

Bajaj Auto

24 July 2018

Reuters: BAJA.BO; Bloomberg: BJAUT IN

Poor Realisation, Weak Margin Lead To PAT-level Miss

Bajaj Auto's (BAL) 1QFY19 earnings were below our estimate as lower-than-expected realisation and margins led to a 7% PAT-level miss. Realisation for the quarter at Rs60,485/unit fell 7% QoQ and was the biggest surprise as it was 5% below our estimate. The company cut the price of its CT100 motorcycle model during the quarter, but had simultaneously undertaken two price hikes and recorded good exports and three-wheeler volume mix. Despite this, the realisation drop was sharper than expected. Volume was strong at 1.2mn units (+38% YoY) backed by a healthy 74% YoY growth in three-wheelers and 31% YoY growth in exports. Following lower realisation, net sales at Rs74.2bn grew 36% YoY. EBITDA margin during the quarter at 17.3% remained flat YoY, but fell 215bps QoQ and was ~170bps below our estimate. Following lower realisation and lower margins, absolute EBITDA at Rs12.8bn was 14% below estimate. Other income for the quarter at Rs4.0bn was 10% above our estimate as it included Rs950mn dividend amount from KTM. Despite higher other income, PAT at Rs11.1bn was 7% below our estimate. BAL, in the post-result conference call, indicated that it has revised its strategy and is focusing on higher market share in the entry-level motorcycle segment at the cost of margins as the company believes it is a high volume/high growth segment contributing 14% to its revenues. The company has undertaken price hikes across products in domestic and export markets, barring entry-level motorcycle and motorcycle exports. It went for three price hikes in domestic market with one in April/May each and another in July 2018. The price hikes were in the range of Rs500-750/vehicle in domestic two-wheeler market and Rs1,000-1,500/vehicle in case of three-wheelers. Following higher volume in 1QFY19 and the focus on market share gains, we have increased our volume estimates by 4% each for FY19/FY20. We have cut our realisation and EBITDA margin estimates, resulting in 9% earnings cut in FY19 and FY20 each and have retained Accumulate rating on the stock with a revised target price of Rs2,820 (17x FY20E EPS + Rs160 for the value of subsidiary KTM) from Rs3,097 earlier.

Focus on market share gains: The company's overall motorcycle market share in domestic market stood at 16.4% against 14.0% in 1QFY18. Its share in the economy motorcycle space improved by 850bps to 33.7% from 25.2% in the same quarter last year, while in the premium space it stood at 38% compared to 39% in the preceding quarter. Its overall commercial vehicle share in domestic market during the quarter stood at 58.9% versus 58% as of March 2018. Going forward, it will focus on models like CT100, Platina and Discover which it expects to be the main growth drivers.

Margins to remain under pressure: The management, in the post-result conference call, indicated its intention to continue with the strategy of focusing on lower end of the two-wheeler market as it is likely to be the fastest-growing market owing to increased rural spending. As a result, operating margin is likely to be impacted adversely going forward. BAL is targeting a market share of 45%-50% in this segment from 33.7% currently and will re-look at this strategy after a couple of years post new launches in the commuter deluxe segment. Further, with the recent rise in commodity prices, we believe that margins could surprise further on the downside as the focus shifts on gaining market share. Hence, we have reduced our EBITDA margin estimates by 198bps/192bps for FY19/FY20, respectively, and factor in 17.0%/17.2% EBITDA margin, respectively.

