

Bajaj Auto (BAAUTO)

₹ 1561

WHAT'S CHANGED...

| | |
|--------------------|---------------------------------|
| PRICE TARGET | Changed from ₹ 1537 to ₹ 1460 |
| EPS (FY12E) | Changed from ₹ 104.0 to ₹ 103.6 |
| EPS (FY13E) | Changed from ₹ 109.8 to ₹ 112.3 |
| RATING | Unchanged |

Not thrilled! Core growth remains fragile...

Bajaj Auto (BAL) reported its Q3FY12 numbers with sales coming in above our estimate at ₹ 5,063.2 crore (I-direct estimate: ₹ 4,967.9 crore) a 21.2% YoY jump. It was driven by a mix of volume growth (up 13.6% YoY) at 1.07 million units and higher realisation/unit (up 5.0% YoY) to ₹ 47,276. BAL had hiked prices ~3.5% to offset the DEPB impact coupled with benefits arising from a depreciating rupee as average USD rate for the quarter was higher 3.3% QoQ at ₹ 49.4. RM cost as proportion to sales declined 103 bps QoQ as EBITDA margins got enhanced to 21.0% (up ~90 bps QoQ). Reported PAT was ahead of our estimates at ~₹ 795.2 crore (I-direct estimate: ₹ 788.0 crore), a jump of 19.2% YoY. However, we will analyse beyond these numbers further in the report.

Highlights of the quarter

Bajaj Auto's overall volume growth of 13.6% YoY was led by three wheeler growth of 18.8% YoY and motorcycle volume growth of 12.9% YoY. Although the export volume growth is robust at 28.4% YoY, we remain cautious on the domestic growth front as early signs of an industry wide slowdown have started creeping in. The weak domestic market performance is reflected in a QoQ dip of 7.6% with overall domestic sales in December sliding below the 2 lakh unit mark for the first time in FY12. Bajaj Auto had previously undertaken a price hike across its export segment to cover the impact of DEPB. The recently launched Boxer-150 cc has not met expectations with BAL looking at repositioning the same. The management expects Q4FY12 industry growth to slide down to ~5-6% and does not expect a "V-shaped" rebound for the same in FY13 in line with our bearish stance for the segment.

Valuation

We believe BAL's domestic volume growth is under serious threat as witnessed in the last couple of months and exports have been the only shining light. On exports also, we believe competition from Honda and Hero MotoCorp would be stiff. Any appreciation of the rupee could impact our estimates negatively. At the CMP of ₹ 1,561, the stock is trading at 13.7x FY13E EPS. We have valued the stock at 13.9x FY13E EPS to arrive at a target price ₹ 1,460. We maintain our **HOLD** rating on BAL.

Exhibit 1: Valuation Metrics

| (₹ Crore) | Q3FY12 | Q3FY12E | Q3FY11 | Q2FY12 | QoQ (Chg %) | YoY (Chg %) |
|-------------------|---------|---------|---------|---------|-------------|-------------|
| Net Sales | 5,063.2 | 4,967.9 | 4,177.1 | 5,267.3 | (3.9) | 21.2 |
| EBITDA | 1,061.4 | 1,014.7 | 849.3 | 1,057.4 | 0.4 | 25.0 |
| EBITDA Margin (%) | 21.0 | 20.4 | 20.3 | 20.1 | 89 bps | 63 bps |
| Depreciation | 32.1 | 34.4 | 31.0 | 39.4 | (18.5) | 3.6 |
| Other Income | 90.8 | 85.6 | 99.5 | 74.5 | 21.9 | (8.7) |
| Reported PAT | 795.2 | 788.0 | 667.1 | 725.8 | 9.6 | 19.2 |
| EPS (₹) | 27.5 | 27.2 | 23.1 | 25.1 | 9.6 | 19.2 |

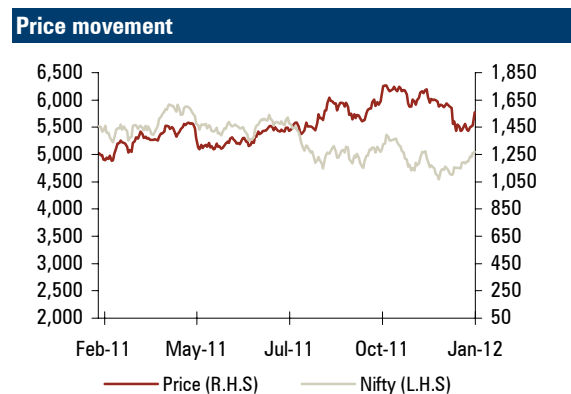
Source: Company, ICICIdirect.com Research

| Rating matrix | |
|------------------|---------------|
| Rating | : Hold |
| Target | : ₹ 1460 |
| Target Period | : 12 months |
| Potential Upside | : -6% |

| Key Financials | | | | |
|----------------|----------|----------|----------|----------|
| ₹ Crore | FY10 | FY11 | FY12E | FY13E |
| Net Sales | 11,810.6 | 16,441.9 | 19,914.5 | 21,823.3 |
| EBITDA | 2,482.2 | 3,217.8 | 4,018.1 | 4,264.0 |
| Net Profit | 1,702.7 | 3,339.9 | 2,999.2 | 3,249.1 |
| EPS (₹) | 58.8 | 115.4 | 103.6 | 112.3 |

| Valuation summary | | | | |
|-------------------|------|------|-------|-------|
| | FY10 | FY11 | FY12E | FY13E |
| P/E | 26.5 | 13.5 | 15.0 | 13.9 |
| Target P/E | 24.8 | 12.6 | 14.1 | 13.0 |
| EV / EBITDA | 17.0 | 12.4 | 9.4 | 8.6 |
| P/BV | 15.4 | 9.2 | 7.1 | 5.9 |
| RoNW(%) | 58.1 | 68.0 | 47.1 | 42.9 |
| RoCE(%) | 55.0 | 59.1 | 58.0 | 52.1 |

| Stock data | |
|-------------|---------------|
| Mcap | ₹45180.8crore |
| Debt (FY11) | ₹325.2crore |
| Cash (FY11) | ₹5351.7crore |
| EV | ₹45505.9crore |
| 52 week H/L | 1824 / 1169 |
| Equity cap | ₹289.4crore |
| Face value | ₹10 |
| MF Holding | 8.5% |
| FII Holding | 16.1% |



| Analyst's name | |
|----------------|----------------------------------|
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| Aman Daga | aman.daga@icicisecurities.com |

