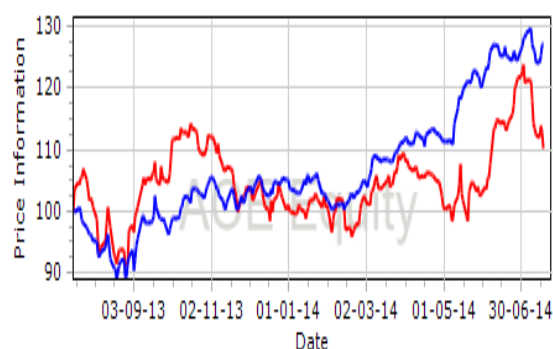
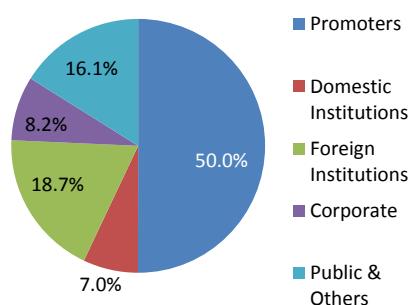


CMP: Rs 2092  
Target Price: Rs 2142  
**Recommendation: HOLD**

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	25,561
NSE Nifty	7,640

Market Info	
Market Capital	Rs 60,528cr
Equity Capital	Rs 289.37cr
Avg Trading Volume	3,69,400
52 Wk High / low	2,364/ 1,683
Face Value	Rs 10

Latest Shareholding Pattern, Jun 14



**BAL Q1FY15 results were slightly below estimates but our long term view on the stock remains positive. BAL's ambition of becoming global leader in motorcycle is reflected in its global sales and in our view BAL is inching towards its goal with every passing quarter.**

> **Q1 Net Revenues** stood at Rs 5,133 cr, an increase of 6.8% on YoY basis. Volume was up marginally by 0.9% yoy. Realizations were up by 5.8% YoY. Export continued to remain strong and stood at Rs 2,251 crs an increase of 20.0% on YoY basis. Volumes in export market continued to remain strong registering a growth of 15%, however volumes in domestic market remained subdued. Volumes in domestic market are expected to pick up in H2FY15.

> **Q1 Operating EBITDA:** Operating EBITDA increased by 2% YoY to Rs 925 crs. EBITDA margins were 17.6% a decline of 90 bps YoY due to MTM losses. Excluding MTM losses margins were 19.6%.

> **Q1 PAT** stood at Rs 740 crs showing a marginal increase of 0.3% on yoy basis. Effective tax rate for the quarter stood higher at 31.2% due to the change in taxation for FMP's.

> **OUTLOOK FOR NEXT 2 YEARS:** We remain **"cautious"** on Bajaj's business outlook over FY15 & FY16, due to sluggish growth in the domestic 2W segment and absence of Bajaj Auto in scooter segment. We also expect its share in domestic 2W segment to decline owing to the increased completion from Honda. However we are quite confident of its export growth momentum to continue. Overall we are cautiously optimistic on company's business outlook for next 2 years.

> **FINANCIALS & ESTIMATES:** We estimate BAL's revenue growth at 11.6% in FY15 and 16.2% in FY16. We have modelled for 5% volume growth in FY15 and 9% in FY16 aided by strong export growth. We are forecasting 6-6.5% growth in realisations aided by favourable volume mix over next 2 years. We expect EBITDA margins to remain in the range of 18-20% over FY15-16E. We expect PAT growth at a 2 year CAGR of 13%, aided by strong export growth and stable commodity prices.

> **VALUATION:** We forecast Bajaj's domestic volumes to remain under pressure in 1HFY15 and thus expect domestic volumes to decline by 3% in FY15 and grow by 7% in FY16. Exports on other hand are expected to report ~15%+ volume growth in FY15 as well as FY16. We believe export exposure will help Bajaj Auto to tide over weak domestic market. We assign a price target of Rs 2142, at 15x FY16 EPS of Rs 143 per share, and have a **"NEUTRAL"** rating on this stock.



