

RESULT UPDATE ✓

# Bajaj Auto (BAAUTO)

## WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY09E).....	Rs 49.6
EPS (FY10E).....	Rs 56.3
RATING.....	Unchanged

<b>Current Price</b> Rs 498	<b>Target Price</b> Rs 450
<b>Potential upside</b> -10%	<b>Time Frame</b> 9 months

**HOLD**

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## Margins shielded despite volume doom...

Bajaj Auto (BAL) reported 15.9% de-growth in topline to Rs 2,103.1 crore for Q3FY09 as against our expectation of Rs 1,955.1 crore. Higher contribution from 125 cc + restricted de-growth to 15.9% as opposed to the total volume de-growth of 31%. Average realisations improved 20.7% to Rs 40,603 per unit. Flat three-wheeler (high margin) sales, improved product mix coupled with cost rationalisation from new plant aided EBITDA margin expansion to 14.5% as against 13.5% in Q2FY09. Higher interest costs and VRS payment (Akurdi plant) put pressure on the bottomline, which declined 22.2% to Rs 144.3 crore. For the 9 months (April-December) period, net sales were flat at Rs 6,927 crore while net profit fell 9.4% to Rs 605.7 crore. Average realisation improved 7.8% to Rs 37,912 per unit.

## Outlook

Going forward, with the lower financing available to buyers, we expect volume growth to be subdued in Q4FY09. The improving price realisation and higher contribution from the high margin 125cc+ segment (overall 53% market share) would restrict the EBITDA contraction to 11.4% in FY09.

## Valuations

At the CMP of Rs 498, the stock is trading at 10x and 8.8x its FY09E and FY10E EPS, respectively. Though the valuation looks attractive, concerns remain for volume growth. In the current scenario, we maintain our target price of Rs 450 and reiterate our **HOLD** rating.

## Stock data

Market Cap.	Rs 7,205.0 cr
Debt (FY08)	Rs 1,334.3 cr
Cash (FY08)	Rs 56.1 cr
EV	Rs 8,539.4 cr
52 week H/L	Rs 898 / 262
Equity capital	Rs 144.7 cr
Face value	Rs 10.0
MF Holding	4.3%
FII Holding	12.1%

## Price Performance (%)

	1M	3M	6M	12M
Bajaj Auto	12.6	-12.9	3.4	19.6
Hero Honda	3.8	-0.4	31.7	4.5
TVS Motors	-38.2	-47.3	-34.5	-26.9

## Exhibit 1: Key Financials

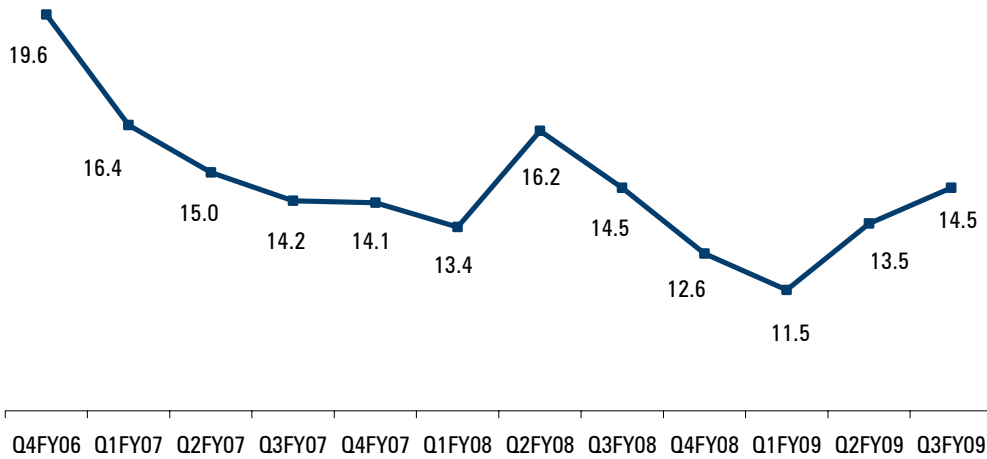
	(Rs crore)								
	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTFY09	FY09E	FY10E
<b>Net sales</b>	2,103.1	1,955.1	2,501.3	2,548.4	-15.9	-17.5	6,927.0	9,975.6	11,131.6
<b>EBITDA</b>	305.8	234.6	367.0	343.9	-16.7	-11.1	916.5	1,137.2	1,319.7
<b>EBITDA margin (%)</b>	14.5	12.0	14.7	13.5	-	-	13.2	11.4	11.9
<b>Depreciation</b>	31.9	33.0	41.8	33.1	-23.8	-3.6	98.5	194.2	205.0
<b>Interest</b>	9.0	4.0	1.9	5.9	367.4	53.7	15.8	4.1	3.3
<b>Other inc/extraord item</b>	-23.2	10.0	-8.2	-39.0	NC	-40.5	-33.4	147.5	123.0
<b>Reported net profit</b>	164.3	144.3	213.4	184.9	-23.0	-11.2	524.3	717.2	814.8
<b>EPS (Rs)</b>	11.5	10.0	15.5	12.8	-25.9	-10.1	36.4	49.6	56.3
<b>Valuations</b>									
<b>PE (x)</b>	-	-	-	-	-	-		10.0	8.8
<b>Target PE (x)</b>	-	-	-	-	-	-		9.1	8.0
<b>EV/EBIDTA (x)</b>	-	-	-	-	-	-		5.3	4.5
<b>Price/book (x)</b>	-	-	-	-	-	-		3.5	2.7
<b>RoNW (%)</b>	-	-	-	-	-	-		39.3	34.8
<b>RoCE (%)</b>	-	-	-	-	-	-		36.4	37.6

