

Bajaj Auto

Performance Highlights

Y/E March (₹ cr)	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)
Net Sales	5,613	5,252	6.9	4,739	18.4
Adj. EBITDA	1,140	925	23.2	904	26.1
EBITDA Margin (%)	20.3	17.6	270 bp	19.1	120 bp
Adj. net profit	1,015	740	37.1	666	52.4

Source: Company, Angel Research

Operating performance misses estimates; other income boosts profitability: Bajaj Auto (BJAUT)'s 1QFY2016 results have come in marginally below our estimates on the operating front. However, higher other income boosted profitability, leading the net profit to come in ahead of our estimates.

Revenues grew 7% yoy to ₹5,613cr, which is lower than our expectation of ₹6,058cr. Volumes grew 3% yoy, led by recovery in the motorcycle segment. Realisation/vehicle grew 4% yoy but declined by 9% on a sequential basis. Realisation/vehicle at ₹55,412 was lower than our estimate owing to higher proportion of entry level bikes in the sales mix. Operating margin, at 20.3%, was broadly in line with our expectation. However, given the lower revenues, the operating profit, at ₹1,140cr, missed our estimate of ₹1,193cr. Other income, at ₹437cr, almost doubled yoy, thus boosting profitability. Net Profit, at ₹1,015cr, beat our estimates of ₹952cr.

Outlook and valuation: The domestic two-wheeler industry is likely to remain under pressure in FY2016 on account of slowdown in rural demand. Unseasonal rains, which have led to crop damage, have impact rural incomes and in turn rural demand. BJAUT, however is expected to outperform the industry and regain market share on back of new launches across the motorcycle segments viz commuter, executive and premium. However, given the recent correction in the crude prices is likely to impact the demand in the key export geographies where crude is the major income source. Also, further price cuts in exports to boost volumes and deteriorating product mix would more than offset the benefits from increased dollar realization, thereby keeping margins in check. We expect BJAUT to report revenue and PAT CAGR of 12% and 16%, respectively, over FY2015-2017. **We have retained our earnings estimates and maintain our Neutral rating on the stock with fair value of ₹2,454.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	20,150	21,612	23,842	27,264
% chg	0.8	7.3	10.3	14.4
Net Profit	3,242	3,101	3,715	4,175
% chg	6.6	(4.4)	19.8	12.4
EBITDA (%)	20.4	19.0	19.8	19.6
EPS (₹)	112.1	107.2	128.4	144.4
P/E (x)	22.3	23.3	19.4	17.3
P/BV (x)	7.7	6.9	5.9	5.1
RoE (%)	34.8	27.0	30.5	29.5
RoCE (%)	46.8	40.3	41.9	40.3
EV/Sales (x)	3.2	2.9	2.6	2.2
EV/EBITDA (x)	15.7	15.5	13.3	11.4

Source: Company, Angel Research; Note: CMP as of July 24, 2015

NEUTRAL

CMP	₹2,497
Target Price	-

Investment Period	-
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Stock Info

Sector	Automobile
Market Cap (₹ cr)	72,268
Net Debt (₹ cr)	(9,628)
Beta	0.7
52 Week High / Low	2,737/2,239
Avg. Daily Volume	78,778
Face Value (₹)	10
BSE Sensex	28,112
Nifty	8,522
Reuters Code	BAJA.BO
Bloomberg Code	BJAUT@IN

Shareholding Pattern (%)

Promoters	49.2
MF / Banks / Indian Fls	16.3
FII / NRIs / OCBs	14.9
Indian Public / Others	19.6

