

Bajaj Auto

BSE SENSEX
36,351

S&P CNX
10,957

CMP: INR3,113 TP: INR3,686(+18%)

Buy

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Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	900.7 / 13
52-Week Range (INR)	3473 / 2701
1, 6, 12 Rel. Per (%)	5/-5/-4
12M Avg Val (INR M)	1072
Free float (%)	50.7

Financials Snapshot (INR b)

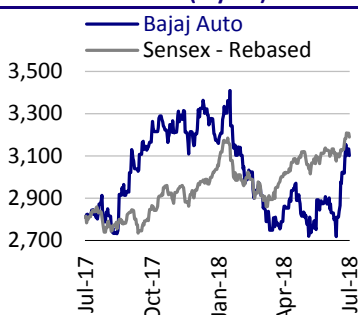
Y/E Mar	2018	2019E	2020E
Sales	252	292	327
EBITDA	47.8	55.4	65.0
Consol. NP	43.8	49.4	57.1
Cons. EPS (INR)	151	171	197
EPS Gr. (%)	7.3	12.8	15.6
BV/Sh. (INR)	660	736	826
RoE (%)	24.2	24.4	25.3
RoCE (%)	22.0	22.3	32.6
P/E (x)	20.6	18.2	15.8
P/BV (x)	4.7	4.2	3.8

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)



To compete like never before in Commuter/Deluxe segment

Tight control on capex: 3-year cum. capex < FY18 capex for HMCL/TVSL!

We studied Bajaj Auto's (BJAUT) FY18 annual report to get insights into: (a) management's view on the domestic motorcycle business, (b) drivers and sustainability of exports, (c) Fx hedging and (d) utilization of cash. While management has come out aggressively on its missing link in the domestic motorcycle business, it is optimistic on the exports business for FY19. BJAUT's Fx hedges for FY19 stood at ~USD1.33b (similar to FY18 exports), leaving room for further upside from spot rates. Key insights from the FY18 annual report:

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.

Commuter segment: 'Breakout' moment has arrived; to compete as never before

- BJAUT attributed the loss of volumes (~1% decline) and market share (~230bp to 15.7% in domestic motorcycle) to the poor performance in the 'M2 & M3' segment (Executive segment) in FY18.
- 'Commuter and Commuter Deluxe' segment (with a size of ~6.5m per annum) is the largest in the motorcycle industry, but BJAUT has a very weak presence with just 2.6% market share in FY18 through Discover and the V.
- Nevertheless, BJAUT has realized the need to compete far more vigorously in this segment. Its strategy is based on introduction of more attractive models and sub-models to compete at the lower end of the price chain in the commuter segment.
- BJAUT believes that a 'breakout' moment has arrived for the company, and it will compete as never before in this large segment.

Exports: Recovery in key markets, ramp-up in new markets drive recovery

- BJAUT's exports recovered in FY18, with 17.8% growth to 1.66m units (v/s peak of 1.81m in FY15), driven by (a) stability in key markets due to a rise in crude price and (b) volume ramp-up in new markets. Its export revenue grew ~23% to INR97b.

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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.

- Its motorcycle exports grew 14.5% to 1.39m in FY18, led by strong growth in (a) Africa (led by recovery in Nigeria), (b) ASEAN region (due to product launches in the Philippines and entry into Malaysia) and (c) Latin America (driven by Pulsar), especially in new markets like Argentina.
- The ~39% growth in 3W exports was driven by the economic turnaround in Egypt, growth in Bangladesh and Nigeria, and continued investment in new markets. The new markets (BJAUT entry in the last three years) now contribute almost half of 3W exports growth in FY18.
- BJAUT is optimistic about exports in FY19 and is investing in its key markets to deliver differentiated and superior customer experience.

