

International headwind continue.....

28th October, 2016

CMP: Rs 2,853
Target Price: Rs 2,793
Recommendation: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	28,015
NSE Nifty	8,663

Market Info	
Market Capital	Rs 82,567 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	3,05,320
52 Wk High / low	3,120/ 2,171
Face Value	Rs 10

BAL Q2FY17 results were slightly below estimates but our long term view on the stock remains positive. BAL continues its ambition of becoming global leader in motorcycle sales units and in our view BAL is inching towards its goal by 2nd half in FY17.

In spite of volatile global scenario BAL delivered good set of numbers in Q2FY17, with Lower operating margin mainly due to higher employees cost and Raw material cost. Premium and Super Sports segment and the high-end high-priced KTM motorcycle, along with Ninja models, recorded a strong growth of 16%. The pulsar and Avenger combined recorded a growth of 28% in YoY basis.

> **Q2 Net Revenues** stood at Rs 5,949 cr, decreased by 0.5% on YoY basis. Volume was down by 2% yoy and realizations were up by 1.9% YoY to Rs 57,652 per unit. Total Export volume declined by 25% on Y-o-Y basis.

> **Q2 Operating EBITDA:** The Company has delivered marginally lower operating margin this quarter to Rs 1,296 crs. EBITDA Margin was lower majorly due to Increase in employees and raw material costs. EBITDA margins were at 21.4% in Q2FY17 as compared to 21.6% in Q2FY16.

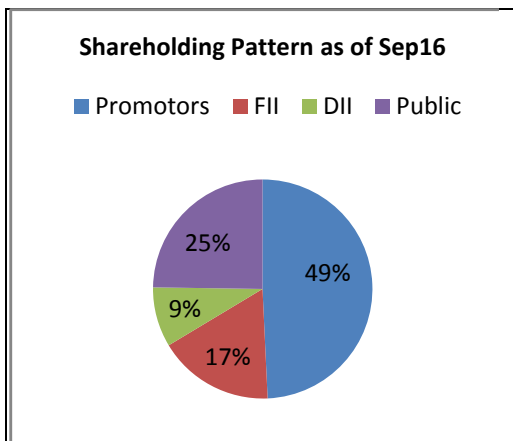
> **Q2 PAT:** A combination of better realisation, product mix offsetted slightly due to higher material costs and employees cost helped Bajaj Auto to reach profit of Rs 1123 crs an increase of 7% on YoY basis and 14.8% on q-o-q basis.

> **OUTLOOK:** We remain “cautiously optimistic” on Bajaj’s EBITDA margin due to uptick commodity business cycle and we expect growth in the domestic 3W segment and strong overall export growth as company intends to venture into few new markets as well. Company has strong outlook on premium and Luxury segment giving the strong demand for V15 and has been selling around 21,000 units per month. CT 100 and Platina are extremely doing well in the market and it is key products driving growth for BAL. The Avengers recorded a growth of `28% as against that an industry growth remained flat. However, we believe that ongoing rural slow down and headwind continued in international markets would have negative impact on industry as well as for Bajaj Auto over near term.

> **VALUATION:** We forecast Bajaj’s domestic and export volumes yet to recover, although, modestly in FY17E. We have valued the stock at PE of 18(X) to its FY18E and arrived at fair value of Rs2793. We have “NEUTRAL” Rating on the stock.

> **Financial Snapshot:**

Financial Snapshot				
(Rs Cr)	FY15	FY16	FY17E	FY18E
Revenue	21,104	22,253	23,741	25,261
EBITDA	4,117	4,779	5,325	5,729
Net Profit	2,814	3,563	4,096	4,491
EPS	97.2	130.8	141.6	155.2
ROE	27.7	30.0	29.7	28.7
P/E	20.7	18.4	20.2	18.4



Price Vs Sensex Chart





Quarterly Results:

Quarterly Results					
Rs in cr	Q2FY17	Q2FY16	yoy%	Q1FY17	qoq%
Volumes (in numbers)	10,31,945	10,56,596	-2%	9,94,733	3.7%
Net Realization per unit	57,652	56,603	1.9%	56,735	1.6%
Net Sales	5,949	5,981	-1%	5,644	5.4%
Other Operating Income	105	117		104	
Income from Operations	6,055	6,098	-1%	5,748	5.3%
Materials Consumed	4,057	4,055	0%	3,863	5.0%
Employees Cost	259	242	7.0%	268	-3.6%
Other Expenditure	448	488		445	
Expenses Capitalized	(6)	(4)		(4)	
Total Expenditure	4,758	4,781	0%	4,572	4.1%
Operating EBITDA	1,296	1,317	-2%	1,176	10.2%
margin	21.4%	21.6%		20.5%	
Core EBITDA	1,191	1,200	-1%	1,072	11.1%
margin	20.0%	20.1%		19.0%	
Depreciation and write downs	77	78	-1.4%	77	-0.7%
Operating EBIT before Other Income & Excp Items	1,219	1,239	-1.6%	1,099	11.0%
Other Income	342	268	28%	267	28.1%
PBIT before Exceptional Items	1,561	1,507	3.6%	1,366	14.3%
Interest	1	0		0	
PBT before Exceptional Items	1,561	1,507	3.6%	1,365	14.3%
Exceptional items	-	-		-	
PBT	1,561	1,507	3.6%	1,365	14.3%
Tax Expense	438	454		387	
Effective Tax Rate	28.1%	30.1%		28.4%	
Net Profit after Tax	1,123	1,053	7%	978	14.8%
EPS	38.8	36.4		35.9	

