

Exports to drive performance, Maintain BUY

January 20, 2012

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 1,558	Rs 1,920

EPS change FY12E/13E (%)	(1.5)/(4.9)
Target Price change (%)	(13)
Nifty	5,049
Sensex	16,739

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(4)	8	20
Rel. to Nifty	(10)	(3)	20	36

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	1,822/1,190
Market Cap (Rs bn/USD mn)	451/8,937
Daily Avg Volume (No of sh)	606535
Daily Avg Turnover (US\$m)	19.0

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	50.0	50.0	50.0
FII/NRI	16.6	16.4	16.3
Institutions	8.5	8.3	8.1
Private Corp	8.6	8.8	8.7
Public	16.3	16.4	16.9

Source: Capitaline

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- Results above est. with EBITDA at Rs 10.6bn (est of Rs 10.3bn and APAT at Rs 8.4bn (our est of 8.1bn)
- Momentum in exports to continue in FY13, outlook for domestic two wheelers subdued. FY13 exports hedged at a base rate of USD/INR of 47
- Lower our FY13 dom. volumes growth to ~9%YoY (vs ~13% earlier) and maintain exports at ~16%YoY in FY13. Factor in USD/INR at 49.5. Lower our FY13E EPS by ~5% to Rs 123.7
- Retain BUY, Lower our target multiple by 10% to PER/EV-EBIDTA of 15.5x/10.2x as performance will be driven by exports

Net Sales – Marginally above est.

Net sales at Rs 50.6bn (21% YoY, -4% QoQ) was marginally above our est. of Rs 50bn. Average selling price (ASP) was at Rs 45,004 (6% YoY, 4% QoQ) marginally higher than our est. Significant increase was seen in export ASP's at Rs 44,892 (~18%YoY/10% QoQ). ASPs benefited from favorable currency, price hikes of ~3.5% QoQ taken in export markets and ~1% QoQ in domestic market taken during the quarter.

Product mix %	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Motorcycles	88.6	88.2	88.1	88.3	88.0
Three-Wheelers	11.4	11.8	11.9	11.7	12.0
Total	100.0	100.0	100.0	100.0	100.0
Exports	31.3	29.1	39.1	36.4	35.4
Domestic	68.7	70.9	60.9	63.6	64.6
Units Sold	946,850	948,195	1,092,815	1,164,137	1,075,441

Source: SIAM, Emkay research

Product mix %	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Domestic					
Economy	9%	10%	10%	11%	13%
Executive	32%	35%	33%	32%	29%
Premium	22%	20%	14%	16%	18%
3 Wheelers	5%	6%	4%	5%	5%
Exports	31%	29%	39%	36%	35%

Source: CRISIL, SIAM, Industry, Emkay research

EBIDTA Margins surprise positively at 21% (our est. 20.7%)

EBITDA was at Rs 10.6bn ~2% above our est. of Rs 10.3bn. This was largely led by lower other expenses and marginally better topline. Other expenses came at Rs 3bn vs our est. of Rs 3.1bn. RM/sales was in line with our est. at ~70.4%. Staff costs at Rs 1.3 bn (~2.5% of sales) was also in line with our estimate.

Financial Snapshot (Standalone)

(Rs mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY10	118,637	25,353	21.4	18,651	64.5	116.5	73.8	24.2	16.7	15.4
FY11	165,148	33,178	20.1	26,422	91.3	41.7	85.2	17.1	12.1	9.2
FY12E	197,199	38,972	19.8	32,045	110.7	21.3	53.7	14.1	9.8	7.1
FY13E	225,639	45,462	20.1	35,793	123.7	11.7	49.7	12.6	7.9	5.6

