

Bajaj Auto

Performance Highlights

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)
Net Sales	5,565	5,657	(1.6)	6,098	(8.7)
EBITDA	1,171	1,227	(4.5)	1,317	(11.1)
EBITDA Margin (%)	21.0	21.7	(70 bp)	21.6	(60 bp)
Adj. net profit	901	861	4.7	933	(3.4)

Source: Company, Angel Research

Results in line with estimates: Bajaj Auto Ltd (BAL)'s 3QFY2016 results have come in in line with our estimates. The company's revenues expectedly declined by 2% yoy to ₹5,565cr. The decline in revenues was on account of a 3% drop in volumes. Domestic volumes grew in double digits (10%) led by new product launches (Avenger and Pulsar variants) which led to market share gains. However, export volumes fell steeply by 16% yoy led by demand slowdown in Africa and Egypt markets due to slide in crude oil prices. Realisation/vehicle grew 2% yoy led by favourable currency movement (INR depreciation as against the USD). The company realized about INR 66/USD in 3QFY2016 as against INR 63/USD realized in 3QFY2015. The company's operating margin declined marginally by 70bp yoy to 21% (coming broadly in line with our estimates of 21.5%). Lower export mix and price cuts in African market to stimulate demand led to the dip in margins on a yoy basis. The operating profit at ₹1,171cr was in line with our estimate of ₹1,181cr. Other income more than doubled yoy to ₹200cr, coming in higher than our expectation of ₹165cr. The Net Profit at ₹901cr was broadly in line with our expectations of ₹873cr.

Outlook and valuation: The domestic motorcycle industry is likely to recover from FY2017 given the higher income levels, implementation of Seventh pay commission and improvement in rural sentiments on expectations of a normal monsoon. Also, BAL is likely to outperform the industry with new launches scheduled in both the commuter and the sport segments. However, key export markets viz Africa and Middle East (which contribute 70% of export and 35% of overall volumes) are likely to remain under pressure in the near term given the slide in crude oil prices and consequently adverse balance of payments in those markets. **We have marginally reduced our earnings estimates given the pressure in the exports. We retain our "Accumulate" rating on the stock with a revised price target of ₹2,585 based on 18x FY2017E earnings.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	20,150	21,612	22,709	25,860
% chg	0.8	7.3	5.1	13.9
Net Profit	3,242	3,101	3,731	4,153
% chg	6.5	(4.4)	20.3	11.3
EBITDA (%)	20.4	19.0	20.9	20.1
EPS (₹)	112.1	107.2	129.0	143.6
P/E (x)	20.5	21.5	17.8	16.0
P/BV (x)	7.1	6.4	5.5	4.7
RoE (%)	34.8	27.0	30.7	29.4
RoCE (%)	46.8	40.3	42.8	40.7
EV/Sales (x)	2.9	2.7	2.5	2.1
EV/EBITDA (x)	14.3	14.1	12.0	10.6

Source: Company, Angel Research; Note: CMP as of February 12, 2016

ACCUMULATE

CMP	₹2,303
Target Price	₹2,585

Investment Period	12 Months
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Stock Info

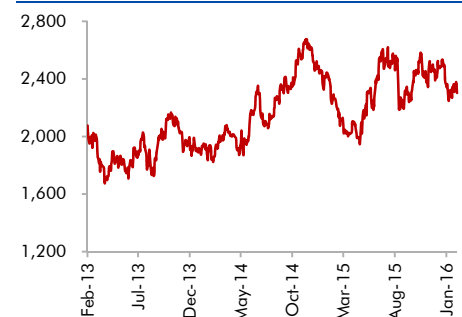
Sector	Automobile
Market Cap (₹ cr)	66,640
Net Debt (₹ cr)	(9,628)
Beta	0.9
52 Week High / Low	2,690/1,914
Avg. Daily Volume	12,772
Face Value (₹)	10
BSE Sensex	22,986
Nifty	6,981
Reuters Code	BAJA.BO
Bloomberg Code	BJAUT@IN

Shareholding Pattern (%)

