

CMP: Rs 2500

Target Price: Rs 2736

Recommendation: HOLD

#### Stock Info

BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	35,591
NSE Nifty	10,651

#### Market Info

Market Capital	Rs 72,358 cr.
Equity Capital	Rs 289cr
6MAvg Trading Volume	476,693
52 Wk High / low	3,468/ 2,420
Face Value	Rs 10

#### Shareholding Pattern (%) (Dec 2018)

Promoters	49.30
Domestic Institutions	8.16
Foreign Institutions	16.11
Public & Others	26.43

#### Price Vs Sensex Chart



### Q3 FY19 Highlights:

- **Net Revenues** stood at Rs 7,243 crore, up by 16% on YoY basis. Volume increased by 26% yoy.
- **Operating EBITDA** margins stood at 15.6% in Q3FY19 as compared to 16.8% in Q2FY19.
- **Other income** stood at Rs 470 Cr vs Rs 382 cr up 23% QoQ on account of increase in interest rates.
- Company reported **Net profit** of Rs 1,102 crore increase of 16% on YoY basis.

### Motorcycle – Domestic

- Company recorded a growth of 38% over Q3 FY18 as against an industry growth of 11 %.
- Overall share in the domestic motorcycle market further increased to 20.3% as against 18.6% in Q2 FY19 and 16.3% in Q3 FY18.
- In the Entry segment, Company recorded a growth of 61% over Q3 FY18 as against an industry growth of 38%.
- Market share improved to 37.0% in Q3 FY19 as against 31.7% in Q3FY18.
- CT sold over 181,000 units, growth of 77%. Platina sold over 195,000 units, growth of 38%.
- In the Sports segment. the Company continues to maintain its dominance with market share of 45.7% in Q3 FY19 as against 40.5% in Q3FY18. Pulsar, along with Avenger, sold over 227,000 units, a growth of 43% over Q3FY18. Pulsars sold 88,000 units in October 2018, highest ever.

### Commercial Vehicles

- Company recorded sales of over 91 ,000 units for Q3FY19 and continues to maintain its dominance with market share of 55.2%. RE brand is the market leader in the small three-wheeler segment; market share at 85.6%.
- MAXIMA brand is a market leader in the big three-wheeler passenger carrier segment; market share at 36.3%. In the Goods carrier segment, Company recorded a growth of 15% over Q3 FY18 as against an industry growth of less than 5%; market share at 23.1%.

### International Business

- For third time in a row, quarterly volumes have crossed 500,000 units. Company recorded quarterly exports of nearly 525,000 units, growth of 23% over Q3FY18.
- Motorcycles sold over 434,000 units. Africa recorded a growth of 38%, South Africa & Middle East recorded a growth of 14% and ASEAN recorded a growth of 36% over Q3FY18.
- Commercial Vehicles sold over 90,000 units, a growth of 24% over Q3FY18. In value terms, exports in US\$ was 399 million as against US\$ 340 million in Q3 FY18. Realization per US\$ was Rs 68.9 in Q3 FY19 as against Rs 69.4 in Q2 FY19 and Rs 66.9 in Q3 FY18.

**> Conference call Highlights:**

- EBITDA margins stood at 15.6% vs 16.8% QoQ.
- Reasons for margin deterioration were reduction in dollar realization, lower CV volumes and inability to pass the material cost increase to the customer.
- Margins will be under pressure in Q4, but the management expects it to recover in Q1FY20 and targets to keep around 18% mark.
- Africa market is responding well and most of the exports growth is expected to come from this market.
- Company is localizing their products in the export markets which will bring down their cost.
- Industry growth stood at 8-10% down from 17-18% last year.
- Lot of headwinds are to be seen going forward which includes ABS, CBS, EV's and the big one transition to BSVI.
- Most of the growth is coming from entry level motorcycles and sports segment, where Bajaj is well poised.
- Management expects the demand to pick up in Q4 and with dollar expected to remain at Rs 71, company expects to gain on the forex front.
- Growth has slowed down in the industry, but Bajaj expects to outperform the industry and continue to gain market share.

