Sharekhan
by BNP PARIBAS

Bajaj Auto

To continue outpacing the industry

Sector: Automobile
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 3,144**	
Price Target: **Rs. 3,670**	↑

↑ Upgrade ↔ No change ↓ Downgrade

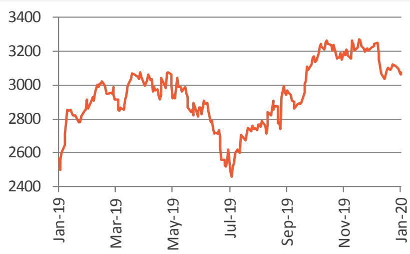
Company details

Market cap:	Rs. 90,967 cr
52-week high/low:	Rs. 3,290/2,400
NSE volume: (No of shares)	4.45 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	13.5 cr

Shareholding (%)

Promoters	53.5%
Institutions	10.1%
Corporate Bodies	4.6%
Foreign	14.4%
Public and Others	17.4%

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.6	-2.6	16.9	21.9
Relative to Sensex	-4.2	-6.7	7.8	5.0

Sharekhan Research, Bloomberg

Bajaj Auto Limited's (BAL) Q3FY2020 results were ahead of our as well as street's estimates as the company posted highest margins in the past seven quarters. Better product mix and benefit of soft commodity prices led to higher-than-anticipated operating performance. BAL is expected to continue outpacing the industry. BAL plans to launch new products with enhanced features in the domestic market. BAL has launched the electronic injection system in its entry motorcycles to meet BS6 emission norms as against fuel injection launched by competition. As per management, electronic injection system costs slightly lower than fuel injection and the company can utilise the differential to provide additional features, leading to market share gains. Moreover, export outlook continues to remain robust with the company expecting double-digit growth to continue for the next two to three quarters. We expect BAL to post robust 8% volume CAGR over FY2020-FY2022, which would be higher than the industry. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 3,670. BAL continues to remain our preferred pick in the 2W space.

Key positives

- BAL's operating margin at 17.9% improved by 160 BPS y-o-y and was better than our estimate of 16.5%. Better product mix along with soft commodity prices led to margin improvement.
- Export realisation at Rs. 71.3/USD in Q3FY2020 was better than Rs. 70.6/USD in Q2FY2020.
- The Egyptian Government has now permitted import of 3W. BAL has restarted export of 3W to Egypt and has done shipments in January 2020. Earlier due to government ban, BAL was unable to export to the Egyptian market since April 2019.

Key negatives

- Dealer inventory currently stands at five weeks, which is slightly higher than the norm of four weeks.
- Commodity costs are expected to increase and BAL expects commodity prices to harden in Q4FY2020.

Our Call

To continue outpacing the industry; Retain Buy with a revised PT of Rs. 3,670: BAL is expected to continue outpacing the industry's growth, driven by launch of new products with additional features and robust export growth. Given the better-than-anticipated margin performance in Q3FY2020, we have marginally raised our FY2021 and FY2022 estimates by 3%. We retain our Buy rating on the stock with a revised PT of Rs. 3,670 (earlier PT of Rs. 3,575).

Key Risks

- Prolonged slowdown in the domestic market can impact the financials.
- Aggressive discounting adopted by 2W players ahead of BS6 transition can have an adverse impact on margins.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	25,218.9	30,250.0	30,929.3	34,291.7	38,248.0
Growth (%)	15.9	19.9	2.2	10.9	11.5
EBIDTA	4,837.4	4,982.0	5,241.6	5,756.1	6,502.2
OPM (%)	19.2	16.5	16.9	16.8	17.0
Recurring PAT	4,100.1	4,333.2	5,058.0	5,389.1	6,065.9
Growth (%)	7.1	5.7	16.7	6.5	12.6
EPS (Rs)	141.8	149.8	174.9	186.3	209.7
PE (x)	22.2	21.0	18.0	16.9	15.0
P/BV (x)	4.8	4.2	3.7	3.3	2.9
EV/EBIDTA (x)	16.0	16.1	12.2	9.4	7.1
RoCE (%)	29.5	28.3	26.0	25.4	25.5
RoNW (%)	21.5	19.9	20.5	19.5	19.6

