

Bajaj Auto

BUY

Operational beat

Bajaj's 2QFY20 PAT (Rs 14bn, +22% YoY) was ahead of estimates as operating margins surprised at 16.6% (+110bp QoQ) & lower tax rates aided profitability. Reiterate Bajaj as preferred pick in the sector. Maintain BUY with a revised TP of Rs 3,530 (@ 18x Sep-21E EPS).

HIGHLIGHTS OF THE QUARTER

- Financials:** While the vols declined by 12/6% YoY/QoQ, realization increased by 9/6% to ~Rs 66k due to an improved product mix. Thus, revenue declined by a mere 4/flat%. EBITDA came in at Rs 12.7bn (-10/+7%) as margin expanded 110bps QoQ to 16.6% due to improved product mix (richer mix of entry level portfolio – Platina H, CT110), price hikes and lower raw material costs (-140/-120bps). Lower tax rate at 12.8% was due to benefit of Rs 1.8bn from deferred tax liabilities (as co shifted to revised tax structure).
- Demand uptick is visible:** Retail sales in India have risen from the Aug-19 lows with festive vols similar to last year. As demand has bottomed, the management expects FY20 vols to be flat YoY. In our 2QFY20 Preview note we highlighted that demand will benefit from hereon led by a good monsoons, discounts by OEMs and a benign base.

Financial Summary: Standalone

YE March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	77,073	80,363	(4.1)	77,558	(0.6)	252,189	302,500	310,953	343,403	381,090
EBITDA	12,781	14,141	(9.6)	11,982	6.7	48,374	49,821	50,063	54,258	61,355
APAT	14,024	11,525	21.7	11,257	24.6	40,906	44,367	49,477	53,059	60,254
Diluted EPS (Rs)	48.5	39.8	21.7	38.9	24.6	141.4	153.3	171.0	183.4	208.2
APAT Growth (%)						6.9	8.5	11.5	7.2	13.6
P/E (x)						22.4	20.6	18.5	17.2	15.2
RoE (%)						22.6	21.7	21.3	20.3	20.4

Source: Company, HDFC sec Inst Research

- BSVI – downsizing is the way ahead:** To contend with rising costs (ABS, BSVI), Bajaj has launched 125cc Pulsar. Due to price hikes, premium 150cc customers will likely purchase the lower variants. Further, only the cos domestic portfolio will transition to BSVI, which is ~60% of overall sales. Bajaj is best positioned amongst the 2W OEMs for a shift to meet the emission norm due to its diversified portfolio.
- Demand in export markets is holding up:** In export market Bajaj gained 250bps in 2QFY20. 3W sales in Egypt are settling at lower levels of 3,000 units (from 8,000 units earlier).
- EV:** Recently showcased E-scooter Chetak will be launched in Pune in Jan-20. The management will assess demand trends for EVs as the demand is evolving. For 3Ws, the co believes that CNG variants are more competitive vis-à-vis lithium powered.

STANCE

Re-iterate BUY as (1) Industry demand trends are improving after several quarters of decline (2) Bajaj is well prepared for BSVI due to its tie up with KTM. Further, 3W/exports are ~50% of volumes which provides cushion against volatility in domestic 2Ws. (3) Co will launch new premium brands in India including the Husqvarna and Triumph (agreement is expected to be finalized shortly).

INDUSTRY	AUTOS
CMP (as on 23 Oct 2019)	Rs 3,163
Target Price	Rs 3,530
Nifty	11,604
Sensex	39,059

KEY STOCK DATA

Bloomberg	BJAUT IN
No. of Shares (mn)	289
MCap (Rsbn) / (\$ mn)	915/12,914
6m avg traded value (Rsmn)	1,519

STOCK PERFORMANCE (%)

52 Week high / low	Rs 3,237/2,400		
	3M	6M	12M
Absolute (%)	25.3	4.1	22.3
Relative (%)	22.5	2.8	6.9

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	53.5	53.5
FIs & Local MFs	8.6	9.8
FPIs	14.6	14.1
Public & Others	23.3	22.6
Pledged Shares	0.0	0.0

