

# Bajaj Auto

India Research

**RESULT REVIEW**

 Bloomberg: BJAUT IN  
 Reuters: BAJA.BO

**BUY**

## Change in Growth Strategy – Upgrade BUY

BAL has reduced price of its entry level motorcycle CT 100 by ~Rs2000 (7% price cut) which contributes 14% of its overall volumes. BAL management has clearly highlighted that price cut in entry level segment is obvious strategy to increase its domestic motorcycle market share from 16% to 25% in the next 2-3 years. This move is considered to be disruptive for the industry and especially for Hero Motocorp. These price cuts taken by BAL is going to impact its ~14% overall volumes. At the same time its 2W export volumes, 3 wheeler and Pulsar segment (~70% of volumes) are unlikely to see pricing pressure.

**Quarterly Highlights:** During Q1FY19, Bajaj Auto Ltd (BAL) sales grew 36.4% YoY to Rs74.1bn (below our estimates of Rs78.9bn) driven by 38.1% volume growth and a 1.2% decrease in average realizations. EBITDA margins expanded by 3bps YoY to 17.3% (our estimates were 17.9%). PAT increased by 20.7% YoY to Rs11.1bn vis-à-vis our estimates of Rs 11.7bn.

**Shift in Strategy:** Earlier BAL's strategy was focused on a) Premium motorcycles b) 20% EBITDA margins and c) Concentrating only on motorcycle segment. Since the Company has decided to compromise on first two parts of its strategy by shifting focus towards entry level motorcycles and giving away 20% EBITDA margin obsession, we believe, the Company could eventually enter into scooter segment.

**Revision in Estimates:** We believe this move could enhance its overall volumes and market share in domestic motor cycle market while margins might soften. We have increased our Volume estimate by 2.4% and 2.8% for FY19 and FY20 respectively. We have factored in 100bps EBITDA margin decline over FY18-20 on account of price cut.

**Recommendation:** At CMP Rs2677 stock is currently quoting 14.7x FY20E. We believe, the recent price correction in the stock has already factored in negatives as it is trading at 20% discount to its 7 year average PE. At PER of 14.7x FY20 we see favorable risk reward. We upgrade the stock to BUY with price target Rs3079 (17x FY20E earnings)

### Key Financials

Y/E (Rs mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	216,120	226,876	217,667	251,649	289,120	319,859
EBIDTA	41,166	47,796	44,224	47,834	52,802	57,760
EBIDTA Margin	19.0	21.1	20.3	19.0	18.3	18.1
PAT	31,540	36,524	38,276	41,001	45,429	50,122
YoY (%)	(2.7)	15.8	4.8	7.1	12.5	11.0
EPS (Rs)	109.0	126.2	132.3	141.7	157.0	173.2
ROCE (%)	30.5	31.0	25.4	22.2	21.9	21.4
ROE (%)	31.1	31.8	26.1	22.7	22.3	21.8
PE (x) Net of KTM	23.4	20.2	19.3	18.0	16.3	14.7

Source: Karvy Stock Broking

### Recommendation

CMP:	Rs2677
Target Price:	Rs3079
Previous Target Price	Rs3319
Upside (%)	15%

### Stock Information

Market Cap. (Rsbn / US\$ mn)	778/11,931
52-week High/Low (Rs)	3,472/2,659
3m ADV (Rsmn / US\$ mn)	1,572/23
Beta	0.9
Sensex/ Nifty	36,496/11,010
Share outstanding (mn)	289

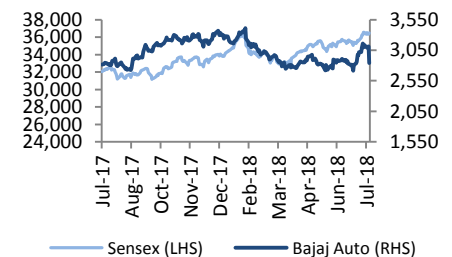
### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(1.0)	(0.5)	0.7	(14.8)
Rel. to Sensex	(3.6)	(6.1)	(11.9)	(20.5)

