

May 13, 2010

Bajaj Auto (BAAUTO)**Rs 2146****WHAT'S CHANGED...**

PRICE TARGET Under Review
 EPS (FY10) Rs 117.8
 RATING..... Under Review

First cut - Riding high...

Beating our as well as Street expectations, Bajaj Auto (BAL) reported a robust performance with 80.5% YoY sales growth to Rs 3,399.5 crore and net profit rising four fold in Q4FY10 to Rs 532.2 crore. For FY10, sales grew 35.3% to Rs 11,921 crore while net profit grew a whopping 160% to Rs 1,701.7 crore. The EBITDA margin for the quarter was the highest ever at 22.9% and 21.7% for Q4FY10 and FY10, respectively. Low base effect accounted for 83.7% YoY Q4 volume growth while for FY10 it was at 30%. The change in product mix and the launch of the sub 150 cc motorcycle from its popular brand portfolio of Discover and Pulsar resulted in an increase in volumes as well as realisation providing a boost to its topline and bottomline for Q4FY10 as well as FY10. FY10 has been a great year for the company wherein it reported its highest ever volume sales in the domestic and export market, highest ever sales, EBITDA margins and net profit.

Going forward

We expect new launches and rising three-wheelers sales to continue to bring cheer to the domestic and export market. We will be revising our earning estimates and price targets upward after getting more details post the conference call of BAL on May 14. The revision is mainly due to 1) rising sales volume in both domestic and export motorcycle market and rising three-wheeler sales, 2) management's confidence in maintaining EBITDA margin at over 20%, 3) planned new launches, 4) strong cash and cash equivalent balance of Rs 3,263 crore (Rs 933 crore) and 5) increase in production from tax shielded Pantnagar facility as production is likely to increase to 1 million units from 0.6 million units.

Valuation

Our target price of Rs 1,952 has been achieved and the stock is currently trading at Rs 2147, discounting the FY10 EPS of Rs 117.8 by 18.2x. We hold a positive bias on the stock and believe it would be re-rated on the back of strong volume growth as well as improving financials. Our detailed update will follow post the conference call.

Exhibit 1: Key Financials

(Rs Crore)	Q4FY10	Q4FY09	Q3FY10	YoYchg	QoQchg	FY10
Net Sales	3399.45	1883.41	3295.55	80%	3%	11920.98
EBITDA Margin (%)	22.86%	15.2%	21.95%			21.7%
Depreciation	34.11	31.29	35.68	9%	-4%	136.45
Interest	-0.01	5.2	0.02	-100%	-150%	5.98
Other Income	42.5	22.91	35.13	86%	21%	122.5
Reported PAT	562.0	184.1	504.9	205%	11%	1808.605
EPS (Rs)	36.8	9.0	32.8	309%	12%	117.8

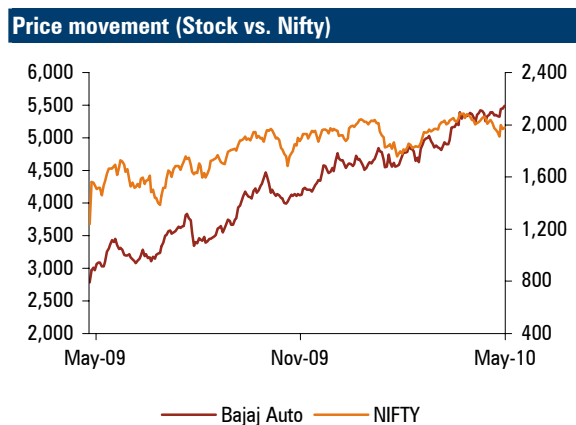
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Under review
Target	: Under review
Target Period	: 12 months
Potential Upside	: -

TRAILING 4 QUARTERS				
	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Net Sales	2338.5	2887.5	3295.6	3399.5
EBITDA	455.4	636.5	723.5	777.1
Net Profit	309.1	432.6	504.9	562.0

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	48.8	18.2	19.1	16.5
Target PE (x)	44.4	16.6	17.4	15.0
EV to EBITDA (x)	29.8	13.4	13.3	11.3
Price to book (x)	18.4	11.3	8.3	10.3
RoNW (%)	38.9	67.6	49.9	55.9
RoCE (%)	36.8	63.6	53.4	67.6

