

May 18, 2010

Bajaj Auto (BAAUTO)**Rs 2163****WHAT'S CHANGED...**

PRICE TARGET	Changed from Rs 1,952 to Rs 2,300
EPS (FY11)	Changed from Rs 112.1 to Rs 121.3
EPS (FY12)	Changed from Rs 130.1 to Rs 143.8
RATING.....	Add

Strong growth...

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. 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 30%. FY10 has been a great year for BAL wherein it reported its highest ever sales volume in the domestic and export market, highest ever sales, EBITDA margin and net profit.

- **Improvement in realisations**

BAL reported QoQ growth of 4% in average realisations on the back of a change in the product mix to Rs 40,674 per unit. This exceeded our estimated average realisation of Rs 39,122 per unit.

- **New segmental launches**

The strategic launches of the Discover, Pulsar and Platina in the 100 cc, 135 cc and 125 cc category, respectively, gave a dramatic push to volumes. The newly launched Discover150 cc would further aid volume expansion.

- **Production increase to cater to growing demand**

BAL plans to enhance its Pantnagar production by 67% to 1 million units. It would enjoy tax subsidy and, therefore, this would aid the margin as well as bottomline expansion.

Valuation

Volume growth in the commuter as well as sports category along with new model launches would help in maintaining margins. We are revising our sales and profit estimates for FY11 and FY12 (Refer Exhibit 9). At the CMP of Rs 2163, the stock is trading at 17.8x FY11E EPS of Rs 121.3 and 15x FY12E EPS of Rs 143.8. We are valuing the company giving higher P/E of 16x FY12E EPS (revised) to arrive at Rs 2,300 per share, implying a 6.3% upside from its present levels. We rate the stock as **ADD**.

Exhibit 1: Key Financials

(Rs Crore)	Q4FY10	Q4FY09	Q3FY10	YoYchg	QoQchg	FY10
Net Sales	3399.5	1883.4	3295.6	80.5	3.2	11921.0
EBITDA Margin (%)	22.9	15.2	22.0	0.0	0.0	21.7
Depreciation	34.1	31.3	35.7	9.0	-4.4	136.5
Interest	0.0	5.2	0.0	-100.2	-150.0	6.0
Other Income	42.5	22.9	35.1	85.5	21.0	122.5
Reported PAT	562.0	184.1	504.9	205.2	11.3	1808.6
EPS (Rs)	36.8	9.0	32.8	308.6	12.0	117.8

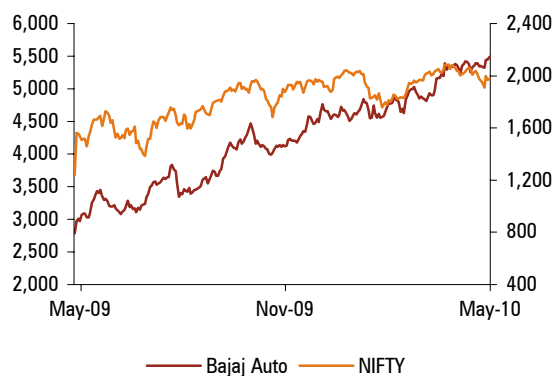
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Add
Target	: Rs 2,300
Target Period	: 12 months
Potential Upside	: 6.3%

Trailing 4 quarters		(Rs crore)			
	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 31,291.4 crore
Debt (FY09)	Rs 1,570.0 crore
Cash (FY09)	Rs 136.9 crore
EV	Rs 32,861.4 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%

Price movement (Stock vs. Nifty)**Analyst's name**

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Splendid performance puts it back on the growth track.

