

Margin compression to continue

RATING	NEUTRAL
CMP	2499
Price Target	2717
Potential Upside	9%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	3473/2425
Mkt Capital (Rs Cr)	72308
Free float (%)	47%
Avg. Vol 1M (,000)	401
No. of Shares (Cr.)	29
Promoters Pledged %	0%

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Q3FY19 Result Update

- BAJAJ-AUTO has posted 16%YoY revenue growth in 3QFY19. The growth was driven by 26%YoY volume growth. However, realization declined sharply by 10%YoY due to adverse product mix in both domestic and export markets.
- Gross margin declined by 44 bps QoQ to 27.2% during the quarter. EBITDA Margin also contracted by 121 bps QoQ to 15.6% due to higher commodity prices, foreign exchange fluctuation, export realization and shift in product mix.
- PAT for the quarter stood at Rs.1221 crores with a growth of 20%YoY. PAT margins increased by 74 bps QoQ to 16.5% due to higher other income coupled with strong performance from KTM.
- The company has gained market share by 170 bps QoQ to 20.3% in domestic motorcycle market. The market share in entry segment was 37% whereas the company continues to maintain its dominance in sports segment with market share of 45.7%. In the CV segment, the company has continued its dominance with 55.2% market share.
- Surplus cash and cash equivalents during the quarter stood at Rs. 16467 crores.

View and Valuation

Bajaj Auto posted 16%YoY revenue growth in 3QFY19. The growth was largely driven by 26%YoY volume growth. Realization, on the other hand, declined sharply by 10%YoY due to adverse product mix in both domestic and export markets. The margin declined by 120bps on a sequential basis because of the lower exchange rate, increase in commodity prices and a shift in mix towards motorcycles. However, based on softening commodity prices, increase in USD-INR realization and improvement in product mix margins are expected to improve from 1QFY20 and it may fall in the management's guided range of 16-17%. The company has gained 170bps market share on a sequential basis in the domestic two-wheeler market based on its aggressive pricing strategy and reached to 20.3% market share. The management expects 8-10% volume growth in FY20 based on higher base and various safety and regulatory changes during the period. On the three-wheeler, side growth may seem tapering due to high base effect and increasing demand of E-rickshaws. Export markets continue to perform better on account of strong growth witnessed in the African region but export margins will continue to remain under pressure due to increasing sales of lower end motorcycles. Factoring the higher sales of lower end two-wheelers in both domestic and export markets, tapering 3 wheelers demand we cut down our margin expectation by 40/20bps in FY19/20. Going forward margins will continue to be under pressure and we don't expect it to reach 19-20% level in the next 2-3 quarters. We value Bajaj Auto at 16x FY20e EPS (earlier 18x) to arrive at target price of Rs.2717 and downgrade our rating from BUY to NEUTRAL.

Key Risks to our rating and target

- Further increase in commodity prices
- Slowdown in export markets due to crude prices fluctuation

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	22587	21767	25165	29878	33666
EBITDA	4764	4419	4782	4884	5662
EBIT	4457	4112	4467	4611	5384
PAT	4044	4079	4219	4466	4914
EPS (Rs)	140	141	146	154	170
EPS growth (%)	34	1	3	6	10
ROE (%)	29	23	21	20	19
ROCE (%)	32	23	22	20	21
BV	485	617	706	788	880
P/B (X)	5.0	4.5	3.9	3.2	2.8
P/E (x)	17.2	19.9	18.9	16.2	14.7

