

Bajaj Auto (BJAUT IN)

Robust margin expansion on better product mix

INDIA | AUTOMOBILES | Quarterly Update

23 October 2015

Top takeaways from Q2FY16

- ✘ Revenue growth marginally lower than our and consensus' expectations due lower exports realisation
- ✓ EBITDA margin surprised (21.6%, up 130bps qoq) as the company benefitted from better product-and-geography mix. Economy contribution to domestic volumes down 600bps qoq and exports contribution up 200bps
- ✓ Overall profits 5% ahead of our and street expectations due to margin surprise

Key highlights: A strong performance by Bajaj with stellar margin expansion despite passing on rupee-depreciation benefits in key markets (Africa and LatAm). We remain upbeat on the company's longer-term prospects as new product launches, strong three-wheeler volumes (driven by new permits), and aggressive pricing will help the company improve its domestic market share. Recent rupee depreciation and falling commodity prices gives enough pricing cushion to bump up exports volumes.

Conference call takeaways:

- ✓ Three-wheeler permits opened in Maharashtra for over 150,000 units; benefits to mainly accrue in FY17. Quite to see meaningful volumes only in FY17.
- ✘ Industry sales remain sluggish, festive-demand very weak with motorcycle retails during *Ganpati*, *Dussehra* and *Navaratri* festivals down 7-8%, mainly due to rural markets
- ✓ Bajaj Auto benefitting due to newly-launched *Pulsar* range and *CT100* doing well; strong product pipeline ahead
- ✓ Took price hikes of Rs500-2,500 in the domestic market and reduced export prices in some key markets — net impact is positive
- ✓ To launch new range of *Avenger* soon — expects its volumes to rise to over 12,000 per month from current 3,500 — *Avenger* earns higher margins than *Pulsar*
- ✓ *Pulsar RS200* launched only in 60% of the markets due to production constraints

Outlook and valuation: We increase our earnings for FY16/17 by 6% to factor in strong margins driven by higher volume, better product mix, and recent price hikes. At its CMP, the stock trades at 16.5x our FY17 EPS of Rs 153. We retain our Buy rating on the stock with a revised target price of Rs 2,870 (from Rs 2,600 earlier). We value the company at 18x our FY17 EPS (10% premium to its five-year average P/E with 20% discount to the value of its stake in KTM). Five-year-high volumes and its margin profile drive its premium valuation.

BUY (Maintain)

CMP RS 2513 / TARGET RS 2870(+14%)

COMPANY DATA

O/S SHARES (MN) :	289
MARKET CAP (RSBN) :	727
MARKET CAP (USDBN) :	11.2
52 - WK HI/LO (RS) :	2690 / 1914
LIQUIDITY 3M (USDMN) :	12.9
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 15	Mar 15	Dec 14
PROMOTERS :	49.2	49.2	50.0
FII / NRI :	17.6	17.0	18.8
FI / MF :	8.4	8.6	7.0
NON PRO :	11.8	11.8	11.0
PUBLIC & OTHERS :	12.9	13.3	13.2

Key Financials

Rs mn	FY15	FY16E	FY17E
Net Sales	2,11,039	2,33,365	2,77,171
EBIDTA	41,166	50,602	59,961
Net Profit	31,540	38,800	44,186
EPS, Rs	109.0	134.1	152.7
PER, x	23.1	18.8	16.5
EV/EBIDTA, x	17.6	13.9	11.3
ROE, %	29.5	29.9	28.2
Debt/Equity (%)	1.0	0.9	0.7
BLM Cons EPS, Rs	97.2	131.5	149.2

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	2,33,365	2,77,171	1.5%	3.6%
EBIDTA	50,602	59,961	4.9%	6.1%
Core PAT	38,800	44,186	6.1%	5.9%
EPS (Rs)	134.1	152.7	6.1%	5.9%

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(Rs mn)	Q2FY16	Q2FY15	yoy growth %	Q1FY16	qoq vs. expectations growth %	Comments
Two Wheelers (Units)	9,03,097	8,99,153	0.4	8,75,235	3.2	-
Three wheelers (Units)	1,53,499	1,56,429	(1.9)	1,37,794	11.4	-
Realisation (INR)	56,603	55,200	2.5	54,343	4.2	(0.9) Realisations lower due to price cuts in exports markets
Total revenues	60,978	59,631	2	56,135	9	(0.7) Revenues lower then estimates led by realisations
Raw material	40,551	41,100	(1)	37,728	7	(1.3) Better mix helps gross margins
Staff costs	2,417	2,102	15	2,437	(1)	(5.5) Operating leverage helps contain employee cost
Other expenses	4,881	4,646	5	4,574	7	(1.9)
Total expenditure	47,807	47,689	0	44,738	7	(1.7)
EBIDTA	13,171	11,942	10	11,397	16	3.0 Strong margins led by better product mix
EBIDTA Margins	21.6	20.0	1.6	20.3	1.3	0.8
Interest	3	1	440	1	238	170.0
Depreciation	780	686	14	784	(1)	(0.5)
Other income	1,526	1,136	34	4,368	(65)	49.3
PBT	13,915	11,717	19	14,980	(7)	6.8
Tax	4,584	2,405	91	4,832	(5)	10.0
Adjusted net profit	9,331	9,848	(5)	10,148	(8)	5.3 Above expected led by margin surprise

