

# Bajaj Auto

26 October 2018

Reuters: BAJA.BO; Bloomberg: BJAUT IN

## Performance In Line With Expectations

Bajaj Auto's 2QFY19 earnings were in line with our expectations as it reported PAT of Rs11.5bn (+4% YoY) versus our estimate of Rs11.8bn. Net sales at Rs79.8bn grew 21% YoY on 20% YoY growth in volume, and were 0.5% above our estimate. EBITDA margin at 16.8% fell 292bps YoY and was marginally below our estimate of 17.1%. Bajaj Auto's strategy of cutting prices in the low-end commuter motorcycle segment helped it to gain market share from competitors as the company reported a strong 27% YTD volume growth in the domestic two-wheeler segment, miles ahead of industry growth which stands at 11%. However, market share gains have come at the cost of margins which declined from 19% in FY18 to 16.8% in 2QFY19, resulting in PAT growth of just 3% YoY despite the strong 21% sales growth. The company, in the post-result conference call, indicated that margins will be further impacted in 3QFY19 because of promotional schemes during the festive season. Following strong market share gains and robust volume growth in the domestic two-wheeler market, the company has increased the prices of its CT100 and Platina motorcycle models which have been driving volume growth. Further, the company went for a price hike in other segments to pass on the cost pressure from higher input costs. It went for a price hike in October 2018 of close to Rs1,000/vehicle in case of motorcycles, and Rs1,500-Rs2,000/vehicle in case of three-wheelers. Following the strong volume growth, we have increased our volume estimates for FY19/FY20 by 7%/10%, respectively, as we believe the company will continue to outperform the industry because of lower pricing of its products. However, we have marginally cut our margin estimates by ~20bps each for FY19/FY20, while our earnings estimates stand revised upwards by 6%/8% for FY19/FY20, respectively. We have also introduced our FY21 estimates with a volume of 6mn and EPS of Rs189. We have upgraded our rating on the stock to Buy (from Accumulate earlier) as we move forward our target multiple from FY20E earnings to September 2020E earnings. Our revised target price stands at Rs3,024 (16x September 2020E earnings + Rs160 for the value of subsidiary KTM) from Rs2,820 earlier.

**Focus on market share gains:** The company's overall motorcycle market share in domestic market stood at 18.6% against 16.9% in 2QFY18. In September 2018, its overall share in domestic motorcycle market was 20.1%. Its share in the entry motorcycle space improved to 37.7% from 32.0% in the same quarter last year, while in the premium space it stood at 40.5%. Its overall commercial vehicle share in domestic market during the quarter stood at 58.9%. Going forward, the management stated that its profitable Platina motorcycle model will garner a bigger share and that it will focus more on the sports motorcycle segment.

**Bajaj Auto's demand in the festive season remains strong:** The company indicated that it expects festive demand growth for the company to be in double digits, while the same is likely to be flat to negative for the industry. The company expects improvement in demand as we approach the festive season. Bajaj Auto indicated 10%-15% growth in demand in the festive season.

**Margins to remain under pressure:** The management 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. The company has launched its 5-5-5 strategy before the festive season, which covers five years of insurance, service and warranty, the impact of which will be felt in 3QFY19. As a result, operating margin is likely to be impacted adversely going forward. We have cut our margin estimates further by 20bps each for FY19/FY20 to factor in the additional impact on margins.

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)
Net revenues	65,799	74,193	79,868	21.4	7.6
Raw material costs	45,492	52,993	57,829	27.1	9.1
Staff costs	2,644	3,140	3,119	18.0	(0.7)
Other expenses	4,679	5,246	5,490	17.3	4.7
Total expenditure	52,815	61,379	66,438	25.8	8.2
EBITDA	12,984	12,814	13,430	3.4	4.8
EBITDAM (%)	19.7	17.3	16.8	(292bps)	(46bps)
Depreciation	770	700	715	(7.1)	2.2
Interest costs	5	3	3	(34.0)	-
Other income	2,964	4,044	3,815	28.7	(5.7)
Extraordinary items	-	-	-	-	-
PBT	15,174	16,156	16,527	8.9	2.3
Tax	4,055	5,003	5,002	23.3	(0.0)
Net profit	11,119	11,152	11,525	3.7	3.3
NPM (%)	16.9	15.0	14.4	(247bps)	(60bps)
EPS (Rs)	38.4	38.5	39.8	3.7	3.3

