

May 18, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 1,287	Rs 1,650
EPS change FY12E (%)	NA
Target Price change (%)	NA
Nifty	5,421
Sensex	18,086

Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	(3)	(18)	18
Rel. to Nifty	(5)	(2)	(9)	10

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	1,665/1,000
Market Cap (Rs bn/USD mn)	372/8,256
Daily Avg Volume (No of sh)	83295
Daily Avg Turnover (US\$m)	2.5

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	50.0	49.7	49.7
FII/NRI	16.5	18.3	18.9
Institutions	7.9	6.2	5.1
Private Corp	8.6	8.7	8.9
Public	17.0	17.2	17.4

Source: Capitaline

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- APAT at Rs 6.75bn was marginally ahead of our est. of Rs 6.6bn driven by higher margin of 20.5% (est 20%). Net sales at Rs 42bn was in line with our est. of Rs 42.3bn
- Believe that DEPB concerns are in the valuations (13.5x FY12 EPS ex DEPB). Expect FY12 EPS downgrade of ~10% due to DEPB. Declares DPS of Rs 40 per share (3.1% yield)
- Key concerns arise from subdued domestic volumes in last two months. Volumes should find support from additional 130 dealers (April 2011)
- Retain our EPS of Rs 106.8 for FY12 and BUY rating as of now. Shall revise post conference call scheduled tomorrow

Net Sales – In line with expectations

Net sales at Rs 42bn (23.5% YoY, 0.5% QoQ) came broadly in line with our est. of Rs 42.3bn. Average selling price at Rs 42,734 increased by 5.1% YoY and 0.4% QoQ against our est. of Rs 43,321

Product mix %	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Motorcycles	88.1	89.2	88.3	88.6	88.2
Three-Wheelers	11.9	10.8	11.7	11.4	11.8
Total	100.0	100.0	100.0	100.0	100.0
Exports	26.6	34.8	30.7	31.3	29.1
Domestic	73.4	65.2	69.3	68.7	70.9
Units Sold	808,929	928,333	1,000,548	946,850	948,195

Source: SIAM, Emkay research

Product mix %	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Motorcycles (Domestic)					
upto 125cc	56.4	55.0	45.4	44.4	47.8
125cc to 250cc	43.6	45.0	54.6	55.6	52.2
Motorcycles (Exports)					
upto 125cc	76.8	63.4	64.4	65.4	70.3
125cc to 250cc	23.2	36.6	35.6	34.6	29.7

Source: SIAM, Emkay research

EBIDTA at Rs 8.6bn vs our est. of Rs 8.5bn

EBITDA margins at 20.5% came ahead of our est. of 20%. While RM/sales declined 50 bps QoQ to 70.9%, higher staff costs at 3.1% of sales (our est, of 2.7%) partially offset the decline.

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	43.2	32.4	22.1
FY10	118,637	25,353	21.4	18,651	64.5	116.5	73.8	20.0	13.6	12.7
FY11E	166,094	33,855	20.4	26,166	90.4	40.3	85.3	14.2	9.5	7.6
FY12E	196,565	38,869	19.8	30,899	106.8	18.1	54.7	12.1	7.8	5.8

Source: Company, Emkay Research

Quarterly Summary

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	33,995	38,901	43,418	41,771	42,000	23.5	0.5	166,090	119,210	39.3
Expenditure	26,224	31,131	34,297	33,298	33,390	27.3	0.3	132,115	93,284	41.6
as % of sales	77.1	80.0	79.0	79.7	79.5			79.5	78.3	
Consumption of RM	23,544	27,682	30,712	29,826	29,770	26.4	(0.2)	117,990	80,704	46.2
as % of sales	69.3	71.2	70.7	71.4	70.9			71.0	67.7	
Employee Cost	862	1,264	1,142	1,086	1,300	50.8	19.7	4,791	3,995	19.9
as % of sales	2.5	3.2	2.6	2.6	3.1			2.9	3.4	
Other expenditure	1,818	2,186	2,443	2,386	2,320	27.6	(2.7)	9,334	8,585	8.7
as % of sales	5.3	5.6	5.6	5.7	5.5			5.6	7.2	
EBITDA	7,771	7,769	9,122	8,473	8,610	10.8	1.6	33,974	25,926	31.0
Depreciation	341	318	300	310	300	(12.0)	(3.2)	1,228	1,374	(10.6)
EBIT	7,430	7,451	8,822	8,163	8,310	11.8	1.8	32,747	24,552	33.4
Other Income	425	817	837	995	1,010	137.6	1.5	3,658	1,225	198.6
Interest	(1)	6	7	4	-		(100)	16	59	(72.1)
PBT	7,856	8,262	9,653	9,154	9,320	18.6	1.8	36,389	25,718	41.5
Total Tax	2,214	2,360	2,724	2,503	2,570	16.1	2.7	10,157	7,561	34.3
Adjusted PAT	5,642	5,902	6,928	6,651	6,750	19.6	1.5	26,231	18,158	44.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	5,642	5,902	6,928	6,651	6,750	19.6	1.5	26,231	18,158	44.5
Extra ordinary items	(354)	-	(108)	-	7,250					
Reported PAT	5,287	5,902	6,821	6,651	14,000	164.8	110.5	26,231	18,158	44.5
Reported EPS	18.3	20.4	23.6	23.0	48.4	164.8	110.5	115.3	58.7	96.4

