

Bajaj Auto

BUY

An inline performance

Bajaj's adj. 4QFY19 PAT at Rs 10.7bn (-1% YoY) was inline with our estimates. We expect Bajaj to grow ahead of the market in FY20 as well driven by new launches across its product range. Our revised TP is Rs 3,330 (based on its long term ten year average PE multiple of 17.5x on FY21E earnings). While the two wheeler industry growth has been benign, Bajaj has expanded market share by recalibrating its strategy. Further, the company has a diversified product portfolio with three wheelers and exports accounting for ~50% of volumes. Re-iterate BUY.

HIGHLIGHTS OF THE QUARTER

- Financial highlights:** Bajaj Auto continued to outperform the motorbike industry with volumes rising +14% YoY. Realisations were up +5% QoQ as the OEM benefitted from higher share of premium bikes, which contributed to 49% of the domestic sales (vs. 38% QoQ). Thus, revenues grew 9% YoY, flat QoQ to Rs 74bn. The EBITDA came in at Rs 11.6bn with margins at 15.7% (+10bp QoQ, -370bp YoY). The margins are stabilizing at these levels as the RM expense ratio has been constant at ~72.5% for the past three quarters.

Financial Summary: Consolidated

YE March (Rsmn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	73,952	67,733	9.2	74,094	(0.2)	217,667	251,649	302,499	334,272	366,111
EBITDA	11,623	13,152	(11.6)	11,560	0.5	44,223	47,834	49,820	53,711	59,363
APAT	10,676	10,799	(1.1)	11,019	(3.1)	38,276	40,906	44,366	48,977	55,119
Diluted EPS (Rs)	36.9	37.3	(1.1)	38.1	(3.1)	132.3	141.4	153.3	169.3	190.5
APAT Growth (%)						(2.6)	6.9	8.5	10.4	12.5
P/E (x)						23.0	21.5	19.8	18.0	16.0
RoE (%)						25.3	22.6	21.8	21.4	21.5

Source: Company, HDFC sec Inst Research

There was a one time write back of Rs 3,420mn (relating to reversal of NCCD duties that were paid earlier to the government).

- Bajaj expects to grow ahead of the domestic motorbike market in FY20 with new launches across segments. After aggressive growth in the entry portfolio in FY19, they will launch new products in the executive segment in FY20. Bajaj is well prepared to transition to BSVI as it supplies similar products for export markets as well as to KTM. The outlook for export markets though is mixed – while African / ASEAN markets have bounced back, the Egyptian market is expected to be impacted by the license plate norms that have been introduced by the government (for three wheelers).

STANCE

We re-iterate BUY as (1) Bajaj's market share is back to 25% in motorbikes (earlier seen in CY16) (2) They will launch new variants– particularly in the executive segment to increase share in the domestic segment (3) The margins are stabilizing at current levels.

INDUSTRY	AUTOS
CMP (as on 17 May 2019)	Rs 3,040
Target Price	Rs 3,330
Nifty	11,407
Sensex	37,931

KEY STOCK DATA	
Bloomberg	BJAUT IN
No. of Shares (mn)	289
MCap (Rsmn) / (\$ mn)	880/12,528
6m avg traded value (Rsmn)	1,483

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 3,214/2,420		
	3M	6M	12M
Absolute (%)	7.6	12.8	8.0
Relative (%)	1.7	5.8	0.1

SHAREHOLDING PATTERN (%)		
	Dec-18	Mar-19
Promoters	49.3	51.2
FIs & Local MFs	8.0	7.4
FPIs	16.1	15.6
Public & Others	26.6	25.8
Pledged Shares	0.0	0.0

Source : BSE

Aditya Makharia
aditya.makharia@hdfcsec.com
+91-22-6171-7316

Mansi Lall
mansi.lall@hdfcsec.com
+91-22-3021-2070

Bajaj continued to report healthy 14% growth in volumes

In 4QFY19, EBITDA Margin at 15.7% was up +10bp QoQ (after several quarters of decline)

