

CMP: Rs 3145

Rating: ACCUMULATE

Target Price: Rs 3580

Stock Info

BSE	532977
NSE	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
Sector	Automobiles & Ancillaries
Face Value (Rs)	10
Equity Capital (Rs mn)	2894
Mkt Cap (Rs bn)	919
52w H/L (Rs)	3,290 / 2,400
Avg Yearly Vol (in 000')	500

Shareholding Pattern %

(As on Dec, 2019)

Promoters	53.52
Public & Others	46.48

Stock Performance (%)	3m	6m	12m
Maruti	-2.41	27.77	25.81
Sensex	2.80	9.40	15.00

Bajaj Auto Vs Sensex



Bajaj Auto's Q3FY20 earnings were in line with our projections with minor miss on revenue estimates but beating PAT and EBITDA estimates. The company has reported a rise of 14.50% in its net profit at Rs 12616.0mn for the quarter under review as compared to Rs 11018.8mn for the same quarter in the previous year. Total income of the company increased by 1.99% at Rs 80058.8mn for Q3FY20 as compared Rs 78493.3mn for the corresponding quarter previous year. Revenue from operations rose 3% to 7,640 crore. Operating margin improved sequentially by 150 bps from 16.9% in Q2 of FY20 to 18.4% in Q3 of FY20. This improvement was largely driven by reduction in cost of material, increase in prices and forex gains. EBITDA stood at Rs 13672mn, up in margins at 8.2%YoY.

Concall highlights

- The outlook in the domestic market is uncertain, post transition to BS VI. The profitability of the BS VI products will be the same as BS-IV. The BS VI variant of CT100 model is 15-18% higher priced as compared to BS-IV models and would definitely affect the demand from Q1FY21 for 2-3 quarters. For Q4FY20, the domestic motorcycle is seeing some pre-buying impact.
- The company will move all its products to BS-VI by middle of the February
- Bajaj has commenced exports of 3 wheelers to Egypt from Jan 2020, the quantum is about 3000-4000. Last export to Egypt was in April 2019. Total export revenue was Rs 33,000mn in Q3FY20.
- The Company has witnessed strong growth in 125cc segment as compared to 150cc segment.
- The margin expansion is largely attributed to higher export contribution, product innovation and upgradation.
- On the export front growth is driven by African markets. Bangladesh is facing some regulatory issues while Sri Lanka and Nepal continues to be in the negative zone.
- The 3 wheeler Cargo segment recorded a growth of 11% YoY as against a decline of 3% YoY for the industry and the market share stand at 26%.
- The commodity prices have started rising and could impact OEMs from Q1FY21E. If domestic market picks up for two-wheelers, then margins could come off a bit as 2Ws in domestic are low margin products.

Outlook and valuation

At CMP of Rs 3145, Bajaj Auto is trading at a PE of 14.0x FY21E estimates. We believe, it will outperform the industry growth on the back of smart pricing and robust pipeline of products as response to e-Chetak scooter was overwhelming. It is launched in just two cities and has received 2,000 bookings. Expect a gradual launch and increase in the sales in coming quarters. We value Bajaj Auto at a PE multiple of 18.5x +129 for KTM stock valuation to arrive at a target price of Rs 3,580 with a potential upside of 13.8% using SOTP method for Bajaj's stake in KTM. We maintain our ACCUMULATE rating on the stock.

Quarterly result summary

Standalone (Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)
Net sales	76,397	75,167	1.6	77,073	(0.9)
- Raw material	53,422	53,972	(1.0)	54,370	(1.7)
(% of net sales)	69.9	71.8	(2.6)	70.5	(0.9)
- Staff expenditure	3,482	3,169	9.9	3,384	2.9
(% of net sales)	4.6	4.2	8.1	4.4	3.8
- Other expenditure	5,820	5,393	7.9	6,539	(11.0)
(% of net sales)	7.6	7.2	6.2	8.5	(10.2)
Total expenditure	62,725	62,533	0.3	64,293	(2.4)
EBITDA	13,672	12,635	8.2	12,781	7.0
EBITDA Margin (%)	17.9	16.8	6.5	16.6	7.9
Depreciation	617	634	(2.7)	613	0.6
EBIT	13,055	12,001	8.8	12,167	7.3
Interest	5	36	(86.8)	12	(62.1)
Other Income	3,662	3,626	1.0	3,934	(6.9)
PBT	16,713	15,591	7.2	16,089	3.9
Tax	4,097	4,572	(10.4)	2,065	98.4
Adjusted PAT	12,616	11,019	14.5	14,024	(10.0)
Adjusted EPS (Rs)	43.6	38.1	14.5	48.5	(10.0)
Total Volumes (Nos)	1,202,486	1,259,828	(4.6)	1,173,591	2.5
Net Realisation (Rs)	63,532	59,665	6.5	65,673	(3.3)
EBITDA / Vehicle (Rs)	11,370	10,029	13.4	10,890	4.4

