

# Bajaj Auto Ltd.

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

## Higher exports & better product mix leads to margin expansion

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>3144</b>
<b>Price Target</b>	<b>3699</b>
<b>Potential Upside</b>	<b>18%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	3290/2400
Mkt Capital (Rs Cr)	90970
Free float (%)	47%
Avg. Vol 1M (,000)	2400
No. of Shares (Cr.)	29
Promoters Pledged %	0%

### Research Analyst

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### 3QFY20 Result Update

- ❑ BAJAJ-AUTO revenue grew by 3%YoY to Rs.7640 crores (vs. our estimates of Rs.7754 crores) during the quarter led by 7.6% YoY realization growth. However, volumes declined by 4.6%YoY due to 16%YoY decline in domestic 2W industry and 13%YoY decline in CV exports.
- ❑ On the exports side,the 2W segment sales grew by 11.5% YoY. Africa driven by Nigeria, Congo, Ethiopia and Uganda, recorded a growth of 15%YoY. Relative slowdown in Bangladesh was compensated by growth in Sri Lanka and Egypt.
- ❑ On the 3W, Goods carrier segment recorded a growth of 11% YoY as against a decline of 3%YoY for the industry. On the exports side, sales grew by 26% YoY excluding Egypt with over 78000 units.
- ❑ The company's domestic motorcycle market share stands at 20% while domestic CV market share stood at 57% in 3QFY20.
- ❑ Gross margin improved by 60bps QoQ to 30.1% due to softening of commodity prices, higher realization and better product mix. EBITDA margins also improved by 130 bps QoQ to 17.9% led by higher export contribution, improved dollar realization and product upgradation.
- ❑ PAT for the quarter stood at Rs.1322 crores (vs. our estimates of Rs. 1273 crores) with a growth of 8.3%YoY. PAT margins declined by 250bps QoQ to 17.3% due to higher tax expenses and lower PAT from KTM business compared to 2QFY20.
- ❑ KTM business volumes declined by 15% YoY to 46210 units in 3QFY20. Revenue declined by 10% YoY to Euro 323 million while PAT declined by 47% YoY to Euro 16 million in 3QFY20. The proportionate profit to BAJAJ-AUTO Limited is Euro 7.7 million (Rs 61 crores) in 3QFY20.

### View and Valuation

The demand situation continues to remain sluggish while last week of January have seen some uptick in sales largely attributed to pre-buying. The management will proactively make all its products to BS-VI compliant by 15th of February 2020. 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. However Egypt has seen recovery with exports of 3000-4000 units from January. Going ahead we expect margins to expand based on new product launches, improving export markets and upgradation of existing product portfolio. We largely maintain our estimates for FY21. We value the company at 18x FY21e EPS to arrive at a target price of Rs.3699 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	31029	34229
EBITDA	4419	4782	4980	5235	6018
EBIT	4112	4467	4714	4988	5753
PAT	4079	4219	4928	5211	5862
EPS (Rs)	141	146	170	180	203
EPS growth (%)	1	3	17	6	13
ROE (%)	23	21	21	20	20
ROCE (%)	23	22	20	19	19
BV	617	706	803	906	1031
P/B (X)	4.5	3.9	3.6	3.5	3.0
P/E (x)	19.9	18.9	17.1	17.5	15.5

