

Bajaj Auto Ltd.

Industry **Automobiles**
Bloomberg **BJAUT IN**
BSE CODE **532977**

Softening commodity prices and improved product mix to drive margin

RATING	BUY
CMP	3161
Price Target	3644
Potential Upside	15%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	3236/2400
Mkt Capital (Rs Cr)	91479
Free float (%)	47%
Avg. Vol 1M (,000)	506
No. of Shares (Cr.)	29
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

SWATI SINGH

Swati.singh@narnolia.com

2QFY20 Result Update

- ❑ BAJAJ-AUTO has posted a decline in revenue by 3.5%YoY to Rs.7707 crores (vs. our estimates of Rs.7174 crores) during the quarter led by decline in volumes by 12% YoY. However, realization increased by 9%YoY due to product portfolio upgradation in entry level segment and price hikes.
- ❑ On the exports side, the 2W segment sales grew by 7% YoY driven by sales in Africa, Nigeria, Kenya, Ethiopia, Bangladesh and Egypt. However Sri Lanka and LATAM market has been impacted due to slowdown and economic headwinds.
- ❑ On the 3W, there has been significant increase in the cargo segment in the domestic market while on the exports side, sales grew by 3% YoY excluding Egypt with over 81000 units.
- ❑ The company's domestic motorcycle retail market share stands at 20% while domestic CV market share stood at 59.4% in 2QFY20.
- ❑ Gross margin improved by 120 bps QoQ to 29.5% due to softening of commodity prices. EBITDA margins also improved by 116 bps QoQ to 16.6% led by price hike, change in product mix and dollar realization.
- ❑ The company took a price hike of 1% in the sports segment and 5% increase in entry level segment in 2QFY20.
- ❑ PAT for the quarter stood at Rs.1523 crores (vs. our estimates of Rs. 1262 crores) with a growth of 20%YoY. PAT margins increased robustly by 671bps QoQ to 20% due to lower tax expenses and strong performance from KTM business.
- ❑ KTM business volumes grew by 13% YoY to 64931 units in 2QFY20. Revenue grew by 11% YoY to Euro 439 million while PAT grew by 19% YoY to Euro 32 million in 2QFY20. The proportionate profit to BAJAJ-AUTO Limited is Euro 15.4 million (Rs 120 crore) in 2QFY20.

View and Valuation

The demand scenario continues to be uncertain but there has been some uptick in demand on the retail side. The company has robust pipeline of products to be launched in premium segment over next 18 months but most of it to happen post BS-VI implementation. The exports market has also seen improvement especially in Nepal, Bangladesh and Malaysia in 2 wheelers and Egypt in 3 wheelers. We expect new product launches and better exports to drive the margins going ahead. Based on margin expansion led by soft commodity prices and improved product mix we increase our EPS estimates for FY20/21 by 6%/2%. We value the company at 18x FY21e EPS to arrive at a target price of Rs.3644 and maintain BUY.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	21767	25165	30250	31605	34910
EBITDA	4419	4782	4980	5172	5971
EBIT	4112	4467	4714	4927	5717
PAT	4079	4219	4928	5170	5859
EPS (Rs)	141	146	170	179	202
EPS growth (%)	1	3	17	5	13
ROE (%)	23	21	21	20	20
ROCE (%)	23	22	20	19	19
BV	617	706	803	904	1030
P/B (X)	4.5	3.9	3.6	3.5	3.1
P/E (x)	19.9	18.9	17.1	17.7	15.6

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2QFY20 Results

PAT above expectation

Financials	Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes (000)	1,339	1,260	1,194	1,247	1,174	-12%	-6%	4,007	5,020	25.3%
Realization	58,470	57,493	60,533	60,657	63,900	9%	5%	61,646	58,905	-4.4%
Net Sales	7,987	7,409	7,395	7,756	7,707	-3%	-1%	25,165	30,250	20.2%
Other Income	382	470	433	337	393	3%	17%	1,212	1,555	28.3%
Total Income	8,368	7,879	7,828	8,093	8,101	-3%	0%	26,377	31,805	20.6%
COGS	5,783	5,397	5,345	5,564	5,437	-6%	-2%	17,410	21,824	25.4%
Staff Cost	312	317	313	361	339	8%	-6%	1,069	1,257	17.5%
Other Exp.	556	548	587	639	661	19%	3%	1,928	2,219	15.1%
Expenditure	6,645	6,254	6,234	6,559	6,428	-3%	-2%	20,383	25,270	24.0%
EBITDA	1,342	1,155	1,162	1,197	1,279	-5%	7%	4,782	4,980	4.1%
Depreciation	72	63	61	60	61	-14%	2%	315	266	-15.6%
EBIT	1,271	1,092	1,101	1,137	1,217	-4%	7%	4,467	4,714	5.5%
Interest	0	4	0	1	1	300%	130%	1	4	242.0%
PBT	1,652	1,558	1,533	1,474	1,610	-3%	9%	5,678	6,265	10.3%
Excpt. Item	-	-	(342)	-	-	0%	0%	32	(342)	0.0%
Tax	500	457	570	453	206	-59%	-54%	1,714	2,028	18.3%
PAT	1,257	1,221	1,408	1,012	1,523	21%	51%	4,219	4,928	16.8%

