

ACCUMULATE

CMP* Rs2,081

Target Price Rs2,380

Stock Info

Sector Automobile

Market Cap (Rs cr) 60,229

52 Week High/Low 2,365/1,680

Avg. Daily Volume (3m, '000) 342

Avg. Daily Value (3m, cr) 71.1

Dividend Yield (%) 2.2

Sensex 25,642

Nifty 7,664

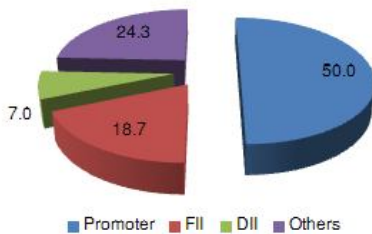
BSE Code 532977

NSE Code BAJAJ-AUTO

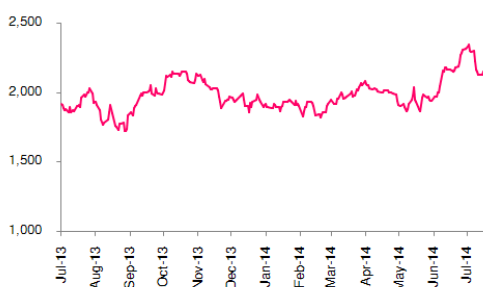
Stock Performance

(%)	BAJAJAUT	NIFTY
1-week	(2.5)	2.7
1-month	(3.2)	1.4
1-year	9.7	26.9

Shareholding Pattern (%)



Stock Price Chart



Note: *CMP as on July 18, 2014

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Exports to remain strong, domestic market share to improve from 2H

Key highlights of the result

- Operating margins below estimate; MTM loss on hedges further dents profits:** While Bajaj Auto's (BAL) 1QFY2015 revenue growth at 7% was in line, the operating profit was below estimate, impacted by raw material cost pressures and higher employee expense. MTM loss on forex hedges to the tune of Rs67.2cr further dented profits. BAL reported operating margins of 17.6% (lower-than-our estimate of 19.7%). Adjusted OPM for MTM losses stood at 18.9% (80bp below the estimate). Given the poor operating performance, Reported Net Profit remained flat at Rs740cr (below our expectation of Rs833cr).
- Domestic market share bottomed out; growth en route 2HFY2015E onwards:** Bajaj Auto has underperformed the domestic motorcycle industry over the last six quarters with the market share slipping from 24% in FY2013 to 18% in 1QFY2015. This has mainly been on account of underperformance in the *Discover* segment and shrinking of the premium segment where BAL is the market leader with *Pulsar*. (premium segment shrunk from 20% in FY2012 to 14% in FY2014). Notably, to recover the market share in the commuter space, BAL aims to launch *Discover 150* in 2QFY2015 (to be positioned as a premium commuter bike). Also, we believe that with the economic recovery, the share of the premium motorcycles is expected to increase resulting into market share gain for BAL. We, therefore, believe that the company's domestic market share has bottomed out and is likely to witness a gradual improvement from 2HFY2015E.
- Exports witness strong traction; expect strong double-digit growth in FY2015:** BAL is observing strong demand traction overseas (reported 22% volume growth in 1QFY2015). Notably, it is witnessing robust demand in key export markets viz., Africa and Latin America. In addition, with the lifting of the ban on vehicle imports into Egypt in June 2014, the export outlook has improved further. Also, post its collaboration with Kawasaki, BAL has witnessed good demand in Indonesia. We expect the momentum to continue and believe that the company would report ~18-20% growth in exports in FY2015E.
- Lift on Egypt import ban, new permits, and launch of quadricycle to push growth further:** Three-wheeler volumes are likely to recover in the coming quarters due to lifting of ban on vehicle imports in the Egyptian market (Egypt accounted for about 6-8,000 three-wheelers/month prior to the ban period). Moreover, new permits are expected to be released in Maharashtra and Delhi, which would boost the domestic volumes. For FY2015, we expect ~14% growth for three-wheelers. Also, the launch of quadricycles (RE60) in 3QFY2015 would provide another growth lever for BAL.

