

Bajaj Auto



King's gambit | Trade-offs to pay off

Jinesh Gandhi (Jinesh@MotilalOswal.com); +91 22 3982 5416

Jay Shah (Jay.Shah@MotilalOswal.com); +91 22 3078 4701

BAJAJ AUTO: King's gambit | Trade-offs to pay off

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Bajaj Auto

BSE Sensex 27,565
S&P CNX 8,335



Stock Info

Bloomberg	BJAUT IN
Equity Shares (m)	289.4
52-Week Range (INR)	2,690/1,914
1, 6, 12 Rel.Per (%)	15/-10/5
M.Cap. (INR b)	667.4
M.Cap. (USD b)	10.4
Avg Val(INRm)/Vol	932/415
Free float (%)	50.8

Financial Snapshot (INR b)

Y/E MAR	2015	2016E	2017E
Sales	216.1	230.5	270.4
EBITDA	41.2	45.7	55.6
NP	30.5	35.7	46.6
Adj. EPS (INR)	105.3	123.4	161.1
EPS Gr. (%)	-5.8	17.2	30.5
BV/Sh. (INR)	369.5	414.8	485.7
RoE (%)	30.0	31.5	35.8
RoCE (%)	42.7	43.8	48.2
Payout (%)	56.9	63.3	56.0

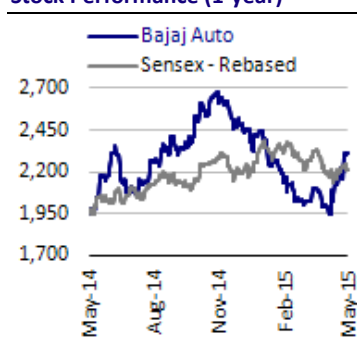
Valuation

P/E (x)	21.9	18.7	14.3
P/BV (x)	6.2	5.6	4.7
EV/EBITDA (x)	13.9	12.0	9.4
Div. Yield (%)	2.2	2.8	3.3

Shareholding pattern (%)

	Mar-15	Dec-14	Mar-14
Promoter	49.2	50.0	50.0
DII	8.7	7.0	7.0
FII	17.0	18.8	18.7
Others	25.1	24.2	24.3
FII Includes depository receipts			

Stock Performance (1-year)



CMP: INR2,306

TP: INR2,701 (+17%)

Buy

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India business bottoming out, exports recovering from transitory issues

- Stable profit share, despite weakness in market share, vindicates BJAUT's strategy.
- New launches to strengthen BJAUT's moat in Premium segment, and drive recovery and outperformance.
- Transitory issues in key markets are behind us. We expect export volume recovery of April 2015 to continue.
- Volume recovery-led operating leverage and favorable forex to drive 24% EPS CAGR; maintain Buy.

Focus on profitable market share reflects in stable profit share

- Bajaj's absence in the scooters segment and tardiness in the Executive segment is completely overshadowing success in exports.
- Despite domestic market share declining by ~8pp to ~11% (or ~6pp to ~18%, including exports), its profitable market share is stable at ~35% of the two-wheeler industry EBITDA.
- This vindicates Bajaj's strategy of 'trade-offs' and focusing on its area of strength for profitable market share.
- However, the 100cc Executive segment (Bajaj's weakest link in domestic motorcycle) continues to be under stress owing to stiff competition and the rising demand for automatic scooters (where Bajaj is absent).

New launches to drive recovery

- BJAUT's domestic business has bottomed out after witnessing pressure in the Executive segment and impact of economic headwinds in the Premium segment.
- Success of CT100, new Pulsars and urban market recovery driving the Premium segment augurs well for BJAUT, and is expected to drive its outperformance and shore up its domestic motorcycle market share. The management is targeting a market share of 23-24% by 4QFY16 (v/s ~15% in 4QFY15).
- The Executive segment's contribution declined significantly to ~19% of domestic volumes (from 54% in FY13), implying a negligible impact on its P&L.
- While the Executive segment is expected to remain a drag, Bajaj's market share in other motorcycle segments is healthy and has scope to improve.

Transitory issues in Exports over, recovery underway

- Transitory issues in key markets—impact of elections in Sri Lanka and Nigeria—are behind us. We expect export volume recovery of April 2015 to continue.

- Recovery in crude oil prices from the lows of USD50/barrel also dilutes the potential impact on demand in the medium term.
- Underlying demand drivers (such as low penetration) in most of the key export markets—Africa, Latin America, Middle East and South Asia—remain intact.
- BJAUT's experience and global alliances (with Kawasaki and KTM) would reduce learning curve in new markets where it plans to enter.

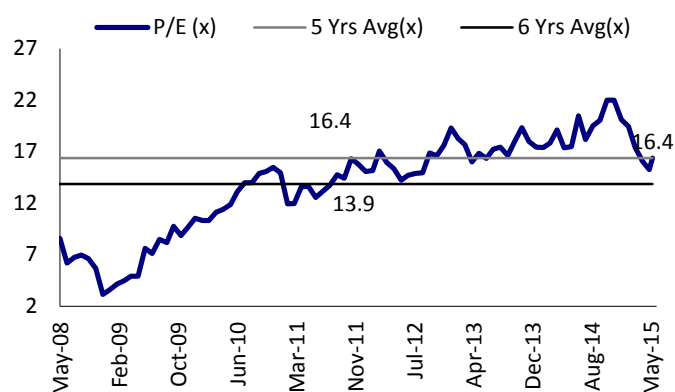
Superior performance vindicates Bajaj's strategy

- BJAUT's focused strategy and 'trade-off' are paying dividends, as reflected in superior realizations (~15% better realization than the next best) and near-2x EBITDA margins.
- Higher asset turn at ~5x (v/s 3x-4x for peers) is resulting in superior RoICs and cashflow per unit (excluding three-wheelers) vis-à-vis competitors.
- Superior cashflow from operations and limited capex intensity is resulting in annual FCFF generation of over INR45b. We estimate cash accumulation of ~INR132b by FY17, despite dividend payout of over 55%.
- Strong FCFF generation and limited avenues to deploy cash augur well for further increase in dividend payout and/or buyback of shares.

Robust EPS CAGR (~24%) to drive re-rating; Maintain Buy

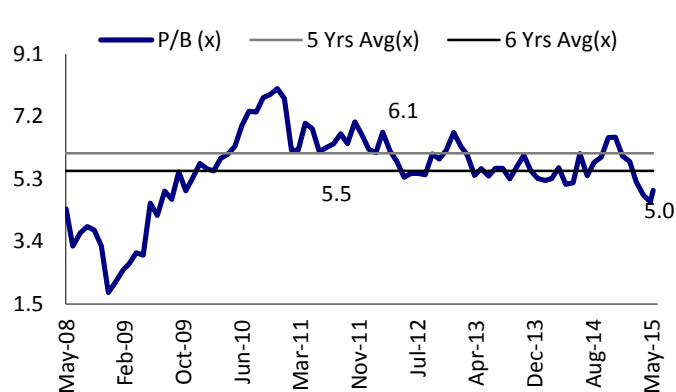
- Recovery in industry demand, especially in the Premium segment, would drive market share gains for BJAUT. Further, normalization of export volumes in key markets of Nigeria, Sri Lanka and Egypt would drive volume recovery.
- Besides, favorable Fx and operating leverage would drive 24% EPS CAGR over FY15-17E.
- The stock trades at 18.7x FY16E EPS and 14.3x FY17E EPS. We value BJAUT at INR2,701 (16x FY17E EPS and we add INR123/share value of KTM stake post 20% HoldCo discount). Maintain **Buy**.

Exhibit 1: BJAUT trading near LPA P/E...



Source: Company, MOSL

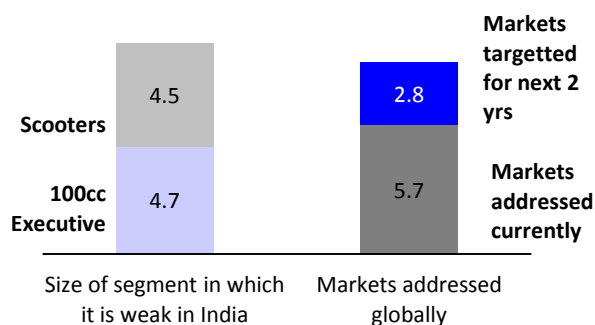
Exhibit 2: ...although on P/B basis



Source: Company, MOSL

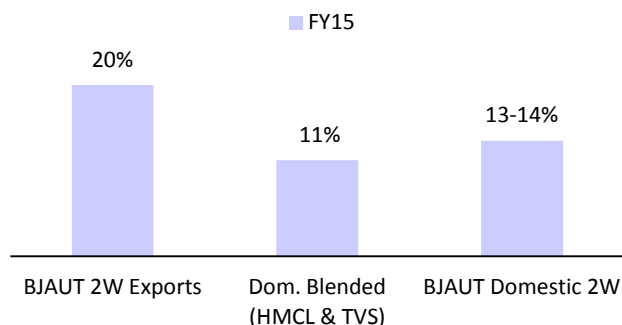
Story in charts: Domestic recovery, export momentum key drivers

Exhibit 3: Export markets make up for Bajaj's weakness in domestic market (million units)



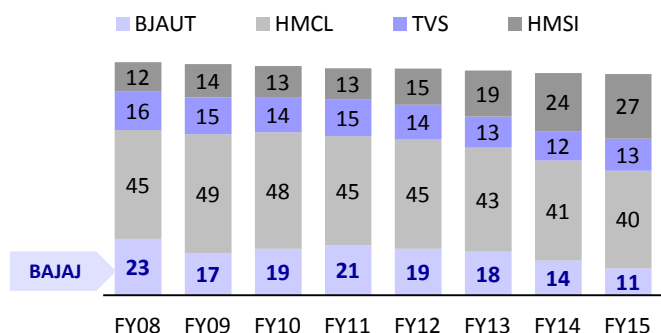
Source: Company, MOSL

Exhibit 4: Export margins for BJAUT much higher than domestic blended margins of peers



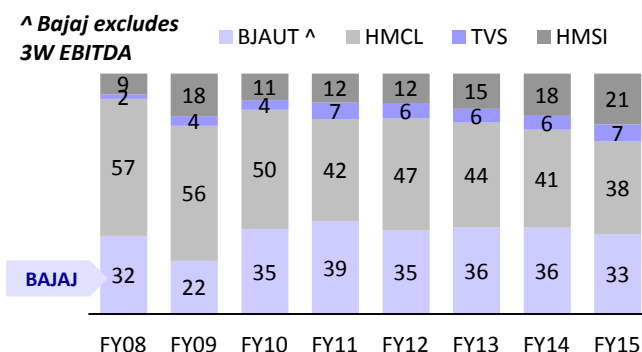
Source: Company, MOSL

Exhibit 5: Bajaj's domestic 2W market share at an all-time low of 12% (or ~18% incl exports)...



