Narnolia™

BAJAJ-AUTO

ACCUMULATE

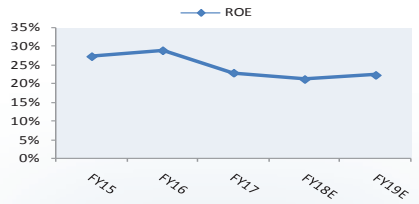
23-Oct-17

INDUSTRY -	AUTOMOBILE
BLLOMBERG	BJAUT IN
BSE Code -	532977
NSE Code -	BAJAJ-AUTO
NIFTY -	10211

Company Data

CMP	3208
Target Price	**3450**
Previous Target Price	3150
Upside	**8%**
52wk Range H/L	3310/2510
Mkt Capital (Rs Cr)	92,829
Av. Volume (,000)	24

RoE to maintain over 22%

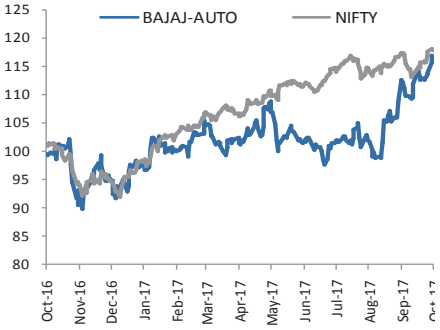


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
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	3.3	14.4	15.8
Rel.to Nifty	2.7	10.5	(1.9)



Key Highlights of the Report:

- ☑ Net sales grew by 8.7%YoY to Rs.6580 crores owing to 4% YoY volume growth and 4.7%YoY realization improvement in 2QFY18.
- ☑ EBITDA Margin also declined by 165 bps YoY majorly because of higher sales of lower margin CT100 and Platina motorcycles. However, it improved 250 bps QoQ on the back of operating leverage.
- ☑ 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.
- ☑ We expect company to maintain its ROE over 22% in FY19. We value Bajaj Auto at 19x 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	24,126	27,185
EBITDA	4,113	4,764	4,419	4,550	5,566
EBIT	3,846	4,457	4,112	4,248	5,280
PAT	3,026	4,044	4,079	4,282	5,249
EPS (Rs)	105	140	141	148	181
EPS growth (%)	-10%	34%	1%	5%	23%
ROE (%)	27%	29%	23%	21%	22%
ROCE (%)	34%	32%	23%	21%	22%
BV	383	485	617	699	815
P/B (X)	5	5	5	5	4
P/E (x)	19	17	20	22	18

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 stabalizing 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 Philipines, Bangladesh, Nepal and Malaysia where it entered earlier. It has also started shipping Dominar 400 to Latin American market.

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Quarterly Performance

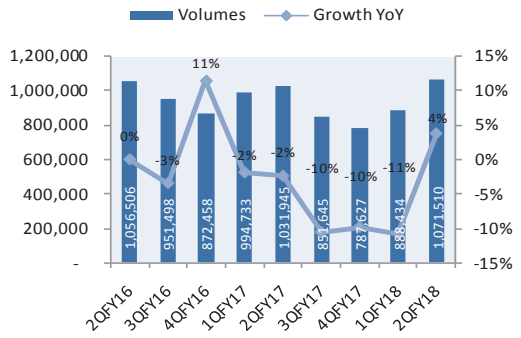
Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	1,032	852	788	888	1,072	4%	21%	3,892	3,666	-6%
Realization(Rs.)	58,671	59,495	62,178	61,258	61,408	5%	0%	57,177	58,034	1%
Net Sales	6,055	5,067	4,897	5,442	6,580	9%	21%	22,587	21,767	-4%
Other Income	342	319	294	323	297	-13%	-8%	985	1,222	24%
COGS	4,057	3,384	3,320	3,809	4,549	12%	19%	15,057	14,624	-3%
Employee Cost	259	242	227	273	265	2%	-3%	917	997	9%
Other Expenses	449	401	452	427	472	5%	11%	1,848	1,748	-5%
EBITDA	1,294	1,044	905	938	1,297	0%	38%	4,764	4,419	-7%
Depreciation	77	77	76	75	77	0%	2%	307	307	0%
Interest	0.7	0.3	0.2	0.2	0.5	-31%	96%	1	1	33%
PBT	1,558	1,285	1,123	1,186	1,517	-3%	28%	5,440	5,333	-2%
Tax	438	361	322	364	406	-7%	11%	1,618	1,508	-7%
PAT	1,200	977	862	837	1,194	-1%	43%	4,044	4,079	1%