### Performance

#### BJAUT IN

Source: Bloomberg



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### Earning Revision

(%)	FY19E	FY20E
Revenue	↑ 2.4	↑ 2.8
EBITDA	↓ 2.0	↓ 2.0
PAT	↓ 1.5	↓ 2.1

Source: Karvy Stock Broking

**Bajaj Auto**
**Exhibit 1: Quarterly Performance**

Rs Mn	Q1FY19	Q1FY18	YoY	Q4FY18	QoQ
Net Sales	72,672	53,285	36.4%	66,508	9.3%
Other operating income	1,521	1,139	33.5%	1,225	24.2%
Total Net Sales	74,193	54,424	36.3%	67,733	9.5%
Raw Material	52,993	38,093	39.1%	46,969	12.8%
Staff Cost	3,140	2,725	15.2%	2,670	17.6%
Expenses Capitalized	(44)	(46)	-4.4%	(76)	-42.7%
Other Expenses	5,289	4,268	23.9%	5,018	5.4%
Total Expenditure	61,379	45,040	36.3%	54,581	12.5%
EBITDA	12,814	9,384	36.6%	13,152	-2.6%
Depreciation	700	753	-7.0%	879	-20.4%
EBIT	12,115	8,631	40.4%	12,274	-1.3%
Interest	3	2	29.2%	3	3.3%
Other Income	4,044	4,573	-11.6%	3,667	10.3%
PBT	16,156	13,201	22.4%	15,937	1.4%
Tax	5,003	3,642	37.4%	5,138	-2.6%
PAT	11,152	9,559	16.7%	10,799	3.3%
Exceptional Item	-	320	-	-	-
Reported PAT	11,152	9,239	20.7%	10,799	3.3%
<b>Margins</b>	<b>Q1FY19</b>	<b>Q1FY18</b>	<b>YoY</b>	<b>Q4FY18</b>	<b>QoQ</b>
Gross margins	28.6%	30.0%	(143)	30.7%	(208)
EBITDA	17.3%	17.2%	3	19.4%	(215)
PAT	15%	18%	(253)	16%	(91)
Tax Rate	31%	28%	338	32%	(127)
<b>Realizations</b>	<b>Q1FY19</b>	<b>Q1FY18</b>	<b>YoY</b>	<b>Q4FY18</b>	<b>QoQ</b>
Sales in numbers	1,226,641	888,434	38.1%	1,045,378	17.3%
Average Realization (Rs)	59,245	59,976	-1.2%	63,621	-6.9%

Source: Karvy Stock Broking

**Exhibit 2: SOTP Valuation**

SOTP Valuation	Valuation (Rs)
Core Auto Business (Rs/Share)	2,945
PER – 17x FY20	
KTM (Listed on Vienna Exchange) (Rs/Share)	134
49% Stake in listed entity at 20% discount	
<b>Bajaj Auto Price Target</b>	<b>3,079</b>

Source: Karvy Stock Broking

**Bajaj Auto**
**Exhibit 3: Revision in Estimates**

<b>New (Rs mn)</b>	<b>FY19E</b>	<b>FY20E</b>
Volumes (nos)	4,529,990	4,930,207
Sales	289,120	319,859
EBITDA	52,802	57,760
Margin (%)	18.3%	18.1%
PAT	45,429	50,122
EPS (Rs)	157	173
<b>Old (Rs mn)</b>	<b>FY19E</b>	<b>FY20E</b>
Volumes (nos)	4,425,281	4,797,898
Sales	283,279	312,331
EBITDA	53,769	59,231
Margin (%)	19.0%	19.0%
PAT	46,119	51,192
EPS (Rs)	159.4	176.9
<b>Change (%)</b>	<b>FY19E</b>	<b>FY20E</b>
Volumes	2.4%	2.8%
Sales	2%	2%
EBITDA	-2%	-2%
Margin (bps)	(72)	(91)
PAT	-1.5%	-2.1%
EPS (Rs)	-1.5%	-2.1%

Source: Karvy Stock Broking

## Financials

### Exhibit 4: Profit & Loss Statement

Income Statement	FY15	FY16	FY17	FY18	FY19E	FY20E
Net sales	216,120	226,876	217,667	251,649	289,120	319,859
YoY (%)	7.3	5.0	(4.1)	15.6	14.9	10.6
Raw material cost	148,498	150,569	146,242	174,101	201,181	222,571
Employee Cost	8,973	9,184	9,971	10,691	11,546	12,470
Admin Expenses	17,484	19,327	17,231	19,023	23,590	27,058
Total expenses	174,955	179,080	173,443	203,815	236,318	262,099
<b>EBIDTA</b>	<b>41,166</b>	<b>47,796</b>	<b>44,224</b>	<b>47,834</b>	<b>52,802</b>	<b>57,760</b>
EBIDTA Margin (%)	19.0%	21.1%	20.3%	19.0%	18.3%	18.1%
Depreciation	2,674	3,072	3,073	3,148	3,293	3,494
EBIT	38,492	44,724	41,151	44,686	49,509	54,266
Interest	65	5	14	13	13	13
Other income	5,824	9,133	12,220	13,473	15,403	17,350
PBT	44,251	53,852	53,356	58,146	64,899	71,603
(-) Tax	12,711	17,328	15,081	17,145	19,470	21,481
Tax/ PBT	28.7	32.2	28.3	29.5	30.0	30.0
<b>PAT</b>	<b>31,540</b>	<b>36,524</b>	<b>38,276</b>	<b>41,001</b>	<b>45,429</b>	<b>50,122</b>

