

# Bajaj Auto (BJAUT IN)

## Robust performance despite challenges

INDIA | AUTOMOBILES | Quarterly Update

28 October 2016

### Top takeaways from Q2FY17

- ✓ Revenue was Rs 60bn, 3% ahead of estimate mainly on realisation surprise due to better mix
- ✓ EBITDA was Rs 12.9bn, 9% ahead of estimates
- ✓ EBITDA margin at 21.4% was 120bps ahead, led by better cost control and product mix
- ✓ PAT at Rs 11.2bn was 15 % ahead of estimate aided by other income

**Key highlights:** Robust quarter in an otherwise challenging environment; better product mix helped realisation increase 2% qoq and led margin upturn. We see sequential improvement in export volumes and domestic sales remaining strong on successful new launches. We remain upbeat on its longer-term prospects, as new product launches, strong three-wheeler volumes, and aggressive pricing will help it to improve its domestic market share, while exports will be stable. We marginally tweak our estimates and retain BUY with a TP of Rs 3,300.

### Conference call takeaways

- ✓ Bajaj's domestic motorcycle sales were 1.1mn in 1HFY17; should be much better in H2 supported by new launches
- ✗ Festive season retail growth (single digits) has been slower than what the industry anticipated
- ✓ Bajaj's new product launch pipeline remains strong with VS400, a new variant in V15, and a total revamp of the Pulsar family
- Margins were strong in Q2, as product mix was better with higher Pulsar contribution
- ✓ EBITDA margin should be +21% in H2FY17
- ✗ Exports should be better in H2FY17 vs. H1; however, we don't see a surge anytime soon as key countries (Nigeria and Egypt) still face many issues
- ✗ After fiscal benefits expire from the Pantnagar plant in FY18, income tax rate would go up to 29% from 28%, but with no impact on margins

**Outlook and valuation:** We marginally tweak our estimates and retain BUY with a TP of Rs 3,300. A majorly improved export outlook from H2FY17 and new launches in domestic markets would be key drivers for the stock.

## BUY (Maintain)

CMP RS 2835/TARGET RS 3300(+16%)

### COMPANY DATA

O/S SHARES (MN) :	289
MARKET CAP (RSBN) :	820
MARKET CAP (USDBN) :	12.3
52 - WK HI/LO (RS) :	3122/ 2173
LIQUIDITY 3M (USDMN) :	12.2
PAR VALUE (RS) :	10

### SHARE HOLDING PATTERN, %

	Sep 16	Jun 16	Mar 16
PROMOTERS :	49.3	49.3	49.3
FII / NRI :	17.8	17.1	17.3
FI / MF :	8.2	8.8	8.7
NON PRO :	11.7	11.7	11.8
PUBLIC & OTHERS :	13.0	13.1	13.0

### Key Financials

Rsmn	FY16	FY17E	FY18E
Net Sales	222,528	255,269	300,115
EBIDTA	47,796	53,960	63,930
Net Profit	36,525	43,406	51,405
EPS, Rs	126.2	150.0	177.6
PER, x	22.5	18.9	16.0
EV/EBIDTA, x	17.0	14.7	11.9
PBV, x	6.7	5.5	4.5
ROE, %	29.7	29.1	28.1
Debt/Equity (%)	1.3	1.1	0.9

### CHANGE IN ESTIMATES

Rsmn	Revised Est.		% Revision	
	FY17E	FY18E	FY16E	FY17E
Revenue	255,269	300,115	-1.4%	-1.4%
EBIDTA	53,960	63,930	-1.4%	-1.4%
Core PAT	43,406	51,405	-1.2%	-1.2%
EPS (Rs)	150.0	177.6	-1.2%	-1.2%

