

Q2FY2012 Review
 Sector: Auto
 BSE Sensex: 16,937

BAJAJ AUTO

 Maintain BUY
 CMP Rs1,616
 TP Rs1,850

Notional Forex Loss Dilutes Record Profit Performance

Bajaj Auto's (BJAUT) Q2FY12 adjusted net profit at Rs7.9bn was inline with our estimate. However, due to a notional forex loss of Rs954mn, reported profit was lower at Rs7.3bn. There was a sequential improvement in profitability as margins expanded 100bps to 20.1% (PINCe 20%). A 3.5% QoQ increase in blended realisations aided margin expansion. EBITDA per vehicle was up 1.3% YoY to Rs9.1k/unit.

Exports drive volumes to record high: Overall volumes during the quarter touched a high of 1.16mn units as exports grew 38% YoY to 424k units. Domestic volume growth was subdued at 6.7%. Additional dispatches were directed to export markets so as to take advantage of the higher export benefit rate under the DEPB scheme which ended on 30th September. Motorcycle and three wheeler export volumes were up 37% and 44% respectively. In contrast, domestic motorcycle volumes were up only 8.2%, while three wheelers declined 8.6%. During the quarter BJAUT relaunched the Boxer brand with a 150cc product especially targeted towards the rural market.

Margins better than expectation: Realisations were better than expected especially on the export front. Blended realisation increased by 3.5% QoQ as against our expectation of flat realisation. A lower, 1.9% QoQ growth in raw material cost per vehicle aided in a 100bps sequential expansion in profitability. EBITDA per vehicle at Rs9.1k per unit was 2.3% higher than our estimate.

Notional forex loss of Rs954mn: The company has entered into range forward contracts so as to protect export realisations. Due to the depreciation of the INR against the USD, the company reported a notional loss of Rs954mn (Rs650mn net of tax) on these contracts. However, these losses will be reversed in the coming quarters as the exports are realised or the INR depreciation is reversed. Adjusted for this notional loss, net profits were up 16% YoY to Rs7.9bn.

Outlook: The DEPB export incentive was replaced by the Duty drawback scheme effective 1st October and incentive rate was reduced from 9% to 5.5%. BJAUT undertook price hikes to the tune of 3.5% in export markets and 1% on select products in domestic market. Additionally, the government has announced a 1% special duty benefit on exports till 31st Mar'12. The sharp depreciation of the INR is expected to further aid exports profitability. As a result, despite the reduced level of exports benefit, we maintain our estimate for the company. Our earnings estimate for FY12 and FY13 are Rs107.5 and Rs123.3 respectively.

VALUATIONS AND RECOMMENDATION

The stock is trading at 13.1x its FY13E earnings. We reiterate 'BUY' recommendation on the stock with a target price of Rs1,850 discounting FY13E earnings 15x.

KEY FINANCIALS		(Rs mn)			
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	84,369	115,085	159,981	192,131	218,257
YoY Gr. (%)	(2.6)	36.4	39.0	20.1	13.6
EBITDA	11,751	25,752	33,836	39,090	44,112
EBITDA Marg. (%)	13.4	21.6	20.4	19.7	19.6
Adjusted Net Profit	7,939	18,118	26,152	31,106	35,691
YoY Gr. (%)	(3.7)	128.2	44.3	18.9	14.7
KEY RATIOS					
Dil. EPS (Rs)	27.4	62.6	90.4	107.5	123.3
ROCE (%)	36.5	65.4	73.4	68.5	61.4
RoE (%)	48.5	78.5	66.7	54.5	48.0
PER (x)	58.9	25.8	17.9	15.0	13.1
EV/Net sales (x)	5.6	4.0	2.7	2.2	1.8
EV/EBDITA (x)	40.2	18.1	12.8	10.7	9.1

20 October 2011

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	42,000	47,773	52,673
YoY Gr. (%)	23.5	22.8	21.3
EBITDA	8,615	9,108	10,574
EBITDA mar. (%)	20.5	19.1	20.1
Adj. Net Profit	6,758	7,111	7,907
YoY Gr. (%)	20.1	20.5	15.9

