



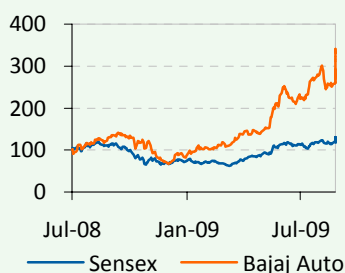
Bajaj Auto

Relative to sector: **Outperformer**

Analyst: **Sahil Kedia**
Email: sahil.kedia@enam.com
Tel: 9122 6754 7621

Jyothsna Murthy
Email: jyothsna.murthy@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 145mn
Market cap	: Rs 209.3 bn
52 week high/low	: Rs 1,535/ Rs 295
Avg. daily vol. (6mth)	: 269,300 shares
Bloomberg code	: BJAUT IB
Reuters code	: BJAT.BO

Shareholding (%) Jun-09 QoQ chg

Promoters	: 49.6	0.0
FIs	: 16.4	2.6
MFs / UTI	: 2.6	(0.8)
Banks / FIs	: 4.8	(1.8)
Others	: 26.6	0.0

RIDING HIGH ON NEW LAUNCHES

In our meeting with Bajaj Auto's (BAL) management, the co. **re-emphasized its strategy to focus on the 100 cc segment. Our channel checks confirm that the newly launched Discover (100 cc) is doing extremely well (0.1 mn produced in 50 days)** and as a result volumes and market share for the company should see a **strong revival Sept onwards. The improving product mix coupled with strong festive demand should see Bajaj deliver healthy earnings in the coming qtrs.**

Key Highlights

- ❑ **Domestic volumes are likely to see a strong demand** as a result of the **recently launched Pulsar and Discover**. The co. expects to sell 50K+ units p.m. of *Discover* (Exec Seg) on a sustainable basis. **As a result Entry seg. will contribute 20-25% of vol (42% in Q1FY09).**
- ❑ Our channel checks indicate **inventory levels are at ~2 weeks** (v/s 3-4 weeks historically) buoyed by attractive finance schemes.
- ❑ BAL has **reduced prices by Rs 1,000-2,000 for Platina and XCD** (~10% of total EBITDA) recently, with no discounts on others.
- ❑ BAL's **export volumes are showing signs of a revival**. We expect BAL to register 8-10% volume growth for FY10. The co. has hedged ~ **USD 565 mn (90% of value v/s 65% in FY09)** by range forward contracts. As a result **profitability on exports likely to remain high.**
- ❑ **Newly launched 3w** likely to see strong growth from compulsory CNG conversion and opening of new permits within the country.
- ❑ **Risks to call are** (a) **lower than expected volumes for Discover** post festive season; (b) **further reduction in prices** will erode margins.

Raising estimates, maintain Outperformer

We are raising our EPS estimates for FY10E and FY11E by 13% and 16% respectively on a stronger volume recovery and higher margin assumptions. We maintain our sector **Outperformer** rating on the stock with a revised target price of Rs 1,542 (9.5x FY11E EV/EBITDA).

Financial summary (Standalone)

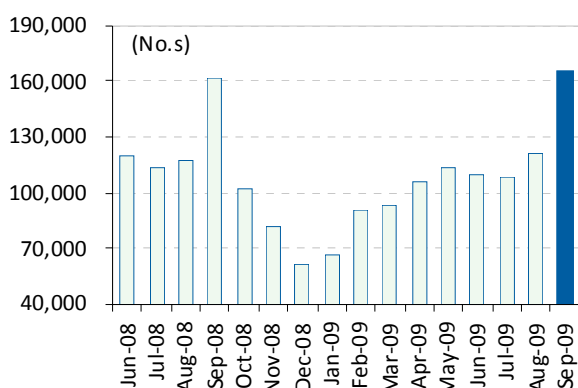
Y/E Mar	Net Sales (Rs mn)	EBITDA (Rs mn)	Rep. PAT (Rs mn)	Adj. PAT (Rs mn)	Adj. EPS (Rs.)	Change (YoY)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
FY08	90,147	12,390	7,557	8,583	59.3	-	-	108	83	-
FY09	87,790	11,463	6,763	8,616	59.6	0	24.3	53	38	18.6
FY10E	106,150	19,452	12,540	14,400	99.5	76	14.5	65	53	10.5
FY11E	122,218	21,831	15,916	15,916	110.0	10	13.1	47	47	8.9

