

Bajaj Auto

BUY

On expected lines

Bajaj's 1QFY20 PAT (Rs 11.3bn, +1% YoY) was inline. After gaining market share in FY19, we expect further gains from Bajaj in FY20, driven by new launches. The OEM is well equipped for BSVI given existing supplies to KTM. Further, its diversified product portfolio (3W/exports are ~50% of volumes) provides cushion against volatility in domestic 2Ws. Re-iterate BUY, with a TP of Rs 3,000 (based on 10-year avg P/E of 17.5x on FY21E EPS).

HIGHLIGHTS OF THE QUARTER

- **Financials:** Realizations increased 2% YoY despite the lower share of 3Ws, with ABS/CBS across the bike portfolio (avg. Rs 4k/vehicle). EBITDA margin at 15.4% fell 110bps QoQ as S&D grew. Management believes margins are bottoming out. We are baking ~15.5% over FY20-21E as BJAUT's aggression in entry level bikes runs into lower commodity prices.
- **New launches in exec segment to drive market share:** BJAUT will launch a 125cc bike in 2QFY20 (ahead of the festive season). After the entry level launches of FY19, this holds potential to gain marketshare in the exec segment.

Financial Summary: Standalone

YE March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	77,558	74,649	3.9	74,205	4.5	217,667	252,189	302,500	313,488	342,977
EBITDA	11,982	13,389	(10.5)	12,270	(2.3)	44,223	48,374	49,821	49,028	53,277
APAT	11,257	11,153	0.9	10,676	5.4	38,275	40,906	44,367	45,153	49,617
Diluted EPS (Rs)	38.9	38.5	0.9	36.9	5.4	132.3	141.4	153.3	156.0	171.5
APAT Growth (%)						(2.6)	6.9	8.5	1.8	9.9
P/E (x)						19.8	18.5	17.1	16.8	15.3
RoE (%)						25.3	22.6	21.7	19.6	19.4

Source: Company, HDFC sec Inst Research

- **Well-equipped for BSVI:** Bajaj has been supplying BSVI compliant bikes in KTM's global markets. We think a technically smooth BSVI transition in India is feasible.
- **Exports:** The outlook for export markets is mixed. Our estimates factor 2% volume growth in 2W exports and 5% decline in 3W exports in FY20E. 3W exports will be impacted by new license plate norms in Egypt.
- **Electric vehicles:** Management will display an electric 2W by year end. While Bajaj is preparing for EVs, they are unsure about the adoption of these products due to infrastructure constraints (relating to charging). Products will be launched as the market gradually expands in size.

STANCE

Re-iterate BUY as (1) After regaining market share in the motorbike segment in FY19 (to 25%), Bajaj is launching a new product in the mid-segment to strengthen its position, (2) Margins are bottoming out at ~15-16% (3) Bajaj has robust return ratios with ROEs of ~20% and healthy free cash flows.

INDUSTRY	AUTOS
CMP (as on 26 Jul 2019)	Rs 2,619
Target Price	Rs 3,000
Nifty	11,284
Sensex	37,883

KEY STOCK DATA	
Bloomberg	BJAUT IN
No. of Shares (mn)	289
MCap (Rsbn) / (\$ mn)	758/10,991
6m avg traded value (Rsmn)	1,631

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 3,150/2,420		
	3M	6M	12M
Absolute (%)	(14.0)	(0.3)	0.0
Relative (%)	(10.9)	(5.4)	(2.4)

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

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Conference call takeaways:

- **Electric vehicles:** Management will display an electric 2W by year end. While Bajaj is preparing for EVs, they are unsure about the adoption of these products due to infrastructure constraints (relating to charging). Further, higher upfront costs will be a deterrent for customers in their view. The current size of the 2W electric market is 126,000 units p.a. While the government is introducing policies to drive electric vehicle sales, the transition is expected to be gradual. OEMs are investing in EV products and they will gradually launch these models in the Indian market.
- Over the quarter, despite 3W sales declining 16% YoY, Bajaj's realizations grew 2% YoY. The price hike taken is due to the introduction of CBS/ABS. The co has raised prices on 3W by 1.5-2% in 1Q.
- **Margins are expected to sustain in the current band:** The management believes that margins will stabilize at current levels of 15-16%. After witnessing a sharp decline in margins over the last several quarters, easing commodity prices and a rich product mix (including 3W and exports) will be supportive of margins.
- **Uncertain near term demand outlook for domestic motorbikes:** The management expects near term demand trends to remain weak in the domestic 2W market. The current system inventories are elevated at 6-8 weeks. We believe that the upcoming festive season will be important to liquidate the excess channel inventories. A late pick up in monsoons will aid sentiment.
- **KTM reported a loss in 1Q:** The OEM reported a loss of € 2.3mn due to the impact of stock build up in the prior quarters. The management is guiding for an uptick in sales in 2Q.