Source: Company, MOSL

Exhibit 6: ... but share of profit pool at ~35% of industry EBITDA (excl. 3W EBITDA)



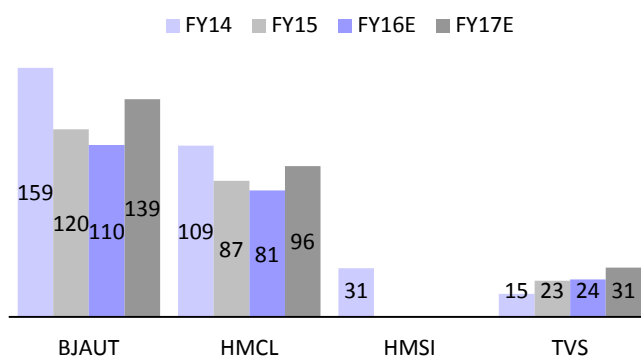
Source: Company, MOSL

Exhibit 7: BJAUT's weaknesses get higher mindshare, although other players too have weaknesses

Entry		Executive		Premium	
Company	Market Share (%)	Company	Market Share (%)	Company	Market Share (%)
HMCL	53.3	HMCL	66.3	Bajaj	42.7
Bajaj	24.9	HMSI	22.1	HMSI	17.3
TVS	20.6	Bajaj	8.2	TVSL	12.4
		TVS	0.6	HMCL	6.5

Source: Company, MOSL

Exhibit 8: ...and superior RoICs (%)...



Source: Company, MOSL

Why is Bajaj's strategy right & investors are unduly worried about it?

Focus on profitable growth reflects in stable profit share despite weakness in market share

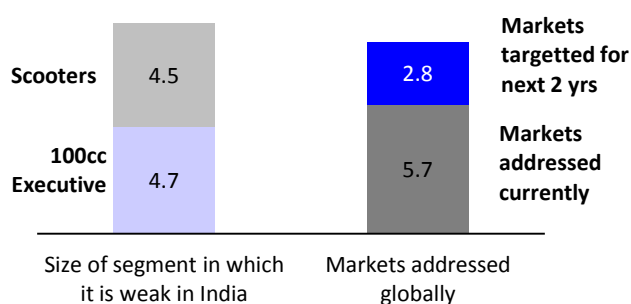
- Despite total market share declining ~6pp (since FY10) to ~18% (~8pp decline in domestic two-wheeler market share to ~11%), its EBITDA share is stable at ~35%.
- This vindicates Bajaj's strategy of 'trade-offs' and focusing on its area of strength for profitable growth.
- However, the 100cc Executive segment (Bajaj's weakest link in domestic motorcycle) continues to be under stress owing to stiff competition and the rising demand for automatic scooters (where Bajaj is absent).

Bajaj's 'trade-off' of scooters and lack of success in Executive 100cc is completely overshadowing success in exports...

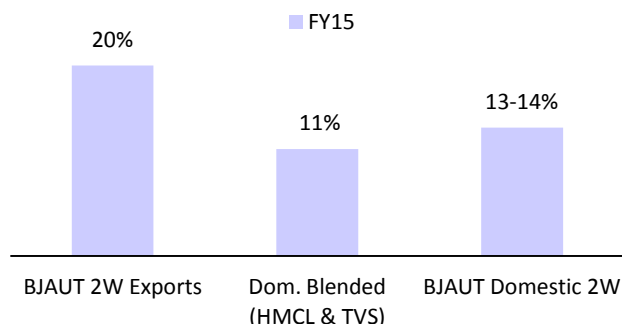
- Investors (including us) have been overly worried about Bajaj's 'trade-off' of scooters to focus exclusively on motorcycles.
- To make matters worse, Bajaj has been losing ground in the domestic 100cc Executive segment.
- As a result, BJAUT underperformed the markets in FY15—domestic two-wheeler volume de-growth of ~15.7% v/s the industry growth of ~8%.
- However, we now see merit—albeit a bit late—in Bajaj's focused approach, which is reflected in the company's stable profitable market share at ~35% of the two-wheeler industry EBITDA despite domestic market share declining by ~8pp to ~11% (or ~6pp to ~18%, including exports).
- In fast-growing scooters segment, Bajaj can gain market share but would hardly get any profit share due to last-mover disadvantage. Moreover, the 100cc Executive segment (Bajaj's weakest link in domestic motorcycle) continues to be under stress owing to the rising demand for scooters (where Bajaj is absent) and stiff competition (HMSI & TVSL among others focusing on getting foothold in this large segment). This is reflected in weak pricing power in this segment, even for market leader HMCL.
- Bajaj's absence in scooters and lack of success in Executive segment is completely overshadowing success in exports; the company enjoys a profitability of over 20% in exports owing to its significant first-mover advantage in external markets.
- More importantly, it is fortifying its moat in the Premium segment in India and strengthening its presence in the Economy segment by launching new products (new range of Pulsars, Platina Self Start and CT100).

"The essence of strategy is choosing what not to do. Strategy is about making choices, trade-offs; it's about deliberately choosing to be different."
Michael Porter

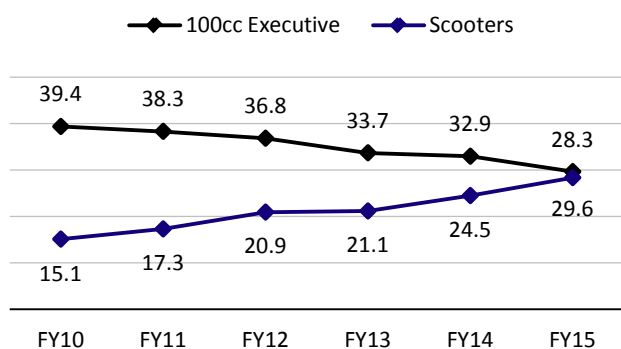
"Great brands are built on the foundation of sacrifices. Making more scooters doesn't mean making more money. We are a specialist motorcycle company; we won't venture out of that easily." Rajiv Bajaj

Exhibit 9: Export markets make up for Bajaj's weakness in domestic market (million units)

Source: Company, MOSL

Exhibit 10: Export margins for BJAUT much higher than domestic blended margins of peers

Source: Company, MOSL

Exhibit 11: Scooterization is at the expense of Executive 100cc segment (% of total domestic 2W)

Source: Company, MOSL

Exhibit 12: Scooters partly cannibalizing the 100cc Executive segment, as both have similar price points

100cc Entry	On Road Delhi (INR '000)
Platina	35.6
HF Deluxe	43.1
100cc Executive	
Splendor	46.1
Discover 100	48.6
Honda Dream Yuga	48.6
Passion	51.6
Scooter	
Maestro	48.9
Activa	49.7
Jupiter	52

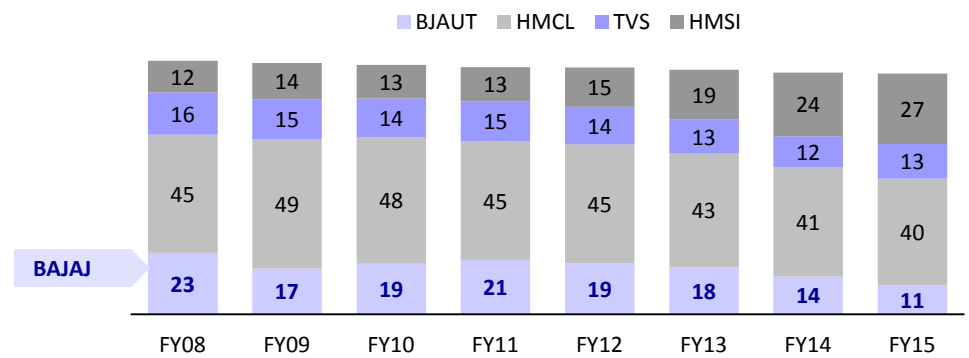
Source: Company, MOSL

“There is no honor in size or growth if those are profitless. Competition is about profits, not market share” Excerpt from the book *Understanding Michael Porter*

...but EBITDA share stable at ~35% of 2W industry EBITDA, despite market share decline!

