

**CMP: Rs 2619**

**Rating: ACCUMULATE**

**Target: Rs 3021**

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	532977
NSE	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.NS
Sector	Automobiles
Face Value (Rs)	10
Equity Capital (Rs mn)	2893
Mkt Cap (Rs bn)	88
52w H/L (Rs)	3,145 / 2,425
Avg Weekly Vol (BSE+NSE)	3,347,000

**Shareholding Pattern**

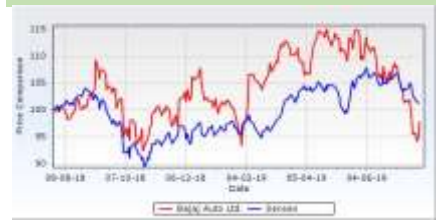
<b>(As on March, 2019)</b>	<b>%</b>
Promoters	51.1
Public & Others	48.8

Source: NSE, Arihant Research

<b>Stock Performance (%)</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
BAJAJ	-14	-0.7	0.0
SENSEX	-3.0	5.2	2.4

Source: ACE Equity, Arihant Research

**BAJAJ v/s SENSEX**



Source: ACE Equity, Arihant Research

**Result Highlights**

Bajaj Auto (BJAUT) reported in-line operating performance under challenging environment as net sales stood at Rs 78.1bn (+4.3% YoY / +4.6% QoQ) vs our est Rs 78.3bn. Realizations were at Rs 62.6k (+2.6% YoY and +0.1% QoQ) on increase in prices due to safety norms. Gross margins at 28.7% (-49bps YoY/ +35bps QoQ) were led by softening of commodity prices. The exports volumes continued to grow stronger led by Africa and ASEAN markets in which the realizations increased on QoQ basis. The adjusted EBITDA margin stood at 16% (-200bps YoY/-49bps QoQ) and were impacted by higher staff costs (+14.8% YoY) and other expenses (+20.7% YoY). Adjustd PAT stood at Rs 11.3bn (+0.9% YoY; +16.8% QoQ). On the concall, management remained confident of industry outperformance through superior product positioning with advanced features and plugging the product gaps in 125cc segment with a new model launch.

**Concall highlights**

- **Near term demand outlook** remains uncertain as the demand for motorcycles remains sluggish. However, the management is confident to grow faster than the industry and. All eyes on the upcoming festive season which is expected to bring in some volume respite. Domestic 3Ws to improve QoQ.
- **Export outlook:** The MC exports for industry is expected to remain stable at 2-3% for FY20e whereas the growth is likely to be faster for BJAUT led by stable demand in key markets like Africa and ASEAN. The demand in Latin America remains subdued. For 3Ws, revival in Egypt remains a key monitorable.
- **BS VI and EV outlook:** The BS VI models will commercialize in phases and BJAUT well on track to be BS VI ready ahead of the timeline. In 3Ws, BJAUT is testing its EV prototypes and believes that the acceptability of EVs to remain on a slow track due to cost overruns for the customer. Overall 126k EVs were sold in FY19 which will need ramp up in volumes for higher profitability.
- The **Inventory levels** stood high at 7-8 weeks and is likely to normalize around the upcoming festive season
- The 2W **financing penetration** stood at >50% in motorcycles for 3Ws it stands at 60%. The dealer financing issues
- BJAUT plans to add ~40-50 **dealers** over the medium term.
- **KTM's** Q1FY20 performance was soft on account of inventory correction exercise and a one-off. The management is confident of an improved show in Q2FY20.
- The company plans to **launch** a 125cc motorcycle in the near term.

**Outlook and valuation**

At CMP of Rs 2619, BJAUT is trading at a PE of 15.9x FY21E estimates. We believe, BJAUT will outperform the industry growth on the back of smart pricing and a new model launch coming up in the near term. However, the concerns pertaining to the growth in the H2FY20 due to elevated competitive intensity makes us vary of the near term challenges the industry may witness. We value BJAUT at a PE of 16x (17x earlier) + Rs 90 for KTM stock valuation (Rs 129 earlier) to arrive at a target price of Rs 3,021 with a potential upside of 15%. We have an ACCUMULATE rating on the stock.

**Key Risks:**

- 1) Slowdown in African markets on geopolitical tensions.