**VALUATION:** With export market revival and 3 Wheeler segment growing rapidly due to permits, management expects the company to outperform the industry in FY19. Commodity price pressure to be seen going ahead and this will keep the margins under pressure. In the domestic markets the growth is coming through the entry level segments mainly from CT100 and Platina. Management expects to increase the market share in this segment. Management is confident of gaining market share as the rural disposable income will increase on back of hike in MSP. Motorcycle industry is growing at faster rate than scooter industry. With new launches better product mix, better dollar realisation profitability is expected to increase. We have valued the stock at PE of 16(X) to its FY20E EPS of Rs 171 and arrived at fair value of Rs 2736. We have “**HOLD**” rating on the stock.

**Financial Snapshot:**

Financial Snapshot			
(Rs Cr)	FY18	FY19E	FY20E
Revenue	24,700	30,700	34,822
EBITDA	4,783	5,078	6,212
Net Profit	4,068	4,179	4,949
EPS	141	144	171
ROE	22.5	20.8	22.3
P/E	17.6	17.1	14.5

**Quarterly Results:**

Quarterly Results					
Particulars Rs in cr	Q3FY19	Q2FY19	Q3FY18	YoY	QoQ
Volumes (in numbers)	1259828	1339444	1001469	26%	-6%
Net Realization per unit	58812	59628	62371	-6%	-1%
Net Sales	7243	7832	6246	16%	-8%
Other Operating Income	166	155	123	35%	7%
Revenues from Operations	7409	7987	6369	16%	-7%
Materials Consumed	5397	5783	4355	24%	-7%
Employees Cost	317	312	265	19%	2%
Other Expenditure	548	555	526	4%	-1%
Expenses Capitalized	-9	-6	-8	10%	39%
Total Expenditure	6253	6644	5138	22%	-6%
Operating EBITDA	1156	1343	1231	-6%	-14%
Margin	16%	17%	19%		
Core EBITDA	990	1188	1108	-11%	-17%
Margin	14%	15%	18%		
Depreciation and write downs	63	72	75	-15%	-11%
Operating EBIT before Other Income & Excp Items	1093	1271	1157	-6%	-14%
Other Income	470	382	227	107%	23%
PBIT before Exceptional Items	1563	1653	1384	13%	-5%
Interest	3.6	0.3	0.3	1090%	1052%
PBT before Exceptional Items	1559	1653	1383	13%	-6%
Exceptional items					
PBT	1559	1653	1383	13%	-6%
Tax Expense	457	500	431	6%	-9%
Effective Tax Rate	29%	30%	31%		
Net Profit after Tax	1102	1152	952	16%	-4%
EPS	38	40	33	16%	-4%

Profit and Loss Account, Year Ending March			
Particulars, in Rs crore	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>24,700</b>	<b>30,700</b>	<b>34,822</b>
YoY%	15.6	24.3	13.4
Other Operating Income	465	614	696
<b>Income from Operations</b>	<b>25,165</b>	<b>31,314</b>	<b>35,519</b>
Materials Consumed	17,410	22,718	25,768
Total Expenditure	20,381	26,236	29,306
<b>Operating EBITDA</b>	<b>4,783</b>	<b>5,078</b>	<b>6,212</b>
Depreciation	315	365	414
Operating EBIT before adj	4,469	4,712	5,798
Other Income	1,347	1,350	1,380
Interest	1	5	5
PBT before Excp Items	5,815	6,057	7,173
Exceptional item	32	-	-
<b>PBT</b>	<b>5,783</b>	<b>6,057</b>	<b>7,173</b>
Tax Expense	1,714	1,878	2,224
<b>Reported Net Profit</b>	<b>4,068</b>	<b>4,179</b>	<b>4,949</b>
YoY%	6%	3%	18%
Effective Tax Rate	29.6	31.0	31.0
<b>Reported EPS</b>	<b>141</b>	<b>144</b>	<b>171</b>