Abs. (%)	3m	1yr	3yr
Sensex	2.5	7.0	66.2
Bajaj Auto	25.1	18.6	60.2

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)	FY2015	FY2014	% chg (yoy)
Total operating income	5,613	5,252	6.9	4,739	18.4	21,612	20,150	7.3
Raw material consumption	3,773	3,680	2.5	3,198	18.0	14,850	13,877	7.0
% of total operating income	67.2	70.1		67.5		68.7	68.9	
Employee expense	244	215	13.6	259	(5.7)	897	727	23.5
% of total operating income	4.3	4.1		5.5		4.2	3.6	
Other expenditure	457	432	5.7	445	2.7	1,748	1,441	21.4
% of total operating income	8.1	8.2		9.4		8.1	7.1	
Total expenditure	4,474	4,327	3.4	3,902	14.7	17,495	16,044	9.0
% of total operating income	79.7	82.4		82.3		81.0	79.6	
Reported EBITDA	1,140	925	23.2	838	36.0	4,117	4,106	0.3
EBITDA margin (%)	20.3	17.6		17.7		19.0	20.4	
Depreciation	78	69	13.3	64	22.9	267	180	48.9
EBIT	1,498	1,075	39.3	928	61.4	4,432	4,633	(4.3)
Other Income	437	219	99.2	154	183.1	582	706	(17.6)
Net Interest exp (inc)	0	0	(27.3)	6	(98.7)	6	0	1,224.5
Profit before tax (PBT)	1,498	1,075	39.3	922	62.5	4,425	4,632	(4.5)
Taxes	483	335	44.2	300	60.8	1,271	1,389	(8.5)
% of PBT	32.3	31.2		32.6		28.7	30.0	
Profit after tax (PAT)	1,015	740	37.1	622	63.3	2,814	3,243	(13.2)
Extraordinary income/(expense)	-	-		44		287	-	
Adjusted PAT	1,015	740	37.1	666	52.3	3,101	3,243	(4.4)
Equity capital	289.4	289.4		289.4		289.4	289.4	
Reported EPS (₹)	35.1	25.6	37.1	21.5	63.3	97.2	112.1	(13.2)
Adjusted EPS (₹)	35.1	25.6	37.1	23.0	52.3	107.2	112.1	(4.4)

Source: Company, Angel Research

Exhibit 2: 1QFY2016 – Actual vs Angel estimates

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	5,613	6,058	(7.3)
Adj. EBITDA	1,140	1,193	(4.5)
EBITDA margin (%)	20.3	19.7	60 bp
Adjusted PAT	1,015	952	6.6

