

Bajaj Auto (BAAUTO)

Rs 1485

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 1422 to Rs 1536
 EPS (FY11E) Unchanged
 EPS (FY12E) Changed from Rs 101.5 to Rs 102.4
 RATING..... Reduce to Add

Richer product mix improves profitability...

Bajaj Auto (BAL) reported another set of record breaking quarterly numbers, which were above our estimates. The topline stood at Rs 4180.9 crore (I-direct estimate of Rs 4028 crore), a 49.7% YoY and 11.9% QoQ jump. This was driven by volume growth of 45.7% YoY and 7.8% QoQ surpassing the 1 million plus unit target. BAL was able to improve margins by 70 bps sequentially to 20.7%. This was in the wake of a better product mix leading to realisation improvement of 3.8% QoQ along with personnel costs management leading to a 60 bps QoQ decline. BAL has reported a record bottomline at Rs 682.1 crore, a jump of 15.6% QoQ and 57.7% YoY. This was on the back of higher other income of Rs 83.7 crore from the investment book.

Product mix continues to improve

BAL's sales have seen a gradual improvement in the product mix with increased sales of the Pulsar family (2,46,000 units, a 7.8% jump QoQ). Thus, it provided a cushion to margins with realisation improvements. Also, there has been a migration of customers from Discover 100 cc towards the 150 cc variant leading to an improvement in market share of ~200 bps in the 125 cc and above segment. The company expects to see further traction in Pulsar volumes as newer capacity comes on stream.

Export demand poses welcome challenge

The exports segment has continued to perform impressively with 37.0% YoY growth. However, on a sequential basis, there has been a decline of 5.4% mainly due to three-wheeler exports falling 9% QoQ. The slowdown in exports sequentially has been due to higher domestic demand owing to new licenses issued in Tamil Nadu. The company expects to gain on exports in H2FY11 with the easing of domestic demand.

Valuation

The improvement in product mix and volume expansion is expected to drive financials in the stronger half of the fiscal. At the CMP of Rs 1,485, the stock is trading at 17.4x FY11E EPS of Rs 85.4 and 14.5x FY12E EPS of Rs 102.4. We are valuing the company giving higher P/E of 15x FY12E EPS to arrive at Rs 1,537 per share, implying a 3% upside from its present levels. We rate the stock as **ADD**.

Exhibit 1: Financial performance

(Rs Crore)	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	QoQ (Chg %)	YoY (Chg %)
Net Sales	4,341.8	4,131.0	2,793.2	3,890.1	11.6	55.4
EBITDA	897.2	817.9	542.2	777.0	15.5	65.5
EBITDA Margin (%)	20.7	19.8	19.4	20.0	69 bps	125 bps
Depreciation	30.0	33.0	33.6	31.8	(5.8)	(10.8)
Interest	0.7	-	-	0.6	8.3	NA
Other Income	83.7	50.0	21.7	81.7	2.4	285.7
Reported PAT	682.1	600.3	402.8	590.2	15.6	69.3
EPS (Rs)	23.6	20.7	13.9	20.4	15.7	69.8

Source: Company, ICICIdirect.com Research

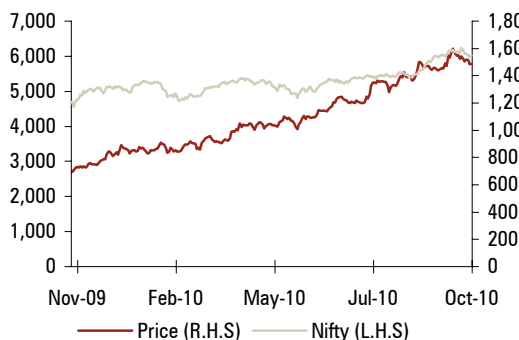
Rating matrix	
Rating	: Add
Target	: Rs 1537
Target Period	: 12 months
Potential Upside	: 3%

Key Financials				
Rs Crore	FY09	FY10	FY11E	FY12E
Net Sales	8,696	11,810.6	16,755.9	19,589.6
EBITDA	1,078.0	2,482.2	3,258.7	3,878.5
Net Profit	654.5	1,702.7	2,471.7	2,964.2
EPS (Rs)	22.6	58.8	85.4	102.4

