

## ACCUMULATE

CMP*	Rs1,614
Target Price	Rs1,696

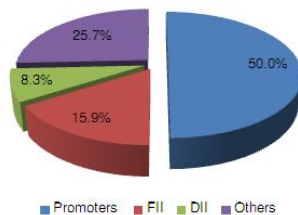
## Stock Info

Sector	Automobile
Market Cap (Rs cr)	46,690
52 Week High/Low	1,695/1,166
Avg. Daily Volume (3m, '000)	456
Avg. Daily Value (3m, cr)	70.1
Dividend Yield	2.7
Sensex	16,937
Nifty	5,092
BSE Code	532977
NSE Code	BAJAJ-AUTO

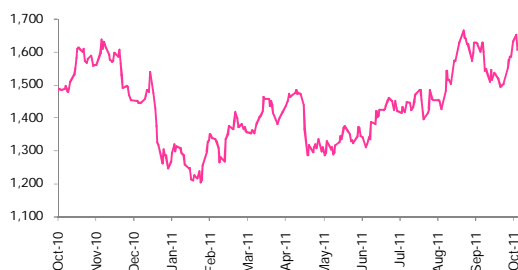
## Stock Performance

(%)	BAJAJ AUTO	NIFTY
1-week	1.7	0.3
1-month	(0.9)	(0.9)
1-year	8.5	(14.9)

## Shareholding Pattern (%)



## Stock Price Chart



Note: \*CMP as on October 20, 2011

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## Strong exports boost growth and margin

## Key highlights of the result

- **Strong top-line growth driven by higher volumes:** Bajaj Auto's top-line grew 21.3% yoy to Rs5,267cr in 2QFY2012 driven by strong volume growth coupled with improvement in Average Realized Prices (ARP). Two-wheelers segment saw a volume growth of 16.3% yoy, whereas Three-wheelers registered a growth of 16.8% yoy. Bajaj Auto reported its highest exports sale (~50% yoy growth) which was the primary factor driving the growth. Net Sales on qoq basis grew by 10.5% on account of strong volume growth and increase in ARP.
- **Increase in ARP offset the impact of raw material costs:** EBITDA margin declined ~60bp yoy but improved ~100bp qoq to reach 20.1%. The improvement on qoq basis was due to an increase of ~3.3% in ARP and softening of commodity prices. Higher realizations from exports enabled the ARP to increase during the last quarter. Raw material costs stood at 71.4% of revenues in 2QFY2012 as compared to 70.7% in 2QFY2011 and 72.6% in 1QFY2012.
- **Healthy growth in Adjusted PAT:** Bajaj Auto's reported PAT saw a growth of 6.4% yoy to Rs726cr. However, after excluding extraordinary loss of Rs95cr, adjusted PAT saw a growth of 20.4% yoy to Rs821cr.

## Outlook and Valuation

Bajaj Auto posted an impressive revenue growth which was in-line with the market expectations. Moreover, improvement in margin was spectacular and was driven by higher realization from exports, operating leverage and the rationalization of spends on sales promotion. Going forward, the Management remains optimistic about the growth in domestic market and expects to exceed its volume target of 4.6mn units for FY2012. We expect the growth to be robust in the next quarter and then gradually moderate in 4QFY2012 once the festive season is over. We have penciled in a volume growth of 22% and 13% in FY2012 and FY2013 respectively. Consequently, we forecast Bajaj Auto to report revenue CAGR of ~20% and adjusted PAT CAGR of 16% over FY2011-13E.