Margins (%)						(bps)	(bps)			
EBIDTA	22.0	22.9	20.0	21.0	20.3	(167)	(72)	20.4	21.3	(86)
EBIT	20.8	21.9	19.2	20.3	19.5	(130)	(78)	19.7	20.1	(40)
EBT	21.9	23.1	21.2	22.2	21.9	0	(32)	21.8	21.0	85
PAT	15.4	16.6	15.2	16.0	15.9	56	(3)	15.7	14.7	101
Effective Tax rate	29.9	28.2	28.6	28.2	27.3	(253)	(88)	28.0	29.9	(190)
Per Vehicle (Rs)						YoY (%)	QoQ (%)			
Revenue	36,619	41,904	43,394	44,116	44,295	21.0	0.4	43,434	41,789	3.9
RM	25,361	29,819	30,695	31,500	31,396	23.8	(0.3)	30,856	28,291	9.1
Staff Cost	928	1,361	1,141	1,147	1,371	47.7	19.5	1,253	1,400	(10.5)
Other exp.	1,958	2,354	2,442	2,520	2,447	24.9	(2.9)	2,441	3,010	(18.9)
EBIDTA	8,371	8,369	9,117	8,949	9,080	8.5	1.5	8,885	9,088	(2.2)

Source: Company, Emkay Research

APAT – marginally ahead of our est.

Adjusted net profits at Rs 6.75bn were marginally above our est. of Rs 6.6bn primarily due to better operating performance and slightly lower tax rate. The company reported one time gain of Rs 8.3bn representing surplus on prepayment of sales tax deferral loan. Company had a payment of Rs 3.7bn. it also recorded diminution in value of its investment in Indonesia (Rs 1bn).

Valuations and View

At Rs 1,287, the stock trades at PER of 12.1x and EV/EBIDTA of 7.8x our FY12 estimates respectively. Even after lowering the earnings for DEP impact (~10%), the stock trades at a PER of 13.5x and EV/EBIDTA of 9x our FY12 estimate. We would revise our earnings estimates post discussion in tomorrow's conference call. Key risk arises from below than expected volumes given the disappointing domestic performance in last 2 months.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11P	FY12E
Net Sales	87,556	118,637	166,094	196,565
Growth (%)	(2.2)	35.5	40.0	18.3
Expenditure	76,183	93,284	132,239	157,696
Materials Consumed	64,635	80,704	117,979	141,058
Employee Cost	3,544	3,995	4,771	5,486
Other Exp	8,004	8,585	9,490	11,152
EBITDA	11,373	25,353	33,855	38,869
Growth (%)	(5.2)	122.9	33.5	14.8
EBITDA margin (%)	13.0	21.4	20.4	19.8
Depreciation	1,298	1,365	1,230	1,422
EBIT	10,075	23,989	32,625	37,447
EBIT margin (%)	11.5	20.2	19.6	19.1
Other Income	1,767	1,798	3,671	4,712
Interest expenses	210	60	20	5
PBT	11,632	25,726	36,276	42,154
Tax	3,016	7,075	10,110	11,255
Effective tax rate (%)	25.9	27.5	27.9	26.7
Adjusted PAT	8,616	18,651	26,166	30,899
Growth (%)	0.4	116.5	40.3	18.1
Net Margin (%)	9.8	15.7	15.8	15.7
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JV's/Ass/MI	8,616	18,651	26,166	30,899
E/O items	(2,051)	(1,615)	7,250	-
Reported PAT	6,565	17,036	33,416	30,899
Growth (%)	(13.2)	159.5	96.1	(7.5)

