

**CMP : Rs.1,615**

**STOCK INFO**

|                         |             |
|-------------------------|-------------|
| BSE                     | 532977      |
| NSE                     | BAJAJ-AUTO  |
| Bloomberg               | BAJA.BO     |
| Reuters                 | BJAUT IN    |
| Sector                  | Automobiles |
| Face Value (Re)         | 10          |
| Equity Capital (Rs Mn)  | 2894        |
| Mkt Cap (Rs Mn)         | 467,328     |
| 52w H/L (Rs)            | 1695/1189   |
| Avg Daily Vol (BSE+NSE) | 541732      |

**SHAREHOLDING PATTERN**

|                               |       |          |
|-------------------------------|-------|----------|
| <b>SHAREHOLDING PATTERN</b>   |       | <b>%</b> |
| <i>(as on 30th Sep. 2011)</i> |       |          |
| Institutions                  | 24.25 |          |
| Others, Incl Public           | 25.73 |          |
| Promoters                     | 50.02 |          |

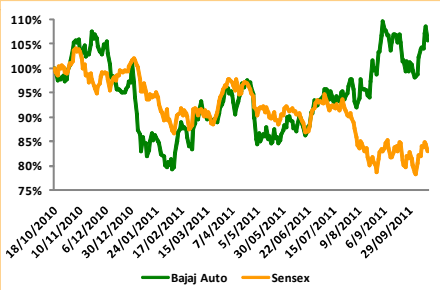
Source: BSE

**STOCK PERFORMANCE (%) 1m 3m 12m**

|            |      |     |     |
|------------|------|-----|-----|
| Bajaj Auto | 1.03 | 14  | 6   |
| Sensex     | 1.10 | -10 | -17 |

Source: Capitaline, IndiaNivesh Research

**BAJAJ AUTO v/s BSE SENSEX**



Source: Capitaline, IndiaNivesh Research

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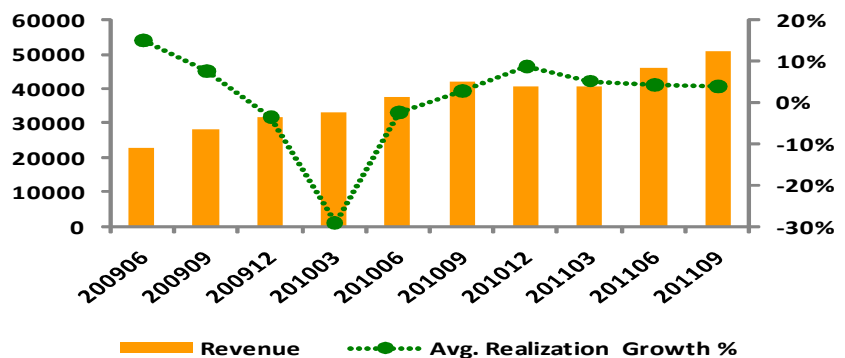
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The top-line grew in line with expectation by 21% YoY to Rs 50,465 mn on robust sales volume and hike in vehicle prices. The company recorded its highest sales volume in September 2011 quarter as well as achieved highest ever revenue and EBITDA. The company has also managed to register highest exports to the tune of Rs 17,330 mn. However, its EBITDA margin fell by 59bps YoY largely due to high raw material prices and increased employee expenses thereby limiting the growth in its EBITDA by 18% to Rs 10,574 mn. Nonetheless, company managed to bring back its EBITDA margin in the trajectory of 20%.

