

Bajaj Auto

India Research

RESULT REVIEW

 Bloomberg: BJAUT IN
 Reuters: BAJA.BO

BUY
EBITDA Margins Bottomed Out – Maintain BUY

During Q3FY19, Bajaj Auto Ltd (BAL) sales grew 16% YoY to Rs74.1bn (below our estimates of Rs75.1bn) EBITDA margins reduced by 397bps YoY to 15.6% (our estimates were 15.6%). PAT increased by 15.6% YoY to Rs11bn vis-à-vis our estimates of Rs 9.5bn. Decline in operating margin is attributed to 467bps decline in gross margins on account of rise in raw material prices. We have increased our PAT estimates by 4.6% and 7% for FY19 and FY20 respectively to factor in lower depreciation rate and higher other income contribution. We believe, the recent price correction in the stock has already factored in negatives as it is trading at 19% discount to its 7 year average PE. We maintain our BUY rating with a price target of Rs3203 (PER of 18x FY20E earnings – in line with its seven year 12M forward average PE + Rs 91 Subsidiary Valuation).

Quarterly Highlights: During Q3FY19, BAL sales grew 16% YoY to Rs74.1bn (below our estimates of Rs75.1bn), EBITDA margins reduced by 397bps YoY to 15.6% (in line with our estimates). PAT increased by 15.6% YoY to Rs11bn vis-à-vis our estimates of Rs 9.5bn. Strong sales growth during the quarter was aided by 25.8% volume growth and 7.8% decline in average realizations. Higher other income and lower depreciation cost supported the PAT

Growth Outlook: As per the management 2W demand in the country continues to remain robust with ~8% sales growth at retail level. For FY20, domestic 2W market is likely to grow by ~8% while BAL is expected to grow faster than the market. On export front, Management shared healthy growth outlook for the medium term. We believe, for BAL, double digit volume growth over the next 4-5 quarters is highly feasible on account of healthy demand from international market, pick up in domestic rural economy and new models introduced by the Company. We expect BAL to report 25.3%/11.3%/7.3% volume growth during FY19E/20E/21E respectively.

Key Financials

| Y/E (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|----------|----------|----------|----------|----------|
| Net Sales | 2,17,667 | 2,51,649 | 3,00,258 | 3,33,613 | 3,60,801 |
| EBIDTA | 44,224 | 47,834 | 49,338 | 56,192 | 61,131 |
| EBIDTA Margin | 20.3% | 19.0% | 16.4% | 16.8% | 16.9% |
| PAT | 38,276 | 41,000 | 43,903 | 50,018 | 55,286 |
| YoY (%) | 4.8 | 7.1 | 7.1 | 13.9 | 10.5 |
| EPS (Rs) | 132.3 | 141.7 | 151.7 | 172.9 | 191.1 |
| ROCE (%) | 24.6% | 22.2% | 21.2% | 21.5% | 21.1% |
| ROE (%) | 25.3% | 22.7% | 21.6% | 21.9% | 21.5% |
| PE (x) Net of KTM | 18.7 | 17.4 | 16.3 | 14.3 | 12.9 |

Source: Karvy Stock Broking

Recommendation

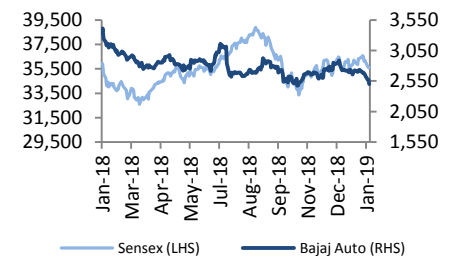
| | |
|-----------------------|--------|
| CMP: | Rs2560 |
| Target Price: | Rs3203 |
| Previous Target Price | Rs3203 |
| Upside (%) | 25% |