NBIE Values your patronage- Vote for The Team in the Asia Money poll 2018. [Click Here](#)

ACCUMULATE

Sector: Automobile

CMP: Rs2,684

Target Price: Rs2,820

Upside: 5%

Gaurant Dadwal

Research Analyst
 gaurant.dadwal@nirmalbang.com
 +91-22-6273 8145

Vivek Sarin

Research Associate
 vivek.sarin@nirmalbang.com
 +91-22-6273 8176

Key Data

Current Shares O/S (mn)	289.4
Mkt Cap (Rsbn/US\$bn)	777.8/14.7
52 Wk H / L (Rs)	3,473/2,655
Daily Vol. (3M NSE Avg.)	614,606

Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Auto	(5.1)	(18.4)	(4.5)
Nifty Index	2.4	0.0	11.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Net revenues	54,424	67,733	74,193	36.3	9.5
Raw material costs	38,093	46,969	52,993	39.1	12.8
Staff costs	2,725	2,670	3,140	15.2	17.6
Other expenses	4,222	4,942	5,246	24.2	6.2
Total expenditure	45,040	54,581	61,379	36.3	12.5
EBITDA	9,384	13,152	12,814	36.6	(2.6)
EBITDAM (%)	17.2	19.4	17.3	3bps	(215bps)
Depreciation	753	879	700	(7.0)	(20.4)
Interest costs	2	3	3	29.2	3.3
Other income	4,573	3,667	4,044	(11.6)	10.3
Extraordinary items	320	-	-	-	-
PBT	12,881	15,937	16,156	25.4	1.4
Tax	3,642	5,138	5,003	37.4	(2.6)
Net profit	9,239	10,799	11,152	20.7	3.3
NPM (%)	17.0	15.9	15.0	(195bps)	(91bps)
EPS (Rs)	31.9	37.3	38.5	20.7	3.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	2,25,865	2,17,667	2,51,650	2,83,774	3,10,973
YoY (%)	4.5	(3.6)	15.6	12.8	9.6
EBITDA	47,819	44,224	47,835	48,290	53,430
EBITDA (%)	21.2	20.3	19.0	17.0	17.2
PAT	39,297	38,276	40,681	41,154	45,281
YoY (%)	39.7	(2.6)	6.3	1.2	10.0
EPS (Rs)	135.8	132.3	140.6	142.2	156.5
RoE (%)	32.8	25.3	22.5	20.6	20.6
RoCE (%)	36.1	26.3	24.0	21.8	21.9
P/E (x)	19.8	20.3	19.1	18.9	17.2
EV/EBITDA (x)	15.8	16.2	14.9	14.8	13.3
EV/Sales (x)	3.3	3.3	2.8	2.5	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Volume	46,63,574	50,19,472	44,60,697	48,00,123	4.3	4.3
Net sales	2,83,774	3,10,973	2,83,053	3,08,073	0.1	0.8
EBITDA	48,290	53,430	53,693	58,992	(10.1)	(9.4)
EBITDA margin (%)	17.0	17.2	19.0	19.1	(198bps)	(192bps)
PAT	41,154	45,281	45,381	49,986	(9.3)	(9.4)
EPS (Rs)	142	156	157	173	(9.3)	(9.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance in 1QFY19

(Rsmn)	Actual performance		Our estimate	Deviation
	1QFY19		1QFY19	%
Net sales	74,193		78,199	(5.1)
EBITDA	12,814		14,858	(13.8)
Net profit	11,152		12,009	(7.1)

Source: Nirmal Bang Institutional Equities Research

Conference-call key takeaways

Market share: The company's overall motorcycle market share in domestic market stood at 16.4% against 14.0% in 1QFY18. Its share in the economy motorcycle space improved by 850bps to 33.7% from 25.2% in the same quarter last year, while in the premium space it stood at 38% compared to 39% in the preceding quarter. Its overall commercial vehicle share in domestic market during the quarter stood at 58.9% versus 58% as of March 2018. Going forward, it will focus on motorcycle models like CT100, Platina and Discover which will be the main drivers of growth.

Price hike: BAL went for a price hike in April, May and July 2018 to pass on the rise in raw material costs. It has passed on raw material cost increase across products in domestic and export markets barring entry-level motorcycles. The increase in case of motorcycles was in the range of Rs500- Rs750/unit, while for three-wheelers it stood at close to Rs1,000-Rs1,500/unit.