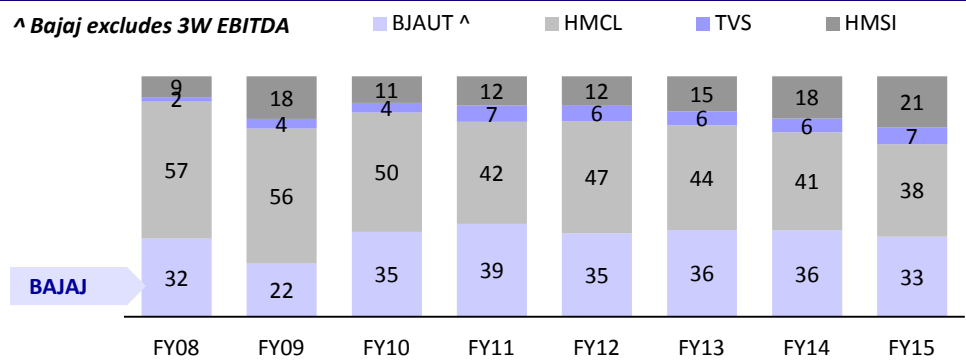
- Despite total market share declining ~6pp (since FY10) to ~18% (~8pp decline in domestic 2W market share to ~11%), its EBITDA share of the industry is stable at ~35%.
- This is driven by industry-leading 2W EBITDA margins of ~17% (v/s closest competitor HMCL's ~11.4%), which can be attributed to its focused approach
- This vindicates Bajaj's strategy of 'trade-offs' and focusing on its area of strength for profitable growth.

Exhibit 13: Bajaj's domestic 2W market share at an all-time low of 12% (or ~18% incl exports)...



Source: Company, MOSL

Exhibit 14: ... but share of profit pool at ~35% of industry EBITDA (excl. 3W EBITDA)



Source: Company, MOSL

New launches to drive domestic recovery

Focus on strengthening its moat in the Premium segment

- BJAUT's domestic business has bottomed out after witnessing pressure in the Executive segment and economic headwinds in the Premium segment.
- Success of CT100, new Pulsars and urban market recovery driving the Premium segment augurs well for BJAUT, and is expected to drive its outperformance and shore up its domestic motorcycle market share. The management is targeting a market share of 23-24% by 4QFY16 (v/s ~15% in 4QFY15).
- The Executive segment's contribution to the company's coffers declined significantly to ~19% of domestic volumes (from 54% in FY13), implying a negligible impact on its P&L.
- While the Executive segment is expected to remain a drag, Bajaj's market share in other motorcycle segments is healthy and has scope to improve.

Bajaj's domestic motorcycle business has bottomed out...

- Bajaj's domestic motorcycle business has taken a hit due to: a) Scooterization, b) entry of HMSI in the Executive 100cc segment, and c) Premium segment slowdown due to weak economic environment.
- Though BJAUT's Executive segment is yet to witness any sustained success, we don't see any further decline in the segment.
- The Executive segment's contribution has come down to ~19% of domestic volumes (from 54% in FY13), implying negligible impact on its P&L.
- Bajaj is now de-focusing on the Executive 100cc segment, and re-channelizing its energies to fortify its moat in the Entry and Premium segments; it also plans to re-orient the Discover brand toward 125/150cc segment.
- Bajaj's market share in other motorcycle segments is healthy and has scope to improve.

Exhibit 15: Executive segment continues to remain a drag due to entry of HMSI

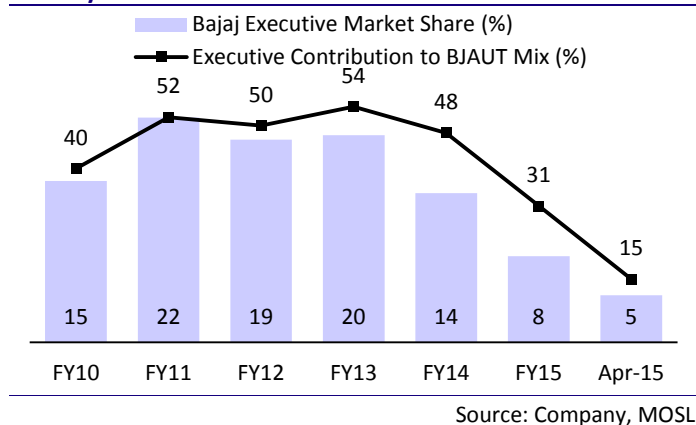


Exhibit 16: HMSI ate into BJAUT's Executive 100cc segment

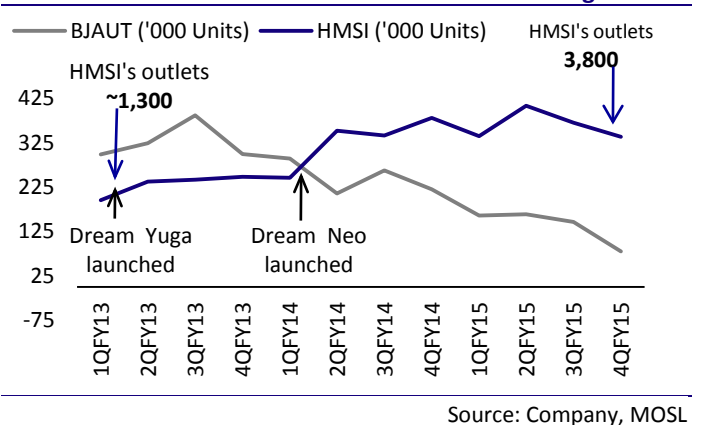
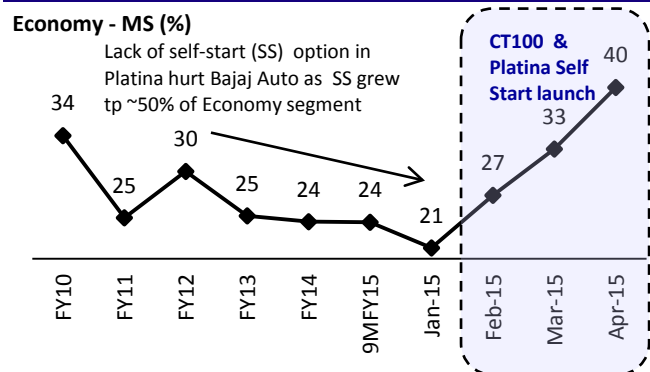
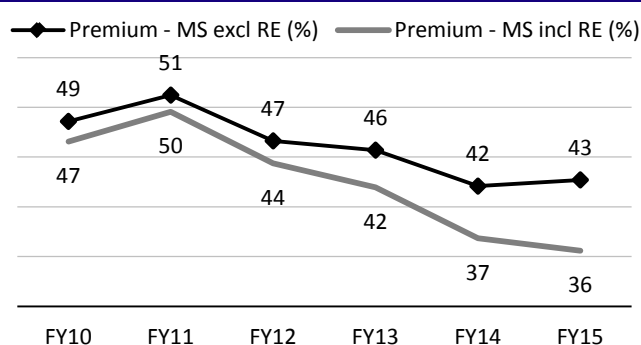


Exhibit 17: Market share to improve in FY16, driven by CT-100 launch... **Exhibit 18:similarly, new Pulsars would help market share gain in the Premium segment**



Source: Company, MOSL



Source: Company, MOSL

Scooterization and entry of HMSI in the Executive segment hurt Discover volumes, while weak economic environment impacted Pulsar volumes.

Exhibit 19: BJAUT domestic key brand volumes (Units '000)

BJAUT Key Brands	FY10	FY11	FY12	FY13	FY14	FY15
Platina	426	384	535	485	460	482
Growth %		(10)	40	(9)	(5)	5
Discover	713	1,268	1,280	1,312	986	553
Growth %		78	1	2	(25)	(44)
Pulsar	546	772	684	582	548	624
Growth %		41	(11)	(15)	(6)	14

Source: Company, MOSL

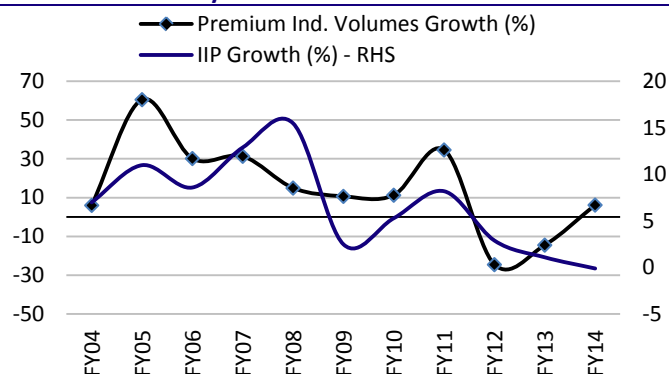
Exhibit 20: BJAUT's weaknesses get higher mindshare, although other players too have weaknesses

Economy		Executive		Premium (Ex RE)	
Company	Market Share (%)	Company	Market Share (%)	Company	Market Share (%)
HMCL	53.3	HMCL	66.3	Bajaj	42.7
Bajaj	24.9	HMSI	22.1	HMSI	17.3
TVS	20.6	Bajaj	8.2	TVSL	12.4
		TVS	0.6	HMCL	6.5

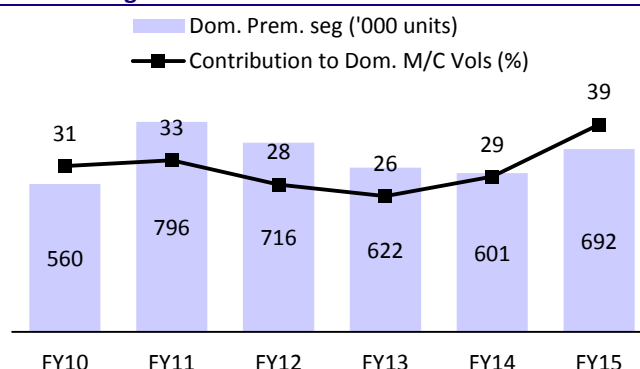
Source: Company, MOSL

....can only recover from here, as it fortifies its strength

- The management highlighted customer response to recent launches of CT100 and new Pulsars have been positive (in line with our channel check).
- Impending urban market recovery would augur well for Bajaj Auto due to its stronghold in the Premium segment, further aiding market share improvement.
- Success of CT100, Platina Self Start and new Pulsars is expected to drive its outperformance and domestic motorcycle market share gain. The management is targeting a market share of 23-24% by 4QFY16 (v/s ~15% in 4QFY15).
- Lastly, Discover volumes seems to have bottomed out. The efforts to re-orient the brand toward the 125/150cc segment would only drive improvement in volumes.