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	1,97,176	2,11,039	2,33,365	2,77,171
Growth, %	1	7	11	19
Other income	4,319	5,081	4,761	4,999
Total income	2,01,495	2,16,120	2,38,126	2,82,171
Raw material expenses	-1,38,767	-1,48,498	-1,58,949	-1,88,349
Employee expenses	-7,266	-8,973	-9,525	-11,287
Other Operating expenses	-14,405	-17,484	-19,050	-22,574
EBITDA (Core)	41,057	41,166	50,602	59,961
Growth, %	12.9	0.3	22.9	18.5
Margin, %	20.8	19.5	21.7	21.6
Depreciation	-1,796	-2,674	-2,813	-3,074
EBIT	39,261	38,492	47,789	56,887
Growth, %	13.1	(2.0)	24.2	19.0
Margin, %	19.9	18.2	20.5	20.5
Interest paid	-5	-65	-89	-89
Other Non-Operating Income	4,915	3,500	6,124	4,287
Non-recurring Items	0	-3,403	0	0
Pre-tax profit	46,321	40,848	56,327	64,146
Tax provided	-13,901	-12,711	-17,527	-19,960
Profit after tax	32,420	28,137	38,800	44,186
Growth, %	6.5	(2.7)	23.0	13.9
Net Profit (adjusted)	32,420	31,540	38,800	44,186
Unadj. shares (m)	289	289	289	289
Wtd avg shares (m)	289	289	289	289

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	4,955	5,862	27,598	53,999
Debtors	7,962	7,170	9,134	10,823
Inventory	6,397	8,142	7,403	8,772
Loans & advances	9,784	12,616	12,616	12,616
Other current assets	4,171	3,468	3,468	3,468
Total current assets	33,269	37,257	60,219	89,679
Investments	85,496	91,533	91,533	91,533
Gross fixed assets	40,770	41,009	45,009	49,009
Less: Depreciation	-20,710	-21,837	-24,649	-27,723
Add: Capital WIP	1,441	2,549	2,549	2,549
Net fixed assets	21,501	21,722	22,909	23,835
Non-current assets	7,209	5,111	5,111	5,111
Total assets	1,47,476	1,55,623	1,79,773	2,10,158
Current liabilities	28,775	25,672	26,939	30,502
Provisions	19,737	19,920	19,920	19,920
Total current liabilities	48,512	45,592	46,859	50,422
Non-current liabilities	2,884	3,109	3,109	3,109
Total liabilities	51,396	48,702	49,968	53,532
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	93,187	1,04,028	1,26,911	1,53,733
Shareholders' equity	96,080	1,06,922	1,29,805	1,56,627
Total equity & liabilities	1,47,476	1,55,623	1,79,773	2,10,158

