensive evaluation of BAJAJ AUTO LTD's financial health. By applying the Altman Z-Score model, a robust framework for predicting bankruptcy risk, this report dissects key financial ratios to uncover the underlying factors influencing BAJAJ AUTO LTD's creditworthiness and operational resilience. By analyzing key financial ratios related to profitability, leverage, liquidity, and activity, the score provides insight into a company's financial stability and its chances of defaulting on obligations.

Financial Summary



1. Working Capital / Total Assets (A)

Working Capital / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Working Capital	944	115	1,025	1,435	375	-465	11,902
Total Assets	28,834	26,510	33,602	35,111	35,136	39,344	54,110
Working Capital / Total Assets (A)	3.27%	0.43%	3.05%	4.09%	1.07%	-1.18%	22.00%

The ratio has shown variability over the period, dipping to a negative -1.18% in Mar-24 before surging to 22.00% in Mar-25, indicating intermittent liquidity challenges but a strong rebound in short-term asset management relative to total assets. This suggests improved operational efficiency in managing current assets over liabilities in recent years, reflecting enhanced financial flexibility and reduced reliance on external financing for day-to-day operations.

2. Retained Earnings / Total Assets (B)

Retained Earnings / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Retained Earnings	3,191	1,739	806	2,115	2,099	5,475	1,460
Total Assets	28,834	26,510	33,602	35,111	35,136	39,344	54,110
Retained Earnings / Total Assets (B)	11.07%	6.56%	2.40%	6.02%	5.97%	13.92%	2.70%

The metric declined steadily from a peak of 19.66% in Mar-20 to 2.70% in Mar-25, highlighting a potential drawdown on accumulated profits, possibly due to dividend payouts or reinvestments, which may signal maturing operations but could pressure long-term solvency if not offset by earnings growth. Despite the downtrend, positive values throughout indicate a consistent ability to retain earnings as a buffer against economic downturns, underscoring underlying profitability and financial resilience.

3. EBIT / Total Assets (C)

EBIT / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
EBIT	6,960	6,695	6,248	7,660	7,881	10,100	10,612
Total Assets	28,834	26,510	33,602	35,111	35,136	39,344	54,110
EBIT / Total Assets (C)	24.14%	25.26%	18.59%	21.82%	22.43%	25.67%	19.61%

Consistently strong at levels between 18.59% and 25.67%, this ratio demonstrates robust operational profitability relative to asset base, with a notable uptick to 25.67% in Mar-24 before moderating to 19.61% in Mar-25, pointing to efficient asset utilization in generating earnings before interest and taxes. It reflects the company's strong core business performance and ability to generate returns from invested capital, indicating low vulnerability to operational risks and a solid foundation for debt servicing.

4. Market Cap / Total Liabilities (D)

Market Cap / Total Liabilities							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Market Cap	84,247	58,527	106,227	105,718	109,938	255,416	220,056
Total Liabilities	5,601	4,848	6,328	5,252	5,775	10,381	18,921
Market Cap / Total Liabilities (D)	15.04x	12.07x	16.79x	20.13x	19.04x	24.60x	11.63x

This multiple has remained elevated, ranging from 11.63x to 24.60x, with a peak in Mar-24, signifying strong market confidence in the company's equity value as a cushion against liabilities and implying low default risk from a market perspective. The consistent high values suggest financial strength through substantial equity financing, reducing leverage dependency and enhancing creditor protection in potential distress scenarios.

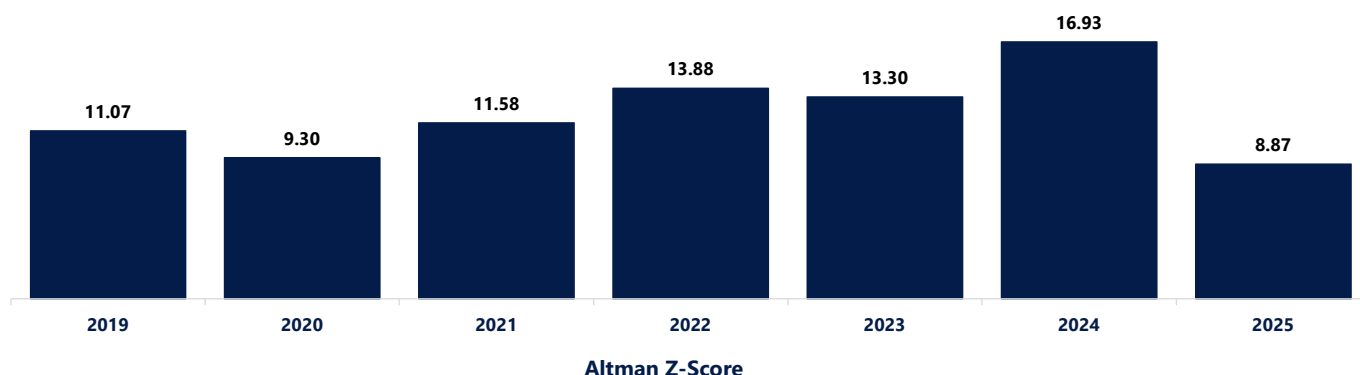
5. Sales / Total Assets (E)