Stock Information

| | |
|------------------------------|---------------|
| Market Cap. (Rsbn / US\$ mn) | 739/10,392 |
| 52-week High/Low (Rs) | 3,473/2,420 |
| 3m ADV (Rsmn / US\$ mn) | 1,121/16 |
| Beta | 0.9 |
| Sensex/ Nifty | 36,257/10,831 |
| Share outstanding (mn) | 289 |

Stock Performance (%)

| | 1M | 3M | 12M | YTD |
|----------------|-------|-------|--------|-------|
| Absolute | (6.1) | (1.5) | (23.5) | (6.1) |
| Rel. to Sensex | (6.6) | (6.4) | (24.1) | (6.6) |

Performance
BJAUT IN


Source: Bloomberg

| (%) | FY19E | FY20E |
|---------|-------|-------|
| Revenue | ↓ 6.5 | ↑ 1.7 |
| EBITDA | ↓ 6.9 | ↑ 3.8 |
| PAT | ↑ 4.6 | ↑ 7.0 |

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Bajaj Auto

Export business to cushion Domestic Business: Bajaj generates ~50% of its sales from export market. The Company is set to benefit from rupee depreciation Vs USD as its export realizations are expected to move up. As per the management, BAL is currently realizing export sales at ~Rs68 against dollar. Over the next two quarters this realization is expected to move up to Rs71 while in FY20 the company is in a position to earn Rs72+ against dollar. We believe BAL is expected to use this benefit to support its domestic aggressive product pricing strategy to garner higher volumes cushioning its overall margins from sharp fall.

EBITDA Margins to stabilize: During Q3FY19, the Company reported EBITDA margins of 15.6% (decline of 397bps). This decline is on account of a) higher commodity costs b) higher discounts and c) and lowers forex realizations. Management expects some of these cost pressures to subside in FY20 and expressed confidence in overall margin expansion for the Company. We believe EBITDA margin for the Company has bottomed out in the Q3FY19 and anticipate gradual recovery in the same over the next 3-4 quarters. We expect the Company to report 16.4% and 16.8% EBITDA margins in FY19E and FY20E respectively.

Earnings Revision: For BAL, we have increased our Volume and PAT estimates by 0.4%/4.6 and 2.3%/7 for FY19 and FY20 respectively. Over FY18-20E, we expect, BAL to report 14.7% sales CAGR and 10.5% PAT CAGR. The Company is expected to report EPS of Rs151.7 and Rs172.9 in FY19E and FY20E respectively. We also introduce our FY21 estimates for BAL and continue to value the stock based on 12M Forward earnings.

Recommendation: At CMP of Rs2560, BAL stock is quoting at PE of 14.3x FY20 earnings (net of KTM). We believe, the recent price correction in the stock has already factored in negatives as it is trading at 19% discount to its 7 year average PE. We maintain our BUY rating on the stock with a price target of Rs3203 (PER of 18x FY20E earnings – in line with its seven year 12M forward average PE + Rs 91 Subsidiary Valuation).

