

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
33,690	10,125
<b>Bloomberg</b>	<b>BJAUT IN</b>
Equity Shares (m)	289
M.Cap.(INRb)/(USD\$b)	716.9 / 9.8
52-Week Range (INR)	3473 / 2425
1, 6, 12 Rel. Per (%)	-3/-12/-25
12M Avg Val (INR M)	1420
Free float (%)	50.7

### Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	252	305	346
EBITDA	47.8	51.5	62.3
PAT	43.8	46.7	55.0
EPS (INR)	151	161	190
Gr. (%)	7.3	6.7	17.8
BV/Sh (INR)	660	739	834
RoE (%)	24.2	23.1	24.2
RoCE (%)	22.0	21.0	31.5
P/E (x)	16.4	15.3	13.0
P/BV (x)	3.8	3.4	3.0

Estimate change



TP change



Rating change


**CMP: INR2,478 TP: INR3,196(+29%)**
**Buy**

### Operating performance in-line; Domestic mix unlikely to deteriorate further

- CT100-led growth leads to second straight quarter of realization decline:** Net sales grew 21.4% YoY (+7.6% QoQ) to INR79.9b (in-line), as volumes increased by 25% YoY (+9.2% QoQ). Realization declined for the second consecutive quarter by 2.9% YoY (-1.4% QoQ) to INR59.6k/unit (in-line) due to an unfavorable product mix (share of Economy segment at 58% v/s 50% in 1QFY19). Spare sales increased by 20% QoQ to INR8.1b in the quarter.
- EBITDA margin impacted by adverse product mix:** Gross margin came in at 27.6% (our estimate: 28%), impacted by an adverse product mix. EBITDA grew 3% YoY to INR13.4b (in-line), implying an EBITDA margin of 16.8% (-290bp YoY, -50bp QoQ; in-line). Higher other income boosted PAT to ~INR11.5b (+4% YoY; our estimate: ~INR10.7b). For 1HFY19, revenue/EBITDA/PAT grew 28.1%/17.3%/10.2%, implying residual growth of 15.1%/-0.7%/3.5% in 2HFY19.
- Management commentary:** (a) Expect domestic motorcycle industry growth of 8-9% in FY19; BJAUT to grow at 10-15%. (b) USDINR at 69.4 in 2QFY19 (v/s 67.4 in 1Q); expected to be ~70 in 2HFY19. Only ~10% of FY20 FX exposure hedged at ~73.5 (this can contribute ~2pp to FY20 margins). (c) Domestic motorcycle mix unlikely to deteriorate further, as growth in Pulsar, Platina and upcoming 125cc products would drive mix improvement. (d) Pulsar – strong demand for twin disc brake variant (~40% of Pulsar volumes). (e) Have taken price increase of INR500-1,000 in motorcycles and INR1,500-3,000 in 3Ws in Oct-18.
- Valuation view:** We maintain our FY19/20 EPS estimates. BJAUT trades at 15.3x/13x FY19/20E EPS. Maintain **Buy** with a target price of INR3,196 (~16x Sep'20 EPS).

### Quarterly Performance

(INR Million)	FY18				FY19E				FY18	FY19E	FY19	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Volumes ('000 units)	888	1,072	1,001	1,045	1,227	1,339	1,290	1,229	4,007	5,085	1,339	0.0
Growth YoY (%)	-10.7	3.8	17.6	32.7	38.1	25.0	28.8	17.6	9.3	26.9	25.0	
Realization (INR/unit)	61,258	61,408	63,600	64,793	60,485	59,628	60,045	60,138	62,806	60,064	59,577	0.1
Growth YoY (%)	6.0	4.7	6.9	4.2	-1.3	-2.9	-5.6	-7.2	5.7	(4.4)	(3.0)	
<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>79,868</b>	<b>77,428</b>	<b>73,907</b>	<b>251,649</b>	<b>305,396</b>	<b>79,801</b>	0.1
Change (%)	-5.3	8.7	25.7	38.3	36.3	21.4	21.6	9.1	15.5	21.4	21.3	
RM/Sales %	70.0	69.1	68.4	69.3	71.4	72.4	72.0	71.7	69.4	71.9	72.0	
Staff cost/Sales %	5.0	4.0	4.2	3.9	4.2	3.9	4.1	4.3	4.2	4.1	4.1	
Oth. Exp./Sales %	7.8	7.2	8.3	7.4	7.1	7.0	7.3	7.4	7.7	7.2	7.2	
<b>EBITDA</b>	<b>9,384</b>	<b>12,984</b>	<b>12,315</b>	<b>13,152</b>	<b>12,814</b>	<b>13,430</b>	<b>12,923</b>	<b>12,377</b>	<b>47,290</b>	<b>51,543</b>	<b>13,419</b>	0.1
EBITDA Margins (%)	17.2	19.7	19.3	19.4	17.3	16.8	16.7	16.7	18.8	16.9	16.8	0bp
Other Income	4,573	2,964	2,269	3,667	4,044	3,815	3,350	3,264	13,473	14,474	2,750	38.7
Interest	2	5	3	3	3	3	3	1	13	10	3	
Depreciation	753	770	747	879	700	715	730	749	3,148	2,893	725	
<b>PBT</b>	<b>12,881</b>	<b>15,174</b>	<b>13,833</b>	<b>15,937</b>	<b>16,156</b>	<b>16,527</b>	<b>15,540</b>	<b>14,891</b>	<b>57,602</b>	<b>63,113</b>	<b>15,441</b>	7.0
Effective Tax Rate (%)	28.3	26.7	31.1	32.2	31.0	30.3	30.8	31.1	29.8	30.8	31.0	
<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>11,525</b>	<b>10,762</b>	<b>10,267</b>	<b>41,001</b>	<b>43,706</b>	<b>10,654</b>	8.2
Change (%)	(3.2)	(1.0)	3.0	34.7	17.8	3.7	13.0	(4.9)	6.7	6.6	-4.2	