Source: Company, PhillipCapital India Research Estimates

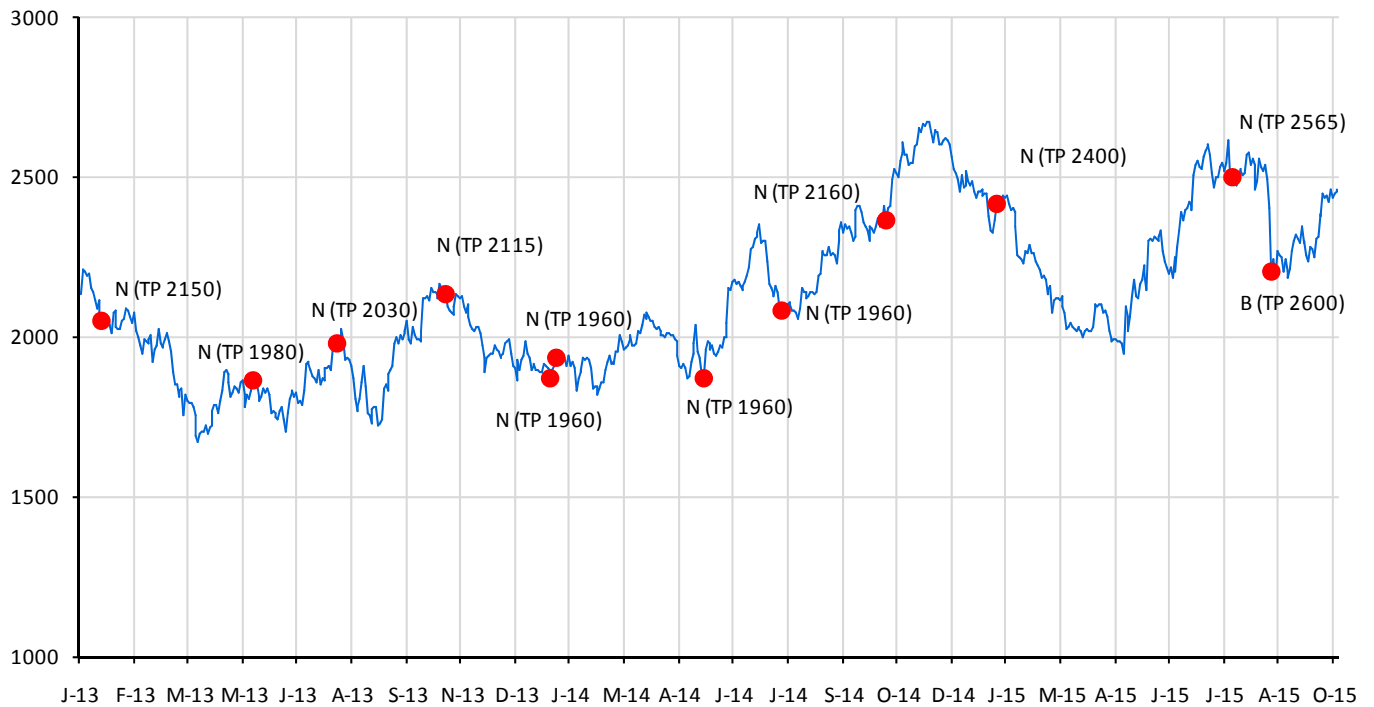
Cash Flow

	FY14	FY15	FY16e	FY17e
Pre-tax profit	46,321	40,848	56,327	64,146
Depreciation	1,796	2,674	2,813	3,074
Chg in working capital	4,319	-5,825	41	504
Total tax paid	-13,153	-12,854	-17,527	-19,960
Other operating activities	-3,825	-3,369	-2,414	-2,972
Cash flow from operating activities	35,457	21,473	39,240	44,793
Capital expenditure	-2,201	-2,697	-4,000	-4,000
Chg in investments	-21,166	-49,191	0	0
Other investing activities	1,951	47,744	2,503	3,062
Cash flow from investing activities	-21,415	-4,144	-1,497	-938
Dividend (incl. tax)	-13,015	-14,450	-15,917	-17,364
Other financing activities	-1,667	-1,992	-89	-89
Cash flow from financing activities	-14,682	-16,442	-16,006	-17,453
Net chg in cash	-640	888	21,737	26,401

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per share data				
EPS (INR)	112.0	109.0	134.1	152.7
Growth, %	6.5	(2.7)	23.0	13.9
Book NAV/share (INR)	332.0	369.5	448.5	541.2
FDEPS (INR)	112.0	109.0	134.1	152.7
CEPS (INR)	118.2	130.0	143.8	163.3
CFPS (INR)	118.1	71.5	122.8	150.2
DPS (INR)	50.0	50.0	55.0	60.0
Return ratios				
Return on assets (%)	23.8	18.6	23.2	22.7
Return on equity (%)	33.7	29.5	29.9	28.2
Return on capital employed (%)	29.7	22.7	27.5	26.6
Turnover ratios				
Asset turnover (x)	9.0	9.0	8.5	9.8
Sales/Total assets (x)	1.4	1.4	1.4	1.4
Sales/Net FA (x)	9.3	9.8	10.5	11.9
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	14.7	12.4	14.3	14.3
Inventory days	11.8	14.1	11.6	11.6
Payable days	48.0	37.5	37.5	37.5
Working capital days	(0.9)	9.9	8.9	6.8
Liquidity ratios				
Current ratio (x)	1.2	1.5	2.2	2.9
Quick ratio (x)	0.9	1.1	2.0	2.7
Interest cover (x)	n/a	n/a	n/a	n/a
Dividend cover (x)	2.2	2.2	2.4	2.5
Total debt/Equity (%)	0.6	1.0	0.9	0.7
Net debt/Equity (%)	(4.6)	(4.4)	(20.4)	(33.8)
Valuation				
PER (x)	22.4	23.1	18.8	16.5
PEG (x) - y-o-y growth	3.4	(8.5)	0.8	1.2
Price/Book (x)	7.6	6.8	5.6	4.6
Yield (%)	2.0	2.0	2.2	2.4
EV/Net sales (x)	3.7	3.4	3.0	2.4
EV/EBITDA (x)	17.6	17.6	13.9	11.3
EV/EBIT (x)	18.4	18.8	14.7	11.9

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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