Bajaj Auto
Exhibit 1: Dec'18 Quarterly Performance

| Rs Mn | Q3FY19 | Q3FY18 | YoY % | Q2FY19 | QoQ % |
|-----------------------------|---------------|---------------|--------------|---------------|--------------|
| Net Sales | 74,094 | 63,876 | 16.0% | 80,118 | -7.5% |
| Cost of material consumed | 50,334 | 39,710 | 26.8% | 54,153 | -7.1% |
| Purchases of stock-in-trade | 4,091 | 4,044 | 1.1% | 4,139 | -1.2% |
| Changes in inventories | (453) | (207) | 118.6% | (463) | -2.3% |
| Raw Material | 53,972 | 43,547 | 23.9% | 57,829 | -6.7% |
| Staff Cost | 3,173 | 2,652 | 19.7% | 3,119 | 1.7% |
| Expenses Capitalized | (86) | (79) | 9.8% | (62) | 39.0% |
| Other Expenses | 5,482 | 5,259 | 4.2% | 5,552 | -1.3% |
| Total Expenditure | 62,540 | 51,379 | 21.7% | 66,438 | -5.9% |
| EBITDA | 11,554 | 12,498 | -7.6% | 13,680 | -15.5% |
| Depreciation | 634 | 747 | -15.1% | 715 | -11.4% |
| EBIT | 10,920 | 11,751 | -7.1% | 12,965 | -15.8% |
| Interest | 36 | 3 | 1090.0% | 3 | 1051.6% |
| Other Income | 4,700 | 2,086 | 125.3% | 3,565 | 31.8% |
| PBT | 15,584 | 13,833 | 12.7% | 16,527 | -5.7% |
| Tax | 4,572 | 4,309 | 6.1% | 5,002 | -8.6% |
| PAT | 11,012 | 9,524 | 15.6% | 11,525 | -4.5% |
| Margins (%) | Q3FY19 | Q3FY18 | YoY % | Q2FY19 | QoQ % |
| Gross margins (%) | 27.2% | 31.8% | (467)bps | 27.8% | (66)bps |
| EBITDA (%) | 15.6% | 19.6% | (397)bps | 17.1% | (148)bps |
| PAT(%) | 15% | 15% | (5)bps | 14% | 48bps |
| Tax Rate (%) | 29% | 31% | (181) | 30% | (93) |
| Segmental | Q3FY19 | Q3FY18 | YoY % | Q2FY19 | QoQ % |
| Volumes in numbers (Nos) | 12,59,828 | 10,01,469 | 25.8% | 13,39,444 | -5.9% |
| Average Realization (Rs) | 58,812 | 63,783 | -7.8% | 59,815 | -1.7% |

Source: Karvy Stock Broking

Exhibit 2: SOTP Valuation

| SOTP Valuation | Valuation (Rs) |
|--|----------------|
| Core Auto Business (Rs/Share) | 3111 |
| PER – 18x FY20E | |
| KTM (Listed on Vienna Exchange) (Rs/Share) | 91 |
| 48% Stake in listed entity | |
| BAL Price Target | 3,203 |

Source: Karvy Stock Broking

Bajaj Auto
Exhibit 1: Revision in Estimates

| Old | FY19E | FY20E |
|-------------------|--------------|--------------|
| Volumes (Nos) | 50,01,455 | 51,50,210 |
| Net sales (Rs Mn) | 3,21,017 | 3,28,022 |
| EBITDA (Rs Mn) | 52,968 | 54,124 |
| Margins (%) | 16.5% | 16.5% |
| PAT (Rs Mn) | 41,959 | 46,733 |
| EPS (Rs) | 145.0 | 161.5 |
| New | FY19E | FY20E |
| Volumes (Nos) | 50,21,655 | 52,69,214 |
| Net sales (Rs Mn) | 3,00,258 | 3,33,613 |
| EBITDA (Rs Mn) | 49,338 | 56,192 |
| Margins (%) | 16.4% | 16.8% |
| PAT (Rs Mn) | 43,903 | 50,018 |
| EPS (Rs) | 151.7 | 172.9 |
| Change | FY19E | FY20E |
| Volumes (Nos) | 0.4% | 2.3% |
| Net sales | -6.5% | 1.7% |
| EBITDA | -6.9% | 3.8% |
| Margins (bps) | (7) | 34 |
| PAT | 4.6% | 7.0% |
| EPS | 4.6% | 7.0% |

Q3FY19 Key Con-Call Takeaways:

