

# Bajaj Auto

BSE SENSEX	S&P CNX	CMP: INR1,558	TP: INR1,870	Buy						
16,739	5,049									
Bloomberg	BJAUT IN									
Equity Shares (m)	289.4									
52-Week Range (INR)	1,822/1,190									
1,6,12 Rel.Perf.(%)	-10/19/32									
M.Cap. (INR b)	450.8									
M.Cap. (USD b)	8.9									
Year	Net Sales	PAT	EPS	EPS	P/E	P/CE	P/BV	EV/	RoE	RoCE
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
3/10A	119,210	18,175	62.8	128.3	-	-	-	-	78.8	68.5
3/11A	166,089	26,152	90.4	43.9	17.2	16.5	9.2	11.8	66.7	76.1
3/12E	201,894	31,944	110.4	22.1	14.1	13.5	6.8	9.4	55.6	71.4
3/13E	235,809	36,058	124.6	12.9	12.5	12.0	5.3	7.6	47.8	65.3

Bajaj Auto 3QFY12 results are in-line with adj PAT at INR8.34b (v/s est INR8.4b). While volumes were lower than estimates, realizations surprised positively, leading to EBITDA margins at 21% (est 20.6%). Key highlights:

- Volumes grew 13.6% YoY to 1.07m units (down 7.6% QoQ). Average realization was up 6.7% YoY (4.1% QoQ) to INR47,080 (v/s est INR43,834). Net revenue grew 21% to INR50.6b (v/s INR51.4b).
- EBITDA margin improved 90bp QoQ (70bp YoY) to 21% (v/s est 20.6%), led from higher realizations. Adj PAT grew 25% YoY to INR8.34b.
- It maintained its lowered FY12 volume guidance of 4.4m units (~16% growth), with exports guidance of over 1.5m units. It expects the motorcycle industry to grow at 5-6% in Q4FY12.
- While it did not give volume guidance for FY13, it expects industry to clock 12% CAGR for the next 3-4 years. It is also confident of maintaining export volume growth of ~20% in FY13 and EBITDA margins at 20%.
- The company will be launching KTM Duke 200 on 24th Jan and would follow with two more launches (a new Pulsar and Discover), while RE60 is likely to be launched towards end-CY12.
- We maintain our estimates. The stock is valued at 14.1x FY12E EPS of INR110.4 and 12.5x FY13E EPS of INR124.6. Maintain **Buy** with target price of INR1,870 (15x FY13E EPS).

## Quarterly Performance

	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY11	FY12E
Volumes (nos)	928,336	1,000,570	946,850	947,197	1,092,815	1,164,137	1,075,441	1,069,353	3,823,954	4,401,746
Change (%)	69.5	45.7	17.0	17.1	17.7	16.3	13.6	12.9	34.1	15.1
Realization	41,904	43,393	44,116	44,341	43,715	45,246	47,080	47,522	43,434	45,867
Change (%)	-1.9	3.2	8.3	5.5	4.3	4.3	6.7	7.2	3.9	5.6
Net Sales	38,901	43,418	41,771	42,000	47,773	52,673	50,632	50,817	166,089	201,894
Change (%)	66.4	50.4	26.7	23.5	22.8	21.3	21.2	21.0	39.3	21.6
Total Cost	31,131	34,447	33,278	33,385	38,665	42,099	40,018	40,039	132,240	160,820
EBITDA	7,769	8,972	8,493	8,615	9,108	10,574	10,614	10,779	33,849	41,075
EBITDA Margins (%)	20.0	20.7	20.3	20.5	19.1	20.1	21.0	21.2	20.4	20.3
Other Income	817	837	995	1,010	731	745	908	1,104	3,658	3,488
Extraordinary Expenses	0	0	0	0	0	954	589	0	0	1,543
Extraordinary Inc	0	0	0	7,246	0	0	0	0	7,246	0
Interest	6	7	4	1	2	202	0	25	17	230
Depreciation	318	300	310	301	306	394	321	326	1,228	1,348
PBT	8,262	9,503	9,174	16,569	9,531	9,768	10,612	11,532	43,508	41,442
Tax	2,360	2,682	2,503	2,565	2,420	2,510	2,660	2,936	10,110	10,526
Effective Tax Rate (%)	28.6	28.2	27.3	15.5	25.4	25.7	25.1	25.5	23.2	25.4
Rep. PAT	5,902	6,821	6,671	14,004	7,111	7,258	7,952	8,595	33,397	30,916
Adj. PAT	5,902	6,821	6,671	6,758	7,111	7,898	8,340	8,595	26,152	31,944
Change (%)	90.1	56.9	31.5	19.6	20.5	15.8	25.0	27.2	43.9	22.1

