

Good performance in gloomy environment; Accumulate

CMP: Rs 3161

Rating: ACCUMULATE

Target: Rs 3529

(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)	914
52w H/L (Rs)	3,236 / 2,400
Avg Weekly Vol (BSE+NSE)	2806.95

Shareholding Pattern

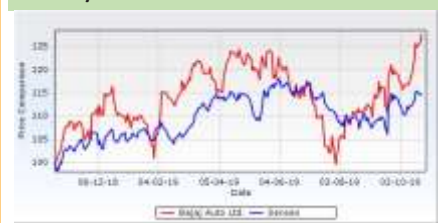
(As on March, 2019)	%
Promoters	51.1
Public & Others	48.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
BAJAJ	25.2	4.14	22.23
SENSEX	2.80	1.30	15.40

Source: ACE Equity, Arihant Research

BAJAJ v/s SENSEX



Source: ACE Equity, Arihant Research

Bajaj Auto (BJAUT) reported standalone revenues of Rs. 77bn (-4.5% YoY / -1.3% QoQ) vs our est Rs. 76.3 due to sharp improvement in realisation (+9% YoY / 4.9%QoQ) of 65.7K. Decrease in raw material cost and better product mix led to improvement in gross margins at 29.5% (-111 bps YoY / -72bps QoQ). EBITDA stood at Rs. 12.8bn (-10.4% YoY) in-line with our est of Rs. 12.5bn. EBITDA margin is 16.6% (vs our est of 16.3%) contracted by -110bps YoY / -72bps QoQ. This was mainly because of higher other expenses (+19% YoY). The company reported PAT of Rs. 14.0bn (YoY growth of 22%) ahead of our estimate of Rs. 11.8bn due to lower tax rate of ~13% (vs our expectation of 25%). It's EBITDA / Vehicle improved to Rs.10.9K (+2.2% YoY / 8.6% QoQ).

Concall highlights

- Improvement in gross margin is mainly due to better product mix (~50-60% improvement), increase in price and decline material cost. Going forward, commodity price trend to remain downward however the company foresee some benefit in steel commodity.
- BJAUT is well on track to commercialize the BS VI models in phases. The commencement of production of a BS-VI models is expected from November. The management does not want to make BS-VI models compete with heavily discounted BS-IV models at present. The management stated BS VI inventory situation is likely to improve in Nov & Dec which is at 60 days currently.
- The company expects to resume 3W sales to Egypt from this quarter onwards. No exports were seen in last 2 quarters due to new regulations in Egypt, however increase in volumes is likely in Cairo by end of 2019. Exports in Egypt has stabilise to 3000 units from its peak volume of 8000 units a month.
- As per management, BJAUT's market share is stable due to re-shaping of portfolio (100cc to 110cc and 125cc) while industry is down in double digit. The company claimed to have a retail market share of 20% by end of Q2FY20 on the back of 25% decline in motorcycles during the same quarter. The management expects consistent improvement in market share QoQ led by strong operational base driven by innovation and product mix. Company has geared up with robust pipeline of products for coming 18 months.
- KTM reported good set of numbers in Q2FY20. Revenue / earnings jumped to 11% / 19% YoY respectively on account of volume growth of 13% YoY.
- Segmental margins to remain in the same range for H2FY20
- The Inventory levels stood high at 50 days and is expected to normalise around the upcoming festive season.
- Exports stood at Rs. 31,080 mn during Q2FY20 vs 31,230 mn in Q2FY19.
- Much awaited EV is expected to launch in January 20 in Pune Bangalore.
- It's finance penetration has increased to ~70% in Q2FY20 vs 60% in Q1FY20.

Outlook and valuation

At CMP of Rs 3161, BJAUT is trading at a PE of 17.2x FY21E estimates. We believe, it will outperform the industry growth on the back of smart pricing and robust pipeline of products coming up in next 18 months. We value BJAUT at a PE of 18.5x + Rs 129 for KTM stock valuation to arrive at a target price of Rs 3,529 with a potential upside of 12%. We maintain our ACCUMULATE rating on the stock.

