



Bajaj Auto

BSE SENSEX 17,471	BLOOMBERG BJAUT IN
S&P CNX 5,241	REUTERS BJAT.BO

Rs2,409

Buy

Equity Shares (m)	144.7
52-Week Range (Rs)	2,507/950
1,6,12 Rel.Perf.(%)	8/40/120
M.Cap. (Rs b)	353.0
M.Cap. (US\$ b)	7.5

ANNUAL REPORT 2009-10



FY10 Annual Report Analysis

Brand-centered strategy reflecting in record performance in FY10

Bajaj Auto's FY10 annual report highlights the management's focus on a brand-centered strategy, the initial success of which is reflecting in FY10 being a record year by all parameters. We present our key takeaways from Bajaj Auto's FY10 annual report:

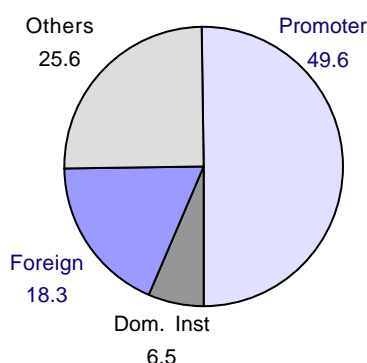
Focus on brands, profitability: Bajaj Auto has been focusing on developing a brand-centered strategy highlighting the *Discover* and *Pulsar*. It believes near perfect alignment between the front-end (power of the brands) and the back-end (production efficiency, quality, costs and logistics). This alignment resulted in its growing faster than the market and being most profitable in the industry.

Strong operating performance: Due to this focused strategy, FY10 was a record year for Bajaj Auto by all parameters. It posted its highest sales, exports, margins and profits. FY10 volumes grew 30%, driven by 31% two-wheeler growth and 24% growth in three-wheelers. Net sales grew 35% to Rs119b and EBITDA margins rose 820bp to 21.7%, translating into recurring PAT growth of 133% to Rs18.2b. Strong operating performance and normalization of the working capital cycle generated free cash flow of Rs26.3b (v/s Rs197m in FY09).

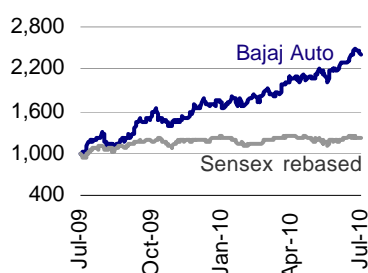
Robust FY11 outlook: The management expects its strategy to fully play out in FY11, with pervasive brand strategy resulting in higher profits. It is targeting volumes of 4m units in FY11, with exports of over 1m units. To maximize fiscal incentives at its Pantnagar plant, it will ramp-up operations to produce 1.2m units (target of 0.9m units v/s 0.6m in FY10) and shift high volume products like *Discover* and *Pulsar 135* to it. Our FY11 estimates factor in 3.75m units (of which 0.78m from Pantnagar) and margin contraction of 90bp to 20.8%.

Valuation and view: Bajaj Auto has strong volumes and high margins. Volume is expected to grow strongly and margins sustain at higher levels due to operating leverage and a ramp-up at Pantnagar. The product mix will improve in favor of high margin products, driven by a strategy of focus on two brands (~85% of two-wheeler volumes) and continued recovery in three-wheelers. The stock is valued at 14.9x FY11E EPS and 13.5x FY12E EPS. Maintain **Buy** with a target price of Rs2,717 (~15x FY12E EPS).

SHAREHOLDING PATTERN % (MAR-10)



STOCK PERFORMANCE (ONE YEAR)



Financial & valuation summary

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/C/E	P/BV	EVI	ROE	ROCE
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
3/09A	88,104	7,963	55.0	-3.4	44.6	38.3	21.1	29.5	48.6	31.5
3/10A	119,210	18,175	125.6	128.3	19.5	18.2	12.1	12.6	78.8	50.8
3/11E	157,213	23,859	164.9	31.3	14.9	14.0	7.7	9.4	63.4	48.9
3/12E	177,849	26,207	181.1	9.8	13.5	12.7	5.5	8.2	47.4	41.4

