

Q3FY10 Result Update

Bajaj Auto (BJAUT IN)

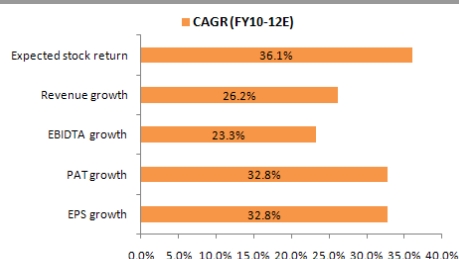
January 20th, 2011

Industry **Automobile**

Concerns on EBIDTA margin unfounded

BUY (CMP: ₹.1320)

Market Cap ₹ 382bn; USD: 8.5bn

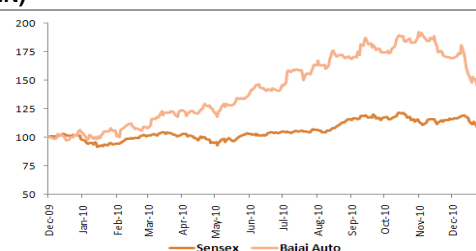


Price	1320
Target Price	1765
Last call	BUY (28-12-2010 at Rs 1454)
Expected share price return	33.7%
Expected dividend yield	2.4%
Expected total return	-36.1%

Market Data

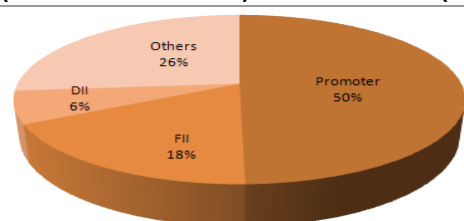
Market Cap.	Rs 382bn/ US\$ 8.5bn
Share Cap. (mn)	2894
52 Wk High/Low	1664/810
Avg. Vol. (Weekly)	6137.86

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



Shareholding Pattern (As on 30th Dec 2010)

(%)



Financials (₹Mn)

	FY10	FY11E	FY12E
Net Sales	118,637	165,422	189,027
EBIDTA	25,353	33,946	38,561
PBT	24,111	35,905	41,731
PAT	17,036	25,852	30,046
EBIDTA Margin(%)	21.4	20.5	20.4
PAT Margin(%)	14.4	15.6	15.9
EPS	58.9	89.3	103.8
CEPS	63.6	93.8	108.5
P/E	22.4	14.8	12.7
EV/EBIDTA	14.0	10.1	8.3
ROE(%)	73.8	68.6	53.8
ROCE(%)	68.5	69.1	59.2

Bajaj Auto (BAL) reported Q3FY11 results above our estimates, led by a high contribution from higher end motorcycles in its motorcycle volumes and lower effective tax rate. Net sales, EBIDTA and PAT grew by YoY 26.7%, 17.4% and 40.4% respectively. BAL reported EPS of ₹23.1 against our estimates of ₹21.0.

In Q3FY11 BAL reported highest ever PAT margin at 16%, driven by healthy operating performance and lower tax rate. Despite slower volume growth and raw material cost pressure, BAL reported EBIDTA margin at 20.3%, which we believe was led by better product mix and 2% price hike taken by the company in Oct 2010. The Effective tax rate for the quarter stood at 27.8% v/s 29.8% in Q3FY10, which we believe was due to higher production at its tax free Pantnagar plant. Even though BAL's domestic motorcycle volume growth was slower than industry volume growth, its market share in higher end motorcycles segment has increased significantly to 50%. We expect uptick in volume to begin from January 2011E onwards. We estimate BAL to end FY11 with 36.5% YoY growth in volumes to 3.89mn units. We maintain our FY11E and FY12E EPS estimate of ₹89.3 and ₹103.8. We retain our "BUY" rating on the stock with target price of ₹1765.

BAL sold 9.46 lakh vehicles in Q3FY11, in line with its target of 9.5 lakh vehicles

During Q3FY11 BAL reported YoY 17.0% growth in its volumes to 9.46 lakh units, led by the healthy festive season against its quarterly target of selling 9.5 lakh units. This was driven by 21.5% YoY growth in domestic volumes to 6.5 lakh units and 8.3% YoY growth in export volumes to 2.96 lakh units. Even though the volume growth was slow in Q3FY11, we believe that volume uptick would begin from January 2011 onwards.

High end motorcycles' share in domestic motorcycle volumes increased to 56%

During Q3FY11 BAL's domestic motorcycle volume growth at YoY 22.6% was lower than domestic motorcycle industry volume growth at YoY 25.6%. However the proportion of higher end (engine capacity 125 to 250 cc) motorcycle in its total domestic motorcycle volumes has increased significantly to 56% from 36% in Q3FY10. This we believe helped BAL to report healthy average realization per unit (YoY 8.7% to Rs.42,543) and EBIDTA margin at 20.3%.

