

BSE SENSEX 36,719  
 S&P CNX 11,085

**CMP: INR2,689 TP: INR3,223(+20%)**

**Buy**

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



Bloomberg	BJAUT IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	778.1 / 11.3
52-Week Range (INR)	3473 / 2701
1, 6, 12 Rel. Per (%)	-8/-20/-19
12M Avg Val (INR M)	1072
Free float (%)	50.7

### Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	252	281	317
EBITDA	47.8	48.0	55.1
PAT	43.8	44.5	50.5
EPS (INR)	151	154	175
Gr. (%)	7.3	1.7	13.5
BV/Sh (INR)	660	732	811
RoE (%)	24.2	22.1	22.6
RoCE (%)	22.0	20.0	29.3
P/E (x)	17.8	17.5	15.4
P/BV (x)	4.1	3.7	3.3

Estimate change

TP change

Rating change



### Below estimate; adverse mix to continue impacting margins

- Product mix, moderate spare sales impact realizations:** Net sales increased 36% YoY (+9.5% QoQ) to INR74.2b (est. of INR77.8b), as volume grew 38% YoY (+17% QoQ). Realization declined 1.3% YoY (-6.6%) QoQ to INR60.5k/unit (est. of INR63.5k) due to an adverse product mix (higher share of CT100 at 50.5% and lower spare sales).
- EBITDA margin impacted by adverse product mix, RM inflation and high employee cost:** Gross margin shrank 140bp YoY (-210bp QoQ) to 28.6% (est. of 30%), led by an adverse mix and RM inflation. Higher employee cost further impacted profitability. EBITDA grew ~37% YoY to INR12.8b (est. of INR15.2b), implying an EBITDA margin of 17.3% (flat YoY, -210bp QoQ; est. of 19.5%).
- Management commentary:** (a) Targets total sales of 4.8m units in FY19 (+20%), driven by exports (~2m units), domestic 2Ws (~2.4m units) and domestic 3Ws (375-400k units). (b) Domestic 3W sales momentum to be healthy at ~30k/month, despite boost from permit behind us, led by growth in diesel and cargo segment. (c) Targets 45-50% market share (v/s 35% currently) in M1 segment and 20% share in domestic 2Ws by end-FY19. (d) Expects CT100 to grow faster than other products/segment, exerting pressure on margins. (e) New product in Commuter Deluxe segment by 4QFY19.
- Valuation and view:** BJUT is getting more aggressive in domestic motorcycles, and is prioritizing market share over margins. This, in turn, would exert pressure on margins and lead to no earnings growth in FY19. We cut FY19/20E EPS by 10%/12% as we factor in (a) higher volumes from CT100, (b) RM inflation and (c) an adverse mix impact. Valuations at 17.5x/15.4x FY19/20E lend comfort, and so does FY20E net cash at over 25% of market cap. We value BJUT at INR3,223 (18x Jun'20E consol. EPS). Maintain **Buy**.

### Quarterly Performance

	FY18				FY19E				FY18	FY19E	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			Est. 1QE	Var. (%)
Volumes ('000 units)	888	1,072	1,001	1,045	1,227	1,210	1,151	1,089	4,007	4,676	1,227	0.0
Growth YoY (%)	-10.7	3.8	17.6	32.7	38.1	12.9	14.9	4.2	9.3	16.7	38.1	
Realization (INR/unit)	61,258	61,408	63,600	64,793	60,485	59,880	59,880	60,346	62,806	60,147	63,497	-4.7
Growth YoY (%)	6.0	4.7	6.9	4.2	-1.3	-2.5	-5.8	-6.9	5.7	(4.2)	3.7	
<b>Net Sales</b>	<b>54,424</b>	<b>65,799</b>	<b>63,693</b>	<b>67,733</b>	<b>74,193</b>	<b>72,425</b>	<b>68,898</b>	<b>65,733</b>	<b>251,649</b>	<b>281,248</b>	<b>77,888</b>	-4.7
Change (%)	-5.3	8.7	25.7	38.3	36.3	10.1	8.2	-3.0	15.5	11.8	43.1	
RM/Sales %	70.0	69.1	68.4	69.3	71.4	71.5	71.2	70.8	69.4	71.3	70.0	
Staff cost/Sales %	5.0	4.0	4.2	3.9	4.2	4.3	4.6	4.7	4.2	4.4	3.7	
Oth. Exp./Sales %	7.8	7.2	8.3	7.4	7.1	7.2	7.3	7.7	7.7	7.3	6.9	
<b>EBITDA</b>	<b>9,384</b>	<b>12,984</b>	<b>12,315</b>	<b>13,152</b>	<b>12,814</b>	<b>12,396</b>	<b>11,708</b>	<b>11,091</b>	<b>47,290</b>	<b>48,009</b>	<b>15,162</b>	-15.5
EBITDA Margins (%)	17.2	19.7	19.3	19.4	17.3	17.1	17.0	16.9	18.8	17.1	19.5	-220bp
Other Income	4,573	2,964	2,269	3,667	4,044	3,500	3,750	3,834	13,473	15,128	3,500	
Interest	2	5	3	3	3	3	3	2	13	10	3	
Depreciation	753	770	747	879	700	725	750	795	3,148	2,970	800	
<b>PBT</b>	<b>12,881</b>	<b>15,174</b>	<b>13,833</b>	<b>15,937</b>	<b>16,156</b>	<b>15,169</b>	<b>14,705</b>	<b>14,128</b>	<b>57,602</b>	<b>60,158</b>	<b>17,860</b>	-9.5
Tax	3,642	4,055	4,309	5,138	5,003	4,702	4,559	4,385	17,145	18,649	5,286	
Effective Tax Rate (%)	28.3	26.7	31.1	32.2	31.0	31.0	31.0	31.0	29.8	31.0	29.6	
<b>Adj. PAT</b>	<b>9,469</b>	<b>11,119</b>	<b>9,524</b>	<b>10,799</b>	<b>11,152</b>	<b>10,467</b>	<b>10,147</b>	<b>9,743</b>	<b>41,001</b>	<b>41,509</b>	<b>12,573</b>	-11.3
Change (%)	(3.2)	(1.0)	3.0	34.7	17.8	(5.9)	6.5	(9.8)	6.7	1.2	32.8	

