

October 23, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	2,922		2,691	
Sales (Rs. m)	309,133	338,946	305,986	336,485
% Chng.	1.0	0.7		
EBITDA (Rs. m)	50,464	54,198	47,948	53,358
% Chng.	5.2	1.6		
EPS (Rs.)	173.8	187.8	157.5	179.4
% Chng.	10.3	4.7		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	302,500	309,133	338,946	370,402
EBITDA (Rs. m)	49,820	50,464	54,198	59,638
Margin (%)	16.5	16.3	16.0	16.1
PAT (Rs. m)	46,829	50,280	54,350	59,986
EPS (Rs.)	161.8	173.8	187.8	207.3
Gr. (%)	6.7	7.4	8.1	10.4
DPS (Rs.)	60.0	65.0	70.0	80.0
Yield (%)	1.9	2.1	2.2	2.5
RoE (%)	22.9	21.9	21.3	21.2
RoCE (%)	22.9	20.6	19.9	19.8
EV/Sales (x)	3.0	2.9	2.7	2.4
EV/EBITDA (x)	18.2	18.0	16.6	14.7
PE (x)	19.5	18.2	16.8	15.3
P/BV (x)	4.2	3.8	3.4	3.1

Key Data

BAJA.BO | BJAUT IN

52-W High / Low	Rs.3,236 / Rs.2,400
Sensex / Nifty	39,059 / 11,604
Market Cap	Rs.915bn / \$ 12,897m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.3208.02m

Shareholding Pattern (%)

Promoter's	53.52
Foreign	14.05
Domestic Institution	9.79
Public & Others	22.64
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.6	4.1	22.3
Relative	5.7	2.7	6.0

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Favorable product mix, RM decline aid margins

BJAUT results were better as EBITDA margins came in at 16.6% (PLe: 16%), expanding 120bp QoQ. The operating performance was better led by RM decline (~50-60bp QoQ), favorable forex and mix (~50-60bp QoQ). Going forward, the management guided for margins to remain in the range led by positive impact of a) RM decline and b) improved product mix, it sounded cautious on sustenance of post festive demand for 2W.

BJAUT's strategy to gain market share in the domestic motorcycle segment might have provided much needed volumes but at the cost of profitability (margin erosion of ~250bps/~120bp in FY19/1HFY20). With stability in the market share despite new product launch, cautious 2W/3W industry outlook and heightened competitive intensity in a run-up to BS6 could pause a challenge to further market share gain and margins expansion thereof. Consequently, we expect margins to remain stable at ~16%. We estimate revenue/EBITDA/Adj. PAT CAGR of 7%/6%/8% in FY19-22E. We arrive at price target of Rs2,922 (earlier Rs2,691), at 15x roll forwarded to Sep-21 core EPS. Maintain Reduce.

- Price hike, forex and favorable mix help realizations:** BJAUT's Q2FY20 revenues declined 4% YoY (-0.6% QoQ) to Rs77bn (PLe: Rs73.5bn). Volumes for the quarter declined 12.4% YoY (-6% QoQ) while realization grew 9.8% YoY (+5.6% QoQ) to Rs65.7k/unit (PLe: Rs62.5k/unit). Further, higher spare revenues (+7% QoQ) to INR7.9bn (v/s INR7.4bn in 1QFY20) and export revenue (+4.5% QoQ) at INR31bn also aided blended realizations.
- EBITDA margin came in at 16.6%** (PLe: 16%, -50bp YoY/ +120bp QoQ) as gross margins were better at 29.5% (PLe: 28.5%). Staff costs & other expenses as a % of sales rose 50bps & 160bps YoY (higher launch expense). Absolute EBITDA declined 6.6% YoY (+6.7% QoQ) to Rs12.9bn.
- With lower tax rate at 12.8%** due to reversal of Rs1.82bn of Q2FY20, Net profit was up 21.7% YoY (+24.6% QoQ) to Rs14bn (PLe: Rs10.4bn).
- Key takeaways from the con-call:** (1) Demand outlook cautious with sustenance of current retails post festive is the key. (2) Margin trajectory is expected to remain range bound in upcoming quarter with softening in steel prices to be offset by headwind in non-ferrous side. (3) Broad-based price increase in July followed by an another price increase of 1-1.5% in sports segment. (4) Inventory level currently stands higher at ~60 days. Looking to dispatch BS6 models from Jan-20. (5) Finance penetration has increased to 70% from 60% sequentially with Bajaj finance contributing more than 50%. (6) Production of Husqvarna is expected by the end of 2019 in Pune, which will be initially exported and later launched in the domestic market by Q1FY21.

