

July 28, 2016

Rohan Korde  
rohankorde@plindia.com  
+91-22-66322235

Rating	<b>Accumulate</b>
Price	Rs2,669
Target Price	Rs2,777
Implied Upside	4.0%
Sensex	28,024
Nifty	8,616

(Prices as on July 27, 2016)

### Trading data

Market Cap. (Rs bn)	772.3
Shares o/s (m)	289.4
3M Avg. Daily value (Rs m)	699.9

### Major shareholders

Promoters	49.29%
Foreign	17.13%
Domestic Inst.	8.78%
Public & Other	24.80%

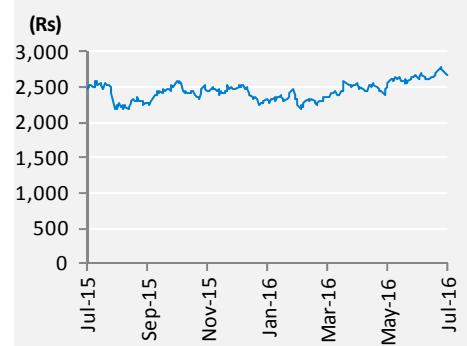
### Stock Performance

(%)	1M	6M	12M
Absolute	0.6	15.9	6.4
Relative	(5.5)	1.5	4.7

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	141.5	142.5	-0.6
2018	160.3	161.7	-0.9

### Price Performance (RIC:BAJA.BO, BB:BJAUT IN)



Source: Bloomberg

**Bajaj Auto (BJA)** reported operationally in-line results for Q1FY17. Income was up 2.7% YoY to Rs57.5bn (expectation was Rs57.3bn), while EBITDA was Rs11.76bn (PLe: Rs11.63bn). EBITDA margin was 20.5% (against expectation of 20.3%). Due to lower-than-expected non-operating income, profit was lower-than-expected at Rs9.8bn (PLe: Rs10.3bn), which was a growth of 2.2% YoY.

Domestic sale is the key growth driver currently, while exports are expected to be sluggish in H1FY17. Management has set itself an aggressive sales target in FY17 of 4.6m units (up from 3.9m in FY16), while our current estimate is ~4.25m units. The break-up would be 1.6m exports (1.73m in FY16) and 3m domestic sales (2.15m in FY16). Management has also guided for EBITDA margin to sustain above 20%.

At the current market price, the stock is trading at 18.9x FY17e and 16.6x FY18e. We value the stock at 17.5x Mar'18 core earnings (Rs2,316) and Rs461 as value of cash and investments and arrive at a target price of Rs2,777 per share and maintain 'Accumulate'.

- Net sales grew 2.8% YoY (1.8% YoY volume decline and 4.7% growth in blended realizations). There was a 3.8% YoY decline in other operating income due to which revenue growth was 2.7% YoY to Rs57.5bn.
- Export revenues were lower 22.1% YoY (22.2% YoY decline in volume and 0.2% realization growth), while domestic revenues grew 25.7% YoY (16.3% YoY volume growth and 8.1% YoY growth in realizations). In USD terms, the company's export revenues were lower ~28% YoY. Near-term export outlook remains subdued, although management expects a QoQ improved trajectory.

Contd...2

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	216,120	226,876	254,647	285,030
Growth (%)	7.3	5.0	12.2	11.9
EBITDA (Rs m)	41,738	47,865	52,033	58,558
PAT (Rs m)	30,920	35,834	40,958	46,392
EPS (Rs)	106.9	123.8	141.5	160.3
Growth (%)	(6.2)	15.9	14.3	13.3
Net DPS (Rs)	50.0	55.0	60.0	65.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	19.3	21.1	20.4	20.5
RoE (%)	30.5	31.2	30.4	28.9
RoCE (%)	30.1	30.8	30.0	28.8
EV / sales (x)	3.6	3.4	3.0	2.7
EV / EBITDA (x)	18.4	16.0	14.7	13.0
PE (x)	25.0	21.6	18.9	16.6
P / BV (x)	7.2	6.3	5.3	4.4
Net dividend yield (%)	1.9	2.1	2.2	2.4