E: MOSL Estimates

Jinesh Gandhi (Jinesh@MotilalOswal.com) + 91 22 3982 5416

Mansi Varma (Mansi.Varma@MotilalOswal.com) + 91 22 3982 5418

## Higher export realizations coupled with better product and market mix drive revenues

- Net revenues grew 21% YoY to INR50.6b (v/s est INR51.4b), driven by higher export realizations and better product/market mix. Volumes grew 13.6% YoY (-7.6% QoQ) to 1,075,441 units, led by 12.9% YoY growth in motorcycles and 18.8% YoY growth in 3-wheelers.
- Domestic volumes were up 7% YoY (6% QoQ decline), driven by 7% YoY (-6% QoQ) growth in motorcycles. It lost ~20,000 units of volumes due to law & order situation at Pantnagar in Oct-11. Also, volumes were sequentially lower due to 5 days of annual maintenance shutdown in Dec-11.
- Premium motorcycles (>125cc) grew 12% YoY while <125cc segment grew just 1.4% YoY. Exports at 380,912 units grew 28% YoY (down 10% QoQ).
- In 3QFY12, Bajaj lost market share in domestic motorcycles by 160bp QoQ (50bp YoY) to 25.1%. However, the company believes this to be an aberration owing to inventory push by its competitors in Dec-11, and hence, it expects to recover lost market share in 4QFY12.
- Average realizations improved 6.7% YoY (4.1% QoQ) to INR47,080 reflecting (1) ~3.5% price increase in the export market in Oct-11, which was partly offset by lowered DEPB benefit, (2) better export realizations due to INR depreciation with realized USD/INR of 49.4 (v/s 47.8 in 2QFY12), (3) better product mix and market mix.
- Lower other operating income was on due to reduction in export incentive by ~2%. While DEPB rate was lowered by 3.5%, it got additional 1% duty credit under Special Focus Market Scheme and 1% (applicable only on motorcycles) under special bonus benefit (for 2HFY12 only).
- While this was more than offset by 3.5% price hike in the export market (reflected in net sales instead of other operating income), resulting in net gain of ~1.5% on exports.
- Going ahead, it expects to partly pass on this extra benefit by way of higher spend of marketing and advertisements in the respective markets.
- It maintained its lowered volume guidance of 4.4m units (~16% growth) for FY12 with exports guidance of over 1.5m units. It expects motorcycle industry growth at 5-6% in 4QFY12.

### Trend in product mix

	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
<b>Motorcycles</b>					
Domestic	642,395	598,558	7.3	684,671	-6.2
Exports	304,354	239,929	26.9	342,686	-11.2
<b>Total Motorcycles</b>	<b>946,749</b>	<b>838,487</b>	<b>12.9</b>	<b>1,027,357</b>	<b>-7.8</b>
% of total	88.0	88.6		88.3	
<b>Three Wheelers</b>					
Domestic	52,134	51,648	0.9	55,332	-5.8
Exports	76,558	56,715	35.0	81,448	-6.0
<b>Total 3Ws</b>	<b>128,692</b>	<b>108,363</b>	<b>18.8</b>	<b>136,780</b>	<b>-5.9</b>
% of total	12.0	11.4		11.7	
<b>Total Volumes</b>	<b>1,075,441</b>	<b>946,850</b>	<b>13.6</b>	<b>1,164,137</b>	<b>-7.6</b>