Promoters	49.3
MF / Banks / Indian Fls	16.4
FII / NRIs / OCBs	18.1
Indian Public / Others	16.2

Abs. (%)	3m	1yr	3yr
Sensex	(11.1)	(16.0)	17.5
Bajaj Auto	(6.0)	(8.7)	11.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly financial performance (Standalone)

Y/E March (₹ cr)	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)	9MFY16	9MFY15	% chg (yoy)
Total operating income	5,565	5,657	(1.6)	6,098	(8.7)	17,276	16,873	2.4
Raw material consumption	3,696	3,862	(4.3)	4,055	(8.9)	11,524	11,652	(1.1)
% of total operating income	66.4	68.3		66.5		66.7	69.1	
Employee expense	230	214	7.6	242	(4.8)	716	639	12.1
% of total operating income	4.1	3.8		4.0		4.1	3.8	
Other expenditure	468	354	31.9	484	(3.4)	1,409	1,303	8.1
% of total operating income	8.4	6.3		7.9		8.2	7.7	
Total expenditure	4,394	4,430	(0.8)	4,781	(8.1)	13,648	13,594	0.4
% of total operating income	79.0	78.3		78.4		79.0	80.6	
EBITDA	1,171	1,227	(4.5)	1,317	(11.1)	3,628	3,279	10.7
EBITDA margin (%)	21.0	21.7		21.6		21.0	19.4	
Depreciation	75	66	13.5	78	(4.3)	231	204	13.5
EBIT	1,296	1,256	3.2	1,392	(6.9)	4,186	3,503	19.5
Other Income	200	95	109.6	153	30.8	789	428	84.3
Net Interest exp (inc)	0	0	-	0	(74.1)	0	0	82.6
Profit before tax (PBT)	1,296	1,256	3.2	1,391	(6.8)	4,186	3,503	19.5
Taxes	395	395	(0.1)	458	(13.9)	1,336	971	37.7
% of PBT	30.5	31.4		32.9		31.9	27.7	
Profit after tax (PAT)	901	861	4.7	933	(3.4)	2,849	2,192	30.0
Extraordinary income/(expense)	-	-		-			(242)	
Adjusted PAT	901	861	4.7	933	(3.4)	2,849	2,434	17.1
Equity capital	289.4	289.4		289.4		289.4	289.4	
Reported EPS (₹)	31.2	29.8	4.7	32.2	(3.4)	98.5	75.8	30.0
Adjusted EPS (₹)	31.2	29.8	4.7	32.3	(3.4)	98.5	84.2	17.1

Source: Company, Angel Research

Exhibit 2: 3QFY2016 – Actual vs Angel estimates

Y/E March (₹ cr)	Actual	Estimates	Variation (%)
Net Sales	5,565	5,491	1.3
EBITDA	1,171	1,181	(0.8)
EBITDA margin (%)	21.0	21.5	(50 bp)
Adjusted PAT	901	873	3.2

