

RESULTS FIRST LOOK

BJAUT announced adj PAT of INR7.96bn (Nomura: INR7.4bn; consensus: 7.67bn), ahead of our and consensus estimates. EBITDA margin came in at 20.1%, also ahead of our expectations. We expect gross margins to improve further as the company has taken price increases, some benefits due to INR depreciation and an increase in export incentives by 2%. Now that both BJAUT and HMCL have reported improvements in gross margins, we expect the same to follow for TVSL IN.

Price target: 1588.0 INR

Price (20 Oct 2011): 1613.55 INR

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Publish Date: 20 Oct 2011

Strong 2QFY12 results on improved gross margins

- Earnings vs. our Forecast: **ABOVE**

Likely Impact:

- Earnings Estimates: **UP**
- Dividend Estimates: **UP**
- Price Target: **UP**
- Long-term View: **STRONGER**

- Net sales at INR 52.7bn came in ahead of our estimate of INR 50.1bn
- EBITDA margins came in higher at 20.1% against our estimate of 19%
- RM/sales came in at 71.4% compared to our estimate of 72.6%
- Employee cost/sales came in at 2.5% compared to our estimate of 2.8%
- Other expenses/sales came in at 6.2% compared to our estimate of 5.6%
- During the quarter, there was Rs0.95bn of valuation losses on derivative hedging instruments due to rupee depreciation.
- The interest cost of INR 0.2bn and depreciation increase of INR0.09bn were one-off in nature relating to some case settlement.
- Retail demand remains strong and the export order book is healthy according to management.
- The company has taken a price increase of INR500/vehicle on Pulsar and Discover from 1 October.
- It has also taken a price increase of 3.5% in the export markets to offset the DEPB (Duty Entitlement Pass Book) scheme.

Figure 1: 2QFY12 Results

INR mn	2QFY11(A)	1QFY12(A)	2QFY12(A)	Y/Y	Q/Q	2QFY12(F)
Net Sales	43,418	47,770	52,673	21.3%	10.3%	50,142
Total Expenses	34,447	38,660	42,099	22.2%	8.9%	40,591
(Inc)/Dec in Stock	(320)	1,150	(415)			-
Raw Materials	31,032	33,510	38,031	22.6%	13.5%	36,403
Staff Cost	1,142	1,390	1,311	14.8%	-5.7%	1,390
Other Expenditure	2,618	2,620	3,285	25.5%	25.4%	2,808
Expenses Capitalised	(25)	(10)	(112)			(10)
Operating Profit	8,972	9,110	10,574	17.9%	16.1%	9,551
As % of Sales	20.7	19.1	20.1			19.0
Other Income	837	730	745	-11.0%	2.0%	770
Interest	7	-	202	0.0%	0.0%	-

Depreciation	300	310	394	31.6%	27.2%	320
PBT	9,503	9,530	9,768	2.8%	2.5%	10,001
Tax	2,682	2,420	2,510	-6.4%	3.7%	2,600
<i>Effective Tax Rate (%)</i>	<i>28.2</i>	<i>25.4</i>	<i>25.7</i>			<i>26.0</i>
PAT	6,821	7,110	7,258	6.4%	2.1%	7,401
Adj. PAT	6,821	7,110	7,967	16.8%	12.1%	7,401
<i>Change (%)</i>	<i>56.9</i>	<i>20.5</i>	<i>16.8</i>			<i>8.5</i>
EPS	23.6	24.6	27.5	16.8%	12.1%	25.6
ADJ EPS	23.6	24.6	27.5	16.8%	12.1%	25.6

Source: Company data, Nomura estimates

Figure 2: Ratios

	2QFY11(A)	1QFY12(A)	2QFY12(A)	Y/Y	Q/Q	2QFY12(F)
Net Sales/Vehicle (INR)	43,394	43,713	45,246	4.3%	3.5%	43,073
RM/Vehicle (INR)	30,695	31,716	32,312	5.3%	1.9%	31,271
RM / Sales	70.7%	72.6%	71.4%	0.7%	-1.1%	72.6%
Emp/ sales	2.6%	2.9%	2.5%	-0.1%	-0.4%	2.8%
Other exp / sales	6.0%	5.5%	6.2%	0.2%	0.8%	5.6%
GM / SALES	29.3%	27.4%	28.6%	-0.7%	1.1%	27.4%
Other income /PBT	8.8%	7.7%	7.6%	-1.2%	0.0%	7.7%

Source: Company data, Nomura estimates

There is a conference call scheduled on Monday. Details given below:

Day, Date, Time: Monday, 24 October 2011, 14:00 hours IST

Company participants

- Mr Kevin Dsa, President - Finance

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Valuation Methodology and Investment Risks: Please see below.

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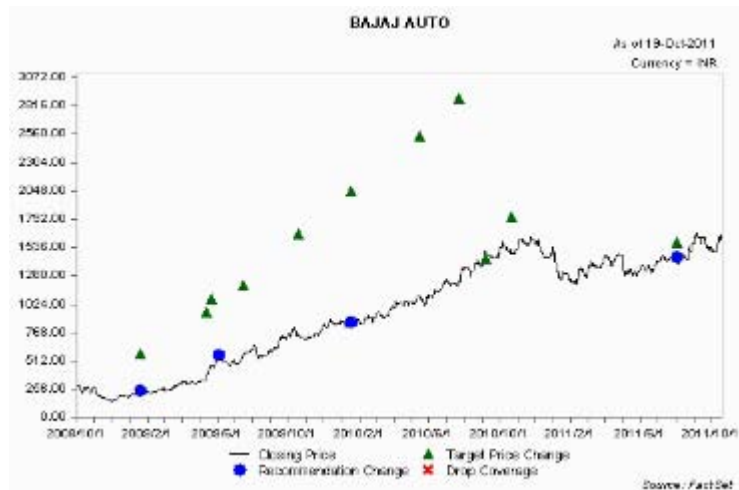
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
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Previous Rating

Issuer name	Previous Rating	Date of change
Bajaj Auto	Buy	03 Aug 2011

Bajaj Auto (BJAUT IN) 1613.55 INR (20 Oct 2011) Neutral

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
03-Aug-2011		1588.00	1455.40
03-Aug-2011	Neutral		1455.40
21-Oct-2010		1810.00	1489.45
08-Sep-2010		1441.50	1480.95
22-Jul-2010		2883.00	1245.10
17-May-2010		2541.00	1081.40
18-Jan-2010		2041.00	868.38
18-Jan-2010	Buy		868.38
20-Oct-2009		1659.00	750.52
17-Jul-2009		1201.00	578.40
05-Jun-2009	Neutral		563.45
22-May-2009		1076.00	472.05
14-May-2009		949.00	396.48
19-Jan-2009		578.00	249.40
19-Jan-2009	Buy		249.40

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Bajaj Auto at INR1,588, based on a Discounted Cashflow (DCF) method. We have built in an earnings CAGR of 9% over the next two years (FY11-FY13F). We estimate that its top-line will achieve a CAGR of 16% over the same period, but note that reduced DEPB benefits would lead to a decline in margins. We have assumed 5% terminal growth and 12.3% cost of equity.

Risks that may impede the achievement of the target price Nano could replace passenger three-wheelers in the medium term; aggressive pricing by Hero Honda; and new small car not succeeding if launched.

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