

**Bajaj Auto Limited****Rs.1,538****KRChoksey**  
INTEGRATED FINANCIAL SOLUTIONS**Improved Export realization drives performance****HOLD**

**Net sales up by 20% y-o-y on the back of 13.6% y-o-y volume growth and 5.8% y-o-y realization/unit growth.**

**Exports continued to remain strong with revenue growth of 51% y-o-y to Rs 1710 crores.**

**EBITDA grew by 25% y-o-y to Rs 1061.4 crores. Margins improved by 63 bps y-o-y to 21% on the back of 102 bps y-o-y decline in the raw material cost as a % to sales and improved realizations in the export market.**

**Exceptional loss of Rs58.9 crores on account of valuation loss on derivative hedging instruments.**

**Adj Net profit grew by 25% y-o-y to Rs 834 crores on the back of decline in interest expense and effective tax rate.**

**Strong volumes & improved realizations drive topline:** Bajaj auto reported strong revenue growth of 20% y-o-y on the back of 13.6% y-o-y volume growth and 5.8% y-o-y growth in net realizations. Realizations improved on the back of product mix (higher share of premium bikes) and improved export realizations (10% q-o-q on the back of price hike of 3.5% and ~6-7% rupee depreciation). Bajaj auto's market share came down by ~150 bps in Q3 on account of inventory push by competitors and company expects to regain it by Q4FY12. Other operating income declined on the back of lower export incentives. We believe export volumes to remain strong and domestic volumes to remain healthy with launch of new pulsar going forward.

**Higher realizations and moderation in raw material cost drive margins:** Operating profit increased at relatively higher rate of 25% y-o-y on account of improved realizations and moderation in raw material cost (low rubber prices). Consequently margins improved by 63 bps y-o-y and 89 bps q-o-q to 21% for Q3FY12.

**Net profit up by 25% y-o-y:** Bajaj auto reported Net profit growth of 19% y-o-y to Rs 795 crores on the back of decline in effective tax rate and interest expense partially offset by lower other income. Adjusting for the forex loss of Rs 58.9 crores on account of forward hedges for export Net profit grew by 25% y-o-y to Rs 834 crores.

**Valuations & Views:**

Despite moderation in the 2-wheeler volumes, we maintain our positive outlook on Bajaj Auto on the back of its superior product portfolio & robust growth in export market. This coupled with launch of new pulsar in Q4FY12 we expect Bajaj Auto to maintain healthy growth trajectory & margins of ~20%. We recommend "HOLD" on the stock arriving at a Price target of Rs.1750 per share implying an upside of 14% from the current levels.

**Exhibit 1 : Key Financials**

Particulars	FY10	FY11	FY12E	FY13E
Sales	11543	15998	19237	21945
EBITDA	2585	3487	4172	4726
PAT	1820	3340	3168	3624
EPS	63	115	109	125
OPM	22.4%	21.8%	21.7%	21.5%
NPM	15.8%	20.9%	16.5%	16.5%
PE	24.5	13.3	14.0	12.3

Source: Company Data, KRChoksey Research

**Target Price (Rs): 1750**

Potential Upside : 14%

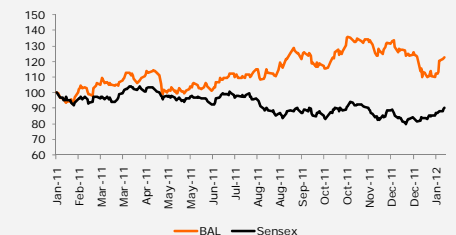
Previous TP (Rs): 1869

**Market Data**

Shares outs (Cr)	28.93
Equity Cap (Rs. Cr)	289.3
Mkt Cap (Rs. Cr)	44515
52 Wk H/L (Rs.)	1822/1189
Face Value (Rs.)	10
Bloomberg Code	BJAUT IN

**Market Info:**

SENSEX	17,233
NIFTY	5,204

**Price Performance****Share Holding pattern (%)**

Particular	Dec-11	Sep-11	Chg
Promoters	50.02	50.02	0.0
DII	8.48	8.32	0.16
FII	16.07	15.93	0.14
Public	25.43	25.73	-0.30
<b>Total</b>	<b>100</b>	<b>100</b>	

Source: BSE

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**Exhibit 2 : Q3FY12 Result Snapshot**

Particulars (Rs Crore)	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y
Volume	1075441	1164137	946850	-7.6%	13.6%
Realization/unit	45004	43350	42543	3.8%	5.8%