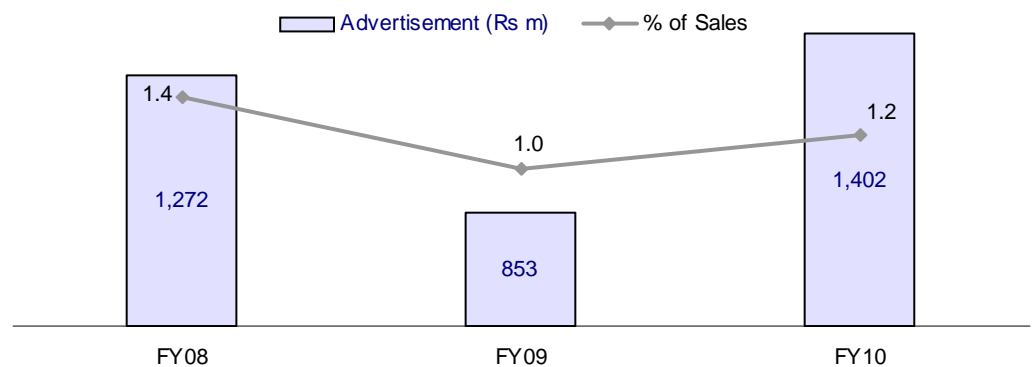
Bajaj Auto, focused on a brand-centered strategy, has identified Discover and Pulsar as its key brands, which contribute ~80% to its two-wheeler volumes

Strategy to focus on two brands...

Bajaj Auto is focused on a brand-centered strategy. The “front end” is guided by a strategy of differentiation, to continuously specialize its brand positioning in motorcycles. Bajaj Auto positioned its motorcycle brands in the utility, price, value and sports categories. The basic proposition is that while products may generate market share, brands provide pricing power and boost profits. As a result, it has identified *Discover* and *Pulsar* as its key brands. The two brands contribute ~80% to two-wheeler volumes.

The “back end”—R&D, quality, production efficiency, logistics and throughput—is guided by TPM or “The Prime Mover”, towards excellence. In FY10 the front end and the back end were well aligned, which resulted in Bajaj Auto growing faster than the market, gaining market share and being the most profitable in the industry.

TREND IN ADVERTISEMENT EXPENSES



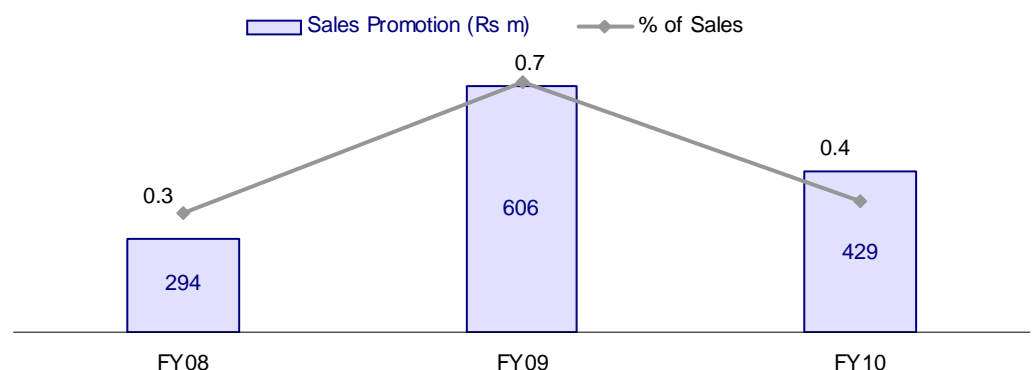
Source: Company/MOSL

...aimed at boosting profitability...

The strategic shift in favor of Discover and Pulsar has created a powerful image for its brands and improved margins

Bajaj Auto is leveraging its key brands to maximize profits. Its performance is not driven by “buying” market share through pricing deals, but on gaining share through better quality and branding, resulting in a customer willing to pay a higher price for better value. Unlike in the past when it played the price game to generate market share, it is now investing in brands to garner market share without diluting profitability. The strategic shift in favor of the bigger, sportier *Discover* and *Pulsar*, has created a powerful image for its brands and improved margins.