Exhibit 21: Premium segment volume growth closely linked to economic activity

Source: Company, MOSL

Exhibit 22: BJAUT has seen increased contribution from the Premium segment

Source: Company, MOSL

Exhibit 23: Pricing and positioning of recently launched Pulsars distinct than the existing range

Unlike the Discover launches in FY14-15, which created confusion in the market place, new Pulsars are distinctively positioned and priced

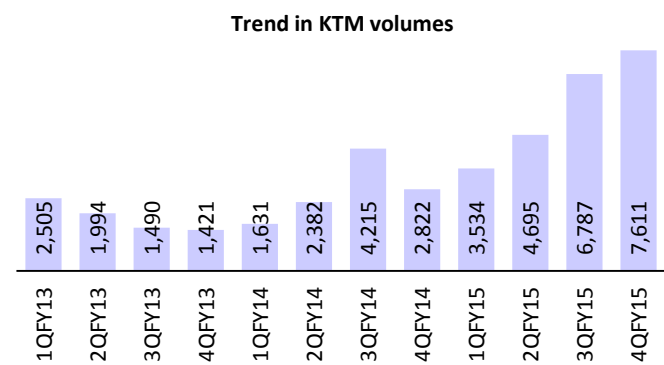
Product Name	Price (INR '000)	Engine Displacement (cc)	Max Power (BHP)
Existing			
Pulsar 135LS	59.1	134.6	13.5
Pulsar 150 DTS-i	69.6	149	15
Pulsar 180 DTS-i	73	178.6	17
Pulsar 200 NS	94.7	199.5	23.2
Pulsar 220 F	83.6	220	21
Recently Launched			
Pulsar AS 150	87.7	150	17
Pulsar AS 200	99	199.6	23
Pulsar RS 200 STD	124.5	199.6	24.2
Pulsar RS 200 ABS	137	199.6	24.2

Source: Company, MOSL

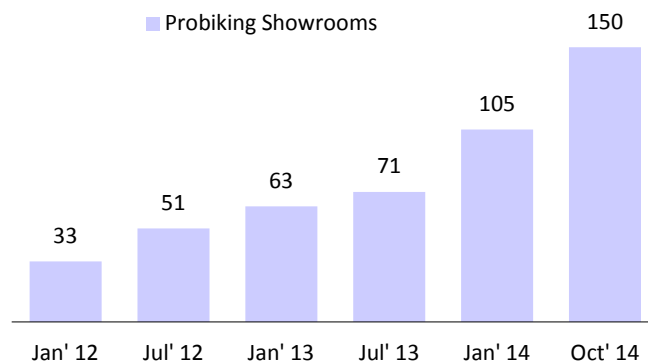
Exhibit 24: New product launches focused on fortifying its strength

Product Name	Segment	Launch Date
Platina Self Start	Economy	Jan' 15
CT 100	Economy	March' 15
Pulsar RS 200	Premium < 200	March' 15
Pulsar AS 150	Premium < 200	April' 15
Pulsar AS 200	Premium < 200	April' 15
Pulsar Adventure Sports 180	Premium < 200	1QFY16
Pulsar Super Sport 200	Premium > 200	1QFY16
Pulsar Compact Sport 400	Premium > 300	2QFY16
Cargo 3W	-	2QFY16
New Brand Entry Level	Economy	FY16
New Brand in Leisure Segment (in Competition to Royal Enfield)	Premium	FY16/FY17
RE 60	-	

Source: Company, MOSL

Exhibit 25: KTM volumes improving consistently QoQ

Source: Company, MOSL

Exhibit 26: KTM dealer network (Probiking) has also expanded

Source: Company, MOSL

Exhibit 27: BJAUT has the widest premium segment offerings, with price range of ~INR70k-386k

Models in Premium segment from all Players (150-500cc)	GS150R (69.5)	<div>Product offering by BJAUT</div> <div>Prices in bracket in INR '000s</div>				
	Pulsar 150 DTS-I (69.6)					
	Hunk (69.9)					
	Xtreme (71.5)					
	Pulsar 180 DTS-I (73)					
	CB Unicorn (74.1)	GIXXER (83.5)				
	CB TRIGGER (75.9)	Pulsar 220 F (83.6)	Karizma (106.5)	Classic 350 (127.4)	Bullet 500 (153.8)	
	Impulse (77.4)	Apache (84.7)	Bullet 350 Twinspark (106.7)	CBR 150R (135)	Classic 500 (163.3)	
	Avenger (77.5)	Pulsar AS 150 (87.7)	Bullet Electra Twinspark (119.6)	Pulsar RS 200 ABS (137)	CBR 250R (174)	INAZUMA (221)
	FZ (78.8)	Pulsar 200 NS (94.7)	R15 (121.6)	Thunderbird 350 (138.5)	Thunderbird 500 (176.6)	Z250 (308)
	CB UNICORN 160 (79.8)	Pulsar AS 200 (99)	Pulsar RS 200 STD (124.5)	KTM 200 (144.5)	KTM 390 (200)	Ninja (386.1)
Price Range	INR 70-80k	INR 80-100k	INR 100-125k	INR 125-150k	INR 150-200k	INR 200k & Above

Source: Company, MOSL

Exports: Transitory issues over, recovery underway

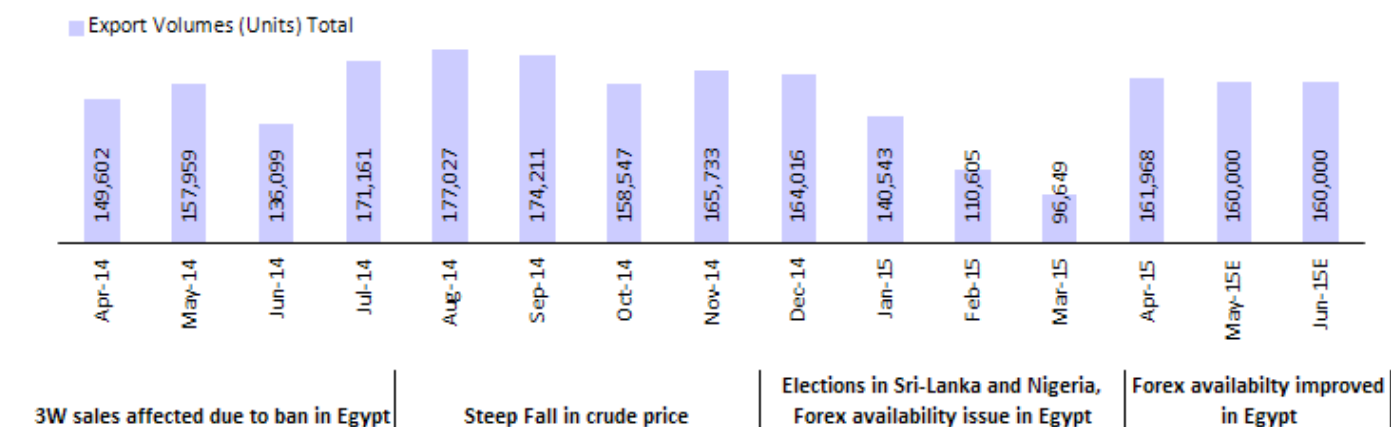
Huge opportunity for BJAUT owing to its first-mover advantage

- Transitory issues in key markets—impact of elections in Sri Lanka and Nigeria—are behind us. We expect export volume recovery of April 2015 to continue.
- Recovery in crude oil prices from the lows of USD50/barrel also dilutes the potential impact on demand in medium term.
- Underlying demand drivers (such as under-penetration) in most of the key export markets—Africa, Latin America, Middle East and South Asia—remain intact.
- BJAUT's experience and global alliances (with Kawasaki and KTM) would reduce learning curve in new markets where it plans to enter.

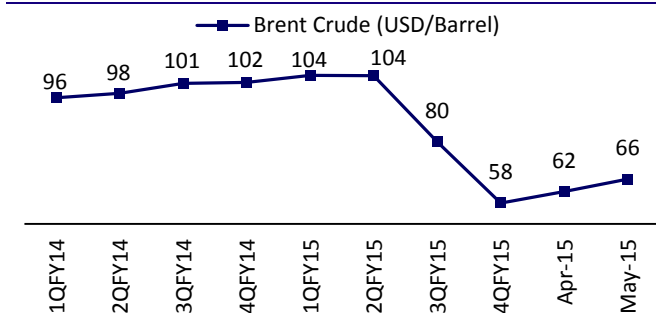
Transitory issues behind us, recovery underway

- 4QFY15 was an aberration, with exports de-growing ~12% YoY (~28% QoQ) to 0.35m units as motorcycle volumes in Nigeria crashed to ~15k/month in 4QFY15 (v/s ~48k/month in 3QFY15 and ~34k/month in April 2015).
- Headwinds in export markets are easing, especially with elections in Sri Lanka and Nigeria behind us. Further, demand from Egypt has improved owing to the availability of USD in the country.
- Based on its order book, BJAUT expects 1QFY16 exports to be at least 0.48m units (implying ~36% growth QoQ/9% YoY) and FY16 exports at 1.8m-2m units (without factoring in the order for 0.1m units, which is in abeyance, from Sri Lanka).
- While weak oil prices (although recovered from the recent lows of USD50/barrel) do pose a threat to 2W/3W demand in its key markets of Africa, Middle East and LatAm, entry/ramp-up in new markets can offset the impact of any such slowdown in the existing markets.
- Further, any petrodollar-related impact would be temporary as underlying demand drivers are fundamentally strong (motorcycle offers the cheapest mode of motorized commute in BJAUT's export markets as most of these markets lack basic public transportation infrastructure).

