

BSE Code: 532977 **NSE Code:** BAJAJAUTO **Reuters Code:** BAJA.NS **Bloomberg Code:** BJAUT:IN

Bajaj Auto Ltd (BAL) is the world's largest three-wheeler (3W) manufacturer having domestic market share of 55% (FY15). Set up in 1930, the company is the largest 3W, the largest premium motorcycle, and the second largest two-wheeler (2W) maker in the Indian passenger vehicle market. BAL is the largest exporter of 2W and 3W in the country with exports forming 44% of its total sales. The company has two subsidiaries, namely Bajaj Auto International Holdings BV and PT Bajaj Indonesia. The company operates in two segments namely, Automotive and Investments.

Investment Rationale

🌀 Betting big on export & new product launches

BAL is betting big on improvement in export market and aims to expand further by entering into another 14 countries. We believe that the firm's rising export and premium motorcycle business should enhance revenue growth in the following years to come. Besides, the company plans to launch at least three more new products (including a new Pulsar model) later in FY16E. We believe that BAL's strategy of launching new products would help it to ease concern arising out of rising competition and would help the company partially regain its lost market share in the coming years. Further, we expect the new launches will help the company to generate demand and also improve operating margins by easing of raw-material cost pressures.

🌀 Aims to improve its market share in motorcycle segment to 23-24%

The domestic two wheeler industry is still grappling with a slowdown on falling rural demand and rising competition concern, but with prospects of GST implementation & rate cut hope, the company expects domestic motorcycle market to grow at a sluggish pace of ~4-5% in FY16. BAL aims to retain its lost market share in motorcycle segment to 23-24% in FY16, by focusing on the entry level and premium/ sport segment.

🌀 Focus on export market to boost margins in the upcoming years

BAL's effectiveness has improved in export markets, which contributes ~44% of the sales, along with an improvement in realizations and margins. By entering into 14 new countries, BAL plans to further expand its exports. With the rising share of pulsars in export markets, the company is expected to boost its operating margins and is likely to remain at ~20% as cost structures remain favourable.

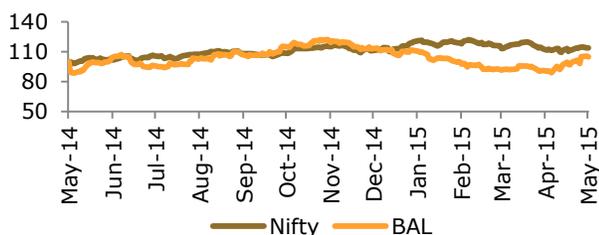
Market Data

Rating	BUY
CMP (₹)	2,286
Target (₹)	2,600
Potential Upside	~14%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	2,695/1,912.5
Adj. all time High (₹)	2,695
Decline from 52WH (%)	15.2
Rise from 52WL (%)	19.5
Beta	0.9
Mkt. Cap (₹cr)	66,150.0
EV (₹cr)	65,675.6

Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Revenue (₹cr)	20,149.5	21,612.0	23,773.2	27,576.9
EBITDA (₹cr)	4,105.7	4,116.6	4,921.1	6,066.9
Net Profit (₹cr)	3,243.3	2,813.7	3,656.4	4,848.0
EPS (₹)	112.1	97.2	126.4	167.5
P/E (x)	20.4	23.5	18.1	13.6
P/BV (x)	6.9	6.2	5.5	4.8
EV/EBITDA (x)	16.0	16.0	13.3	10.8
ROCE (%)	46.2	40.0	41.9	46.1
ROE (%)	33.8	26.3	30.2	35.5

One year Price Chart



Shareholding Pattern	Mar 15	Dec14	Diff.
Promoters	49.2	50.0	(0.8)
FII	17.0	18.8	(1.8)
DII	8.6	7.0	1.6
Others	25.1	24.2	0.9

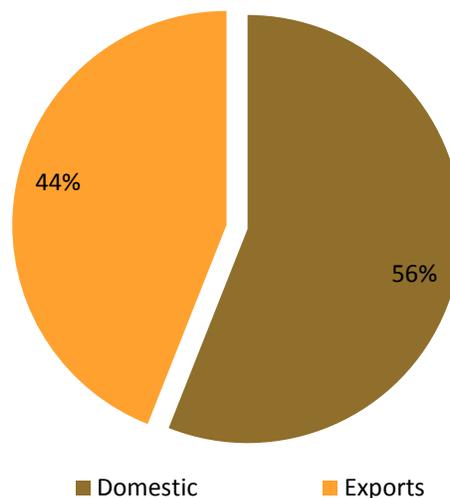
Export markets are also looking up now with improvement coming in Nigeria and Egypt. This will lead to further margin expansion. BAL is targeting to export 2-2.1 million units bikes and three-wheelers in FY16E against 1.8 million units sold in FY15.

