

BSE SENSEX
36,324

S&P CNX
10,937

CMP: INR3,102 TP: INR3,686 (+19%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We [request your ballot](#).



Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	897.5 / 13.1
52-Week Range (INR)	3473 / 2701
1, 6, 12 Rel. Per (%)	6/-6/-3
12M Avg Val (INR M)	1072
Free float (%)	50.7

Financials Snapshot (INR b)

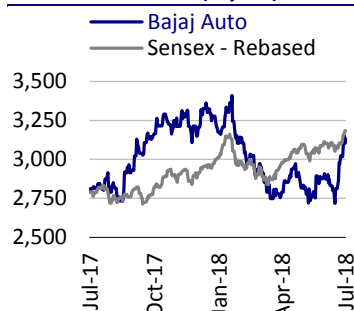
Y/E Mar	2018	2019E	2020E
Sales	252	292	327
EBITDA	47.8	55.4	65.0
Consol. NP	43.8	49.4	57.1
Cons. EPS (INR)	151	171	197
EPS Gr. (%)	7.3	12.8	15.6
BV/Sh. (INR)	660	736	826
RoE (%)	24.2	24.4	25.3
RoCE (%)	22.0	22.3	32.6
P/E (x)	20.5	18.2	15.7
P/BV (x)	4.7	4.2	3.8

Shareholding pattern (%)

As On	Mar-18	Dec-17	Mar-17
Promoter	49.3	49.3	49.3
DII	8.5	8.8	7.7
FII	17.2	17.2	17.4
Others	25.0	24.7	25.6

FII Includes depository receipts

Stock Performance (1-year)



Finally, all three engines firing in unison

Product actions drive volume recovery in domestic motorcycle market

Strategy revolves around value migration to Entry and Premium segments

- The domestic 2W industry is expected to grow at a CAGR of ~10% until FY22, led by the Scooter (CAGR of 12-14%) and Motorcycle (CAGR of 8-9%) segments.
- We expect continued value migration away from the Executive motorcycle 100/125cc segment toward the Scooters (driven by wider appeal), Premium >150cc (driven by need for uniqueness and upgrade) and Entry motorcycle 100cc (driven by substantial value proposition) segments.
- BJAUT's strategy is to capitalize on this value migration by focusing on the Entry and Premium motorcycle segments. In the Premium segment, BJAUT enjoys strong positioning with its market leadership (~30% market share) and widest portfolio (150-400cc), which will strengthen further with the addition of Husqvarna and Triumph over the next two years.

Product actions, rural recovery drive BJAUT's domestic motorcycle recovery

- BJAUT's domestic motorcycle business is showing initial signs of recovery, led by several product/pricing actions like the launch of Pulsar twin disc, the re-launch of Discover 110, and price cut for CT100 KS/Pulsar Classic by ~INR3k.
- BJAUT's domestic motorcycle volumes grew 30% in CY18YTD (v/s 22.7% growth for domestic 2W industry), leading to a market share recovery of 90bp YoY to 15.8% in 1HCY18 (1QFY19 market share at 16.3%).
- Domestic motorcycle industry grew at a CAGR of just 2% over FY12-17 due to weak monsoon (FY15/16), scooterization, and demonetization (FY17), etc. However, rural markets have witnessed a sharp recovery since Nov-17, as evident from domestic motorcycle growth of ~13.7%/19.5% in FY18/1QFY19.

Exports – recovery in key markets and ramp-up in new markets drive a comeback

- BJAUT's exports recovered in FY18, with ~18% growth to 1.66m unit (v/s peak of 1.81m in FY15), driven by (a) crude oil price-led recovery in key markets and (b) ramp-up in new markets.
- Motorcycle exports to Nigeria rebounded to ~104k units in 1QFY19 from ~39k units in 1QFY18. Similarly, new products/markets drove strong growth in the ASEAN and LatAm markets.
- New/nascent markets now contribute ~14% of total exports, as against 10% in FY17 and 6% in FY16. BJAUT expects this share to rise further to ~20-22%.

Valuation and view: In our [Nov-17 report 'Back on recovery path'](#), we had discussed possibility of all the three businesses growing simultaneously, based on recovery in Exports and domestic 3Ws. After a prolonged period, all the three businesses are firing in unison. This, coupled with the tailwind of a weaker INR, would support margins. Given increase in cash levels (~25% of market cap in cash by FY20) we believe there is scope for increase in payout, which could act as a re-rating trigger. Valuations of 18.2x FY19E and 15.7x FY20E consolidated EPS are attractive. We value BJAUT at INR3,686 (18x Jun'20E consol. EPS). Maintain **Buy**.

Jinesh Gandhi - Research Analyst (Jinesh@MotilalOswal.com); +91 22 6129 1524

Deep A Shah - Research Analyst (Deep.S@MotilalOswal.com); +912261291533/ Suneeta Kamath (Suneeta.Kamath@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Domestic 2W industry has enough room to penetrate further

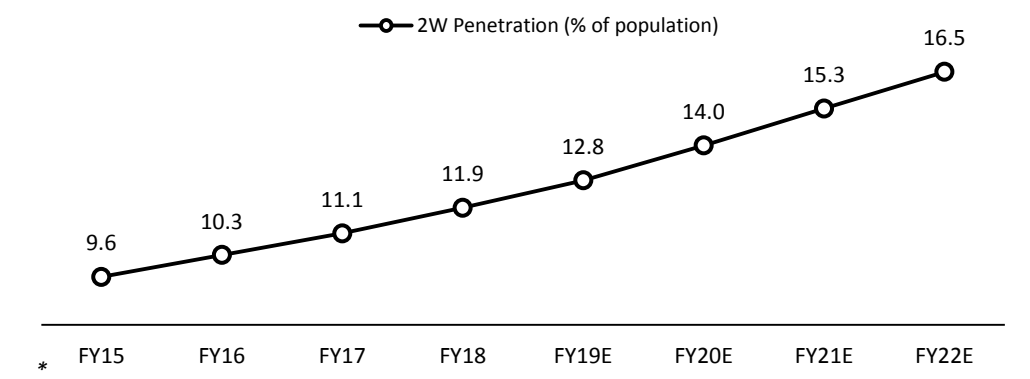
Expect motorcycle penetration to rise to ~11% by FY22 from 8% now

- The domestic 2W industry is expected to grow at CAGR of ~10% until FY22, led by the scooter (CAGR of 12-14%) and motorcycle (CAGR of ~9%) segments.
- This translates into domestic 2W industry penetration of ~16.5% (% of population) by FY22, up from ~12% in FY18. Over FY18-22, we expect motorcycle penetration to increase from 8.4% to ~10.7% and scooter penetration to almost double from 2.9% to 5%.
- BJAUT's strongest and widest premium product portfolio would enable it to grow and capture a larger share of the pie.

Enough scope of penetration for 2Ws in domestic markets

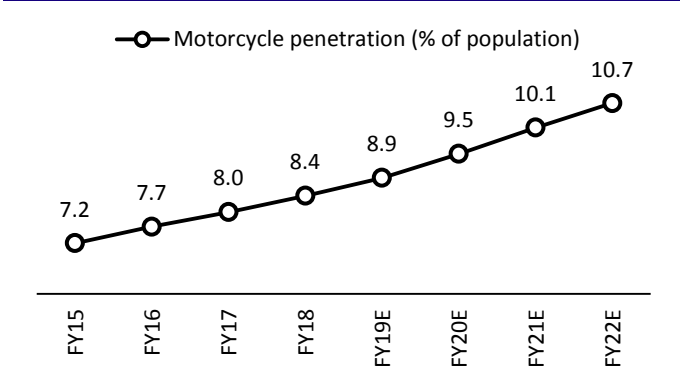
- Over FY18-22, we expect domestic 2W industry to grow at ~10% CAGR, led by the scooter (CAGR of 12-14%) and motorcycle (CAGR of ~9%) segments.
- Value migration toward premium products is expected to drive motorcycle penetration, while ride comfort and unisex utility will result in faster penetration of scooters.

Exhibit 1: 2W has enough room to penetrate, expect ~16.5% penetration by FY22



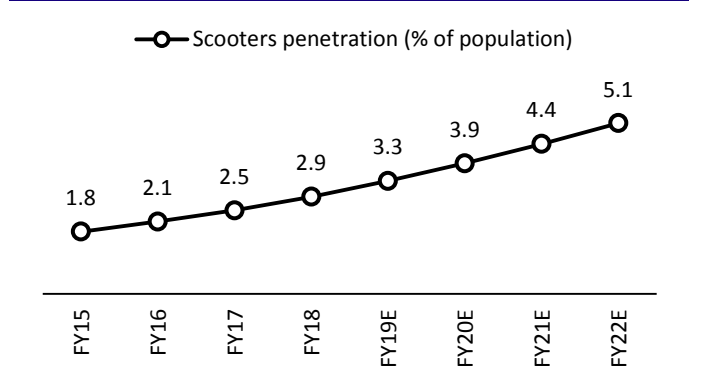
Source: MOSL

Exhibit 2: Value migration toward premium products to continue driving motorcycle penetration



Source: MOSL

Exhibit 3: Ride comfort, unisex utility will lead to faster penetration of scooters within 2Ws

