

July 28, 2016

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Rating	Accumulate
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%

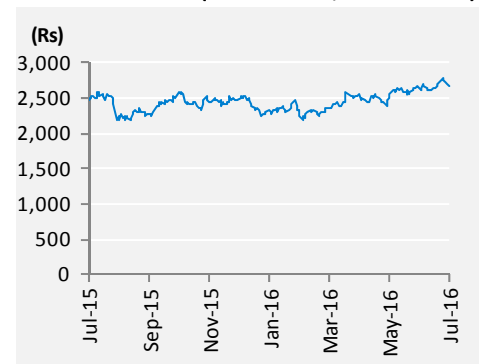
Stock Performance

(%)	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.

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

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	FY17E	FY16	YoY gr. (%)
Sales Volume (nos)	994,733	1,013,029	(1.8)	872,458	4,254,698	3,893,581	9.3
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
Net Revenue	216,120	226,876	254,647	285,030
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
EBITDA	41,738	47,865	52,033	58,558
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
Profit before Tax	49,642	52,937	57,688	65,340
Total Tax	12,711	17,328	16,729	18,949
Profit after Tax	36,932	35,609	40,958	46,392
Ex-Od items / Min. Int.	(1,938)	1,744	—	—
Adj. PAT	30,920	35,834	40,958	46,392
Avg. Shares O/S (m)	289.4	289.4	289.4	289.4
EPS (Rs.)	106.9	123.8	141.5	160.3

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
Growth				
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
Profitability				
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

Balance Sheet

Net Debt : Equity	—	(0.1)	—	(0.1)
Net Wrkng Cap. (days)	(12)	(20)	(20)	(20)

Valuation

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

Earnings Quality

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
Total Liabilities	109,962	126,424	150,020	177,603
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 & 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	—	—	—	—
Total Assets	109,461	126,424	150,020	177,603

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	60,978	55,649	53,627	57,480
EBITDA	13,171	11,783	11,534	11,763
% of revenue	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
Profit before Tax	13,915	12,962	13,338	13,657
Total Tax	4,584	3,947	3,844	3,873
Profit after Tax	9,331	9,015	9,493	9,784
Adj. PAT	9,276	8,629	9,493	9,784

Key Operating Metrics

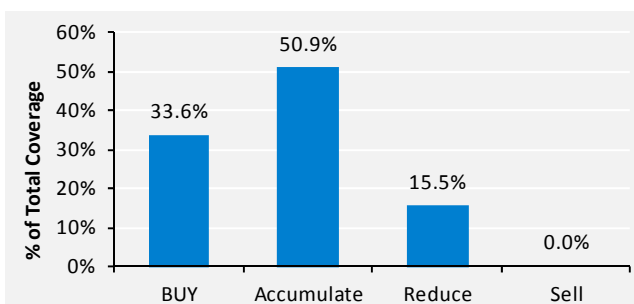
Y/e March	2015	2016	2017E	2018E
Two-wheeler volume (units)	3,292,084	3,358,252	3,713,851	4,049,822
Three-wheeler volume (units)	519,117	535,329	540,847	592,732
Total volume (units)	3,811,201	3,893,581	4,254,698	4,642,554
Domestic sales (units)	2,005,123	2,153,677	2,612,005	2,792,045
Exports (units)	1,806,078	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.

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