

BAJAJ-AUTO ACCUMULATE

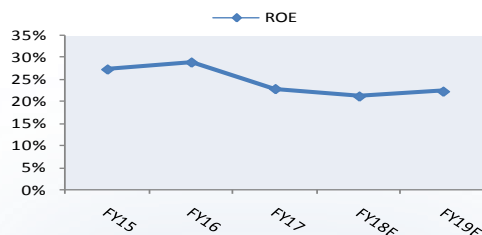
06-Feb-18

INDUSTRY - AUTOMOBILE
BLOMBERG BJAUT IN
BSE Code - 532977
NSE Code - BAJAJ-AUTO
NIFTY - 10667

Company Data

CMP	3177
Target Price	3450
Previous Target Price	3450
Upside	9%
52wk Range H/L	3473/2695
Mkt Capital (Rs Cr)	91,955
Av. Volume (,000)	10

RoE to maintain over 22%

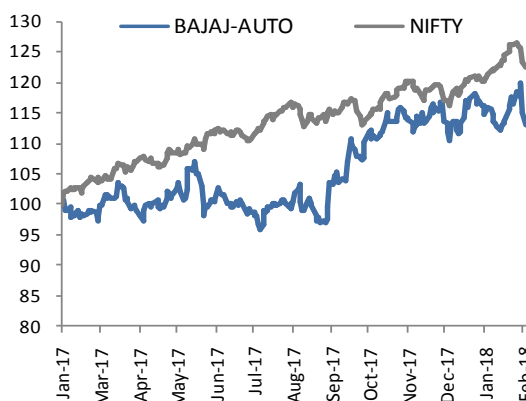


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	49.3	49.3	49.3
Public	50.7	50.7	50.7
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(3.0)	(1.1)	13.1
Rel.to Nifty	(4.1)	(3.1)	(8.9)



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Key Highlights of the Report:

- ✓ Net sales grew by 26%YoY to Rs.6369 crores owing to 18% YoY volume growth and 7%YoY realization growth in 3QFY18.
- ✓ EBITDA Margin declined by 127 bps YoY majorly because of higher sales in the domestic motorcycle segment. The CSR expense during the quarter was Rs.28 crores.
- ✓ Bajaj Auto is the largest premium segment motorcycle manufacturer in India and commands more than 50% market share. It also has joint ventures with global brands like KTM and Husqvarna.
- ✓ Considering management's aggressive strategy to gain 25% market share, healthy dividend payout and improving fundamentals we are positive on Bajaj Auto. We value Bajaj Auto at 18.9x FY19E expected EPS and recommend ACCUMULATE with the target price of Rs.3450.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	21,614	22,587	21,767	24,484	28,909
EBITDA	4,113	4,764	4,419	4,698	6,081
EBIT	3,846	4,457	4,112	4,396	5,791
PAT	3,026	4,044	4,079	4,103	5,285
EPS (Rs)	105	140	141	142	183
EPS growth (%)	-10%	34%	1%	1%	29%
ROE (%)	27%	29%	23%	20%	23%
ROCE (%)	34%	32%	23%	22%	25%
BV	383	485	617	693	809
P/B (X)	5	5	5	5	4
P/E (x)	19	17	20	22	17

RECENT DEVELOPMENT: New export markets to drive growth

- ✓ Efforts on entering new markets have started paying dividends and dependence of the company on traditional high volume countries like Sri Lanka and Nigeria have reduced.
- ✓ Exports volume guidance for the full year FY18 stood at 1.7 mn units, earlier which was 1.6 mn units.
- ✓ Volumes in Nigeria which was Bajaj Auto's biggest export market has been stabilizing somewhere between 25000-30000 units a month. This is good sign for the company and it has plans to enter at least five new markets each year to de-risk its export portfolio.
- ✓ Bajaj has started receiving good traction from countries like Philippines, Bangladesh, Nepal and Malaysia where it entered earlier. It has also started shipping Dominar 400 to Latin American market.

