

July 14, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 1,421	Rs 1,700
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,585
Sensex	18,596

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	5	13	20
Rel. to Nifty	6	9	18	16

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	1,665/1,190
Market Cap (Rs bn/USD mn)	419/9,402
Daily Avg Volume (No of sh)	101564
Daily Avg Turnover (US\$m)	3.1

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	50.0	50.0	49.7
FII/NRI	16.3	16.5	18.3
Institutions	8.1	7.9	6.2
Private Corp	8.7	8.6	8.7
Public	16.9	17.0	17.2

Source: Capitaline

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- APAT at Rs 7.1bn is below est. (Rs 7.8bn) due to lower sales (Rs 47.8bn vs est.-Rs.49.3bn) and other inc. (Rs 731mn vs est.-Rs 1bn). Margins at 19.1% was below est of 20.4%
- 2.2% QoQ decline in domestic ASP to Rs 43,563 is the key reason for disappointment in sales. Exports ASP at Rs 39,498 was in line with est.
- Outlook remains positive driven by strong momentum in two wheelers, launch of Boxer and exports
- Currently, retain our FY13E EPS of Rs 113 and BUY rating. Shall further update post conference call scheduled on 18th July

Net Sales – Disappoints expectations by ~3%

Net sales at Rs 47.8bn (22.8% YoY, 13.7% QoQ) came below our est. of Rs 49.3bn. Average selling price (ASP) at Rs 41,973 (+4.3% YoY/ -1.8% QoQ) against our est. of Rs 43,479. 2.2% QoQ drop in domestic ASP is the key reason of disappointment.

Product mix %	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Motorcycles	89.2	88.3	88.6	88.2	88.1
Three-Wheelers	10.8	11.7	11.4	11.8	11.9
Total	100.0	100.1	100.0	100.0	100.0
Exports	34.8	30.7	31.3	29.1	39.1
Domestic	65.2	69.4	68.7	70.9	60.9
Units Sold	928,333	1,000,548	946,850	948,195	1,092,815

Source: SIAM, Emkay research

Product mix %	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Motorcycles (Domestic)					
upto 125cc	55.0	45.4	44.4	47.8	49.0
125cc to 250cc	45.0	54.6	55.6	52.2	51.0
Motorcycles (Exports)					
upto 125cc	63.4	64.4	65.4	70.3	69.5
125cc to 250cc	36.6	35.6	34.6	29.7	30.5

Source: SIAM, Emkay research

EBIDTA – lower topline affects the performance

EBITDA of Rs 9.1bn (margin of 19.1%) was ~9.5% lower than our est of Rs 10bn (margin of 20.4%). Margins were primarily impacted by higher RM/sales at 72.6% (170 bps QoQ) against our est. of 71.3%. Staff costs at 2.9% of sales and other expenses at 5.5% of sales were inline with our est.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	118,637	25,353	21.4	18,651	64.5	116.5	73.8	22.1	15.2	14.1
FY11	165,148	33,178	20.1	26,422	91.3	41.7	85.2	15.6	10.9	8.4
FY12E	190,029	34,163	18.0	28,222	97.5	6.8	50.5	14.6	10.1	6.6
FY13E	219,618	39,158	17.8	32,698	113.0	15.9	46.5	12.6	8.4	5.3

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	38,901	43,418	41,771	42,000	47,773	22.8	13.7
Expenditure	31,131	34,297	33,298	33,270	38,665	24.2	16.2
as % of sales	80.0	79.0	79.7	79.2	80.9		
Consumption of RM	27,682	30,712	29,826	29,770	34,665	25.2	16.4
as % of sales	71.2	70.7	71.4	70.9	72.6		
Employee Cost	1,264	1,142	1,086	1,180	1,389	9.9	17.7
as % of sales	3.2	2.6	2.6	2.8	2.9		
Other expenditure	2,186	2,443	2,386	2,320	2,611	19.5	12.5
as % of sales	5.6	5.6	5.7	5.5	5.5		
EBITDA	7,769	9,122	8,473	8,730	9,108	17.2	4.3
Depreciation	318	300	310	300	306	(3.7)	2.1
EBIT	7,451	8,822	8,163	8,430	8,802	18.1	4.4
Other Income	817	837	995	1,010	731	(10.5)	(27.6)
Interest	6	7	4	-	2		
PBT	8,262	9,653	9,154	9,440	9,531	15.4	1.0
Total Tax	2,360	2,724	2,503	2,570	2,420	2.5	(5.8)
Adjusted PAT	5,902	6,928	6,651	6,870	7,111	20.5	3.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-		
Adj. PAT after MI	5,902	6,928	6,651	6,870	7,111	20.5	3.5
Extra ordinary items	-	(108)	-	7,130	-		
Reported PAT	5,902	6,821	6,651	14,000	7,111	20.5	(49.2)
Reported EPS	20.4	23.6	23.0	48.4	24.6	20.5	(49.2)