Source: Company, ENAM estimates

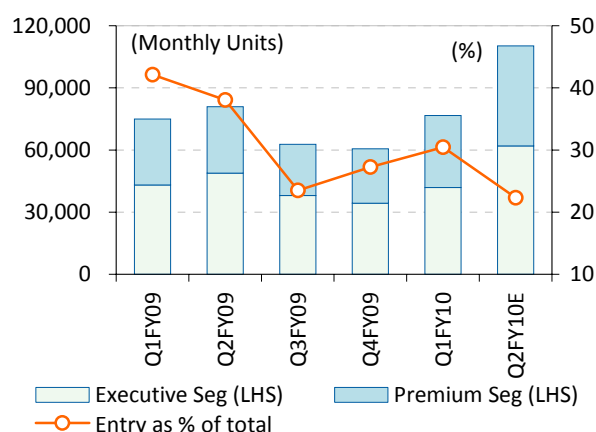
Domestic volumes and market share likely to increase

- Our dealer checks indicate healthy demand for the newly launched *Discover (Exec Seg)* and *Pulsar (Premium Seg)*. **Demand has been better YoY for the entire 2w industry on the back of stronger retail sales and increased availability of finance.**
- Inventory levels across most dealers is <2 weeks v/s historical average of 3-4 weeks+ in pre-festive season.
- Given the healthy response to the new launches, **the contribution of the Entry segment (*Platina* only and most price sensitive) is likely to reduce to 20-25% from levels of 42% in Q1FY09.** EBITDA contribution from Entry segment is likely to be ~5-7% only for FY10E. .
- Also tax benefits would accrue on account of increased production from Pantnagar (Discover). **We have revised our FY10E and FY11E tax rates to 29% and 28% respectively.**
- We believe that as a result of the improving domestic product mix, the company has more head-room to pass on increases in raw materials.

Domestic volumes set to increase

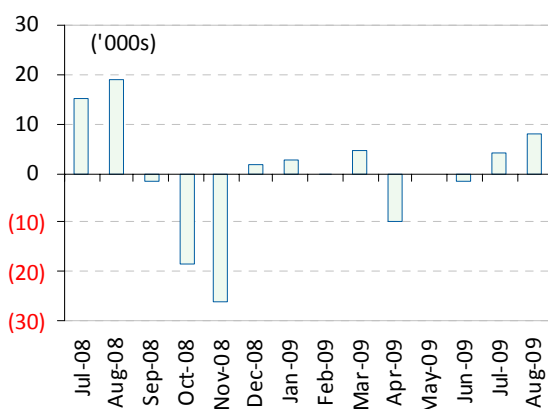


With a favorable change in product mix

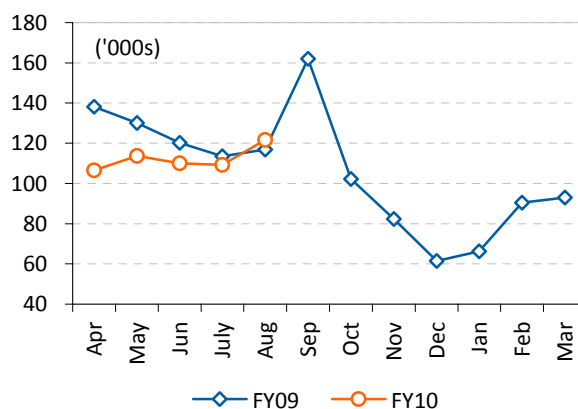


Source: Company Annual report, Note Sep-09 vol. is our estimate. Q1 and Q2 data from Industry sources and ENAM Research.