Source: Company, ICICIdirect.com Research

## Other highlights

### EBITDA margin improvement

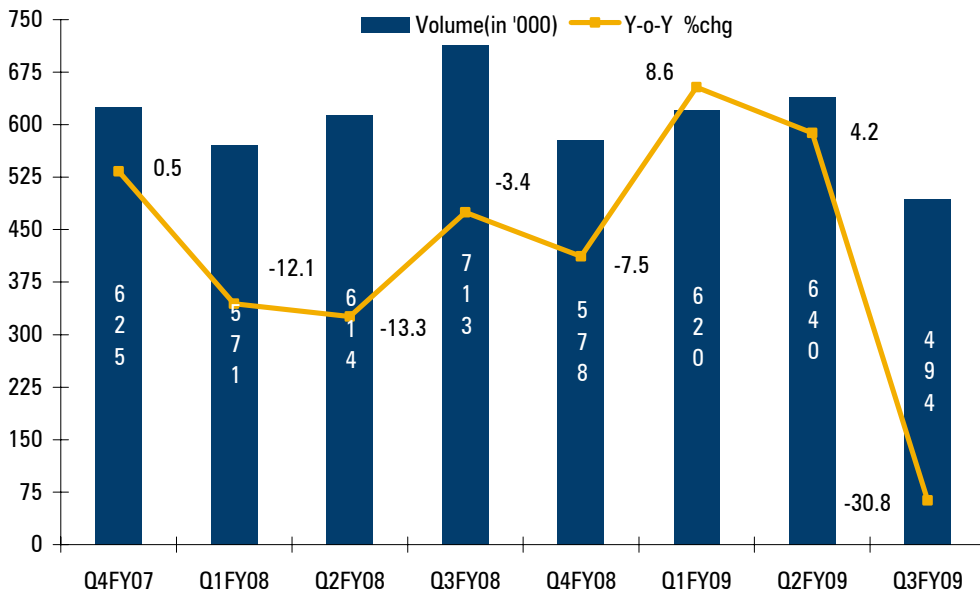
Exhibit 2: EBITDA margin movement (%)



Source: ICICIdirect.com Research

### Q-o-Q Volume performance with growth (%)

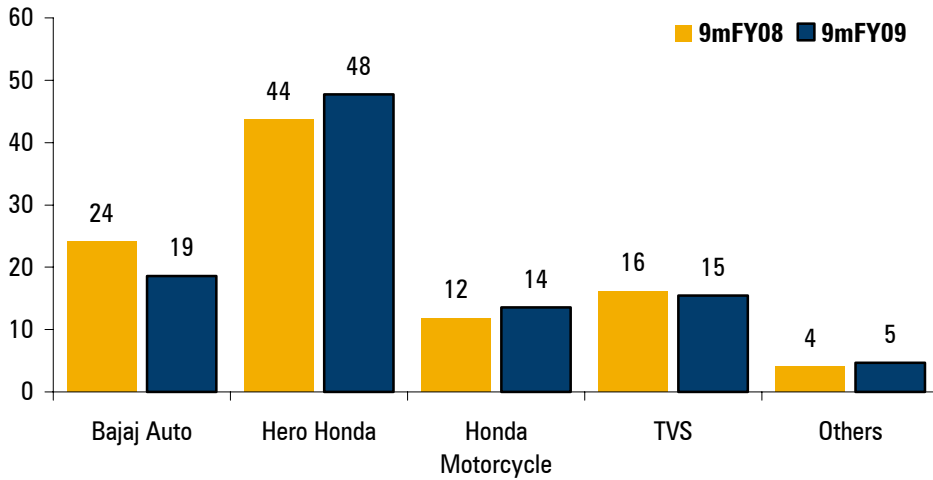
Exhibit 3: Volume performance



Source: Society of Indian Automobile Manufacturers (SIAM)

