

International headwind continue.....

19th May, 2017

CMP: Rs 2,973
Target Price: Rs 2,972
Recommendation: NEUTRAL

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	30,434
NSE Nifty	9,429

Market Info	
Market Capital	Rs 85,594 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	2,87,600
52 Wk High / low	3,120/ 2,364
Face Value	Rs 10

In spite of volatile global scenario, BAL continues to be in top 2 position in 21 countries. During the quarter, Lower operating margin was mainly due to higher employee 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 year, BAL has sold 35,000 units of KTM and 7, 86,000 units of Avengers.

> **Q4 Net Revenues** stood at Rs 4,805 cr, decreased by 9% on YoY basis. Volume was down by 10% yoy and realizations were up by 1.3% YoY to Rs 61,000 per unit. Total Export volume declined by 19% on Y-o-Y basis.

> **Q4 Operating EBITDA:** The Company has delivered marginally lower operating margin this quarter to Rs 905crs. EBITDA Margin was lower mainly due to Increase in employee and raw material costs. EBITDA margins were at 18.5% in Q4FY17 as compared to 21.5% in Q4FY16. (21.2% EBITDA Margin reported by the company).

> **Q4 PAT:** A combination of better realisation, product mix offsetted slightly due to higher material cost, Increase in cost on transition from BSIII to BSIV compliant vehicles, employees cost helped Bajaj Auto to reach profit of Rs 801 crs lower by 20% on YoY basis and declined by 13% on q-o-q basis.

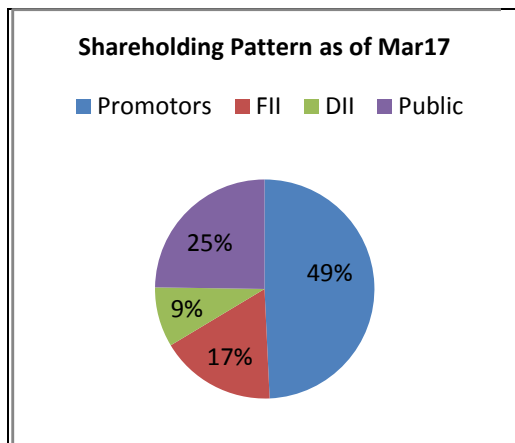
> **Conference call Highlights:**

- In current Quarter, Due to BSIII Norms Company has given 16cr discounts to dealer to clear BSIII stocks. While, TVS and Hero has given 53cr and 119cr respectively.
- Management expects to increase in cost of raw materials & BSIV Material cost in Q1FY18.
- 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.
- Management has set target to export 4,50,000 units in Q1FY18 and maintain 20% EBITDA Margin Level for FY18.

> **VALUATION:** We forecast Bajaj's domestic and export volumes yet to recover, although, modestly in FY18E. We have valued the stock at PE of 20(X) to its FY19E and arrived at fair value of Rs2972. We have "NEUTRAL" Rating on the stock.

> **Financial Snapshot:**

Financial Snapshot				
(Rs Cr)	FY16	FY17E	FY18E	FY19E
Revenue	22,253	21,374	22,715	24,187
EBITDA	4,779	4,421	5,152	5,486
Net Profit	3,563	3,826	4,038	4,300
EPS	130.8	132.2	139.5	148.6
ROE	30.0	28.0	26.7	25.3
P/E	18.4	22.5	21.3	20.0



Price Vs Sensex Chart





Quarterly Results:

Quarterly Results					
Rs in cr	Q4FY17	Q4FY16	yoy%	Q3FY17	qoq%
Volumes (in numbers)	7,87,627	8,72,458	-10%	8,51,645	-7.5%
Net Realization per unit	61,006	60,234	1.3%	58,423	4.4%
Net Sales	4,805	5,255	-9%	4,976	-3.4%
Other Operating Income	92	108		91	
Income from Operations	4,897	5,363	-9%	5,067	-3.3%
Materials Consumed	3,320	3,533	-6%	3,384	-1.9%
Employees Cost	227	202	12.4%	242	-6.2%
Other Expenditure	452	479		401	
Expenses Capitalized	(8)	(5)		(5)	
Total Expenditure	3,992	4,210	-5%	4,023	-0.8%
Operating EBITDA	905	1,153	-22%	1,044	-13.3%
margin	18.5%	21.5%		20.6%	
Core EBITDA	813	1,046	-22%	953	-14.7%
margin	16.9%	19.9%		19.1%	
Depreciation and write downs	76	76	-0.5%	77	-1.9%
Operating EBIT before Other Income & Excp Items	829	1,077	-23.0%	967	-14.2%
Other Income	294	257	14%	319	-7.8%
PBIT before Exceptional Items	1,123	1,334	-15.8%	1,286	-12.6%
Interest	0	0		0	
PBT before Exceptional Items	1,123	1,334	-15.8%	1,285	-12.6%
Exceptional items	-	-		-	
PBT	1,123	1,334	-15.8%	1,285	-12.6%
Tax Expense	322	384		361	
Effective Tax Rate	28.7%	28.8%		28.1%	
Net Profit after Tax	801	996	-20%	924	-13.3%
EPS	29.8	34.4		33.8	

