

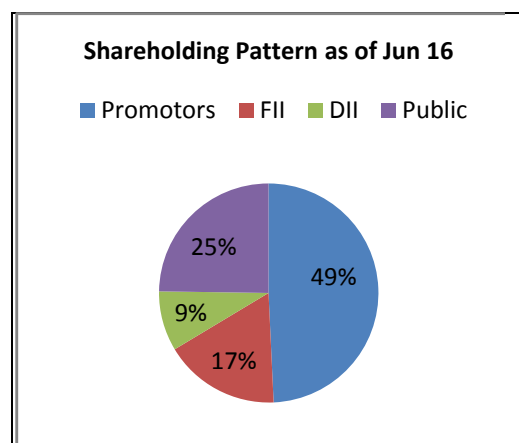
Better Yet to come.....

28th July, 2016

CMP: Rs 2,657
Target Price: Rs 2,940
Recommendation: HOLD

Stock Info	
BSE Group	A
BSE Code	532977
NSE Symbol	BAJAJ-AUTO
Bloomberg	BJAUT IN
Reuters	BAJA.BO
BSE Sensex	28,024
NSE Nifty	8,616

Market Info	
Market Capital	Rs 77,244 cr.
Equity Capital	Rs 289cr
Avg Trading Volume	3,05,320
52 Wk High / low	2,801/ 2,133
Face Value	Rs 10



Price Vs Sensex Chart



BAL Q1FY17 results were slightly below estimates but our long term view on the stock remains positive. BAL's continuous ambition of becoming global leader in motorcycle sales and in our view BAL is inching towards its goal by 2nd half.

In spite of volatile global scenario BAL delivered good set of numbers in Q1FY17, 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 models, recorded a strong growth of 23%. The pulsar and Avenger combined recorded a growth of 20%.

> **Q1 Net Revenues** stood at Rs 5,644 cr, increased by 2.8% on YoY basis. Volume was down by 2% yoy. Thus, realizations were up by 4.7% YoY to Rs 56,735 per unit. Total Export volume declined by 22% on q-o-q basis.

> **Q1 Operating EBITDA:** The Company has delivered marginally lower operating margin this quarter to Rs 1,176 crs. EBITDA Margin was lower majorly due to Increased in employees and raw material cost. EBITDA margins were at 20.5%.

> **Q1 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 978 crs an increase of 12.7% on YoY basis and decrease of 2% on q-o-q 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 V15 and has been selling around 22,000 units per month. CT 100 and Platina are extremely doing well in the market and it is key products driving growth for BAL. The Avengers recorded a growth of `20% 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 11% in FY17E. We expect EBITDA margins to go up to 22% in FY17 and one year PAT growth of 13%, aided by strong export growth and falling commodity prices.

> **VALUATION:** We forecast Bajaj's domestic and export volumes yet to recover, although, modestly in FY17E. At CMP of Rs 2657, the stock is available at PE of 18(X) to its FY17E. We have valued the stock at PE of 20(X) to its FY17E and arrived at fair value of Rs2940. We have **"HOLD"** Rating on the stock.



Quarterly Results:

Quarterly Results					
Rs in cr	Q1FY17	Q1FY16	yoy%	Q4FY16	qoq%
Volumes (in numbers)	9,94,733	10,13,029	-2%	8,72,458	14.0%
Net Realization per unit	56,735	54,202	4.7%	60,234	-5.8%
Net Sales	5,644	5,491	2.8%	5,255	7.4%
Other Operating Income	104	108		108	
Income from Operations	5,748	5,599	2.7%	5,363	7.2%
Materials Consumed	3,863	3,773	2.4%	3,533	9.3%
Employees Cost	268	243	10.2%	202	32.6%
Other Expenditure	445	447		479	
Expenses Capitalized	(4)	(4)		(5)	
Total Expenditure	4,572	4,459	2.5%	4,210	8.6%
Operating EBITDA	1,176	1,140	3.2%	1,153	2.0%
margin	20.5%	20.4%		21.5%	
Core EBITDA	1,072	1,032	3.9%	1,046	2.5%
margin	19.0%	18.8%		19.9%	
Depreciation and write downs	77	78	-1.2%	76	1.8%
Operating EBIT before Other Income & Excp Items	1,099	1,062	3.5%	1,077	2.0%
Other Income	267	217	23.0%	257	3.9%
PBIT before Exceptional Items	1,366	1,279	6.8%	1,334	2.4%
Interest	0	0		0	
PBT before Exceptional Items	1,365	1,279	6.8%	1,334	2.4%
Exceptional items	-	-		-	
PBT	1,365	1,279	6.8%	1,334	2.4%
Tax Expense	387	411		384	
Effective Tax Rate	28.4%	32.1%		28.8%	
Net Profit after Tax	978	868	12.7%	996	-1.8%
EPS	35.9	31.6		34.4	

