

Neutral

Bajaj Auto



Industry: Auto and Auto Components

Industry View: Neutral

Result Update

“Bajaj Auto – Domestic volumes weak, margins impress”

Weakness in domestic markets leads us to cut volume targets

With domestic volume growing by just 7% YTD due to demand softness and competition, Bajaj Auto reported a qoq decline of 4% in topline at Rs50.6bn, while on a yoy basis, this was 21% up. Domestic total volumes declined by 6% qoq to 6.94 lakh units, as the two wheeler market started facing a slowdown from November end. December numbers of the company were significantly below our expectations. Higher cost of ownership clubbed with high interest rates and rising fuel prices has been troubling the company. Due to this, we have cut our domestic volume estimates for FY 12E/FY 13E to 2.83mn/3.01mn respectively.

New launches in domestic markets and RE60 in export markets to help volume growth in FY 13

Exports sales for the quarter were down 10% qoq considering competition in markets like Africa from Honda and overall global demand softness. Exports contributed 35% of sales this quarter and with expected launch of the recently launched commercial 4wheeler RE60 in the Sri Lankan markets in May 2012 will help the company to increase the contribution of exports to total volumes. With new launches of the high margin KTM bikes, Pulsar variant and Discover variant in the ensuing quarters, we may witness Bajaj Auto weathering the weakness in demand observed off late. We expect exports to grow at 24%/18% in FY12E/13E to 1.49mn/1.77mn respectively and the total volumes to grow at 13%/11%.

Robust margins assisted by weaker rupee, price hikes and easing RM prices

Bajaj Auto reported a solid 21% EBITDA margin during the quarter which was an increase of 90 bps qoq and 70 bps yoy. This was mainly due to weak rupee and impact of easing commodity prices (RM to sales was at 70.4% v/s71.4% qoq). Also the company had taken price hike of Rs500 per vehicle in October which helped them to obtain auto industry's highest margins globally. PAT adjusted for derivative loss of Rs 589 mn came in at Rs8340mn, which was way above our expectations helped by better than expected operating performance despite volumes being weak. Tax rate was at 27% as against 28.5% qoq.

Outlook and valuation

Given the weak domestic performance by Bajaj Auto we are cutting our volume estimates for the company while maintaining our margin estimates. In order to quantify our caution on the stock, we are assigning a lower multiple to Bajaj Auto at 13.5x from our previous multiple of 15x. We have cut our earnings estimates by 4% each for the FY12E and FY 13E. With the price correcting by ~23% in a quarter, the stock looks attractive from current levels. At CMP of Rs 1467, the stock trades at 12.2x times FY13E EPS of Rs 120. With robust margin profile and opportunities in the export markets, we prefer this stock over its peers. However, from CMP of Rs 1558, we believe there is a limited upside for the stock. Hence, we downgrade our Bajaj Auto to Neutral from BUY while reducing our target price to Rs 1645 (includes Rs 21 from KTM business value).

Stock Data

Current Market Price (₹)	1,558
Target Price (₹)	1,645
Potential upside (%)	6
Reuters	BAJA.BO
Bloomberg	BJAUT IN

What's Changed

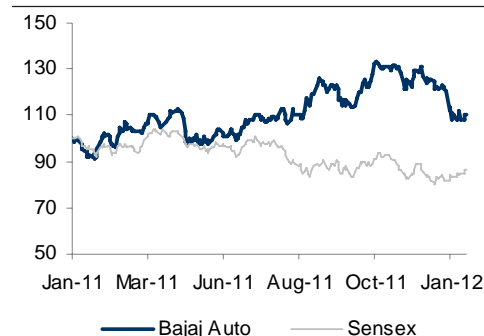
12 month PriceTarget (₹)	1,800 to 1,645
F2012 EPS (₹)	110 to 107
F2013 EPS (₹)	125 to 120

Key Data

Market Cap (₹bn)	424
52-Week Range (₹)	1,822 / 1,190
Avg. Daily Trading Value (₹mn)	826
Promoters (%)	50
FII Holding (%)	16
DII Holding (%)	8
Public & Others Holding (%)	26

