

Bajaj Auto Ltd.

Industry	Automobiles
Bloomberg	BJAUT IN
BSE CODE	532977

Continue to outpace industry in sluggish demand environment

RATING	BUY
CMP	2619
Price Target	3450
Potential Upside	32%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	3,214/2,425
Mkt Capital (Rs Cr)	75797
Free float (%)	47%
Avg. Vol 1M (,000)	447
No. of Shares (Cr.)	29
Promoters Pledged %	0%

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1QFY20 Result Update

- ❑ BAJAJ-AUTO has posted a revenue growth of 4.5%YoY to Rs.7756 crores (vs our expectation of Rs.7272 crores) in 1QFY20 on account of 2%YoY volume growth and 2.5%YoY realization growth on account of better product mix in both domestic and export markets.
- ❑ The company's market share has inched up 2%YoY to 18.3% in domestic motorcycles. Entry segment market share is 30.6% while in sports segment it has a market share of 47%.
- ❑ Gross margins expanded by 54bps QoQ to 28.3% largely on account of softness in commodity prices. However, EBITDA margin reported a sequential decline of 30 bps due to higher employee cost and weaker operating leverage during the quarter.
- ❑ PAT de-grew by 3%YoY to Rs.1012 crores (vs our expectation of Rs.1095 crores). PAT margins declined by 60 bps to 13.1% due to loss in KTM business.
- ❑ KTM business reported a loss of Euro 2.3mn due to built-up of higher inventory level during previous quarters. The company has received Rs.104 crore as dividend from KTM. However, 3QCY19 performance is expected to be robust as per the management.

View and Valuation

BAJAJ-AUTO has reported 30bps sequential decline in EBITDA margins due to higher employee cost and weaker operating leverage during the quarter. Going ahead the management expects margins to remain range bound at 15-16% in FY20. The demand outlook in the domestic market continues to be sluggish but there is expectation of some improvement in festive season. International business outlook is steady as Africa and Asian markets growing faster while Latin America seems muted. The transition such as BS-VI and EV will positively impact the company as it has already developed the products and testing them. We largely maintain our EPS estimates for FY21. We value the company at 18x FY21e EPS to arrive at a target price of Rs.3450 and maintain BUY.

Key Risks to our rating and target

- ❑ Slowdown in exports market
- ❑ Foreign exchange and commodity price fluctuation

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	21767	25165	30250	32146	35456
EBITDA	4419	4782	4980	5185	6066
EBIT	4112	4467	4714	4932	5814
PAT	4079	4219	4928	4699	5502
EPS (Rs)	141	146	170	162	190
EPS growth (%)	1	3	17	-5	17
ROE (%)	23	21	21	18	19
ROCE (%)	23	22	20	19	20
BV	617	706	803	888	1001
P/B (X)	4.5	3.9	3.6	2.9	2.6
P/E (x)	19.9	18.9	17.1	16.1	13.8

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1QFY20 Results

PAT below expectation

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes	1227	1339	1260	1194	1247	2%	4%	4007	5020	25.3%
Realization	59,245	58,470	57,493	60,533	60,657	2%	0%	61,646	58,905	-4.4%
Net Sales	7,419	7,987	7,409	7,395	7,756	5%	5%	25,165	30,250	20.2%
Other Income	310	382	470	433	337	9%	-22%	1,212	1,555	28.3%
Total Income	7,729	8,368	7,879	7,828	8,093	5%	3%	26,377	31,805	20.6%
COGS	5,299	5,783	5,397	5,345	5,564	5%	4%	17,410	21,824	25.4%
Staff Cost	314	312	317	313	361	15%	15%	1,069	1,257	17.5%
Other Exp.	530	556	548	587	639	21%	9%	1,928	2,219	15.1%
Expenditure	6,139	6,645	6,254	6,234	6,559	7%	5%	20,383	25,270	24.0%
EBITDA	1,280	1,342	1,155	1,162	1,197	-7%	3%	4,782	4,980	4.1%
Depreciation	70	72	63	61	60	-14%	-1%	315	266	-15.6%
EBIT	1,211	1,271	1,092	1,101	1,137	-6%	3%	4,467	4,714	5.5%
Interest	0	0	4	0	1	74%	86%	1	4	242.0%
PBT	1,520	1,652	1,558	1,533	1,474	-3%	-4%	5,678	6,265	10.3%
Excpt. Item	-	-	-	(342)	-	0%	0%	32	(342)	0.0%
Tax	500	500	457	570	453	-9%	-21%	1,714	2,028	18.3%
PAT	1,042	1,257	1,221	1,408	1,012	-3%	-28%	4,219	4,928	16.8%

Revenue growth led by 2% volume growth across key markets

The company posted a revenue growth of 4.5%YoY to Rs.7756 in 1QFY20 on account of 2%YoY volume growth and 2.5%YoY realization growth on account of better product mix in both domestic and export markets. The company's market share has grown up 2%YoY to 18.3% in domestic motorcycles. The market share in the entry segment is 30.6% while in sports segment it has a market share of 47%. The emerging exports markets have shown 2-3% kind of growth in the motorcycles. Egyptian market is going through regularization of 3 wheelers industry which has led to contraction in volumes and it may take few quarters to bring the demand back to normal. However, international business outlook is steady as Africa and Asian markets growing faster while Latin America seems muted.

