

CMP: Rs.1561

Recommendation: BUY

Target Price: Rs.1835

**Sector: Automobiles****Key Data**

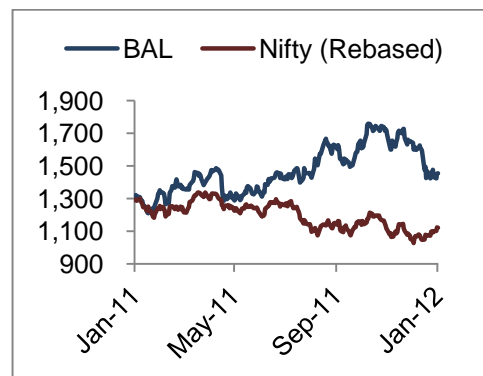
Financial Year End	March
Market Cap (Rs. Cr.)	42,096
Market Cap (USD Bn.)	8.4
52 Week H/L	1824/1166
Avg. 12M volumes ('000)	542
Face Value (Rs.)	10
Bloomberg	BJAUT IN
Reuters	BAJA.BO
NSE	BAJAJ-AUTO
BSE	532977

Source: BSE, SIHL Research

**Shareholding Pattern**

	Q3 FY12	Q2 FY12
Promoters	50.0%	50.0%
FII's	16.1%	15.9%
DII's	8.5%	8.3%
Others	25.4%	25.7%

Source: BSE, SIHL Research



Source: Ace Equity, SIHL Research

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**Strong performance driven by sales of high end bikes and price hikes**

Bajaj Auto (BAL) reported 21.2% YoY (-3.9% QoQ) growth in total revenue to Rs.5,063 Cr. (our est. Rs.5,040 Cr.); driven by volume growth of 13.6% YoY (-7.6% QoQ) to 1,075,441 units and increase in net realization by 5.8% YoY and 3.8% QoQ to Rs.45,004. Q3 FY12 volumes were down QoQ due to Dussehra and Diwali in the month of October in 2011 as compared to 2010 in month of November. So most of the stocking at dealer level happened in the month of September 2011 and hence Q2 FY12 volumes were stronger as compared to Q3 FY12. Average realization was higher due to price hike of around 3.5% in Q3 FY12 incorporated across the segment in order to negate the difference between DEPB and Duty Drawback Scheme. Contribution of 125 cc+ motorcycle in the total sales volume stood at 51.8% vs. 49.7% YoY and 50.2% QoQ which also lead to increase in realization. BAL management has revised downward its FY12 volumes to 4.4mn from its earlier target of 4.5mn due to sluggish sales in domestic markets. Strong growth in exports should provide some relief to lower domestic sales growth.

**Price hike and rupee depreciation boost EBITDA margin**

BAL's EBITDA margin grew by 63 bps YoY and 89 bps QoQ to 21.0% in Q3 FY12. Growth in EBITDA margin was mainly due to higher realization and decrease in raw material cost. Raw material cost as % of total revenue came lower 41 bps YoY and 91 bps QoQ, due to growth in high realization exports on account of weak rupee. Other expenses as % of total revenue came higher 64 bps YoY due to packaging and forwarding charges related to exports. We estimate commodity prices to remain at current level or have a downward traction and BAL may be able to maintain 20%+ EBITDA margin in Q4 FY12 and FY13.

**Forex blues**

BAL has entered into option contracts to hedge highly probable forecasted transactions. Accordingly MTM loss of Rs.59 Cr. has been recognized in Q3 FY12. These are all notional losses and would be written back as the contracts unfold. After neglecting a loss of Rs.59 Cr. in Q3 FY12, PAT has grown by 28.0% YoY to Rs.854 Cr. BAL has priced its exports at Rs.47 to dollar and Rupee-Dollar anywhere above 47 would have positive impact on top-line as 35% of total sales is exports.

