

Retail Equity Research

Bajaj Auto Limited

Automobiles

BSE CODE: 532977

NSE CODE: BAJAJ-AUTO

Bloomberg CODE: BJAUT:IN

SENSEX: 40,128

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 3,221 TARGET Rs. 3,310 RETURN 3%

(Closing: 30-10-19)



KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Mixed results; BSVI launch expected next year

Bajaj Auto is the world's sixth-largest manufacturer of motorcycles and the second-largest in India. It is also the world's largest three-wheeler manufacturer. The company is based in Pune, Mumbai with plants in Chakan (Pune), Waluj (near Aurangabad) and Pantnagar in Uttarakhand. Bajaj Auto is India's largest exporter of motorcycles and three-wheelers.

- Consolidated revenue declined 3.5% YoY in Q2FY20, primarily due to weaker Automotive revenue (-4.0%) partially offset by growth in Investments operations (+26.3%).
- EBITDA margin contracted 21bps YoY to 16.6% and overall EBITDA reached Rs. 1,279cr (-4.7% YoY) on lower automotive volumes (-12.4% YoY). However, PAT grew 21.2% YoY to Rs. 1,523cr, benefitted from corporate tax rate cuts.
- Company all set to launch BSVI and series of additional all-new brands next year, including KTM-owned Husqvarna models.
- We maintain our HOLD rating on the stock with a revised target price of Rs. 3,310 based on ~18x FY21E adj. EPS.

Revenue impacted by volumes

Q2FY20 revenue decreased 3.2% YoY to Rs. 8,101cr, mainly due to lower revenue from automotive segment (-4.0% YoY to Rs. 7,725cr) while revenue from investment segment witnessed growth (+26.3% to Rs. 376cr). Automotive operations were impacted by lower volumes (-12.4% YoY to 1,174k units) with declines largely led by domestic Motorcycle volumes (-24.8% YoY to 521k units) and exports Commercial Vehicle volumes (-19.3% to 82k units). Meanwhile, Motorcycle exports remained strong (+7% YoY to 463k units). Also, overall realization improved on better product mix. Management highlighted that there was recovery in sales from mid-September with improved demand in early festive season. The company expects further tailwind in Q3FY20 given demand uptick, favorable steel prices and low commodity cost.

Bottom line boosted by lower corporate taxes

EBITDA came in at Rs. 1,672cr (-3.0% YoY) with declines largely attributable to lower revenue as EBITDA margins remained stable YoY at 20.6%. However, sequential EBITDA improvements (+9.0% QoQ) were aided by better product mix and domestic price gains in 2-wheeler and 3-wheeler segment. Adjusted net profit of Rs. 1,523cr (+21.2% YoY) was boosted by recent amendments in taxation laws.

Key concall highlights

- While the company is fully prepared to switch to Bharat Stage VI (BS VI), BS IV vehicles would be phased only by next 2 quarters. Management took a conscious decision of postponing BS VI launch to next year to avoid competition with heavily discounted BS IV models.
- KTM Husqvarna, which was initially set to launch around Diwali, has been postponed to next year, post implementation of BS VI.
- The company introduced its first electric two-wheeler "Chetak" on Oct 16th. The new scooter will be launched in January 2020.

Valuation

We expect earnings to grow at a CAGR of 7.6% over FY19-21E. Given challenging demand scenario and uncertainty over BS VI implementation and fuel availability, we remain cautious on the stock and maintain our HOLD rating with a revised target price of Rs. 3,310 using ~18x FY21 adj. EPS.

