

Bajaj Auto Limited

Lives up to high expectations!



21 January 2011

Results highlights

Resilience even during testing times

Sales grew by 27% YoY driven by 17% and 8% growth in volumes and net realisations, respectively. Sequentially volumes were down 5% and realisations grew by 1.7%. Price hikes in the domestic and export markets led to QoQ increase of 1.8% in domestic realisations (up 7% YoY) and 1.7% in export realisations (up 10% YoY).

EBITDA margins were broadly in line at 20.3% (down 162bps YoY; 33bps QoQ). The company was able to maintain margins above the 20% mark aided by price hikes during the quarter which helped off-set the higher commodity costs.

Other income grew by 183% YoY (20% QoQ) at INR995m as the company continues to capitalise on its huge cash hoard (INR38bn as on the end of the quarter). This led to a PAT growth of 40% YoY (down 2% QoQ) at INR6.6bn.

Moderation of stellar performance - On expected lines

The company's dual brand strategy has been a remarkable success and worked out exactly as planned. It is commendable that the company has gained market share whilst maintaining extremely profitable operations (a very rare combination).

Although growth rates will taper down from hereon and market share gains too will be limited, we expect the company to keep the momentum going by strengthening its dealership base coupled with new launches on the 'Discover' platform.

Valuation and outlook

Post the recent correction in the stock (due to pessimism totally unwarranted), valuations have turned attractive again. At the CMP of INR1,300, the stock is trading at a P/E of 12.3x our FY12e EPS - an unjustified 15% discount to a comparable Hero Honda, which no longer deserves the premium.

We reiterate our BUY recommendation with a target price of INR1,585, which provides a 22% upside from the current levels.

Results summary

INRm	3QFY11	3QFY10	YoY (%)	2QFY11	QoQ (%)
Net sales	41,771	32,956	27	43,418	(4)
- Raw material	29,826	22,567	32	30,712	(3)
(% of net sales)	71	68	293	71	67
- Staff expenditure	1,066	930	15	1,142	(7)
(% of net sales)	3	3	(27)	3	(8)
- Other expenditure	2,386	2,224	7	2,593	(8)
(% of net sales)	6	7	(104)	6	(26)
Total expenditure	33,278	25,720	29	34,447	(3)
EBITDA	8,493	7,235	17	8,972	(5)
EBITDA margin (%)	20.3	22.0	(162)	20.7	(33)
PAT	6,671	4,751	40	6,821	(2)
EPS	23.1	32.8	(30)	23.6	(2)
Total volumes	946,872	809,218	17	1,000,548	(5)
EBITDA/Vehicle	8,970	8,941	0	8,967	0

Source: Company, Antique

Previous Reco	: BUY
Current Reco	: BUY
CMP	: INR1,300
Target Price	: INR1,585
Potential Upside	: 22%

Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	376
Market Cap (USDbn)	:	8
O/S Shares	:	289
Free Float (m)	:	133
52-wk HI/LO (INR)	:	1665/810
Avg Daily Vol ('000)	:	1,045
Bloomberg	:	BJAUT IN
Reuters	:	BAJA.BO

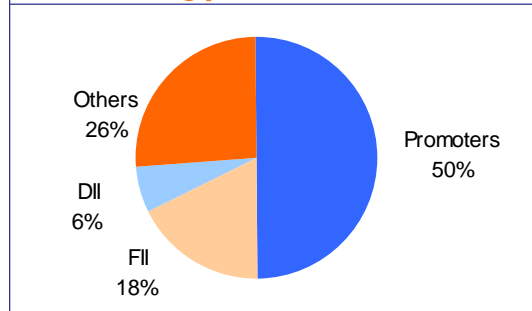
Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(10)	(13)	8	43
Relative	(6)	(9)	2	31

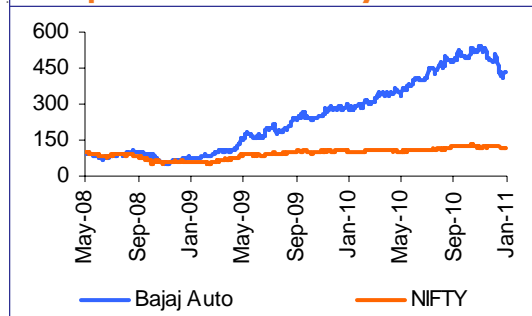
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance vs Nifty



Source: Bloomberg

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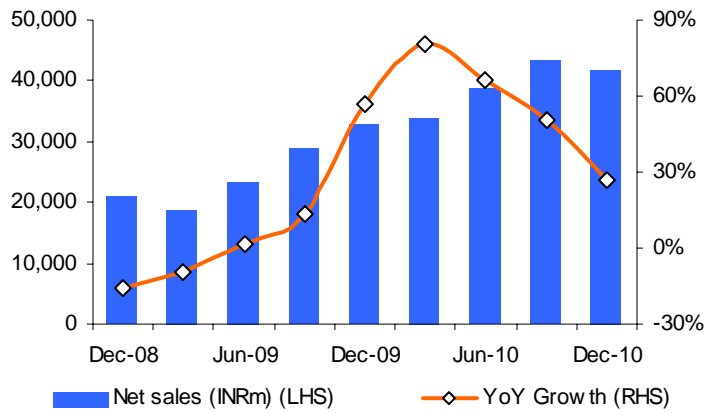
Highlights during the quarter

