

Institutional Equity Research

# Bajaj Auto

Automobile | India

3QFY19 Result Update | January 30, 2019

CMP* (Rs)	2,500
Upside/ (Downside) (%)	2.0
Bloomberg Ticker	BJAUT IN
Market Cap. (Rs bn)	723
Free Float (%)	50.7
Shares O/S (mn)	289

**HOLD** 

Target Price: Rs2,550

## Subdued Performance; Margin to Remain under Pressure

Bajaj Auto (BAL) has delivered a subdued operating performance in 3QFY19 with its EBITDA margin contracting by 373bps YoY and 121bps QoQ to a multi-year low of 15.6% (lowest in last 10 years). Aided by 26% YoY (-6% QoQ) growth in volume to 1.258mn units, its revenue grew by 16% YoY and (-8% QoQ) to Rs74bn vs. our estimate of Rs74.8bn. ASP declined by 8% YoY and 1.4% QoQ led by poor product-mix and price rationalisation. EBITDA declined 6% YoY and 13% QoQ due to lower realisation, while PAT increased by 16% YoY (-4.4% QoQ) to Rs11bn (vs. our estimate of Rs10.5bn), supported by higher non-operating income and lower tax rate. Higher commodity prices and limited ability to pass on the same resulted in 447bps YoY and 44bps QoQ rise in RM/Sales to 72.8%, while other expenditure and employee cost remained under control. **Considering the Management's preference on gaining market share over margin growth, we increase our volume estimates and reduce margin estimates.**

### Tough Times Ahead; Margin to Remain under Pressure

Looking ahead, we expect domestic market to witness slowdown owing to higher system inventory and likely lower demand in 1H FY20. Moreover, we expect down-cycle for the automobile industry in FY21E. We also expect exports growth to taper down on high base and lower crude price. BAL's key exports geographies of Middle East and Africa are highly sensitive to crude price for their economic development. Therefore, currency benefit would not be sufficient to mitigate cost escalation. Moreover, passing on higher cost inflation due to BS-VI implementation during down cycle would be rather the biggest challenge for the auto makers, going forward which will drag their operating margins. Envisaging management's focus on gaining market share with higher sales of low-end bikes, we expect BAL's EBITDA margin to decrease by 350bps to 15.5% over FY18-FY21E.

### Outlook & Valuation

Looking ahead, we expect BAL to gain further volume and market shares on the back of aggressive pricing and marketing strategy over FY19-FY21. Considering the Management's thrust on gaining market share over margin, we marginally increase our volume estimates by 0.6%/1% and reduce our EBITDA margin estimates by 95bps/145bps for FY20E/FY21E. **Accordingly, downwardly revising our EPS estimates by 3.5%/4% for FY20E/FY21E, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs2,550 (earlier Rs2,850), valuing it at 13x FY21E EPS (lowering P/E multiple to 13x from 14x) and adding Rs100/share for stake in KTM.**

Quarterly Performance					
YE March (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Total Volume (units)	12,59,738	10,01,160	25.8	13,39,356	(5.9)
Total Revenue	74,094	63,693	16.3	79,868	(7.2)
Total Expenditure	62,533	51,379	21.7	66,438	(5.9)
EBIDTA	11,561	12,315	(6.1)	13,430	(13.9)
EBIT	10,927	11,568	(5.5)	12,714	(14.1)
Profit Before Extra-ord items and Tax	15,591	13,833	12.7	16,527	(5.7)
Profit After Tax	15,591	13,833	12.7	16,527	(5.7)
Adj. PAT	11,019	9,524	15.7	11,525	(4.4)
Adj. EPS (Rs.)	38.09	32.93	15.7	39.84	(4.4)
EBIDTA Margin	15.6	19.3	(373) bps	16.8	(121) bps
Adj. NPM	14.9	15.0	(8) bps	14.4	44 bps

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(8.1)	(3.6)	(25.6)
Relative to Nifty	(6.2)	(6.2)	(22.0)