Quarterly Financials Snapshot: Standalone

Particulars	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19	YoY (%)
Volumes (in units)	1,193,589	1,045,378	14.2	1,259,038	(5.2)	4,006,788	5,018,712	25.3
Net ASP (Rs/veh)	61,958	64,793	(4.4)	58,849	5.3	62,806	60,274	(4.0)
Net sales (incl OOI)	73,952	67,733	9.2	74,094	(0.2)	251,649	302,499	20.2
Material Expenses	53,450	46,969	13.8	53,972	(1.0)	174,101	218,243	25.4
Employee Expenses	3,126	2,670	17.1	3,169	(1.4)	10,691	12,554	17.4
Other Operating Expenses	5,754	4,942	16.4	5,393	6.7	19,023	21,882	15.0
Total Expenditure	62,329	54,581	14.2	62,533	(0.3)	203,815	252,679	24.0
EBITDA	11,623	13,152	(11.6)	11,560	0.5	47,834	49,820	4.2
Depreciation	608	879	(30.8)	634	(4.0)	3,148	2,657	(15.6)
EBIT	11,014	12,274	(10.3)	10,927	0.8	44,686	47,163	5.5
Other Income	4,327	3,667	18.0	4,700	(7.9)	13,473	16,493	22.4
Interest Cost	3	3	(3.3)	36	(91.9)	13	45	242.0
E/O items	(3,420)	-	-	-	-	320	(3,420)	-
PBT	18,759	15,937	17.7	15,591	20.3	57,826	67,031	15.9
Tax	5,703	5,138	11.0	4,572	24.7	17,145	20,280	18.3
RPAT	13,056	10,799	20.9	11,019	18.5	40,681	46,752	14.9
APAT	10,676	10,799	(1.1)	11,019	(3.1)	40,906	44,366	8.5
Adj EPS	36.9	37.3	(1.1)	38.1	(3.1)	141.4	153.3	8.5

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

As % of sales	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19	YoY (bps)
Material Expenses	72.3	69.3	293.2	72.8	(56.6)	69.2	72.1	296
Employee Expenses	4.2	3.9	28.5	4.3	(5.0)	4.2	4.2	(10)
Other Operating Expenses	7.8	7.3	48.4	7.3	50.2	7.6	7.2	(33)
Total Expenditure	84.3	80.6	370.2	84.4	(11.4)	81.0	83.5	254
EBITDA	15.7	19.4	(370.2)	15.6	11.4	19.0	16.5	(254)
APAT	14.4	15.9	(150.7)	14.9	(43.5)	16.3	14.7	(159)
Tax as % of PBT	30.4	32.2	(184.1)	29.3	107.4	29.6	30.3	61

Source: Company, HDFC sec Inst Research

Volume Assumptions

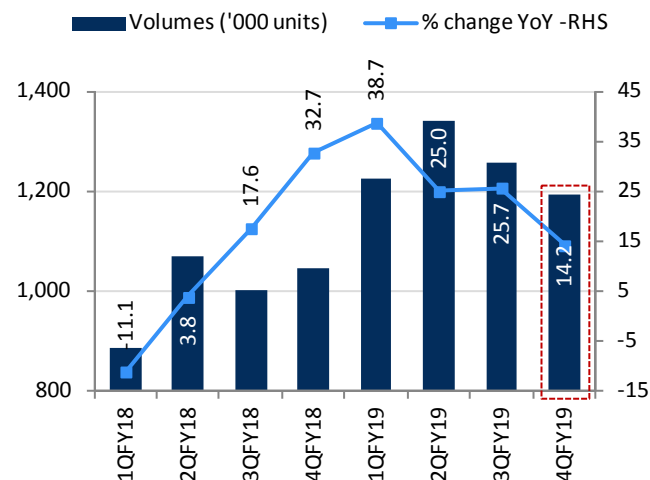
(in units)	FY17	FY18	FY19	FY20E	FY21E
Motorcycle sales	3,219,932	3,369,331	4,236,873	4,550,410	4,878,646
% chng YoY	(4.1)	4.6	25.7	7.4	7.2
CV sales	446,018	637,457	781,839	820,931	861,977
% chng YoY	(16.7)	42.9	22.6	5.0	5.0
Total sales	3,665,950	4,006,788	5,018,712	5,371,341	5,740,623
% chng YoY	(5.8)	9.3	25.3	7.0	6.9
Average Realisation (Rs)	59,375	62,806	60,274	62,232	63,775
% chng YoY	2.4	5.8	(4.0)	3.2	2.5