Source : BSE

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In a weak demand environment, Bajaj's 2QFY20 revenue declined by mere 4% YoY driven by 9% YoY growth in realization

RM costs declined -140bps YoY due to improved product mix and benign commodity prices

EBITDA margin expanded 110 bps QoQ to 16.6%. Management expects EBITDA margin to be in a similar range in 3QFY20

Lower tax rate at 12.8% was due to Rs 1.8bn benefit on deferred tax liabilities availed as the co shifted to the new structure. Steady tax rate going ahead will be 24-25%

Quarterly Financials Snapshot: Standalone

Particulars	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Volumes (in units)	1,173,591	1,339,444	(12.4)	1,247,174	(5.9)	2,420,765	2,566,085	6.0
Net ASP (Rs/veh)	65,673	59,998	9.5	62,187	5.6	63,877	60,408	(5.4)
Net sales (incl OOI)	77,073	80,363	(4.1)	77,558	(0.6)	154,631	155,012	0.2
Material Expenses	54,370	57,838	(6.0)	55,638	(2.3)	110,008	110,782	0.7
Employee Expenses	3,384	3,119	8.5	3,605	(6.2)	6,989	6,260	(10.4)
Other Operating Expenses	6,539	5,265	24.2	6,333	3.3	12,872	10,441	(18.9)
Total Expenditure	64,293	66,223	(2.9)	65,576	(2.0)	129,869	127,482	(1.8)
EBITDA	12,781	14,141	(9.6)	11,982	6.7	24,763	27,530	11.2
Depreciation	613	715	(14.2)	601	2.0	1,215	1,415	16.5
EBIT	12,167	13,426	(9.4)	11,381	6.9	23,548	26,115	10.9
Other Income (Including EO Items)	3,934	3,104	26.8	4,413	(10.8)	8,347	6,573	(21.3)
Interest Cost	12	3	300.0	5	129.6	18	6	(65.2)
PBT	16,089	16,527	(2.6)	15,788	1.9	31,877	32,682	2.5
Tax	2,065	5,002	(58.7)	4,531	(54.4)	6,596	10,005	51.7
RPAT	14,024	11,525	21.7	11,257	24.6	25,281	22,677	(10.3)
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	14,024	11,525	21.7	11,257	24.6	25,281	22,677	(10.3)
Adj EPS	48.5	39.8	21.7	38.9	24.6	87.4	78.4	(10.3)

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

As % of sales	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	QoQ (bps)
Material Expenses	70.5	72.0	(143)	71.7	(119)	71.1	71.5	32
Employee Expenses	4.4	3.9	51	4.6	(26)	4.5	4.0	(48)
Other Operating Expenses	8.5	6.6	193	8.2	32	8.3	6.7	(159)
Total Expenditure	83.4	82.4	101	84.6	(113)	84.0	82.2	(175)
EBITDA	16.6	17.6	(101)	15.4	113	16.0	17.8	175
APAT	18.2	14.3	386	14.5	368	16.3	14.6	(172)
Tax as % of PBT	12.8	30.3	(1,743)	28.7	(1,587)	20.7	30.6	992