Shareholding Pattern (%)	Sep-18	Dec-18
Promoter	49.3	49.3
Public	50.7	50.7

Key Financials			
(Rs mn)	FY19E	FY20E	FY21E
Net Sales	3,05,437	3,47,023	3,98,148
EBITDA	50,191	55,628	61,821
EBITDA margin (%)	16.4	16.0	15.5
Adj. Net Profit	44,208	48,436	54,512
EPS (Rs.)	152.8	167.4	188.4
ROE (%)	20.7	20.3	20.3
P/E (x)	15.7	14.3	12.7

Change of Estimates		
(% change)	FY20E	FY21E
Net revenues	0.8	1.1
EBIDTA	(4.8)	(4.6)
Net Profit	(3.5)	(4.0)
EPS	(3.5)	(4.0)

### 1 Year Stock Price Performance



Note: \* CMP as on January 30, 2019

Research Analyst: Mitul Shah  
 Contact: 022 3303 4628  
 Email: mitul.shah@relianceada.com

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## Conference Call – Key Takeaways

- ▶ **Thrust on Market Share at the Cost of Margin to Continue:** The Management expects company's ongoing strong momentum in domestic motorcycle segment to continue in FY20 as well due to new product launches coupled with its own thrust on market share. BAL looks forward to increase its market share to 24% over next 2 years from ~20% currently. As per the Management, higher contribution of entry level bikes impacts overall profitability, while its focus on market share gain at the cost of margins would continue.
- ▶ **Good Traction in Export Markets, but Growth to Taper Down:** The Management has guided for a decent double-digit growth in exports volume in FY19E. The Management is positive on new markets and expects healthy volume from revival of African markets. However, growth from these markets would taper down to 8-10% and additional volume from new geographies may take overall export growth to 10-12% going ahead. Export revenues and margins are expected to improve marginally due to better exchange rate in FY20E. It indicated realisation of ~Rs71/USD in FY20E as against Rs68.5/USD currently.
- ▶ **Margins to Remain under Pressure despite Price Hike:** Though BAL hiked prices in 3QFY19 and 4QFY19 to pass on higher commodity prices, the hike is not sufficient to override cost escalation. The Management believes that higher advertisement expenses towards building global brand would restrict its margin improvement in coming quarter. **Looking ahead, we expect BAL's margins to remain under pressure over next 2 years and fall by 350bps over FY18-21E.**
- ▶ **Capex:** The Management has earmarked annual capex to the tune of Rs3bn for FY19 and ~Rs5bn for FY20 towards maintenance and new products.
- ▶ **Cash & Cash Equivalent:** BAL's Cash & Cash Equivalent stood at Rs164.7bn as of 3QFY19-end compared to Rs.161.6bn as of 2QFY19.

## Key Risks

- ▶ **Downside Risks:** Intensifying competition; adverse change in government's regulation; sharp rise in input prices; and significant slump in 2W sales, adverse exchange rate.
- ▶ **Key Upside Risks:** Success of new launch; sharp drop in input prices; and strong revival in rural demand, favourable exchange rate.

### Exhibit 1: Revised vs. Old estimates

Y/E March (Rs mn)	FY19E			FY20E			FY21E		
	Old	New	% change	Old	New	% change	Old	New	% change
Domestic	30,03,535	30,02,090	0.0	32,37,508	32,97,766	1.9	34,03,616	35,21,250	3.5
Exports	21,20,732	21,17,404	(0.2)	23,55,829	23,29,144	(1.1)	25,91,412	25,34,584	(2.2)
<b>Total Sales (units)</b>	<b>51,24,267</b>	<b>51,19,494</b>	<b>(0.1)</b>	<b>55,93,337</b>	<b>56,26,910</b>	<b>0.6</b>	<b>59,95,028</b>	<b>60,55,834</b>	<b>1.0</b>
Net revenues	3,07,196	3,05,437	(0.6)	3,44,272	3,47,023	0.8	3,93,912	3,98,148	1.1
EBIDTA	51,630	50,191	(2.8)	58,428	55,628	(4.8)	64,825	61,821	(4.6)
EBIDTA margin (%)	16.8	16.4	(37) bps	17.0	16.0	(94) bps	17.0	15.5	(144) bps
Adj. Net Profit	44,272	44,208	(0.1)	50,167	48,436	(3.5)	56,813	54,512	(4.0)
EPS (Rs.)	153.0	152.8	(0.1)	173.4	167.4	(3.5)	196.4	188.4	(4.0)