- Volumes grew by 17% YoY; down 5% QoQ. Motorcycle volumes increased by 18% YoY, driven by 23% and 7% rise in domestic volumes and exports, respectively. Three-wheeler volumes grew by 13% YoY (down 7% QoQ).
- The sequential decline in dispatches was on account of a higher base in 2QFY11 when dealer inventory was increased in order to meet the festive demand comfortably. Consequently, there was some element of de-stocking in 3QFY11 which is the primary cause for the sequential volumes decline. The management has in fact stated that domestic retail sales has increased 26% QoQ during the quarter. Now, with inventory back at normalised levels, dispatches should keep pace with retail sales.
- Motorcycle volumes have been driven by the flagship Discover and Pulsar brands. Discover volumes for the quarter stood at 327,000 units, making it the second largest motorcycle brand in the country (after the Hero Honda Splendor), whereas Pulsar volumes stood at 262,000 units for the quarter. Together, these two brands now account for almost 85% of the company's domestic motorcycle sales (60% a year back).
- The company has recently taken price hikes which covers the higher input costs completely. This should keep margins firm next quarter as well.
- Demand for three-wheelers in the export market has been extremely strong, but supply hasn't been able to keep pace on account of limited capacity for four-stroke engines. Capacity for the same is expected to come on stream in April 2011, post which there would be a pick-up in four-wheeler export volumes.
- Over the last few quarters, advertisement expenditure has been minimal as the demand-supply gap didn't warrant heavy promotional expenses. However, going ahead, ad spends are expected to go up as the demand-supply mismatch (for the industry as a whole) gets rectified.

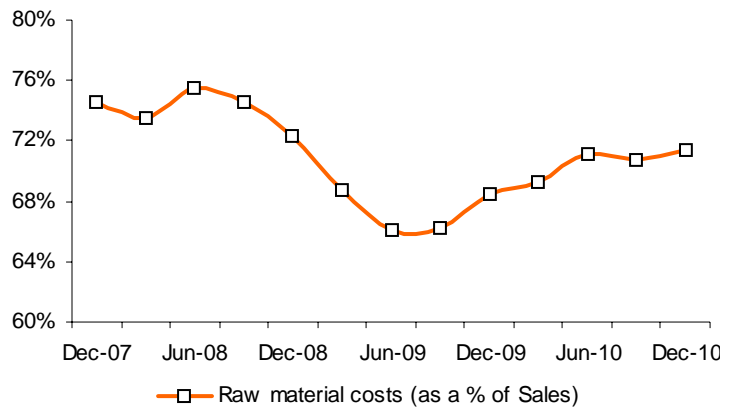
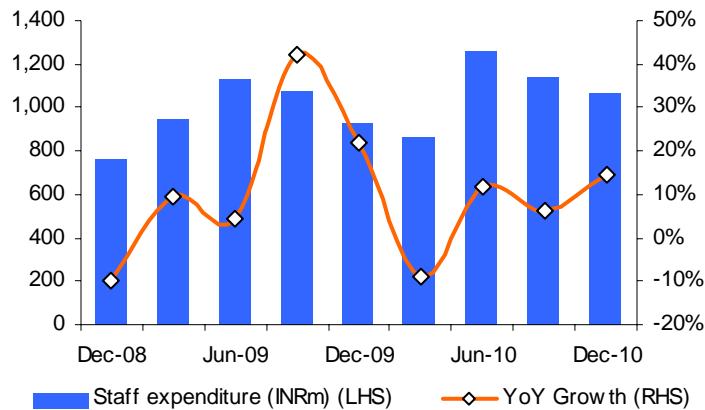
Volumes

In nos	3QFY11	3QFY10	YoY (%)	2QFY11	QoQ (%)
Motorcycles - Domestic	598,580	488,146	23	632,650	(5)
Motorcycles - Exports	239,929	223,845	7	250,822	(4)
Motorcycles - Total	838,509	711,991	18	883,472	(5)
Others - Domestic	0	592	(100)	0	N.A
Others - Exports	0	468	(100)	0	N.A
Others - Total	0	1,060	(100)	0	N.A
Total 2 Wheelers	838,509	713,051	18	883,472	(5)
3W - Domestic	51,648	46,578	11	60,566	(15)
3W - Exports	56,715	49,589	14	56,510	0
3W - Total	108,363	96,167	13	117,076	(7)
Total Volumes	946,872	809,218	17	1,000,548	(5)

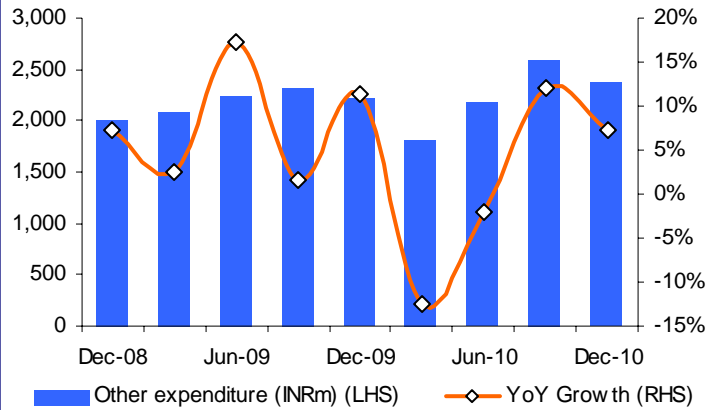
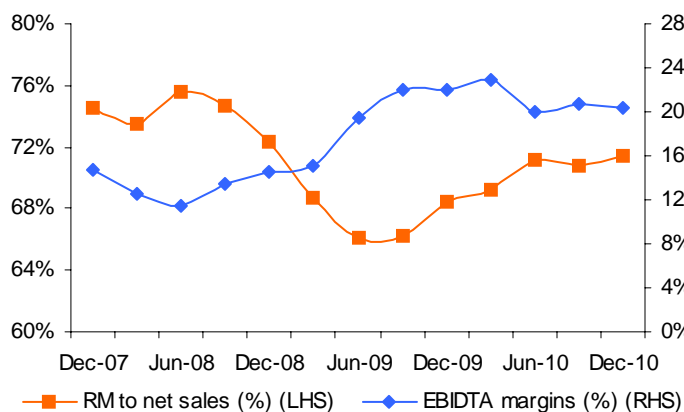
Source: Company, Antique