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(Rsmn)	Q2FY17	Q2FY16	yoy growth %	Q1FY17	qoq vs. expectations growth %	Comments
Total units sold (nos)	1,031,945	1,056,596	(2.3)	994,733	3.7	-
Exports( of the above)	378,017	520,149	(27.3)	370,649	2.0	-
Realisation (INR)	57,652	56,603	1.9	56,735	1.6	2.7 Realisations miss by 2.7% led by domestic realisations
<b>Total revenues</b>	<b>60,545</b>	<b>60,978</b>	<b>(0.7)</b>	<b>57,480</b>	<b>5.3</b>	<b>2.7</b>
Raw material	40,571	40,551	0.0	38,628	5.0	2.0
Staff costs	2,587	2,417	7.0	2,683	(3.6)	(5.0)
Other expenses	4,426	4,881	(9.3)	4,405	0.5	(2.5)
Total expenditure	47,584	47,807	(0.5)	45,716	4.1	1.1
<b>EBIDTA</b>	<b>12,961</b>	<b>13,171</b>	<b>(1.6)</b>	<b>11,763</b>	<b>10.2</b>	<b>8.6</b>
<b>EBIDTA Margins</b>	<b>21.4</b>	<b>21.6</b>	<b>(0.2)</b>	<b>20.5</b>	<b>0.9</b>	<b>1.2</b> Margin beat estimates by 120bps on strong realisations
Interest	7	3	151.9	2	209.1	580.0
Depreciation	770	780	(1.4)	775	(0.7)	(0.7)
Other income	3,420	1,526	124.1	2,671	28.1	28.1
PBT	<b>15,605</b>	<b>13,915</b>	<b>12.1</b>	<b>13,657</b>	<b>14.3</b>	<b>12.9</b>
Tax	4,377	4,584	(4.5)	3,873	13.0	9.2
<b>Adjusted net profit</b>	<b>11,228</b>	<b>9,331</b>	<b>20.3</b>	<b>9,784</b>	<b>14.8</b>	<b>14.4</b> Pat beats estimate by 14%

## Financials

### Income Statement

Y/E Mar, Rsmn	FY15	FY16	FY17e	FY18e
<b>Net sales</b>	<b>211,039</b>	<b>222,528</b>	<b>255,269</b>	<b>300,115</b>
Growth, %	7	5	15	18
Other income	5,081	4,348	4,566	4,794
Total income	216,120	226,876	259,835	304,908
Raw material expenses	-148,498	-150,569	-173,222	-203,270
Employee expenses	-8,973	-9,184	-10,519	-12,343
Other Operating expenses	-17,484	-19,327	-22,135	-25,365
<b>EBITDA (Core)</b>	<b>41,166</b>	<b>47,796</b>	<b>53,960</b>	<b>63,930</b>
Growth, %	0.3	16.1	12.9	18.5
Margin, %	19.5	21.5	21.1	21.3
Depreciation	-2,674	-3,072	-3,107	-3,282
<b>EBIT</b>	<b>38,492</b>	<b>44,724</b>	<b>50,853</b>	<b>60,648</b>
Growth, %	(2.0)	16.2	13.7	19.3
Margin, %	18.2	20.1	19.9	20.2
Interest paid	-65	-5	-16	-16
Other Non-Operating Income	3,500	6,939	7,633	8,396
Non-recurring Items	-3,403	0	0	0
<b>Pre-tax profit</b>	<b>40,848</b>	<b>53,852</b>	<b>61,135</b>	<b>72,402</b>
Tax provided	-12,711	-17,328	-17,729	-20,997
<b>Profit after tax</b>	<b>28,137</b>	<b>36,525</b>	<b>43,406</b>	<b>51,405</b>
Growth, %	(2.7)	15.8	18.8	18.4
<b>Net Profit (adjusted)</b>	<b>31,540</b>	<b>36,525</b>	<b>43,406</b>	<b>51,405</b>
Unadj. shares (m)	289	289	289	289
Wtdavg shares (m)	289	289	289	289