Domestic 3Ws: Strong all-round performance

- BJAUT's market share in the domestic 3W segment improved by 860bp to 58.1% in FY18, driven by robust growth in its stronghold of petrol and alternative fuel passenger 3Ws.
- The company continues dominating the petrol and alternative fuel 3W segment, with ~89% market share (+100bp). This segment grew ~63% in FY18 for BJAUT due to a favourable permit environment in key markets like Maharashtra, Karnataka and Delhi.
- BJAUT is also doing well with the ramp-up in the recently entered goods carrier business, with volumes of ~22.8k in FY18 (v/s ~1.3k in FY16) and ~19% segmental market share.
- In diesel, its overall market share stood at ~34% (flat YoY), with ~75% market share in small diesel (v/s 71% in FY17) and ~24% market share in large diesel (v/s 23% in FY17).

Tight control on capex continues

- BJAUT has been tightly controlling its capex, particularly on capacity creation. BJAUT's capex in FY18 stood at ~INR1.8b (~0.7% of sales; depreciation of ~INR3.15b). Interestingly, the company's cumulative capex for the last three years at ~INR6.4b is less than FY18 capex of HMCL (~INR8b) and TVSL (~INR7.7b).
- While it has not added any capacity in motorcycles since FY15, it increased 3W capacity by ~180k (to 840k units) in FY18, solely through debottlenecking.
- BJAUT has been consistently investing over ~INR3.5 in R&D (of which ~INR3.3b is expensed).
- Hence, it enjoys superior FCF conversion (% of PAT) at ~94%, as against ~85% for HMCL and ~64% for TVSL (three-year average).

KTM: Traction in business continues; to launch KTM in Indonesia in FY19 through Bajaj

- BJAUT's ~48% associate company KTM saw its volumes grow ~17% to ~238k in CY17, of which BJAUT manufactured ~98k units (+49%). Of these, BJAUT sold ~46k (+32.5%) in India through Pro-Biking showrooms.
- KTM's revenues grew ~17% to EUR1.33b in CY17, with an EBIT margin of 8.5% (-50bp). PAT grew 10% to EUR78.9m.
- BJAUT is planning to leverage its presence in Indonesia (through 99.25% sub PT. Bajaj Auto Indonesia) to launch jointly developed products (with KTM) in Indonesia. It plans to tap the CKD route in Indonesia FY19 onward.

TPM: Implemented across value chain; now targeting next level

- BJAUT’s operations are guided by philosophies and principles of the Total Productive Maintenance (TPM) project. Apart from implementing TPM at all its plants, BJAUT has successfully extended this project externally to include its vendors and dealers.
- Currently, 163 Tier 1 vendors from its supply chain are practicing TPM. In addition, TPM-practicing tier I vendors extended the project to their tier 2 vendors (~267 tier 2 vendors currently).
- In FY18, BJAUT took the initiative of making its service network better by deploying TPM at dealerships with the objective of reducing customer complaints and improving dealer profitability.
- Having achieved the level of Special Award for TPM by JIPM for the Waluj and Chakan plants, BJAUT’s TPM initiative has now moved to the next level, involving (a) TPM Deepening (sustain and further improve) and (b) TPM Evolving (be future ready). To attain this, it has defined eight management themes spanning across the key elements of the value chain.

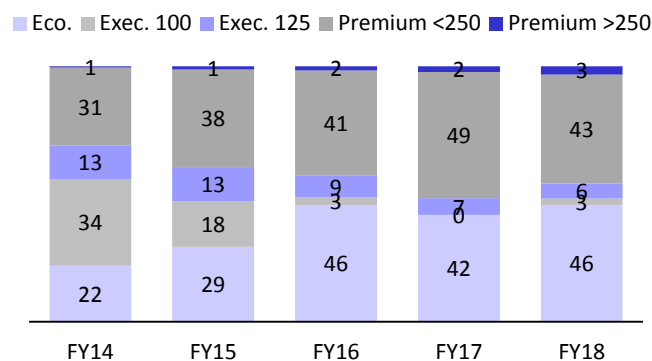
Valuation view: After a prolonged period, all the three businesses are firing in unison. This, coupled with the tailwind of a weaker INR, would support margins. We build in revenue/EBITDA/PAT CAGR of 14.1%/16.6%/14.2% over FY18-20. Valuations of 18.2x FY19E and 15.8x FY20E consolidated EPS are attractive. We value BJAUT at INR3,686 (18x Jun’20E consol. EPS). Maintain **Buy**.