Source: Company, RSec Research

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## Exhibit 2: Result Summary

YE March (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Motorcycles (Units)	6,44,093	4,66,431	38.1	6,92,899	(7.0)
3-wheelers (Units)	90,928	1,10,123	(17.4)	1,11,658	(18.6)
Domestic	7,35,021	5,76,554	27.5	8,04,557	(8.6)
Exports	5,24,717	4,24,606	23.6	5,34,799	(1.9)
<b>Total Volume (domestic + exports) (Units)</b>	<b>12,59,738</b>	<b>10,01,160</b>	<b>25.8</b>	<b>13,39,356</b>	<b>(5.9)</b>
Net Sales	72,431	62,462	16.0	78,318	(7.5)
Other Operating Income	1,663	1,231	35.1	1,550	7.3
<b>Total Revenue</b>	<b>74,094</b>	<b>63,693</b>	<b>16.3</b>	<b>79,868</b>	<b>(7.2)</b>
Less:					
Net Raw Material consumed	53,972	43,547	23.9	57,829	(6.7)
Other Exp.	5,393	5,180	4.1	5,490	(1.8)
Employee Cost	3,169	2,652	19.5	3,119	1.6
Total Expenditure	62,533	51,379	21.7	66,438	(5.9)
<b>EBIDTA</b>	<b>11,561</b>	<b>12,315</b>	<b>(6.1)</b>	<b>13,430</b>	<b>(13.9)</b>
Less: Depreciation	634	747	(15.1)	715	(11.4)
EBIT	10,927	11,568	(5.5)	12,714	(14.1)
Less: Interest	36	3	NM	3	NM
Add: Other income	4,700	2,269	107.2	3,815	23.2
<b>Profit Before Extra-ord and Tax</b>	<b>15,591</b>	<b>13,833</b>	<b>12.7</b>	<b>16,527</b>	<b>(5.7)</b>
<b>Profit Before Tax</b>	<b>15,591</b>	<b>13,833</b>	<b>12.7</b>	<b>16,527</b>	<b>(5.7)</b>
Less: Total Tax	4,572	4,309	6.1	5,002	(8.6)
<b>Profit After Tax</b>	<b>11,019</b>	<b>9,524</b>	<b>15.7</b>	<b>11,525</b>	<b>(4.4)</b>
<b>Adj. Profit After Tax</b>	<b>11,019</b>	<b>9,524</b>	<b>15.7</b>	<b>11,525</b>	<b>(4.4)</b>
Diluted Shares Outstanding (mn)	289	289		289	
Reported EPS (Rs.)	38.1	32.9	15.7	39.8	(4.4)
Adj. EPS (Rs.)	38.1	32.9	15.7	39.8	(4.4)
<b>Cost and Margin Analysis (%)</b>			<b>Change in bps</b>		<b>Change in bps</b>
EBIDTA Margin	15.6	19.3	(373)	16.8	(121)
Adj. NPM	14.9	15.0	(8)	14.4	44
Effective Tax Rate	29.3	31.1	(182)	30.3	(94)
<b>Cost Analysis</b>					
RM/Net Sales	72.8	68.4	447	72.4	44
Other Expenses./Net Sales	7.3	8.1	(85)	6.9	40
Personnel/Net Sales	4.3	4.2	11	3.9	37

