

Margins remain strong

26th May, 2016

CMP: Rs 2,475

Target Price: Rs 2,791

Recommendation: Accumulate

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	26,023
NSE Nifty	7,972

Market Info	
Market Capital	Rs 71,729 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	4,28,120
52 Wk High / low	2,655/ 2,133
Face Value	Rs 10

BAL Q4FY16 results were slightly below estimates but 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.

In spite of volatile global scenario BAL delivered good set of numbers in Q4FY16, with higher operating margin and EBITDA mainly due to increased sales volumes of higher-priced bikes such as Avenger and V models; higher sales in three-wheeler segment; and the drop in the rupee's value, boosting export realisations. Premium and Super Sports segment, represented by the Pulsar and the high-end high-priced KTM motorcycle models, recorded a strong growth of 8%. Thus, market share in this segment improved from 43% in FY15 to 47% in FY16. The new Avengers, launched in October 2015, have been very successful. Sales improved from an average of 3,000 units per month to over 25,000 units per month.

> **Q4 Net Revenues** stood at Rs 5,411 cr, increased by 14.2% on YoY basis. Volume was up by 11.5% yoy. Thus, realizations were up by 2.9% YoY to Rs 60,792 per unit. Export revenue stood at Rs 9,773 cr increased by 0.15% YoY. Bajaj now entered into 16 new countries in this year which shows a positive sign from export side.

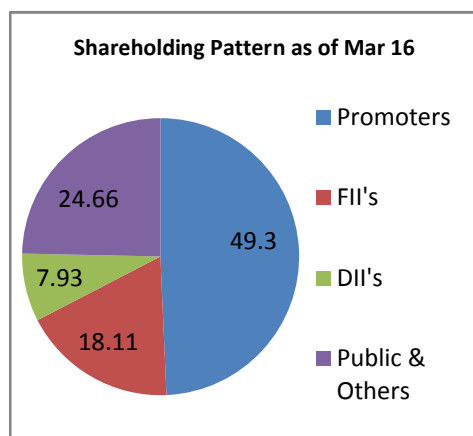
> **Q4 Operating EBITDA:** The Company was able to maintain strong operating margin this quarter to Rs 1,152 crs. EBITDA was higher majorly due to drop in the rupee's value improving realization on export and increased premium segment motorcycles. EBITDA margins were at 21.3%.

> **Q4 PAT:** A combination of better realisation, product mix and cost efficiency due to lower material costs helped Bajaj Auto to reach profit of Rs 803 crs an increase of 29% on YoY basis.

> **OUTLOOK FOR FY17:** We remain "cautiously optimistic" on Bajaj's business outlook in FY17, 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. 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 35,000 units per month by March 2017 for V15. The Avengers, along with the Pulsars, recorded a growth of `8% as against that an industry growth remained flat. 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 10% in FY17. We expect EBITDA margins to go up to 22% in FY17 and one year PAT growth of 17%, aided by strong export growth and falling commodity prices.

> **VALUATION:** We forecast Bajaj's domestic volumes to recover, although, modestly in FY17. We assign a one year price target of Rs 2,791 at 19x FY17 EPS of Rs 147 per share, and have "Accumulate" rating on this stock.



Price Vs Sensex Chart





CONFERENCE CALL UPDATE

- Market share of Bajaj Auto increased from 23% in FY15 to 35% in FY16. Bajaj Auto recorded a growth of 36% as against an industry growth of 8%. Overall, Bajaj Auto is a dominant player in these segments with a market share of 40%.
- BAL's Management indicated increase in volume majorly driven by New Avenger 150 & 200CC.
- The " V15 " has met with a very good response – delivered to 10,000 proud owners on day one of its launch in the domestic market.
- Management expects it will get more 40,000 to 50,000 permits for 3 Wheelers in three regions (Maharashtra, Hyderabad & NCR)
- Platina and CT combine sold over 865,000 units; a growth of 67%. CT expanded this segment by 250 bps and the segment now represents over 23% of the total domestic motorcycle 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.
- 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 FY16-17 majorly for Assembly and R&D.
- Marketing & promotion expenses as % of sales will remain same.
- On spare part side, demand from home country is strong. Company expecting 15% growth from domestic market in FY17.



Quarterly Results					
Rs in cr	Q4FY16	Q4FY15	yoy%	Q3FY16	qoq%
Volumes (in numbers)	8,72,458	7,82,669	11.5%	9,51,498	-8.3%
Net Realization per unit	60,792	59,076	2.9%	57,417	5.9%
Net Sales	5,304	4,624	14.7%	5,463	-2.9%
Other Operating Income	108	116		102	
Income from Operations	5,411	4,739	14.2%	5,565	-2.8%
Materials Consumed	3,533	3,198	10.5%	3,696	-4.4%
Employees Cost	203	259	-21.6%	230	-11.9%
Other Expenditure	529	463		471	
Expenses Capitalized	(5)	(18)		(4)	
Total Expenditure	4,260	3,902	9.2%	4,394	-3.0%
Operating EBITDA	1,152	838	37.4%	1,171	-1.7%
margin	21.3%	17.7%		21.0%	
Core EBITDA	1,044	722	44.6%	1,070	-2.4%
margin	19.7%	15.6%		19.6%	
Depreciation and write downs	76	64	19.3%	75	2.0%
Operating EBIT before Other Income & Excp Items	1,075	774	38.9%	1,097	-1.9%
Other Income	124	154		200	
PBIT before Exceptional Items	1,200	928	29.2%	1,296	-7.5%
Interest	0	6		0	
PBT before Exceptional Items	1,200	922	30.1%	1,296	-7.5%
Exceptional items	-	-		-	
PBT	1,200	922	30.1%	1,296	-7.5%
Tax Expense	396	300		395	
Effective Tax Rate	33.1%	32.6%		30.5%	
Net Profit after Tax	803	622	29.2%	901	-10.9%
EPS	27.8	21.5		31.2	