Source: Company/MOSL

### Trend in market share (%)

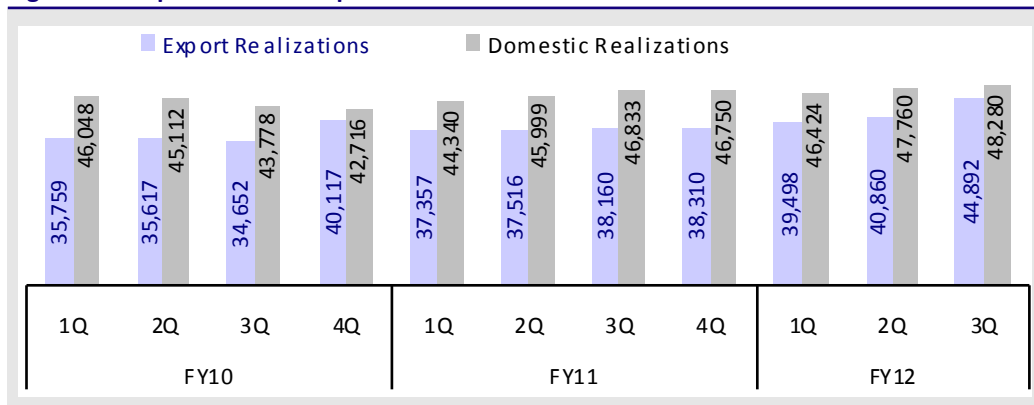
	3QFY12	3QFY11	YoY (BP)	2QFY12	QoQ (BP)
75cc - 125cc	14.9	15.9	-100	16.3	-140
125cc - 250cc	49.9	50.0	-10	51.2	-130
Dom. Motorcycles	25.1	25.6	-50	26.8	-160
Total Motorcycles	31.5	31.0	50	33.7	-220
<b>Total Dom. 2W</b>	<b>18.7</b>	<b>19.5</b>	<b>-70</b>	<b>20.0</b>	<b>-120</b>
Total 2W (incl exp.)	24.4	24.4	10	26.2	-180
Dom. 3W	38.9	38.5	40	39.9	-100
3W (incl exports)	58.0	53.5	440	58.3	-30

Source: SIAM/MOSL

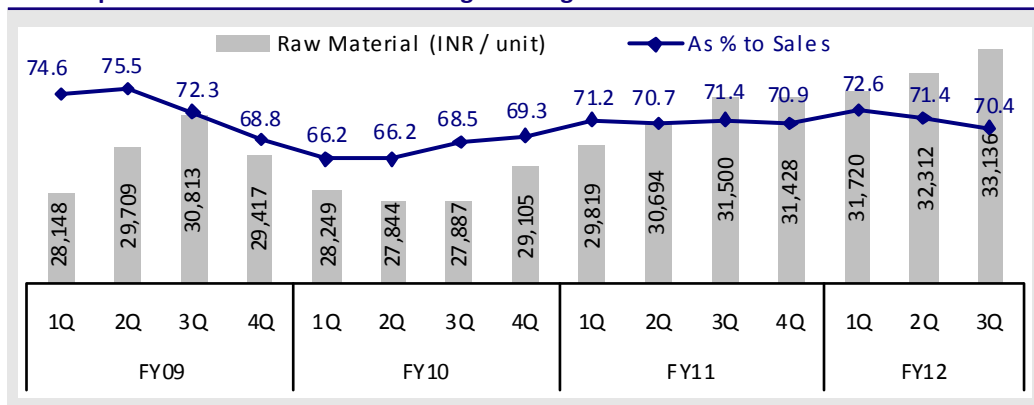
### Higher realizations drive margin expansion

