Result Update-Q2FY15

Bajaj Auto Ltd (BAL)

One time charge play spoilsport

17th Oct, 2014

CMP: Rs 2,363

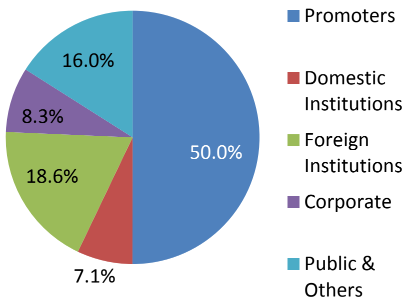
Target Price: Rs 2,248

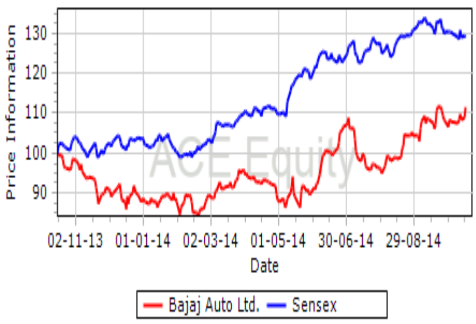
Recommendation: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	25,999
NSE Nifty	7,748

Market Info	
Market Capital	Rs 68,375cr
Equity Capital	Rs 289.37cr
Avg Trading Volume	3,48,940
52 Wk High / low	2,455/ 1,796
Face Value	Rs 10

Latest Shareholding Pattern, Sep 14





BAL Q1FY15 results were in line with estimates. Company has incurred a onetime charge of Rs 340.29 on account of National Calamity Contingent Duty (NCCD) which drastically impacted the bottom-line. However, 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.

> Q2 Net Revenues stood at Rs 5,827 cr, an increase of 15.1% on YoY basis. Volume was up by 9.8% yoy. Realizations were up by 4.8% YoY. Export continued to remain strong and stood at Rs 2,736 crs an increase of 28.8% on YoY basis. Volumes in export market continued to remain strong registering a growth of 29%, however volumes in domestic market remained subdued. Volumes in domestic market are expected to pick up in H2FY15.

> Q2 Operating EBITDA: Operating EBITDA declined marginally by 0.5% YoY to Rs 1,127 crs. EBITDA margins were 18.9% a decline of 200 bps YoY due to price cuts taken in some export market to increase penetration.

> Q2 PAT stood at Rs 853 crs (excluding exceptional item) showing an increase of 1.9% on YoY basis. However company had to incur one time charge of Rs 340.29 crs on account of NCCD. Going forward the monthly charge towards NCCD is expected to be ~ Rs 3 crs per month. PAT after exceptional item stood at Rs 591 crs.

Cash & cash equivalent at the end of the quarter stood at Rs 8,313 crore.

> OUTLOOK FOR NEXT 2 YEARS: We remain **"cautiously optimistic"** on Bajaj's business outlook over FY15 & FY16, due to recovery in the domestic 2W segment and strong export growth. We expect its share in domestic 2W segment to decline owing to the increased competition 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 2HFY15 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 2,284, at 16x FY16 EPS of Rs 143 per share, and have a "**NEUTRAL**" rating on this stock.

CONFERENCE CALL UPDATE

- Record sales of 3 wheelers, improved product mix and depreciating rupee (in Q1 average against USD was 59.5 and in Q2 it was 61.5) led to net realization to Rs 55,200 against Rs 51,935 qoq.
- Newly launched discover 150cc sells ~ 24K-25K per month which is quite good but the success would only be measured after festival season is over. If it can maintain the volume in Jan- Mar quarter then we have a reason to believe its success. Discover family although is losing ground.
- Management expects 10-12% growth in Domestic market while 18-20% growth in Exports market.
- Margins for the quarter are negatively impacted as BAL has reduced prices in markets like Srilanka, Nigeria, etc to expand market penetration.
- 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.
- Exports contributed 49% in terms of volume and 45% in terms of value.
- 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.