Revenues up 27% YoY (down 4% QoQ)


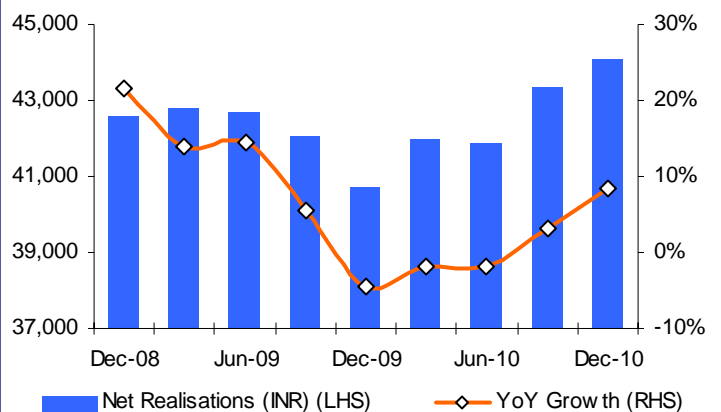
Source: Company, Antique

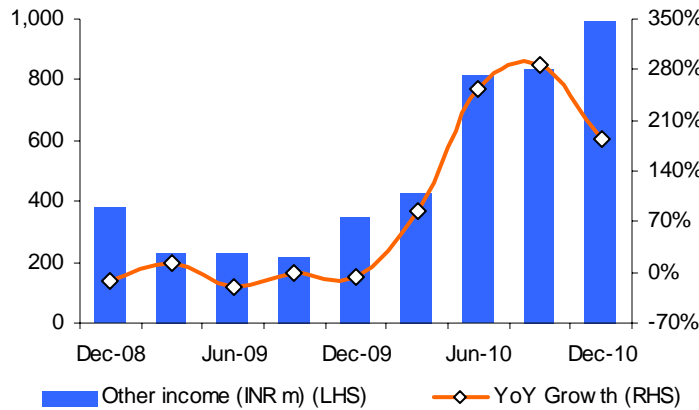
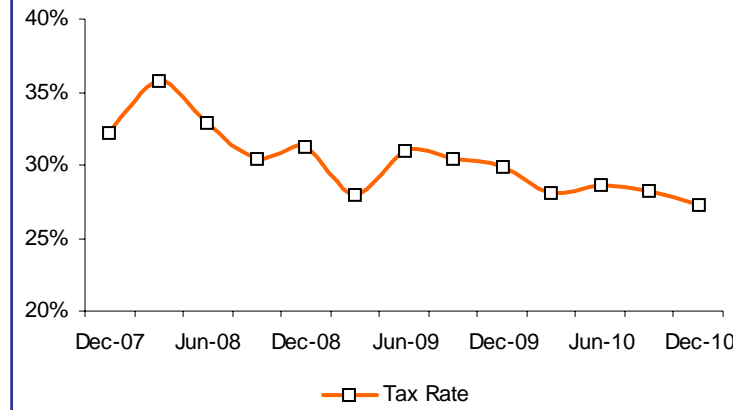
Price hikes help mitigate raw material cost pressures

Staff costs down 7% QoQ


Source: Company, Antique

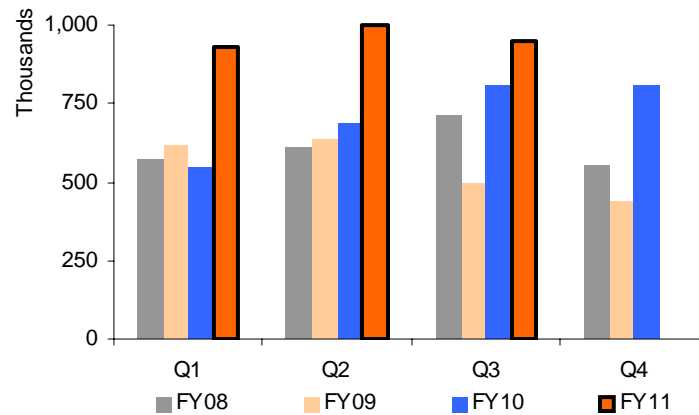
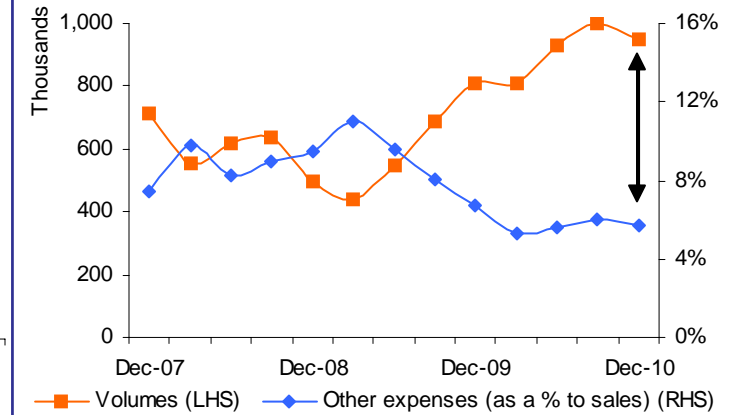
**Control on fixed costs also helps keep margins firm...
Sequentially lower (down 8% due to one-offs in 2QFY11)**

