

**CMP: Rs 3045**

**Rating: ACCUMULATE**

**Target: Rs 3631**

(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)	3,213 / 2,425
Avg Weekly Vol (BSE+NSE)	3,347,000

**Shareholding Pattern**

	%
<b>(As on March, 2019)</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	7.9	12.8	7.9
SENSEX	5.9	6.9	7.9

Source: ACE Equity, Arihant Research

**BAJAJ v/s SENSEX**



Source: ACE Equity, Arihant Research

**Result Highlights**

Bajaj Auto (BJAUT) reported strong set of numbers in subdued environment as Net sales stood at Rs 74.5bn (+9% YoY / -0.7% QoQ). Realizations were at Rs 62.5k (-4.5% YoY and +4.8% QoQ) on superior product mix led by strong export sales. Gross margins at 28.4% (-300bps YoY/ +20bps QoQ) were impacted by continued pricing disruption in entry level motorcycles (*CT100* and *platina*). The exports volumes continued to grow stronger led by Africa, Indonesia (+13% YoY) which boosted the realizations on QoQ basis. The adjusted EBITDA margin stood at 16.5% (-380bps YoY/+31bps QoQ) and were impacted by higher staff costs (+17% YoY) and other expenses (+16% YoY) on increased advertisement expenses. Adjustd PAT stood at Rs 9.6bn (-10.8% YoY; -12.6% QoQ). On the concall, management remained confident of continued market share gains in the entry level motorcycles through aggressive pricing and superior product positioning through addition of advanced features.

For FY19, sales stood at Rs 305bn (+24% YoY) led by 30% volume growth and 6% decline in realizations. EBITDA stood at Rs 52.7bn (+24% YoY). Adjusted EBITDA margin stood at 17.3% impacted by aggressive pricing strategy in the entry segment motorcycle segment. Adjusted PAT stood at 43bn (+30.6% YoY).

**We expect domestic two-wheeler market to undergo some slowdown on account of safety (ABS>125cc, CBS<125cc) and emission norms (BS VI from 1<sup>st</sup> Apr 2020) related costs pressures. However, BJAUT's strategy of market share gains over margins has been successful and will lead to further market share gains in the medium term. We further believe that export market shall continue to remain robust over the medium term.**

**Concall highlights**

- **Market share strategy over margins to continue** – The management highlighted, BJAUT will continue to focus on market share gains led by new product launches and aims to gain 24% market share in motorcycles over next couple of years (vs 18% currently).
- The management expects **margins** to remain at similar levels (16-17%) on account of cost pressures (ABS/CBS) and BS VI related costs and weak domestic market.
- **Export outlook:** The management expects exports to remain robust in FY20 led by strong volume growth in African markets led by surge in oil prices. However, the growth may taper down which will be offset by adding new geographies.

**Outlook and valuation**

Over the medium term, we believe, BJAUT's market share gains shall continue led by new product launches. At CMP of Rs 3045, stock trades at 15.7x FY21E estimates. We estimate revenue/EBITDA/PAT CAGR of 10%/11%/14% over FY19-21E. We recommend an ACCUMULATE rating on the stock and value it at 18x FY21E and Rs 129 for KTM stock valuation and arrive at a target price of Rs 3,631 with a potential upside of 19%.

**Key Risks:**

- 1) Rise in input cost materials can impact gross margins
- 2) Geopolitical risks in African markets

