



Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,250	BJAUT IN
	REUTERS CODE
S&P CNX: 4,231	BJAT.BO

16 July 2009

Buy

Previous Recommendation: Buy

Rs1,150

Equity Shares (m)	144.7
52-Week Range (Rs)	1,212/295
1,6,12 Rel.Perf.(%)	20/93/141
M.Cap. (Rs b)	166.4
M.Cap. (US\$ b)	3.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/08A	90,462	8,241	57.0		20.2	10.5	51.9	42.4	1.8	12.4
3/09A	88,104	7,963	55.0	-3.4	20.9	9.9	47.2	36.3	1.8	13.6
3/10E	97,963	11,994	82.9	50.6	13.9	6.6	47.9	43.7	1.6	8.7
3/11E	105,177	12,828	88.7	6.9	13.0	4.9	38.1	38.5	1.4	7.9

- ✍ Bajaj Auto 1QFY10 results are above estimates, driven by higher export realizations and higher operating leverage. EBITDA margins were at 19.5% and adjusted PAT of Rs3.1b. EBITDA margins are not sustainable at current levels due to (1) launch of new "volume" 100cc motorcycle, and (2) estimated increase in RM cost in 2HFY10.
- ✍ Volumes improved by 24% QoQ (but 11.7% YoY decline), driven by 29% QoQ growth (~13.8% YoY decline) in 2W and 2.5% QoQ decline (~8.8% YoY growth) in 3W. Realizations improved by 14.6% YoY (flat QoQ due to product mix change) due to higher forex rate.
- ✍ EBITDA margin improvement of 430bp QoQ (~800bp YoY) to 19.5% was driven pre-dominantly by higher hedged forex rate and higher operating leverage (~160bp QoQ decline in other expenses) due to 24% QoQ volume growth. Reported PAT grew by 67% to Rs2.93b and recurring PAT grew by 77% to Rs3.1b.
- ✍ We are upgrading our earnings estimates for FY10 by 14.9% to Rs82.9 and FY11 by 14.3% to Rs88.7, to factor in for (a) higher volumes, and (b) higher export realizations and (c) increase in RM cost from 2HFY10. The stock trades at 13.9x FY10E EPS and 13x FY11E EPS. Maintain **Buy**.

QUARTERLY PERFORMANCE

									(Rs Million)	
	FY09				FY10				FY09	FY10E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volumes (nos)	620,095	640,040	493,748	440,269	547,662	655,150	564,550	547,972	2,194,154	2,315,334
Change (%)	8.5	4.2	-30.8	-20.3	-11.7	2.4	14.3	24.5	(10.5)	5.5
Realization	37,265	39,817	42,595	42,779	42,699	42,257	42,257	42,041	40,154	42,311
Change (%)	1.0	3.5	21.4	14.0	14.6	6.1	-0.8	-1.7	8.8	5.4
Net Sales	23,108	25,484	21,031	18,834	23,385	27,685	23,856	23,037	88,104	97,963
Change (%)	9.6	7.9	-15.9	-9.2	1.2	8.6	13.4	22.3	-2.6	11.2
EBITDA	2,668	3,439	3,058	2,858	4,554	5,323	4,321	3,960	12,023	18,159
EBITDA Margins (%)	11.5	13.5	14.5	15.2	19.5	19.2	18.1	17.2	13.6	18.5
Other Income	288	221	379	229	231	225	325	209	1,117	990
Extraordinary Expenses	0	611	611	829	458	458	458	458	2,071	1,833
Interest	9	59	90	52	60	57	60	59	210	236
Depreciation	335	331	319	313	331	335	355	383	1,298	1,404
PBT	2,611	2,659	2,417	1,893	4,155	4,698	3,773	3,269	9,561	15,895
Tax	860	810	755	591	1,220	1,515	1,217	1,055	3,016	5,007
Effective Tax Rate (%)	32.9	30.5	31.2	31.2	29.4	32.3	32.3	32.3	31.5	31.5
Rep. PAT	1,751	1,849	1,662	1,302	2,935	3,183	2,556	2,214	6,545	10,888
Change (%)	-4.3	(22.5)	(22.2)	7.8	67.6	72.1	53.8	70.0	-13.4	66.4
Adj. PAT	1,751	2,274	2,082	1,873	3,105	3,493	2,867	2,524	7,963	11,994
Change (%)	-4.3	(6.7)	(16.2)	21.9	77.3	53.6	37.7	34.8	-4.6	50.6

E: MOSL Estimates

Strong recovery in volumes and market share

Volumes improved by 24% QoQ (but 11.7% YoY decline), driven by 29% QoQ growth (~13.8% YoY decline) in 2W and 2.5% QoQ decline (~8.8% YoY growth) in 3W. While domestic motorcycle volumes grew 32% QoQ (~15% YoY decline) driven by launches of upgraded range of Pulsar, exports also witnessed recovery with 23% QoQ growth (~10% YoY decline).