Particulars (Rs Crore)	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y
Net Sales	4840.0	5046.5	4028.2	-4.1%	20.2%
Other operating Income	223.2	220.8	148.9	1.1%	49.9%
<b>Total Income</b>	<b>5063.2</b>	<b>5267.3</b>	<b>4177.1</b>	<b>-3.9%</b>	<b>21.2%</b>
Stock Adjustment	3.4	-41.5	37.9	-	-
Raw Material Consumed	3356.2	3603.7	2784.5	-6.9%	20.5%
Purchase of Finished Goods	204.0	199.4	160.2	2.3%	27.4%
Employee Expenses	132.0	131.1	106.6	0.7%	23.9%
Other Expenses	306.1	317.3	238.6	-3.5%	28.3%
<b>TOTAL EXPENDITURE</b>	<b>4001.8</b>	<b>4209.9</b>	<b>3327.8</b>	<b>-4.9%</b>	<b>20.3%</b>
<b>EBITDA</b>	<b>1061.4</b>	<b>1057.4</b>	<b>849.3</b>	<b>0.4%</b>	<b>25.0%</b>
Other Income	90.8	74.5	99.5	21.9%	-8.7%
Interest	0.0	20.2	0.4	-99.9%	-94.4%
Depreciation	32.1	39.4	31.0	-18.5%	3.6%
<b>PBT</b>	<b>1120.1</b>	<b>1072.2</b>	<b>917.4</b>	<b>4.5%</b>	<b>22.1%</b>
Tax	286.1	251.0	250.3	14.0%	14.3%
<b>Adj PAT</b>	<b>834.0</b>	<b>821.2</b>	<b>667.1</b>	<b>1.6%</b>	<b>25.0%</b>
Extra-ordinary Items	-38.9	-95.4	0.0	-59.3%	-
<b>Reported PAT</b>	<b>795.1</b>	<b>725.8</b>	<b>667.1</b>	<b>9.5%</b>	<b>19.2%</b>
<b>EPS</b>	<b>27.5</b>	<b>25.1</b>	<b>23.1</b>	<b>9.6%</b>	<b>19.0%</b>

RM/Net sales	70.4%	71.4%	71.4%	-103 bps	-102 bps
Staff cost/Net sales	2.6%	2.5%	2.6%	12 bps	6 bps
Other expenditure/Net	6.0%	6.0%	5.7%	2 bps	33 bps
<b>EBITDA margin</b>	<b>21.0%</b>	<b>20.1%</b>	<b>20.3%</b>	<b>89 bps</b>	<b>63 bps</b>
<b>PAT margin</b>	<b>16.5%</b>	<b>15.6%</b>	<b>16.0%</b>	<b>88 bps</b>	<b>50 bps</b>
Effective tax rate	25.5%	23.4%	27.3%	213 bps	-174 bps
Other Income/net sales	1.8%	1.4%	2.4%	38 bps	-59 bps
Other Op Inc/net sales	4.6%	4.4%	3.7%	24 bps	92 bps
Int/Net sales	0.0%	0.4%	0.0%	-38 bps	-1 bps
Dep/Net sales	0.6%	0.7%	0.7%	-11 bps	-11 bps

Source: Company, KRChoksey Research

Profit & Loss Statement (Rs Crore)					Balance Sheet (Rs crore)				
Particulars	FY10	FY11	FY12E	FY13E	Particulars	FY10	FY11	FY12E	FY13E
Sales	11543	15998	19237	21945	Shareholder's Equity	145	289	289	289
Expenses	9515	13223	16008	18119	Reserves	2572	4621	6522	8696
EBITDA	2585	3487	4172	4726	Total Debt	1361	325	325	325
Other inc	557	265	313	380	Net Deferred Tax	-32	0	0	0
Depreciation	136	123	120	121	Total Liabilities	4046	5235	7137	9311
Interest	6	2	23	19	Net Fixed Assets	1812	1478	1609	1738
PBT	2442	3627	4343	4966	Investments	3445	4799	6599	8599
Tax	703	1011	1020	1342	Current Assets	3028	2843	4113	4884
PAT	1820	3340	3168	3624	Current Liab	4281	3955	5255	5981
EPS	63	115	109	125	Net CA	-1253	-1112	-1142	-1097
					Total Assets	4046	5235	7136	9311
Cash Flow (Rs Crore)					Key Ratios				
Particulars	FY10	FY11	FY12E	FY13E	Key Ratios	FY10	FY11	FY12E	FY13E
PBT	2442	4352	4343	4966	EPS	62.9	115.4	109.5	125.2
CFO	2519	3381	3894	3994	OPM	22.4%	21.8%	21.7%	21.5%
CFI	-1735	-766	-2050	-2250	NPM	15.8%	20.9%	16.5%	16.5%
CFF	-819	-2195	-1291	-1469	ROE	67.0%	68.0%	46.5%	40.3%
Net Cash Flow	-35	419	553	275	ROCE	60.5%	69.3%	61.2%	53.5%
Beginning Cash	143	107	527	1080	D/E	0.50	0.07	0.05	0.04
Ending Cash	107	527	1080	1355	PE	24.5	13.3	14.0	12.3
					EV/EBITDA	16.3	11.3	8.9	7.4

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Bajaj Auto Ltd.			
Date	CMP (Rs.)	TP (Rs.)	Recommendation
27-Jan-12	1538	1750	HOLD
25-Oct-11	1691	1869	HOLD
19-July-11	1460	1643	BUY
20-May-11	1310	1509	HOLD
21-Jan-11	1299	1527	BUY

\* the company announced bonus in ratio 1:1 in September 2010

Rating Legend	
Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Hold</b>	5% - 15%
<b>Reduce</b>	0 – 5%
<b>Sell</b>	Less than 0%

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