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

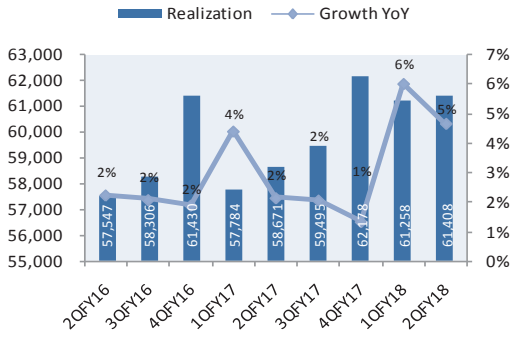
- ✓ Net sales grew by 8.7%YoY to Rs.6580 crores owing to 4% YoY volume growth and 4.7%YoY realization improvement in 2QFY18.
- ✓ Domestic 2 wheeler volumes remained flat YoY but grew by 37%QoQ. The company witnessed strong volume growth in the CT100 and Platina segment. Export 2 wheeler volumes have shown a growth of 5%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 14%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 13% YoY in 2QFY18.

- ✓ EBITDA remained flat YoY but grew by 38% QoQ to Rs.1297 crore on the back of lower labour cost and other expenses during the quarter.
- ✓ The company posted 43% QoQ growth in PAT to Rs.1194 crore. Lower tax and other income have led this QoQ growth during the quarter.

Volume trend



Realization trend

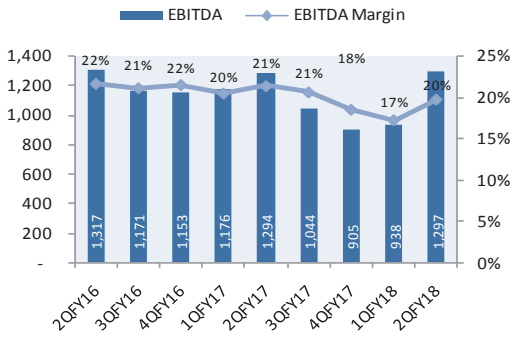


Margins to be maintained over 20% going ahead

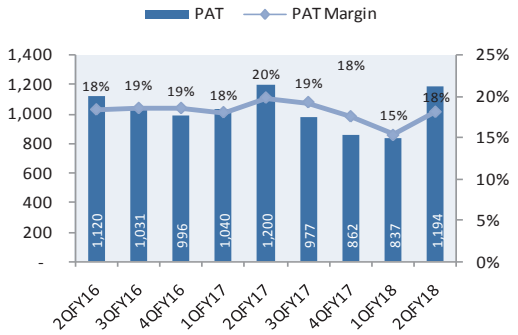
Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	33%	33%	32%	30%	31%	-2.12%	0.01	33%	33%	-0.01
EBITDA Margin	21%	21%	18%	17%	20%	-1.65%	0.02	21%	20%	-0.01
PAT Margin	20%	19%	18%	15%	18%	-1.67%	0.03	18%	19%	0.01

- ✓ Gross Margin contracted by 212 bps YoY to 31% during the quarter due to higher aluminium and steel prices.
- ✓ EBITDA Margin also declined by 165 bps YoY majorily because of higher sales of lower margin CT100 and Platina motorcycles. However, it improved 250 bps QoQ on the back of operating leverage.
- ✓ PAT Margin also declined by 167 bps YoY but further contraction in the margin was arrested by higher other income during the qaurter.

