

ADD

TP: Rs 3,560 | ▲ 13%

BAJAJ AUTO

Automobiles

30 January 2020

Strong operational performance

Bajaj Auto's (BJAUT) Q3 EBITDA rose 18% YoY led by 17.9% margins (seven-quarter high) and beat estimates by ~10%. While the BS-VI cost push poses near-term demand challenges for domestic 2Ws, BJAUT aims to gain share by offering a higher value proposition in the commuter segment and filling product gaps in the 125cc space. With a diversified mix and improving domestic franchise, BJAUT is one of our preferred 2W plays. The Q3 beat drives a 2-3% earnings upgrade for FY20-FY22. Maintain ADD with a revised Mar'21 TP of Rs 3,560 (vs. Rs 3,470).

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Strong margin-led beat: Topline growth of 3% YoY was slightly below estimates on account of the mix effect and consumer engagement schemes being classed as costs and deducted directly from revenues. EBITDA at Rs 13.6bn (+18% YoY) beat estimates by ~10%. EBITDA margin at 17.9% (+230bps YoY, +130bps QoQ) was at a seven-quarter high led by gross margin improvement. A richer variant mix within commuter brands, ~1% QoQ improvement in USD/INR realisation on exports and benign commodity costs aided margin expansion.

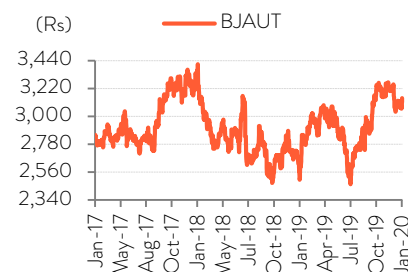
Ticker/Price	BJAUT IN/Rs 3,146
Market cap	US\$ 12.7bn
Shares o/s	289mn
3M ADV	US\$ 16.8mn
52wk high/low	Rs 3,289/Rs 2,442
Promoter/FPI/DII	54%/14%/9%

Source: NSE

Near-term 2W demand outlook clouded but market share focus intact:

BJAUT clarified that the recent BS-VI launches for the CT/Platina brands carry its indigenous solution (electronic injection system). While the cost rise on these models is large at 13-22%, they come with additional features to improve the overall value proposition. With these initiatives and an aim to beef up its presence in the 125cc segment, the company remains focused on improving market share. However, management did acknowledge that demand could be subdued for a few quarters given the large regulatory-led cost push.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: Strong Q3 margins drive a 2-3% increase in our FY20-FY22 earnings estimates. Valuations at 17x FY21E P/E are in line with the past 5Y average and look sustainable. Our TP of Rs 3,560 is set at 17x FY22E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	251,649	302,500	310,985	345,750	375,891
EBITDA (Rs mn)	47,834	49,820	51,995	55,833	61,876
Adj. net profit (Rs mn)	40,921	44,187	50,398	54,750	60,596
Adj. EPS (Rs)	141.4	153.3	174.2	189.2	209.4
Adj. EPS growth (%)	6.9	8.4	13.6	8.6	10.7
Adj. ROAE (%)	22.1	21.2	21.3	20.6	20.4
Adj. P/E (x)	22.3	20.5	18.1	16.6	15.0
EV/EBITDA (x)	16.6	15.2	14.1	12.7	11.0