- Revenues from the exports stood at Rs 27.7bn (~38% of overall sales). BAL continues to dominate the under-penetrated African markets.
- Revenues from the spare parts stood at Rs 2.38 bn.
- Margins declined majorly due to a) Lower realization b) Lower CV volumes and c) Unabsorbed incremental metal cost.
- Higher Pulsar Sales and another new sports category from Pulsar Neon to drive margins upwards over next few quarters.
- BAL took a price hike of ~Rs 700. CT-100 model continues to remain below break even.
- BAL's product pipeline consists of a) Urbanite Electric Scooter and b) Husqvarna models and KTM combined. Initial focus on the electric front would be Intracity mobility solution in 2W.
- ~48% of BAL's overall sales are financed by financial institutions and a major portion is financed by Bajaj Finance. Management highlighted that BAL witnessed no material impact on account of the current liquidity woes.
- Volume share for the following region in Motorcycles stood at: a) Africa – 50% b) South Asia & Middle east – 20% c) Latin America – 15% and d) Aasian - 15%.

Financials

Exhibit 2: Profit & Loss Statement

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 2,17,667 | 2,51,649 | 3,00,258 | 3,33,613 | 3,60,801 |
| YoY (%) | (4.1) | 15.6 | 19.3 | 11.1 | 8.1 |
| Raw material cost | 1,46,242 | 1,74,101 | 2,16,738 | 2,38,814 | 2,56,833 |
| Employee Cost | 9,971 | 10,691 | 12,615 | 13,624 | 14,714 |
| Admin Expenses | 17,231 | 19,023 | 21,566 | 24,982 | 28,122 |
| Total expenses | 1,73,443 | 2,03,815 | 2,50,920 | 2,77,421 | 2,99,670 |
| EBIDTA | 44,224 | 47,834 | 49,338 | 56,192 | 61,131 |
| EBIDTA Margin (%) | 20.3% | 19.0% | 16.4% | 16.8% | 16.9% |
| Depreciation | 3,073 | 3,148 | 2,746 | 2,915 | 3,111 |
| EBIT | 41,151 | 44,686 | 46,592 | 53,278 | 58,020 |
| Interest | 14 | 13 | 13 | 13 | 13 |
| Other income | 12,220 | 13,473 | 16,060 | 18,099 | 20,872 |
| PBT | 53,357 | 58,145 | 62,639 | 71,363 | 78,879 |
| (-) Tax | 15,081 | 17,145 | 18,736 | 21,345 | 23,594 |
| Tax/ PBT | 28.3 | 29.5 | 29.9 | 29.9 | 29.9 |
| PAT | 38,276 | 41,000 | 43,903 | 50,018 | 55,286 |
| YoY (%) | 4.8 | 7.1 | 7.1 | 13.9 | 10.5 |

Source: Karvy Stock Broking

Exhibit 3: Balance sheet

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity capital | 2,894 | 2,894 | 2,894 | 2,894 | 2,894 |
| Reserves | 1,67,448 | 1,88,145 | 2,12,075 | 2,39,338 | 2,69,472 |
| Net worth | 1,70,341 | 1,91,039 | 2,14,969 | 2,42,231 | 2,72,366 |
| Loans | 1,199 | 1,208 | 1,208 | 1,208 | 1,208 |
| Deferred Tax | 3,136 | 3,234 | 3,234 | 3,234 | 3,234 |
| Total Liabilities | 1,74,677 | 1,95,481 | 2,19,411 | 2,46,673 | 2,76,807 |
| Gross Block | 46,342 | 47,684 | 50,184 | 53,684 | 57,184 |
| Less: Acc. depreciation | 26,324 | 29,472 | 32,218 | 35,133 | 38,243 |
| Net Block | 20,018 | 18,212 | 17,966 | 18,551 | 18,941 |
| Work in progress | 422 | 1,136 | 1,136 | 1,136 | 1,136 |
| Investments | 1,47,315 | 1,75,883 | 1,75,883 | 1,75,883 | 1,75,883 |
| Inventories | 7,284 | 7,426 | 11,620 | 12,803 | 13,769 |
| Debtors | 9,533 | 14,919 | 14,587 | 16,208 | 17,529 |
| Cash | 2,937 | 7,780 | 23,999 | 55,200 | 90,240 |
| Loans and advances | 14,316 | 12,839 | 24,696 | 27,399 | 29,602 |
| Current assets | 34,069 | 42,964 | 74,902 | 1,11,610 | 1,51,140 |
| Current liabilities | 25,157 | 40,337 | 47,639 | 57,355 | 66,882 |
| Provisions | 1,991 | 2,378 | 2,837 | 3,152 | 3,409 |
| Net current assets | 6,922 | 250 | 24,426 | 51,103 | 80,848 |
| Total Assets | 1,74,677 | 1,95,481 | 2,19,411 | 2,46,673 | 2,76,807 |