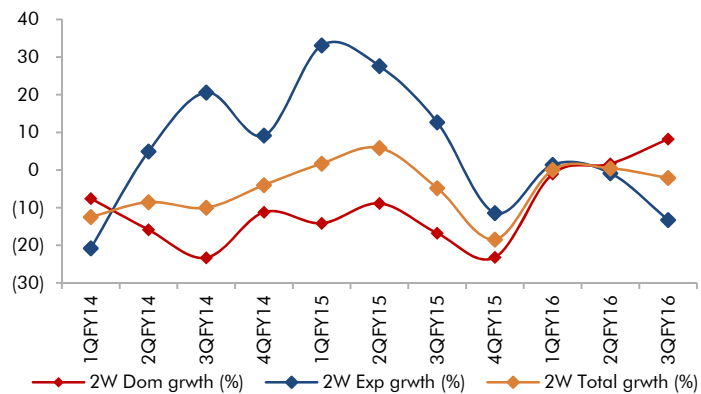
Source: Company, Angel Research

Exhibit 3: Quarterly volume performance

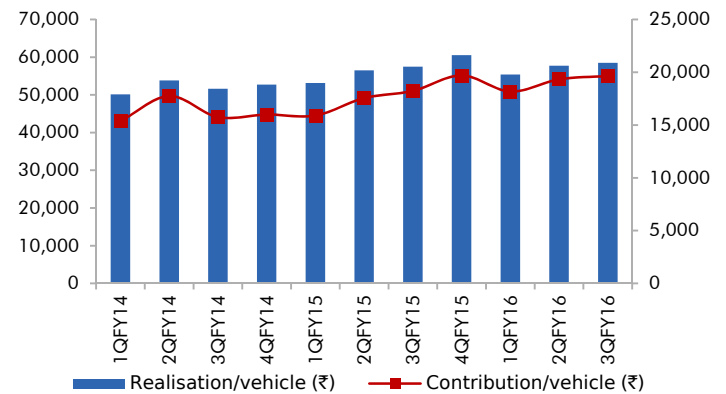
Y/E March	3QFY16	3QFY15	% chg (yoy)	2QFY16	% chg (qoq)	9MFY2016	9MFY2015	% chg (yoy)
Motorcycles (Domestic)	475,027	438,849	8.2	469,330	1.2	1,430,175	1,391,341	2.8
Motorcycles (Exports)	352,374	406,255	(13.3)	433,767	(18.8)	1,175,558	1,227,774	(4.3)
Total Motorcycles	827,401	845,104	(2.1)	903,097	(8.4)	2,605,733	2,619,115	(0.5)
Three wheeler (Domestic)	66,034	55,257	19.5	67,117	(1.6)	183,866	185,717	(1.0)
Three wheeler (Exports)	58,063	84,159	(31.0)	86,382	(32.8)	231,524	223,700	3.5
Total Three wheeler	124,097	139,416	(11.0)	153,499	(19.2)	415,390	409,417	1.5
Overall Domestic	541,061	494,106	9.5	536,447	0.9	1,614,041	1,577,058	2.3
Overall Exports	410,437	490,414	(16.3)	520,149	(21.1)	1,407,082	1,451,474	(3.1)
Total volumes	951,498	984,520	(3.4)	1,056,596	(9.9)	3,021,123	3,028,532	(0.2)

Source: Company, Angel Research

- BAL's motorcycle volumes continue to remain sluggish with the company reporting a marginal decline of 2% during 3QFY2016. In the domestic market, BAL continued to gain market share in a sluggish industry scenario, reporting a healthy volume growth of 8% on back of new launches. In the export markets, sales declined by double digits impacted by weak demand in Nigeria and Middle East countries owing to lack of USD availability due to sharp decline in crude oil prices which have severely impacted the balance of payment of these nations.
- Realisation/vehicle grew 2% yoy to ₹58,486, mainly due to higher export realization and implementation of price hikes. Contribution/vehicle improved 8% yoy due to soft commodity prices and favourable currency movement.