Quarterly result summary

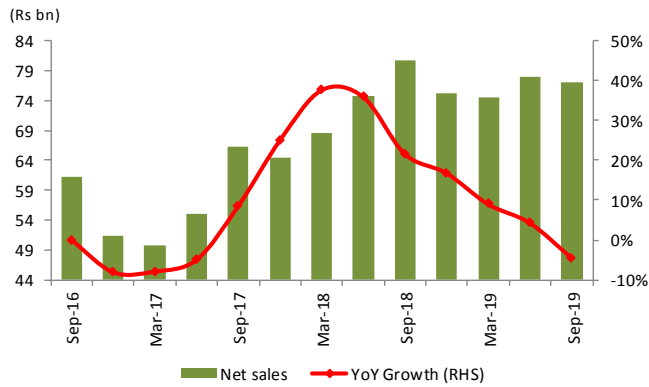
Rs mn	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (%)	QoQ (%)
Net sales	80,708	75,167	74,645	78,078	77,073	(4.5)	(1.3)
- Raw material	57,829	53,972	53,450	55,638	54,370	(6.0)	(2.3)
(% of net sales)	71.7	71.8	71.6	71.3	70.5	111	72
- Staff expenditure	3,119	3,169	3,126	3,605	3,384	8.5	(6.2)
(% of net sales)	3.9	4.2	4.2	4.6	4.4	52	-23
- Other expenditure	5,490	5,393	5,754	6,333	6,539	19.1	3.3
(% of net sales)	6.8	7.2	7.7	8.1	8.5	168	37
Total expenditure	66,438	62,533	62,329	65,576	64,293	(3.2)	(2.0)
EBITDA	14,269	12,635	12,315	12,502	12,781	(10.4)	2.2
EBITDA Margin (%)	17.7	16.8	16.5	16.0	16.6	-110	57
Depreciation	715	634	608	601	613	(14.2)	2.0
EBIT	13,554	12,001	11,707	11,901	12,167	(10.2)	2.2
Interest	3	36	3	5	12	300.0	129.6
Other Income	2,975	3,626	3,635	3,893	3,934	32.2	1.1
PBT	16,527	15,591	15,339	15,788	16,089	(2.6)	1.9
Tax	5,002	4,572	5,703	4,531	2,065	(58.7)	(54.4)
Reported PAT	11,525	11,019	13,056	11,257	14,024	21.7	24.6
EPS (Rs)	39.8	38.1	45.1	38.9	48.5	21.7	24.6
Adjusted PAT	11,525	11,019	9,636	11,257	14,024	21.7	24.6
Adjusted EPS (Rs)	39.8	38.1	33.3	38.9	48.5	21.7	24.6
Total Volumes (Nos)	1,339,444	1,259,828	1,193,590	1,247,174	1,173,591	(12.4)	(5.9)
Net Realisation (Rs)	60,255	59,665	62,538	62,604	65,673	9.0	4.9
EBITDA / Vehicle (Rs)	10,653	10,029	10,318	10,024	10,890	2.2	8.6

Geographical mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (%)	QoQ(%)
Volumes (In nos):							
Domestic	804,645	735,111	712,352	697,153	629,080	(21.8)	(9.8)
Exports	534,799	524,717	481,238	550,021	544,511	1.8	(1.0)
Total	1,339,444	1,259,828	1,193,590	1,247,174	1,173,591	(12.4)	(5.9)
Volume mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY (%)	QoQ(%)
Motorcycles	1,126,542	1,078,384	1,001,983	1,082,627	984,240	(12.6)	(9.1)
3W	212,902	181,444	191,607	164,547	189,351	(11.1)	15.1
Total volumes	1,339,444	1,259,828	1,193,590	1,247,174	1,173,591	(12.4)	(5.9)
Exports out of above	534,799	524,717	481,238	550,021	544,511	1.8	(1.0)
3W as % of total volumes	15.9%	14.4%	16.1%	13.2%	16.1%	24	294
Export as % of total volumes	39.9%	41.6%	40.3%	44.1%	46.4%	647	230

Source: Company, Arianth Capital Markets

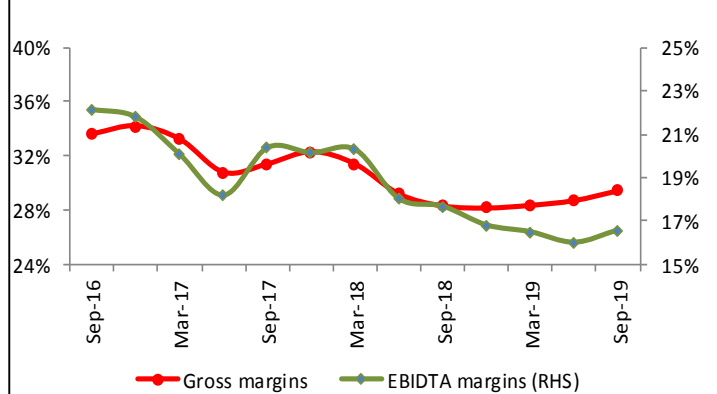
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Exhibit 1: Quarterly revenue and growth trend



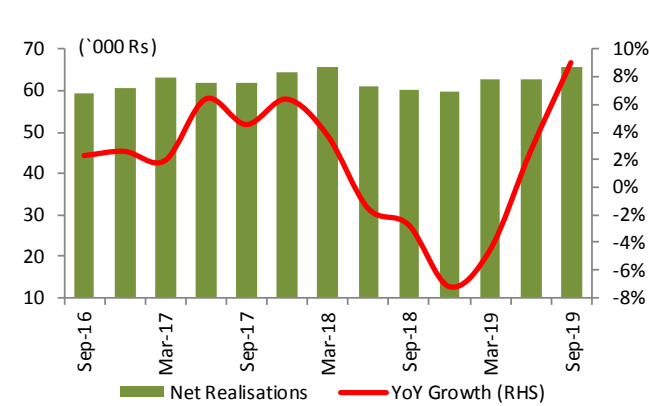
Source: Company, Arianth Capital Markets

