

Stock Update

Aggressive pricing to impact earnings

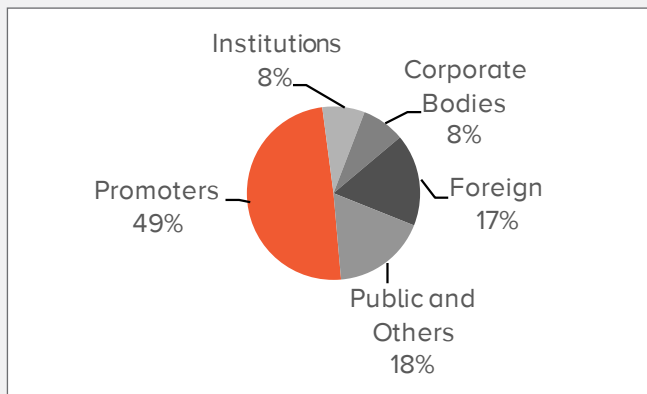
Bajaj Auto

Reco: Hold | CMP: Rs2,689

Company details

Price target:	Rs2,905
Market cap:	Rs77,814 cr
52-week high/low:	Rs3,473/2,659
NSE volume: (No of shares)	4.52 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	14.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.0	1.6	-9.8	2.8
Relative to Sensex	-1.9	-4.8	-12.9	-11.2

Key points

- Q1 results surprise negatively with margins at multi-year low:** Bajaj Auto's (BAL) Q1FY2019 results missed our as well as consensus expectations with lowest margins reported since FY2009. While volume growth was strong at 38%, realizations dropped 1.3% on a y-o-y basis despite the price hikes taken by the company. Adverse product mix (higher share of entry level bikes CT 100 and Platina) coupled with higher discounts in order to gain market share dented realisations and profitability. Operating margins at 17.3% dropped 210 bps on a q-o-q basis and are below our estimates of 20%. Adjusted PAT grew 17% yoy to Rs 1,115 crore and was significantly lower than our estimate of Rs 1,328 cr.
- Market share gains take priority over profitability; aggressive pricing to impact margins:** In a surprising change in strategy, market share gains in the domestic motorcycle space have assumed priority for BAL. BAL has been continuously losing share in domestic motorcycle space (the share fallen steeply from 24.4% in FY2013 to 15.7% in FY2018). According to the management, the current strategy is aimed at re-energising dealer network and to improve dealer viability. The BAL management, is willing to sacrifice profitability in order to achieve this objective. The BAL in management call highlighted that bulk of its market share gains would come from aggressive discounting in the entry level motorcycle space (that forms about 7% of motorcycle industry). BAL gained about 850 bps market share in entry level space to 34% in Q1FY2019 and is aiming to reach about 50% market share in next two years. BAL makes EBIDTA level loss in entry segment bikes and as such increasing proportion of entry bikes would exert further pressure on profitability. We expect BAL margins to fall 210 bps to 16.9% in FY2019.
- Outlook: Higher discounting to impact earnings in FY2019; downgrade to Hold:** While BAL is likely to see strong 15% topline growth led by market share gains, the margins are likely to be impacted given the aggressive discounting to gain market share. We expect BAL margins to drop 210 bps y-o-y to 16.9% in FY2019. As such BAL is likely to report flattish earnings growth in FY2019.

- ♦ **Valuations: Cut estimates on dismal Q1 results and strategy to retain elevated discounting:** BAL margins are likely to remain under pressure as management prioritized market share gains over margins. Given the dismal Q1 results and BAL stance to maintain aggressive pricing, we

have cut our FY2019 and FY2020 estimates by 18% and 15% respectively. We downgrade our recommendation on the stock from “Buy” to “Hold” with PT of Rs 2,905 (based on 18x FY2020 earnings).

Results					Rs cr	
Particulars	Q1FY19	Q1FY18	%YoY	Q4FY18	%QoQ	
Total Income	7,419.3	5,442.4	36.3	6,773.3	9.5	
EBIDTA	1,281.4	938.4	36.6	1,315.2	-2.6	
EBIDTA Margins (%)	17.3	17.2	10 BPS	19.4	(210) BPS	
Depreciation	70.0	75.3	-7.0	87.9	-20.4	
Interest	0.3	0.2	29.2	0.3	3.3	
Other Income	404.4	457.3	-11.6	366.7	10.3	
PBT	1,615.6	1,320.1	22.4	1,593.7	1.4	
Tax	500.3	364.2	37.4	513.8	-2.6	
Adjusted PAT	1,115.2	955.9	16.7	1,079.9	3.3	
EPS	38.6	33.1		37.3		

Valuation					Rs cr	
Particulars	FY16	FY17	FY18	FY19E	FY20E	
Net Sales	22,586.5	21,766.7	25,164.9	28,808.0	32,707.2	
Growth (%)	4.5	-3.6	15.6	14.5	13.5	
EBIDTA	4,782.0	4,422.4	4,783.4	4,870.0	5,452.2	
OPM (%)	21.1	20.3	19.0	16.9	16.7	
Recurring PAT	3,929.7	3,827.6	4,100.1	4,127.9	4,667.6	
Growth (%)	33.0	-2.6	7.1	0.7	13.1	
EPS (Rs)	129.4	132.3	141.8	142.7	161.4	
PE (x)	20.8	20.3	19.0	18.8	16.7	
P/BV (x)	5.9	4.6	4.1	3.8	3.6	
EV/EBIDTA (x)	14.2	15.6	13.4	15.3	14.8	
RoCE (%)	40.5	30.3	29.5	28.4	30.4	
RoNW (%)	29.6	22.5	21.5	20.3	21.8	

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