Outlook and Valuation

Bajaj Auto's 1QFY2015 results were below estimates on the back of cost pressures and MTM loss on export hedges. Considering the same and given the pricing pressures in the domestic market, we have marginally reduced our earnings assumption by 3% each for both FY2015E and FY2016E. Nonetheless, we believe that the company would witness a gradual recovery in the domestic market share driven by new *Discover* launches and revival in the premium segment. Also, exports are likely to register healthy double-digit growth. **Thus, we remain positive on the stock and recommend Accumulate with a revised Target Price of Rs2,380.**

Year End	Net Revenues		EBITDA		Net income		RoE	RoCE	EPS	Valuations (x)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2013	19,489	12.0	3,638	18.2	3,044	(3.0)	40.0	52.0	105.2	19.8	15.0
FY2014	19,718	1.2	4,106	20.4	3,243	6.6	34.8	46.8	112.1	18.6	12.8
FY2015E	22,464	13.9	4,566	19.9	3,652	12.6	32.4	44.0	126.3	16.5	11.2
FY2016E	25,972	15.6	5,307	20.0	4,310	18.0	31.8	43.4	149.0	14.0	9.3

Operating performance impacted by raw material pressures and higher employee costs

Domestic motorcycle witnesses a double-digit decline due to market share loss in commuter segment

Lost market share in domestic motorcycles due to underperformance in commuter segment. Absence in scooters leads to market share loss in overall two-wheelers

Risks to the view

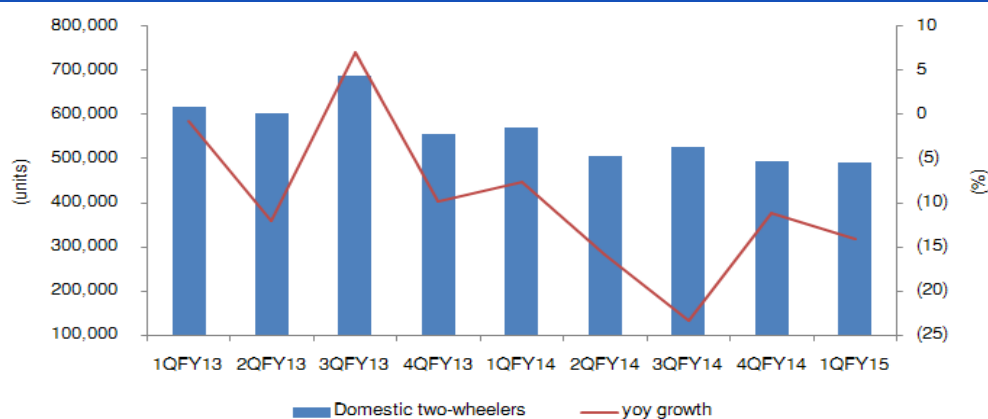
- Failure of new *Discover* may lead to continued underperformance in the domestic market
- INR appreciation against US\$ would impact export margins

Exhibit 1: Quarterly Performance

(Rs cr)	1QFY15	1QFY14	yoy%	4QFY14	qoq%	FY14	FY13	yoy%
Net Sales	5,133	4,809	6.8	4,823	6.4	19,718	19,489	1.2
Other op	119	102	16.3	110	8.6	432	508	(15.0)
Income								
Total income	5,252	4,911	6.9	4,932	6.5	20,150	19,997	0.8
Raw Material	3,680	3,407	8.0	3,435	7.1	13,877	14,407	(3.7)
Gross Profit	1,572	1,504	4.5	1,497	5.0	6,273	5,591	12.2
Margin (%)	29.9	30.6		30.4		31.1	28.0	
Emp exp	215	184	16.8	175	22.8	727	639	13.6
Other exp	432	414	4.5	391	10.6	1,441	1,313	9.7
EBIDTA	925	907	2.0	931	(0.7)	4,106	3,638	12.9
Margin (%)	17.6	18.5		18.9		20.4	18.2	
Depreciation	69	45	55.3	44	55.6	180	167	7.7
EBIT	1,075	1,038	3.6	1,072	0.3	4,633	4,267	8.6
Margin (%)	20.5	21.1		21.7		23.0	21.3	
Other income	219	176	24.9	185	18.6	706	795	(11.2)
(% of revenues)	4.2	3.6		3.7		3.5	4.0	
Interest	0	0	22.2	0	(35.3)	0	1	(9.3)
PBT	1,075	1,038	3.6	1,072	0.3	4,632	4,266	8.6
Tax	335	300	11.6	308	8.9	1,362	1,156	17.8
Tax Rate (%)	31.2	28.9		28.7		29.4	27.1	
Profit after Tax	740	738	0.3	764	(3.1)	3,270	3,110	5.1
Margin (%)	14.1	15.0		15.5		16.2	15.6	
Diluted EPS	25.6	25.5	0.3	26.4	(3.1)	112.1	105.2	6.6