Concall highlights

- The retails have somewhat improved from 2nd half of September month led by festive season.
- The company's domestic motorcycle retail market share stands at 20% while domestic CV market share stood at 59.4% in 2QFY20.
- The exports for Pulsar brand have improved significantly in new markets of Bangladesh, Nepal and Malaysia.
- The management expects to see improvement in 3W segment from April onwards. The domestic 3W market has been impacted due to seasonality effect. There has been significant increase in the cargo segment.
- The 3W retails sales in Egypt have settled down from 8000 units to 3000 units. The company will resume sales in Egypt going forward.
- The company will launch Chetak in January 2020 in Pune followed by Bangalore. The management also indicated that it has a robust pipeline of products for the next 18 months.
- The company ties up with Husquarna brand under KTM Austria and will commence production by end of December 2019. It will further launch the product in 1QFY21. The company's tie up with Triumph is under process.
- The realizations of the company improved by 6% QoQ significantly during the quarter as the company upgraded the product portfolio in the entry level segment. The 110 cc segment now contributes 55% to the sales.
- Discounts are in the range of Rs 1500-5000 differing from model to model.
- Margins improved during the quarter to 16.9% led by price hike, change in product mix and dollar realization.
- There may be some tailwinds in the commodity price in 3QFY20 but it will improve going forward in 4QFY20.
- The company gained 8% from currency in exports on a sequential basis during the quarter.
- The company gained 8% from currency in exports on a sequential basis during the quarter.
- Advertisement and promotion expenses along with the product launch cost led to increase in other expenses during the quarter.
- Tax rate will be in the range of 24-25% going ahead.
- The total tax expense (current & deferred tax) for current quarter includes reversal of Rs 182 crore for the previous quarter of FY20.
- Exports revenue for the quarter stood at Rs. 3108 crs vs Rs.3123 crs last year.
- Spares revenue for the quarter stood at Rs. 793 crs vs Rs. 811 crs last year.
- Inventory level stands at 60 days.
- The finance penetration of the company was at 70% from 65% last year.
- KTM business - Volumes grew by 13% YoY to 64931 units in 2QFY20. Revenue grew by 11% YoY to Rs. 439 million € while PAT grew by 19% YoY to 32 million € in 2QFY20. The proportionate profit to Bajaj Auto Limited is € 15.4 million (Rs 120 crore) in 2QFY20.

Exhibit: Volume and Volume Growth Trend

Weak consumer sentiments and headwinds across key markets led to volumes decline

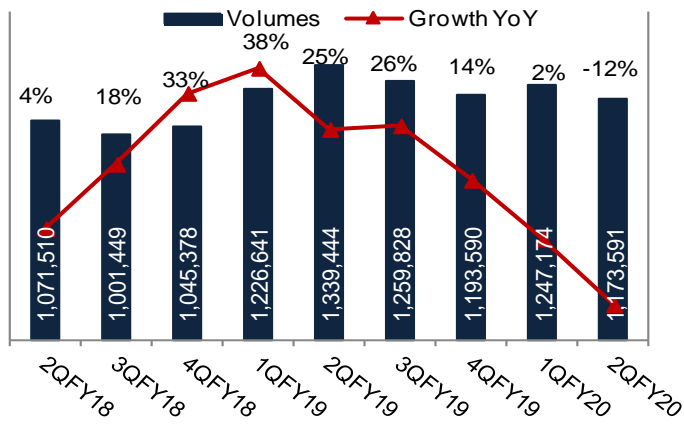


Exhibit: Realisation and Realisation Growth Trend

Realization growth on account of price hike and product mix upgradation in entry level segment

