

Improved Margins
18th October 2017

CMP: Rs 3,259

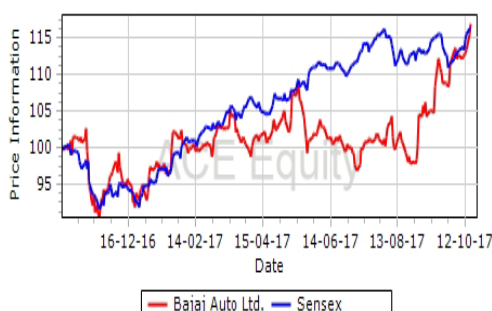
Target Price: Rs 3340

Recommendation: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	32,609
NSE Nifty	10,234

Market Info	
Market Capital	Rs 93,898 cr.
Equity Capital	Rs 289cr
6MAvg Trading Volume	2,89,465
52 Wk High / low	3,315/ 2,510
Face Value	Rs 10

Shareholding Pattern (%)	(Sep 2017)
Promoters	49.0
Domestic Institutions	9.0
Foreign Institutions	17.0
Public & Others	25.0

Price Vs Sensex Chart


> **Q2 Net Revenues** stood at Rs 6,475 cr, increased by 8% on YoY basis. Volume increased by 3.8% yoy and realizations were up by 4.8% YoY to Rs 60,427 per unit. Total Export volume was up by 6% on Y-o-Y basis.

> **Q2 Operating EBITDA:** The Company has delivered a healthy operating margin. Operating EBITDA margins were at 20% in Q2FY18 as compared to 21.4% in Q2FY17.

> **Q2 PAT:** Bajaj Auto reported profit of Rs 1112 cr lower by 1% on YoY basis and increase of 20% on q-o-q basis.

> Conference call Highlights:

- New Avenger in Pipeline with new and improved feature.
- CT ES and Platina helping gain fresh market share.
- 1.7Million volumes expected from export for the year end.
- Nigerian market is revived its exports have increased to Nigeria which were suffering.
- CY 2020 expect to launch 1st Triumph.
- Three wheeler markets is growing rapidly due to the permits.
- Karnataka permits to help increase the sale of 3Wheeler.
- 3 Wheeler Capacity is around 50-55k units but the requirement is 60k units.
- Industry growth expected to be 8-8.5%.
- Input cost increasing due to increase in prices of Aluminium and Steel.
- Road Map for 2020:
Next 2-3 years to focus on Triumph, New Vertical, Export expected to strengthen, Africa a huge market.
- KTM currently growing at 20-25%.
- 15% overall CAGR till 2020 however export is a concern.
- Potential market share till year end expected to be 24% which is 19% currently.

> **VALUATION:** With export market revival and 3 Wheeler segment growing rapidly due to permits, management expects the company to grow in double digit. While the input prices are increasing and little concern over the exports, we have valued the stock at PE of 20(X) to its FY19E EPS of Rs 167 and arrived at fair value of Rs 3340. We have "**Neutral**" Rating on the stock.

> Financial Snapshot:

Financial Snapshot			
(Rs Cr)	FY17	FY18E	FY19E
Revenue	21,374	25,044	27,096
EBITDA	4,422	5,187	5,742
Net Profit	3,827	4,396	4,846
EPS	132	152	167
ROE	25.3	26.3	27.5
P/E	21.3	21.5	19.5



Quarterly Results:

Quarterly Results					
Rs in cr	Q2FY18	Q1FY18	QoQ	Q2FY17	YoY
Volumes (in numbers)	10,71,510	8,88,434	21%	10,31,945	3.8%
Net Realization per unit	60,427	59,976	0.8%	57,652	4.8%
Net Sales	6,475	5,328	22%	5,949	8.8%
Other Operating Income	105	114	-7.7%	105	-0.1%
Revenues from Operations	6,580	5,442	21%	6,055	8.7%
	-				
Materials Consumed	4,549	3,809	19%	4,057	12.1%
Employees Cost	265	273	-2.8%	259	2.4%
Other Expenditure	472	427	11%	448	5.4%
Expenses Capitalized	(4)	(5)	-11.2%	(6)	-27.9%
Total Expenditure	5,282	4,504	17%	4,758	11.0%
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Operating EBITDA	1,297	938	38%	1,296	0.1%
margin	19.7%	17.2%	14.4%	21.4%	-7.9%
Core EBITDA	1,192	824	45%	1,191	0.12%
margin	18%	15.5%	19.0%	20.0%	-8.0%
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Depreciation and write downs	77	75	2.3%	77	0.0%
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Operating EBIT before Other Income & Excp Items	1,221	863	41.4%	1,219	0.1%
Other Income	297	457	-35%	342	-13.1%
PBIT before Exceptional Items	1,518	1,320	14.9%	1,561	-2.8%
Interest	0.47	0.24	96%	1	-30.9%
PBT before Exceptional Items	1,517	1,320	14.9%	1,561	-2.8%
Exceptional items	-	-		-	
PBT	1,517	1,288	17.8%	1,561	-2.8%
Tax Expense	406	364	11%	438	-7.4%
Effective Tax Rate	26.7%	28.3%	-5.5%	28.1%	-4.7%
Net Profit after Tax	1,112	924	20%	1,123	-1.0%
EPS	41	32	29.2%	42	-0.7%