At the CMP of Rs1,614, Bajaj Auto is trading at 15.0x and 13.3x FY2012E & FY2013E consolidated EPS of Rs107.8 and Rs121.2 respectively. **Based on our P/E multiple of 14x and FY2013E EPS of Rs121.2 we arrive at a target of Rs1,696 indicating a potential upside of ~5% from the current levels. Thus, we recommend an Accumulate on the stock.**

## Risks to the view

- Slowdown in demand due to increase in prices or interest rates
- Higher competition can impact the demand
- Increase in raw material costs can impact the profitability

Year End	Net Revenues		EBITDA		Net income (adjusted)		RoaE	RoCE	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2010	11,974	35.8	2,587	22.4	1,756	186.1	77.5	65.5	60.7	26.6	16.3
FY2011	16,609	38.7	3,385	21.2	2,615	48.9	69.5	70.7	90.4	17.9	12.5
FY2012E	20,860	25.6	3,905	19.5	3,121	19.3	52.5	59.9	107.8	15.0	10.8
FY2013E	23,902	14.6	4,401	19.1	3,506	12.4	42.1	49.3	121.2	13.3	9.6

Strong growth led by robust volume growth in both motorcycles and Three-wheelers segments

### Exhibit 1: Quarterly Performance (Consolidated)

(Rs cr)	2QFY12	2QFY11	% yoy	1QFY12	% qoq	FY11	FY10	yoy
Gross Sales	5,295	4,429	19.6	4,793	10.5	16,932	12,153	39.3
Excise Duty	249	248	0.4	207	20.4	933	610	53.1
<b>Net Sales</b>	<b>5,046</b>	<b>4,181</b>	<b>20.7</b>	<b>4,587</b>	<b>10.0</b>	<b>15,998</b>	<b>11,543</b>	<b>38.6</b>
Other op inc	221	161	37.2	190	16.0	611	431	41.7
<b>Total Income</b>	<b>5,267</b>	<b>4,342</b>	<b>21.3</b>	<b>4,777</b>	<b>10.3</b>	<b>16,609</b>	<b>11,974</b>	<b>38.7</b>
Raw Mat Cons	3,762	3,071	22.5	3,466	8.5	11,799	8,104	45.6
Emp Exp	131	114	14.8	139	(5.6)	477	406	17.4
Other exp	317	259	22.3	261	21.5	948	877	8.1
<b>EBITDA</b>	<b>1,057</b>	<b>897</b>	<b>17.9</b>	<b>911</b>	<b>16.1</b>	<b>3,385</b>	<b>2,587</b>	<b>30.8</b>
Margin (%)	20.1	20.7		19.1		20.4	21.6	
Depreciation	39	30	31.4	31	28.7	123	137	(10.6)
<b>EBIT</b>	<b>1,018</b>	<b>867</b>	<b>17.4</b>	<b>880</b>	<b>15.6</b>	<b>3,262</b>	<b>2,450</b>	<b>33.2</b>
Other Income	74	84	(11.0)	73	1.9	366	123	198.6
Interest	20	1	2788.6	0	NA	2	7	(72.0)
Exceptional items	(95)	0	NA	0	NA	725	(162)	NA
PBT	977	950	2.8	953	2.5	4,351	2,404	81.0
Tax	251	268	(6.3)	242	3.7	1,011	703	43.7
Other items	0	0	-	0	0.0	0	(107)	NA
<b>Profit After Tax</b>	<b>726</b>	<b>682</b>	<b>6.4</b>	<b>711</b>	<b>2.1</b>	<b>3,339</b>	<b>1,594</b>	<b>109.5</b>
<b>Adjusted Profit</b>	<b>821</b>	<b>682</b>	<b>20.4</b>	<b>711</b>	<b>15.5</b>	<b>2,615</b>	<b>1,756</b>	<b>48.9</b>
Margin (%)	15.6	15.7		14.9		15.7	14.7	
<b>Adj EPS Rs</b>	<b>28.4</b>	<b>23.6</b>	<b>20.4</b>	<b>24.6</b>	<b>15.5</b>	<b>90.5</b>	<b>60.7</b>	<b>48.9</b>

Source: Company, RSec Research

### Strong export numbers drive growth

Exports business continued to see strong momentum

Bajaj Auto reported strong sales in 2QFY2012 driven by strong growth in exports supported by decent growth in domestic sales. Exports business continued to see strong momentum and grew ~50% yoy at a faster pace. On a qoq basis domestic business saw strong growth which reflects the impact of festive season.