E: MOSL Estimates

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

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**Product mix, moderate growth in spare revenues impact realizations**

- Net sales increased 36.3% YoY (+9.5% QoQ) to INR74.2b (est. of INR77.8b), as volumes grew 38.1% YoY (+17.3% QoQ).
- Total motorcycle volumes increased 32.8% YoY (+20.3% QoQ) to ~1029.9k units, as domestic and exports volume grew 39.3% and 24.8%, respectively.
- 3W volume increased 74.5% YoY (+4.1% QoQ), as domestic volumes grew 79.3% YoY (-23% QoQ), while exports volume increased 70.2% YoY (+54% QoQ).
- Realization declined 1.3% YoY (-6.6%) QoQ to INR60.5k/unit (est. of INR63.5k/unit) due to an unfavorable product mix, as the share of economy motorcycles increased to 50.5% in the domestic 2W product mix.
- It has taken price hike of INR500-750/unit in motorcycle (ex – entry level) and INR1,000-1,500 per unit in 3W in July-18.
- Spare revenues grew only by 8% YoY (v/s normal growth rate of 15-20%) to INR6.5b affected by supply shortage. This also impacted realizations.
- BJAUT's market share in the domestic motorcycle segment expanded 230bp YoY (+100bp QoQ) to 16.3%.

**Exhibit 1: Trend in segmental growth and contribution**

	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY18	FY17	YoY (%)
<b>Motorcycles</b>								
Domestic	594,234	426,562	39.3	497,587	19.4	1,974,577	2,001,391	-1.3
% of total domestic	86.3	89.0		80.2		84.2	88.8	
Exports	435,730	349,152	24.8	358,802	21.4	1,394,757	1,218,541	14.5
% of total exports	81.0	85.3		84.4		83.9	86.3	
<b>Total Motorcycles</b>	<b>1,029,964</b>	<b>775,714</b>	<b>32.8</b>	<b>856,389</b>	<b>20.3</b>	<b>3,369,334</b>	<b>3,219,932</b>	<b>4.6</b>
% of total	84.0	87.3		81.9		84.1	87.8	
<b>Three Wheelers</b>								
Domestic	94,431	52,655	79.3	122,606	-23.0	369,637	253,226	46.0
% of total domestic	13.7	11.0		19.8		15.8	11.2	
Exports	102,246	60,065	70.2	66,383	54.0	267,820	192,792	38.9
% of total exports	19.0	14.7		15.6		16.1	13.7	
<b>Total 3Ws</b>	<b>196,677</b>	<b>112,720</b>	<b>74.5</b>	<b>188,989</b>	<b>4.1</b>	<b>637,457</b>	<b>446,018</b>	<b>42.9</b>
% of total volumes	16.0	12.7		18.1		15.9	12.2	
<b>Total Volumes</b>	<b>1,226,641</b>	<b>888,434</b>	<b>38.1</b>	<b>1,045,378</b>	<b>17.3</b>	<b>4,006,791</b>	<b>3,665,950</b>	<b>9.3</b>

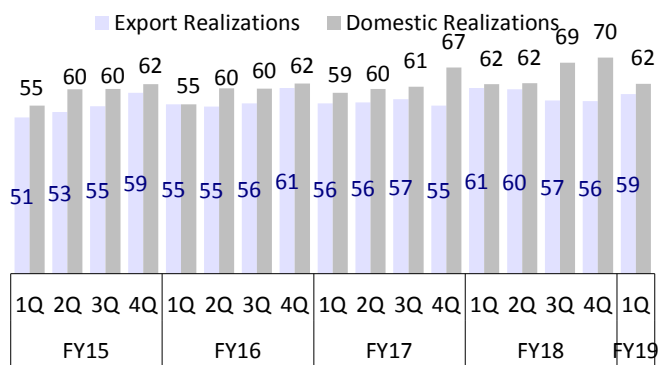
Source: Company, MOSL

**Exhibit 2: Trend in market share in 2W and 3W**

(%)	1QFY19	1QFY18	YoY (bp)	4QFY18	QoQ (bp)	FY18	FY17	YoY (%)
<b>Segment Wise</b>								
Economy	31.8	25.3	640	24.1	760	34.5	31.5	300
Executive	2.5	2.2	30	4.4	-190	2.0	2.4	-50
Executive 100	2.1	0.0	210	4.2	-210	0.0	0.0	0
Executive 125	3.4	6.9	-350	4.9	-150	6.6	8.2	-160
Premium	28.2	29.3	-120	29.1	-100	39.4	37.0	240
Premium excl RE	37.8	39.4	-160	40.7	-290	51.3	49.3	200
<b>Dom. Motorcycles</b>	<b>16.3</b>	<b>14.0</b>	<b>230</b>	<b>15.3</b>	<b>100</b>	<b>17.9</b>	<b>17.9</b>	<b>0</b>
Total Motorcycles	23.5	21.3	220	21.9	160	24.4	24.4	10
<b>Total Dom. 2W</b>	<b>16.3</b>	<b>14.0</b>	<b>230</b>	<b>15.3</b>	<b>100</b>	<b>17.9</b>	<b>17.9</b>	<b>0</b>
Total 2W (incl exports)	23.5	21.3	220	21.9	160	24.4	24.4	10
<b>Dom. 3W</b>	<b>58.6</b>	<b>48.3</b>	<b>1,030</b>	<b>62.2</b>	<b>-360</b>	<b>52.1</b>	<b>48.2</b>	<b>390</b>
3W (incl exports)	64.5	60.3	420	64.0	50	58.9	56.0	280