**New product launches to drive the growth ahead**

BAL is all set to launch its KTM Duke bike in India by the end of January 2012. The 200cc Duke will be assembled at Bajaj Auto's Chakan plant. The company had already started manufacturing these bikes in India for the European market, where KTM 125 was introduced a few months back and is already leading the segment in the European market. The KTM bikes will be offered in the range of Rs1-1.5 lakh and BAL will launch more models going ahead. Any slowdown in Boxer segment in domestic market would be compensated by launch of altogether new segment. BAL is also planning to launch all new pulsar in Q1 FY13 and soon after by another motorcycle that is completely new (no clear indication given by management). Bajaj finally unveiled its four wheeled vehicle, RE-60 in Auto Expo held at Delhi in January 2012. BAL will start its commercial production in a few months and price will be announced once production starts. Showcase of RE60 marks a remarkable transition from being a scooter company to a motorcycle firm and now a two-wheeler company that also makes four-wheelers. Developed over a period of four years, the RE-60 is scheduled for launch in the country later this year. But the product may find its way to Sri Lanka ahead of its commercial launch in the domestic market. Sri Lanka is the biggest export market for 3-W and 90% of total 3-W exported are actually used as personal vehicles. So that makes Sri Lanka the most conducive market for the launch of RE-60.

### Slowdown in domestic motorcycle market but exports continue to grow strongly

BAL has revised its guidance for FY12 to around 4.4 mn vehicles due to slowdown in domestic motorcycle markets. Overall motorcycle sales in 9M FY12 has grown by 15.2% while domestic motorcycle sales have grown by 8.5% which is led by 0.45% YoY growth in 75-125 cc segment. Lower sales of motorcycle in domestic market are mainly due to lower volumes of Boxer which has a slow start in domestic market. The Boxer motorcycle is primarily an export model, in that sense its growth continues nicely. In December 2011, BAL hit a new high in the biggest export market for Boxer which is Nigeria and retailed a total of almost 33,000 vehicles. Export volumes in 9M FY12 have grown by 31.1% YoY. 3-W in FY12 has grown by 21.5%; due to 40.4% growth in 3-W exports. We have revised downward our FY12 volume estimates to 4.4 million from earlier target 4.6 million. We estimate growth in exports and weak rupee would be able to mitigate the impact of slowdown in domestic market.

### Valuation & Outlook

We have downgraded our FY12E EPS to Rs.108.8 (Our earlier estimate was Rs.111.5). We estimate contribution from high end bikes and exports would play a major role in volume in case of further slowdown in domestic motorcycle sales. We estimate there would be no further price hikes as it would further affect its domestic volumes. We estimate EBITDA margin for FY12 would be 20%+ due to weak Rupee (35% of BAL volume is Exports) and softening of raw material prices. We have maintained our FY13 sales volume target and not considered any volume of RE-60 until further guidance by management. We have maintained our FY13E EBITDA margin at 20.1% and marginally revised our EPS target to 119.2 (our earlier target was 118.6). key upside risk to our estimates are higher contribution from 125+ cc motorcycles and better than estimated sales volume of RE-60 in export market.

The stock is currently trading at PE of 14.3x FY12E EPS of Rs.108.8 and 13.1x FY13E EPS of Rs.119.2.

We have revised our target price upwards to Rs.1835 (earlier Rs.1811) on DCF basis and reiterate BUY, with an investment horizon of 12 months and upside potential of 17.5%.

### Assumption & Valuation:

#### DCF based Valuation

Rs. Cr.	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	Terminal Value
Free Cash Flow	3,919	3,240	2,737	3,431	3,918	3,707	3,756	3,756	64,966
NPV of Cash Flow	3,737	2,808	2,156	2,457	2,550	2,193	2,020	2,020	-
NPV Enterprise Value	-	-	-	-	-	-	-	-	52,860

Source: SIHL Research

Terminal Growth Rate	4%
Beta	0.74
Risk Free Rate	8%
Market Premium	5%
Post Tax Cost of Debt	6.6%
Cost of Equity	11.7%
WACC	10.0%
Debt	33%
Equity	67%