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	65.8	25.3	17.4	14.5
Target P/E	67.9	26.1	18.0	15.0
EV / EBITDA	39.5	16.2	11.8	9.2
P/BV	23.0	14.7	8.5	5.6
RoNW	35.0	58.1	48.8	38.6
RoCE	27.6	55.0	48.9	41.5

Stock data	
Market Capitalization	42,970.0
Total Debt (FY10)	1,338.6
Cash and Investments (FY10)	4,122.9
EV	40,185.6
52 week H/L	502 / 272
Equity capital	144.7
Face value	Rs 5
MF Holding (%)	6.5
FII Holding (%)	17.8

Price movement



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Segmental Analysis

▪ **Motorcycles**

Bajaj Auto has seen robust growth in the motorcycle segment with the effective branding and product based strategies in the Discover and Pulsar families. The launch of the new variant of Discover 150 cc along with a lower engine capacity Pulsar (135 cc) has led to a larger product portfolio (10 on the basis of engine capacity from 99 cc to 250 cc). Thus, this facilitated customer migration from Hero Honda, which offers limited choice (five based on engine capacity).

Pulsar is now on track to achieve volumes of more than a million/year with a quarterly run rate of 2,46,000 units. This is expected to improve to 3,00,000 units by Q4FY11E. The Discover has zoomed to 1,30,000 units/month volume with the 150 cc version having ~35,000 monthly run rate. Higher sales of Pulsar and Discover have led to an overall market share gain in the motorcycle segment for Bajaj Auto of 6.7% YoY to 27.8%. Motorcycle sales grew 47.3% YoY touching 8,83,494 units with the Discover and Pulsar family contributing nearly 80% of total sales.

On the exports front, the company has seen a strong performance from all the major export markets with burgeoning demand for the Boxer motorcycles, which is running at nearly 30,000 units monthly run rate, with Africa growing at ~35% along with South East Asia and South Asia growing by 40% and 90%, respectively, on YTD basis.

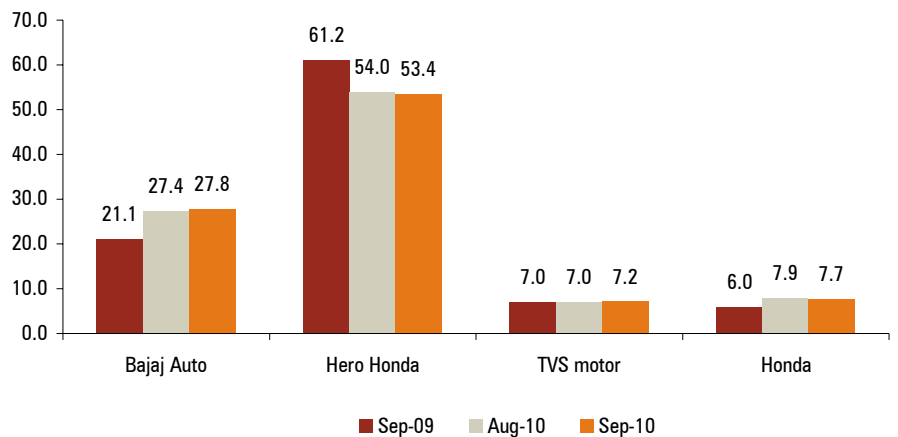
Exhibit 2: Volume quarterly performance (nos)

	Q2FY11	Q2FY10	Q1FY11	YoY (%)	QoQ(%)
MOTORCYCLES	883,494	599,641	828,391	47.3	6.7
3 WHEELERS	117,076	85,246	99,918	37.3	17.2
TOTAL 2 & 3 WHEELERS *	1,000,570	686,727	928,336	45.7	7.8
Exports out of the above	307,332	178,295	214,471	72.4	43.3
Exports as % to sales	30.7	26.0	23.1		

