

CMP: Rs 2895

Rating: ACCUMULATE

Target: Rs 3244

(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)	880
52w H/L (Rs)	3,213 / 2,425
Avg Weekly Vol ('000)	3,347

Shareholding Pattern

(As on March, 2019)	%
Promoters	51.1
Public & Others	48.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
BAJAJ	1.6	7.2	1.1
SENSEX	1.6	7.2	7.9

Source: ACE Equity, Arihant Research

BAJAJ v/s SENSEX



Source: ACE Equity, Arihant Research

BJAUT market share trend

Mkt share	FY17	FY18	FY19	YoY bps
Domestic MC	18%	16%	19%	300 bps
Export MC	60%	56%	59%	300 bps
Total 3Ws	50%	58%	57%	-120 bps

Source: Company, Arihant Capital Markets

**FY19 AR analysis – Strategy of market share gains over profits worked well
Near term outlook healthy despite headwinds**

In one of the most turbulent times for the 2W OEMs due to tightened liquidity, weak festive sales and the negotiations over EV timeline for 2Ws; Bajaj Auto (BJAUT)'s has guided for a healthy outlook for FY20 on the back of resilient growth in FY19 which was on account of robust domestic and sturdy export sales. In FY19, BJAUT's domestic motorcycle market share improved by 300bps to 18.7% due to aggressive pricing action taken in the entry level segment (CT100 and Platina). BJAUT's overall 2W market share increased by 220bps to 12%. The exports (40% of sales) grew by 25% YoY. Within exports, motorcycles grew by 21.6% YoY whereas the 3W sales up 43% YoY.

However, BJAUT highlighted that the high competitive intensity coupled with challenges pertaining to the inventory clearance ahead of Apr' 2020 deadline of BS VI can lead to heavy price based discounting which may impact the growth and profitability for the industry in H2FY20.

High inventories impact cash flow despite robust EBITDA

BJAUT's EBITDA was up 24% YoY to Rs 53bn. However, high receivables (+70% YoY) impacted the operating cash flow (-54% YoY). The EBITDA margins were cushioned by lower advertising costs (+11% YoY) and lower staff costs (+17.5% YoY). Further, the Advertising costs were 1.6% of sales (vs 1.8% of sales in FY18).

Healthy export sales with new geographies provide comfort

In 2Ws, BJAUT reported 25% YoY growth in export volumes mainly driven by very strong growth in Africa (Nigeria and Democratic Republic of Congo) and made inroads into Benin. Within exports, the motorcycle sales were up 21.7% YoY to 1.7mn units while the CV exports were up 43% YoY to 383,200 units. The overall export revenue stood at \$1.6bn (+20% YoY). BJAUT further strengthened its position in ASEAN region aided by growth in Phillipines and new markets like Malaysia.

In 3Ws, key markets like Nigeria and Egypt saw strong recovery whereas the growth was strong in new regions like Iraq, Myanmar, Nepal and Cambodia.

Can Qute live upto its hype ?

BJAUT launched the first ever quadricycle "Qute" in Q4FY19 and commenced exports to >30 countries. We believe, BJAUT is a undisputable leader in the 3W with >60% market share and it is well poised to crack the quadricycle code over the long term. Despite being a new segment, it has seen a fast adoption. BJAUT sold 4400 units in FY19 (vs 1605 units in FY18). We believe, this segment can be a major volume driver over the long term.

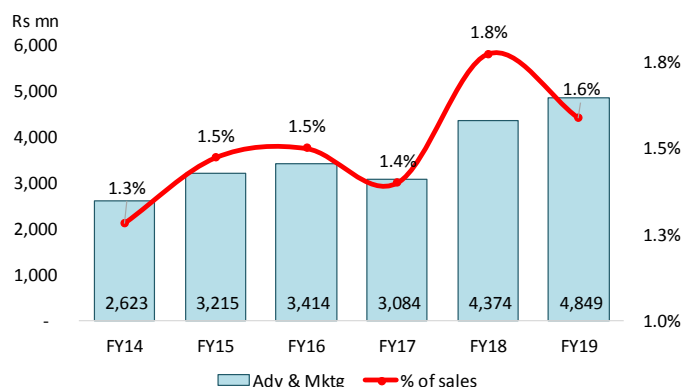
Milestone year for KTM...

In FY19, KTM was able to surpass 50k volumes in India (2lac volumes globally) on the back of success of its entry level motorcycle KTM Duke 125. KTM now has >460 showrooms across India and is expected to perform well in H2FY20. BJAUT holds 49% stake in KTM AG with a total investment of € 198mn or (or Rs 12.2 bn).

