

Bajaj Auto

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Volume traction holding strong

Indian two-wheeler industry is in the midst of several new launches, rejuvenated aggression in 100cc space, concerns over growth due to poor monsoon, rising competition and many other critical triggers. Within all players, Bajaj Auto has been at the centre of attention due to its new 100cc Discover and high margin debate. We met the management to review the situation.

Retail 2w demand is healthy, witnessing high inventory correction

Domestic retail demand continues to be buoyant, supported by strong numbers from Discover 100cc. Strong Sept'09 and Oct'09 may result in sharp inventory correction. In fact, at many locations it is facing stock outs for certain models. Exports too are recovering ahead of expectations, with demand from markets like Nigeria, Bangladesh, etc picking up.

3w demand driven by Eastern and Southern markets

Kolkata and few other southern markets have been driving the volumes in domestic 3w space. Fresh permits in Delhi would be the next volume trigger. Target 350,000 units in FY11, necessitating capacity expansion.

Should be ramping up Pantnagar production

Production at Pantnagar, currently at 60,000 units a month, would be ramped up over the next few months to about 70,000 units. Currently it makes Discover and Platina range from this facility.

Margin visibility strong, started hedging FY11 exports

BAL is confident of holding on to strong double digit margin as it does not see any pricing pressure from competition. It has started hedging exports for FY11 at Rs 47+ range bound contracts, similar to FY10.

Revise EPS upwards, but maintain Neutral

We revise BAL's earnings upward for FY10E and FY11E primarily to factor in the strong domestic demand. While we revise the two wheeler sales volume for FY10E and FY11E by 6.1% and 4.8%, we raise operating margins by 30bps and 150bps, resp. EPS estimate for FY10 and FY11 gets revised by 8% and 16% to Rs 94.4 and Rs 106.1, resp. India has participated in the overall global rally in equity markets over the past few months. We believe BAL too merit realignment as far as multiple expansion is concerned. Maintain Neutral with a target price of Rs 1528, at 14.5x FY11E (earlier Rs 1072, at 12x FY11E).

Maintain Neutral / Rs 1432
 Target Rs 1528 (+7%)

Sector (Relative to market)

OW	N	UW

Stock Rating

Buy	Neutral	Sell
> 15%	-15% to +15%	< -15%

This note should be read for

- Business Update
- Change in estimates
- Change in Tgt Price

Bloomberg code: BJAUT IN
 Reuters code: BAJA.BO
 www.bajajauto.com

BSE Sensex : 16853
 NSE Nifty : 5007

Company data

O/S shares :	145mn
Market cap (Rs) :	208bn
Market cap (USD) :	4.3bn
52 - wk Hi/Lo (Rs) :	1525 / 295
Avg. daily vol. (3mth) :	269,818
Face Value (Rs) :	10

Share holding pattern, %

Promoters :	31.2
FII / NRI :	12.9
FI / MF :	19.7
Non Promoter Corp. Holdings :	11.1
Public & Others :	25.2

Price performance, %

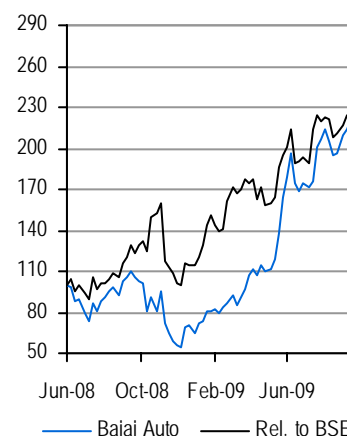
	1mth	3mth	1yr
Abs	18.9	37.5	151.4
Rel to BSE	13.1	23.3	122.8

