

## Key Rationale

Bajaj Auto is the world's fourth largest two- and three- wheeler manufacturer. The Bajaj brand is familiar in Latin America, Africa, Middle East, South and South East Asia.

Strengthening its portfolio of motorcycles with several new launches, Bajaj Auto is seeking to increase its market share from about 17-18% to around 24-25% this year.

Having introduced two new models under the Discover range of motorcycles, Bajaj Auto plans to add two new Avenger Cruiser motorcycles shortly and follow this up with several other launches during the year.

The company, which now has a market share of about 17-18% across various categories, is expecting to take it up to 25%, with Discovery range alone adding 70,000 to 80,000 units per month as against about 10,000 per month now.

Around 60% of the economy segment is electric start versions. Since there were no products catering to this segment, there was loss of market share over the last two years. However, new launches including CT100 ES, Platina ES, and Platina Comfortec have plugged the gaps and managed to lift average volumes in the segment. These product actions are helping regain the lost share in the segment.

There was absence in the 160cc space in the premium segment. Now, with the launch of new Pulsar NS 160, the vacuum has been addressed.

Partnership with KTM of Austria, Husqvarna of Sweden and Triumph of the UK will strengthen leadership in the premium segment, where there will be the widest presence, covering the entire gamut of premium motorcycles: the super sports and cruiser segments.

## Valuation

We expect Bajaj Auto to report total revenues of Rs 23100 crore and Rs 24948 crore for FY18 and FY19 respectively. The Net Profit After Tax works out to Rs 3927 crore and Rs 4216 crore respectively. The EPS works out to Rs 135.7 and Rs 145.69 respectively. The FY19 EPS of Rs 145.69 which when discounted 24 times translates into a Target Price of Rs 3500 implying an upside of 24% from the current valuations.

### Recommendation - BUY

CMP (Rs)	2840
Target (Rs)	3500
Upside (%)	23%
Stop-loss (Rs)	2660
Time Horizon	6 - 9 Months

### Key Data

NSE Code	BAJAJ-AUTO
52-week range (H/L)	3468 / 2694
30-day avg. volume	326,565
Market Cap (Rs. crs)	81,196
No. of shares (crs)	289.37
Face Value	10
Book Value (cons.)	628
EPS (FY-18)	135.73
P/E (x)	21.3
Sales (Rs. crs)	232,872
Net Profit (Rs. crs)	40,795
EBITDA (Rs. crs)	58,962
ROE (%)	22.8
Div. Yield (%)	0.7

### Price Performance (%)

	1M	3M	1Yr
Absolute	1.7	-10.9	-6.4
Rel. to Nifty	-1.1	-12.8	-20

### Shareholding Pattern (Mar-18)

Promoters	49.30%
FII's	17.58%
DII's	8.51%
Govt.	0.00%
Public & Other	24.61%

### Bajaj Auto Ltd - Plant-wise capacities (in numbers) and Product Range

Plant	As on 31 March 2017		Product range
Waluj	Motorcycles	2,400,000	Boxer, CT100, Platina, Discover, Pulsar, V12, V15, three-wheelers and quadricycles
	Commercial Vehicle	660,000	
<b>Waluj Subtotal</b>		<b>3,060,000</b>	
Chakan	Motorcycles	1,200,000	Pulsar, Avenger, Dominar and KTM
Pantnagar	Motorcycles	1,800,000	CT100, Platina, Discover, V12, V15 and Pulsar
<b>Grand Total</b>		<b>6,060,000</b>	

### Bajaj Auto's Sale of Motorcycles, Domestic and Exports (in numbers)

Year ended 31 March	Domestic Sales		Exports	
	BAL (nos.)	BAL's growth	BAL (nos.)	BAL's growth
2013	2,463,874	-4.0%	1,293,231	2.0%
2014	2,099,230	-14.8%	1,323,173	2.3%
2015	1,770,778	-15.6%	1,521,306	15.0%
2016	1,898,957	7.2%	1,459,295	-4.1%
2017	2,001,391	5.4%	1,218,541	-16.5%

### Bajaj Auto - Consolidated Balance Sheet

Cash Rich Status & Huge Investments Fortify Balance Sheet

Particulars	201703	201603	201503	201403	201303
<b>Source Of Funds</b>					
Share Capital	289.37	289.37	289.37	289.37	289.37
Reserves	17567.20	13730.94	10805.95	9877.89	7775.93
<b>Total Shareholders Funds</b>	<b>17856.57</b>	<b>14020.31</b>	<b>11095.32</b>	<b>10167.26</b>	<b>8065.30</b>
Total Debt	119.90	117.86	112.35	59.19	115.58
<b>Total Liabilities</b>	<b>18111.16</b>	<b>14256.51</b>	<b>11347.74</b>	<b>10435.17</b>	<b>8439.10</b>
<b>Application Of Funds</b>					
Gross Block	4533.21	4434.89	4631.70	4736.40	4385.70
Net Block	1943.26	2025.67	2448.03	2659.62	2355.41
Investments	15535.57	11067.23	8985.25	8447.77	6058.92
Total Current Assets	3418.45	3412.97	3766.27	3334.74	3470.26
Total Current Liabilities	3212.84	2781.06	4476.28	4729.41	4121.53
<b>Net Current Assets</b>	<b>205.61</b>	<b>631.91</b>	<b>-710.01</b>	<b>-1394.67</b>	<b>-651.27</b>
<b>Total Assets</b>	<b>18111.16</b>	<b>14256.51</b>	<b>11347.74</b>	<b>10435.17</b>	<b>8439.10</b>

