

Sector: Automobile
Company Update

	Change
Reco: Hold	↑
CMP: Rs. 3,236	
Price Target: Rs. 3,400	↑
↑ Upgrade ↔ No change ↓ Downgrade	

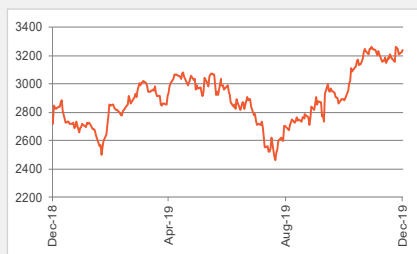
Company details

Market cap:	Rs. 93,639 cr
52-week high/low:	Rs. 3,290/2,400
NSE volume: (No of shares)	4.83 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	13.45 cr

Shareholding (%)

Promoters	53.5
Institutions	9.8
Corporate Bodies	4.6
Foreign	14.5
Public and Others	17.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	17.5	11.1	19.9
Relative to Sensex	-1.4	5.5	8.4	4.3

Sharekhan Research, Bloomberg

Bajaj Auto Ltd (BAL) is expected to outpace the 2W industry growth in a challenging demand environment. Domestic 2W industry growth is expected to remain under pressure over the next three to four quarters due to huge cost increases on account of transition from BS4 emission norms to BS6 emission norms. Amongst listed players, BAL would be the least impacted by the transition due to lower inventory, higher share of exports (which are immune to BS6 Norm change) and higher share of premium bikes which would see a relatively lower cost increase. Healthy export growth due to tapping of new geographies makes BAL less vulnerable to weak demand conditions in the domestic market. We expect BAL to clock mid single digit growth in motorcycles in FY21 as against expectations of flattish volumes for the industry. Hence we upgrade our recommendation on the stock to "Hold" from "Reduce". We rollover our target multiple on average of FY2021 and FY2022 earnings and arrive at PT of Rs 3,400. Reduction in the personal income tax can increase the disposable income and boost the demand for personal vehicles especially 2W.

Better placed amongst 2W players: BAL is better off amongst the listed 2W players as it would be least impacted by transition from BS4 emission to BS6 emission norms. Lowest inventory level of 30 days (as against 40 days for the 2W industry) coupled with higher export share of 45% (exports are immune to BS6 transition) makes BAL better placed amongst peers to handle the BS6 transition. Also, higher share of premium bikes of 40% (premium bikes would see lower cost increase of 6-7% as against 10-12% for entry bikes) would further reduce impact on BAL. Moreover, BAL is witnessing healthy growth in exports due to its entry into newer geographies. We expect BAL to outgrow the 2W industry.

Our Call

To outgrow 2W industry; upgrade to Hold: BAL is likely to outpace the industry growth given the lower impact of BS 6 transition and healthy growth in exports. We have retained our earnings estimates for both FY2020 and FY2021. We have introduced FY2022 estimates in this note. We upgrade our recommendation to "Hold" from "Reduce" as we rollover multiple to average of FY2021 and FY2022 earnings. Our PT stands at Rs 3,400.

Key Risks

- ♦ Prolonged slowdown in the domestic market can impact the financials
- ♦ Aggressive discounting adopted by 2W players can have adverse impact on the margins.