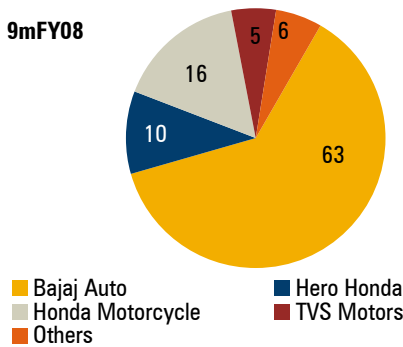
## Market share (YTD – December 08)

Exhibit 4: Market share movement - two wheelers (%)



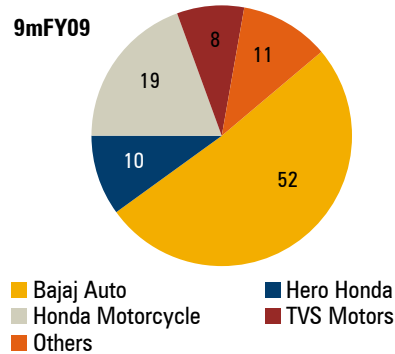
Source: SIAM

Exhibit 5: 125cc + Market share movement



Source: SIAM

Exhibit 6: 125cc + Market share movement



Source: SIAM

## Sparkling exports

The booming export opportunity for the company has helped in offsetting the dwindling domestic demand and has grown by 41.4% to 215,233 units this quarter. Exports, as a percentage of sales, have improved from 21.4% to 43.6%. However, the management expects exports to slow down in Q4FY09.

Exhibit 7: Export volumes('000 numbers)

	Q3FY08	Q3FY09	%chg	9mFY08	9mFY09	%chg
Motorcycles	116.4	168.0	44.3	357.3	507.3	42.0
2-Wheelers	116.6	168.5	44.5	358.0	509.0	42.2
3-Wheelers	35.7	46.7	31.1	102.1	111.9	9.5
Total	152.3	215.2	41.4	460.3	620.9	34.9
Value (Rs crore)	511.0	795.0	55.6	1,543.0	2,149.0	39.3

Source: Company

### VRS expenses and interest costs hitting bottomline

The payment of Rs 61.1 crore towards voluntary retirement scheme (VRS) continued its pressure on the bottomline. Additionally, the interest costs also increased considerably to Rs 9 crore as against Rs 1.9 crore in the corresponding quarter.

### Risk & Concern

- The scarcity of finance is a major concern for the sector in general and BAL in particular as it caters more to the 125cc+ segment. We expect Bajaj Finance to play a leading role to boost volume growth.
- Focus on the rural market would also help them improve volume growth in the entry segment.

### Detailed valuations

At the CMP of Rs 498, the stock is trading at 10x and 8.8x its FY09E and FY10E EPS. Though the valuation looks attractive, concerns over volume growth continue. In the current scenario, we maintain our target price of Rs 450 and reiterate our **HOLD** rating.

### Exhibit 8: Valuations

	Sales (Rs	EPS (Rs)	EV/EBITDA			
	Crone}		PE (x)	(x)	RoNW (%)	RoCE (%)
<b>FY08</b>	8,828.6	48.1	10.4	5.9	19.5	22.9
<b>FY09E</b>	9,975.6	49.6	10.0	5.3	39.3	36.4
<b>FY10E</b>	11,131.6	56.3	8.8	4.5	34.8	37.6
<b>FY11E</b>	12,472.1	64.8	7.7	3.6	31.5	39.8

Source: ICICIdirect.com Research, Company

## ICICIdirect.com Coverage Universe

### Exhibit 9: Universe consolidated

<b>Bajaj Auto</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	BAAUTO	<b>CMP</b>	498	<b>FY08</b>	8,828.6	48.1	10.4	5.9	19.5	22.9
<b>Rating</b>	H	<b>Target</b>	450	<b>FY09E</b>	9,975.6	49.6	10.0	5.3	39.3	36.4
<b>Mcap (Rs cr)</b>	7,205.1	<b>% Upside</b>	-9.6	<b>FY10E</b>	11,131.6	56.3	8.8	4.5	34.8	37.6
				<b>FY11E</b>	12,472.1	64.8	7.7	3.6	31.5	39.8