- EBITDA margin improved 90bp QoQ (70bp YoY) to 21% (v/s est 20.6%), driven by higher realizations.
- EBITDA grew 25% YoY (0.4% QoQ) to INR10.6b (v/s est INR10.6b), translating into adj PAT growth of 25% YoY to INR8.34b.
- It reported MTM forex loss of INR589m (INR954m in 2QFY12) on its outstanding hedges, translating into reported PAT of INR7.95b.
- The company has received notice from the excise department for payment of National Calamity Contingent Duty (NCCD) for Pantnagar plant of INR103m for 1QFY12 and INR676m for prior-period. It has challenged it in the court and hence has not yet provided for the same. Provisioning for NCCD would have impacted EBITDA by 10bp.
- It maintained its guidance of over 20% EBITDA margins for both FY12 and FY13.

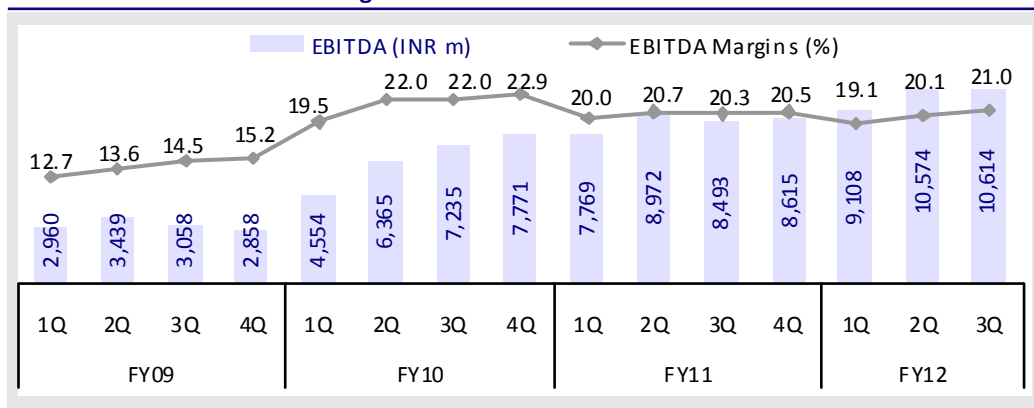
### Significant improvement in export realizations



### This coupled with lower RM cost led to higher margins



### Trend in EBITDA and EBITDA margin



Source: Company/MOSL

### **Expects domestic industry to grow at 12% CAGR over next 3-4 years; remains bullish on exports**

- While it did not give volume guidance for FY13, it expects industry to clock 12% CAGR for the next 3-4 years. The company is confident of maintaining export volume growth of over 20% in FY13 and hence expects to outperform the overall industry growth.
- It indicated that retail demand in Jan-12 has been good so far, driven by pent-up demand of last 2 months. However, sustenance of demand momentum in 2nd half of Jan-12 remains important.
- For FY13, it plans to launch KTM Duke 200 on 24th Jan-12, followed by a new Pulsar and Discover (expected over the next four month). This coupled with launch of RE60 in export markets (towards the end of CY12) will support volume growth.

### **Additional export incentives to drive profitability**

- Under new Foreign Trade Policy 2009-14, Bajaj Auto would be eligible for additional 1% duty credit under Special Focus Market Scheme, which is over and above 3% credit under current Focus Market scheme. It is eligible to receive the additional 1% duty credit under Special Focus Market Scheme in all markets except Bangladesh, Sri Lanka and Philippines.
- Additionally, it will also benefit from 1% duty credit under Special Bonus Benefit Scheme (w.e.f. Oct-11 to Mar-12) for Motorcycles only.
- As a result, overall gross benefit will increase to 10.5% for 2HFY12 and 9.5% thereafter, as against 12%.
- These additional incentives would boost profitability, as reduction in DEPB benefit by ~2% in 2HFY12 would be offset by 3.5% price increase in exports.

