

BAJAJ AUTO LTD.

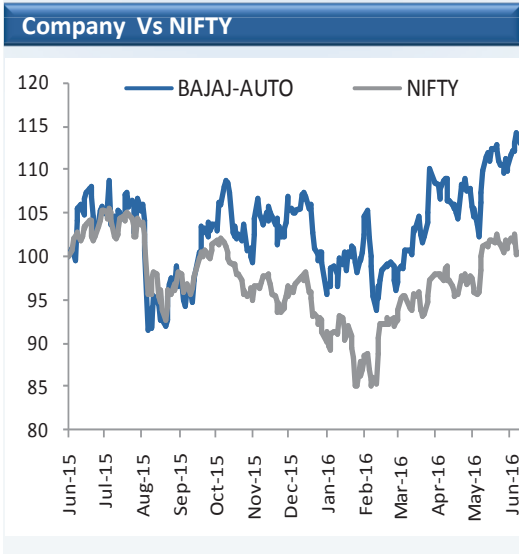
30/6/2016

Result Update	
CMP	2636
Target Price	2890
Previous Target Price	
Upside	10%
Change from Previous	-

Market Data	
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
52wk Range H/L	2702/2133
Mkt Capital (Rs Cr)	76,277
Av. Volume	13853
Nifty	8,095

Stock Performance			
	1Month	1Year	YTD
Absolute	1.2	5.8	10.2
Rel.to Nifty	2.1	9.4	11.2

Share Holding Pattern-%			
	4QFY16	3QFY16	4QFY15
Promoter	49.30	49.30	49.29
Public	50.70	50.70	50.70
Others	--	--	0.02
Total	100.00	100.00	100.00



Bajaj Auto's export volume has shown a handsome recovery led by 38% volume growth MoM in May,2016. Export market has shown sign of recovery in African region. Monthly export to Nigeria has gone up from 15000 units to 27000 units per month. According to the management, devaluation of naira is negative but it has already been factored into price in last many quarters. In the domestic market new Avenger is doing extremely well and it has helped in improving market share to 47% in the premium segment. Going ahead, we assume that management's aggressive strategy to gain 25% market share in FY17, stabilizing currency situation in African countries, new product launches in sports segment and better than average monsoon expectation from IMD to boost rural demand will be key growth drivers in FY17 for Bajaj Auto.

Result Update

Bajaj Auto's 4QFY16 revenues grew by 14% YoY to Rs. 5411 crore. The growth came from higher domestic sales which grew by 26% YoY.

Gross Margin improved by 220 bps YoY due to lower commodity cost and forex benefit.

EBITDA Margin expanded by 360 bps due to lower employee cost which is declined due to positive gratuity related adjustment.

PAT margin improved by 170 bps. Pantnagar plant benefit has lowered the tax rate for the company.

Net Revenue and PAT for the full year stood at Rs.22688 crore and Rs.3784 crore respectively.

Outlook and Valuation

Going forward we assume that the management's aggressive strategy to gain 25% market share in FY17, improving currency situation in African countries and New product launches in sports segment will be key growth drivers in FY17 for Bajaj Auto. Considering all above arguments we have positive view on this stock and we recommend 'BUY' with a target price Rs.2890.

	Rs. In crore				
Financials	4QFY16	3QFY16	4QFY15	QoQ	YoY
Sales	5411	5565	4739	-3%	14%
EBITDA	1152	1171	838	-2%	37%
Net Profit	803	901	622	-11%	29%
EBITDA%	21.3%	21.0%	17.7%		
PAT %	14.8%	16.2%	13.1%		

(Source: Company/Eastwind)

Investment Argument

>>Export has not been good for Bajaj Auto since last two quarters, due to dollar availability issue in Nigeria and other African market where Bajaj has 45% exposure of the total export volume, But 38% volume growth in export segment in May is an indication of recovery in African market. (Monthly run rate of Nigeria has improved from 15000 units to 27000 units).