TREND IN BUSINESS MIX

	1QFY10	1QFY09	YOY CHG (%)	4QFY09	QOQ CHG (%)
Motorcycles					
Domestic	330,194	388,328	-15.0	249,822	32.2
Exports	152,555	170,305	-10.4	124,034	23.0
Total Motorcycles	482,749	558,633	-13.6	373,856	29.1
% of Total	88.1	90.1		84.9	
Scooters	1,693	3,344	-49.4	1,583	6.9
% of Total	0.3	0.5		0.4	
Total 2 Wheelers	484,442	561,977	-13.8	375,439	29.0
% of Total	88.5	90.6		85.3	
Three Wheelers					
Domestic	37,636	30,278	24.3	37,641	0.0
Exports	25,584	27,840	-8.1	27,189	-5.9
Total 3Ws	63,220	58,118	8.8	64,830	-2.5
% of Total	11.5	9.4		14.7	
Total Volumes	547,662	620,095	-11.7	440,269	24.4

Source: Company/MOSL

Bajaj also witnessed QoQ improvement in market share of 280bp (~710bp YoY decline) to 25.2% in motorcycles, driven by 440bp QoQ (~860bp YoY decline) improvement in >125cc and 230bp QoQ (~650bp YoY decline) improvement in <125cc segment. In 3Ws, it lost 190bp market share QoQ (~290bp gain YoY) to 53.4%.

TREND IN MARKET SHARE

	1QFY10	1QFY09	YOY CHG (BP)	4QFY09	QOQ CHG (BP)
75cc - 125cc Motorcycles	14.9	21.5	-650	12.6	230
125cc - 250cc Motorcycles	50.4	59.0	-860	46.0	440
Motorcycles	25.2	32.2	-710	22.4	280
Scooters	0.5	1.2	-70	0.5	0
Total 2W	20.4	26.5	-610	18.1	240
Three Wheelers	53.4	50.5	290	55.3	-190

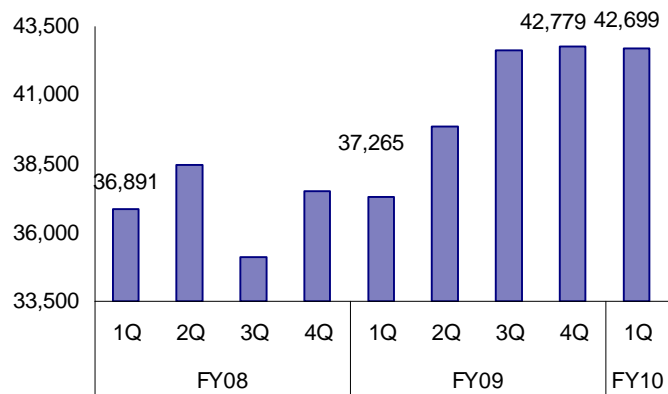
Source: Company/MOSL

Improvement in hedged forex rate drives realizations

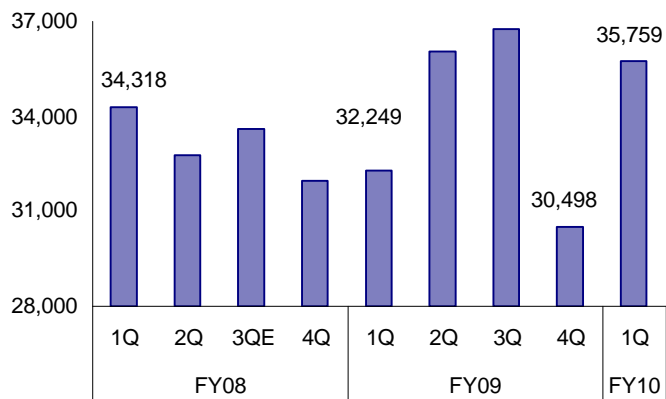
Realizations improved by 14.6% YoY (flat QoQ due to product mix change) due to higher forex rate at Rs48.4/USD (v/s Rs40.4 in 4QFY09 and Rs41.2 for FY09), translating into higher revenues by Rs1b (v/s Rs3b impact in FY09). Export realizations are up 11% YoY & 17% QoQ, despite 3-4% drop in dollar prices. Overall, revenues were flat YoY (~24.2% QoQ growth) to Rs23.4b.