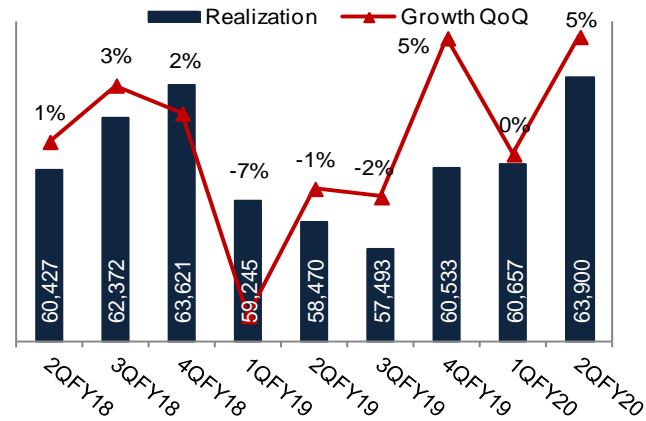


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Margins improved led by price hike, change in product mix and dollar realization

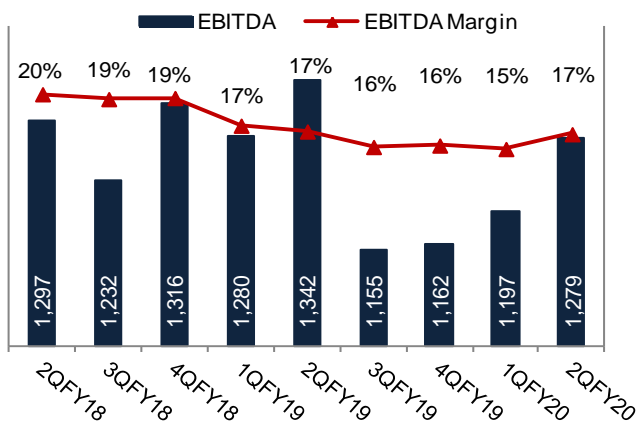


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins improved led by lower tax expenses and strong performance in KTM business

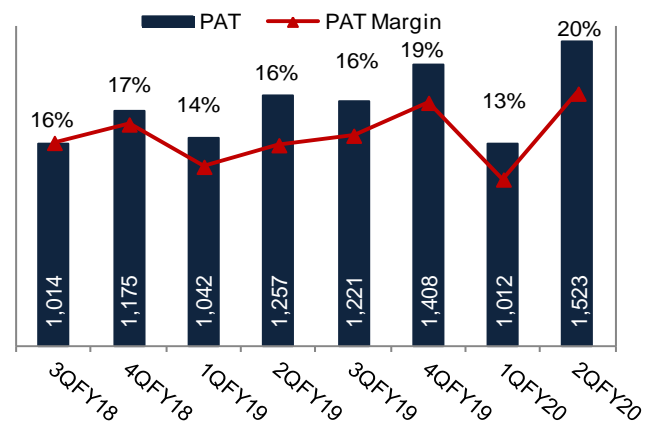


Exhibit: Capacity Utilization Trend

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

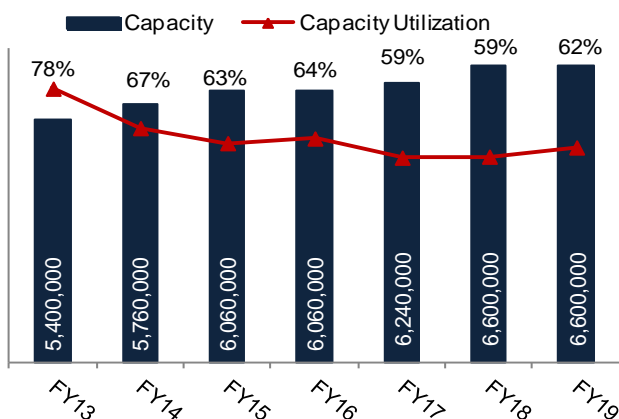
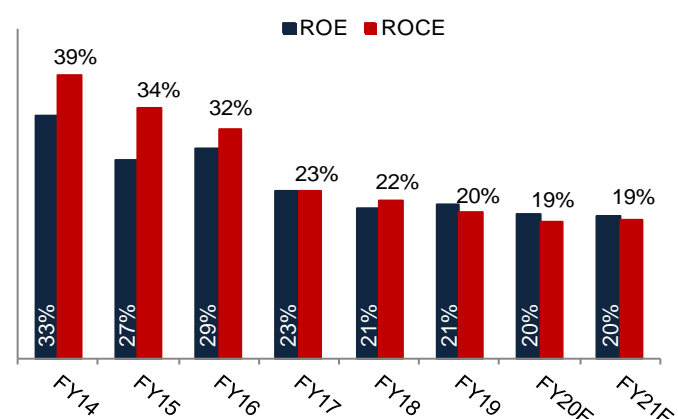


