

Exports revival key to performance hereon

Q4 FY17 results came in line with our expectations

Bajaj Auto posted above expected numbers at the topline as 10% decline in volumes resulted in about 9% decline in topline with realizations improving by ~1% yoy. This was on the back of slight price hike taken by the management on BS IV implementation in January (much ahead of the BS IV implementation date) unlike its peers who took a hike at the fag end of the quarter. On the operating front, RM costs firmed up as RM to sales came in at 69.1% v/s 68% qoq and 66.6% yoy. EBITDA margins came in at 20% adjusted for CSR contribution of ₹740 mn. Reported margins came in at 18.5%. BS III related costs which the company incurred to combat competition at the end of March was ₹160 mn (₹1,930 mn by Hero and ₹ 530 mn by TVS), through providing discounts. Sequentially lower other income was offset by lower tax rate, due to which adjusted PAT came higher 9% yoy at ₹8.75 bn, which was slightly higher than our expectations.

Domestic business to get a fillip through focus on executive and premium segments

The company has failed to make a mark in the 125 cc segment with the Discover underperformance. In the premium segment, Pulsar and its variants are doing well. Now with the DeMon effect behind them, the domestic sales are expected to move up. Avenger is steadily selling 15-17K units which is expected to continue to do so. With the competition intensifying from scooters and consumer preference shifting towards premium bikes, the lower, 100 cc segment is rapidly shrinking as we have witnessed CT 100 and Platina sales moving the downward spiral. However, in the +125 cc segment V 12 is performing well. V12 + V15 are now expected to move up and sell 35-40K units with demand remaining strong. The 373cc Dominar and the premium KTM bikes which were launched in Q3 are expected to perform well. Dominar which is currently selling lower than 5K is expected to sell 7K from July onwards. Prospects of good monsoon should help revival in sales from July onwards. The management also mentioned the possibility of launching Platina and CT 100 in the higher segment to cash in on the demand momentum in the executive and premium segments (45% market share of Bajaj Auto in this segment). We therefore increase the domestic volume estimates for Bajaj Auto and now expect volumes to grow at 7%/10% for FY18E/19E respectively. On the 3W front, the cargo segment is facing a huge setback since the note ban. On the passenger side 40,000 units of permits may open in the state of Delhi and Maharashtra in FY18. However, the outlook for the 3W segment is muted over the next year with no significant drivers foreseen post this.

Exports business witnesses green shoots

Exports in the quarter just fell by 3% post huge double digit dips in the past few quarters. In the month of April, we have seen a solid growth in both 2W as well as 3W exports. The blended growth was 48% yoy which was led by strong growth in markets like Nepal, Bangladesh, South East Asia, Philippines and Latin America. Markets like Nigeria and Sri Lanka are still not yet out of the woods, while Egypt is showing recovery. Despite weakness in the top two export geographies for Bajaj, the exports have witnessed an extraordinary growth even if we adjust for 6-7K units which were spilled over from March shipments. 3W exports almost doubled in April which is even more a heartening sign considering the regulatory business associated with it worldwide. Management mentioned that April runrate can be bettered in May and June and consistent 150K units per month in exports can improve the confidence of the management which is currently cautiously optimistic. In the wake of this improvement and visible recovery, we expect exports to grow at 23% (on a significantly low base of FY17)/14% during FY18E/19E respectively.

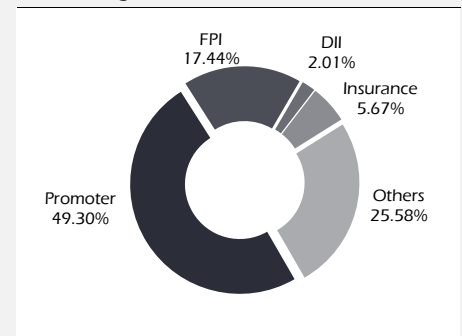
Stock Data

Current Market Price (₹)	2,979
Target Price (₹)	3,234
Potential upside (%)	9
Reuters	BAJA.BO
FV (₹)	10
Bloomberg	BJAUT IN
Market Cap (₹ bn)	862
52-Week Range (₹)	3,122 / 2,366

What's Changed

12 month Price Target (₹)	From 2,779 to 3,225
FY2018E EPS (₹)	From 145 to 151
FY2019E EPS (₹)	From 166 to 179

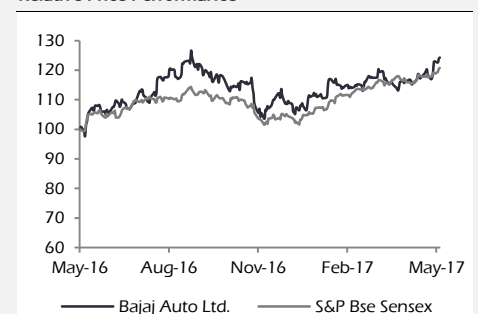
Shareholding Pattern



Fiscal YE

YE Mar	FY16	FY17P	FY18E	FY19E
Revenues (₹ bn)	226.9	217.7	263.1	310.1
EBITDA (%)	21.1	20.7	19.9	20.4
PAT (%)	16.4	17.9	16.8	17.0
EPS (Rs)	126.2	134.8	150.6	179.2
EPS growth (%)	15.8%	6.8%	11.7%	19.0%
P/E (x)	23.5	22.0	19.7	16.6
P/B(x)	6.5	5.0	4.4	3.9
EV/EBITDA (x)	18.0	19.3	16.5	13.6
ROE(%)	27.5%	22.9%	22.4%	23.3%
Dividend yield (%)	2.2%	2.0%	2.3%	2.7%