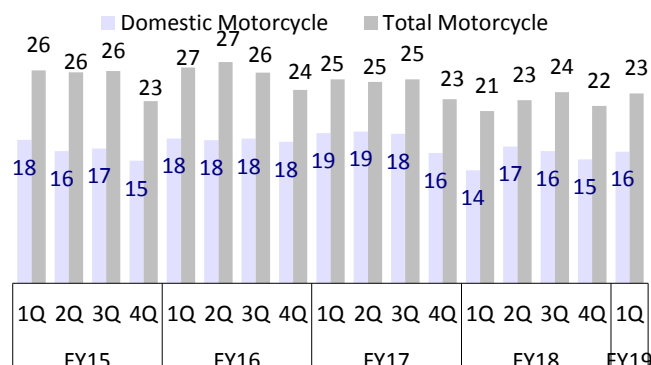
Source: SIAM, MOSL

**Exhibit 3: Trend in domestic and exports realizations**



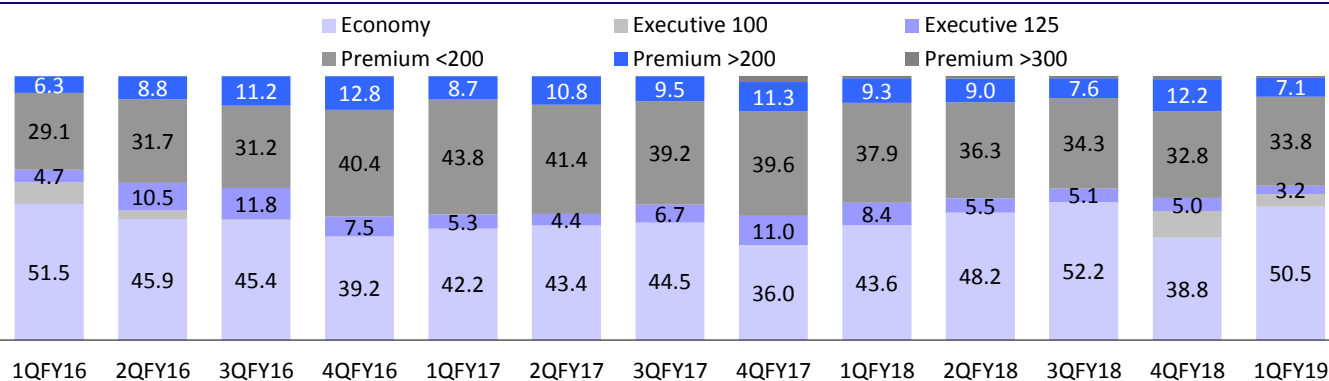
Source: Company, MOSL

**Exhibit 4: Trend in domestic and total 2W market share**



Source: Company, MOSL

**Exhibit 5: Domestic 2W product mix deteriorates YoY/ QoQ**

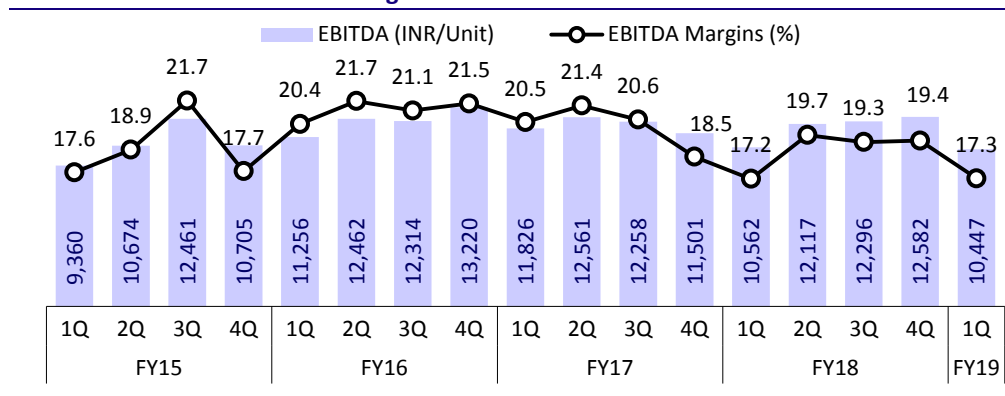


Source: Company, MOSL

**EBITDA margin impacted by adverse product mix, RM inflation and high employee cost**

- Gross margins came in 28.6%, below estimate of 30%, primary led by RM inflation pass-through and an adverse product mix.
- Employee cost came in higher than estimate of INR3.1b (est. of INR2.9b) due to provision for volume-linked bonus payout.
- EBITDA increased 36.6% YoY to INR12.8b (est. of INR15.2b), implying EBITDA margin of 17.3% (flat YoY, -210bp QoQ; v/s est. of 19.5%).
- Other income came in higher than estimate of INR4b (est. INR3.5b). Dividend from KTM stood at INR950m for 1QFY19.
- Consequently, tax rate was higher than estimate at 31% (est. of 29.6%). PAT grew 17.8% YoY (+3.3% QoQ) to INR11.2b (est. of INR12.6b).

Exhibit 6: EBITDA and EBITDA margins trend



Source: Company, MOSL

### Targets 45-50% share in entry level segment through aggressive pricing

- BJAUT reiterated its target to increase market share in M1 segment (~14% of turn over) from 35% to 45-50% by end-FY19.
- This will be primarily led by benefits of price cuts in CT100. Further contribution from Platina should also aid market share expansion.
- As indicated by management, even at 45-50% market share, margins would continue to be in negative territory.
- Currently, demand of CT100 is outpacing supply.
- BJAUT is also focusing on market share gains in M3 segment with the launch of one new product by 1QCY19, where company expects to compete on features and not price. Target monthly volumes of ~40k units /month from current 20k units/ month.