Quarterly Results					
Rs in cr	Q2FY15	Q2FY14	yoy%	Q1FY15	qoq%
Volumes (in numbers)	**10,55,582**	**9,61,330**	**9.8%**	**9,88,430**	**6.8%**
Net Realization per unit	**55,200**	**52,651**	**4.8%**	**51,935**	**6.3%**
Net Sales	**5,827**	**5,061**	**15.1%**	**5,133**	**13.5%**
Other Operating Income	136	113	20.1%	119	14.4%
Income from Operations	5,963	5,175	15.2%	5,252	13.5%
Materials Consumed	4,110	3,469	18.5%	3,680	11.7%
Employees Cost	210	183	14.6%	215	-2.0%
Other Expenditure	532	405	31.4%	445	19.5%
Expenses Capitalized	(16)	(14)	14.7%	(13)	26.5%
Total Expenditure	**4,836**	**4,043**	**19.6%**	**4,327**	**11.8%**
Operating EBITDA	**1,127**	**1,132**	**-0.5%**	**925**	**21.8%**
margin	**18.9%**	**21.9%**		**17.6%**	
Core EBITDA	991	1,019	-2.8%	806	22.9%
margin	17.0%	20.1%		15.7%	
Depreciation and write downs	69	44	54.9%	69	-0.8%
Operating EBIT before Other Income & Excp Items	1,058	1,088	-2.7%	856	23.6%
Other Income	114	124	-8.5%	219	-48.2%
PBIT before Exceptional Items	**1,172**	**1,212**	**-3.3%**	**1,075**	**9.0%**
Interest	0	0	25.0%	0	-54.5%
PBT before Exceptional Items	**1,172**	**1,212**	**-3.3%**	**1,075**	**9.0%**
Exceptional items	-	-		-	
PBT	831	1,212	-31.4%	1,075	-22.7%
Tax Expense	241	375	-35.8%	335	-28.2%
Effective Tax Rate	28.9%	30.9%		31.2%	
Net Profit after Tax	**591**	**837**	**-29.4%**	**740**	**-20.1%**
EPS	**20.4**	**28.9**	**-29.5%**	**25.6**	**-20.2%**

Source: Company data, Arihant Research

Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	19,489	19,718	22,009	25,581
YoY%	3.2	1.2	11.6	16.2
Other Operating Income	508	432	473	537
Income from Operations	19,997	20,150	22,482	26,119
Materials Consumed	14,407	13,877	15,670	18,035
Total Expenditure	16,362	16,044	18,377	20,926
Operating EBITDA	3,635	4,106	4,105	5,193
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
Exceptional item	-	-	358	-
PBT	4,266	4,632	4,346	5,902
Tax Expense	1,223	1,390	1,304	1,771
Reported Net Profit	3,044	3,242	3,042	4,131
YoY%	1.3	6.5	(6.2)	35.8
Effective Tax Rate	28.7	30.0	30.0	30.0
Reported EPS	105	112	105	143

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	7,613	9,319	10,687	12,449
Shareholders' funds	7,902	9,608	10,977	12,738
Non-current liab & Prov	443	409	436	429
Current liabilities	4,134	4,730	5,224	6,101
Total - Equity and liabilities	12,479	14,748	16,637	19,269
Assets				
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	2,007	3,881
Other Current Assets	5,639.2	5,121.2	5,442.6	5,987.1
Sub-total - Current assets	6,198	5,617	7,449	9,868
Total - Assets	12,479	14,748	16,637	19,269

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	4,266	4,632	4,704	5,902
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)	(1,304)	(1,771)
Changes in Working Cap	(521)	404	172	333
Cash Flow from Operations	2,134	3,546	3,715	4,662
Investing Activities				
Change in investments	(770)	(1,921)	(17)	(14)
Capex	(508)	(220)	(84)	(90)
Cash Flow from Investing	(1,278)	(2,141)	(102)	(104)
Financing Activities				
Dividends + Taxes paid	(1,511)	(1,518)	(2,031)	(2,370)
Change in Non Curr Liab	31.8	50.0	(61.6)	(313.3)
Cash Flow from Financing	(1,479)	(1,468)	(2,093)	(2,683)
Opening Cash	1,172.8	550.3	486.3	2,006.7
Changes during year	(622.5)	(64.0)	1,520.4	1,874.3
Closing Cash	550.3	486.3	2,006.7	3,881.0

Source: Company data, Arihant Research

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	18.2	20.4	18.3	19.9
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	13.8	16.2
ROAE%	43.7	37.0	29.6	34.8
Du Pont ROAE breakup				
PAT / Sales	15.6	16.4	13.8	16.2
Sales / Avg Total Assets	165.4	144.8	140.3	142.5
Avg Total Assets / Avg Eqty	169.0	155.5	152.5	151.4
ROE	43.7	37.0	29.6	34.8
Other Ratios				
Current Ratio	1.5	1.2	1.4	1.6
Long Term Debt / Equity	0.01	0.01	0.01	0.00
EPS	105.2	112.1	105.1	142.8
DPS	45.0	50.0	60.0	70.0
Dividend %	450.0	500.0	600.0	700.0
Dividend Payout ratio	42.8	44.6	57.1	49.0
P/E	19.9	18.7	19.9	14.7
BVPS	273.1	332.0	379.3	440.2

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Stock Rating

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

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