Source: Company, HDFC sec Inst Research

Realisations moved up due to higher share of premium bikes

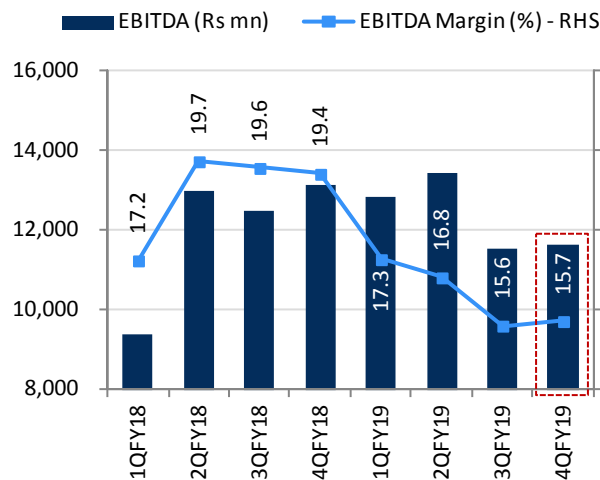
Bajaj will launch new products in the executive segment in FY20

Volume trend



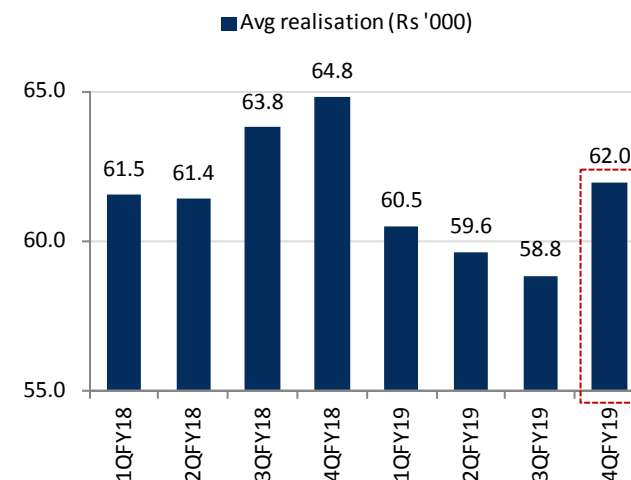
Source: Company, HDFC sec Inst Research

EBITDA margin (%)