Segmental analysis

Two wheeler segment on dangerous terrain

Bajaj Auto's motorcycle segment or the core business has started to show varied signs of stress. The overall volume growth in Q3FY12 looks decent superficially at ~13% YoY at 0.95 million units. Volumes have been driven by higher export sales (rising ~27% YoY) to 3 lakh units, contribution rising ~353 bps YoY to ~32.1% of total motorcycles. As elucidated in the charts below, the domestic growth on a longer term basis has been weakest in the two-wheeler space for BAL. The management shares our pessimism towards two-wheeler industry growth and expects only ~5-6% growth in Q4FY12. Also, no sudden recovery in growth in FY13 also looks in sight.

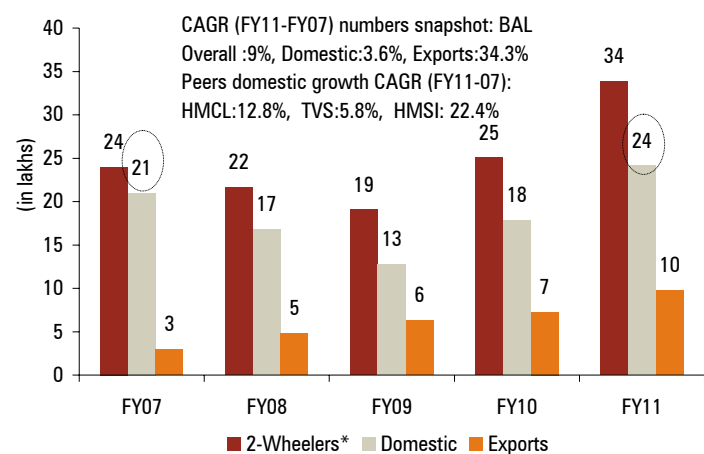
On product launches, the Boxer-150 cc, which was launched with "Bharat" or rural India in mind, has been below expectations as per the management with repositioning of the same is expected. BAL is also expected to launch two new products in FY13 of which the new "Pulsar" would be keenly watched.

Exhibit 2: Volume quarterly performance (nos)

| (in lakhs) | Q3FY12 | Q3FY11 | Q2FY12 | YoY (%) | QoQ(%) | YTD(%) |
|----------------------|--------|--------|--------|---------|----------|---------|
| Motorcycles | 9.5 | 8.4 | 10.3 | 12.9 | -7.9 | 15.2 |
| Domestic | 6.4 | 6.0 | 6.8 | 7.3 | -6.2 | 8.5 |
| Exports | 3.0 | 2.4 | 3.4 | 26.8 | -11.2 | 31.1 |
| Exports (% as sales) | 32.1 | 28.6 | 33.4 | 353 bps | -122 bps | |
| 3 Wheelers | 1.3 | 1.1 | 1.4 | 18.8 | -5.9 | 21.5 |
| Domestic | 0.5 | 0.5 | 0.6 | -1.4 | -12.1 | -0.5 |
| Exports | 0.8 | 0.6 | 0.8 | 38.0 | -1.2 | 40.4 |
| Exports (% as sales) | 59.5 | 51.2 | 56.6 | 830 bps | 286 bps | |
| Total | 10.8 | 9.5 | 11.6 | 13.6 | -7.6 | 15.9 |
| Total Exports | 3.8 | 2.9 | 4.2 | 31.4 | -10.2 | 32.8 |
| Exports (% as sales) | 35.4 | 30.6 | 36.4 | 482 bps | -101 bps | 472 bps |

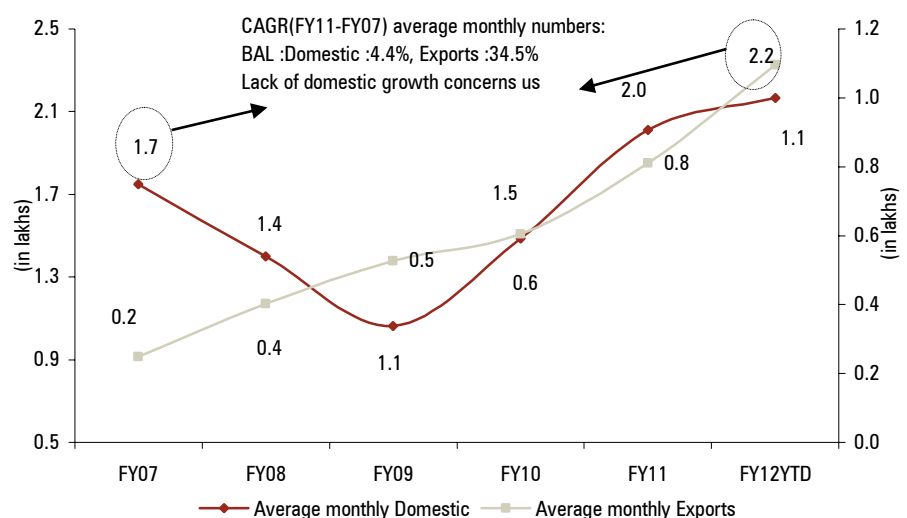
Source: Company, ICICIdirect.com Research

Exhibit 3: Domestic growth remains worst among all peers...