Quarterly Summary

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	41,771	42,000	47,773	52,673	50,632	21.2	(3.9)	151,077	124,090	21.7
Expenditure	33,298	33,270	38,665	42,099	40,018	20.2	(4.9)	120,781	98,725	22.3
<i>as % of sales</i>	<i>79.7</i>	<i>79.2</i>	<i>80.9</i>	<i>79.9</i>	<i>79.0</i>			<i>79.9</i>	<i>79.6</i>	
Consumption of RM	29,826	29,770	34,665	37,616	35,636	19.5	(5.3)	107,916	88,220	22.3
<i>as % of sales</i>	<i>71.4</i>	<i>70.9</i>	<i>72.6</i>	<i>71.4</i>	<i>70.4</i>			<i>71.4</i>	<i>71.1</i>	
Employee Cost	1,086	1,180	1,389	1,311	1,320	21.6	0.7	4,020	3,491	15.1
<i>as % of sales</i>	<i>2.6</i>	<i>2.8</i>	<i>2.9</i>	<i>2.5</i>	<i>2.6</i>			<i>2.7</i>	<i>2.8</i>	
Other expenditure	2,386	2,320	2,611	3,173	3,061	28.3	(3.5)	8,845	7,014	26.1
<i>as % of sales</i>	<i>5.7</i>	<i>5.5</i>	<i>5.5</i>	<i>6.0</i>	<i>6.0</i>			<i>5.9</i>	<i>5.7</i>	
EBITDA	8,473	8,730	9,108	10,574	10,614	25.3	0.4	30,296	25,364	19.4
Depreciation	310	300	306	314	321	3.7	2.3	942	928	1.5
EBIT	8,163	8,430	8,802	10,260	10,293	26.1	0.3	29,354	24,437	20.1
Other Income	995	1,010	731	745	908	(8.7)	21.9	2,384	2,648	(10.0)
Interest	4	-	2	2	0		(91)	5	16	(71.3)
PBT	9,154	9,440	9,531	11,002	11,201	22.4	1.8	31,733	27,069	17.2
Total Tax	2,503	2,570	2,420	2,827	2,808	12.2	(0.7)	8,055	7,587	6.2
Adjusted PAT	6,651	6,870	7,111	8,175	8,393	26.2	2.7	23,679	19,481	21.5
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-			-	-	
Adj. PAT after MI	6,651	6,870	7,111	8,175	8,393	26.2	2.7	22,321	19,374	15.2
Extra ordinary items	-	7,130	-	(917)	(441)			(1,358)	(108)	
Reported PAT	6,651	14,000	7,111	7,258	7,952	19.6	9.6	22,321	19,374	15.2
Reported EPS	23.0	48.4	24.6	25.1	27.5	19.6	9.6	77.1	67.0	15.2

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	20.3	20.8	19.1	20.1	21.0	68	89	20.1	20.4	(39)
EBIT	19.5	20.1	18.4	19.5	20.3	79	85	19.4	19.7	(26)
EBT	21.9	22.5	19.9	20.9	22.1	21	123	21.0	21.8	(81)
PAT	15.9	16.4	14.9	15.5	16.6	65	106	15.7	15.7	(3)
Effective Tax rate	27.3	27.2	25.4	25.7	25.1	(228)	(63)	25.4	28.0	(265)

Per Vehicle						YoY(%)	QoQ(%)			YoY(%)
Revenue	44,116	44,295	43,715	45,246	47,080	6.7	4.1	69,677	66,175	5.3
- Domestic	44,542	44,545	43,563	44,777	45,066	1.2	0.6			
- Exports	38,160	38,319	39,498	40,860	44,892	17.6	9.9			
RM	31,500	31,396	31,720	32,312	33,136	5.2	2.6	49,771	47,046	5.8
Staff Cost	1,147	1,244	1,271	1,126	1,228	7.0	9.0	1,854	1,862	(0.4)
Other exp.	2,520	2,447	2,389	2,725	2,846	13.0	4.4	4,079	3,741	9.1
EBITDA	8,949	9,207	8,335	9,083	9,869	10.3	8.7	13,973	13,526	3.3

Source: Company, Emkay Research

APAT at Rs 8.4 bn vs our est. of Rs 8.1 bn

Adjusted net profits at Rs 8.4 bn (~4% above est.) benefited from higher other income and lower tax rate. Other income came at Rs 908 mn vs our est. of Rs 819mn. Effective tax rate at ~25.1% was lower than our est. of 25.7%. However, depreciation expense at Rs 321 mn was higher than our est. of Rs 287mn.

Company has received an NCCD claim of Rs 778 mn from govt. for sales from Pantnagar which is under dispute. Hence, no provision has been made for the same.

