Stock Update

Margin pressures to sustain; retain Hold

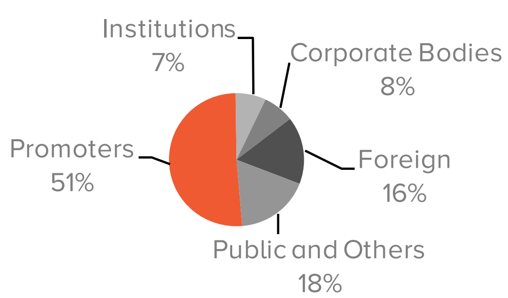
Bajaj Auto

Reco: Hold | CMP: Rs3,042

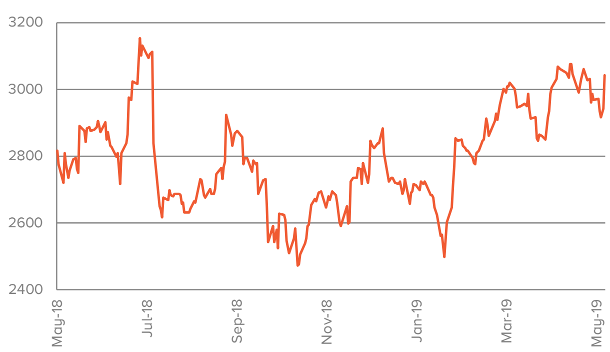
Company details

Price target:	Rs3,250
Market cap:	Rs88,020 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)	14.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.1	4.1	9.2	6.8
Relative to Sensex	0.7	-0.4	3.3	-0.2

Key points

- **Operating results marginally ahead; Adj PAT misses' estimates:** Bajaj Auto Limited's (BAL) results are ahead of estimates on the operational front. Revenues at Rs 7,395 crore rose 9% y-o-y (broadly in line with estimates) driven by a strong 14% growth in volumes. BAL's efforts to gain market share in the domestic motorcycle segment and healthy export growth boosted volumes. Realization/vehicle dropped 5% y-o-y due to an adverse mix (higher share of entry motorcycles). The operating margins at 15.7% have declined steeply by 390 bps y-o-y but are marginally ahead of our estimates of 15.3%. The company's strategy of aggressive pricing to gain market share in the domestic entry motorcycle segment coupled with the elevated commodity prices impacted the margins. Also, higher discounting levels due to intense competition have added to the cost pressures. BAL's tax rate for the quarter stood at 37% as compared to 32% in the corresponding quarter. This led to Adj PAT dropping by 11% y-o-y to Rs 964 cr which was lower than our estimates of Rs 1,017 cr. During the quarter, the company reported a refund of taxes pertaining to previous years (amounting to Rs 342 cr). Reported PAT at Rs 1,305 crore rose strongly 21% y-o-y.

- **Volume outlook strong across domestic and export markets:** BAL has been successful in gaining market share in the domestic motorcycle market which forms about 50% of revenues. New launches which are aggressively priced and loaded with features have enabled BAL to gain market share. BAL's market share increased 320 bps to 18.8% in FY2019. BAL is targeting further market share gains and has planned more launches in both the entry and mid motorcycle segment. Further, the outlook for exports is also encouraging as stable currency and rising crude prices have boosted the demand in the key export markets. BAL is tapping new market as well to fuel growth. We expect BAL's topline to clock a strong 13% CAGR over the next 2 years, with double-digit growth expected in both domestic and export markets.

- **Margin decline tend to sustain in FY2020:** BAL's operating margins have been under pressure on the back of aggressive pricing followed by the company in the domestic markets. This strategy though has yielded markets share for the company, but has exerted immense pressure on the margins. BAL's margin dropped 270 bps in FY2019. BAL has stated that it would continue to gain market share and the strategy is likely to impact margins. Further, the recently implemented safety norms (ABS / CBS) and upcoming BS6 emission norms are likely to inflate cost. Also, the competitive intensity has risen with players resorting to aggressive discounting to protect market share. We expect the BAL's margin declining trend to continue and expect 80 bps yoy drop in margins in FY2020.

- **Outlook- Earnings growth to lag topline due to cost pressures:** The BAL's topline is expected to grow by healthy 13% CAGR over FY2019-2021 period driven by robust volume growth across domestic and export markets. However BAL's continued strategy to prioritise market share over profitability, increased regulatory cost pressures and increased competitive intensity would impact margins. We expect BAL's earnings to grow at a slower pace of 9% as against topline growth of 13%.

- **Valuations: Fine tuned estimates; retain Hold with a revised PT of Rs 3,250:** BAL's Q4FY2019 results were marginally ahead of estimates on the operating front. We have fine tuned our earnings estimates for both FY2020 and FY2021. We retain Hold rating on the stock with a revised PT of Rs 3,250. (Earlier PT Rs 3,100)

Results Rs cr

Particulars	Q4FY19	Q4FY18	%YoY	Q3FY19	%QoQ
Total Income	7,395.2	6,788.4	8.9	7,409.4	-0.2
EBIDTA	1,162.3	1,330.4	-12.6	1,156.1	0.5
EBIDTA Margins (%)	15.7	19.6	(390) bps	15.6	10 bps
Depreciation	60.8	87.9	-30.8	63.4	-4.0
Interest	0.3	0.3	-3.3	3.6	-91.9
Other Income	432.7	351.5	23.1	470.0	-7.9
PBT	1,533.9	1,593.7	-3.8	1,559.1	-1.6
Tax	570.3	513.8	11.0	457.2	24.7
Adjusted PAT	963.6	1,079.9	-10.8	1,101.9	-12.6
EPS	33.3	37.3	-10.8	38.1	-12.6
Reported PAT	1,305.6	1,079.9	20.9	1,101.9	18.5

Valuations Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net Sales	21,766.7	25,218.9	30,250.0	34,494.3	38,669.0
Growth (%)	-3.6	15.9	19.9	14.0	12.1
EBIDTA	4,422.4	4,837.4	4,982.0	5,405.9	5,941.4
OPM (%)	20.3	19.2	16.5	15.7	15.4
Recurring PAT	3,827.6	4,100.1	4,333.2	4,728.4	5,188.7
Growth (%)	-2.6	7.1	5.7	9.1	9.7
EPS (Rs)	132.3	141.8	149.8	163.5	179.4
PE (x)	23.0	21.5	20.3	18.6	17.0
P/BV (x)	5.2	4.6	4.0	3.6	3.3
EV/EBIDTA (x)	17.9	15.4	12.0	9.5	6.8
RoCE (%)	30.3	29.5	28.4	27.5	27.2
RoNW (%)	22.5	21.5	19.9	19.5	19.3

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