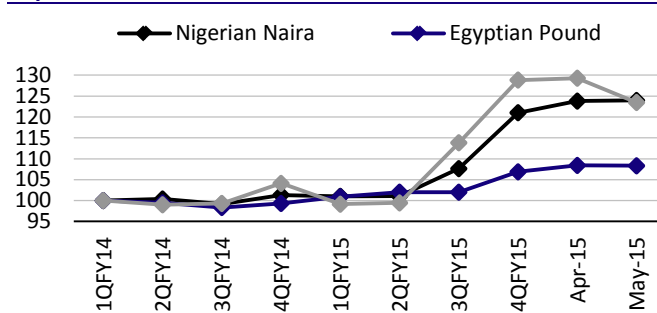
Exhibit 28: In the last 12 months, export volumes witnessed volatility due to concerns in Nigeria, Egypt and Sri Lanka



Source: Company, MOSL

Exhibit 29: Crude oil has recovered from recent lows

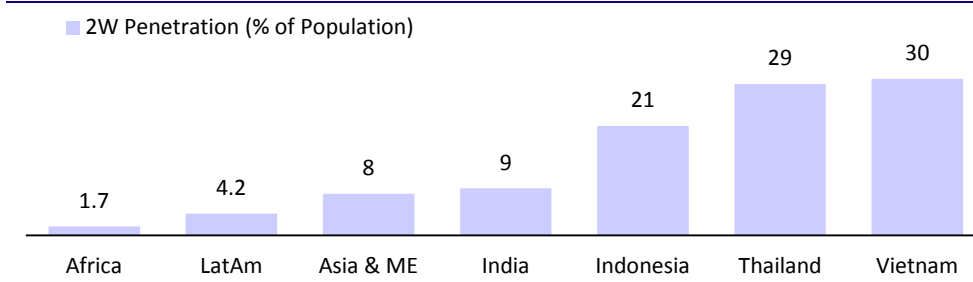
Source: Company, MOSL

Exhibit 30: Fx in its key markets has stabilized after severe depreciation

Source: Company, MOSL

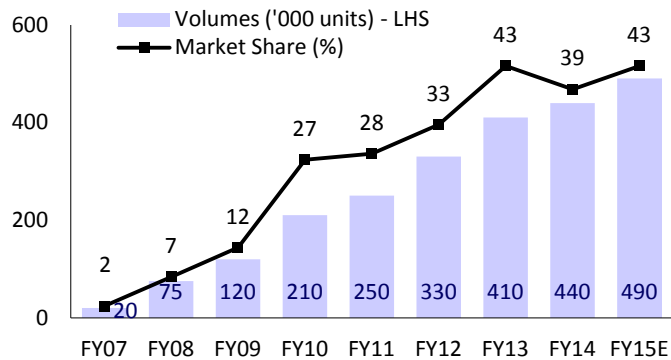
Secular growth opportunity in exports...

- Most of the key export markets of Africa, Latin America, Middle East and South Asia have very low 2W penetration.
- BJAUT enjoys ~27% market share in markets where it has been present for over five years; these markets offer addressable market size of ~4.7m units (~32 markets).
- It plans to enter 50 more markets (~28 in two years), which have total addressable market size of ~3.5m units (~2.75m in 28 markets where it plans to be enter in the next two years); coupled with ~16 markets entered in the last two years, this adds to new addressable market size of ~4.5m units.
- BJAUT would also benefit from its alliance with Kawasaki (in South East Asian markets, which are relatively premium markets having preference for Japanese brands) and KTM (in LatAm markets). Alliance with Kawasaki helped Bajaj Pulsar to get ~30% market share in Philippines. It has recently entered Indonesia with Kawasaki, although it is yet to see any success. It would evaluate entry prospects in other markets with Kawasaki, but would target one market at a time.

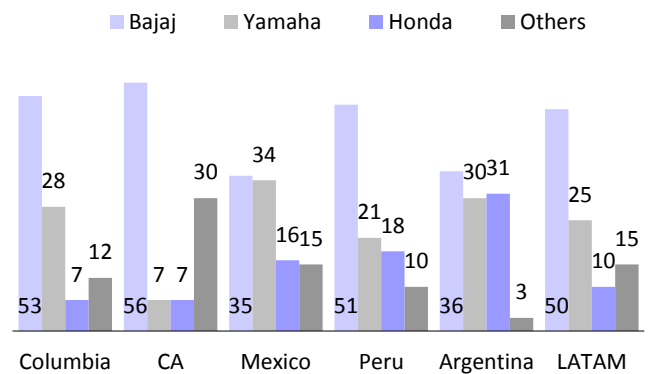
Exhibit 31: BJAUT's key export markets have very low 2W penetration**Exhibit 32: BJAUT has significant headroom to grow its share across markets**

Existing Market Type	No. Of Countries	Market Size FY14 (m)	BJAUT MS (%)
Mature (> 5 Years)	25	4.2	28
Nascent (2-5 Years)	7	0.5	20
New (0-2 Years)	16	0.95	3
Total Existing Markets	48	5.65	23
New Markets			
Enter Now (0-2 Years)	28	2.75	-
Enter Later (> 2 Years)	22	0.75	-
Total addressable market size	98	9.15	-

Source: Company, MOSL

Exhibit 33: BJAUT's Nigeria market share of 43% & up to 30% pricing premium is led by 3S Network ramp-up to 172

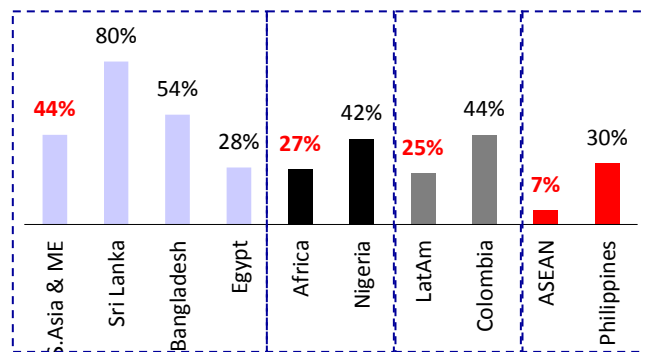
Source: Company, MOSL

Exhibit 34: BJAUT enjoys market leadership in sports segment in Latin America

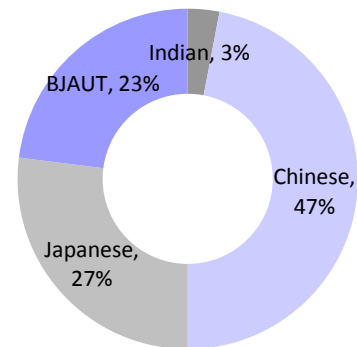
Source: Company, MOSL

...with scope to gain further market share in existing markets

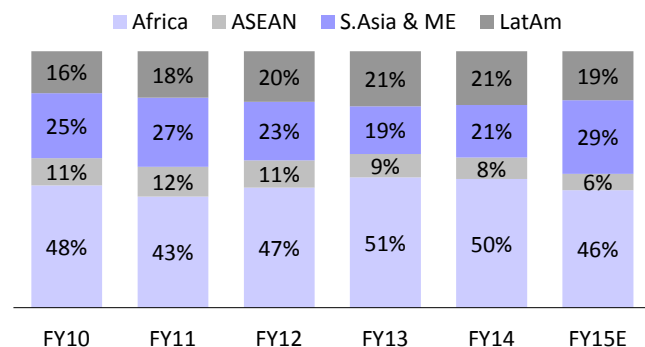
- BJAUT has a three-pronged export strategy: a) Expansive geographic reach, b) differentiated user experience, and c) excellence in distributor management.
- In all its existing markets, BJAUT has 3S (Sales, Spares and Service) distribution network (a stark contrast to most Chinese players, who just sell kits).
- BJAUT still has room to grow in majority of its markets at the expense of Chinese players, who enjoy a higher market share of ~47%.
- It currently has a cumulative share of ~23% in its existing markets, implying significant headroom to grow.

Exhibit 35: Significant scope to gain further market share, especially in ASEAN markets

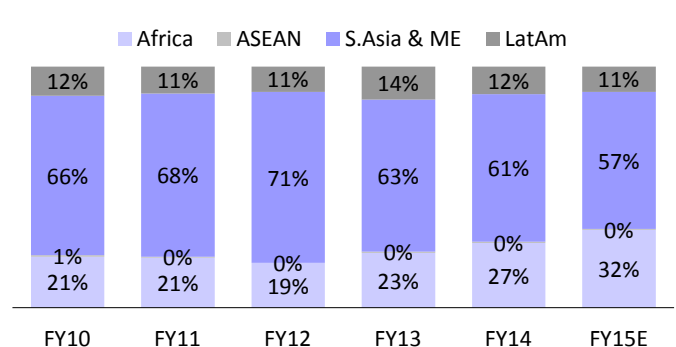
Source: Company, MOSL

Exhibit 36: Chinese players enjoy higher market share in BJAUT's existing markets

Source: Company, MOSL

Exhibit 37: Motorcycle exports market mix: Africa key driver

Source: Company, MOSL

Exhibit 38: 3W exports market mix: South Asia/ME key markets, but Africa catching up