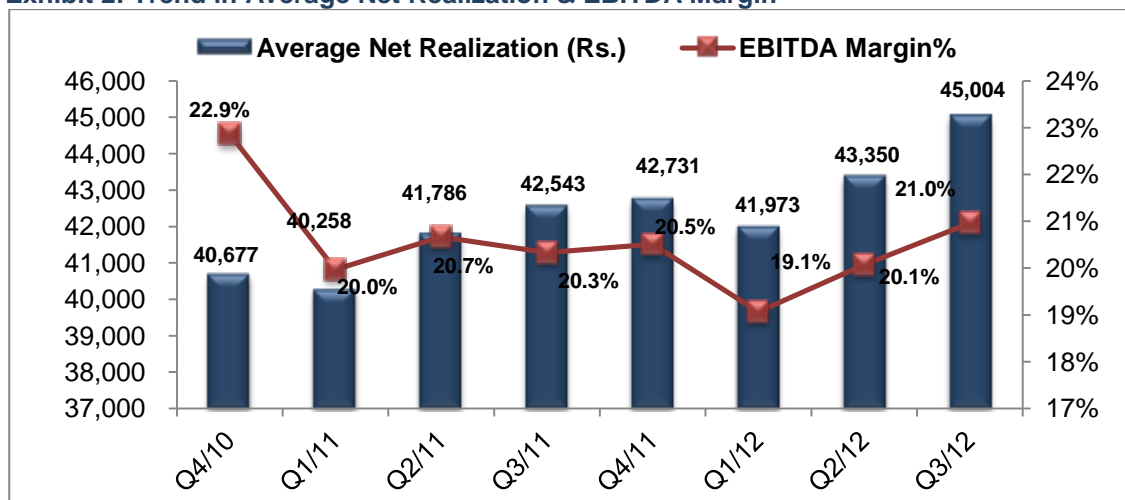
Total Enterprise Value (Rs. Cr.)	52,860
Net Debt (Rs. Cr.)	(228)
No of Shares (Cr.)	28.94
Value per Share	1,835

Exhibit 1: Trend in Volume Growth

Product Mix	Q3 FY12	Q3 FY11	YoY	Q2 FY12	QoQ
<b>Motorcycle</b>	<b>946,749</b>	<b>838,482</b>	<b>12.9%</b>	<b>1,027,357</b>	<b>-7.8%</b>
Domestic	642,395	598,553	7.3%	684,671	-6.2%
75-125 cc	269,525	265,684	1.4%	291,722	-7.6%
125 cc+	372,870	332,869	12.0%	392,949	-5.1%
Export	304,354	239,929	26.9%	342,686	-11.2%
75-125 cc	186,756	155,737	19.9%	219,541	-14.9%
125 cc+	117,598	84,192	39.7%	123,145	-4.5%
<b>3-W</b>	<b>128,692</b>	<b>108,369</b>	<b>18.8%</b>	<b>136,780</b>	<b>-5.9%</b>
Domestic	52,134	51,655	0.9%	55,332	-5.8%
Export	76,558	56,714	35.0%	81,448	-6.0%
<b>Total</b>	<b>1,075,441</b>	<b>946,851</b>	<b>13.6%</b>	<b>1,164,137</b>	<b>-7.6%</b>

Source: Company Data, SIHL Research

Exhibit 2: Trend in Average Net Realization &amp; EBITDA Margin



Source: Ace Equity, SIHL Research

## Exhibit 3: Standalone Quarterly Income Statement

Particulars, Rs. Cr.	Q3 FY12	Q3 FY11	YoY	Q2 FY12	QoQ
<b>Gross Revenue</b>	<b>5,084</b>	<b>4,214</b>	<b>20.6%</b>	<b>5,295</b>	<b>-4.0%</b>
Less: Excise Duty	244	234	4.4%	249	-1.9%
<b>Net Sales</b>	<b>4,840</b>	<b>3,980</b>	<b>21.6%</b>	<b>5,046</b>	<b>-4.1%</b>
Other Operating Income	223	197	13.5%	221	1.1%
<b>Total Revenue</b>	<b>5,063</b>	<b>4,177</b>	<b>21.2%</b>	<b>5,267</b>	<b>-3.9%</b>
Total Expenditure	4,002	3,328	20.3%	4,210	-4.9%
<b>EBITDA</b>	<b>1,061</b>	<b>849</b>	<b>25.0%</b>	<b>1,057</b>	<b>0.4%</b>
EBITDA Margin%	21.0%	20.3%	64 bps	20.1%	89 bps
Depreciation	32	31	3.6%	39	-18.5%
<b>EBIT</b>	<b>1,029</b>	<b>818</b>	<b>25.8%</b>	<b>1,018</b>	<b>1.1%</b>
EBIT Margin%	20.3%	19.6%	74 bps	19.3%	100 bps
Other Income	91	99	-8.7%	74	21.9%
Interest	0	0		20	
Exceptional Items	(59)	-		(95)	
<b>PBT</b>	<b>1,061</b>	<b>917</b>	<b>15.7%</b>	<b>977</b>	<b>8.6%</b>
PBT Margin%	21.0%	22.0%	(100) bps	18.5%	241 bps
Tax	266	250	6.3%	251	6.0%
<b>PAT</b>	<b>795</b>	<b>667</b>	<b>19.3%</b>	<b>726</b>	<b>9.6%</b>
PAT Margin%	15.7%	16.0%	(26) bps	13.8%	193 bps
<b>EPS</b>	<b>27.48</b>	<b>23.04</b>	<b>19.3%</b>	<b>25.08</b>	<b>9.6%</b>