Valuation summary

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Sales	93,253	86,633	84,369	101,011	114,556
Growth, %	24.5	(7.1)	(2.6)	19.7	13.4
EBIDTA	14,365	12,691	11,641	19,411	21,547
EBIDTA margins, %	15.1	14.1	13.3	18.5	18.1
MF Net profit	12,869	8,583	8,616	13,657	15,347
Net profit margin, %	13.8	9.9	10.2	13.5	13.4
MF EPS, Rs	127.2	59.3	59.6	94.4	106.1
EPS Growth, %	14.5	(53.4)	0.4	58.5	12.4
PER, x	11.3	24.2	24.1	15.2	13.5
EV/EBIDTA, x	11.2	16.4	18.2	10.9	9.5
EV/Net Sales, x	1.7	2.4	2.5	2.1	1.8
Price/Book Value, x	2.6	13.1	11.1	8.1	5.9
ROIC, %	28.9	28.2	33.5	44.6	45.6
ROE, %	25.0	24.1	49.8	61.6	50.5
Dividend Yield, %	2.8	1.4	1.5	2.1	2.4

Source: Company, MF Global India Research Estimates

Price vs. Sensex

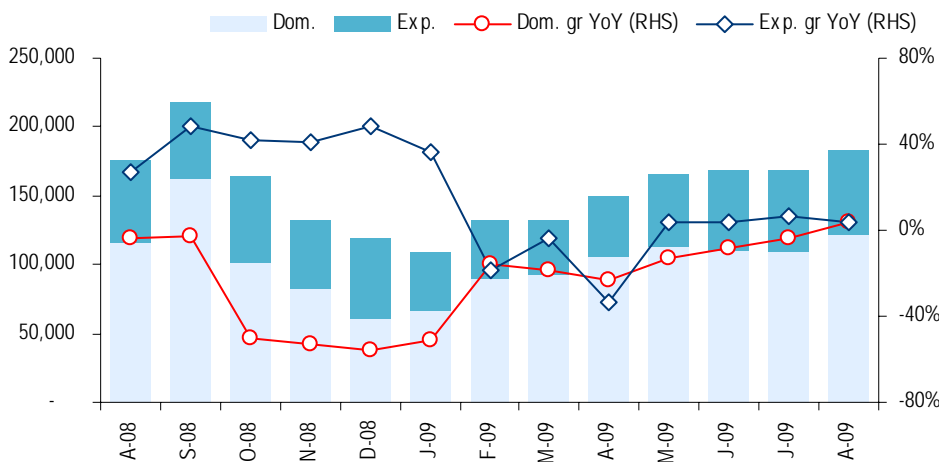


Source: Bloomberg, MF Global India Research

Retail 2w demand is healthy, likely to trigger sharp inventory correction

Domestic retail demand continues to be buoyant, supported by strong numbers coming from the new Discover 100cc. Driven by new launches and buoyant festive mood BAL targets 5 lakh unit bike sales for Sept'09 and Oct'09, which according to management is likely to result in sharp inventory correction. In fact, at many locations BAL has already started facing stock outs for certain models. This could lead to room for volume growth post festive season i.e. during Nov'09 and Dec'09. Exports too are recovering ahead of expectations, with demand from markets like Nigeria, Bangladesh, etc picking up strongly.