Low levels of inventory

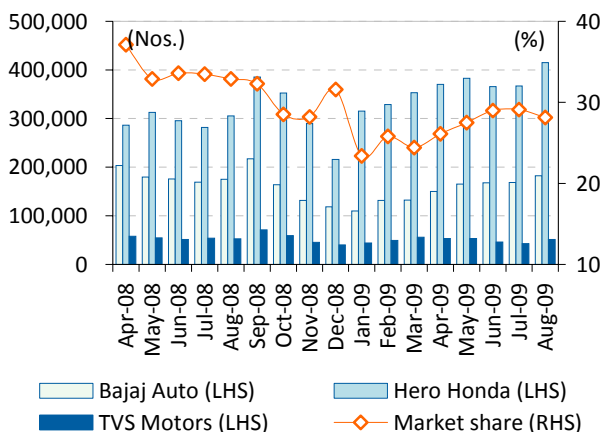


Low Base effect in H2FY10

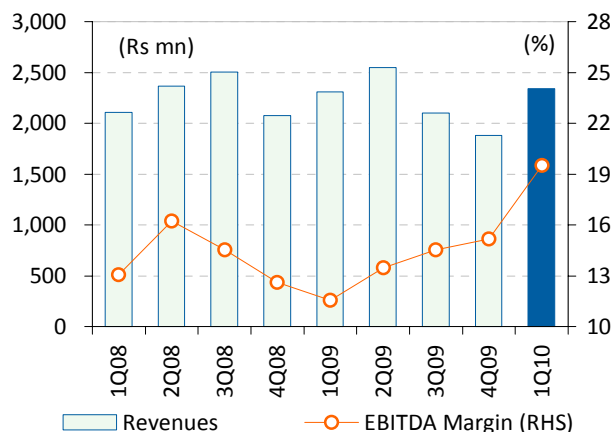


Source: SIAM, ENAM Research

Bajaj: Volume and market share movement*



Bajaj: Revenues and EBITDA margin



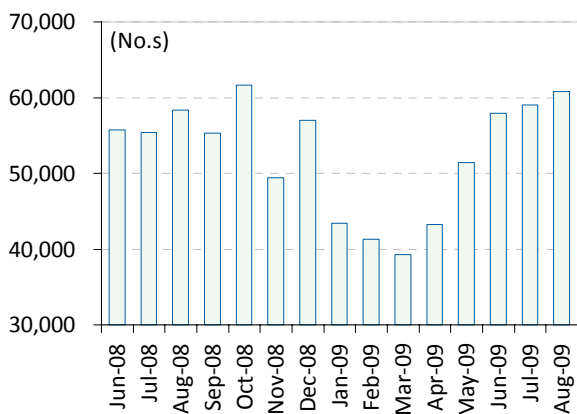
Source: Company, Industry, ENAM Research, *indicated figures for only top 3 manufacturers (i.e. HMM, Bajaj and TVS)

Export volumes maintain run-rates, with higher realizations

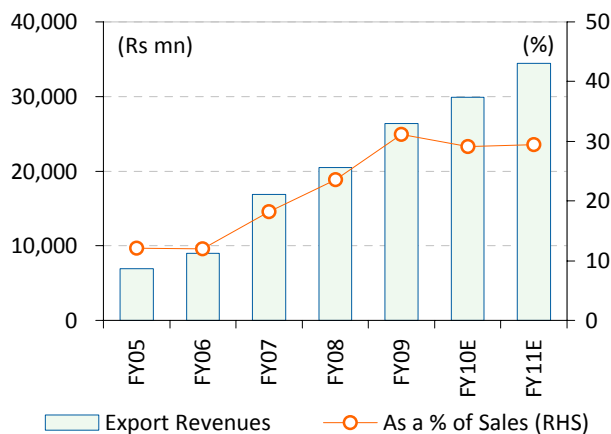
Exports are the cornerstone of BAL's strategy of becoming a global motorcycle manufacturer. Exports already contribute ~33% of total motorcycle sales and ~30% of total revenues.