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Geographical mix	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (%)	QoQ (%)
Revenues (INRm):								
Domestic	49,488	44,937	44,415	46,578	44,552	43,500	(3.2)	(2.4)
Exports	31,220	30,230	30,230	31,500	31,808	32,897	8.8	3.4
Total	80,708	75,167	74,645	78,078	76,360	76,397	1.6	0.0
Volumes (In nos):								
Domestic	804,645	735,111	712,352	697,153	629,080	639,714	(13.0)	1.7
Exports	534,799	524,717	481,238	550,021	544,511	562,772	7.3	3.4
Total	1,339,444	1,259,828	1,193,590	1,247,174	1,173,591	1,202,486	(4.6)	2.5
Realisations (INR):								
Domestic	61,503	61,130	62,349	66,812	70,821	67,999	11.2	(4.0)
Exports	58,377	57,612	62,817	57,271	58,416	58,455	1.5	0.1
Total	60,255	59,665	62,538	62,604	65,065	63,533	6.5	(2.4)

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Exhibit 1: Quarterly revenue and growth trend

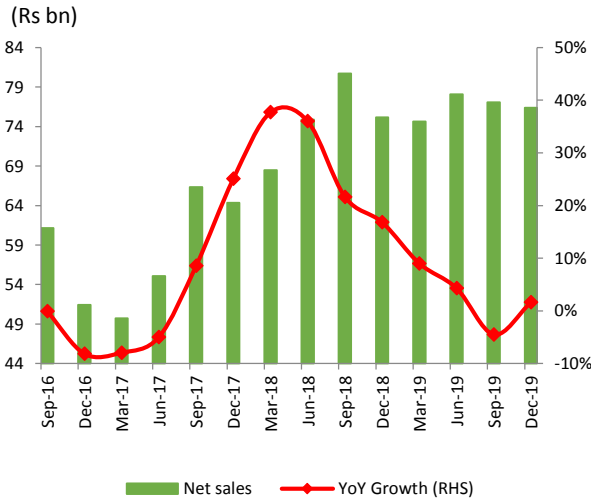


Exhibit 2: Gross margin and EBITDA margin trend

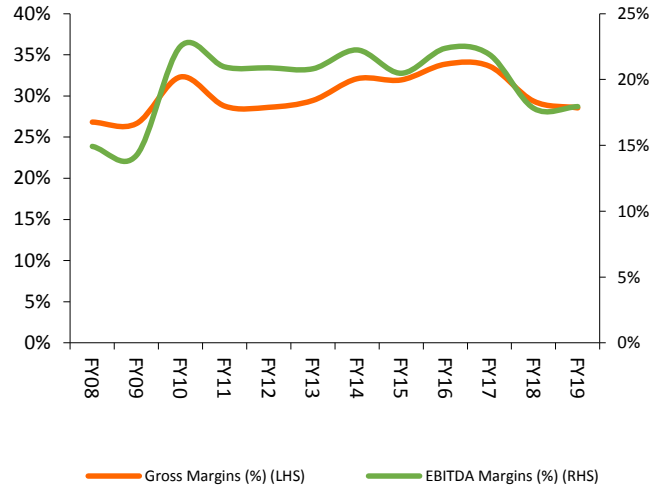


Exhibit 3: Quarterly realization and growth trend

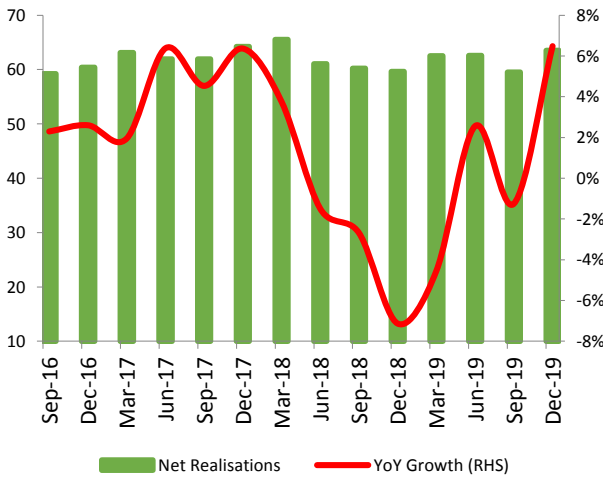
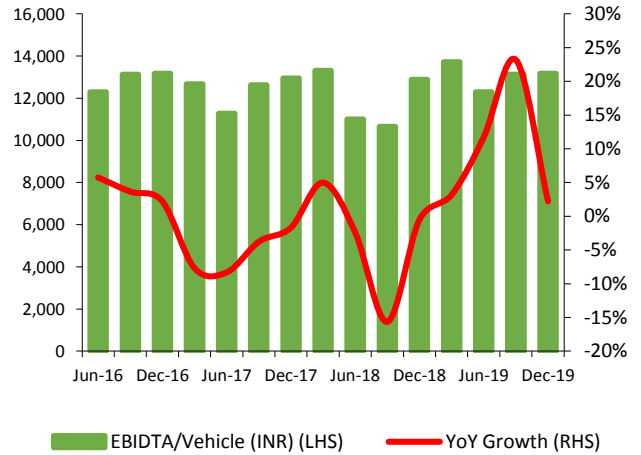


Exhibit 4: Quarterly EBITDA / Vehicle trend



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement					
Particulars (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	220,255	246,454	305,396	327,483	363,949
Growth, %	(4)	12	24	7	11
RM expenses	-146,242	-174,101	-218,243	-234,969	-258,404
Employee expenses	-9,971	-10,691	-12,554	-14,312	-16,029
Other expenses	-17,231	-19,023	-21,523	-24,614	-28,062
EBITDA (Core)	46,812	42,639	53,076	53,589	61,454
Growth, %	(6)	(9)	24	1	15
Margin, %	21.3	17.3	17.4	16.4	16.9
Depreciation	-3,073	-3,148	-2,657	-2,839	-3,099
EBIT	43,739	39,491	50,419	50,750	58,356
Growth, %	(6)	(10)	28	1	15
Margin, %	19.9	16.0	16.5	15.5	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	68,020	78,220
Tax provided	-15,081	-17,144	-20,280	-21,086	-24,248
Profit after tax	38,276	33,217	43,691	46,934	53,971
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	38,276	33,217	43,691	46,934	53,971
Growth, %	(3)	(13)	32	7	15