Key highlights

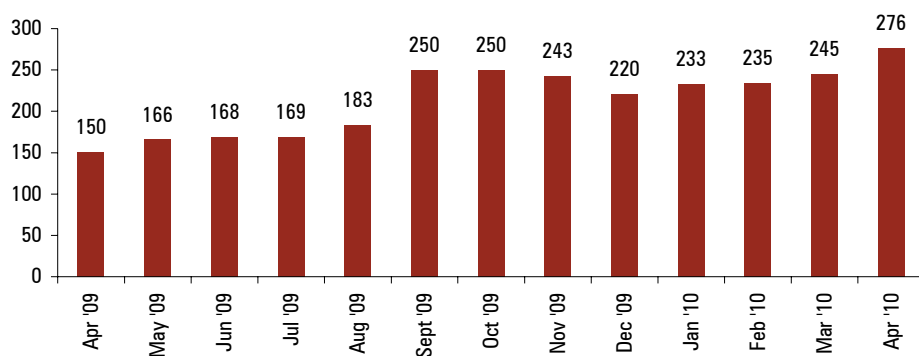
Exhibit 2: Volume quarterly performance (nos)

	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

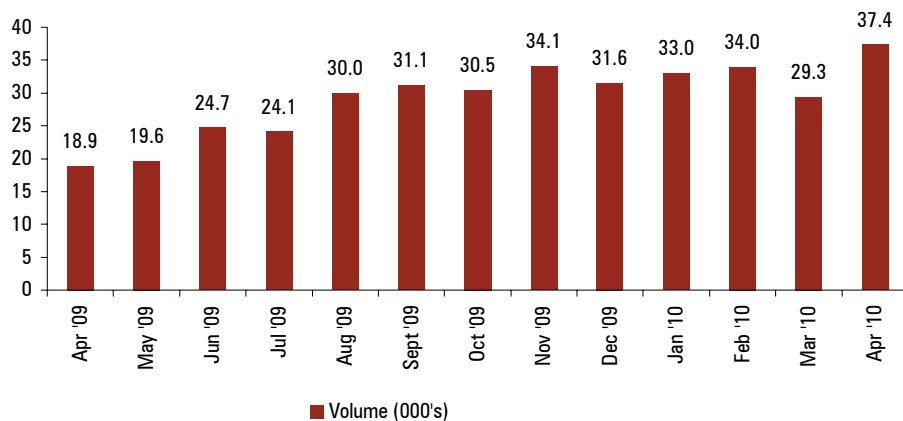
Exhibit 3: Monthly volume two wheelers ('000 nos)



Source: Company, ICICIdirect.com Research

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

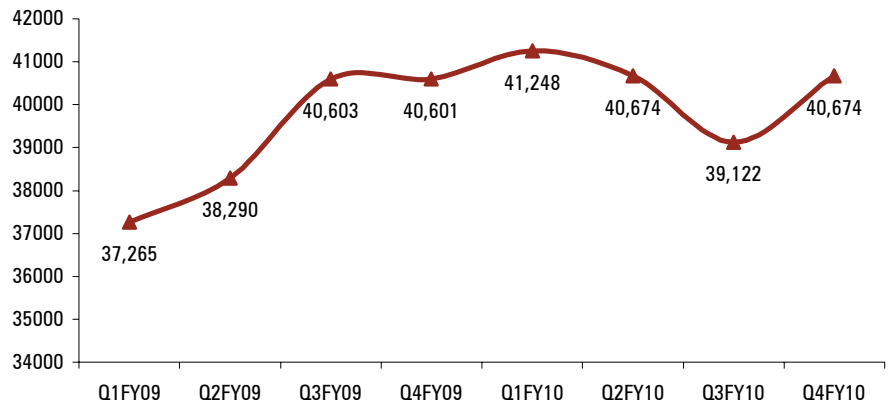
Exhibit 4: Monthly volume three-wheeler ('000 nos)



Source: Company, ICICIdirect.com Research

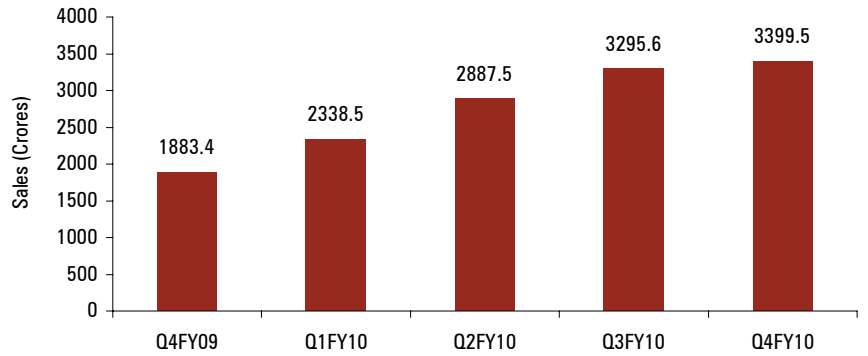
The change in product mix is improving the average realisation. Rising volumes are contributing to the upward trend in sales