Exports remain a major mainstay of the company, providing higher revenue visibility

BAL continued to report strong growth in the international market, with exports growing at a CAGR of ~11% during FY11-15. Exports, which constitute more than 40% of the company total sales volumes, continue to be the mainstay of the company. Due to weakness in the domestic business and rapid growth in the global business, the company increased its share of exports revenue from ~33% in FY12 to ~44% in FY15. During Q4FY15, BAL's export volumes declined by 10% YoY impacted by political disruptions in key export markets, viz Nigeria and Egypt. BAL has an outstanding order book of 110,000 motorcycles from the Sri-Lankan government, which is yet to be exported. We expect BAL's increasing penetration in existing markets and preference for bigger & better bikes will help maintain growth momentum in exports.

However, management of the company believes that the worst for the exports is over and expects exports to normalise from May 2015. End of the election in Nigeria and improvement in dollar letter of credits in Egypt would recoup the volumes. Meanwhile, BAL is targeting to export 2-2.1 million units bikes and three-wheelers in FY16E against 1.8 million units sold in FY15.

Sales volume mix on geographical basis



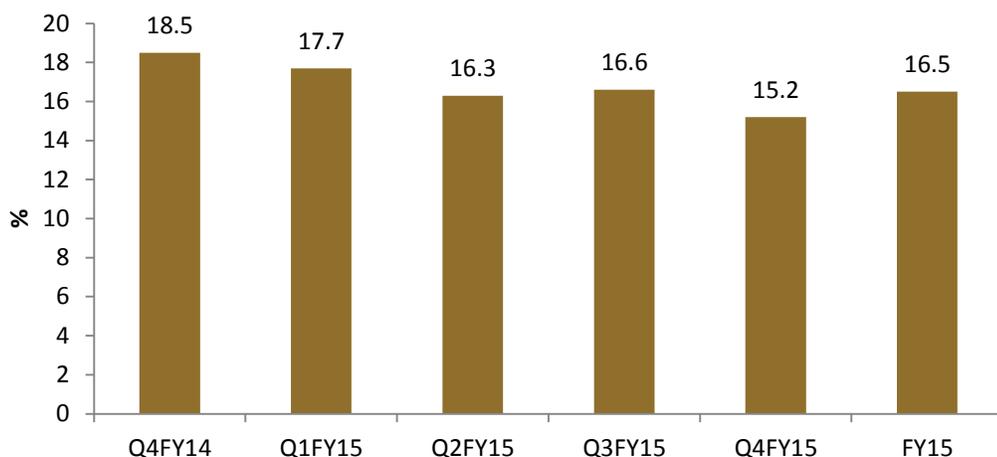
Domestically, the newly launched CT100 model is well received and should see good volumes. Pulsar would benefit from a higher premium segment share and is likely to drive market share gain for the company.

Aims to regain its lost market share in domestic two wheeler industry

Due to sluggishness in the domestic two-wheeler market, BAL lost some of its market share in the two wheeler domestic motorcycle market from 20.1% in FY14 to 16.5% in FY15 in the wake of tepid demand for from the executive segment "Discover" that account for the largest proportion of the company's sales volumes. However, the company regained some of the confidence with high sales in April'15, which in turn led to ~3 bps improvement in market share to 19% currently in April'15. Optimism came on account of higher sales of the company's bikes like Platina, CT100, and Pulsar -a segment in the month of April'15, where BAL, is the market leader with 44% share of the total motorcycle market. With strong focus on basic and premium bikes, which remained unaffected by the overall decline in two-wheeler sales, the company aims to regain its lost market share to 23-24% by the end of FY16E.