Exhibit 4: 2W volumes remain sluggish


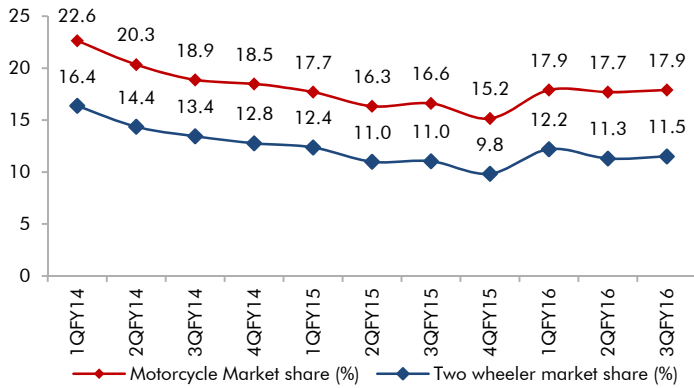
Source: SIAM, Angel Research

Exhibit 5: Realisation and contribution/vehicle trend


Source: Company, Angel Research

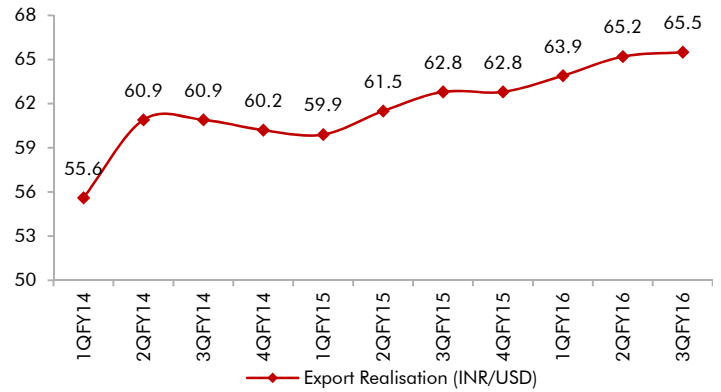
- BAL's market share in the motorcycle segment remained stable at ~18% in 3QFY2016. However, its overall two-wheeler market share declined marginally owing to its absence in the fast growing scooter segment.
- Export realization continued to improve, given the favourable INR/USD movement. BAL realized INR65.5/USD in 3QFY2016 as against INR62.8/USD accrued in 3QFY2015.

Exhibit 6: Domestic market continues to improve



Source: SIAM, Angel Research

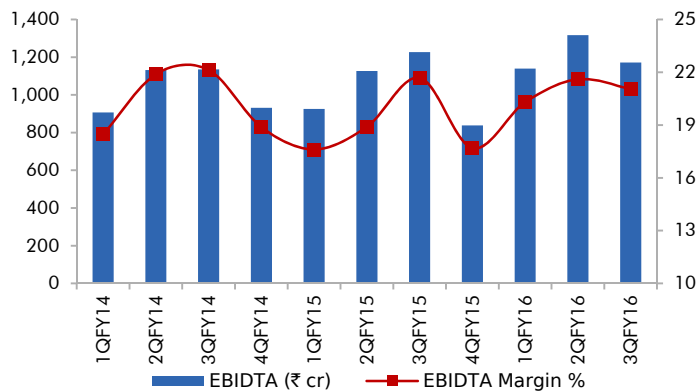
Exhibit 7: Export Realisation trend



Source: Company, Angel Research

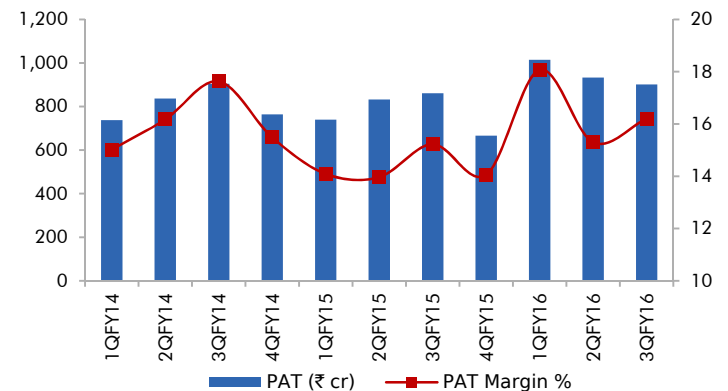
- BAL's operating margin at 21% for the quarter was in line with our estimates. Soft commodity prices coupled with higher export realization boosted margins.
- Given the in line operating performance, the Adj Net Profit at ₹902cr met our estimates.