TREND IN SALES PROMOTION & INCENTIVES



Source: Company/MOSL

As a result of its focused strategy Bajaj Auto posted its highest ever sales, exports, margins and profits

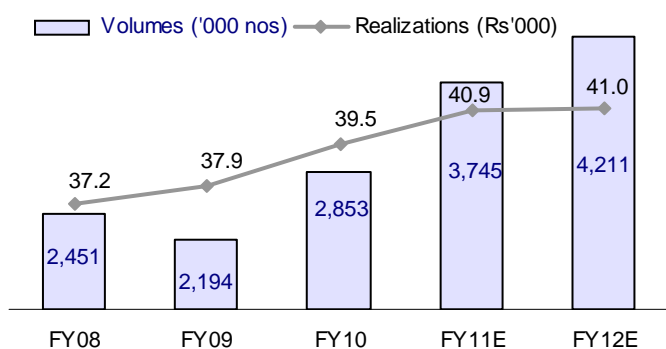
...reflecting in record performance in FY10

As a result of its focused strategy Bajaj Auto posted its highest ever sales, exports, margins and profits.

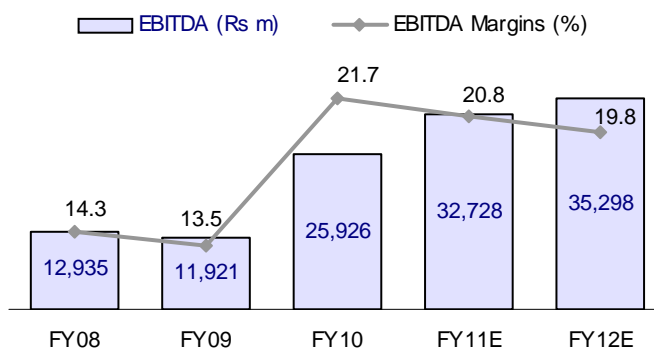
The key highlights of its FY10 performance include:

- Volume growth of 30% in FY10, driven by 31% volume growth in two-wheelers and 24% growth for three-wheelers.
- Improving its product mix, resulting in a 4.1% increase in net realizations.
- Net sales growth of 35% to Rs119b, with EBITDA margins up by 820bp to 21.7%, translating into recurring PAT growth of 133% to Rs18.2b.
- Strong operating performance and normalization of the working capital cycle resulted in free cash flow generation of Rs26.3b (v/s Rs197m in FY09).

TREND IN VOLUMES AND REALIZATIONS



TREND IN EBITDA



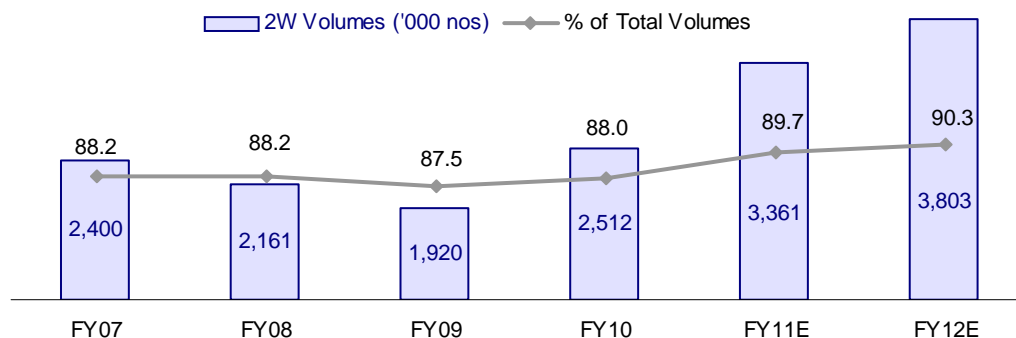
Source: Company/MOSL

Bajaj Auto's Discover is a one million-plus brand and the Pulsar is expected to become a one-million brand as well

Two-wheelers: back on growth path

- Bajaj Auto motorcycle FY10 volumes improved 31.4% YoY to 2.5m units, with domestic volumes up 38.8% at 1.78m units and exports up 14.6% at 0.72m units.

TREND IN TWO WHEELER VOLUMES



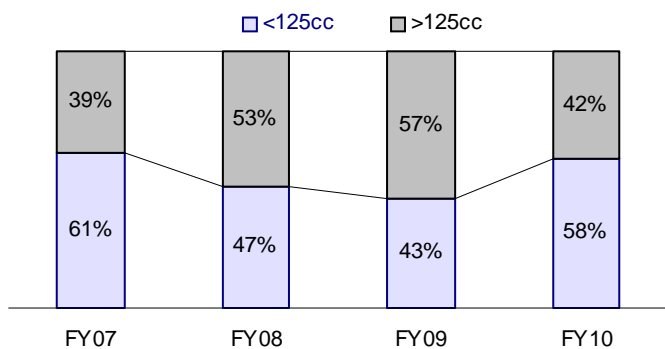
Source: Company/MOSL

- In line with its decision to gradually exit the scooters business, its scooters volumes de-grew 58.8% to 4,851 units.
- Bajaj Auto launched products from the *Pulsar* and *Discover* family (*Discover 100*, *Discover 150*, *Pulsar 135*) in FY10.