Bajaj's growth in a weak demand environment was primarily driven by positive YoY growth in realization, higher other income and a decline in the tax rate

Management expects EBITDA margins to sustain at the current levels

Quarterly Financials Snapshot: Standalone

Particulars	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Volumes (in units)	1,247,174	1,226,641	1.7	1,193,589	4.5
Net ASP (Rs/veh)	62,187	60,856	2.2	62,170	0.0
Net sales (incl OOI)	77,558	74,649	3.9	74,205	4.5
Material Expenses	55,638	52,943	5.1	53,313	4.4
Employee Expenses	3,605	3,140	14.8	3,126	15.4
Other Operating Expenses	6,333	5,176	22.3	5,498	15.2
Total Expenditure	65,576	61,260	7.0	61,936	5.9
EBITDA	11,982	13,389	(10.5)	12,270	(2.3)
Depreciation	601	700	(14.0)	608	(1.1)
EBIT	11,381	12,690	(10.3)	11,661	(2.4)
Other Income (Including EO Items)	4,413	3,469	27.2	7,100	(37.9)
Interest Cost	5	3	74.2	3	86.2
PBT	15,788	16,156	(2.3)	18,759	(15.8)
Tax	4,531	5,003	(9.4)	5,703	(20.5)
RPAT	11,257	11,153	0.9	13,056	(13.8)
EO (Loss) / Profit (Net Of Tax)	-	-	-	(2,380)	-
APAT	11,257	11,153	0.9	10,676	5.4
Adj EPS	38.9	38.5	0.9	36.9	5.4

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

As % of sales	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Material Expenses	71.7	70.9	81.4	71.8	(10.8)
Employee Expenses	4.6	4.2	44.2	4.2	43.7
Other Operating Expenses	8.2	6.9	123.1	7.4	75.7
Total Expenditure	84.6	82.1	248.7	83.5	108.6
EBITDA	15.4	17.9	(248.7)	16.5	(108.6)
APAT	14.5	14.9	(42.6)	14.4	12.7
Tax as % of PBT	28.7	31.0	(226.8)	30.4	(170.0)

Source: Company, HDFC sec Inst Research

While near term volumes are expected to be muted due to weak industry environment, we expect Bajaj to gain market share

Volume Assumptions

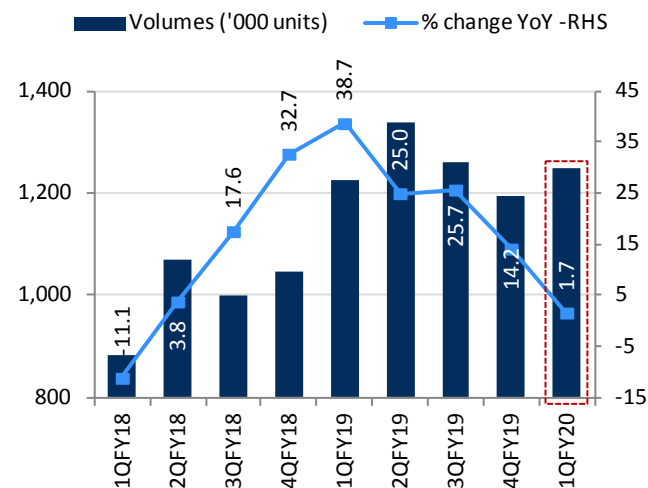
(in units)	FY17	FY18	FY19	FY20E	FY21E
Motorcycles					
-Domestic	2,001,391	1,974,574	2,541,320	2,543,861	2,645,616
-Exports	1,218,541	1,394,757	1,695,553	1,729,464	1,911,058
Total	3,219,932	3,369,331	4,236,873	4,273,325	4,556,674
% YoY	(4.1)	4.6	25.7	0.9	6.6
3Ws					
-Domestic	253,226	369,637	399,448	379,476	398,449
-Exports	192,792	267,820	382,391	363,271	381,435
Total	446,018	637,457	781,839	742,747	779,884
% YoY	(16.7)	42.9	22.6	(5.0)	5.0
Total sales					
- Domestic	2,254,617	2,344,211	2,940,768	2,923,337	3,044,065
- Exports	1,411,333	1,662,577	2,077,944	2,092,736	2,292,493
	3,665,950	4,006,788	5,018,712	5,016,072	5,336,558
% YoY	(5.8)	9.3	25.3	(0.1)	6.4
Average Realisation (Rs)					
	59,375	62,940	60,274	62,497	64,269
% YoY	2.4	6.0	(4.2)	3.7	2.8