Source: Company; Sharekhan estimates

Results beat estimates: BAL's Q3FY2020 results were better than our as well as street's expectations. Revenue grew by 3% y-o-y to Rs. 7,640 crore (slightly lower than our estimate of Rs. 7,881 crore). While volumes dropped by 4% y-o-y, realisation/vehicle grew by 8% y-o-y (realisation growth was on account of better product mix and price hikes taken by the company). Realisation/vehicle at Rs. 63,532 was slightly lower than our estimate of Rs. 65,542. Operating margin improved by 160 BPS y-o-y. Margin at 17.9% was higher than our estimate of 16.5% and the highest margin in the past five quarters. Softer commodity prices and a better product mix led to higher margins. Tracking the strong operating performance, net profit grew by 15% y-o-y to Rs. 1,262 crore, ahead of our estimate of Rs. 1,225 crore.

To continue outpacing the industry: BAL has outpaced the domestic motorcycle industry over the past two years, driven by new launches. BAL's market share has improved from 15.6% in FY2018 to 18.8% in 9MFY2020. BAL has recently introduced the electronic injection system in entry bikes as compared to fuel injection introduced by competition. As per BAL, cost of electronic injection is slightly lower compared to fuel injection and the cost differential would be used to provide additional features in the bike (such as disc brakes), which would enable market share gains. Further, BAL's motorcycle exports have been strong with the company reporting strong 9% growth in 9MFY2020. BAL has been increasing penetration in key markets of Africa and Latin America and tapping new markets to drive growth. BAL expects double-digit growth momentum in exports to continue over the next three to four quarters. We expect BAL to report a strong 8% CAGR in motorcycle over FY2020-FY2022 and outpace the industry.

Key Conference call highlights

- **Export demand:** BAL has stated that export demand continues to remain strong and the company expects double-digit volume growth to continue for the next three to four quarters. BAL has restarted shipment of 3W to Egypt market, which would further drive growth in exports.
- **BS-6 transition:** BAL has started to rollout BS6-compliant vehicles starting with the launch of CT and Platina on January 28, 2020. The company plans to roll out BS6 products by mid-February 2020, including 3W.
- **Electronic injection system for BS6:** BAL has introduced the electronic injection system (compared to fuel injection systems launched by competition) for BS-6 vehicle bikes in the entry segment (CT and Platina). As per BAL, electronic injection (uses air to optimise emission) costs lower than the fuel injection system and the cost differential would be used to provide enhanced features such as disc brakes to gain market share.
- **Inventory levels:** As per management, current dealer inventory stands at five weeks, which is slightly higher than the norm of four weeks.
- **Pre buying:** BAL expects pre-buying of 2W in the domestic market, ahead of the implementation of BS-6 emission norms. BAL saw some signs of pre-buying at the end of January 2020 and expects it to further increase during February and March 2020.
- **Commodity prices:** BAL expects commodity prices to inch up and expects some increase in Q4FY2020 itself.
- **Exchange realisation:** BAL realised USD/INR rate of 71.3 in Q3FY2020 as against 70.6 in Q2FY2020.
- **Electric scooter:** BAL received strong response for 'Chetak' electric scooter with the company already receiving 2,000 bookings. BAL indicated that the company would gradually increase the markets where scooter would be launched and introduce new variants of Chetak.

Results Rs cr

Particulars	Q3FY20	Q3FY19	%YoY	Q2FY20	%QoQ
Total Income	7,639.7	7,435.8	2.7	7,707.3	-0.9
EBIDTA	1,367.2	1,212.5	12.8	1,278.1	7.0
EBIDTA Margin (%)	17.9	16.3	160 bps	16.6	130 bps
Depreciation	61.7	63.4	-2.7	61.3	0.6
Interest	0.5	3.6	-86.8	1.2	-62.1
Other Income	366.2	413.5	-11.4	393.4	-6.9
PBT	1,671.3	1,559.1	7.2	1,608.9	3.9
Tax	409.7	457.2	-10.4	206.5	98.4
Adjusted PAT	1,261.6	1,101.9	14.5	1,402.4	-10.0
EPS (Rs.)	43.6	38.1	14.5	48.5	-10.0
Reported PAT	1,261.6	1,101.9	14.5	1,402.4	-10.0

