

Bajaj Auto Limited

Press Release

Results : Q1 / FY18

A meeting of the Board of Directors of Bajaj Auto Limited was held today to consider and approve the results for Q1 / FY18.

Net Sales and operating income fell by 5% over Q1 / FY17, operating EBITDA fell by 18% and operating EBITDA margin stood at 18.3% in Q1 / FY18.

The results are to be read in light of the two events that impacted the domestic industry in general and the company in particular.

- Changeover from BSIII to BSIV compliant vehicles and
- Transition to GST.

To understand the results better, it is important to review the performance of the different business verticals of the Company, namely the International Business, Commercial Vehicle, KTM and Motorcycle.

A. International Business

Sales volume was 409,525 units as against 324,051 units in Q4 / FY17 & 370,649 units in Q1 / FY17; **growth** over Q4 / FY17 – **26%** and over Q1 / FY17 – **10%**.

In US\$, **growth** over Q4 / FY17 – **40%** and over Q1 / FY17 – **21%**.

- Exports in US\$ was 347 million (₹ 2,479 crore) – higher than US\$ 247 million (₹ 1,778 crore) in Q4 / FY17 and US\$ 286 million (₹ 2,057 crore) in Q1 / FY17
- Efforts on entering new markets have paid dividends and dependence of the Company on traditional high volume countries like Srilanka, Nigeria, etc has reduced.

For example – traditionally, ~20,000 units of commercial vehicles sold in international markets would include ~8,000 units in Srilanka.

In June 2017, Bajaj Auto sold over 21,000 units of commercial vehicles in international markets, of which Srilanka was less than 2,000 units !

- Sales volume mix for high end motorcycles **improved** to **30%** in Q1 / FY18 as against 25% in Q4 / FY17 and 26% in Q1 / FY17.
- Realization per US\$ was lower at ₹ 66.8 as against ₹ 67.1 in Q4 / FY17 and ₹ 67.1 in Q1 / FY17.
- **Operating EBITDA margin for International Business remains intact.**

B. Commercial Vehicle (domestic)

Sales volume was 52,347 units as against 50,037 units in Q4 / FY17 and 75,204 units in Q1 / FY17.

- Volume of 75,204 units in Q1 / FY17 was higher as the same included incremental sale of ~20,000 units from new permits.
- Share in domestic market ~**50%**.
 - Market leader in the Petrol and Alternate fuel segment; market share ~**89%**.
 - Major player in the diesel segment; market share ~**33%**.
 - Cargo vehicles sold over 4,300 units; market share ~**17%**.
- With removal of restrictions on new permits by the State Government of Maharashtra, release of new permits by the State Government of Delhi & proposed replacement of 2stroke three-wheelers with 4stroke three-wheelers for the city of Bangalore, Company should see a reasonably healthy sale of commercial vehicles from Q2 / FY18.
- **Here again, operating EBITDA margin remains intact.**

C. KTM (domestic)

Sales volume was 12,984 units as against 8,952 units in Q4 / FY17 and 8,494 units in Q1 / FY17; growth over Q4 / FY17 was **45%** and over Q1 / FY17 was **53%**.

- The newly launched KTM models have been extremely well received. KTM 250 sold over 2,300 units while KTM 390 is currently on wait list in the domestic market.
- While production has been ramped up, demand still outstrips supply. For June 2017, production (for domestic and international markets) was more than 11,000 units.
- **With the launch of new high-end FY17 KTM motorcycles, operating EBITDA margin has improved further.**

Thus, the 3 business verticals, contributing over 60% of Company's net sales maintained or improved their operating EBITDA margins.

D. Motorcycle (domestic)

Here, one needs to consider the following facts

- For the period April to October 2016, domestic motorcycle industry **grew by 12%**. In contrast, for Bajaj Auto, motorcycle sales in domestic market **grew by 16%**.
- In Q4 / FY17, Company's entire product portfolio for the domestic market was BSIV compliant, resulting in an increase in ex-showroom price. Competition continued to produce BSIII vehicles and supported the sales by offering benefits like free Insurance and other freebies. The comparative price gap in the price sensitive segment was around ₹ 2,500 and Company's market share in this segment slipped in Q4 / FY17.

- With the Supreme Court passing a judgement on registration of only BSIV vehicles from 1st April 2017, competition was forced to liquidate BSIII compliant vehicles in the domestic market by offering massive discounts; estimated to be several hundred crores !!
- As far as Bajaj Auto was concerned, majority of the stock with Company's dealers was BSIV compliant and hence the need for such a clearance sale of stocks was minimal.
- This sale resulted in a significant preponement of Industry sales of April 2017 in favour of the competition.
- It also provided an opportunity for the competition to replenish the stocks in the network.
- Hence in **April and May 2017**, performance, measured on wholesale numbers, of Bajaj Auto viz-a-viz other players of the industry was weaker.