Source: Company data, Arihant Research

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



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Net Sales	22,253	21,374	22,715	24,187
YoY%	5.4	(4.0)	6.3	6.5
Other Operating Income	435	393	488	520
Income from Operations	22,688	21,767	23,203	24,707
Materials Consumed	15,057	14,624	15,219	16,205
Total Expenditure	17,909	17,346	18,052	19,221
Operating EBITDA	4,779	4,421	5,152	5,486
Operating EBITDA margin %	21.1	20.3	22.2	22.2
Depreciation	307	307	295	314
Operating EBIT before adj	4,472	4,114	4,856	5,171
Other Income	824	1,222	1,044	1,112
Interest	0	1	6	6
PBT before Excp Items	5,295	5,334	5,895	6,277
Exceptional item	-	-	-	-
PBT	5,295	5,334	5,895	6,277
Tax Expense	1,733	1,508	1,857	1,977
Reported Net Profit	3,563	3,826	4,038	4,300
YoY%	26.6	7.4	5.5	6.5
Effective Tax Rate	32.7	28.3	31.5	31.5
Reported EPS	130.8	132.2	139.5	148.6

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Liabilities + Equity				
(a) Share capital	289	289	289	289
(b) Reserves and surplus	12,756	13,988	15,718	17,709
Shareholders' funds	13,045	14,278	16,007	17,998
Non-current liab & Prov	428	437	445	455
Current liabilities	2,953	2,900	2,872	2,872
Total - Equity and liabilities	16,427	17,614	19,325	21,325
Assets				
Non-current assets				
Fixed assets	2,078	2,369	2,487	2,610
Long Term Inv	9,041	9,719	10,467	10,892
Loans + Adv + Others	682	737	803	882
Non-current assets	11,801	12,825	13,757	14,384
Current assets				
Cash	867	750	432	522
Other Current Assets	3,759	4,040	5,135	6,420
Sub-total - Current assets	4,626	4,789	5,568	6,941
Total - Assets	16,427	17,614	19,325	21,325

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY16	FY17	FY18E	FY19E
Operating Activities				
PBT	5,295	5,334	5,895	6,277
Add Depr + non op exp	307	307	295	314
Others	(639)	(603)	(315)	(316)
Total	4,964	5,038	5,875	6,276
Cash Taxes	(1,819)	(1,757)	(2,205)	(2,401)
Changes in Working Cap	534	285	808	999
Cash Flow from Operations	3,678	3,567	4,478	4,874
Investing Activities				
Change in investments	(848)	(209)	(1,278)	(1,278)
Capex	(265)	(500)	(500)	(500)
Cash Flow from Investing	(1,113)	(709)	(1,778)	(1,778)
Financing Activities				
Dividends + Taxes paid	(3,434)	(2,244)	(2,661)	(2,661)
Change in Non Curr Liab	(2,813)	(745)	(984)	(971)
Cash Flow from Financing	(6,247)	(2,989)	(3,644)	(3,632)
Opening Cash	582	820	738	418
Changes during year	238	(82)	(320)	89
Unclaimed dividends account	11	11	12	14
Closing Cash	867	750	432	522

Source: Company data, Arihant Research

Ratio Analysis				
	FY16	FY17	FY18E	FY19E
Profitability				
Operating EBITDA%	21.1	20.3	22.2	22.2
Operating EBIT%	19.7	18.9	20.9	20.9
Core EBITDA%	19.5	18.8	20.5	20.5
Core EBIT%	18.1	17.4	19.2	19.2
PAT%	17.0	17.9	17.8	17.8
ROAE%	30.0	28.0	26.7	25.3
Du Pont ROAE breakup				
PAT / Sales	16.0	17.9	17.8	17.8
Sales / Avg Total Assets	1.4	1.3	1.2	1.2
Avg Total Assets / Avg Eqty	1.3	1.2	1.2	1.2
ROE	30.0	28.0	26.7	25.3
Other Ratios				
Current Ratio	1.6	1.7	1.9	2.4
Long Term Debt / Equity	0.01	0.01	0.01	0.01
EPS	130.8	132.2	139.5	148.6
DPS	55.0	55.0	65.0	65.0
Dividend %	550.0	550.0	650.0	650.0
Dividend Payout ratio	42.1	41.6	46.6	43.7
P/E	18.4	20.1	19.0	17.8
BVPS	450.8	493.4	553.2	622.0
P/BV	5.3	5.4	4.8	4.3



Arihant Research Desk
 For queries:
 E. research@arihantcapital.com
 T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
 Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road,
 Chakala, Andheri (E).
 Mumbai - 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 Ratlam Kothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Stock Rating

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

Disclaimer: Arihant Capital Markets Limited is not soliciting any action based upon it. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However we do not represent that it is accurate or complete and it should not be relied upon such. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of Arihant is in any way responsible for its contents. The firm or its employees may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based. Before its publication the firm, its owners or its employees may have a position or be otherwise interested in the investment referred to in this document. This is just a suggestion and the firm or its employees will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. No matter contained in this document may be reproduced or copied without the consent of the firm.