2-Wheeler: Monthly Volumes

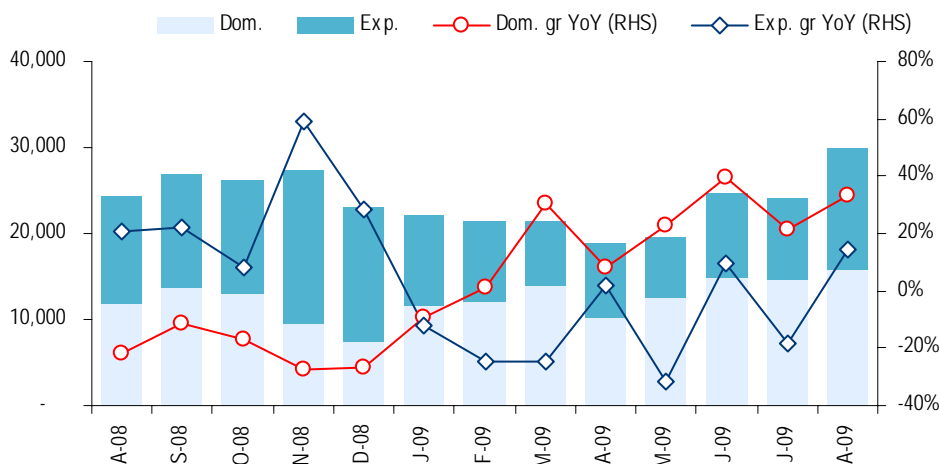


Source: Company, MF Global India Research

3w demand driven by Eastern and Southern markets

According to management Kolkata and few other southern markets have been driving the volumes in domestic 3w space, which is expected to hold on in the coming months as well. Fresh permits in Delhi would be the next volume trigger for the domestic 3w sales. Management hopes to dispatch close to 30,000 units each month during Sept'09 and Oct'09. Management targets volumes of 3.5 lakh units for FY11, including 1.5 lakh exports. Consequently, BAL may need to go for capacity expansion post FY11.

3-Wheeler: Monthly Volumes



Source: Company, MF Global India Research

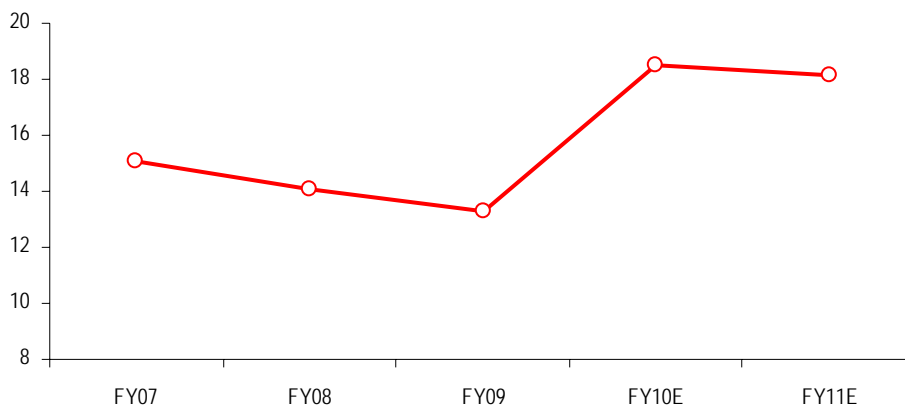
Should be ramping up Pantnagar production

Production at Pantnagar, currently at 60,000 units a month, would be ramped up over the next few months to about 70,000 units. Currently it makes Discover and Platina range from this facility.

Margin visibility strong, started hedging FY11 exports

BAL is confident of holding on to strong double digit margin as it does not see any pricing pressure from competition. Higher Discover 100cc volumes would largely take care of any marginal impact on margin-mix, if at all. One of the concerns has been the export realizations in FY11, in case INR appreciates against USD (\$). BAL has already started hedging its exports for FY11 at Rs 47+ range bound contracts, similar to one that the company had entered for FY10 i.e. between Rs 47 – Rs 55. BAL would be able to close a large part of its exposure on exports by Q4FY10; ensuring better visibility on margin front. However, BAL may stand to lose if the currency movement is beyond the range (estimated at Rs 47-53/54).