EBITDA (Rs. crore) and EBITDA Margin trend



PAT (Rs. crore) and PAT Margin trend



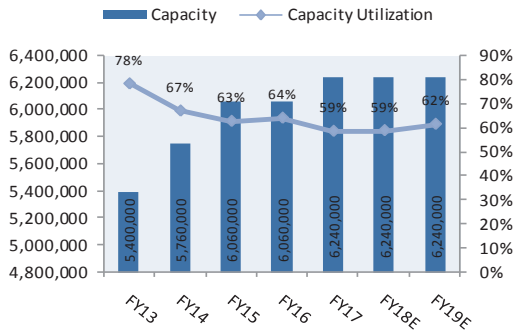
Concall Highlights:

- ✓ Management expects 20%YoY volume growth in 2HFY18 in the domestic market and 25% market share by the end of FY18.
- ✓ Exports volume guidance of 1.7 mn units in FY18. Exports to grow at15% CAGR for next couple of years.
- ✓ Nigeria has shown improvement in 1HFY18 and expectation of 80000 motorcycle sales in Q3.
- ✓ Turkey is for higher end motorcycles and other markets are more of mid segment motorcycles.
- ✓ Spare parts business to grow at 12-15%YoY for next 2-3 years.
- ✓ Tax rate will be in the range of 29-30% in 2HFY18 as Pantnagar tax benefit expired in FY17.
- ✓ Capex guidance of Rs.250-300 crore in FY18.
- ✓ Avengers sustainable monthly run rate to be around 12000-15000 units.
- ✓ Margin guidance of over 20% in FY18 and FY19.
- ✓ Dominar- currently monthly volumes are 2500 units in India and 7000 units per month by March 2018 including exports.
- ✓ 3Ws-: Management expects 100000 units of incremental sales in next 6 months.
- ✓ Major trigger for Domestic 3Ws would be- a) Permits in Delhi-10000 permits, b) Discontinuation of permits in Maharashtra and c) Conversion of 2 strokes to 4 strokes 3 wheelers in Bangalore.
- ✓ Dealer inventory 4 to 4.5 weeks.
- ✓ KTM to sale 50000 bikes in Indian market in FY18.
- ✓ The management expects higher treasury income in 4QFY18.

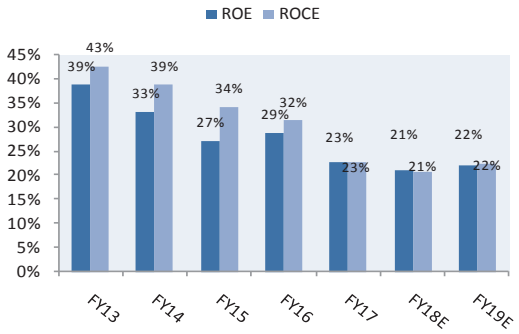
Investment Arguments:

- ✓ **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 boost the PAT Margins to 19% by FY19.

Capacity Utilization to improve going ahead



ROE and ROCE trend



View & Valuation

Bajaj Auto posted strong set of results in 2QFY18 after several quarters of de- growth. Revenue grew by 8.7%YoY owing to 4% YoY volume growth and 4.7%YoY realization improvement. EBITDA Margin for the quarter was up by 250bps QoQ to 19.7%. Profit after tax jumped by 42.6%QoQ to Rs.1194 crore. The company witnessed healthy volume growth of over 13% YoY in 3Ws segment during the quarter. Discontinuation of permits in Maharashtra, replacement of 2 stroke 3 wheelers and allotment of permits in Delhi will boost the volumes for next couple of years going ahead. 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 22% 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 19x 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	23,697	26,764
Change (%)	*5%*	*-4%*	*8%*	*10%*
Other Operating Income	435	393	429	421
EBITDA	*4,764*	*4,419*	*4,550*	*5,566*
Change (%)	16%	-7%	-5%	26%
Margin (%)	**21%**	**20%**	**19%**	**20%**
Dep & Amortization	*307*	*307*	*301*	*293*
EBIT	4,457	4,112	4,248	5,273
Interest & other finance cost	*1*	*1*	*1*	*1*
Other Income	985	1,222	1,457	1,768
EBT	5,440	5,333	5,704	7,039
Exceptional Item	-	-	**32**	-
Tax	1,618	1,508	1,670	2,112
Minority Int & P/L share of Ass.	221	255	280	322
Reported PAT	*4,044*	*4,079*	*4,282*	*5,249*
Adjusted PAT	**4,044**	**4,079**	**4,282**	**5,249**
Change (%)	*34%*	*1%*	*6%*	*29%*
Margin(%)	18%	19%	18%	19%