E: MOSL Estimates

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**Realization declines for second straight quarter due to adverse product mix**

- Net sales increased by 21.4% YoY (+7.6% QoQ) to INR79.9b (in-line) as volume grew by 25% YoY (+9.2% QoQ).
- Total motorcycle volumes increased by 22.6% YoY (+9.4% QoQ) to ~1126.5k units as domestic and exports volume grew 18.6% and 29.6% respectively.
- 3W volume grew by 39.3% YoY (+8.2% QoQ) as domestic volume increased by 30.6% YoY (18.3% QoQ) while exports volume grew by 50.5% YoY (-1.1% QoQ).
- Realization declined for the second consecutive quarter by 2.9% YoY (-1.4%) QoQ to INR59.6k/unit (in-line), due to unfavorable product mix as share of economy motorcycle increased to 58% in domestic 2W product mix.
- It has taken price hike of INR500-1000/unit in motorcycle and INR1,500-2,000 per unit in 3W in Oct-18.
- Spare revenues grew only by 19.5% YoY (20% QoQ) to INR8.1b.
- BJAUT's market share in domestic motorcycle segment expanded by 170bp YoY (+240bp QoQ) to 18.6%.

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

	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY18	FY17	YoY (%)
<b>Motorcycles</b>								
Domestic	692,899	583,997	18.6	594,234	16.6	1,974,577	2,001,391	-1.3
% of total domestic	86.1	87.2		86.3		84.2	88.8	
Exports	433,643	334,724	29.6	435,730	-0.5	1,394,757	1,218,541	14.5
% of total exports	81.1	83.3		81.0		83.9	86.3	
<b>Total Motorcycles</b>	<b>1,126,542</b>	<b>918,721</b>	<b>22.6</b>	<b>1,029,964</b>	<b>9.4</b>	<b>3,369,334</b>	<b>3,219,932</b>	<b>4.6</b>
% of total	84.1	85.7		84.0		84.1	87.8	
<b>Three Wheelers</b>								
Domestic	111,746	85,594	30.6	94,431	18.3	369,637	253,226	46.0
% of total domestic	13.9	12.8		13.7		15.8	11.2	
Exports	101,156	67,195	50.5	102,246	-1.1	267,820	192,792	38.9
% of total exports	18.9	16.7		19.0		16.1	13.7	
<b>Total 3Ws</b>	<b>212,902</b>	<b>152,789</b>	<b>39.3</b>	<b>196,677</b>	<b>8.2</b>	<b>637,457</b>	<b>446,018</b>	<b>42.9</b>
% of total volumes	15.9	14.3		16.0		15.9	12.2	
<b>Total Volumes</b>	<b>1,339,444</b>	<b>1,071,510</b>	<b>25.0</b>	<b>1,226,641</b>	<b>9.2</b>	<b>4,006,791</b>	<b>3,665,950</b>	<b>9.3</b>

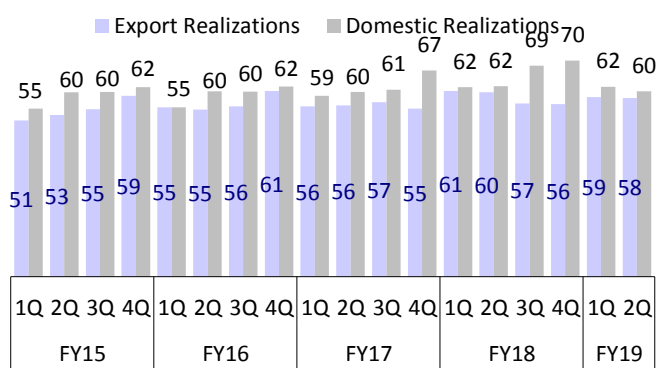
Source: Company, MOSL

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

(%)	2QFY19	2QFY18	YoY (bp)	1QFY18	QoQ (bp)	FY18	FY17	YoY (%)
<b>Segment Wise</b>								
Economy	37.2	32.0	520	31.8	550	34.5	31.5	300
Executive	1.8	1.8	0	2.5	-70	2.0	2.4	-50
Executive 100	1.5	0.0	150	2.1	-60	0.0	0.0	0
Executive 125	2.4	5.7	-330	3.4	-110	6.6	8.2	-160
Premium	30.7	33.6	-280	28.2	260	39.4	37.0	240
Premium excl RE	40.6	44.6	-400	37.8	280	51.3	49.3	200
<b>Dom. Motorcycles</b>	<b>18.6</b>	<b>16.9</b>	<b>170</b>	<b>16.3</b>	<b>240</b>	<b>17.9</b>	<b>17.9</b>	<b>0</b>
Total Motorcycles	25.3	22.7	270	23.5	180	24.4	24.4	10
<b>Total Dom. 2W</b>	<b>11.5</b>	<b>10.2</b>	<b>130</b>	<b>10.3</b>	<b>130</b>	<b>17.9</b>	<b>17.9</b>	<b>0</b>
Total 2W (incl exports)	16.7	14.6	220	15.8	90	24.4	24.4	10
<b>Dom. 3W</b>	<b>58.4</b>	<b>55.4</b>	<b>300</b>	<b>58.6</b>	<b>-10</b>	<b>52.1</b>	<b>48.2</b>	<b>390</b>
3W (incl exports)	63.1	60.8	230	64.5	-140	58.9	56.0	280

