

October 25, 2010

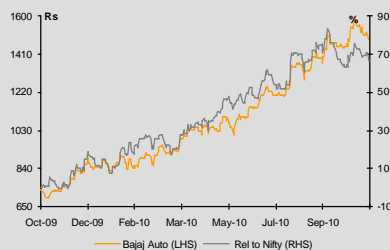
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 1,486	Rs 1,710
EPS change FY11E/12E (%)	4.0/5.1
Target Price change (%)	4.9
Nifty	6,066
Sensex	20,166

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	19	41	104
Rel. to Nifty	2	7	23	68

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	BJAUT@IN
Equity Capital (Rs mn)	2894
Face Value(Rs)	10
No of shares o/s (mn)	289
52 Week H/L	1,611/684
Market Cap (Rs bn/USD mn)	430/9,645
Daily Avg Volume (No of sh)	726509
Daily Avg Turnover (US\$m)	23.0

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	49.7	49.7	49.6
FII/NRI	18.9	19.1	18.3
Institutions	5.1	6.1	6.5
Private Corp	8.9	8.6	8.6
Public	17.4	16.6	17.0

Source: Capitaline

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- **EBIDTA at Rs 9.1bn (5% above est.) due to higher than expected topline (Rs 43.4bn vs est. Rs 41.3bn). APAT at Rs 6.9bn (6.5% above est.)**
- **FY11 export target raised to 1.15mn units (our est. 1.2mn units). 70% of FY12 current exports est. are hedged. Price hike in Oct'10 only for dom. market**
- **Upgrade FY11E/FY12E vol. by 2.1% /3.2% to 3.9mn/ 4.7mn units. Upgrade FY11E/FY12E EPS by 4.0%/5.1% to Rs 87.1/Rs 110.3 . 20%+ margins are sustainable subject to product mix**
- **Upgrade TP by 4.9% to Rs 1,710 (15.5x FY12 EPS). Maintain ACCUMULATE rating.**

Net Sales – Above expectation

Net sales at Rs 43.4bn was above expectation of Rs 41.3bn due to higher avg. realization per vehicle and other operating income. Volume grew by 45.7% YoY and 7.8% QoQ. Avg. realization per vehicle stood at Rs 41,786 (up 2.7% YoY and 3.8% QoQ) against expectation of Rs 40.262 due to improving product mix. Other operating income was higher at Rs 1.6 bn (est.1.0bn).

Product mix %	2QFY11	2QFY10	1QFY11	Product mix %	2QFY11	2QFY10	1QFY11
Motorcycles	88.3	87.4	89.2	Motorcycles (Domestic)			
Scooters	0.0	0.2	0.0	upto 125cc	45.0	50.1	55.0
Three-Wheelers	11.7	12.4	10.8	125cc to 250cc	55.0	49.9	45.0
Total	100.0	100.0	100.0	Motorcycles (Exports)			
Exports	26.1	31.7	34.8	upto 125cc	64.9	76.8	63.4
Domestic	73.9	68.3	65.2	125cc to 250cc	35.1	23.2	36.6

Source: SIAM, Emkay research

EBIDTA above expectation, but margins marginally below expectation

Higher than expected topline resulted in EBITDA of Rs 9.1bn, ahead of estimates of Rs 8.7bn. Margins at 21.0% were slightly below expectation of 21.2% due to higher other expenses (5.7% of sales against expectation of 5.3%). Other expenses were higher due to Rs 80 mn cost on a interest subvention scheme for 24 days during the quarter by BFL and higher transport incentive due to shortages of trucks. RM to sales ratio was in line with estimates at 70.7%.