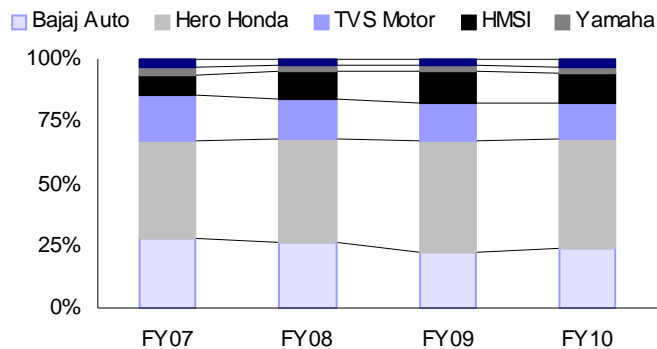
Bajaj Auto's new launches helped it partly regain its market share in the motorcycle segment in FY10

- With the launch of *Discover DTS-Si*, it is selling ~80,000 units of *Discover* each month, making it a one million-plus brand. Together with the *135 LS*, the *Pulsar* is expected to become a one million brand. These brands contribute ~80% to its two-wheeler volumes.
- The new launches helped Bajaj Auto to partly regain its market share in the motorcycle segment (including exports) to 29.7% in FY10 (up 170bp). In the under-125cc segment, its market share rose to 23.8% in FY10 (up 660bp). But increasing competition in over-125cc segment resulted in erosion in market share by 700bp to 45.5%.

TREND IN TWO WHEELER SEGMENT MIX



TREND IN TWO WHEELER MARKET SHARE



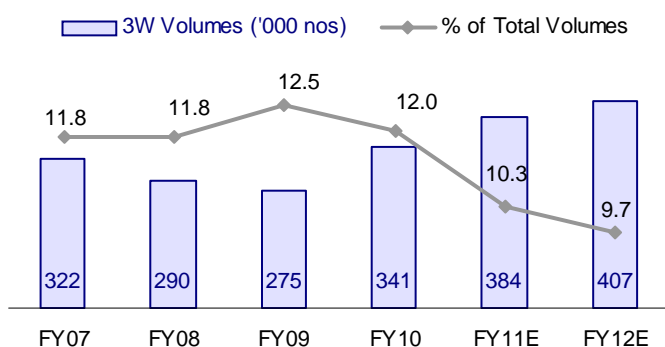
Source: Company/SIAM/MOSL

Three-wheelers: the dominance continues

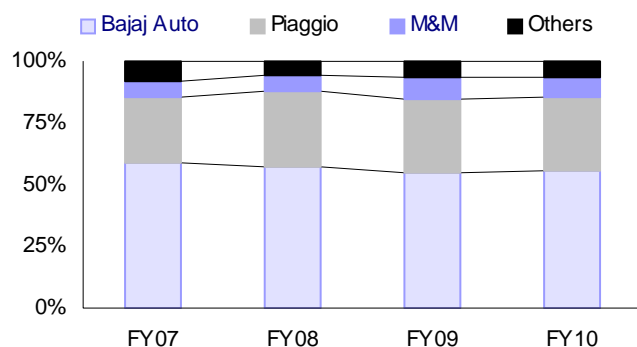
Bajaj Auto has a stable market share of 55.6% in the three-wheeler segment

- In FY10, Bajaj Auto's three-wheeler volumes improved by 24.2% to 0.34m units, with domestic volumes growing 30% to 0.18m units and export volumes growing 18.6% to 0.16m units.
- Exports contributed ~48% to three-wheeler volumes (v/s 51% in FY09).
- Bajaj Auto maintained market share in the passenger segment with 63.6%, but in the goods segment it lost 230bp market share to 10.1%, giving it a stable market share of 55.6% of the three wheeler market.