### Exhibit 2: Growth in Exports & Domestic business

(Rs cr)	2QFY12	2QFY11	% yoy	1QFY12	% qoq
Domestic	3,562	3,276	8.7	3,105	14.7
Exports	1,733	1,153	50.3	1,688	2.7
<b>Gross Sales</b>	<b>5,295</b>	<b>4,429</b>	<b>20.7</b>	<b>4,793</b>	<b>15.3</b>

Source: Company, RSec Research

Healthy growth in exports helps two-wheelers volume cross 1mn mark in a quarter

Bajaj Auto reported 36.6% yoy volume growth in exports in Two-wheelers segment (Motorcycles). The company's overall market share stood ~34% in this segment. Discover and Pulsar brand continue to sail through averaging ~86,000 and ~133,000 per month respectively.

### Exhibit 3: Volume growth of Motorcycles

	2QFY12	2QFY11	% yoy	1QFY12	% qoq
Domestic	684,671	632,672	8.2	623,175	9.9
Exports	342,686	250,822	36.6	339,876	0.8
<b>Total</b>	<b>1,027,357</b>	<b>883,494</b>	<b>16.3</b>	<b>963,051</b>	<b>6.7</b>

Source: Company, RSec Research

The Three-wheeler segment also witnessed growth in exports

Higher realizations pushed EBITDA margin above 20%

Adjusted PAT grew in line with the growth in top-line level

Exports saw strong growth in Three-wheelers as well. Management indicates that demand for both domestic and exports remains strong in this segment.

**Exhibit 4: Volume growth of Three-wheelers (Commercial Vehicles)**

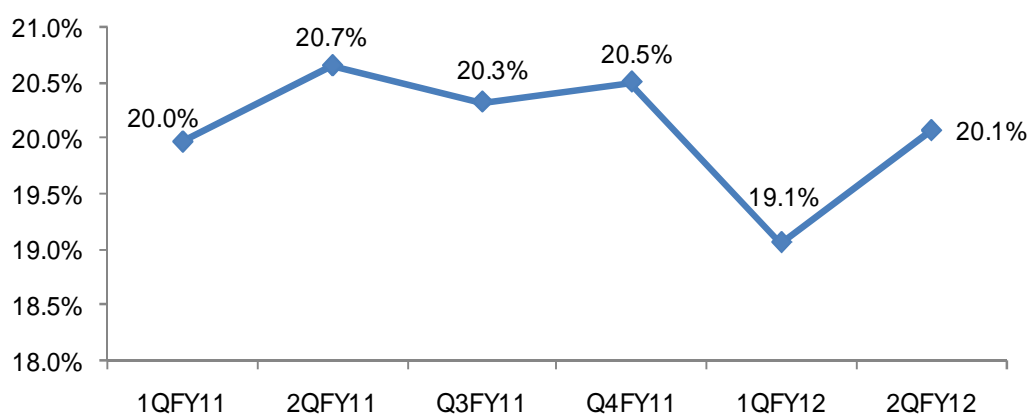
	2QFY12	2QFY11	% yoy	1QFY12	% qoq
Domestic	55,332	60,566	(8.6)	42,276	30.9
Exports	81,448	56,510	44.1	87,488	(6.9)
<b>Total</b>	<b>136,780</b>	<b>117,076</b>	<b>16.3</b>	<b>963,051</b>	<b>6.7</b>

Source: Company, RSec Research

### Increase in ARP offset the impact of raw material costs

EBITDA margin declined ~60bp yoy but improved ~100bp qoq to reach 20.1%. The improvement on qoq basis was due to an increase of ~3.3% in ARP and softening of commodity prices. Higher realizations from exports enabled the ARP to increase during the last quarter. Raw material costs stood at 71.4% of revenues in 2QFY2012 as compared to 70.7% in 2QFY2011 and 72.6% in 1QFY2012. Going forward, we expect the margins to remain stable in the range of 19-20% in near term.