Source: Ace Equity, SIHL Research

## Exhibit 4: Consolidated Annual Income Statement

Particulars, Rs. Cr.	FY09	FY10	FY11	FY12E	FY13E
<b>Gross Sales</b>	<b>9,059</b>	<b>12,153</b>	<b>16,962</b>	<b>20,514</b>	<b>24,635</b>
Less: Excise Duty	613	610	933	923	1,709
<b>Net Sales</b>	<b>8,446</b>	<b>11,543</b>	<b>16,029</b>	<b>19,591</b>	<b>22,926</b>
Other Operating Income	369	431	614	812	426
<b>Total Revenue</b>	<b>8,815</b>	<b>11,974</b>	<b>16,642</b>	<b>20,402</b>	<b>23,352</b>
<b>Total Expenditure</b>	<b>7,691</b>	<b>9,387</b>	<b>13,284</b>	<b>16,265</b>	<b>18,670</b>
<b>EBITDA</b>	<b>1,124</b>	<b>2,587</b>	<b>3,359</b>	<b>4,137</b>	<b>4,683</b>
<b>EBITDA Margin %</b>	<b>12.8%</b>	<b>21.6%</b>	<b>20.2%</b>	<b>20.3%</b>	<b>20.1%</b>
Depreciation	131	137	124	147	170
<b>EBIT</b>	<b>993</b>	<b>2,450</b>	<b>3,235</b>	<b>3,990</b>	<b>4,512</b>
<b>EBIT Margin %</b>	<b>11.3%</b>	<b>20.5%</b>	<b>19.4%</b>	<b>19.6%</b>	<b>19.3%</b>
Other Income	112	123	382	295	295
Interest	22	7	2	1	1
<b>PBT</b>	<b>878</b>	<b>2,404</b>	<b>4,441</b>	<b>4,284</b>	<b>4,856</b>
<b>PBT Margin %</b>	<b>10.0%</b>	<b>20.1%</b>	<b>26.7%</b>	<b>21.0%</b>	<b>20.8%</b>
Tax	289	706	1,009	1,135	1,408
<b>Effective Tax Rate</b>	<b>32.9%</b>	<b>29.4%</b>	<b>22.7%</b>	<b>26.5%</b>	<b>29.0%</b>
<b>PAT</b>	<b>589</b>	<b>1,698</b>	<b>3,432</b>	<b>3,149</b>	<b>3,448</b>
<b>PAT Margins %</b>	<b>6.7%</b>	<b>14.2%</b>	<b>20.6%</b>	<b>15.4%</b>	<b>14.8%</b>
<b>Consolidated Profit</b>	<b>525</b>	<b>1,595</b>	<b>3,455</b>	<b>3,149</b>	<b>3,448</b>
<b>EPS</b>	<b>18.2</b>	<b>55.1</b>	<b>119.4</b>	<b>108.8</b>	<b>119.2</b>