Source: Company, ICICIdirect.com Research * two-wheelers have some scooters

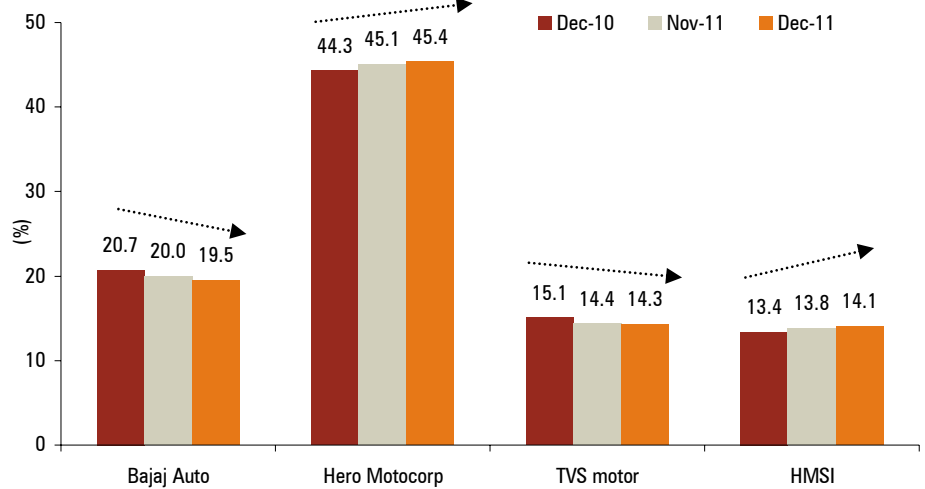
Exhibit 4: On average monthly basis also YTD FY12 remains weak as competition hots up!



Source: Company, ICICIdirect.com Research

On the exports front also, though the management remains bullish on repeating historical growth numbers we believe impediments to growth in the key market of Africa (~45% of total exports) with de-regulation in petrol prices in country like Nigeria (accounts for ~60% of African sales) could hurt the buying fervour. Also, another problem brewing for BAL is the aggressive export expansion plans of Hero MotoCorp. HMSI can very well provide a challenge in the underdeveloped African markets, which may be relatively price sensitive with similar quality products. There have been talks of a Honda 100 cc product, which could witness a sub-₹ 35,000 price tag in both exports and domestic market. This could be the first trigger for divergence for the ongoing "pricing discipline" followed in the industry by domestic players as MNC players start to chase market share.

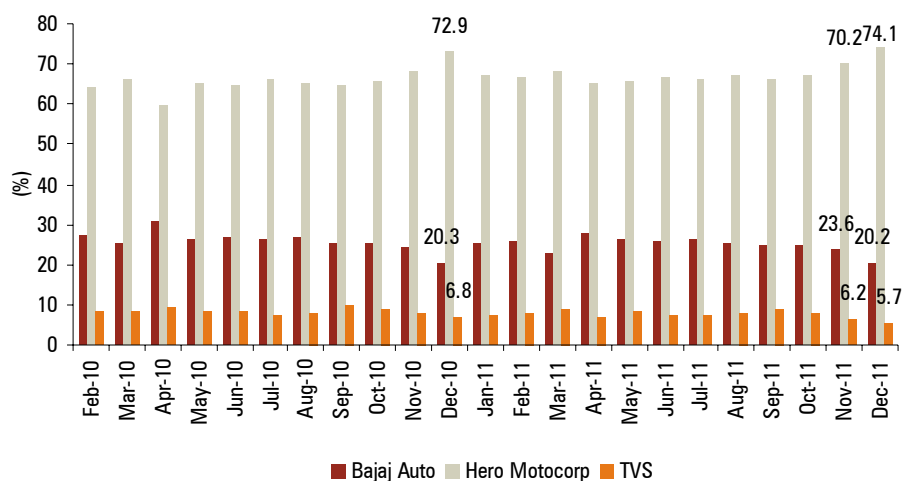
Exhibit 5: Domestic share movement in two-wheelers (%)



Source: SIAM

Hero MotoCorp continued to maintain its stronghold in the executive motorcycle segment by gaining market share to the tune of 395 bps on a sequential basis to 74.1%. Bajaj Auto and TVS lost market share of 340 bps and 55 bps MoM, respectively

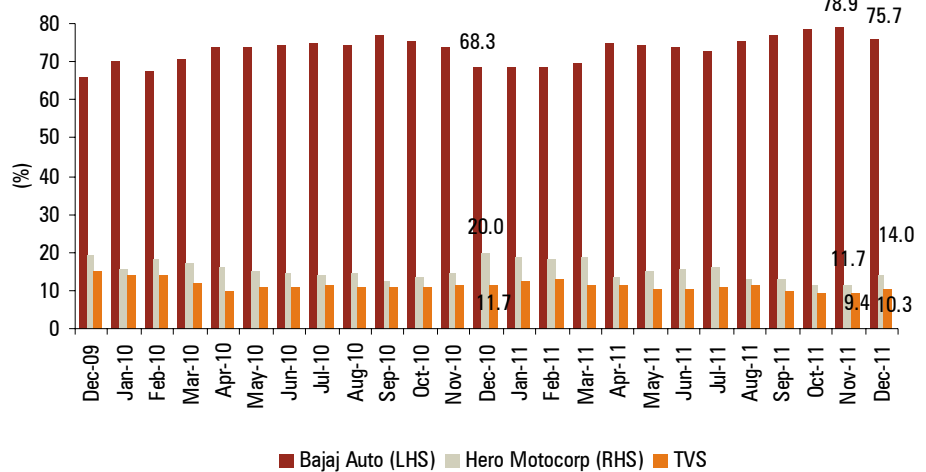
Exhibit 6: Market share movement in executive motorcycle segment* in domestic market (%)