**Exhibit 5: Falling EBITDA margin**



Source: Company, RSec Research

### Healthy growth in adjusted PAT

Bajaj Auto's reported PAT saw a growth of 6.4% yoy to Rs726cr. Bajaj Auto booked a MTM loss of Rs95cr on valuation of contracts which is a notional loss and would get reversed on the maturity of the underlying contracts. Thus, after excluding this extraordinary cost, company's adjusted PAT stood at Rs821cr reflecting a growth of 20.4% yoy.

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**Profit & Loss Statement**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>Gross sales</b>	<b>12,153</b>	<b>16,932</b>	<b>21,077</b>	<b>24,266</b>
Less: Excise duty	610	933	1,004	1,213
<b>Net Sales</b>	<b>11,543</b>	<b>15,998</b>	<b>20,073</b>	<b>23,053</b>
Other operating income	431	611	787	849
<b>Total Income</b>	<b>11,974</b>	<b>16,609</b>	<b>20,860</b>	<b>23,902</b>
<b>Total Expenditure</b>	<b>9,387</b>	<b>13,224</b>	<b>16,955</b>	<b>19,501</b>
Raw Materials Cost	8,104	11,799	14,969	17,319
Employees	406	477	501	526
Others	877	948	1,485	1,657
<b>EBITDA</b>	<b>2,587</b>	<b>3,385</b>	<b>3,905</b>	<b>4,401</b>
% chg	129.3	30.8	15.4	12.7
(% of Net Sales)	22.4	21.2	19.5	19.1
Depreciation& Amortization	137	123	136	146
<b>EBIT</b>	<b>2,450</b>	<b>3,262</b>	<b>3,769</b>	<b>4,255</b>
% chg	145.5	33.2	15.5	12.9
(% of Net Sales)	20.5	19.6	18.1	17.8
Interest & other Charges	7	2	1	1
Other Income	123	366	421	484
(% of PBT)	5.3	8.4	10.0	10.2
Share in profit of Associates	(103)	-	-	-
<b>Recurring PBT</b>	<b>2,463</b>	<b>3,626</b>	<b>4,189</b>	<b>4,738</b>
% chg	-	47.2	15.5	13.1
Prior Period & Extraordinary Expense/(Inc.)	(162)	725	-	-
<b>PBT (reported)</b>	<b>2,301</b>	<b>4,351</b>	<b>4,189</b>	<b>4,738</b>
Tax	703	1,011	1,068	1,232
(% of PBT)	30.6	23.2	25.5	26.0
Minority Interest	(3.8)	(0.1)	0.0	0.0
<b>PAT (reported)</b>	<b>1,594</b>	<b>3,339</b>	<b>3,121</b>	<b>3,506</b>
<b>ADJ. PAT</b>	<b>1,756</b>	<b>2,615</b>	<b>3,121</b>	<b>3,506</b>
% chg	186.1	48.9	19.3	12.4
(% of Net Sales)	14.7	15.7	15.0	14.7
<b>Basic EPS (Rs)</b>	<b>60.7</b>	<b>90.4</b>	<b>107.8</b>	<b>121.2</b>
<b>Fully Diluted EPS (Rs)</b>	<b>60.7</b>	<b>90.4</b>	<b>107.8</b>	<b>121.2</b>
% chg	215.0	48.9	19.3	12.4