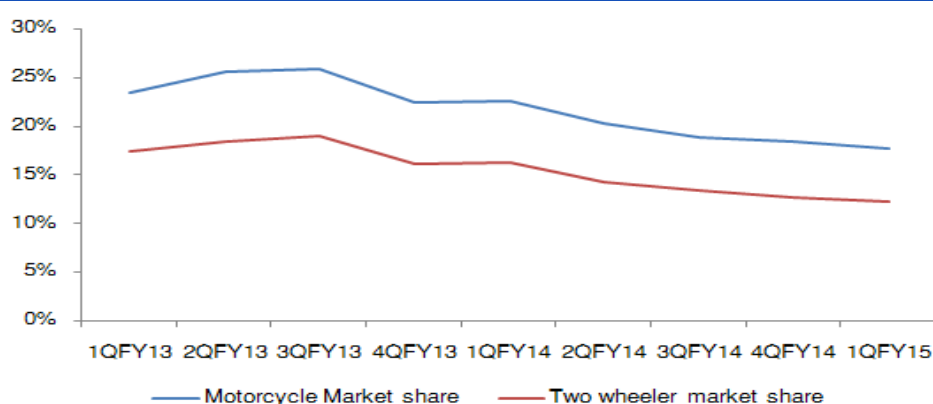
Source: Company, RSec Research

Exhibit 2: Domestic motorcycle volumes and growth trend



Source: Company, RSec Research

Exhibit 3: Domestic market share trend



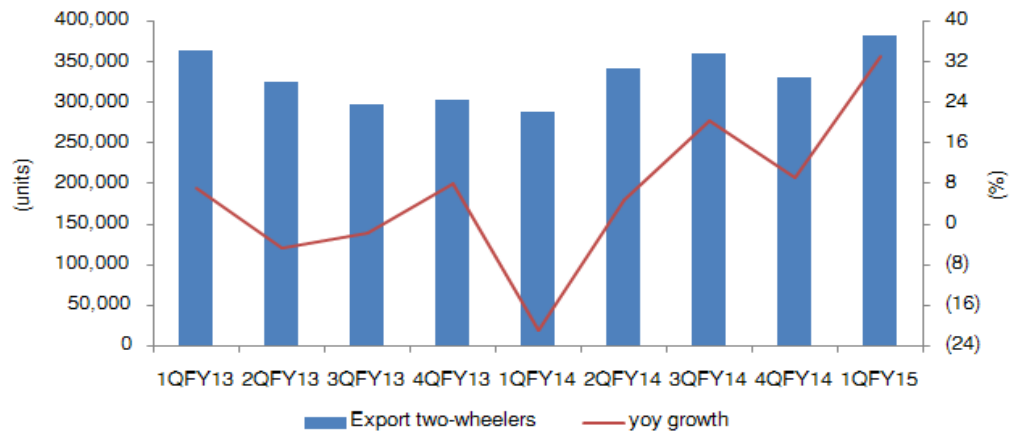
Source: Company, RSec Research

Exports continue double-digit growth on back of strong demand in Africa and Latin America

