

Stock Update

Sustained margin pressures to restrict earnings growth; Retain Hold

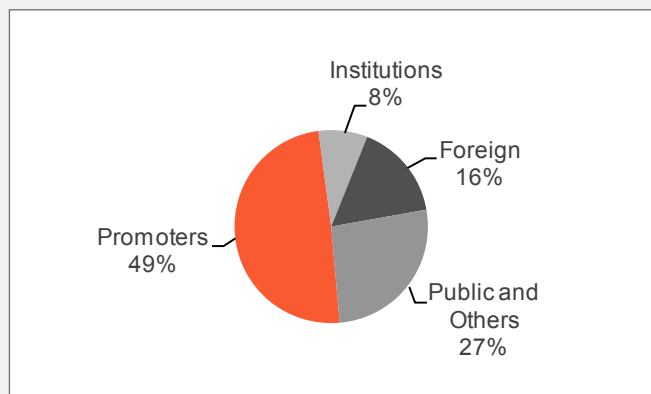
Bajaj Auto

Reco: Hold | CMP: Rs2,863

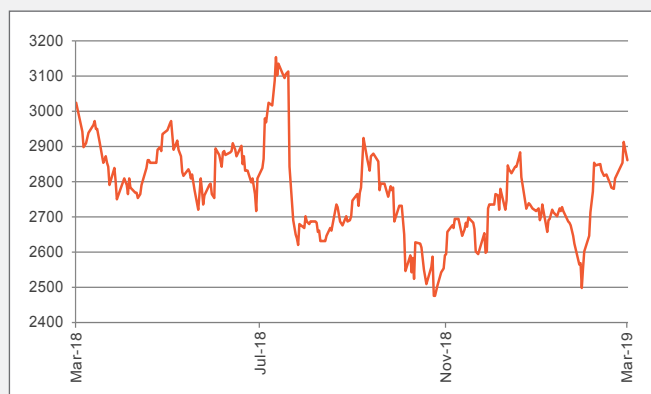
Company details

Price target:	Rs3,100
Market cap:	Rs82,843 cr
52-week high/low:	Rs3,214 / 2,425
NSE volume: (No of shares)	4.8 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	14.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.5	5.6	5.7	-2.0
Relative to Sensex	14.7	6.5	13.4	-7.8

Key points

- ♦ **BAL to continue gaining market share in the domestic market; Export outlook healthy; Expect 12% topline CAGR over FY2019-FY2021:** Bajaj Auto Limited (BAL) has been successful in gaining market share in the domestic motorcycle segment, led by its strategy of aggressive pricing (direct discounts and free insurance). Moreover, the company has been introducing new products with additional features (enhanced braking and superior suspension and LED lighting), which enhance the performance/safety of the vehicle. Market share of BAL has shot up from 15.6% in FY2018 to 18.4% in 9MFY2019. Management has stated that the strategy would continue and is targeting 24% market share in FY2020. Moreover, outlook for the export segment is healthy. Stable crude oil prices and enhanced availability of USD in key export markets provide decent growth visibility. In addition, BAL's strategy to enter new markets would further aid export volumes. Cumulatively, we expect the topline to report a 12% CAGR over FY2019-FY2021.
- ♦ **Competition intensifies as industry demand remains weak; Regulatory cost push to sustain margin pressure; Expect margins to drop:** The two-wheeler (2W) industry's demand has moderated sharply in the past two to three months with flat to marginal drop in volumes. February 2019 wholesales are also expected to be subdued with expectations of a marginal drop. Weak consumer demand, NBFC crunching and steep rise in mandatory insurance costs have dampened demand. Inventory levels continue to remain high (industry has 6-7 weeks of inventory as against the 4 weeks norm), indicating subdued demand in the near term. Market leader has already started to offer insurance freebies to attract customers to boost sales. With BAL continuing with its strategy of aggressive pricing, competition would further intensify, indicating sustained margin pressures going ahead. Further, mandatory cost increases due to ABS/CBS norms effective April 2019 (likely to increase costs by 4-5%) would add to cost pressure. Moreover, competition is intensifying in key export markets with two Indian OEMs targeting to sharply increase volumes and have already established manufacturing facilities overseas. We expect BAL OPM to drop by 70 BPS in FY2020.

- ♦ **Outlook: Margin drop to offset topline growth; Earnings growth to remain below long-term average:** BAL's topline is expected to grow by 12% over FY2019-FY2021, driven by market share gains domestically and healthy export outlook. However, margin drop (on account of aggressive pricing, intense competition and regulatory cost push) would result in earnings growing at a slower rate of 8%. Earnings growth would be lower than long-term historical average of 12%.
- ♦ **Valuation: Introduce FY2021 estimates; Retain Hold with a revised PT of Rs. 3,100:** We have introduced FY2021 earnings estimates in this note. We rollover our target multiple on FY2021 earnings and arrive at a revised PT of Rs. 3,100 for the stock (earlier PT of Rs. 2,800). We retain Hold rating on the stock.

Valuations

					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	21,766.7	25,164.9	29,954.9	34,115.4	37,328.3
Growth (%)	-3.6	15.6	19.0	13.9	9.4
EBIDTA	4,422.4	4,783.4	4,921.2	5,352.4	5,781.4
OPM (%)	20.3	19.0	16.4	15.7	15.5
Recurring PAT	3,827.6	4,100.1	4,356.5	4,726.8	5,115.8
Growth (%)	-2.6	7.1	6.3	8.5	8.2
EPS (Rs.)	132.3	141.8	150.6	163.4	176.9
PE (x)	21.7	20.2	19.1	17.6	16.2
P/BV (x)	4.9	4.3	3.9	3.5	3.1
EV/EBIDTA (x)	16.7	14.5	12.5	10.0	7.6
RoCE (%)	30.3	29.5	28.4	27.6	27.0
RoNW (%)	22.5	21.5	20.3	19.7	19.3

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