Exhibit 2: Quarterly gross margin and EBITDA margin trend



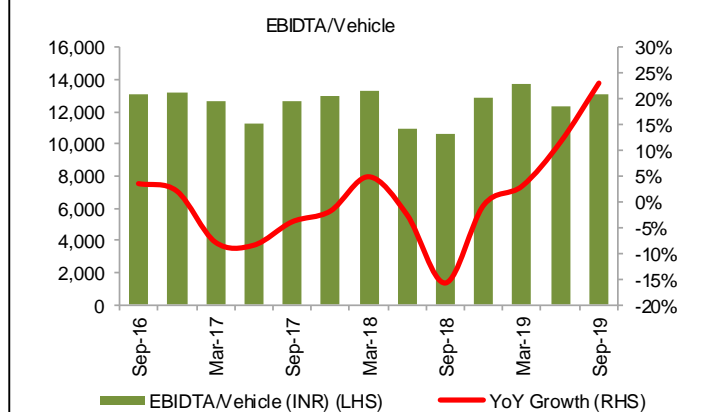
Source: Company, Arianth Capital Markets

Exhibit 3: Quarterly realization and growth trend



Source: Company, Arianth Capital Markets

Exhibit 4: Quarterly EBITDA / Vehicle trend



Source: Company, 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	358,566
Growth, %	-4	12	24	9	7
	-	-	-	-	-
RM expenses	146,242	174,101	218,243	239,787	254,582
Employee expenses	-9,971	-10,691	-12,554	-14,312	-16,029
Other expenses	-17,231	-19,023	-21,523	-25,124	-27,643
EBITDA (Core)	46,812	42,639	53,076	54,975	60,313
Growth, %	-6	-9	24	4	10
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	57,214
Growth, %	-6	-10	28	3	10
Margin, %	19.9	16.0	16.5	15.6	16.0
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	77,078
Tax provided	-15,081	-17,144	-20,280	-21,516	-23,894
Profit after tax	38,276	33,217	43,691	47,890	53,184
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	38,276	33,217	43,691	47,890	53,184
Growth, %	-3	-13	32	10	11
Net Profit (adjusted)	38,276	33,217	43,691	47,890	53,184

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	77,078
Depreciation	3,073	3,148	2,657	2,839	3,099
Chg in working capital	-393	7,495	-13,060	393	-46
Total tax paid	-15,081	-17,144	-18,186	-21,516	-23,894
CFO	50,204	37,098	16,883	33,852	36,372
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	31,372
Debt raised/(repaid)	-20	29	-181	-154	-131
Dividend (incl. tax)	-18,621	-20,314	-23,699	-25,392	-27,085
CCF	-18,655	-20,298	-23,925	-25,594	-27,267
Net chg in cash	-5,658	4,843	1,694	9,206	3,903
Opening cash balance	8,595	2,937	7,780	9,228	18,681
Closing cash balance	2,937	7,780	9,228	18,681	22,584

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	22,584
Marketable securities cost	127,679	155,265	169,945	178,442	197,423
Debtors	9,533	14,919	25,597	28,011	30,053
Inventory	7,284	7,426	9,615	10,522	11,289
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	85,675
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	330,719
Current liabilities	31,503	40,337	47,781	52,361	56,031
Provisions	1,991	2,378	1,552	1,707	1,878
Total current lia.	33,494	42,714	49,333	54,067	57,908
Non-current liab.	-863	3,234	5,427	5,427	5,427
Total liabilities	32,631	45,949	54,760	59,494	63,335
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	167,448	188,145	214,905	237,897	263,749
Shareholders' equity	170,341	191,039	217,799	240,544	266,642
Total equity & liab.	204,151	238,195	273,804	300,910	330,719

Source: Company, Arianth Capital Markets

Ratios

YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	132	115	151	165	184
PER (x)	23.9	27.5	20.9	19.1	17.2
Price/Book (x)	5.4	4.8	4.2	3.8	3.4
EV/EBITDA (x)	16.8	17.7	13.9	13.1	11.5
EV/Net sales (x)	3.7	3.1	2.5	2.2	1.9
RoE (%)	25.3	18.4	21.4	20.9	21.0
RoCE (%)	35	28	30	29	30
Fixed Asset turnover (x)	4.6	4.9	5.9	5.8	5.7
Dividend Yield (%)	1.7	1.9	2.2	2.4	2.5
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
EBIDTA Growth (%)	-6	-9	24	4	10
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**

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

Research

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