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: Automobile

CMP: Rs2,480

Target Price: Rs3,024

Upside: 22%

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### Key Data

Current Shares O/S (mn)	289.4
Mkt Cap (Rsbn/US\$bn)	716.9/13.5
52 Wk H / L (Rs)	3,473/2,421
Daily Vol. (3M NSE Avg.)	643,740

### Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Auto	(11.2)	(14.6)	(23.3)
Nifty Index	(8.5)	(4.2)	(1.7)

Source: Bloomberg

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	2,17,667	2,51,650	3,06,670	3,45,650	3,89,457
YoY (%)	(3.6)	15.6	21.9	12.7	12.7
EBITDA	44,224	47,835	51,692	58,637	67,161
EBITDA (%)	20.3	19.0	16.9	17.0	17.2
PAT	38,276	40,681	43,518	48,908	54,700
YoY (%)	(2.6)	6.3	7.0	12.4	11.8
EPS (Rs)	132.3	140.6	150.4	169.0	189.0
RoE (%)	25.3	22.5	21.5	21.6	21.4
RoCE (%)	26.3	24.0	23.2	23.6	24.1
P/E (x)	20.3	19.1	17.8	15.9	14.2
EV/EBITDA (x)	16.2	14.9	13.7	12.0	10.3
EV/Sales (x)	3.3	2.8	2.3	2.0	1.8

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Change in our estimates

(Rsmn)	New estimates			Old estimates			Change (%)	
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E
Volume	50,00,166	55,37,536	60,18,963	46,63,574	50,19,472	-	7.2	10.3
Net sales	3,06,670	3,45,650	3,89,457	2,83,774	3,10,973	-	8.1	11.2
EBITDA	51,692	58,637	67,161	48,290	53,430	-	7.0	9.7
EBITDA margin (%)	16.9	17.0	17.2	17.0	17.2	-	(16bps)	(22bps)
PAT	43,518	48,908	54,700	41,154	45,281	-	5.7	8.0
EPS (Rs)	150	169	189	142	156	-	5.7	8.0

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Deviation of our estimates from actual performance in 2QFY19

(Rsmn)	Actual performance	Our estimate	Deviation
	2QFY19	2QFY19	%
Net sales	79,868	79,509	0.5
EBITDA	13,430	13,576	(1.1)
Net profit	11,525	11,846	(2.7)

Source: Nirmal Bang Institutional Equities Research

## Conference-call key takeaways

**Market share:** Bajaj Auto or BAL's overall motorcycle market share in domestic market stood at 18.6% against 16.9% in 2QFY18. In September 2018, its overall share in domestic motorcycle market was 20.1%. Its share in entry motorcycle space improved to 37.7% from 32.0% in the same quarter last year, while in the premium space it stood at 40.5%. Its overall commercial vehicle share in domestic market during the quarter stood at 58.9%. Going forward, the management stated that the profitable Platina motorcycle model will garner a bigger share and that it will also focus more on the sports motorcycle segment.

**Price hike:** BAL went for a price hike in October 2018 of close to Rs1,000/vehicle in case of motorcycles, while in case of three-wheelers it was in the range of Rs1,500-Rs2,000/vehicle.

**Exports:** Volume stood at its highest-ever level at ~535,000 units, a YoY growth of 33%, led by growth in Africa, South Asia and Middle East markets. Africa recorded a growth of 53% while ASEAN (Philippines, Cambodia) posted a growth of 35% YoY. Africa accounts for ~45% of the company's exports and the same could rise to 50%. Revenues from exports stood at US\$419mn in 2QFY19 as against US\$335mn in 2QFY18. Average realisation was Rs69.4 per US\$ during the quarter as against 67.0 per US\$ in 2QFY18. Its market share in countries like Uganda/Kenya/Ethopia stood at ~92%/45%/65%, respectively.