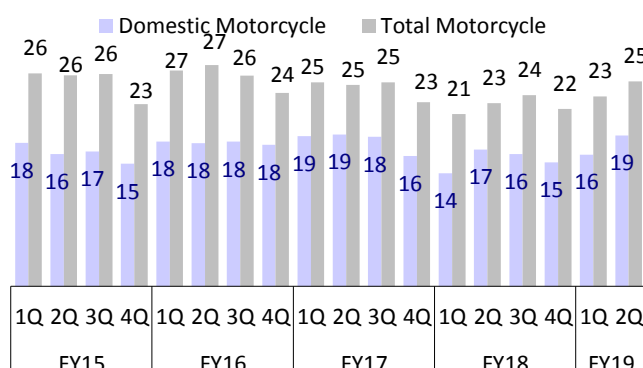
Source: SIAM, MOSL

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



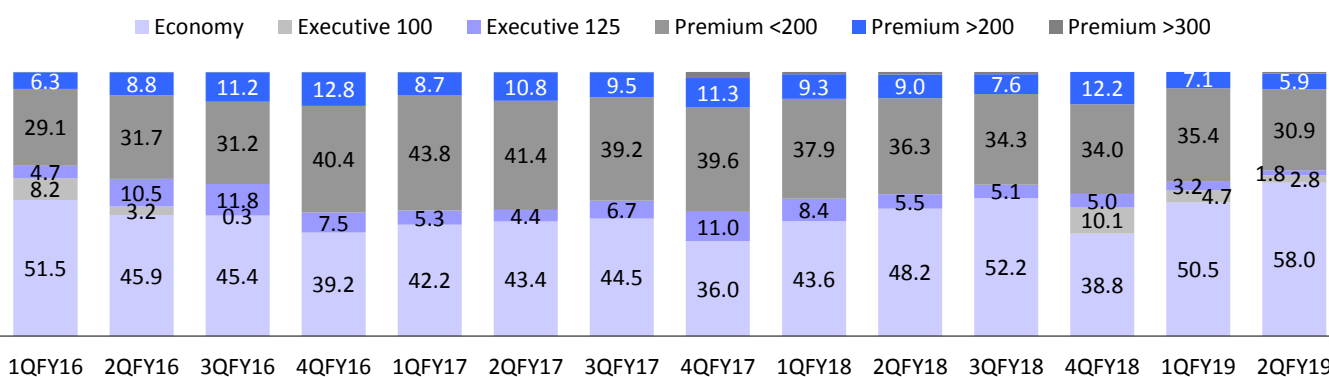
Source: Company, MOSL

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



Source: Company, MOSL

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

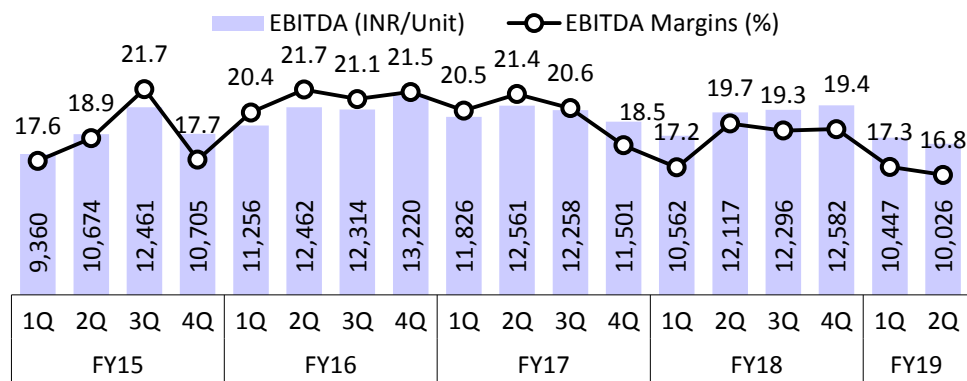


Source: Company, MOSL

**EBITDA margin impacted by adverse product mix and RM inflation**

- Gross margins came below estimate at 27.6% (est. of 28%), primary led by RM inflation and adverse product mix impact.
- EBITDA grew by 3.4% YoY to Rs13.4b (in-line), implying EBITDA margin of 16.8% (-290bp YoY, -50bp QoQ; in-line).
- Other income came higher than estimate at INR3.8b (est. INR2.6b).
- Tax rate was lower than est. at 30% (est. of 31%). PAT grew 3.7% YoY (+3.3% QoQ) to INR11.5b (est. of INR10.7b).

**Exhibit 6: EBITDA and EBITDA margins trend**



Source: Company, MOSL



### Key takeaways from Earnings call

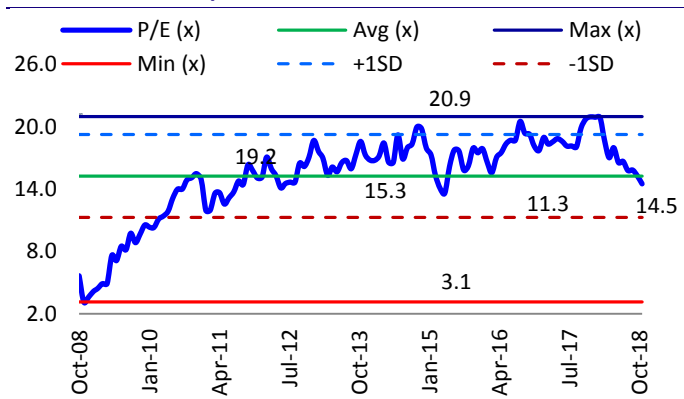
- **Expect domestic motorcycle industry to grow by 8-9%** in FY19 and BJAUT to outperform the industry with growth of 10-15%. In Navratri festival, BJAUT has grown 10-12% (industry growth of flat to -5%).
- Expect **2W market share of 20%** (from 20% currently), driven by CT 100, Platina and Pulsar.
- **Domestic 3W sales momentum to be healthy at ~30k/month** in volumes, backed by rising penetration of CNG 3Ws (v/s diesel). Currently have 80-90% market share in alternative fuel portfolio. Consequently, **expanding 3W capacity to 100k units (from 850k units)** fungible between 3W and Qute.
- **Domestic motorcycle mix:** Believes worst was in 2QFY19, as other models like Pulsar and Platina are witnessing good growth. Also, with launch of new brand in 125cc segment, FY20 mix would be much better than 2QFY19. Even they have taken price hike in CT100 (by ~INR1800 over period), which has reduced losses.
- Strong demand for the pricier variant i.e. Twin Disc Brake, which is ~40% of total Pulsar volumes. The cheapest variant is only doing ~10% of Pulsar volumes. Going forward, growth of Classic will be higher than growth of overall Pulsars.
- **Expect healthy exports momentum in 2W and 3W to continue.** Share of Africa is expected to improve further from current 45% to 50%. Currently no pressure at market level for passing of any forex benefit.
- **Forex hedge:** USDINR at 69.4 in 2QFY19 (v/s 67.4 in 1QFY19). Expect 2HFY19 realized rate would be ~INR70/USD. For FY20, only ~10% is hedged at ~INR73.5. At INR73.5/USD, FY20 margins to see a boost of ~200bp.
- In 2QFY19, **spare revenues grew by 19.5% YoY (+20% QoQ)** to INR8.1b. Exports spare revenue stood at INR2.4b.
- Have taken **average price increase of INR500-1000/unit for 2W and INR1,500-2,000/unit for 3W in Oct-18.**
- **BJAUT not facing any difficulty in financing of vehicles.** Current finance penetration is ~48%.