Exhibit 1: BJAUT’s market share declined across segments

Segments	FY14	FY15	FY16	FY17	FY18
Economy	24	25	36	32	28
Executive 100	14	6	1	0	1
Executive 125	16	14	9	7	6
Premium	38	35	37	38	31

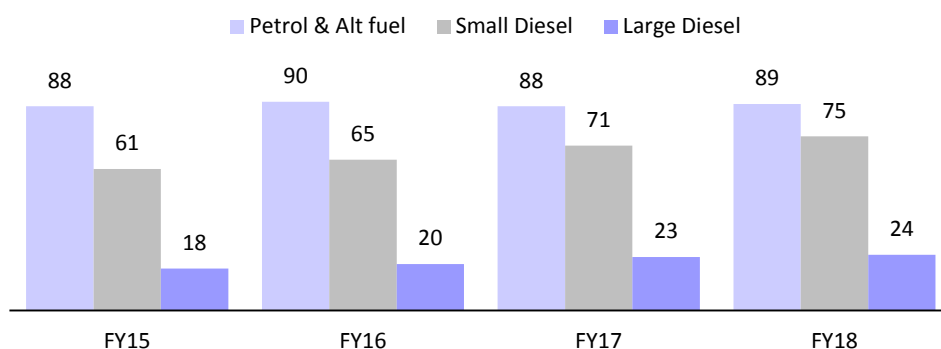
Source: SIAM, MOSL

Exhibit 2: BJAUT’s domestic motorcycle segment mix



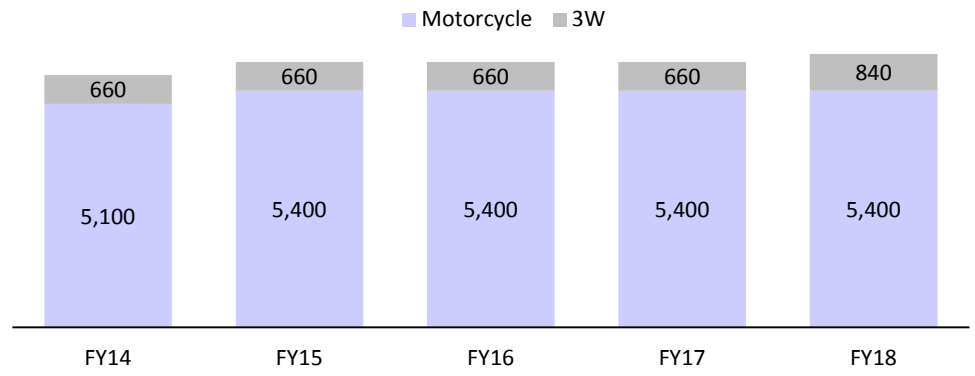
Source: SIAM, MOSL

Exhibit 3: BJAUT dominates domestic 3W market, with increasing share in diesel segment