Source: Company, HDFC sec Inst Research

Realisations grew 2% YoY due to the introduction of ABS / CBS on the bike range

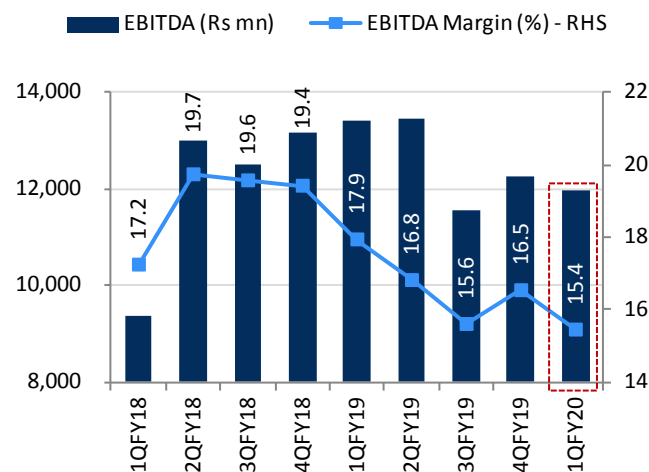
The share of premium bikes is sustaining at 47% of the product mix

Volumes: Moderated on slowing industry sales



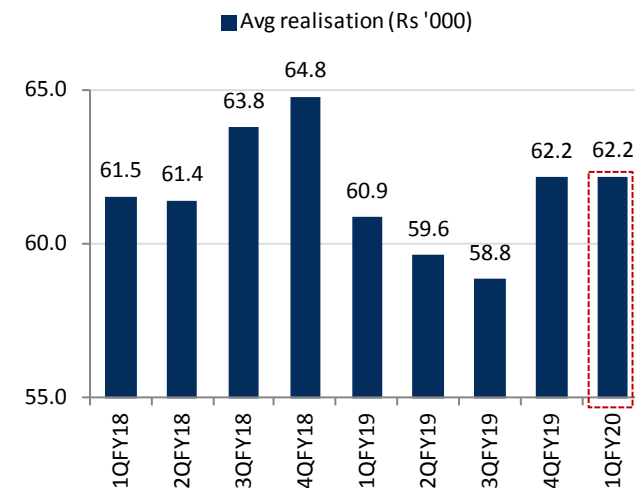
Source: Company, HDFC sec Inst Research

EBITDA Margin (%): Stabilizing at current levels



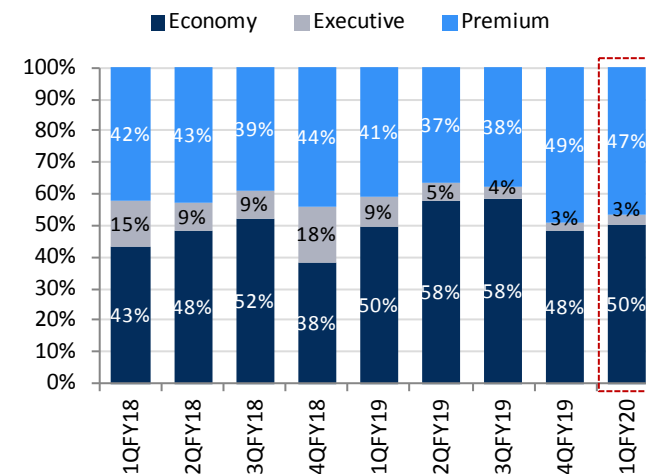
Source: Company, HDFC sec Inst Research

ASP: Price hikes due to ABS aid realisation



Source: Company, HDFC sec Inst Research

2W segmental mix (%)