Balance Sheet, Year Ending March			
Particulars, in Rs crore	FY18	FY19E	FY20E
<b>Liabilities + Equity</b>			
(a) Share capital	289	289	289
(b) Reserves and surplus	18,814	20,706	23,167
<b>Shareholders' funds</b>	<b>19,104</b>	<b>20,996</b>	<b>23,457</b>
Non-current liab & Prov	604	621	638
Current liabilities	4,111	4,324	4,879
<b>Total - Equity and liabilities</b>	<b>23,819</b>	<b>25,941</b>	<b>28,973</b>
<b>Assets</b>			
Non-current assets			
Fixed assets	1,935	2,610	2,739
Long Term Inv	11,823	11,130	11,687
Loans + Adv + Others	826	909	1,000
Non-current assets	14,584	14,649	15,425
Current assets			
Cash	761	483	894
Other Current Assets	8,475	10,809	12,602
Sub-total - Current assets	9,235	11,292	13,548
<b>Total - Assets</b>	<b>23,819</b>	<b>25,941</b>	<b>28,973</b>

Cash Flow Statement, Year Ending March			
Particulars, in Rs crore	FY18	FY19E	FY20E
Operating Activities			
<b>PBT</b>	<b>5,783</b>	<b>6,057</b>	<b>7,173</b>
Add Depr + non op exp	315	365	414
Others	(1,174)	(224)	(225)
Total	4,924	6,198	7,362
Cash Taxes	(1,685)	(2,064)	(2,542)
Changes in Working Cap	1,045	58	340
<b>Cash Flow from Operations</b>	<b>4,284</b>	<b>4,192</b>	<b>5,160</b>
Investing Activities			
Change in investments	(1,904)	(1,708)	(1,808)
Capex	(14)	(300)	(300)
<b>Cash Flow from Investing</b>	<b>(1,918)</b>	<b>(2,008)</b>	<b>(2,108)</b>
Financing Activities			
<b>Dividends + Taxes paid</b>	<b>(1,885)</b>	<b>(2,445)</b>	<b>(2,648)</b>
Change in Non Curr Liab	(0.4)	3	3
<b>Cash Flow from Financing</b>	<b>(1,885)</b>	<b>(2,442)</b>	<b>(2,645)</b>
Opening Cash	278	738	483
Changes during year	480	(258)	408
Effects exchange rate differences	2	3	3
<b>Closing Cash</b>	<b>761</b>	<b>483</b>	<b>894</b>

Ratio Analysis			
	FY18	FY19E	FY20E
<b>Profitability</b>			
<b>Operating EBITDA%</b>	<b>19.0</b>	<b>16.2</b>	<b>17.5</b>
Operating EBIT%	17.8	15.0	16.3
Core EBITDA%	17.5	14.5	15.8
Core EBIT%	16.2	13.4	14.7
PAT%	16.2	13.6	14.2
<b>ROAE%</b>	<b>22.5</b>	<b>20.8</b>	<b>22.3</b>
Du Pont ROAE breakup			
PAT / Sales	16.5	13.6	14.2
Sales / Avg Total Assets	1.1	1.2	1.3
Avg Total Assets / Avg Eqty	1.2	1.2	1.2
<b>ROE</b>	<b>22.5</b>	<b>20.8</b>	<b>22.3</b>
Other Ratios			
<b>Current Ratio</b>	<b>2.2</b>	<b>2.6</b>	<b>2.8</b>
Long Term Debt / Equity	0.01	0.01	0.01
<b>EPS</b>	<b>140.6</b>	<b>144.4</b>	<b>171.0</b>
DPS	5.0	60.0	65.0
Dividend %	50.0	600.0	650.0
<b>Dividend Payout ratio</b>	<b>3.6</b>	<b>41.5</b>	<b>38.0</b>
<b>P/E</b>	<b>17.8</b>	<b>17.3</b>	<b>14.6</b>
BVPS	660.2	725.5	810.5
P/BV	3.8	3.4	3.1

Source: Company data, Arihant Research

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**Stock Rating**

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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