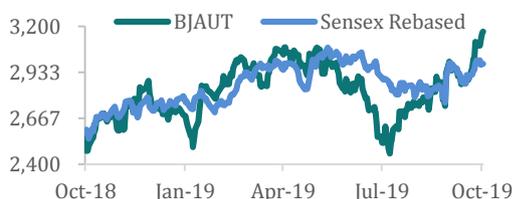
Company Data

Market Cap (cr)	Rs. 90,676
Enterprise Value (cr)	Rs. 87,803
Outstanding Shares (cr)	28.9
Free Float	47.0%
Dividend Yield	1.9%
52 week high	Rs. 3,236
52 week low	Rs. 2,400
6m average volume	29,997
Beta	0.8
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	51.2	49.3	53.5
FII's	15.6	16.7	14.1
MFs/Insti	7.4	7.9	9.8
Public	15.6	16.0	16.0
Others	10.2	10.1	6.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	25.6%	3.0%	28.0%
Absolute Sensex	3.1%	-0.1%	14.7%
Relative Return*	22.5%	3.1%	13.4%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	30,250	31,231	34,654
Growth (%)	18.3	3.2	11.0
EBITDA	4,979	5,038	5,563
EBITDA Margin (%)	16.5	16.1	16.1
Adj. PAT	4,586	4,900	5,314
Growth (%)	7.9	6.9	8.4
Adj. EPS	158	169	184
Growth (%)	7.9	6.9	8.4
P/E	17.7	18.5	17.1
P/B	3.5	3.4	3.0
EV/EBITDA	16.1	17.3	15.2
ROE (%)	21.2	18.6	17.7
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	7,707	7,987	(3.5)	7,756	(0.6)	15,463	15,406	0.4
EBITDA	1,279	1,342	(4.7)	1,197	6.8	2,476	2,623	(5.6)
EBITDA margins	16.6	16.8	(21bps)	15.4	116bps	16.0	17.0	(101bps)
Depreciation	61	72	(14.2)	60	2.0	121	141	(14.1)
EBIT	1,217	1,271	(4.2)	1,137	7.1	2,354	2,481	(5.1)
Interest	1	0	n.m.	1	n.m.	2	1	n.m.
Share of profit from Associate	514	486	5.6	329	56.2	842	818	2.9
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,730	1,757	(1.5)	1,465	18.1	3,195	3,299	(3.1)
Tax	206	500	(58.7)	453	(54.4)	660	1,000	(34.1)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	1,523	1,257	21.2	1,012	50.5	2,535	2,298	10.3
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	1,523	1,257	21.2	1,012	50.5	2,535	2,298	10.3
No. of shares	28.9	28.9	0.0	28.9	0.0	28.9	28.9	0.0
EPS (Rs.)	52.6	43.4	21.3	35.0	50.5	87.6	79.4	10.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	33,343	36,773	31,231	34,654	(6.3)	(5.8)
EBITDA	5,419	5,880	5,038	5,563	(7.0)	(5.4)
Margins (%)	16.3	16.0	16.1	16.1	9bps	35bps
Adj. PAT	4,818	5,252	4,900	5,314	1.7	1.2
EPS (Rs.)	166.5	181.5	158.5	169.3	(4.5)	(6.5)

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	23,088	25,563	30,250	31,231	34,654
% change	1.8	10.7	18.3	3.2	11.0
EBITDA	4,419	4,782	4,979	5,038	5,563
% change	(7.5)	8.2	4.1	1.2	10.4
Depreciation	307	315	266	249	240
EBIT	4,112	4,467	4,713	4,790	5,323
Interest	1	1	4	5	7
Other Income	1,477	1,468	2,247	1,749	1,769
PBT	5,588	5,933	6,956	6,534	7,085
% change	5.5	6.2	17.2	(6.1)	8.4
Tax	1,508	1,714	2,028	1,633	1,771
Tax Rate (%)	27.0	28.9	29.2	25.0	25.0
Reported PAT	4,079	4,219	4,928	4,900	5,314
Adj*	0	32	(342)	0	0
Adj PAT	4,079	4,251	4,586	4,900	5,314
% change	7.8	4.2	7.9	6.9	8.4
No. of shares (cr)	28.9	28.9	28.9	28.9	28.9
Adj EPS (Rs.)	141.0	146.9	158.5	169.3	183.6
% change	7.8	4.2	7.9	6.9	8.4
DPS (Rs.)	55.0	60.0	60.0	60.0	60.0
CEPS (Rs.)	151.6	157.8	167.6	177.9	191.9

CASH FLOW

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	4,387	4,534	5,193	5,149	5,554
Non-cash adj.	(869)	347	(1,417)	(41)	(60)
Changes in W.C	(250)	(553)	(1,289)	(537)	(616)
C.F. Operation	3,267	4,328	2,487	4,571	4,878
Capital exp.	(197)	(183)	(108)	(187)	(208)
Change in inv.	(3,594)	(1,899)	(254)	(164)	(166)
Other invest.CF	108	29	24	(3)	(3)
C.F - Investment	(3,683)	(2,053)	(338)	(355)	(377)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(173)	(1,588)	(1,736)	(1,736)	(1,736)
Other finance.CF	(17)	(297)	(338)	(5)	(7)
C.F - Finance	(190)	(1,885)	(2,074)	(1,742)	(1,743)
Chg. in cash	(534)	464	167	2,474	2,758
Closing cash	301	793	933	3,407	6,165

