

July 22, 2010

Rating	Accumulate
Price	Rs2,490
Target Price	Rs2,704
Implied Upside	8.6%
Sensex	18,113

(Prices as on July 22, 2010)

Trading Data

Market Cap. (Rs bn)	360.3
Shares o/s (m)	144.7
Free Float	50.35%
3M Avg. Daily Vol ('000)	258.4
3M Avg. Daily Value (Rs m)	577.4

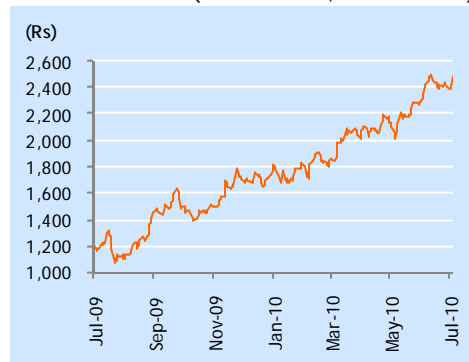
Major Shareholders

Promoters	49.65%
Foreign	18.58%
Domestic Inst.	6.06%
Public & Others	25.71%

Stock Performance

(%)	1M	6M	12M
Absolute	7.1	38.9	113.6
Relative	5.1	31.5	91.5

Price Performance (RIC: BAJA.BO, BB: BJAUT IN)



Source: Bloomberg

■ **Spectacular set of numbers driven by higher volumes:** Bajaj Auto (BJA) has reported 66.4% YoY improvement in its top-line at Rs38.9bn in Q1FY11. The company reported good set of numbers on account of 69.5% YoY volume growth. However, the average realisation/vehicle declined by 1.9% YoY on account of the product mix tilting towards the 100cc bike. On a sequential basis, the volumes increased by 14.8%, whereas the average realization was flat. Increase in raw material cost by 190bps QoQ, coupled with a 70bps QoQ increase in employee expenses, led to a 290bps sequential decline in EBITDA margins at 20.0% (we estimated 19.9%). Raw material cost/vehicle increased by 2.5% QoQ, thereby leading to 13% sequential drop in EBITDA/vehicle. Due to doubling of other income QoQ and absence of VRS expenses sequentially, the net profit for the quarter improved by 11% QoQ at Rs5.9bn, the highest ever by the company.

■ **Pantnagar to account for ~31% of two-wheeler EBITDA in FY11E:** We expect the excise-free Pantnagar facility to produce 8.9lac motorcycles, thereby, accounting for 26% of the motorcycle volumes. We expect the Pantnagar facility to contribute to ~31% of the overall two-wheeler EBITDA.

■ **Our volume estimates:** We expect the two-wheeler volumes, including exports, to grow by 39.2% in FY11E to 3.5m units on the back of full year contribution of 97cc 'Discover' and 135cc 'Pulsar' and the recently launched 150cc 'Discover'. Three-wheeler volumes are estimated at 0.39m in FY11E, a 15.9% growth. Total exports are estimated to grow at 37.6% at 1.2m in FY11E.

■ **Outlook & Valuation:** We estimate a 25.9% CAGR in earnings for the period FY10-FY12E. With Bajaj Auto continuously gaining market share (currently at ~33%), we expect it to trade at a higher one-year fwd P/E multiple. The stock is currently trading at 15.1x FY11E EPS and 13.3x FY12E EPS, which in our view is attractive. Hence, we maintain our 'Accumulate' rating on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	88,458	119,210	163,649	184,896
Growth (%)	(2.2)	34.8	37.3	13.0
EBITDA (Rs m)	12,213	25,926	33,315	37,513
PAT (Rs m)	6,836	17,027	23,801	26,985
EPS (Rs)*	47.1	117.7	164.5	186.5
Growth (%)	(9.9)	149.9	39.8	13.4
Net DPS (Rs)	22.0	40.0	50.0	50.0