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11P	FY12E
PBT (Ex-Other income)	9,865	23,929	32,605	37,442
Depreciation	1,298	1,365	1,230	1,422
Interest Provided	210	60	20	5
Other Non-Cash items	(3,886)	(2,170)	5,981	-
Chg in working cap	(345)	11,263	2,638	4,802
Tax paid	(3,016)	(7,075)	(10,110)	(11,255)
Operating Cashflow	4,126	27,371	32,364	32,416
Capital expenditure	(3,428)	(485)	(1,544)	(1,966)
Free Cash Flow	697	26,886	30,821	30,450
Other income	1,767	1,798	3,671	4,712
Investments	(426)	(22,949)	(7,737)	(18,000)
Investing Cashflow	1,341	(21,151)	(4,066)	(13,288)
Equity Capital Raised	-	-	1,447	-
Loans Taken / (Repaid)	2,357	(2,314)	(10,134)	(1,000)
Interest Paid	(210)	(60)	(20)	(5)
Dividend paid (incl tax)	(3,724)	(6,749)	(13,497)	(16,214)
Income from investments				
Others	347	3,033		
Financing Cashflow	(1,230)	(6,090)	(22,204)	(17,219)
Net chg in cash	808	(355)	4,550	(57)
Opening cash position	561	1,369	1,014	5,565
Closing cash position	1,369	1,014	5,565	5,508

Source: Emkay Research

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11P	FY12E
Equity share capital	1,447	1,447	2,894	2,894
Reserves & surplus	17,250	27,837	46,209	60,894
Net worth	18,697	29,283	49,102	63,787
Minority Interest	-	-	-	-
Secured Loans	-	130	-	-
Unsecured Loans	15,700	13,256	3,252	2,252
Loan Funds	15,700	13,386	3,252	2,252
Net deferred tax liability	42	17	297	297
Total Liabilities	34,439	42,686	52,651	66,336
Gross Block	33,502	33,793	35,496	37,462
Less: Depreciation	18,079	18,997	20,227	21,649
Net block	15,423	14,796	15,270	15,813
Capital work in progress	221	415	255	255
Investment	18,084	40,215	47,952	65,952
Current Assets	23,253	15,838	28,726	32,635
Inventories	3,388	4,462	5,473	6,507
Sundry debtors	3,587	2,728	3,628	4,313
Cash & bank balance	1,369	1,014	5,565	5,508
Loans & advances	13,652	6,574	11,896	14,143
Other current assets	1,257	1,060	2,164	2,164
Current lia & Prov	24,376	28,579	39,553	48,321
Current liabilities	12,134	20,263	24,267	30,243
Provisions	12,242	8,316	15,287	18,078
Net current assets	(1,123)	(12,740)	(10,828)	(15,686)
Misc. exp	1,833	-	2	2
Total Assets	34,438	42,686	52,651	66,336

Key Ratios

Y/E, Mar	FY09	FY10	FY11P	FY12E
Profitability (%)				
EBITDA Margin	13.0	21.4	20.4	19.8
Net Margin	9.8	15.7	15.8	15.7
ROCE	38.2	68.5	76.1	70.9
ROE	40.1	73.8	66.8	54.7
RoIC	88.5	343.4	-	-
Per Share Data (Rs)				
EPS	29.8	64.5	90.4	106.8
CEPS	34.3	69.2	94.7	111.7
BVPS	58.3	101.2	169.7	220.4
DPS	11.0	20.0	40.0	48.1
Valuations (x)				
PER	43.2	20.0	14.2	12.1
P/CEPS	37.6	18.6	13.6	11.5
P/BV	22.1	12.7	7.6	5.8
EV / Sales	3.7	3.1	2.2	1.7
EV / EBITDA	32.4	13.6	9.5	7.8
Dividend Yield (%)	0.9	1.6	3.1	3.7
Gearing Ratio (x)				
Net Debt/ Equity	0.2	(0.7)	(0.9)	(1.0)
Net Debt/EBITDA	(3.9)	0.0	(0.4)	(0.9)
Working Cap Cycle (days)	(21.5)	(40.2)	(33.3)	(36.1)

Recommendation History: Bajaj Auto Limited – BJAUT IN

Date	Reports	Reco	CMP	Target
20/01/2011	Bajaj Auto Q3FY11 Result Update	Buy	1,297	1,650
25/10/2010	Bajaj Auto Q2FY11 Result Update	Accumulate	1,486	1,710
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
11/05/2011	Apollo Tyres Q4FY11 Result Update	Reduce	71	70
09/05/2011	Eicher Motor Q1CY11 Result Update	Accumulate	1,158	1,505
04/05/2011	Hero Honda Q4FY11 Result Update	Hold	1,600	1,775
03/05/2011	TVS Motor Q4FY11 Result Update	Accumulate	56	72

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