Stock data	
Market Capitalisation	Rs 31,044 crore
Debt (FY08)	Rs 1,570.0 crore
Cash (FY08)	Rs 136.9 crore
EV	Rs 32,614 crore
52 week H/L	Rs 2167 / 639
Equity capital	Rs 144.7 crore
Face value	Rs 10
MF Holding (%)	6.5%
FII Holding (%)	17.8%



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Splendid performance puts it back on growth track

Key highlights

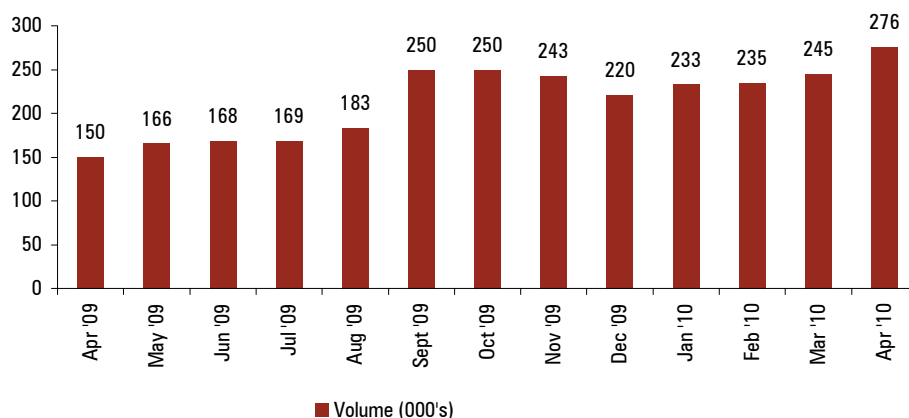
Exhibit 2: Volume quarterly performance (no)

	Q4FY10	Q3FY10	Q4FY09	QoQ (%)	YoY(%)	FY10	FY09	% Chng
MOTORCYCLES	712411	711991	373661	0.1	90.7	2,506,866	1,907,810	31.4
Scooters	258	1060	1735	-75.7	-85.1	4,851	11,772	-58.8
TOTAL 2 WHEELERS	712669	713051	375396	-0.1	89.8	2,511,717	1,919,582	30.8
3 WHEELERS	96281	96167	64827	0.1	48.5	340,936	274,526	24.2
TOTAL 2 & 3 WHEELERS	808950	809218	440223	0.0	83.8	2,852,653	2,194,108	30.0
Exports out of the above	214471	273902	151639	-21.7	41.4	891,098	772,519	15.3

Source: Company, ICICIdirect.com Research

New launches drive volume growth

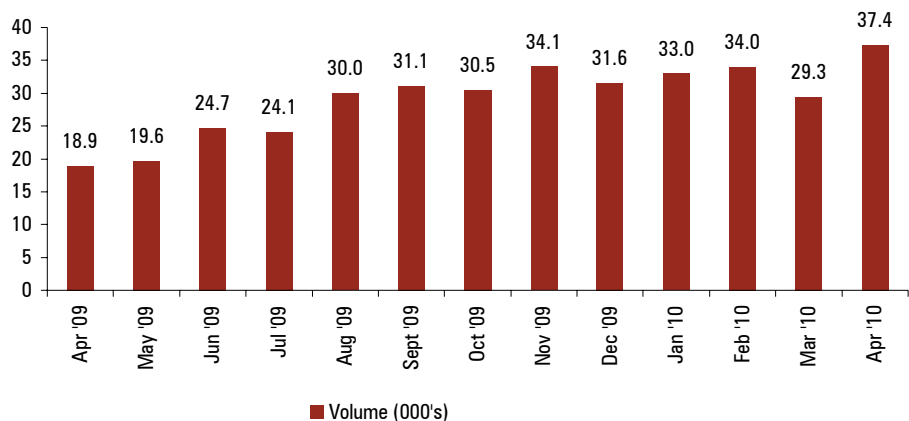
Exhibit 3: Monthly volume two wheelers (nos)