Source: SIAM* considering only top three 2-wheeler OEM's, with sub 125cc

Bajaj Auto lost ground to its competitors in the premium segment with market share sliding 321 bps MoM. Hero MotoCorp and TVS witnessed market share expansion of 234 bps and 87 bps, respectively

Exhibit 7: Market share movement in greater than 125 cc segment* in domestic market (%)



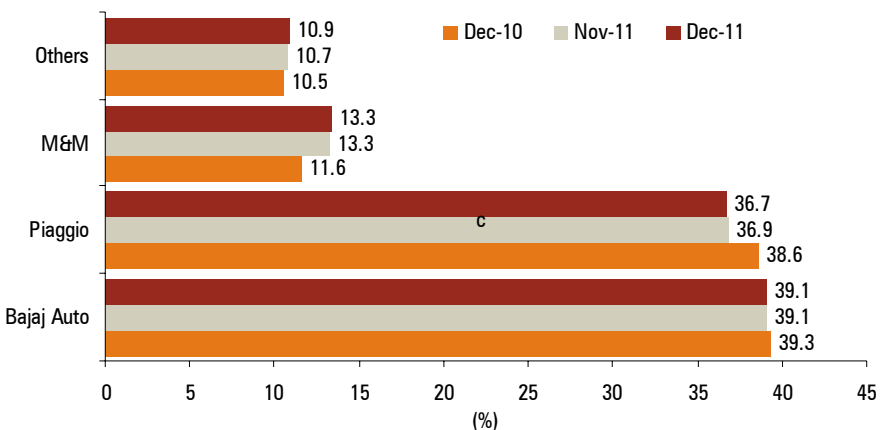
Source: SIAM* considering only top three 2-wheeler OEM's

■ **Three wheelers comforts but for how long?**

The three-wheeler segment is again a similar story with a different flavour. The overall growth in terms of volumes has been healthy at ~19% at 1.3 lakh units. However, again the non-existent domestic growth is turning out to be a concern even as exports remain strong (refer Exhibit: 2). The domestic slowdown has been due to lack of any fresh issuances in licenses for the segment. The potential for growth in exports in the focused markets remains high. We expect better growth in terms of exports of three-wheelers rather than motorcycles.

The newly launched "RE-60" branded as a "four wheeler and not a car" would have to go through a series of regulatory clearances from RTO and state transport departments at various levels to be categorised as an alternative to public transportation on three-wheels. This may be a significant challenge as government inaction remains high in even more grave areas and such clearances may take longer to fructify than the market expects. However, on a segmental level we continue to believe three-wheelers with its 30% plus margins would provide a decent buffer for BAL.

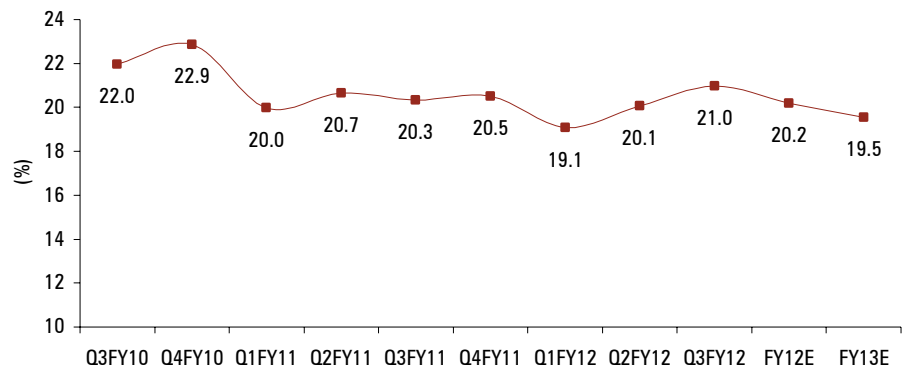
Exhibit 8: Quarterly market share movement in domestic three wheelers (%)



Source: SIAM

BAL's margin rise to 21% has been strongly aided by currency depreciation and improving export realisations. However, with INR showing some early signs of strength such a trend could swiftly reverse

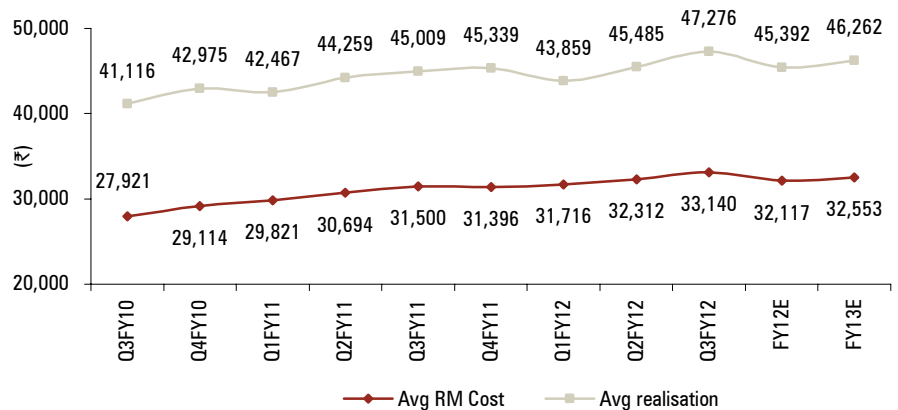
Exhibit 9: EBITDA margins trend



Source: Company, ICICIdirect.com Research

BAL has faced pressures in the domestic market with lesser Pulsar sales (above 125 cc). However, exports have benefited the overall growth in average selling price (ASPs). Costs also have been hurt due to the currency impact and are expected to normalise in FY13E

Exhibit 10: Per vehicle metrics and estimates



Source: Company press release, ICICIdirect.com Research

Outlook & Valuation

The domestic two-wheeler industry has been a strong benefactor of latent demand for FY07-09. This, we believe, has got extinguished to a large extent. Going ahead, on a large base, incremental growth in the motorcycle business would be a challenge. The scooters segment, which has shown strong growth lately, has been due to the rise of a "new target audience" in terms of female working women and young kids that cannot be catered to by the motorcycle segment. Thus, we anticipate relatively better growth prospects in the short-term for this sub-segment.