With the favourable exchange rate BAL's profitability on exports has increased sharply. In FY09 BAL exported worth Rs 26 bn and hedged ~65% of the value. For FY10E BAL has hedged ~Rs 27bn (~565 mn USD, 90% of expected value), significantly boosting realizations and profitability.

Export volumes consistently increasing

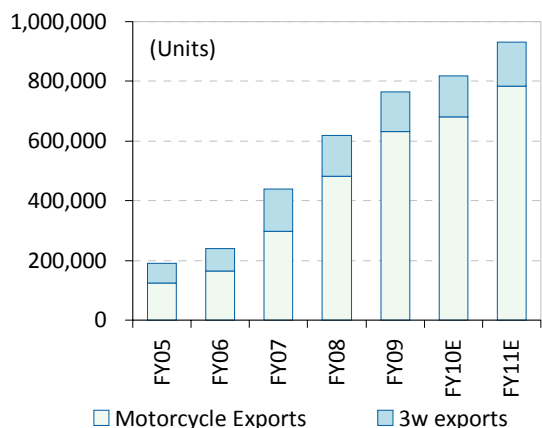


Exports now contribute ~30% of overall rev

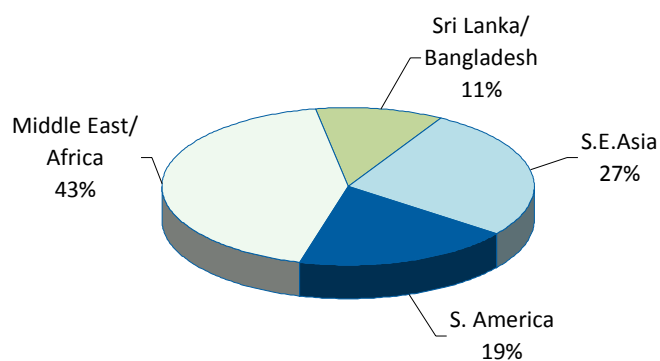


Source: Company, Industry, ENAM Research

Motorcycle exports up 5.5x in 5 years



Motorcycle exports break up



Source: Company, ENAM Research

Detailed volume assumptions

	Volumes (Nos)				Growth (%)		
	FY08	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Motorcycles	2,139,634	1,907,810	2,277,427	2,555,220	(11)	19	12
Domestic	1,658,085	1,276,427	1,595,534	1,771,042	(23)	25	11
Exports	481,549	631,383	681,894	784,178	31	8	15
Scooters	21,294	11,772	12,949	14,244	(45)	10	10
Three-Wheelers	290,301	274,526	281,433	299,571	(5)	3	6
Domestic	153,986	141,619	145,867	153,161	(8)	3	5
Export	136,315	132,907	135,565	146,410	(3)	2	8
Total Volumes	2,451,229	2,194,108	2,571,809	2,869,036	(10)	17	12
Monthly Run Rates (MRR)							
Motorcycles-Domestic	138,174	106,369	132,961	147,587			
Motorcycles-Exports	40,129	52,615	56,824	65,348			
Scooters	1,775	981	1,079	1,187			
3w-Domestic	12,832	11,802	12,156	12,763			
3w-Exports	11,360	11,076	11,297	12,201			
Total-Domestic	152,780	119,151	146,196	161,537			
Total-Exports	51,489	63,691	68,122	77,549			

Source: ENAM Research

Risks to call

- Lower volumes for *Discover* would lead to a sharp reduction in our FY10 and FY11 domestic volume assumptions.