Sales / Total Assets							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Total Sales	30,358	29,919	27,741	33,145	36,455	44,870	50,995
Total Assets	28,834	26,510	33,602	35,111	35,136	39,344	54,110
Sales / Total Assets (E)	1.05x	1.13x	0.83x	0.94x	1.04x	1.14x	0.94x

The turnover ratio has hovered between 0.83x and 1.14x, showing stable asset efficiency in generating revenue, with slight improvements in certain years like Mar-20 and Mar-24, which indicates effective management of assets to drive sales growth without disproportionate asset expansion. This points to operational agility and scalability, reflecting a healthy balance between growth ambitions and asset productivity, though the moderation to 0.94x in Mar-25 may suggest temporary sales slowdowns relative to asset growth.

Altman Z-Score and Financial Stability

Altman's Z Score							
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Final Score	11.1	9.3	11.6	13.9	13.3	16.9	8.9
Financial Stability	Strong	Strong	Strong	Strong	Strong	Strong	Strong



Model Interpretation & Disclaimer

Despite Bajaj Auto Ltd. being a large, stable, and fundamentally strong company with consistently high Z-scores, the decline in the Retained Earnings to Total Assets ratio to 2.70% in Mar-25 (contributing to a moderated overall score of 8.9) may stem from aggressive dividend distributions or potential share repurchases, which deplete accumulated profits but signal confidence in cash generation and a commitment to returning value to shareholders without undermining long-term financial health.

Final Conclusion

The Altman Z-scores for Bajaj Auto Ltd., ranging from 8.9 to 16.9 across the period, consistently indicate strong financial stability and a negligible risk of distress, far exceeding standard safe thresholds. This reflects robust operational efficiency, market strength, and asset productivity, affirming the company's solid credit profile and resilience, though moderated ratios in Mar-25 highlight the impact of capital return strategies that warrant monitoring alongside the positive overall trajectory.

**** Concept Behind Altman Z-Score :** The Altman Z-Score, developed by Edward I. Altman in 1968, is a predictive model that assesses the likelihood of a company facing bankruptcy within two years. The Z-Score combines five financial ratios, each weighted to produce a single score that categorizes a company into one of three zones: Safe, Grey, or Distress. The formula for publicly traded companies is: $Z = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$, Where:

A: Working Capital / Total Assets (liquidity), B: Retained Earnings / Total Assets (cumulative profitability), C: Earnings Before Interest and Taxes (EBIT) / Total Assets (operating efficiency),
D: Market Value of Equity / Total Liabilities (financial leverage), E: Sales (Revenue) / Total Assets (asset turnover)

Bajaj Auto LTD stands as a mature pillar in India's two-wheeler (2W) and three-wheeler (3W) automotive landscape, embodying a blend of operational resilience and strategic foresight that appeals to investors seeking exposure to the mobility sector's evolution. Fundamentally, the company leverages its established brand in performance motorcycles, particularly the 125cc+ segment, alongside a diversified portfolio spanning exports, electric vehicles (EVs), and ancillary services like spare parts and financing through Bajaj Auto Credit Ltd (BACL). This foundation generates consistent cash flows, as evidenced by robust profitability metrics and a track record of navigating industry cycles through cost management and innovation. Strategically, Bajaj is pivoting toward high-margin growth avenues, such as scaling EV platforms like Chetak scooters and GoGo electric autos, accelerating Latin American exports, and engineering a turnaround in its KTM investment. These moves position it to capitalize on secular trends like electrification and premiumization in domestic markets, while exports mitigate local demand fluctuations.

From a market perception standpoint, Bajaj garners premium valuations reflecting optimism around its execution capabilities and early-mover advantages in EV 2W/3W segments, where it commands leadership amid rising competition from players like TVS and Ola. Analysts' consensus underscores a cautiously optimistic outlook for FY26, anticipating record revenues and profits if management delivers on product launches and geographic expansions. However, this enthusiasm contrasts with traditional valuation models that flag potential overvaluation, suggesting the market is embedding intangible factors like brand strength, regulatory incentives (e.g., PLI for EVs), and long-term optionality in emerging niches. Overall, the investment case hinges on Bajaj's ability to sustain profit-driven growth in a competitive, volatile industry, making it a narrative of balanced maturity and aspirational expansion that could reward patient stakeholders attuned to India's mobility transition.

Valuation Rationale

Valuation assessments of Bajaj Auto reveal a nuanced picture where fundamental models indicate a premium market pricing, yet fail to fully encapsulate the company's strategic optionalities and growth trajectory. In the Free Cash Flow to Firm (FCFF) model under base case assumptions, the enterprise value translates to an equity value implying an intrinsic share price significantly below the current market level, pointing to a substantial premium that suggests overvaluation on pure cash flow grounds. Similarly, the Excess Return Model (ERM) yields an intrinsic value that, while higher than the FCFF estimate, still implies a notable premium over the market price, reinforcing the overvalued signal within these frameworks.