APAT – driven by operating performance and higher other income

Net profits at Rs 6.9bn was above our expectation of Rs 6.5bn, due to strong operating performance and higher other income. Other income stood at Rs 837 mn against expectation of Rs 700mn.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	87,556	11,373	13.0	8,616	29.8	0.4	40.1	49.9	37.5	25.5
FY10	118,637	25,353	21.4	18,651	64.5	116.5	73.8	23.0	15.9	14.7
FY11E	163,200	34,100	20.9	25,211	87.1	35.2	70.2	17.1	11.5	10.1
FY12E	199,173	41,964	21.1	31,919	110.3	26.6	62.7	13.5	9.0	7.3

Source: Company, Emkay Research

Valuations and View

At Rs 1,486, the stock trades at PER of 17.1x and 13.5x and EV/EBIDTA of 11.5x and 9.0x our FY11 and FY12 estimates respectively. We have revised our EPS estimate by 4.0% and 5.1 % to Rs 87.1 and Rs 110.3 for FY11 and FY12 respectively due to higher volume assumption. We have upgraded our TP by 4.9 % to Rs 1,710 valuing the stock at PER of 15.5x 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	3,824,926	3,904,776	2.1	4,529,037	4,675,900	3.2
Sales	158,401	163,200	3.0	191,076	199,173	4.2
EBIDTA	32,739	34,100	4.2	39,843	41,964	5.3
EBIDTA margins (%)	20.7	20.9		20.9	21.1	
Net Profits	24,233	25,211	4.0	30,378	31,919	5.1
EPS	83.7	87.1	4.0	105.0	110.3	5.1

Source: Emkay Research

Key Con Call Extracts

- Capacity constraints would be there during the festive season till Diwali due to robust demand. Expect, capacity situation to ease out post November.
- To meet demand in festive season, company has stacked up its supply chain. Dealer have been given extended credit days, however company is charging an interest to tune of 15% for it.
- Motorcycle capacity
 - Chakan - to remain at current level of 1.2mn units
 - Pantnagar – to increase from current level of 1.2mn to 1.8mn by FY11 end. Commenced production from second plant, taking the production to 1.5mn units.
 - Waluj – to remain at current level of 1.5mn units
 - Total motorcycle capacity to increase from 3.9mn units to 4.5 mn units by FY11 end
- Three wheeler capacity to increase from .42mn units to .48 units by FY11 end
- Total capacity at beginning of FY12 would be around 5mn units
- At Pantnagar facility, company did a run rate of around 82k per month during the quarter. This could go upto around 100k in Q3, with year end target of 125k per month.
- Expects industry to grow by 13-14% in FY12 with an upward bias.
- Expect to end FY11 with 1.15mn units for exports. Expects a growth of 15% + for FY12.
- For FY11 company had hedged 90-95% of exports at Rs 47/ \$. For FY12, company has hedged around 70% of exports
- Africa continues to contribute 51% of export, growing at 35% over (Apr'10-Sep'10). Latin America grew at 35%, Sri Lanka & Bangladesh by 90% over the same period.
- There is a huge pent up demand for 3-wheelers in export market. Expects a run rate of 20k-21k going forward.
- Overall 3-wheelers run rate could be in range of 38k-40k
- BAL took a price hike of 2-3% in June in export market. Have no intention of taking any price hike in near future.
- Company enters into quarterly contracts for Steel and for aluminum on quantity basis (which is generally for a quarter).

- Benefit of reduction in metal prices during Q2 was negated by higher conversion cost during the quarter.
- Expect metal price to go up to Q1FY11 level .Furthermore, vendors are demanding hike due to rising conversion cost.
- Maintain guidelines for 20%+ margins.
- Investment book stands at around Rs 39bn currently (yields of 7.5%), expected to go upto Rs 43-44 bn by FY11 end. This could go upto Rs 70 bn over next 3-4 years.
- Tax rate for full year to be around 28.5
- Capex guidance – Rs 5 bn for 4-wheeler project over next 3-4 years. For FY 12 expect a capex of about Rs 2bn
- Inventory days will be maintained around 21 days post Diwali. Debtor days stand at 40-45 days currently.