### Key takeaways from earnings call

- BJAUT targets **total sales of 4.8m units in FY19 (+20% YoY)**, of which exports to be 2m units, domestic motorcycle to be 2.4m units and domestic 3W to be 375-400k.
- Expect **2W market share of 20%** (from 16% currently), driven by CT 100, Platina and Pulsar.
- **New Discover volumes weren't at par with internal expectations.**
- **Don't expect Pulsar Classic to be a volume driver;** Pulsar twin disc has been well received by the customers.
- Dom. motorcycle inventory at ~5weeks, whereas for CT100 it stood at 3-4 weeks, where demand is greater than supply.
- **Domestic 3W sales momentum to be healthy at ~30k/month**, despite the benefit of permit release now behind.
- **Growth in 3Ws will be led by higher volumes from the diesel and cargo segments.** The current diesel cargo volume is ~3k units per month, while that of diesel passenger 3W volume stand at ~15k units per month.
- In 1QFY19, **spare revenues grew by 8%** to INR6.5b as the same was affected by supplies shortages. Exports spare revenues stood at INR1.2b.
- **EBITDA margins:** Growth of motorcycle, particularly in M1, would be faster than 3Ws and exports. Hence, there would be further impact of adverse mix on margins.

- Have taken **average price increase of INR500-750/unit for 2W (barring M1) and INR1,000-1,500/unit for 3W in July-18.**
- **Fx hedge:** Expect only 50% of rupee depreciation benefit to be realized, due to par Forwards. Expect additional benefit of INR0.5 in remaining FY19.
- Guided for **capex of INR2.5-3b** in FY19. Expect FY20 capex of INR5b considering capacity expansion.
- **Qute:** Expect billing of the product to commence in next few days for domestic market. Expect 35-40 vehicles to get retailed in Kerala and north-east markets in 1-2 months.

### Valuation view

- **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 ~12.8% 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.
- **Expect healthy volume CAGR of 12.8% in FY18-20, while product mix to impact profitability:** We expect a CAGR of 12.8% in volumes and 12.2% in net revenue over FY18-20. However, deterioration in the product mix, coupled with lower realizations, is likely to drive EBITDA margin contraction to 17.4% by FY20. Consequently, we expect muted net profit CAGR of 7.4% over FY18-20.
- **Maintain Buy, with a TP of INR3,223:** BJAUT's is getting more aggressive in domestic motorcycle, and is prioritizing market share over margins. While we expect healthy volume CAGR of 12.8% in FY18-20, we expect deterioration in product mix in the domestic 2W segment. This, in turn, would put pressure on margins and lead to no earnings growth in FY19. We cut FY19/FY20E EPS by 10%/12% as we factor in (a) higher volumes from CT100, b) RM inflation and c) adverse mix impact. Valuations at 17.5x/15.4x FY19/20E lend comfort, and so does FY20 net cash at over 25% of market cap. We value BJAUT at INR3,223 (18x June 2020E consol. EPS). **Maintain Buy.**
- **Three-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 premiumization 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 three years, we estimate 15% CAGR total return, with TP of ~INR4,085 (~18x Mar-22 consol. EPS).

Exhibit 7: Key operating metrics

	FY17	FY18	FY19E	FY20E	FY21E	FY22E	CAGR FY18-22E
<b>Domestic industry vol. ('000 units)</b>	<b>17,590</b>	<b>20,193</b>	<b>22,126</b>	<b>24,099</b>	<b>26,054</b>	<b>28,190</b>	<b>8.7%</b>
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%
<b>BJAUT volumes ('000 units)</b>	<b>3,666</b>	<b>4,007</b>	<b>4,676</b>	<b>5,103</b>	<b>5,575</b>	<b>6,148</b>	<b>11.3%</b>
Dom. Motorcycles	2,001	1,975	2,199	2,483	2,682	2,950	10.6%
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	281,248	316,769	349,408	389,027	11.5%
EBITDA margin %	20.3	19.0	17.1	17.4	17.7	18.1	
<b>Consol EPS (INR/sh)</b>	<b>141</b>	<b>151</b>	<b>154</b>	<b>175</b>	<b>192</b>	<b>216</b>	<b>9.4%</b>
RoE (%)	26.9	24.2	22.1	22.6	22.5	22.6	
Dividend (INR/sh)	55	60	60	70	75	80	
<b>PE (x)</b>							<b>18</b>
Cum Div (FY18-20)						190	
<b>TP (INR)</b>							<b>4,085</b>

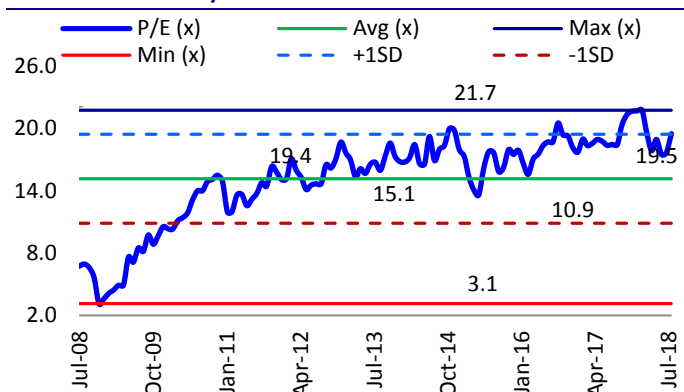
Source: Company, MOSL

Exhibit 8: Revised estimates

	FY19E			FY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Vols ('000 units)	4,676	4,562	2.5	5,103	4,979	2.5
Net Sales	281,248	291,877	-3.6	316,769	327,382	-3.2
EBITDA	48,009	55,402	-13.3	55,123	64,981	-15.2
EBITDA Margins (%)	17.1	19.0	-190bp	17.4	19.8	-240bp
Net Profit	44,529	49,377	-9.8	50,527	57,100	-11.5
<b>EPS (INR)</b>	<b>153.9</b>	<b>170.6</b>	<b>-9.8</b>	<b>174.6</b>	<b>197.3</b>	<b>-11.5</b>