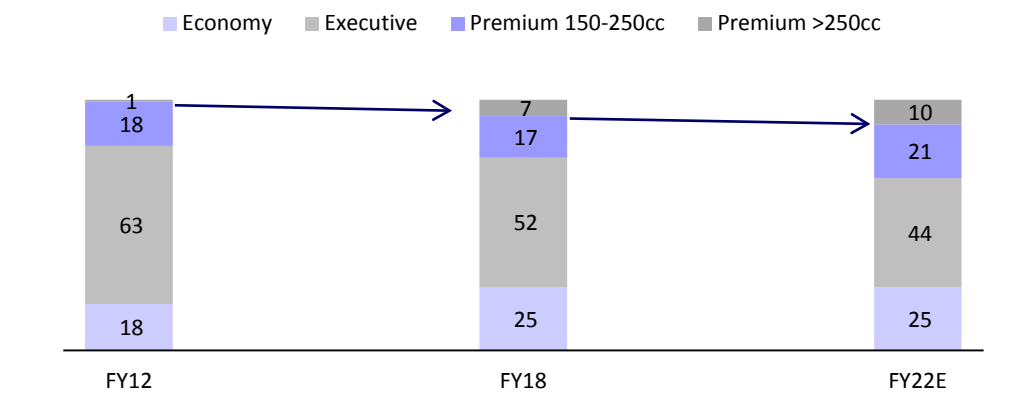


Source: MOSL

BJAUT to be prime beneficiary of value migration toward motorcycles

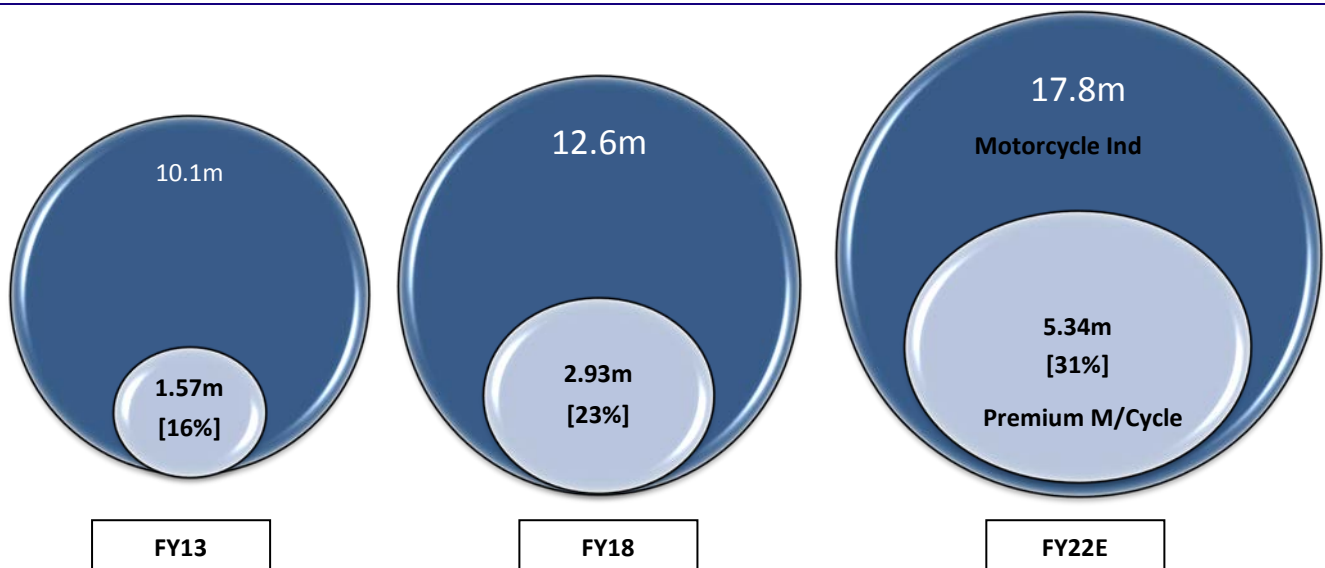
- We expect the premium segment (>150cc) of the motorcycle industry to grow at ~13% CAGR over FY18-22, as against motorcycle industry growth of ~9% and 2W industry growth of ~10%.
- This value migration is expected to be driven by (a) upgrading by the existing motorcycling population, especially in urban markets and (b) direct buying of premium motorcycles by first-time buyers.
- BJAUT’s strongest and widest premium product portfolio would enable it to grow and capture a larger share of the pie.
- We expect the premium segment to capture ~31% of the motorcycle market by FY22.

Exhibit 4: We expect motorcycle value migration majorly in favor of premium motorcycles



Source: SIAM, MOSL

Exhibit 5: Premium’s share within m/cycles to expand to 31% by FY22, fortifying BJAUT’s hold in the segment



Note: % in brackets is market share of the segment i.e Premium share in total motorcycle

Source: SIAM, MOSL

Product actions drive domestic motorcycle volumes

BJAUT sets its sight to win back customers in commuter segment

- BJAUT’s market share loss over the last five years has been the most drastic in the industry.
- However, with initial signs of recovery in FY19 YTD led by plugging of key gaps in its product portfolio and aggressive push for entry-level motorcycles, BJAUT should begin regaining the lost market share.
- Moreover, we believe that BJAUT’s partnership with KTM, Husqvarna and Triumph will enable the company to fortify its market leadership position.
- Sustenance of volumes and market share is key; monthly volumes would be a key monitorable.

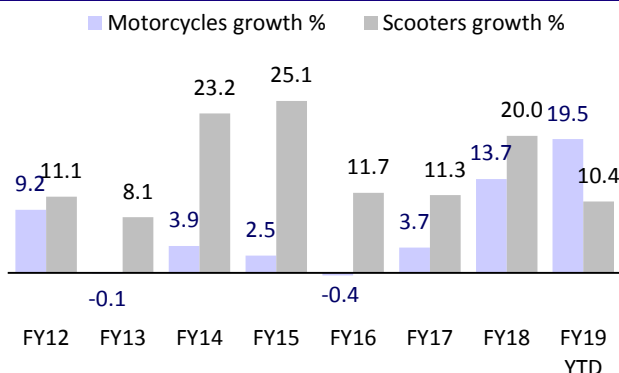
Mr Y S Guleria,
SVP – Sales and Marketing,
HMSI said:

“While these trends of a stronger demand for motorcycles (which have a base double to scooters) augurs well for some players it may not be great news for companies relying heavily on scooters.”

Domestic motorcycle industry outpacing scooter growth

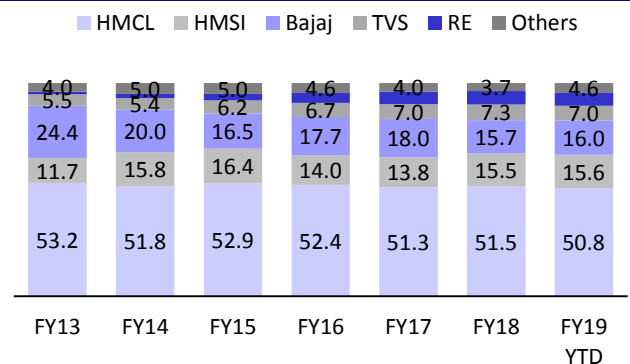
- The domestic motorcycle industry was impacted in FY16-17 by factors like (a) demonetization (November 2016), (b) change in BS4 regulation (March 2017) and (c) GST implementation (July 2017).
- BJAUT was the worst impacted due to its strategic stance in the run up to BS4 (was only selling BS4 vehicles in March 2017, while competitors were liquidating BS3 inventory at substantial discounts) and GST (GST-based pricing) implementation.
- However, the domestic motorcycle industry grew 13.7% in FY18, partly led by a rural demand recovery and a low base. The trend continues in YTD FY19, as the industry grew 19.5%, outpacing scooter growth for the first time in several years.
- As a result, the share of scooters in the 2W industry declined to ~32% in FY19 YTD, which bodes well for BJAUT.
- With corrective product actions such as taken by BJAUT such as launch of Pulsar twin disc, re-launch of Discover 110, lowered price for CT100 and Pulsar classic by ~2.5k-3k, it gained market share in YTD FY19.

Exhibit 6: Motorcycle growth outpaces scooter sales



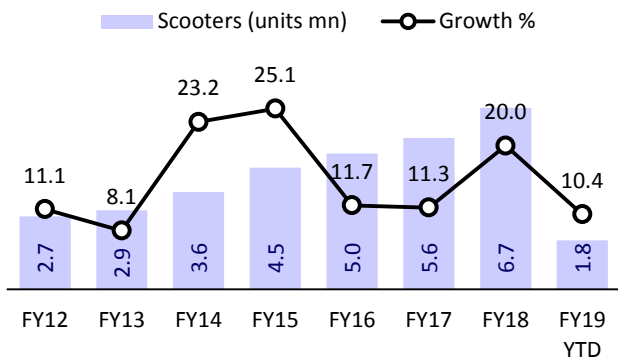
Source: SIAM, MOSL

Exhibit 7: BJAUT gains market share in motorcycle segment



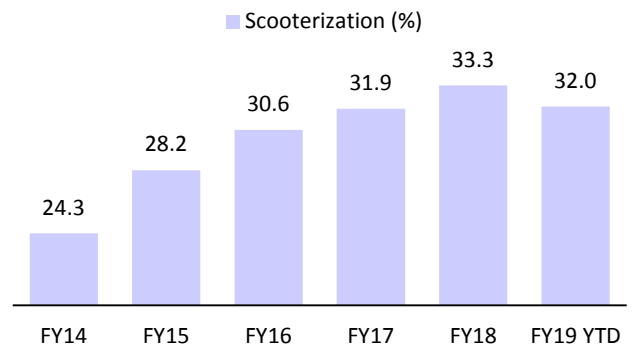
Source: SIAM, MOSL

Exhibit 8: Scooter growth moderates in YTD FY19...



