

BAJAJ-AUTO

BUY

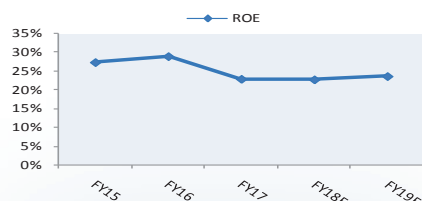
24-Jul-17

INDUSTRY - AUTOMOBILE
BSE Code - 532977
NSE Code - BAJAJ-AUTO
NIFTY - 9915

Company Data

CMP	2815
Target Price	3150
Previous Target Price	3150
Upside	12%
52wk Range H/L	3122/2510
Mkt Capital (Rs Cr)	81,457
Av. Volume (,000)	26

RoE to maintain over 22%

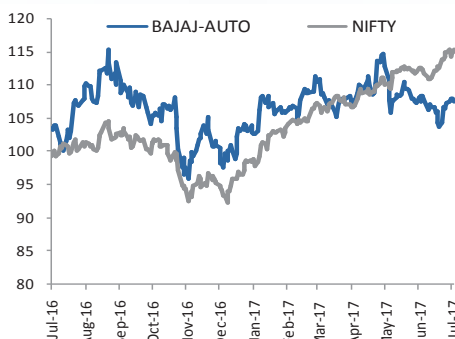


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
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	(0.9)	(0.3)	1.7
Rel.to Nifty	(3.9)	(9.0)	(14.1)



NAVEEN KUMAR DUBEY

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Key Highlights of the Report:

- ✓ Net sales declined by 5.3%YoY to Rs.5442 crore due to 11%YoY decline in the volumes. However, 6%YoY increase in realization arrested the further decline in the net sales.
- ✓ Higher commodity prices and new wage settlement agreement with workers put down the EBITDA Margin to 17.2% for the quarter. Though the management expects margins to maintain over 19% going ahead.
- ✓ 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.
- ✓ Based on management's aggressive strategy to gain 25% market share, healthy dividend payout and strong fundamentals we have positive view on this stock and we maintain 'BUY' with the previous target price of Rs.3150.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	21,614	22,587	21,767	24,709	27,165
EBITDA	4,113	4,764	4,419	4,673	5,452
EBIT	3,846	4,457	4,112	4,371	5,167
PAT	3,026	4,044	4,079	4,315	5,098
EPS (Rs)	105	140	141	149	176
EPS growth (%)	-10%	34%	1%	6%	18%
ROE (%)	27%	29%	23%	22%	23%
ROCE (%)	34%	32%	23%	22%	23%
BV	383	485	617	691	778
P/B (X)	5	5	5	4	4
P/E (x)	19	17	20	19	16

RECENT DEVELOPMENT: New export markets to drive growth

- ✓ Efforts on entering new markets have paid dividends to and dependence of the company on traditional high volume countries like Sri Lanka and Nigeria have reduced.
- ✓ Exports volume guidance for first six months is 800000 units. (April to September). The company has already crossed 400000 units in 1QFY18.
- ✓ Volumes in Nigeria which was Bajaj Auto's biggest export market has been stabilizing somewhere between 15000-20000 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.

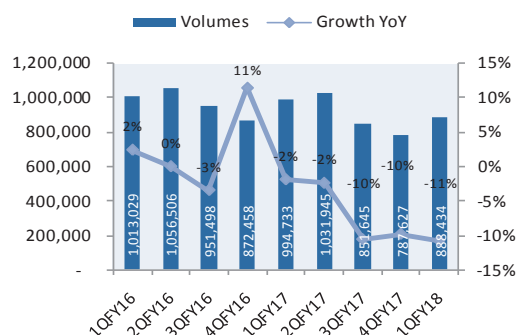
Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	995	1,032	852	788	888	-11%	13%	3,892	3,666	-6%
Realization(Rs.)	57,784	58,671	59,495	62,178	61,258	6%	-1%	57,177	58,034	1%
Net Sales	5,748	6,055	5,067	4,897	5,442	-5%	11%	22,587	21,767	-4%
Other Income	267	342	319	294	323	21%	10%	985	1,222	24%
COGS	3,863	4,057	3,384	3,320	3,809	-1%	15%	15,057	14,624	-3%
Employee Cost	268	259	242	227	273	2%	20%	917	997	9%
Other Expenses	445	449	401	452	427	-4%	-6%	1,848	1,748	-5%
EBITDA	1,176	1,294	1,044	905	938	-20%	4%	4,764	4,419	-7%
Depreciation	77	77	77	76	75	-3%	-1%	307	307	0%
Interest	0	1	0	0	0	9%	0%	1	1	33%
PBT	1,365	1,558	1,285	1,123	1,186	-13%	6%	5,440	5,333	-2%
Tax	387	438	361	322	364	-6%	13%	1,618	1,508	-7%
PAT	1,040	1,200	977	862	837	-20%	-3%	4,044	4,079	1%

