

July 23, 2010

### ACCUMULATE

Price	Target Price
<b>Rs 2,490</b>	<b>Rs 2,865</b>
<b>Sensex</b>	<b>18,133</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	19	38	114
Rel. to Sensex	5	15	30	75

Source: Bloomberg

### Stock Details

Sector	Automobiles
Reuters	BAJA.BO
Bloomberg	BJAUT@IN
Equity Capital (Rs mn)	1447
Face Value(Rs)	10
No of shares o/s (mn)	145
52 Week H/L	2,525/1,045
Market Cap (Rs bn/USD mn)	360/7,888
Daily Avg Volume (No of sh)	230097
Daily Avg Turnover (US\$m)	11.3

### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	49.7	49.6	49.6
FII/NRI	19.1	18.3	16.5
Institutions	6.1	6.5	8.0
Private Corp	8.6	8.6	8.7
Public	16.6	17.0	17.3

Source: Capitaline

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- EBIDTA at Rs 7.8bn (7% above est) due to higher export incentive. Margins at 20% vs est of 19.2% . Net profit at Rs 5.9bn (16% above est.) due to higher other income
- 20% EBIDTA margins are sustainable (with an upward bias), except for the product mix changes. Production constraints results in loss of volume of ~20,000 units per month
- Upgrade vol estimates by 10% for FY11 (3.8 mn units) as well as FY12 (4.1 mn units). Upgrade FY11E EPS by 15.7% to Rs 167.5 and FY12E EPS by 13.4% to Rs 190.9.
- Upgrade TP to Rs 2,865 (up by 13.4%) valuing at 15x PER FY12 earnings. Maintain ACCUMULATE rating.

### Net Sales – In line with expectations

Net sales at Rs 38.9bn was in line with expectation of Rs 38.5bn. Volume grows 69.5% YoY (14.8% QoQ). Avg. realizations at Rs 40,258 (down 2.4% YoY, 1% QoQ) is marginally below our expectation of Rs 40,423. Other operating income was significantly higher at 1,528mn (est. 954mn) due to higher exports during the quarter. Exports during quarter stood at Rs 12.1bn vs Rs 6.3bn.

Product mix %	1QFY11	1QFY10	4QFY10	Product mix %	1QFY11	1QFY10	4QFY10
Motorcycles	89.2	88.1	88.1	Motorcycles (Domestic)			
Scooters	0.0	0.3	0.0	upto 125cc	55.0	30.5	56.4
Three-Wheelers	10.8	11.5	11.9	125cc to 250cc	45.0	69.5	43.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	Motorcycles (Exports)			
Exports	34.8	32.6	26.6	upto 125cc	63.4	65.9	70.1
Domestic	65.2	67.4	73.4	125cc to 250cc	36.6	34.1	29.9

Source: SIAM, Emkay research

### EBIDTA margins – above expectations, driven by higher export incentive

EBIDTA of Rs 7.8bn was ahead of estimate of Rs 7.4bn. Margins at 20.0% (expectation of 19.2%) surprised positively due to higher export incentives.

### APAT – Higher other income and lower depreciation expands net profit

Net profit at Rs 5.9 bn was above our expectation of Rs 5.1bn driven by higher other income and lower depreciation. Other income was Rs 817 mn against our expectation of Rs 243 mn, mainly due to higher treasury income.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	87,556	11,373	13.0	8,616	59.6	0.4	40.1	41.8	31.3	21.4
FY10	118,637	25,353	21.4	18,651	128.9	116.5	73.8	19.3	13.1	12.3
FY11E	158,401	32,739	20.7	24,233	167.5	29.9	67.9	14.9	9.9	8.6
FY12E	177,145	36,473	20.6	27,623	190.9	14.0	56.0	13.0	8.6	6.4

Source: Company, Emkay Research

## Valuations and View

At Rs 2,490, the stock trades at PER of 14.9x and 13.0x and EV/EBIDTA of 9.9x and 8.6x our FY11 and FY12 estimates respectively. We have revised our EPS estimate by 15.7% and 13.4 % to Rs 167.5 and Rs 190.9 for FY11 and FY12 respectively due to higher volume and avg. realization assumption. We have valued the stock at PER of 15x of FY12 estimates. We maintain our ACCUMULATE rating on the stock.