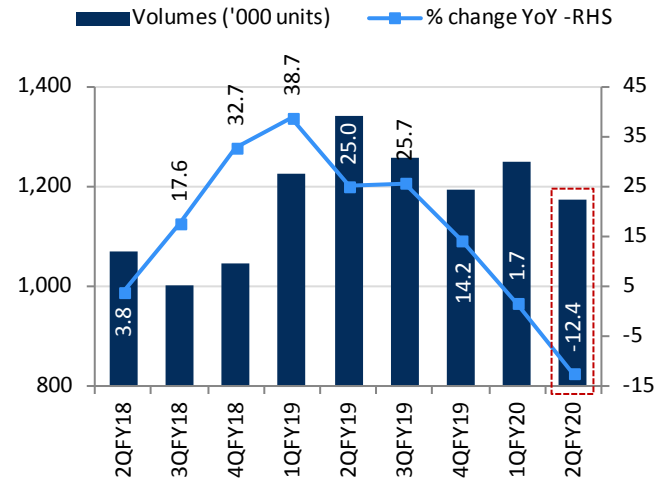
Source: Company, HDFC sec Inst Research

Realizations grew 9/6% YoY/QoQ. US \$ rate was Rs 70.6 in 2QFY20 vs. Rs 70 QoQ. Favorable product mix (higher share of 3Ws) as well as price hikes led to the higher realizations.

The share of premium bikes is sustaining at 45%+ levels of the product mix

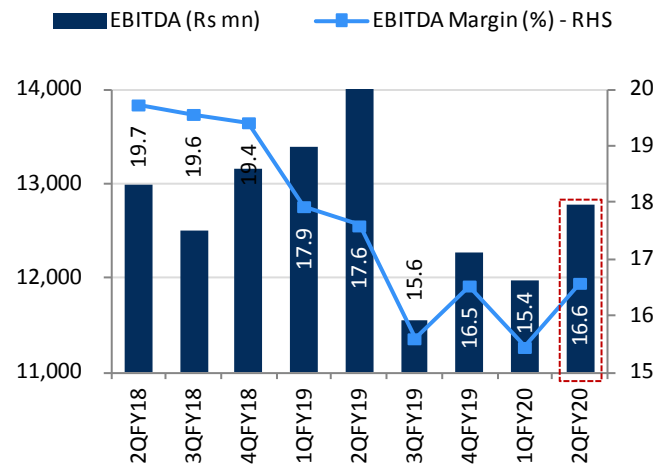
Bajaj has gained market share (31%) in the cargo segment even though it is only 18% of the industry

Volumes impacted due to weak industry demand



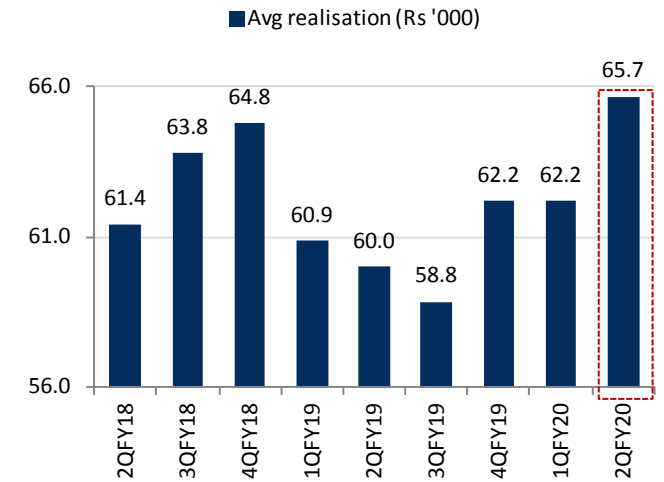
Source: Company, HDFC sec Inst Research

EBITDA Margin (%)



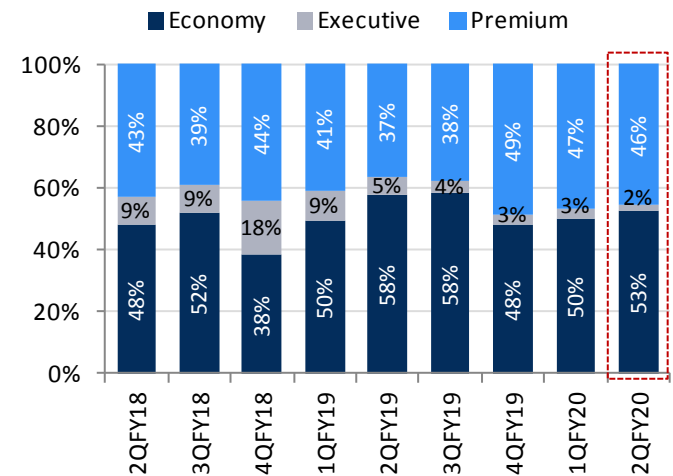
Source: Company, HDFC sec Inst Research

Realizations improved 9% YoY



Source: Company, HDFC sec Inst Research

2W segmental mix (%)