### **Other takeaways**

- It has hedged for most of 4QFY12. For FY13, it has hedged 70% of targeted exports by range forward contracts at base rate of INR47.
- The management indicated that lower RM/Sales in 3QFY12 was only due to better realizations. It has not yet witnessed any benefit of soft commodity prices as the same was offset by weak INR. It does not expect any savings in commodity cost in 4QFY12 as well.
- It has an outstanding VAT refund of INR5.55b (INR2.95 for Q2FY12 and INR2.6b for Q3FY12).
- Tax rate is expected be higher by atleast ~1.5-2% from FY13 onwards, as first 5-year window of 100% income tax exemption on its Pantnagar plant is exhausted. It will now enjoy 30% tax exemption for next 5 years.
- Vehicle financing at ~65,000/month, translating to ~33% of domestic motorcycle (v/s peak of ~45% 3 years back). Of these, ~78% (50,000 units) financed by Bajaj Auto Finance. It is not witnessing any stress in availability of finance.
- The company ran a subvention scheme from 15th Dec-11 to 16th Jan-11 but does not expect to continue it further.
- Boxer 150cc has not done well so far and it will re-look at the product and its strategy.

- RE60 will have superior mileage of 35kmpl (v/s ~20kmpl for 3Ws). The pricing of RE60 will be done keeping in mind 30% margins in three wheelers. It also clarified that the current permit and driver license are not valid for RE60. It will discuss the regulatory norm with the authorities.
- As of Dec-11, it had cash & cash equivalent of INR47.6b.

### Valuation and view

- We maintain our estimates at INR110.4 for FY12 and INR125.2 for FY13 as 3% cut in FY12 volumes to 4.4m units and ~2% cut in FY13 to 5.04m units is offset by a) higher export realizations including higher export incentive, and b) lower tax in FY12 (we maintain our tax assumption for FY13).
- Key drivers for the stock: (1) pick-up in volume momentum in domestic market, and (2) further inroads in exports.
- The stock is trading at 14.1x FY12E EPS of INR110.4 and 12.5x FY13E EPS of INR124.6. Maintain **Buy** with target price of INR1,870 (15x FY13E EPS).

## Bajaj Auto: an investment profile

### Company description

Bajaj Auto, the flagship of the Bajaj group, is a leading manufacturer of two and three wheelers. The company is a market leader in three wheelers and is 2nd largest player in motorcycles. The company has product offering across all segments of motorcycles, with brands like Discover, Pulsar, Platina, XCD etc, and enjoys leadership in premium segment.

### Key investment arguments

- Well diversified product and market mix, with motorcycle and three-wheelers in domestic and export markets.
- Renewed strategy with focus on Discover and Pulsar - two of its most profitable brands
- Largest exporter of two-wheelers (~63.7% of exports) and three-wheelers (~95% of exports), with scope to drive overall volume growth

### Key investments risks

- Strengthening-up of commodity prices to put pressure on margins.
- Increasing competitiveness in two-wheeler industry could restrict pricing power.

### Recent developments

- Bajaj Auto showcased its small four-wheeler RE60, which will be positioned in the taxi segment, likely to replace existing 3W population.

### Valuation and view

- The stock is trading at 14.1x FY12E EPS of INR110.4 and 12.5x FY13E EPS of INR124.6.
- Maintain **Buy** with target price of INR1,870 (15x FY13E EPS).

### Sector view

- Demand drivers in place, driven by increasing penetration in rural markets and replacement demand from urban markets
- Despite large number of players market share remains concentrated amongst the top two.
- Industry dynamics favorable, with focus on profitability rather than market share.