Source: Company

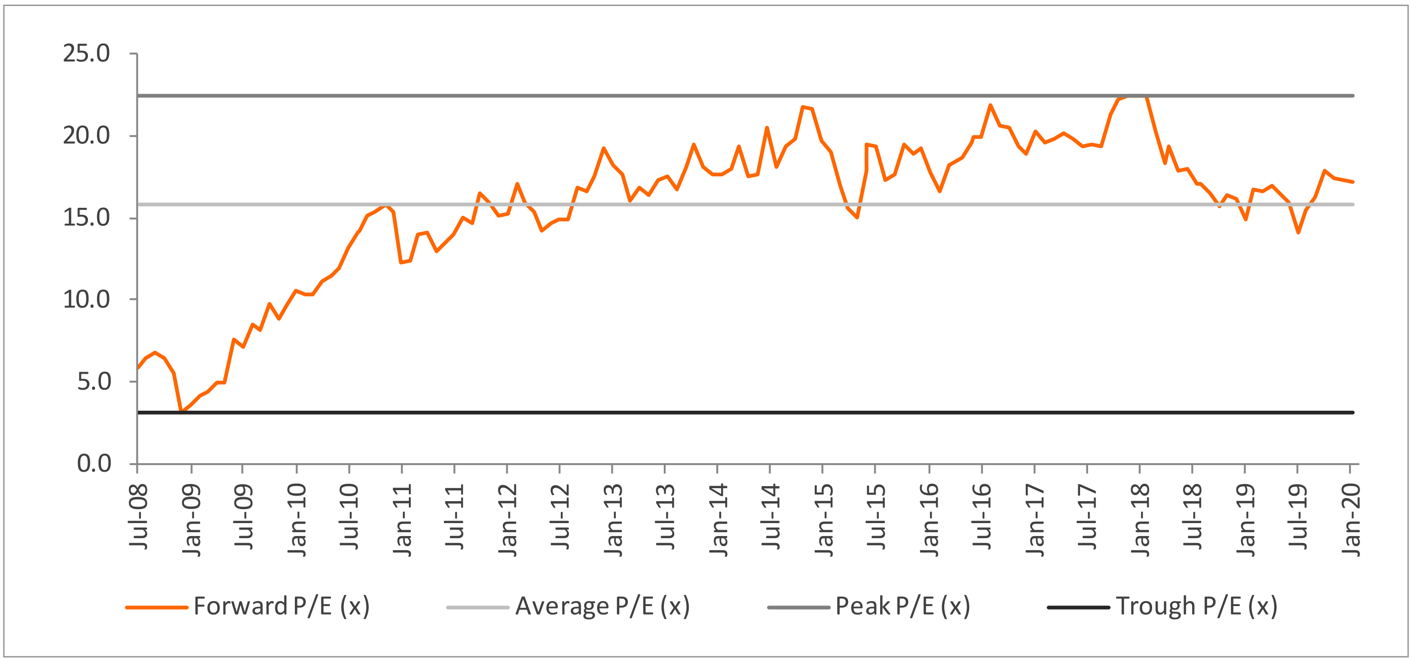
Outlook

Earnings growth to accelerate; Retain Buy: BAL is likely to continue gaining market share in domestic motorcycles, driven by launch of products with enhanced features. Export growth is expected to be robust with double-digit growth expected, driven by healthy demand in key markets and entry into newer markets. We expect BAL's volume to report a healthy 8% CAGR over FY2020-FY2022. Earnings growth is likely to be at 10% over FY2020-FY2022 as compared to 3% earnings CAGR over FY2017-FY2019.

Valuation

Marginally raise estimates; Retain Buy with a revised PT of Rs. 3,670: BAL's Q3FY2020 results were ahead of estimates, driven by better-than-expected margins. We have marginally raised our FY2021 and FY2022 earnings estimates by 3%. We retain our Buy rating on the stock with a revised PT of Rs. 3,670.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TVS Motor Co	35.4	39.6	15.4	15.0	5.9	5.4	16.6	13.5
Bajaj Auto	18.0	16.9	12.2	9.4	3.7	3.3	20.5	19.5
Hero Motocorp	15.6	15.9	10.0	10.2	3.5	3.3	26.2	20.9

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. BAL management has planned new launches across segments and aims to increase its market from 19% currently to 24% over the next few years. Healthy growth in export motorcycles should continue. We retain Buy rating on the stock.

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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