Source: Company Data; PL Research

* pre-bonus

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	13.8	21.7	20.4	20.3
RoE (%)	36.6	58.1	53.3	42.7
RoCE (%)	37.7	66.9	66.9	57.1
EV / sales (x)	4.0	2.8	1.9	1.6
EV / EBITDA (x)	26.7	12.2	9.1	7.6
PE (x)	54.9	21.1	15.1	13.3
P / BV (x)	19.3	12.3	8.1	5.7
Net dividend yield (%)	0.6	1.6	2.0	2.0

Source: Company Data; PL Research

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Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Total Income	38,901	23,385	66.4	33,995	163,649	119,210	37.3
Total Expenditure	31,131	18,831	65.3	26,224	130,334	93,284	39.7
Total Material Cost	27,682	15,470	78.9	23,544	116,225	80,704	44.0
<i>as % of Net Sales</i>	<i>71.2</i>	<i>66.2</i>		<i>69.3</i>	<i>71.0</i>	<i>67.7</i>	
Staff costs	1,264	1,129	11.9	862	4,194	3,995	5.0
<i>as % of Net Sales</i>	<i>3.2</i>	<i>4.8</i>		<i>2.5</i>	<i>2.6</i>	<i>3.4</i>	
Other expenses	2,195	2,244	(2.2)	1,877	10,075	8,742	15.2
<i>as % of Net Sales</i>	<i>5.6</i>	<i>9.6</i>		<i>5.5</i>	<i>6.2</i>	<i>7.3</i>	
Expenses capitalized	(9)	(12.9)		(59)	(160)	(157)	2.1
Operating Profit	7,769	4,554	70.6	7,771	33,315	25,926	28.5
<i>as % of Net Sales</i>	<i>20.0</i>	<i>19.5</i>		<i>22.9</i>	<i>20.4</i>	<i>21.7</i>	<i>(6.4)</i>
Other Income & Wind Power	817	231	252.9	425	1,470	1,225	20.0
EBITDA	8,586	4,786	79.4	8,196	34,785	27,151	28.1
Interest	6	60	(89.4)	0	50	60	(16.3)
Depreciation	318	331	(3.8)	341	1,447	1,365	6.0
Extraordinary		240		467		1,624	
Profit Before Tax	8,262	4,155	98.8	7,388	33,288	24,102	38.1
Taxation	2,360	1,220	93.4	2,075	9,487	7,075	34.1
<i>as % of PBT</i>	<i>28.6</i>	<i>29.4</i>		<i>28.1</i>	<i>28.5</i>	<i>29.4</i>	
PAT	5,902	2,935	101.1	5,313	23,801	17,027	39.8

Operating Metrics

(Rs)

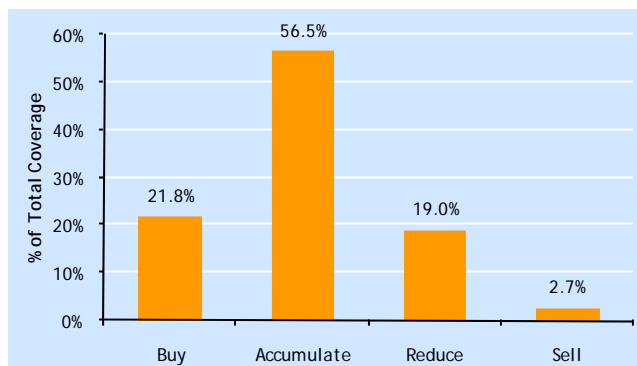
Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Vehicles Sold (2&3 wheeler)	928,336	547,662	69.5	808,929	3,885,418	2,852,536	36.2
Total Income/Vehicle	41,904	42,699	(1.9)	42,024	42,119	41,791	0.8
Material Cost / Vehicle	29,819	28,248	5.6	29,105	29,913	28,292	5.7
Other Expenses / Vehicle	2,364	4,098	(42.3)	2,320	2,593	3,065	(15.4)
EBITDA/Vehicle	8,369	8,316	0.6	9,607	8,574	9,089	(5.7)
Net Profit/Vehicle	6,357	5,359	18.6	6,567	6,126	5,969	2.6

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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