### Balance Sheet

Y/E Mar, Rsmn	FY15	FY16	FY17e	FY18e
Cash & bank	5,862	8,595	30,169	60,177
Debtors	7,170	7,179	8,222	9,649
Inventory	8,142	7,191	8,273	9,708
Loans & advances	12,616	8,715	8,715	8,715
Other current assets	3,468	2,320	2,320	2,320
Total current assets	37,257	33,999	57,698	90,567
Investments	91,533	95,127	101,127	107,127
Gross fixed assets	41,009	43,138	45,638	48,138
Less: Depreciation	-21,837	-24,908	-28,015	-31,298
Add: Capital WIP	2,549	2,549	2,549	2,549
Net fixed assets	21,722	20,779	20,172	19,390
Non-current assets	5,111	6,823	6,823	6,823
<b>Total assets</b>	<b>155,623</b>	<b>156,728</b>	<b>185,819</b>	<b>223,906</b>
Current liabilities	25,672	26,316	29,365	33,411
Provisions	19,920	3,690	3,690	3,690
Total current liabilities	45,592	30,006	33,056	37,101
Non-current liabilities	3,109	3,805	3,805	3,805
Total liabilities	48,702	33,811	36,861	40,906
Paid-up capital	2,894	2,894	2,894	2,894
Reserves & surplus	104,028	120,023	146,065	180,106
Shareholders' equity	106,922	122,917	148,958	183,000
<b>Total equity &amp; liabilities</b>	<b>155,623</b>	<b>156,728</b>	<b>185,819</b>	<b>223,906</b>