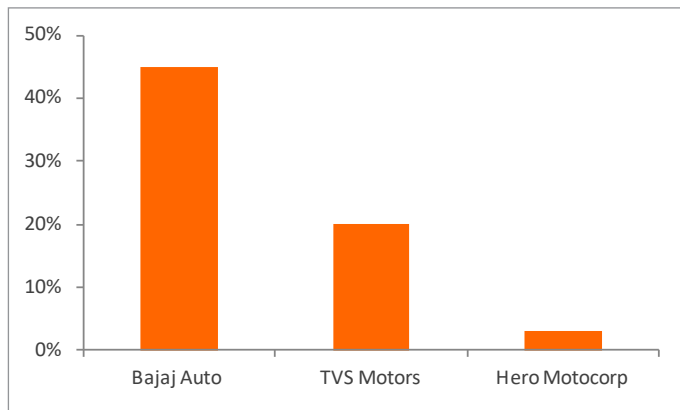
Valuation

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	25,218.9	30,250.0	31,478.5	35,550.6	38,917.4
Growth (%)	15.9	19.9	4.1	12.9	9.5
EBIDTA	4,837.4	4,982.0	5,073.3	5,622.8	6,343.5
OPM (%)	19.2	16.5	16.1	15.8	16.3
Recurring PAT	4,100.1	4,333.2	4,983.7	5,289.3	5,920.4
Growth (%)	7.1	5.7	15.0	6.1	11.9
EPS (Rs)	141.8	149.8	172.3	182.9	204.7
PE (x)	22.8	21.6	18.8	17.7	15.8
P/BV (x)	4.9	4.3	3.8	3.4	3.0
EV/EBIDTA (x)	16.5	16.6	13.2	10.3	8.1
RoCE (%)	29.5	28.3	25.6	25.0	25.2
RoNW (%)	21.5	19.9	20.3	19.2	19.3

Source: Company, Sharekhan Research

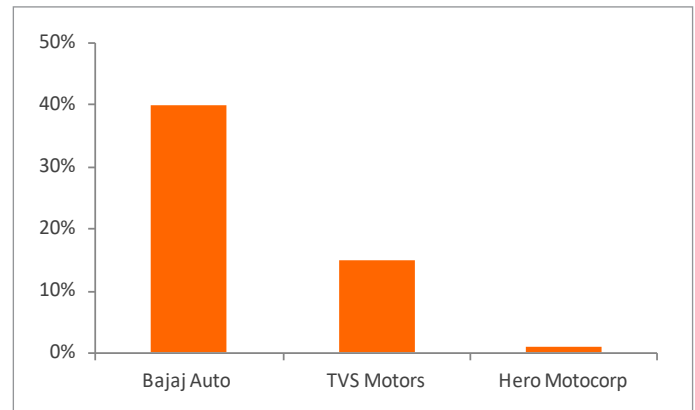
Minimal impact of BS6 transition: Amongst the listed peers, Bajaj Auto Ltd (BAL) is likely to be least impacted in transition from BS4 to BS6 emission norms (BS6 norms would be effective from April 2020). BAL is the largest exporter of 2W from India with exports forming 45% of its overall volumes. BAL exports primarily to developing nations of Africa and Latin American markets and the exports are immune to emission norm change. BAL's export mix at 45% is the highest compared to 20% for TVS Motors and a mere 3% for HeroMotocorp. Moreover, BAL has the highest mix of premium motorcycles (150 cc and above) where cost increases on account of BS 6 transition would be relatively lower. Premium motorcycles are likely to witness about 6-7% increase in costs as compared to 10-12% for entry level motorcycles. BAL derives about 40% of domestic volumes from the premium motorcycle segment as compared to 15% for TVS and 1% for HeroMotocorp. Further, as per our channel checks, Bajaj Auto has the least channel inventory in the 2W industry currently (BAL inventory stands at 30 days as compared to 2W industry inventory of about 40 days).

Export mix



Source: Company, Sharekhan Research

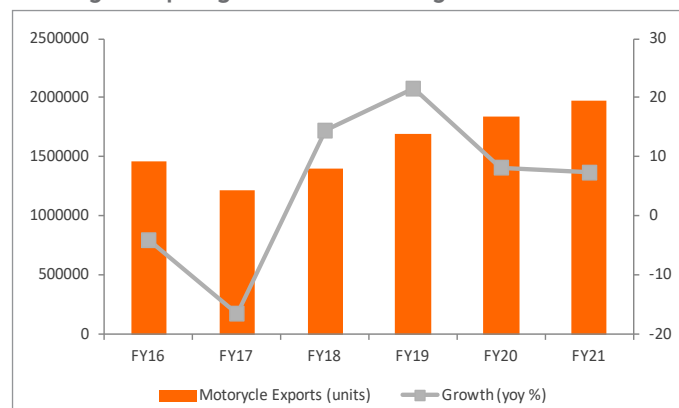
Premium motorcycle mix



Source: Company, Sharekhan Research

Healthy growth in motorcycle exports to continue: BAL motorcycle exports have grown strongly at 8% y-o-y YTD in FY2020 (April 2019 to November 2019). Healthy growth in key markets of African and Latin America is driving growth for BAL. BAL continues to enter new countries in key markets (such as Benin in Africa) enabling to further boost exports and gain market share. With firm commodity and crude prices, we expect healthy export momentum to continue. BAL has guided for high single digit growth of 7-8% for FY2020.