>>IMD is expecting better monsoon in 2016, which will lead better demand from rural sector. Bajaj has strong positioning in rural market through its 100cc bikes (CT100 and Platina).

>>We are expecting implementation of 7th pay-commission in FY17 which will lead two wheeler and four wheeler demand going forward.

>>Currently, Bajaj has a market share of 20% in the domestic motorcycle market. In January, it was around 15%, due to success of newly launched Avenger and Bajaj V. Bajaj is eyeing on a market share of 24-25% by the end of this fiscal.

>>Capital Expenditure of Rs.575 crore towards new product development and launches will help Bajaj Auto to gain strong market share in commuter, sports and super sports segment FY17.

Management Highlight

>> 15-17 percent volume growth expectation in FY17.

>> 20% margin guidance for current fiscal.

>> Tax rate: 32% in FY17.

>> 4.6mn units volume guidance (2.6 mn domestic & 1.3mn export 2 wheelers; 300000 domestic and 250000 export 3 wheelers).

>> Export- Nigeria, Egypt and Venezuela are still in problem and demand will pick up in second half of the year.

>> No credit given in export market, production only starts after receiving the 25% advance.

>> Qute export volume guidance 10000 units for full year.

>> Pant Nagar plant benefit will expire in FY17.

>> All the products launching after 1st April 2017 will be BS-IV updated products.

>> Management expects 50000 auto permits coming in the current year.

>> Bajaj Auto Ltd will invest Rs.575 crore this fiscal, a major chunk of which will be used for launching products.

>> Current monthly run rate in Nigeria is 20000 units (21,000 units in April).

>> Sports segment market share has gone up to 47% in FY16 from 43% in FY15.

>> New Pulsar(400 cc) launch in the second half of the year.

>> Going forward Avengers run rate would be in the range of 25000-30000 units.

>> Company has set up a full assembly plant in Nepal, which will produce 3500 units per month, around half of what Bajaj exports to Nepal.

>> The company has taken a price increase of Rs.1500 per unit for 3Ws and Rs.500 per unit for 2Ws in April 2016.

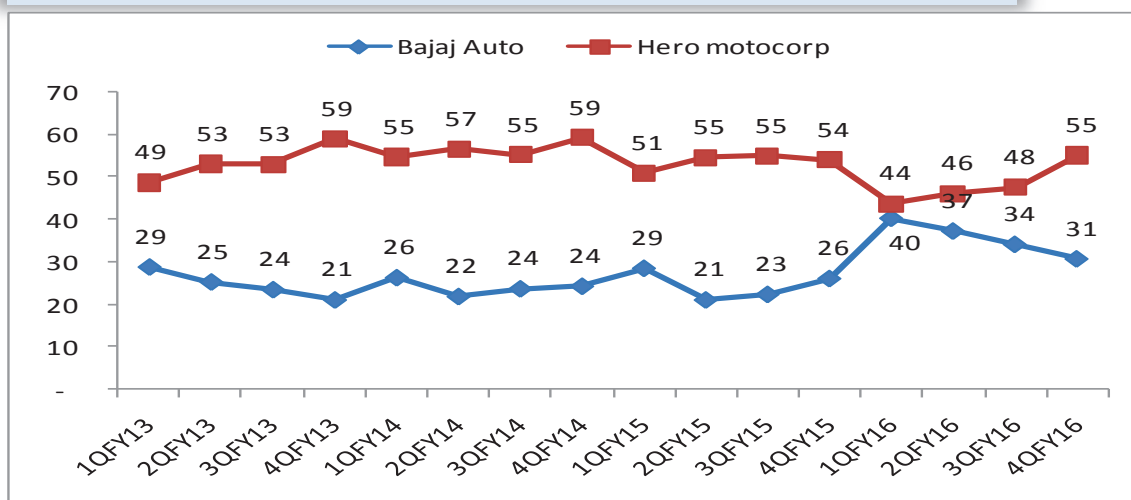
Plant Detail

Plant Location	Capacity	Vehicles Manufactured
Pantnagar	1.8 mn units	Platina and Discover
Waluj (Aurangabad)	2.4 mn units	Platina, Discover, CT100, Boxer, Three-wheelers and Qute(RE60)
Chakan	1.2 mn units	Pulsar, Avenger , KTM and Kawasaki Ninja