Three-wheeler impacted by ban in Egypt

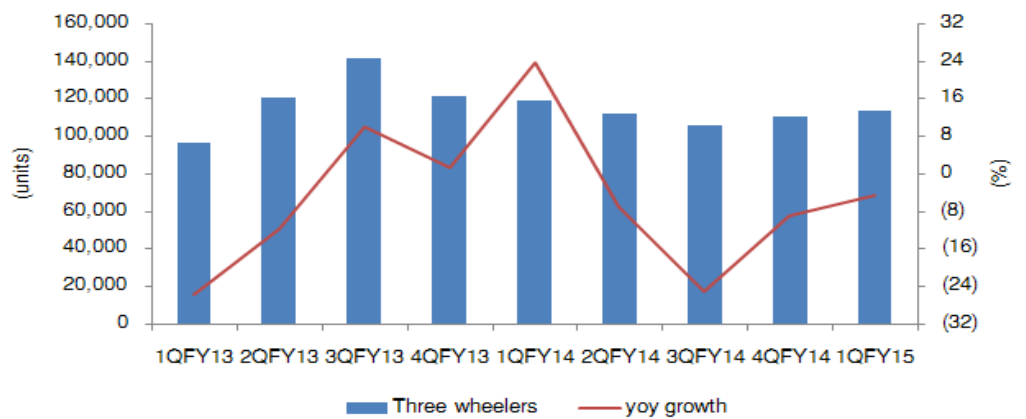
Realization and contribution per vehicle improve on back of favourable INR/US\$ movement

Exhibit 4: Motorcycle export volumes and growth trend



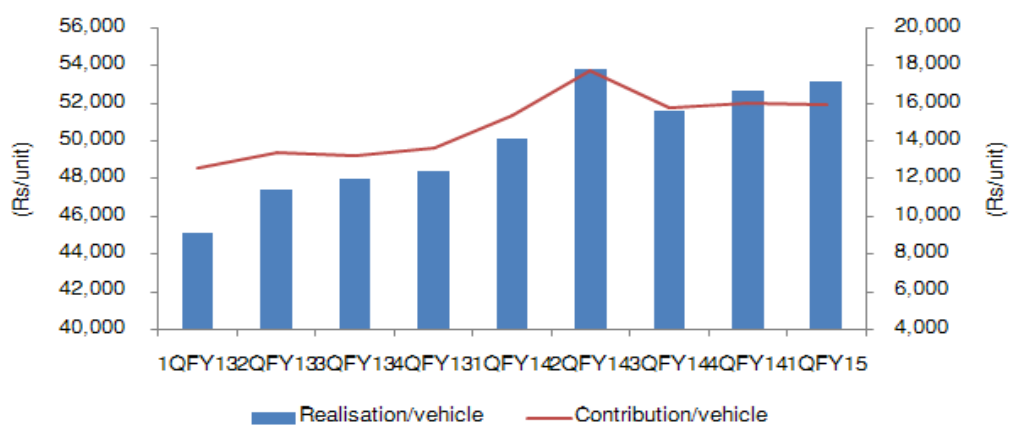
Source: Company, RSec Research

Exhibit 5: Three-wheeler volumes and growth trend



Source: Company, RSec Research

Exhibit 6: Realization and contribution/vehicle trend



Source: Company, RSec Research

Profit & Loss Statement

Y/E Mar (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
Net sales	19,489	19,718	22,464	25,972
Other operating income	508	432	450	500
Total income	19,997	20,150	22,914	26,472
Total expenditure	16,359	16,044	18,349	21,165
Raw Material costs	14,407	13,877	16,006	18,574
Employees	639	727	848	948
Others	1,313	1,441	1,495	1,644
EBIDTA	3,638	4,106	4,566	5,307
% chg	(2.2)	12.9	11.2	16.2
% of total income	18.2	20.4	19.9	20.0
Depreciation	167	180	219	209
EBIT	4,267	4,633	5,236	6,158
% chg	2.0	8.6	13.0	17.6
% of total income	21.3	23.0	22.8	23.3
Interest	1	0	1	1
Other income	795	706	889	1,060
% of PBT	18.6	15.3	17.0	17.2
PBT (reported)	4,266	4,632	5,235	6,157
Tax	1,156	1,362	1,583	1,847
% of PBT	27.1	29.4	30.2	30.0
Reported PAT	3,044	3,243	3,652	4,310
% chg	(3.0)	6.6	12.6	18.0
% of Net sales	15.2	16.1	15.9	16.3
EPS	105.2	112.1	126.3	149.0
% chg	(3.0)	6.6	12.6	18.0