## Revision in Estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	3,467,226	3,824,926	10.3	3,796,797	4,190,265	10.4
Sales	143,655	158,401	10.3	160,721	177,145	10.2
EBIDTA	29,422	32,739	11.3	33,764	36,473	8.0
EBIDTA margins (%)	20.5	20.7		21.0	20.6	
Net Profits	20,940	24,233	15.7	24,356	27,623	13.4
EPS	144.7	167.5	15.7	168.3	190.9	13.4

## Key extracts from con call

- Management reiterates volume guideline of 4mn for FY11, with 1 mn export. It expects significant growth in export markets.
- Strong exports growth for three wheelers in Sri lanka, Egypt and Africa. On the domestic from expect strong demand from Tamil Nadu (30,000 to 35,000 units) due to withdrawal of permit regime. For Two wheelers, Africa will be the key contributor to the growth.
- Company enters into quarterly contracts with vendors for supply of steel, aluminum etc. The contracts were renegotiated in beginning of July for Q2FY11 with sequential decline in prices.
- Capex guidance for FY 11 stood at Rs.2.3bn to 2.5bn, which will be used for capacity ramp up, R&D and development of 4-wheeler platform.
- During the quarter company took a price hike of Rs 1,500 on Platina, Rs 500-1,000 in Pulsar family and Rs 500 in Discover family. Also, there has been a price hike taken in export with effect from 1st July'10.
- Production run rate at Pantnagar facility is expected to go reach 80k-85k units per month from 73k-75k units in Q1FY11.
- Capacity constraints due to supply from vendors continues, as a result, loosing around per month 20,000 units of demand.
- Indonesian subsidiary had a loss of Rs 380mn in FY10 (after adjusting for forex gain). For Q1FY11, the loss is around Rs 60mn. Expected to break even by FY12.
- KTM (year ending August), reported profit is around 3mn against a loss of 66 mn during 9M.

## Quarterly Summary

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>23,385</b>	<b>28,875</b>	<b>32,956</b>	<b>33,995</b>	<b>38,901</b>	66.4	14.4
<b>Expenditure</b>	<b>18,831</b>	<b>22,510</b>	<b>25,720</b>	<b>26,224</b>	<b>31,131</b>	<b>65.3</b>	<b>18.7</b>
<i>as % of sales</i>	<i>80.5</i>	<i>78.0</i>	<i>78.0</i>	<i>77.1</i>	<i>80.0</i>		
Consumption of RM	15,470	19,124	22,567	23,544	27,682	78.9	17.6
<i>as % of sales</i>	<i>66.2</i>	<i>66.2</i>	<i>68.5</i>	<i>69.3</i>	<i>71.2</i>		
Employee Cost	1,129	1,074	930	862	1,264	11.9	46.6
<i>as % of sales</i>	<i>4.8</i>	<i>3.7</i>	<i>2.8</i>	<i>2.5</i>	<i>3.2</i>		
Other expenditure	2,231	2,312	2,224	1,818	2,186	(2.0)	20.2
<i>as % of sales</i>	<i>9.5</i>	<i>8.0</i>	<i>6.7</i>	<i>5.3</i>	<i>5.6</i>		
<b>EBITDA</b>	<b>4,554</b>	<b>6,365</b>	<b>7,235</b>	<b>7,771</b>	<b>7,769</b>	<b>70.6</b>	<b>(0.0)</b>
Depreciation	331	336	366	341	318	(3.8)	(6.7)
<b>EBIT</b>	<b>4,223</b>	<b>6,029</b>	<b>6,870</b>	<b>7,430</b>	<b>7,451</b>	<b>76.4</b>	<b>0.3</b>
Other Income	231	217	351	425	817	252.9	92.2
Interest	60	0	0	-1	6	(89.4)	(730)
<b>PBT</b>	<b>4,395</b>	<b>6,247</b>	<b>7,221</b>	<b>7,856</b>	<b>8,262</b>	<b>88.0</b>	<b>5.2</b>
Total Tax	1,291	1,899	2,157	2,214	2,360	82.9	6.6
<b>Adjusted PAT</b>	<b>3,105</b>	<b>4,347</b>	<b>5,064</b>	<b>5,642</b>	<b>5,902</b>	<b>90.1</b>	<b>4.6</b>
(Profit)/loss from JV's/Ass/MI	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Adjusted PAT after MI</b>	<b>3,105</b>	<b>4,347</b>	<b>5,064</b>	<b>5,642</b>	<b>5,902</b>	<b>90.1</b>	<b>4.6</b>
<b>Extra ordinary items</b>	<b>-170</b>	<b>-319</b>	<b>-321</b>	<b>-354</b>	<b>0</b>	<b>(100.0)</b>	<b>(100.0)</b>
<b>Reported PAT</b>	<b>2,935</b>	<b>4,028</b>	<b>4,743</b>	<b>5,287</b>	<b>5,902</b>	<b>101.1</b>	<b>11.6</b>
<b>Reported EPS</b>	<b>20.3</b>	<b>27.8</b>	<b>32.8</b>	<b>36.5</b>	<b>40.8</b>	<b>101.1</b>	<b>11.6</b>