**Balance Sheet**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	145	289	289	289
Preference Capital	-	-	-	-
Reserves& Surplus	2,572	4,518	6,792	9,282
<b>Shareholders Funds</b>	<b>2,717</b>	<b>4,807</b>	<b>7,081</b>	<b>9,572</b>
Minority Interest	0	-	-	-
Total Loans	1,361	347	347	247
Deferred Tax Liabilities, net	(32)	(7)	(7)	(7)
<b>Total Liabilities</b>	<b>4,046</b>	<b>5,147</b>	<b>7,422</b>	<b>9,812</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	3,386	3,398	3,648	3,898
Less: Acc. Depreciation	1,902	1,916	2,052	2,198
<b>Net Block</b>	<b>1,483</b>	<b>1,482</b>	<b>1,596</b>	<b>1,700</b>
Capital Work-in-Progress	42	70	0	0
Goodwill	329	369	369	369
Technical Knowhow	0	4	4	4
<b>Investments</b>	<b>3,445</b>	<b>4,284</b>	<b>4,284</b>	<b>4,284</b>
Current Assets	1,611	2,905	5,605	8,499
Inventory	458	576	866	1,049
Cash	107	575	2,509	5,037
Loans & Advances	668	1,196	1,460	1,530
Other	378	558	770	882
Current liabilities & prov	2,864	3,967	4,436	5,044
<b>Net Current Assets</b>	<b>(1,253)</b>	<b>(1,062)</b>	<b>1,168</b>	<b>3,455</b>
<b>Total Assets</b>	<b>4,046</b>	<b>5,147</b>	<b>7,422</b>	<b>9,812</b>

**Cash Flow Statement**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	2,301	4,464	4,189	4,738
Depreciation	137	124	136	146
Change in Working Capital	803	(392)	(296)	242
Interest / Dividend (Net)	131	1,204	421	484
Direct taxes paid	(700)	(975)	(1,068)	(1,232)
Others	153	23	0	0
<b>Cash Flow from Operations</b>	<b>2,564</b>	<b>2,039</b>	<b>2,539</b>	<b>3,410</b>
(Inc.)/ Dec. in Fixed Assets	(2,059)	(1,464)	(180)	(250)
(Inc.)/ Dec. in Investments	124	363	421	484
<b>Cash Flow from Investing</b>	<b>(1,935)</b>	<b>(1,100)</b>	<b>241</b>	<b>234</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	(241)	(189)	0	(100)
Dividend Paid (Incl. Tax)	(372)	(674)	(846)	(1,016)
Others	(52)	(8)	0	0
<b>Cash Flow from Financing</b>	<b>(664)</b>	<b>(871)</b>	<b>(846)</b>	<b>(1,116)</b>
Inc./(Dec.) in Cash	(35)	68	1,934	2,528
<b>Opening Cash balances</b>	<b>143</b>	<b>107</b>	<b>575</b>	<b>2,509</b>
<b>Fixed Deposits</b>	<b>-</b>	<b>400</b>	<b>-</b>	<b>-</b>
<b>Closing Cash balances</b>	<b>107</b>	<b>575</b>	<b>2,509</b>	<b>5,037</b>

**Key Ratios**

Y/E March	FY2010	FY2011	FY2012E	FY2012E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	26.6	17.9	15.0	13.3
P/CEPS	24.6	17.1	14.3	12.8
P/BV	5.0	5.7	3.8	2.8
Dividend yield (%)	2.5	2.7	2.5	2.5
EV/Sales	3.5	2.5	2.0	1.8
EV/EBITDA	16.3	12.5	10.8	9.6
EV / Total Assets	10.4	8.2	5.8	4.3
<b>Per Share Data (Rs)</b>				
EPS (Basic)	60.7	90.4	107.8	121.2
EPS (fully diluted)	60.7	90.4	107.8	121.2
Cash EPS	65.5	94.6	112.5	126.2
DPS	40.0	44.0	40.0	40.0
Book Value	187.8	166.1	244.7	330.8
<b>Returns (%)</b>				
RoCE	65.5	70.7	59.9	49.3
RoE	77.5	69.5	52.5	42.1
<b>Turnover ratios (x)</b>				
Inventory	22	19	22	23
Receivables (days)	8	8	8	8
Payables (days)	96	79	70	70
Working capital cycle (days)	(66)	(53)	(40)	(39)

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