Relative Price Performance



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Margins may show some decline in FY 18 on RM basket moving up, price hikes and model mix may support margins

Despite the DeMon blues, adjusted EBITDA margins witnessed a sustained performance by maintaining themselves in the 20% range. This was partially due to a positive impact product mix tilting towards the premium Pulsar and KTM bikes from the Platina and CT 100. Going forward, higher sales of the new launches (high margin motorcycles) along with price hikes may lift up the margins, but at the same time competition and higher RM prices may act as levelers. Management mentioned that strengthening Rupee may not have a significant negative impact on margins as they have taken appropriate hedges. Recovering business at the high margins exports may take care of margins too. Opening up of 3W permits may add to the flavor. Management has still guided for a 100 bps decline in FY 18 margins which we believe is on the higher side. We have built in margins at 19.9%/20.4% in FY 18E/19E v/s 20.7% in FY 17.

Financial Highlights

All fig in (₹mn)	Q4 FY17	Q3 FY17	% qoq	Q4 FY16	% yoy
Net sales	48,050.3	49,755.6	-3.4%	53,039.1	-9.4%
Other op. income	922.9	913.3	1.1%	1,075.3	-14.2%
Total income	48,973	50,669	-3.3%	54,114	-9.5%
RM cost	33,203	33,841	-1.9%	35,333	-6.0%
Employee cost	2,273	2,427	-6.3%	2,027	12.1%
Other expenses	3,698	3,962	-6.7%	5,239	-29.4%
EBITDA	9,800	10,439	-6.1%	11,515	-14.9%
EBITDA Margins %	20.0	20.6	(60 bps)	21.3	(130 bps)
Other income	2,936	3,193	-8.0%	1,241	136.5%
Depreciation	757	772	-1.9%	761	-0.5%
Interest	3	3	N/A	1	N/A
PBT	11,976	12,858	-6.9%	11,995	-0.2%
Tax	3,218	3,612	-10.9%	3,965	-18.8%
Adj PAT	8,758	9,246	-5.3%	8,030	9.1%
Adj PAT Margins%	17.9	18.2	(30 bps)	14.8	3100 bps
Exceptional items	740.0	-	N/A	-	N/A
Reported PAT	8,018	9,246	-13.3%	8,030	-0.2%

Outlook and valuation

On the domestic motorcycle front we believe that the company will still perform well through the recent launches of V 12, Dominar, Pulsar variant and KTM series. With the company now focusing more on executive and premium segments through repositioning mass segment motorcycles and launching a few more premium segment variants, Bajaj Auto is well poised to gain market share. On the 3W business front, permit issuance from Maharashtra and Delhi will lead to the passenger 3W segment sales moving up hereon though Cargo 3W may continue to face issues on the after effects of DeMon. On the exports front, we are now seeing a recovery off late. Despite the two biggest exports markets of Nigeria and Sri Lanka remaining in weak zone, exports are performing well. Margins may come down a bit below 20% as RM costs hike may get somewhat offset by improving exports, favorable product mix and price hikes. Extinction of the Pantnagar (~25% of domestic production) tax benefits from Q4 may lead to increase in tax rate (~30%) from the ensuing quarters, which may result into bottomline getting a bit depressed. On the other hand, higher other income expectations on regular FMP maturity seen over the past few quarters may act as a positive for the bottomline though. We believe the risk to reward ratio is high for this company considering good bottomline growth despite the negatives stated above, clean cash rich balance sheet, robust return ratios and above all, a proxy to the domestic as well as global 2W industry. Upgrade the stock to OUTPERFORMER, with a target price of ₹ 3,234.

All figs in ₹	Q4 FY17	Q3 FY17	Q2 FY17	Q1 FY17	Q4 FY16	Q3 FY16	Q2 FY16	Q1 FY16
Gross Realisation per Unit	65,012	61,796	61,313	60,161	64,775	60,953	59,704	57,126
Net Realisation per Unit	61,006	58,424	57,652	60,161	60,793	57,417	56,603	54,343
Total Cost per unit	49,736	47,238	46,111	49,384	48,826	46,185	45,246	44,163
Material Cost per unit	42,155	39,736	39,315	42,258	40,498	38,842	38,379	37,242
Staff Cost per unit	2,886	2,850	2,507	2,697	2,324	2,420	2,288	2,406
Other Expn per unit	4,792	4,707	4,344	4,472	6,064	4,963	4,620	4,553
EBITDA per unit	12,442	12,258	12,560	11,826	13,199	12,300	12,466	11,250
PAT per unit	11,119	10,857	10,881	9,836	9,204	8,812	8,831	10,017