Source: Company, ICICIdirect.com Research

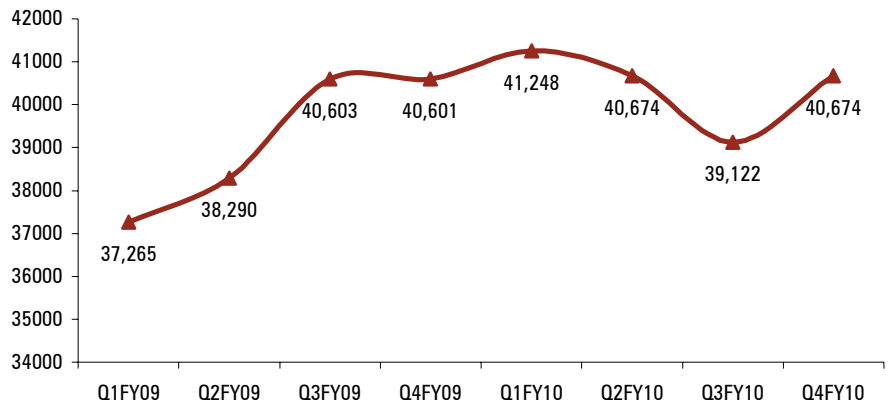
The three wheeler segment is steadily growing, contributing to the EBITDA margin

Exhibit 4: Monthly volume three-wheeler (nos)



Source: Company, ICICIdirect.com Research

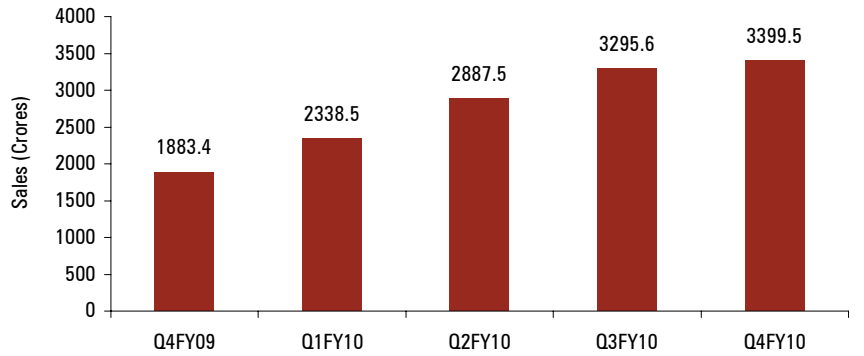
Exhibit 5: Trend in realisation (Rs/unit)



The change in product mix is improving the average realisation. Rising volume is contributing to the upward trend in sales

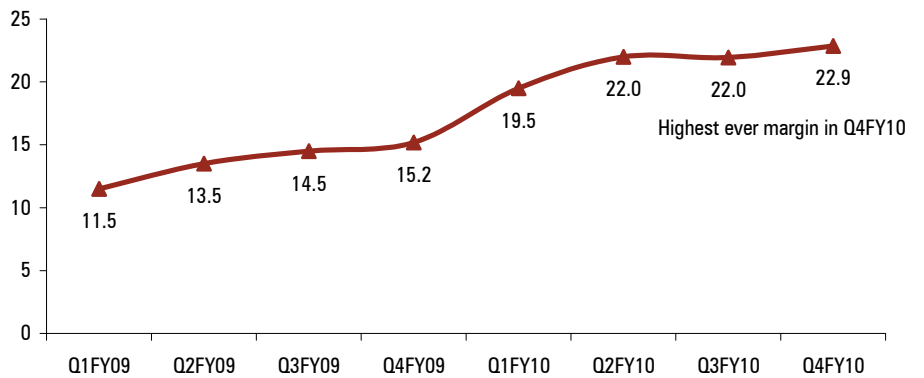
Source: Company, ICICIdirect.com Research

Exhibit 6: Sales performance



Source: Company, ICICIdirect.com Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICIdirect.com Research