Revision in estimates

We lower our volume estimates by ~3%/5% in FY12/13 to 4.4 mn/4.9 mn units as we factor in lower growth for domestic market. We expect ~9% growth in domestic market (vs ~13% earlier) and ~16% growth in export market in FY13 for Bajaj Auto. We revise our forex (USD/INR) assumption to 49.5 vs 47 earlier. We lower our EBITDA margins by ~60bps/~50 bps to 19.8%/20.1% in FY12/13 due to higher input cost pressures and increased competitive intensity in domestic market. Thus, we lower our FY12/FY13 EPS estimate by 1.5%/4.9% to Rs 110.7/Rs 123.7.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	4,507,619	4,376,054	(2.9)	5,136,156	4,885,248	(4.9)
Sales	201,056	197,199	(1.9)	233,410	225,639	(3.3)
EBIDTA	40,924	38,972	(4.8)	48,066	45,462	(5.4)
EBIDTA margins (%)	20.4	19.8		20.6	20.1	
Net Profits	32,538	32,045	(1.5)	37,638	35,793	(4.9)
EPS	112.4	110.7	(1.5)	130.1	123.7	(4.9)

Source: Emkay Research

Valuations and View

At Rs1,558 the stock trades at PER of 14.1x/12.6x and EV/EBIDTA of 9.8x/7.9x our FY12/13 estimates respectively. Given the high cash flow generation and strong ROCE of above >60%, we find stock attractive. However, given the fact that exports will be the key driver of performance in the near term, we are lowering our target multiple by 10% to 15.5x/10.2x PER / EV – EBIDTA. We retain our BUY rating on the stock but lower our TP to Rs 1,920.

Key extracts from conference call

- Domestic industry outlook: Expect industry growth to remain subdued. Beginning of marriage season from April/May 2012 to provide impetus to FY13 volumes and could set the trend. Long term outlook for the industry remains favorable with industry expected to grow at ~12% CAGR for the next 3-5 years.
- New launches: KTM model to be launched on Jan 24. Maintain its strategy of focusing on current brands. New launches to be variants of existing brands. Boxer performance below expectations. Dealer feedback revealed lack of awareness at customer level rather than concern with the product.
- Export outlook: Demand remains robust. Expect to sustain the strong momentum in FY13 (~30% YoY in FY12). Africa to remain the key driver.
- Forex hedges: Hedged most of Q4 exposure and ~70% of estimated FY13 exports. Newer range forwards are obtained at 47-51 vs 47-49 earlier.
- Export benefits: Benefits higher this quarter due to higher incentives which include 5.5% duty drawback, 4% FMS (excluding Sri Lanka, Bangladesh and Philippines), 1% govt. incentive (does not include 3 wheelers) and price hike of 3.5% in export market. Can consider passing on the incremental 1% benefit to consumers in terms of higher ad spend etc.
- Commodity costs: Expect costs to remain stable in rupee terms. Do not see any benefit/ disadvantage in Q4 vs Q3.
- Competitive intensity: Do not expect a scenario of price war due to aggressive competition. Price sanctity to prevail.
- RE60: Operating dynamics favorable vs 3 wheelers. Can deliver mileage of 35km to litre as compared to 15-18km to litre for 3 wheelers. Majority of the parts including engine are different from 3 wheeler. However, vendor base for sourcing remains the same. Volume ramp up would depend on government initiatives as 3 wheeler permit and driving license are not applicable for RE60.
- 3 Wheelers: Release of new permits is very erratic. Decisions to release permits in Karnataka and Delhi taken 3-6 months back are yet to be implemented. However, expect to maintain the current run rate of 18,000 to 19,000 volumes per month even in absence of new permits.
- VAT refund: VAT refund from govt. for Q2 and Q3 of Rs 2.9bn and Rs 2.6bn have not been received yet. Thus, other income was subdued as cash on books was at Rs 47 bn as compared to Rs 50bn.
- Advertisement spends: Not expected to go up significantly. Would depend on requirement and nothing budgeted currently. Focus is largely on exports, particularly Africa.