Valuation and outlook – Reduce EPS estimates by 7%/6% over FY20-21E

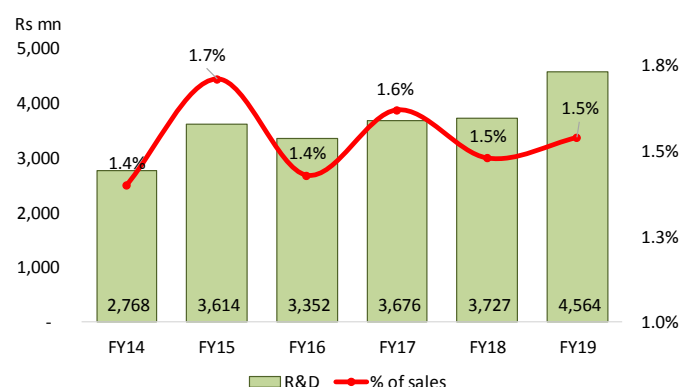
At CMP of Rs 2895, BJAUT is trading at a PE of 15.9x FY21E estimates. We believe, BJAUT will outperform the industry growth on the back of aggressive pricing and a new model launch coming up in the near term. However, the concerns pertaining to the growth in the H2FY20 due to elevated competitive intensity makes us vary of the near term challenges the industry may witness. We thus reduce our EPS estimates by 7%/6% for FY20E/21E. We value BJAUT at a PE of 17x (vs 18x earlier) + Rs 129 for KTM stock valuation and arrive at a target price of Rs 3,244 (vs Rs 3,631 earlier) with a potential upside of 12%. We have an ACCUMULATE rating on the stock.

Exhibit 1: Adv and mktg spends and % of sales trend



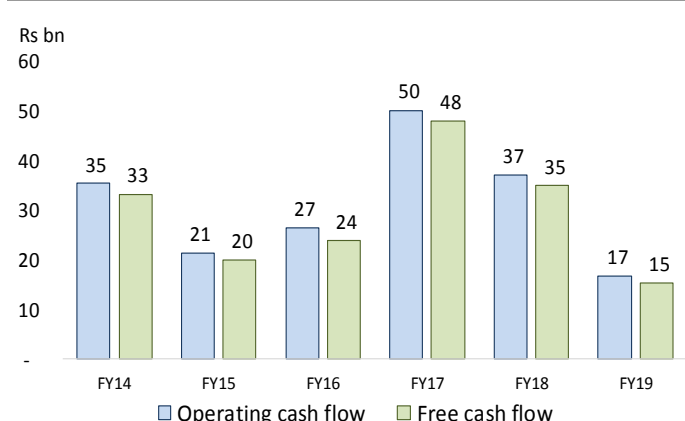
Source: Company, Aриhant Capital Markets

Exhibit 2: R&D spends and % of sales trend



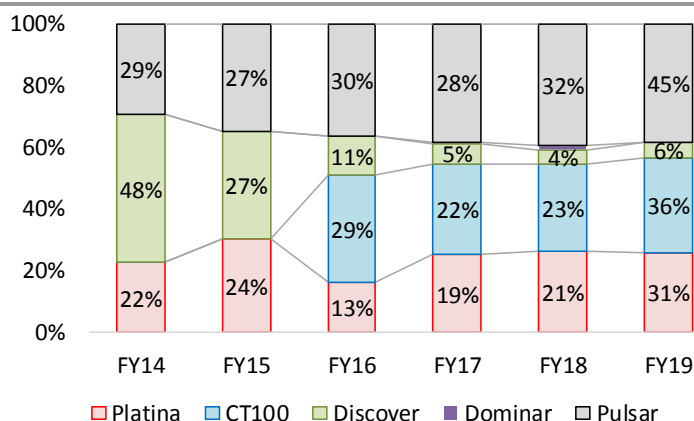
Source: Company, Aриhant Capital Markets

Exhibit 3: OCF and FCF trend



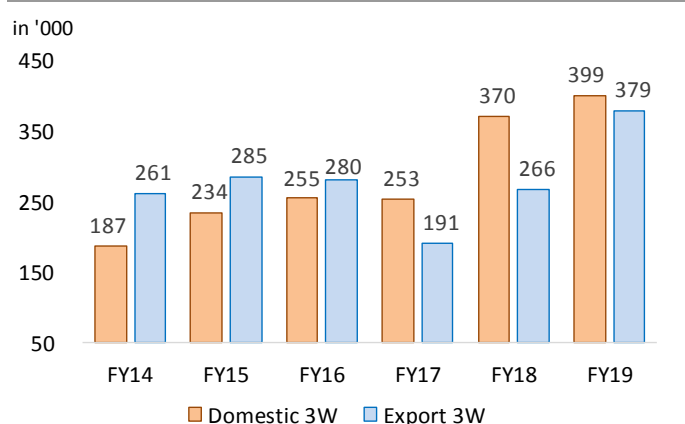
Source: Company, Aриhant Capital Markets