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Net Sales	21,104	22,253	23,741	25,261
YoY%	7.0	5.4	6.7	6.4
Other Operating Income	508	435	499	543
Income from Operations	21,612	22,688	24,240	25,804
Materials Consumed	14,850	15,057	15,954	16,925
Total Expenditure	17,495	17,909	18,915	20,075
Operating EBITDA	4,117	4,779	5,325	5,729
Operating EBITDA margin %	19.0	21.1	22.0	22.2
Depreciation	267	307	309	328
Operating EBIT before adj	3,849	4,472	5,017	5,401
Other Income	582	824	970	1,161
Interest	6	0	6	6
PBT before Excp Items	4,425	5,295	5,980	6,556
Exceptional item	340	-	-	-
PBT	4,085	5,295	5,980	6,556
Tax Expense	1,271	1,733	1,884	2,065
Reported Net Profit	2,814	3,563	4,096	4,491
YoY%	(13.2)	26.6	15.0	9.6
Effective Tax Rate	31.1	32.7	31.5	31.5
Reported EPS	97.2	130.8	141.6	155.2

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Liabilities + Equity				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	10,403	12,756	14,259	16,441
Shareholders' funds	10,692	13,045	14,548	16,731
Non-current liab & Prov	393	428	437	445
Current liabilities	4,484	2,953	2,900	2,872
Total - Equity and liabilities	15,569	16,427	17,884	20,048
Assets				
Non-current assets				
Fixed assets	2,172	2,078	2,369	2,487
Long Term Inv	3,353	9,041	9,702	10,438
Loans + Adv + Others	511	682	737	803
Non-current assets	6,036	11,801	12,808	13,728
Current assets				
Cash	593	867	1,037	1,184
Other Current Assets	8,940	3,759	4,040	5,135
Sub-total - Current assets	9,533	4,626	5,076	6,320
Total - Assets	15,569	16,427	17,884	20,048

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Operating Activities				
PBT	4,085	5,295	5,980	6,556
Add Depr + non op exp	267	307	309	328
Others	(306)	(639)	(599)	(315)
Total	4,046	4,964	5,690	6,569
Cash Taxes	(1,288)	(1,819)	(1,972)	(2,435)
Changes in Working Cap	(645)	534	285	808
Cash Flow from Operations	2,114	3,678	4,004	4,943
Investing Activities				
Change in investments	(1,348)	(848)	(209)	(1,278)
Capex	(270)	(265)	(500)	(500)
Cash Flow from Investing	(1,617)	(1,113)	(709)	(1,778)
Financing Activities				
Dividends + Taxes paid	(1,178)	(3,434)	(2,244)	(2,661)
Change in Non Curr Liab	47	(2,813)	(745)	(984)
Cash Flow from Financing	(1,644)	(6,247)	(2,989)	(3,644)
Opening Cash	492	582	820	1,025
Changes during year	90	238	205	146
Unclaimed dividends account	9	11	11	12
Closing Cash	593	867	1,037	1,184

Source: Company data, Arihant Research

Ratio Analysis				
	FY15	FY16	FY17 E	FY18E
Profitability				
Operating EBITDA%	19.0	21.1	22.0	22.2
Operating EBIT%	17.8	19.7	20.7	20.9
Core EBITDA%	17.1	19.5	20.3	20.5
Core EBIT%	15.8	18.1	19.0	19.2
PAT%	13.3	17.0	17.3	17.8
ROAE%	27.7	30.0	29.7	28.7
Du Pont ROAE breakup				
PAT / Sales	13.3	16.0	17.3	17.8
Sales / Avg Total Assets	1.4	1.4	1.4	1.3
Avg Total Assets / Avg Eqty	1.5	1.3	1.2	1.2
ROE	27.7	30.0	29.7	28.7
Other Ratios				
Current Ratio	2.1	1.6	1.8	2.2
Long Term Debt / Equity	0.01	0.01	0.01	0.01
EPS	97.2	130.8	141.6	155.2
DPS	50.0	55.0	55.0	65.0
Dividend %	500.0	550.0	550.0	650.0
Dividend Payout ratio	51.4	42.1	38.9	41.9
P/E	20.7	18.4	20.2	18.4
BVPS	369.5	450.8	502.8	578.2
P/BV	5.5	5.3	5.7	4.9



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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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