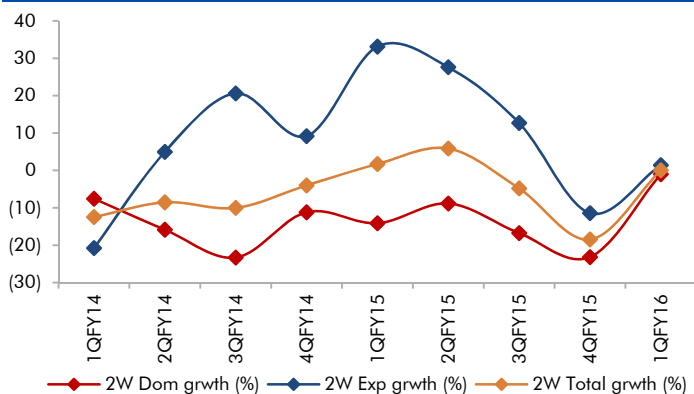
Source: Company, Angel Research

Exhibit 3: Quarterly volume performance

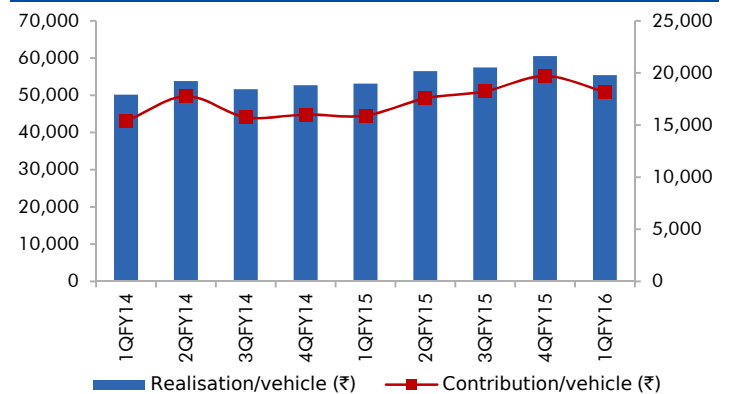
Y/E March	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)	FY2015	FY2014	% chg (yoy)
Motorcycles (Domestic)	485,818	490,841	(1.0)	379,437	28.0	1,770,778	2,099,230	(15.6)
Motorcycles (Exports)	389,417	384,017	1.4	293,532	32.7	1,521,306	1,323,173	15.0
Total Motorcycles	875,235	874,858	0.0	672,969	30.1	3,292,084	3,422,403	(3.8)
Three wheeler (Domestic)	50,715	55,622	(8.8)	48,628	4.3	234,345	186,912	25.4
Three wheeler (Exports)	87,079	57,950	50.3	61,072	42.6	284,772	260,762	9.2
Total Three wheeler	137,794	113,572	21.3	109,700	25.6	519,117	447,674	16.0
Overall Domestic	536,533	546,463	(1.8)	428,065	25.3	2,005,123	2,286,142	(12.3)
Overall Exports	476,496	441,967	7.8	354,604	34.4	1,806,078	1,583,935	14.0
Total volumes	1,013,029	988,430	2.5	782,669	29.4	3,811,201	3,870,077	(1.5)

Source: Company, Angel Research

- After two consecutive quarters of decline, motorcycles reported flat volumes 1QFY2016. Domestic volumes declined marginally by 1% led by sluggish demand for motorcycles; however the pace of decline moderated significantly during the quarter. Export volumes grew marginally, ie by 1%, led by recovery in the key export markets of Nigeria and Egypt.
- Realisation/vehicle declined 8% on a sequential basis to ₹55,413/unit. Adverse product mix (higher proportion of entry level bikes) coupled with price cuts in Africa impacted the realization. Contribution/vehicle also declined by 8% sequentially to ₹18,171/unit.

Exhibit 4: 2W volumes recover sharply


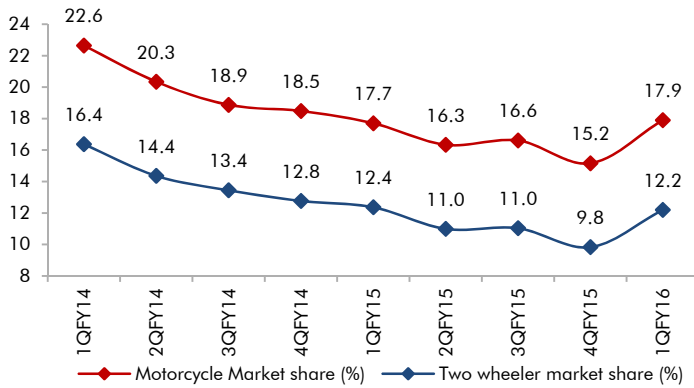
Source: SIAM, Angel Research

Exhibit 5: Realisation and contribution/vehicle trend


Source: Company, Angel Research

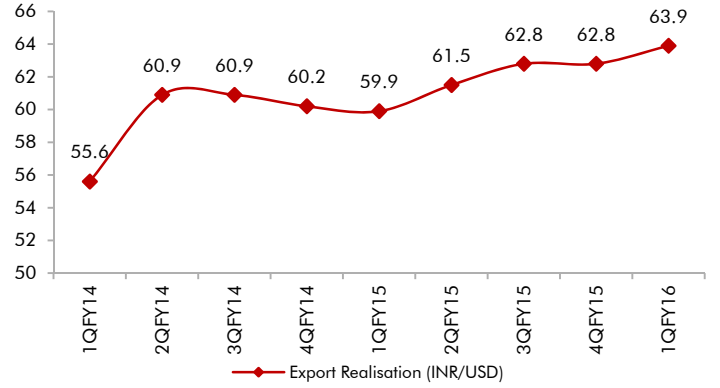
- After two consecutive years of decline, BJAUT regained share in the domestic motorcycle market. New launches in the entry level segment (CT 100 and Platina electric start) led to BJAUT's market share improving from 15.2% in 4QFY2015 to 17.9% in 1QFY2016. BJAUT's share in the overall two-wheeler space also improved to 12.2% from 9.8% in 4QFY2015.
- Export realization continued to improve, given the favourable INR/USD movement. The company realized INR63.9/USD in 1QFY2016 as against INR 59.9/USD accrued in 1QFY2015.