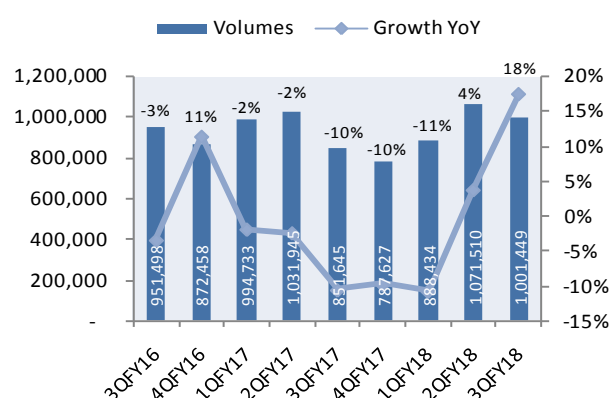
Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	852	788	888	1,072	1,001	18%	-7%	3,892	3,666	-6%
Realization(Rs.)	58,423	61,006	59,976	60,427	62,372	7%	3%	57,177	58,034	1%
Net Sales	5,067	4,897	5,442	6,580	6,369	26%	-3%	22,587	21,767	-4%
Other Income	319	294	323	297	225	-29%	-24%	985	1,222	24%
COGS	3,384	3,320	3,809	4,549	4,354	29%	-4%	15,057	14,624	-3%
Employee Cost	242	227	273	265	265	10%	0%	917	997	9%
Other Expenses	401	452	427	472	526	31%	11%	1,848	1,748	-5%
EBITDA	1,044	905	938	1,297	1,232	18%	-5%	4,764	4,419	-7%
Depreciation	77	76	75	77	75	-3%	-3%	307	307	0%
Interest	0.3	0.2	0.2	0.5	0.3	15%	-36%	1	1	33%
PBT	1,285	1,123	1,186	1,517	1,382	8%	-9%	5,440	5,333	-2%
Tax	361	322	364	406	431	19%	6%	1,618	1,508	-7%
Share of P/L of	53	61	47	82	63	19%	-24%	221	255	15%
PAT	977	862	837	1,194	1,014	4%	-15%	4,044	4,079	1%

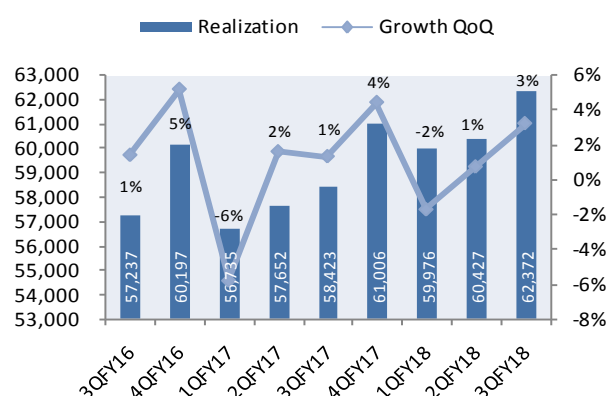
Back on track with strong 3 wheeler volumes and recovery in export markets

- ✓ Net sales grew by 26%YoY to Rs.6369 crores owing to 18% YoY volume growth and 7%YoY realization improvement in 3QFY18.
- ✓ Domestic 2 wheeler volumes grew by mere 1.5%YoY. The company witnessed strong volume growth on the export 2 wheeler volumes which have shown a robust growth of 21.6%YoY during the quarter. Improvement in the existing export markets and strong traction in new geographies have been fairing well for the company. Domestic commercial vehicle volumes grew by 105%YoY due to discontinuation of permits in Maharashtra and Gujarat regions and replacement of 2 stroke 3 wheelers in Bangalore regions. Export volumes also jumped by 48% YoY in 3QFY18.
- ✓ EBITDA grew by 18%YoY to Rs.1232 crore on the back of lower labour cost and other expenses during the quarter. CSR expenditure for the quarter was Rs.28 crores and the company will spend another Rs.40 crores in 4QFY18.
- ✓ The company posted 4% YoY growth in PAT to Rs.1014 crore. Lower other income by approx Rs.80 crores due to MTM loss restricted the further increase in PAT.