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Revenues	76,397	74,094	3.1	77,073	(0.9)	231,028	228,154	1.3
Raw Materials	53,422	53,972	(1.0)	54,370	(1.7)	163,430	164,793	(0.8)
% of Net Sales	69.9	72.8	-	70.5	-	70.7	72.2	-
Personnel	3,482	3,169	9.9	3,384	2.9	10,471	9,428	11.1
% of Net Sales	4.6	4.3	-	4.4	-	4.5	4.1	-
Manufacturing & Other Exp	5,820	5,393	7.9	6,539	(11.0)	18,692	16,129	15.9
% of Net Sales	7.6	7.3	-	8.5	-	8.1	7.1	-
Total Expenditure	62,725	62,533	0.3	64,293	(2.4)	192,593	190,350	1.2
EBITDA	13,672	11,561	18.3	12,781	7.0	38,435	37,804	1.7
EBITDA Margin (%)	17.9	15.6	-	16.6	-	16.6	16.6	-
Depreciation	617	634	(2.7)	613	0.6	1,832	2,049	(10.6)
EBIT	13,055	10,927	19.5	12,167	7.3	36,603	35,756	2.4
Interest Expenses	5	36	(86.8)	12	(62.1)	23	42	(46.3)
Non-operating income	3,662	4,700	(22.1)	3,934	(6.9)	12,009	12,559	(4.4)
PBT	16,713	15,591	7.2	16,089	3.9	48,590	48,273	0.7
Tax-Total	4,097	4,572	(10.4)	2,065	98.4	10,693	14,577	(26.6)
Tax Rate (%) - Total	24.5	29.3	-	12.8	-	22.0	30.2	-
Reported PAT	12,616	11,019	14.5	14,024	(10.0)	37,897	33,696	12.5
Adj. PAT	12,616	11,019	14.5	14,024	(10.0)	37,897	33,696	12.5
PAT Margin	16.5	14.9	-	18.2	-	16.4	14.8	-

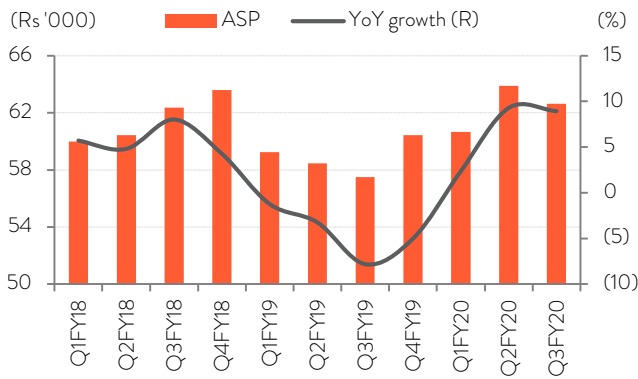
Source: Company, BOBCAPS Research

FIG 2 – PER UNIT PARAMETERS

Y/E Mar (Rs)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Sales Volume (nos)	1,202,486	1,259,828	(4.6)	1,173,591	2.5	3,623,251	3,825,913	(5.3)
Net Realisation/Vehicle	63,532	58,812	8.0	65,673	(3.3)	63,763	59,634	6.9
Material cost/Vehicle	44,427	42,840	3.7	46,328	(4.1)	45,106	43,073	4.7
Gross Profit/Vehicle	19,106	15,972	19.6	19,345	(1.2)	18,657	16,561	12.7
Employee cost/Vehicle	2,896	2,515	15.1	2,883	0.4	2,890	2,464	17.3
Other expenses/Vehicle	4,840	4,281	13.1	5,572	(13.1)	5,159	4,216	22.4
EBITDA/Vehicle	11,370	9,176	23.9	10,890	4.4	10,608	9,881	7.4
Net Profit/Vehicle	10,492	8,746	20.0	11,950	(12.2)	10,459	8,807	18.8

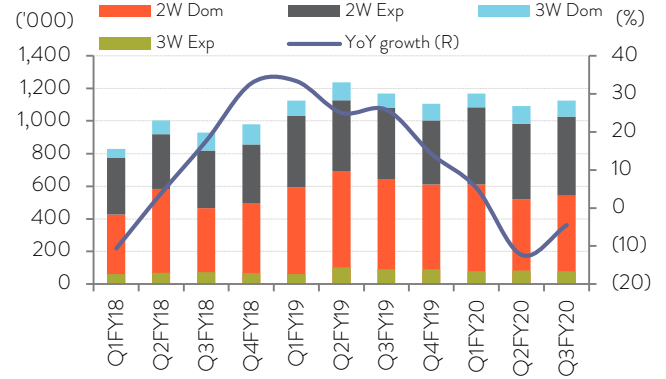
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE (ASP)