Margins (%)						(bps)	(bps)
EBIDTA	20.0	21.0	20.3	20.8	19.1	(91)	(172)
EBIT	19.2	20.3	19.5	20.1	18.4	(73)	(165)
EBT	21.2	22.2	21.9	22.5	19.9	(129)	(253)
PAT	15.2	16.0	15.9	16.4	14.9	(29)	(147)
Effective Tax rate	28.6	28.2	27.3	27.2	25.4	(317)	(183)
Per Vehicle						YoY (%)	QoQ (%)
Revenue	41,904	43,394	44,116	44,295	43,715	4.3	(1.3)
- Domestic	41,785	43,679	44,542	43,545	43,563	4.3	(2.2)
- Exports	37,404	37,516	38,160	38,319	39,498	5.6	3.1
RM	29,819	30,695	31,500	31,396	31,720	6.4	1.0
Staff Cost	1,361	1,141	1,147	1,244	1,271	(6.6)	2.1
Other exp.	2,354	2,442	2,520	2,447	2,389	1.5	(2.4)
EBITDA	8,369	9,117	8,949	9,207	8,335	(0.4)	(9.5)

Source: Company. Emkay Research

APAT at Rs 7.1 bn vs our est. of Rs 7.8 bn

Adjusted net profits at Rs 7.1bn were impacted by lower top line and lower other income. Other income at Rs 731 mn was lower than our est. of Rs 1bn. However, the company benefited from lower effective tax rate of ~25.4% against our est. ~27% which partially offset the decline.

Valuations and View

At Rs 1,421 the stock trades at PER of 14.6x/12.6x and EV/EBIDTA of 10.1x/8.4x our FY12/13 estimates respectively. Our FY13 estimates already factor in risk of DEPB withdrawal and hence possess limited downside risk. We shall further update post the conference call scheduled on 18th July. We retain our BUY rating.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	118,637	165,148	190,029	219,618
<i>Growth (%)</i>	35.5	39.2	15.1	15.6
Expenditure	93,284	131,970	155,866	180,460
Materials Consumed	80,704	117,988	139,268	161,352
Employee Cost	3,995	4,648	5,483	6,480
Other Exp	8,585	9,334	11,115	12,628
EBITDA	25,353	33,178	34,163	39,158
<i>Growth (%)</i>	122.9	30.9	3.0	14.6
EBITDA margin (%)	21.4	20.1	18.0	17.8
Depreciation	1,365	1,228	1,361	1,444
EBIT	23,989	31,950	32,802	37,714
EBIT margin (%)	20.2	19.3	17.3	17.2
Other Income	1,798	4,599	5,705	6,898
Interest expenses	60	17	5	3
PBT	25,726	36,532	38,502	44,609
Tax	7,075	10,110	10,280	11,910
<i>Effective tax rate (%)</i>	27.5	27.7	26.7	26.7
Adjusted PAT	18,651	26,422	28,222	32,698
<i>Growth (%)</i>	116.5	41.7	6.8	15.9
Net Margin (%)	15.7	16.0	14.9	14.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JV's/Ass/MI	18,651	26,422	28,222	32,698
E/O items	(1,615)	6,976	-	-
Reported PAT	17,036	33,397	28,222	32,698
<i>Growth (%)</i>	159.5	96.0	(15.5)	15.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	23,929	31,933	32,797	37,711
Depreciation	1,365	1,228	1,361	1,444
Interest Provided	60	17	5	3
Other Non-Cash items	(2,170)	(5,568)	-	-
Chg in working cap	11,263	2,638	4,555	1,209
Tax paid	(7,075)	(10,110)	(10,280)	(11,910)
Operating Cashflow	27,371	20,137	28,438	28,457
Capital expenditure	(485)	(443)	(1,900)	(2,196)
Free Cash Flow	26,886	19,695	26,537	26,260
Other income	1,798	4,599	5,705	6,898
Investments	(22,949)	(15,123)	(18,000)	(15,000)
Investing Cashflow	(21,151)	(10,524)	(12,295)	(8,102)
Equity Capital Raised	-	1,447	-	-
Loans Taken / (Repaid)	(2,314)	(10,134)	(765)	(1,000)
Interest Paid	(60)	(17)	(5)	(3)
Dividend paid (incl tax)	(6,749)	(13,452)	(14,760)	(17,101)
Income from investments				
Others	3,033	13,537		
Financing Cashflow	(6,090)	(8,620)	(15,530)	(18,104)
Net chg in cash	(355)	551	(1,288)	54
Opening cash position	1,369	1,014	5,565	4,277
Closing cash position	1,014	1,565	4,277	4,331