Volume trend



Realization trend

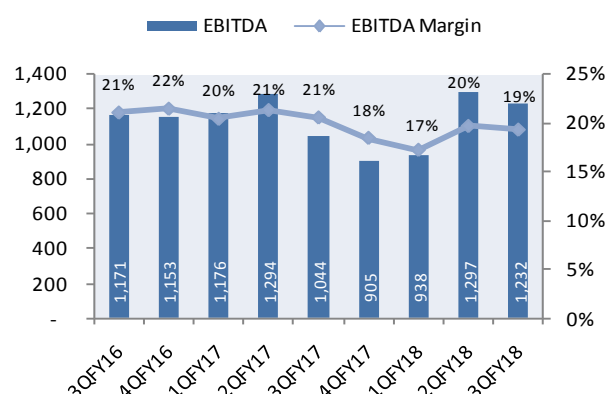


Margins to be maintained over 20% going ahead

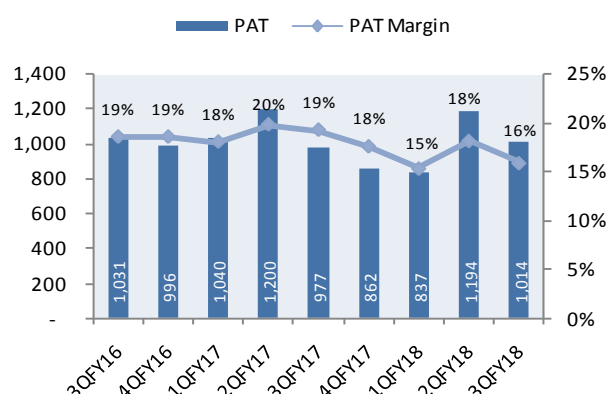
Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	33%	32%	30%	31%	32%	-1.56%	0.01	33%	33%	-0.01
EBITDA Margin	21%	18%	17%	20%	19%	-1.27%	0.00	21%	20%	-0.01
PAT Margin	19%	18%	15%	18%	16%	-3.36%	-0.02	18%	19%	0.01

- ✓ Gross Margin contracted by 156 bps YoY to 32% during the quarter due to higher aluminium and steel prices.
- ✓ EBITDA Margin also declined by 127 bps YoY majorly because of higher sales in the domestic motorcycle segment. The CSR expense during the quarter was Rs.28 crores.
- ✓ PAT Margin also declined by 336 bps YoY to 16%. Other income was lower nearly by Rs.80 crores due to MTM loss during the quarter.

EBITDA (Rs. crore) and EBITDA Margin trend



PAT (Rs. crore) and PAT Margin trend



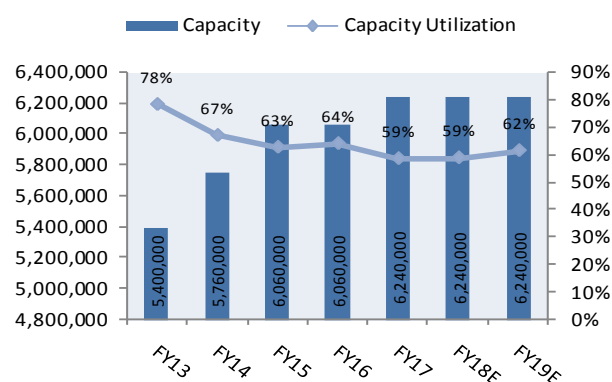
Concall Highlights:

- ✓ Exports target for FY18 is 1.65 units and 10% growth for FY19.
- ✓ CV 3.5 lakh units in FY18 and 5% growth for FY19.
- ✓ Domestic motorcycles average runrate for 200000 units for next 2 quarters.
- ✓ New Discover has potential to do 75000 units per month; but if it touches 45000 units by March or April then it can touch 75000 units going ahead.
- ✓ The management expects that the cost pressure on steel side will be there but it can be passed on.
- ✓ The management expects 20-21% kind of margin is sustainable.
- ✓ Capex guidance of Rs 250-300 crores every year.
- ✓ Nigeria volumes are back on track and doing around 33000 units per month from earlier 12000-15000 units. The growth guidance is 10-15% for next 1-2 years.
- ✓ On the 3Ws side volumes to be around 30000 units per month.
- ✓ The company has around 645 main dealers and 3000 touch points. By June it may reach 700 dealer and 3300 touch points.
- ✓ Market share target for current fiscal is 21%.
- ✓ The company has taken price hike of 2-3% in export market.
- ✓ The management has clarified that the excess cash will be used for acquisitions of 2Ws and 3Ws businesses. The company will not give any special dividend or go for buyback.