Source: Company, RSec Research; Note: NM - Not Meaningful

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**Exhibit 3: Volume Analysis**

Units	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
<b>Motorcycles</b>					
75 cc to 110 cc	392377	243699	61.0	421310	(6.9)
110 cc to 125 cc	9374	23887	(60.8)	12704	(26.2)
125 cc to 150 cc	167394	118565	41.2	166187	0.7
150 cc to 200 cc	44635	47402	(5.8)	56091	(20.4)
200 cc to 250 cc	28562	27824	2.7	31219	(8.5)
350 cc to 500 cc	1751	5054	(65.4)	5388	(67.5)
<b>Total Domestic Motorcycles</b>	<b>6,44,093</b>	<b>4,66,431</b>	<b>38.1</b>	<b>6,92,899</b>	<b>(7.0)</b>
Domestic 3Ws	90,928	1,10,123	(17.4)	1,11,658	(18.6)
<b>Total Domestic Volume</b>	<b>7,35,021</b>	<b>5,76,554</b>	<b>27.5</b>	<b>8,04,557</b>	<b>(8.6)</b>
<b>Exports</b>	<b>5,24,717</b>	<b>4,24,606</b>	<b>23.6</b>	<b>5,34,799</b>	<b>(1.9)</b>
<b>Total Sales</b>	<b>12,59,828</b>	<b>10,01,160</b>	<b>25.8</b>	<b>13,39,356</b>	<b>(5.9)</b>

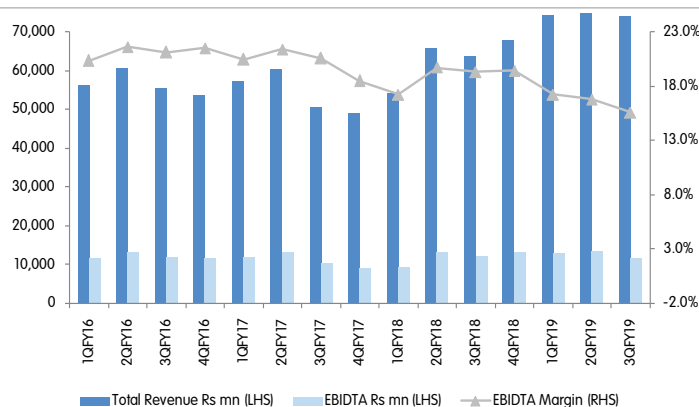
Source: Company, RSec Research

## Volume & Market Share

BAL's total volume grew by 26% YoY (-6% QoQ) to 12,59,828 units in 3QFY19. Its domestic bike sales rose by 38% YoY (-7% QoQ) to 6,44,093 units vs. industry growth of 11% YoY. However, its exports rose by 23% YoY to 5,23,853 units. Its bike exports grew by 23% YoY to 4,34,291 units, while three-wheeler exports rose by 23% YoY to 89,562 units. Its domestic three-wheeler sales fell by 17.4% YoY to 90,928 units vs. 7% YoY decline in industry volume. Three-wheeler contributed 14.3% to BAL's total volume compared to 18.2% in 3QFY18.

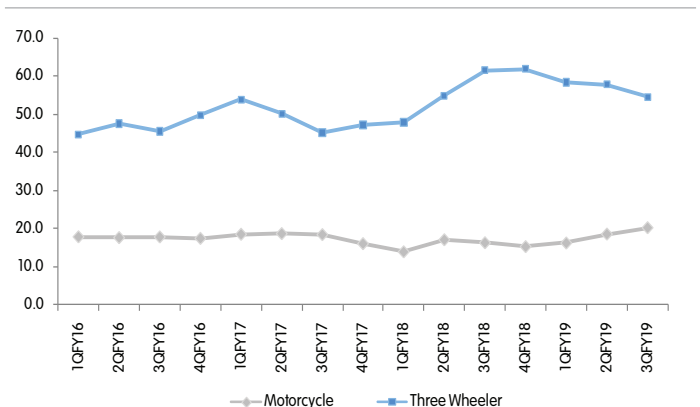
BAL's market share in domestic motorcycle segment rose by 510bps YoY to 19.6% in 3QFY19, while it witnessed decline of 700bps YoY to 54.6% in domestic three-wheeler space.