Exhibit 1: Q2FY20 Result Overview (Rs m)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Revenues	77,073	80,118	(3.8)	77,558	154,631	154,311	0.2
Raw Materials	54,370	57,829	(6.0)	55,638	110,008	110,821	(0.7)
<i>% of Net Sales</i>	<i>70.5</i>	<i>72.2</i>		<i>71.7</i>	<i>71.1</i>	<i>71.8</i>	
Personnel	3,384	3,119	8.5	3,605	6,989	6,260	11.6
<i>% of Net Sales</i>	<i>4.4</i>	<i>3.9</i>		<i>4.6</i>	<i>4.5</i>	<i>4.1</i>	
Manufacturing & Other Exp	6,539	5,490	19.1	6,333	12,872	10,736	19.9
<i>% of Net Sales</i>	<i>8.6</i>	<i>6.9</i>		<i>8.2</i>	<i>8.3</i>	<i>7.0</i>	
Total Expenditure	64,293	66,438	(3.2)	65,576	129,869	127,817	1.6
EBITDA	12,781	13,680	(6.6)	11,982	24,763	26,494	(6.5)
<i>EBITDA Margin (%)</i>	<i>16.6</i>	<i>17.1</i>		<i>15.4</i>	<i>16.0</i>	<i>17.2</i>	
Depreciation	613	715	(14.2)	601	1,215	1,415	(14.1)
EBIT	12,167	12,965	(6.2)	11,381	23,548	25,079	(6.1)
Interest Expenses	12	3	300.0	5	18	6	187.1
Non-operating income	3,934	3,565	10.4	4,413	8,347	7,609	9.7
Extraordinary Expenses	0	0		0	0	0	
PBT	16,089	16,527	(2.6)	15,788	31,877	32,682	(2.5)
Tax-Total	2,065	5,002	(58.7)	4,531	6,596	10,005	(34.1)
<i>Tax Rate (%) - Total</i>	<i>12.8</i>	<i>30.3</i>	<i>(57.6)</i>	<i>28.7</i>	<i>20.7</i>	<i>30.6</i>	<i>(32.4)</i>
Reported PAT	14,024	11,525	21.7	11,257	25,281	22,677	11.5
Adj. PAT	14,024	11,525	21.7	11,257	25,281	22,677	11.5