TREND IN THREE WHEELER VOLUMES



TREND IN THREE WHEELER MARKET SHARE



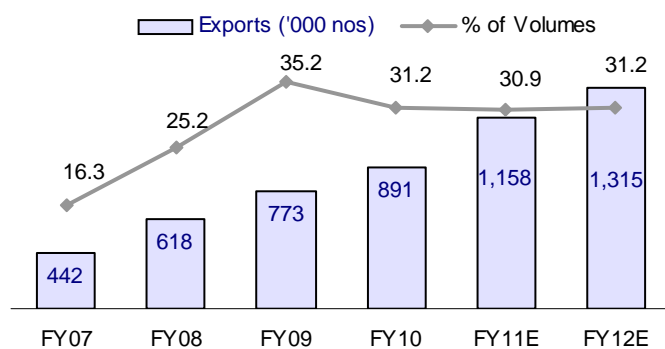
Source: Company/SIAM/MOSL

Exports: key highlights

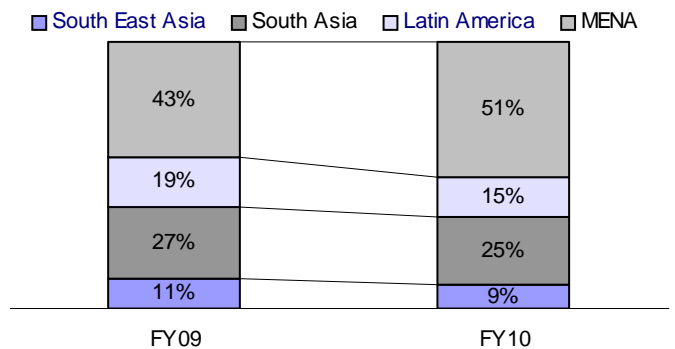
Bajaj Auto increased its presence in Africa through major brand-building exercise for the Boxer

- Export revenue grew by 22.5% to Rs32.5b (US\$682m), contributing 27.2% to total revenue (v/s 30.1% in FY09).
- It increased its presence in Africa, growing in Nigeria, Uganda, Angola and Kenya. Bajaj Auto initiated a major brand-building effort in Africa for the *Boxer*, which involves creating exclusive branded outlets for sales and after-sales services.
- Volumes in South Asia (excluding India) grew by 4%. The slowdown in Sri Lanka was more than compensated for by growth in Bangladesh, but in south-east Asia Bajaj Auto posted negative growth of 14%. Its subsidiary in Indonesia, PT BAI, posted volumes of 11,954 units.
- Although sales to Latin America recovered in 2HFY10, sales for the full year de-grew by 7%. But given its strong brand presence in Latin America, it is expected sales will improve in FY11.

TREND IN EXPORTS



TREND IN EXPORT MARKET MIX



Source: Company/SIAM/MOSL

Streamlining operations to optimize production, fiscal incentives

Bajaj Auto is ramping up operations and improving product-mix at Pantnagar to optimize fiscal incentives

Bajaj Auto is streamlining its operations to optimize production and fiscal incentives. At Pantnagar, it will ramp-up operations from 60,000 units a month in 4QFY10 to 80,000 in 1QFY11 and to 120,000 units a month by 3QFY11. The company has also shifted high volume products like *Discover* and *Pulsar 135* to Pantnagar to maximize fiscal incentives offered. We estimate contribution from the Pantnagar plant to increase from 0.58m in FY10 (~20% of volumes) to 0.78m in FY11 (~21% of volumes).

While Waluj is slated to become an export hub for Bajaj Auto with 80% of FY10 exports produced there, Chakan's core competence in high-end products is being used to upgrade versions of the *Pulsar* and is being readied to deliver KTM motorcycles.

SNAPSHOT OF PLANT-WISE PRODUCT MIX

PLANT	PRODUCTS
Waluj	Boxer, Platina, Discover and Three-Wheelers
Chakan	Pulsar, Avenger and Discover
Pantnagar	Platina, Platina 125, Discover and pulsar 135

Source: Company/ MOSL

Bajaj Auto plans to increase its capacity of two- and three-wheelers to 5m vehicles by March 2011

Expanding capacities to meet strong demand

Bajaj Auto plans to increase its capacity of two- and three-wheelers from the current 4.2m to 5m in March 2011. The company is developing a four-wheeler and the commercial launch is scheduled for 2012. The techno-economic feasibility of the four-wheeler project and related agreements between Bajaj and partners, Renault and Nissan, will be concluded at a suitable stage of this platform development.