Marginal impact from higher raw material costs


Source: Company, Antique

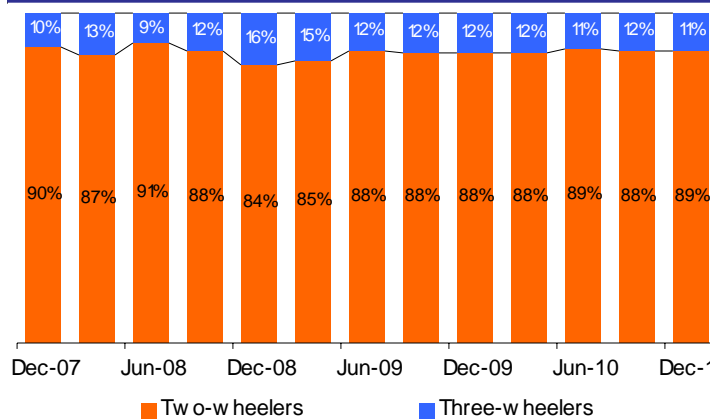
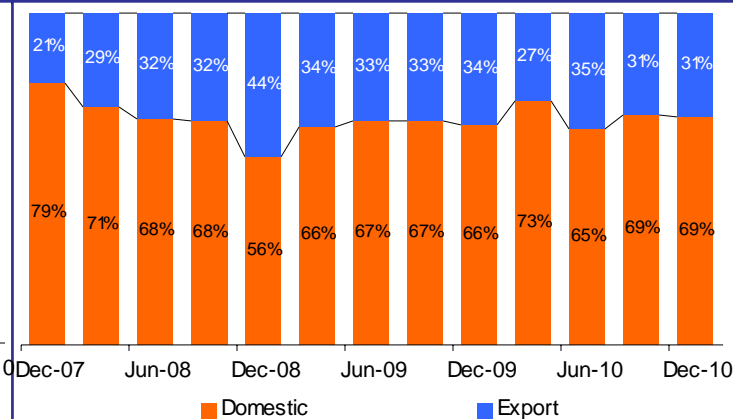
Realisations up 2% QoQ (8% YoY) driven by price hikes in domestic and export markets


Treasury income from huge cash reserves (INR38bn) boosts other income

Lower tax rates (down 255bps YoY; 94bps QoQ) on account of rising contribution from Pantnagar


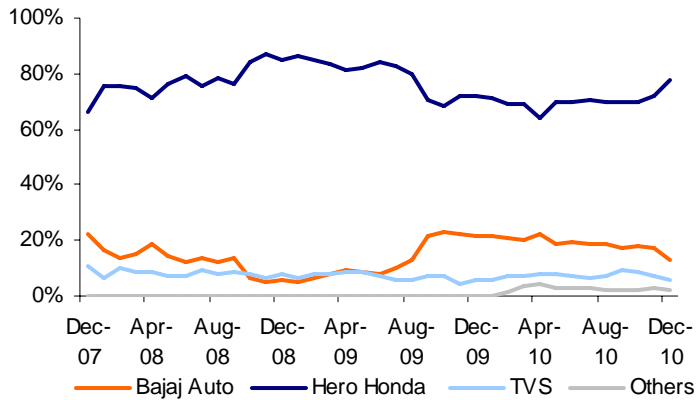
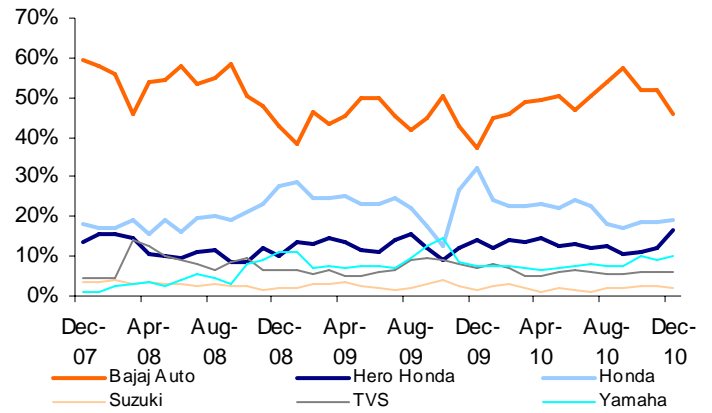
Source: Company, Antique