## Quarterly result summary

Rs mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>74,876</b>	<b>80,708</b>	<b>75,167</b>	<b>74,645</b>	<b>78,078</b>	<b>4.3</b>	<b>4.6</b>
- Raw material	52,993	57,829	53,972	53,450	55,638	5.0	4.1
(% of net sales)	70.8	71.7	71.8	71.6	71.3	0.7	(0.5)
- Staff expenditure	3,140	3,119	3,169	3,126	3,605	14.8	15.4
(% of net sales)	4.2	3.9	4.2	4.2	4.6	10	10
- Other expenses	5,246	5,490	5,393	5,754	6,333	20.7	10.1
(% of net sales)	7.0	6.8	7.2	7.7	8.1	16	5
Total expenses	61,379	66,438	62,533	62,329	65,576	6.8	5.2
<b>EBITDA</b>	<b>13,498</b>	<b>14,269</b>	<b>12,635</b>	<b>12,315</b>	<b>12,502</b>	<b>(7.4)</b>	<b>1.5</b>
<b>EBITDA Margin (%)</b>	<b>18.0</b>	<b>17.7</b>	<b>16.8</b>	<b>16.5</b>	<b>16.0</b>	<b>(201)</b>	<b>(49)</b>
Depreciation	700	715	634	608	601	(14.0)	(1.1)
<b>EBIT</b>	<b>12,798</b>	<b>13,554</b>	<b>12,001</b>	<b>11,707</b>	<b>11,901</b>	<b>(7.0)</b>	<b>1.7</b>
Interest	3	3	36	3	5	74.2	86.2
Other Income	3,361	2,975	3,626	3,635	3,893	15.8	7.1
PBT	16,156	16,527	15,591	15,339	15,788	(2.3)	2.9
Tax	5,003	5,002	4,572	5,703	4,531	(9.4)	(20.5)
<b>Reported PAT</b>	<b>11,152</b>	<b>11,525</b>	<b>11,019</b>	<b>13,056</b>	<b>11,257</b>	<b>0.9</b>	<b>(13.8)</b>
EPS (Rs)	38.5	39.8	38.1	45.1	38.9	0.9	(13.8)
<b>Adjusted PAT</b>	<b>11,152</b>	<b>11,525</b>	<b>11,019</b>	<b>9,636</b>	<b>11,257</b>	<b>0.9</b>	<b>16.8</b>
Adjusted EPS (Rs)	38.5	39.8	38.1	33.3	38.9	0.9	16.8
<b>Total Volumes (Nos)</b>	<b>1,226,641</b>	<b>1,339,444</b>	<b>1,259,828</b>	<b>1,193,590</b>	<b>1,247,174</b>	<b>1.7</b>	<b>4.5</b>
<b>Net Realisation (Rs)</b>	<b>61,042</b>	<b>60,255</b>	<b>59,665</b>	<b>62,538</b>	<b>62,604</b>	<b>2.6</b>	<b>0.1</b>
EBITDA / Vehicle (Rs)	11,004	10,653	10,029	10,318	10,024	(8.9)	(2.8)

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (%)	QoQ(%)
<b>Volumes (In nos):</b>							
Domestic	688,665	804,645	735,111	712,352	697,153	1.2	(2.1)
Exports	537,976	534,799	524,717	481,238	550,021	2.2	14.3
<b>Total</b>	<b>1,226,641</b>	<b>1,339,444</b>	<b>1,259,828</b>	<b>1,193,590</b>	<b>1,247,174</b>	<b>1.7</b>	<b>4.5</b>
Volume mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	YoY (%)	QoQ(%)
Motorcycles	1,029,964	1,126,542	1,078,384	1,001,983	1,082,627	5.1	8.0
3W	196,677	212,902	181,444	191,607	164,547	(16.3)	(14.1)
<b>Total volumes</b>	<b>1,226,641</b>	<b>1,339,444</b>	<b>1,259,828</b>	<b>1,193,590</b>	<b>1,247,174</b>	<b>1.7</b>	<b>4.5</b>
Exports out of above	537,976	534,799	524,717	481,238	550,021	2.2	14.3
<b>3W as % of total volumes</b>	<b>16.0%</b>	<b>15.9%</b>	<b>14.4%</b>	<b>16.1%</b>	<b>13.2%</b>	<b>(284)</b>	<b>(286)</b>
<b>Export as % of total volumes</b>	<b>43.9%</b>	<b>39.9%</b>	<b>41.6%</b>	<b>40.3%</b>	<b>44.1%</b>	<b>24</b>	<b>378</b>