EBITDA margins, %



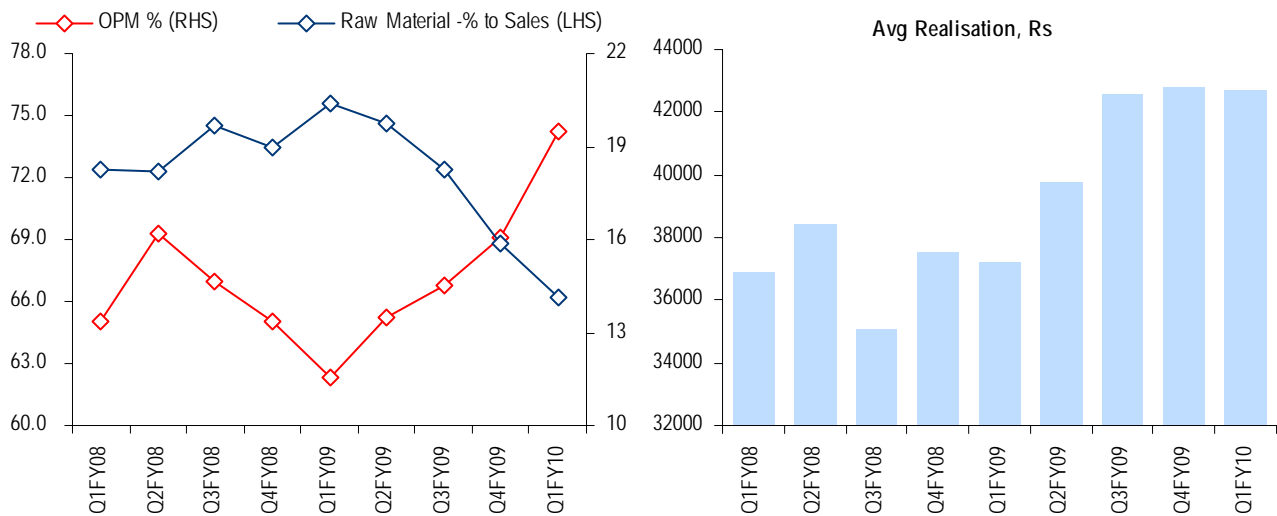
Source: Company, MF Global India Research

Revise EPS upwards, but maintain Neutral

We revise BAL's earnings upward for FY10E and FY11E primarily to factor in the strong domestic demand momentum witnessed in the 2-wheeler space, along with the industry. While we revise the two wheeler sales volume for FY10E and FY11E by 6.1% and 4.8%, we raise operating margins by 30bps and 150bps, respectively. Effectively our EPS estimate for FY10 and FY11 gets revised by 7.7% and 15.9% now to stand at Rs 94.4 and Rs 106.1, respectively.

Equity as an asset class has been a major beneficiary of subsiding slowdown concerns and improving liquidity condition across the globe. Indian capital markets too, as a result, participated in the overall recovery/rally over the past few months. We believe BAL too merit realignment as far as multiple expansion is concerned. Having said this, we continue to maintain that BAL should trade at a discount to Hero Honda, until the brands stabilize and the market share gains sustain. Thus, we maintain Neutral on the stock with a target price of Rs 1528, at 14.5x FY11E (earlier Rs 1072, at 12x FY11E).

Quarterly Operating Margins and Realisations



Source: Company, MF Global India Research

Q1FY10 Results

Rs mn	Q1FY10	Q1FY09	Q4FY09
Net Sales	23385	23108	18834
Growth Yoy, %	1.2	9.6	-9.2
Operating Expenses	18831	20440	15806
EBITDA	4,554	2,668	3,028
Growth Yoy, %	70.7	-5.5	9.1
Margin %	19.5	11.5	16.1
Depreciation	331	335	313
Interest	60	9	52
Other Income	231	288	229
Profit before tax	4,395	2,611	2,893
Tax	1,220	860	591
MF PAT	3,175	1,751	2,302
Growth Yoy, %	81	-4	23
Reported PAT	2,935	1,751	1,302
EO Gains/(Losses)	-240	0	-999
Adj EPS, Rs	21.9	12.1	15.9