Source: Company, HDFC sec Inst Research

The co expects the phase out of BSIV inventory to commence from 3Q onwards

Financing was ~70% in the quarter (vs 65% QoQ). Of the above, Bajaj Finance is 60%

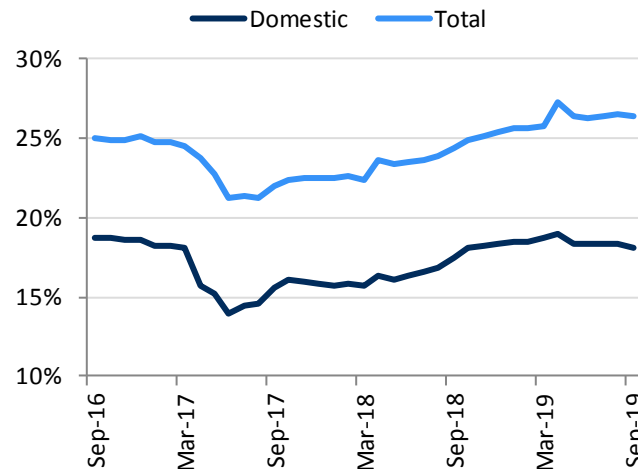
Bajaj has gained market share in the motorbike segment in FY19. Currently at 25% (vs. 21% in 1QFY17)

Valuation multiples have risen from trough levels as demand is steadying at lower levels

Bajaj's 2QFY20 volume break-up:

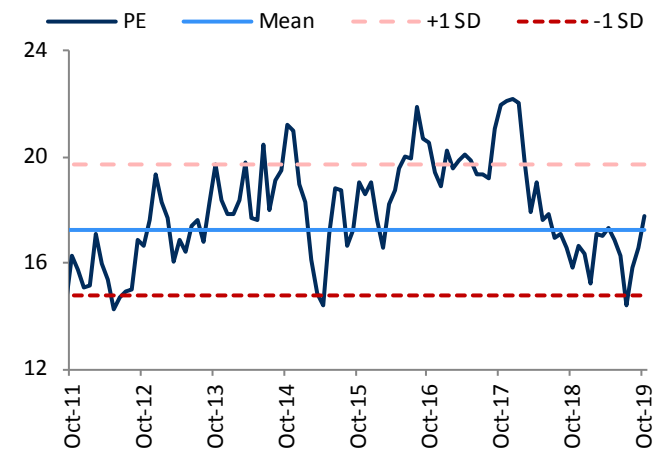
	2QFY20	2QFY19	% YoY	1HFY20	1HFY19	% YoY
Motorcycles	984,240	1,126,542	(12.6)	2,066,867	2,156,506	(4.2)
-Domestic	521,350	692,899	(24.8)	1,132,286	1,287,133	(12.0)
-Exports	462,890	433,643	6.7	934,581	869,373	7.5
3W	189,351	212,902	(11.1)	353,898	409,579	(13.6)
-Domestic	107,730	111,746	(3.6)	193,947	206,177	(5.9)
-Exports	81,621	101,156	(19.3)	159,951	203,402	(21.4)
Total	1,173,591	1,339,444	(12.4)	2,420,765	2,566,085	(5.7)
-Domestic	629,080	804,645	(21.8)	1,326,233	1,493,310	(11.2)
-Exports	544,511	534,799	1.8	1,094,532	1,072,775	2.0