### 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 ~17.8% 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 17.8% in FY18-20:** We expect a CAGR of 17.8% in volumes and 17.2% in net revenue over FY18-20. However deterioration in the product mix, coupled with lower realizations, is likely to drive EBITDA margin contraction to 18% by FY20. Consequently, we expect net profit CAGR of 12% over FY18-20.

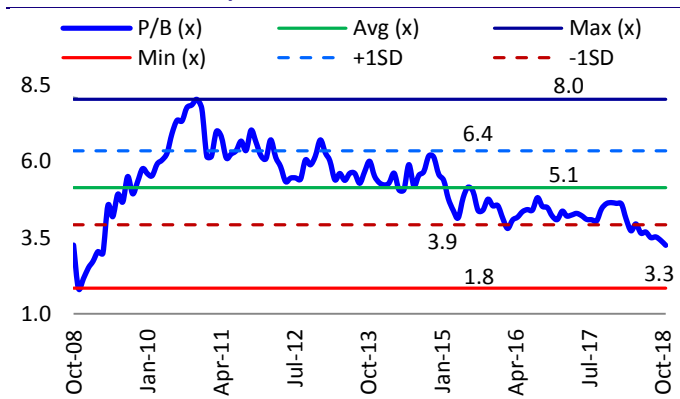
- Maintain Buy, with a TP of INR3,196:** BJAUT's is getting more aggressive in domestic motorcycle, and is prioritizing market share over margins. While we expect healthy volume CAGR of 17.8% in FY18-20E, we believe deterioration in product mix in domestic 2W segment would result in sustained step-down in profitability. Valuations at 15.3x/13x FY19/20E are attractive (v/s 5yr/10yr average of 18x/15.4x). While we maintain FY19/20E EPS, we cut target multiple to 16x (v/s 17x earlier) to factor in for potential risk to volumes led by factors such as fuel inflation, rise in insurance cost, further increase in cost of ownership due to ABS/CBS (Apr-19) and BS6 implementation (Apr-20) etc. We value BJAUT at INR3,196 (16x Sep 2020E consol. EPS).
- Three-year view:** We estimate 2W industry volumes to grow at 8-9% 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 ~14% 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 15% CAGR led by strengthening its position in key markets like Africa, ASEAN and increasing share in new/nascent markets. Over 3 years, we estimate 19% CAGR total return, with TP of ~INR3,849 (~16x Mar-22 consol. EPS + ~INR130 cumulative dividend).

Exhibit 7: BJAUT P/E band



Source: MOSL

Exhibit 8: BJAUT's P/BV band



Source: MOSL

## Exhibit 9: 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>5,058</b>	<b>5,564</b>	<b>6,073</b>	<b>6,691</b>	<b>13.7%</b>
Dom. Motorcycles	2,001	1,975	2,534	2,737	2,955	3,251	13.3%
Dom. 3W	253	370	423	444	467	490	7.3%
Exports	1,411	1,663	2,127	2,383	2,651	2,950	15.4%
Revenue (INR mn)	217,667	251,649	305,396	345,748	381,308	424,303	14.0%
EBITDA margin %	20.3	19.0	16.9	18.0	18.0	18.0	
<b>Consol EPS (INR/sh)</b>	<b>141</b>	<b>151</b>	<b>161</b>	<b>190</b>	<b>209</b>	<b>232</b>	<b>11.3%</b>
RoE (%)	26.9	24.2	23.1	24.2	23.6	23.2	
Dividend (INR/sh)	55	60	60	70	75	80	
<b>PE (x)</b>							<b>16</b>
Cum Div (FY19-20)						130	
<b>TP (INR)</b>							<b>3,849</b>