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3QFY19 Results

PAT better than expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Volumes	1001	1045	1227	1339	1260	26%	-6%	3666	4007	9.3%
Realization	62,372	63,621	59,245	58,470	57,493	-8%	-2%	59,375	62,806	5.8%
Net Sales	6,369	6,773	7,419	7,987	7,409	16%	-7%	21,767	25,165	15.6%
Other Income	225	366	310	382	470	109%	23%	1,222	1,212	-0.8%
Total Income	6,595	7,139	7,729	8,368	7,879	19%	-6%	22,989	26,377	14.7%
COGS	4,354	4,697	5,299	5,783	5,397	24%	-7%	14,624	17,410	19.1%
Staff Cost	265	266	314	312	317	20%	2%	997	1,069	7.2%
Other Exp.	526	502	530	556	548	4%	-1%	1,748	1,928	10.3%
Expenditure	5,138	5,458	6,139	6,645	6,254	22%	-6%	17,347	20,383	17.5%
EBITDA	1,232	1,316	1,280	1,342	1,155	-6%	-14%	4,419	4,782	8.2%
Depreciation	75	88	70	72	63	-15%	-11%	307	315	2.4%
EBIT	1,157	1,228	1,211	1,271	1,092	-6%	-14%	4,112	4,467	8.6%
Interest	0	0	0	0	4	1090%	1052%	1	1	-6.4%
PBT	1,382	1,593	1,520	1,652	1,558	13%	-6%	5,333	5,678	6.5%
Excpt. Item	-	-	-	-	-	0%	0%	-	32	0.0%
Tax	431	514	500	500	457	6%	-9%	1,508	1,714	13.7%
PAT	1,014	1,175	1,042	1,257	1,221	20%	-3%	4,079	4,219	3.4%

Revenue growth led by healthy volumes

Net sales grew by 16%YoY to Rs.7409 crores on the back of 26%YoY volume growth. On the two wheelers side domestic volumes grew robustly by 38%YoY due to aggressive pricing and promotional activities. CT and Platina models showed a growth of 77% and 38% respectively in the entry segment while Pulsar along with Avenger showed a growth of 43% in sports segment. The company witnessed strong volume growth on the export 2-wheeler volumes which have shown a growth of 23%YoY during the quarter.

Domestic CV volumes declined by 17%YoY due to higher base and increasing E-rickshaw penetration. However, export CV grew by 24%YoY in 3QFY19. The sales in export markets were driven by robust growth in Africa, South Africa and Middle-East regions.

Lower dollar realization and weaker product mix led to margin contraction

Gross margin declined by 44 bps QoQ to 27.2% during the quarter. EBITDA Margin also contracted by 121 bps QoQ to 15.6% due to higher commodity prices, foreign exchange fluctuation, lower export realizations and shift in product mix towards entry segment motorcycles. However, the overall margins are expected to be in the range of 16-17% from 1QFY20 onwards on account softening commodity prices, increasing Platina demand and higher volumes in export markets.

Higher other income and profit from KTM led to PAT growth

PAT for the quarter stood at Rs.1221 crores with a growth of 20%YoY. Higher other income coupled with 78% YoY profit growth from KTM has resulted 74 bps QoQ improvement in PAT margins.

Concall highlights

- The management expects 10-12% growth in exports markets in FY20 based on higher growth in African region.
- The domestic motorcycle market is expected to grow by 8-10% in FY20 driven by value added products but there could be some challenges due to safety and regulatory norms.
- The management has target of achieving 24% market share in near term to mid-term.
- Exports revenue for the quarter stood at Rs.2767 crores.
- Avenger volumes have declined to 8000 units a month from earlier 12000-15000 units.
- Domestic 3 wheeler volumes is expected to decline by 10-15% due to higher base and increasing E-rickshaw penetration. However the volumes may remain close to 100000 units.
- The management expects export margins to increase by 1-1.5% by 1QFY20 because of incremental export realization led by INR depreciation.
- The company has taken a price hike of Rs.700 in CT100.
- The market share in African region is around 40% and within that Nigeria is around 68%.
- Inventory level remains at 6 weeks. However, the management expects inventory level to remain elevated in February considering the marriage season in North India.