Source: Company Data; PL Research

- Domestic motorcycle sales were boosted by good performance of recent launches, “Avenger” (~56k units in Q1) and “V15 (~82k units in Q1). However, if we exclude these models, total domestic sales were lower ~15% YoY during Q1. Overall, two-wheeler sales in Q1 were lower 0.3% YoY, while three-wheelers were lower 11.3% YoY.
- New motorcycle model launches ahead include the “Pulsar 400” after one month; more launches on V platform in Q3. The “Platina Comfortech” is being seeded currently.
- EBITDA margin was 20.5% (higher 10bps YoY and lower 100bps QoQ). Increase in input costs and an adverse product mix (lower share of three-wheelers and lower exports) resulted in QoQ margin decline. YoY margins were maintained due to the qualitative improvement in the domestic product mix (V15, Avenger). EBITDA growth was 3.2% YoY to Rs11.8bn.
- Non-operating income was significantly lower than expected at Rs2.7bn due to absence of dividend from Dutch subsidiary, BAIH BV (in Q1FY16, dividend declared was ~Rs800m). Profit growth was a mere 2.2% YoY to Rs9.8bn.
- In Q1, contribution per vehicle was higher 5.1% YoY (lower 9.6% QoQ) and EBITDA/vehicle was also up 5.1% YoY (lower 10.5% QoQ), while adjusted profit per vehicle increased 4.1% YoY (lower 9.6% QoQ).

## Exhibit 1: Q1FY17 Result Overview (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	FY17E	FY16	YoY gr. (%)
<b>Net Revenues</b>	<b>57,480</b>	<b>55,993</b>	<b>2.7</b>	<b>53,627</b>	<b>254,647</b>	<b>226,876</b>	<b>12.2</b>
Raw Materials	38,628	37,728	2.4	35,333	172,275	150,569	14.4
% of Net Sales	67.2	67.4		65.9	67.7	66.4	
Personnel	2,683	2,434	10.2	2,024	10,208	9,114	12.0
% of Net Sales	4.7	4.3		3.8	4.0	4.0	
Manufacturing & Other Exp	4,405	4,429	(0.5)	4,737	20,131	19,327	4.2
% of Net Sales	7.7	7.9		8.8	7.9	8.5	
Total Expenditure	45,716	44,590	2.5	42,094	202,614	179,010	13.2
<b>EBITDA</b>	<b>11,763</b>	<b>11,402</b>	<b>3.2</b>	<b>11,534</b>	<b>52,033</b>	<b>47,865</b>	<b>8.7</b>
<b>EBITDA Margin (%)</b>	<b>20.5</b>	<b>20.4</b>		<b>21.5</b>	<b>20.4</b>	<b>21.1</b>	
Depreciation	775	784	(1.2)	761	3,226	3,072	5.0
<b>EBIT</b>	<b>10,989</b>	<b>10,618</b>	<b>3.5</b>	<b>10,773</b>	<b>48,807</b>	<b>44,794</b>	<b>9.0</b>
Interest Expenses	2	1	NA	4	6	5	18.2
Non-operating income	2,671	3,063	(12.8)	2,569	8,887	8,078	10.0
<b>PBT</b>	<b>13,657</b>	<b>13,680</b>	<b>(0.2)</b>	<b>13,338</b>	<b>57,688</b>	<b>53,851</b>	<b>7.1</b>
Tax-Total	3,873	4,106	(5.7)	3,844	16,729	17,328	(3.5)
<b>Tax Rate (%) - Total</b>	<b>28.4</b>	<b>30.0</b>	<b>(5.5)</b>	<b>28.8</b>	<b>29.0</b>	<b>32.2</b>	<b>(9.9)</b>
<b>Reported PAT</b>	<b>9,784</b>	<b>9,574</b>	<b>2.2</b>	<b>9,493</b>	<b>40,958</b>	<b>36,524</b>	<b>12.1</b>
<b>Adj. PAT</b>	<b>9,784</b>	<b>9,574</b>	<b>2.2</b>	<b>9,493</b>	<b>40,958</b>	<b>35,834</b>	<b>14.3</b>