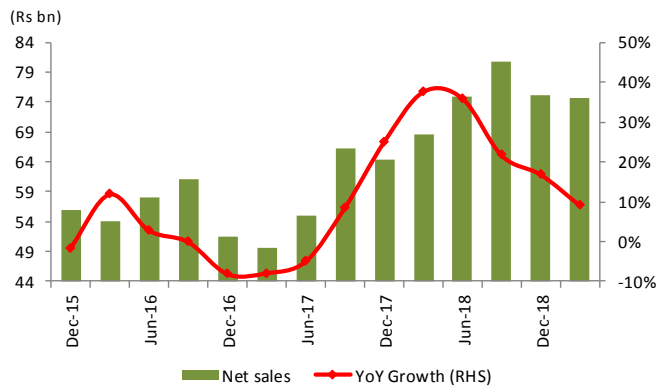
## Quarterly result summary

Standalone (Rsmn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>68,487</b>	<b>74,876</b>	<b>80,708</b>	<b>75,167</b>	<b>74,645</b>	<b>9.0</b>	<b>(0.7)</b>
- Raw material	46,969	52,993	57,829	53,972	53,450	13.8	(1.0)
(% of net sales)	68.6	70.8	71.7	71.8	71.6	4	(0)
- Staff expenditure	2,670	3,140	3,119	3,169	3,126	17.1	(1.4)
(% of net sales)	3.9	4.2	3.9	4.2	4.2	7	(1)
- Other expenditure	4,942	5,246	5,490	5,393	5,754	16.4	6.7
(% of net sales)	7.2	7.0	6.8	7.2	7.7	7	7
Total expenditure	54,581	61,379	66,438	62,533	62,329	14.2	(0.3)
<b>EBITDA</b>	<b>13,907</b>	<b>13,498</b>	<b>14,269</b>	<b>12,635</b>	<b>12,315</b>	<b>(11.4)</b>	<b>(2.5)</b>
<b>EBITDA Margin (%)</b>	<b>20.3</b>	<b>18.0</b>	<b>17.7</b>	<b>16.8</b>	<b>16.5</b>	<b>(381)</b>	<b>(31)</b>
Depreciation	879	700	715	634	608	(30.8)	(4.0)
<b>EBIT</b>	<b>13,028</b>	<b>12,798</b>	<b>13,554</b>	<b>12,001</b>	<b>11,707</b>	<b>(10.1)</b>	<b>(2.4)</b>
Interest	3	3	3	36	3	(3.3)	(91.9)
Other Income	2,913	3,361	2,975	3,626	3,635	24.8	0.2
PBT	15,937	16,156	16,527	15,591	15,339	(3.8)	(1.6)
Tax	5,138	5,003	5,002	4,572	5,703	11.0	24.7
<b>Reported PAT</b>	<b>10,799</b>	<b>11,152</b>	<b>11,525</b>	<b>11,019</b>	<b>13,056</b>	<b>20.9</b>	<b>18.5</b>
EPS (Rs)	37.3	38.5	39.8	38.1	45.1	20.9	18.5
<b>Adjusted PAT</b>	<b>10,799</b>	<b>11,152</b>	<b>11,525</b>	<b>11,019</b>	<b>9,636</b>	<b>(10.8)</b>	<b>(12.6)</b>
Adjusted EPS (Rs)	37.3	38.5	39.8	38.1	33.3	(10.8)	(12.6)
<b>Total Volumes (Nos)</b>	<b>1,045,378</b>	<b>1,226,641</b>	<b>1,339,444</b>	<b>1,259,828</b>	<b>1,193,590</b>	<b>14.2</b>	<b>(5.3)</b>
<b>Net Realisation (Rs)</b>	<b>65,514</b>	<b>61,042</b>	<b>60,255</b>	<b>59,665</b>	<b>62,538</b>	<b>(4.5)</b>	<b>4.8</b>
EBITDA / Vehicle (Rs)	13,303	11,004	10,653	10,029	10,318	(22.4)	2.9
Volumes (In nos)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (%)	QoQ (%)
Motorcycles	856,389	1,029,964	1,126,542	1,078,384	1,001,983	17.0	(7.1)
3W	188,989	196,677	212,902	181,444	191,607	1.4	5.6
<b>Total volumes</b>	<b>1,045,378</b>	<b>1,226,641</b>	<b>1,339,444</b>	<b>1,259,828</b>	<b>1,193,590</b>	<b>14.2</b>	<b>(5.3)</b>
Exports out of above	425,562	537,976	534,799	524,717	481,238	13.1	(8.3)
<b>3W as % of total volumes</b>	<b>18.1%</b>	<b>13.7%</b>	<b>15.9%</b>	<b>14.4%</b>	<b>16.1%</b>	<b>(203)</b>	<b>165</b>
<b>Export as % of total volumes</b>	<b>40.7%</b>	<b>38.1%</b>	<b>39.9%</b>	<b>41.6%</b>	<b>40.3%</b>	<b>(39)</b>	<b>(133)</b>