**Volume/demand:** BAL posted 50% YoY growth in the entry-level segment with models like CT 100/Platina motorcycles clocking sales of over 248,000/153,000 units, respectively. In the premium segment, Pulsar and Avenger models clocked sales of over 233,000 units in 2QFY19 with Pulsar registering the highest volume in September 2018 of over 87,000 units. Pulsar witnessed most of its sales coming from the highly profitable twin disc model and is likely to touch 90,000 units. BAL is also considering to upgrade its classic model. The management expects to register 10%-15% growth in the festive season, higher than what is expected in the industry. Its Avenger model sales slowed because of weak demand for its 180cc model and the company will take steps to address the same. While its CT100 motorcycle volume is likely to remain stagnant, Platina is expected to register an uptick in sales volume.

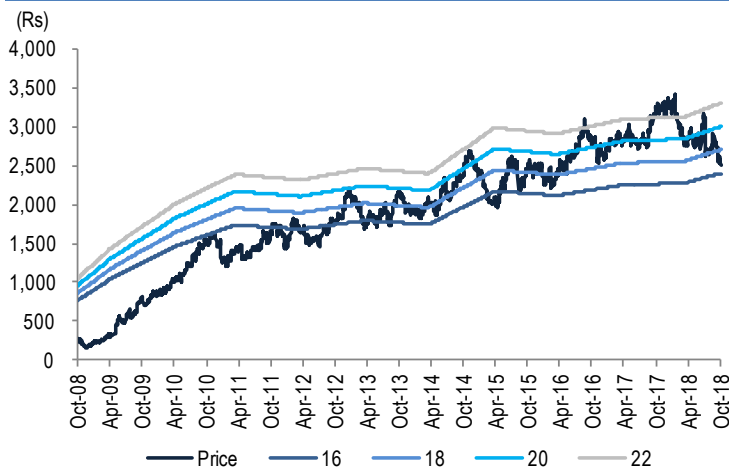
**New launches:** BAL will consider new product launches in the M3 (commuter deluxe) segment in the coming months.

**Three-wheelers:** This segment continues to do well and recorded sales of over ~112,000 units during the quarter as against industry growth of 23%. The management is confident of continuing to incrementally expand BAL's market share position going forward. While BAL has consistently reduced its dependence on permits, it sees a relatively muted growth in 2HFY19 because of the high base of last year. It currently has a capacity of 840,000-850,000 units which it is trying to expand to 1mn units annually.

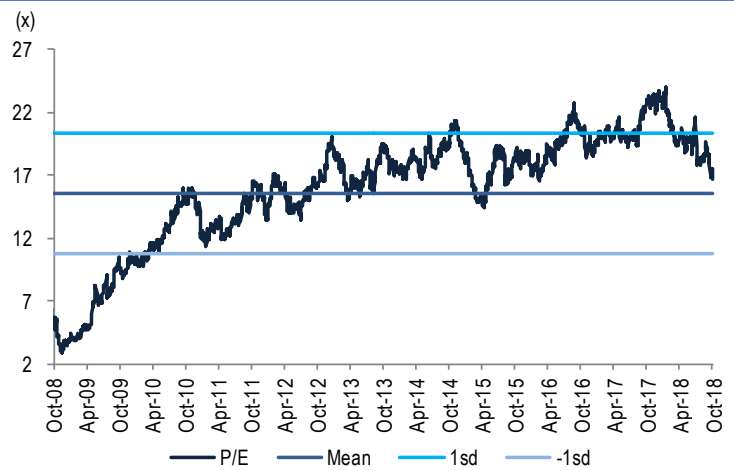
**Spare part sales:** Revenues from the sale of spare parts grew 20% QoQ. Sales in domestic market stood at Rs5,670mn and Rs2,430mn in export market. This compares to Rs4,600mn in domestic market and Rs1,900mn in export market in 1QFY19.