TREND IN REALIZATIONS

REALIZATION PER VEHICLE (RS)



EXPORT REALIZATIONS PER VEHICLE (RS)

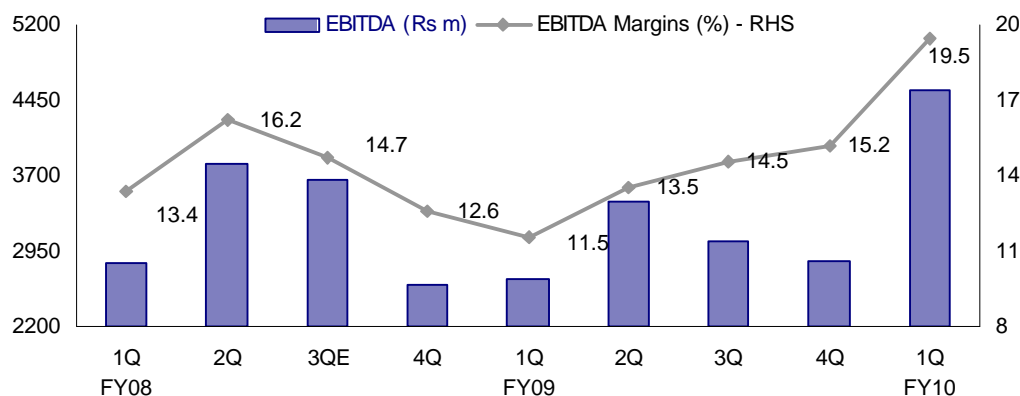


Source: Company/MOSL

EBITDA margins improved by 430bp QoQ and 800bp YoY to 19.5%...

EBITDA margin improvement of 430bp QoQ (~800bp YoY) to 19.5% was driven predominantly by higher hedged forex rate and higher operating leverage (~160bp QoQ decline in other expenses) due to 24% QoQ volume growth.

TREND IN EBITDA



Source: Company/MOSL

During the quarter, Bajaj reversed forex loss of 4QFY09 of Rs218m on hedging instruments. However, it didn't account for unrealized forex gain of Rs198m on forward covers. Also, it amortized VRS expenditure of Rs458m. As a result, reported PAT grew by 67% to Rs2.93b and recurring PAT grew by 77% to Rs3.1b.

...but not sustainable at 1QFY10 levels

In 1QFY10, there were limited savings on RM cost as it had witnessed bulk of RM cost savings in 4QFY09, except for Aluminum which were realized in the quarter. Bajaj has secured contracts on steel till December 2009, as it entered into fresh contracts w.e.f July 1, which gave price hike of 2-3%. On Aluminum, it has contracts till September 2009. With strengthening in commodity prices, we estimate RM cost to go up in 2HFY10. Further,

launch of 100cc "volume" bike on July 17 would also dilute margins from 1QFY10 levels as it would earn lower than average margins.

New product launches to drive volume growth

Bajaj has lined up launch of 100cc "volume" motorcycle on July 17. This coupled encouraging response to recently launched upgraded range of *Pulsar*, should drive volume growth for the company. The company expects high double digit growth in motorcycles based on new 100cc bike. Further, with pick-up in volumes in 3W segment driven by new permits, and planned launch of new 3W in goods and passenger segment would support volumes in 3W. We have upgraded our FY10 volume estimates to 5.5% overall volume growth (v/s 2.4% earlier).

Ramp-up at Pantnagar

The company is planning to ramp-up operations at its Pantnagar plant (enjoys fiscal incentives). From ~41,000 units in April 2009, it is targeting to ramp-up to ~60,000/month (~1,15,000 units in 1QFY10). It is currently manufacturing *Platina*, *Platina 125* and *XCD 135* from Pantnagar. It's planning to produce the new 10cc bike from Pantnagar (~50% of requirement from Pantnagar and balance from Chakan).

Upgrading estimates

We are upgrading our earnings estimates for FY10 by 14.9% to Rs82.9 and FY11 by 14.3% to Rs88.7, to factor in for (a) higher volumes, and (b) higher export realizations and (c) increase in RM cost from 2HFY10. The stock trades at 13.9x FY10E EPS and 13x FY11E EPS. Maintain **Buy**.