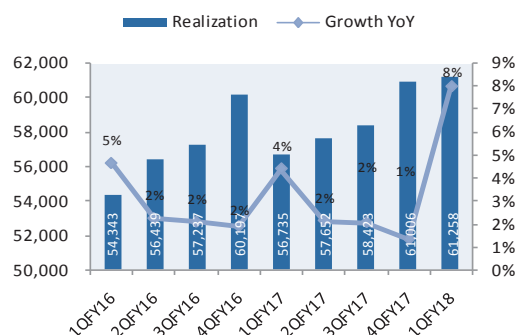
Higher RM cost and new wage settlement agreement dragged margins down to 17%

- ✓ The company reported 5.3%YoY decline in net sales to Rs.5442 crore in 1QFY18. The company witnessed 11% YoY decline in sales volume due to sub-optimal export markets and impact of BS-IV transition in the domestic volumes.
- ✓ Domestic 2 wheeler volumes de-grew by 22%YoY. Export 2 wheeler volumes have shown healthy growth of 8%YoY during the quarter. Domestic commercial vehicle volumes declined by 30%YoY but the Export volumes soared by 29% YoY in 1QFY18.
- ✓ EBITDA declined sharply by 20% YoY on account of higher commodity prices, additional BS-IV transition cost and new wage settlement agreement with workers during the quarter.
- ✓ The company posted a 19.5% YoY decline in the PAT. Further reduction in the PAT was restricted by higher other income in the quarter.
- ✓ There was one time payment to dealers to compensate them for any losses incurred on introduction of GST as a result of pre GST inventory held on June 30,2017.

Volume trend



Realization trend

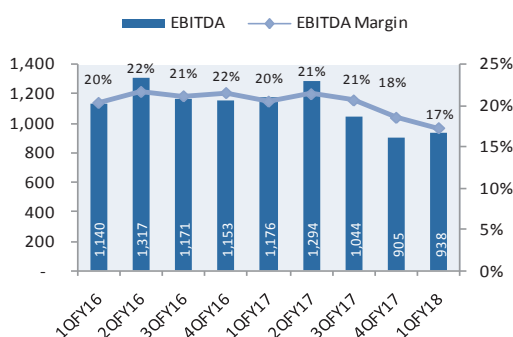


Margins to expand going ahead

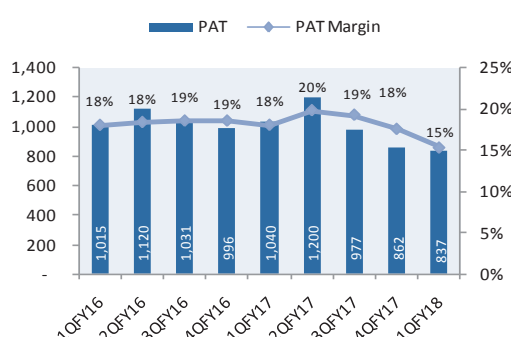
Margin %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	33%	33%	33%	32%	30%	-2.79%	-0.02	33%	33%	-0.01
EBITDA Margin	20%	21%	21%	18%	17%	-3.23%	-0.01	21%	20%	-0.01
PAT Margin	18%	20%	19%	18%	15%	-2.71%	-0.02	18%	19%	0.01

- ✓ Gross Margin contracted by 280 bps YoY to 30% during the quarter due to higher commodity prices and BS-IV transition from BS-III.
- ✓ EBITDA Margin also declined by 320 bps YoY majorly because of new wage settlement agreement with workers till FY19.
- ✓ PAT Margin also declined by 270 bps but further contraction in the margin was arrested by higher other income during the quarter.