Bajaj Auto plans to assemble CKD kits to lower import duty burden

Indonesian subsidiary performance to improve as localization increases

- PT Bajaj Indonesia (PT BAI) assembles and markets *Pulsars* in Indonesia, with FY10 volumes of 11,954 units.
- PT BAI assembles semi-knocked down kits, which attract import duty of 25%. PT BAI plans to assemble completely knocked down (CKD) kits, which attract lower import duty of 15%. It will continue to pursue the localization of sub-assemblies in 2010-11.
- Bajaj Auto introduced *Pulsar 135* in Indonesia in April 2010. Indonesia, being a light-weight high acceleration step-through market, the *Pulsar 135 LS* will be positioned competitively to upgrade from the *Bebek* for thrill-seeking youngsters.
- During the year under review, sales and service showrooms were expanded to cover 23 provinces, across seven major islands.
- PT BAI's losses fell to Rs159m in FY10 against a loss of Rs615m in FY09.
- Bajaj Auto invested US\$17m in PT BAI, taking its total investment to US\$30m.

The first product to be developed under a joint development program between KTM and Bajaj Auto will go on sale in 2010-11

KTM Power Sports: launch due in FY11

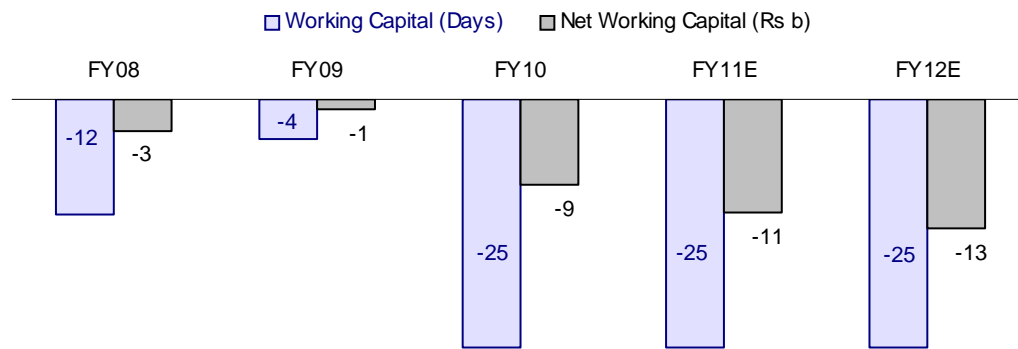
- The first product to be developed under a joint development program between KTM and Bajaj Auto was showcased at the Milan Motorshow in November 2009. The product will go on sale in 2010-11.
- In FY10, Bajaj Auto invested EUR0.25m to increase its stake in KTM to 31.92% and it invested a further EUR20.16m in April 2010.
- Bajaj Auto's investment in KTM is 140.03m euros for 35.67% stake.

Bajaj Auto's cash and cash equivalents as on 31 March 2010 were Rs32.6b against Rs9.3b a year earlier

Key highlights from the balance sheet/P&L

- In FY10, strong operating performance resulted in significant improvement in average RoE to 78.8% (v/s 48.6% in FY09) and in average RoCE to 50.8% (v/s 31.5% in FY09).
- The working capital cycle normalized to -25 days in FY10 against -4 days in FY09. In FY09 there was an increase in the working capital cycle as the company supported its vendors by reducing the payment cycle. The vendor payment cycle has been normalized and debt tightened, freeing up Rs7.5b from investment in the working capital cycle.
- Net cash generation from operating activities increased from Rs4.1b in FY09 to Rs27.3b in FY10.
- In FY10, Bajaj Auto incurred capex of Rs1.2b against Rs3.9b in FY09.
- Cash and cash equivalents as on 31 March 2010 were Rs32.6b against Rs9.3b a year earlier.
- Bajaj Auto has US\$747m worth of foreign exchange derivatives outstanding as of 31 March 2010, of which forward contracts are US\$168m, par forward contracts are US\$117m and range forward options are US\$462m. Based on our FY11 estimated exports of US\$888m, its outstanding hedges would cover ~88% of exports.