REVISED FORECAST

	FY10E			FY11E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Volumes (units)	2,315,334	2,246,958	3.0	2,500,755	2,427,030	3.0
Net Sales (Rs m)	97,963	94,378	3.8	105,177	101,427	3.7
EBITDA Margins (%)	18.5	16.8	170.0	18.1	16.5	160.0
Net Profit (Rs m)	11,994	10,437	14.9	12,828	11,220	14.4
EPS (Rs)	82.9	72.1	14.9	88.7	77.5	14.3

Source: Company/MOSL

Bajaj Auto: an investment profile

Company Background

Bajaj Auto, the flagship of the Bajaj group, is a leading manufacturer of two and three wheelers. The company is a market leader in three wheelers and is 2nd largest player in motorcycles. The company has product offering across all segments of motorcycles, with brands like *CT 100*, *Boxer*, *Caliber*, *Discover*, *Pulsar* etc, and enjoys leadership in premium segment.

Key investment arguments

- ✍ Superior product mix with dominance in the premium motorcycle segment.
- ✍ Largest exporter of two-wheelers (~55% of exports) and three-wheelers (~98% of exports), with scope to drive overall volume growth.
- ✍ Acquisition of 31% stake in KTM Sports, with both companies to co-develop a range of products to be manufactured by BAL for both BAL and KTM brands.

Key investments risks

- ✍ Increased competitive intensity, which may lead to pricing pressure.
- ✍ Higher interest have led to pressures on volume growth.

Recent developments

- ✍ Plans to launch a new 100cc bike in July 2009.

Valuation and view

- ✍ The stock trades at 13.9x FY10E EPS and 13x FY11E EPS.
- ✍ Maintain **Buy** with target price of Rs1,241 (~14x FY11E EPS).

Sector view

- ✍ Short term demand outlook challenging due to financing issues. However, long term demand drivers in place.
- ✍ Cost savings trigger in place, in form of lower raw material cost and operating leverage returning in FY10.
- ✍ Despite large number of players market share remains concentrated amongst the top two.

COMPARATIVE VALUATIONS

		BAJAJ AUTO	HERO HONDA
P/E (x)	FY10E	13.9	17.5
	FY11E	13.0	15.5
EPS Gr (%)	FY10E	50.6	36.6
	FY11E	6.9	13.0
RoE (%)	FY10E	47.9	39.9
	FY11E	38.1	35.1
EV/EBITDA (x)	FY10E	8.7	12.0
	FY11E	7.9	10.2

EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	82.9	64.8	27.9
FY11	88.7	75.1	18.1

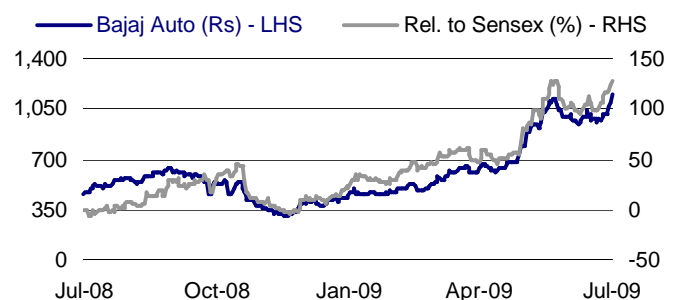
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,150	1,241	7.9	Buy

SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	49.6	50.3	-
Domestic Inst	9.9	9.7	-
Foreign	14.4	14.2	-
Others	26.1	25.9	-

STOCK PERFORMANCE (SINCE 26 MAY 2008)



INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Volumes	2,451,407	2,194,154	2,315,334	2,500,755	
Change (%)	-9.9	-10.5	5.5	8.0	
Net Sales	90,462	88,104	97,963	105,177	
Change (%)	-5.0	-2.6	11.2	7.4	
Total Expenditure	77,526	76,183	79,804	86,092	
EBITDA	12,935	11,921	18,159	19,086	
EBITDA Margins (%)	14.3	13.5	18.5	18.1	
Depreciation	1,740	1,298	1,404	1,538	
EBIT	11,196	10,623	16,755	17,548	
Interest & Finance Charges	52	210	236	141	
Other Income	1,227	1,219	990	1,320	
Non-recurring Expense	1,024	2,071	1,615	0	
PBT	11,347	9,561	15,895	18,726	
Tax	3,788	3,016	5,007	5,899	
Effective Rate (%)	33.4	31.5	31.5	31.5	
PAT	7,560	6,545	10,888	12,828	
Change (%)	-37.2	-13.4	66.4	17.8	
Adj. PAT	8,241	7,963	11,994	12,828	
Change (%)	(33.5)	(3.4)	50.6	6.9	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
Share Capital	1,447	1,447	1,447	1,447	
Reserves	14,429	15,417	23,582	32,178	
Net Worth	15,876	16,864	25,029	33,625	
Deferred Tax	110	42	-117	-304	
Loans	13,343	15,700	15,700	15,700	
Capital Employed	29,329	32,606	40,612	49,021	
Gross Fixed Assets	29,947	33,502	35,723	38,723	
Less: Depreciation	17,261	18,079	19,483	21,021	
Net Fixed Assets	12,686	15,423	16,240	17,702	
Capital WIP	347	221	2,000	1,000	
Investments	18,571	18,085	18,085	18,085	
Current Assets	16,497	23,253	27,787	36,567	
Inventory	3,496	3,388	3,686	3,932	
Sundry Debtors	2,753	3,587	3,902	4,161	
Cash & Bank Balances	561	1,369	5,290	13,565	
Loans & Advances	8,888	13,652	13,652	13,652	
Others	800	1,257	1,257	1,257	
Current Liab. & Prov.	18,773	24,376	23,500	24,333	
Sundry Creditors	9,445	8,000	8,703	9,282	
Other Liabilities	988	4,134	4,134	4,134	
Provisions	8,340	12,242	10,663	10,916	
Net Current Assets	-2,276	-1,123	4,287	12,234	
Application of Funds	29,329	32,606	40,612	49,021	

E: MOSL Estimates

RATIOS					
Y/E MARCH	2008	2009	2010E	2011E	
Basic (Rs)					
EPS	57.0	55.0	82.9	88.7	
EPS growth (%)	-52.1	-3.4	50.6	6.9	
Core EPS	50.2	47.2	78.5	81.4	
EPS growth (%)	-	-6.0	66.3	3.7	
Cash EPS	64.3	54.2	85.0	99.3	
Book Value per Share	109.7	116.6	173.0	232.4	
DPS	20.0	22.0	23.5	25.0	
Payout (Incl. Div. Tax) %	44.8	56.9	36.5	33.0	
Valuation (x)					
P/E	20.2	20.9	13.9	13.0	
Cash P/E	17.9	21.2	13.5	11.6	
EV/EBITDA	12.4	13.6	8.7	7.9	
EV/Sales	1.8	1.8	1.6	1.4	
Price to Book Value	10.5	9.9	6.6	4.9	
Dividend Yield (%)	1.7	1.9	2.0	2.2	
Profitability Ratios (%)					
RoE	51.9	47.2	47.9	38.1	
RoCE	42.4	36.3	43.7	38.5	
Leverage Ratio					
Debt/Equity (x)	0.8	0.9	0.6	0.5	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2008	2009	2010E	2011E	
OP/(Loss) before Tax	11,196	10,623	16,755	17,548	
Interest/Div. Received	1,227	1,219	990	1,320	
Depreciation & Amort.	1,740	1,298	1,404	1,538	
Direct Taxes Paid	-4,420	-3,084	-5,166	-6,086	
(Inc)/Dec in Working Capital	-3,140	-345	-1,489	328	
CF from Oper. Activity	6,603	9,711	12,494	14,648	
Extra-ordinary Items	-1,024	-2,071	-1,615	0	
CF after EO Items	5,579	7,640	10,879	14,648	
(Inc)/Dec in FA+CWIP	-1,984	-3,908	-4,000	-2,000	
(Pur)/Sale of Invest.	45,904	486	0	0	
CF from Inv. Activity	43,920	-3,422	-4,000	-2,000	
Inc. / Dec.in Networth	-43,641	-1,833	-359	0	
Inc/(Dec) in Debt	-2,911	2,357	0	0	
Interest Paid	-52	-210	-236	-141	
Dividends Paid	-3,386	-3,724	-3,978	-4,232	
CF from Fin. Activity	-49,989	-3,411	-4,573	-4,373	
Inc/(Dec) in Cash	533	2,879	3,921	8,274	
Add: Beginning Balance	835	561	1,369	5,290	
Closing Balance	1,368	3,439	5,290	13,565	

N O T E S



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Bajaj Auto

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|---|----|
| 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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