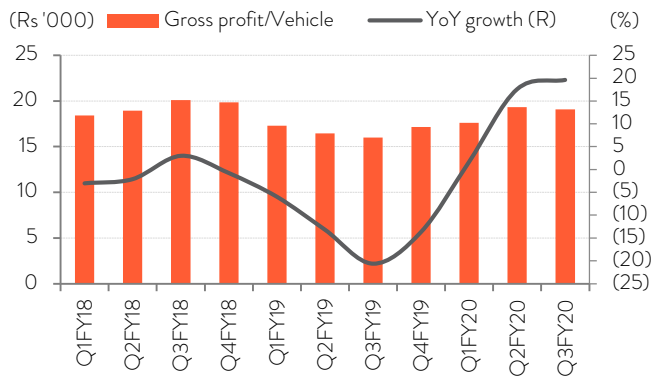
Source: Company, BOBCAPS Research

FIG 4 – BJAUT - VOLUME GROWTH TREND



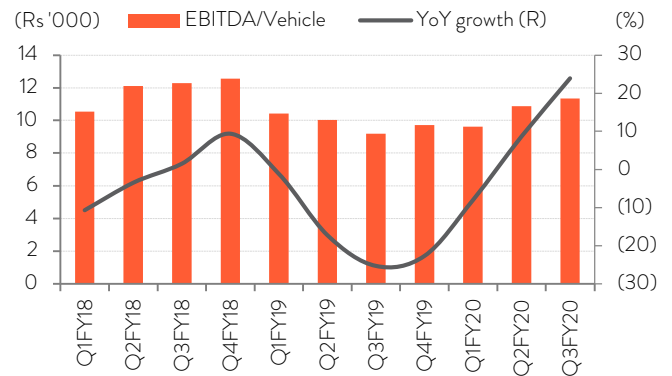
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 5 – GROSS PROFIT/VEHICLE