Exports: Volume stood at its highest-ever level at ~538,000 units, a YoY growth of 31%, led by growth in African markets like Nigeria as well as markets like the Philippines. The company is on track to touch 2.0mn export volume number by FY19. Revenues from exports stood at Rs31.5bn in 1QFY19 as against Rs24.0bn in 4QFY18. Nigeria is clocking a sales run-rate of ~119,000 units/month. Average realisation was Rs67.4 per US\$ during the quarter as against 66.8 per US\$ in 1QFY18.

Volume/demand: The company recorded 74% YoY growth in the entry-level segment with models like CT 100/Platina selling over 190,000/104,000 units, respectively. In the premium segment, its Pulsar and Avenger models clocked sales of over 223,000 units in 1QFY19 (+47% YoY).

New launches: BAL will consider new product launches in the commuter deluxe segment of either Discover/V-family bikes in 1QCY19.

EBITDA margin: The management declared its intention to continue with the strategy of focusing on lower end of the two-wheeler market as it is likely to be the fastest-growing market owing to increased rural spending. As a result, operating margin is likely to be impacted adversely going forward. BAL is targeting a market share of 45%-50% in this segment from 33.7% currently and will re-look at this strategy after a couple of years of new launches in the M3 (commuter deluxe) segment

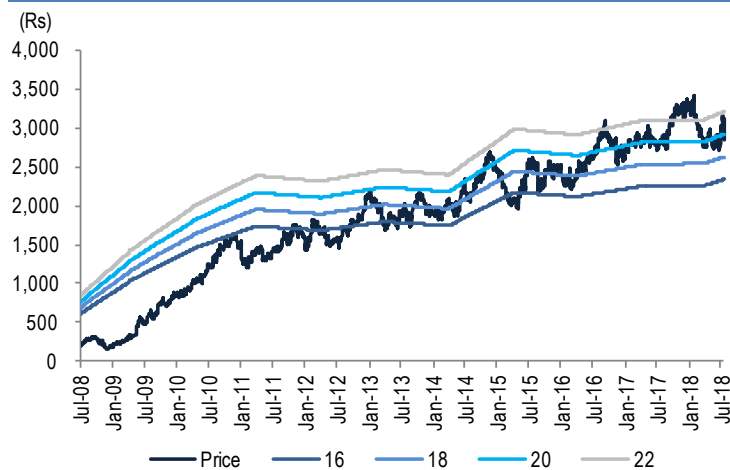
Three-wheelers: This segment continues to do well and recorded sales of over 94,000 units during the quarter. The management is confident of achieving its sales target of 335,000-400,000 units by the year-end. Its domestic market share improved to 58.9% from 58% in the preceding quarter.

Spare part sales: Revenues from the sale of spare parts stood at Rs4,600mn in domestic market and at Rs1,900mn from exports. This compares to Rs5,620mn from domestic market and Rs1,540mn from exports in 4QFY18.

Raw material prices: The company expects further cost pressure in 2QFY19 with suppliers facing capacity constraints and the largest shortage being felt in aluminium products like alloy wheels.

Others: Capex in FY19 is expected to be close to Rs3,000mn, while for FY20 onwards it could be close to Rs5bn. Its overall inventory level stood at five weeks, while in case of CT100 model it was less than 30 days. BAL received a dividend of Rs950mn from KTM AG compared to Rs1,350mn last year.

Exhibit 4: P/E charts



Source: Nirmal Bang Institutional Equities Research



Source: Nirmal Bang Institutional Equities Research

Financials (standalone)

Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	2,25,865	2,17,667	2,51,650	2,83,774	3,10,973
% growth	4.5	(3.6)	15.6	12.8	9.6
Raw material costs	1,50,569	1,46,242	1,74,101	2,03,768	2,21,229
Staff costs	9,171	9,971	10,691	11,279	12,971
Other expenses	18,306	17,231	19,023	20,438	23,342
Total expenditure	1,78,046	1,73,443	2,03,815	2,35,485	2,57,542
EBITDA	47,819	44,224	47,835	48,290	53,430
% growth	16.2	(7.5)	8.2	1.0	10.6
EBITDA margin (%)	21.2	20.3	19.0	17.0	17.2
Other income	10,736	12,220	13,473	14,685	16,007
Interest costs	11	14	13	12	12
Gross profit	70,949	67,494	72,903	74,749	83,991
% growth	13.4	(4.9)	8.0	2.5	12.4
Depreciation	3,072	3,073	3,148	3,518	4,034
Profit before tax	55,473	53,356	57,826	59,444	65,391
% growth	25.4	(3.8)	8.4	2.8	10.0
Tax	16,177	15,081	17,145	18,290	20,110
Effective tax rate (%)	29.2	28.3	29.6	30.8	30.8
Net profit	39,297	38,276	40,681	41,154	45,281
% growth	24.6	(2.6)	6.3	1.2	10.0
Extraordinary items	-	-	-	-	-
Reported net profit	39,297	38,276	40,681	41,154	45,281
% growth	39.7	(2.6)	6.3	1.2	10.0
EPS (Rs)	135.8	132.3	140.6	142.2	156.5
% growth	39.7	(2.6)	6.3	1.2	10.0
DPS (Rs)	100.0	55.0	60.0	62.0	65.0
Payout (%)	73.6	41.6	42.7	43.6	41.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Equity	2,894	2,894	2,894	2,894	2,894
Reserves	1,29,772	1,67,448	1,88,145	2,05,803	2,28,446
Net worth	1,32,666	1,70,341	1,91,039	2,08,697	2,31,340
Net deferred tax liabilities	2,028	3,136	3,234	3,234	3,234
LT liabilities/provisions	1,183	1,347	1,602	854	854
Long-term loans	1,179	1,199	1,208	1,199	1,199
Total loans	1,179	1,199	1,208	1,199	1,199
Liabilities	1,37,055	1,76,023	1,97,082	2,13,984	2,36,627
Gross block	44,349	45,332	47,260	50,260	55,260
Depreciation	24,092	25,900	29,048	32,566	36,600
Net block	20,257	19,433	18,212	17,694	18,660
Capital work-in-progress	522	422	565	565	565
Long-term investments	90,011	87,399	1,18,800	1,20,800	1,32,800
Other long-term assets	6,823	6,982	8,262	10,802	16,203
Inventories	7,191	7,284	7,426	7,631	9,198
Debtors	7,179	9,533	14,919	16,787	18,815
Cash	8,595	2,937	7,780	6,513	6,033
Cash & cash equivalents	8,176	2,798	7,609	6,513	6,033
Other bank balances	420	139	171	0	0
Liquid Investments	13,199	60,501	57,654	57,756	60,764
Other current assets	11,088	13,659	4,578	16,124	18,088
Total current assets	47,253	93,914	92,356	1,04,811	1,12,898
Creditors	26,680	30,917	39,857	39,100	42,762
Other current liabilities/provisions	1,130	1,209	1,256	1,588	1,736
Total current liabilities	27,810	32,126	41,113	40,687	44,499
Net current assets	19,443	61,788	51,243	64,123	68,399
Total assets	1,37,055	1,76,023	1,97,082	2,13,984	2,36,627

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	55,180	53,087	63,025	57,724	65,312
(Inc.)/dec. in working capital	5,753	2,533	15,341	(14,479)	(4,905)
Cash flow from operations	60,932	55,620	78,366	43,246	60,407
Other income	9,514	10,439	13,473	14,685	16,007
Other expenses	272	164	-	-	-
Depreciation	3,072	3,073	3,148	3,518	4,034
Tax paid	18,195	15,026	17,145	18,290	20,110
Net cash from operations	36,568	33,392	50,897	13,788	28,324
Capital expenditure	(2,651)	(1,994)	(2,071)	(3,000)	(5,000)
Net cash after capex	33,917	31,398	48,826	10,788	23,324
Other investment activities	2,463	(34,889)	(23,199)	10,298	(1,164)
Cash from financial activities	(33,841)	(1,901)	(20,646)	(22,361)	(22,650)
Opening cash balance	5,751	8,176	2,798	7,780	6,506
Effects of exchange rate differences	(114)	15	-	-	-
Closing cash balance	8,176*	2,798*	7,780	6,506	6,016
Change in cash balance	2,425	(5,377)	4,982	(1,274)	(490)