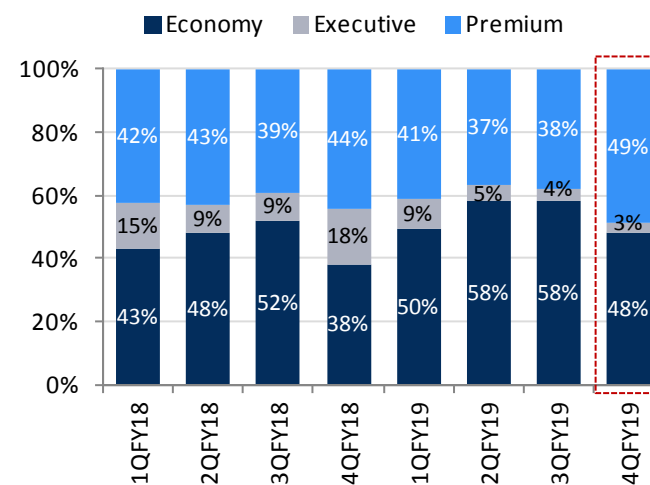
Source: Company, HDFC sec Inst Research

Average realisation



Source: Company, HDFC sec Inst Research

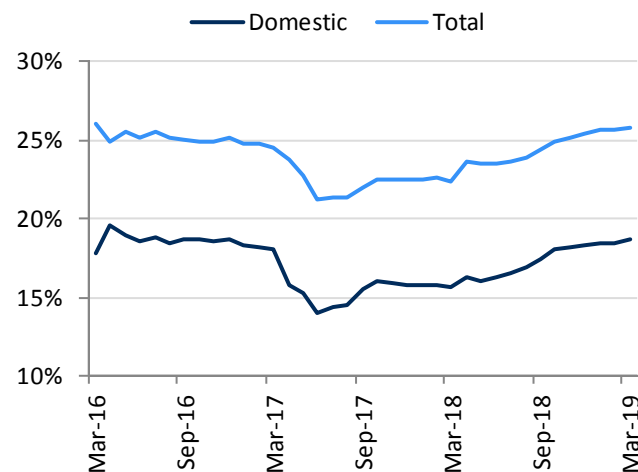
Motorbike Segmental Mix (%)



Source: Company, HDFC sec Inst Research

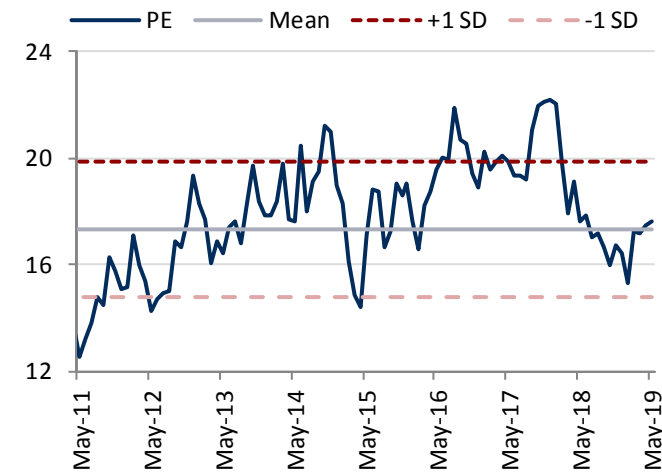
Bajaj's motorbike market share is back to 25% levels

Bajaj Auto Motorbike Market Share (%)



Source: Company, HDFC sec Inst Research

One year forward P/E band



Source: Company, HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rsbn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Maruti Suzuki	2,025	6,707	BUY	7,350	248.4	290.2	334.5	27.0	23.1	20.1	15.0	12.2	13.6	16.9	17.6	17.9
Bajaj Auto	880	3,040	BUY	3,330	153.3	169.3	190.5	19.8	18.0	16.0	13.7	12.3	10.9	21.8	21.4	21.5
Eicher	571	20,937	SELL	18,900	814.5	880.5	923.1	25.7	23.8	22.7	16.9	15.1	13.2	28.0	24.4	21.2
Hero Motocorp	524	2,623	BUY	3,080	169.5	179.9	192.6	15.5	14.6	13.6	8.8	8.1	7.3	26.9	25.2	23.9
Ashok Leyland	247	85	NEU	90	6.7	7.2	6.9	12.5	11.8	12.2	6.8	6.0	6.0	25.7	24.1	20.8

Source: HDFC sec Inst Research

Change in estimates

	NEW		OLD		% chng	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Revenue	334,272	366,111	326,414	360,577	2.4	1.5
EBITDA	53,711	59,363	55,647	61,925	(3.5)	(4.1)
EBITDA margin (%)	16.1	16.2	17.0	17.2	-98 bps	-96 bps
PAT	48,977	55,119	49,478	54,999	(1.0)	0.2
EPS	169.3	190.5	171.0	190.1	(1.0)	0.2

