

Margins remain strong

8th Feb, 2016

CMP: Rs 2,344

Target Price: Rs 2,664

Recommendation: Accumulate

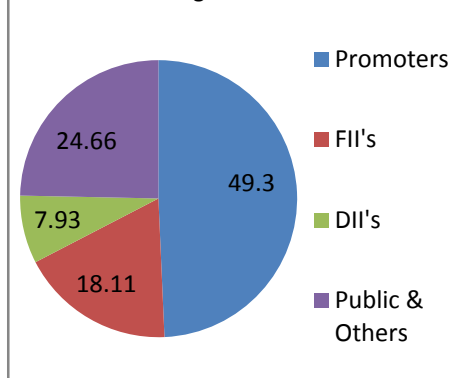
Stock Info

BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	24,287
NSE Nifty	7,387

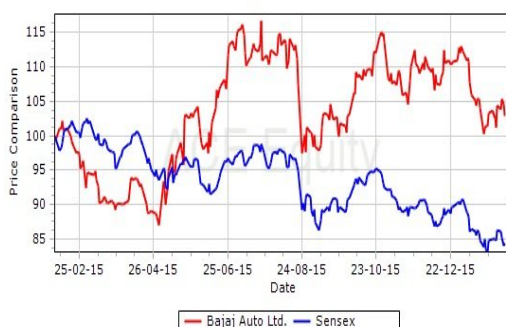
Market Info

Market Capital	Rs 66,845 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	4,28,120
52 Wk High / low	2,655/ 1,913
Face Value	Rs 10

Shareholding Pattern as of Dec 15



Price Vs Sensex Chart



In spite of volatile global scenario BAL delivered good set of numbers in Q3FY16, with higher operating margin and EBITDA mainly due to increased sales volumes of higher-priced bikes such as Avenger and Pulsar; higher sales in three-wheeler segment; and the drop in the rupee's value, boosting export realisations. Bajaj Auto expects exports to pick up in newer markets such as Russia and Turkey, even as markets like Nepal and Egypt are rebounding. However Export revenue during the quarter was down due to sliding oil prices causing balance of payment issues resulting in non availability of US\$ for imports. Our BAL's FY16 estimate domestic sales are ~260K units in 3W segment. 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 marching towards its goal with every passing quarter.

> **Q3 Net Revenues** stood at Rs 5,565 cr, decrease of 1.6% on YoY basis. Volume was down by 3.4% yoy. However, realizations were up by 2.4% YoY to Rs 57,417 per unit. Export revenue in USD terms declined by 14% YoY, mainly due to lower dispatches to Egypt and Nigeria.

> **Q3 Operating EBITDA:** The Company was able to maintain strong operating margin this quarter to Rs 1,171 crs. EBITDA was higher majorly due to drop in the rupee's value improving realization on export and increased premium segment motorcycles. EBITDA margins were at 21%.

> **Q3 PAT:** A combination of better realisation, product mix and cost efficiency due to lower material costs helped Bajaj Auto to reach profit of Rs 901 crs an increase of 4.7% on YoY basis.

> **OUTLOOK FOR FY16:** We remain "cautiously optimistic" on Bajaj's business outlook in FY16, due to expected growth in the domestic 3W segment and strong overall export growth as company intends to venture into few new markets as well. Management expects its market share in domestic 2W segment to increase by end of FY16 to 22 % from 16.8% in FY15. Company has strong outlook on premium and Luxury segment giving the strong demand for Avenger for which company plans to increase the production capacity to 30,000 units per month by march 2016. The Avengers, along with the Pulsars, recorded a growth of `11% as against an industry growth of 3%. Strong product pipeline and lower crude price will help Bajaj in continuing growth. However, we believe that ongoing rural slow down would have negative impact on industry as well as for Bajaj Auto over near term.