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Sales Volume (nos)	1,173,591	1,339,444	(12.4)	1,247,174	2,420,765	2,566,085	(5.7)
Net Realisation/Vehicle	65,673	59,815	9.8	62,187	63,877	60,135	6.2
Material cost / vehicle	46,328	43,174	7.3	44,611	45,443	43,187	5.2
Gross Profit / vehicle	19,345	16,641	16.2	17,576	18,434	16,948	8.8
Employee cost /vehicle	2,883	2,329	23.8	2,891	2,887	2,439	18.3
Other expenses / vehicle	5,572	4,099	35.9	5,078	5,317	4,184	27.1
EBITDA/vehicle	10,890	10,213	6.6	9,607	10,229	10,325	(0.9)
Net Profit/vehicle	11,950	8,604	38.9	9,026	10,443	8,837	18.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	302,500	309,133	338,946	370,402
YoY gr. (%)	19.9	2.2	9.6	9.3
Cost of Goods Sold	218,243	219,794	244,041	266,689
Gross Profit	84,257	89,340	94,905	103,713
Margin (%)	27.9	28.9	28.0	28.0
Employee Cost	12,554	14,186	15,605	17,555
Other Expenses	21,882	24,690	25,102	26,519
EBITDA	49,820	50,464	54,198	59,638
YoY gr. (%)	3.0	1.3	7.4	10.0
Margin (%)	16.5	16.3	16.0	16.1
Depreciation and Amortization	2,657	2,859	3,158	3,219
EBIT	47,163	47,605	51,040	56,419
Margin (%)	15.6	15.4	15.1	15.2
Net Interest	45	40	40	40
Other Income	16,493	15,156	16,940	19,057
Profit Before Tax	67,032	62,721	67,940	75,436
Margin (%)	22.2	20.3	20.0	20.4
Total Tax	20,280	15,868	17,189	19,085
Effective tax rate (%)	30.3	25.3	25.3	25.3
Profit after tax	46,752	46,852	50,751	56,351
Minority interest	-	-	-	-
Share Profit from Associate	3,498	3,428	3,599	3,635
Adjusted PAT	46,829	50,280	54,350	59,986
YoY gr. (%)	6.7	7.4	8.1	10.4
Margin (%)	15.5	16.3	16.0	16.2
Extra Ord. Income / (Exp)	3,420	-	-	-
Reported PAT	50,249	50,280	54,350	59,986
YoY gr. (%)	15.4	0.1	8.1	10.4
Margin (%)	16.6	16.3	16.0	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	50,249	50,280	54,350	59,986
Equity Shares O/s (m)	289	289	289	289
EPS (Rs)	161.8	173.8	187.8	207.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	47,915	52,395	58,395	65,395
Tangibles	47,915	52,395	58,395	65,395
Intangibles	-	-	-	-
Acc: Dep / Amortization	30,275	33,134	36,292	39,510
Tangibles	30,275	33,134	36,292	39,510
Intangibles	-	-	-	-
Net fixed assets	17,639	19,261	22,103	25,885
Tangibles	17,639	19,261	22,103	25,885
Intangibles	-	-	-	-
Capital Work In Progress	480	1,000	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	191,594	211,594	231,594	231,594
Net Deferred tax assets	(5,427)	(3,733)	(1,899)	138
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	9,615	9,826	10,774	11,773
Trade receivables	25,597	25,408	25,073	27,400
Cash & Bank Balance	9,054	10,104	15,942	38,518
Other Current Assets	19,445	19,480	21,358	23,340
Total Assets	273,804	297,180	328,400	360,119
Equity				
Equity Share Capital	2,894	2,894	2,894	2,894
Other Equity	214,905	239,149	265,553	294,078
Total Networkth	217,799	242,043	268,447	296,972
Non-Current Liabilities				
Long Term borrowings	1,696	1,696	1,696	1,696
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	37,867	38,698	42,430	46,367
Other current liabilities	11,015	11,010	13,929	15,222
Total Equity & Liabilities	273,804	297,180	328,400	360,119

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	67,032	62,721	67,940	56,419
Add. Depreciation	2,657	2,859	3,158	3,219
Add. Interest	8,540	15,156	16,940	19,057
Less Financial Other Income	16,493	15,156	16,940	19,057
Add. Other	(26,660)	(15,116)	(16,900)	-
Op. profit before WC changes	51,569	65,620	71,138	78,695
Net Changes-WC	(7,030)	640	4,111	(130)
Direct tax	(19,643)	(17,562)	(19,023)	(21,122)
Net cash from Op. activities	24,895	48,698	56,226	57,442
Capital expenditures	(1,082)	(5,000)	(6,000)	(7,000)
Interest / Dividend Income	-	-	-	-
Others	(9,899)	(20,000)	(20,000)	-
Net Cash from Inv. activities	(10,981)	(25,000)	(26,000)	(7,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(20,705)	(22,608)	(24,348)	(27,826)
Interest paid	(35)	(40)	(40)	(40)
Others	-	-	-	-
Net cash from Fin. activities	(20,741)	(22,648)	(24,388)	(27,866)
Net change in cash	(6,826)	1,050	5,838	22,577
Free Cash Flow	23,814	43,698	50,226	50,442