Source: Company, MF Global India Research

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Sales	93,253	86,633	84,369	101,011	114,556
<i>Growth (%)</i>	24.5	(7.1)	(2.6)	19.7	13.4
Op. Other Income	2,147	3,585	3,454	3,799	4,193
Total Income	95,399	90,218	87,824	104,810	118,749
Operating Expenses	81,034	77,526	76,183	85,399	97,202
EBITDA	14,365	12,691	11,641	19,411	21,547
<i>Growth (%)</i>	5.2	(11.6)	(8.3)	66.7	11.0
<i>EBITDA Margin (%)</i>	15.1	14.1	13.3	18.5	18.1
Depreciation	1,903	1,740	1,298	1,453	1,623
EBIT	12,462	10,952	10,343	17,958	19,923
<i>Growth (%)</i>	6.2	(12.1)	(5.6)	73.6	10.9
<i>Margin (%)</i>	13.4	12.6	12.3	17.8	17.4
Net Interest	-2,695	-1,227	-836	-910	-1,045
Non-operating Income	2,613	193	453	200	200
Pre-tax profit	17,770	12,371	11,632	19,068	21,168
Tax Provided	4,901	3,788	3,016	5,410	5,821
Profit after tax	12,869	8,583	8,616	13,657	15,347
Reported Net profit	12,371	7,558	6,545	12,042	15,347
MF Net Profit	12,869	8,583	8,616	13,657	15,347
<i>Growth (%)</i>	14.5	(33.3)	0.4	58.5	12.4
Extraordinary Inc/(Expn)	(498)	(1,025)	(2,071)	(1,615)	-
Unadj. shares (m)	101	145	145	145	145
Wtd avg shares (m)	101	145	145	145	145

Cash Flow

Y/E Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
PBT	17,770	12,371	11,632	19,068	21,168
Depreciation, amortisation	1,903	1,740	1,298	1,453	1,623
Chg in working capital	-373	-5,895	248	-3,750	349
Total taxes paid	-5,035	-4,420	-3,084	-5,410	-5,821
Other operating activities	-498	-1,025	-2,071	-1,615	0
Cash flow from operating activities (a)	13,766	2,770	8,023	9,746	17,320
Capital expenditure	-3,336	-1,768	-3,908	-2,026	-2,983
Chg in investments	-389	-3,315	-1,378	-2,250	-1,750
Chg in marketable securities	-5,517	49,219	1,864	-500	-500
Other investing activities	0	0	0	0	0
Cash flow from investing activities (b)	-9,242	44,136	-3,422	-4,776	-5,233
Free cash flow	4,525	46,906	4,602	4,971	12,086
Equity raised/(repaid)	0	253	0	0	0
Debt raised/(repaid)	224	-155	-70	0	0
Dividend (incl tax)	-4,735	-3,386	-3,724	-5,078	-5,925
Other financial activities	0	0	0	0	0
Cash flow from financing activities (c)	-4,511	-3,288	-3,794	-5,078	-5,925
Net chg in cash (a)+(b)+(c)	14	43,618	808	-108	6,162

Note: FY07 figures are not comparable with FY08, FY09E, FY10E and FY11E

Balance Sheet

As at 31st Mar, Rs mn	FY2007	FY2008	FY2009	FY2010E	FY2011E
Cash & bank	835	561	1,369	1,261	7,422
Marketable securities at cost	61,515	12,295	10,431	10,931	11,431
Debtors	5,298	2,753	3,587	4,428	5,022
Inventory	3,097	3,496	3,388	4,151	4,708
Loans & advances	28,594	8,888	13,652	15,152	16,038
Other current assets	362	800	1,257	1,507	1,857
Total current assets	99,701	28,793	33,684	37,429	46,477
Investments	2,961	6,276	7,654	9,904	11,654
Gross fixed assets	31,960	29,947	33,502	35,223	37,249
Less: Depreciation	19,224	17,261	18,079	19,533	21,156
Add: Capital WIP	269	347	221	526	1,483
Net fixed assets	13,005	13,034	15,644	16,216	17,576
Non-current assets	15,966	19,310	23,298	26,120	29,230
Total Assets	115,667	48,102	56,981	63,549	75,708
Current liabilities	2,682	15,366	13,760	15,624	15,380
Provisions	28,338	8,340	12,242	11,111	12,601
Total current liabilities	31,019	23,706	26,001	26,735	27,981
Non-current liabilities	29,304	8,520	12,283	11,153	12,643
Total liabilities	60,324	32,226	38,285	37,888	40,624
Paid-up capital	1,012	1,447	1,447	1,447	1,447
Reserves & surplus	54,331	14,429	17,250	24,214	33,637
Shareholders' equity	55,343	15,876	18,697	25,661	35,083
Total Equity & Liabilities	115,667	48,102	56,981	63,549	75,708