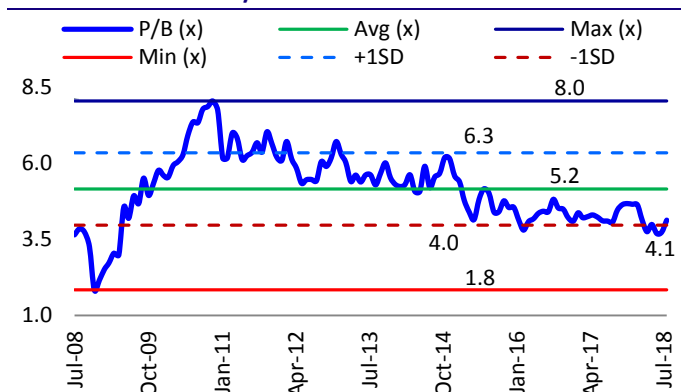
Source: MOSL

Exhibit 9: BJAUT P/E band



Source: MOSL

Exhibit 10: BJAUT's P/BV band



Source: MOSL

## Exhibit 11: 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
<b>Bajaj Auto</b>	<b>2,689</b>	<b>Buy</b>	<b>3,223</b>	<b>15.8</b>	<b>13.6</b>	<b>10.4</b>	<b>8.5</b>	<b>24.4</b>	<b>25.3</b>	<b>2.6</b>	<b>3.0</b>	<b>14.2</b>
Hero MotoCorp	3,164	Neutral	3,839	15.6	13.7	9.3	8.1	32.3	32.4	3.3	3.6	11.5
TVS Motor	540	Neutral	572	30.6	21.0	17.9	13.0	26.3	30.8	0.7	0.9	35.7
M&M	908	Buy	1,063	18.0	16.4	14.5	12.9	15.1	15.0	1.1	1.1	16.0
Maruti Suzuki	9,697	Buy	10,455	28.7	22.6	17.8	14.3	20.8	22.7	1.0	1.3	26.9
Tata Motors	258	Buy	459	6.4	5.7	2.4	1.8	13.3	13.0	0.1	0.1	40.1
Ashok Leyland	109	Buy	149	16.4	12.6	8.0	5.3	25.1	27.7	2.1	2.3	26.9
Eicher Motors	27,000	Buy	34,264	27.4	20.9	22.2	18.0	33.2	33.2	0.6	0.7	27.0
Escorts	856	Neutral	973	16.9	13.2	13.6	10.4	18.7	20.3	0.6	0.6	28.2
<b>Auto Ancillaries</b>												
Bharat Forge	604	Buy	754	25.3	20.0	14.4	12.0	22.0	23.4	0.9	1.0	30.6
Exide Industries	271	Buy	300	25.9	21.3	15.1	12.6	14.7	15.9	1.0	1.2	24.5
Amara Raja Batteries	790	Buy	945	24.8	20.9	12.8	10.6	17.2	17.7	0.6	0.7	17.0
BOSCH	17,978	Neutral	19,017	31.0	25.5	19.7	16.0	16.8	18.4	1.1	1.3	22.4
Endurance Tech	1,307	Buy	1,483	35.7	26.4	16.6	13.1	21.7	24.7	0.5	0.9	30.4
Motherson Sumi	294	Buy	414	25.6	17.7	9.3	6.5	23.7	28.5	1.0	1.5	42.4
CEAT	1,324	Buy	1,669	16.4	12.7	10.2	7.8	11.9	13.7	0.7	0.9	27.7

Source: Company, MOSL

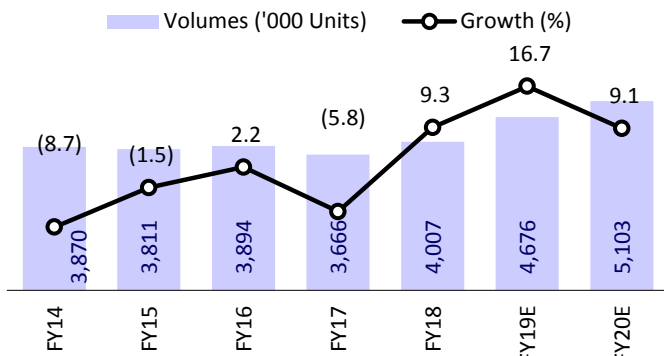
## Exhibit 12: Key operating metrics

000 units	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Motorcycles (units)</b>								
Domestic	2,464	2,099	1,771	1,899	2,001	1,975	2,299	2,483
Growth (%)	-4.0	-14.8	-15.6	7.2	5.4	-1.3	16.4	8.0
% of total vol.	58.1	54.2	46.5	48.8	54.6	49.3	49.2	48.7
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 vol.	30.5	34.2	39.9	37.5	33.2	34.8	35.8	36.7
<b>Total M/Cycles</b>	<b>3,757</b>	<b>3,422</b>	<b>3,292</b>	<b>3,358</b>	<b>3,220</b>	<b>3,369</b>	<b>3,973</b>	<b>4,358</b>
Growth (%)	-2.0	-8.9	-3.8	2.0	-4.1	4.6	17.9	9.7
% of total volumes	88.7	88.4	86.4	86.3	87.8	84.1	85.0	85.4
<b>3Ws</b>								
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 vol.	5.3	4.8	6.1	6.5	6.9	9.2	7.6	7.0
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 vol.	6.0	6.7	7.5	7.2	5.3	6.7	7.4	7.6
<b>3Ws</b>	<b>480</b>	<b>448</b>	<b>519</b>	<b>535</b>	<b>446</b>	<b>637</b>	<b>703</b>	<b>745</b>
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	15.0	14.6
<b>Total Volumes</b>	<b>4,237</b>	<b>3,870</b>	<b>3,811</b>	<b>3,894</b>	<b>3,666</b>	<b>4,007</b>	<b>4,676</b>	<b>5,103</b>
Growth (%)	-2.6	-8.7	-1.5	2.2	-5.8	9.3	16.7	9.1
<b>Avg. Net Realn (INR/unit)</b>	<b>44,665</b>	<b>48,443</b>	<b>51,853</b>	<b>53,697</b>	<b>54,482</b>	<b>55,744</b>	<b>55,022</b>	<b>56,228</b>
Growth (%)	5.4	8.5	7.0	3.6	1.5	2.3	-1.3	2.2
<b>Net Revenues (INR B)</b>	<b>195</b>	<b>197</b>	<b>211</b>	<b>222</b>	<b>214</b>	<b>247</b>	<b>275</b>	<b>310</b>
Growth (%)	3.2	1.2	7.0	5.0	-3.5	15.6	11.4	12.6
<b>EBITDA (INR B)</b>	<b>36</b>	<b>41</b>	<b>41</b>	<b>48</b>	<b>44</b>	<b>48</b>	<b>48</b>	<b>55</b>
Ebitda margins (%)	18.2	20.4	19.0	21.2	20.3	19.0	17.1	17.4
<b>EBITDA (INR/Unit)</b>	<b>8,579</b>	<b>10,609</b>	<b>10,801</b>	<b>12,282</b>	<b>12,063</b>	<b>11,938</b>	<b>10,267</b>	<b>10,803</b>
Growth (%)	-2.3	12.9	0.3	16.2	-7.5	8.2	0.4	14.8
<b>Consol. PAT (INR B)</b>	<b>30</b>	<b>34</b>	<b>33</b>	<b>42</b>	<b>41</b>	<b>44</b>	<b>45</b>	<b>51</b>
Consol. EPS	105	117	113	143	141	151	154	175