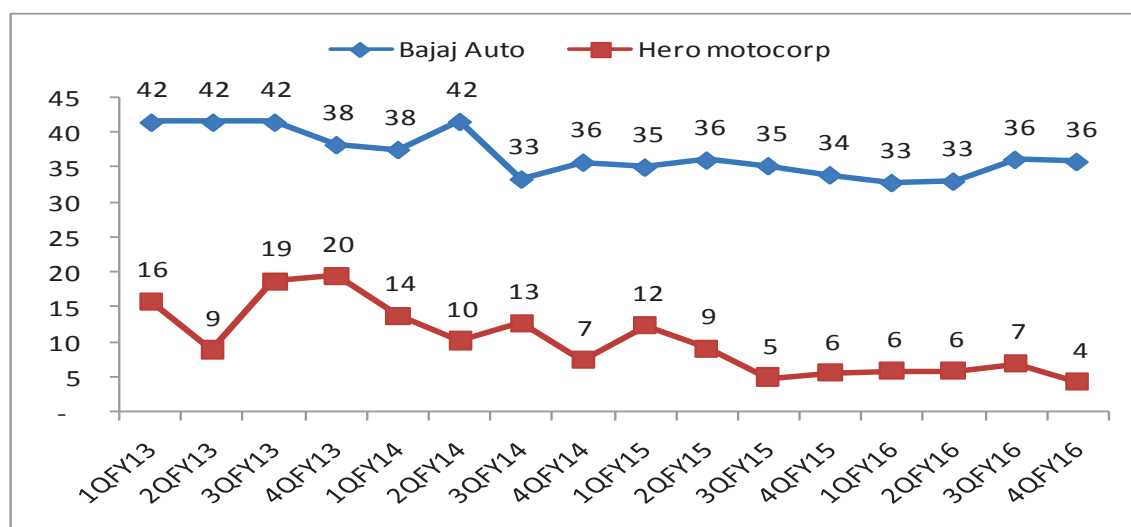
Key Risks

1. Dollar availability issue in export market
2. Focus on gaining market share can hamper margins in short term

Domestic market share of major 2W players(%)