Exhibit 5: Trend in realisation (Rs/unit)



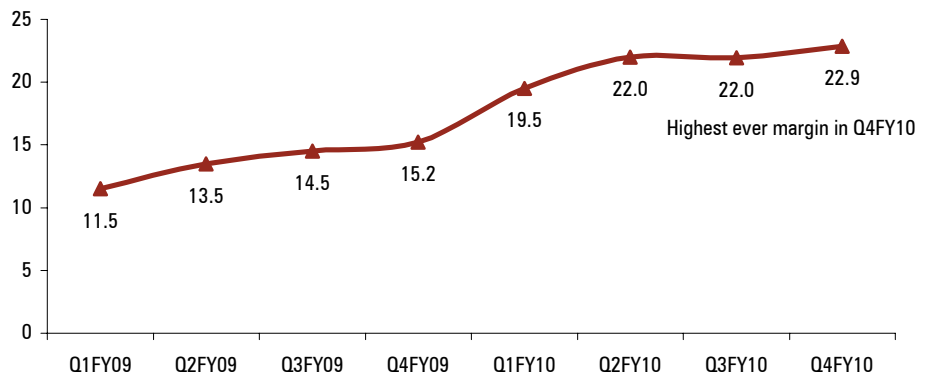
Source: Company, ICICIdirect.com Research

Exhibit 6: Sales performance



Source: Company, ICICIdirect.com Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICIdirect.com Research

Going forward

Enhancing sales network focus

Exhibit 8: Dealer network

	FY10	FY11E
Dealers	152	183
Dealers Branch	327	403
Sales Outlets	265	329
ASC's/CST's	354	630

Source: Company, ICICIdirect.com Research

In line with the focus on brand improvement, the company has decided to increase its existing dealer network by 10%. This is along with an emphasis on the overall improvement of quality provided to customers following a top-down approach from the rural service outlets (RSO) to authorised service centres (ASC) level.

Capital expenditure for FY11

The company incurred a capital expenditure of Rs 115 crore in FY10 and planned Rs 250 crore in FY11 towards product development, new launches and expanding the sales network.

Financial estimates revision

On the back of continuous volume growth in the past few months, new launches and increasing volumes from the Pantnagar plant, we are revising our volume estimates for FY11 and FY12 by 5.5% and 6.2%, respectively. The management has a strong sales target of 3.6 million two wheelers and 0.4 million three wheelers collectively achieving 4 million units for FY11. However, we would prefer to watch its volume performance for a few months before making a further upward revision in volume growth.

The company has completed VRS provisioning for its Akurdi plant. From the current year onwards, there will not be any provision towards the same. The tax benefits accruing from the Pantnagar facility, which has a tax shield, will also help in reducing costs and enhance the bottomline on expanded volumes from that plant. Based on our revised volume estimates, we expect sales of Rs 13,545.1 crore and Rs 15,090.3 crore for FY11 and FY12, respectively, and net profit of Rs 1,755.2 crore and 2,079.9 crore, respectively, for the same period.