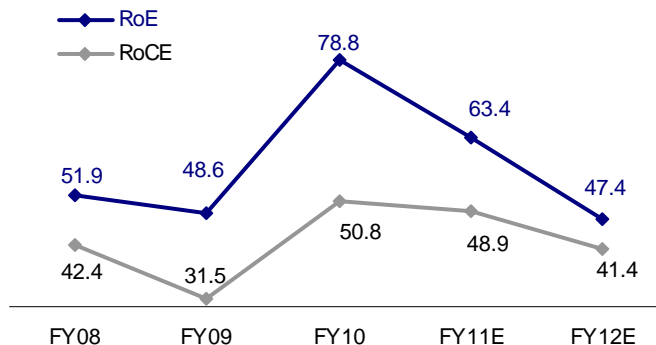
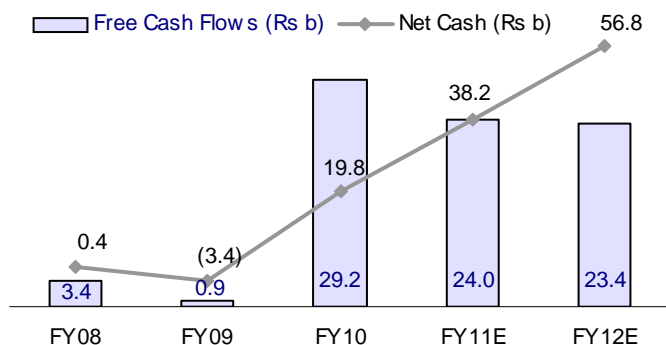
TREND IN WORKING CAPITAL



Source: Company/ MOSL

STRONG OPERATING PERFORMANCE RESULTING IN CASH ACCRETION...

...AND IMPROVEMENT IN CAPITAL EFFICIENCY



Source: Company/ MOSL

Robust FY11 outlook

Bajaj Auto expects its brand-centered strategy to fully play out in FY11, resulting in higher profits

The management expects its new strategy to fully play out in FY11, with pervasive brand strategy resulting in higher profits. In FY11, it targets volumes of 4m units, with exports of over 1m units. To maximize fiscal incentives available at its Pantnagar plant, it will ramp up operations to produce 1.2m units (target of 0.9m units v/s 0.6m in FY10) and shift high volume products like *Discover* and *Pulsar 135* to it. Our estimates factor in 3.75m units (of which 0.78m from Pantnagar) in FY11 and margin contraction of 90bp to 20.8%.

Valuation and view

Bajaj Auto's volumes are expected to grow strongly and margins sustain at higher levels

Bajaj Auto has strong volumes and high margins. Volume is expected to grow strongly and margins sustain at higher levels due to operating leverage and a ramp-up at Pantnagar. The product mix will improve in favor of high margin products, driven by a strategy of focus on two brands (~85% of two-wheeler volumes) and continued recovery in three-wheelers. The stock is valued at 14.9x FY11E EPS and 13.5x FY12E EPS. Maintain **Buy** with a target price of Rs2,717 (~15x FY12E EPS).