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	74,094	74,205	77,558	77,073
YoY gr. (%)	16.0	9.3	4.5	(3.8)
Raw Material Expenses	53,972	53,313	55,638	54,370
Gross Profit	20,122	20,893	21,921	22,703
Margin (%)	27.2	28.2	28.3	29.5
EBITDA	11,561	12,270	11,982	12,781
YoY gr. (%)	(7.5)	(7.8)	(6.5)	(6.6)
Margin (%)	15.6	16.5	15.4	16.6
Depreciation / Depletion	634	608	601	613
EBIT	10,927	11,661	11,381	12,167
Margin (%)	14.7	15.7	14.7	15.8
Net Interest	36	3	5	12
Other Income	4,700	3,680	4,413	3,934
Profit before Tax	15,591	18,759	15,788	16,089
Margin (%)	21.0	25.3	20.4	20.9
Total Tax	4,572	5,703	4,531	2,065
Effective tax rate (%)	29.3	30.4	28.7	12.8
Profit after Tax	11,019	13,056	11,257	14,024
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	11,019	9,636	11,257	14,024
YoY gr. (%)	15.7	(10.8)	0.9	21.7
Margin (%)	14.9	13.0	14.5	18.2
Extra Ord. Income / (Exp)	-	3,420	-	-
Reported PAT	11,019	13,056	11,257	14,024
YoY gr. (%)	15.7	20.9	0.9	21.7
Margin (%)	14.9	17.6	14.5	18.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,019	13,056	11,257	14,024
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	38.1	36.9	38.9	48.5

Source: Company Data, PL Research

Key Financial Metrics

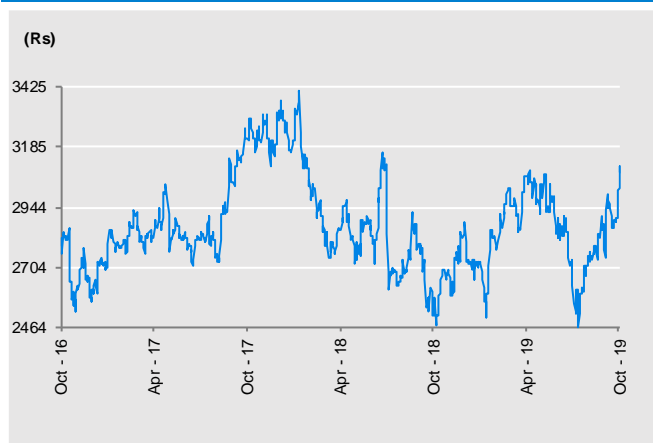
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	161.8	173.8	187.8	207.3
CEPS	171.0	183.6	198.7	218.4
BVPS	752.7	836.4	927.7	1,026.3
FCF	82.3	151.0	173.6	174.3
DPS	60.0	65.0	70.0	80.0
Return Ratio(%)				
RoCE	22.9	20.6	19.9	19.8
ROIC	16.7	16.1	15.8	17.1
RoE	22.9	21.9	21.3	21.2
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Working Capital (Days)	(3)	(4)	(7)	(7)
Valuation(x)				
PER	19.5	18.2	16.8	15.3
P/B	4.2	3.8	3.4	3.1
P/CEPS	18.5	17.2	15.9	14.5
EV/EBITDA	18.2	18.0	16.6	14.7
EV/Sales	3.0	2.9	2.7	2.4
Dividend Yield (%)	1.9	2.1	2.2	2.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Motorcycle volume (units)	4,236,873	4,389,473	4,638,978	5,050,016
Three-wheeler volume (units)	782,630	705,669	750,379	787,898
Net Realisation (Rs/unit)	58,905	59,387	61,566	62,135

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Reduce	2,646	2,898
2	26-Jul-19	Reduce	2,646	2,619
3	4-Jul-19	Reduce	2,823	2,895
4	20-May-19	Reduce	2,823	3,047
5	5-Apr-19	Reduce	2,362	2,862
6	30-Jan-19	Reduce	2,362	2,500
7	7-Jan-19	Reduce	2,394	2,659
8	25-Oct-18	Reduce	2,394	2,478

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	68
2	Bajaj Auto	Reduce	2,646	2,898
3	Bharat Forge	Hold	430	424
4	CEAT	Reduce	757	965
5	Eicher Motors	Reduce	15,800	18,285
6	Exide Industries	Accumulate	209	196
7	Hero Motocorp	Accumulate	2,529	2,667
8	Mahindra & Mahindra	Hold	563	563
9	Maruti Suzuki	BUY	6,842	6,754
10	Motherson Sumi Systems	Accumulate	111	99
11	Tata Motors	Hold	139	122
12	TVS Motors	Hold	439	446

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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