Source: Company, MOSL

## Exhibit 10: Comparative Valuation

	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
<b>Auto OEM's</b>												
<b>Bajaj Auto</b>	2,475	Buy	3,196	15.3	13.0	9.9	7.7	23.1	24.2	2.4	2.8	12.1
Hero MotoCorp	2,702	Neutral	3,280	14.9	13.5	8.6	7.7	29.4	29.7	3.9	4.3	4.0
TVS Motor	529	Neutral	554	33.1	23.4	16.8	12.6	24.1	28.3	0.8	0.9	27.4
M&M	733	Buy	1,018	14.8	13.2	11.6	10.1	14.9	15.2	1.4	1.4	16.2
Maruti Suzuki	6,725	Buy	8,484	25.3	20.1	13.3	11.4	17.4	19.2	1.5	1.9	12.0
Tata Motors	171	Buy	335	8.4	4.9	2.4	1.8	7.0	11.0	0.2	0.2	23.6
Ashok Leyland	117	Buy	148	16.7	13.1	9.3	6.9	26.4	28.4	2.2	2.3	28.4
Eicher Motors	22,613	Buy	28,057	23.7	18.9	19.0	16.1	32.4	31.5	0.8	0.9	22.5
Escorts	593	Neutral	691	12.0	10.3	9.3	7.7	18.3	18.3	0.8	0.8	20.7
<b>Auto Ancillaries</b>												
Bharat Forge	556	Buy	767	23.1	18.5	13.3	11.1	22.1	23.3	0.9	1.1	27.7
Exide Industries	254	Buy	312	24.9	20.9	13.8	11.6	14.4	15.4	1.0	1.3	21.8
Amara Raja Batteries	743	Buy	858	26.2	20.9	13.2	10.5	15.4	16.9	0.6	0.7	13.4
BOSCH	18,308	Neutral	20,905	32.7	26.6	21.0	16.6	16.3	18.1	1.0	1.3	21.0
Endurance Tech	1,102	Buy	1,556	29.4	22.4	13.8	10.9	22.2	24.5	0.6	1.1	30.3
Motherson Sumi	245	Buy	345	24.9	17.3	8.7	6.1	20.6	25.2	1.0	1.6	32.1
CEAT	1,047	Buy	1,432	14.6	11.3	8.8	7.0	10.6	12.4	0.8	1.0	20.3

Source: Company, MOSL

**Exhibit 11: Key operating metrics**

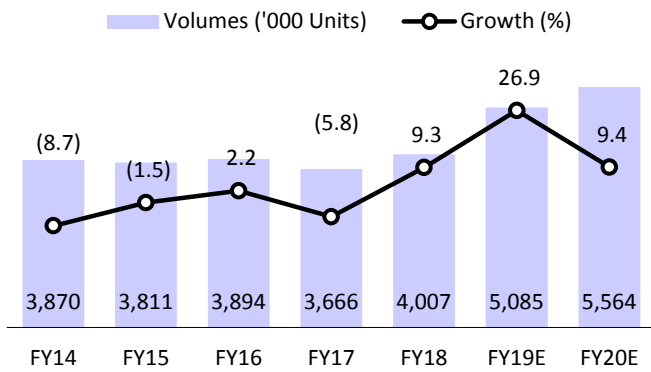
<b>000 units</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Motorcycles (units)</b>								
Domestic	2,464	2,099	1,771	1,899	2,001	1,975	2,534	2,737
Growth (%)	-4.0	-14.8	-15.6	7.2	5.4	-1.3	28.3	8.0
% of total vol.	58.1	54.2	46.5	48.8	54.6	49.3	49.8	49.2
Exports	1,293	1,323	1,521	1,459	1,219	1,395	1,736	1,945
Growth (%)	2.0	2.3	15.0	-4.1	-16.5	14.5	24.5	12.0
% of total vol.	30.5	34.2	39.9	37.5	33.2	34.8	34.2	35.0
<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>4,270</b>	<b>4,681</b>
Growth (%)	-2.0	-8.9	-3.8	2.0	-4.1	4.6	26.7	9.6
% of total volumes	88.7	88.4	86.4	86.3	87.8	84.1	84.0	84.1
<b>3Ws</b>								
Domestic	226	187	234	255	253	370	423	444
Growth (%)	11.4	-17.3	25.4	8.8	-0.7	46.0	14.5	5.0
% of total vol.	5.3	4.8	6.1	6.5	6.9	9.2	8.3	8.0
Exports	254	261	285	280	193	268	391	438
Growth (%)	-18.7	2.7	9.2	-1.6	-31.2	38.9	46.0	12.0
% of total vol.	6.0	6.7	7.5	7.2	5.3	6.7	7.7	7.9
<b>3Ws</b>	<b>480</b>	<b>448</b>	<b>519</b>	<b>535</b>	<b>446</b>	<b>637</b>	<b>814</b>	<b>882</b>
Growth (%)	-6.8	-6.7	16.0	3.1	-16.7	42.9	27.7	8.4
% of total volumes	11.3	11.6	13.6	13.7	12.2	15.9	16.0	15.9
<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>5,085</b>	<b>5,564</b>
Growth (%)	-2.6	-8.7	-1.5	2.2	-5.8	9.3	26.9	9.4
<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>52,781</b>	<b>54,765</b>
Growth (%)	5.4	8.5	7.0	3.6	1.5	2.3	-5.3	3.8
<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>299</b>	<b>338</b>
Growth (%)	3.2	1.2	7.0	5.0	-3.5	15.6	21.0	13.2
<b>EBITDA (INR B)</b>	<b>36</b>	<b>41</b>	<b>41</b>	<b>48</b>	<b>44</b>	<b>48</b>	<b>52</b>	<b>62</b>
Ebitda margins (%)	18.2	20.4	19.0	21.2	20.3	19.0	16.9	18.0
<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>10,137</b>	<b>11,206</b>
Growth (%)	-2.3	12.9	0.3	16.2	-7.5	8.2	7.8	21.0
<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>47</b>	<b>55</b>
Consol. EPS	105	117	113	143	141	151	161	190