Source: Company, MOSL

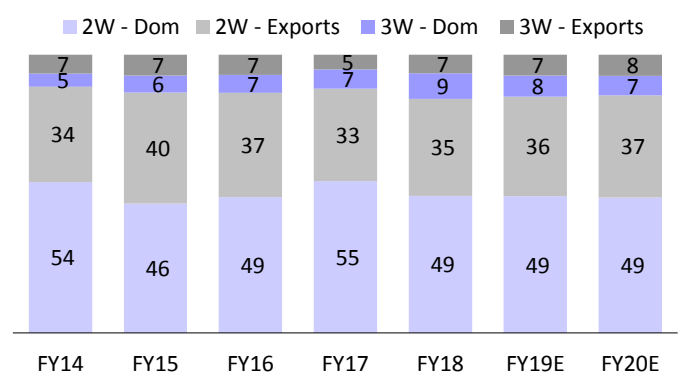
**Story in charts: Volume and market share gains remain key focus area**

**Exhibit 13: Domestic growth to drive volumes**



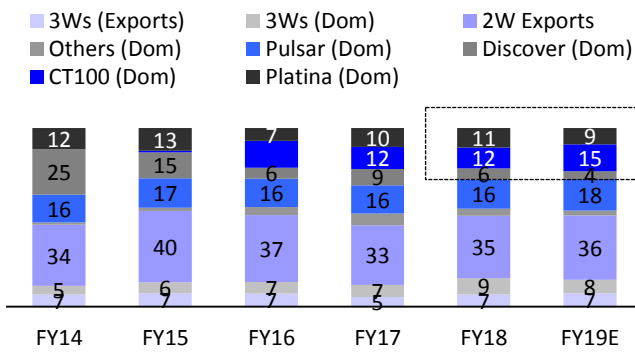
Source: Company, MOSL

**Exhibit 14: Product mix trend over FY18-20E**



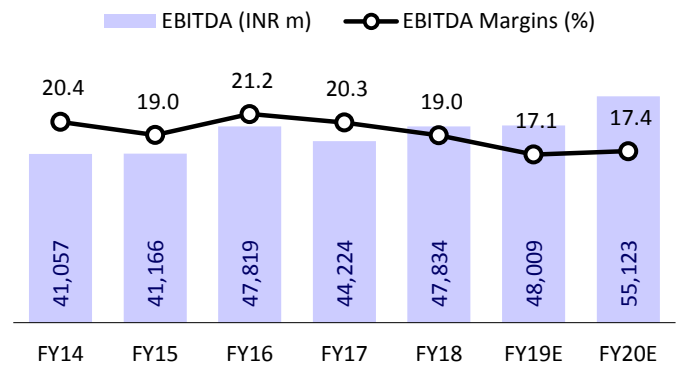
Source: Company, MOSL

**Exhibit 15: Volume mix to deteriorate**



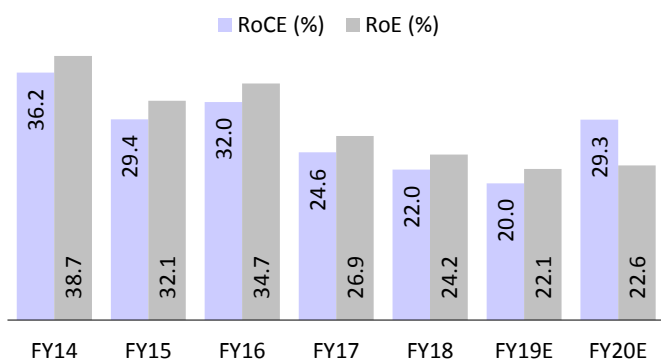
Source: Company, MOSL

**Exhibit 16: EBITDA margins to contract over FY19-20**



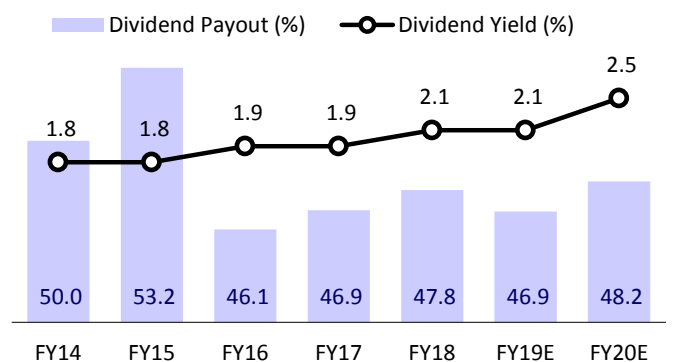
Source: Company, MOSL

**Exhibit 17: Return ratios to improve gradually**



Source: Company, MOSL

**Exhibit 18: 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
<b>Volumes</b>	<b>3,870,077</b>	<b>3,811,201</b>	<b>3,893,581</b>	<b>3,665,950</b>	<b>4,006,788</b>	<b>4,676,021</b>	<b>5,102,590</b>
Change (%)	-8.7	-1.5	2.2	-5.8	9.3	16.7	9.1
<b>Gross Sales</b>	<b>211,589</b>	<b>225,213</b>	<b>238,832</b>	<b>230,880</b>	<b>255,633</b>	<b>295,217</b>	<b>329,556</b>
Less: Excise	10,094	9,093	12,967	13,214	3,983	13,969	12,787
<b>Net Sales</b>	<b>201,495</b>	<b>216,120</b>	<b>225,865</b>	<b>217,667</b>	<b>251,649</b>	<b>281,248</b>	<b>316,769</b>
Change (%)	0.8	7.3	4.5	-3.6	15.6	11.8	12.6
Gross Op income	211,589	225,213	238,832	230,880	255,633	295,217	329,556
<b>Total Expenditure</b>	<b>160,438</b>	<b>174,955</b>	<b>178,046</b>	<b>173,443</b>	<b>203,815</b>	<b>233,239</b>	<b>261,646</b>
<b>EBITDA</b>	<b>41,057</b>	<b>41,166</b>	<b>47,819</b>	<b>44,224</b>	<b>47,834</b>	<b>48,009</b>	<b>55,123</b>
Change (%)	12.9	0.3	16.2	-7.5	8.2	0.4	14.8
EBITDA Margins (%)	20.4	19.0	21.2	20.3	19.0	17.1	17.4
Depreciation	1,796	2,674	3,072	3,073	3,148	2,970	3,451
<b>EBIT</b>	<b>39,261</b>	<b>38,492</b>	<b>44,748</b>	<b>41,151</b>	<b>44,686</b>	<b>45,040</b>	<b>51,672</b>
Int. & Fin. Charges	5	65	11	14	13	10	10
Other Income	7,064	5,824	10,736	12,220	13,473	15,128	15,989
<b>PBT</b>	<b>46,321</b>	<b>40,848</b>	<b>55,473</b>	<b>53,356</b>	<b>57,826</b>	<b>60,158</b>	<b>67,651</b>