EBITDA (Rs. crore) and EBITDA Margin trend



PAT (Rs. crore) and PAT Margin trend



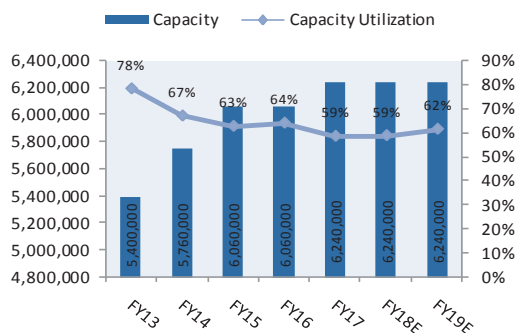
Concall Highlights:

- ✓ Management expects 10% volume growth going forward for the full year. Significant volume increase can happen from September onwards.
- ✓ Exports volume guidance for first six months is 800000 units. (April to September)
- ✓ The government will issue new permits during the year in Delhi and Maharashtra. (around 40000 permits) and this may drive the sub-due 3 wheelers demand in FY18.
- ✓ No model launches in next 3-5 months as the company has refreshed its portfolio during FY17.
- ✓ Tax rate will be in the range of 30% in FY18 as Pantnagar tax benefit expired in FY17.
- ✓ Capex guidance of Rs.200 crore in FY18.
- ✓ Avengers sustainable monthly run rate to be around 12000-15000 units.
- ✓ Margin guidance of 19-20%; margins in second half would be higher.
- ✓ Dominar- currently monthly volumes are 2000-2500 units in India and 7000 units per month by August 2017 including exports.
- ✓ Management expects 20000 3Ws per month in the domestic market for the period of July to December.
- ✓ Major trigger for Domestic 3Ws would be- a) Permits in Delhi-10000 permits, b) Maharashtra and c) Conversion of 2 strokes to 4 strokes 3 wheelers in Karnataka.
- ✓ Dealer inventory 4 to 4.5 weeks.
- ✓ KTM to sale 50000 bikes in Indian market in FY18.
- ✓ The company has plans to spend Rs.100 crore on Advertising and Promotional expenses on exports.

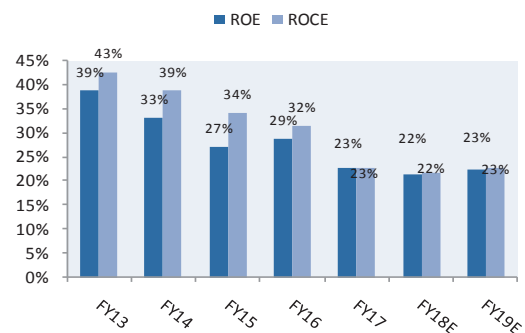
Investment Arguments:

- ✓ **New geographies to propel exports in current fiscal-** Bajaj Auto has started expanding its footprints in other geographies also. Earlier it was concentrated mostly in the African region and it had cost Bajaj Auto significantly. It had over 65% contribution from African countries. So the management has shifted its focus towards other fast growing 2 wheeler markets like Latin America, Indonesia and Malaysia etc.
- ✓ **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.
- ✓ **Auto Permits to drive 3 wheelers demand-** 3 wheelers have been mostly hit by the demonetization during the second half of FY17. Fresh auto permits are expected to be given in NCR and Maharastra region in FY18, which will boost the 3 wheeler sales in the domestic market. The government has announced the allotment of approx. 40000 permits in these regions in the FY18.
- ✓ **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 a weak set of results for the second consecutive quarter. Revenue degrew by 5.3%YoY to Rs.5442 crore and EBITDA Margin declined to 17.2% in the 1QFY18. Employee cost was higher in the quarter due to new wage settlement agreement with workers at Chakan, Waluj and Pantnagar plants. PAT for the quarter declined by 20%YoY to Rs.837 crore. However, the management has given 10% volume growth guidance for full year FY18 and expects a very strong recovery in the volumes from 3rd quarter onwards in the current fiscal. The government has announced the allotment of approx. 40000 permits in NCR and Maharastra regions in FY18 which will drive the 3 wheelers demand going ahead. The company has also started gaining traction from new geographies in the export market. We expect company to maintain its ROE over 22% in the long run. Considering management's aggressive strategy to gain 25% market share, healthy dividend payout and strong fundamentals we have positive view on this stock and we maintain 'BUY' with the previous target price of Rs.3150.