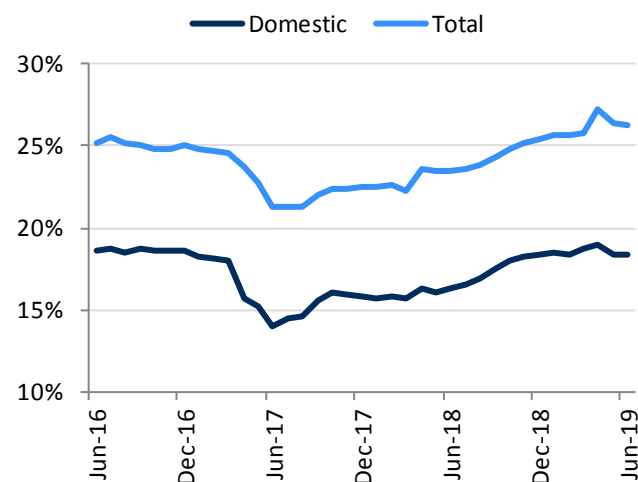
Source: Company, HDFC sec Inst Research

Bajaj's 1Q volume break-up:

	1QFY20	1QFY19	% YoY
Motorcycles	1,082,627	1,029,964	5.1
-Domestic	610,936	594,234	2.8
-Exports	471,691	435,730	8.3
3W	164,547	196,677	(16.3)
-Domestic	86,217	94,431	(8.7)
-Exports	78,330	102,246	(23.4)
Total	1,247,174	1,226,641	1.7
-Domestic	697,153	688,665	1.2
-Exports	550,021	537,976	2.2

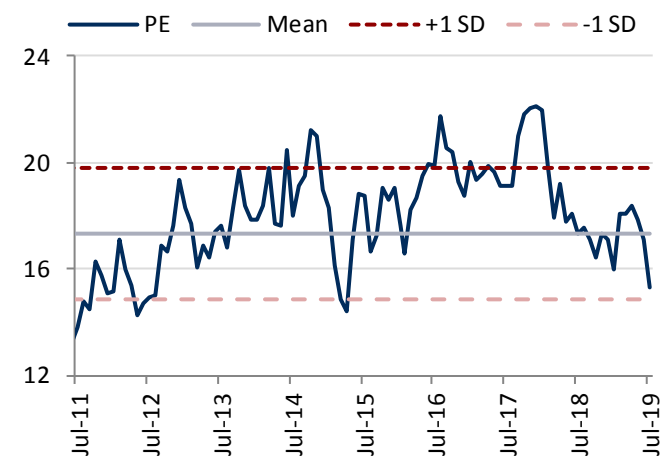
Source: Company, HDFC sec Inst Research

Motorcycle market share (%) has risen in FY19-20



Source: Company, HDFC sec Inst Research

1 year forward P/E band



Source: Company, HDFC sec Inst Research

Bajaj has gained market over the year (it has reverted to the 25% levels)

As per Bajaj, they enjoy a healthy 47% market share in the premium sports segment and 31% market share in the entry segment.

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)		P/E (x)		EV/EBITDA (x)		RoE (%)	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Ashok Leyland	217	74	NEU	90	6.9	7.0	10.8	10.6	5.5	5.0	23.4	21.3
Bajaj Auto	758	2,619	BUY	3,000	156.0	171.5	16.8	15.3	10.9	9.5	19.6	19.4
Eicher	469	17,187	SELL	17,150	811.6	835.3	21.2	20.6	12.9	11.4	22.7	19.6
Hero Motocorp	493	2,467	BUY	2,875	168.0	179.8	14.7	13.7	10.3	9.6	23.7	23.0
Maruti Suzuki	1,753	5,806	BUY	6,610	261.0	300.3	22.2	19.3	11.2	9.2	15.9	16.3

Source: HDFC sec Inst Research

Change in estimates

	NEW		OLD		% change	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Revenue	313,488	342,977	319,506	350,075	(2)	(2)
EBITDA	49,028	53,277	50,384	54,710	(3)	(3)
EBITDA margin (%)	15.6	15.5	15.8	15.6	-13 bps	-9 bps
PAT	45,153	49,617	46,603	51,147	(3)	(3)
EPS	156.0	171.5	161.1	176.8	(3)	(3)