Sequential volume decline a function of dealer de-stocking

Operating Leverage - Fixed costs down 104 bps YoY


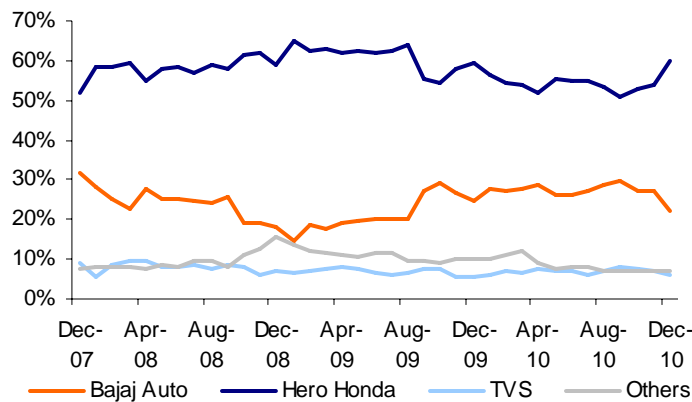
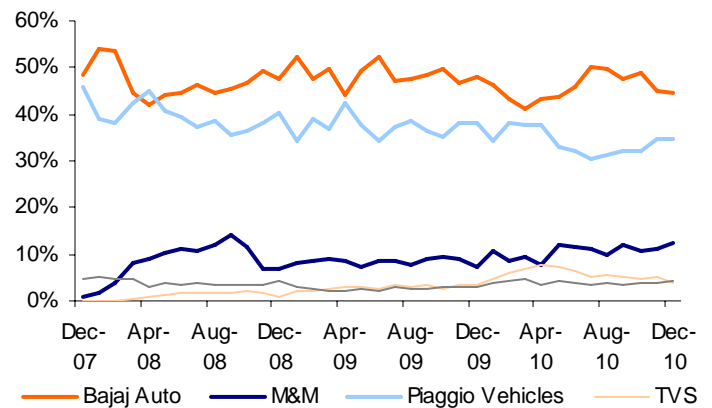
Source: Company, Antique

Strong demand from both segments keeps product mix stable

Volumes break-up


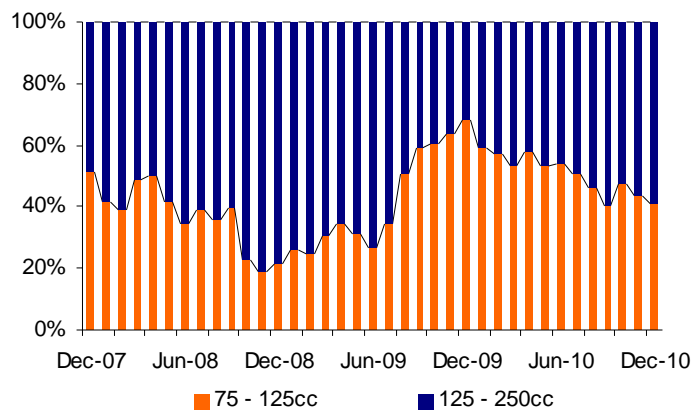
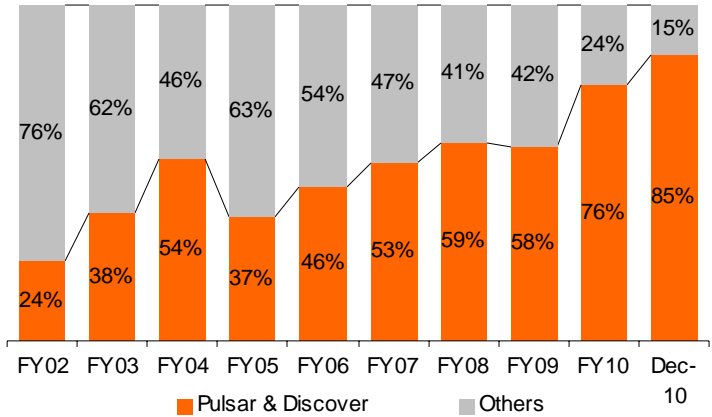
Source: Company, Antique

75-125cc motorcycle segment market share

125-250cc motorcycle segment market share


Source: Company, Antique

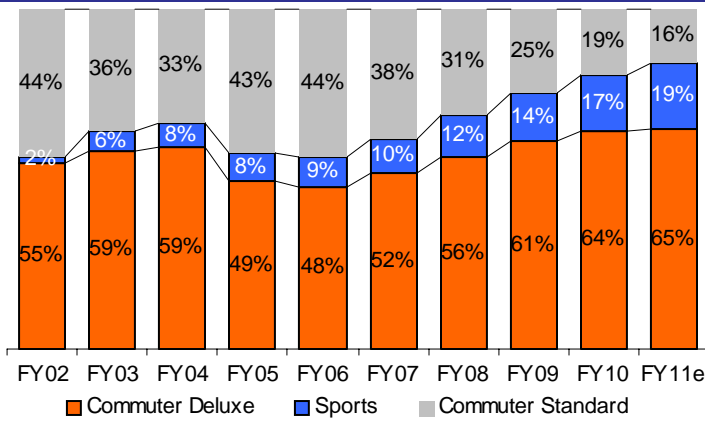
Motorcycles - Market share

3 Wheeler Passenger Carrier - Market Share


Source: Company, Antique

Bajaj Auto domestic motorcycles - Segment-wise contribution

Rising contribution of Pulsar and Discover (% of domestic volumes)


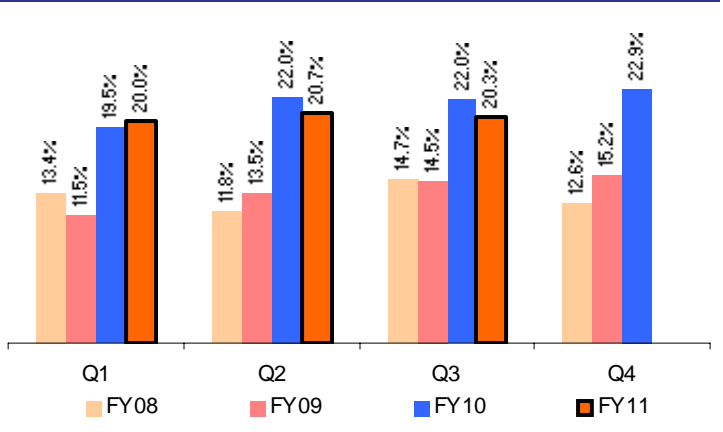
Source: Company, Antique

Motorcycle industry maturing towards premium bikes - Bajaj Auto a strong beneficiary