Per-share data

	FY2007	FY2008	FY2009	FY2010E	FY2011E
MF EPS (INR)	127.2	59.3	59.6	94.4	106.1
<i>Growth (%)</i>	<i>14</i>	<i>(53)</i>	<i>0</i>	<i>59</i>	<i>12</i>
Book NAV/share (INR)	547	110	129	177	242
FDEPS (INR)	127	59	60	94	106
CEPS (INR)	146	71	69	104	117
CFPS (INR)	102	44	50	77	118
DPS (INR)	40	20	22	30	35

Financial structure

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Operating cash flow/Total debt (x)	0.8	0.2	0.5	0.6	1.1
Total debt/Equity (x)	0.3	0.8	0.8	0.6	0.4
Net debt/Equity (x)	-0.8	0.0	0.2	0.1	-0.1

Note: FY07 figures are not comparable with FY08, FY09E, and FY10E

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Return on assets (%)	12.0	10.5	16.7	22.9	22.3
Return on equity (%)	25.0	24.1	49.8	61.6	50.5
Return on Invested capital (%)	28.9	28.2	33.5	44.6	45.6
RoIC/Cost of capital (x)	2.5	2.5	2.7	4.1	3.9
RoIC - Cost of capital (%)	17.1	16.8	21.3	33.7	33.9
Return on capital employed (%)	16.5	15.8	31.6	40.8	36.7
Cost of capital (%)	11.8	11.4	12.2	10.9	11.7
RoCE - Cost of capital (%)	4.7	4.4	19.4	29.8	25.1
Asset turnover (x)	3.0	3.2	3.7	3.5	3.6
Sales/Total assets (x)	0.9	1.1	1.6	1.7	1.6
Sales/Net FA (x)	7.6	6.7	5.9	6.3	6.8
Working capital/Sales (x)	0.1	-0.1	0.0	0.0	0.0
Fixed capital/Sales (x)	0.0	0.0	0.0	0.0	0.0
Receivable days	21	12	16	16	16
Inventory days	12	15	15	15	15
Payable days	68	49	58	55	53
Current ratio (x)	3.2	1.2	1.3	1.4	1.7
Quick ratio (x)	3.1	1.1	1.2	1.2	1.5
Interest cover (x)	n/a	n/a	n/a	n/a	n/a
Dividend cover (x)	3.2	3.0	2.7	3.1	3.0
PER (x)	11.3	24.2	24.1	15.2	13.5
PEG (x) - 2 yr CAGR			0.7		
PCE (x)	9.8	20.1	20.9	13.7	12.2
PCF (x)	14.1	32.7	28.8	18.6	12.1
Price/Book (x)	2.6	13.1	11.1	8.1	5.9
Yield (%)	2.8	1.4	1.5	2.1	2.4
EV/Net sales (x)	1.7	2.4	2.5	2.1	1.8
EV/EBITDA (x)	11.2	16.4	18.2	10.9	9.5
EV/EBIT (x)	13.0	19.0	20.4	11.8	10.3
EV/NOPLAT (x)	17.9	27.4	27.6	16.4	14.2
EV/CE	1.9	8.5	6.8	5.7	4.3
EV/IC (x)	5.2	7.7	9.2	7.3	6.5

Source: Company, MF Global India Research Estimates

Note: FY07 figures are not comparable with FY08, FY09, FY10E and FY11E

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