Source: Ace Equity, SIHL Research

**Exhibit 5: Consolidated Annual Balance Sheet**

Particulars, Rs. Cr.	FY09	FY10	FY11	FY12E	FY13E
<b>Sources of Funds</b>					
<b>Shareholder's Fund</b>	<b>1,813</b>	<b>2,717</b>	<b>4,807</b>	<b>6,602</b>	<b>8,527</b>
Share Capital	145	145	289	289	289
Reserves & Surplus	1,668	2,572	4,518	6,313	8,237
Loans Funds	1,595	1,361	347	426	537
<b>Total Liabilities</b>	<b>3,412</b>	<b>4,080</b>	<b>5,155</b>	<b>7,028</b>	<b>9,064</b>
<b>Application of Funds</b>					
<b>Gross Block</b>	<b>3,340</b>	<b>3,386</b>	<b>3,771</b>	<b>4,021</b>	<b>4,271</b>
Less: Depreciation & Write Down	1,809	1,902	1,916	2,063	2,233
Net Block	1,530	1,483	1,855	1,958	2,038
Capital WIP	22	42	70	70	70
<b>Fixed Assets</b>	<b>1,552</b>	<b>1,525</b>	<b>1,925</b>	<b>2,028</b>	<b>2,108</b>
Investment	1,423	3,445	4,284	4,284	6,000
Deferred Tax Assets (net)	26	34	7	7	7
<b>Current Assets, Loans &amp; Advances</b>	<b>2,302</b>	<b>3,028</b>	<b>2,905</b>	<b>5,217</b>	<b>5,888</b>
Inventories	372	458	576	714	807
Sundry Debtors	281	272	342	428	479
Cash and Bank Balances	143	107	575	1,256	1,380
Other Current Assets	126	106	216	265	304
Loans & Advances	1,381	2,085	1,196	2,553	2,919
<b>Current Liabilities and Provision</b>	<b>2,458</b>	<b>4,281</b>	<b>3,967</b>	<b>4,508</b>	<b>4,939</b>
Liabilities	1,234	2,032	2,437	2,979	3,409
Provision	1,224	2,249	1,530	1,530	1,530
<b>Net Current Assets</b>	<b>(156)</b>	<b>(1,253)</b>	<b>(1,062)</b>	<b>708</b>	<b>949</b>
<b>Total Assets</b>	<b>3,412</b>	<b>4,080</b>	<b>5,155</b>	<b>7,028</b>	<b>9,064</b>

Source: Ace Equity, SIHL Research

**Exhibit 6: Consolidated Cash Flow Statement**

Particulars, Rs. Cr.	FY09	FY10	FY11	FY12E	FY13E
<b>Cash Flow from Operations</b>	<b>329</b>	<b>2,564</b>	<b>4,575</b>	<b>2,207</b>	<b>3,502</b>
PAT	525	1,595	3,455	3,149	3,448
Depreciation	131	137	124	147	170
Non Cash Adjustment	267	814	-	-	-
VRS Payout	(216)	(18)	-	-	-
Change in WC	(378)	36	996	(1,090)	(116)
<b>Cash Flow from Investing</b>	<b>(173)</b>	<b>(1,935)</b>	<b>(250)</b>	<b>(250)</b>	<b>(1,966)</b>
Capital Expenditure	(285)	(2,059)	(250)	(250)	(250)
Other Investing Cash Flow	112	124	-	-	(1,716)
<b>Cash Flow from Financing</b>	<b>(84)</b>	<b>(664)</b>	<b>(2,368)</b>	<b>(1,276)</b>	<b>(1,412)</b>
Issue of Equity	-	-	-	-	-
Issue/Repay of Debt	262	(251)	(1,014)	78	112
Dividend Paid	(289)	(317)	(1,157)	(1,157)	(1,302)
Dividend Tax	(49)	(5)	(197)	(197)	(221)
Other Financing Cash Flow	(8)	(90)	-	-	-
<b>Net Cash</b>	<b>71</b>	<b>(35)</b>	<b>1,957</b>	<b>680</b>	<b>124</b>
Opening Balance	71	143	107	575	1,256
<b>Closing Balance</b>	<b>143</b>	<b>107</b>	<b>575</b>	<b>1,256</b>	<b>1,380</b>

Source: Ace Equity, SIHL Research

## Exhibit 7: Key Ratios

Particulars	FY10	FY11	FY12E	FY13E
BV, (Rs.)	93.9	166.1	228.2	294.7
EPS, (Rs.)	110.2	119.4	108.8	119.2
P/BV, x	15.6	8.8	6.4	5.0
P/E, x	13.3	12.3	14.3	13.1
ROE	58.7%	71.9%	47.7%	40.4%
ROCE	60.1%	62.8%	56.8%	49.8%
D/E, x	0.5	0.1	0.1	0.1
EBITDA Margins	21.6%	20.2%	20.3%	20.1%
EV/EBITDA, x	1.6	1.2	10.1	8.9

Source: Company Data, SIHL Research

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