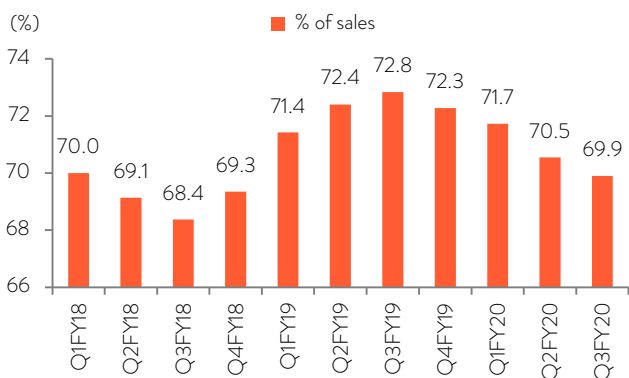
Source: Company, BOBCAPS Research

FIG 6 – EBITDA/VEHICLE



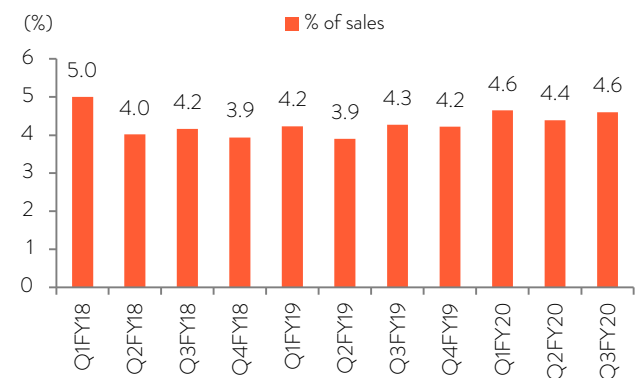
Source: Company, BOBCAPS Research

FIG 7 – RM COST/SALES TREND



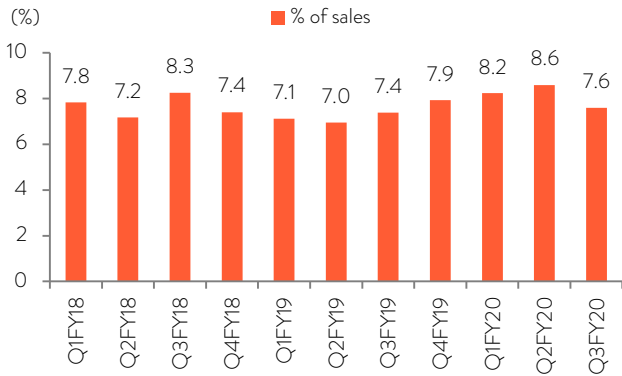
Source: Company, BOBCAPS Research

FIG 8 – EMPLOYEE COST/SALES TREND



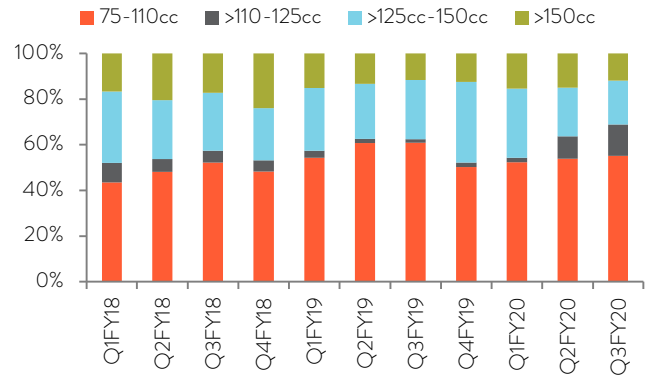
Source: Company, BOBCAPS Research

FIG 9 – OTHER EXPENSES/SALES TREND



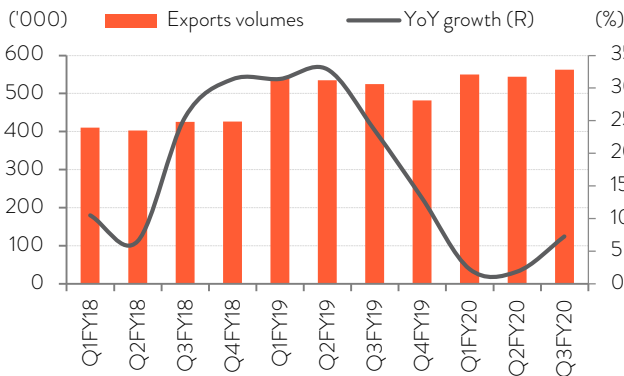
Source: Company, BOBCAPS Research

FIG 10 – BJAUT'S MOTORCYCLE MIX



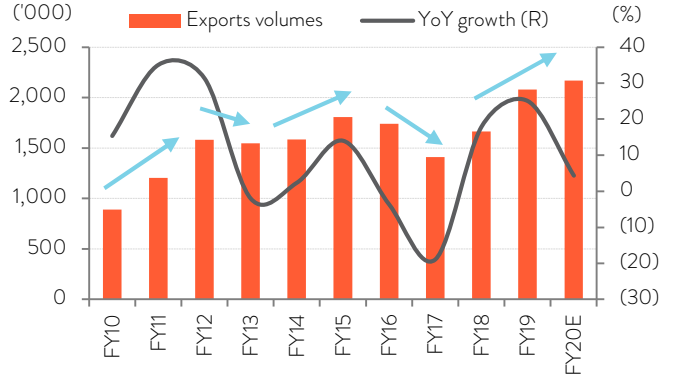
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 11 – QUARTERLY EXPORT SALES TREND



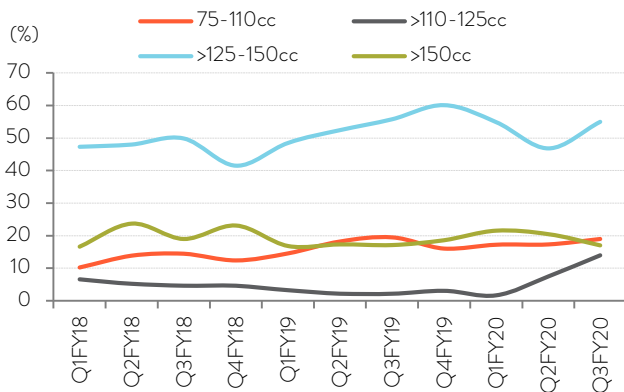
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 12 – YEARLY EXPORT SALES TREND