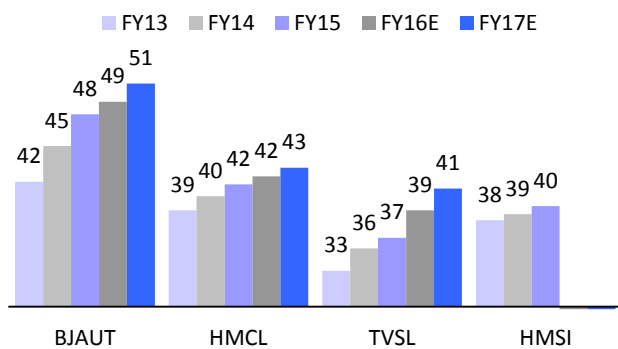
Source: Company, MOSL

Superior performance vindicates Bajaj's strategy

Strong cash generation augurs well for further increase in payout

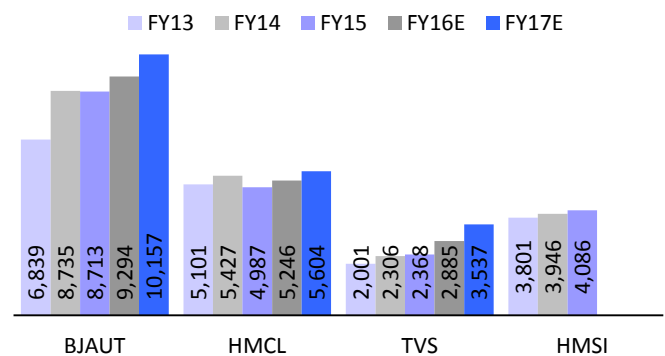
- BJAUT's focused strategy and its 'trade-off' is reflected in superior realizations (~15% better realization than the next best) and near-2x EBITDA margins; coupled with higher asset turn at ~5x (v/s 3x-4x for peers), this is resulting in superior RoICs and cashflow per unit (excl. 3W) vis-à-vis competitors.
- Superior cashflow from operations and limited capex intensity is resulting in annual FCFF generation of over INR45b. We estimate cash accumulation of ~INR132b by FY17, despite dividend payout of over 55%.
- Strong FCFF generation and limited avenues to deploy cash augur well for further increase in dividend payout and/or buyback of shares.

Exhibit 39: Focused strategy reflecting in higher realizations
(INR '000/unit, excl. 3W)...



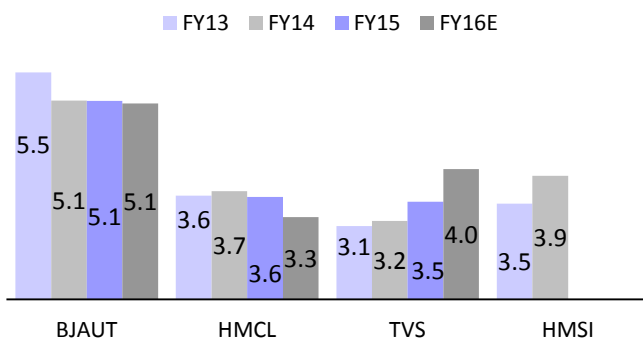
Source: Company, MOSL

Exhibit 40: ...almost 2X EBITDA (INR/unit, excl. 3W)...



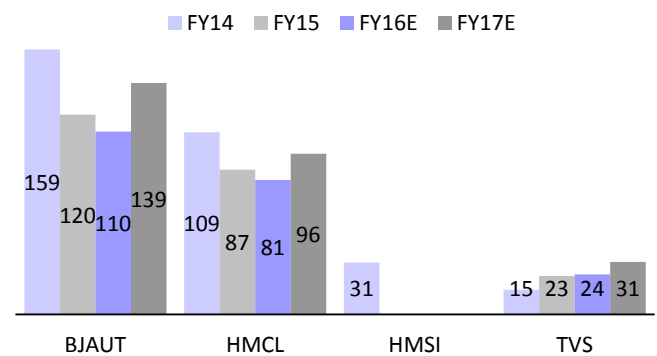
Source: Company, MOSL

Exhibit 41: ...higher gross fixed asset turnover (x)...

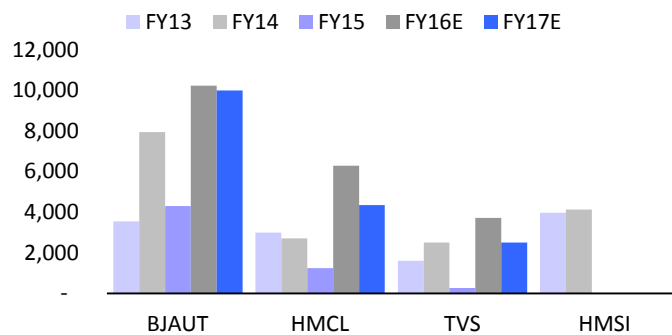


Source: Company, MOSL

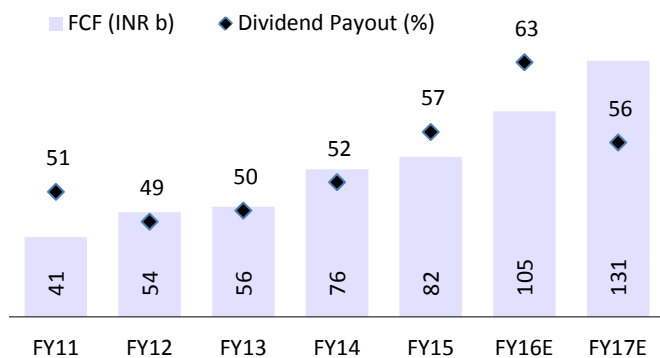
Exhibit 42: ...and superior RoICs...



Source: Company, MOSL

Exhibit 43: ...cashflows superior to peers (INR/unit, ex 3W)

Source: Company, MOSL

Exhibit 44: Increasing cash balance augurs well for further increase in dividend payout

Source: Company, MOSL

Valuations don't reflect superior strategy

~24% EPS CAGR (led by volume recovery) to drive re-rating

Urban recovery to drive revival in the Premium segment; BJAUT to be the key beneficiary: The expected economic recovery is likely to revive the Premium segment. Initial signs of recovery are visible, as per our industry interaction. BJAUT will be the key beneficiary of this revival, given its leadership position in the segment (36% market share) and several planned launches in FY16-17.

New launches in the Economy and Premium segments to fortify its areas of strength: BJAUT is on a lunching spree in its areas of strength—Economy and Premium segments. Its recent launches of CT100 and Pulsar RS200/AS200/AS150 received a positive customer response from. It also plans to launch variants of Pulsar and a new brand in the Leisure segment, thereby straddling the entire Premium segment and having the widest product offering in the segment.

Exports offer huge potential, but growth might not be linear: 2W penetration is very low (for e.g., ~1.7% in Africa and 4.2% in LatAm) in BJAUT's key markets, thereby offering huge growth potential. Further, in most of these markets it has room to grow market share at the expense of Chinese players. While long-term growth potential remains intact, there volumes could see some short-term volatility.

Robust EPS CAGR (~24%) to drive re-rating: Recovery in industry demand, especially in the Premium segment, would drive market share gains for BJAUT. Further, normalization of export volumes in key markets—Nigeria, Sri Lanka and Egypt—would drive volume recovery; coupled with favorable Fx and operating leverage, this would drive 24% EPS CAGR over FY15-17E.

Maintain Buy with a TP of ~INR2,701: The stock trades at 18.6x/14.3x FY16E/FY17E EPS, respectively. **We value BJAUT at INR2,701 (16x FY17E EPS, and we now add INR123/share value of KTM stake post 20% HoldCo discount). Maintain Buy.**

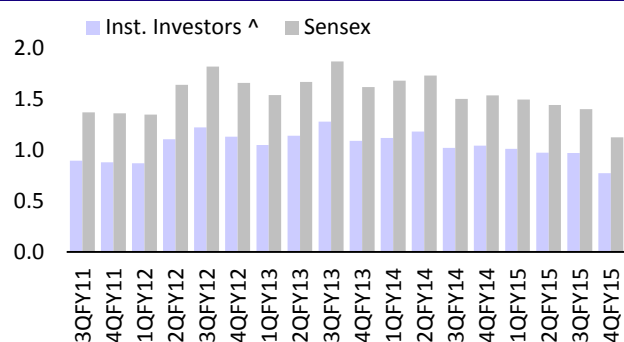
Exhibit 45: BAJAJ AUTO: Least recommended large-cap Auto stock, but has highest returns!

Reco break-up (%)	BJAUT	AL	EIM	HMCL	MM	MSIL	TVSL	TTMT
Buy	45.8	55.6	78.1	66.1	69.4	88.1	41.7	88.5
Hold	39	22.2	15.6	23.7	26.5	8.5	19.4	9.6
Sell	15.3	22.2	6.3	10.2	4.1	3.4	38.9	1.9
Coverage (# of analysts)	59	45	33	59	49	60	36	55
Consensus returns (%)	2.6	8	-5.7	4.9	10.6	15.8	6	26.3

Source: Company, MOSL

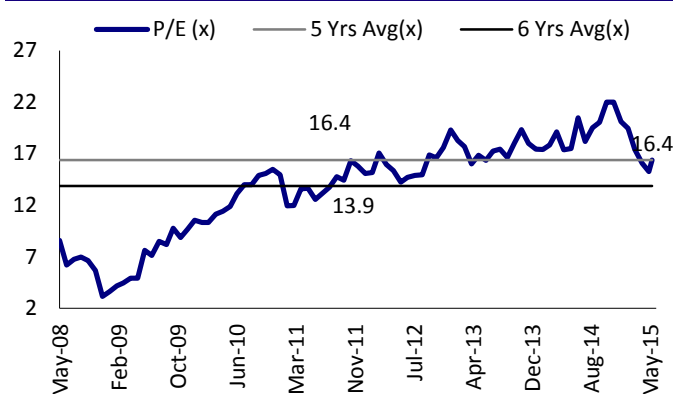
Exhibit 46: One of the lowest ever Buy rating from sell side on Bajaj Auto