* Scooters volumes included which has been discontinued

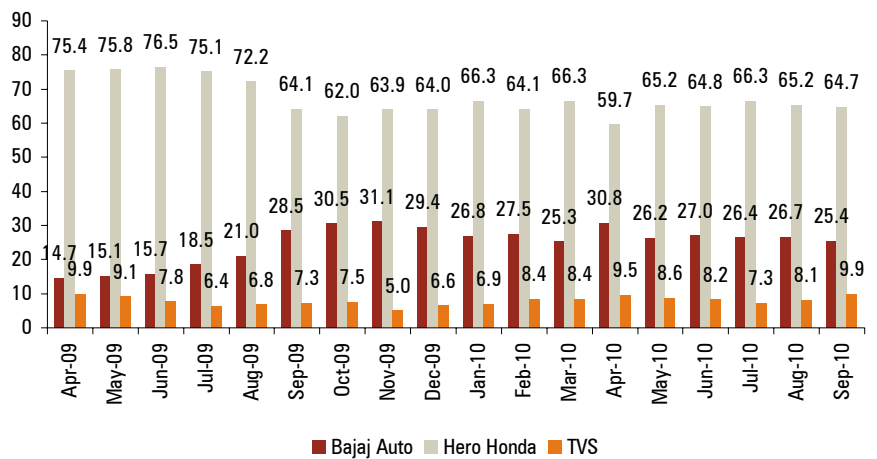
Source: Company, ICICIdirect.com Research

Exhibit 3: Market share movement in motorcycles (%)



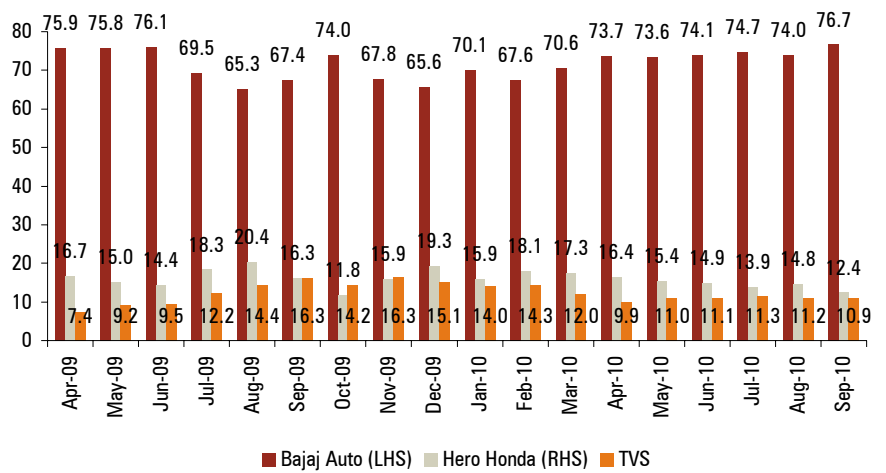
Source: SIAM

Exhibit 4: Market share movement in executive motorcycle segment (%)



Source: SIAM

Exhibit 5: Market share movement in greater than 125 cc segment (%)