**Exhibit 4: Revenue and EBITDA Trend**



Source: Company, RSec Research

**Exhibit 5: Domestic Market Share Trend**



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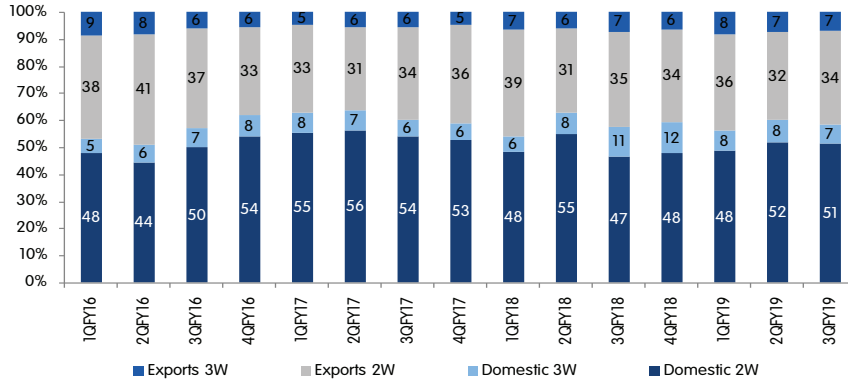
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Exhibit 6: Volume Contribution



Source: Company, RSec Research

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## Profit & Loss Statement

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
<b>Net revenue</b>	<b>2,51,649</b>	<b>3,05,437</b>	<b>3,47,023</b>	<b>3,98,148</b>
<b>Expenditure</b>	<b>2,03,713</b>	<b>2,55,246</b>	<b>2,91,394</b>	<b>3,36,328</b>
Raw Materials	1,74,101	2,20,668	2,51,591	2,90,648
Employee Expenses	10,690	12,499	14,123	15,818
Other expenditure	18,922	22,080	25,680	29,861
<b>EBITDA</b>	<b>47,936</b>	<b>50,191</b>	<b>55,628</b>	<b>61,821</b>
Depreciation and amortization expense	3,148	2,812	3,482	3,803
EBIT	44,788	47,379	52,146	58,018
Non-operating income	13,397	16,173	17,582	20,465
Interest including finance charges	13	44	37	49
<b>Adjusted pre-tax profit</b>	<b>58,171</b>	<b>63,508</b>	<b>69,691</b>	<b>78,435</b>
Less: Extraordinary Exp	346	-	-	-
Reported pre-tax profit	57,826	63,508	69,691	78,435
Less: taxes	17,145	19,300	21,256	23,923
Reported PAT	40,681	44,208	48,436	54,512
<b>Adjusted PAT</b>	<b>40,924</b>	<b>44,208</b>	<b>48,436</b>	<b>54,512</b>
EPS (Rs), based on wtd avg shares	141.4	152.8	167.4	188.4
Fully diluted shares outstanding (mn)	289	289	289	289