Source: Company, Arianth Capital Markets

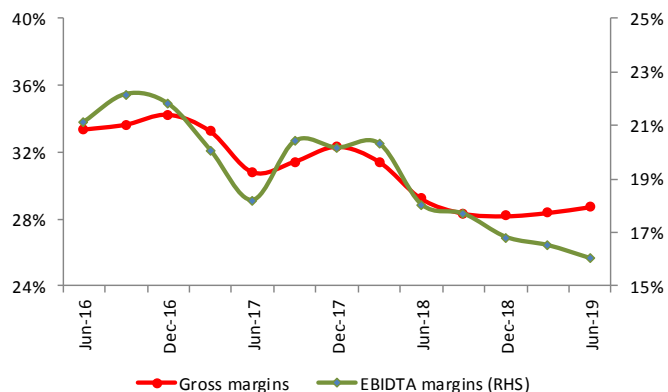
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**Exhibit 1: Quarterly revenue and growth trend**



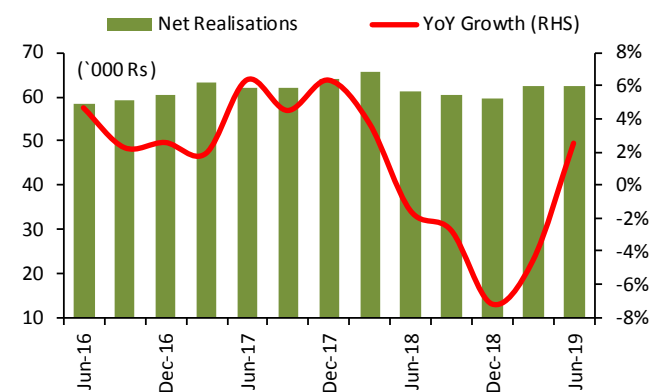
Source: Company, Aриhant Capital Markets

**Exhibit 2: Quarterly gross margin and EBITDA margin trend**



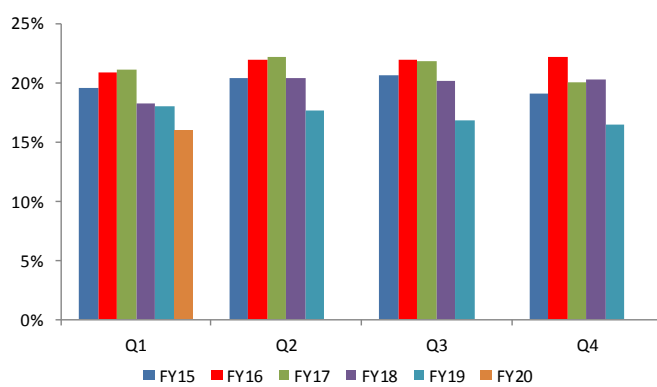
Source: Company, Aриhant Capital Markets

**Exhibit 3: Quarterly realization and growth trend**



Source: Company, Aриhant Capital Markets

**Exhibit 4: Quarterly EBITDA margin snapshot**



Source: Company, Aриhant Capital Markets

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## Profit &amp; Loss Statement

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	220,255	246,454	305,396	334,198	357,433
Growth, %	(4)	12	24	9	7
RM expenses	-146,242	-174,101	-218,243	-239,787	-253,778
Employee expenses	-9,971	-10,691	-12,554	-14,312	-16,029
Other expenses	-17,231	-19,023	-21,523	-25,124	-27,554
EBITDA (Core)	46,812	42,639	53,076	54,975	60,072
Growth, %	(6)	(9)	24	4	9
Margin, %	21.3	17.3	17.4	16.4	16.8
Depreciation	-3,073	-3,148	-2,657	-2,839	-3,099
EBIT	43,739	39,491	50,419	52,136	56,974
Growth, %	(6)	(10)	28	3	9
Margin, %	19.9	16.0	16.5	15.6	15.9
Interest paid	-14	-13	-45	-48	-51
Other Income	9,632	10,883	13,597	17,318	19,915
Non-recurring Items	0	0	0	0	0
Pre-tax profit	53,357	50,361	63,971	69,406	76,838
Tax provided	-15,081	-17,144	-20,280	-21,516	-23,820
Profit after tax	38,276	33,217	43,691	47,890	53,018
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	38,276	33,217	43,691	47,890	53,018
Growth, %	(3)	(13)	32	10	11
<b>Net Profit (adjusted)</b>	<b>38,276</b>	<b>33,217</b>	<b>43,691</b>	<b>47,890</b>	<b>53,018</b>