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## 3QFY20 Results

## PAT above expectation

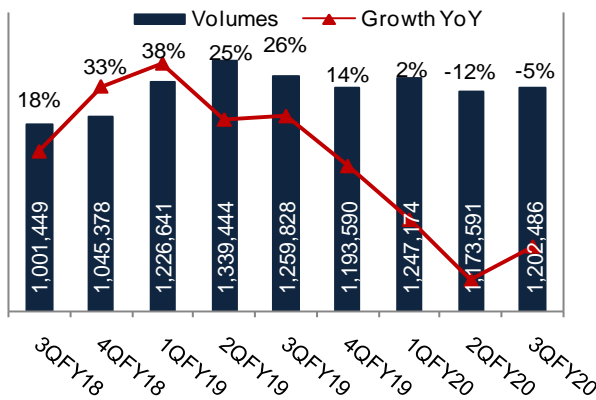
Financials	Fig in Rs Cr									
	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Volumes (000)	1,260	1,194	1,247	1,174	1,202	-5%	2%	4,007	5,020	25.3%
Realization	57,493	60,533	60,657	63,900	61,842	8%	-3%	61,646	58,905	-4.4%
Net Sales	7,409	7,395	7,756	7,707	7,640	3%	-1%	25,165	30,250	20.2%
Other Income	470	433	337	393	366	-22%	-7%	1,212	1,555	28.3%
Total Income	7,879	7,828	8,093	8,101	8,006	2%	-1%	26,377	31,805	20.6%
COGS	5,397	5,345	5,564	5,437	5,342	-1%	-2%	17,410	21,824	25.4%
Staff Cost	317	313	361	339	349	10%	3%	1,069	1,257	17.5%
Other Exp.	548	587	639	661	592	8%	-10%	1,928	2,219	15.1%
Expenditure	6,254	6,234	6,559	6,428	6,273	0%	-2%	20,383	25,270	24.0%
EBITDA	1,155	1,162	1,197	1,279	1,367	18%	7%	4,782	4,980	4.1%
Depreciation	63	61	60	61	62	-3%	1%	315	266	-15.6%
EBIT	1,092	1,101	1,137	1,217	1,305	20%	7%	4,467	4,714	5.5%
Interest	4	0	1	1	0	-87%	-62%	1	4	242.0%
PBT	1,558	1,533	1,474	1,610	1,671	7%	4%	5,678	6,265	10.3%
Excpt. Item	-	(342)	-	-	-	0%	0%	32	(342)	0.0%
Tax	457	570	453	206	410	-10%	98%	1,714	2,028	18.3%
PAT	1,221	1,408	1,012	1,523	1,322	8%	-13%	4,219	4,928	16.8%

### Concall Highlights

- The overall demand scenario has not picked up significantly while last week of January have seen some uptick in sales largely attributed to pre-buying.
- The management expects demand will be impacted for couple of quarters after implementation of BS VI. The profitability of the BS-VI products will be same as BS-IV. The BS-VI variant of CT100 model is 15-18% higher priced as compared to BS-IV models.
- The company will move all its products to BS-VI by middle of the February 2020.
- In order to eliminate cost the company will offer electronic injection technology with BS-VI in the entry segment motorcycles in place of fuel injection. The fuel injection technology is largely used in Pulsar and KTM brands.
- 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.
- LATAM has grown by 37%YoY in 3QFY20 largely because of low base. On a full year basis this market also seems flat.
- The company has started exporting 3000-4000 3-wheelers to Egypt from January.
- The company has created 16 new markets for 3-wheelers which have never had a 3 wheeler.
- 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 stands at 26%.
- The 3-wheeler Cargo segment will be the biggest beneficiary of BS-VI transition as most of the smaller 4 wheeler products may go out of the system (sharp price increases).
- The company will expand the Chetak portfolio. Currently 17 dealerships are giving test rides across the country.
- KTM volumes have declined by 15% YoY to 46210 units in 3QFY20. Revenue declined by 10% YoY to Euro 323 million while PAT declined by 47% YoY to Euro 16 million in 3QFY20. The proportionate profit to BAJAJ-AUTO Limited is Euro 7.7 million (Rs 61 crores) in 3QFY20.
- Exports revenue for the quarter stood at Rs. 3037 crs vs Rs.2749 crs last year.
- Spares revenue for the quarter stood at Rs. 767 crs vs Rs. 746 crs last year.

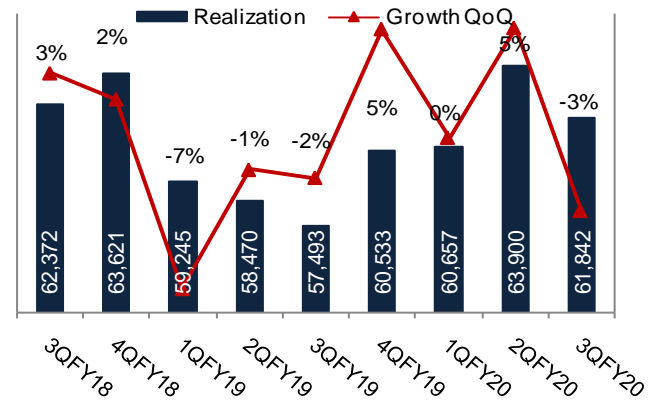
## Exhibit: Volume and Volume Growth Trend

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



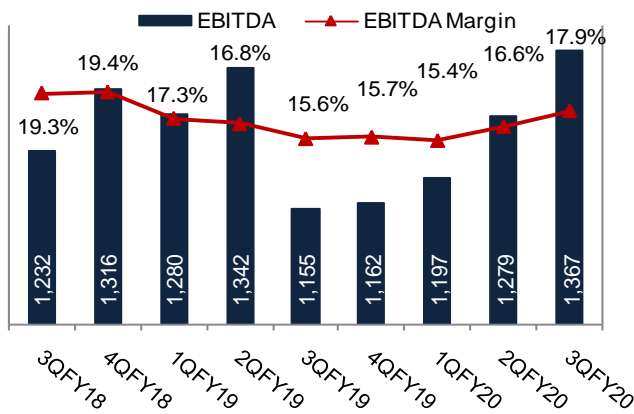
## Exhibit: Realisation and Realisation Growth Trend