Exhibit 6: Domestic market share improves



Source: SIAM, Angel Research

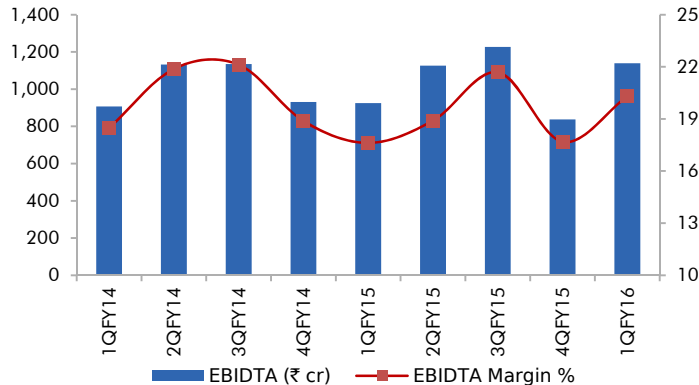
Exhibit 7: Export Realisation trend



Source: Company, Angel Research

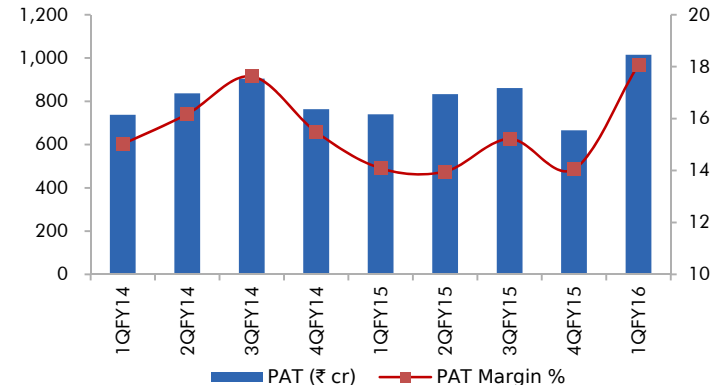
- BJAUT's operating margins improved 270bp yoy to 20.3% due to favourable dollar realization. The margins were broadly in line with our estimate of 19.7%.
- Other income, at ₹437cr, almost doubled yoy, thus boosting profitability. Net Profit, at ₹1,015cr, was better than our estimates of ₹952cr.

Exhibit 8: Operating margins in-line



Source: Company, Angel Research

Exhibit 9: Adj PAT beats estimates



Source: Company, Angel Research

Conference call – Key highlights

- BJAUT expects the two-wheeler industry to remain sluggish in FY2016. Weak rural incomes on back of lower crop production and only a moderate increase in Minimum Support Prices (MSPs) has led to poor sentiments in rural areas. BJAUT expects the two-wheeler industry to grow by 4% in FY2016.
- BJAUT expects to continue gaining market share in the motorcycle industry. Successful reception of CT100 and Platina electric in the entry segment coupled with new launches in the premium Pulsar segment would lead to continued market share gains. Further, the company has recently launched the Discover 125 and also plans to launch a new motorcycle each in 3QFY2016 (based on the Avenger platform) and 4QFY2016 (in the executive segment). BJAUT is aiming to hike its market share from the current 18% to 24% by March 2016.
- BJAUT is aiming at overall vehicle sales of 4.4mn in FY2016, which implies a growth of 15%.
- BJAUT sees huge opportunity in export markets and has stated that it would be tapping new markets in Africa, Turkey, Iran and Afghanistan to boost volumes. BJAUT has provided volume guidance of 2mn units from exports in FY2016.
- BJAUT undertook price corrections in the African market. The benefits of higher dollar realization were largely passed on to consumers in the African market. As per the Management, price cuts were essential to boost volumes in Africa where demand has been adversely impacted after the Naira (Nigerian currency) crashed against the US dollar, leading to increase in vehicle prices.
- BJAUT expects three-wheeler demand to remain strong in both the domestic as well as export markets. While the domestic market would see release of new permits, tapping of new markets would provide growth in exports. BJAUT is aiming to sell 5.75 lakh three-wheelers in FY2016.
- BJAUT's inventory levels currently stand at 25 days. This is well within the company's norm of maintaining a month's inventory.
- BJAUT has guided for a capex of ₹350cr in FY2016.