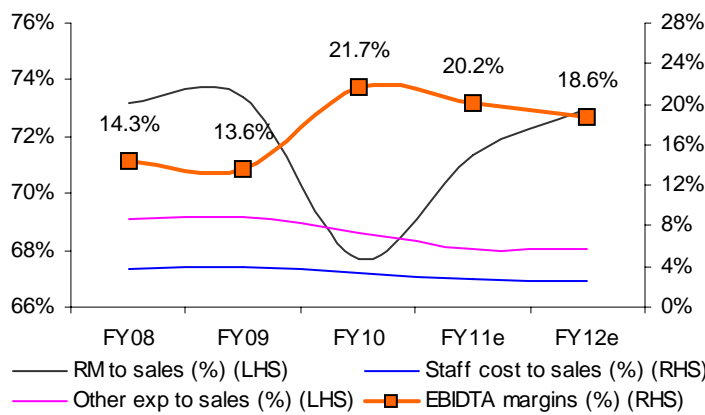


Source: Company, Antique

EBIDTA margin trend

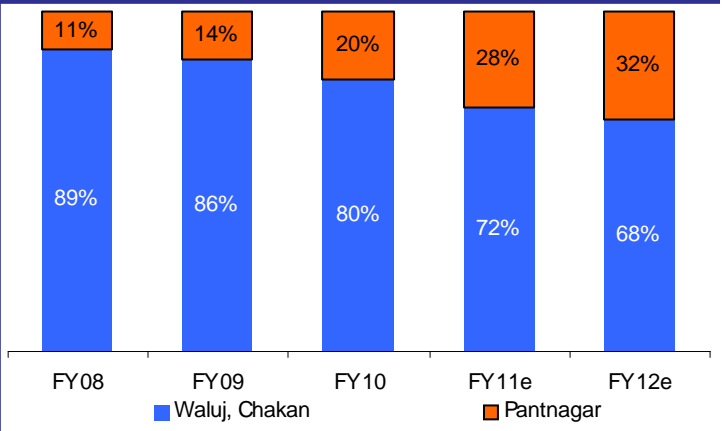


Strong control on fixed costs to keep margins firm... Marginal dip in FY12e as ad spends pick up