Lower realization product sales in export markets and decline in 3 wheelers led to decline in realization



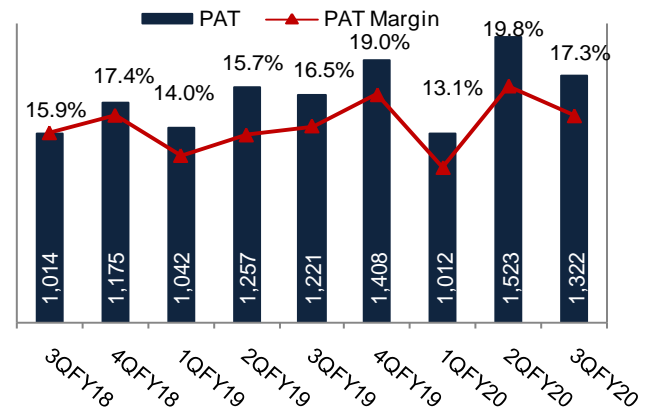
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Margins improved because of higher export contribution, improved dollar realization and product upgradation.



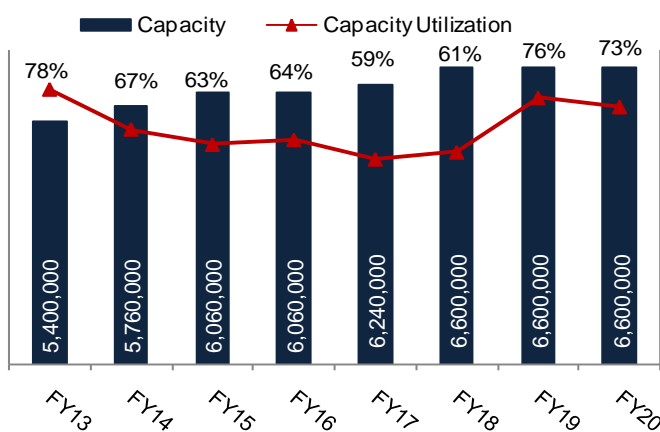
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins declined by higher tax expenses and low PAT from KTM business compared to last quarter



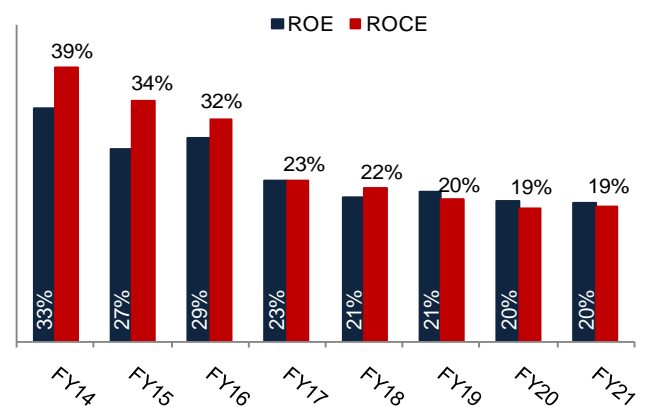
## Exhibit: Capacity Utilization Trend

The company has enough capacity to cater future demand



## Exhibit: Return Ratios

Return ratios to stay around healthy 19% 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	25,924	29,555
Networth	10,167	11,095	14,020	17,857	20,425	23,234	26,213	29,844
Debt	58	112	118	120	121	125	125	125
Other Non Cur Liab	231	199	233	321	325	544	544	544
<b>Total Capital Employed</b>	<b>10,225</b>	<b>11,207</b>	<b>14,138</b>	<b>17,976</b>	<b>20,546</b>	<b>23,358</b>	<b>26,338</b>	<b>29,968</b>
Net Fixed Assets (incl CWIP)	2,150	2,172	2,078	1,985	1,878	1,756	1,796	1,785
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	192	192
Non Curr Assets	9,683	6,399	12,507	12,169	15,890	21,761	21,966	23,034
Inventory	641	814	719	728	743	962	696	766
Debtors	796	717	718	953	1,492	2,560	2,626	2,896
Cash & Bank	501	593	820	288	776	916	460	540
Other Curr Assets	417	347	1,049	1,096	373	923	947	1,045
Curr Assets	5,624	9,567	4,733	9,469	9,251	7,073	9,813	12,831
Creditors	2,112	1,800	2,027	2,236	3,244	3,787	3,884	4,285
Provisons (both)	1,974	1,992	161	199	238	155	177	192
Other Curr Liab	766	767	299	558	394	557	403	444
Curr Liabilities	4,731	4,477	2,781	3,213	4,111	4,874	4,821	5,277
Net Curr Assets	894	5,090	1,952	6,256	5,139	2,199	4,991	7,554
<b>Total Assets</b>	<b>15,308</b>	<b>15,966</b>	<b>17,240</b>	<b>21,638</b>	<b>25,141</b>	<b>28,834</b>	<b>31,779</b>	<b>35,865</b>