Source: Company, PhillipCapital India Research Estimates

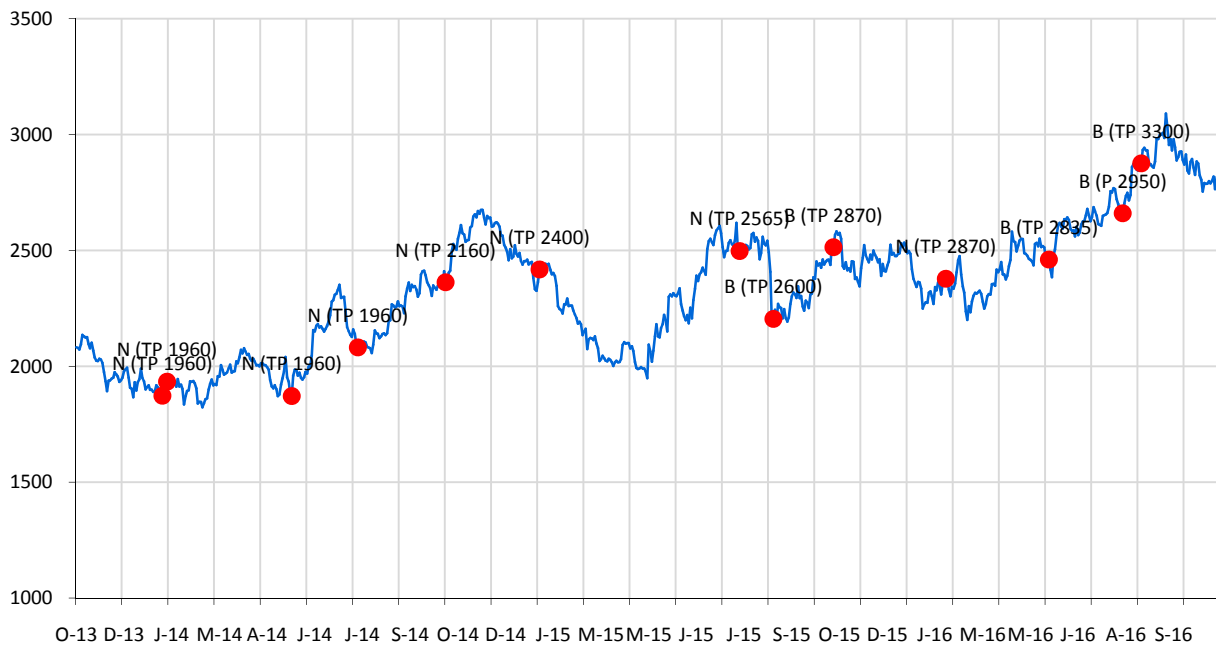
### Cash Flow

	FY15	FY16	FY17e	FY18e
Pre-tax profit	40,848	53,852	61,135	72,402
Depreciation	2,674	3,072	3,107	3,282
Chg in working capital	-5,825	5,302	925	1,184
Total tax paid	-12,854	-17,328	-17,729	-20,997
Other operating activities	-3,351	-8,135	-2,649	-3,374
<b>Cash flow from operating activities</b>	<b>21,492</b>	<b>36,763</b>	<b>44,789</b>	<b>52,498</b>
Capital expenditure	-2,697	-2,651	-2,500	-2,500
Chg in investments	-49,191	0	-6,000	-6,000
Other investing activities	47,744	2,463	2,666	3,374
<b>Cash flow from investing activities</b>	<b>-4,144</b>	<b>-189</b>	<b>-5,834</b>	<b>-5,126</b>
Dividend (incl. tax)	-14,450	-28,628	-17,364	-17,364
Other financing activities	-1,992	-5,213	-16	-16
<b>Cash flow from financing activities</b>	<b>-16,442</b>	<b>-33,841</b>	<b>-17,380</b>	<b>-17,380</b>
<b>Net chg in cash</b>	<b>907</b>	<b>2,734</b>	<b>21,574</b>	<b>29,991</b>

### Valuation Ratios

	FY15	FY16	FY17e	FY18e
<b>Per share data</b>				
EPS (INR)	109.0	126.2	150.0	177.6
Growth, %	(2.7)	15.8	18.8	18.4
Book NAV/share (INR)	369.5	424.7	514.7	632.3
FDEPS (INR)	109.0	126.2	150.0	177.6
CEPS (INR)	130.0	136.8	160.7	189.0
CFPS (INR)	71.5	134.8	137.5	164.0
DPS (INR)	50.0	55.0	60.0	60.0
<b>Return ratios</b>				
Return on assets (%)	18.6	23.4	25.3	25.1
Return on equity (%)	29.5	29.7	29.1	28.1
Return on capital employed (%)	22.7	28.1	30.3	29.6
<b>Turnover ratios</b>				
Asset turnover (x)	9.0	9.6	13.6	17.6
Sales/Total assets (x)	1.4	1.4	1.5	1.5
Sales/Net FA (x)	9.8	10.5	12.5	15.2
Fixed capital/Sales (x)	0.2	0.2	0.2	0.2
Receivable days	12.4	11.8	11.8	11.7
Inventory days	14.1	11.8	11.8	11.8
Payable days	37.5	41.3	41.3	41.4
Working capital days	9.9	(1.5)	(2.6)	(3.7)
<b>Liquidity ratios</b>				
Current ratio (x)	1.5	1.3	2.0	2.7
Quick ratio (x)	1.1	1.0	1.7	2.4
Interest cover (x)	n/a	n/a	n/a	n/a
Dividend cover (x)	2.2	2.3	2.5	3.0
Total debt/Equity (%)	1.0	1.3	1.1	0.9
Net debt/Equity (%)	(4.4)	(5.7)	(19.2)	(32.0)
<b>Valuation</b>				
PER (x)	26.0	22.5	18.9	16.0
PEG (x) - y-o-y growth	(9.6)	1.4	1.0	0.9
Price/Book (x)	7.7	6.7	5.5	4.5
Yield (%)	1.8	1.9	2.1	2.1
EV/Net sales (x)	3.9	3.7	3.1	2.5
EV/EBITDA (x)	19.8	17.0	14.7	11.9
EV/EBIT (x)	21.2	18.2	15.6	12.6

### 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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