Source: Company, Arianth Capital Markets

## Balance Sheet

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	2,937	7,780	9,228	18,681	22,411
Marketable securities cost	127,679	155,265	169,945	178,442	197,423
Debtors	9,533	14,919	25,597	28,011	29,958
Inventory	7,284	7,426	9,615	10,522	11,253
Loans & advances	362	369	380	437	502
Other current assets	16,280	12,470	19,271	20,234	21,246
Total current assets	36,396	42,964	64,091	77,885	85,371
Investments	19,636	20,618	21,649	22,731	23,868
Gross fixed assets	48,315	49,913	51,790	57,913	62,913
Less: Depreciation	-27,981	-31,129	-33,786	-36,625	-39,723
Add: Capital WIP	106	565	115	565	565
Net fixed assets	20,334	18,783	18,004	21,288	23,189
<b>Total assets</b>	<b>204,151</b>	<b>238,195</b>	<b>273,804</b>	<b>300,910</b>	<b>330,415</b>
Current liabilities	31,503	40,337	47,781	52,361	55,893
Provisions	1,991	2,378	1,552	1,707	1,878
Total current liabilities	33,494	42,714	49,333	54,067	57,770
Non-current liabilities	-863	3,234	5,427	5,427	5,427
Total liabilities	32,631	45,949	54,760	59,494	63,197
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	167,448	188,145	214,905	237,897	263,583
Shareholders' equity	170,341	191,039	217,799	240,544	266,477
<b>Total equity &amp; liabilities</b>	<b>204,151</b>	<b>238,195</b>	<b>273,804</b>	<b>300,910</b>	<b>330,415</b>

Source: Company, Arianth Capital Markets

## Cash Flow

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	53,357	50,361	63,971	69,406	76,838
Depreciation	3,073	3,148	2,657	2,839	3,099
Chg in working capital	-393	7,495	-13,060	393	-53
Total tax paid	-15,081	-17,144	-18,186	-21,516	-23,820
CFO	50,204	37,098	16,883	33,852	36,199
Capital expenditure	-2,130	-2,056	-1,429	-6,572	-5,000
Chg in marketable securities	0	0	0	0	0
Chg in investments	-44,709	-28,568	-15,711	-9,580	-20,117
CFI	-37,207	-11,957	8,736	949	-5,202
Free cash flow	48,074	35,042	15,455	27,281	31,199
Debt raised/(repaid)	-20	29	-181	-154	-131
Dividend (incl. tax)	-18,621	-20,314	-23,699	-25,392	-27,085
CFF	-18,655	-20,298	-23,925	-25,594	-27,267
Net chg in cash	(5,658)	4,843	1,694	9,206	3,730
Opening cash balance	8,595	2,937	7,780	9,228	18,681
Closing cash balance	2,937	7,780	9,228	18,681	22,411

Source: Company, Arianth Capital Markets

## Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	132	115	151	165	183
PER (x)	19.8	22.8	17.3	15.8	14.3
Price/Book (x)	4.4	4.0	3.5	3.1	2.8
EV/EBITDA (x)	13.4	14.0	10.9	10.2	8.9
EV/Net sales (x)	2.9	2.5	2.0	1.7	1.5
RoE (%)	25	18	21	21	21
RoCE (%)	35	28	30	29	30
Fixed Asset turnover (x)	4.6	4.9	5.9	5.8	5.7
Dividend Yield (%)	2.1	2.3	2.7	2.9	3.1
Receivable (days)	16	23	32	32	32
Inventory (days)	15	13	14	14	14
Payable (days)	47	58	55	54	53
Revenue Growth (%)	(4)	12	24	9	7
EBITDA Growth (%)	(6)	(9)	24	4	9
EPS Growth, %	(3)	(13)	32	10	11
Net D/E ratio (x)	(0.9)	(0.9)	(0.9)	(0.9)	(0.8)

Source: Company, Arianth Capital Markets

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**Stock Rating Scale****Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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