Exhibit 9: Revised financial estimates

(Rs crore)	Previous		Revised		% chg	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Volumes ('000 units)	3,036.9	3,327.2	3,204.4	3,532.3	5.5	6.2
Net sales	12,543.0	13,688.8	13,545.1	15,090.3	8.0	10.2
EBITDA	2,408.3	2,781.6	2,600.7	3,066.3	8.0	10.2
EBITDA margins (%)	19.8	20.3	19.2	20.3		
Net profit	1,622.0	1,882.9	1,755.2	2,079.9	8.2	10.5
EPS (Rs)	112.1	130.1	121.3	143.8	8.2	10.5

Source: Company, ICICIdirect.com Research

Exhibit 10: ICICIdirect.com Research coverage universe

Tata Motors					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	TELCO	CMP	789	FY09	25,354.1	19.5	40.5	54.5	10.0	7.1
		Target	847	FY10E	32,851.1	59.3	13.3	16.8	22.1	12.8
Mcap (Rs cr)	40556.0	% Upside	7.3	FY11E	35,965.9	58.0	13.6	14.2	16.6	11.7
Maruti Suzuki					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	MARUTI	CMP	1242	FY09	20,775.6	40.3	30.8	17.8	13.3	18.5
		Target	1614	FY10E	31,684.5	84.0	14.8	8.6	23.1	33.3
Mcap (Rs cr)	35888.0	% Upside	30.0	FY11E	34,957.7	94.0	13.2	7.9	21.0	28.9
				FY12E	37,714.7	101.8	12.2	7.2	18.8	26.4
M&M					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	MAHMAH	CMP	558	FY09	13,093.7	30.0	18.6	31.7	17.4	9.9
		Target	608	FY10E	18,487.5	33.9	15.9	12.2	31.3	24.8
Mcap (Rs cr)	31144.2	% Upside	9.1	FY11E	21,561.3	34.4	16.2	11.2	24.5	25.2
				FY12E	24,428.7	38.7	14.4	10.1	22.3	25.2
Bajaj Auto					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BAAUTO	CMP	2,163	FY09	8,696.2	44.0	49.2	30.1	38.9	36.8
		Target	2,300	FY10E	11,920.5	117.8	18.2	12.6	74.0	68.5
Mcap (Rs cr)	31291.4	% Upside	6.3	FY11E*	13,545.1	121.3	17.8	12.4	50.6	54.9
				*und rev.						
Escorts					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	ESCORT	CMP	190	FY08	1,998.0	1.3	145.3	24.3	-1.6	7.0
		Target	193	FY09	2,162.8	9.9	19.2	11.3	8.5	10.6
Mcap (Rs cr)	1793.5	% Upside	1.7	FY10E	2,598.3	13.3	14.3	8.9	8.7	11.9
				FY11E	3,039.6	16.1	11.8	7.2	9.6	13.1
Automotive Axle					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	AUTAXL	CMP	376	FY08	751.9	36.9	10.2	5.8	37.7	40.4
		Target	525	FY09	267.2	3.6	105.5	20.0	3.1	6.3
Mcap (Rs cr)	568.0	% Upside	39.9	FY10E	536.3	24.5	15.4	8.6	19.6	24.5
Balkrishna Industries					Sales(Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BALIND	CMP	582	FY09	1,175.4	32.7	17.8	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)	1125.0	% Upside	13.8	FY11E	1,497.2	110.4	5.3	4.3	30.7	28.8
Bharat Forge					Sales(Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	BHAFOR	CMP	276	FY09	4,774.0	1.1	241.6	15.3	3.6	9.6
		Target	254	FY10E	5,004.0	4.3	64.9	12.4	6.2	17.0
Mcap (Rs cr)	6139.8	% Upside	-8.0	FY11E	5,416.7	9.8	28.2	9.7	19.6	23.5
JK Tyres					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	JKIND	CMP	179	FY08	4,934.1	4.6	38.6	6.5	3.5	12.5
		Target	202	FY09	3,725.7	39.9	4.5	3.8	25.2	22.5
Mcap (Rs cr)	735.0	% Upside	12.8	FY10E	4,127.0	50.5	3.5	3.2	25.0	22.3
Subros					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
Idirect Code	SUBROS	CMP	45	FY09	694.4	2.2	20.6	6.7	7.6	12.2
		Target	61	FY10E	875.6	3.9	11.6	4.5	12.1	16.5
				FY11E	931.0	5.6	8.0	3.3	15.5	20.9
Mcap (Rs cr)	272.3	% Upside	33.7	FY12E	1,081.7	6.7	6.7	2.9	16.2	22.6

Source: ICICIdirect.com Research

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