Quarterly Summary

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	28,875	32,956	33,995	38,901	43,418	50.4	11.6	82,319	52,260	57.5
Expenditure	22,510	25,720	26,224	31,131	34,297	52.4	10.2	65,428	41,341	58.3
as % of sales	78.0	78.0	77.1	80.0	79.0			79.5	79.1	
Consumption of RM	19,124	22,567	23,544	27,682	30,712	60.6	10.9	58,394	34,594	68.8
as % of sales	66.2	68.5	69.3	71.2	70.7			70.9	66.2	
Employee Cost	1,074	930	862	1,264	1,142	6.3	(9.7)	2,405	2,203	9.2
as % of sales	3.7	2.8	2.5	3.2	2.6			2.9	4.2	
Other expenditure	2,312	2,224	1,818	2,186	2,443	5.7	11.8	4,629	4,543	1.9
as % of sales	8.0	6.7	5.3	5.6	5.6			5.6	8.7	
EBITDA	6,365	7,235	7,771	7,769	9,122	43.3	17.4	16,891	10,919	54.7
Depreciation	336	366	341	318	300	(10.8)	(5.9)	618	667	(7.3)
EBIT	6,029	6,870	7,430	7,451	8,822	46.3	18.4	16,273	10,253	58.7
Other Income	217	351	425	817	837	285.2	2.5	1,654	449	268.6
Interest	-	0	(1)	6	7		3	13	60	(78.6)
PBT	6,247	7,221	7,856	8,262	9,653	54.5	16.8	17,914	10,642	68.3
Total Tax	1,899	2,157	2,214	2,360	2,724	43.4	15.4	5,084	3,190	59.4
Adjusted PAT	4,347	5,064	5,642	5,902	6,928	59.4	17.4	12,830	7,452	72.2
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	4,347	5,064	5,642	5,902	6,928	59.4	17.4	12,722	6,963	82.7
Extra ordinary items	(319)	(321)	(354)	-	(108)	(66.2)		(108)	(489)	(78.0)
Reported PAT	4,028	4,743	5,287	5,902	6,821	69.3	15.6	12,722	6,963	82.7
Reported EPS	13.9	16.4	18.3	20.4	23.6	69.3	15.6	44.0	24.1	82.7

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	22.0	22.0	22.9	20.0	21.0	(103)	104	20.5	20.9	(38)
EBIT	20.9	20.8	21.9	19.2	20.3	(56)	116	19.8	19.6	15
EBT	21.6	21.9	23.1	21.2	22.2	60	99	21.8	20.4	140
PAT	15.1	15.4	16.6	15.2	16.0	90	79	15.6	14.3	133
Effective Tax rate	30.4	29.9	28.2	28.6	28.2	(218)	(34)	28.4	30.0	(159)

Source: Company. Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	87,556	118,637	163,200	199,173
Growth (%)	(2.2)	35.5	37.6	22.0
Expenditure	76,183	93,284	129,100	157,209
Materials Consumed	64,635	80,704	112,295	137,396
Employee Cost	3,544	3,995	4,474	5,011
Other Exp	8,004	8,585	12,331	14,802
EBITDA	11,373	25,353	34,100	41,964
Growth (%)	(5.2)	122.9	34.5	23.1
EBITDA margin (%)	13.0	21.4	20.9	21.1
Depreciation	1,298	1,365	1,703	1,891
EBIT	10,075	23,989	32,397	40,074
EBIT margin (%)	11.5	20.2	19.9	20.1
Other Income	1,767	1,798	2,925	3,932
Interest expenses	210	60	306	281
PBT	11,632	25,726	35,015	43,724
Tax	3,016	7,075	9,804	11,806
Effective tax rate (%)	25.9	27.5	28.0	27.0
Adjusted PAT	8,616	18,651	25,211	31,919
Growth (%)	0.4	116.5	35.2	26.6
Net Margin (%)	9.8	15.7	15.4	16.0
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	8,616	18,651	25,211	31,919
E/O items	(2,051)	(1,615)	-	-
Reported PAT	6,565	17,036	25,211	31,919
Growth (%)	(13.2)	159.5	48.0	26.6