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Net Sales	19,717.64	21,104	22,253	24,635
YoY%	1.2	7.0	5.4	10.7
Other Operating Income	432	508	435	517
Income from Operations	20,150	21,612	22,688	25,153
Materials Consumed	13,877	14,850	15,057	16,555
Total Expenditure	16,044	17,495	17,908	19,627
Operating EBITDA	4,106	4,117	4,780	5,526
Operating EBITDA margin %	20.4	19.0	21.1	22.0
Depreciation	180	267	307	320
Operating EBIT before adj	3,926	3,849	4,472	5,205
Other Income	706	582	913	1,006
Interest	0	6	0	6
PBT before Excp Items	4,632	4,425	5,385	6,206
Exceptional item	-	340	-	-
PBT	4,632	4,085	5,385	6,206
Tax Expense	1,390	1,271	1,733	1,955
Reported Net Profit	3,242	2,814	3,652	4,251
YoY%	6.5	(13.2)	29.8	16.4
Effective Tax Rate	30.0	31.1	32.2	31.5
Reported EPS	112.1	97.2	126.2	146.9

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Liabilities + Equity				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	9,319	10,403	12,002	14,149
Shareholders' funds	9,608	10,692	12,292	14,438
Non-current liab & Prov	409	393	428	437
Current liabilities	4,730	4,477	2,953	2,688
Total - Equity and liabilities	14,748	15,562	15,673	17,563
Assets				
Non-current assets				
Fixed assets	2,150	2,172	2,078	2,369
Long Term Inv	6,260	3,353	8,294	9,373
Loans + Adv + Others	721	511	682	737
Non-current assets	9,131	6,036	11,055	12,479
Current assets				
Cash	495	586	860	931
Other Current Assets	5,121	8,940	3,759	4,154
Sub-total - Current assets	5,617	9,526	4,618	5,084
Total - Assets	14,748	15,562	15,673	17,563

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
Operating Activities				
PBT	4,632	4,085	5,385	6,206
Add Depr + non op exp	180	267	307	320
Others	(355)	(306)	(87)	(120)
Total	4,457	4,046	5,606	6,406
Cash Taxes	(1,315)	(1,285)	(1,733)	(1,955)
Changes in Working Cap	404	(614)	(905)	225
Cash Flow from Operations	3,546	2,147	2,968	4,676
Investing Activities				
Change in investments	(1,921)	(1,348)	(2,263)	(1,029)
Capex	(220)	(270)	94	(450)
Cash Flow from Investing	(2,141)	(1,617)	(2,169)	(1,479)
Financing Activities				
Dividends + Taxes paid	(1,518)	(1,178)	(1,261)	(2,539)
Change in Non Curr Liab	50	47	(265)	(587)
Cash Flow from Financing	(1,468)	(1,644)	(1,526)	(3,126)
Opening Cash	550	486	575	848
Changes during year	(64)	89	273	71
Unclaimed dividends account	9	9	11	11
Closing Cash	495	586	860	931

Source: Company data, Arihant Research

Ratio Analysis

	FY14	FY15	FY16	FY17 E
Profitability				
Operating EBITDA%	20.4	19.0	21.1	22.0
Operating EBIT%	19.5	17.8	19.7	20.7
Core EBITDA%	18.6	17.1	19.5	20.3
Core EBIT%	17.7	15.8	18.1	19.0
PAT%	16.4	13.3	16.4	17.3
ROAE%	37.0	27.7	31.8	31.8
Du Pont ROAE breakup				
PAT / Sales	16.4	13.3	16.4	17.3
Sales / Avg Total Assets	1.4	1.4	1.4	1.5
Avg Total Assets / Avg Eqty	1.6	1.5	1.4	1.2
ROE	37.0	27.7	31.8	31.8
Other Ratios				
Current Ratio	1.2	2.1	1.6	1.9
Long Term Debt / Equity	0.01	0.01	0.01	0.01
EPS	112.1	97.2	126.2	146.9
DPS	50.0	50.0	55.0	55.0
Dividend %	500.0	500.0	550.0	550.0
Dividend Payout ratio	44.6	51.4	43.6	37.4
P/E	18.5	20.7	19.1	16.9
BVPS	332.0	369.5	424.8	499.0
P/BV	6.3	5.5	5.7	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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