Motorcycle market share (%) has risen in FY19-20



Source: Company, HDFC sec Inst Research

1 year forward P/E band



Source: Company, HDFC sec Inst Research

The management is guiding for flat volume sales in FY20

Volume Assumptions

(in units)	FY18	FY19	FY20E	FY21E	FY22E
Motorcycles					
-Domestic	1,974,574	2,541,320	2,414,254	2,559,109	2,815,020
-Exports	1,394,757	1,695,553	1,780,331	1,958,364	2,095,449
Total	3,369,331	4,236,873	4,194,585	4,517,473	4,910,469
% YoY	4.6	25.7	(1.0)	7.7	8.7
CVs					
-Domestic	369,637	399,448	385,467	404,741	437,120
-Exports	267,820	382,391	351,800	369,390	387,859
Total	637,457	781,839	737,267	774,130	824,979
% YoY	42.9	22.6	(5.7)	5.0	6.6
Total sales					
- Domestic	2,344,211	2,940,768	2,799,721	2,963,850	3,252,140
- Exports	1,662,577	2,077,944	2,132,130	2,327,753	2,483,308
Total	4,006,788	5,018,712	4,931,852	5,291,603	5,735,448
% YoY	9.3	25.3	(1.7)	7.3	8.4
Average Realisation (Rs)					
	62,940	60,274	63,050	64,896	66,445
% chng YoY	6.0	(4.2)	4.6	2.9	2.4

Source: Company, HDFC sec Inst Research

Change in estimates

	New			Old			Chg (%)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Revenue	310,953	343,403	381,090	308,155	340,308	373,635	0.9	0.9	2.0
EBITDA	50,063	54,258	61,355	47,519	52,345	58,920	5.4	3.7	4.1
EBITDA Margin (%)	16.1	15.8	16.1	15.4	15.4	15.8	68 bps	42 bps	33 bps
PAT	49,477	53,059	60,254	46,741	51,594	57,668	5.9	2.8	4.5
EPS	171.0	183.4	208.2	161.5	178.3	199.3	5.9	2.8	4.5

Source: HDFC sec Inst Research

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Ashok Leyland	221	75	NEU	76	4.9	5.4	6.3	15.5	14.0	11.9	16.4	16.7	18.0
Bajaj Auto	915	3,163	BUY	3,530	171.0	183.4	208.2	18.5	17.2	15.2	21.3	20.3	20.4
Eicher	559	20,521	NEU	16,280	749.0	815.5	922.3	27.4	25.2	22.3	20.9	19.4	18.7
Hero Motocorp	542	2,713	BUY	3,460	168.0	180.5	204.5	16.1	15.0	13.3	24.1	22.7	22.8
Maruti Suzuki	2,247	7,440	NEU	6,430	224.4	272.5	312.1	33.2	27.3	23.8	14.0	15.3	15.7