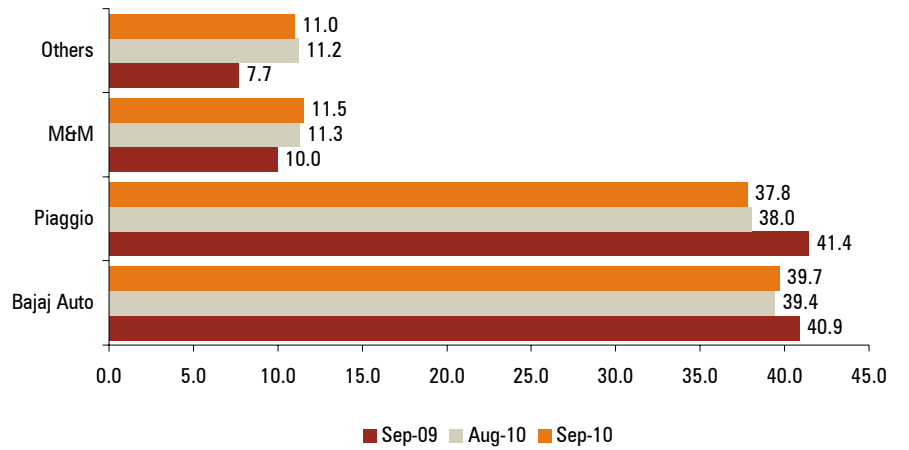


Source: SIAM

■ **Three wheelers**

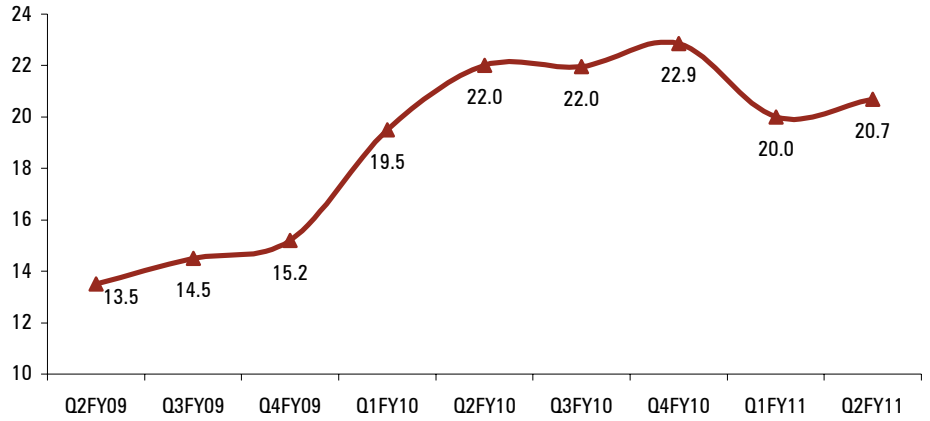
The three-wheeler segment recorded its highest ever volumes of 1,17,076 units for the quarter reflecting 37% YoY growth. This was on the back of higher domestic demand driven by economic growth along with increased exports sales. The contribution of three-wheelers to total sales has risen from 10.7% in Q1FY11 to 11.7% in Q2FY11 signalling strong growth in the developing markets of South East Asia, Sri Lanka and Columbia. The strong three-wheeler demand is expected to be structural in nature leading to consistent demand. With domestic demand expected to ease post the issuances of new licenses in Chennai the management expects to address the larger export audience. In view of this, the capacity is expected to be ramped up to 5 lakh units from the present 4.2 lakh units.

Exhibit 6: Market share movement in three wheelers (%)



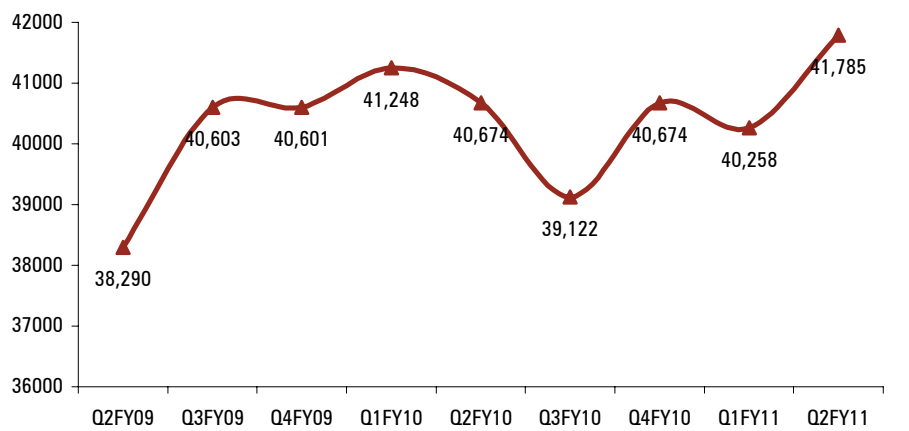
Source: SIAM

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICIdirect.com Research

Exhibit 8: Trends in average realisation (Rs/Unit)



Source: Company, ICICIdirect.com Research

Outlook

Bajaj Auto has been one of the major beneficiaries of the strong pent up demand in the automobile industry with YTD growth of ~56%. The motorcycle segment contributed ~89% to total volumes. The Discover and Pulsar family have been the major drivers of volumes clocking 80% total volumes, thereby increasing market share in the motorcycle segment to 27.8% (6.7% YoY jump). The Discover 150 cc and Pulsar 135 cc have received a strong response from customers with a certain demand shifting from Discover 100 cc to the higher end variant (~21% costlier). This led to an improvement of the product mix and realisation.

On the three-wheeler side, the company has seen a strong order book from the domestic as well as exports segments (Sri Lanka and Egypt). The capacity is expected to be ramped up to 35,000 units per month. The company has also enjoyed the benefits of higher exports with a significant rise in the non-operating income arising from the export incentive DEPB scheme.

The management has continued to guide on the sales target of 4 million vehicles for the full year with exports contribution expected to be 1 million vehicles. Also, the three-wheeler contribution is expected to be around 0.5 million, ~85% of which is mainly going to be catered to from the Waluj facility. The company is expected to ramp up overall production from the 4.2 million units (FY10) mark to 5 million units by the end of FY11. In this, the Pantnagar plant II has been made functional since October. Now it has a capacity of 15 lakh units and it is expected to be raised to 18 lakh units by the end of this fiscal year.