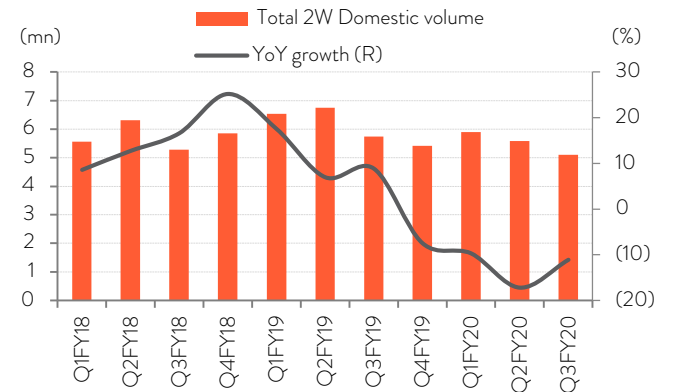
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 13 – BJAUT'S DOMESTIC MOTORCYCLE MARKET SHARE TRENDS



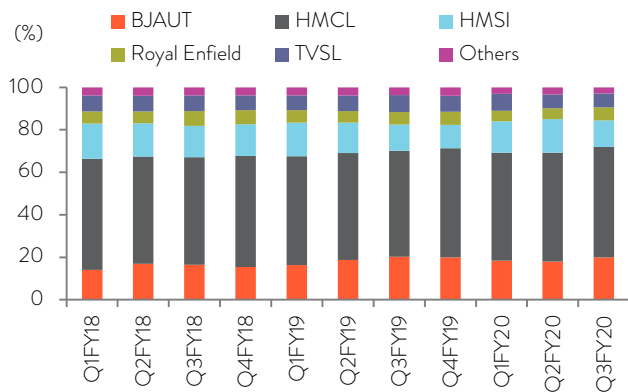
Source: Company, BOBCAPS Research

FIG 14 – INDUSTRY VOLUME GROWTH



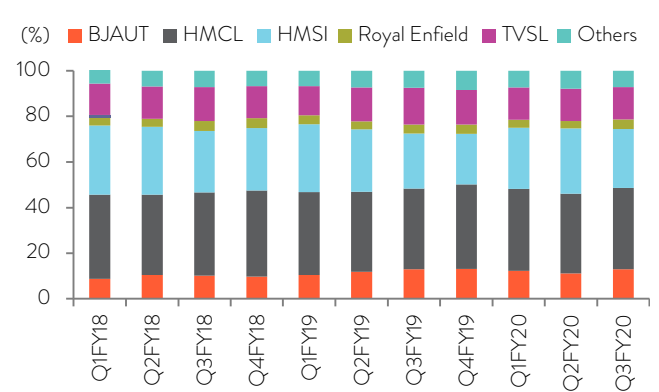
Source: Company, BOBCAPS Research

FIG 15 – DOMESTIC MOTORCYCLE MARKET SHARE



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 16 – DOMESTIC 2W MARKET SHARE



Source: SIAM, ET Autolytics, BOBCAPS Research

Earnings call highlights

- BJAUT has opted for the electronic injection system for BS-VI models which is an in-house developed technology. It is innovated for lighter motorcycles and provides easier serviceability. Price hikes on the recently launched CT/Platina models are also attributed to added features.
- A third of the 290bps YoY gross margin improvement in Q3 was attributed to favourable currency movement and the rest to softer commodity prices and a beneficial mix.
- Other expenses were lower on account of consumer engagement schemes being classified as costs and deducted directly from the topline rather than shown in the cost line.
- Dealer inventory stands at five weeks currently.
- Management envisages a hardening of commodity prices to act as headwinds while better product pricing than competition and operating leverage would aid profitability.
- Export revenue for Q3 stood at ~Rs 33bn. The outlook on exports looks steady for the next few quarters: (1) Latin America (LATAM) is underperforming which is hurting motorcycle exports but BJAUT is picking up market share in the region. (2) In Africa, Nigeria and East Africa are doing well; the motorcycle business in Egypt is also performing well. (3) Bangladesh is witnessing weak growth due to regulatory interventions. (4) Nepal and Sri Lanka are seeing tepid growth.
- E-scooter Chetak has received positive feedback and garnered ~2k bookings to date. BJAUT believes electric 2Ws will become a significant category and intends to gradually expand its portfolio.