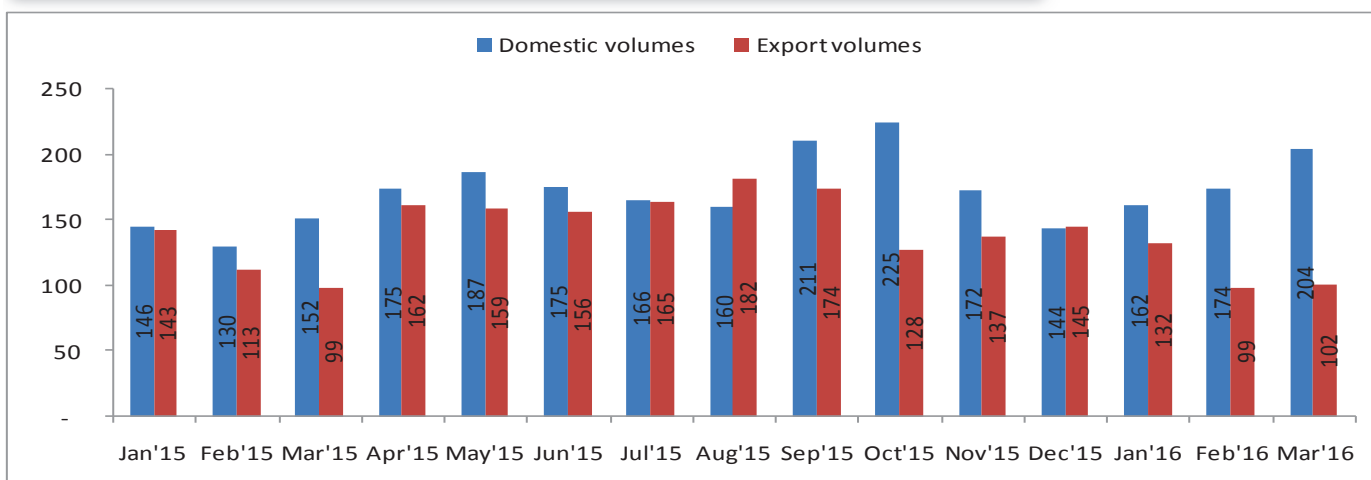


Economy segment
(100cc Motorcycles)



Premium Segment
150cc and above
Motorcycles

Monthly Volume ('000)



Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	20042	20158	21614	22688
Other Income	797	682	584	824
Total Revenue	20839	20840	22198	23512
COGS	14434	13883	14851	15057
GPM	1	1	1	1
Other Expenses	1373	1453	1811	1951
EBITDA	3648	4155	4113	4779
EBITDA Margin (%)	18%	21%	19%	21%
Depreciation	168	181	267	307
EBIT	3481	3974	3846	4472
Interest	1	1	6	0
PBT	4277	4655	4423	5295
Tax	1217	1390	1271	1733
Tax Rate (%)	28%	30%	29%	33%
Reported PAT	3132	3380	3026	3784
Dividend Paid	1524	1693	1693	1862
No. of Shares	29	29	29	29

Souce: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	108.2	116.8	104.6	130.8
Book Value	278.7	351.4	383.4	450.8
DPS	52.7	58.5	58.5	64.4
Payout (incl. Div. Tax.)	49%	50%	56%	49%
Valuation(x)				
P/E	16.6	17.8	19.3	18.4
Price / Book Value	6.5	5.9	5.3	5.3
Dividend Yield (%)	2.93%	2.81%	2.90%	2.67%
Profitability Ratios				
RoE	39%	33%	27%	29%
RoCE	43%	39%	34%	34%
Turnover Ratios				
Asset Turnover (x)	2	1	1	1
Debtors (No. of Days)	13	14	12	0
Inventory (No. of Days)	16	17	20	0
Creditors (No. of Days)	36	38	30	0
Net Debt/Equity (x)	0.01	0.01	0.01	0.01

Souce: Eastwind/Company

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	289	289	289	289
Reserves	7776	9878	10806	12756
Net Worth	8065	10167	11095	13045
Long term Debt	71	58	112	162
Short term Debt	27	0	142	188
Deferred Tax	115	143	142	188
Total Capital Employed	8137	10225	11207	13208
Net Fixed Assets	2101	2150	2172	2078
Capital WIP	223	33	102	0
Debtors	734	796	717	718
Cash & Bank Balances	567	501	593	867
Trade payables	1982	2112	1800	2027
Total Provisions	1744	1974	1992	369
Net Current Assets	2043	894	5090	1673
Total Assets	12676	15308	15966	16427

Souce: Eastwind/Company

CASH FLOW STATEMENT

	FY12	FY13	FY14	FY15
OP/(Loss) before Tax	4013	4277	4655	4083
Depreciation	147	168	181	267
Direct Taxes Paid	(1147)	(1239)	(1314)	(1285)
Operating profit before working capital changes				
CF from Op. Activity	3246	2218	3502	2114
	0	0	0	0
Capital expenditure on fix	(361)	(508)	(220)	(270)
CF from Inv. Activity	(849)	(1394)	(2100)	(414)
Repayment of Long Term Borrowings				
Interest Paid	(23)	(1)	(1)	(6)
Divd Paid (incl Tax)	(1342)	(1511)	(1518)	(1691)
CF from Fin. Activity	(1562)	(1478)	(1496)	(1644)
Inc/(Dec) in Cash	835	(654)	(66)	90
Add: Opening Balance	245	1179	558	492
Closing Balance	1080	525	492	582

Souce: Eastwind/Company