Stock Update

Robust volume outlook

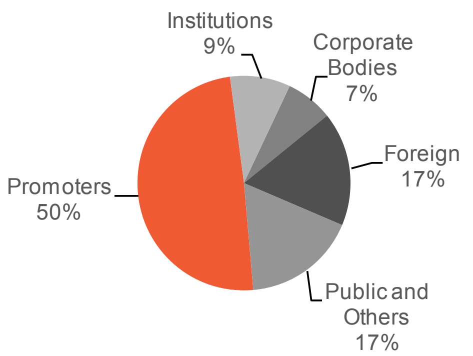
Bajaj Auto

Reco: Buy | CMP: Rs3,225

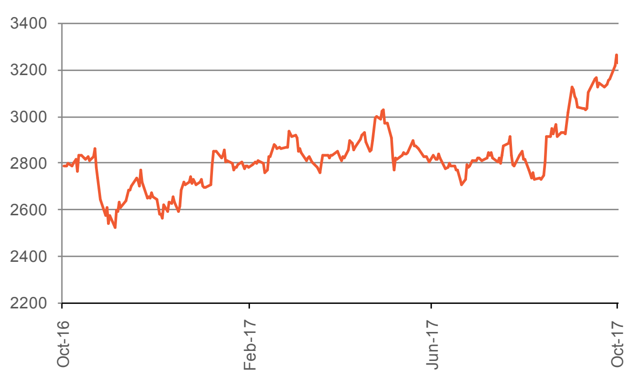
Company details

Price target:	Rs3,625
Market cap:	Rs93,324 cr
52-week high/low:	Rs3,310/2,510
NSE volume: (No of shares)	2.6 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (No of shares)	14.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.7	15.5	16.6	20.8
Relative to Sensex	6.6	13.4	4.2	0.6

Key points

- **Operating performance marginally ahead of estimates:** Bajaj Auto Limited's (BAL) Q2FY2018 margin performance was better than our as well as street expectations. Topline grew by 9% YoY backed by 4% volume growth. Domestic market volumes grew by 2%, while export volumes grew by 7%, led by recovery in export markets and low base. Revenue was also boosted by realisations (up 5% YoY) attributable to price hikes undertaken by the company and a richer product mix (higher share of premium bikes and three wheelers). OPM at 19.7% contracted 170BPS YoY but was better than our expectations of 18.4%. BAL managed to substantially pass on the increased raw-material prices to consumers, thereby restricting margin fall. Other income for the quarter at Rs.296 crore dropped by 13% YoY. Consequently, PAT at Rs.1,112 crore declined marginally by 1%, broadly in line with estimates.

- **Encouraging outlook for domestic and exports business provides ample visibility for volume growth; expect 10% volume CAGR over FY2017-FY2019:** With stabilising crude prices, better availability of USD and low base, BAL reported 9% volume growth in exports in 1HFY2018 as against an 11% CAGR drop over FY2015-FY2017. In addition, BAL is tapping new export geographies (the share of new markets formed about 16% of overall volumes in Q2FY2018). With improved volume outlook of existing overseas markets coupled with tapping of new markets, BAL expects export volume growth to accelerate and has raised its export guidance upwards to 1.7 million units for FY2018 as against 1.6 million units guided earlier (we have factored volume of 1.66 million, which implies 17% growth). Moreover, the outlook for domestic markets is also encouraging, given improved industry demand scenario due to strong rural sentiments due to second consecutive year of normal monsoon. Further, BAL has a favourable base effect for 2HFY2018 (2HFY2017 volumes dipped 10% due to impact of demonetisation and market share loss due to its strategy of early adoption of BS4 norms). This coupled with new launches (plans to launch an upgrade of Avenger around Q4FY2018 and a new product in the mid-commuter segment later in FY2019) would further aid volume growth. We expect BAL's domestic volumes to grow by 6% in FY2018.

- **Outlook: 2HFY2018 to witness impressive volume growth while margins are expected to sustain the 20% mark in H2FY2018:** With apparent demand revival in key exports markets and tapping of new geographies, we expect BAL to report export volumes of 8.45 lakh units in H2FY2018 (implies sharp 28% growth YoY) as against 8.12 lakh units reported in H1FY2018. In addition, the domestic business is likely to exhibit traction in 2HFY2018, given market share regains in the motorcycle business, low base due to demonetisation and traction in the three-wheeler business due to removal of permits in Maharashtra. We expect BAL's domestic volumes to grow 28% YoY in H2FY2018. Further, a favourable product mix (greater share of high-margin products such as three-wheelers and Pulsars) and price hikes (BAL has already increased prices in export markets w.e.f. from October 1, 2017) would mitigate the likely increase in raw-material prices and higher marketing expenses. We expect BAL's margins to sustain at around 20% levels in H2FY2018.

- **Valuation: Maintain Buy with a revised PT of Rs.3,625:** Given the better-than-anticipated margin performance in Q2FY2018, we have raised our earnings estimates by 6% and 5% for FY2018 and FY2019, respectively. We maintain our Buy recommendation on the stock with a revised PT of Rs.3,625 (earlier PT of Rs.3,470).

Results Rs cr

Particulars	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Total Income	6,579.9	6,054.5	8.7	5,442.4	20.9
EBIDTA	1,298.4	1,296.1	0.2	938.4	38.4
EBIDTA Margins (%)	19.7	21.4	-168 BPS	17.2	250 BPS
Depreciation	77.0	77.0	0.0	75.3	2.3
Interest	0.5	0.7	-30.9	0.2	95.8
Other Income	296.4	342.0	-13.3	457.3	-35.2
PBT	1,517.4	1,560.5	-2.8	1,320.1	14.9
Tax	405.5	437.8	-7.4	364.2	11.3
Adjusted PAT	1,111.9	1,122.8	-1.0	955.9	16.3
EPS	38.4	38.8		33.1	

Valuations Rs cr

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net Sales	21,612.0	22,586.5	21,766.7	24,930.2	27,921.9
Growth (%)	7.3	4.5	-3.6	14.5	12.0
EBIDTA	4,116.6	4,782.0	4,422.4	4,777.2	5,491.8
OPM (%)	19.0	21.1	20.3	19.2	19.7
Recurring PAT	2,813.7	3,929.7	3,827.6	4,176.7	4,732.1
Growth (%)	-13.2	33.0	-2.6	9.1	13.3
EPS (Rs)	107.2	129.4	132.3	144.4	163.6
PE (x)	30.1	24.9	24.4	22.3	19.7
P/BV (x)	7.3	7.0	5.5	4.9	4.4
EV/EBIDTA (x)	19.7	17.4	19.1	17.0	15.0
RoCE (%)	33.1	40.5	30.3	29.7	30.7
RoNW (%)	21.9	29.6	22.5	22.0	22.3

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