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	217,667	251,649	302,499	334,272	366,111
Growth (%)	(3.6)	15.6	20.2	10.5	9.5
Material Expenses	146,242	174,101	218,243	241,678	265,796
Employee Expenses	9,971	10,691	12,554	14,060	15,045
Other Operating Expenses	17,231	19,023	21,882	24,822	25,906
Total Expenses	173,443	203,815	252,679	280,561	306,747
EBITDA	44,223	47,834	49,820	53,711	59,363
EBITDA Margin (%)	20.3	19.0	16.5	16.1	16.2
EBITDA Growth (%)	(7.5)	8.2	4.2	7.8	10.5
Depreciation	3,073	3,148	2,657	2,706	2,782
EBIT	41,151	44,686	47,163	51,005	56,582
Other Income (Including EO Items)	12,220	13,473	16,493	18,423	21,173
Interest	14	13	45	7	12
Exceptional Income / Expenses	-	320	(3,420)	-	-
PBT	53,356	57,826	67,031	69,421	77,742
Tax (Incl Deferred)	15,081	17,145	20,280	20,444	22,623
Minority Interest	-	-	-	-	-
RPAT	38,276	40,681	46,752	48,977	55,119
APAT	38,276	40,906	44,366	48,977	55,119
APAT Growth (%)	(2.6)	6.9	8.5	10.4	12.5
Adjusted EPS (Rs)	132.3	141.4	153.3	169.3	190.5
EPS Growth (%)	(2.6)	6.9	8.5	10.4	12.5

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	2,894	2,894	2,894	2,894	2,894
Reserves	167,448	188,145	214,027	238,656	267,689
Total Shareholders Funds	170,341	191,039	216,921	241,550	270,582
Total Debt	-	-	-	-	-
Net Deferred Taxes	3,136	3,234	5,328	6,335	7,190
Other Non-current Liabilities	1,764	1,687	1,687	1,687	1,687
TOTAL SOURCES OF FUNDS	175,242	195,960	223,936	249,572	279,459
APPLICATION OF FUNDS					
Net Block	20,018	18,783	20,691	26,485	31,204
CWIP	422	565	2,000	1,000	1,000
Investments in subsidiaries	12,227	12,227	12,227	12,227	12,227
Other Non-current Assets					
Total Non-current Assets	32,667	31,575	34,918	39,713	44,431
Cash & Equivalents	137,886	171,265	197,637	219,384	234,426
Inventories	7,284	7,426	10,774	11,906	12,037
Debtors	9,533	14,919	17,404	19,232	21,064
Other Current Assets	20,780	13,010	15,415	17,034	18,657
Total Current Assets	175,482	206,620	241,230	267,555	286,183
Creditors	22,357	32,443	40,610	44,875	35,106
Other Current Liabilities & Provns	10,550	9,792	11,603	12,821	16,049
Total Current Liabilities	32,907	42,235	52,212	57,696	51,155
Net Current Assets	142,575	164,385	189,018	209,859	235,028
TOTAL APPLICATION OF FUNDS	175,242	195,960	223,936	249,572	279,459

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	53,356	57,826	67,031	69,421	77,742
Non-operating & EO Items	-	-	-	-	-
Interest Expenses	14	13	45	7	12
Depreciation	3,073	3,148	2,657	2,706	2,782
Working Capital Change	(6,802)	11,570	1,739	905	(10,126)
Tax Paid	(15,081)	(17,145)	(20,280)	(20,444)	(22,623)
OPERATING CASH FLOW (a)	34,560	55,412	51,192	52,594	47,787
Capex	4,399	(2,056)	(6,000)	(7,500)	(7,500)
<i>Free Cash Flow (FCF)</i>	<i>38,959</i>	<i>53,355</i>	<i>45,192</i>	<i>45,094</i>	<i>40,287</i>
Investments	987	21	2,094	1,007	855
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	5,385	(2,035)	(3,906)	(6,493)	(6,645)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(14)	(13)	(45)	(7)	(12)
<i>FCFE</i>	<i>38,945</i>	<i>53,342</i>	<i>45,147</i>	<i>45,087</i>	<i>40,275</i>
Share Capital Issuance	-	-	-	-	-
Dividend	22,656	22,656	22,656	22,656	22,656
Others	(23,256)	(42,640)	(43,525)	(47,004)	(48,743)
FINANCING CASH FLOW (c)	(614)	(19,997)	(20,914)	(24,355)	(26,099)
NET CASH FLOW (a+b+c)	39,332	33,380	26,372	21,746	15,043
Closing Cash & Equivalents	137,886	171,266	197,637	219,384	234,427