Financials
Income statement

YE Mar (₹.mn)	FY16	FY17	FY18E	FY19E
Total Revenues	226,876	217,667	263,053	310,125
Raw Material Cost	150,569	146,242	177,315	207,825
Employee Cost	9,184	9,971	11,131	12,836
Other Exp	19,668	16,491	21,874	25,828
EBITDA	47,795	44,963	52,289	63,191
EBITDA Margin(%)	21.1	20.7	19.9	20.4
Other income	9133	12220	13000	14000
Depreciation	3,072	3,073	3,008	3,091
Interest	5	14	25	30
PBT	53,851	54,096	62,256	74,070
PBT Margin(%)	24.2	25.3	24.1	24.2
Exceptional items	0	740	0	0
Tax	17,328	15,081	18,677	22,221
APAT	36,524	39,015	43,579	51,849
APAT Margins (%)	16.1	17.9	16.6	16.7
PAT	36,524	38,275	43,579	51,849
PAT Margin (%)	16.4	17.9	16.8	17.0

Key Ratios

YE Mar	FY16	FY17P	FY18E	FY19E
Per Share Data (₹)				
Adj. EPS	126.2	134.8	150.6	179.2
CEPS	118.2	136.8	145.4	161.0
BVPS	458.4	588.6	671.4	770.0
DPS	65.8	60.7	67.8	80.6
Growth Ratios(%)				
Total revenues	5.0%	-4.1%	20.9%	17.9%
EBITDA	16.1%	-5.9%	16.3%	20.8%
PAT	15.8%	6.8%	11.7%	19.0%
EPS Growth	15.8%	6.8%	11.7%	19.0%
Valuation Ratios (x)				
PE	23.5	22.0	19.7	16.6
P/CEPS	21.7	20.4	18.4	15.6
P/BV	6.5	5.0	4.4	3.9
EV/Sales	4.1	3.9	4.0	3.3
EV/EBITDA	18.0	19.3	16.5	13.6
Operating Ratios (Days)				
Inventory days	14.0	13.5	13.0	14.0
Receivable Days	11.8	16.3	18.0	22.0
Payables day	33.2	38.2	40.0	42.0
Net Debt/Equity (x)	(0.00)	0.04	0.02	(0.01)
Profitability Ratios (%)				
ROE	27.5%	22.9%	22.4%	23.3%
Dividend payout	52.1%	45.0%	45.0%	45.0%
Dividend yield	2.2%	2.0%	2.3%	2.7%

Source: Company, LKP Research

Balance sheet

YE Mar (₹.mn)	FY16	FY17P	FY18E	FY19E
EQUITY AND LIABILITIES				
Shareholder's funds				
Share capital	2,894	2,894	2,894	2,894
Reserves and surplus	129,772	167,448	191,416	219,933
Total networth	132,666	170,341	194,310	222,827
Non current liabilities				
Long term borrowings & prov.	2,362	2,545	2,695	2,845
Deferred tax liabilities	2,028	3,136	3,276	3,416
Current liabilities				
Current liabilities and provisions	21,400	23,567	29,786	36,842
Other current liabilities	6,409	8,559	11,347	14,235
Total equity and liabilities	164,865	208,147	241,415	280,166
ASSETS				
Net block				
Capital work in progress	269	106	306	506
Intangible assets	1,146	762	1,323	1,523
Non current investments	90,011	87,398	97,398	107,398
Long term loans and advances	6,822	297	397	497
Other non current assets	0	6,684	6,684	6,684
Total non current assets	117,612	114,234	124,893	135,302
Current assets				
Current investments	13,199	60,501	70,501	79,501
Inventories	7,191	7,283	9,219	11,723
Trade receivables	7,179	9,533	12,765	18,421
Cash and cash bank	8,595	2,937	8,868	18,040
Short term loans and advances	71	65	75	85
Other current assets	11,017	13,595	15,095	17,095
Total current assets	47,253	93,913	116,523	144,864
Total Assets	164,865	208,147	241,415	280,166

Cash Flow

YE Mar (₹ mn)	FY16	FY17P	FY18E	FY19E
PBT	53,851	54,096	62,256	74,070
Depreciation	3,072	3,073	3,008	3,091
Interest	5	14	25	30
Chng in working capital	5,302	(700)	2,328	(225)
Tax paid	(18,195)	(15,081)	(18,677)	(22,221)
Other operating activities	0	0	0	0
Cash flow from operations (a)	36,447	56,280	44,641	52,424
Capital expenditure	(2,651)	(2,838)	(2,700)	(3,200)
Chng in investments	1,233	(44,689)	(20,000)	(19,000)
Other investing activities	0	0	0	0
Cash flow from investing (b)	(189)	(47,446)	(22,651)	(23,616)
Free cash flow (a+b)	36,258	8,834	21,990	28,808
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(28,628)	(17,557)	(19,611)	(23,332)
Other financing activities	0	0	0	0
Cash flow from financing (c)	(33,841)	(14,065)	(16,060)	(19,636)
Net chng in cash (a+b+c)	2,417	(5,230)	5,931	9,172
Closing cash & cash equivalents	8,168	2,937	8,868	18,040

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