**CONFERENCE CALL UPDATE**

- Share of Discover family bikes is falling for 10 consecutive quarters and currently stands at 12% from a peak of 24%. BAL is introducing new 150cc Discover to regain some market share. Discover was introduced as an executive bike in 125cc segment but later diluted its positioning by introducing in 100cc segment where Discover lost its glory. BAL is now looking to regain some glory by introducing higher cc Discover bikes.
- Company expects its exports to grow at 15-18%, however growth in domestic market hinges on the success of new Discover.
- BAL maintained its share in premium segment as Pulsar continues to hold strong with market share of 44%. Management has indicated towards new product launches in pulsar family of bikes only towards the end of the fiscal year.
- Low end commuter bike Platina market share is maintained at 24%.
- Export market continues to do well with positives emerging from countries like Egypt. Company has strong presence in African market and its collaboration with Kawasaki to sell bikes in Indonesia and Philippines are yielding positive results.
- Company is looking to enter new markets like Brazil, Tunisia, Malaysia etc.
- Management highlighted domestic 3W volumes can improve on opening of new permits in states like Maharashtra and Delhi.
- Operating margins are expected to remain in the range of 19-20% over near term.
- At present company is not looking to enter scooters market.



Quarter Results					
Rs in cr	Q1FY15	Q1FY14	yoy%	Q4FY14	qoq%
Volumes (in numbers)	9,88,430	9,79,275	0.9%	9,35,782	5.6%
Net Realization per unit	51,935	49,105	5.8%	51,536	0.8%
Net Sales	5,133	4,809	6.8%	4,823	6.4%
Other Operating Income	119	102	16.3%	110	8.6%
Income from Operations	5,252	4,911	6.9%	4,932	6.5%
Materials Consumed	3,680	3,407	8.0%	3,435	7.1%
Employees Cost	215	184	16.8%	175	22.8%
Other Expenditure	445	432	3.0%	404	10.2%
Expenses Capitalized	(13)	(18)	-30.5%	(13)	-3.2%
Total Expenditure	4,327	4,004	8.1%	4,001	8.2%
Operating EBITDA	925	907	2.0%	931	-0.7%
margin	17.6%	18.5%		18.9%	
Core EBITDA	806	804	0.2%	822	-1.9%
margin	15.7%	16.7%		17.0%	
Depreciation and write downs	69	44	55.9%	44	55.6%
Operating EBIT before Other Income & Excp Items	856	862	-0.7%	887	-3.5%
Other Income	219	176	24.9%	185	18.6%
PBIT before Exceptional Items	1,075	1,038	3.6%	1,072	0.3%
Interest	0	0	22.2%	0	-35.3%
PBT before Exceptional Items	1,075	1,038	3.6%	1,072	0.3%
Exceptional items	-	-		-	
PBT	1,075	1,038	3.6%	1,072	0.3%
Tax Expense	335	300	11.6%	309	8.5%
Effective Tax Rate	31.2%	28.9%		28.8%	
Net Profit after Tax	740	738	0.3%	763	-3.0%
EPS	25.6	25.5	0.3%	26.4	-3.0%



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Net Sales</b>	<b>19,489</b>	<b>19,718</b>	<b>22,009</b>	<b>25,581</b>
YoY%	3.2	1.2	11.6	16.2
Other Operating Income	508	432	473	537
<b>Income from Operations</b>	<b>19,997</b>	<b>20,150</b>	<b>22,482</b>	<b>26,119</b>
Materials Consumed	14,407	13,877	15,670	18,035
Total Expenditure	16,362	16,044	18,377	20,926
<b>Operating EBITDA</b>	<b>3,635</b>	<b>4,106</b>	<b>4,105</b>	<b>5,193</b>
Operating EBITDA margin %	18.2	20.4	18.3	19.9
Depreciation	164	180	187	205
Operating EBIT before adj	3,471	3,926	3,918	4,988
Other Income	795	706	787	914
Interest	1	0	0	0
PBT before Excp Items	4,266	4,632	4,704	5,902
<b>PBT</b>	<b>4,266</b>	<b>4,632</b>	<b>4,704</b>	<b>5,902</b>
Tax Expense	1,223	1,390	1,411	1,771
<b>Reported Net Profit</b>	<b>3,044</b>	<b>3,242</b>	<b>3,293</b>	<b>4,131</b>
YoY%	1.3	6.5	1.6	25.5
Effective Tax Rate	28.7	30.0	30.0	30.0
<b>Reported EPS</b>	<b>105.2</b>	<b>112.1</b>	<b>113.8</b>	<b>142.8</b>