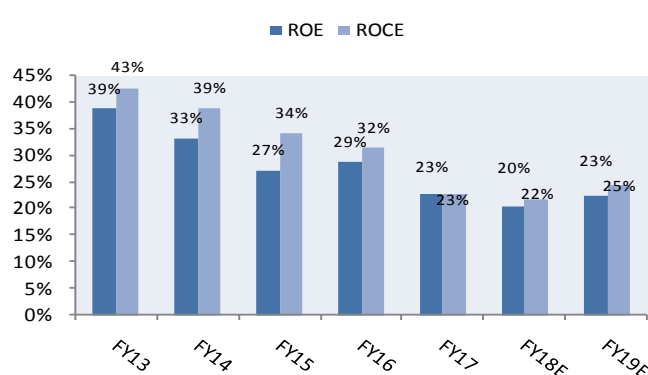
Investment Arguments:

- ✓ **Exports to grow at 15% CAGR for next 2-3 years-** Bajaj Auto has expanded its footprints in newer geographies which have started fetching dividends. Nigeria has stabilized and the worst seems to be bottomed out. The management expects growth of 15% CAGR for next 2-3 years down the line, which gives us confidence that the Bajaj Auto is back on track.
- ✓ **Premium Segment motorcycles to dominate the 2 wheeler industry in the long run-** Being a prominent premium segment player in the country Bajaj Auto has competitive advantage over its peers. With increasing income level and growing demand for sports and cruiser segment motorcycles Bajaj Auto will get benefited most as it has well positioned itself in the Indian Motorcycle market.
- ✓ **Discontinuation of permits to drive domestic 3 wheelers demand-** The government of Maharashtra has discontinued the permits in the region and this may drive incremental demand of 100000 units in next 6 months. The government of Karnataka has also decided to replace 2 stroke vehicles into 4 stroke vehicles which will also add up to the volumes going ahead as Bajaj is major player in both the regions
- ✓ **Operating Leverage to drive the margins up-** Bajaj Auto has built sufficient capacities to cater the growing demand in the near future. Currently the company is running at 60% capacity utilization and going forward boost in the volumes will drive the margins upward. This will lead to reduction in capital expenditure for couple of years and will keep the PAT Margins at 18% level in FY19.