Market share in higher end motorcycle segment increased to 50% in Q3FY11

During Q3FY11, even though the market share of BAL slipped in motorcycle segment on YoY basis, its market share in high end motorcycles has increased on YoY basis. The market share of BAL in motorcycle segment has decreased marginally from 26.8% in Q3FY10 to 25.6% in Q3FY11; however its market share in higher end motorcycle segment (engine capacity 125 to 250 cc) has increased from 43.8% in Q3FY10 to 50% in Q3FY11.

We maintain our "BUY" rating on the stock with a target price of ₹1765

For the last 6 quarters, BAL continuously showed strong operating performance and reported EBIDTA margin ~20% (highest amongst its peers). This vindicates our positive stand on BAL in two wheeler space (refer our report "Two wheeler sector report- Riding on domestic consumption cycle"). Post Q3FY11 results, we are not changing our volume estimates of 3.89 mn units for FY11E and 4.30 mn for FY12E, given BAL has already sold 2.87 mn vehicles in 9MFY11. This leads us to maintain our earnings estimate for FY11E FY12E. At CMP of ₹1320, stock is trading at 14.8x FY11E EPS of ₹89.3 and 12.7x FY12E EPS of ₹103.8. We maintain our "BUY" rating on the stock with a target price of ₹1765 (17x FY12E EPS of ₹103.8).

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Table 1: Quarterly result

₹ Mn	Q3FY11	Q3FY10	YoY Chg	9MFY11	9M FY10	YoY Chg
Net Sales	41771	32956	26.7%	124090	85215	45.6%
Expenditure						
Materials Consumed	29826	22567	32.2%	88220	57161	54.3%
% of sales	71.4%	68.5%		71.1%	67.1%	
Employee Cost	1066	930	14.6%	3471	3133	10.8%
% of sales	2.6%	2.8%		2.8%	3.7%	
Other Exp	2386	2224	7.3%	7164	6767	5.9%
% of sales	5.7%	6.7%		5.8%	7.9%	
EBITDA	8493	7235	17.4%	25234	18155	39.0%
EBITDA margin (%)	20.3%	22.0%		20.3%	21.3%	
Depreciation	310	357	-13.1%	928	1023	-9.3%
EBIT	8183	6879	19.0%	24306	17131	41.9%
Other Income	995	351	183.1%	2648	800	231.1%
Interest expenses	4	0		16	60	
E/o expense		458			1157	
PBT	9174	6771	35.5%	26938	16715	61.2%
Tax	2503	2020	23.9%	7545	5000	50.9%
Effective tax rate (%)	27.3%	29.8%		28.0%	29.9%	
Reported PAT	6671	4751	40.4%	19393	11715	65.5%
Net Margin (%)						
EPS	23.1	16.4	40.4%	67.0	40.5	65.5%

Source: Company and Systematix Institutional Research

Q3FY11 result highlights

- Net sales increased by 26.7% YoY to ₹41.8 bn led by 17.0% YoY growth in volumes and 8.7% YoY growth in average realization per vehicle.
- Despite the increase in raw material costs, the EBIDTA grew by 17.4% YoY to ₹8.5 bn driven by better product mix and healthy realization (led by price hike). In Q3FY11, BAL sold total 262k 'Pulsar' (31% of total motorcycle volumes) and total 327k 'Discover' (39% of total motorcycle volumes) brand.
- EBIDTA margin stood at 20.3%, (as per management guidance of EBIDTA margin~20%). Effective tax rate stood at 27.3% v/s 29.8% inQ3FY10, which we believe was due to higher production at its tax free Pantnagar plant.
- PAT grew by 40.4% YoY to ₹6.7bn led by healthy operating performance and lower tax rate.
- In Q3FY11, BAL reported its highest ever PAT margin at 16%.