### Comparative valuations

		Bajaj Auto	Hero MotoCorp
P/E (x)	FY12E	14.1	16.1
	FY13E	12.5	13.9
EPS Gr (%)	FY12E	22.1	20.7
	FY13E	12.9	16.0
RoE (%)	FY12E	55.6	60.9
	FY13E	47.8	53.4
EV/EBITDA (x)	FY12E	9.4	9.9
	FY13E	7.6	7.9

### EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	110.4	108.0	2.2
FY13	124.6	118.1	5.5

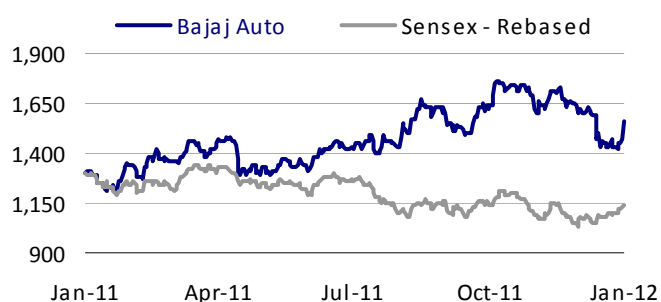
### Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,558	1,870	20	Buy

### Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	50.0	50.0	49.7
Domestic Inst	8.5	8.3	6.2
Foreign	16.6	16.4	18.3
Others	24.9	25.2	25.8

### Stock performance (1 year)



## Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
<b>Volumes</b>	<b>2,852,579</b>	<b>3,823,954</b>	<b>4,401,746</b>	<b>5,037,748</b>	
Change (%)	30.0	34.1	15.1	14.4	
<b>Net Sales</b>	<b>119,210</b>	<b>166,089</b>	<b>201,894</b>	<b>235,809</b>	
Change (%)	35.3	39.3	21.6	16.8	
<b>Total Expenditure</b>	<b>93,284</b>	<b>132,240</b>	<b>160,820</b>	<b>187,640</b>	
<b>EBITDA</b>	<b>25,926</b>	<b>33,849</b>	<b>41,075</b>	<b>48,169</b>	
EBITDA Margins (%)	21.7	20.4	20.3	20.4	
Depreciation	1,365	1,228	1,348	1,588	
<b>EBIT</b>	<b>24,561</b>	<b>32,621</b>	<b>39,727</b>	<b>46,581</b>	
Int. & Fin. Charges	60	17	230	10	
Other Income	1,225	3,658	3,488	4,575	
Non-recurring Exp.	1,624	-7,246	1,543	0	
<b>PBT</b>	<b>24,102</b>	<b>43,508</b>	<b>41,442</b>	<b>51,146</b>	
Tax	7,075	10,110	10,526	15,088	
Effective Rate (%)	29.4	23.2	25.4	29.5	
<b>PAT</b>	<b>17,027</b>	<b>33,397</b>	<b>30,916</b>	<b>36,058</b>	
<b>Adj. PAT</b>	<b>18,175</b>	<b>26,152</b>	<b>31,944</b>	<b>36,058</b>	
Change (%)	128.3	43.9	22.1	12.9	