Source: Company, Nirmal Bang Institutional Equities Research

*Excluding other bank balances

Exhibit 8: Key ratios

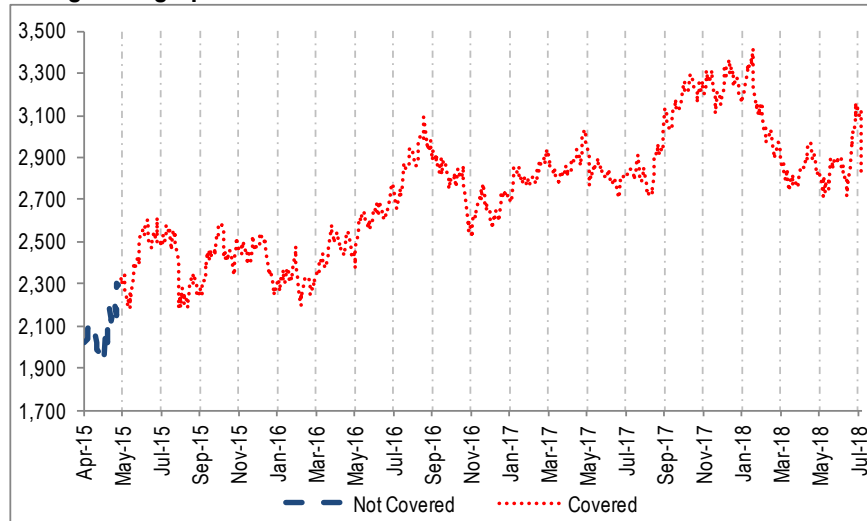
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Profitability & return ratios					
EBITDA margin (%)	21.2	20.3	19.0	17.0	17.2
EBIT margin (%)	19.8	18.9	17.8	15.8	15.9
Net profit margin (%)	17.4	17.6	16.2	14.5	14.6
RoE (%)	32.8	25.3	22.5	20.6	20.6
RoCE (%)	36.1	26.3	24.0	21.8	21.9
Working capital & liquidity ratios					
Receivables (days)	12	14	22	22	23
Inventory (days)	13	12	9	10	11
Payables (days)	54	61	61	61	61
Cash conversion cycle (WC days)	(29)	(34)	(30)	(29)	(27)
Current ratio (x)	1.7	2.9	2.2	2.6	2.5
Quick ratio (x)	1.4	2.7	2.1	2.4	2.3
Valuation ratios					
EV/Sales (x)	3.3	3.3	2.8	2.5	2.3
EV/EBITDA (x)	15.8	16.2	14.9	14.8	13.3
P/E (x)	19.8	20.3	19.1	18.9	17.2
P/BV (x)	5.9	4.6	4.1	3.7	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 May 2015	Accumulate	2,302	2,401
27 July 2015	Accumulate	2,497	2,451
9 October 2015	Accumulate	2,431	2,451
26 October 2015	Accumulate	2,516	2,472
27 May 2016	Accumulate	2,505	2,594
29 July 2016	Accumulate	2,655	2,702
1 November 2016	Accumulate	2,884	3,042
1 February 2017	Accumulate	2,833	2,950
14 February 2017	Accumulate	2,801	3,117
19 May 2017	Accumulate	2,973	3,035
21 July 2017	Accumulate	2,815	3,022
23 October 2017	Accumulate	3,218	3,298
6 February 2018	Accumulate	3,186	3,376
22 May 2018	Accumulate	2,720	3,097

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Gaurant Dadwal, the research analysts and Vivek Sarin, the research associate are the author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010