Source: Company, MOSL

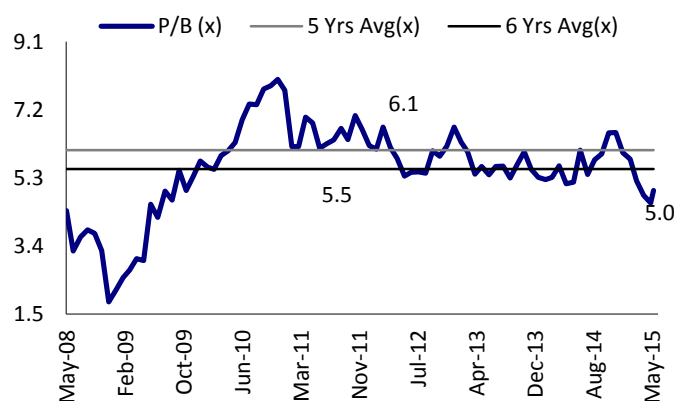
Exhibit 47: Institutional investor's ownership lowest in recent past

^ Inst. Investors weight based on total investment in Sensex

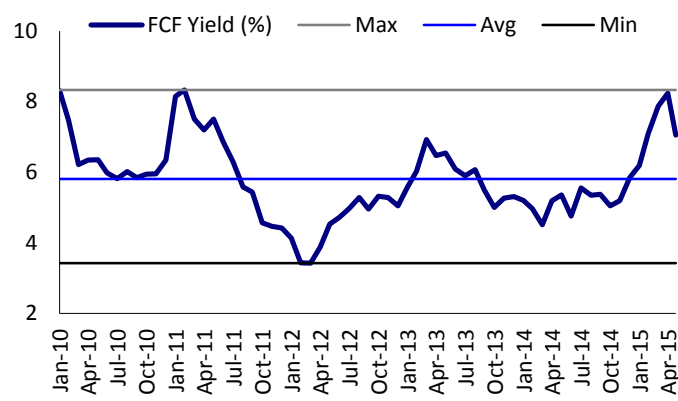
Source: Bloomberg, MOSL

Exhibit 48: BJAUT trading near LPA P/E...

Source: Bloomberg, MOSL

Exhibit 49: ...although on P/B basis

Source: Company, MOSL

Exhibit 50: BJAUT's FCF yield near peak levels

Source: Company, MOSL

Exhibit 51: Comparative Valuation

Auto OEM's	CMP * (INR)	Rating	TP (INR)	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Bajaj Auto	2,306	Buy	2,701	18.7	14.3	12.0	9.4	31.5	35.8	43.8	48.2
Hero MotoCorp	2,605	Buy	2,791	18.4	14.9	12.7	10.6	39.8	41.1	55.6	56.4
TVS Motor	236	Buy	302	21.4	13.7	13.1	8.8	28.5	34.4	27.6	35.9
M&M	1,225	Neutral	1,246	16.7	13.2	14.6	12.3	15.8	16.1	16.9	17.9
Maruti Suzuki	3,722	Buy	4,617	20.8	16.1	10.8	8.8	19.3	21.2	25.9	28.3
Tata Motors	472	Buy	647	7.8	6.5	3.2	2.5	29.4	25.7	25.6	24.7
Ashok Leyland	71	Buy	84	22.6	12.2	10.9	6.6	16.6	26.5	17.0	27.1
Eicher Motors#	18,354	Buy	18,211	47.7	27.7	27.6	16.6	36.9	45.5	38.9	52.7
Auto Ancillaries											
Bharat Forge	1,239	Buy	1,555	28.2	19.9	15.2	11.5	26.7	30.3	27.8	32.9
Exide Industries	155	Buy	223	18.3	15.3	11.5	9.3	15.7	16.6	22.1	23.3
Amara Raja Batteries	864	Buy	1,195	26.7	18.1	15.2	11.0	29.0	33.5	40.9	45.4

Nos. are on CY basis

Source: Company, MOSL

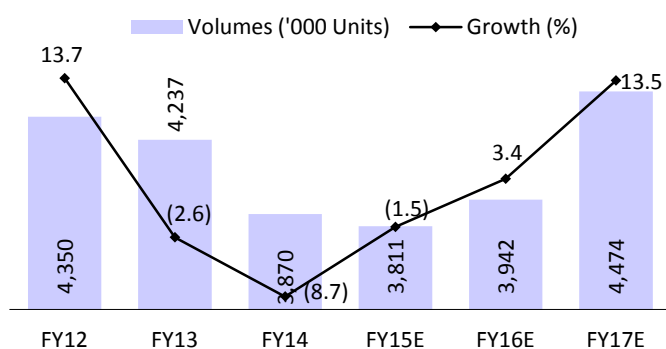
Exhibit 52: Key operating metrics

000 units	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Motorcycles (units)								
Domestic	1,782	2,415	2,567	2,464	2,099	1,776	1,847	2,087
Growth (%)	39.6	35.5	6.3	-4.0	-14.8	-15.4	4.0	13.0
% of total volumes	62.5	63.1	59.0	58.1	54.2	46.6	46.9	46.6
Exports	725	972	1,268	1,293	1,323	1,516	1,547	1,779
Growth (%)	14.8	34.1	30.4	2.0	2.3	14.6	2.0	15.0
% of total volumes	25.4	25.4	29.1	30.5	34.2	39.8	39.2	39.8
Total M/Cycles	2,507	3,387	3,834	3,757	3,422	3,292	3,393	3,866
Growth (%)	31.4	35.1	13.2	-2.0	-8.9	-3.8	3.1	13.9
% of total volumes	87.9	88.6	88.2	88.7	88.4	86.4	86.1	86.4
3Ws								
Domestic	176	206	203	226	187	234	258	284
Growth (%)	30.0	16.8	-1.3	11.4	-17.3	25.4	10.0	10.0
% of total volumes	6.2	5.4	4.7	5.3	4.8	6.1	6.5	6.3
Exports	165	231	312	254	261	285	290	325
Growth (%)	18.6	40.3	35.0	-18.7	2.7	9.2	2.0	12.0
% of total volumes	5.8	6.0	7.2	6.0	6.7	7.5	7.4	7.3
3Ws	341	437	515	480	448	519	548	609
Growth (%)	24.2	28.1	17.9	-6.8	-6.7	16.0	5.6	11.1
% of total volumes	12.0	11.4	11.8	11.3	11.6	13.6	13.9	13.6
Total Volumes	2,853	3,824	4,350	4,237	3,870	3,811	3,942	4,474
Growth (%)	30.0	34.1	13.7	-2.6	-8.7	-1.5	3.4	13.5
Avg. Net Realn (INR/unit)	39,544	41,013	42,366	44,665	48,425	51,853	53,098	54,735
Growth (%)	4.3	3.7	3.3	5.4	8.4	7.1	2.4	3.1
Net Revenues (INR B)	115	159	189	195	197	211	227	267
Growth (%)	36.4	38.1	18.8	3.2	1.1	7.1	7.7	17.3
EBITDA (INR B)	26	32	37	36	41	41	46	56
EBITDA margins (%)	21.7	19.3	19.0	18.2	20.3	19.0	19.8	20.6
EBITDA (INR/Unit)	9,088.5	8,292.6	8,552.6	8,579.5	10,591.0	10,801.2	11,606.0	12,433.5
Growth (%)	117.5	22.3	17.3	-2.3	12.8	0.4	11.1	21.6
PAT	18	26	31	30	32	30	36	47
EPS (INR)	63	90	107	105	112	105	123	161