**Others:** Capex in FY19 is expected to be close to Rs3,000mn towards debottlenecking, R&D, and new models. Advertisement spending in 3QFY19 and 4QFY19, as a proportion to sales, is expected to be similar to the current level.

**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)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	2,17,667	2,51,650	3,06,670	3,45,650	3,89,457
% growth	(3.6)	15.6	21.9	12.7	12.7
Raw material costs	1,46,242	1,74,101	2,20,896	2,48,383	2,78,261
Staff costs	9,971	10,691	11,760	12,936	14,618
Other expenses	17,231	19,023	22,322	25,694	29,417
Total expenditure	1,73,443	2,03,815	2,54,978	2,87,013	3,22,296
EBITDA	44,224	47,835	51,692	58,637	67,161
% growth	(7.5)	8.2	8.1	13.4	14.5
EBITDA margin (%)	20.3	19.0	16.9	17.0	17.2
Other income	12,220	13,473	14,681	15,828	15,986
Interest costs	14	13	12	12	12
Gross profit	67,494	72,903	79,792	90,287	1,03,328
% growth	(4.9)	8.0	9.5	13.2	14.4
Depreciation	3,073	3,148	3,514	3,855	4,220
Profit before tax	53,356	57,826	62,847	70,598	78,915
% growth	(3.8)	8.4	8.7	12.3	11.8
Tax	15,081	17,145	19,329	21,689	24,215
Effective tax rate (%)	28.3	29.6	30.8	30.7	30.7
Net profit	38,276	40,681	43,518	48,908	54,700
% growth	(2.6)	6.3	7.0	12.4	11.8
Extraordinary items	-	-	-	-	-
Reported net profit	38,276	40,681	43,518	48,908	54,700
% growth	(2.6)	6.3	7.0	12.4	11.8
EPS (Rs)	132.3	140.6	150.4	169.0	189.0
% growth	(2.6)	6.3	7.0	12.4	11.8
DPS (Rs)	55.0	55.0	62.0	65.0	65.0
Payout (%)	41.6	39.1	41.2	38.5	34.4

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity	2,894	2,894	2,894	2,894	2,894
Reserves	1,67,448	1,88,145	2,10,380	2,36,975	2,69,362
Net worth	1,70,341	1,91,039	2,13,274	2,39,869	2,72,256
Net deferred tax liabilities	3,136	3,234	3,234	3,234	3,234
LT liabilities/provisions	1,347	1,602	1,135	1,135	1,135
Long-term loans	1,199	1,208	1,208	1,208	1,208
Total loans	1,199	1,208	1,208	1,208	1,208
<b>Liabilities</b>	<b>1,76,023</b>	<b>1,97,082</b>	<b>2,18,851</b>	<b>2,45,446</b>	<b>2,77,833</b>
Gross block	45,332	47,260	47,807	52,807	57,807
Depreciation	25,900	29,048	23,065	26,920	31,140
Net block	19,433	18,212	24,741	25,887	26,667
Capital work-in-progress	422	565	565	565	565
Long-term investments	87,399	1,18,800	1,24,300	1,37,300	1,51,300
Other long-term assets	6,982	8,262	10,802	16,203	24,304
Inventories	7,284	7,426	9,777	11,940	14,499
Debtors	9,533	14,919	14,883	17,227	19,933
Cash	2,937	7,780	9,591	12,984	18,355
Cash & cash equivalents	2,798	7,609	9,591	12,984	18,355
Other bank balances	139	171	0	0	0
Liquid Investments	60,501	57,654	58,656	61,664	64,672
Other current assets	13,659	4,578	11,348	13,245	15,446
Total current assets	93,914	92,356	1,04,255	1,17,060	1,32,904
Creditors	30,917	39,857	44,270	49,832	55,958
Other current liabilities/provisions	1,209	1,256	1,542	1,736	1,949
Total current liabilities	32,126	41,113	45,812	51,568	57,907
Net current assets	61,788	51,243	58,443	65,492	74,997
<b>Total assets</b>	<b>1,76,023</b>	<b>1,97,082</b>	<b>2,18,851</b>	<b>2,45,446</b>	<b>2,77,833</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	53,087	57,602	53,667	70,573	78,796
(Inc.)/dec. in working capital	2,533	10,451	(5,675)	(3,850)	(4,348)
Cash flow from operations	55,620	68,053	47,992	66,723	74,448
Other income	10,439	11,630	14,681	15,828	15,986
Other expenses	164	(112)	-	-	-
Depreciation	3,073	3,148	3,514	3,855	4,220
Tax paid	15,026	16,851	19,329	21,689	24,215
Net cash from operations	33,392	42,608	17,496	33,061	38,467
Capital expenditure	(1,994)	(1,826)	(547)	(5,000)	(5,000)
Net cash after capex	31,398	40,782	16,949	28,061	33,467
Other investment activities	(34,889)	(17,354)	6,794	(2,343)	(5,770)
Cash from financial activities	(1,901)	(18,853)	(21,762)	(22,325)	(22,325)
Opening cash balance	8,176	2,798	7,609	9,592	12,984
Effects of exchange rate differences	15	236	-	-	-
Closing cash balance	2,798*	7,609*	9,592	12,984	18,355
Change in cash balance	(5,377)	4,811	1,982	3,392	5,371