Exhibit: Volume and Volume Growth Trend

Demand revival in motorcycles, improvement in key export markets and healthy 3Ws volumes led to 26%YoY growth

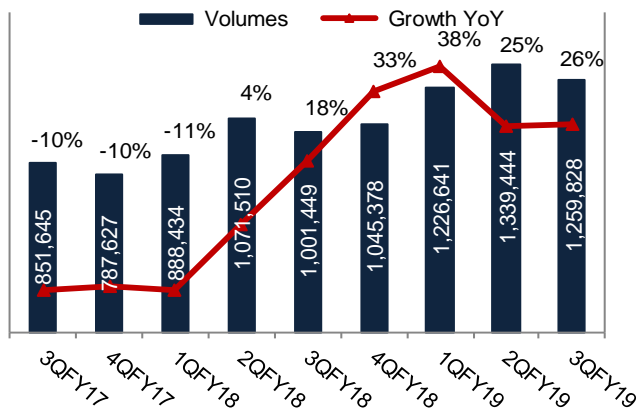


Exhibit: Realisation and Realisation Growth Trend

Realisation declined because of adverse product mix and in both domestic and exports market

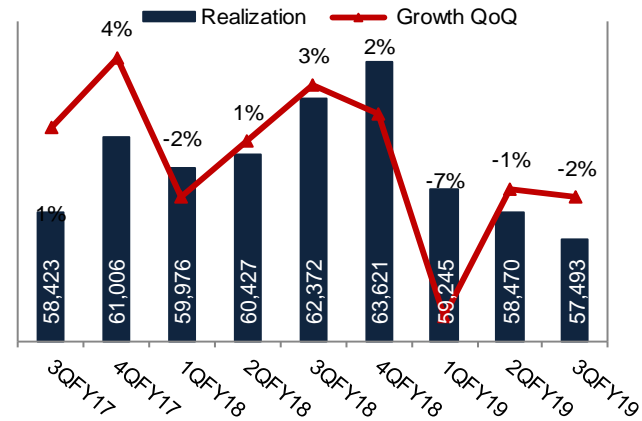


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Rising commodity prices, foreign exchange fluctuation and change in product mix led to EBITDA margin contraction

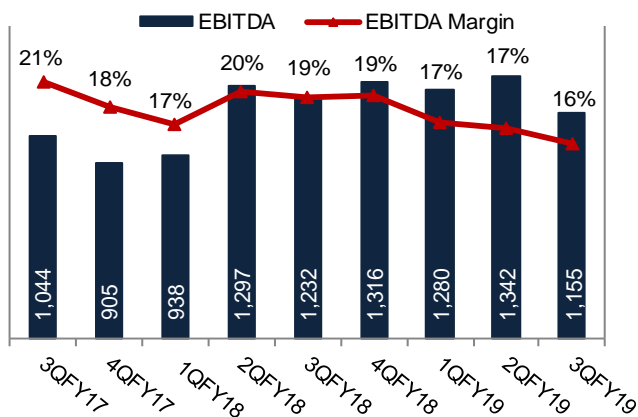


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income and strong performance of KTM led to 74 bps QoQ improvement in PAT margins

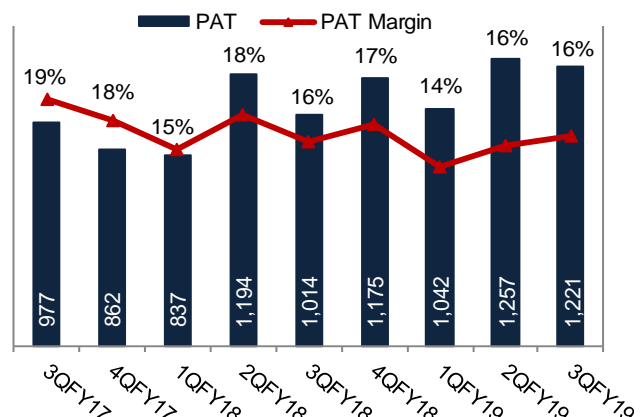


Exhibit: Capacity Utilization Trend

The company has enough capacity to cater future demand, only concern remains on the 3 wheeler side in FY20