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	217,667	252,189	302,500	313,488	342,977
Growth (%)	(3.6)	15.9	19.9	3.6	9.4
Material Expenses	146,242	174,101	218,243	226,652	249,344
Employee Expenses	9,971	10,691	12,554	14,060	14,904
Other Operating Expenses	17,231	19,023	21,882	23,747	25,452
Total Expenses	173,444	203,815	252,679	264,460	289,700
EBITDA	44,223	48,374	49,821	49,028	53,277
EBITDA Margin (%)	20.3	19.2	16.5	15.6	15.5
EBITDA Growth (%)	(7.5)	9.4	3.0	(1.6)	8.7
Depreciation	3,073	3,148	2,657	2,408	2,436
EBIT	41,150	45,226	47,164	46,620	50,840
Other Income (Including EO Items)	12,220	12,613	19,913	17,388	19,252
Interest	14	13	45	7	12
PBT	53,356	57,826	67,032	64,002	70,081
Tax (Incl Deferred)	15,081	17,145	20,280	18,849	20,464
RPAT	38,275	40,681	46,752	45,153	49,617
EO (Loss) / Profit (Net Of Tax)	-	225	(2,385)	-	-
APAT	38,275	40,906	44,367	45,153	49,617
APAT Growth (%)	(2.6)	6.9	8.5	1.8	9.9
Adjusted EPS (Rs)	132.3	141.4	153.3	156.0	171.5
EPS Growth (%)	(2.6)	6.9	8.5	1.8	9.9

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	214,905	239,189	266,198
Total Shareholders Funds	170,341	191,039	217,799	242,083	269,091
Total Debt	-	-	-	-	-
Net Deferred Taxes	3,136	3,234	5,427	6,355	7,196
Other Non-current Liabilities	1,764	1,687	1,696	1,696	1,696
TOTAL SOURCES OF FUNDS	175,242	195,960	224,922	250,133	277,983
APPLICATION OF FUNDS					
Net Block	20,018	18,783	17,639	22,212	27,275
CWIP	422	565	480	1,000	1,000
Investments	12,227	12,227	12,227	12,227	12,227
Total Non-current Assets	32,667	31,575	30,347	35,439	40,503
Cash & Equivalents	137,886	171,436	188,595	223,627	250,072
Inventories	7,284	7,426	9,615	11,165	11,276
Debtors	9,533	14,919	25,597	18,036	19,733
Other Current Assets	20,780	12,839	19,651	15,975	17,478
Total Current Assets	175,482	206,620	243,457	268,803	298,558
Creditors	22,357	32,443	37,867	42,085	46,043
Other Current Liabilities & Provns	10,550	9,792	11,015	12,024	15,035
Total Current Liabilities	32,907	42,235	48,882	54,109	61,078
Net Current Assets	142,575	164,385	194,575	214,694	237,480
TOTAL APPLICATION OF FUNDS	175,242	195,960	224,922	250,133	277,983

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	53,356	57,826	67,032	64,002	70,081
Non-operating & EO Items	(12,220)	(12,613)	(19,913)	(17,388)	(19,252)
Interest Expenses	14	13	45	7	12
Depreciation	3,073	3,148	2,657	2,408	2,436
Working Capital Change	(6,802)	11,740	(13,031)	14,912	3,659
Tax Paid	(13,973)	(17,047)	(18,087)	(17,920)	(19,623)
OPERATING CASH FLOW (a)	23,449	43,068	18,702	46,020	37,313
Capex	4,399	(2,056)	(1,429)	(7,500)	(7,500)
<i>Free Cash Flow (FCF)</i>	<i>27,847</i>	<i>41,011</i>	<i>17,273</i>	<i>38,520</i>	<i>29,813</i>
Investments	(122)	(77)	9	-	-
Non-operating Income	12,220	12,613	19,913	17,388	19,252
INVESTING CASH FLOW (b)	16,497	10,479	18,493	9,888	11,752
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(14)	(13)	(45)	(7)	(12)
FCFE	27,833	40,998	17,229	38,513	29,801
Share Capital Issuance	1,423	(1,135)	741	-	(0)
Dividend	(2,022)	(18,848)	(20,733)	(20,869)	(22,608)
FINANCING CASH FLOW (c)	(614)	(19,997)	(20,037)	(20,876)	(22,620)
NET CASH FLOW (a+b+c)	39,332	33,550	17,159	35,032	26,445
Closing Cash & Equivalents	137,886	171,436	188,595	223,627	250,072