Overall, the industry is expected to grow at ~11-13% in FY13E with unlisted players (MNCs) gaining and listed players lagging behind. We would also expect BAL to struggle to hold on to the growth premium with worsening domestic growth and higher competition in the African market.

BAL's domestic volume growth is under serious threat as witnessed in last couple of months and exports have been the only shining light. On exports also, we believe competition from Honda and Hero Moto would be stiff. Any appreciation of the rupee could impact our estimates negatively. Thus, BAL could struggle to keep hold of the "growth premium" with PEG hovering at 1.7x FY13E. At the CMP of ₹ 1,561, the stock is trading at 13.7x FY13E EPS. We have valued the stock at 13.9x

(discount to HMCL) FY13E EPS to arrive at a target price ₹ 1,460. The discount can be attributed to our belief that BAL faces serious growth risks on both the domestic and exports front. We maintain our **HOLD** rating on BAL with a downside of 6% on the stock.

Exhibit 11: Revised financial estimates

| (₹ crore) | FY12E | | | FY13E | | |
|----------------------|----------|---------|----------|----------|---------|----------|
| | Old | New | % Change | Old | New | % Change |
| Volumes ('000 units) | 4,395.0 | 4,367.4 | (0.6) | 4,877.9 | 4,763.9 | (2.3) |
| Revenue | 20,012.9 | 19914.5 | (0.5) | 22,146.1 | 21823.3 | (1.5) |
| EBITDA | 4,046.8 | 4018.1 | (0.7) | 4,318.6 | 4264.0 | (1.3) |
| EBITDA Margin % | 20.2 | 20.2 | -4 bps | 19.5 | 19.5 | 4 bps |
| PAT | 3,022.6 | 2999.2 | (0.8) | 3,185.5 | 3249.1 | 2.0 |
| EPS (₹) | 104.5 | 103.6 | (0.8) | 110.1 | 112.3 | 2.0 |

Source: Company press release, SIAM ICICIdirect.com Research

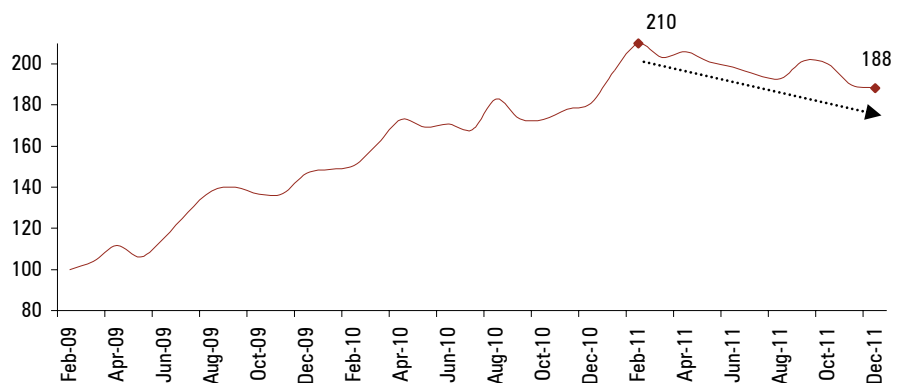
Exhibit 12: Valuation metrics

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY10 | 11810.6 | | 58.8 | | 26.5 | 17.0 | 58.1 | 55.0 |
| FY11 | 16441.9 | 39.2 | 115.4 | 96.2 | 13.5 | 12.4 | 68.0 | 59.1 |
| FY12E | 19914.5 | 21.1 | 103.6 | -10.2 | 15.0 | 9.4 | 47.1 | 58.0 |
| FY13E | 21823.3 | 9.6 | 112.3 | 8.3 | 13.9 | 8.6 | 42.9 | 52.1 |

Source: Company press release, ICICIdirect.com Research

The in-house raw material index reflects the combination of various input materials (steel, rubber, aluminium, plastics) for OEMs, which have been rebased with February 2009 as base year to 100. The chart shows the increasing trend in raw material prices causing concern for the industry

Exhibit 13: Auto raw material Index



Source: ICICIdirect.com Research

Financial summary

Profit and loss statement

| | (₹ Crore) | | | |
|-----------------------------|-----------|----------|----------|----------|
| (Year-end March) | FY10 | FY11 | FY12E | FY13E |
| Total operating Income | 12,043.5 | 16,975.0 | 20,238.4 | 22,208.1 |
| Growth (%) | 34.8 | 40.9 | 19.2 | 9.7 |
| Raw Material Expenses | 8,070.4 | 11,799.0 | 14,211.4 | 15,763.0 |
| Employee Expenses | 411.3 | 493.6 | 536.6 | 613.1 |
| Other expenses | 143.4 | 164.7 | 1,181.9 | 1,220.3 |
| Total Operating Expenditure | 9,328.4 | 13,224.2 | 15,896.4 | 17,559.4 |
| EBITDA | 2,715.1 | 3,750.9 | 4,342.0 | 4,648.7 |
| Growth (%) | 183.4 | 38.1 | 15.8 | 7.1 |
| Depreciation | 136.5 | 122.8 | 138.8 | 148.6 |
| Interest | 6.0 | 1.6 | 21.2 | 3.9 |
| Other Income | 232.9 | 533.1 | 323.9 | 384.7 |
| PBT | 2,411.1 | 4,351.0 | 4,027.8 | 4,576.2 |
| Total Tax | 707.5 | 1,011.0 | 1,028.6 | 1,327.1 |
| PAT | 1,702.7 | 3,339.9 | 2,999.2 | 3,249.1 |
| Growth (%) | 160.2 | 96.2 | -10.2 | 8.3 |
| EPS (₹) | 58.8 | 115.4 | 103.6 | 112.3 |