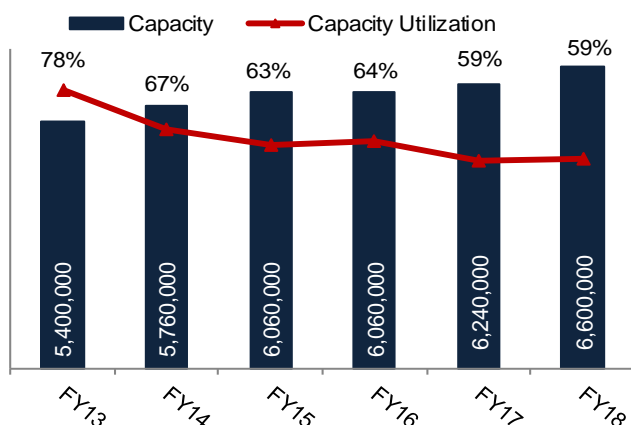
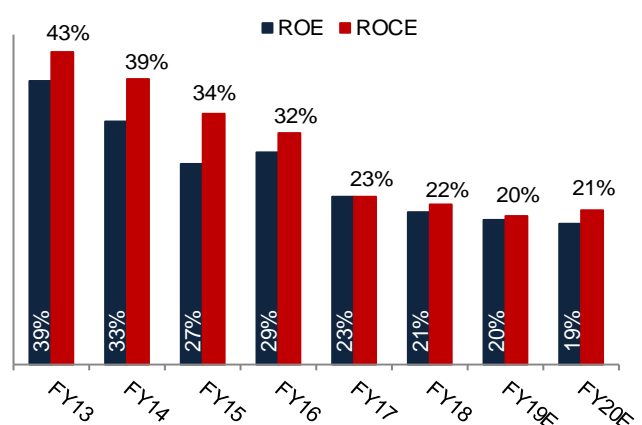


Exhibit: Return Ratios

Return ratios to stay over healthy 20% mark in the long run



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	289	289	289	289	289	289	289	289
Reserves	7,776	9,878	10,806	13,731	17,567	20,136	22,516	25,170
Networth	8,065	10,167	11,095	14,020	17,857	20,425	22,806	25,460
Debt	98	58	112	118	120	121	121	121
Other Non Cur Liab	237	231	199	233	321	325	325	325
Total Capital Employed	8,164	10,225	11,207	14,138	17,976	20,546	22,926	25,581
Net Fixed Assets (incl CWIP)	2,101	2,150	2,172	2,078	1,985	1,878	1,905	1,877
Non Cur Investments	3,348	6,158	3,185	7,718	7,459	10,600	13,602	16,282
Other Non Cur Asst	1	1	0	279	268	357	357	357
Non Curr Assets	6,494	9,683	6,399	12,507	12,169	15,890	18,919	21,572
Inventory	644	641	814	719	728	743	637	712
Debtors	734	796	717	718	953	1,492	1,637	1,845
Cash & Bank	567	501	593	820	288	776	441	343
Other Curr Assets	212	417	347	1,049	1,096	373	442	499
Curr Assets	6,182	5,624	9,567	4,733	9,469	9,251	9,177	9,726
Creditors	1,982	2,112	1,800	2,027	2,236	3,244	3,852	4,340
Provisions (both)	1,744	1,974	1,992	161	199	238	261	280
Other Curr Liab	549	766	767	299	558	394	338	378
Curr Liabilities	4,139	4,731	4,477	2,781	3,213	4,111	4,687	5,234
Net Curr Assets	2,043	894	5,090	1,952	6,256	5,139	4,491	4,492
Total Assets	12,676	15,308	15,966	17,240	21,638	25,141	28,097	31,298