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	9,865	23,929	32,090	39,792
Depreciation	1,298	1,365	1,703	1,891
Interest Provided	210	60	306	281
Other Non-Cash items	(3,886)	(2,170)	-	-
Chg in working cap	(345)	11,263	(4,028)	1,214
Tax paid	(3,016)	(7,075)	(9,804)	(11,806)
Operating Cashflow	4,126	27,371	20,268	31,372
Capital expenditure	(3,428)	(485)	(2,448)	(3,983)
Free Cash Flow	697	26,886	17,820	27,389
Other income	1,767	1,798	2,925	3,932
Investments	(426)	(22,949)	(6,000)	(13,000)
Investing Cashflow	1,341	(21,151)	(3,075)	(9,068)
Equity Capital Raised	-	-	-	-
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)	(11,936)	(15,260)
Income from investments				
Others	347	3,033		
Financing Cashflow	(1,230)	(6,090)	(13,372)	(16,542)
Net chg in cash	808	(355)	1,373	1,779
Opening cash position	561	1,369	1,014	2,387
Closing cash position	1,369	1,014	2,387	4,166

Source: Company. Emkay Research

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	1,447	1,447	2,894	2,894
Reserves & surplus	17,250	27,837	39,665	56,323
Net worth	18,697	29,283	42,559	59,217
Minority Interest	-	-	-	-
Secured Loans	-	130	-	-
Unsecured Loans	15,700	13,256	12,256	11,256
Loan Funds	15,700	13,386	12,256	11,256
Net deferred tax liability	42	17	17	17
Total Liabilities	34,439	42,686	54,831	70,490
Gross Block	33,502	33,793	36,241	40,224
Less: Depreciation	18,079	18,997	20,700	22,590
Net block	15,423	14,796	15,541	17,634
Capital work in progress	221	415	415	415
Investment	18,085	40,215	46,215	59,215
Current Assets	23,253	30,010	37,768	48,177
Inventories	3,388	4,462	6,188	7,542
Sundry debtors	3,587	2,728	4,604	6,734
Cash & bank balance	1,369	1,014	2,387	4,166
Loans & advances	13,652	20,745	23,529	28,675
Other current assets	1,257	1,060	1,060	1,060
Current lia & Prov	24,376	42,750	45,108	54,951
Current liabilities	12,134	20,263	22,990	27,996
Provisions	12,242	22,487	22,117	26,955
Net current assets	(1,123)	(12,740)	(7,340)	(6,774)
Misc. exp	1,833	-	-	-
Total Assets	34,439	42,686	54,831	70,490

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	13.0	21.4	20.9	21.1
Net Margin	9.8	15.7	15.4	16.0
ROCE	38.2	68.5	72.4	70.2
ROE	40.1	73.8	70.2	62.7
RoIC	88.5	343.4	945.1	640.8
Per Share Data (Rs)				
EPS	29.8	64.5	87.1	110.3
CEPS	34.3	69.2	93.0	116.8
BVPS	58.3	101.2	147.1	204.6
DPS	11.0	20.0	35.4	45.2
Valuations (x)				
PER	49.9	23.0	17.1	13.5
P/CEPS	43.4	21.5	16.0	12.7
P/BV	25.5	14.7	10.1	7.3
EV / Sales	4.4	3.6	2.6	2.0
EV / EBITDA	37.5	15.9	11.5	9.0
Dividend Yield (%)	0.7	1.3	2.4	3.0
Gearing Ratio (x)				
Net Debt/ Equity	0.2	(0.7)	(0.7)	(0.7)
Net Debt/EBIDTA	(3.9)	0.0	(0.0)	(0.6)
Working Cap Cycle (days)	(21.5)	(40.2)	(27.3)	(25.1)

Recommendation History: Bajaj Auto Limited – BJAUT IN

Date	Reports	Reco	CMP	Target
27/09/2010	Bajaj Auto Management Meet Update	Accumulate	1,446	1,630
23/07/2010	Bajaj Auto Q1FY11 Result Update	Accumulate	2,490	2,865
14/05/2010	Bajaj Auto 4QFY10 Result Update	Accumulate	2,198	2,432
13/01/2010	Bajaj Auto 3QFY10 Result Update	Accumulate	1,698	1,855

Recent Research Reports

Date	Reports	Reco	CMP	Target
29/09/2010	Tata Motors Management Meet Update	Accumulate	1,080	1,235
15/09/2010	Ashok Leyland Analyst Meet Update	Hold	77	76
07/09/2010	Maruti Suzuki Management Meet Update	Accumulate	1,303	1,450
02/09/2010	Eicher Motors Management Meet Update	Not Rated	1,259	NR

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