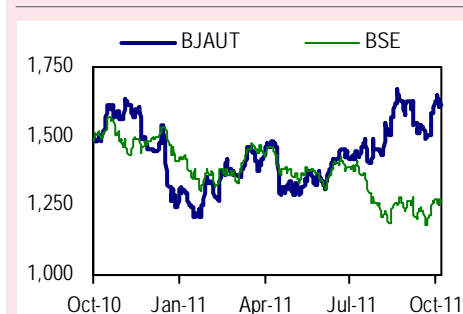
STOCK DATA

Market Cap	Rs467.6bn
Book Value per share	Rs169.7
Eq Shares O/S (F.V. Rs10)	289.4mn
Free Float	50%
Avg Traded Val. (6 mnts)	Rs709mn
52 week High/Low	Rs1695/1190
Bloomberg Code	BJAUT IN
Reuters Code	BAJA.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	0.9	13.8	8.8
Relative	(0.2)	22.0	23.6

RELATIVE PERFORMANCE



Financial Table

Rs mn	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Net Sales	52,673	43,418	21.3	47,773	10.3	100,446	82,319	22.0
EBITDA	10,574	8,972	17.9	9,108	16.1	19,682	16,741	17.6
<i>EBITDA Margins %</i>	<i>20.1</i>	<i>20.7</i>	<i>-59bps</i>	<i>19.1</i>	<i>101bps</i>	<i>19.6</i>	<i>20.3</i>	<i>-74bps</i>
Other Income	745	837	(11.0)	731	1.9	1,476	1,654	(10.8)
Interest	202	7		2		205	13	
Depreciation	394	300	31.6	306	28.7	701	618	13.4
PBT	10,722	9,503	12.8	9,531	12.5	20,253	17,764	14.0
Tax	2,815	2,682	5.0	2,420	16.3	5,235	5,042	3.8
<i>% PBT</i>	<i>26.3</i>	<i>28.2</i>	<i>-197bps</i>	<i>25.4</i>	<i>87bps</i>	<i>25.8</i>	<i>28.4</i>	<i>-253bps</i>
Adjusted PAT	7,907	6,821	15.9	7,111	11.2	15,017	12,722	18.0
Exceptional Items	(649)	-		-		(649)	-	
Reported PAT	7,258	6,821	6.4	7,111	2.1	14,369	12,722	12.9
EPS (Rs)	27.3	23.6	15.9	24.6	11.2	51.9	44.0	18.0

Vehicle sales

(units)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Total Sales	1,164,127	1,000,548	16.3	1,092,815	6.5	2,256,942	1,928,884	17.0
Domestic	739,993	693,216	6.7	665,451	11.2	1,405,444	1,297,653	8.3
Exports	424,134	307,332	38.0	427,364	(0.8)	851,498	631,231	34.9
2-Wheelers	1,027,347	883,472	16.3	963,051	6.7	1,990,398	1,711,890	16.3
Domestic	684,661	632,650	8.2	623,175	9.9	1,307,836	1,198,798	9.1
Exports	342,686	250,822	36.6	339,876	0.8	682,562	513,092	33.0
3-Wheelers	136,780	117,076	16.8	129,764	5.4	266,544	216,994	22.8
Domestic	55,332	60,566	(8.6)	42,276	30.9	97,608	98,855	(1.3)
Exports	81,448	56,510	44.1	87,488	(6.9)	168,936	118,139	43.0

(%) of Sales

(%)	Sep-11	Sep-10	YoY (bps)	Jun-11	QoQ (bps)	H1FY12	H1FY11	YOY (bps)
Material Cost	71.4	70.7	70	72.6	(110)	72.0	70.9	100
Staff Cost	2.5	2.6	(10)	2.9	(40)	2.7	2.9	(20)
Other Expenses	6.0	6.0	10	5.5	60	5.8	5.8	0
EBITDA Margins	20.1	20.7	(60)	19.1	100	19.6	20.3	(70)