Exhibit 8: Operating margin in line with estimates



Source: Company, Angel Research

Exhibit 9: Adj PAT broadly in line with expectations



Source: Company, Angel Research

Conference call – Key highlights

- Bajaj Auto continues to see improvement in domestic motorcycle market share. The share has gone up from 16.9% in 9MFY15 to 17.8% in 9MFY16. Success of new launches CT100 in the entry segment coupled with new variants in the Avenger, Pulsar has enabled company to regain market share.
- In a bid to gain market share further, BAL will launch 150 cc motorcycle “V”. V is aimed at the existing executive segment users and would have initial production capacity of 20,000 units per month. The bike would be launched in the month of March 2016. BAL is aiming to reach exit market share of 22% in the motorcycle segment.
- BAL is facing sales pressure in the key export markets of Africa and Middle East (which contribute about 65% of the overall export volumes) in view of the slide in the crude prices and consequent depreciation of the local currency. BAL estimates the headwinds to continue in the near term and has lowered the FY2016 export volume guidance from 2 million units to 1.83 million units.
- BAL continues to get higher export realization given the depreciation of INR as against USD. During 3QFY2016, BAL realized INR 65.5/USD and expects to realize INR67/USD for 4QFY2016. BAL stated it would realize a minimum rate of INR67/USD on FY2017 exports revenues.
- BAL started dispatches of “Qute” quadricycle in the export markets of Turkey and Nigeria from December 2015. BAL would initially tap the export markets as the launch in the domestic markets is awaiting Supreme Court judgement. BAL has production capacity of 5,000/month for the quadricycles.
- BAL also plans to reenter the three wheeler cargo segment from the month of March 2016. As per the management it aims to sell about 1,500/month of the three wheeler goods vehicle.
- BAL realized benefits of lower commodity prices in 3QFY2016. As per the management, the commodity prices would continue to remain soft in the near term and expects further benefit of lower raw material prices in 4QFY2016.
- The spare part revenues (constituting % of revenues) continue to be strong for BAL. BAL witnessed 12% yoy growth in spare revenues in 9MFY2016.

Investment arguments

- **Demand recovery, new launches key to domestic growth:** BAL's domestic motorcycle performance had been severely impacted during FY2014-2015 period due to slowdown in demand and increasing competition, leading to poor volumes (down ~15% yoy) and erosion in market share (down ~800bp to 16.5%). We attribute this to the disappointing performance of the flagship brand, *Discover* whose monthly run rate has dropped by 25-30%. We expect new launches across segments (commuter, executive and premium) to provide stability to domestic volumes going ahead and gradually help the company to consolidate its market share. Also, we expect demand in the premium motorcycle segment to accelerate in FY2016/17 on expected recovery in urban demand and expect BAL to be the key beneficiary of this trend. Thus, we expect domestic motorcycle volumes to grow at a CAGR of 10% over the next two years.
- **Exports provide huge opportunity:** BJAUT registered a strong exports CAGR of ~11% during FY2011-15. The opportunity for exports is huge in the long run and we expect Bajaj to return to double digit growth once the crude price stabilizes and demand resumes in the African and Middle East markets. We expect growth to be driven by market share gains in Africa and Latin America at the expense of Chinese players who currently dominate these regions with a market share of ~70%. BAL, with the first mover advantage, wide-spread reach with an established distribution network and a strong brand presence in the major markets of Africa and Latin America is well poised to capitalize on the growth opportunity.
- **Three-wheelers registering healthy growth; quadricycles provide additional growth opportunity:** BAL has a strong presence in the three-wheeler market, with an overall market share (including exports) of ~55%. The three-wheeler segment fetches higher margins than the company's two-wheeler business. The outlook for three-wheelers remains strong (we expect 7% CAGR over the next two years) backed by healthy demand in both the domestic as well as export markets. Further, the recent launch of quadricycle (RE60) would provide an additional growth opportunity.

Outlook and valuation

The domestic motorcycle industry is likely to recover from FY2017 given the higher income levels, implementation of Seventh pay commission and improvement in rural sentiments on expectations of a normal monsoon. Also, BAL is likely to outperform the industry with new launches scheduled in both the commuter and the sport segments. However, key export markets viz Africa and Middle East (which contribute 70% of export and 35% of overall volumes) are likely to remain under pressure in the near term given the slide in crude oil prices and consequently adverse balance of payments in those markets. **We have marginally reduced our earnings estimates given the pressure in the exports. We retain our "Accumulate" rating on the stock with a revised price target of ₹2,585 based on 18x FY2017E earnings.**