- State-led schemes have supported growth of domestic 3Ws (diesel and large passenger segments). Management expects 3W cargo vehicles to gain share from 4W cargo segments as the cost hike on the latter due to BS-VI transition will be much higher.
- Revenue from spares was at Rs 7.7bn in Q3.

Valuation methodology

BJAUT currently trades at ~17x FY21E EPS which is in line with its past five-year average. Considering limited risk from BS-VI transition, steady earnings at ~10% CAGR expected over FY20-FY22 and a solid balance sheet with cash/Mcap of ~25%, we believe current valuations would sustain. We revise FY20-FY22 estimates to factor in the strong Q3 margins and raise our Mar'21 target price to Rs 3,560 (vs. Rs 3,470 earlier), set at 17x FY22E EPS.

FIG 17 – REVISED ESTIMATES

Change (%)	FY20	FY21	FY22
Volume	0.0	0.0	0.0
Income	(0.5)	(0.5)	(0.5)
EBITDA	4.3	4.2	3.5
EBITDA Margin (bps)	80	70	60
Profit	2.3	3.1	2.7
EPS (Rs)	2.3	3.1	2.7

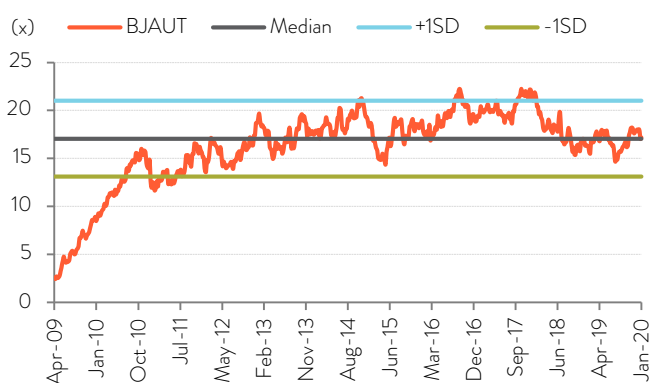
Source: BOBCAPS Research

FIG 18 – KEY VOLUME ASSUMPTIONS

(Nos)	FY20E	FY21E	FY22E
Total volumes	4,845,903	5,093,762	5,414,078
YoY growth (%)	(3)	5	6
Domestic	2,677,723	2,807,318	3,020,407
YoY growth (%)	(9)	5	8
2W	2,284,262	2,421,726	2,615,536
YoY growth (%)	(10)	6	8
3W	393,461	385,592	404,872
YoY growth (%)	(2)	(2)	5
Exports	2,168,180	2,286,444	2,393,670
YoY growth (%)	4	5	5
2W	1,839,675	1,931,659	2,028,242
YoY growth (%)	9	5	5
3W	328,505	354,785	365,429
YoY growth (%)	(14)	8	3