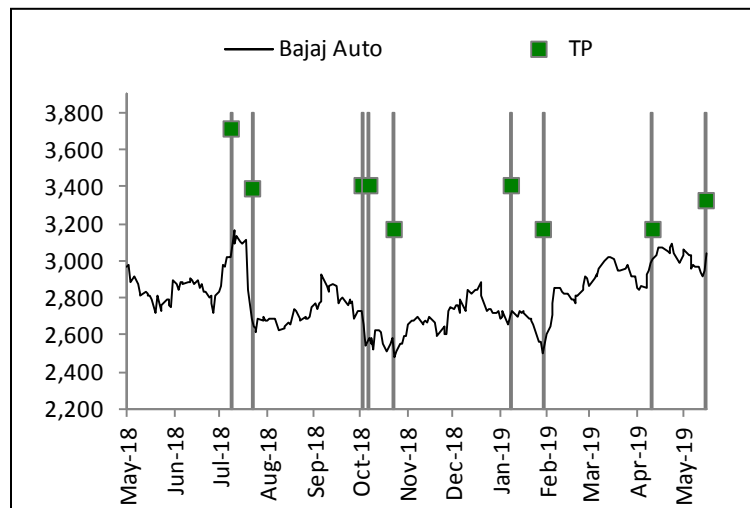
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	32.8	30.8	27.9	27.7	27.4
EBITDA Margin	20.3	19.0	16.5	16.1	16.2
EBIT Margin	18.9	17.8	15.6	15.3	15.5
APAT Margin	17.6	16.3	14.7	14.7	15.1
RoE	25.3	22.6	21.8	21.4	21.5
RoIC (or Core RoCE)	78.3	101.3	129.0	127.4	106.7
RoCE	18.9	16.9	15.7	15.2	15.2
EFFICIENCY					
Tax Rate (%)	28.3	29.6	30.3	29.5	29.1
Fixed Asset Turnover (x)	10.9	13.4	14.6	12.6	11.7
<i>Inventory (days)</i>	<i>12.2</i>	<i>10.8</i>	<i>13.0</i>	<i>13.0</i>	<i>12.0</i>
<i>Debtors (days)</i>	<i>16.0</i>	<i>21.6</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
<i>Payables (days)</i>	<i>37.5</i>	<i>47.1</i>	<i>49.0</i>	<i>49.0</i>	<i>35.0</i>
Debt/EBITDA (x)	(3.1)	(3.6)	(4.0)	(4.1)	(3.9)
Net D/E (x)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Interest Coverage (x)	2,939.3	3,411.2	1,052.7	7,286.5	4,715.1
PER SHARE DATA (Rs)					
EPS	132.3	141.4	153.3	169.3	190.5
CEPS	142.9	151.5	170.7	178.6	200.1
Dividend	55.0	55.0	60.0	60.0	70.0
Book Value	589	660	750	835	935
VALUATION					
P/E (x)	23.0	21.5	19.8	18.0	16.0
P/BV (x)	5.2	4.6	4.1	3.6	3.3
EV/EBITDA (x)	16.8	14.8	13.7	12.3	10.9
EV/Revenues (x)	3.4	2.8	2.3	2.0	1.8
OCF/EV (%)	4.7	7.8	7.5	8.0	7.4
FCF/EV (%)	5.3	7.5	6.6	6.8	6.2
FCFE/Mkt Cap (%)	4.4	6.1	5.1	5.1	4.6
Dividend Yield (%)	1.8	1.8	2.0	2.0	2.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-18	3,023	BUY	3,717
23-Jul-18	2,690	BUY	3,394
3-Oct-18	2,730	BUY	3,411
8-Oct-18	2,545	BUY	3,411
25-Oct-18	2,475	BUY	3,174
9-Jan-19	2,695	BUY	3,411
30-Jan-19	2,500	BUY	3,174
12-Apr-19	2,994	BUY	3,174
19-May-19	3,040	BUY	3,330

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **AdityaMakharia, CA & MansilLall, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