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Liabilities + Equity</b>				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	7,613	9,319	10,580	12,341
<b>Shareholders' funds</b>	<b>7,902</b>	<b>9,608</b>	<b>10,869</b>	<b>12,631</b>
Non-current liab & Prov	443	409	436	429
Current liabilities	4,134	4,730	5,224	6,101
<b>Total - Equity and liabilities</b>	<b>12,479</b>	<b>14,748</b>	<b>16,530</b>	<b>19,161</b>
<b>Assets</b>				
Non-current assets				
Fixed assets	2,098	2,150	2,234	2,325
Long Term Inv	3,719	6,260	6,260	6,260
Loans + Adv + Others	463	721	694	816
Non-current assets	6,281	9,131	9,188	9,401
Current assets				
Cash	559	495	1,899	3,774
Other Current Assets	5,639.2	5,121.2	5,442.6	5,987.1
Sub-total - Current assets	6,198	5,617	7,342	9,761
<b>Total - Assets</b>	<b>12,479</b>	<b>14,748</b>	<b>16,530</b>	<b>19,161</b>

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Operating Activities</b>				
<b>PBT</b>	<b>4,266</b>	<b>4,632</b>	<b>4,704</b>	<b>5,902</b>
Add Depr + non op exp	164	180	187	205
Others	331	(355)	(44)	(7)
Total	4,761	4,457	4,846	6,100
Cash Taxes	(1,223)	(1,315)	(1,411)	(1,771)
Changes in Working Cap	(521)	404	172	333
<b>Cash Flow from Operations</b>	<b>2,134</b>	<b>3,546</b>	<b>3,608</b>	<b>4,662</b>
<b>Investing Activities</b>				
Change in investments	(770)	(1,921)	(17)	(14)
Capex	(508)	(220)	(84)	(90)
<b>Cash Flow from Investing</b>	<b>(1,278)</b>	<b>(2,141)</b>	<b>(102)</b>	<b>(104)</b>
<b>Financing Activities</b>				
<b>Dividends + Taxes paid</b>	<b>(1,511)</b>	<b>(1,518)</b>	<b>(2,031)</b>	<b>(2,370)</b>
Change in Non Curr Liab	31.8	50.0	(61.6)	(313.3)
<b>Cash Flow from Financing</b>	<b>(1,479)</b>	<b>(1,468)</b>	<b>(2,093)</b>	<b>(2,683)</b>
Opening Cash	1,172.8	550.3	486.3	1,899.3
Changes during year	(622.5)	(64.0)	1,413.0	1,874.3
<b>Closing Cash</b>	<b>550.3</b>	<b>486.3</b>	<b>1,899.3</b>	<b>3,773.6</b>

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
<b>Profitability</b>				
<b>Operating EBITDA%</b>	<b>18.2</b>	<b>20.4</b>	<b>18.3</b>	<b>19.9</b>
Operating EBIT%	17.4	19.5	17.4	19.1
Core EBITDA%	16.0	18.6	16.5	18.2
Core EBIT%	15.2	17.7	15.7	17.4
PAT%	15.6	16.4	15.0	16.2
<b>ROAE%</b>	<b>43.7</b>	<b>37.0</b>	<b>32.2</b>	<b>35.2</b>
<b>Du Pont ROAE breakup</b>				
PAT / Sales	15.6	16.4	15.0	16.2
Sales / Avg Total Assets	165.4	144.8	140.7	143.3
Avg Total Assets / Avg Eqty	169.0	155.5	152.7	151.9
<b>ROE</b>	<b>43.7</b>	<b>37.0</b>	<b>32.2</b>	<b>35.2</b>
<b>Other Ratios</b>				
<b>Current Ratio</b>	<b>1.5</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>
Long Term Debt / Equity	0.01	0.01	0.01	0.00
<b>EPS</b>	<b>105.2</b>	<b>112.1</b>	<b>113.8</b>	<b>142.8</b>
DPS	45.0	50.0	60.0	70.0
Dividend %	450.0	500.0	600.0	700.0
<b>Dividend Payout ratio</b>	<b>42.8</b>	<b>44.6</b>	<b>52.7</b>	<b>49.0</b>
<b>P/E</b>	<b>19.9</b>	<b>18.7</b>	<b>18.4</b>	<b>14.7</b>
BVPS	273.1	332.0	375.6	436.5
P/BV	7.7	6.3	5.6	4.8



Arihant Research Desk  
For queries:  
E. research@arihantcapital.com  
T. 022-42254800

#### Head Office

3<sup>rd</sup> Floor, Krishna Bhuvan,  
67 Nehru Road, Vile Parle (East),  
Mumbai - 400057  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

#### Registered Office

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

#### Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12-20%
Hold	5-12%
Neutral	0-5%
Reduce	< 0%

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