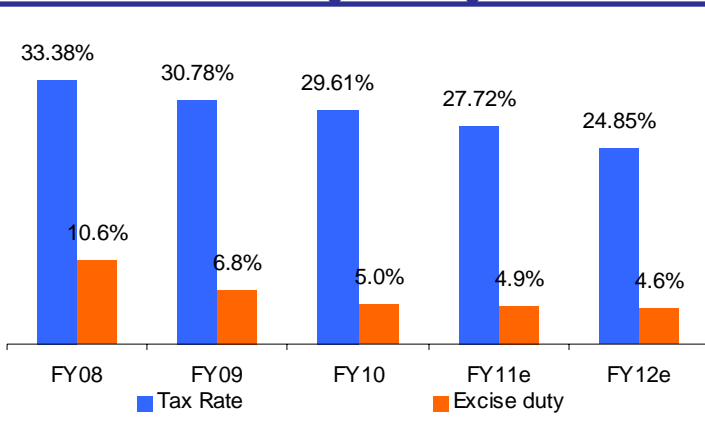


Source: Company, Antique

Rising contribution of Pantnagar plant

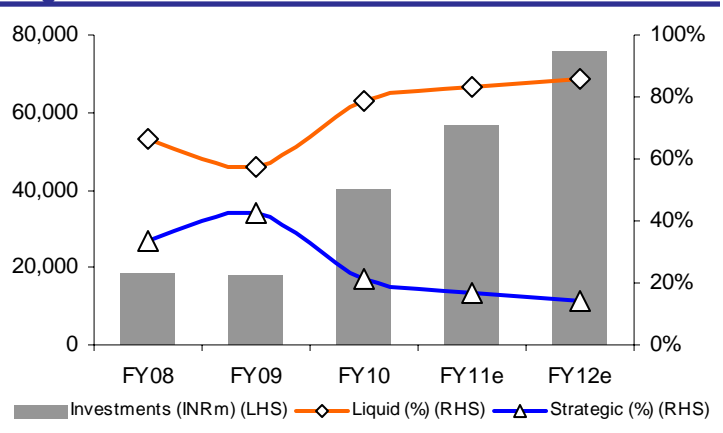


Tax benefits to accrue from higher Pantnagar volumes

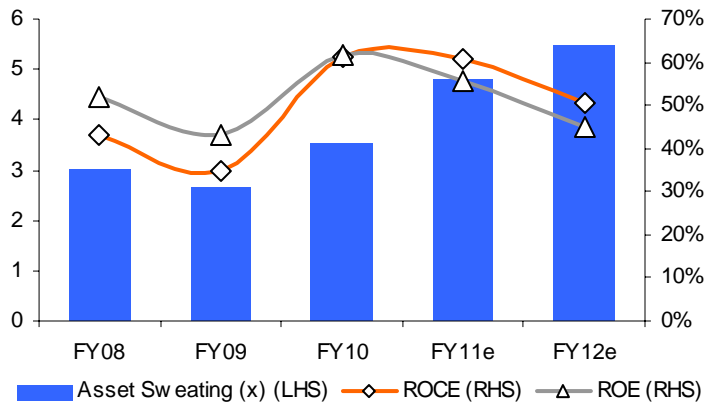


Source: Company, Antique

Profitable operations coupled with minimal capex to help augment investment book

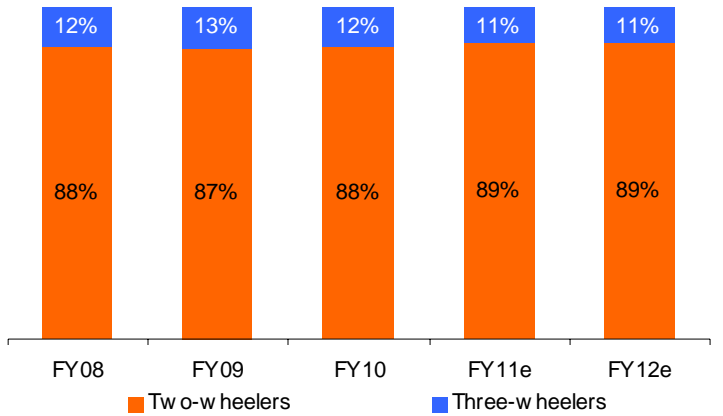


**Return ratios remain extremely healthy...
Marginal dip as growth rates taper from high base**

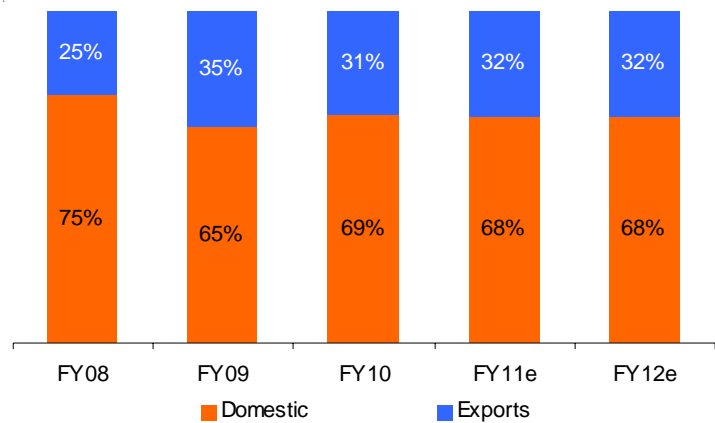


Source: Company, Antique

Volumes - Region-wise break-up

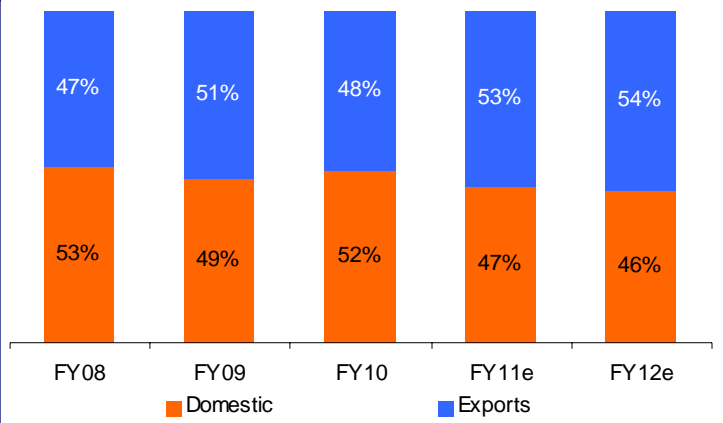


Volumes - Segment-wise break-up



Source: Company, Antique

3W Volumes - Contribution from exports set to increase



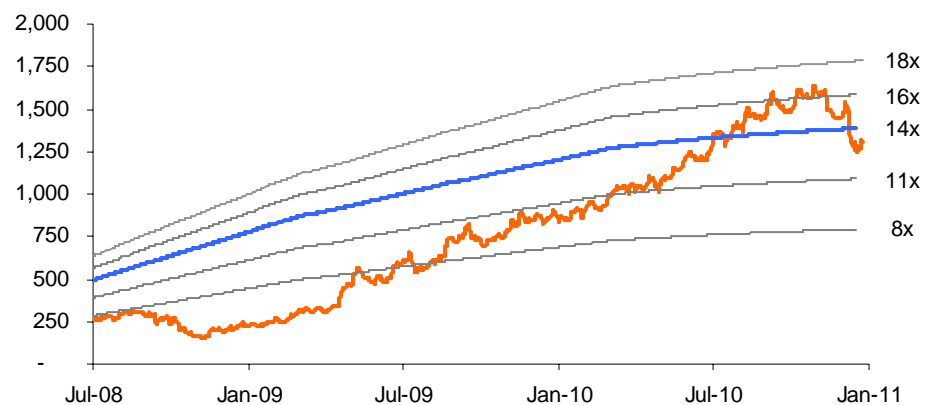
Moderation of stellar performance - On expected lines

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- Although growth rates will taper down from hereon and market share gains too will be limited, we expect the company to keep the momentum going by strengthening its dealership base coupled with new launches on the 'Discover' platform.

Valuation and recommendation

- Post the recent correction in the stock (due to pessimism totally unwarranted), valuations have turned attractive again. At the CMP of INR1,300, the stock is trading at a P/E of 12.3x our FY12e EPS - an unjustified 15% discount to a comparable Hero Honda, which no longer deserves the premium.
- We reiterate our BUY recommendation with a target price of INR1,585, which provides a 22% upside from the current levels.