Source: SIAM, MOSL

Exhibit 9: ...leading to a decline in share of scooters in 2W

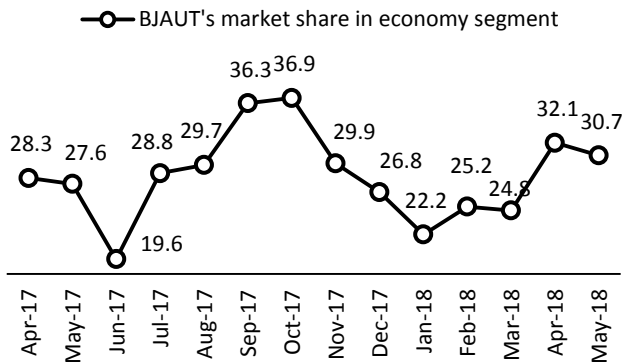


Source: SIAM, MOSL

Economy segment: Launch of ES variants and low price boost volumes

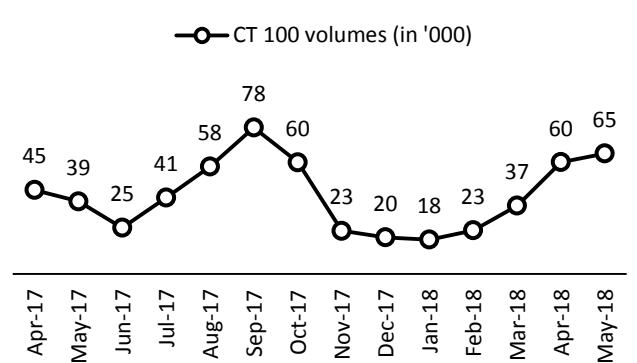
- Product gaps impacted volumes:** 60% of the economy segment comprises electric-start (ES) versions. Since BJAUT did not have any product catering to this segment, it witnessed a market share loss (down 720bp over the last two years to 28.5% in FY18).
- Product actions resulted in volume gain:** New launches like *CT100 ES*, *Platina ES*, and *Platina Comfortec* have plugged key gaps and managed to lift average volumes in economy segment to 96.2k in YTD FY19 from 75.2k in FY18. Our industry interactions suggest that *Platina Comfortec*, with its LED AHO feature, has clicked well with customers due to its higher fuel efficiency and lower power consumption. Further, the company is targeting a new product launch in the executive segment to win back customers.
- Pricing actions to target mopeds and rural customers:** The company has slashed price of the CT100 kick-start variant by INR3k per unit to win back rural customers. Our interactions suggest that this move has helped BJAUT to gain share from mopeds in rural areas as it is cheaper by ~2-2.5k.
- Regaining lost share:** These product actions are helping BJAUT to maintain a healthy share of the segment. Its market share post product launch and price actions was 31.4% in YTD FY19 v/s 28.5% in FY18.

Exhibit 10: Market share healthy in economy segment



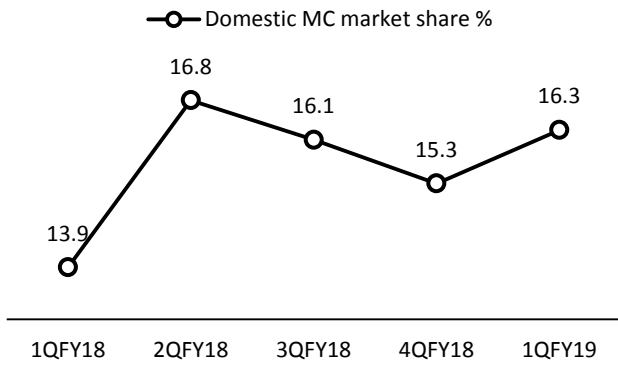
Source: SIAM, MOSL

Exhibit 11: Rural recovery helps CT 100 volumes



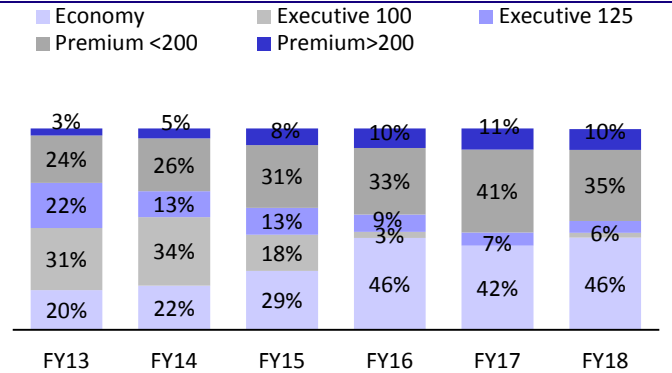
Source: SIAM, MOSL

Exhibit 12: Product actions help market share recovery in 1Q



Source: SIAM, MOSL

Exhibit 13: Economy segment gains share in sales mix



Source: SIAM, MOSL

BJAUT’s entry level positioning v/s competition

- BJAUT has strategically priced its Economy segment product to gain share from competition. With latest price actions, BJAUT’s product CT100 KS spoke wheeler variant is cheaper by ~29% compared to HMCL’s HF Deluxe.
- Similarly, CT100 is cheaper by ~7% as compared to base variant of TVS moped.
- This has resulted in to sharp recovery in its market share from Jan-18 from 22% to ~ 31% in May-18.

Exhibit 14: BJAUT’s CT100 is competitively priced against Hero’s HF Deluxe & TVS’s Moped

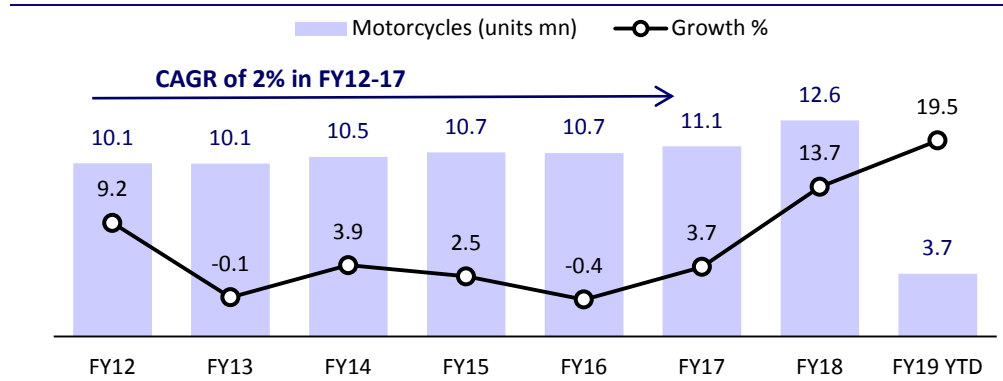
Delhi (Ex-Showroom)	Bajaj CT100	Hero HF Deluxe	Diff (%)	TVS Moped	Diff (%)
KS Spoke Wheel	30,714	43,000	-28.6	32,909	-6.7
KS Alloy Wheel	32,301	44,000	-26.6	33,659	-4.0
ES Alloy Wheel	39,885	46,950	-15		

Source: Company, MOSL

Rural recovery aid motorcycle volume growth after five years

- Domestic motorcycle industry grew just 2% CAGR over FY12-17, impacted by weak monsoons (FY15/16), scooterization, demonetization (FY17) etc.
- However, rural markets have witnessed sharp recovery since Nov-17, reflecting in domestic motorcycle growth of ~13.7%/19.5% in FY18/1QFY19.

Exhibit 15: After muted volumes for 5 years till FY17, motorcycle revival is in sync with rural revival

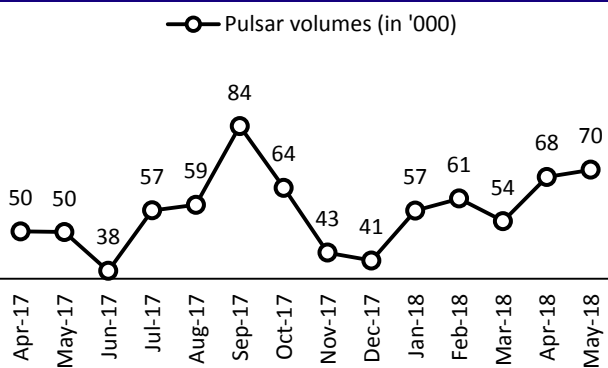


Source: SIAM, MOSL

Premium segment: Product gaps, competitive pricing impact market share

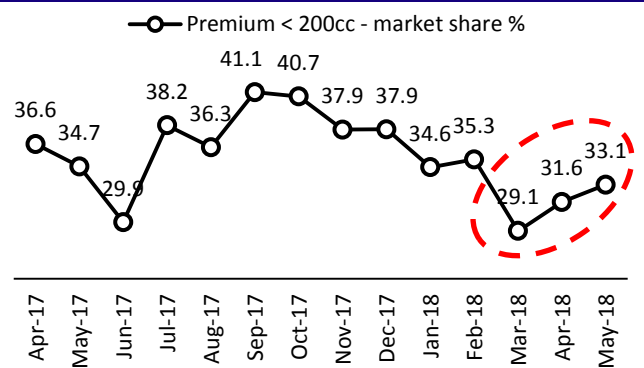
- **Product gaps impacted volumes:** BJAUT’s absence in the 160cc space has been a glaring gap in its product portfolio. Customers preferred TVS’ *Apache 160* and HMSI’s *Unicorn 160* due to their attractive pricing vis-à-vis *Pulsar 150*.
- **Product action:** Launch of new *Pulsar 150 twin disc* (Apr-18) and *Pulsar NS 160*.
- **Pulsar volumes recovering:** Initial signs of market share recovery in the premium segment are visible; sustenance of the same is key.
 - *Pulsar 150* volumes were at an all-time high of 52.8k units in May 2018; average monthly run-rate of 50.5k units in YTFY19 v/s 32.9k units in FY18.
 - *Avenger* has been the low-hanging fruit for BJAUT in the premium segment, with volumes declining by 47% YoY in FY18. However, the launch of *Avenger 180* and the refresh of existing products could contribute incremental volumes.
 - *Dominar*, although priced attractively, is yet to pick up. The biggest drawback for *Dominar* has been the absence of heritage value of the brand, unlike *RE, KTM*.

Exhibit 16: Sustained recovery in Pulsar volumes from Nov-17



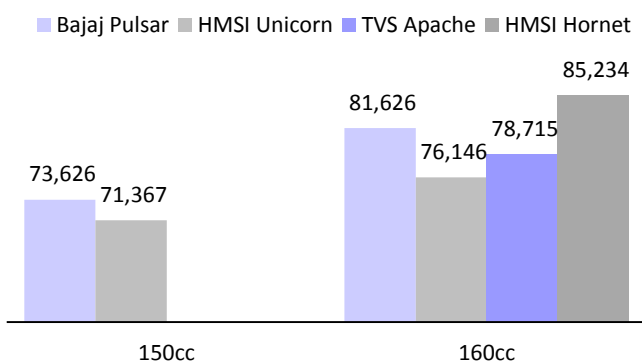
Source: MOSL

Exhibit 17: Signs of market share recovery led by product actions



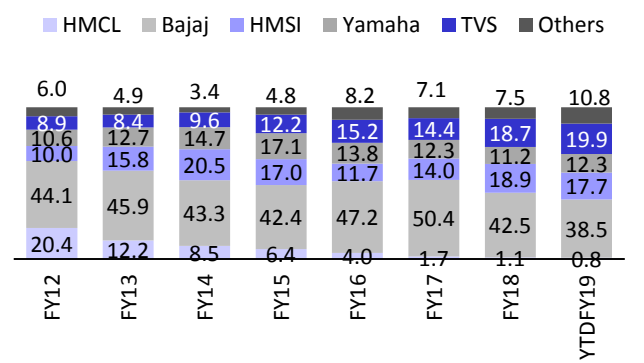
Source: SIAM, MOSL

Exhibit 18: Competitive pricing by TVS, HMSI hurts Pulsar...