Table 2: Profit And Loss Account

Y/E, Mar (₹mn)	FY09	FY10	FY11E	FY12E
Net Sales	87,556	118,637	165,422	189,027
Growth (%)	(2.2)	35.5	39.4	14.3
Expenditure	76,183	93,284	131,476	150,466
Materials Consumed	64,635	80,704	116,700	134,365
Employee Cost	3,544	3,995	4,723	5,552
Other Exp	8,004	8,585	10,053	10,549
EBITDA	11,373	25,353	33,946	38,561
Growth (%)	(5.2)	122.9	33.9	13.6
EBITDA margin (%)	13.0	21.4	20.5	20.4
Depreciation	1,298	1,365	1,276	1,358
EBIT	10,075	23,989	32,670	37,203
EBIT margin (%)	11.5	20.2	19.7	19.7
Other Income	1,767	1,798	3,266	4,570
Interest expenses	210	60	30	43
E/O items	(2,051)	(1,615)	-	-
PBT	9,581	24,111	35,905	41,731
Tax	3,016	7,075	10,053	11,685
Effective tax rate (%)	31.5	29.3	28.0	28.0
Reported PAT	6,565	17,036	25,852	30,046
Growth (%)	(13.2)	159.5	51.7	16.2
Net Margin (%)	7.5	14.4	15.6	15.9

Source: Company and Systematix Institutional Research

Table 3: Balance Sheet

Y/E, Mar (₹.mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,447	1,447	2,894	2,894
Reserves & surplus	17,250	27,837	43,198	62,733
Net worth	18,697	29,283	46,092	65,627
Secured Loans	0	130	0	0
Unsecured Loans	15,700	13,256	15,206	14,206
Loan Funds	15,700	13,386	15,206	14,206
Net deferred tax liability	42	17	17	17
Total Liabilities	34,439	42,686	61,314	79,849
Gross Block	33,502	33,793	35,447	37,715
Less: Depreciation	18,079	18,997	20,273	21,630
Net block	15,423	14,796	15,174	16,085
Capital work in progress	221	415	415	415
Investment	18,085	40,215	46,015	61,015
Current Assets	23,253	30,010	45,410	54,462
Inventories	3,388	4,462	6,236	7,055
Sundry debtors	3,587	2,728	4,640	6,299
Cash & bank balance	1,369	1,014	9,766	13,225
Loans & advances	13,652	20,745	23,709	26,824
Other current assets	1,257	1,060	1,060	1,060
Current lia & Prov	24,376	42,750	45,700	52,128
Current liabilities	12,134	20,263	23,414	26,795
Provisions	12,242	22,487	22,286	25,332
Net current assets	-1,123	-12,740	-290	2,335
Misc. exp	1,833	-	-	-
Total Assets	34,439	42,686	61,314	79,849

Source: Company and Systematix Institutional Research

Table 4: Cash Flow

Y/E, Mar (₹mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	7,814	22,314	32,640	37,160
Other Non-Cash items	(1,835)	(555)	-	-
Chg in working cap	-345	11,263	-3,698	834
Tax paid	(3,016)	(7,075)	-10,053	-11,685
Operating Cash flow	4,126	27,371	20,194	27,710
Capital expenditure	(3,428)	(485)	(1,654)	(2,268)
Other income	1,767	1,798	3,266	4,570
Investments	(3,854)	(23,434)	(5,800)	(15,000)
Investing Cash flow	(2,087)	(21,636)	(4,188)	(12,698)
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	2,357	-2,314	1,820	-1,000
Interest Paid	(210)	(60)	(30)	(43)
Dividend paid (incl tax)	(3,724)	(6,749)	(9,044)	(10,511)
Income from investments				
Others	347	3,033		
Financing Cash flow	(1,230)	(6,090)	(7,254)	(11,554)
Net chg in cash	808	(355)	8,752	3,459
Opening cash position	561	1,369	1,014	9,766
Closing cash position	1,369	1,014	9,766	13,225

Source: Company and Systematix Institutional Research

Table 5: Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
ROCE	38.2	68.5	69.1	59.2
ROE	40.1	73.8	68.6	53.8
Per Share Data (₹)				
DEPS	22.7	58.9	89.3	103.8
DCEPS	27.2	63.6	93.8	108.5
DBVPS	58.3	101.2	159.3	226.8
DDPS	11.0	20.0	26.8	31.2
Valuations (x)				
PER	58.2	22.4	14.8	12.7
P/CEPS	48.6	20.8	14.1	12.2
P/BV	22.6	13.0	8.3	5.8
EV / Sales	1.7	1.6	2.3	1.9
EV / EBITDA	33.3	14.0	10.1	8.3
Dividend Yield (%)	0.8	1.5	2.0	2.4
Gearing Ratio (x)				
Net Debt/ Equity	0.2	(0.7)	(0.7)	(0.8)
Net Debt/EBIDTA	(3.9)	0.0	(0.1)	(0.8)
Working Cap Cycle (days)	(21.5)	(40.2)	(27.7)	(26.0)

Source: Company and Systematix Institutional Research

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Stock Ratings

BUY (B)	The stock's total return is expected to exceed 20% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
HOLD (H)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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