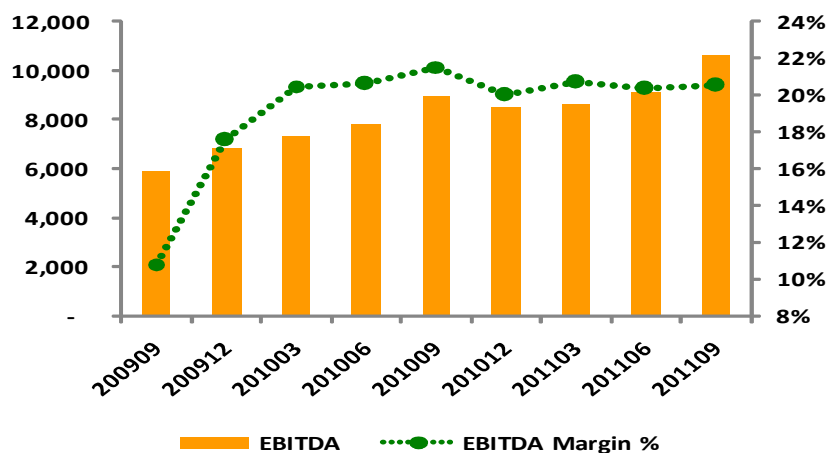
| Quick Fundamentals (Rs. Mn) |               |              |              |                 |                 |                 |                           |                 |                 |            |
|-----------------------------|---------------|--------------|--------------|-----------------|-----------------|-----------------|---------------------------|-----------------|-----------------|------------|
| Bajaj Auto Ltd.             | Q2 FY12       | Q1FY12       | Q2 FY11      | QoQ %           | YoY %           | H1FY12          | H1FY11                    | YoY%            |                 |            |
| Revenue                     | 50,465        | 45,869       | 41,809       | 10              | 21              | 96,334          | 79,182                    | 22%             |                 |            |
| Average Realization (Rs)    | 43,350        | 41,973       | 41,786       | 3               | 4               | 85,323          | 82,045                    | 4%              |                 |            |
| Other Operating Income      | 2,208         | 1,904        | 1,609        | 16              | 37              | 4,112           | 3,137                     | 31%             |                 |            |
| Total Income                | 52,673        | 47,773       | 43,418       | 10              | 21              | 100,446         | 82,319                    | 22%             |                 |            |
| Cost of Revenues            | 42,099        | 38,665       | 34,447       | 9               | 22              | 80,763          | 65,578                    | 23%             |                 |            |
| Raw Materials               | 37,616        | 34,665       | 30,712       | 9               | 22              | 72,280          | 58,394                    | 24%             |                 |            |
| Expenses Capitalized        | -112          |              | -25          |                 |                 | (112)           | (25)                      |                 |                 |            |
| Other Expenditure           | 3,285         | 2,611        | 2,593        | 26              | 27              | 5,896           | 4,779                     | 23%             |                 |            |
| Staff cost                  | 1,311         | 1,389        | 1,142        | -6              | 15              | 2,700           | 2,405                     | 12%             |                 |            |
| <b>EBIDTA</b>               | <b>10,574</b> | <b>9,108</b> | <b>8,972</b> | <b>16</b>       | <b>18</b>       | <b>19,682</b>   | <b>16,741</b>             | <b>18%</b>      |                 |            |
| Depreciation                | 394           | 306          | 300          | 29              | 32              | 701             | 618                       | 13%             |                 |            |
| EBIT                        | 10,180        | 8,802        | 8,672        | 16              | 17              | 18,982          | 16,123                    | 18%             |                 |            |
| Interest Expense            | 202           | 2            | 7            | 8,691           | 3,011           | 205             | 13                        | 1498%           |                 |            |
| Other income                | 745           | 731          | 837          | 2               | -11             | 1,476           | 1,654                     | -11%            |                 |            |
| Exceptional Items           | -954          |              |              |                 |                 |                 |                           |                 |                 |            |
| PBT                         | 9,768         | 9,531        | 9,503        | 2               | 3               | 19,299          | 17,764                    | 9%              |                 |            |
| Provision for taxation      | 2,510         | 2,420        | 2,682        | 4               | -6              | 4,930           | 5,042                     | -2%             |                 |            |
| <b>PAT</b>                  | <b>7,258</b>  | <b>7,111</b> | <b>6,821</b> | <b>2</b>        | <b>6</b>        | <b>14,369</b>   | <b>12,722</b>             | <b>13%</b>      |                 |            |
| EPS (RS.)                   | 25.08         | 24.57        | 23.57        |                 |                 | 49.66           | 43.97                     |                 |                 |            |
|                             |               |              |              | <b>Margin %</b> | <b>Margin %</b> | <b>Margin %</b> | <b>Basis Points (BPS)</b> | <b>Margin %</b> | <b>Margin %</b> | <b>BPS</b> |
| <b>EBITDA %</b>             | 20.1          | 19.1         | 20.7         | 101             | -59             | 19.6            | 20.3                      | -74             |                 |            |
| <b>EBIT %</b>               | 19.3          | 18.4         | 20.0         | 90              | -65             | 18.9            | 19.6                      | -69             |                 |            |
| <b>PBT %</b>                | 18.5          | 19.9         | 21.9         | -141            | -334            | 19.2            | 21.6                      | -237            |                 |            |
| <b>PAT %</b>                | 13.8          | 14.9         | 15.7         | -110            | -193            | 14.3            | 15.5                      | -115            |                 |            |

Source: Company Filings; IndiaNivesh Research

Revenue of Bajaj Auto increased in line with expectation to Rs 50,465 mn (21% YoY & 10% QoQ) in Q2 FY12 led by rise in volumes and better average realization. Bajaj Auto's sales for Q2FY12 were up 16% YoY and 7% QoQ to 1.16 mn units. The company's cumulative sales for H1FY12 were at 2.25 mn units, a growth of 17% over the corresponding period in 2010. The average realization increased by 4% YoY & 3% QoQ driven by price increase taken in June.