*(We have calculated EBITDA after adjusted Excise duty.)



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Net Sales	21,374	25,044	27,096
YoY%	(4.0)	17.2	8.2
Other Operating Income	393	538	583
Income from Operations	21,767	25,583	27,678
Materials Consumed	14,624	17,281	18,642
Total Expenditure	17,345	20,396	21,937
Operating EBITDA	4,422	5,187	5,742
Operating EBITDA margin %	20.3	20.3	20.7
Depreciation	307	298	322
Operating EBIT before adj	4,115	4,889	5,419
Other Income	1,222	1,535	1,661
Interest	1	6	6
PBT before Excp Items	5,335	6,418	7,074
Exceptional item	-	-	-
PBT	5,335	6,418	7,074
Tax Expense	1,508	2,022	2,228
Reported Net Profit	3,827	4,396	4,846
YoY%	7.4	14.9	10.2
Effective Tax Rate	28.3	31.5	31.5
Reported EPS	132	152	167

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Liabilities + Equity			
(a) Share capital	289	289	289
(b) Reserves and surplus	16,745	18,072	20,102
Shareholders' funds	17,034	18,361	20,391
Non-current liab & Prov	568	581	595
Current liabilities	3,213	3,137	3,088
Total - Equity and liabilities	20,815	22,080	24,075
Assets			
Non-current assets			
Fixed assets	2,044	2,487	2,610
Long Term Inv	8,681	7,305	6,926
Loans + Adv + Others	698	768	844
Non-current assets	11,424	10,559	10,381
Current assets			
Cash	279	557	735
Other Current Assets	9,112	10,963	12,957
Sub-total - Current assets	9,391	11,521	13,693
Total - Assets	20,815	22,080	24,075

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY17	FY18E	FY19E
Operating Activities			
PBT	5,335	6,418	7,074
Add Depr + non op exp	307	298	322
Others	(1,027)	(211)	(211)
Total	4,615	6,205	5,985
Cash Taxes	(1,503)	(2,287)	(2,540)
Changes in Working Cap	226	425	512
Cash Flow from Operations	3,338	4,343	3,957
Investing Activities			
Change in investments	(3,489)	(1,233)	(1,358)
Capex	(199)	(870)	(870)
Cash Flow from Investing	(3,688)	(2,103)	(2,228)
Financing Activities			
Dividends + Taxes paid	(202)	(1,966)	(1,511)
Change in Non Curr Liab	12	3	3
Cash Flow from Financing	(190)	(1,963)	(1,508)
Opening Cash	818	278	510
Changes during year	(540)	277	222
Effects exchange rate differences	1	2	3
Closing Cash	279	557	735

Source: Company data, Arihant Research

Ratio Analysis

	FY17	FY18E	FY19E
Profitability			
Operating EBITDA%	20.3	20.3	20.7
Operating EBIT%	18.9	19.1	19.6
Core EBITDA%	18.8	18.6	19.0
Core EBIT%	17.4	17.4	17.9
PAT%	17.9	17.6	17.9
ROAE%	25.3	26.3	27.5
Du Pont ROAE breakup			
PAT / Sales	17.9	17.6	17.9
Sales / Avg Total Assets	1.1	1.1	1.0
Avg Total Assets / Avg Eqty	1.2	1.4	1.5
ROE	25.3	26.3	27.5
Other Ratios			
Current Ratio	2.9	3.8	4.9
Long Term Debt / Equity	0.01	0.01	0.01
EPS	132.3	151.9	167.5
DPS	55.0	65.0	65.0
Dividend %	550.0	650.0	650.0
Dividend Payout ratio	41.6	42.8	38.8
P/E	21.3	21.5	19.5
BVPS	588.7	565.6	653.3
P/BV	4.8	5.8	5.0



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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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