Net Profit (adjusted)	38,276	33,217	43,691	46,934	53,971

Balance Sheet					
YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank	2,937	7,780	9,228	17,670	22,449
Marketable securities cost	127,679	155,265	169,945	178,442	197,423
Debtors	9,533	14,919	25,597	27,448	30,505
Inventory	7,284	7,426	9,615	10,311	11,459
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	76,099	86,160
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	299,125	331,205
Current liabilities	31,503	40,337	47,781	51,532	56,685
Provisions	1,991	2,378	1,552	1,707	1,878
Total current liabilities	33,494	42,714	49,333	53,239	58,563
Non-current liabilities	-863	3,234	5,427	5,427	5,427
Total liabilities	32,631	45,949	54,760	58,665	63,989
Paid-up capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	167,448	188,145	214,905	236,941	263,580
Shareholders' equity	170,341	191,039	217,799	239,587	266,474
Total equity & liabilities	204,151	238,195	273,804	299,125	331,205

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash Flow					
YE: Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	53,357	50,361	63,971	68,020	78,220
Depreciation	3,073	3,148	2,657	2,839	3,099
Chg in working capital	-393	7,495	-13,060	338	42
Total tax paid	-15,081	-17,144	-18,186	-21,086	-24,248
CFO	50,204	37,098	16,883	32,841	37,249
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	26,269	32,249
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	8,195	4,779
Opening cash balance	8,595	2,937	7,780	9,228	17,670
Closing cash balance	2,937	7,780	9,228	17,670	22,449

Ratios					
YE: Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (INR)	132	115	151	162	187
PER (x)	19.8	22.8	17.3	16.1	14.0
Price/Book (x)	4.4	4.0	3.5	3.2	2.8
EV/EBITDA (x)	13.4	14.0	10.9	10.5	8.7
EV/Net sales (x)	2.9	2.5	2.0	1.8	1.5
RoE (%)	25.3	18.4	21.4	20.5	21.3
RoCE (%)	35	28	30	29	30
Fixed Asset turnover (x)	4.6	4.9	5.9	5.7	5.8
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	7	11
EBIDTA Growth (%)	(6)	(9)	24	1	15
EPS Growth, %	(3)	(13)	32	7	15
Net D/E ratio (x)	(0.9)	(0.9)	(0.9)	(0.9)	(0.8)

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880