<b>Escorts</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	ESCORT	<b>CMP</b>	38	<b>FY08</b>	2,177.9	9.7	3.9	5.5	1.3	6.2
<b>Rating</b>	-	<b>Target</b>	-	<b>FY09E</b>	2,126.8	2.6	14.7	5.4	2.9	5.3
<b>Mcap (Rs cr)</b>	320.7	<b>% Upside</b>	-	<b>FY10E</b>	2,398.1	4.2	9.0	4.1	4.6	6.5

<b>Apollo Tyres</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	APOTYR	<b>CMP</b>	19	<b>FY08</b>	3,693.9	4.5	4.2	2.9	20.0	24.4
<b>Rating</b>	UP	<b>Target</b>	17	<b>FY09E</b>	3,911.3	1.3	14.5	5.0	5.2	8.2
<b>Mcap (Rs cr)</b>	928.2	<b>% Upside</b>	-10.5	<b>FY10E</b>	4,334.2	1.6	12.2	4.3	5.9	8.8

<b>Automotive Axle</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	AUTAXL	<b>CMP</b>	97	<b>FY08</b>	776.0	44.2	2.2	1.8	45.0	44.0
<b>Rating</b>	UP	<b>Target</b>	114	<b>FY09E</b>	814.8	30.2	3.2	2.2	24.3	27.4
<b>Mcap (Rs cr)</b>	146.7	<b>% Upside</b>	17.5	<b>FY10E</b>	936.4	38.1	2.5	1.4	25.3	32.1

<b>Balkrishna Industries</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	BALIND	<b>CMP</b>	168	<b>FY08</b>	991.4	54.6	3.1	4.8	28.2	23.9
<b>Rating</b>	P	<b>Target</b>	185	<b>FY09E</b>	1,175.4	35.6	4.7	4.8	15.6	14.7
<b>Mcap (Rs cr)</b>	324.8	<b>% Upside</b>	10.1	<b>FY10E</b>	1,309.1	46.2	3.6	4.1	17.5	14.6

<b>Bharat Forge</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	BHAFOR	<b>CMP</b>	83	<b>FY08</b>	2,196.5	12.2	6.8	5.5	19.6	18.8
<b>Rating</b>	P	<b>Target</b>	87	<b>FY09E</b>	2,406.2	3.3	24.9	5.2	4.9	16.0
<b>Mcap (Rs cr)</b>	1,848.4	<b>% Upside</b>	4.8	<b>FY10E</b>	2,729.6	8.5	9.7	4.1	11.8	17.1

<b>JK Tyres</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	JKIND	<b>CMP</b>	39	<b>FY08</b>	3,263.7	23.7	1.6	4.3	13.3	13.1
<b>Rating</b>	H	<b>Target</b>	43	<b>FY09E</b>	3,623.2	9.5	4.1	5.2	4.7	8.5
<b>Mcap (Rs cr)</b>	160.1	<b>% Upside</b>	10.3	<b>FY10E</b>	4,065.0	14.4	2.7	5.2	6.7	9.6

<b>Subros</b>					<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>
<b>Idirect Code</b>	SUBROS	<b>CMP</b>	17	<b>FY08</b>	662.6	4.8	3.6	2.6	17.6	20.1
<b>Rating</b>	UP	<b>Target</b>	17	<b>FY09E</b>	619.3	4.1	4.1	2.4	13.4	16.6
<b>Mcap (Rs cr)</b>	102.0	<b>% Upside</b>	0	<b>FY10E</b>	653.9	4.5	3.8	2.0	13.1	16.0

Source: ICICIdirect.com Research , EV/E signifies EV/EBITDA

## Peer Valuation

**Exhibit 10: Peer comparison valuation**

	CMP	TP	Rating	M Cap (Rs Cr.)	EPS			P/E (x)			EV/EBITDA (x)			ROCE			RONW		
					FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Baj Aut	498	450	H	7,205.1	48.1	49.6	56.3	10.4	10.0	8.8	5.9	5.3	4.5	22.9	36.4	37.6	19.5	39.3	34.8
Her Hon*	840	892		16,774.8	45.2	58.9	68.3	18.6	14.3	12.3	13.4	10.8	9.4	19.6	22.8	21.6	32.2	34.3	32.6
TVS Mot*	16	23		380.0	1.0	1.4	2.5	15.4	11.3	6.3	11.7	9.3	7.0	2.9	5.2	4.6	3.4	5.2	8.9

Source: ICICIdirect.com Research, \* Consensus estimates

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**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

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