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	29%	23%	21%	22%
ROCE	32%	23%	21%	22%
Asset Turnover	1.31	1.01	1.00	0.98
Debtor Days	11.6	16.0	16.0	16.0
Inventory Days	11.6	12.2	12.2	12.2
Payable Days	32.8	37.5	37.5	37.5
Interest Coverage	4,245	2,937	3,035	3,766
P/E	17.21	19.91	21.68	17.68
Price / Book Value	4.97	4.55	4.59	3.94
EV/EBITDA	*14.47*	*18.34*	*20.38*	*16.65*
FCF per Share	3,944	-	4,953	5,774
Dividend Yield	2.3%	2.0%	1.7%	1.7%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume ('000)	3,892	3,666	4,010	4,283
Volume Growth	2%	-6%	9%	7%
Realization(Rs./vehicle)	56,917	58,303	59,094	62,488
Realization Growth	3%	2%	1%	6%
Capex(Rs crore)	295	270	250	200

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	289	289	289	289
Reserves	13,731	17,567	19,941	23,283
Networth	**14,020**	**17,857**	**20,231**	**23,572**
Debt	*117.86*	*119.9*	*119.9*	*119.9*
Other Non Current Liab	233	321	321	321
Total Capital Employed	*14,138*	*17,976*	*20,351*	*23,692*
Net Fixed Assets (incl CWIP)	*2,078*	*1,985*	*1,979*	*1,886*
Non Current Investments	*7,718*	*7,459*	*10,577*	*12,411*
Other Non Current Assets	*279*	*268*	*268*	*268*
Non Current Assets	**12,507**	**12,169**	**15,281**	**17,022**
Inventory	719	728	558	614
Debtors	*718*	*953*	*1,057*	*1,191*
Cash & Bank	820	288	215	269
Other Current Assets	**1,049**	**1,096**	**1,215**	**1,369**
Current Assets	4,733	*9,469*	*8,865*	*10,850*
Creditors	2,027	2,236	2,478	2,793
Provisions	161	*199*	*221*	*249*
Other Current Liabilities	299	558	427	470
Curr Liabilities	2,781	3,213	3,338	3,712
Net Current Assets	**1,952**	**6,256**	**5,527**	**7,138**
Total Assets	*17,240*	*21,638*	*24,146*	*27,872*

Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
PBT	5,295	5,588	5,704	7,039
(inc)/Dec in Working Capital	6,057	6,701	6,255	7,656
Non Cash Op Exp	307	307	301	293
Interest Paid (+)	0	1	1	1
Tax Paid	(1,782)	(1,503)	(1,670)	(2,112)
others	454	94	1	1
CF from Op. Activities	**3,678**	**3,267**	**4,658**	**5,574**
(inc)/Dec in FA & CWIP	*(265)*	*(199)*	*(295)*	*(200)*
Free Cashflow	*3,413*	*3,068*	*4,364*	*5,374*
(Pur)/Sale of Investment	116	(2,824)	592	(1,577)
others	36	(659)	(3,119)	(1,834)
CF from Inv. Activities	**(113)**	**(3,683)**	**(2,822)**	**(3,611)**
inc/(dec) in NW				
inc/(dec) in Debt	-	-	-	-
Interest Paid	(0)	(1)	(1)	(1)
Dividend Paid (inc tax)	**(3,434)**	**(202)**	**(1,908)**	**(1,908)**
others	50	13	-	-
CF from Fin. Activities	(3,384)	(190)	(1,909)	(1,909)
Inc(Dec) in Cash	238	(534)	(73)	54
Add: Opening Balance	**582**	**820**	**288**	**215**
Closing Balance	820	286	215	269