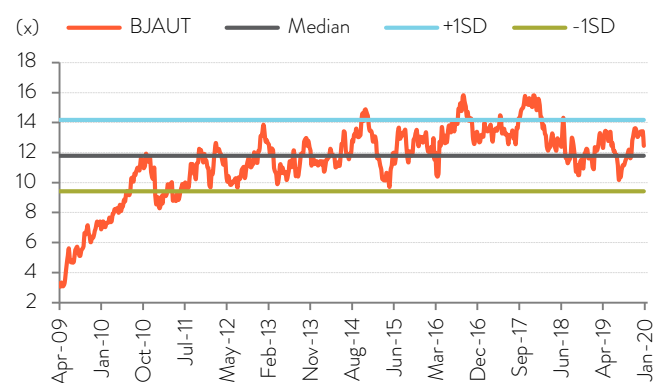
Source: Company, BOBCAPS Research

FIG 19 – P/E MULTIPLE

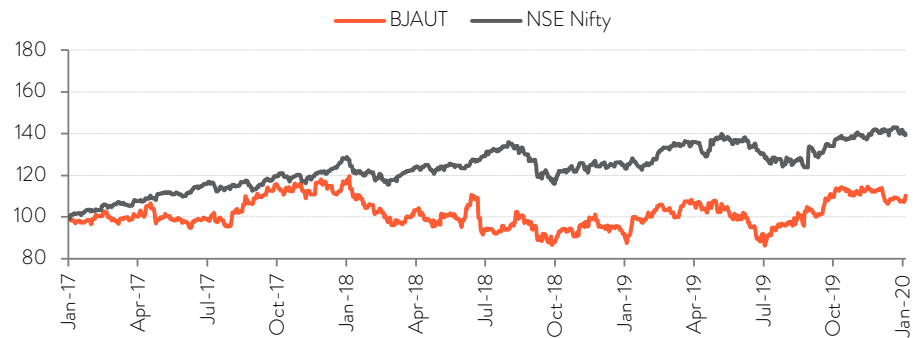


Source: Company, BOBCAPS Research

FIG 20 – EV/EBITDA MULTIPLE



Source: Company, BOBCAPS Research

FIG 21 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- Imposition of tariff barriers or regulatory changes impacting 2Ws/3Ws in BJAUT's key export markets could adversely affect its exports business.
- Significant downtrading in the 2W industry as a result of the BS-VI led cost increase could impact BJAUT's market share given its strong presence in 150cc-and-above segments.
- Rapid shift of 3Ws to EVs could affect the company's dominant position and profitability in this segment.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	251,649	302,500	310,985	345,750	375,891
EBITDA	47,834	49,820	51,995	55,833	61,876
Depreciation	3,148	2,657	2,464	2,775	3,050
EBIT	44,686	47,163	49,531	53,058	58,826
Net interest income/(expenses)	(13)	(45)	(49)	(54)	(60)
Other income/(expenses)	13,473	16,493	15,970	18,101	19,930
Exceptional items	(320)	3,420	0	0	0
EBT	57,826	67,032	65,452	71,104	78,696
Income taxes	17,145	20,280	15,054	16,354	18,100
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	40,681	46,752	50,398	54,750	60,596
Adjustments	240	(2,565)	0	0	0
Adjusted net profit	40,921	44,187	50,398	54,750	60,596

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	32,443	37,867	38,797	43,181	46,965
Other current liabilities	7,893	11,159	11,659	12,159	12,659
Provisions	2,378	1,552	1,802	2,052	2,302
Debt funds	1,208	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	188,145	214,905	242,629	272,961	305,651
Shareholders' fund	191,039	217,799	245,523	275,855	308,544
Total liabilities and equities	234,961	268,377	297,781	333,247	370,471
Cash and cash eq.	171,436	188,594	213,497	241,562	272,217
Accounts receivables	14,919	25,597	26,225	29,189	31,747
Inventories	7,426	9,615	9,851	10,964	11,925
Other current assets	12,839	19,651	20,751	21,851	22,951
Investments	12,227	12,227	12,227	12,227	12,227
Net fixed assets	18,783	17,639	20,176	22,401	24,350
CWIP	565	480	480	480	480
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,234)	(5,427)	(5,427)	(5,427)	(5,427)
Other assets	0	0	0	0	0
Total assets	234,961	268,377	297,781	333,247	370,471

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	43,829	49,409	52,862	57,525	63,646
Interest expenses	13	45	49	54	60
Non-cash adjustments	98	2,192	0	0	0
Changes in working capital	11,516	(11,815)	(285)	(43)	(85)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	55,456	39,831	52,626	57,537	63,621
Capital expenditures	(2,056)	(1,429)	(5,000)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,056)	(1,429)	(5,000)	(5,000)	(5,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	9	(1,208)	0	0	0
Interest expenses	(13)	(45)	(49)	(54)	(60)
Dividends paid	(20,575)	(20,930)	(22,674)	(24,418)	(27,907)
Other financing cash flows	592	939	0	0	0
Cash flow from financing	(19,988)	(21,244)	(22,723)	(24,473)	(27,966)
Changes in cash and cash eq.	33,412	17,159	24,903	28,065	30,655
Closing cash and cash eq.	171,436	188,594	213,497	241,562	272,217