Source: MOSL

Exhibit 19: reflected in loss of market share

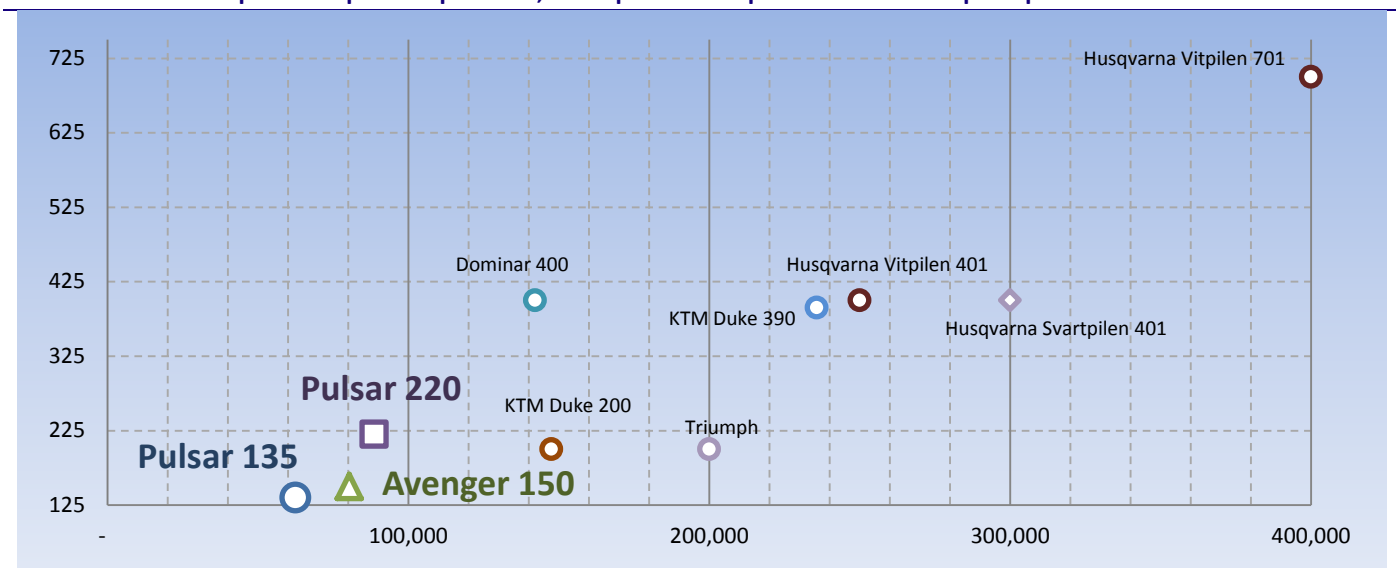


Source: SIAM, MOSL

BJAUT to have strongest and widest portfolio in premium segment

- We believe the partnership with KTM, Husqvarna and Triumph will enable BJAUT to strengthen its market leadership in the premium segment.
- BJAUT would have the widest presence in the premium segment, covering the entire gamut of premium motorcycles, i.e. the super sports and cruiser segments (refer Exhibit 31).
- More importantly, BJAUT would be able to leverage on these brands in international markets where it has strong presence (e.g. Latin America and South-East Asia).
- Lastly, similar to KTM alliance, BJAUT would benefit from contract manufacturing opportunities for these high-end motorcycles for the global markets.

Exhibit 20: Extensive premium product portfolio; Triumph and Husqvarna to further expand portfolio



Source: MOSL

Domestic 3W volumes holding up well

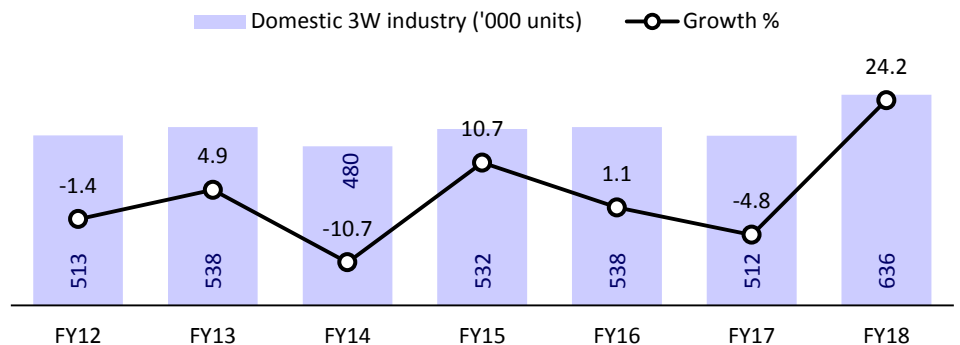
Mr Kevin D'sa,
President - Finance,
Bajaj Auto said:
 "Company had a good run in FY18 because of Maharashtra doing away with permits and Delhi issuing new permits. Sales may not be as high as it is in the current quarter, but the company sees growth in the next year or two."

- Domestic 3W industry volumes recovered in FY18 (up 24.2%), led by favorable regulatory changes in key markets.
- Healthy sales momentum continued in 1QFY19, with the industry growing 54% led by continued healthy demand and a low base.
- Domestic 3W sales are expected to maintain healthy, led by growth from markets like Maharashtra (ex-Mumbai) and imminent issuance of fresh three-wheeler permits in states like Telangana, Karnataka and Delhi.

Healthy growth in FY18 primary led by regulatory push in key states

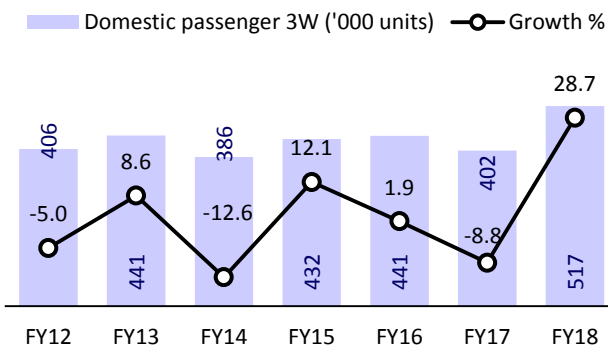
- Domestic 3W industry volumes recovered in FY18 (up 24.2%), primarily led by the removal of cap on new permits issued in the state of Maharashtra.
- The Karnataka government has mandated replacement of existing two-stroke 3Ws with four-stroke 3Ws in Bengaluru.
- BJAUT remains a prime beneficiary of the same, as it has ~90% market share in Maharashtra passenger 3Ws and ~82% market share in Karnataka passenger 3Ws.
- Bengaluru has also banned the sale of diesel 3Ws, which again is beneficial for BJAUT due to its conventionally higher market share in the LPG and petrol segments.

Exhibit 21: Healthy recovery in domestic 3W volumes led by regulatory push



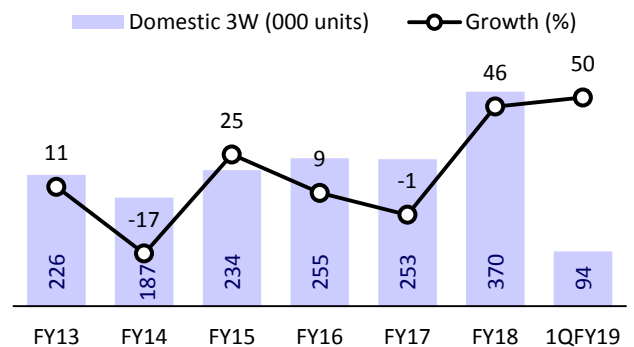
Source: Dept. of Commerce, MOSL

Exhibit 22: Sharp recovery in passenger 3W segment



Source: SIAM, MOSL

Exhibit 23: BJAUT's domestic 3W volumes growing rapidly

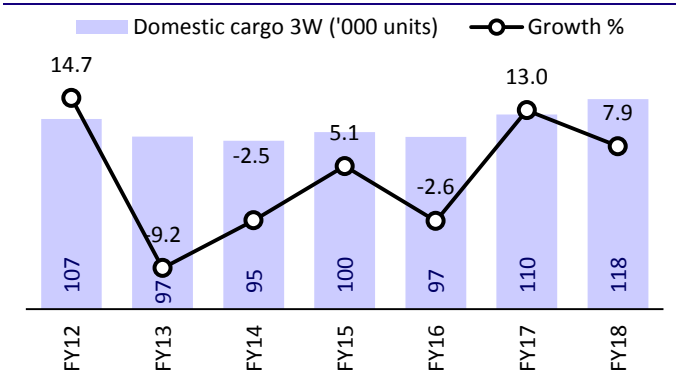


Source: SIAM, MOSL

Have captured quarter of the market in cargo segment

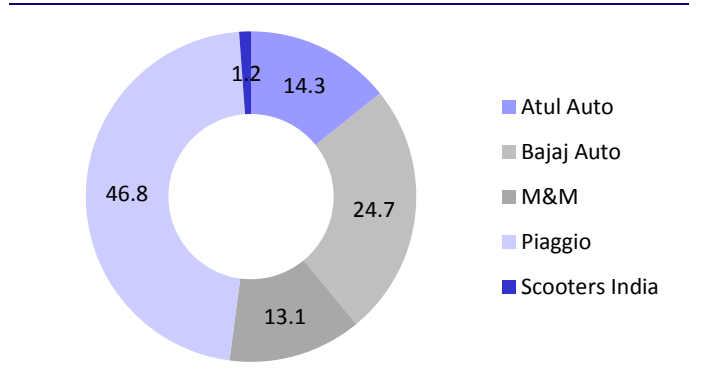
- Despite being the last player to enter the 3W cargo segment (entered in 4QFY16), BJAUT captured ~19.3% market share in FY18 (when its volumes were 23k v/s 118k for the industry).
- BJAUT’s product (*RE Maxima*) in this segment provides 12% more power and 15% lower running cost compared to its closest competitor, giving it an edge.
- BJAUT targets to increase its market share by 5% every year in this segment. It is on track to achieve this target, with its market share at 24.7% in 1QFY19 v/s 19.3% in FY18.