Source: Company, Arianth Capital Markets

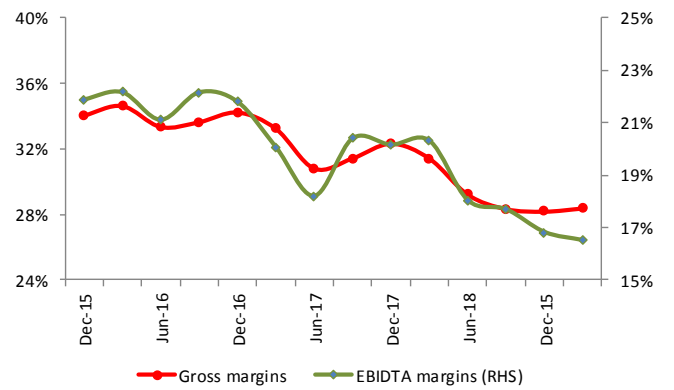
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**Exhibit 1: Quarterly revenue and growth trend**



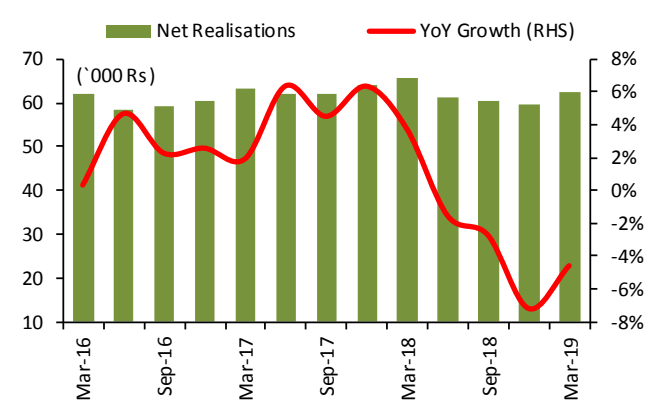
Source: Company, Aриhant Capital Markets

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



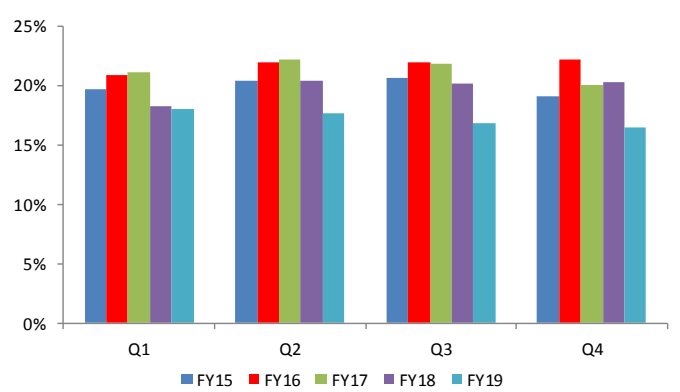
Source: Company, Aриhant Capital Markets