Due to weak performance from mid-segment offering --Discover, the company is targeting only on entry and premium bike segment. BAL's sales volume of Platina and CT100 has grown by two-fold in a year and its market share in entry level bike segment is closer to 40% in April'15 from 23% a year ago. Similarly, in the premium segment, the company introduced more variants of its premium offering Pulsar. Cumulatively, the market size of entry and premium segments has grown which has helped the company to sustain its market share in these two segments.

BAL's market share trend in domestic motorcycle industry



Continues to hold leadership position in domestic three-wheeler market

BAL has strong command in the three-wheeler market, with market share (including exports) of ~55% in FY15. BAL surpassed the domestic three-wheeler industry with 25% YoY growth in FY15 against the industry growth of 11%. We believe that the new products launch in the diesel segment will help the company to further enhance its leadership position in three-wheeler market. However, for FY16, BAL anticipates the three-wheeler industry to grow at a slower pace of 5% due to lower permits and high base of FY15. Besides, with an aim to mark an entry in four-wheeler market, BAL plans to launch the new quadricycle (RE60) in FY16, providing an additional growth opportunity.

New launches to boost volume growth

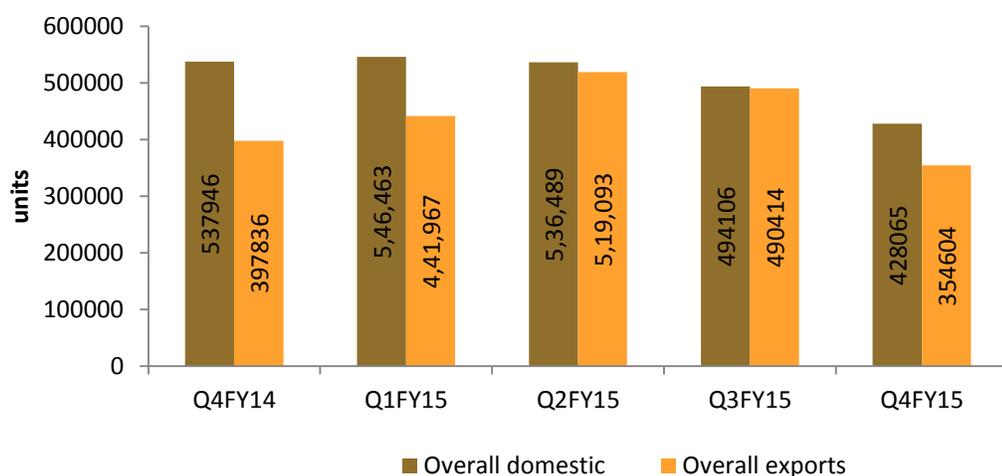
Despite the ongoing moderate demand environment on passive consumer sentiments led by macro-economic concerns and rising petrol & essential parts prices, the firm has left no stone unturned to generate sales milieu. The company has long ruled the Indian motorcycle market with its Discover and Pulsar range of commuter and executive segment bikes. However, Hero Motors' Hunk, Achiever, xtreme & Impulse and TVS Motors' Apache models are increasingly targeting BAL's turf.

BAL plans to launch at least three more new products (including a new Pulsar model) later in FY16E.

To encounter all these impediments and to further strengthening its steadily growing presence, BAL has already rolled out five new models (Platina ES, CT100, RS200, AS150 and AS200) since January 2015. Further, the company plans to launch at least three more new products (including a new Pulsar model) later in FY16E, in its bid to maintain market leadership in the face of fierce competition from Hero Motors and TVS Motors. Recently, in -line with the launch of pulsar adventure sports series, the company unveiled its new range of sporty bikes under the Pulsar brand, including higher capacity bikes going up to 500 cc, with a market share of 43% in FY15 across engine capacities, making it the country's number one sports bike for 14 years in a row. In its strategy to sold 55,000 units of Pulsar series per month in the domestic market, the company is looking to increase its market share in sports segment to 50% in FY16E. Further, the company is working on its new Avenger model in order to further pep-up its Discover commuter bike portfolio.

We expect that all these super launches will help the company to generate demand and also improve operating margins by easing of raw-material cost pressures.

Quarterly sales volumes trend



BAL expects the domestic motorcycle industry to grow by 4-5% in FY16E. However, the expectation of market share improvement will allow the company to outpace the industry growth.