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	252,189	302,500	310,953	343,403	381,090
Growth (%)	15.9	19.9	2.8	10.4	11.0
Material Expenses	174,101	218,243	221,709	247,250	273,623
Employee Expenses	10,691	12,554	14,304	15,110	16,768
Other Operating Expenses	19,023	21,882	24,876	26,785	29,344
Total Expenses	203,815	252,679	260,889	289,145	319,734
EBITDA	48,374	49,821	50,063	54,258	61,355
EBITDA Margin (%)	19.2	16.5	16.1	15.8	16.1
EBITDA Growth (%)	9.4	3.0	0.5	8.4	13.1
Depreciation	3,148	2,657	2,514	2,594	2,921
EBIT	45,226	47,164	47,549	51,664	58,435
Other Income (Including EO Items)	12,613	19,913	17,388	19,252	22,078
Interest	13	45	7	12	14
PBT	57,826	67,032	64,931	70,904	80,499
Tax (Incl Deferred)	17,145	20,280	15,454	17,845	20,246
RPAT	40,681	46,752	49,477	53,059	60,254
EO (Loss) / Profit (Net Of Tax)	225	(2,385)	-	-	-
APAT	40,906	44,367	49,477	53,059	60,254
APAT Growth (%)	6.9	8.5	11.5	7.2	13.6
Adjusted EPS (Rs)	141.4	153.3	171.0	183.4	208.2
EPS Growth (%)	6.9	8.5	11.5	7.2	13.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	2,894	2,894	2,894	2,894	2,894
Reserves	188,145	214,905	243,513	273,963	311,609
Total Shareholders Funds	191,039	217,799	246,407	276,857	314,502
Total Debt	-	-	-	-	-
Net Deferred Taxes	3,234	5,427	3,998	3,408	3,368
Other Non-current Liabilities	1,687	1,696	1,696	1,696	1,696
TOTAL SOURCES OF FUNDS	195,960	224,922	252,101	281,961	319,566
APPLICATION OF FUNDS					
Net Block	18,783	17,639	22,608	27,497	31,989
CWIP	565	480	498	515	602
Investments	12,227	12,227	12,227	12,227	12,227
Total Non-current Assets	31,575	30,347	35,333	40,239	44,818
Cash & Equivalents	171,436	188,595	225,628	254,329	288,739
Inventories	7,426	9,615	11,075	11,290	12,529
Debtors	14,919	25,597	17,890	19,757	21,926
Other Current Assets	12,839	19,651	15,846	17,499	19,420
Total Current Assets	206,620	243,457	270,439	302,876	342,613
Creditors	32,443	37,867	41,744	46,101	51,160
Other Current Liabilities & Provns	9,792	11,015	11,927	15,053	16,705
Total Current Liabilities	42,235	48,882	53,671	61,154	67,865
Net Current Assets	164,385	194,575	216,768	241,722	274,748
TOTAL APPLICATION OF FUNDS	195,960	224,922	252,101	281,961	319,566

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

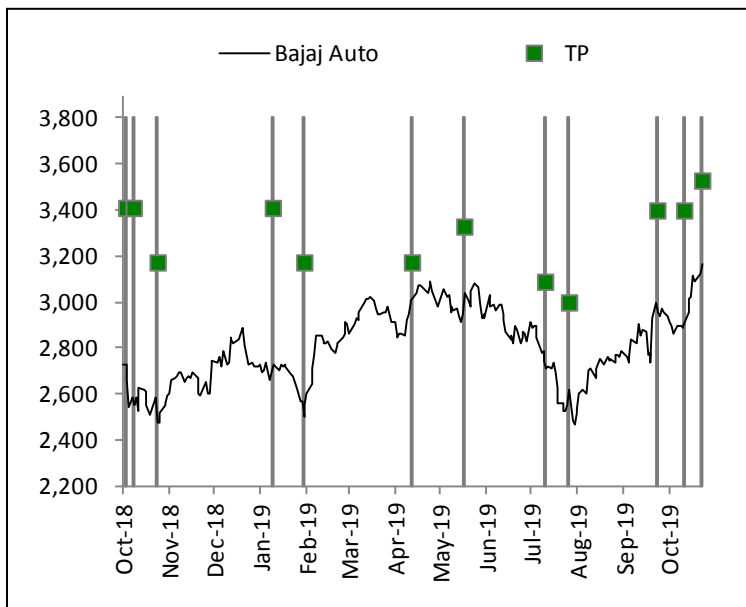
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	57,826	67,032	64,931	70,904	80,499
Non-operating & EO Items	(12,613)	(19,913)	(17,388)	(19,252)	(22,078)
Interest Expenses	13	45	7	12	14
Depreciation	3,148	2,657	2,514	2,594	2,921
Working Capital Change	11,740	(13,031)	14,840	3,747	1,384
Tax Paid	(17,047)	(18,087)	(16,882)	(18,435)	(20,286)
OPERATING CASH FLOW (a)	43,068	18,702	48,022	39,570	42,453
Capex	(2,056)	(1,429)	(7,500)	(7,500)	(7,500)
<i>Free Cash Flow (FCF)</i>	<i>41,011</i>	<i>17,273</i>	<i>40,522</i>	<i>32,070</i>	<i>34,953</i>
Investments	(77)	9	-	-	-
Non-operating Income	12,613	19,913	17,388	19,252	22,078
INVESTING CASH FLOW (b)	10,479	18,493	9,888	11,752	14,578
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(13)	(45)	(7)	(12)	(14)
FCFE	40,998	17,229	40,515	32,058	34,939
Share Capital Issuance	(1,135)	741	-	-	-
Dividend	(18,848)	(20,733)	(20,869)	(22,608)	(22,608)
FINANCING CASH FLOW (c)	(19,997)	(20,037)	(20,876)	(22,620)	(22,622)
NET CASH FLOW (a+b+c)	33,550	17,159	37,034	28,701	34,409
Closing Cash & Equivalents	171,436	188,595	225,628	254,329	288,739