### 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	30,216	33,318
Change (%)	1	7	4	-4	16	20	3	10
Other Income	682	584	985	1,222	1,212	1,555	1,454	1,695
<b>EBITDA</b>	<b>4,155</b>	<b>4,113</b>	<b>4,764</b>	<b>4,419</b>	<b>4,782</b>	<b>4,980</b>	<b>5,235</b>	<b>6,018</b>
Change (%)	14	-1	16	-7	8	4	5	15
<b>Margin (%)</b>	<b>20.6</b>	<b>19.0</b>	<b>21.1</b>	<b>20.3</b>	<b>19.0</b>	<b>16.5</b>	<b>16.9</b>	<b>17.6</b>
Depr & Amor.	181	267	307	307	315	266	246	265
EBIT	3,974	3,846	4,457	4,112	4,467	4,714	4,988	5,753
Int. & other fin. Cost	1	6	1	1	1	4	4	4
<b>EBT</b>	<b>4,655</b>	<b>4,423</b>	<b>5,440</b>	<b>5,333</b>	<b>5,678</b>	<b>6,265</b>	<b>6,439</b>	<b>7,444</b>
Exp Item	-	340	-	-	32	(342)	-	-
Tax	1,390	1,271	1,618	1,508	1,714	2,028	1,490	1,876
Minority Int & P/L share of Ass.	145	214	221	255	288	350	262	294
<b>Reported PAT</b>	<b>3,380</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>4,928</b>	<b>5,211</b>	<b>5,862</b>
<b>Adjusted PAT</b>	<b>3,380</b>	<b>3,026</b>	<b>4,044</b>	<b>4,079</b>	<b>4,219</b>	<b>4,928</b>	<b>5,211</b>	<b>5,862</b>
Change (%)	8	-10	34	1	3	17	6	13
<b>Margin(%)</b>	<b>16.8</b>	<b>14.0</b>	<b>17.9</b>	<b>18.7</b>	<b>16.8</b>	<b>16.3</b>	<b>16.8</b>	<b>17.1</b>

## 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	0.98	0.95
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	1,417	1,634
P/E	18	19	17	20	19	17	17	16
Price / Book Value	6	5	5	5	4	4	3	3
EV/EBITDA	14	14	14	18	16	17	17	15
FCF per Share	3,722	2,383	3,955	3,467	4,510	2,650	6,001	6,403
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	6,439	7,444
(inc)/Dec in Working Capital	5,401	4,807	4,930	4,613	4,922	5,160	6,951	8,007
Non Cash Op Exp	181	267	307	307	315	266	246	265
Int Paid (+)	1	6	0	1	0	4	4	4
Tax Paid	(1,314)	(1,285)	(1,782)	(1,503)	(1,683)	(1,954)	(1,490)	(1,876)
others	(5,423)	(5,765)	(5,444)	(5,739)	(5,160)	(7,943)	(6,433)	(7,696)
CF from Op. Activities	3,502	2,114	3,690	3,267	4,328	2,487	5,716	6,148
(inc)/Dec in FA & CWIP	(220)	(270)	(265)	(199)	(183)	(164)	(285)	(255)
Free Cashflow	3,282	1,844	3,425	3,068	4,145	2,323	5,431	5,893
(Pur)/Sale of Inv	(1,957)	(419)	91	(2,824)	(2,495)	(461)	(3,371)	(2,500)
others	76	274	61	(659)	624	286	(260)	(1,078)
CF from Inv. Activities	(2,100)	(414)	(113)	(3,683)	(2,053)	(338)	(3,916)	(3,833)
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	(435)	80
Add: Opening Balance	558	492	582	820	288	776	916	460
Closing Balance	492	582	831	286	776	916	481	540

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Analyst's ownership of the stocks mentioned in the Report	NIL
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