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	141.4	153.3	174.2	189.2	209.4
Adjusted EPS	141.4	153.3	174.2	189.2	209.4
Dividend per share	60.0	60.0	65.0	70.0	80.0
Book value per share	660.2	752.7	848.5	953.3	1,066.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.2	2.5	2.3	2.1	1.8
EV/EBITDA	16.6	15.2	14.1	12.7	11.0
Adjusted P/E	22.3	20.5	18.1	16.6	15.0
P/BV	4.8	4.2	3.7	3.3	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	69.7	77.0	77.0	77.0
Interest burden (PBT/EBIT)	129.4	142.1	132.1	134.0	133.8
EBIT margin (EBIT/Revenue)	17.8	15.6	15.9	15.3	15.6
Asset turnover (Revenue/Avg TA)	114.4	120.2	109.9	109.6	106.8
Leverage (Avg TA/Avg Equity)	121.7	123.1	122.2	121.0	120.4
Adjusted ROAE	21.4	20.4	20.5	19.8	19.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	15.6	20.2	2.8	11.2	8.7
EBITDA	8.2	4.2	4.4	7.4	10.8
Adjusted EPS	6.9	8.4	13.6	8.6	10.7
Profitability & Return ratios (%)					
EBITDA margin	19.0	16.5	16.7	16.1	16.5
EBIT margin	17.8	15.6	15.9	15.3	15.6
Adjusted profit margin	16.3	14.6	16.2	15.8	16.1
Adjusted ROAE	22.1	21.2	21.3	20.6	20.4
ROCE	29.8	28.5	26.1	25.3	25.1
Working capital days (days)					
Receivables	22	31	31	31	31
Inventory	11	12	12	12	12
Payables	47	46	46	46	46
Ratios (x)					
Gross asset turnover	1.3	1.3	1.2	1.2	1.2
Current ratio	4.8	4.8	5.2	5.3	5.5
Net interest coverage ratio	3,411.2	1,052.8	1,005.1	978.8	986.5
Adjusted debt/equity	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

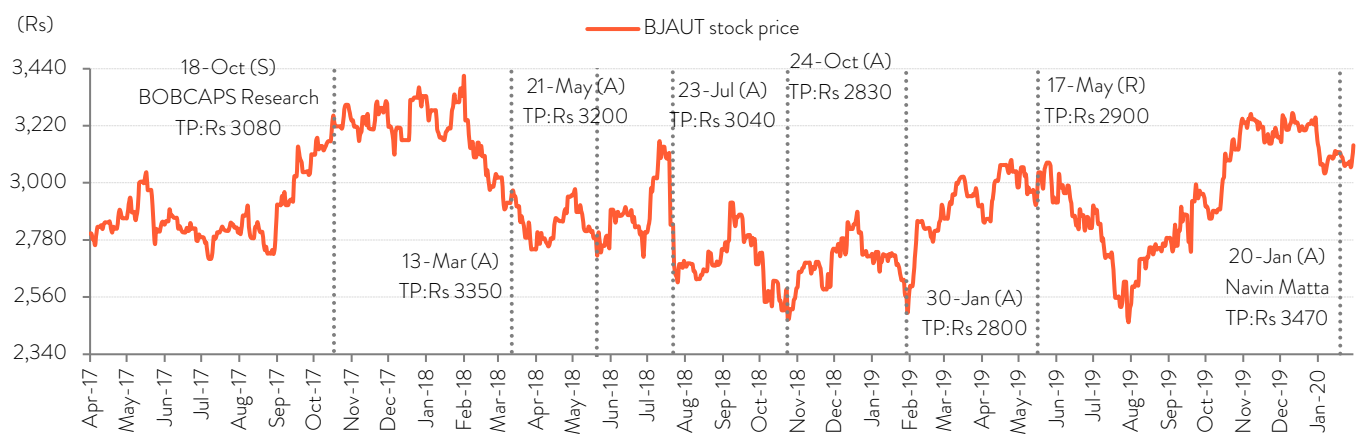
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: BAJAJ AUTO (BJAUT IN)



B – Buy, A – Add, R – Reduce, S – Sell

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