Exhibit 24: Domestic cargo 3W segment grew steadily in FY18



Source: SIAM, MOSL

Exhibit 25: Cargo 3W market share in 1QFY19

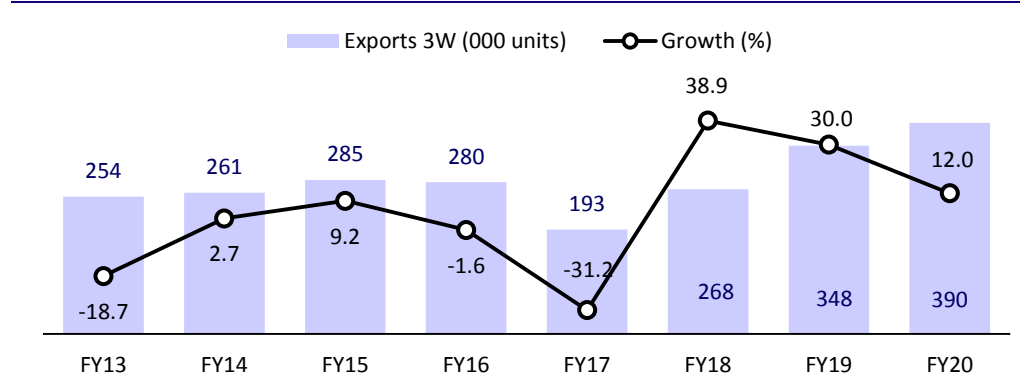


Source: SIAM, MOSL

Export volumes coming back too

- 3W exports from India grew ~40% to 381k units in FY18 (v/s a decline of 32.7% in FY17), primarily led by a recovery in the African markets and a low base. The momentum continued in 1QFY19, with 3W exports growing ~75% YoY.
- BJAUT’s 3W exports grew 39% to 268k units in FY18 (v/s a decline of 31% in FY17). In 1QFY19, its 3W exports grew 70%.
- We expect the company to deliver 3W exports CAGR of 20.7% over FY18-20, led by a recovery in the African markets.

Exhibit 26: Healthy recovery in 3W exports helps BJAUT’s overall volumes



Source: Dept. of Commerce, MOSL

Exports back on track after two years of decline

Stability in key markets, ramp-up in new markets drive recovery

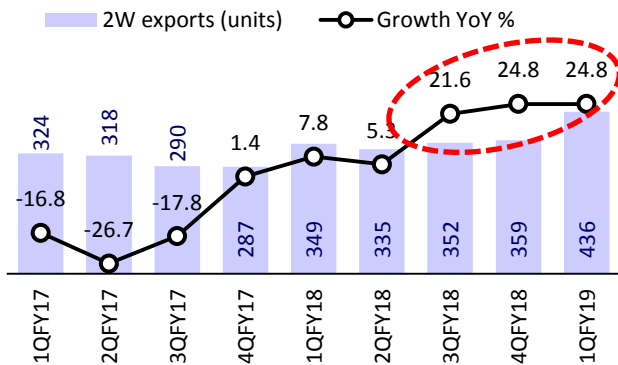
Mr Rahul Bajaj,

MD, Bajaj Auto said:

“For the first quarter last year, it was about 39,000 vehicles totally. This time it is a 104,000 vehicles so, that's been outstanding. For now, I can only say that in the first quarter we have recorded a 31 percent growth overall in exports.”

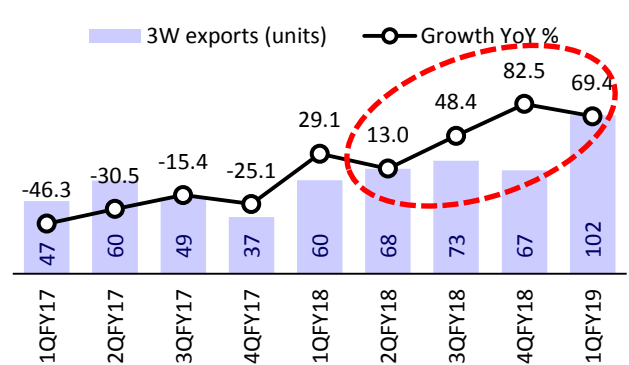
- BJAUT’s exports bounced back, with 17.8% growth to 1.66m units in FY18. This was driven by (a) stability in key markets due to a rise in crude price and (b) volume ramp-up in new markets.
- Exports had declined over the last few years (3% decline per year over FY14-17) due to economic distress and currency crisis in key markets like Nigeria, Egypt and some other African countries.
- Motorcycle exports to Nigeria rebounded to ~104k units in 1QFY19 from ~39k units in 1QFY18. Similarly, new products/markets drove strong growth in ASEAN and LatAm markets.
- With early signs of stability in these markets, we believe the worst is over for BJAUT.

Exhibit 27: Sustained recovery in 2W exports, with demand improving in key markets



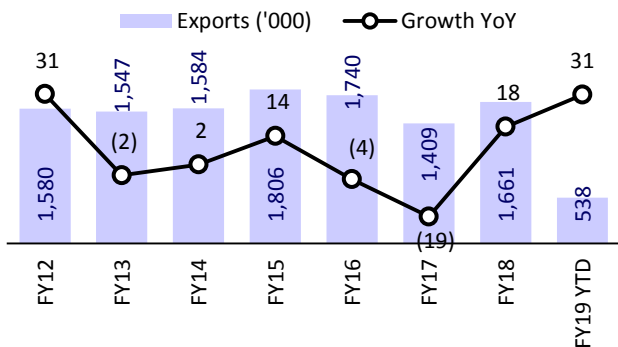
Source: SIAM, MOSL

Exhibit 28: 3W exports too witnessing healthy growth as African market recovers



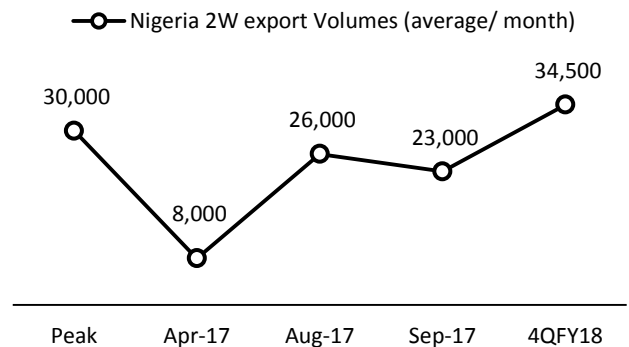
Source: Company, MOSL

Exhibit 29: Healthy recovery in exports from FY12



Source: SIAM, MOSL

Exhibit 30: Nigeria – 2W volumes at peak in 4QFY18



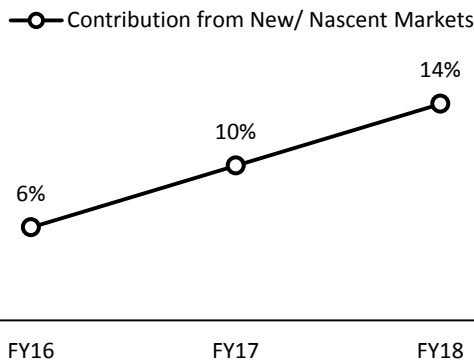
Source: Company, MOSL

Increasing share of new/nascent markets

- The company is strengthening its foothold in nascent markets and continues entering new markets.
- These new markets are medium-to-small geographies with high growth potential. Sales in these markets are tilted toward higher-end motorcycles.
- New/nascent markets now contribute ~14% of export volumes, as against 10% in FY17 and 6% in FY16. BJAUT expects this share to rise further to ~20-22% over the medium term.

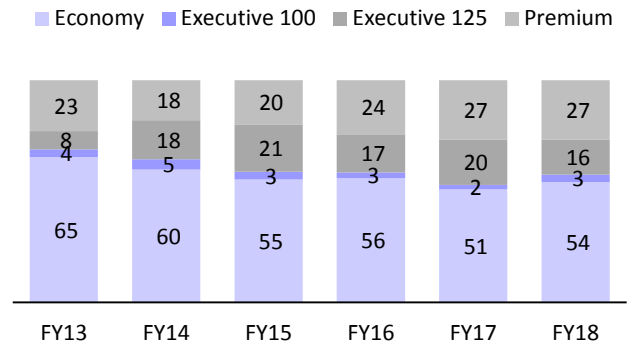
- Increasing share of new/nascent markets is expected to reduce its dependency on Africa; the exports mix is further tilting in favor of the premium segment.