Source: Company, MOSL



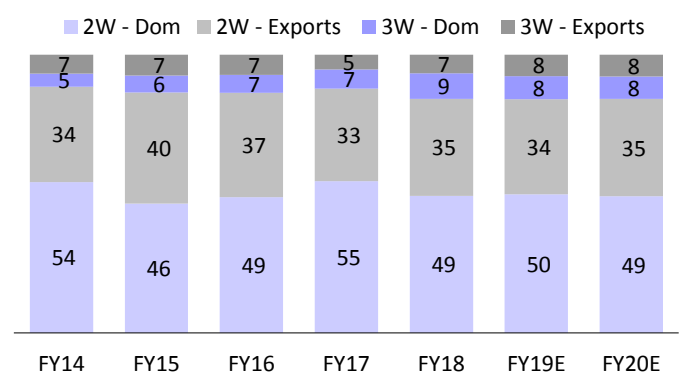
**Story in charts: Volume and market share gains remain key focus areas**

**Exhibit 12: Domestic growth to drive volumes**



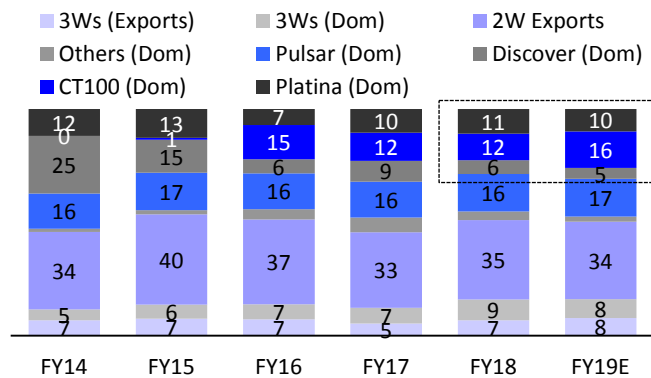
Source: Company, MOSL

**Exhibit 13: Product mix trend over FY18-20E**



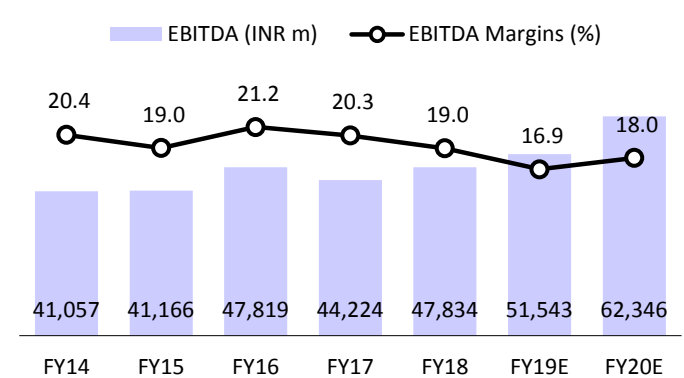
Source: Company, MOSL

**Exhibit 14: Volume mix to deteriorate**



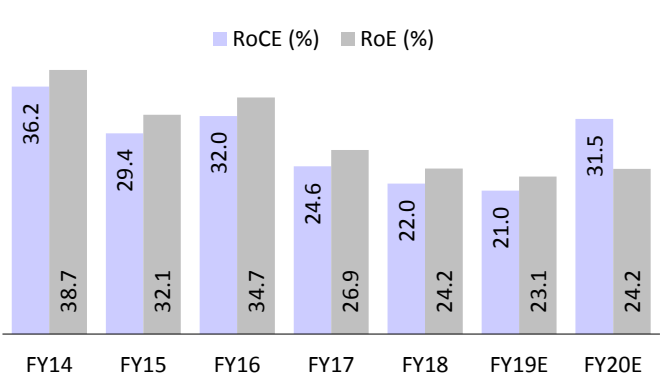
Source: Company, MOSL

**Exhibit 15: EBITDA margins to contract from FY18 levels**



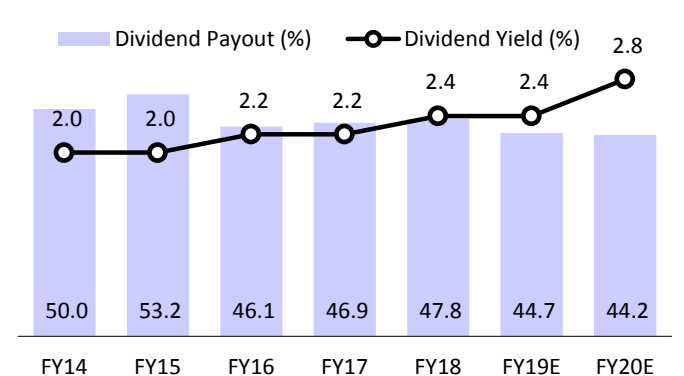
Source: Company, MOSL

**Exhibit 16: Return ratios to improve gradually**



Source: Company, MOSL

**Exhibit 17: Dividend payout to remain healthy**



Source: Company, MOSL



## Financials and valuations

Income Statement								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Volumes</b>	<b>4,237,151</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>5,084,541</b>	<b>5,563,707</b>
Change (%)	-2.6	-8.7	-1.5	2.2	-5.8	9.3	26.9	9.4
<b>Net Sales</b>	<b>199,973</b>	<b>201,495</b>	<b>216,120</b>	<b>225,865</b>	<b>217,667</b>	<b>251,649</b>	<b>305,396</b>	<b>345,748</b>
Change (%)	2.4	0.8	7.3	4.5	-3.6	15.6	21.4	13.2
<b>Total Expenditure</b>	<b>163,620</b>	<b>160,438</b>	<b>174,955</b>	<b>178,046</b>	<b>173,443</b>	<b>203,815</b>	<b>253,853</b>	<b>283,401</b>
<b>EBITDA</b>	<b>36,353</b>	<b>41,057</b>	<b>41,166</b>	<b>47,819</b>	<b>44,224</b>	<b>47,834</b>	<b>51,543</b>	<b>62,346</b>
Change (%)	-2.3	12.9	0.3	16.2	-7.5	8.2	7.8	21.0
EBITDA Margins (%)	18.2	20.4	19.0	21.2	20.3	19.0	16.9	18.0
Depreciation	1,640	1,796	2,674	3,072	3,073	3,148	2,893	3,217
<b>EBIT</b>	<b>34,713</b>	<b>39,261</b>	<b>38,492</b>	<b>44,748</b>	<b>41,151</b>	<b>44,686</b>	<b>48,650</b>	<b>59,130</b>
Int. & Fin. Charges	5	5	65	11	14	13	10	10
Other Income	7,955	7,064	5,824	10,736	12,220	13,473	14,474	14,960
<b>PBT</b>	<b>42,662</b>	<b>46,321</b>	<b>40,848</b>	<b>55,473</b>	<b>53,356</b>	<b>57,826</b>	<b>63,113</b>	<b>74,080</b>
Effective Rate (%)	28.7	30.0	31.1	29.2	28.3	29.6	30.8	30.0
<b>PAT</b>	<b>30,436</b>	<b>32,420</b>	<b>28,137</b>	<b>39,297</b>	<b>38,276</b>	<b>40,681</b>	<b>43,706</b>	<b>51,856</b>
Change (%)	1.3	6.5	-13.2	39.7	-2.6	6.3	7.4	18.6
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>30,436</b>	<b>33,875</b>	<b>32,619</b>	<b>41,511</b>	<b>40,822</b>	<b>43,782</b>	<b>46,726</b>	<b>55,027</b>
Change (%)	(2.0)	11.3	(3.7)	27.3	(1.7)	7.3	6.7	17.8

Balance Sheet								(INR m)
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	2,894	2,894	2,894	2,894	2,894	2,894	2,894	2,894
<b>Net Worth</b>	<b>79,020</b>	<b>96,080</b>	<b>106,922</b>	<b>132,666</b>	<b>170,341</b>	<b>191,039</b>	<b>213,875</b>	<b>241,383</b>
Deferred Tax	1,151	1,432	1,416	2,028	3,136	3,234	4,970	6,451
Loans	713	577	1,118	1,886	1,764	1,687	1,687	1,687