Higher employee cost restricted further expansion in margin

Gross margins expanded by 54bps QoQ to 28.3% largely on account of softness in commodity prices. However, EBITDA margin reported a sequential decline of 30 bps due to higher employee cost and weaker operating leverage during the quarter. The management expects that 15% EBITDA margin has bottomed out and further the margins are expected to remain range bound going ahead.

Loss in KTM business led to decline in PAT

PAT de-grew by 3%YoY to Rs.1012 crores. PAT margins declined by 60 bps to 13.1% due to loss in KTM business. KTM business reported a loss of Euro 2.3mn due to built-up of higher inventory level during previous quarters. However, 3QCY19 performance is expected to be robust as per the management.

Concall highlights

- The demand outlook continues to be sluggish going ahead as July seems worse than June with 12-13%YoY decline in volumes. There could be some improvement seen during the festive season.
- International business outlook is steady as Africa and Asian markets growing faster while LatAm seems muted. Emerging markets are showing 2-3% kind of growth in the motorcycles.
- Egyptian market is going through regularization of 3 wheelers industry which has led to contraction in volumes and it may take few quarters to bring the demand back to normal.
- The management expects that at 15% EBITDA margin has bottomed out. However the margins to remain range bound going ahead.
- The company is ready with EV prototypes in the 2 & 3 wheeler both which are being tested in campuses.
- The management expects 3 wheeler cargo segment demand to improve as introduction of BS-VI will increase the prices of small 4 wheeler cargo vehicles.
- Exports revenue for the quarter stood at Rs.3150 crores (flat YoY)
- Spare parts revenue was Rs.740 crores in 1QFY20.
- Dealer inventory level remains at 7-8 weeks for the industry.

Exhibit: Volume and Volume Growth Trend

Improvement in sales volumes across key markets

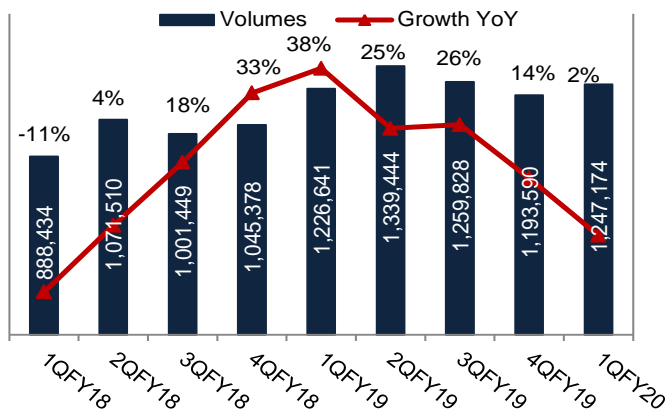


Exhibit: Realisation and Realisation Growth Trend

Realization growth on account of better product mix in both domestic and export markets

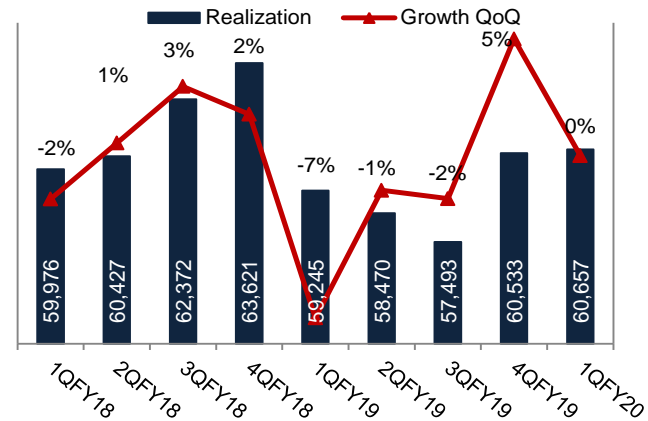


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Higher employee cost restricted further expansion in margin