Exhibit 31: Contribution from new/nascent markets rises



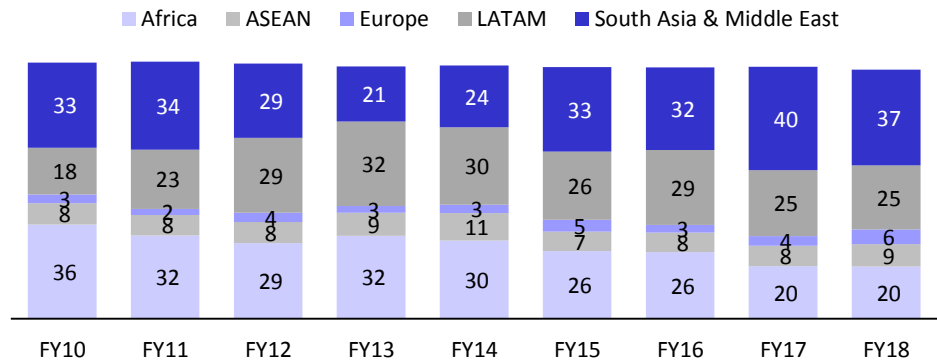
Source: Company, MOSL

Exhibit 32: Export mix shifts in favor of premium products



Source: SIAM, MOSL

Exhibit 33: Africa’s contribution to motorcycle exports from India reduces significantly over the years, as LATAM and SA/ME share increases

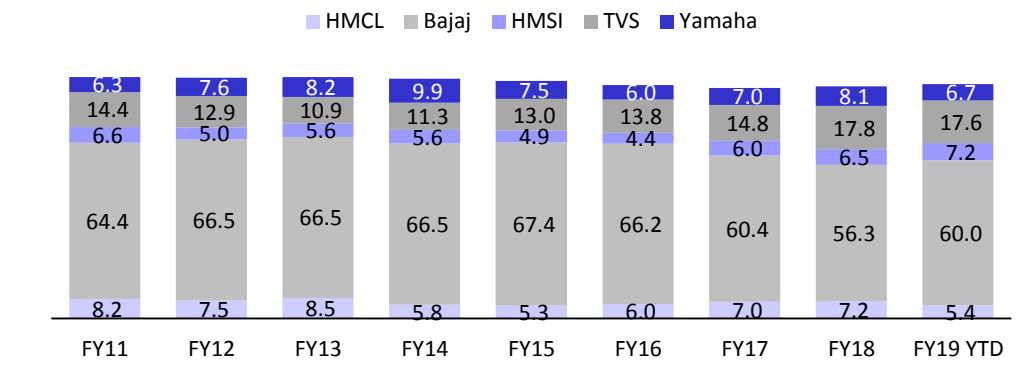


Source: Dept. of Commerce, MOSL

BJAUT partially gains back share lost in 2W exports from India

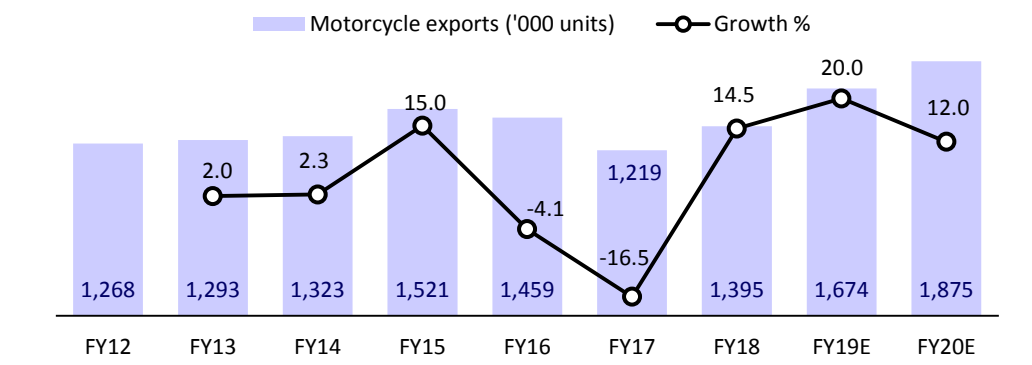
- BJAUT has been losing its share within exports from India, with newer players in exports ramping up their operations. BJAUT lost ~810bp (to 56.3%) market share in motorcycle exports from India over FY11-18.
- Also, some of the markets like Sri Lanka are witnessing strong trend of scooterization, impacting BJAUT’s volumes.
- However, BJAUT enjoys first-mover advantage in many new under-penetrated markets, where competition from Indian peers is relatively low.
 - It enjoys 40%+ market share in South Asia and Middle East. It has also improved its market share in Latin America to 25%. This apart, BJAUT enjoys leadership position in 21 countries, which contribute 85% of its exports.
 - BJAUT is optimistic about the exports prospects in FY19. It is investing in its key markets and expecting to launch new products.
 - BJAUT’s 2W exports grew 14.5% in FY18 (post decline in FY16 and FY17), led by a recovery in Nigeria. ASEAN region, too, witnessed growth due to product launches in the Philippines and entry into Malaysia.
- We expect exports CAGR of 16.7% over FY18-20, with 2W exports growing at 15.9% CAGR and 3W exports growing at 20.7% CAGR.

Exhibit 34: BJAUT partially recoups lost market share to competition in YTD FY19



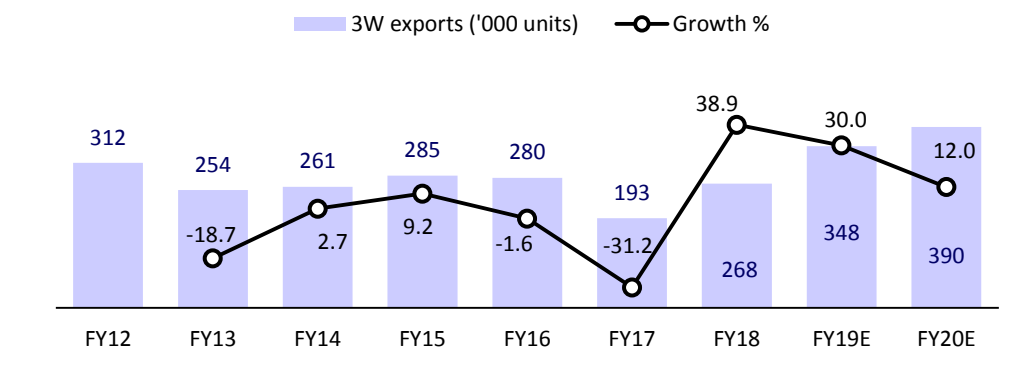
Source: Company, MOSL

Exhibit 35: Motorcycle exports to grow at 15.9% CAGR over FY18-20



Source: Company, MOSL

Exhibit 36: 3W exports bounced back strongly in FY18, clocking 20.7% CAGR in FY18-20



Source: Company, MOSL

Valuation and view: Heads I win, Tail I don't lose much

Expect ~14.4% EPS CAGR over FY18-20; maintain Buy

- **On path to recovery:** We believe BJAUT is back on the growth path, driven by (a) favorable regulatory changes in key domestic passenger 3W states, providing strong medium-term growth visibility, (b) filling up of product gaps in the domestic motorcycle portfolio, which is helping regain the lost market share and (c) stability in key export markets and ramp-up in new international markets. We expect volume CAGR of ~8.7% over FY18-20.
- **Well placed to ride on premiumization trend:** Leveraging on its strong alliance with KTM and its latest partnerships with Husqvarna and Triumph, we believe BJAUT would have the widest range of premium motorcycles to offer. Husqvarna and KTM present an opportunity to drive contract manufacturing volumes by 3x over the next few years. Meanwhile, Triumph would facilitate BJAUT's entry in the fast-growing mid-capacity cruiser segment (~1.5m motorcycles annually) by CY20.
- **Broad-based recovery to drive ~14.4% EPS CAGR:** We expect a CAGR of 11.5% in volumes and 14.1% in net revenue over FY18-20. An improvement in the product and geographical mix, coupled with operating leverage, is likely to drive EBITDA margin expansion to 19.7% by FY20. Consequently, we expect net profit CAGR of 14.4% over FY18-20.
- **Maintain Buy with a TP of INR3,686:** In our [Nov-17 report 'Back on recovery path'](#), we had discussed possibility of all the three businesses growing simultaneously, based on recovery in Exports and domestic 3Ws. After prolonged period, all the three businesses are firing in unison. This coupled with tailwind of weaker INR would support margins. Given increase in cash levels (~25% of market cap in cash by FY20) we believe there is scope for increase in payout, which could act as a re-rating trigger. Valuations of 18.4x FY19E and 15.9x FY20E consolidated EPS, and 1.9%/2.2%/2.6% FY18/19/20 dividend yield are attractive. Based on our estimate, the stock is We value BJAUT at INR3,686 (18x Jun'20E consol. EPS). Maintain **Buy**.
- **3 year view:** We estimate 2W industry volumes to grow at 8-10% CAGR over the next five years, driven by increasing penetration in the rural markets and replacement demand in the urban markets. We expect scooters to grow at 12-14% CAGR and motorcycle volumes to grow at 8-9% CAGR over the next five years. Within motorcycles, we expect the premium segment (>150cc) to grow at 12-14% CAGR, the entry segment to grow at 5-7%, and the executive segment to grow at 2-3%. We believe BJAUT would outperform the domestic motorcycle industry, with volume CAGR of ~11% over the next five years. This would primarily be on account of 1) BJAUT riding on the premiumisation trend, with the widest product portfolio in the premium segment. Partnership with KTM, Husqvarna and Triumph would further enable BJAUT to strengthen its market leadership within the premium segment. 2) Exports growing at 14% CAGR led by strengthening its position in key markets like Africa, ASEAN and increasing share in new/nascent markets. Over 3 years, we estimate 15.6% CAGR total return, with TP of ~INR4,787 (~18x Mar-22 Consol EPS).

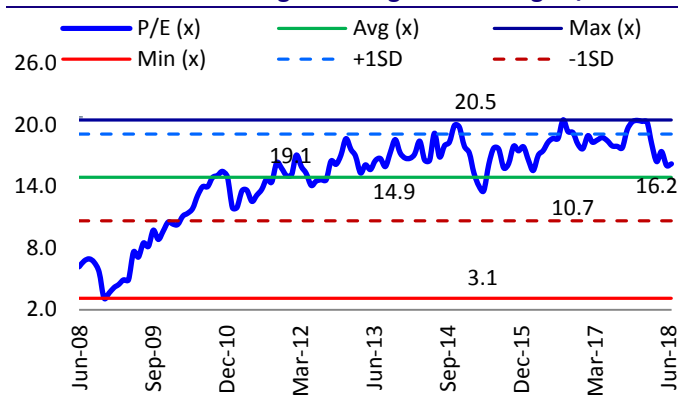
Key risks

- Erosion of market share in the domestic motorcycle segment due to non-sustenance of volumes of existing products and failure of new products.
- Threat of E-Autos and E-Rickshaws to domestic 3W business.