Exhibit 4: Domestic motorcycle volume breakup trend



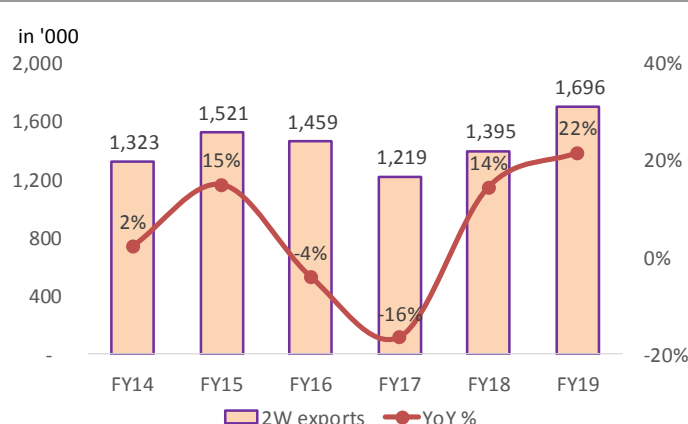
Source: Company, Aриhant Capital Markets

Exhibit 5: Domestic and export 3W trend



Source: Company, Aриhant Capital Markets

Exhibit 6: 2W export trend remains robust



Source: Company, Aриhant Capital Markets

Quarterly result summary

Standalone (Rsmn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	YoY(%)	QoQ (%)
Net sales	68,487	74,876	80,708	75,167	74,645	9.0	(0.7)
- 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)
EBITDA	13,907	13,498	14,269	12,635	12,315	(11.4)	(2.5)
EBITDA Margin (%)	20.3	18.0	17.7	16.8	16.5	(381)	(31)
Depreciation	879	700	715	634	608	(30.8)	(4.0)
EBIT	13,028	12,798	13,554	12,001	11,707	(10.1)	(2.4)
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
Reported PAT	10,799	11,152	11,525	11,019	13,056	20.9	18.5
EPS (Rs)	37.3	38.5	39.8	38.1	45.1	20.9	18.5
Adjusted PAT	10,799	11,152	11,525	11,019	9,636	(10.8)	(12.6)
Adjusted EPS (Rs)	37.3	38.5	39.8	38.1	33.3	(10.8)	(12.6)
Total Volumes (Nos)	1,045,378	1,226,641	1,339,444	1,259,828	1,193,590	14.2	(5.3)
Net Realisation (Rs)	65,514	61,042	60,255	59,665	62,538	(4.5)	4.8
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
Total volumes	1,045,378	1,226,641	1,339,444	1,259,828	1,193,590	14.2	(5.3)
Exports out of above	425,562	537,976	534,799	524,717	481,238	13.1	(8.3)
3W as % of total volumes	18.1%	13.7%	15.9%	14.4%	16.1%	(203)	165
Export as % of total volumes	40.7%	38.1%	39.9%	41.6%	40.3%	(39)	(133)

Source: Company, Arianth Capital Markets

BJAUT FY19 plant wise capacities and utilization

Plant	Segment	Capacity	Models
Waluj	Motorcycles	2,400,000	Boxer, CT, Platina, Discover, Pulsar, V
	CVs	930,000	3Ws, Quadricycle
	Waluj total	3,330,000	
Chakan	Motorcycles	1,200,000	Pulsar, Avenger, KTM, Dominar
Pantnagar	Motorcycles	1,800,000	CT, Platina, Discover, V, Pulsar
	Grand total	6,330,000	
	Total Sales	5,014,476	
	Capacity utilization	79%	

Source: Company, SIAM, Arianth Capital Markets

Profit & 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
Net Profit (adjusted)	38,276	33,217	43,691	47,890	53,018

Source: Company, Aриhant 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, Aриhant 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	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
Total assets	204,151	238,195	273,804	300,910	330,415
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
Total equity & liabilities	204,151	238,195	273,804	300,910	330,415

Source: Company, Aриhant Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	132	115	151	165	183
PER (x)	21.9	25.2	19.2	17.5	15.8
Price/Book (x)	4.9	4.4	3.8	3.5	3.1
EV/EBITDA (x)	15.1	15.9	12.4	11.7	10.3
EV/Net sales (x)	3.3	2.8	2.2	2.0	1.7
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 (%)	1.9	2.1	2.4	2.6	2.8
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, Aриhant Capital Markets

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Stock Rating Scale**Stock Rating Scale**

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

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