Source: Company, MOSL

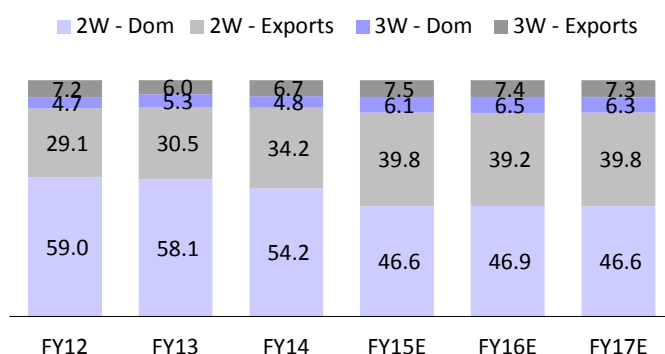
Key Operating Indicators

Exhibit 53: Exports & 3Ws to drive volume growth



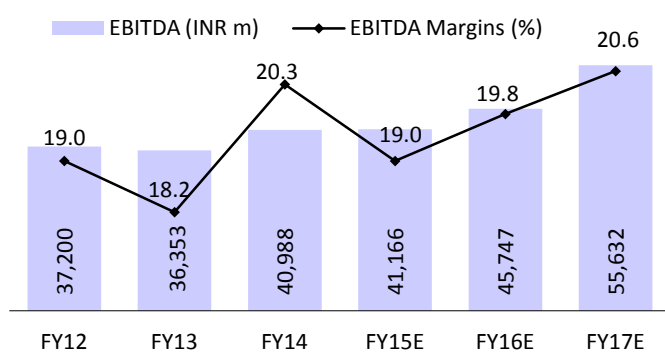
Source: Company, MOSL

Exhibit 54: Share of exports motorcycles to increase



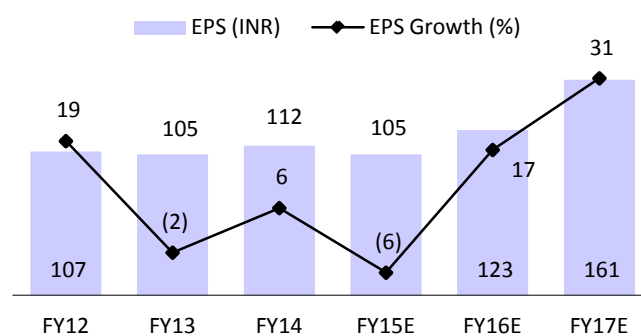
Source: Company, MOSL

Exhibit 55: EBITDA margins to remain healthy



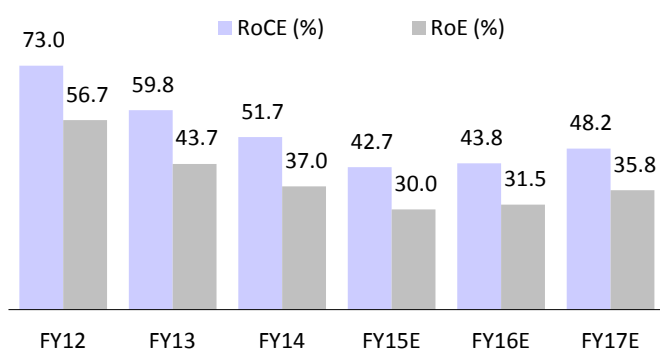
Source: Company, MOSL

Exhibit 56: Domestic recovery to drive earnings growth



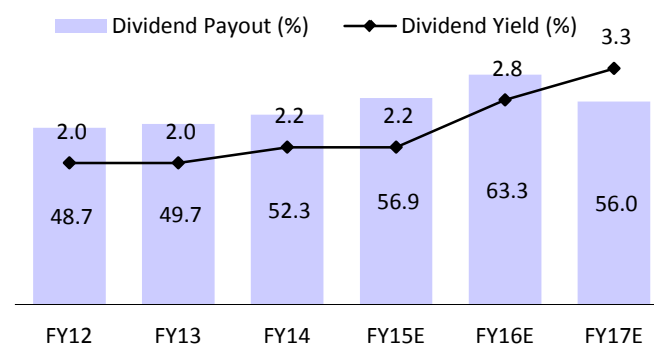
Source: Company, MOSL

Exhibit 57: Return ratios to remain stable, due to accumulation of cash



Source: Company, MOSL

Exhibit 58: Dividend payout to remain healthy



Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Volumes	2,852,579	3,823,954	4,349,560	4,237,151	3,870,077	3,811,201	3,941,688	4,474,402
Change (%)	30.0	34.1	13.7	-2.6	-8.7	-1.5	3.4	13.5
Net Sales	119,210	163,981	195,290	199,973	201,426	216,120	230,521	270,400
Change (%)	35.3	37.6	19.1	2.4	0.7	7.3	6.7	17.3
Total Expenditure	93,284	132,270	158,090	163,620	160,438	174,955	184,774	214,768
EBITDA	25,926	31,711	37,200	36,353	40,988	41,166	45,747	55,632
Change (%)	117.5	22.3	17.3	-2.3	12.8	0.4	11.1	21.6
EBITDA Margins (%)	21.7	19.3	19.0	18.2	20.3	19.0	19.8	20.6
Depreciation	1,365	1,228	1,456	1,640	1,796	2,674	2,873	3,062
EBIT	24,561	30,482	35,744	34,713	39,192	38,492	42,874	52,570
Int. & Fin. Charges	60	17	222	5	5	65	10	10
Other Income	1,225	5,765	6,080	7,955	7,064	5,824	8,151	12,182
PBT	24,102	43,476	40,262	42,662	46,251	40,848	51,016	64,743
Effective Rate (%)	29.4	23.2	25.4	28.7	30.1	31.1	30.0	28.0
Adj. PAT	18,175	26,150	31,069	30,436	32,350	30,481	35,711	46,615
Change (%)	128.3	43.9	18.8	(2.0)	6.3	(5.8)	17.2	30.5

Balance Sheet							(INR Million)	
Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Share Capital	1,447	2,894	2,894	2,894	2,894	2,894	2,894	2,894
Net Worth	29,324	49,102	60,411	79,020	96,080	106,922	120,024	140,552
Deferred Tax	17	297	484	1,151	1,432	1,416	2,181	3,476
Loans	13,386	3,252	975	713	577	1,118	1,118	1,118
Capital Employed	42,727	52,651	61,870	80,883	98,089	109,455	123,323	145,145
Gross Fixed Assets	33,793	33,952	33,961	38,289	40,770	44,106	47,106	50,106
Less: Depreciation	18,997	19,125	19,143	20,244	20,710	23,384	26,257	29,319
Net Fixed Assets	14,796	14,827	14,817	18,044	20,060	20,722	20,849	20,786
Capital WIP	415	699	417	2,936	1,441	1,000	1,000	1,000
Investments	40,215	47,952	48,828	64,305	85,496	91,533	91,533	91,533
Current Assets	15,838	28,726	46,749	39,502	40,479	42,368	66,005	97,178
Inventory	4,462	5,473	6,785	6,363	6,397	8,142	7,872	9,239
Sundry Debtors	2,395	3,628	4,228	7,676	7,962	7,170	7,623	8,946
Cash & Bank Balances	1,014	5,565	16,538	5,589	4,955	5,862	29,191	55,126
Loans & Advances	6,574	11,896	16,227	17,741	16,984	17,727	18,040	20,018
Others	1,394	2,164	2,970	2,133	4,181	3,469	3,280	3,850
Current Liab. & Prov.	28,579	39,553	48,941	43,903	49,387	46,168	56,065	65,353
Sundry Creditors	15,712	19,431	20,031	19,796	21,114	17,998	22,960	26,947
Other Liabilities	4,551	4,836	7,161	6,682	8,536	8,251	7,872	9,239
Provisions	8,316	15,286	21,749	17,425	19,737	19,920	25,232	29,166
Net Current Assets	-12,740	-10,827	-2,192	-4,401	-8,908	-3,800	9,941	31,826
Application of Funds	42,727	52,651	61,870	80,883	98,089	109,455	123,323	145,145

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
Basic (INR)								
EPS	62.8	90.4	107.4	105.2	111.8	105.3	123.4	161.1
EPS growth (%)	128.3	43.9	18.8	-2.0	6.3	-5.8	17.2	30.5
Cash EPS	67.5	94.6	112.4	110.8	118.0	114.6	133.3	171.7
Book Value per Share	101.3	169.7	208.8	273.1	332.0	369.5	414.8	485.7
DPS	20.0	40.0	45.0	45.0	50.0	50.0	65.0	75.0
Payout (Incl. Div. Tax) %	37.1	51.4	48.7	49.7	52.3	56.9	63.3	56.0
Valuation (x)								
P/E	36.7	25.5	21.5	21.9	20.6	21.9	18.7	14.3
Cash P/E	34.2	24.4	20.5	20.8	19.5	20.1	17.3	13.4
EV/EBITDA	11.8	19.5	16.2	16.5	14.1	13.9	12.0	9.4
EV/Sales	2.6	3.8	3.1	3.0	2.9	2.6	2.4	1.9
Price to Book Value	11.4	13.6	11.0	8.4	6.9	6.2	5.6	4.7
Dividend Yield (%)	0.9	1.7	2.0	2.0	2.2	2.2	2.8	3.3
Profitability Ratios (%)								
RoE	78.7	66.7	56.7	43.7	37.0	30.0	31.5	35.8
RoCE	68.4	76.0	73.0	59.8	51.7	42.7	43.8	48.2
RoIC	116	239	334	159	120	110	139	256
Turnover Ratios								
Debtors (Days)	7	8	8	13	14	12	12	12
Inventory (Days)	13	12	12	11	11	13	12	12
Creditors (Days)	46	41	36	34	36	29	35	35
Working Capital (Days)	-26	-22	-16	-10	-12	-4	-11	-11
Fixed Asset Turnover	3.5	4.8	5.8	5.5	5.1	5.1	5.1	5.6

Cash Flow Statement

(INR Million)

Y/E March	2010	2011	2012	2013	2014	2015	2016E	2017E
OP/(Loss) before Tax	24,508	32,867	38,829	34,713	39,192	38,492	42,874	52,570
Interest/Div. Received	1,240	3,631	3,261	7,955	7,064	5,824	8,151	12,182
Depreciation & Amort.	1,365	1,228	1,456	1,640	1,796	2,674	2,873	3,062
Direct Taxes Paid	-6,999	-9,743	-11,483	-11,560	-13,620	-12,727	-14,539	-16,833
(Inc)/Dec in Working Capital	8,679	-8,215	797	-8,740	3,873	-4,201	9,588	4,050
CF from Oper. Activity	28,792	19,768	32,860	24,007	38,305	30,062	48,948	55,032
CF after EO Items	28,611	19,768	32,860	24,007	38,305	26,659	48,948	55,032
(Inc)/Dec in FA+CWIP	-1,906	-1,678	-1,159	-7,386	-2,317	-2,895	-3,000	-3,000
Free Cash Flow	26,887	18,089	31,701	16,621	35,987	27,167	45,948	52,032
(Pur)/Sale of Invest.	-20,970	-8,184	-6,557	-15,477	-21,192	-6,037	0	0
CF from Inv. Activity	-22,876	-9,863	-7,716	-22,862	-23,509	-8,932	-3,000	-3,000
Inc. / Dec.in Networkth	0	0	0	3,307	1,638	-3,349	0	0
Inc/(Dec) in Debt	-2,314	-1,866	-2,001	-262	-135	540	0	0
Interest Paid	-60	-17	-222	-5	-5	-65	-10	-10
Dividends Paid	-3,716	-6,737	-13,420	-15,134	-16,927	-17,350	-22,608	-26,087
CF from Fin. Activity	-6,090	-8,620	-15,644	-12,094	-15,430	-20,224	-22,618	-26,097
Inc/(Dec) in Cash	-355	1,285.4	9,501	-10,950	-634	-2,496	23,329	25,935
Add: Beginning Bal.	1,369	1,014	5,565	16,538	5,589	4,955	5,862	29,191
Closing Balance	1,014	5,565	16,539	5,589	4,955	5,862	29,191	55,126

NOTES

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Anosh Koppikar

Email : anosh.koppikar@motilaloswal.com

Contact : (+65)68189232

Office Address : 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran

Email : kadambari.balachandran@motilaloswal.com

Contact : (+65) 68189233 / 65249115



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com