Exhibit: Return Ratios

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



Financial Details

Balance Sheet

Fig in Rs Cr

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	25,883	29,511
Networth	10,167	11,095	14,020	17,857	20,425	23,234	26,173	29,800
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	26,297	29,925
Net Fixed Assets (incl CWIP)	2,150	2,172	2,078	1,985	1,878	1,756	1,742	1,738
Non Cur Investments	6,158	3,185	7,718	7,459	10,600	16,360	16,620	17,698
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	22,006	23,080
Inventory	641	814	719	728	743	962	714	792
Debtors	796	717	718	953	1,492	2,560	2,674	2,954
Cash & Bank	501	593	820	288	776	916	343	343
Other Curr Assets	417	347	1,049	1,096	373	923	964	1,065
Curr Assets	5,624	9,567	4,733	9,469	9,251	7,073	9,800	12,827
Creditors	2,112	1,800	2,027	2,236	3,244	3,787	3,956	4,370
Provisons (both)	1,974	1,992	161	199	238	155	161	177
Other Curr Liab	766	767	299	558	394	557	414	459
Curr Liabilities	4,731	4,477	2,781	3,213	4,111	4,874	4,906	5,381
Net Curr Assets	894	5,090	1,952	6,256	5,139	2,199	4,893	7,446
Total Assets	15,308	15,966	17,240	21,638	25,141	28,834	31,806	35,907

Income Statement

Fig in Rs Cr

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	30,770	33,967
Change (%)	1	7	4	-4	16	20	4	10
Other Income	682	584	985	1,222	1,212	1,555	1,425	1,662
EBITDA	4,155	4,113	4,764	4,419	4,782	4,980	5,172	5,971
Change (%)	14	-1	16	-7	8	4	4	15
Margin (%)	20.6	19.0	21.1	20.3	19.0	16.5	16.4	17.1
Depr & Amor.	181	267	307	307	315	266	245	254
EBIT	3,974	3,846	4,457	4,112	4,467	4,714	4,927	5,717
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	6,349	7,375
Exp Item	-	340	-	-	32	(342)	-	-
Tax	1,390	1,271	1,618	1,508	1,714	2,028	1,476	1,859
Minority Int & P/L share of Ass.	145	214	221	255	288	350	297	342
Reported PAT	3,380	3,026	4,044	4,079	4,219	4,928	5,170	5,859
Adjusted PAT	3,380	3,026	4,044	4,079	4,219	4,928	5,170	5,859
Change (%)	8	-10	34	1	3	17	5	13
Margin(%)	16.8	14.0	17.9	18.7	16.8	16.3	16.4	16.8

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	33%	27%	29%	23%	21%	21%	20%	20%
ROCE	39%	34%	32%	23%	22%	20%	19%	19%
Asset Turnover	1.32	1.35	1.31	1.01	1.00	1.05	0.99	0.97
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	1,400	1,624
P/E	18	19	17	20	19	17	18	16
Price / Book Value	6	5	5	5	4	4	3	3
EV/EBITDA	14	14	14	18	16	17	18	15
FCF per Share	3,722	2,383	3,955	3,467	4,510	2,650	5,773	6,381
Div Yield	2.4%	2.5%	4.2%	0.2%	2.0%	2.1%	2.1%	2.1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4,655	4,083	5,679	5,588	5,933	6,956	6,349	7,375
(inc)/Dec in Working Capital	5,401	4,807	4,930	4,613	4,922	5,160	6,895	7,975
Non Cash Op Exp	181	267	307	307	315	266	245	254
Int Paid (+)	1	6	0	1	0	4	4	4
Tax Paid	(1,314)	(1,285)	(1,782)	(1,503)	(1,683)	(1,954)	(1,476)	(1,859)
others	(5,423)	(5,765)	(5,444)	(5,739)	(5,160)	(7,943)	(6,474)	(7,618)
CF from Op. Activities	3,502	2,114	3,690	3,267	4,328	2,487	5,542	6,131
(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	5,312	5,881
(Pur)/Sale of Inv	(1,957)	(419)	91	(2,824)	(2,495)	(461)	(3,391)	(2,568)
others	76	274	61	(659)	624	286	(260)	(1,078)
CF from Inv. Activities	(2,100)	(414)	(113)	(3,683)	(2,053)	(338)	(3,881)	(3,896)
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)	1
Add: Opening Balance	558	492	582	820	288	776	916	343
Closing Balance	492	582	831	286	776	916	342	343

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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