Domestic motorcycle industry to remain muted in FY16E

The company acknowledged the concern that the domestic two wheeler industry is still grappling with a slowdown on falling rural demand and rising competition concern. The rural demand for automobiles has been adversely impacted by unseasonal rains in March. Poor crop realization and slowdown in rural wages have pulled back the rural economy, impacting retail off-takes in markets such as Bihar, Madhya Pradesh and sugarcane growing areas of Uttar Pradesh and Maharashtra. BAL expects the domestic motorcycle industry to grow by 4-5% in FY16E. However, the expectation of market share improvement will allow the company to outpace the industry growth. While, the demand from domestic three-wheeler industry could see some improvement on new permits issued for 3Ws.

The implementation of GST would allow BAL to freely source quality material given the equal tax rate across states. While falling fuel costs, weak commodity prices and declining rupee value are positives, any further rise in prices due to excise duty rollback can be detrimental to overall sales for two-wheeler companies, including Bajaj Auto. The company, as of now, has deferred its decision to increase prices.

During Q4FY15 BAL's total revenue declined by 3.9% YoY as weak volumes dragged the company's revenue growth. Volumes declined 16.4% YoY at 7.8 lakh units. EBITDA dragged down largely due to one-off-expenses, including loss on account of a fire at the Akurdi plant in January 2015 and increase in gratuity charge to actuarial valuation.

The company continued to show lackluster performance on domestic bike segment, with market share declining by 332 bps YoY to 15.2% in Q4FY15, while its domestic market share in three-wheeler space rose 384 bps YoY to 42% in the quarter.

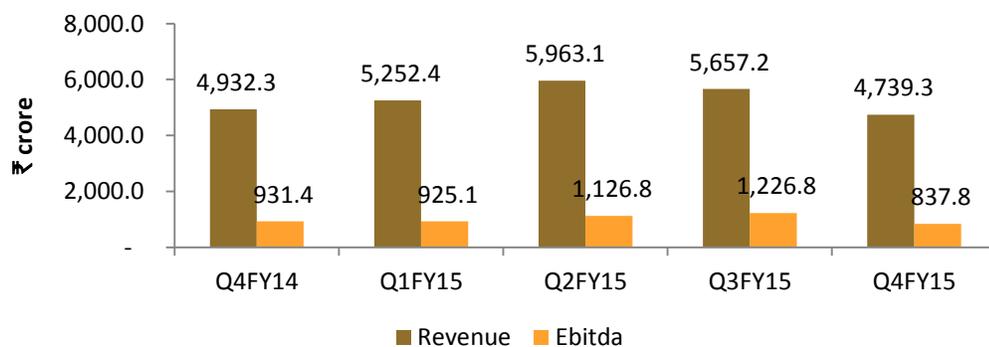
Given BAL having the first mover advantage, wide-spread reach with an established distribution network and a strong brand presence in the major markets of Africa and Latin America, provides an add-on advantage to the company.

Muted set of numbers in FY15

Despite of 1.5% YoY decline in sales volume, BAL reported 7.3% YoY growth in its standalone revenue at ₹21,612 crore in FY15, on account of improved realizations from nominal price hikes. BAL recorded EBITDA of ₹4,116.6 crore, the highest in the company's history at an industry leading EBITDA margin of 19.0%. BAL's net profit for FY15 came at ₹2,813.7 crore v/s ₹3,243.3 crore, which includes a one-time exceptional charge of ₹340.3 crore towards national calamity contingent duty.

While in Q4FY15, the company's revenue declined 3.9% YoY to ₹4,739.3 crore mainly due to 16.4% YoY & 20.5% QoQ decline in overall sales volumes to 782,669 units in Q4FY15. However, 14.6% YoY realisation growth, led by better product mix, higher export realization, and price hike helped the company in containing the decline in revenue. However, despite of decline in raw material prices, the overall feebleness in volumes and revenues mirrored in the operating margins, which came down to 17.6% in Q4FY15 against 18.8% in the same period last year. Further, due to higher depreciation and other expenses and a drop in other income, the company's net profit declined by 17.6% YoY to ₹621.6 crore in Q4FY15.