Investment arguments

- **Exports to be the key growth driver:** BJAUT registered a strong exports CAGR of ~11% during FY2011-15. We expect volumes to grow in double digits, ie at ~13% CAGR over FY2015-17. We expect growth to be driven by market share gains in Africa and Latin America at the expense of Chinese players who currently dominate these regions with a market share of ~70%. We believe that the dual effect of INR depreciation and Yuan appreciation against the USD has made Indian players more competitive globally and reduced the pricing advantage which Chinese manufacturers have been enjoying over the years. We expect BJAUT to be the biggest beneficiary of this opportunity given that it has the first mover advantage, wide-spread reach with an established distribution network and a strong brand presence in the major markets of Africa and Latin America.
- **Demand recovery, new launches key to domestic growth:** BJAUT's domestic motorcycle performance was severely impacted during FY2014-2015 due to slowdown in demand and increasing competition, leading to poor volumes (down ~15% yoy) and erosion in market share (down ~800bp to 16.5%). We attribute this to the disappointing performance of the flagship brand, *Discover* whose monthly run rate has dropped by 25-30%. We expect new launches across segments (commuter, executive and premium) to provide stability to domestic volumes going ahead and gradually help the company to consolidate its market share. Also, we expect demand in the premium motorcycle segment to accelerate in FY2016/17 on expected recovery in urban demand and expect BJAUT to be the key beneficiary out of it. Thus, we expect domestic motorcycle volumes to grow at a CAGR of 10% over the next two years.
- **Three-wheelers registering healthy growth; quadricycles provide additional growth opportunity:** BJAUT has a strong presence in the three-wheeler market, with an overall market share (including exports) of ~55%. The three-wheeler segment fetches higher margins than the company's two-wheeler business. The outlook for three-wheelers remains strong (we expect 8% CAGR over the next two years) on the back of healthy demand in both the domestic as well as export markets. Further, BJAUT aims to launch the new quadricycle (RE60) in FY2016, providing an additional growth opportunity.

Outlook and valuation

The domestic two-wheeler industry is likely to remain under pressure in FY2016 on account of slowdown in rural demand. Unseasonal rains, which have led to crop damage, have impact rural incomes and in turn rural demand. BJAUT, however is expected to outperform the industry and regain market share on back of new launches across the motorcycle segments viz commuter, executive and premium. However, given the recent correction in the crude prices is likely to impact the demand in the key export geographies where crude is the major income source. Also, further price cuts in exports to boost volumes and deteriorating product mix would more than offset the benefits from increased dollar realization, thereby keeping margins in check. We expect BJAUT to report revenue and PAT CAGR of

12% and 16%, respectively, over FY2015-2017. We have retained our earnings estimates and maintain our Neutral rating on the stock with fair value of ₹2,454.

Exhibit 10: Key assumptions - Volumes

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Motorcycles (Domestic)	2,566,757	2,463,863	2,099,230	1,770,778	1,979,818	2,214,000
Motorcycles (Exports)	1,267,648	1,293,231	1,323,173	1,521,306	1,679,417	1,881,000
Total Motorcycles	3,834,405	3,757,094	3,422,403	3,292,084	3,659,235	4,095,000
Three wheeler (Domestic)	202,979	226,131	186,856	234,345	250,749	265,794
Three wheeler (Exports)	312,176	253,926	260,762	284,772	317,045	339,206
Total Three wheeler	515,155	480,057	447,618	519,117	567,794	605,000
Quadricycles	-	-	-	-	27,000	75,000
Total volumes	4,349,560	4,237,151	3,870,021	3,811,201	4,254,029	4,775,000
% chg	13.7	(2.6)	(8.7)	(1.5)	11.6	12.2