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## Balance Sheet

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
Equity capital	2,894	2,894	2,894	2,894
Reserves and surplus	1,88,145	2,11,445	2,38,972	2,72,576
Total equity	1,91,039	2,14,338	2,41,866	2,75,470
Deferred tax liability (net)	3,234	3,234	3,234	3,234
Total borrowings	1,221	1,221	1,221	1,221
Current liabilities	42,701	45,384	50,831	57,602
<b>Total liabilities</b>	<b>2,38,195</b>	<b>2,64,178</b>	<b>2,97,152</b>	<b>3,37,527</b>
Cash and cash equivalents	7,780	4,943	3,403	2,083
Inventory	7,426	9,790	11,177	12,900
Trade receivables	14,919	16,736	19,015	21,816
Other current assets	12,839	11,289	12,121	13,143
<b>Total current assets</b>	<b>42,964</b>	<b>42,759</b>	<b>45,715</b>	<b>49,943</b>
Gross block	44,945	47,606	51,881	56,764
Less: Depreciation and amortization	26,279	29,091	32,573	36,376
Add: capital work-in-process	112	450	675	743
Total fixed assets	18,777	18,965	19,983	21,130
Investments	1,76,454	2,02,454	2,31,454	2,66,454
of which, liquid investment	1,64,227	1,90,227	2,19,227	2,54,227
<b>Total assets</b>	<b>2,38,195</b>	<b>2,64,178</b>	<b>2,97,152</b>	<b>3,37,527</b>

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## Cash Flow Statement

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
<b>Operating cashflow</b>				
Pre-tax income	57,826	63,508	69,691	78,435
Add: depreciation and amortization	3,148	2,812	3,482	3,803
Add: interest expense (net)	13	13	44	37
Less: other adjustments	(11,979)	0	0	0
Less: taxes paid	(16,851)	(19,300)	(21,256)	(23,923)
Add: working capital changes	10,451	51	950	1,223
<b>Total operating cashflow</b>	<b>42,608</b>	<b>47,084</b>	<b>52,912</b>	<b>59,575</b>
<b>Investing cashflow</b>				
Capital expenditure	(1,833)	(3,000)	(4,500)	(4,950)
Investments	(19,361)	(26,000)	(29,000)	(35,000)
Others	2,015	-	-	-
<b>Total investing cashflow</b>	<b>(19,178)</b>	<b>(29,000)</b>	<b>(33,500)</b>	<b>(39,950)</b>
<b>Financing cashflow</b>				
Share issuances	-	-	-	-
Loans	-	-	-	-
Dividend	(18,848)	(20,908)	(20,908)	(20,908)
Interest Payment	(4)	(13)	(44)	(37)
Less: Others	266	0	0	0
<b>Total financing cashflow</b>	<b>(18,586)</b>	<b>(20,921)</b>	<b>(20,952)</b>	<b>(20,945)</b>
<b>Net change in cash</b>	<b>4,843</b>	<b>(2,837)</b>	<b>(1,540)</b>	<b>(1,320)</b>
Opening cash	2,937	7,780	4,943	3,403
<b>Closing cash</b>	<b>7,780</b>	<b>4,943</b>	<b>3,403</b>	<b>2,083</b>

## Key Ratio

Y/E Mar	FY18	FY19E	FY20E	FY21E
<b>Growth Ratios (%)</b>				
Net revenue	15.6	21.4	13.6	14.7
EBITDA	8.1	4.7	10.8	11.1
Adjusted net profit	6.7	8.0	9.6	12.5
<b>Ratios (%)</b>				
Effective tax rate	29.6	30.4	30.5	30.5
EBITDA margin	19.0	16.4	16.0	15.5
Adjusted net profit margin	16.3	14.5	14.0	13.7
ROCE	29.5	28.7	27.8	24.5
ROE	30.6	29.7	28.6	25.1
Total asset turnover ratio (x)	1.1	1.2	1.2	1.2
Inventory days	11	12	12	12
Debtor days	22	20	20	20
Creditor days	45	43	42	42
<b>Per share numbers (Rs)</b>				
Diluted earnings	141.4	152.8	167.4	188.4
Free cash	140.9	152.4	167.4	188.8
Book value	660.2	741.0	836.1	952.3
<b>Valuations (x)</b>				
P/E	17.0	15.7	14.3	12.7
EV/EBITDA	14.4	13.8	12.4	11.2
P/B	3.6	3.2	2.9	2.5



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## Rating History

Date	Reco	CMP	TP
08 Jan-18	HOLD	2695	2875
26 Oct-18	BUY	2478	3015
23 Jul-18	BUY	2684	3050
21-May-18	BUY	2721	3165

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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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