Financials Snap Shot

Income Statement

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	22,152	21,374	24,301	26,715
Change (%)	5%	-4%	4%	5%
Other Operating Income	435	393	409	450
EBITDA	4,764	4,419	4,673	5,452
Change (%)	16%	-7%	-2%	23%
Margin (%)	21%	20%	19%	20%
Dep & Amortization	307	307	301	285
EBIT	4,457	4,112	4,371	5,167
Interest & other finance cost	1	1	1	1
Other Income	985	1,222	1,441	1,677
EBT	5,440	5,333	5,811	6,843
Exceptional Item	-	-	32	-
Tax	1,618	1,508	1,744	2,053
Minority Int & P/L share of Ass.	221	255	280	308
Reported PAT	4,044	4,079	4,315	5,098
Adjusted PAT	4,044	4,079	4,315	5,098
Change (%)	34%	1%	7%	25%
Margin(%)	18%	19%	17%	19%

Balance Sheet

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	289	289	289	289
Reserves	13,731	17,567	19,706	22,234
Networth	14,020	17,857	19,996	22,523
Debt	117.86	119.9	119.9	119.9
Other Non Current Liab	233	321	321	321
Total Capital Employed	14,138	17,976	20,115	22,643
Net Fixed Assets (incl CWIP)	2,078	1,985	1,929	1,844
Non Current Investments	7,718	7,459	10,577	12,364
Other Non Current Assets	279	268	268	268
Non Current Assets	12,507	12,169	15,231	16,933
Inventory	719	728	568	618
Debtors	718	953	1,082	1,190
Cash & Bank	820	288	202	244
Other Current Assets	1,049	1,096	1,245	1,368
Current Assets	4,733	9,469	8,752	9,891
Creditors	2,027	2,236	2,538	2,791
Provisions	161	199	226	248
Other Current Liabilities	299	558	435	473
Curr Liabilities	2,781	3,213	3,409	3,713
Net Current Assets	1,952	6,256	5,343	6,178
Total Assets	17,240	21,638	23,983	26,824

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	29%	23%	22%	23%
ROCE	32%	23%	22%	23%
Asset Turnover	1	1	1	1
Debtor Days	12	16	16	16
Inventory Days	12	12	12	12
Payable Days	33	37	37	37
Interest Coverage	4,245	2,937	3,122	3,691
P/E	17	20	19	16
Price / Book Value	5	5	4	4
EV/EBITDA	14	18	17	15
FCF per Share	3,944	4,748	4,941	5,608
Dividend Yield	2.3%	2.0%	2.2%	2.6%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume ('000)	3,892	3,666	3,857	4,213
Volume Growth	2%	-6%	5%	9%
Realization(Rs./vehicle)	58,034	59,375	64,071	64,482
Realization Growth	2%	2%	8%	1%
Capex(Rs crore)	295	270	200	200

Cash Flow Statement

Y/E March	FY16	FY17E	FY18E	FY19E
PBT	5,295	5,333	5,811	6,843
(inc)/Dec in Working Capital	6,057	5,896	6,362	7,438
Non Cash Op Exp	307	307	301	285
Interest Paid (+)	0	1	1	1
Tax Paid	(1,782)	(1,508)	(1,744)	(2,053)
others	454	1	1	1
CF from Op. Activities	3,678	4,533	4,697	5,408
(inc)/Dec in FA & CWIP	(265)	(215)	(245)	(200)
Free Cashflow	3,413	4,319	4,452	5,208
(Pur)/Sale of Investment	116	-	759	(808)
others	36	(2,942)	(3,119)	(1,787)
CF from Inv. Activities	(113)	(3,157)	(2,605)	(2,795)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	-	-	-	-
Interest Paid	(0)	(1)	(1)	(1)
Dividend Paid (inc tax)	(3,434)	(1,908)	(2,176)	(2,571)
others	50	2	-	-
CF from Fin. Activities	(3,384)	(1,907)	(2,177)	(2,572)
Inc(Dec) in Cash	238	(531)	(85)	41
Add: Opening Balance	582	820	288	202
Closing Balance	820	289	202	243