> **FINANCIALS & ESTIMATES:** Higher Premium segments motorcycles & 3W contribution & with better product mix and improvement in realization with these three parameters, we estimate BAL's revenue growth of 7.2% in FY16. We expect EBITDA margins to remain at 21% in FY16 and one year PAT growth of 35%, aided by strong export growth and falling commodity prices.

> **VALUATION:** We forecast Bajaj's domestic volumes to recover, although, modestly in FY16. We assign a one year price target of Rs 2,626 at 19x FY16 EPS of Rs 140 per share, and have "Accumulate" rating on this stock.



CONFERENCE CALL UPDATE

- Company confident of raising its market share to 22% by end of FY 16.
- BAL's Management indicated increase in volume majorly driven by New Avenger 150 & 200CC.
- Volumes of the newly launched highly profitable Avenger series recorded an increase to over 20,000 units in December month and management targeting to sell to near 80,000 units by Q4 FY16.
- M2 Segment expanded by 350 bps this quarter with introduction of new Platina ES and CT which recorded a sale of 215,000 units this Quarter.
- Management expects it will get more 40,000 to 50,000 permits for 3 Wheelers.
- Company will launch New motorcycle model called "V" by March end with initial volume of 20,000, and it will increased as ramped up by demand in domestic market.
- On Commodity side BAL's cost drivers may be impacted due to increase in MIP in Q1FY17.
- Management is very bullish on exports, post overcoming majority of the hurdles and built-up demand coming back from all major countries.
- Management provides guidance on Export volume will grow at CAGR 12 to 15% by this financial year end.
- Inventory well within 25 days mark in Nigeria with stock including of (local dealers and Stock in transit).
- Also indicated profitability improvement in export market due to hedging at higher rate of dollars for next one and half year.
- BAL's Capex expected to be 300 cr to 400cr during FY16 & FY17 majorly for Assembly and R&D.
- Marketing & promotion expenses as % of sales will remain same.
- BAL's Spare Parts business grew at 11% this quarter including Domestic and Export.



Quarterly Results					
Rs in cr	Q3FY16	Q3FY15	yoy%	Q2FY16	qoq%
Volumes (in numbers)	9,51,498	9,84,520	-3.4%	10,56,596	-9.9%
Net Realization per unit	57,417	56,068	2.4%	56,603	1.4%
Net Sales	5,463	5,520	-1.0%	5,981	-8.7%
Other Operating Income	102	137		117	
Income from Operations	5,565	5,657	-1.6%	6,098	-8.7%
Materials Consumed	3,696	3,862	-4.3%	4,055	-8.9%
Employees Cost	230	214	7.6%	242	-4.8%
Other Expenditure	471	368		488	
Expenses Capitalized	(4)	(13)		(4)	
Total Expenditure	4,394	4,430	-0.8%	4,781	-8.1%
Operating EBITDA	1,171	1,227	-4.5%	1,317	-11.1%
margin	21.0%	21.7%		21.6%	
Core EBITDA	1,070	1,090	-1.8%	1,200	-10.9%
margin	19.6%	19.7%		20.1%	
Depreciation and write downs	75	66	13.5%	78	-4.3%
Operating EBIT before Other Income & Excp Items	1,097	1,161	-5.5%	1,239	-11.5%
Other Income	200	95		153	
PBIT before Exceptional Items	1,296	1,256	3.2%	1,392	-6.9%
Interest	0	0		0	
PBT before Exceptional Items	1,296	1,256	3.2%	1,391	-6.8%
Exceptional items	-	-		-	
PBT	1,296	1,256	3.2%	1,391	-6.8%
Tax Expense	395	395		458	
Effective Tax Rate	30.5%	31.4%		32.9%	
Net Profit after Tax	901	861	4.7%	933	-3.4%
EPS	31.2	29.8		32.2	