<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	19.5	22.0	22.0	22.9	20.0	50	(289)
EBIT	18.1	20.9	20.8	21.9	19.2	109	(270)
EBT	18.8	21.6	21.9	23.1	21.2	244	(187)
PAT	13.3	15.1	15.4	16.6	15.2	189	(143)
Effective Tax rate	29.4	30.4	29.9	28.2	28.6	(80)	38

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>87,556</b>	<b>118,637</b>	<b>158,401</b>	<b>177,145</b>
Growth (%)	(2.2)	35.5	33.5	11.8
<b>Expenditure</b>	<b>76,183</b>	<b>93,284</b>	<b>125,662</b>	<b>140,672</b>
Materials Consumed	64,635	80,704	109,074	122,203
Employee Cost	3,544	3,995	4,474	5,011
Other Exp	8,004	8,585	12,114	13,458
<b>EBITDA</b>	<b>11,373</b>	<b>25,353</b>	<b>32,739</b>	<b>36,473</b>
Growth (%)	(5.2)	122.9	29.1	11.4
<b>EBITDA margin (%)</b>	<b>13.0</b>	<b>21.4</b>	<b>20.7</b>	<b>20.6</b>
Depreciation	1,298	1,365	1,700	1,908
<b>EBIT</b>	<b>10,075</b>	<b>23,989</b>	<b>31,039</b>	<b>34,565</b>
<b>EBIT margin (%)</b>	<b>11.5</b>	<b>20.2</b>	<b>19.6</b>	<b>19.5</b>
Other Income	1,767	1,798	2,925	3,556
Interest expenses	210	60	306	281
<b>PBT</b>	<b>11,632</b>	<b>25,726</b>	<b>33,657</b>	<b>37,839</b>
<b>Tax</b>	<b>3,016</b>	<b>7,075</b>	<b>9,424</b>	<b>10,217</b>
Effective tax rate (%)	25.9	27.5	28.0	27.0
<b>Adjusted PAT</b>	<b>8,616</b>	<b>18,651</b>	<b>24,233</b>	<b>27,623</b>
Growth (%)	0.4	116.5	29.9	14.0
<b>Net Margin (%)</b>	<b>9.8</b>	<b>15.7</b>	<b>15.3</b>	<b>15.6</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-
<b>Adj. PAT After JVs/Ass/MI</b>	<b>8,616</b>	<b>18,651</b>	<b>24,233</b>	<b>27,623</b>
E/O items	(2,051)	(1,615)	-	-
<b>Reported PAT</b>	<b>6,565</b>	<b>17,036</b>	<b>24,233</b>	<b>27,623</b>
Growth (%)	(13.2)	159.5	42.2	14.0