Effective Rate (%)	30.0	31.1	29.2	28.3	29.6	31.0	30.0
<b>PAT</b>	<b>32,420</b>	<b>28,137</b>	<b>39,297</b>	<b>38,276</b>	<b>40,681</b>	<b>41,509</b>	<b>47,356</b>
Change (%)	6.5	-13.2	39.7	-2.6	6.3	2.0	14.1
Add: Share in profit of asso.	1,455	2,137	2,214	2,546	2,876	3,020	3,171
<b>Adj. PAT</b>	<b>33,875</b>	<b>32,619</b>	<b>41,511</b>	<b>40,822</b>	<b>43,782</b>	<b>44,529</b>	<b>50,527</b>
Change (%)	11.3	(3.7)	27.3	(1.7)	7.3	1.7	13.5
<b>Balance Sheet</b>						<b>(INR Million)</b>	
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
<b>Net Worth</b>	<b>96,080</b>	<b>106,922</b>	<b>132,666</b>	<b>170,341</b>	<b>191,039</b>	<b>211,678</b>	<b>234,686</b>
Deferred Tax	1,432	1,416	2,028	3,136	3,234	5,039	6,392
Loans	577	1,118	1,886	1,764	1,687	1,687	1,687
<b>Capital Employed</b>	<b>98,089</b>	<b>109,455</b>	<b>136,579</b>	<b>175,242</b>	<b>195,960</b>	<b>218,404</b>	<b>242,766</b>
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	30,588	34,039
<b>Net Fixed Assets</b>	<b>20,060</b>	<b>19,172</b>	<b>27,389</b>	<b>20,018</b>	<b>18,783</b>	<b>20,378</b>	<b>25,427</b>
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
<b>Current Assets</b>	<b>40,479</b>	<b>42,368</b>	<b>34,348</b>	<b>40,395</b>	<b>42,964</b>	<b>51,934</b>	<b>70,921</b>
Inventory	6,397	8,142	7,191	7,284	7,426	8,897	9,932
Sundry Debtors	7,962	7,170	7,179	9,533	14,919	16,985	18,961
Cash & Bank Balances	4,955	5,862	8,176	2,798	7,609	11,008	25,234
Loans & Advances	16,984	17,727	365	362	369	485	542
Others	4,181	3,469	11,437	20,418	12,641	14,559	16,252
<b>Current Liab. &amp; Prov.</b>	<b>49,387</b>	<b>46,168</b>	<b>28,286</b>	<b>32,907</b>	<b>42,235</b>	<b>48,790</b>	<b>54,466</b>
Sundry Creditors	21,114	17,998	20,270	22,357	32,443	37,467	41,825
Other Liabilities	8,536	8,251	6,410	8,559	7,414	8,897	9,932
Provisions	19,737	19,920	1,605	1,991	2,378	2,426	2,709
<b>Net Current Assets</b>	<b>-8,908</b>	<b>-3,800</b>	<b>6,063</b>	<b>7,488</b>	<b>729</b>	<b>3,143</b>	<b>16,455</b>
<b>Application of Funds</b>	<b>98,089</b>	<b>109,455</b>	<b>136,580</b>	<b>175,242</b>	<b>195,960</b>	<b>218,404</b>	<b>242,766</b>