Quarterly performance trend



Lower sales volumes were offset by strong realization growth

On domestic front, BAL's bike sales fell 23% YoY and 13.5% QoQ to 379,683 units vis-à-vis industry decline of 6.4% YoY due to constantly growing volumes of HMSI. The company's domestic three-wheeler sales grew 10.5% YoY to 48,628 units vis-à-vis 0.4% YoY growth in industry volume. Three-wheeler contributed 14% to total volume compared to 11.8% in Q4FY14. The company continued to show lacklustre performance on domestic bike segment, with market share declining by 332 bps YoY to 15.2% in Q4FY15, while its domestic market share in three-wheeler space rose 384 bps YoY to 42% in the quarter.

On export front, the company's revenue, which accounts for 46% of total net sales, grew by 19% YoY to ₹9,760 crore in Q4FY15. BAL's sales volumes from export market fell by 11% YoY to 354,604 units, mainly due to 11.4% YoY and 8% YoY decline in sales volume from bike exports and sales volume from three-wheeler exports to 293,532 units and 61,072 units, respectively in Q4FY15 owing to geo political turmoil coupled with currency issue in African countries. Meanwhile, export realisations grew 13% YoY and 7.9% QoQ.

Balance Sheet (Standalone)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
Share Capital	289.4	289.4	289.4	289.4
Reserve and surplus	9,318.7	10,402.8	11,800.8	13,350.5
Net Worth	9,608.0	10,692.2	12,090.2	13,639.9
Long term borrowings	57.7	111.8	106.2	104.1
other liability	87.4	57.6	63.3	69.7
Deferred tax liability	143.2	141.6	141.6	141.6
Long-term provisions	121.0	82.4	74.2	66.8
Current Liability	4,730.2	4,476.8	4,583.5	4,948.0
Total Liabilities	14,747.6	15,562.3	17,059.0	18,970.0
Fixed assets	2,150.1	2,172.2	2,193.9	2,215.8
Investment	6,259.9	3,352.8	3,654.5	3,983.4
Loans & adv	719.9	511.1	572.4	641.1
Other assets	1.0	-	-	-
Current Assets	5,616.6	9,526.3	10,638.2	12,129.6
Total assets	14,747.6	15,562.3	17,059.0	18,970.0

Profit & Loss Account (Standalone)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
Total revenue	20,149.5	21,612.0	23,773.2	27,576.9
Operating Expenses	16,043.8	17,495.5	18,852.2	21,510.0
EBITDA	4,105.7	4,116.6	4,921.1	6,066.9
Other Income	706.4	582.4	599.9	707.9
Depreciation	179.6	267.4	294.1	308.8
EBIT	4,632.5	4,431.6	5,226.8	6,465.9
Interest	0.5	6.5	3.4	1.8
Exceptional items	-	340.3	-	-
PBT	4,632.1	4,084.8	5,223.4	6,464.1
Tax	1,388.7	1,271.1	1,567.0	1,616.1
PAT	3,243.3	2,813.7	3,656.4	4,848.0

Key Ratios (Standalone)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	20.4	19.0	20.7	22.0
EBIT Margin (%)	23.0	20.5	22.0	23.4
Reported NPM (%)	15.6	12.7	15.0	17.1
ROCE (%)	46.2	40.0	41.9	46.1
ROE (%)	33.8	26.3	30.2	35.5
EPS (₹)	112.1	97.2	126.4	167.5
P/E (x)	20.4	23.5	18.1	13.6
BVPS(₹)	332.0	369.5	417.8	471.4
P/BVPS (x)	6.9	6.2	5.5	4.8
EV/Net Sales (x)	3.3	3.0	2.8	2.4
EV/EBITDA (x)	16.0	16.0	13.3	10.8

Valuation and view

BAL bestowed by its varied geographical presence, product mix, and greater product pipeline visibility is all set to compete with tough market environment. Further, low commodity price and higher export realization can be strong margin drivers ahead. Thus, we believe that with new launches across the motorcycle segment viz commuter, executive and premium, BAL is expected to perform well in the coming quarters.

We initiate BUY rating on BAL. At a current CMP of ₹2,286, BAL is currently trading at an EV/EBITDA of 13.3x for FY16E and 10.8x for FY17E. Considering the company's strong fundamentals, we recommend 'BUY' with a target price of ₹2,600, which implies potential upside of ~14% to the CMP from 1 year perspective.

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