<b>Capital Employed</b>	<b>80,883</b>	<b>98,089</b>	<b>109,455</b>	<b>136,579</b>	<b>175,242</b>	<b>195,960</b>	<b>220,532</b>	<b>249,522</b>
Gross Fixed Assets	38,289	40,770	41,009	51,572	45,917	46,402	48,467	54,467
Less: Depreciation	20,244	20,710	21,837	24,183	25,900	27,619	30,512	33,729
<b>Net Fixed Assets</b>	<b>18,044</b>	<b>20,060</b>	<b>19,172</b>	<b>27,389</b>	<b>20,018</b>	<b>18,783</b>	<b>17,955</b>	<b>20,738</b>
Capital WIP	2,936	1,441	2,549	522	422	565	2,000	1,000
Investments	64,305	85,496	91,533	102,606	147,315	175,883	192,883	199,883
<b>Current Assets</b>	<b>39,502</b>	<b>40,479</b>	<b>42,368</b>	<b>34,348</b>	<b>40,395</b>	<b>42,964</b>	<b>60,878</b>	<b>87,571</b>
Inventory	6,363	6,397	8,142	7,191	7,284	7,426	9,698	10,881
Sundry Debtors	7,676	7,962	7,170	7,179	9,533	14,919	20,278	22,751
Cash & Bank Balances	5,589	4,955	5,862	8,176	2,798	7,609	14,504	35,541
Loans & Advances	17,741	16,984	17,727	365	362	369	529	594
Others	2,133	4,181	3,469	11,437	20,418	12,641	15,869	17,805
<b>Current Liab. &amp; Prov.</b>	<b>43,903</b>	<b>49,387</b>	<b>46,168</b>	<b>28,286</b>	<b>32,907</b>	<b>42,235</b>	<b>53,183</b>	<b>59,670</b>
Sundry Creditors	19,796	21,114	17,998	20,270	22,357	32,443	40,840	45,822
Other Liabilities	6,682	8,536	8,251	6,410	8,559	7,414	9,698	10,881
Provisions	17,425	19,737	19,920	1,605	1,991	2,378	2,645	2,968
<b>Net Current Assets</b>	<b>-4,401</b>	<b>-8,908</b>	<b>-3,800</b>	<b>6,063</b>	<b>7,488</b>	<b>729</b>	<b>7,695</b>	<b>27,901</b>
<b>Application of Funds</b>	<b>80,883</b>	<b>98,089</b>	<b>109,455</b>	<b>136,580</b>	<b>175,242</b>	<b>195,960</b>	<b>220,532</b>	<b>249,522</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>Basic (INR)</b>								
<b>Consol EPS</b>	<b>105.2</b>	<b>117.1</b>	<b>112.7</b>	<b>143.5</b>	<b>141.1</b>	<b>151.3</b>	<b>161.5</b>	<b>190.2</b>
EPS growth (%)	-2.0	11.3	-3.7	27.3	-1.7	7.3	6.7	17.8
Consol Cash EPS	110.8	123.3	122.0	154.1	151.7	162.2	171.5	201.3
Book Value per Share	273.1	332.0	369.5	458.5	588.7	660.2	739.1	834.2
DPS	45.0	50.0	50.0	55.0	55.0	60.0	60.0	70.0
Payout (Incl. Div. Tax) %	49.7	50.0	53.2	46.1	46.9	47.8	44.7	44.2
<b>Valuation (x)</b>								
P/E	23.6	21.2	22.0	17.3	17.6	16.4	15.3	13.0
Cash P/E	22.4	20.1	20.3	16.1	16.3	15.3	14.4	12.3
EV/EBITDA	17.8	15.3	15.1	12.7	12.9	11.2	9.9	7.7
EV/Sales	3.2	3.1	2.9	2.7	2.6	2.1	1.7	1.4
Price to Book Value	9.1	7.5	6.7	5.4	4.2	3.8	3.4	3.0
Dividend Yield (%)	1.8	2.0	2.0	2.2	2.2	2.4	2.4	2.8
<b>Profitability Ratios (%)</b>								
RoE	43.7	38.7	32.1	34.7	26.9	24.2	23.1	24.2
RoCE	42.6	36.2	29.4	32.0	24.6	22.0	21.0	31.5
RoIC	1,196	386	338	182	118	172	292	172
<b>Turnover Ratios</b>								
Debtors (Days)	13	14	12	11	15	21	23	23
Inventory (Days)	11	11	13	11	12	11	11	11
Creditors (Days)	34	36	29	31	35	46	46	46
Working Capital (Days)	-10	-12	-4	-9	-9	-14	-12	-12
Asset Turnover (x)	2.5	2.1	2.0	1.7	1.2	1.3	1.4	1.4
Fixed Asset Turnover	5.5	5.1	5.3	4.9	4.5	5.5	6.4	6.7

### Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
<b>(INR m)</b>								
Profit before Tax	42,662	46,321	40,848	55,473	53,356	57,826	63,113	74,080
Interest/Div. Received	3,245	1,170	2,373	1,807	633	2,047	14,474	14,960
Depreciation & Amort.	1,640	1,796	2,674	3,072	3,073	3,148	2,893	3,217
Direct Taxes Paid	-12,394	-13,139	-12,854	-18,195	-15,026	-16,851	-17,672	-20,742
(Inc)/Dec in Working Capital	-7,319	4,319	-5,825	5,753	2,533	10,451	-71	831
Other Items	-3,559	-3,559	-3,057	-9,236	-10,269	-11,738	-14,464	-14,950
<b>CF from Oper. Activity</b>	<b>21,344</b>	<b>36,907</b>	<b>24,159</b>	<b>38,673</b>	<b>34,300</b>	<b>44,883</b>	<b>48,274</b>	<b>57,395</b>
Extra-ordinary Items	0	-280	-313	-298	-275	-228	0	0
<b>CF after EO Items</b>	<b>21,344</b>	<b>36,627</b>	<b>23,846</b>	<b>38,375</b>	<b>34,025</b>	<b>44,655</b>	<b>48,274</b>	<b>57,395</b>
(Inc)/Dec in FA+CWIP	-5,285	-2,547	-2,933	-2,582	-1,970	-1,833	-3,500	-5,000
<b>Free Cash Flow</b>	<b>16,059</b>	<b>34,360</b>	<b>21,226</b>	<b>36,091</b>	<b>32,330</b>	<b>43,051</b>	<b>44,774</b>	<b>52,395</b>
(Pur)/Sale of Invest.	-12,218	-20,038	-3,584	587	-35,546	-19,395	-17,000	-7,000
<b>CF from Inv. Activity</b>	<b>-17,503</b>	<b>-22,585</b>	<b>-6,517</b>	<b>-1,995</b>	<b>-37,516</b>	<b>-21,227</b>	<b>-20,500</b>	<b>-12,000</b>
Inc. / Dec.in Networth	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	324	505	532	501	128	0	0	0
Interest Paid	-5	-5	-65	-5	-6	-4	-10	-10
Dividends Paid	-15,109	-15,182	-16,909	-34,337	-2,022	-18,848	-20,869	-24,348
<b>CF from Fin. Activity</b>	<b>-14,791</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>-10,950</b>	<b>-640</b>	<b>888</b>	<b>2,539</b>	<b>-5,392</b>	<b>4,575</b>	<b>6,895</b>	<b>21,037</b>
Add: Beginning Bal.	16,538	5,503	4,863	5,637	8,190	3,034	7,609	14,504
<b>Closing Balance</b>	<b>5,589</b>	<b>4,863</b>	<b>5,751</b>	<b>8,176</b>	<b>2,798</b>	<b>7,609</b>	<b>14,504</b>	<b>35,541</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

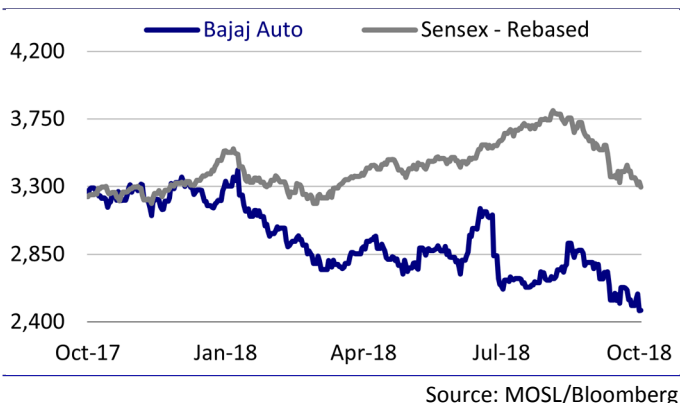


Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	49.3	49.3	49.3
DII	8.0	7.9	9.1
FII	16.4	16.7	17.0
Others	26.3	26.0	24.7

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	3.8
JAYA HIND INVESTMENTS PRIVATE LIMITED	3.3
MAHARASHTRA SCOOTERS LIMITED	2.3
GOVERNMENT PENSION FUND GLOBAL	1.5
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	Gita Piramal*
Niraj Bajaj	Nanoo Pamnani*
Sanjiv Bajaj	Naushad Forbes*
Shekhar Bajaj	Omkar Goswami*
Anami Roy*	P Murari*
D J Balaji Rao*	Pradeep Shrivastava
D S Mehta*	

\*Independent

Exhibit 6: Auditors

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

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	167.2	163.6	2.2
FY20	191.7	184.7	3.8

Source: Bloomberg

Explanation of Investment Rating	Expected return (over 12-month)
<b>Investment Rating</b>	
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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