Source: Capitaline and IndiaNivesh Research



Source: Capitaline and IndiaNivesh Research

EBITDA of the company increased to Rs 10,574 mn, an increase of 18% YoY and 16% QoQ led by rise in top line and improved average realization. Though, EBITDA margins fell by 59 bps YoY owing to higher raw material cost and higher Employee cost, company managed to bring it back in the trajectory of twenties. However, sequentially, EBITDA margin has gained by 101 bps.

| Cost Analysis (% of Revenue) | Q2 FY12 | Q1FY12 | Q2 FY11 | bps QoQ | bps YoY |
|------------------------------|---------|--------|---------|---------|---------|
| Consumption of Raw Materials | 74.5%   | 75.6%  | 73.5%   | -103    | 108     |
| Employee Expenses            | 6.5%    | 5.7%   | 6.2%    | 82      | 31      |
| Other Expenses               | 2.6%    | 3.0%   | 2.7%    | -43     | -13     |

Source: Company Filings; IndiaNivesh Research

Growth in PBT got limited to 3% YoY and 2% QoQ owing to increase in the Depreciation, Interest expenses and majorly because of exceptional loss (which company has indicated as notional forex loss).

Due to fall in the tax rate from 28% to 26%, PAT of the company managed to increase by 6% YoY (2% QoQ) to Rs 7,258 mn, however, PAT margin slipped by 193 bps YoY and 110 bps QoQ to 13.8%.

However, after adjusting the figure of notional forex loss, company has generated PBT of Rs 10,722 mn which is 13% increase YoY & QoQ. Consequently, profit will increase to Rs 7967 mn and profit margin will reach to 15.1% (which is in line with the street expectation).

### Valuation

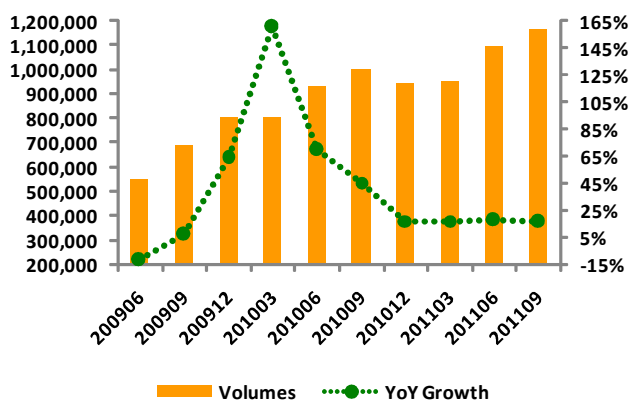
The company is concentrating on different segments as well as markets to keep the pace of the growth. Bajaj Auto recently launched Boxer BM150 cc bike and has received good response (with around 10,000 units of sales) targeted to rural India from where there is rise in demand. We expect this and the upcoming Pulsar variant to keep the momentum going on in the volumes. Bajaj Auto has maintained its volume growth guidance for FY 12 to 20% YoY.

From the front of three wheelers, in which the company has around 47% market share (passenger carriers), there will be increase in volume after the opening up of permits in Karnataka for about 45,000 vehicles. The company is expecting other States to follow the suit too.

In addition to this, there is strong growth potential from the African markets (constitute around 45% total exports) which is currently under-penetrated. Moreover, Indian government has announced 1% incentive for exports till 31<sup>st</sup> March 2012, which coupled with depreciating rupee is likely to boost export volumes further.

Apart from this, Bajaj Auto has confidently hiked prices of all of its products across all markets on October 1<sup>st</sup> in order to pass on the differential impact of 3.5% on DEPB this shall help it in the margin improvement.

At CMP of Rs 1,615, Bajaj Auto is trading at 16.7x and 15.4x FY12e and FY13e EPS estimate which is near its historical average of 18x. We initiated coverage on Bajaj Auto in the month of March at the price of Rs 1,457 with a target price of Rs 1,638. We achieved our target price in the month of August. We have taken tactical call on 2 wheelers as we prefer them over 4 wheelers owing to macro concerns prevailing in the economy that is going to increase overall cost of ownership. However, at current market price, we believe Bajaj Auto has limited upside; therefore, we wait for the better buying opportunity.