Capacity Utilization to improve going ahead



ROE and ROCE trend



View & Valuation

Bajaj Auto posted a decent quarterly result in 3QFY18. Revenue grew by 25.7%YoY to Rs.6369 crores owing to 18% YoY volume growth and 7%YoY realization growth. EBITDA Margin for the quarter declined by 127bps majorly because of higher sales in the domestic motorcycle segment and Rs.28 crores of CSR expenditure during the quarter. The company posted 4% YoY growth in PAT to Rs.1014 crore. Lower other income by approx Rs.80 crores due to MTM loss restricted the further increase in PAT. Three wheelers segment remains a winner for the company with a growth of over 78%YoY during 3QFY18. Discontinuation of permits in Maharashtra, replacement of 2 stroke 3 wheelers and allotment of permits in Delhi have bode well in last few quarters. With healthy recovery in existing markets and strong traction from new geographies gives us confidence that the Bajaj Auto is back on track as far as export markets are concerned. The management expects margins to be over 20% for next couple of years based on increasing penetration of 3 wheelers and exports, as these are high margin business for the company. We expect company to maintain its ROE over 23% in FY19. Considering management's aggressive strategy to gain 25% market share, healthy dividend payout and improving fundamentals we are positive on Bajaj Auto. We value Bajaj Auto at 18.9x FY19E expected EPS and recommend ACCUMULATE with the target price of Rs.3450.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	22,152	21,374	24,484	28,909
Change (%)	5%	-4%	8%	10%
Other Operating Income	435	393	465	492
EBITDA	4,764	4,419	4,698	6,081
Change (%)	16%	-7%	-1%	38%
Margin (%)	21%	20%	19%	21%
Dep & Amortization	307	307	302	290
EBIT	4,457	4,112	4,396	5,791
Interest & other finance cost	1	1	1	1
Other Income	985	1,222	1,089	1,320
EBT	5,440	5,333	5,483	7,110
Exceptional Item	-	-	32	-
Tax	1,618	1,508	1,628	2,133
Minority Int & P/L share of Ass.	221	255	280	308
Reported PAT	4,044	4,079	4,103	5,285
Adjusted PAT	4,044	4,079	4,103	5,285
Change (%)	34%	1%	1%	30%
Margin(%)	18%	19%	16%	18%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	289	289	289	289
Reserves	13,731	17,567	19,759	23,142
Networth	14,020	17,857	20,049	23,431
Debt	117.86	119.9	119.9	119.9
Other Non Current Liab	233	321	315	315
Total Capital Employed	14,138	17,976	20,168	23,551
Net Fixed Assets (incl CWIP)	2,078	1,985	1,989	1,949
Non Current Investments	7,718	7,459	5,114	6,022
Other Non Current Assets	279	268	376	376
Non Current Assets	12,507	12,169	10,242	11,111
Inventory	719	728	613	707
Debtors	718	953	1,162	1,369
Cash & Bank	820	288	428	481
Other Current Assets	1,049	1,096	1,257	1,481
Current Assets	4,733	9,469	13,850	16,914
Creditors	2,027	2,236	2,563	3,020
Provisions	161	199	241	266
Other Current Liabilities	299	558	441	508
Curr Liabilities	2,781	3,213	3,459	4,009
Net Current Assets	1,952	6,256	10,391	12,905
Total Assets	17,240	21,638	24,093	28,025

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	29%	23%	20%	23%
ROCE	32%	23%	22%	25%
Asset Turnover	1.31	1.01	1.04	1.05
Debtor Days	11.6	16.0	17.0	17.0
Inventory Days	11.6	12.2	13.0	13.0
Payable Days	32.8	37.5	37.5	37.5
Interest Coverage	4,245	2,937	3,140	4,136
P/E	17.21	19.91	22.40	17.36
Price / Book Value	4.97	4.55	4.59	3.92
EV/EBITDA	14.47	18.34	19.50	15.06
FCF per Share	3,955	3,467	4,593	5,844
Dividend Yield	4.2%	0.2%	1.7%	1.7%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume ('000)	3,892	3,666	3,996	4,502
Volume Growth	2%	-6%	9%	13%
Realization(Rs./vehicle)	58,034	59,375	62,437	65,314
Realization Growth	2%	2%	5%	5%
Capex(Rs crore)	429	239	300	250

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	5,679	5,588	5,484	7,119
(inc)/Dec in Working Capital	4,930	4,613	6,035	7,718
Non Cash Op Exp	307	307	302	290
Interest Paid (+)	0	1	1	1
Tax Paid	(1,782)	(1,503)	(1,628)	(2,133)
others	824	979	1	1
CF from Op. Activities	3,690	3,267	4,288	5,594
(inc)/Dec in FA & CWIP	(265)	(199)	(306)	(250)
Free Cashflow	3,425	3,068	3,982	5,344
(Pur)/Sale of Investment	91	(2,824)	(3,973)	(2,470)
others	62	(659)	2,344	(908)
CF from Inv. Activities	(113)	(3,683)	(2,241)	(3,628)
inc/(dec) in NW				
inc/(dec) in Debt	-	-	-	-
Interest Paid	(0)	(1)	(1)	(1)
Dividend Paid (inc tax)	(3,434)	(202)	(1,912)	(1,912)
others	50	13	-	-
CF from Fin. Activities	(3,384)	(190)	(1,913)	(1,913)
Inc(Dec) in Cash	250	(534)	134	53
Add: Opening Balance	582	820	288	428
Closing Balance	831	286	425	481



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