Source: Company, Angel Research

Company background

Bajaj Auto (BJAUT) is the third largest 2W manufacturer in the country (~18% market share) and a market leader in the 3W segment (~45% market share). BJAUT has three manufacturing facilities in India, located at Waluj, Chakan and Pantnagar, with a total installed capacity of 5.4mn units (2W - 4.8mn and 3W - 0.6mn). BJAUT also happens to be one of India's largest auto exporters, with exports forming ~50% of revenue in FY2015.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	19,529	19,997	20,150	21,612	23,842	27,264
% chg	19.1	2.4	0.8	7.3	10.3	14.4
Total expenditure	15,809	16,362	16,044	17,495	19,125	21,928
Net raw material costs	14,103	14,407	13,877	14,850	16,265	18,710
Other mfg costs	327	382	434	485	535	585
Employee expenses	540	639	727	897	1,050	1,226
Other	839	934	1,007	1,263	1,275	1,407
EBITDA	3,720	3,635	4,106	4,117	4,717	5,336
% chg	17.3	(2.3)	12.9	0.3	14.6	13.1
(% of total op. income)	19.0	18.2	20.4	19.0	19.8	19.6
Depreciation & amort.	146	164	180	267	296	313
EBIT	3,574	3,471	4,633	4,432	5,328	5,923
% chg	17.3	(2.9)	8.6	(4.3)	20.2	11.2
(% of total op. income)	18.3	17.4	23.0	20.5	22.3	21.7
Int. and other charges	22	1	0	6	1	1
Other income	608	795	706	582	907	900
Recurring PBT	4,160	4,266	4,632	4,425	5,328	5,922
% chg	14.8	2.5	8.6	(4.5)	20.4	11.2
Extra. income/(exp.)	(134)	-	0	(340.3)	0	0
PBT (reported)	4,026	4,266	4,632	4,085	5,328	5,922
Tax	1,022	1,223	1,362	1,271	1,613	1,747
(% of PBT)	25.4	28.7	29.4	28.7	30.3	29.5
PAT (reported)	3,004	3,044	3,242	2,814	3,715	4,175
ADJ. PAT	3,138	3,044	3,242	3,101	3,715	4,175
% chg	20.0	(3.0)	6.5	(13.2)	19.8	12.4
(% of total op. income)	16.1	15.2	16.1	13.0	15.6	15.3
Basic EPS (₹)	103.8	105.2	112.1	97.2	128.4	144.4
Adj. EPS (₹)	108.4	105.2	112.1	107.2	128.4	144.4
% chg	20.0	(3.0)	6.6	(4.4)	19.8	12.4

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	289	289	289	289	289	289
Reserves & surplus	5,752	7,613	9,319	10,403	12,162	14,139
Shareholders' funds	6,041	7,902	9,608	10,692	12,451	14,428
Total loans	97	71	145	112	112	112
Deferred tax liability	48	115	143	142	142	142
Other long term liabilities	157	122	-	58		
Long term provisions	112	135	121	82	120	130
Total Liabilities	6,456	8,345	10,017	11,086	12,824	14,811
APPLICATION OF FUNDS						
Gross block	3,396	3,829	4,077	4,101	4,451	4,801
Less: Acc. depreciation	1,914	2,024	2,071	2,184	2,480	2,792
Net Block	1,482	1,804	2,006	1,917	1,971	2,009
Capital work-in-progress	42	294	144	255	150	150
Investments	4,883	6,430	8,550	9,153	10,000	11,000
Long term loans and adv.	601	462	720	511	511	611
Other noncurrent assets	1	1	1	0	1	1
Current assets	4,076	3,487	3,327	3,726	4,193	4,325
Cash	1,654	559	495	586	642	413
Loans & advances	1,025	1,312	978	1,262	1,489	1,641
Other	1,397	1,616	1,853	1,878	2,062	2,270
Current liabilities	4,628	4,134	4,730	4,477	4,002	3,284
Net current assets	(553)	(647)	(1,403)	(751)	191	1,041
Misc. exp. not written off	-	-	-			
Total Assets	6,456	8,345	10,017	11,086	12,824	14,811