Source: Company filing and IndiaNivesh Research

Motorcycles/Step Throughs

| Manufacturers                              | Market Share (%) April-September |               |
|--------------------------------------------|----------------------------------|---------------|
|                                            | 2010                             | 2011          |
| Bajaj Auto Ltd                             | 27.79                            | 26.03         |
| Hero MotoCorp Ltd                          | 53.44                            | 55.74         |
| Honda Motorcycle & Scooter India (Pvt) Ltd | 7.71                             | 6.89          |
| India Yamaha Motor Pvt Ltd                 | 2.91                             | 3.44          |
| Royal Enfield (Unit of Eicher Ltd)         | 0.56                             | 0.74          |
| Suzuki Motorcycle India Pvt Ltd            | 0.43                             | 0.58          |
| TVS Motor Company Ltd                      | 7.17                             | 6.58          |
| <b>Total</b>                               | <b>100.00</b>                    | <b>100.00</b> |

Source: SIAM

Two Wheelers

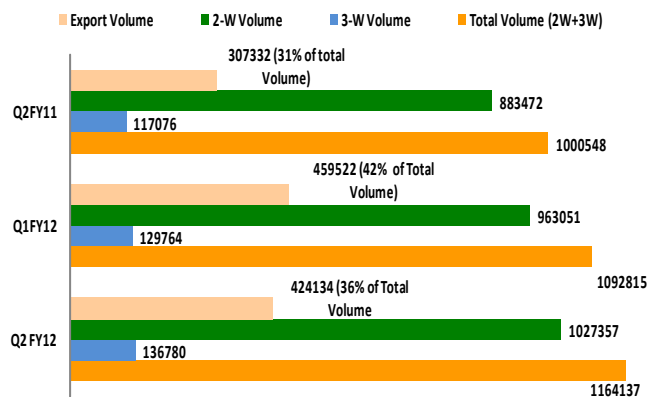
| Manufacturers                              | Market Share (%) April-September |               |
|--------------------------------------------|----------------------------------|---------------|
|                                            | 2010                             | 2011          |
| Bajaj Auto Ltd                             | 21.36                            | 19.84         |
| H-D Motor Company India Pvt Ltd            | 0.00                             | 0.00          |
| Hero MotoCorp Ltd                          | 43.74                            | 45.45         |
| Honda Motorcycle & Scooter India (Pvt) Ltd | 13.78                            | 13.16         |
| India Yamaha Motor Pvt Ltd                 | 2.23                             | 2.62          |
| Mahindra Two Wheelers Ltd                  | 1.26                             | 1.13          |
| Royal Enfield (Unit of Eicher Ltd)         | 0.43                             | 0.56          |
| Suzuki Motorcycle India Pvt Ltd            | 2.14                             | 2.50          |
| TVS Motor Company Ltd                      | 15.07                            | 14.74         |
| <b>Total</b>                               | <b>100.00</b>                    | <b>100.00</b> |

Source: SIAM

Three Wheelers

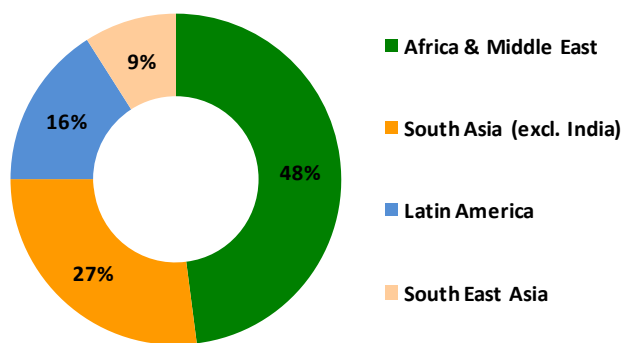
| Manufacturers            | Market Share (%) April-September |               |
|--------------------------|----------------------------------|---------------|
|                          | 2010                             | 2011          |
| Atul Auto Limited        | 3.44                             | 4.91          |
| <b>Bajaj Auto Ltd</b>    | <b>39.69</b>                     | <b>39.20</b>  |
| Force Motors Ltd         | 0.05                             | 0.00          |
| Mahindra & Mahindra Ltd  | 11.51                            | 13.31         |
| Piaggio Vehicles Pvt Ltd | 37.82                            | 36.99         |
| Scooters India Ltd       | 2.53                             | 3.08          |
| TVS Motor Company Ltd    | 4.95                             | 2.50          |
| <b>Total</b>             | <b>100.00</b>                    | <b>100.00</b> |

Source: SIAM



Source: Company filing and IndiaNivesh Research

Geographical Spread of Exports



Source: Company filing and IndiaNivesh Research



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