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16 E
Net Sales	19,489	19,718	21,104	24,055
YoY%	3.2	1.2	7.0	14.0
Other Operating Income	508	432	508	469
Income from Operations	19,997	20,150	21,612	24,524
Materials Consumed	14,407	13,877	14,850	16,406
Total Expenditure	16,362	16,044	17,495	19,401
Operating EBITDA	3,635	4,106	4,117	5,124
Operating EBITDA margin %	18.2	20.4	19.0	20.9
Depreciation	164	180	267	322
Operating EBIT before adj	3,471	3,926	3,849	4,801
Other Income	795	706	582	1,128
Interest	1	0	6	5
PBT before Excp Items	4,266	4,632	4,425	5,924
Exceptional item	-	-	340	-
PBT	4,266	4,632	4,085	5,924
Tax Expense	1,223	1,390	1,271	1,866
Reported Net Profit	3,044	3,242	2,814	4,058
YoY%	1.3	6.5	(13.2)	44.2
Effective Tax Rate	28.7	30.0	31.1	31.5
Reported EPS	105.2	112.1	97.2	140.2

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16 E
Liabilities + Equity				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	7,613	9,319	10,403	14,828
Shareholders' funds	7,902	9,608	10,692	15,117
Non-current liab & Prov	443	409	393	486
Current liabilities	4,134	4,730	4,477	5,810
Total - Equity and liabilities	12,479	14,748	15,562	21,413
Assets				
Non-current assets				
Fixed assets	2,098	2,150	2,172	2,247
Long Term Inv	3,719	6,260	3,353	7,376
Loans + Adv + Others	463	721	511	767
Non-current assets	6,281	9,131	6,036	10,390
Current assets				
Cash	559	495	586	1,388
Other Current Assets	5,639	5,121	8,940	9,635
Sub-total - Current assets	6,198	5,617	9,526	11,023
Total - Assets	12,479	14,748	15,562	21,413

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16 E
Operating Activities				
PBT	4,266	4,632	4,085	5,924
Add Depr + non op exp	164	180	267	322
Others	331	(356)	(306)	(222)
Total	4,761	4,456	4,047	6,024
Cash Taxes	(1,223)	(1,314)	(1,285)	(1,866)
Changes in Working Cap	(521)	404	(614)	352
Cash Flow from Operations	2,134	3,546	2,147	4,510
Investing Activities				
Change in investments	(770)	(1,921)	(1,348)	(1,869)
Capex	(508)	(220)	(270)	(74)
Cash Flow from Investing	(1,278)	(2,141)	(1,617)	(1,146)
Financing Activities				
Dividends + Taxes paid	(1,511)	(1,518)	(1,178)	(2,370)
Change in Non Curr Liab	32	50	47	(180)
Cash Flow from Financing	(1,479)	(1,468)	(1,644)	(2,550)
Opening Cash	1,173	550	486	575
Changes during year	(622)	(64)	89	813
Unclaimed dividends account				
Closing Cash	559	495	586	1,388

Source: Company data, Arihant Research

Ratio Analysis

	FY13	FY14	FY15	FY16 E
Profitability				
Operating EBITDA%	18.2	20.4	19.0	20.9
Operating EBIT%	17.4	19.5	17.8	19.6
Core EBITDA%	16.0	18.6	17.1	19.4
Core EBIT%	15.2	17.7	15.8	18.0
PAT%	15.6	16.4	13.3	16.9
ROAE%	43.7	37.0	27.7	31.4
Du Pont ROAE breakup				
PAT / Sales	15.6	16.4	13.3	16.9
Sales / Avg Total Assets	1.7	1.4	1.4	1.3
Avg Total Assets / Avg Eqty	1.7	1.6	1.5	1.4
ROE	43.7	37.0	27.7	31.4
Other Ratios				
Current Ratio	1.5	1.2	2.1	1.9
Long Term Debt / Equity	0.01	0.01	0.01	0.01
EPS	105.2	112.1	97.2	140.2
DPS	45.0	50.0	50.0	70.0
Dividend %	450.0	500.0	500.0	700.0
Dividend Payout ratio	42.8	44.6	61.7	49.9
P/E	21.9	20.5	23.7	16.8
BVPS	273.1	332.0	369.5	522.4



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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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