Exhibit 10: Key assumptions - Volumes

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Motorcycles (Domestic)	2,566,757	2,463,863	2,099,230	1,770,778	1,910,175	2,121,000
Motorcycles (Exports)	1,267,648	1,293,231	1,323,173	1,521,306	1,505,558	1,665,000
Total Motorcycles	3,834,405	3,757,094	3,422,403	3,292,084	3,415,733	3,786,000
Three wheeler (Domestic)	202,979	226,131	186,856	234,345	243,719	255,905
Three wheeler (Exports)	312,176	253,926	260,762	284,772	283,671	274,095
Total Three wheeler	515,155	480,057	447,618	519,117	527,390	530,000
Quadricycles				-	7,000	50,000
Total volumes	4,349,560	4,237,151	3,870,021	3,811,201	3,950,123	4,366,000
% chg	13.7	(2.6)	(8.7)	(1.5)	3.6	10.5

Source: Company, Angel Research

Company background

Bajaj Auto (BJAUT) is the third largest 2W manufacturer in the country (~18% market share) and a market leader in the 3W segment (~45% market share). BJAUT has three manufacturing facilities in India, located at Waluj, Chakan and Pantnagar, with a total installed capacity (2W - 4.8mn and 3W - 0.6mn) of 5.4mn units. BJAUT also happens to be one of India's largest auto exporters, with exports forming ~50% of revenue in FY2015. The two dominant brands, *Discover* and *Pulsar*, account for ~65% of the company's motorcycle volumes.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	19,529	19,997	20,150	21,612	22,709	25,860
% chg	19.1	2.4	0.8	7.3	5.1	13.9
Total expenditure	15,809	16,362	16,044	17,495	17,955	20,649
Net raw material costs	14,103	14,407	13,877	14,850	15,168	17,457
Other mfg costs	327	382	434	485	535	585
Employee expenses	540	639	727	897	941	1,084
Other	839	934	1,007	1,263	1,311	1,524
EBITDA	3,720	3,635	4,106	4,117	4,754	5,210
% chg	17.3	(2.3)	12.9	0.3	15.5	9.6
(% of total op. income)	19.0	18.2	20.4	19.0	20.9	20.1
Depreciation & amortization	146	164	180	267	306	324
EBIT	3,574	3,471	4,633	4,432	5,437	5,976
% chg	17.3	(2.9)	8.6	(4.3)	22.7	9.9
(% of total op. income)	18.3	17.4	23.0	20.5	23.9	23.1
Interest and other charges	22	1	0	6	1	1
Other income	608	795	706	582	989	1,090
Recurring PBT	4,160	4,266	4,632	4,425	5,437	5,975
% chg	14.8	2.5	8.6	(4.5)	22.9	9.9
Extraordinary income/(exp.)	(134)	-	0	(340.3)	0	0
PBT (reported)	4,026	4,266	4,632	4,085	5,437	5,975
Tax	1,022	1,223	1,362	1,271	1,705	1,823
(% of PBT)	25.4	28.7	29.4	28.7	31.4	30.5
PAT (reported)	3,004	3,044	3,242	2,814	3,731	4,153
ADJ. PAT	3,138	3,044	3,242	3,101	3,731	4,153
% chg	20.0	(3.0)	6.5	(4.4)	20.3	11.3
(% of total op. income)	16.1	15.2	16.1	13.0	16.4	16.1
Basic EPS (₹)	103.8	105.2	112.1	107.2	129.0	143.6
Adj. EPS (₹)	108.4	105.2	112.1	107.2	129.0	143.6
% chg	20.0	(3.0)	6.5	(4.4)	20.3	11.3

Balance sheet statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	289	289	289	289	289	289
Reserves & surplus	5,752	7,613	9,319	10,787	12,170	14,136
Shareholders' funds	6,041	7,902	9,608	11,076	12,459	14,425
Total loans	97	71	145	145	112	112
Deferred tax liability	48	115	143	143	142	142
Other long term liabilities	157	122	-	-		
Long term provisions	112	135	121	120	120	130
Total Liabilities	6,456	8,345	10,017	11,485	12,832	14,809
APPLICATION OF FUNDS						
Gross block	3,396	3,829	4,077	4,427	4,451	4,801
Less: Acc. depreciation	1,914	2,024	2,071	2,338	2,490	2,814
Net Block	1,482	1,804	2,006	2,089	1,961	1,987
Capital work-in-progress	42	294	144	150	150	150
Investments	4,883	6,430	8,550	9,000	10,000	11,000
Long term loans and adv.	601	462	720	970	511	611
Other noncurrent assets	1	1	1	1	1	1
Current assets	4,076	3,487	3,327	3,243	4,061	4,148
Cash	1,654	559	495	292	611	460
Loans & advances	1,025	1,312	978	969	1,438	1,527
Other	1,397	1,616	1,853	1,983	2,012	2,160
Current liabilities	4,628	4,134	4,730	3,968	3,852	3,088
Net current assets	(553)	(647)	(1,403)	(725)	209	1,059
Misc. exp. not written off	-	-	-	-		
Total Assets	6,456	8,345	10,017	11,485	12,832	14,809