Fiscal YE	FY 10	FY 11	FY 12E	FY 13E
Revenues	120,435	166,089	198,623	225,581
EBITDA (%)	22.5	20.4	20.3	20.7
PAT (%)	14.1	20.9	16.1	15.9
EPS (Rs)	58.1	90.4	106.7	119.9
EPS growth (%)	165.1%	55.4%	18.1%	12.4%
P/E (x)	26.5	13.5	14.6	13.0
P/B(x)	15.4	9.2	7.0	5.6
EV/EBITDA (x)	17.1	13.3	10.9	9.2
ROCE(%)	68.0%	114.9%	104.1%	94.4%
ROE(%)	58.2%	68.0%	48.2%	42.7%
Dividend yield (%)	1.3%	2.6%	3.1%	3.5%

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	(12)	(10)	10
BSE Relative	(18)	(7.8)	24

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Concall highlights

- Bajaj Auto expect Q4 FY12 volumes to grow at 5-6% yoy
- The company had hedged its exports at Rs49.4/\$
- Two new product launches are lined up for FY 13 in the form of a Pulsar and most probably Discover.
- The company's market share in the executive segment reached 21%.
- KTM profits reached Euro8.8mn in CY 11.KTM earns 35-40% of volumes from Europe, and rest from US and Latin America.

Per unit parameters

(₹)	Q3 FY12	Q2 FY12	Q1 FY12	Q4 FY11	Q3 FY11	Q2 FY11	Q1 FY11	Q4 FY10
Gross Realisation per Unit (Rs)	47,270	45,485	43,859	45,342	45,009	44,259	42,464	42,959
Net Realisation per Unit (Rs)	45,004	43,350	41,974	42,731	42,543	41,785	40,258	40,674
Total Cost per unit (Rs)	37,210	36,163	35,377	35,093	35,146	34,427	33,535	32,416
Material Cost per unit (Rs)	33,136	32,312	31,716	31,395	31,500	30,694	29,819	29,103
Staff Cost per unit (Rs)	1,228	1,126	1,272	1,251	1,126	1,141	1,361	1,065
Other Expn per unit (Rs)	2,999	2,822	2,397	2,543	2,563	2,616	2,364	2,320
EBITDA per unit (Rs)	9,869	9,083	8,336	9,202	8,970	8,967	8,369	9,606
PAT per unit (Rs)	7,755	6,788	6,506	7,244	7,047	6,817	6,357	6,578

	Q3 FY12	Q2 FY12	% qoq	Q3 FY11	% yoy
Total income	50,631.1	52,672.6	-3.9%	41,770.8	21.2%
RM cost	35,636.1	37,615.6	-5.3%	29,826.0	19.5%
Employee cost	1,320.4	1,310.8	0.7%	1,066.0	23.9%
Other expenses	3,061.1	3,172.5	-3.5%	2,385.6	28.3%
EBITDA	10,613.5	10,573.7	0.4%	8,493.2	25.0%
EBITDA Margins %	21.0	20.1	90bps	20.3	70bps
Other income	908.1	744.8	21.9%	994.6	-8.7%
Depreciation	321.4	394.2	-18.5%	310.2	3.6%
Interest	0.2	202.2	N/A	3.6	N/A
PBT	11,200.0	10,722.1	4.5%	9,174.0	22.1%
Tax	2,860.0	2,820.0	1.4%	2,502.0	14.3%
Adj PAT	8,340.0	7,902.1	5.5%	6,672.0	25.0%
Adj PAT Margins%	16.5	15.0	150 bps	16.0	50bps
Exceptional items	388.6	651.0	-40%	-	N/A
PAT	7,951.4	7,251.1	9.7%	6,672.0	19.2%

Financial Summary (Standalone)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
Total Revenues	120,435	166,089	202,172	238,802
Raw Material Cost	80,704	117,988	144,149	165,275
Employee Cost	3,995	4,768	6,065	8,358
Other Exp	8,899	9,817	11,828	15,900
EBITDA	27,151	33,849	40,130	49,269
<i>EBITDA Margin(%)</i>	<i>22.5</i>	<i>20.4</i>	<i>19.8</i>	<i>20.6</i>
Other income	0	3658	3000	3200
Depreciation	1,365	1,228	1,309	1,391
Interest	60	17	210	20
PBT	25,726	36,262	41,611	51,059
<i>PBT Margin(%)</i>	<i>21.4</i>	<i>22.7</i>	<i>21.3</i>	<i>22.0</i>
Exceptional items	218	7245	0	0
Tax	7,075	10,110	11,027	15,062
PAT	16,827	26,152	30,584	35,996
<i>PAT Margins (%)</i>	<i>14.0</i>	<i>15.7</i>	<i>15.1</i>	<i>15.1</i>
Adj PAT	17,036	33,397	30,584	35,996
<i>Adj PAT Margin (%)</i>	<i>14.1</i>	<i>20.9</i>	<i>15.6</i>	<i>15.5</i>