**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 & Loss Statement**

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
YE: Mar (Rs mn)	FY17	FY18	FY19	FY20e	FY21e
Net sales	220,255	246,454	305,396	342,443	371,529
Growth, %	(4)	12	24	12	8
RM expenses	-146,242	-174,101	-218,807	-243,991	-261,928
Employee expenses	-9,971	-10,691	-12,554	-14,312	-16,029
Other expenses	-17,231	-19,023	-21,318	-24,039	-28,653
EBITDA (Core)	46,812	42,639	52,717	60,101	64,919
Growth, %	(6)	(9)	24	14	8
Margin, %	21.3	17.3	17.3	17.6	17.5
Depreciation	-3,073	-3,148	-2,657	-2,839	-3,099
EBIT	43,739	39,491	50,060	57,263	61,821
Growth, %	(6)	(10)	27	14	8
Margin, %	19.9	16.0	16.4	16.7	16.6
Interest paid	-14	-13	-45	-48	-51
Other Income	9,632	10,883	13,597	16,658	18,657
Non-recurring Items	0	0	0	0	0
Pre-tax profit	53,357	50,361	63,612	73,873	80,426
Tax provided	-15,081	-17,144	-20,280	-22,162	-24,128
Profit after tax	38,276	33,217	43,332	51,711	56,298
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	38,276	33,217	43,332	51,711	56,298
Growth, %	(3)	(13)	30	19	9
Net Profit (adjusted)	38,276	33,217	43,332	51,711	56,298

Source: Company, Arianth Capital Markets

**Cash Flow**

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	53,357	50,361	63,612	73,873	80,426
Depreciation	3,073	3,148	2,657	2,839	3,099
Chg in working capital	-393	7,495	-13,060	23	-67
Total tax paid	-15,081	-17,144	-18,186	-22,162	-24,128
CFO	50,204	37,098	21,471	37,963	40,724
Capital expenditure	-2,130	-2,056	-1,420	-6,580	-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	-19,737	8,745	3,217	-6,460
Free cash flow	48,074	35,042	20,051	31,382	35,724
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)	(2,937)	6,291	15,586	6,997
Opening cash balance	8,595	2,937	7,780	9,228	21,876
Closing cash balance	2,937	7,780	9,228	21,876	28,873

Source: Company, Arianth Capital Markets

**Balance Sheet**

YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	2,937	7,780	9,228	21,876	28,873
Marketable securities cost	127,679	155,265	169,945	178,442	197,423
Debtors	9,533	14,919	25,597	28,702	31,140
Inventory	7,284	7,426	9,615	10,781	11,697
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	82,031	93,458
Investments	19,636	20,618	21,649	22,731	23,868
Gross fixed assets	48,315	49,913	51,781	57,913	62,913
Less: Depreciation	-27,981	-31,129	-33,777	-36,616	-39,715
Add: Capital WIP	106	565	115	565	565
Net fixed assets	20,334	18,783	18,004	21,297	23,198
<b>Total assets</b>	<b>204,151</b>	<b>238,195</b>	<b>273,804</b>	<b>305,065</b>	<b>338,512</b>
Current liabilities	31,503	40,337	47,781	52,941	57,135
Provisions	1,991	2,378	1,552	1,707	1,878
Total current liabilities	33,494	42,714	49,333	54,648	59,012
Non-current liabilities	-863	3,234	5,427	5,427	5,427
Total liabilities	32,631	45,949	54,760	60,075	64,439
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	167,448	188,145	214,905	241,224	270,437
Shareholders' equity	170,341	191,039	217,799	244,118	273,331
<b>Total equity &amp; liabilities</b>	<b>204,151</b>	<b>238,195</b>	<b>273,804</b>	<b>305,065</b>	<b>338,512</b>

Source: Company, Arianth Capital Markets

**Ratios**

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	132	115	150	179	195
PER (x)	23.0	26.5	20.3	17.0	15.7
Price/Book (x)	5.2	4.6	4.0	3.6	3.2
EV/EBITDA (x)	16.1	16.9	13.3	11.3	10.1
EV/Net sales (x)	3.5	3.0	2.4	2.1	1.8
RoE (%)	25	18	21	22	22
RoCE (%)	35	28	30	31	30
Fixed Asset turnover (x)	4.6	4.9	5.9	5.9	5.9
Dividend Yield (%)	1.8	2.0	2.3	2.5	2.6
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	12	8
EBITDA Growth (%)	(6)	(9)	24	14	8
EPS Growth, %	(3)	(13)	30	19	9
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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