Company Financials - Standalone

Income statement

(Rs. mn)

Y/E Mar	FY08	FY09	FY10E	FY11E
Net sales	90,147	87,790	106,150	122,218
Total income	90,147	87,790	106,150	122,218
Cost of goods sold	71,059	69,392	78,682	91,638
Advt/Sales/Distrn O/H	6,698	6,935	8,016	8,749
Operating Profit	12,390	11,463	19,452	21,831
Other income	1,542	1,532	1,750	2,000
PBIDT	13,932	12,996	21,202	23,831
Depreciation	1,740	1,298	1,650	1,750
Interest	52	210	150	75
Other pretax	(230)	(144)	(120)	(100)
Pre-tax profit	12,371	11,632	19,522	22,106
Tax provision	3,788	3,016	5,122	6,190
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	8,583	8,616	14,400	15,916
E/o income / (Expense)	(1,025)	(1,853)	(1,860)	0
Reported PAT	7,557	6,763	12,540	15,916

Balance sheet

(Rs. mn)

Y/E Mar	FY08	FY09	FY10E	FY11E
Total assets	30,639	34,212	41,831	53,581
Gross block	29,842	33,339	35,260	37,010
Net fixed assets	12,581	15,260	15,531	15,531
CWIP	347	221	50	50
Investments	6,265	7,643	8,493	8,993
Wkg. cap. (excl cash)	(2,837)	(2,492)	(2,272)	(1,607)
Cash / Bank balance	12,867	11,811	18,261	28,846
Others/Def tax assets	1,415	1,769	1,769	1,769
Capital employed	30,639	34,212	41,831	53,581
Equity capital	1,447	1,447	1,447	1,447
Reserves	14,429	15,417	26,066	38,259
Borrowings	13,343	15,700	13,200	13,200
Others	1,419	1,648	1,118	676

Source: Company, ENAM Research

Key ratios

(%)

Y/E Mar	FY08	FY09	FY10E	FY11E
Sales growth	-	(2.6)	20.9	15.1
OPM	13.7	13.1	18.3	17.9
Oper. profit growth		(7.5)	69.7	12.2
COGS / Net sales	78.8	79.0	74.1	75.0
Overheads/Net sales	7.4	7.9	7.6	7.2
Depreciation / G. block	5.8	3.9	4.7	4.7
Effective interest rate	0.8	1.4	1.0	0.6
Net wkg.cap / Net sales	(0.0)	(0.0)	(0.0)	(0.0)
Net sales / Gr block (x)	3.0	2.8	3.1	3.4
Incremental RoCE	105.5	(16.7)	2,388.6	342.6
RoCE	83.5	37.9	53.4	47.2
Debt / equity (x)	0.8	0.9	0.5	0.3
Effective tax rate	30.6	25.9	26.2	28.0
RoE	108.1	52.6	64.9	47.4
Payout ratio (Div/NP)	38.3	47.1	25.4	20.0
EPS (Rs.)	59.3	59.6	99.5	110.0
EPS Growth	-	0.4	67.1	10.5
CEPS (Rs.)	71.3	68.5	110.9	122.1
DPS (Rs.)	20.0	22.0	22.0	22.0

Cash-flow

(Rs. mn)

Y/E Mar	FY08	FY09	FY10E	FY11E
Sources	-	5,093	7,569	14,470
Cash profit	-	7,666	16,050	17,666
(-) Dividends	-	(2,885)	(3,183)	(3,183)
Retained earnings	-	4,781	12,867	14,483
Issue of equity	-	0	0	0
Borrowings	-	2,357	(2,500)	(2,500)
Others	-	(2,045)	(2,798)	2,487
Applications	-	5,093	7,569	14,470
Capital expenditure	-	3,925	1,750	3,500
Investments	-	(2,290)	(850)	(500)
Net current assets	-	2,650	220	885
Change in cash	-	808	6,450	10,585

Note: FY08 financials unavailable due to de-merger

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.