Financials and Valuation

INCOME STATEMENT					RATIOS				
(Rs Million)									
Y/E MARCH	2009	2010	2011E	2012E	Y/E MARCH	2009	2010	2011E	2012E
Volumes	2,194,154	2,852,579	3,745,125	4,210,800	Basic (Rs)				
Change (%)	-10.5	30.0	31.3	12.4	EPS	55.0	125.6	164.9	181.1
Net Sales	88,104	119,210	157,213	177,849	EPS growth (%)	-3.4	128.3	31.3	9.8
Change (%)	-2.6	35.3	31.9	13.1	Core EPS	47.2	118.8	153.5	165.3
Total Expenditure	76,183	93,284	124,484	142,551	EPS growth (%)	-6.0	152.0	29.2	7.7
					Cash EPS	64.0	135.1	175.8	192.8
EBITDA	11,921	25,926	32,728	35,298	Book Value per Share	116.6	202.4	317.6	446.1
EBITDA Margins (%)	13.5	21.7	20.8	19.8	DPS	22.0	40.0	42.5	45.0
Depreciation	1,298	1,365	1,575	1,680	Payout (Incl. Div. Tax) %	56.9	39.6	30.2	29.1
EBIT	10,623	24,561	31,153	33,617	Valuation (x)				
Int. & Fin. Charges	210	60	78	79	P/E	44.6	19.5	14.9	13.5
Other Income	1,219	1,225	2,063	2,860	Cash P/E	38.3	18.2	14.0	12.7
Non-recurring Exp.	2,071	1,624	0	0	EV/EBITDA	29.5	12.6	9.4	8.2
Non-recurring Inc.	0	0	0	0	EV/Sales	4.0	2.7	2.0	1.6
PBT	9,561	24,102	33,137	36,399	Price to Book Value	21.1	12.1	7.7	5.5
Tax	3,016	7,075	9,278	10,192	Dividend Yield (%)	0.9	1.6	1.7	1.8
Effective Rate (%)	31.5	29.4	28.0	28.0	Profitability Ratios (%)				
PAT	6,545	17,027	23,859	26,207	RoE	48.6	78.8	63.4	47.4
Change (%)	-13.4	160.2	40.1	9.8	RoCE	31.5	50.8	48.9	41.4
Adj. PAT	7,963	18,175	23,859	26,207	Oper RoCE	80.8			
Change (%)	(3.4)	128.3	31.3	9.8	Turnover Ratios				
BALANCE SHEET	(Rs Million)				Debtors (Days)	14	8	8	8
Y/E MARCH	2009	2010	2011E	2012E	Inventory (Days)	16	17	17	17
Share Capital	1,447	1,447	1,447	1,447	Creditors (Days)	45	71	69	69
Reserves	15,417	27,837	44,501	63,091	Working Capital (Days)	-5	-39	7	43
Net Worth	16,864	29,283	45,948	64,538	Asset Turnover (x)	2.7	2.8	2.7	2.3
Deferred Tax	42	17	-480	-1,026	Leverage Ratio				
Loans	15,700	13,386	13,386	13,386	Debt/Equity (x)	0.9	0.5	0.3	0.2
Capital Employed	32,606	42,686	58,854	76,897	CASH FLOW STATEMENT	(Rs Million)			
					Y/E MARCH	2009	2010	2011E	2012E
Gross Fixed Assets	33,502	33,793	35,208	37,208	OP/(Loss) before Tax	10,785	24,508	31,153	33,617
Less: Depreciation	18,079	18,997	20,572	22,252	Interest/Div. Received	1,124	1,240	2,063	2,860
Net Fixed Assets	15,423	14,796	14,636	14,956	Depreciation & Amort.	1,298	1,365	1,575	1,680
Capital WMP	221	415	1,000	1,000	Direct Taxes Paid	-3,213	-6,999	-9,776	-10,738
Investments	18,085	40,215	40,215	40,215	(Inc)/Dec in Working Cap	-2,650	8,679	3,095	868
Current Assets	23,253	30,010	49,577	72,123	CF from Oper. Activity	7,343	28,792	28,110	28,288
Inventory	3,388	4,462	5,949	6,740	Extra-ordinary Items	-2,094	-182	0	0
Sundry Debtors	3,587	2,728	3,638	4,121	CF after EO Items	5,249	28,611	28,110	28,288
Cash & Bank Balances	1,369	1,014	19,851	38,443	(Inc)/Dec in FA+CWMP	-5,306	-1,906	-2,000	-2,000
Loans & Advances	13,652	20,745	18,308	20,743	(Pur)/Sale of Invest.	2,096	-20,970	0	0
Others	1,257	1,060	1,831	2,074	CF from Inv. Activity	-3,211	-22,876	-2,000	-2,000
Current Liab. & Prov.	24,376	42,750	46,575	51,396	Inc/(Dec) in Debt	2,357	-2,314	0	0
Sundry Creditors	8,000	15,712	20,948	23,734	Interest Paid	-210	-60	-78	-79
Other Liabilities	4,134	4,551	6,408	6,742	Dividends Paid	-3,377	-3,716	-7,194	-7,617
Provisions	12,242	22,487	19,219	20,921	CF from Fin. Activity	-1,230	-6,090	-7,273	-7,696
Net Current Assets	-1,123	-12,740	3,002	20,727	Inc/(Dec) in Cash	808	-355	18,837	18,592
Application of Funds	32,606	42,686	58,854	76,897	Add: Beginning Balance	561	1,369	1,014	19,851
E: MOSL Estimates					Closing Balance	1,369	1,014	19,851	38,443

N O T E S



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Disclosure of Interest Statement

Bajaj Auto

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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