Source: Karvy Stock Broking

Bajaj Auto
Exhibit 4: Cash Flow Statement

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---------------------|---------------|---------------|---------------|---------------|---------------|
| Net profit | 38,276 | 40,680 | 43,903 | 50,018 | 55,286 |
| Depreciation | 3,073 | 3,148 | 2,746 | 2,915 | 3,111 |
| Deferred tax | 504 | 681 | 0 | 0 | 0 |
| Change in W/C | 614 | 11,516 | -7,957 | 4,524 | 5,295 |
| Operating cash flow | 42,467 | 56,025 | 38,692 | 57,456 | 63,691 |
| Capex | -1,984 | -2,639 | -2,500 | -3,500 | -3,500 |
| Investments | -44,709 | -28,568 | 0 | 0 | 0 |
| Investing cash flow | -46,693 | -31,208 | -2,500 | -3,500 | -3,500 |
| FCF | 40,483 | 53,386 | 36,192 | 53,956 | 60,191 |
| Dividend | -17,413 | -18,507 | -19,973 | -22,755 | -25,151 |
| Equity | 16,813 | -1,476 | 0 | 0 | 0 |
| Debt | -687 | 9 | 0 | 0 | 0 |
| Financing cash flow | -1,287 | -19,974 | -19,973 | -22,755 | -25,151 |
| Net change in cash | -5,513 | 4,843 | 16,219 | 31,202 | 35,040 |
| Opening cash | 8,450 | 2,937 | 7,780 | 23,999 | 55,200 |
| Closing cash | 2,937 | 7,780 | 23,999 | 55,200 | 90,240 |

Source: Karvy Stock Broking

Exhibit 5: Ratios

| Key Ratios | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-------|-------|-------|-------|-------|
| EPS (Rs) | 132.3 | 141.7 | 151.7 | 172.9 | 191.1 |
| Book value (Rs/share) | 588.7 | 660.2 | 742.9 | 837.1 | 941.2 |
| Cash /Share (Rs) | 472.8 | 588.3 | 644.3 | 752.1 | 873.2 |
| PE (Net of KTM) | 18.7 | 17.4 | 16.3 | 14.3 | 12.9 |
| EV/EBDITA (x) | 13.1 | 11.4 | 10.7 | 8.8 | 7.6 |
| P/B (x) | 4.3 | 3.9 | 3.4 | 3.1 | 2.7 |
| ROCE (%) | 24.6% | 22.2% | 21.2% | 21.5% | 21.1% |
| ROE (%) | 25.3% | 22.7% | 21.6% | 21.9% | 21.5% |
| Free cash/Share (Rs) | 139.9 | 184.5 | 125.1 | 186.5 | 208.0 |
| Dividend/Share (Rs) | 50 | 53 | 57 | 65 | 72 |
| Dividend Yield (%) | 2.0% | 2.1% | 2.2% | 2.6% | 2.8% |
| Gross Asset Turnover (x) | 4.8 | 5.4 | 6.1 | 6.4 | 6.5 |
| Avg Net WC Days | 7 | -3 | -4 | -2 | -7 |
| Net W/C (% of sales) | 1.8% | -3.0% | 0.1% | -1.2% | -2.6% |

Source: Karvy Stock Broking

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

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Disclosures Appendix

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