Per Vehicle

(Rs)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Domestic realisations	44,777	43,679	2.5	43,563	2.8	44,202	42,810	3.3
Export realisations	40,860	37,516	8.9	39,498	3.4	40,176	37,435	7.3
Blended realisations	45,246	43,394	4.3	43,715	3.5	44,505	42,677	4.3
Material cost	32,312	30,695	5.3	31,720	1.9	32,026	30,273	5.8
Staff cost	1,126	1,141	(1.3)	1,271	(11.4)	1,196	1,247	(4.1)
Other Expenses	2,725	2,592	5.2	2,389	14.1	2,563	2,477	3.4
EBITDA	9,083	8,967	1.3	8,335	9.0	8,721	8,679	0.5

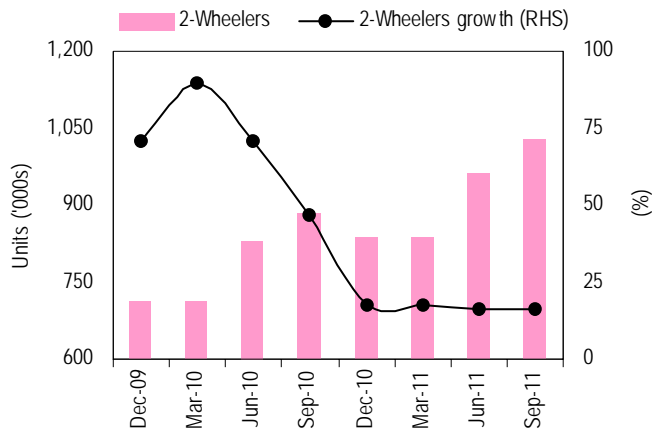
Bajaj Auto - Motorcycle Volume Break Up

(units)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Total Motorcycle	1,027,285	883,472	16.3	963,040	6.7	1,990,325	1,711,863	16.3
75-125 CC	511,263	450,016	13.6	542,382	(5.7)	1,053,645	927,708	13.6
125-250 CC	516,022	433,456	19.0	420,658	22.7	936,680	784,155	19.5
Domestic Motorcycles	684,599	632,650	8.2	623,164	9.9	1,307,763	1,198,771	9.1
75-125 CC	291,722	287,060	1.6	306,074	(4.7)	597,796	598,214	(0.1)
125-250 CC	392,877	345,590	13.7	317,090	23.9	709,967	600,557	18.2
Export Motorcycles	342,686	250,822	36.6	339,876	0.8	682,562	513,092	33.0
75-125 CC	219,541	162,956	34.7	236,308	(7.1)	455,849	329,494	38.3
125-250 CC	123,145	87,866	40.2	103,568	18.9	226,713	183,598	23.5

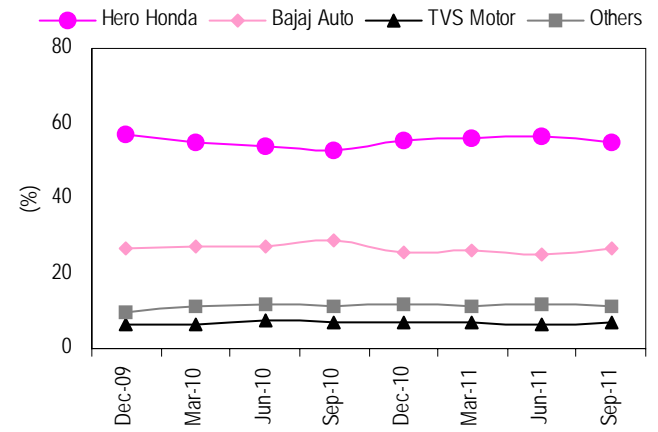
Domestic Motorcycles Market Share

(units)	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Industry Sales	2,558,453	2,216,515	15.4	2,464,143	3.8	5,022,596	4,313,907	16.4
Market Share (%)	26.8	28.5	-180bps	25.3	150bps	26.0	27.8	-170bps