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	118,637	165,148	197,199	225,639
Growth (%)	35.5	39.2	19.4	14.4
Expenditure	93,284	131,970	158,227	180,177
Materials Consumed	80,704	117,988	141,111	160,902
Employee Cost	3,995	4,648	5,389	6,367
Other Exp	8,585	9,334	11,727	12,908
EBITDA	25,353	33,178	38,972	45,462
Growth (%)	122.9	30.9	17.5	16.7
EBITDA margin (%)	21.4	20.1	19.8	20.1
Depreciation	1,365	1,228	1,292	1,411
EBIT	23,989	31,950	37,680	44,051
EBIT margin (%)	20.2	19.3	19.1	19.5
Other Income	1,798	4,599	4,715	6,365
Interest expenses	60	17	5	3
PBT	25,726	36,532	42,390	50,412
Tax	7,075	10,110	10,344	14,620
Effective tax rate (%)	27.5	27.7	24.4	29.0
Adjusted PAT	18,651	26,422	32,045	35,793
Growth (%)	116.5	41.7	21.3	11.7
Net Margin (%)	15.7	16.0	16.3	15.9
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	18,651	26,422	32,045	35,793
E/O items	(1,615)	6,976	(1,823)	-
Reported PAT	17,036	33,397	30,222	35,793
Growth (%)	159.5	96.0	(9.5)	18.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	23,929	31,933	37,675	44,048
Depreciation	1,365	1,228	1,292	1,411
Interest Provided	60	17	5	3
Other Non-Cash items	(2,170)	(5,568)	(1,823)	-
Chg in working cap	11,263	2,638	4,926	3,061
Tax paid	(7,075)	(10,110)	(10,344)	(14,620)
Operating Cashflow	27,371	20,137	31,730	33,903
Capital expenditure	(485)	(443)	(1,972)	(2,256)
Free Cash Flow	26,886	19,695	29,758	31,647
Other income	1,798	4,599	4,715	6,365
Investments	(22,949)	(15,123)	(15,000)	(15,000)
Investing Cashflow	(21,151)	(10,524)	(10,285)	(8,635)
Equity Capital Raised	-	(0)	-	-
Loans Taken / (Repaid)	(2,314)	(10,134)	(765)	(1,000)
Interest Paid	(60)	(17)	(5)	(3)
Dividend paid (incl tax)	(6,749)	(13,452)	(15,806)	(18,720)
Income from investments				
Others	3,033	14,984		
Financing Cashflow	(6,090)	(8,620)	(16,576)	(19,723)
Net chg in cash	(355)	551	2,897	3,289
Opening cash position	1,369	1,014	5,565	8,462
Closing cash position	1,014	1,565	8,462	11,750

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	60,624	77,698
Net worth	29,283	49,102	63,518	80,591
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	66,302	82,375
Gross Block	33,793	33,952	35,924	38,180
Less: Depreciation	18,997	19,125	20,416	21,827
Net block	14,796	14,827	15,507	16,353
Capital work in progress	415	699	699	699
Investment	40,215	47,952	62,952	77,952
Current Assets	15,838	28,726	35,657	40,265
Inventories	4,462	5,473	6,538	7,488
Sundry debtors	2,728	3,628	4,334	4,963
Cash & bank balance	1,014	5,565	8,462	11,750
Loans & advances	6,574	11,896	14,159	13,899
Other current assets	1,060	2,164	2,164	2,164
Current lia & Prov	28,579	39,553	48,513	52,893
Current liabilities	20,263	24,267	30,345	32,086
Provisions	8,316	15,286	18,168	20,806
Net current assets	(12,740)	(10,827)	(12,856)	(12,628)
Misc. exp	-	-	-	-
Total Assets	42,686	52,651	66,302	82,375

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	21.4	20.1	19.8	20.1
Net Margin	15.7	16.0	16.3	15.9
ROCE	68.5	76.7	71.3	67.8
ROE	73.8	85.2	53.7	49.7
RoIC	343.4	(12,215.6)	(1,021.9)	(636.8)
Per Share Data (Rs)				
EPS	64.5	91.3	110.7	123.7
CEPS	69.2	95.6	115.2	128.6
BVPS	101.2	169.7	219.5	278.5
DPS	20.0	40.0	47.0	55.7
Valuations (x)				
PER	24.2	17.1	14.1	12.6
P/CEPS	22.5	16.3	13.5	12.1
P/BV	15.4	9.2	7.1	5.6
EV / Sales	3.8	2.7	2.1	1.8
EV / EBITDA	16.7	12.1	9.8	7.9
Dividend Yield (%)	1.3	2.6	3.0	3.6
Gearing Ratio (x)				
Net Debt/ Equity	(0.7)	(0.8)	(0.9)	(1.0)
Net Debt/EBITDA	0.0	(0.4)	(1.0)	(1.1)
Work Cap Cycle (days)	(40.2)	(33.5)	(36.0)	(31.8)

Recommendation History: Bajaj Auto Limited – BJAUT IN

Date	Reports	Reco	CMP	Target
23/11/2011	Bajaj Auto Company Update	Buy	1,600	2,200
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210
20/10/2011	Bajaj Auto Q2FY12 Result Update First Cut	Accumulate	1,367	1,950
07/09/2011	Auto Sector Report Cruising through barriers			

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/12/2011	Balkrishna Management Meet Update	Not Rated	160	NA
12/12/2011	Auto Sector Tractors Eying new highs			
18/11/2011	Maruti Suzuki Company Update	Reduce	948	900
15/11/2011	Mahindra & Mahindra Q2FY12 Result Update	Buy	790	930

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