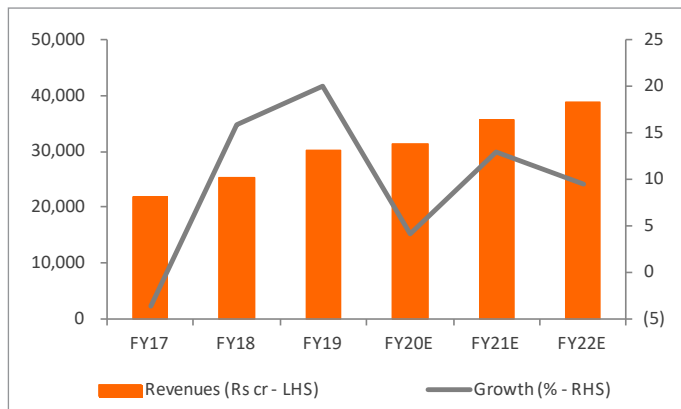
Motorcycle export growth to be healthy



Source: Company, Sharekhan Research

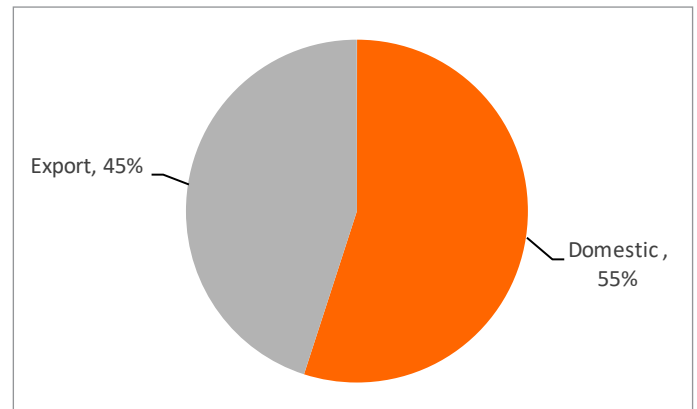
Financials in charts

Revenue trends



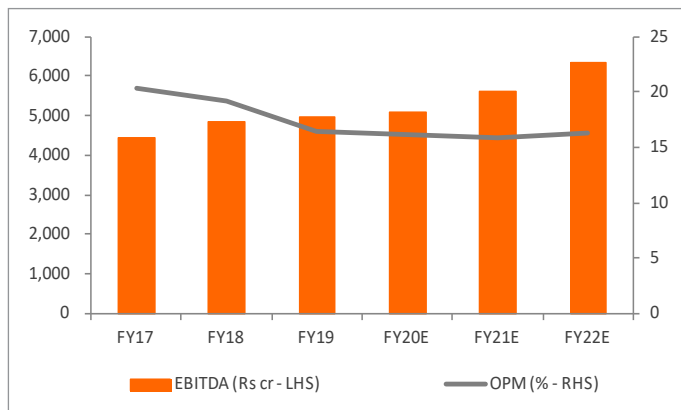
Source: Company, Sharekhan Research

Volume Mix



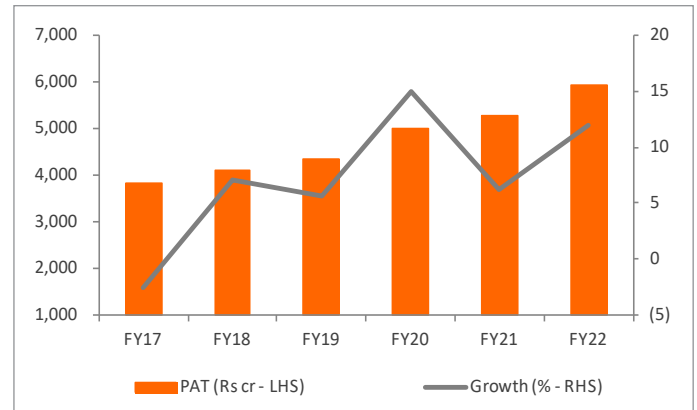
Source: Company, Sharekhan Research

EBIDTA trend



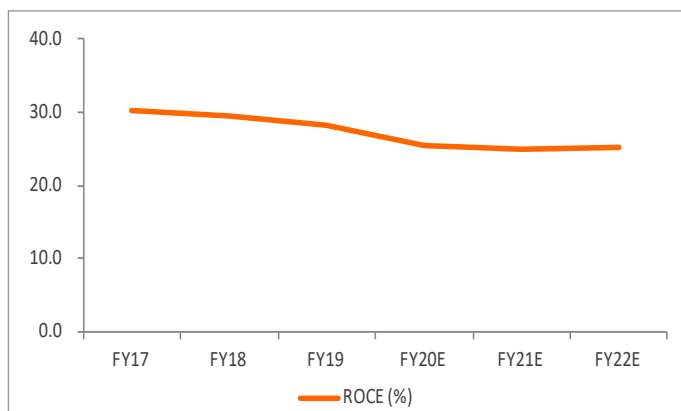
Source: Company, Sharekhan Research

Profitability trend



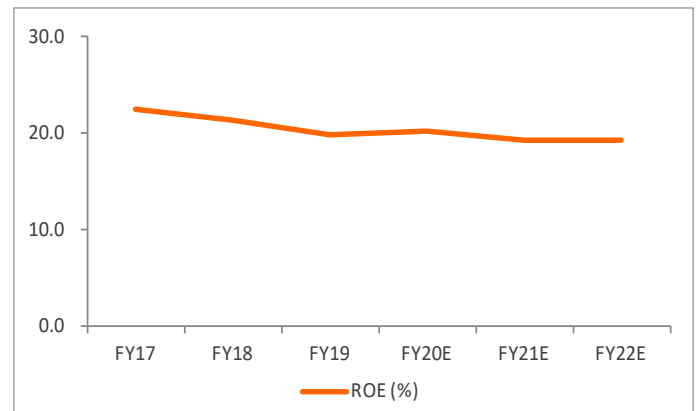
Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