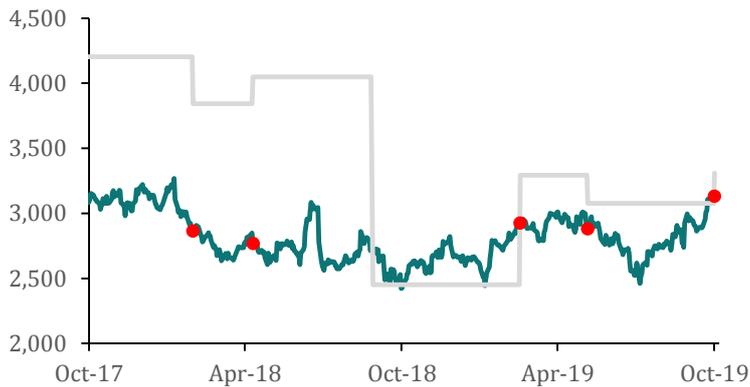
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	301	793	933	3,407	6,165
Accounts Receivable	953	1,492	2,560	3,017	3,764
Inventories	728	743	962	1,033	1,198
Other Cur. Assets	7,486	6,224	2,619	2,676	2,753
Investments	9,485	13,186	19,082	19,246	19,412
Gross Fixed Assets	4,399	4,449	4,196	4,384	4,592
Net Fixed Assets	1,899	1,821	1,689	1,625	1,592
CWIP	11	11	12	13	13
Intangible Assets	76	45	56	58	61
Def. Tax (Net)	400	439	584	590	596
Other Assets	298	388	339	342	343
Total Assets	21,638	25,141	28,834	32,007	35,897
Current Liabilities	3,213	4,111	4,874	4,877	5,183
Provisions	78	112	15	15	15
Debt Funds	-	-	-	-	-
Other Liabilities	490	492	712	718	723
Equity Capital	289	289	289	289	289
Reserves & Surplus	17,567	20,136	22,944	26,108	29,686
Shareholder's Fund	17,857	20,425	23,234	26,398	29,975
Minority Interest	0	0	0	0	0
Total Liabilities	21,638	25,141	28,834	32,007	35,897
BVPS (Rs.)	617	706	803	912	1,036

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.1	18.7	16.5	16.1	16.1
EBIT margin (%)	17.8	17.5	15.6	15.3	15.4
Net profit margin (%)	17.7	16.5	16.3	15.7	15.3
ROE (%)	22.8	20.7	21.2	18.6	17.7
ROCE (%)	23.0	21.9	20.3	18.1	17.8
W.C & Liquidity					
Receivables (days)	15.1	21.3	30.9	35.3	39.6
Inventory (days)	18.2	15.6	16.1	16.8	17.5
Payables (days)	55.8	68.0	63.3	61.5	59.7
Current ratio (x)	2.9	2.3	1.5	2.1	2.7
Quick ratio (x)	2.3	2.0	1.0	1.6	2.2
Turnover & Leverage					
Gross asset T.O (x)	5.3	5.8	7.0	7.3	7.7
Total asset T.O (x)	1.2	1.1	1.1	1.0	1.0
Int. coverage ratio (x)	nm	nm	nm	nm	nm
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.2	3.2	2.6	2.8	2.4
EV/EBITDA (x)	17.0	17.4	16.1	17.3	15.2
P/E (x)	18.5	19.7	17.7	18.5	17.1
P/BV (x)	4.2	4.1	3.5	3.4	3.0

Recommendation Summary



Dates	Rating	Target
20-Sep-16	BUY	3,960
8-Jun-17	BUY	4,204
23-Feb-18	BUY	3,842
4-May-18	BUY	4,050
20-Sep-18	BUY	2,451
12-Mar-19	BUY	3,294
30-May-19	HOLD	3,077
31-Oct-19	HOLD	3,310

Investment Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as 'Buy' and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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