Balance Sheet

Y/E Mar (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
SOURCES OF FUNDS				
Equity share capital	289	289	289	289
Reserves and Surplus	7,613	9,319	11,261	13,554
Shareholders Funds	7,902	9,608	11,551	13,844
Long term Loans	193	145	200	200
Deferred Tax liabilities net	115	143	143	143
Other long term liability	-	-	-	-
Total liabilities	8,210	9,896	11,894	14,187
APPLICATION OF FUNDS				
Gross Block	3,829	4,077	4,477	4,877
Acc Depn	2,024	2,071	2,290	2,499
Net Block	1,804	2,006	2,187	2,378
Capital WIP	294	144	150	150
Long term investments	3,719	6,260	5,000	5,000
Other long term assets	1	-	-	-
Current Assets	6,660	6,337	9,244	11,672
Short term investments	2,711	2,290	4,500	6,000
Inventory	636	640	774	900
Cash	559	495	929	1,309
Receivables	768	796	838	962
Loans and advances	1,774	1,698	2,004	2,301
Others	212	417	200	200
Current Liabilities & Prov	4,268	4,851	4,688	5,014
Current Liab	2,526	2,878	3,084	3,161
Provisions	1,742	1,974	1,604	1,853
Net Current Assets	2,392	1,485	4,556	6,658
Total Assets	8,210	9,896	11,894	14,187

Cash Flow Statement

Y/E Mar (Rs cr)	FY2013	FY2014	FY2015E	FY2016E
PBT	4,266	4,632	5,235	6,157
Depreciation	110	47	219	209
Changes in WC	(839)	422	(427)	(222)
Interest/Dividend (Net)				
Direct taxes paid	(1,223)	(1,389)	(1,583)	(1,847)
Others	409	9	-	-
Cash flow from operations	2,723	3,721	3,444	4,297
(Inc)/Dec in Fixed assets	(687)	(99)	(406)	(400)
(Inc)/Dec in Investments	(1,548)	(2,119)	(950)	(1,500)
Cash flow from investments	(2,235)	(2,218)	(1,356)	(1,900)
Issue of Equity				
Inc/(Dec) in loans	(61)	(48)	55	-
Dividend paid (incl tax)	(1,523)	(1,518)	(1,709)	(2,017)
Others				
Cash flow from Finance	(1,584)	(1,566)	(1,654)	(2,017)
Inc/(Dec) in cash	(1,095)	(63)	434	380
Opening Cash	1,654	559	495	929
Closing Cash	559	495	929	1,309

Key Ratios

Y/E Dec	FY2013	FY2014	FY2015E	FY2016E
Valuation Ratios (x)				
P/E on FDEPS	19.8	18.6	16.5	14.0
P/CEPS	18.8	17.6	15.6	13.3
P/BV	7.9	6.5	5.3	4.4
Dividend yield (%)	2.2	2.2	2.4	2.9
EV/Sales	2.7	2.6	2.2	1.9
EV/EBIDTA	15.0	12.8	11.2	9.3
EV/Total Assets	6.6	5.3	4.3	3.5
Per share data				
EPS (Basic)	105.2	112.1	126.3	149.0
EPS (fully diluted)	105.2	112.1	126.3	149.0
Cash EPS	110.9	118.3	133.8	156.2
DPS	45.0	44.9	50.5	59.6
Book Value	263.2	322.2	389.4	468.7
Return Ratios				
RoCE	52.0	46.8	44.0	43.4
RoE	40.0	34.8	32.4	31.8
Turnover Ratios (x)				
Inventory	12	12	12	12
Receivables (days)	14	14	13	13
Payables (days)	46	52	49	44
WC Cycle (days)	(20)	(26)	(23)	(18)

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