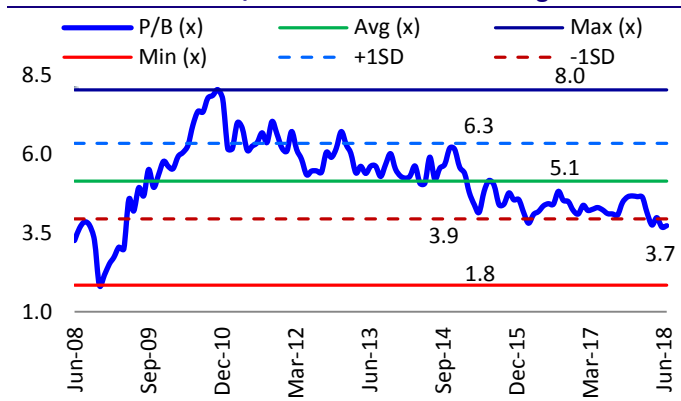
Exhibit 37: BJAUT – Business Construct

	FY17	FY18	FY19E	FY20E	FY21E	FY22E	CAGR FY18-22E
Domestic industry vol. ('000 units)	17,590	20,193	22,126	24,099	26,054	28,190	8.7%
Scooters ('000 units)	5,605	6,720	7,694	8,848	10,176	11,702	14.9%
Motorcycles ('000 units)	11,095	12,613	13,573	14,371	14,977	15,564	5.4%
BJAUT volumes ('000 units)	3,666	4,007	4,562	4,979	5,442	6,001	10.6%
Dom. Motorcycles	2,001	1,975	2,185	2,260	2,549	2,803	9.2%
Dom. 3W	253	370	355	355	373	391	1.4%
Exports	1,411	1,663	2,022	2,264	2,521	2,806	14.0%
Revenue (INR mn)	217,667	251,649	291,877	327,382	361,089	402,041	12.4%
EBITDA margin %	20.3	19.0	19.0	19.8	20.8	21.0	
Consol EPS (INR/sh)	141	151	171	197	227	254	13.9%
RoE (%)	26.9	24.2	24.4	25.3	25.8	25.6	
Dividend (INR/sh)	55	60	70	80	90	100	
PE (x)							18
Cum Div (FY18-20)						210	
TP (INR)							4,787

Source: Company, MOSL

Exhibit 38: BJAUT trading near long-term average P/E

Source: MOSL

Exhibit 39: BJAUT's P/BV below historical average

Source: MOSL

Exhibit 40: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
Auto OEM's	(INR)*		(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Bajaj Auto	3,102	Buy	3,686	18.2	15.7	12.5	10.3	24.4	25.3	2.3	2.6	14.2
Hero MotoCorp	3,424	Neutral	3,828	17.0	14.9	10.2	8.9	32.2	32.4	3.1	3.4	11.3
TVS Motor	571	Neutral	572	32.4	22.3	18.9	13.7	26.3	30.8	0.7	0.9	35.7
M&M	900	Buy	1,043	18.0	16.6	14.5	13.0	14.9	14.9	1.1	1.1	16.2
Maruti Suzuki	9,378	Buy	10,508	27.7	21.7	17.0	13.7	20.9	22.7	1.1	1.3	27.2
Tata Motors	252	Buy	459	6.3	5.6	2.4	1.8	13.3	13.0	0.1	0.1	40.1
Ashok Leyland	126	Buy	159	17.0	13.6	8.3	6.0	27.6	28.7	1.8	2.0	31.2
Eicher Motors	27,393	Buy	34,264	27.8	21.2	22.5	18.3	33.2	33.2	0.6	0.7	52.7
Escorts	875	Neutral	973	17.3	13.5	14.0	10.7	18.7	20.3	0.6	0.6	28.2
Auto Ancillaries												
Bharat Forge	590	Buy	754	24.7	19.5	14.1	11.7	22.0	23.4	0.9	1.1	30.6
Exide Industries	262	Buy	296	25.5	20.9	14.6	12.2	14.6	15.8	1.0	1.2	23.7
Amara Raja Batteries	779	Buy	945	24.4	20.6	12.6	10.5	17.2	17.7	0.6	0.7	17.0
BOSCH	17,424	Neutral	19,017	30.1	24.7	19.1	15.5	16.8	18.4	1.1	1.4	22.4
Endurance Tech	1,222	Buy	1,483	33.4	24.7	15.5	12.2	21.7	24.7	0.5	1.0	30.4
Motherson Sumi	284	Buy	429	23.7	16.5	8.8	6.1	24.7	29.3	1.1	1.6	45.0
CEAT	1,241	Buy	1,669	15.4	11.9	9.7	7.4	11.9	13.7	0.7	0.9	27.7

Source: Company, MOSL

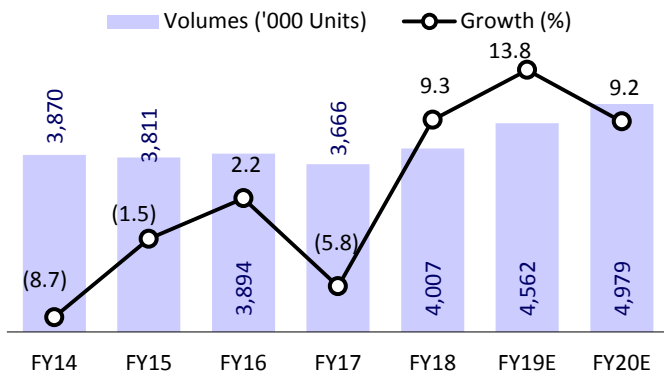
Exhibit 41: Key operating metrics

000 units	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Motorcycles (units)								
Domestic	2,464	2,099	1,771	1,899	2,001	1,975	2,185	2,360
Growth (%)	-4.0	-14.8	-15.6	7.2	5.4	-1.3	10.7	8.0
% of total volumes	58.1	54.2	46.5	48.8	54.6	49.3	47.9	47.4
Exports	1,293	1,323	1,521	1,459	1,219	1,395	1,674	1,875
Growth (%)	2.0	2.3	15.0	-4.1	-16.5	14.5	20.0	12.0
% of total volumes	30.5	34.2	39.9	37.5	33.2	34.8	36.7	37.6
Total M/Cycles	3,757	3,422	3,292	3,358	3,220	3,369	3,859	4,234
Growth (%)	-2.0	-8.9	-3.8	2.0	-4.1	4.6	14.5	9.7
% of total volumes	88.7	88.4	86.4	86.3	87.8	84.1	84.6	85.0
3Ws								
Domestic	226	187	234	255	253	370	355	355
Growth (%)	11.4	-17.3	25.4	8.8	-0.7	46.0	-4.0	0.0
% of total volumes	5.3	4.8	6.1	6.5	6.9	9.2	7.8	7.1
Exports	254	261	285	280	193	268	348	390
Growth (%)	-18.7	2.7	9.2	-1.6	-31.2	38.9	30.0	12.0
% of total volumes	6.0	6.7	7.5	7.2	5.3	6.7	7.6	7.8
3Ws	480	448	519	535	446	637	703	745
Growth (%)	-6.8	-6.7	16.0	3.1	-16.7	42.9	10.3	5.9
% of total volumes	11.3	11.6	13.6	13.7	12.2	15.9	15.4	15.0
Total Volumes	4,237	3,870	3,811	3,894	3,666	4,007	4,562	4,979
Growth (%)	-2.6	-8.7	-1.5	2.2	-5.8	9.3	13.8	9.2
Avg. Net Realn (INR/unit)	44,665	48,443	51,853	53,697	54,482	55,744	58,629	59,663
Growth (%)	5.4	8.5	7.0	3.6	1.5	2.3	5.2	1.8
Net Revenues (INR B)	195	197	211	222	214	247	286	320
Growth (%)	3.2	1.2	7.0	5.0	-3.5	15.6	15.6	12.1
EBITDA (INR B)	36	41	41	48	44	48	55	65
EBITDA margins (%)	18.2	20.4	19.0	21.2	20.3	19.0	18.9	19.7
EBITDA (INR/Unit)	8,579	10,609	10,801	12,282	12,063	11,938	12,070	12,960
Growth (%)	-2.3	12.9	0.3	16.2	-7.5	8.2	15.1	17.2
Consol. PAT (INR B)	30	34	33	42	41	44	49	57
Consol. EPS	105	117	113	143	141	151	171	198

Source: Company, MOSL

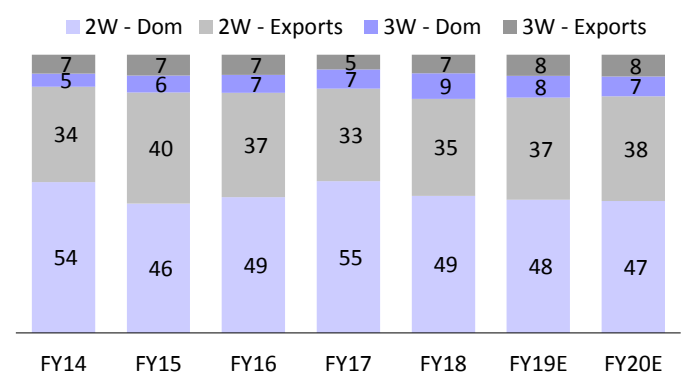
Story in charts: Domestic recovery, benefits of new launches key drivers