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16	FY17 E
Net Sales	19,489	19,717.64	21,104	22,253	24,635
YoY%	3.2	1.2	7.0	5.4	10.7
Other Operating Income	508	432	508	435	517
Income from Operations	19,997	20,150	21,612	22,688	25,153
Materials Consumed	14,407	13,877	14,850	15,057	16,555
Total Expenditure	16,362	16,044	17,495	17,909	19,627
Operating EBITDA	3,635	4,106	4,117	4,779	5,526
Operating EBITDA margin %	18.2	20.4	19.0	21.1	22.0
Depreciation	164	180	267	307	320
Operating EBIT before adj	3,471	3,926	3,849	4,472	5,205
Other Income	795	706	582	824	1,006
Interest	1	0	6	0	6
PBT before Excp Items	4,266	4,632	4,425	5,295	6,206
Exceptional item	-	-	340	-	-
PBT	4,266	4,632	4,085	5,295	6,206
Tax Expense	1,223	1,390	1,271	1,733	1,955
Reported Net Profit	3,044	3,242	2,814	3,784	4,251
YoY%	1.3	6.5	(13.2)	34.5	12.3
Effective Tax Rate	28.7	30.0	31.1	32.7	31.5
Reported EPS	105.2	112.1	97.2	130.8	146.9

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16	FY17 E
Operating Activities					
PBT	4,266	4,632	4,085	5,295	6,206
Add Depr + non op exp	164	180	267	307	320
Others	331	(355)	(306)	(87)	(270)
Total	4,761	4,457	4,046	5,516	6,256
Cash Taxes	(1,223)	(1,315)	(1,285)	(1,733)	(1,849)
Changes in Working Cap	(521)	404	(614)	(905)	476
Cash Flow from Operations	2,134	3,546	2,147	2,878	4,883
Investing Activities					
Change in investments	(770)	(1,921)	(1,348)	(1,165)	(1,478)
Capex	(508)	(220)	(270)	94	(450)
Cash Flow from Investing	(1,278)	(2,141)	(1,617)	(1,071)	(1,928)
Financing Activities					
Dividends + Taxes paid	(1,511)	(1,518)	(1,178)	(1,261)	(2,539)
Change in Non Curr Liab	32	50	47	(265)	(587)
Cash Flow from Financing	(1,479)	(1,468)	(1,644)	(1,526)	(3,126)
Opening Cash	1,173	550	486	575	856
Changes during year	(622)	(64)	89	281	(172)
Unclaimed dividends account	6	9	9	11	11
Closing Cash	559	495	586	867	695

Source: Company data, Arihant Research

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15	FY16	FY17 E
Liabilities + Equity					
(a) Share capital	289	289	289	289	289
(b) Reserves and surplus	7,613	9,319	10,403	12,756	14,184
Shareholders' funds	7,902	9,608	10,692	13,045	14,473
Non-current liab & Prov	443	409	393	428	437
Current liabilities	4,134	4,730	4,477	2,953	2,900
Total - Equity and liabilities	12,479	14,748	15,562	16,427	17,810
Assets					
Non-current assets					
Fixed assets	2,098	2,150	2,172	2,078	2,369
Long Term Inv	3,719	6,260	3,353	9,041	9,702
Loans + Adv + Others	463	721	511	682	737
Non-current assets	6,281	9,131	6,036	11,801	12,808
Current assets					
Cash	559	495	586	867	695
Other Current Assets	5,639	5,121	8,940	3,759	4,307
Sub-total - Current assets	6,198	5,617	9,526	4,626	5,002
Total - Assets	12,479	14,748	15,562	16,427	17,810

Ratio Analysis

	FY13	FY14	FY15	FY16	FY17 E
Profitability					
Operating EBITDA%	18.2	20.4	19.0	21.1	22.0
Operating EBIT%	17.4	19.5	17.8	19.7	20.7
Core EBITDA%	16.0	18.6	17.1	19.5	20.3
Core EBIT%	15.2	17.7	15.8	18.1	19.0
PAT%	15.6	16.4	13.3	17.0	17.3
ROAE%	43.7	37.0	27.7	30.0	29.2
Du Pont ROAE breakup					
PAT / Sales	15.6	16.4	13.3	17.0	17.3
Sales / Avg Total Assets	1.7	1.4	1.4	1.4	1.4
Avg Total Assets / Avg Eqty	1.7	1.6	1.5	1.3	1.2
ROE	43.7	37.0	27.7	31.9	29.2
Other Ratios					
Current Ratio	1.5	1.2	2.1	1.6	1.7
Long Term Debt / Equity	0.01	0.01	0.01	0.01	0.01
EPS	105.2	112.1	97.2	130.8	146.9
DPS	45.0	50.0	50.0	55.0	55.0
Dividend %	450.0	500.0	500.0	550.0	550.0
Dividend Payout ratio	42.8	44.6	51.4	42.0	37.0
P/E	17.1	18.5	20.7	18.4	18.1
BVPS	273.1	332.0	369.5	450.8	500.2
P/BV	6.6	6.3	5.5	5.3	5.3



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

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