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	19,533	19,726	21,106	22,152	21,374	24,700	29,246	32,910
Change (%)	2	1	7	4	(4)	16	19	13
Other Income	797	682	584	985	1,222	1,212	1,397	1,257
EBITDA	3,648	4,155	4,113	4,764	4,419	4,782	4,884	5,662
Change (%)	(2)	14	(1)	16	(7)	8	2	16
Margin (%)	18.2	20.6	19.0	21.1	20.3	19.0	16.3	16.8
Depr & Amor.	168	181	267	307	307	315	273	277
EBIT	3,481	3,974	3,846	4,457	4,112	4,467	4,611	5,384
Int. & other fin. Cost	1	1	6	1	1	1	4	1
EBT	4,277	4,655	4,423	5,440	5,333	5,678	6,004	6,640
Exp Item	-	-	340	-	-	32	-	-
Tax	1,217	1,390	1,271	1,618	1,508	1,714	1,840	2,058
Minority Int & P/L share of Ass.	84	145	214	221	255	288	302	332
Reported PAT	3,132	3,380	3,026	4,044	4,079	4,219	4,466	4,914
Adjusted PAT	3,132	3,380	3,026	4,044	4,079	4,219	4,466	4,914
Change (%)	3	8	(10)	34	1	3	6	10
Margin(%)	15.6	16.8	14.0	17.9	18.7	16.8	14.9	14.6

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	39%	33%	27%	29%	23%	21%	20%	19%
ROCE	43%	39%	34%	32%	23%	22%	20%	21%
Asset Turnover	1.58	1.32	1.35	1.31	1.01	1.00	1.06	1.08
Debtor Days	13	14	12	12	16	22	20	20
Inv Days	12	12	14	12	12	11	11	11
Payable Days	36	38	30	33	37	47	47	47
Int Coverage	2,925	4,846	593	4,245	2,937	3,410	1,027	4,110
P/E	17	18	19	17	20	19	16	15
Price / Book Value	6	6	5	5	5	4	3	3
EV/EBITDA	14	14	14	14	18	16	15	13
FCF per Share	2,727	3,722	2,383	3,955	3,467	4,510	5,508	5,650
Div Yield	2.5%	2.4%	2.5%	4.2%	0.2%	2.0%	2.4%	2.6%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	4,277	4,655	4,083	5,679	5,588	5,933	6,004	6,640
(inc)/Dec in Working Capital	4,780	5,401	4,807	4,930	4,613	4,922	6,583	7,250
Non Cash Op Exp	168	181	267	307	307	315	273	277
Int Paid (+)	1	1	6	0	1	0	4	1
Tax Paid	(1,239)	(1,314)	(1,285)	(1,782)	(1,503)	(1,683)	(1,840)	(2,058)
others	420	565	457	824	979	975	4	1
CF from Op. Activities	2,218	3,502	2,114	3,690	3,267	4,328	5,208	5,400
(inc)/Dec in FA & CWIP	(508)	(220)	(270)	(265)	(199)	(183)	(300)	(250)
Free Cashflow	1,710	3,282	1,844	3,425	3,068	4,145	4,908	5,150
(Pur)/Sale of Inv	-	(1,957)	(419)	91	(2,824)	(2,495)	(151)	(307)
others	(886)	76	274	62	(659)	625	(3,002)	(2,680)
CF from Inv. Activities	(1,394)	(2,100)	(414)	(113)	(3,683)	(2,053)	(3,453)	(3,237)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	2	(27)	-	-	-	-	-	-
Int. Paid	(1)	(1)	(6)	(0)	(1)	(0)	(4)	(1)
Div Paid (inc tax)	(1,511)	(1,518)	(1,691)	(3,434)	(202)	(1,885)	(2,086)	(2,259)
others	32	50	53	50	13	-	-	-
CF from Fin. Activities	(1,478)	(1,496)	(1,644)	(3,384)	(190)	(1,885)	(2,090)	(2,261)
Inc(Dec) in Cash	(654)	(66)	90	250	(534)	464	(335)	(98)
Add: Opening Balance	1,179	558	492	582	820	288	776	441
Closing Balance	525	492	582	831	286	776	441	342

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