Source: Company Data, PL Research

## Exhibit 2: Operating Metrics

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	FY17E	FY16	YoY gr. (%)
<b>Sales Volume (nos)</b>	<b>994,733</b>	<b>1,013,029</b>	<b>(1.8)</b>	<b>872,458</b>	<b>4,254,698</b>	<b>3,893,581</b>	<b>9.3</b>
Net Realisation/Vehicle	57,784	55,273	4.5	61,467	59,851	58,269	2.7
Material cost / vehicle	38,832	37,242	4.3	40,498	40,491	38,671	4.7
Gross Profit / vehicle	18,952	18,030	5.1	20,969	19,360	19,598	(1.2)
Employee cost /vehicle	2,697	2,403	12.3	2,320	2,399	2,341	2.5
Other expenses / vehicle	4,429	4,372	1.3	5,429	4,731	4,964	(4.7)
EBITDA/vehicle	11,826	11,256	5.1	13,220	12,229	12,293	(0.5)
Net Profit/vehicle	9,836	9,450	4.1	10,881	9,627	9,203	4.6

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>216,120</b>	<b>226,876</b>	<b>254,647</b>	<b>285,030</b>
Raw Material Expenses	148,498	150,569	172,275	193,212
Gross Profit	67,622	76,307	82,372	91,818
Employee Cost	8,973	9,114	10,208	11,229
Other Expenses	16,911	19,327	20,131	22,031
<b>EBITDA</b>	<b>41,738</b>	<b>47,865</b>	<b>52,033</b>	<b>58,558</b>
Depr. & Amortization	2,674	3,072	3,226	3,327
Net Interest	(2,260)	(2,408)	(3,097)	(3,934)
Other Income	10,644	8,148	8,887	10,115
<b>Profit before Tax</b>	<b>49,642</b>	<b>52,937</b>	<b>57,688</b>	<b>65,340</b>
Total Tax	12,711	17,328	16,729	18,949
<b>Profit after Tax</b>	<b>36,932</b>	<b>35,609</b>	<b>40,958</b>	<b>46,392</b>
Ex-Od items / Min. Int.	(1,938)	1,744	—	—
<b>Adj. PAT</b>	<b>30,920</b>	<b>35,834</b>	<b>40,958</b>	<b>46,392</b>
<b>Avg. Shares O/S (m)</b>	<b>289.4</b>	<b>289.4</b>	<b>289.4</b>	<b>289.4</b>
<b>EPS (Rs.)</b>	<b>106.9</b>	<b>123.8</b>	<b>141.5</b>	<b>160.3</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
C/F from Operations	26,668	28,488	41,194	47,019
C/F from Investing	(8,932)	(5,722)	(23,500)	(26,000)
C/F from Financing	(16,829)	(20,032)	(17,368)	(18,815)
Inc. / Dec. in Cash	907	2,734	326	2,204
Opening Cash	4,955	5,862	8,595	8,921
Closing Cash	5,862	8,595	8,921	11,125
FCFF	29,163	22,649	37,688	43,013
FCFE	29,664	22,649	37,688	41,388

**Key Financial Metrics**

Y/e March	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	7.3	5.0	12.2	11.9
EBITDA (%)	(0.2)	14.7	8.7	12.5
PAT (%)	(6.2)	15.9	14.3	13.3
EPS (%)	(6.2)	15.9	14.3	13.3
<b>Profitability</b>				
EBITDA Margin (%)	19.3	21.1	20.4	20.5
PAT Margin (%)	14.3	15.8	16.1	16.3
RoCE (%)	30.1	30.8	30.0	28.8
RoE (%)	30.5	31.2	30.4	28.9
<b>Balance Sheet</b>				
Net Debt : Equity	—	(0.1)	—	(0.1)
Net Wrkng Cap. (days)	(12)	(20)	(20)	(20)
<b>Valuation</b>				
PER (x)	25.0	21.6	18.9	16.6
P / B (x)	7.2	6.3	5.3	4.4
EV / EBITDA (x)	18.4	16.0	14.7	13.0
EV / Sales (x)	3.6	3.4	3.0	2.7
<b>Earnings Quality</b>				
Eff. Tax Rate	31.8	32.8	29.0	29.0
Other Inc / PBT	13.0	15.3	15.4	15.5
Eff. Depr. Rate (%)	6.5	6.7	6.6	6.3
FCFE / PAT	95.9	63.2	92.0	89.2