Source: Company, ICICIdirect.com Research

Balance sheet

| | (₹ Crore) | | | |
|---------------------------|-----------|----------|----------|---------|
| (Year-end March) | FY10 | FY11 | FY12E | FY13E |
| Liabilities | | | | |
| Equity Capital | 144.7 | 289.4 | 289.4 | 289.4 |
| Reserve and Surplus | 2,783.7 | 4,621.1 | 6,072.2 | 7,289.9 |
| Total Shareholders funds | 2,928.4 | 4,910.5 | 6,361.6 | 7,579.3 |
| Total Debt | 1,338.6 | 325.2 | 325.2 | 325.2 |
| Deferred Tax Liability | 191.8 | 197.7 | 227.7 | 257.7 |
| Total Liabilities | 4,458.8 | 5,433.3 | 6,914.4 | 8,162.1 |
| Assets | | | | |
| Gross Block | 3,379.3 | 3,391.0 | 3,641.0 | 3,891.0 |
| Less: Acc Depreciation | 1,899.7 | 1,912.5 | 2,051.2 | 2,199.9 |
| Net Block | 1,479.6 | 1,478.5 | 1,589.8 | 1,691.1 |
| Capital WIP | 41.5 | 69.9 | 69.9 | 69.9 |
| Total Fixed Assets | 1,521.1 | 1,548.4 | 1,659.6 | 1,761.0 |
| Investments | 4,021.5 | 4,795.2 | 5,795.2 | 6,995.2 |
| Inventory | 446.2 | 547.3 | 653.0 | 722.1 |
| Debtors | 239.5 | 362.8 | 441.9 | 482.9 |
| Loans and Advances | 657.4 | 1,189.6 | 801.8 | 1,380.5 |
| Cash | 101.4 | 556.5 | 1,978.7 | 1,656.4 |
| Total Current Assets | 2,325.3 | 1,583.8 | 2,872.6 | 4,098.0 |
| Creditors | 2,026.3 | 2,426.7 | 2,946.3 | 3,228.7 |
| Provisions | 831.6 | 1,528.6 | 1,855.9 | 2,033.8 |
| Total Current Liabilities | 2,437.6 | 2,857.9 | 3,955.3 | 4,802.2 |
| Net Current Assets | -112.3 | -1,274.1 | -1,082.6 | -704.2 |
| Application of Funds | 4,458.7 | 5,433.2 | 6,914.3 | 8,162.1 |

Source: Company, ICICIdirect.com Research

Cash flow statement

| | (₹ Crore) | | | |
|--------------------------------|-----------|----------|----------|----------|
| (Year-end March) | FY10 | FY11 | FY12E | FY13E |
| Profit after Tax | 1,702.7 | 3,339.9 | 2,999.2 | 3,249.1 |
| Add: Depreciation | 136.5 | 122.8 | 138.8 | 148.6 |
| (Inc)/dec in Current Assets | 706.0 | -833.7 | 196.8 | -720.4 |
| Inc/(dec) in CL and Provisions | 420.3 | 1,097.4 | 846.9 | 460.3 |
| CF from operating activities | 2,965.5 | 3,726.5 | 4,181.7 | 3,137.7 |
| (Inc)/dec in Investments | -2,213.0 | -773.7 | -1,000.0 | -1,200.0 |
| (Inc)/dec in Fixed Assets | -109.5 | -150.1 | -250.0 | -250.0 |
| Others | 197.1 | 23.7 | 38.6 | 21.4 |
| CF from investing activities | -2,125.4 | -900.1 | -1,211.4 | -1,428.6 |
| Inc/(dec) in loan funds | -231.4 | -1,013.4 | 0.0 | 0.0 |
| Dividend paid & dividend tax | -674.9 | -1,345.2 | -1,692.8 | -2,031.4 |
| Inc/(dec) in Sec. premium | - | - | - | - |
| CF from financing activities | -875.5 | -2,371.3 | -1,548.1 | -2,031.4 |
| Net Cash flow | -35.5 | 455.2 | 1,422.2 | -322.3 |
| Opening Cash | 136.9 | 101.4 | 556.5 | 1,978.7 |
| Closing Cash | 101.4 | 556.5 | 1,978.7 | 1,656.4 |