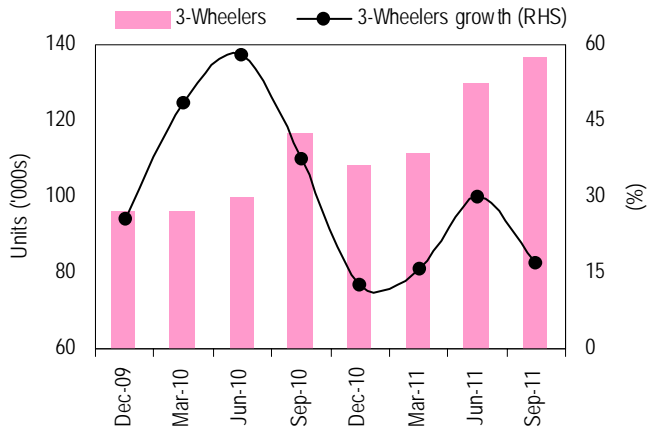
Bajaj Auto 2-Wheelers Volumes



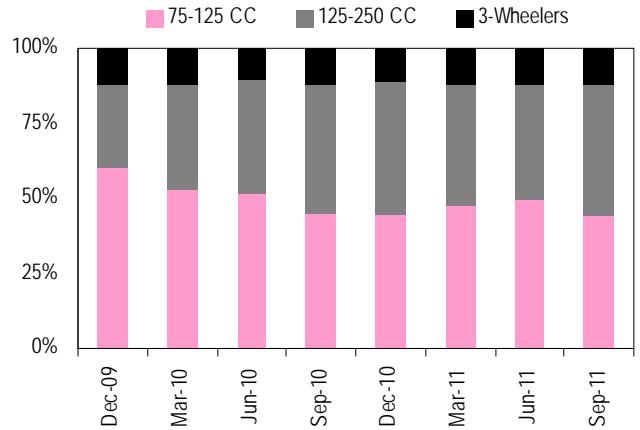
Domestic Motorcycles Marketshare



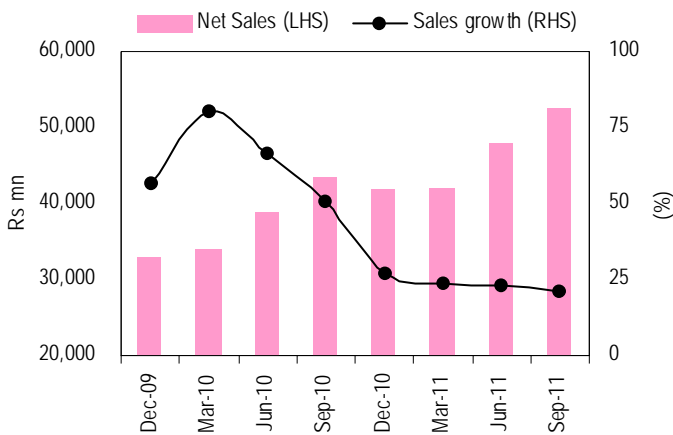
Bajaj Auto 3-Wheeler Volumes



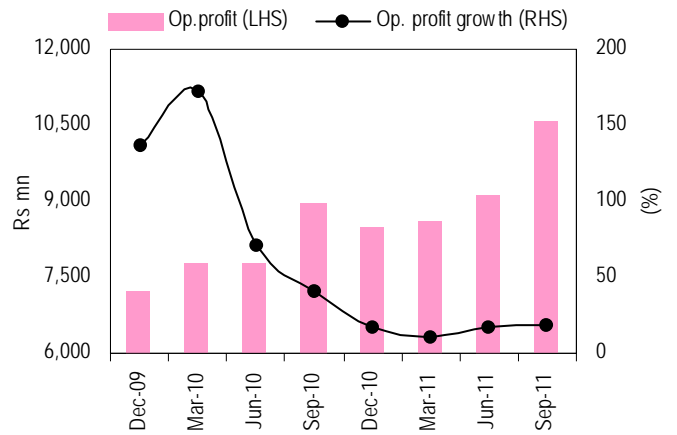
Bajaj Auto Sales-Mix



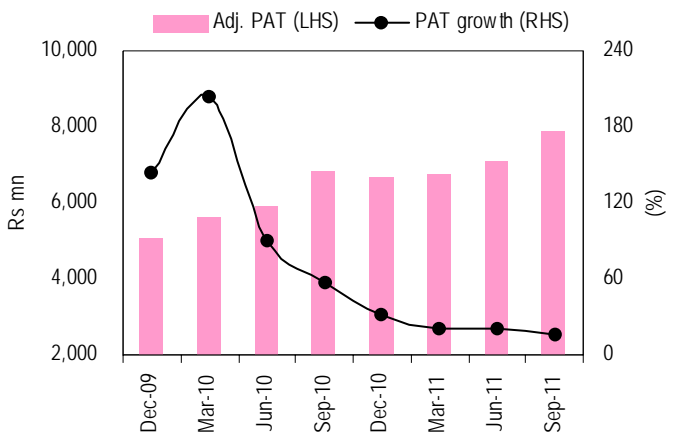
Net Sales



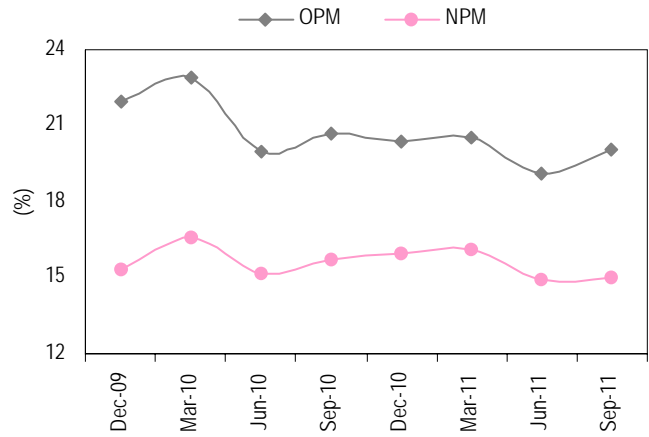
Operating Profits



Net Profit



Profitability Trend



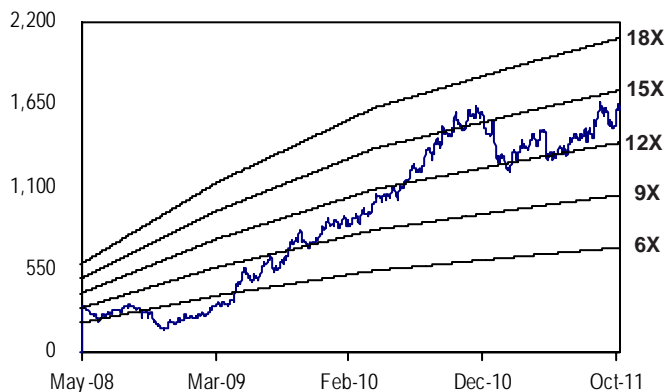
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	84,369	115,085	159,981	192,131	218,257
Growth (%)	(2.6)	36.4	39.0	20.1	13.6
Operating profit	8,295	21,835	27,942	32,733	37,059
Other operating income	3,456	3,917	5,894	6,357	7,053
EBITDA	11,751	25,752	33,836	39,090	44,112
Growth (%)	(7.9)	119.2	31.4	15.5	12.8
Depreciation	(1,298)	(1,365)	(1,228)	(1,428)	(1,539)
Other income	1,389	1,399	3,671	5,019	6,390
EBIT	11,842	25,786	36,279	42,681	48,962
Interest paid	(210)	(60)	(17)	(70)	(70)
PBT (before E/o items)	11,632	25,726	36,262	42,611	48,892
Tax provision	(3,693)	(7,608)	(10,110)	(11,505)	(13,201)
E/o Income / (loss)	(1,374)	(1,082)	7,246	-	-
Net profit	6,565	17,036	33,397	31,106	35,691
Adjusted net profit	7,939	18,118	26,152	31,106	35,691
Growth (%)	(3.7)	128.2	44.3	18.9	14.7
Diluted EPS (Rs)	27.4	62.6	90.4	107.5	123.3
Diluted EPS Growth (%)	(3.7)	128.2	44.3	18.9	14.7