Source: Karvy Stock Broking

### Exhibit 5: Balance sheet

Balance Sheet	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity capital	2,894	2,894	2,894	2,894	2,894	2,894
Reserves	104,028	120,023	167,448	188,145	212,907	240,227
Net worth	106,922	122,917	170,341	191,039	215,801	243,120
Loans	1,118	1,625	1,199	1,208	1,208	1,208
Deferred Tax	1,416	1,883	3,136	3,234	3,234	3,234
<b>Total Liabilities</b>	<b>109,455</b>	<b>126,424</b>	<b>174,677</b>	<b>195,481</b>	<b>220,242</b>	<b>247,562</b>
Gross Block	41,009	45,165	46,342	47,684	50,684	53,684
Less: Acc. depreciation	21,837	24,908	26,324	29,472	32,765	36,259
Net Block	19,172	20,257	20,018	18,212	17,919	17,425
Work in progress	2,549	522	422	1,136	1,136	1,136
Investments	91,533	95,127	147,315	175,883	175,883	175,883
Inventories	8,142	7,191	7,284	7,426	10,786	11,932
Debtors	7,170	7,179	9,533	14,919	14,046	15,540
Cash	5,862	8,595	2,937	7,780	22,228	56,033
Loans and advances	21,196	17,857	20,641	12,839	23,794	26,284
Current assets	42,368	40,822	40,395	42,964	70,853	109,789
Current liabilities	26,248	26,613	31,482	40,337	42,817	53,648
Provisions	19,920	3,690	1,991	2,378	2,732	3,022
Net current assets	(3,800)	10,518	6,922	250	25,305	53,119
<b>Total Assets</b>	<b>109,455</b>	<b>126,424</b>	<b>174,677</b>	<b>195,481</b>	<b>220,242</b>	<b>247,562</b>

Source: Karvy Stock Broking

**Bajaj Auto**
**Exhibit 6: Cash Flow Statement**

Cash Flow	FY15	FY16	FY17	FY18	FY19E	FY20E
Net profit	28,137	36,524	38,276	40,681	45,429	50,122
Depreciation	2,674	3,072	3,073	3,148	3,293	3,494
Deferred tax	131	467	504	681	-	-
Change in W/C	(4,201)	(11,585)	(2,062)	11,516	(10,607)	5,991
Operating cash flow	26,741	28,478	39,790	56,026	38,115	59,608
Capex	(1,348)	(2,129)	(1,984)	(2,639)	(3,000)	(3,000)
Investments	(6,037)	(3,593)	(52,188)	(28,568)	-	-
Investing cash flow	(7,384)	(5,722)	(54,172)	(31,208)	(3,000)	(3,000)
<b>FCF</b>	<b>25,393</b>	<b>26,349</b>	<b>37,806</b>	<b>53,387</b>	<b>35,115</b>	<b>56,608</b>
Dividend	(19,040)	(19,155)	(17,413)	(18,507)	(20,668)	(22,803)
Equity	50	(1,374)	26,562	(1,476)	-	-
Debt	540	507	(426)	9	-	-
Financing cash flow	(18,450)	(20,022)	8,723	(19,975)	(20,668)	(22,803)
Net change in cash	907	2,734	(5,658)	4,843	14,448	33,805
Opening cash	4,955	5,861	8,595	2,937	7,780	22,227
Closing cash	5,861	8,595	2,937	7,780	22,227	56,033

Source: Karvy Stock Broking

**Exhibit 7: Ratios**

Key Ratios	FY15	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs)	109	126	132	142	157	173
Book value (Rs)	369	425	589	660	746	840
Cash /Share (Rs)	217	66	215	222	272	389
P/E (x)	24.7	21.3	20.3	19.0	17.1	15.5
PE (Net of KTM) (x)	23.4	20.2	19.3	18.0	16.3	14.7
EV/EBDITA (x)	16.6	14.1	15.6	13.7	12.1	10.5
P/B (x)	7.2	6.3	4.5	4.0	3.6	3.2
ROCE (%)	30.5	31.0	25.4	22.2	21.9	21.4
ROE (%)	31.1	31.8	26.1	22.7	22.3	21.8
Free cash/Share (Rs)	88	91	131	184	121	196
Dividend/Share(Rs)	50	55	50	53	59	65
Dividend Yield (%)	1.9	2.1	1.9	2.0	2.2	2.4

Source: Karvy Stock Broking

Stock Ratings	Absolute Returns
Buy	> 15%
Hold	5-15%
Sell	< 5%

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