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	31.0	27.9	28.7	28.0	28.2
EBITDA Margin	19.2	16.5	16.1	15.8	16.1
EBIT Margin	17.9	15.6	15.3	15.0	15.3
APAT Margin	16.2	14.7	15.9	15.5	15.8
RoE	22.6	21.7	21.3	20.3	20.4
RoIC (or Core RoCE)	102.8	108.1	115.4	142.9	149.6
RoCE	17.1	15.6	15.2	14.5	14.5
EFFICIENCY					
Tax Rate (%)	29.6	30.3	23.8	25.2	25.2
Fixed Asset Turnover (x)	13.4	17.1	13.8	12.5	11.9
<i>Inventory (days)</i>	<i>10.7</i>	<i>11.6</i>	<i>13.0</i>	<i>12.0</i>	<i>12.0</i>
<i>Debtors (days)</i>	<i>21.6</i>	<i>30.9</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
<i>Other Current Assets (days)</i>	<i>18.6</i>	<i>23.7</i>	<i>18.6</i>	<i>18.6</i>	<i>18.6</i>
<i>Payables (days)</i>	<i>47.0</i>	<i>45.7</i>	<i>49.0</i>	<i>49.0</i>	<i>49.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>14.2</i>	<i>13.3</i>	<i>14.0</i>	<i>16.0</i>	<i>16.0</i>
Cash Conversion Cycle (days)	(10.2)	7.2	(10.4)	(13.4)	(13.4)
Debt/EBITDA (x)	(3.5)	(3.8)	(4.5)	(4.7)	(4.7)
Net D/E (x)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Interest Coverage (x)	3,452.4	1,052.8	6,792.8	4,305.3	4,173.9
PER SHARE DATA (Rs)					
EPS	141.4	153.3	171.0	183.4	208.2
CEPS	151.5	170.7	179.7	192.3	218.3
Dividend	55.0	60.0	60.0	60.0	65.0
Book Value	660	753	852	957	1,087
VALUATION					
P/E (x)	22.4	20.6	18.5	17.2	15.2
P/BV (x)	4.8	4.2	3.7	3.3	2.9
EV/EBITDA (x)	15.4	14.6	13.8	12.2	10.2
EV/Revenues (x)	2.9	2.4	2.2	1.9	1.6
OCF/EV (%)	5.8	2.6	7.0	6.0	6.8
FCF/EV (%)	5.5	2.4	5.9	4.9	5.6
FCFE/Mkt Cap (%)	4.5	1.9	4.4	3.5	3.8
Dividend Yield (%)	1.7	1.9	1.9	1.9	2.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
3-Oct-18	2,730	BUY	3,411
8-Oct-18	2,545	BUY	3,411
25-Oct-18	2,475	BUY	3,174
9-Jan-19	2,695	BUY	3,411
30-Jan-19	2,500	BUY	3,174
12-Apr-19	2,994	BUY	3,174
19-May-19	3,040	BUY	3,330
10-Jul-19	2,786	BUY	3,090
29-Jul-19	2,619	BUY	3,000
22-Sep-19	2,928	BUY	3,400
11-Oct-19	2,899	BUY	3,400
24-Oct-19	3,163	BUY	3,530

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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