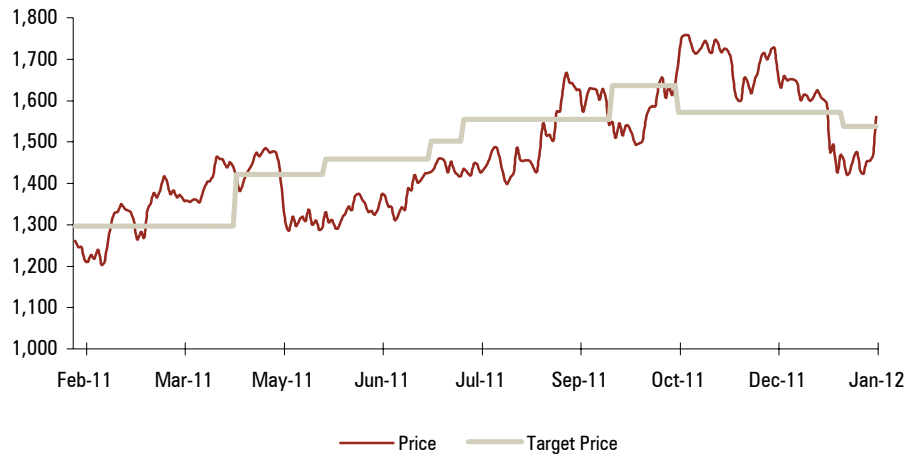
Source: Company, ICICIdirect.com Research

Key ratios

| (Year-end March) | FY10 | FY11 | FY12E | FY13E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 58.8 | 115.4 | 103.6 | 112.3 |
| Cash EPS | 63.6 | 119.7 | 108.4 | 117.4 |
| BV | 101.2 | 169.7 | 219.8 | 261.9 |
| DPS | 20.0 | 40.0 | 50.0 | 60.0 |
| Cash Per Share | 3.5 | 19.2 | 68.4 | 57.2 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 21.0 | 19.6 | 20.2 | 19.5 |
| PBT / Net sales | 20.4 | 26.5 | 20.2 | 21.0 |
| PAT Margin | 14.4 | 15.2 | 15.7 | 16.0 |
| Inventory days | 12.1 | 11.0 | 11.0 | 11.5 |
| Debtor days | 7.4 | 8.1 | 8.1 | 8.1 |
| Creditor days | 62.6 | 53.9 | 54.0 | 54.0 |
| Return Ratios (%) | | | | |
| RoE | 58.1 | 68.0 | 47.1 | 42.9 |
| RoCE | 55.0 | 59.1 | 58.0 | 52.1 |
| RoIC | 39.8 | 50.5 | 60.5 | 46.1 |
| Valuation Ratios (x) | | | | |
| P/E | 26.5 | 13.5 | 15.0 | 13.9 |
| EV / EBITDA | 17.0 | 12.4 | 9.4 | 8.6 |
| EV / Net Sales | 3.6 | 2.4 | 1.9 | 1.7 |
| Market Cap / Sales | 3.8 | 2.7 | 2.3 | 2.1 |
| Price to Book Value | 15.4 | 9.2 | 7.1 | 5.9 |
| Solvency Ratios | | | | |
| Current Ratio | 0.6 | 0.7 | 0.9 | 0.9 |
| Quick Ratio | 0.5 | 0.6 | 0.4 | 0.5 |

Source: Company, ICICIdirect.com Research

Exhibit 14: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 15: Recent Releases

| Date | Event | CMP | Target Price | Rating |
|-----------|----------------------|------|--------------|--------|
| 8-Apr-11 | Q4FY11 Preview | 1417 | 1422 | HOLD |
| 20-May-11 | Q4FY11 Result Update | 1331 | 1459 | BUY |
| 5-Jul-11 | Q1FY12 Preview | 1428 | 1502 | HOLD |
| 19-Jul-11 | Q1FY12 Result Update | 1435 | 1555 | BUY |
| 23-Sep-11 | Event Update | 1549 | 1636 | HOLD |
| 5-Oct-11 | Q2FY12 Preview | 1498 | 1636 | HOLD |
| 24-Oct-11 | Q2FY12 Result Update | 1694 | 1572 | HOLD |
| 6-Jan-12 | Q3FY12 Preview | 1457 | 1537 | HOLD |

Source: Company, ICICIdirect.com Research

ICICIdirect.com Research coverage universe (Auto OEMs)