Source: Emkay Research

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	1,447	2,894	2,894	2,894
Reserves & surplus	27,837	46,209	59,670	75,267
Net worth	29,283	49,102	62,564	78,161
Minority Interest	-	-	-	-
Secured Loans	130	235	235	235
Unsecured Loans	13,256	3,016	2,252	1,252
Loan Funds	13,386	3,252	2,487	1,487
Net deferred tax liability	17	297	297	297
Total Liabilities	42,686	52,651	65,348	79,945
Gross Block	33,793	33,952	35,852	38,048
Less: Depreciation	18,997	19,125	20,485	21,929
Net block	14,796	14,827	15,367	16,119
Capital work in progress	415	699	699	699
Investment	40,215	47,952	65,952	80,952
Current Assets	15,838	28,726	31,037	34,846
Inventories	4,462	5,473	6,411	7,390
Sundry debtors	2,728	3,628	4,249	4,898
Cash & bank balance	1,014	5,565	4,277	4,331
Loans & advances	6,574	11,896	13,935	16,063
Other current assets	1,060	2,164	2,164	2,164
Current lia & Prov	28,579	39,553	47,706	52,671
Current liabilities	20,263	24,267	29,892	32,137
Provisions	8,316	15,286	17,814	20,534
Net current assets	(12,740)	(10,827)	(16,669)	(17,824)
Misc. exp	-	-	-	-
Total Assets	42,686	52,651	65,348	79,945

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	21.4	20.1	18.0	17.8
Net Margin	15.7	16.0	14.9	14.9
ROCE	68.5	76.7	65.3	61.4
ROE	73.8	85.2	50.5	46.5
RoIC	343.4			
Per Share Data (Rs)				
EPS	64.5	91.3	97.5	113.0
CEPS	69.2	95.6	102.2	118.0
BVPS	101.2	169.7	216.2	270.1
DPS	20.0	40.0	43.9	50.8
Valuations (x)				
PER	22.1	15.6	14.6	12.6
P/CEPS	20.6	14.9	13.9	12.1
P/BV	14.1	8.4	6.6	5.3
EV / Sales	3.5	2.4	2.0	1.7
EV / EBITDA	15.2	10.9	10.1	8.4
Dividend Yield (%)	1.4	2.8	3.1	3.6
Gearing Ratio (x)				
Net Debt/ Equity	(0.7)	(0.8)	(0.9)	(0.9)
Net Debt/EBIDTA	0.0	(0.4)	(1.0)	(1.0)
Work Cap Cycle (days)	(40.2)	(33.5)	(36.9)	(33.0)

Recommendation History: Bajaj Auto Limited – BJAUT IN

Date	Reports	Reco	CMP	Target
19/05/2011	Bajaj Auto Q4FY11 Conference Call Update	Buy	1,291	1,700
18/05/2011	Bajaj Auto Q4FY11 Result Update First Cut	Buy	1,287	1,650
20/01/2011	Bajaj Auto Q3FY11 Result Update	Buy	1,297	1,650
25/10/2010	Bajaj Auto Q 2FY11 Result Update	Accumulate	1,486	1,710

Recent Research Reports

Date	Reports	Reco	CMP	Target
14/07/2011	Motherson Sumi Event Update	Accumulate	231	260
30/05/2011	Mahindra & Mahindra 4QFY11 Result Update	Buy	665	810
26/05/2011	Tata Motors Q4FY11 Conso Result Update	Buy	1,161	1,450
26/05/2011	Motherson Sumi Q4FY11 Result Update	Accumulate	226	260

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