Key Ratios

YE Mar (mn)	FY10	FY11	FY12E	FY13E
Per Share Data (₹)				
Adj. EPS	58.1	90.4	105.7	124.4
CEPS	62.9	94.6	110.2	129.2
BVPS	101.2	169.7	220.9	282.4
DPS	20.0	40.0	47.6	56.0
Growth Ratios(%)				
Total revenues	36.7%	37.9%	21.7%	18.1%
EBITDA	125.8%	24.7%	18.6%	22.8%
PAT	165.1%	55.4%	16.9%	17.7%
EPS Growth	165.1%	55.4%	16.9%	17.7%
Valuation Ratios (x)				
PE	28.8	14.7	16.0	13.6
P/CEPS	62.9	94.6	110.2	129.2
P/BV	16.7	10.0	7.7	6.0
EV/Sales	4.2	2.9	2.4	2.0
EV/EBITDA	18.5	14.4	12.0	9.5
Operating Ratios (Days)				
Inventory days	18.0	22.7	18.0	22.0
Receivable Days	17.8	13.1	15.0	16.0
Payables day	55.4	89.1	88.0	90.0
Net Debt/Equity (x)	0.42	(0.05)	(0.14)	(0.27)
Profitability Ratios (%)				
ROCE	68.0%	114.9%	105.1%	101.6%
ROE	58.2%	68.0%	47.8%	44.0%
Dividend payout	39.6%	40.3%	45.0%	45.0%
Dividend yield	1.2%	2.4%	2.8%	3.3%

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Equity Share Capital	1,447	2,894	2,894	2,894
Reserves & Surplus	27,837	46,209	61,030	78,828
Total Networth	29,283	49,102	63,923	81,721
Total debt	13,386	3,252	1,252	752
Net Deferred Tax Liability	17	297	200	200
Total Liabilities	42,686	52,651	65,375	82,673
APPLICATION OF FUNDS				
Net block	14,796	14,784	16,975	19,084
Capital WIP	415	699	1,699	2,699
Investments	40,215	47,952	52,952	57,952
Current Assets				
Cash and Bank	1,014	5,564	10,386	23,006
Inventories	4,462	5,473	9,650	13,972
Sundry Debtors	2,728	3,628	8,041	10,161
Loan, Advances & others	21,805	14,061	15,600	19,116
Current Liab & Prov				
Current liabilities	20,263	24,267	28,446	35,544
Provisions	22,487	15,286	21,524	27,816
Net Current Assets	-12,740	-10,828	-6,294	2,895
Total Assets	42,686	52,651	65,375	82,673

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
PBT	24,111	43,507	41,611	51,059
Depreciation	1,365	1,228	1,309	1,391
Interest	22	14	210	20
Chng in working capital	8,679	(4,029)	287	3,432
Tax paid	(6,999)	(9,773)	(11,027)	(15,062)
Other operating activities	202	(3,561)	0	0
CF from operations (a)	27,379	27,386	32,391	40,839
Capital expenditure	(1,167)	(4,149)	(4,700)	(4,505)
Chng in investments	(21,116)	(6,818)	(5,000)	(5,000)
Other investing activities	647	0	0	0
CF from investing (b)	(21,636)	(10,966)	(9,700)	(9,505)
Free cash flow (a+b)	5,743	16,420	22,691	31,334
Inc/dec in borrowings	(2,485)	1,343	(2,000)	(500)
Dividend paid (incl. tax)	(3,175)	(5,776)	(15,763)	(18,198)
Other financing activities	(438)	(4,192)	(3,352)	0
CF from financing (c)	(6,098)	(8,625)	(21,115)	(18,713)
Net chng in cash (a+b+c)	(355)	7,795	1,576	12,621
Closing cash & cash equiv.	1,015	8,810	10,386	23,006

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