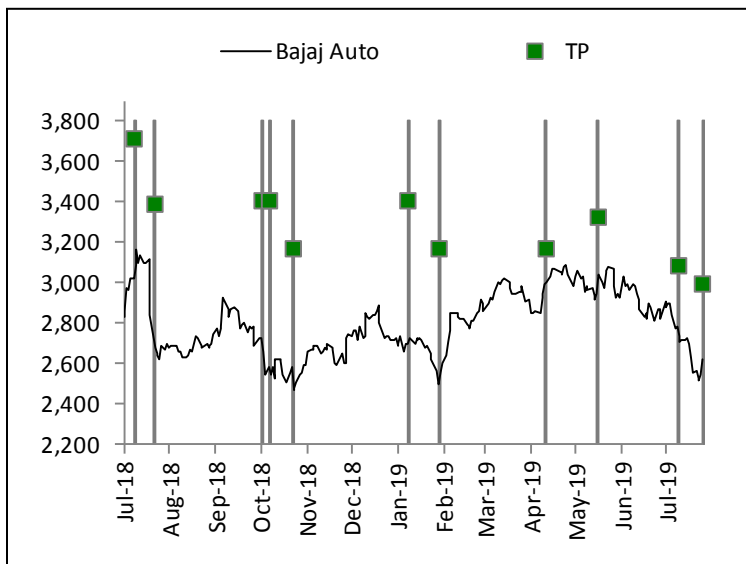
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	32.8	31.0	27.9	27.7	27.3
EBITDA Margin	20.3	19.2	16.5	15.6	15.5
EBIT Margin	18.9	17.9	15.6	14.9	14.8
APAT Margin	17.6	16.2	14.7	14.4	14.5
RoE	25.3	22.6	21.7	19.6	19.4
RoIC (or Core RoCE)	78.3	102.8	108.1	104.7	132.3
RoCE	18.9	17.1	15.6	13.8	13.6
EFFICIENCY					
Tax Rate (%)	28.3	29.6	30.3	29.5	29.2
Fixed Asset Turnover (x)	10.9	13.4	17.1	14.1	12.6
<i>Inventory (days)</i>	<i>12.2</i>	<i>10.7</i>	<i>11.6</i>	<i>13.0</i>	<i>12.0</i>
<i>Debtors (days)</i>	<i>16.0</i>	<i>21.6</i>	<i>30.9</i>	<i>21.0</i>	<i>21.0</i>
<i>Other Current Assets (days)</i>	<i>34.8</i>	<i>18.6</i>	<i>23.7</i>	<i>18.6</i>	<i>18.6</i>
<i>Payables (days)</i>	<i>37.5</i>	<i>47.0</i>	<i>45.7</i>	<i>49.0</i>	<i>49.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>17.7</i>	<i>14.2</i>	<i>13.3</i>	<i>14.0</i>	<i>16.0</i>
Cash Conversion Cycle (days)	7.9	(10.2)	7.2	(10.4)	(13.4)
Debt/EBITDA (x)	(3.1)	(3.5)	(3.8)	(4.6)	(4.7)
Net D/E (x)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Interest Coverage (x)	2,939.3	3,452.4	1,052.8	6,660.1	4,236.7
PER SHARE DATA (Rs)					
EPS	132.3	141.4	153.3	156.0	171.5
CEPS	142.9	151.5	170.7	164.4	179.9
Dividend	55.0	55.0	60.0	60.0	60.0
Book Value	589	660	753	837	930
VALUATION					
P/E (x)	19.8	18.5	17.1	16.8	15.3
P/BV (x)	4.4	4.0	3.5	3.1	2.8
EV/EBITDA (x)	14.0	12.1	11.4	10.9	9.5
EV/Revenues (x)	2.8	2.3	1.9	1.7	1.5
OCF/EV (%)	3.8	7.3	3.3	8.6	7.3
FCF/EV (%)	4.5	7.0	3.0	7.2	5.9
FCFE/Mkt Cap (%)	3.7	5.4	2.3	5.1	3.9
Dividend Yield (%)	2.1	2.1	2.3	2.3	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
10-Jul-19	2,786	BUY	3,090
29-Jul-19	2,619	BUY	3,000

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:

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