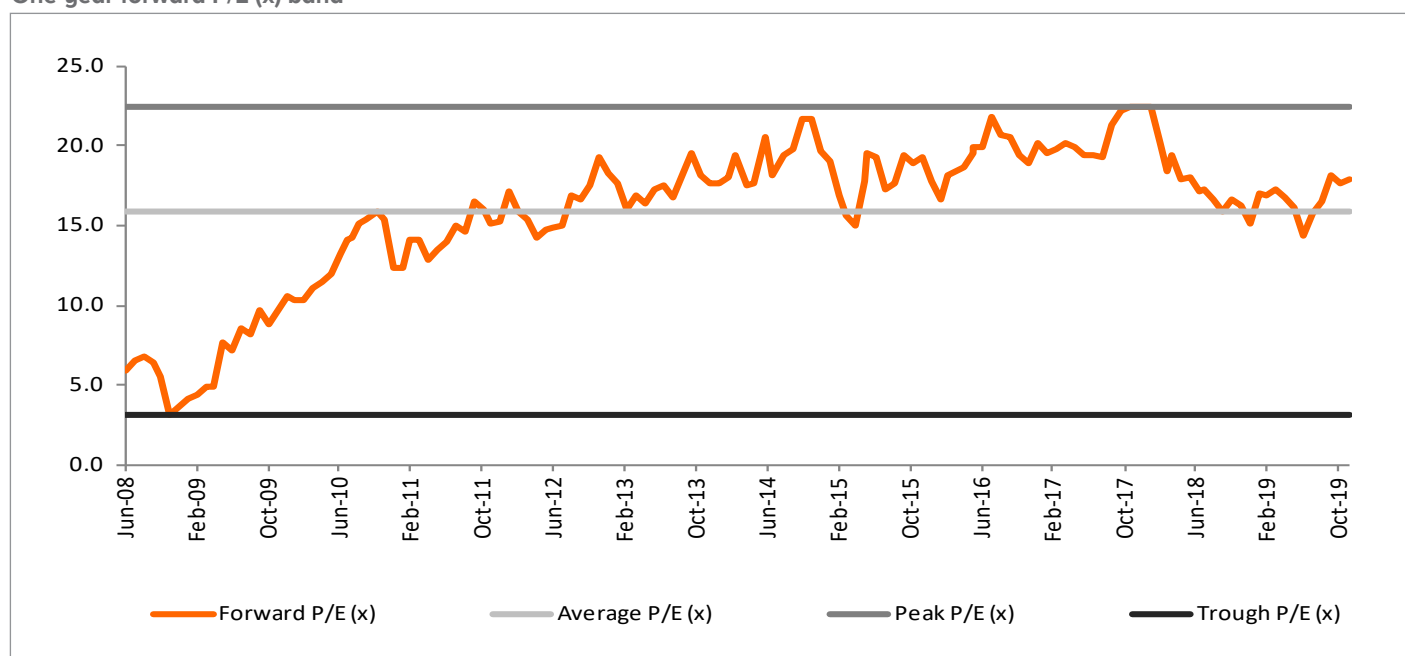
Outlook

To outpace 2W industry growth; upgrade to Hold: Amongst the listed peers, BAL is likely to be least impacted by transition from BS4 to BS 6 emission norms. Lower channel inventory of 30 days (compared to about 40 days for the industry) coupled with highest share of exports (45% contribution which is immune to BS emission) makes BAL better placed in transitory phase of BS6. Also, BAL has relatively higher share of premium bikes (40% contribution) where the price increase due to BS6 norms is relatively less (6-7% increase) as compared to 10-12% for entry level bikes which further reduces impact on BAL. Moreover, healthy growth in export markets would enable BAL to outpace the 2W industry growth. Hence, we upgrade our recommendation on the stock from “Reduce” to “Hold”.

Valuation

Introduce FY22 estimates; upgrade to Hold: We have retained our earnings estimates for both FY2020 and FY2021. We have introduced FY2022 estimates in this note. BAL is likely to outpace the industry growth given the lower impact of BS 6 transition and healthy growth in exports. We upgrade our recommendation to “Hold” from “Reduce” as we rollover to average of FY2021 and FY2022 earnings. Our PT stands at Rs 3,400.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

BAL is the second largest motorcycle manufacturer in India with a market share of about 20%. Over the years, BAL has created a strong brand not only domestically but also in export markets. Exports currently constitute about 45% of overall volumes with Africa, Southeast Asia and Latin America amongst the key markets. BAL is the leader in the premium motorcycle segment having a market share of 41%. Apart from premium motorcycles, BAL is also the leader in the three-wheeler segment, commanding market share of about 57%. Motorcycles constitute about 85% of overall volumes, while three-wheelers contribute to 15%.