Relative valuation, drawing from harmonic mean peer multiples, positions Bajaj's implied share price in a range that aligns more closely with industry benchmarks but remains below the prevailing market quote, depending on metrics like earnings or book value. This exercise, though illustrative and sensitive to adjustments for growth differentials and forward estimates, highlights Bajaj's positioning among peers like TVS and Honda, where its premiumization strategy and export diversification command respect but may not fully justify the gap without forward-looking tweaks.

These approaches, however, have inherent limitations in capturing Bajaj's unconventional elements, such as its capital-light model in EVs (bolstered by PLI incentives and cost efficiencies) and the embedded value in KTM synergies or export recoveries. Traditional DCF and relative methods often undervalue long-term optionalities, like scaling new platforms (e.g., Freedom CNG bikes) or leveraging an expanding installed base for high-margin spares. Market sentiment appears to price in these intangibles, viewing Bajaj as a resilient cash generator with upside in electrification and global expansion, rather than a static mature entity. Thus, while fundamentals signal caution on entry points, the broader perception incorporates execution potential that could bridge the valuation disconnect over time.

Key Catalysts

Several internal and external factors stand poised to unlock value for Bajaj Auto, accelerating its trajectory toward sustained leadership and profitability. Domestically, the push for 125cc+ motorcycle dominance through new Pulsar variants and intensified marketing could recapture market share from rivals, elevating average selling prices (ASPs) and margins as premium bikes command higher pricing than commuter models.

On the export front, a targeted 15-20% quarterly growth in FY26, centered on Latin America, represents a pivotal catalyst. Scaling the Brazil plant to 50k units, alongside dealer expansions in Mexico and Peru, could drive a quantum shift in market share amid recovering demand. Stabilization in African markets, if political conditions improve, would further amplify this through competitive pricing and localized support, recouping lost momentum.

EV and new platform scaling emerges as a transformative driver, with management's focus on Chetak electric scooters, GoGo autos, and Freedom CNG bikes. Widening dealer footprints (already over 3,000 for Chetak) and R&D investments, coupled with improving profitability via cost cuts and incentives, position Bajaj for sustainable leadership in EV 2W/3W. Resolving supply chain issues, such as rare-earth magnet dependencies on China, would mitigate bottlenecks and enable faster rollouts. The KTM turnaround, facilitated by closer collaboration post-stake acquisition, offers synergistic upside. Resuming exports (potentially 5% of total) and R&D partnerships could stabilize Bajaj's investment while boosting margins through global supply of India-made models, especially if European demand rebounds in FY26.

Ancillary segments like spare parts, benefiting from a larger installed base and initiatives like door-step services, promise steady high-margin cash flows to buffer core volume swings. BACL's pan-India expansion, with planned capitalization, could enhance financing revenues if regulatory environments remain supportive.

Externally, favorable commodity trends, currency stability, and auto-sector recoveries could amplify these efforts, enabling Bajaj to outpace the 5-6% industry growth and achieve management's envisioned FY26 records.

Risks to the Thesis

Despite its strengths, Bajaj Auto faces multifaceted risks that could derail value creation. Operationally, intense rivalry in the 2W/3W space—marked by high supplier power and competitor EV launches from Ola and TVS—threatens market share, particularly in under-penetrated smaller-cc scooters. Domestic share erosion in core segments could persist if new model introductions fail to resonate, impacting ASPs and margins.

Financially, fluctuating profitability metrics, as seen in recent ROA downturns, highlight vulnerabilities in asset efficiency and leverage. While ROE has averaged robust levels, increasing reliance on leverage to offset operational variabilities introduces sensitivity to interest rate hikes or capital return strategies that moderate financial ratios.

Industry-specific challenges include commodity cost trends and currency swings, which could squeeze margins without effective hedging. Supply chain disruptions, especially rare-earth magnets amid China's export restrictions, pose production risks for EVs. Regulatory shifts, such as changes in PLI incentives or environmental norms, might alter EV profitability trajectories.

Macroeconomic factors add layers: Political instability in Africa could delay export recoveries, while slower-than-expected Latin demand might hinder the targeted quantum shift. Broader auto demand softness in India, tied to economic cycles, could exacerbate volume swings despite diversification.

Externally, threats from substitutes remain low, but entry barriers—while moderate—allow agile newcomers in EVs to challenge Bajaj's leadership if innovation lags. Overall, these risks underscore the need for vigilant execution in cost management, hedging, and regulatory advocacy to preserve resilience.

Final Commentary

In synthesizing Bajaj Auto's analysis, the company emerges as a resilient, cash-generative entity with a strategic blueprint tailored to India's mobility shift, blending mature stability with growth-oriented pivots in premiums, EVs, and exports. Fundamental metrics affirm strong operational efficiency and financial health, as indicated by consistently high Altman Z-scores and DuPont trends, positioning it to weather volatilities through diversification and synergies like KTM. Yet, valuation models highlight a market premium that embeds expectations of untapped optionalities, suggesting investors weigh this against execution milestones in FY26.

For those evaluating opportunities, the narrative points to a compelling case where strategic agility could yield superior returns in a moderately attractive industry, particularly for portfolios aligned with long-term themes like electrification and global expansion. Stakeholders attuned to these dynamics may find the outlook supportive of sustained value, provided risks are monitored closely.

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