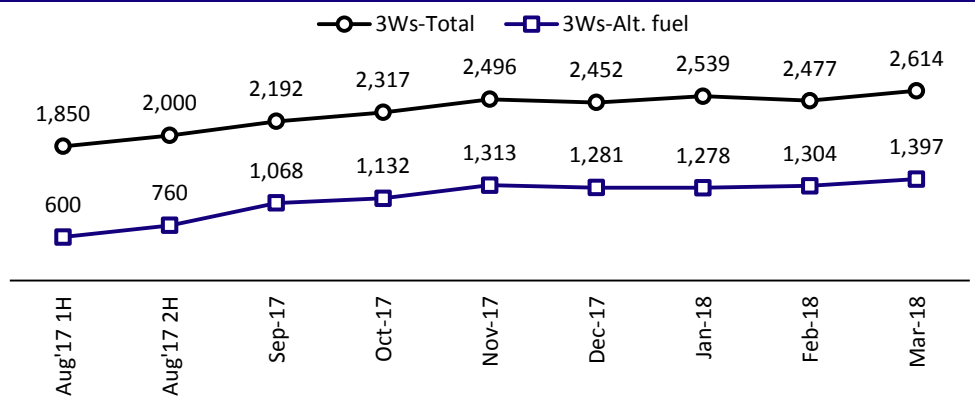
Source: Company, MOSL

Exhibit 4: BJAUT's capacity addition in 3W in FY18 is via debottlenecking



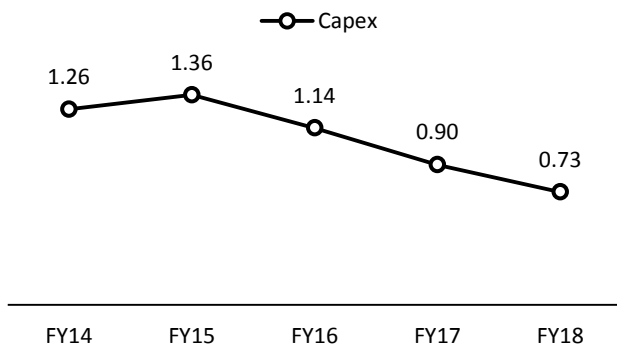
Source: Company, MOSL

Exhibit 5: 3W capacity addition largely in alternative fuel segment



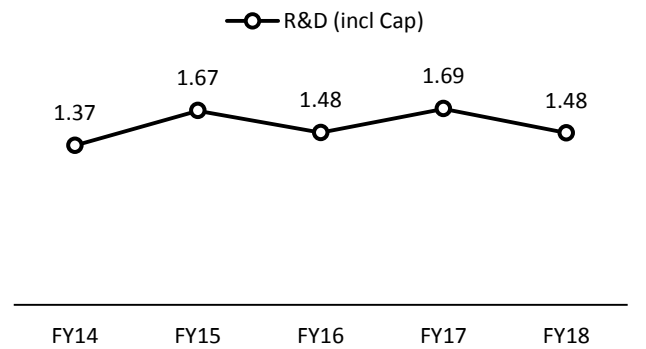
Source: Company, MOSL

Exhibit 6: BJAUT's capex has been tightly controlled (% of sales)...



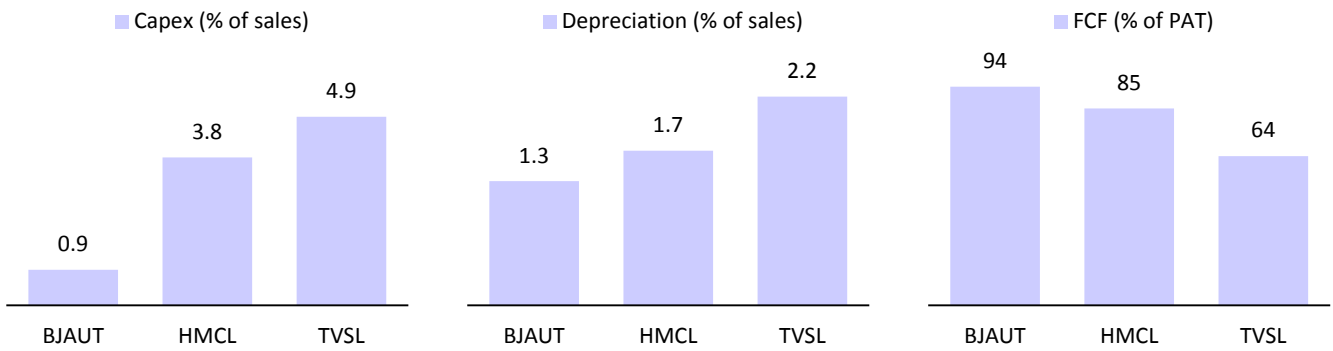
Source: SIAM, MOSL

Exhibit 7: ...whereas investments in R&D have been stable (% of sales)