Exhibit 8: ICICIdirect.com Research coverage universe

					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Tata Motors										
Idirect Code	TELCO	CMP	800	FY09	25,354.1	19.5	41.0	54.5	10.0	7.1
		Target	847	FY10E	32,851.1	59.3	13.5	16.8	22.1	12.8
Mcap (Rs cr)	41098.3	% Upside	5.9	FY11E	35,965.9	58.0	13.8	14.2	16.6	11.7
Maruti Suzuki										
Idirect Code	MARUTI	CMP	1271	FY09	20,775.6	40.3	31.5	18.2	13.3	18.5
		Target	1614	FY10E	31,684.5	84.0	15.1	8.8	23.1	33.3
Mcap (Rs cr)	36717.5	% Upside	27.0	FY11E	34,957.7	94.0	13.5	8.1	21.0	28.9
				FY12E	37,714.7	101.8	12.5	7.3	18.8	26.4
M&M										
Idirect Code	MAHMAH	CMP	526	FY09	13,093.7	30.0	17.6	30.1	17.4	9.9
		Target	608	FY10E	18,487.5	33.9	15.9	11.2	31.3	24.8
Mcap (Rs cr)	29371.5	% Upside	15.6	FY11E	21,561.3	34.4	15.3	9.8	24.5	25.2
				FY12E	24,428.7	38.7	13.6	8.9	22.3	25.2
Bajaj Auto										
Idirect Code	BAAUTO	CMP	2,146	FY09	8,696.2	44.0	48.8	29.6	38.9	36.8
		Target	1,952	FY10E	11,592.6	117.8	18.2	13.3	67.6	63.6
Mcap (Rs cr)	31044.0	% Upside	-9.0	FY11E*	12,543.0	112.1	19.1	13.1	49.9	53.4
				<i>*und rev.</i>						
Escorts										
Idirect Code	ESCORT	CMP	184	FY08	1,998.0	1.3	140.3	24.3	-1.6	7.0
		Target	193	FY09	2,162.8	9.9	18.6	11.3	8.5	10.6
Mcap (Rs cr)	1732.2	% Upside	5.2	FY10E	2,598.3	13.3	13.8	8.9	8.7	11.9
				FY11E	3,039.6	16.1	11.4	7.2	9.6	13.1
Automotive Axle										
Idirect Code	AUTAXL	CMP	411	FY08	751.9	36.9	11.1	5.8	37.7	40.4
		Target	525	FY09	267.2	3.6	115.4	20.0	3.1	6.3
Mcap (Rs cr)	621.3	% Upside	27.9	FY10E	536.3	24.5	16.8	8.6	19.6	24.5
Balkrishna Industries										
Idirect Code	BALIND	CMP	585	FY09	1,175.4	32.7	17.9	7.7	14.5	13.5
		Target	662	FY10E	1,299.2	100.7	5.8	7.3	36.0	26.8
Mcap (Rs cr)	1130.9	% Upside	13.2	FY11E	1,497.2	110.4	5.3	4.3	30.7	28.8
Bharat Forge										
Idirect Code	BHAFOR	CMP	264	FY09	4,774.0	1.1	230.9	15.3	3.6	9.6
		Target	254	FY10E	5,004.0	4.3	62.0	12.4	6.2	17.0
Mcap (Rs cr)	5868.1	% Upside	-3.7	FY11E	5,416.7	9.8	26.9	9.7	19.6	23.5
JK Tyres										
Idirect Code	JKIND	CMP	176	FY08	4,934.1	4.6	37.8	6.5	3.5	12.5
		Target	202	FY09	3,725.7	39.9	4.4	3.8	25.2	22.5
Mcap (Rs cr)	721.0	% Upside	15.0	FY10E	4,127.0	50.5	3.5	3.2	25.0	22.3
Subros										
Idirect Code	SUBROS	CMP	48	FY09	694.4	2.2	21.9	6.7	7.6	12.2
		Target	61	FY10E	875.6	3.9	12.3	4.5	12.1	16.5
				FY11E	931.0	5.6	8.5	3.3	15.5	20.9
Mcap (Rs cr)	288.5	% Upside	26.2	FY12E	1,081.7	6.7	7.1	2.9	16.2	22.6

Source: ICICIdirect.com Research

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
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