Note: Cash and bank balance includes term deposits with banks

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	4,026	4,266	4,632	4,372	5,437	5,975
Depreciation	146	164	47	267	306	324
Change in working capital	332	(521)	693	(882)	(936)	(1,001)
Direct taxes paid	(1,148)	(1,239)	(1,390)	(1,271)	(1,705)	(1,823)
Less: Others	(162)	(535)	(87)	(251)	(21)	(90)
Cash Flow from Operations	3,193	2,134	3,894	2,235	3,081	3,386
(Inc.)/Dec. in fixed assets	(338)	(488)	(99)	(356)	(245)	(350)
(Inc.)/Dec. in investments	(94)	(1,353)	(2,119)	(450)	(847)	(1,000)
Others	(250)	563				
Cash Flow from Investing	(682)	(1,278)	(2,218)	(806)	(1,092)	(1,350)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(158)	-	(48)	-	-	-
Dividend paid (Incl. Tax)	(1,154)	(1,300)	(1,692)	(1,633)	(1,965)	(2,187)
Others	(252)	(179)	-	-		
Cash Flow from Financing	(1,564)	(1,479)	(1,740)	(1,633)	(1,965)	(2,187)
Inc./(Dec.) in cash	947	(622)	(63)	(204)	24	(151)
Opening Cash balances	229	1,176	559	495	586	611
Closing Cash balances	1,176	553	495	292	611	460

Note: Closing Cash balances excludes term deposits with banks

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	21.2	21.9	20.5	21.5	17.8	16.0
P/CEPS	20.3	20.8	19.5	21.6	16.5	14.9
P/BV	11.0	8.7	7.1	6.4	5.5	4.7
Dividend yield (%)	2.0	2.0	2.2	2.1	2.5	2.8
EV/Sales	3.3	3.0	2.9	2.7	2.5	2.1
EV/EBITDA	17.5	16.7	14.3	14.1	12.0	10.6
EV / Total Assets	10.1	7.3	5.9	5.2	4.5	3.7
Per Share Data (₹)						
EPS (Basic)	108.4	105.2	112.1	107.2	129.0	143.6
EPS (fully diluted)	108.4	105.2	112.1	107.2	129.0	143.6
Cash EPS	113.5	110.9	118.3	106.5	139.5	154.7
DPS	45.0	45.0	50.0	48.2	58.1	64.6
Book Value	208.8	263.2	322.2	359.7	420.8	488.8
Returns (%)						
ROCE (Pre-tax)	59.5	52.0	46.8	40.3	42.8	40.7
Angel ROIC (Pre-tax)	72.6	54.8	49.1	42.2	44.5	41.7
ROE	57.3	40.0	34.8	27.0	30.7	29.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	5.8	5.2	4.9	5.3	5.1	5.4
Inventory / Sales (days)	11	12	12	14	13	12
Receivables (days)	7	14	14	12	13	13
Payables (days)	43	46	52	43	46	44
WC cycle (ex-cash) (days)	(35)	(20)	(26)	(17)	(20)	(19)
Solvency ratios (x)						
Net debt to equity	(1.1)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)
Net debt to EBITDA	(1.7)	(1.9)	(2.2)	(2.3)	(2.2)	(2.2)
Interest Coverage (EBIT / Int.)	160.7	7,901.4	9,454.2	682.8	8,770.2	5,976.5

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Disclosure of Interest Statement	Bajaj Auto
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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