Bajaj Auto: 1-year-forward PE band



Source: Antique

Financials

Profit and loss account (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Revenues	90,462	88,104	119,210	169,166	199,935
Expenses	77,526	76,080	93,284	135,010	162,679
EBITDA	12,935	12,023	25,926	34,157	37,256
Depreciation & amortisation	1,740	1,298	1,365	1,279	1,356
EBIT	11,196	10,725	24,561	32,878	35,900
Interest expense	52	210	60	20	20
Other income	1,227	1,117	1,225	3,553	4,796
Extraordinary Items	(1,024)	(2,071)	(1,650)	-	-
Profit before tax	11,347	9,561	24,076	36,410	40,675
Taxes incl deferred taxation	3,788	3,016	7,075	10,093	10,108
Profit after tax	7,560	6,545	17,001	26,317	30,568
Adjusted profit after tax	8,241	8,052	18,109	26,317	30,568
EPS (INR)	52.2	45.2	117.5	91.0	105.6
Adjusted EPS (INR)	28.5	27.8	62.6	91.0	105.6

Balance sheet (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Share Capital	1,447	1,447	1,447	2,894	2,894
Reserves & Surplus	14,429	17,250	27,837	44,460	65,132
Networth	15,876	18,697	29,283	47,354	68,026
Debt	13,343	15,700	13,386	13,716	13,967
Capital Employed	29,219	34,397	42,669	61,070	81,992
Gross Fixed Assets	29,842	33,339	33,793	35,043	36,543
Accumulated Depreciation	17,261	18,079	18,997	20,276	21,632
Capital work in progress	347	221	415	915	1,415
Net Assets	12,928	15,481	15,211	15,682	16,326
Investments	18,571	18,085	40,215	56,703	75,983
Current Assets, Loans & Advances					
Inventory	3,496	3,388	4,462	5,793	7,121
Debtors	2,753	3,587	2,728	6,025	7,121
Cash & Bank balance	561	1,369	1,014	1,575	2,696
Loans & advances and others	9,687	14,909	21,805	30,655	38,054
Current Liabilities & Provisions					
Liabilities	10,433	12,134	20,263	28,089	33,249
Provisions	8,340	12,242	22,487	24,736	27,210
Net Current Assets	(2,276)	(1,123)	(12,740)	(8,776)	(5,466)
Deferred tax (assets)/liabilities	110	42	17	2,540	4,851
Misc. Expenses	105	1,996	-	-	-
Application of Funds	29,219	34,397	42,669	61,070	81,992

Per share data

Year ended 31st Mar	2008	2009	2010	2011e	2012e
No. of shares (m)	144.7	144.7	144.7	289.4	289.4
Adj BVPS (INR)	54.9	64.6	101.2	163.7	235.1
Adj CEPS (INR)	32.1	27.1	63.5	95.4	110.3
Adj DPS (INR)	10.0	11.0	20.0	25.0	30.0

Margins (%)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
EBITDA	14.3	13.6	21.7	20.2	18.6
EBIT	12.4	12.2	20.6	19.4	18.0
PAT	9.1	9.1	15.2	15.6	15.3

Source: Company, Antique

Key Assumptions (Volumes '000)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Motorcycles - Domestic	1,658	1,276	1,782	2,459	2,852
Motorcycles - Exports	482	631	725	1,001	1,181
Motorcycles - Total	2,140	1,908	2,507	3,459	4,033
Scooters - Domestic	21	10	4	0	0
Scooters - Exports	0	2	1	0	0
Scooters - Total	21	12	5	0	0
Total 2 Wheelers	2,161	1,920	2,512	3,459	4,033
3W - Domestic	154	135	176	202	225
3W - Exports	136	139	165	231	268
3W - Total	290	275	341	433	493
Total Volumes	2,451	2,194	2,853	3,893	4,525
Total Volumes Growth (%)	(10)	(10)	30	36	16

Cash flow statement (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
EBIT	11,196	10,725	24,561	32,878	35,900
Depreciation & amortisation	1,740	1,298	1,365	1,279	1,356
Interest expense	52	210	60	20	20
(Inc)/Dec in working capital	(2,837)	345	(11,263)	3,403	2,189
Tax paid	3,961	3,084	7,126	7,570	0
CF from operating activities	11,759	8,384	30,002	23,164	35,047
Capital expenditure	30,189	3,371	648	1,750	2,000
Inc/(Dec) in investments	18,571	(486)	22,130	16,488	19,279
Income from investments	1,227	1,117	1,225	3,553	4,796
CF from investing activities	(47,533)	(1,768)	(21,553)	(14,686)	(16,483)
Inc/(Dec) in share capital	1,447	-	-	1,447	-
Inc/(Dec) in debt	13,343	2,357	(2,314)	330	251
Others	6,870	(3,724)	(6,415)	(9,694)	(9,896)
CF from financing activities	21,660	(1,367)	(8,729)	(7,917)	(9,645)
Net cash flow	561	808	(355)	561	1,121
Opening balance	-	561	1,369	1,014	1,575
Closing balance	561	1,369	1,014	1,575	2,696

Growth indicators (%)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Revenue	-	(3)	35	42	18
EBITDA	-	(7)	116	32	9
Adj PAT	-	(2)	125	45	16
Adj EPS	-	(2)	125	45	16

Valuation (x)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
P/E (Adj)	45.6	46.7	20.8	14.3	12.3
P/BV	23.7	20.1	12.8	7.9	5.5
EV/EBITDA	29.1	31.6	13.8	10.0	8.6
EV/Sales	4.2	4.3	3.0	2.0	1.6
Dividend Yield (%)	0.8	0.8	1.5	1.9	2.3

Financial ratios

Year ended 31st Mar	2008	2009	2010	2011e	2012e
RoE (%)	52	43	62	56	45
RoCE (%)	43	35	61	61	51
Debt/Equity (x)	0.8	0.8	0.5	0.3	0.2
EBIT/Interest (x)	217	51	411	1,674	1,764

Source: Company Antique

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