Valuation

Volume growth is expected to remain robust since H2 is traditionally stronger in comparison to H1 of a fiscal. However, the resounding first half performance is expected to lead to sales petering to a certain degree. The export market continues to remain robust with the management expecting to garner higher sales from exports in the latter half of this fiscal. The increase in capacities in the Pantnagar plant is expected to ease capacity concerns and provide relief due to tax benefits. The company has also targeted a swelling of the investment book to nearly Rs 7,500 crore. This is expected to further increase the non operating income leading to an increase in the per share earnings of the company. At the CMP of Rs 1,485, the stock is trading at 17.4x FY11E EPS of Rs 85.4 and 14.5x FY12E EPS of Rs 102.4. We are valuing the company giving higher P/E of 15x FY12E EPS to arrive at Rs 1,536 per share, implying a 3% upside from its present levels. We rate the stock as **ADD**.

Exhibit 9: Revised financial estimates

	Previous		Revised		% chg	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
(Rs crore)						
Volumes ('000 units)	3914.8	4525.4	3924.0	4584.0	0.2	1.3
Net sales	16134.0	19215.0	16755.9	19589.6	3.9	1.9
EBITDA	3255.9	3893.7	3258.7	3878.5	0.1	-0.4
EBITDA margins (%)	20.2	20.3	19.4	19.8	(80) bps	(50) bps
Net profit	2405.9	2850.4	2471.7	2964.2	2.7	4.0
EPS (Rs)	83.1	98.5	85.4	102.4	2.8	4.0

Source: Company, ICICIdirect.com Research

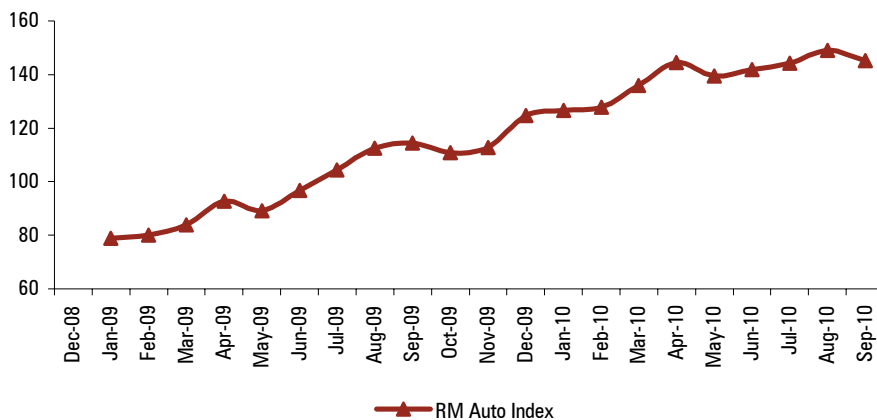
Exhibit 10: Valuation metrics

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	11810.6		58.8		25.3	16.2	58.1	55.0
FY11E	16755.9	41.9	85.4	45.2	17.4	11.8	48.8	48.9
FY12E	19589.6	16.9	102.4	19.9	14.5	9.2	38.6	41.5

Source: Company, ICICIdirect.com Research

The in-house raw material index reflects the combination of the various input materials (steel, rubber, aluminium, plastics) for OEMs which have been rebased with Dec'08 as base year to 100. The chart shows the increasing trend in raw material prices causing concern for the industry

Exhibit 11: Auto RM Index



Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Auto OEM's)

				Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)	
Tata Motors										
Idirect Code	TELCO	CMP	1,156	FY09	25,616.2	19.5	59.3	47.0	10.0	7.5
		Target	1,218	FY10	35,586.2	39.3	29.4	20.5	16.5	12.9
Mcap (Rs cr)	59401.0	% Upside	5.4	FY11E	38,958.3	48.4	23.9	18.8	17.4	14.0
				FY12E	45,870.6	55.1	21.0	17.0	17.6	13.0
Maruti Suzuki										
Idirect Code	MARUTI	CMP	1489	FY09	20,358.3	42.2	35.3	21.4	13.3	18.5
		Target	1627	FY10	28,958.5	86.4	17.2	11.1	23.1	31.9
Mcap (Rs cr)	43032.1	% Upside	9.3	FY11E	37,958.1	87.0	17.1	11.2	18.9	25.6
				FY12E	45,295.3	108.5	13.7	8.7	19.6	27.6
M&M										
Idirect Code	MAHMAH	CMP	697	FY09	13,093.7	15.3	45.4	38.5	17.4	9.9
		Target	764	FY10	18,602.1	36.9	15.9	13.8	31.9	25.8
Mcap (Rs cr)	38011.4	% Upside	9.6	FY11E	22,838.4	43.2	16.1	11.7	27.5	26.0
				FY12E	25,512.6	47.6	14.7	10.4	24.1	24.7
Bajaj Auto										
Idirect Code	BAAUTO	CMP	1,488	FY09	8,436.9	22.2	67.1	43.4	40.1	38.5
		Target	1,537	FY10	11,810.6	58.8	25.3	16.2	58.1	55.0
Mcap (Rs cr)	21528.4	% Upside	3.3	FY11E	16,755.9	85.4	17.4	11.8	48.8	48.9
				FY12E	19,589.6	102.4	14.5	9.2	38.6	41.5
Escorts*										
Idirect Code	ESCORT	CMP	213	FY08	1,998.0	1.3	162.4	29.0	-1.6	7.0
		Target	235	FY09	2,162.8	9.9	21.5	13.7	8.5	10.6
Mcap (Rs cr)	2004.8	% Upside	10.4	FY10E	2,830.7	15.7	13.6	9.5	10.9	13.2
				FY11E	3,387.1	18.2	11.7	7.8	11.3	14.3

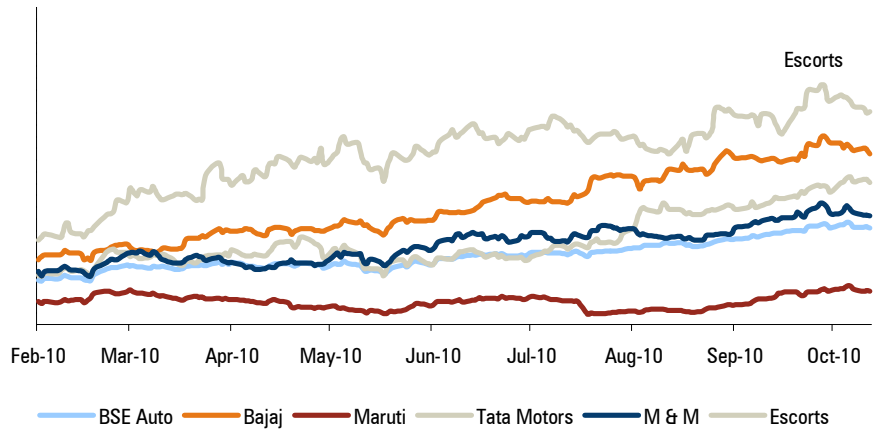
Source: Company, ICICIdirect.com Research

ICICI direct.com Universe price movement vis-à-vis BSE Auto index

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since mid-February 2010, Bajaj Auto, Tata Motors and Escorts have outperformed while Maruti Suzuki has underperformed in comparison to the index by being divergent on the upside and downside, respectively

Exhibit 12: OEM comparison with BSE Auto

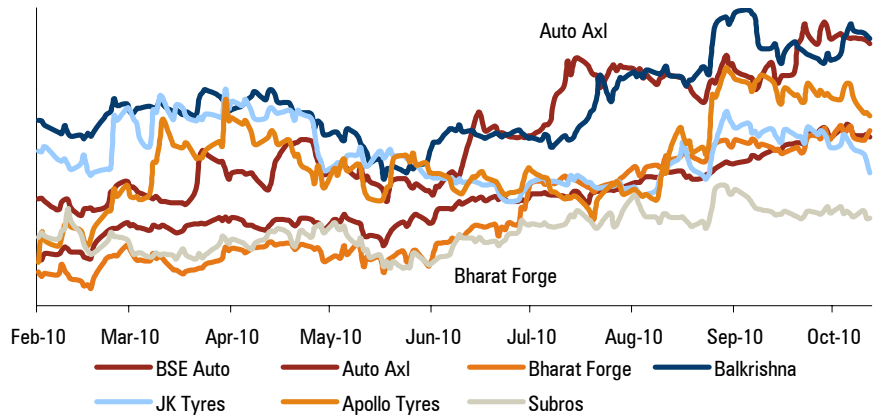


Source: Company, ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Bharat Forge, which mimic the index greatly

Exhibit 13: Ancillaries comparison with BSE Auto



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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