Note: Cash and bank balance includes term deposits with banks

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	4,026	4,266	4,632	4,372	5,328	5,922
Depreciation	146	164	47	113	296	313
Change in working capital	332	(521)	693	(562)	(887)	(1,078)
Direct taxes paid	(1,148)	(1,239)	(1,390)	(1,271)	(1,613)	(1,747)
Less: Others	(162)	(535)	(87)	(244)	(21)	(90)
Cash Flow from Operations	3,193	2,134	3,894	2,408	3,103	3,320
(Inc.)/Dec. in fixed assets	(338)	(488)	(99)	(135)	(245)	(350)
(Inc.)/Dec. in investments	(94)	(1,353)	(2,119)	(604)	(847)	(1,000)
Others	(250)	563				
Cash Flow from Investing	(682)	(1,278)	(2,218)	(738)	(1,092)	(1,350)
Issue of equity	-	-	-			
Inc./(Dec.) in loans	(158)	-	(48)	54	-	-
Dividend paid (Incl. Tax)	(1,154)	(1,300)	(1,692)	(1,633)	(1,956)	(2,198)
Others	(252)	(179)	-			
Cash Flow from Financing	(1,564)	(1,479)	(1,740)	(1,579)	(1,956)	(2,198)
Inc./(Dec.) in cash	947	(622)	(63)	91	55	(229)
Opening Cash balances	229	1,176	559	495	586	642
Closing Cash balances	1,176	553	495	586	642	413

Note: Closing Cash balances excludes term deposits with banks

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	21.3	22.0	20.6	23.3	19.4	17.3
P/CEPS	20.4	20.9	19.5	23.5	18.0	16.1
P/BV	11.1	8.5	7.2	6.9	5.9	5.1
Dividend yield (%)	1.9	1.9	2.2	1.9	2.3	2.6
EV/Sales	3.1	3.0	2.9	2.9	2.6	2.2
EV/EBITDA	16.2	16.5	14.4	15.5	13.3	11.4
EV / Total Assets	9.4	7.2	5.9	5.7	4.9	4.1
Per Share Data (₹)						
EPS (Basic)	108.4	105.2	112.1	107.2	128.4	144.4
EPS (fully diluted)	108.4	105.2	112.1	107.2	128.4	144.4
Cash EPS	113.5	110.8	118.2	106.5	138.6	155.1
DPS	45.0	45.0	50.0	48.2	57.8	65.0
Book Value	208.8	273.1	322.2	359.7	420.5	488.9
Dupont Analysis						
EBIT margin	18.3	17.4	23.0	20.5	22.3	21.7
Tax retention ratio	74.6	71.3	0.7	0.7	0.7	0.7
Asset turnover (x)	3.9	3.2	2.1	2.1	2.0	1.9
ROIC (Post-tax)	52.7	39.3	34.3	30.3	30.5	29.0
Cost of Debt (Post Tax)	8.5	0.5	0.2	4.1	0.4	0.6
Leverage (x)	(1.1)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
Operating ROE	5.6	5.3	2.8	6.7	5.1	6.8
Returns (%)						
ROCE (Pre-tax)	59.5	46.9	46.8	40.3	41.9	40.3
Angel ROIC (Pre-tax)	72.6	63.2	48.7	42.4	43.7	41.1
ROE	57.3	43.7	34.8	27.0	30.5	29.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	5.8	5.5	4.9	5.3	5.4	5.7
Inventory / Sales (days)	11	12	12	14	12	12
Receivables (days)	7	11	14	12	13	13
Payables (days)	43	44	52	43	45	44
WC cycle (ex-cash) (days)	(35)	(31)	(26)	(17)	(19)	(19)
Solvency ratios (x)						
Net debt to equity	(1.1)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
Net debt to EBITDA	(1.7)	(1.9)	(2.2)	(2.3)	(2.2)	(2.1)
Interest Coverage (EBIT / Int.)	160.7	6,428.3	9,454.2	682.8	7,835.8	5,923.4

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Disclosure of Interest Statement

	Bajaj Auto
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)