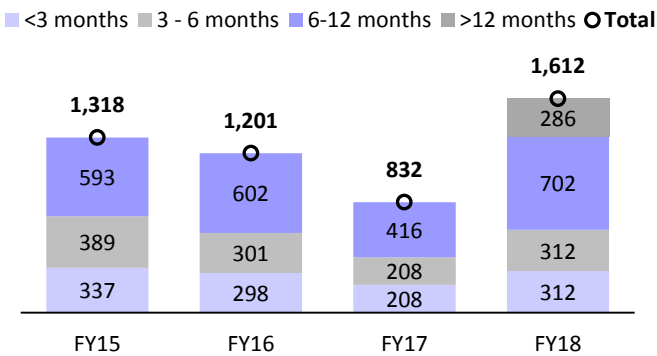
Source: SIAM, MOSL

Exhibit 8: BJAUT's minimalistic capex drives higher FCF conversion (three-year average ratios)



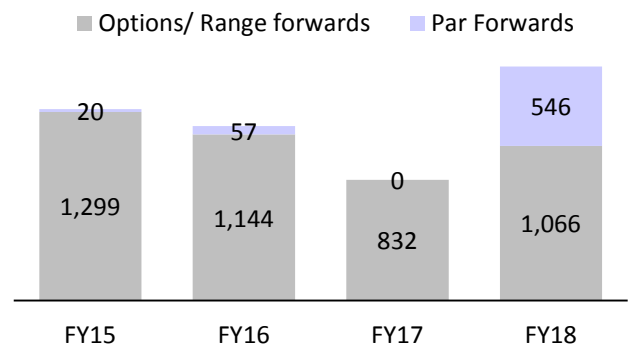
Source: Company, MOSL

Exhibit 9: For the 1st time, it has taken Fx hedge beyond 12 months...



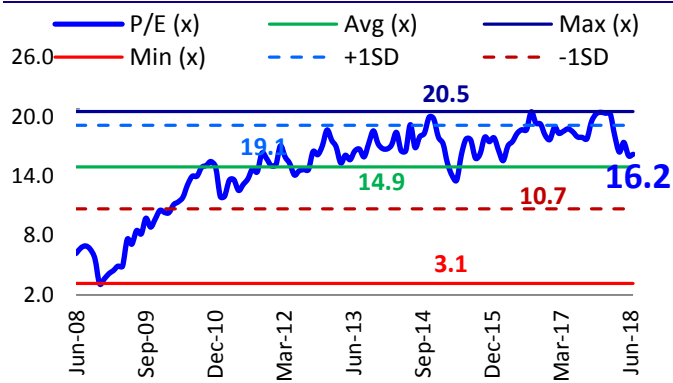
Source: Company, MOSL

Exhibit 10: ...as well as has taken substantial hedge through par forward contracts



