

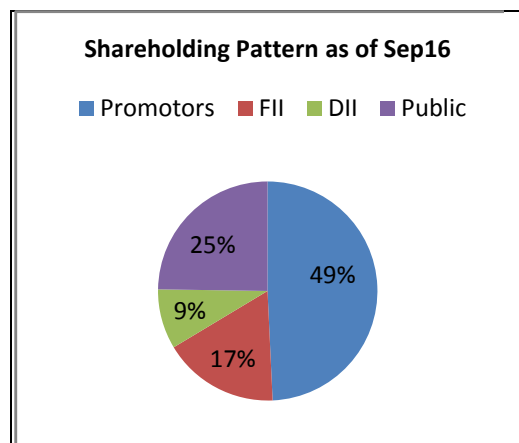
International headwind continue.....

31st January, 2017

CMP: Rs 2,845
Target Price: Rs 2,890
Recommendation: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	27,655
NSE Nifty	8,561

Market Info	
Market Capital	Rs 82,267 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	3,05,320
52 Wk High / low	3,120/ 2,171
Face Value	Rs 10



Price Vs Sensex Chart



In spite of volatile global scenario BAL delivered good set of numbers in Q3FY17, 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. During the quarter, BAL has sold 8,000 units of KTM and 1, 78,000 units of Avengers.

> **Q3 Net Revenues** stood at Rs 4,976 cr, decreased by 9% on YoY basis. Volume was down by 10% yoy and realizations were up by 1.8% YoY to Rs 58,423 per unit. Total Export volume declined by 17.5% on Y-o-Y basis.

> **Q3 Operating EBITDA:** The Company has delivered marginally lower operating margin this quarter to Rs 1,044crs. EBITDA Margin was lower mainly due to Increase in employees and raw material costs. EBITDA margins were at 20.6% in Q3FY17 as compared to 21.0% in Q3FY16. (22% EBITDA Margin reported by the company).

> **Q3 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 924 crs an increase of 3% on YoY basis and decline by 14.8% on q-o-q basis.

> **Conference call Highlights:**

- Management expects 2W industry to remain in the negative growth in January and end of the year at flat or negative growth levels as against industry growth of 12% till October.
- In HFY17, Industry has registered growth about 13% while BAL has registered growth about 18%. However, post demonetisation, industry has fallen down by 16%, while BAL has fallen down by 10%.
- BAL has taken a price hike of Rs600-1200 per unit from Jan in order to pass on the cost inflation for shifting to BS4 compliance.
- BAL's exports faced difficulties over last 2 years due to various global factors like falling crude price, adverse currency movement, geopolitical issues, etc. Management stated that visibility over near term export volumes will remain sluggish at least for next 6-8 months.

> **VALUATION:** We forecast Bajaj's domestic and export volumes yet to recover, although, modestly in FY17E. We have valued the stock at PE of 20(X) to its FY18E and arrived at fair value of Rs2890. We have "NEUTRAL" Rating on the stock.

> **Financial Snapshot:**

Financial Snapshot				
(Rs Cr)	FY15	FY16	FY17E	FY18E
Revenue	21,104	22,253	22,023	23,515
EBITDA	4,117	4,779	4,940	5,333
Net Profit	2,814	3,563	4,031	4,180
EPS	97.2	130.8	139.3	144.5
ROE	27.7	30.0	29.3	27.1
P/E	20.7	18.4	19.0	18.4



Quarterly Results:

Quarterly Results					
Rs in cr	Q3FY17	Q3FY16	yoy%	Q2FY17	qoq%
Volumes (in numbers)	8,51,645	9,51,498	-10%	10,31,945	-17.5%
Net Realization per unit	58,423	57,417	1.8%	57,652	1.3%
Net Sales	4,976	5,463	-9%	5,949	-16.4%
Other Operating Income	91	102		105	
Income from Operations	5,067	5,565	-9%	6,055	-16.3%
Materials Consumed	3,384	3,696	-8%	4,057	-16.6%
Employees Cost	242	230	5.3%	259	-6.3%
Other Expenditure	401	471		448	
Expenses Capitalized	(5)	(4)		(6)	
Total Expenditure	4,023	4,394	-8%	4,758	-15.5%
Operating EBITDA	1,044	1,171	-11%	1,296	-19.5%
margin	20.6%	21.0%		21.4%	
Core EBITDA	953	1,070	-11%	1,191	-20.0%
margin	19.1%	19.6%		20.0%	
Depreciation and write downs	77	75	3.4%	77	0.3%
Operating EBIT before Other Income & Excp Items	967	1,097	-11.8%	1,219	-20.7%
Other Income	319	200	60%	342	-6.8%
PBIT before Exceptional Items	1,286	1,296	-0.8%	1,561	-17.7%
Interest	0	0		1	
PBT before Exceptional Items	1,285	1,296	-0.8%	1,561	-17.6%
Exceptional items	-	-		-	
PBT	1,285	1,296	-0.8%	1,561	-17.6%
Tax Expense	361	395		438	
Effective Tax Rate	28.1%	30.5%		28.1%	
Net Profit after Tax	924	901	3%	1,123	-17.7%
EPS	33.8	31.2		41.5	

Source: Company data, Arihant Research

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



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Net Sales	21,104	22,253	22,023	23,515
YoY%	7.0	5.4	(1.0)	6.8
Other Operating Income	508	435	462	506
Income from Operations	21,612	22,688	22,486	24,021
Materials Consumed	14,850	15,057	14,800	15,755
Total Expenditure	17,495	17,909	17,546	18,687
Operating EBITDA	4,117	4,779	4,940	5,333
Operating EBITDA margin %	19.0	21.1	22.0	22.2
Depreciation	267	307	286	306
Operating EBIT before adj	3,849	4,472	4,654	5,028
Other Income	582	824	1,237	1,081
Interest	6	0	6	6
PBT before Excp Items	4,425	5,295	5,884	6,102
Exceptional item	340	-	-	-
PBT	4,085	5,295	5,884	6,102
Tax Expense	1,271	1,733	1,854	1,922
Reported Net Profit	2,814	3,563	4,031	4,180
YoY%	(13.2)	26.6	13.1	3.7
Effective Tax Rate	31.1	32.7	31.5	31.5
Reported EPS	97.2	130.8	139.3	144.5

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	14,193	16,065
Shareholders' funds	10,692	13,045	14,483	16,354
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	17,819	19,672
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	957	786
Other Current Assets	8,940	3,759	4,053	5,157
Sub-total - Current assets	9,533	4,626	5,011	5,944
Total - Assets	15,569	16,427	17,819	19,672

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY15	FY16	FY17 E	FY18E
Operating Activities				
PBT	4,085	5,295	5,884	6,102
Add Depr + non op exp	267	307	286	306
Others	(306)	(639)	(599)	(315)
Total	4,046	4,964	5,572	6,093
Cash Taxes	(1,288)	(1,819)	(1,933)	(2,277)
Changes in Working Cap	(645)	534	285	808
Cash Flow from Operations	2,114	3,678	3,924	4,624
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	946
Changes during year	90	238	126	(173)
Unclaimed dividends account	9	11	11	12
Closing Cash	593	867	957	786

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	18.3	17.8
ROAE%	27.7	30.0	29.3	27.1
Du Pont ROAE breakup				
PAT / Sales	13.3	16.0	18.3	17.8
Sales / Avg Total Assets	1.4	1.4	1.3	1.3
Avg Total Assets / Avg Eqty	1.5	1.3	1.2	1.2
ROE	27.7	30.0	29.3	27.1
Other Ratios				
Current Ratio	2.1	1.6	1.7	2.1
Long Term Debt / Equity	0.01	0.01	0.01	0.01
EPS	97.2	130.8	139.3	144.5
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	39.5	45.0
P/E	20.7	18.4	19.0	18.4
BVPS	369.5	450.8	500.5	565.2
P/BV	5.5	5.3	5.3	4.7



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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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