Balance Sheet		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
Share Capital	1,447	2,894	2,894	2,894	
Reserves	27,837	46,209	62,917	82,047	
<b>Net Worth</b>	<b>29,283</b>	<b>49,102</b>	<b>65,811</b>	<b>84,941</b>	
Deferred Tax	17	297	-656	111	
Loans	13,386	3,252	3,252	3,252	
<b>Capital Employed</b>	<b>42,686</b>	<b>52,651</b>	<b>68,406</b>	<b>88,303</b>	
Gross Fixed Assets	33,793	33,952	36,150	38,650	
Less: Depreciation	18,997	19,125	20,472	22,060	
<b>Net Fixed Assets</b>	<b>14,796</b>	<b>14,827</b>	<b>15,678</b>	<b>16,590</b>	
Capital WIP	415	699	1,000	1,000	
Investments	40,215	47,952	47,952	47,952	
<b>Current Assets</b>	<b>15,838</b>	<b>28,726</b>	<b>48,613</b>	<b>74,280</b>	
Inventory	4,462	5,473	6,965	8,816	
Sundry Debtors	2,395	3,628	5,804	6,782	
Cash & Bank Balance:	1,014	5,565	18,431	38,334	
Loans & Advances	6,574	11,896	14,510	16,956	
Others	1,394	2,164	2,902	3,391	
<b>Current Liab. &amp; Prov.</b>	<b>28,579</b>	<b>39,553</b>	<b>44,836</b>	<b>51,519</b>	
Sundry Creditors	15,712	19,431	20,895	24,417	
No. of Days	71	60	53	53	
Other Liabilities	4,551	4,836	5,804	6,782	
Provisions	8,316	15,286	18,137	20,319	
<b>Net Current Assets</b>	<b>-12,740</b>	<b>-10,827</b>	<b>3,776</b>	<b>22,761</b>	
<b>Application of Funds</b>	<b>42,686</b>	<b>52,651</b>	<b>68,406</b>	<b>88,303</b>	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
<b>Basic (INR)</b>					
<b>EPS</b>	<b>62.8</b>	<b>90.4</b>	<b>110.4</b>	<b>124.6</b>	
EPS growth (%)	128.3	43.9	22.1	12.9	
<b>Core EPS</b>	<b>59.4</b>	<b>80.3</b>	<b>100.7</b>	<b>112.0</b>	
Cash EPS	67.5	94.6	115.0	130.1	
Book Value per Share	101.2	169.7	227.4	293.5	
DPS	20.0	40.0	45.0	50.0	
Payout (Incl. Div. Tax)	37.1	51.4	47.7	46.9	
<b>Valuation (x)</b>					
P/E		17.2	14.1	12.5	
Cash P/E		16.5	13.5	12.0	
EV/EBITDA		11.8	9.4	7.6	
EV/Sales		2.4	1.9	1.6	
Price to Book Value		9.2	6.8	5.3	
Dividend Yield (%)		2.6	2.9	3.2	
<b>Profitability Ratios (%)</b>					
RoE	78.8	66.7	55.6	47.8	
RoCE	68.5	76.1	71.4	65.3	
<b>Turnover Ratios</b>					
Debtors (Days)	7	8	10	10	
Inventory (Days)	13	11	12	13	
Creditors (Days)	46	40	36	36	
Asset Turnover (x)	2.8	3.2	3.0	2.7	
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.5	0.1	0.0	0.0	

Cash Flow Statement		(INR Million)			
Y/E March	2010	2011	2012E	2013E	
OP/(Loss) before Tax	24,508	32,897	39,727	46,581	
Interest/Div. Received	1,240	3,631	3,488	4,575	
Depreciation & Amort	1,365	1,228	1,348	1,588	
Direct Taxes Paid	-6,999	-9,773	-11,479	-14,321	
(Inc)/Dec in Working Cap	8,679	-4,029	-1,737	918	
<b>CF from Oper. Activity</b>	<b>28,792</b>	<b>23,954</b>	<b>31,346</b>	<b>39,341</b>	
Extra-ordinary Items	-182	-186	-1,543	0	
<b>CF after EO Items</b>	<b>28,611</b>	<b>23,768</b>	<b>29,803</b>	<b>39,341</b>	
(Inc)/Dec in FA+CWIP	-1,906	-3,779	-2,500	-2,500	
(Pur)/Sale of Invest	-20,970	-6,818	1,543	0	
<b>CF from Inv. Activity</b>	<b>-22,876</b>	<b>-10,597</b>	<b>-957</b>	<b>-2,500</b>	
Inc/(Dec) in Debt	-2,314	-1,866	0	0	
Interest Paid	-60	-17	-230	-10	
Dividends Paid	-3,716	-6,737	-15,235	-16,928	
<b>CF from Fin. Activity</b>	<b>-6,090</b>	<b>-8,620</b>	<b>-15,980</b>	<b>-16,938</b>	
<b>Inc/(Dec) in Cash</b>	<b>-355</b>	<b>4,550.8</b>	<b>12,867</b>	<b>19,903</b>	
Add: Beginning Balan	1,369	1,014	5,565	18,431	
<b>Closing Balance</b>	<b>1,014</b>	<b>5,565</b>	<b>18,431</b>	<b>38,334</b>	

E: MOSL Estimates

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- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
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## Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021  
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com