Bajaj Auto BAJA.NS BJAUT IN

AUTOS & AUTO PARTS

NOMURA
EQUITY RESEARCH

Results beat street estimates on higher margins

First Look

January 19, 2012

Rating Remains	Neutral
Target price Remains	INR 1588
Closing price January 18, 2012	INR 1455

BJAUT declared adj PAT of INR8.4bn (Nomura: INR8.2bn; Consensus: INR7.8bn), ahead of consensus estimates but largely in-line with our estimates. EBITDA margin came in at 21%, ahead of consensus expectations of 20.3%. The company continues to benefit from higher export realizations (up 9.9% qoq) driven largely by INR depreciation against the USD and the 3.5% price hike taken in Oct-11.

Going forward, we expect BJAUT to continue to report strong export volumes and profitability. However, domestic volumes can come under pressure due to a potential industry slowdown and increased competition from Honda. Maintain Neutral.

We expect a minor positive reaction to these results.

As per the company, domestic volumes in the first 2 weeks of January have been better than the Dec-11 volumes. BJAUT is not looking to do any price hike in 4QFY12. The company will launch two new products; 1 each in the premium and executive segments, over the next 4-5 months. RE60 will be launched towards the end of 2012.

Key results highlights

- Net Sales at INR 50.6bn came slightly ahead of our estimate of INR 50.1bn
- EBITDA margin came in at 21%; in line with our estimate of 21.1%
- RM/Sales came in at 70.4%, compared to our estimate of 70.0%
- Employee cost/Sales came in at 2.6%, compared to our estimate of 2.5%
- Other expenses/Sales came in at 6.4%, compared to our estimate of 6.4%
- During the quarter, there was INR 0.6bn of valuation losses on derivative hedging instruments.
- Company has received a show cause notice from Commissioner, Central Excise and Service Tax amounting to INR779.3mn for non-payment of NCCD on sales from its Pantnagar plant. Of this, INR103.1mn is for the period Apr-June, 2011. The company has not made any provision for the same as the decision is pending with the High Court. This can affect margins by 0.2%, as per our calculations.

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Fig. 1: Actual vs. Expectations

	INR mn			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	50,632	49,533	50,090	2.2%	1.1%
EBITDA	10,614	10,044	10,590	5.7%	0.2%
Margin	21.0%	20.3%	21.1%		
Net Profit	8,393	7,810	8,234	7.5%	1.9%

Source: Company data, Bloomberg, Nomura research

Fig. 2: 2QFY12 results

INR mn	**3QFY11(A)**	**2QFY12(A)**	**3QFY12(A)**	**Y/Y**	**Q/Q**	**3QFY12(F)**
Net Sales	**41,771**	**52,673**	**50,632**	**21.2%**	**-3.9%**	**50,090**
Total Expenses	33,278	42,099	40,018	20.3%	-4.9%	39,499
(Inc)/Dec in Stock	379	(415)	34			-
Raw Materials	29,447	38,031	35,602	20.9%	-6.4%	35,063
Staff Cost	1,066	1,311	1,320	23.9%	0.7%	1,231
Other Expenditure	2,427	3,285	3,226	32.9%	-1.8%	3,206
Expenses Capitalised	(41)	(112)	(165)			-
Operating Profit	**8,493**	**10,574**	**10,614**	**25.0%**	**0.4%**	**10,590**
As % of Sales	*20.3*	*20.1*	*21.0*			*21.1*
Other Income	995	745	908	-8.7%	21.9%	857
Interest	4	202	0	0.0%	0.0%	-
Depreciation	310	394	321	3.6%	-18.5%	320
PBT	**9,174**	**9,768**	**10,612**	**15.7%**	**8.6%**	**11,127**
Tax	2,503	2,510	2,660	6.3%	6.0%	2,893
Effective Tax Rate (%)	*27.3*	*25.7*	*25.1*			*26.0*
PAT	6,671	7,258	7,952	19.2%	9.6%	8,234
Adj. PAT	**6,671**	**7,967**	**8,393**	**25.8%**	**5.3%**	**8,234**
Change (%)	*31.5*	*16.8*	*25.8*			*23.4*
Adj EPS	23.1	27.5	29.0	25.8%	5.3%	28.5