Exhibit 42: Domestic growth to drive volumes



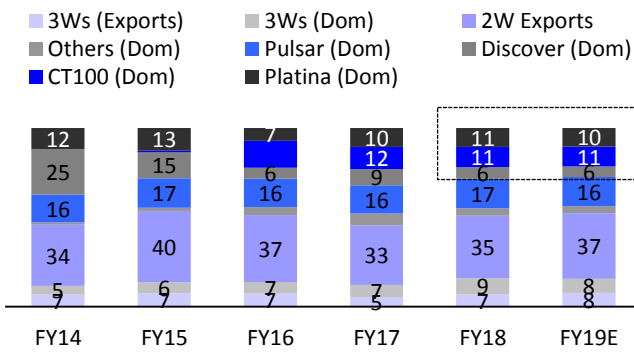
Source: Company, MOSL

Exhibit 43: Mix to improve in favor of exports



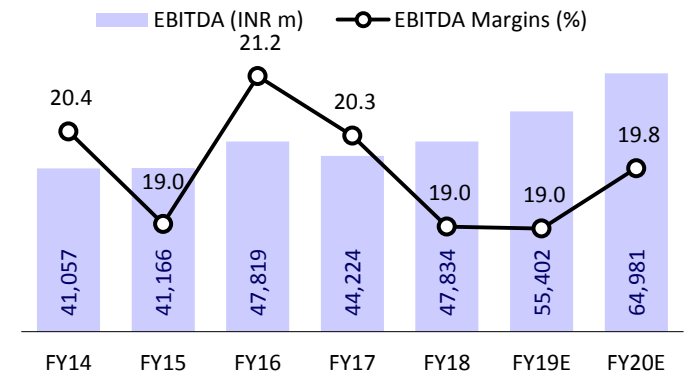
Source: Company, MOSL

Exhibit 44: Volume mix to remain stable



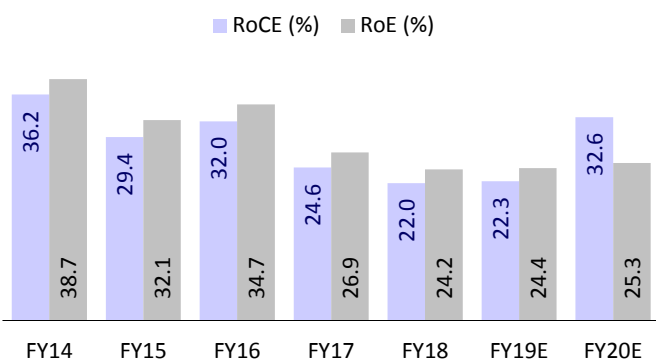
Source: Company, MOSL

Exhibit 45: EBITDA margin to remain healthy



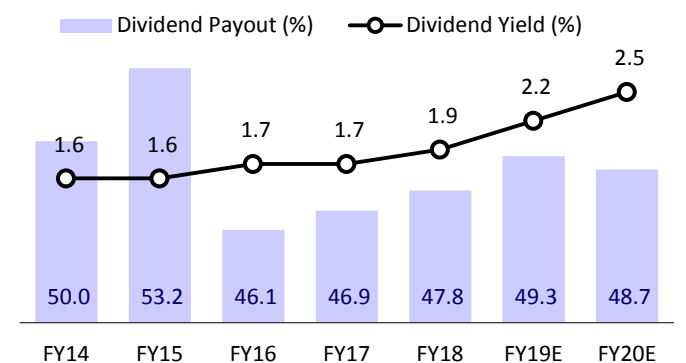
Source: Company, MOSL

Exhibit 46: Return ratios to increase steadily



Source: Company, MOSL

Exhibit 47: Dividend payout to remain healthy



Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	
Volumes	3,870,077	3,811,201	3,893,581	3,665,950	4,006,791	4,561,661	4,979,081	
Change (%)	-8.7	-1.5	2.2	-5.8	9.3	13.8	9.2	
Gross Sales	211,589	225,213	238,832	230,880	255,633	305,469	339,777	
Less: Excise	10,094	9,093	12,967	13,214	3,983	13,592	12,394	
Net Sales	201,495	216,120	225,865	217,667	251,649	291,877	327,382	
Change (%)	0.8	7.3	4.5	-3.6	15.6	16.0	12.2	
Gross Op income	211,589	225,213	238,832	230,880	255,633	305,469	339,777	
Total Expenditure	160,438	174,955	178,046	173,443	203,815	236,475	262,402	
EBITDA	41,057	41,166	47,819	44,224	47,834	55,402	64,981	
Change (%)	12.9	0.3	16.2	-7.5	8.2	15.8	17.3	
EBITDA Margins (%)	20.4	19.0	21.2	20.3	19.0	19.0	19.8	
Depreciation	1,796	2,674	3,072	3,073	3,148	3,311	3,686	
EBIT	39,261	38,492	44,748	41,151	44,686	52,091	61,295	
Int. & Fin. Charges	5	65	11	14	13	10	10	
Other Income	7,064	5,824	10,736	12,220	13,473	13,685	14,499	
PBT	46,321	40,848	55,473	53,356	57,826	65,766	75,784	
Effective Rate (%)	30.0	31.1	29.2	28.3	29.6	29.6	29.0	
PAT	32,420	28,137	39,297	38,276	40,681	46,299	53,807	
Change (%)	6.5	-13.2	39.7	-2.6	6.3	13.8	16.2	
Add: Share in profit of asso.	1,455	2,137	2,214	2,546	2,876	3,077	3,293	
Adj. PAT	33,875	32,619	41,511	40,822	43,782	49,377	57,100	
Change (%)	11.3	(3.7)	27.3	(1.7)	7.3	12.8	15.6	

Balance Sheet							(INR Million)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	
Share Capital	2,894	2,894	2,894	2,894	2,894	2,894	2,894	
Net Worth	96,080	106,922	132,666	170,341	191,039	212,990	238,971	
Deferred Tax	1,432	1,416	2,028	3,136	3,234	4,286	5,044	
Loans	577	1,118	1,886	1,764	1,687	1,687	1,687	
Capital Employed	98,089	109,455	136,579	175,242	195,960	218,964	245,703	
Gross Fixed Assets	40,770	41,009	51,572	45,917	46,402	50,967	59,467	
Less: Depreciation	20,710	21,837	24,183	25,900	27,619	30,929	34,615	
Net Fixed Assets	20,060	19,172	27,389	20,018	18,783	20,037	24,852	
Capital WIP	1,441	2,549	522	422	565	2,000	1,000	
Investments	85,496	91,533	102,606	147,315	175,883	192,883	199,883	
Current Assets	40,479	42,368	34,348	40,395	42,964	54,528	76,123	
Inventory	6,397	8,142	7,191	7,284	7,426	9,206	10,240	
Sundry Debtors	7,962	7,170	7,179	9,533	14,919	17,575	19,549	
Cash & Bank Balances	4,955	5,862	8,176	2,798	7,609	12,181	29,020	
Loans & Advances	16,984	17,727	365	362	369	502	559	
Others	4,181	3,469	11,437	20,418	12,641	15,064	16,756	
Current Liab. & Prov.	49,387	46,168	28,286	32,907	42,235	50,485	56,155	
Sundry Creditors	21,114	17,998	20,270	22,357	32,443	38,768	43,122	
Other Liabilities	8,536	8,251	6,410	8,559	7,414	9,206	10,240	
Provisions	19,737	19,920	1,605	1,991	2,378	2,511	2,793	
Net Current Assets	-8,908	-3,800	6,063	7,488	729	4,044	19,968	
Application of Funds	98,089	109,455	136,580	175,242	195,960	218,964	245,703	

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)							
Consol. EPS	117.1	112.7	143.5	141.1	151.3	170.6	197.3
EPS growth (%)	11.3	-3.7	27.3	-1.7	7.3	12.8	15.6
Consol. Cash EPS	123.3	122.0	154.1	151.7	162.2	182.1	210.1
Book Value per Share	332.0	369.5	458.5	588.7	660.2	736.0	825.8
DPS	50.0	50.0	55.0	55.0	60.0	70.0	80.0
Payout (Incl. Div. Tax) %	50.0	53.2	46.1	46.9	47.8	49.3	48.7
Valuation (x)							
P/E	26.5	27.5	21.6	22.0	20.5	18.2	15.7
Cash P/E	25.2	25.4	20.1	20.4	19.1	17.0	14.8
EV/EBITDA	19.7	19.5	16.5	16.9	15.0	12.5	10.3
EV/Sales	4.0	3.7	3.5	3.4	2.8	2.4	2.0
Price to Book Value	9.3	8.4	6.8	5.3	4.7	4.2	3.8
Dividend Yield (%)	1.6	1.6	1.8	1.8	1.9	2.3	2.6
Profitability Ratios (%)							
RoE	38.7	32.1	34.7	26.9	24.2	24.4	25.3
RoCE	36.2	29.4	32.0	24.6	22.0	22.3	32.6
RoIC	386	338	182	118	172	308	170
Turnover Ratios							
Debtors (Days)	14	12	11	15	21	21	21
Inventory (Days)	11	13	11	12	11	11	11
Creditors (Days)	36	29	31	35	46	46	46
Working Capital (Days)	-12	-4	-9	-9	-14	-14	-14
Asset Turnover (x)	2.1	2.0	1.7	1.2	1.3	1.3	1.3
Fixed Asset Turnover	5.1	5.3	4.9	4.5	5.5	6.0	5.9

Cash Flow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Profit before Tax	46,321	40,848	55,473	53,356	57,826	65,766	75,784
Interest/Div. Received	1,170	2,373	1,807	633	2,047	13,685	14,499
Depreciation & Amort.	1,796	2,674	3,072	3,073	3,148	3,311	3,686
Direct Taxes Paid	-13,139	-12,854	-18,195	-15,026	-16,851	-18,415	-21,220
(Inc)/Dec in Working Capital	4,319	-5,825	5,753	2,533	10,451	1,257	914
Other Items	-3559	-3057	-9236	-10269	-11738	-13675	-14489
CF from Oper. Activity	36,907	24,159	38,673	34,300	44,883	51,929	59,174
Extra-ordinary Items	-280	-313	-298	-275	-228	0	0
CF after EO Items	36,627	23,846	38,375	34,025	44,655	51,929	59,174
(Inc)/Dec in FA+CWIP	-2,547	-2,933	-2,582	-1,970	-1,833	-6,000	-7,500
Free Cash Flow	34,360	21,226	36,091	32,330	43,051	45,929	51,674
(Pur)/Sale of Invest.	-20,038	-3,584	587	-35,546	-19,395	-17,000	-7,000
CF from Inv. Activity	-22,585	-6,517	-1,995	-37,516	-21,227	-23,000	-14,500
Inc. / Dec.in Networkth	0	0	0	0	0	0	0
Inc/(Dec) in Debt	505	532	501	128	0	0	0
Interest Paid	-5	-65	-5	-6	-4	-10	-10
Dividends Paid	-15,182	-16,909	-34,337	-2,022	-18,848	-24,348	-27,826
CF from Fin. Activity	-14,682	-16,442	-33,841	-1,901	-18,853	-24,358	-27,836
Inc/(Dec) in Cash	-640	888	2,539	-5,392	4,575	4,572	16,838
Add: Beginning Bal.	5,503	4,863	5,637	8,190	3,034	7,609	12,181
Closing Balance	4,863	5,751	8,176	2,798	7,609	12,181	29,020

E: MOSL Estimates

Explanation of Investment Rating

Investment Rating

	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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