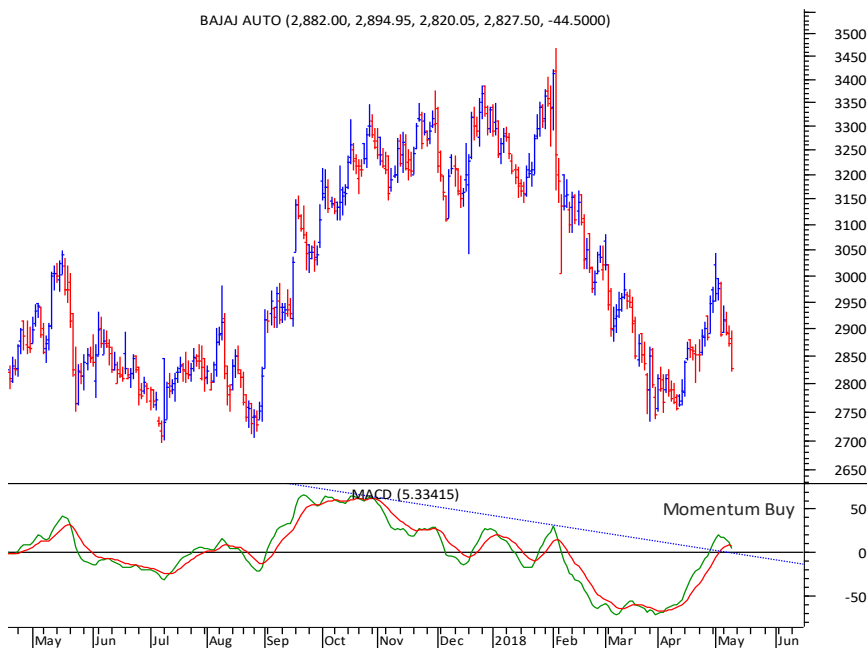
<b>Consolidated Profit &amp; Loss Account (in Rs. crs)</b>					
<i>Margins Remain Healthy – Other Income Boosts Profitability</i>					
<b>Particulars</b>	<b>201703 (12)</b>	<b>201603 (12)</b>	<b>201503 (12)</b>	<b>201403 (12)</b>	<b>201303 (12)</b>
<b>Income</b>					
Net Sales	21766.68	22586.52	21614.27	20158.29	20041.99
<b>% Y-o-Y</b>	<b>-3.6</b>	<b>4.5</b>	<b>7.2</b>	<b>0.6</b>	
Other Income	1476.85	1206.02	583.95	681.81	797.13
<b>Total Income</b>	<b>23287.21</b>	<b>23729.09</b>	<b>22254.68</b>	<b>20852.67</b>	<b>20806.77</b>
<b>Expenditure</b>					
Raw Materials	14667.83	14993.41	14907.89	13895.8	14401.19
Total Expenditure	17390.97	17741.99	17897.78	16015.66	16361.16
Operating Profit	5896.24	5987.1	4356.9	4837.01	4445.61
<b>Operating Profit Margin (%)</b>	<b>25.3</b>	<b>25.2</b>	<b>19.6</b>	<b>23.2</b>	<b>21.4</b>
Depreciation	307.29	307.16	267.46	181.32	167.81
Profit Before Tax	5587.55	5678.89	4082.95	4654.87	4276.61
Net Profit	4079.48	4061.24	2811.9	3234.4	3048.09
EPS after Minority Interest	139.96	120.23	94.62	108.32	100.61
Book Value(Unit Curr.)	617.08	484.51	383.43	351.36	278.72

## Technical Analysis



Monthly chart of Bajaj Auto appended shows a regulation uptrend from the lows of 2011 in a stair-step manner. The formation of higher lows and higher highs is enveloped within a text-book trend channel.

April month, the stock managed to snap the two-months losing streak as it held above the trend channel support showing strong demand. While the stock is currently under pressure, the weakness is an opportunity to accumulate positions going into a seasonally strong 2-3 months for the stock. Additionally, the volumes in the previous month were strong as a dip previously prompted buying interest.



A look at the daily chart with momentum oscillator MACD appended on the lower panel shows the short-term momentum has tuned up for the stock with MACD trading above the zero line into positive territory. Moreover, the trend line emerging from the peaks of MACD over the past 8 months also shows a breakout on the upside.

### Analysts

**Nirav Asher** | nirav.asher@lmspl.com | 022- 40350152

**Tejas Shah** | tejas.shah@lmspl.com | 022-40350118

**Registered Address:** Viraj, 5<sup>th</sup> Floor, 124, S.V.Road, Khar (West), Mumbai-400 052.

**Tel No:** 022- 40350152 | **Fax No:** 022-40350132 | **E-mail:** research@lmspl.com



## Disclaimer

Latin Manhartal Securities Private Limited (CIN-U67120MH1997PTC110873) and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. Latin Manhartal Securities Private Limited (LMSPL) along with its affiliates are participants in virtually all securities trading markets in India. LMSPL was established in 1997 and is one of India's leading brokerage and distribution house. LMSPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LMSPL along with its subsidiaries offers the most comprehensive avenues for investment and is engaged in the businesses including stock broking (Retail), commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits.

LMSPL is registered under SEBI (Research Analysts) Regulations, 2014. LMSPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years.

LMSPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Latin Manhartal Securities Private Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

LMSPL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LMSPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LMSPL) have not been engaged in market making activity for the subject company.

LMSPL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:(NO)

LMSPL or its associates may have received any compensation including for investment banking or brokerage services from the subject company in the past 12 months. LMSPL or its associates may have received compensation for products or services other than investment banking or brokerage services from the subject company in the past 12 months. LMSPL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of LMSPL or its associates during twelve months preceding the date of distribution of the research report and LMSPL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company: (NO)

LMSPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LMSPL or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to LMSPL. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LMSPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LMSPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.