E: MOSL Estimates

## Financials and Valuations

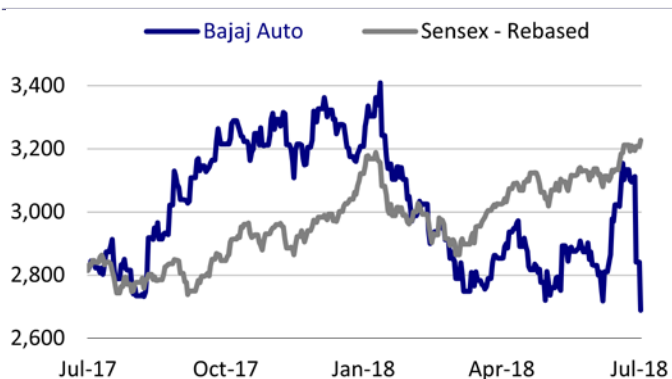
<b>Ratios</b>							
<b>Y/E March</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
<b>Basic (INR)</b>							
<b>Consol EPS</b>	<b>117.1</b>	<b>112.7</b>	<b>143.5</b>	<b>141.1</b>	<b>151.3</b>	<b>153.9</b>	<b>174.6</b>
EPS growth (%)	11.3	-3.7	27.3	-1.7	7.3	1.7	13.5
Consol Cash EPS	123.3	122.0	154.1	151.7	162.2	164.1	186.5
Book Value per Share	332.0	369.5	458.5	588.7	660.2	731.5	811.0
DPS	50.0	50.0	55.0	55.0	60.0	60.0	70.0
Payout (Incl. Div. Tax) %	50.0	53.2	46.1	46.9	47.8	46.9	48.2
<b>Valuation (x)</b>							
P/E	23.0	23.9	18.7	19.1	17.8	17.5	15.4
Cash P/E	21.8	22.0	17.5	17.7	16.6	16.4	14.4
EV/EBITDA	16.8	16.6	14.0	14.2	12.5	12.0	10.1
EV/Sales	3.4	3.2	3.0	2.9	2.4	2.0	1.8
Price to Book Value	8.1	7.3	5.9	4.6	4.1	3.7	3.3
Dividend Yield (%)	1.9	1.9	2.0	2.0	2.2	2.2	2.6
<b>Profitability Ratios (%)</b>							
RoE	38.7	32.1	34.7	26.9	24.2	22.1	22.6
RoCE	36.2	29.4	32.0	24.6	22.0	20.0	29.3
RoIC	386	338	182	118	172	255	139
<b>Turnover Ratios</b>							
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	5.8	5.7
<b>Cash Flow Statement</b>						<b>(INR Million)</b>	
<b>Y/E March</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019E</b>	<b>2020E</b>
Profit before Tax	46,321	40,848	55,473	53,356	57,826	60,158	67,651
Interest/Div. Received	1,170	2,373	1,807	633	2,047	15,128	15,989
Depreciation & Amort.	1,796	2,674	3,072	3,073	3,148	2,970	3,451
Direct Taxes Paid	-13,139	-12,854	-18,195	-15,026	-16,851	-16,844	-18,942
(Inc)/Dec in Working Capital	4,319	-5,825	5,753	2,533	10,451	984	915
Other Items	-3,559	-3,057	-9,236	-10,269	-11,738	-15,118	-15,979
<b>CF from Oper. Activity</b>	<b>36,907</b>	<b>24,159</b>	<b>38,673</b>	<b>34,300</b>	<b>44,883</b>	<b>47,278</b>	<b>53,085</b>
Extra-ordinary Items	-280	-313	-298	-275	-228	0	0
<b>CF after EO Items</b>	<b>36,627</b>	<b>23,846</b>	<b>38,375</b>	<b>34,025</b>	<b>44,655</b>	<b>47,278</b>	<b>53,085</b>
(Inc)/Dec in FA+CWIP	-2,547	-2,933	-2,582	-1,970	-1,833	-6,000	-7,500
<b>Free Cash Flow</b>	<b>34,360</b>	<b>21,226</b>	<b>36,091</b>	<b>32,330</b>	<b>43,051</b>	<b>41,278</b>	<b>45,585</b>
(Pur)/Sale of Invest.	-20,038	-3,584	587	-35,546	-19,395	-17,000	-7,000
<b>CF from Inv. Activity</b>	<b>-22,585</b>	<b>-6,517</b>	<b>-1,995</b>	<b>-37,516</b>	<b>-21,227</b>	<b>-23,000</b>	<b>-14,500</b>
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	-20,869	-24,348
<b>CF from Fin. Activity</b>	<b>-14,682</b>	<b>-16,442</b>	<b>-33,841</b>	<b>-1,901</b>	<b>-18,853</b>	<b>-20,879</b>	<b>-24,358</b>
<b>Inc/(Dec) in Cash</b>	<b>-640</b>	<b>888</b>	<b>2,539</b>	<b>-5,392</b>	<b>4,575</b>	<b>3,398</b>	<b>14,227</b>
Add: Beginning Bal.	5,503	4,863	5,637	8,190	3,034	7,609	11,008
<b>Closing Balance</b>	<b>4,863</b>	<b>5,751</b>	<b>8,176</b>	<b>2,798</b>	<b>7,609</b>	<b>11,008</b>	<b>25,234</b>
E: MOSL Estimates							

## Corporate profile

### Company description

Bajaj Auto (BJAUT), the flagship of the Bajaj group, is a leading manufacturer of two-wheelers (~88% of volumes) and three-wheelers (~12% of volumes). It is the market leader in three-wheelers, and is the second largest player in motorcycles and enjoys leadership in the premium segment. It is also the largest exporter of two-wheelers and three-wheelers (~41% of its volumes).

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	49.3	49.3	49.3
DII	7.9	8.5	8.3
FII	16.7	17.2	17.5
Others	26.0	25.0	24.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	4.5
M/S JAYA HIND INVESTMENTS PRIVATE LTD	3.3
MAHARASHTRA SCOOTERS LIMITED	2.3
GOVERNMENT PENSION FUND GLOBAL	1.6
NIRAJ BAJAJ (As a trustee of Yamuna Trust)	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Rahul Bajaj	Chairman
Madhur Bajaj	Vice Chairman
Rajiv Bajaj	Managing Director
J Sridhar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Manish Kejriwal	Niraj Bajaj
Sanjiv Bajaj	Shekhar Bajaj
D J Balaji Rao	D S Mehta
Gita Piramal	Jamshyd N Godrej
Kantikumar R Podar	Nanoo Pamnani
Naresh Chandra	P Murari
Pradeep Shrivastava	

\*Independent

Exhibit 6: Auditors

Name	Type
Dalal & Shah LLP	Statutory
S R B C & Co LLP	Statutory
Shyamprasad D Limaye	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	153.9	161.8	-4.9
FY20	174.6	182.2	-4.2

Source: Bloomberg

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

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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