| | | | | Sales (₹ cr) | EPS (₹) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) | |
|----------------------|--------|-----------|-------|--------------|----------|-------|----------|----------|----------|------|
| Tata Motors | | | | | | | | | | |
| Idirect Code | TELCO | CMP(₹) | 219 | FY10 | 92519.3 | 9.0 | 24.3 | 9.2 | 31.3 | 18.3 |
| | | Target(₹) | 241 | FY11 | 123133.3 | 29.1 | 7.5 | 4.9 | 46.0 | 24.2 |
| Mcap (₹cr) | 64657 | % Upside | 10.1 | FY12E | 156457.9 | 30.6 | 7.2 | 4.1 | 35.2 | 24.0 |
| | | | | FY13E | 173795.2 | 34.0 | 6.4 | 3.4 | 29.6 | 24.2 |
| Maruti Suzuki | | | | | | | | | | |
| Idirect Code | MARUTI | CMP(₹) | 1104 | FY10 | 28,958.5 | 88.2 | 12.5 | 7.3 | 24.1 | 31.7 |
| | | Target(₹) | 1140 | FY11 | 36,128.2 | 79.2 | 13.9 | 7.3 | 17.8 | 23.9 |
| Mcap (₹cr) | 31891 | % Upside | 3.3 | FY12E | 33,402.8 | 52.5 | 21.0 | 11.0 | 10.4 | 16.2 |
| | | | | FY13E | 39,629.0 | 84.4 | 13.1 | 7.8 | 14.8 | 24.2 |
| M&M | | | | | | | | | | |
| Idirect Code | MAHMAH | CMP(₹) | 657 | FY10 | 18602.1 | 35.9 | 13.3 | 13.9 | 31.9 | 25.8 |
| | | Target(₹) | 714 | FY11 | 23493.7 | 40.6 | 11.7 | 12.2 | 29.3 | 26.0 |
| Mcap (₹cr) | 40274 | % Upside | 8.7 | FY12E | 30088.8 | 43.4 | 11.0 | 11.1 | 24.3 | 24.3 |
| | | | | FY13E | 34000.8 | 48.5 | 9.8 | 9.4 | 23.6 | 25.1 |
| Bajaj Auto | | | | | | | | | | |
| Idirect Code | BAAUTO | CMP(₹) | 1,561 | FY10 | 12,043.5 | 58.8 | 26.5 | 17.0 | 58.1 | 55.0 |
| | | Target(₹) | 1,460 | FY11 | 16,975.0 | 115.4 | 13.5 | 12.4 | 68.0 | 59.1 |
| Mcap (₹cr) | 45181 | % Upside | -6.5 | FY12E | 20,238.4 | 103.6 | 15.1 | 9.4 | 47.1 | 58.0 |
| | | | | FY13E | 22,208.1 | 112.3 | 13.9 | 8.6 | 42.9 | 52.1 |
| Escorts | | | | | | | | | | |
| Idirect Code | ESCORT | CMP(₹) | 77 | SY10 | 2,764.7 | 13.4 | 5.7 | 2.3 | 7.9 | 8.9 |
| | | Target(₹) | 76 | SY11 | 3,252.1 | 11.8 | 6.5 | 2.9 | 6.7 | 6.3 |
| Mcap (₹cr) | 783 | % Upside | -0.4 | SY12E | 3,606.3 | 8.4 | 9.2 | 2.7 | 4.6 | 6.0 |
| | | | | SY13E | 3,927.3 | 12.6 | 6.1 | 1.8 | 6.5 | 8.3 |
| Hero MotoCorp | | | | | | | | | | |
| Idirect Code | HERHON | CMP(₹) | 1947 | FY10 | 19,669.3 | 111.8 | 17.4 | 12.4 | 64.4 | 70.0 |
| | | Target(₹) | 1824 | FY11 | 19,401.2 | 96.5 | 20.2 | 12.9 | 65.2 | 74.1 |
| Mcap (₹cr) | 38932 | % Upside | -6.3 | FY12E | 23,604.2 | 120.2 | 16.2 | 9.0 | 86.1 | 90.1 |
| | | | | FY13E | 25,775.6 | 130.3 | 14.9 | 8.2 | 92.4 | 97.0 |

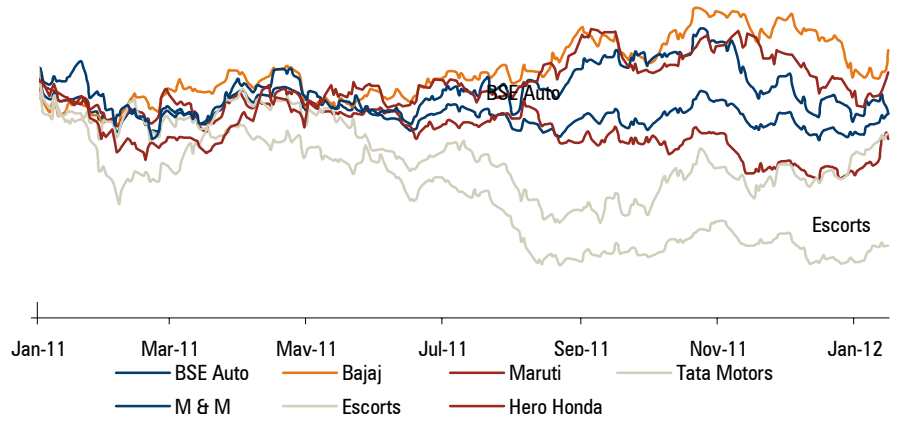
Source: Company, ICICIdirect.com Research

ICICIdirect.com Universe price movement vis-à-vis BSE Auto index

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since January 2011, Bajaj Auto and M&M have outperformed while Maruti Suzuki and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

Exhibit 16: OEM comparison with BSE Auto

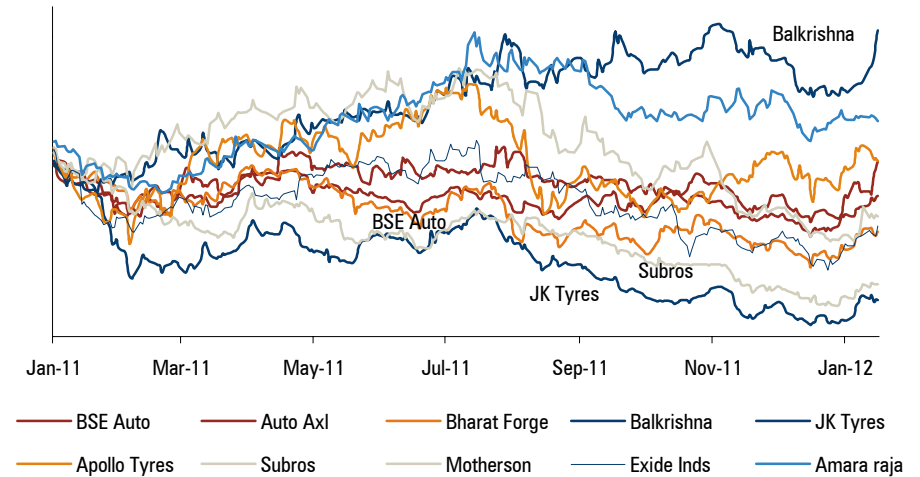


Source: ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of Balkrishna and Amara Raja batteries, which mimic the index greatly. Tyre companies like JK Tyre have grossly underperformed due to the intense rubber price overhang

Exhibit 17: Ancillaries comparison with BSE Auto



Source: ICICIdirect.com Research

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Buy: > 10%/15% for large caps / midcaps, respectively;
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