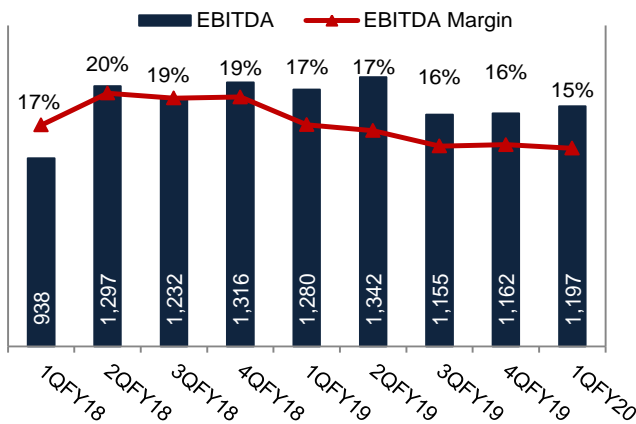


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Loss in KTM business led to decline in PAT

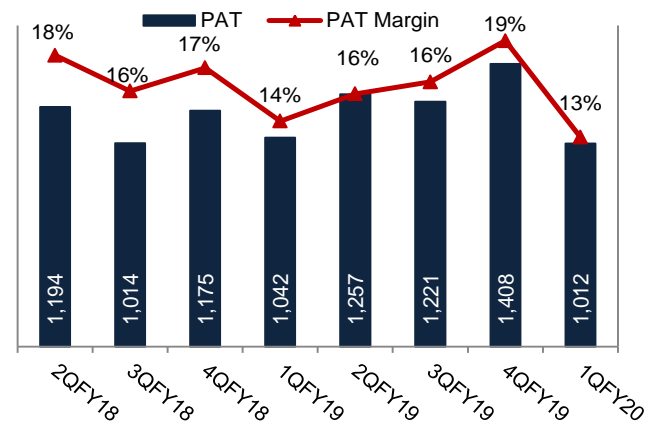


Exhibit: Capacity Utilization Trend

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

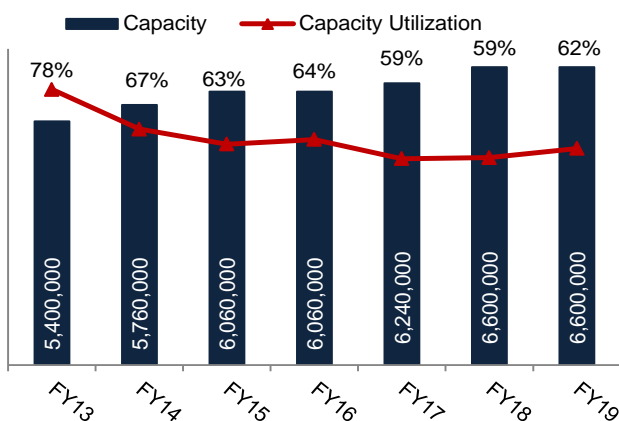
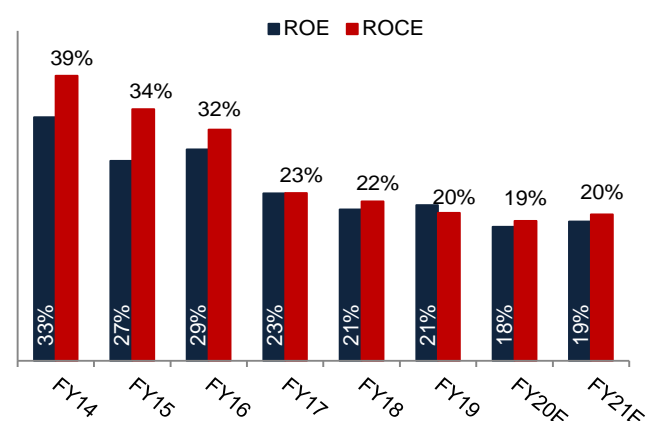


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	289	289	289	289	289	289	289	289
Reserves	9,878	10,806	13,731	17,567	20,136	22,944	25,412	28,683
Networth	10,167	11,095	14,020	17,857	20,425	23,234	25,702	28,972
Debt	58	112	118	120	121	125	125	125
Other Non Cur Liab	231	199	233	321	325	544	544	544
Total Capital Employed	10,225	11,207	14,138	17,976	20,546	23,358	25,826	29,097
Net Fixed Assets (incl CWIP)	2,150	2,172	2,078	1,985	1,878	1,756	1,733	1,731
Non Cur Investments	6,158	3,185	7,718	7,459	10,600	16,360	16,424	17,598
Other Non Cur Asst	1	0	279	268	357	307	307	307
Non Curr Assets	9,683	6,399	12,507	12,169	15,890	21,761	21,802	22,973
Inventory	641	814	719	728	743	962	732	806
Debtors	796	717	718	953	1,492	2,560	2,720	3,000
Cash & Bank	501	593	820	288	776	916	343	343
Other Curr Assets	417	347	1,049	1,096	373	923	981	1,082
Curr Assets	5,624	9,567	4,733	9,469	9,251	7,073	9,613	12,185
Creditors	2,112	1,800	2,027	2,236	3,244	3,787	4,024	4,438
Provisons (both)	1,974	1,992	161	199	238	155	164	179
Other Curr Liab	766	767	299	558	394	557	424	467
Curr Liabilities	4,731	4,477	2,781	3,213	4,111	4,874	4,987	5,459
Net Curr Assets	894	5,090	1,952	6,256	5,139	2,199	4,626	6,726
Total Assets	15,308	15,966	17,240	21,638	25,141	28,834	31,416	35,159