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>9,865</b>	<b>23,929</b>	<b>30,733</b>	<b>34,283</b>
Depreciation	1,298	1,365	1,700	1,908
Interest Provided	210	60	306	281
Other Non-Cash items	(3,886)	(2,170)	-	-
Chg in working cap	-345	11,263	-4,320	271
Tax paid	-3,016	-7,075	-9,424	-10,217
<b>Operating Cashflow</b>	<b>4,126</b>	<b>27,371</b>	<b>18,995</b>	<b>26,527</b>
Capital expenditure	(3,428)	(485)	(2,376)	(4,429)
<b>Free Cash Flow</b>	<b>697</b>	<b>26,886</b>	<b>16,619</b>	<b>22,098</b>
Other income	1,767	1,798	2,925	3,556
Investments	(426)	(22,949)	-6,000	-10,000
<b>Investing Cashflow</b>	<b>1,341</b>	<b>-21,151</b>	<b>-3,075</b>	<b>-6,444</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	2,357	-2,314	-1,130	-1,000
Interest Paid	-210	-60	-306	-281
Dividend paid (incl tax)	(3,724)	(6,749)	(11,473)	(13,078)
Income from investments				
Others	347	3,033		
<b>Financing Cashflow</b>	<b>-1,230</b>	<b>-6,090</b>	<b>-12,909</b>	<b>-14,359</b>
<b>Net chg in cash</b>	<b>808</b>	<b>-355</b>	<b>634</b>	<b>1,295</b>
Opening cash position	561	1,369	1,014	1,648
<b>Closing cash position</b>	<b>1,369</b>	<b>1,014</b>	<b>1,648</b>	<b>2,943</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,447	1,447	1,447	1,447
Reserves & surplus	17,250	27,837	40,597	55,142
<b>Net worth</b>	<b>18,697</b>	<b>29,283</b>	<b>42,044</b>	<b>56,589</b>
<b>Minority Interest</b>				
Secured Loans	-	130	-	-
Unsecured Loans	15,700	13,256	12,256	11,256
<b>Loan Funds</b>	<b>15,700</b>	<b>13,386</b>	<b>12,256</b>	<b>11,256</b>
Net deferred tax liability	42	17	17	17
<b>Total Liabilities</b>	<b>34,439</b>	<b>42,686</b>	<b>54,316</b>	<b>67,861</b>
Gross Block	33,502	33,793	36,169	40,597
Less: Depreciation	18,079	18,997	20,697	22,605
<b>Net block</b>	<b>15,423</b>	<b>14,796</b>	<b>15,472</b>	<b>17,993</b>
Capital work in progress	221	415	415	415
<b>Investment</b>	<b>18,085</b>	<b>40,215</b>	<b>46,215</b>	<b>56,215</b>
<b>Current Assets</b>	<b>23,253</b>	<b>30,010</b>	<b>36,129</b>	<b>42,364</b>
Inventories	3,388	4,462	6,026	6,736
Sundry debtors	3,587	2,728	4,484	6,014
Cash & bank balance	1,369	1,014	1,648	2,943
Loans & advances	13,652	20,745	22,912	25,610
Other current assets	1,257	1,060	1,060	1,060
<b>Current lia &amp; Prov</b>	<b>24,376</b>	<b>42,750</b>	<b>43,915</b>	<b>49,125</b>
Current liabilities	12,134	20,263	22,378	25,051
Provisions	12,242	22,487	21,537	24,074
<b>Net current assets</b>	<b>-1,123</b>	<b>-12,740</b>	<b>-7,786</b>	<b>-6,761</b>
Misc. exp	1,833	-	-	-
<b>Total Assets</b>	<b>34,439</b>	<b>42,686</b>	<b>54,316</b>	<b>67,861</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	13.0	21.4	20.7	20.6
Net Margin	9.8	15.7	15.3	15.6
ROCE	38.2	68.5	70.0	62.4
ROE	40.1	73.8	67.9	56.0
RoIC	88.5	343.4	876.9	482.6
<b>Per Share Data (Rs)</b>				
EPS	59.6	128.9	167.5	190.9
CEPS	68.5	138.3	179.2	204.1
BVPS	116.6	202.4	290.6	391.1
DPS	22.0	40.0	68.0	77.5
<b>Valuations (x)</b>				
PER	41.8	19.3	14.9	13.0
P/CEPS	36.3	18.0	13.9	12.2
P/BV	21.4	12.3	8.6	6.4
EV / Sales	3.6	3.0	2.3	1.9
EV / EBITDA	31.3	13.1	9.9	8.6
Dividend Yield (%)	0.9	1.6	2.7	3.1
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(2.4)	0.0	0.0	(0.4)
Net Debt/EBITDA	(3.9)	0.0	0.0	(0.6)
Working Cap Cycle (days)	(21.5)	(40.2)	(27.3)	(25.3)

**Recommendation History: Bajaj Auto Limited – BJAUT IN**

Date	Reports	Reco	CMP	Target
14.05.2010	<a href="#">Bajaj Auto 4QFY10 Result Update</a>	Accumulate	2,198	2,432
13.01.2010	<a href="#">Bajaj Auto 3QFY10 Result Update</a>	Accumulate	1,698	1,855
16.10.2009	<a href="#">Bajaj Auto 2QFY10 Result Update</a>	Accumulate	1,554	1,650
20.07.2009	<a href="#">Bajaj Auto 1QFY10 Result Update</a>	Accumulate	1,157	1,370

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
05.07.2010	<a href="#">Hero Honda Management Meet Update</a>	Accumulate	2,021	2,250
18.06.2010	<a href="#">Auto Sector - Passenger Vehicles</a>			
15.06.2010	<a href="#">Bajaj Auto Management Meet Update</a>	Accumulate	2,282	2,525
01.06.2010	<a href="#">Mahindra &amp; Mahindra Q4FY10 Result Update</a>	Buy	545	725

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