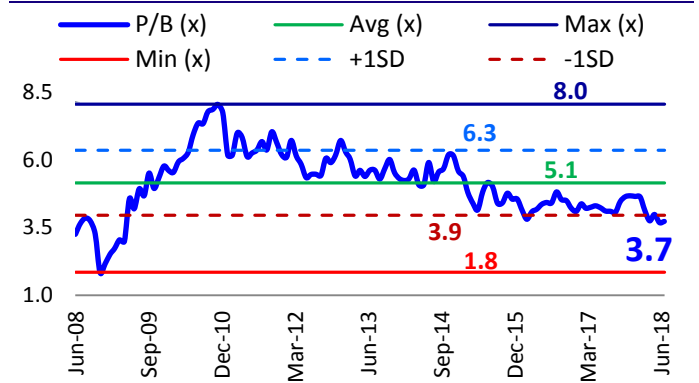
Source: Company, MOSL

Exhibit 11: BJAUT trading at premium to LPA P/E



Source: MOSL

Exhibit 12: BJAUT's P/BV below historical average



Source: MOSL

Exhibit 13: Comparative valuation

Auto OEM's	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
	(INR)*		(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Bajaj Auto	3,113	Buy	3,686	18.2	15.8	12.6	10.4	24.4	25.3	2.2	2.6	14.2
Hero MotoCorp	3,459	Neutral	3,839	17.1	15.0	10.3	9.0	32.3	32.4	3.0	3.3	11.5
TVS Motor	564	Neutral	572	31.9	22.0	18.6	13.5	26.3	30.8	0.7	0.9	35.7
M&M	911	Buy	1,063	18.0	16.5	14.5	13.0	15.1	15.0	1.1	1.1	16.0
Maruti Suzuki	9,388	Buy	10,455	27.8	21.9	17.1	13.8	20.8	22.7	1.1	1.3	26.9
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	106	Buy	149	15.9	12.2	7.7	5.1	25.1	27.7	2.1	2.4	26.9
Eicher Motors	26,982	Buy	34,264	27.4	20.9	22.1	18.0	33.2	33.2	0.6	0.7	27.0
Escorts	843	Neutral	973	16.6	13.0	13.4	10.3	18.7	20.3	0.6	0.6	28.2
Auto Ancillaries												
Bharat Forge	582	Buy	754	24.4	19.3	13.9	11.6	22.0	23.4	0.9	1.1	30.6
Exide Industries	262	Buy	300	25.1	20.6	14.6	12.2	14.7	15.9	1.0	1.2	24.5
Amara Raja Batteries	763	Buy	945	24.0	20.2	12.4	10.3	17.2	17.7	0.6	0.8	17.0
BOSCH	17,642	Neutral	19,017	30.5	25.0	19.4	15.7	16.8	18.4	1.1	1.4	22.4
Endurance Tech	1,243	Buy	1,483	33.9	25.1	15.8	12.4	21.7	24.7	0.5	1.0	30.4
Motherson Sumi	282	Buy	414	24.7	17.1	9.0	6.2	23.7	28.5	1.0	1.6	42.4
CEAT	1,261	Buy	1,669	15.6	12.1	9.9	7.5	11.9	13.7	0.7	0.9	27.7

Source: Company, MOSL

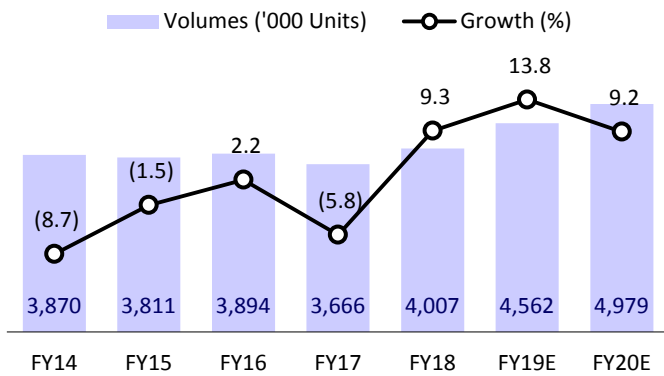
Exhibit 14: Key operating metrics

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 Rean (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

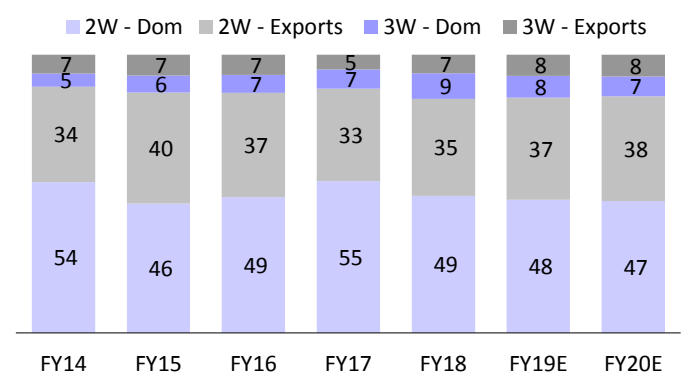
Story in charts: Domestic recovery, benefits of new launches key drivers