Source: Company data, Nomura estimates

Fig. 3: Cost ratios

	3QFY11(A)	**2QFY12(A)**	**3QFY12(A)**	**Y/Y**	**Q/Q**	**3QFY12(F)**
Net Sales/Vehicle (INR)	42,543	43,350	45,004	5.8%	3.8%	46,576
RM/Vehicle (INR)	31,500	32,312	33,136	5.2%	2.6%	32,603
RM / Sales	71.4%	71.4%	70.4%	-1.0%	-1.0%	70.0%
Emp/ sales	2.6%	2.5%	2.6%	0.1%	0.1%	2.5%
Other exp / sales	5.8%	6.2%	6.4%	0.6%	0.1%	6.4%
GM / SALES	28.6%	28.6%	29.6%	1.0%	1.0%	30.0%
Other income /PBT	10.8%	7.6%	8.6%	-2.3%	0.9%	7.7%

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

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Mentioned companies

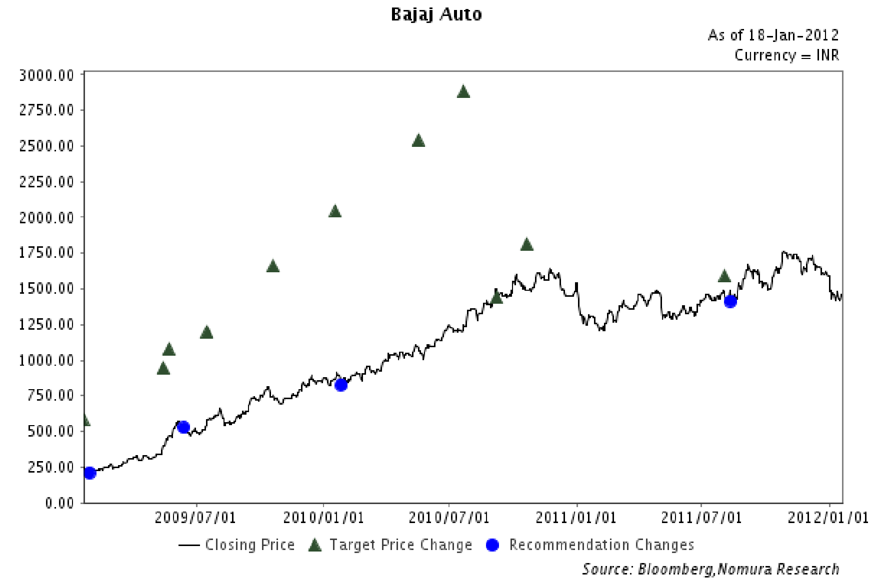
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Bajaj Auto	BJAUT IN	INR 1455	18-Jan-2012	Neutral	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Bajaj Auto	Buy	03-Aug-2011

Bajaj Auto (BJAUT IN) **INR 1455 (18-Jan-2012)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
03-Aug-11	Neutral		1,454.65
03-Aug-11		1,588.00	1,454.65
21-Oct-10		1,810.00	1,490.20
08-Sep-10		1,441.50	1,480.60
22-Jul-10		2,883.00	1,245.25
17-May-10		2,541.00	1,083.47
18-Jan-10	Buy		867.85
18-Jan-10		2,041.00	867.85
20-Oct-09		1,659.00	750.80
17-Jul-09		1,201.00	576.80
05-Jun-09	Neutral		566.70
22-May-09		1,076.00	470.50
14-May-09		949.00	397.38
19-Jan-09	Buy		249.50
19-Jan-09		578.00	249.50

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Bajaj Auto at INR1,588, based on a Discounted Cashflow (DCF) method. We have built in an earnings CAGR of 9% over the next two years (FY11-FY13F). We estimate that its top-line will achieve a CAGR of 16% over the same period, but note that reduced DEPB benefits would lead to a decline in margins. We have assumed 5% terminal growth and 12.3% cost of equity.

Risks that may impede the achievement of the target price Key risks • In case India's GDP growth slows below Nomura's expectations of 7.9% for FY13F, there could be downside risks to our estimates. • Lower than expected growth in export volumes due to recent price increases taken by the company to pass on the impact of lower export incentives. • Incase, Honda adopts a very aggressive pricing strategy to expand market share, there could be downside risks to our estimates.

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STOCKS

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STOCKS

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