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	106,922	122,917	146,513	174,095
Total Debt	1,625	1,625	1,625	1,625
Other Liabilities	1,416	1,882	1,883	1,883
<b>Total Liabilities</b>	<b>109,962</b>	<b>126,424</b>	<b>150,020</b>	<b>177,603</b>
Net Fixed Assets	21,722	20,779	21,053	21,726
Goodwill	—	—	—	—
Investments	91,533	95,127	115,127	137,127
Net Current Assets	(3,794)	10,518	13,840	18,750
<i>Cash &amp; Equivalents</i>	<i>5,862</i>	<i>8,595</i>	<i>8,921</i>	<i>11,125</i>
<i>Other Current Assets</i>	<i>36,507</i>	<i>32,227</i>	<i>38,019</i>	<i>43,953</i>
<i>Current Liabilities</i>	<i>46,162</i>	<i>30,304</i>	<i>33,100</i>	<i>36,328</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>109,461</b>	<b>126,424</b>	<b>150,020</b>	<b>177,603</b>

**Quarterly Financials (Rs m)**

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
<b>Net Revenue</b>	<b>60,978</b>	<b>55,649</b>	<b>53,627</b>	<b>57,480</b>
<b>EBITDA</b>	<b>13,171</b>	<b>11,783</b>	<b>11,534</b>	<b>11,763</b>
<i>% of revenue</i>	21.6	21.2	21.5	20.5
Depr. & Amortization	780	746	761	775
Net Interest	3	1	4	2
Other Income	1,449	1,376	2,569	2,671
<b>Profit before Tax</b>	<b>13,915</b>	<b>12,962</b>	<b>13,338</b>	<b>13,657</b>
Total Tax	4,584	3,947	3,844	3,873
<b>Profit after Tax</b>	<b>9,331</b>	<b>9,015</b>	<b>9,493</b>	<b>9,784</b>
<b>Adj. PAT</b>	<b>9,276</b>	<b>8,629</b>	<b>9,493</b>	<b>9,784</b>

**Key Operating Metrics**

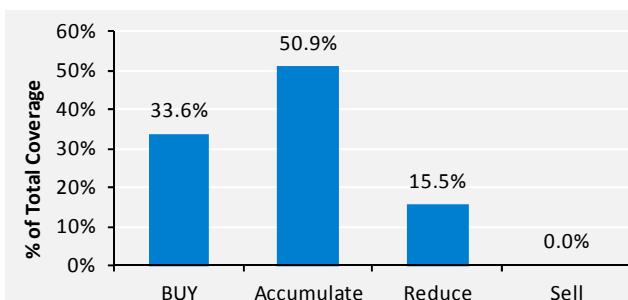
Y/e March	2015	2016	2017E	2018E
Two-wheeler volume (units)	3,292,084	3,358,252	3,713,851	4,049,822
Three-wheeler volume (units)	519,117	535,329	540,847	592,732
Total volume (units)	3,811,201	3,893,581	4,254,698	4,642,554
Domestic sales (units)	2,005,123	2,153,677	2,612,005	2,792,045
Exports (units)	1,806,078	1,739,904	1,642,694	1,850,509
Realisation per unit (Rs)	55,373	57,152	58,823	60,361
Gross margin per unit (Rs)	17,743	19,598	19,360	19,777
EBITDA per unit (Rs)	10,951	12,293	12,229	12,613
Profit per unit (Rs)	8,113	9,203	9,627	9,993

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

**Rating Distribution of Research Coverage****PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months
<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months
<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month
<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

**DISCLAIMER/DISCLOSURES****ANALYST CERTIFICATION**

We/I, Mr. Rohan Korde (MMS, BCom), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**Terms & conditions and other disclosures:**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com)

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Rohan Korde (MMS, BCom), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

**DISCLAIMER/DISCLOSURES (FOR US CLIENTS)****ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

**Terms & conditions and other disclosures:**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.