Exhibit 15: Domestic growth to drive volumes



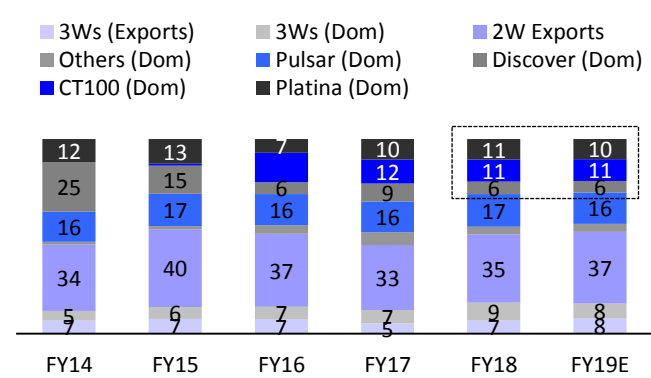
Source: Company, MOSL

Exhibit 16: Mix to improve in favor of exports



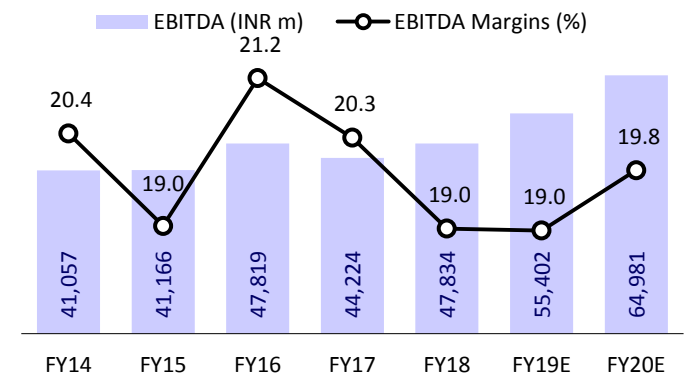
Source: Company, MOSL

Exhibit 17: Volume mix to remain stable



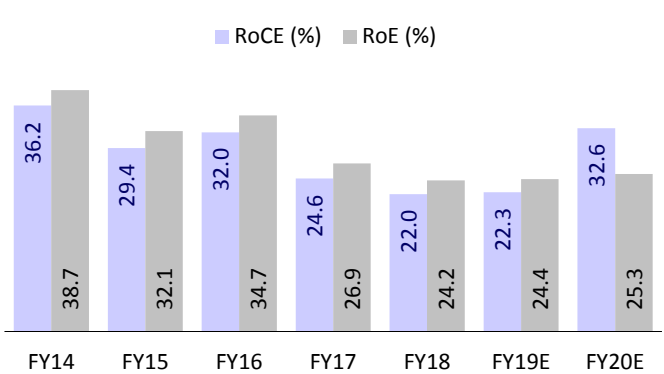
Source: Company, MOSL

Exhibit 18: EBITDA margin to remain healthy



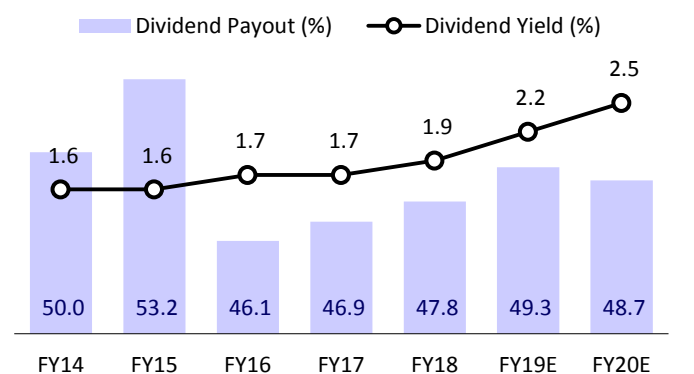
Source: Company, MOSL

Exhibit 19: Return ratios to increase steadily



Source: Company, MOSL

Exhibit 20: 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	26.6	27.6	21.7	22.1	20.6	18.2	15.8
Cash P/E	25.3	25.5	20.2	20.5	19.2	17.1	14.8
EV/EBITDA	19.7	19.5	16.6	17.0	15.0	12.6	10.4
EV/Sales	4.0	3.7	3.5	3.5	2.9	2.4	2.1
Price to Book Value	9.4	8.4	6.8	5.3	4.7	4.2	3.8
Dividend Yield (%)	1.6	1.6	1.8	1.8	1.9	2.2	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	Expected return (over 12-month)
Investment Rating	
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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