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	19,726	21,106	22,152	21,374	24,700	29,567	31,355	34,583
Change (%)	1	7	4	-4	16	20	6	10
Other Income	682	584	985	1,222	1,212	1,555	1,395	1,609
EBITDA	4,155	4,113	4,764	4,419	4,782	4,980	5,185	6,066
Change (%)	14	-1	16	-7	8	4	4	17
Margin (%)	20.6	19.0	21.1	20.3	19.0	16.5	16.1	17.1
Depr & Amor.	181	267	307	307	315	266	253	253
EBIT	3,974	3,846	4,457	4,112	4,467	4,714	4,932	5,814
Int. & other fin. Cost	1	6	1	1	1	4	4	4
EBT	4,655	4,423	5,440	5,333	5,678	6,265	6,324	7,419
Exp Item	-	340	-	-	32	(342)	-	-
Tax	1,390	1,271	1,618	1,508	1,714	2,028	1,957	2,300
Minority Int & P/L share of Ass.	145	214	221	255	288	350	332	382
Reported PAT	3,380	3,026	4,044	4,079	4,219	4,928	4,699	5,502
Adjusted PAT	3,380	3,026	4,044	4,079	4,219	4,928	4,699	5,502
Change (%)	8	-10	34	1	3	17	-5	17
Margin(%)	16.8	14.0	17.9	18.7	16.8	16.3	14.6	15.5

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	33%	27%	29%	23%	21%	21%	18%	19%
ROCE	39%	34%	32%	23%	22%	20%	19%	20%
Asset Turnover	1.32	1.35	1.31	1.01	1.00	1.05	1.02	1.01
Debtor Days	14	12	12	16	22	31	31	31
Inv Days	12	14	12	12	11	12	12	12
Payable Days	38	30	33	37	47	46	46	46
Int Coverage	4,846	593	4,245	2,937	3,410	1,052	1,401	1,652
P/E	18	19	17	20	19	17	16	14
Price / Book Value	6	5	5	5	4	4	3	3
EV/EBITDA	14	14	14	18	16	17	15	12
FCF per Share	3,722	2,383	3,955	3,467	4,510	2,650	5,310	6,025
Div Yield	2.4%	2.5%	4.2%	0.2%	2.0%	2.1%	2.5%	2.5%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4,655	4,083	5,679	5,588	5,933	6,956	6,324	7,419
(inc)/Dec in Working Capital	5,401	4,807	4,930	4,613	4,922	5,160	6,913	8,058
Non Cash Op Exp	181	267	307	307	315	266	253	253
Int Paid (+)	1	6	0	1	0	4	4	4
Tax Paid	(1,314)	(1,285)	(1,782)	(1,503)	(1,683)	(1,954)	(1,957)	(2,300)
others	(5,423)	(5,765)	(5,444)	(5,739)	(5,160)	(7,943)	(6,457)	(7,659)
CF from Op. Activities	3,502	2,114	3,690	3,267	4,328	2,487	5,080	5,775
(inc)/Dec in FA & CWIP	(220)	(270)	(265)	(199)	(183)	(164)	(230)	(250)
Free Cashflow	3,282	1,844	3,425	3,068	4,145	2,323	4,850	5,525
(Pur)/Sale of Inv	(1,957)	(419)	91	(2,824)	(2,495)	(461)	(3,124)	(2,117)
others	76	274	61	(659)	624	286	(64)	(1,174)
CF from Inv. Activities	(2,100)	(414)	(113)	(3,683)	(2,053)	(338)	(3,418)	(3,541)
inc/(dec) in NW								
inc/(dec) in Debt	(27)	-	-	-	-	-	-	-
Int. Paid	(1)	(6)	(0)	(1)	(0)	(4)	(4)	(4)
Div Paid (inc tax)	(1,518)	(1,691)	(3,434)	(202)	(1,885)	(2,073)	(2,231)	(2,231)
others	50	53	50	13	-	3	-	-
CF from Fin. Activities	(1,496)	(1,644)	(3,384)	(190)	(1,885)	(2,074)	(2,235)	(2,235)
Inc(Dec) in Cash	(66)	90	250	(534)	464	167	(573)	(0)
Add: Opening Balance	558	492	582	820	288	776	916	343
Closing Balance	492	582	831	286	776	916	343	342

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