Then came the transition to GST, effective 1st July 2017.

- For dealers holding stocks as on 30th June 2017, estimated loss per motorcycle was around ₹ 1,400 per vehicle as CST, Auto cess, Entry Tax (in certain states) and LBT would not be eligible for set-off under rules for transition to GST.
- Dealers were advised by their consultants to reduce their stocks and Customers too were delaying / postponing their purchases due to anticipated reduction in prices.
- Bajaj Auto was proactive
 - Offered post GST prices, effective 14th June 2017.
 - Reduced stocks within the network – billing for June 2017 was just over 108,000 units as against retails in excess of ~155,000 units.
 - Dealers were compensated for loss incurred for the above tax elements.
- On the other hand, competition continued to build stocks at their dealerships.
- Hence, in **June 2017 too**, performance, measured on wholesale numbers, was once again negative for the company and reflected a lower market share.
- With a sharp drop in billing number of domestic motorcycles in June 2017, a major portion of overheads, especially advertisement, had to be absorbed by a lower sale of motorcycles and hence operating EBITDA margin for the Motorcycle business saw a decline.
- Company has also provided a sum of ₹ 32 crore towards compensation to its dealers for transition to GST.
- This resulted in an overall operating EBITDA margin being reported at 18.3% for Q1 / FY18.
- Going forward, with potential to bring back stock levels within the network, introduction of new variants and steps initiated on mass communication and ground field activities, performance for Q2 / FY18 is anticipated to be much better.

Performance

1. Volumes

Q4 FY17	Particulars	Q1 FY18	Q1 FY17	FY17
	Domestic			
413,539	Motorcycles	426,562	548,880	2,001,391
50,037	CV	52,347	75,204	253,226
463,576	sub-total	478,909	624,084	2,254,617
	Exports			
287,478	Motorcycles	349,152	323,660	1,218,541
36,573	CV	60,373	46,989	192,792
324,051	sub-total	409,525	370,649	1,411,333
	Total			
701,017	Motorcycles	775,714	872,540	3,219,932
86,610	CV	112,720	122,193	446,018
787,627	Total	888,434	994,733	3,665,950

Sales volume for Q1 / FY18 was 888,434 units as against 787,627 units in Q4 / FY17; a sequential growth of ~13%.

2. Results – Q1 / FY18

2.1. Standalone

- Declared an operating EBITDA margin of **18.3%** as against 21.2% in Q4 / FY17 and 21.2% in Q1 / FY17.
- Standalone profit before tax was ₹ 1,288 crore as against ₹ 1,124 crore in Q4 / FY17 and ₹ 1,366 crore in Q1 / FY17.
- Profit after tax was ₹ 924 crore as against ₹ 802 crore in Q4 / FY17 and ₹ 978 crore in Q1 / FY17.

2.2. Consolidated

- Consolidated profit after tax was ₹ 837 crore as against ₹ 862 crore in Q4 / FY17 and ₹ 1,040 crore in Q1 / FY17.

3. Bajaj Auto International Holdings BV (BAIH BV)

BAIH BV, a Netherlands based 100% subsidiary of Bajaj Auto Ltd, holds 47.99% stake in KTM AG. Results of KTM AG are consolidated with Bajaj Auto, one quarter in arrear.

Q4 FY17	Particulars	Q1 FY18	Q1 FY17
43,493	Volumes	41,570	39,836
291.6	Revenue (€ in million)	315.4	278.8
17.9	Profit after tax (€ in million)	13.8	17.0

The proportionate profit to Bajaj Auto Limited is € 6.6 million (₹ 47 crore), which has been accounted for in the consolidated results of Q1 / FY18.

4. Cash and cash equivalents

As on 30th June 2017, surplus cash and cash equivalents stood at ₹ 13,256 crore as against ₹ 12,368 crore as on 31st March 2017.

5. GST

- The entire benefit on reduction in effective tax rates post GST has been passed on to the customers. This has resulted in a reduction in ex-showroom price of motorcycles, which were dependent on the Brand–State, varying from a low of ₹ 200 to a high of ₹ 6,500 per motorcycle.
- The Company has successfully upgraded its MIS system and internal transition to GST has been smooth and seamless. Company now awaits the opening up of the Government GSTN-portal for integration with Government systems.

Kevin D'sa
President (Finance)
 20th July 2017.