Source: Company, Nirmal Bang Institutional Equities Research

\*Excluding other bank balances

### Exhibit 8: Key ratios

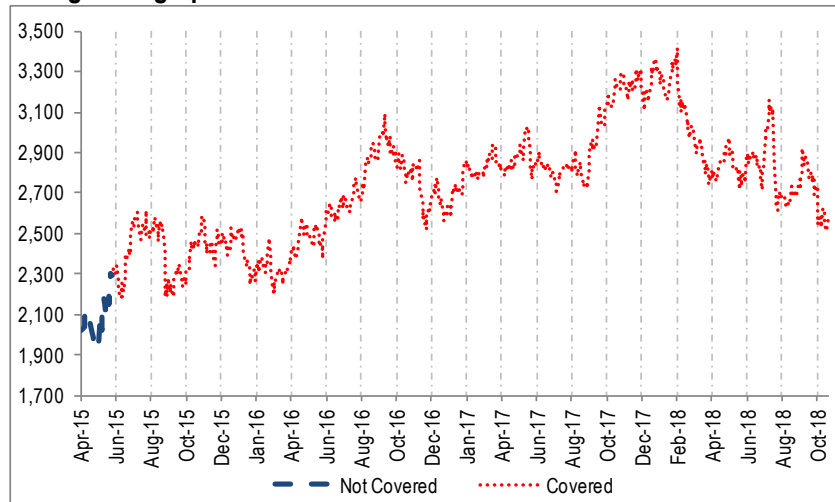
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	20.3	19.0	16.9	17.0	17.2
EBIT margin (%)	18.9	17.8	15.7	15.8	16.2
Net profit margin (%)	17.6	16.2	14.2	14.1	14.0
RoE (%)	25.3	22.5	21.5	21.6	21.4
RoCE (%)	26.3	24.0	23.2	23.6	24.1
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	14	18	18	19	19
Inventory (days)	12	11	12	13	14
Payables (days)	61	63	63	63	63
Cash conversion cycle (WC days)	(34)	(34)	(33)	(32)	(30)
Current ratio (x)	2.9	2.2	2.3	2.3	2.3
Quick ratio (x)	2.7	2.1	2.1	2.0	2.0
<b>Valuation ratios</b>					
EV/Sales (x)	3.3	2.8	2.3	2.0	1.8
EV/EBITDA (x)	16.2	14.9	13.7	12.0	10.3
P/E (x)	20.3	19.1	17.8	15.9	14.2
P/BV (x)	4.6	4.1	3.6	3.2	2.9

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
24 July 2018	Accumulate	2,684	2,820

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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