Investment theme

BAL is the market leader in the premium motorcycle segment and three-wheelers. BAL has strongly developed its brand in key export markets and is currently India's largest two-wheeler and three-wheeler exporter. BAL is likely to outgrow the 2W industry given the minimal impact of transition from BS4 to BS6 norms due to lower inventory levels, higher share of exports and premium motorcycles. Healthy growth in export motorcycles should continue. We upgrade our recommendation to "Hold" from "Reduce" earlier.

Key Risks

- ♦ BAL derives about 45% of volumes from export markets; hence, it is exposed to forex risks. Any adverse currency movement in INR/USD can impact profitability.
- ♦ Any adverse government policy for full switchover to electric vehicles in both the two-wheeler and three wheeler segments would impact market positioning of the company.
- ♦ Prolonged slowdown in domestic market can impact the financials

Additional Data

Key management personnel

Rahul Bajaj	Chairman Executive
Rajiv Bajaj	MD & CEO
Rakesh Sharma	Executive Director
Soumen Ray	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Bajaj Holdings & Investment Ltd	33.43
2	Jamnalal Sons Pvt Ltd	8.95
3	Life Insurance Corp of India	4.6
4	Jaya Hind Industries Ltd	3.35
5	Maharashtra Scooters Ltd	2.34
6	Bajaj Sevashram Pvt Ltd	1.54
7	Norges Bank Investment Management	1.38
8	Government Pension Fund	1.38
9	Bachhraj & Co Pvt Ltd	1.26
10	SBI Funds Management	1.14

Source: Bloomberg

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