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	10,258	24,644	43,508	42,611	48,892
Depreciation	818	918	128	1,428	1,539
Total tax paid	(3,889)	(7,506)	(9,773)	(11,337)	(12,983)
Chg in working capital	(555)	8,111	(4,124)	559	583
Other operating activities	(20)	(9)	-	-	-
Cash flow from oper. (a)	6,612	26,158	29,739	33,261	38,031
Capital expenditure	(3,428)	(485)	(443)	(3,200)	(2,690)
Chg in investments	(1,622)	(17,237)	8,899	(2,500)	(2,500)
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(5,050)	(17,722)	8,456	(5,700)	(5,190)
Free cash flow (a+b)	1,562	8,436	38,195	27,561	32,841
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	2,357	(2,314)	(10,134)	(167)	(151)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(3,386)	(3,724)	(6,749)	(13,452)	(15,184)
Other financing activities	(1,833)	2,141	(126)	-	-
Cash flow from fin. (c)	(2,862)	(3,897)	(17,009)	(13,620)	(15,335)
Net chg in cash (a+b+c)	(1,300)	4,539	21,186	13,941	17,506

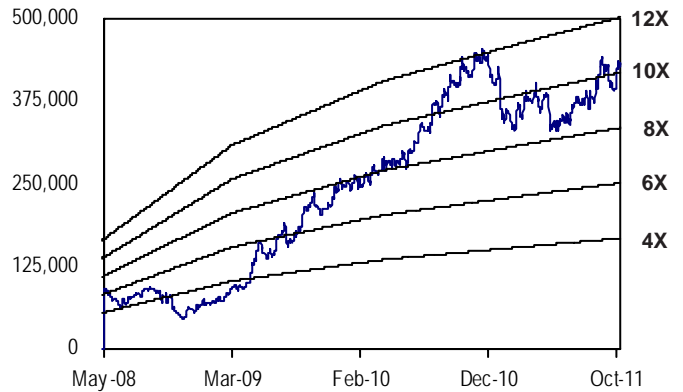
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	1,447	1,447	2,894	2,894	2,894
Reserves & surplus	17,250	27,837	46,209	62,131	80,950
Shareholders' funds	16,864	29,283	49,102	65,024	83,844
Preference Share Capital	-	-	-	-	-
Total Debt	15,700	13,386	3,252	3,084	2,934
Capital Employed	32,564	42,669	52,354	68,108	86,778
Net fixed assets	15,644	15,211	15,526	17,298	18,448
Cash & Cash Eq.	11,507	16,046	37,232	51,173	68,679
Net other Current Assets	(2,492)	(13,754)	(16,392)	(18,653)	(20,923)
Investments	7,947	25,184	16,285	18,785	21,285
Net Deferred Tax Assets	(42)	(17)	(297)	(495)	(712)
Total assets	32,564	42,669	52,354	68,108	86,778

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA Margin (%)	13.4	21.6	20.4	19.7	19.6
Net margin (%)	9.4	15.7	16.3	16.2	16.4
Dividend yield (%)	0.7	1.2	2.5	2.8	3.1
Net deb/Equity (x)	0.2	(0.1)	(0.7)	(0.7)	(0.8)
Net Working Capital (days)	(8)	(39)	(33)	(33)	(33)
Asset turnover (x)	1.7	1.8	1.9	1.8	1.7
ROCE (%)	36.5	65.4	73.4	68.5	61.4
RoE (%)	48.5	78.5	66.7	54.5	48.0
EV/Net sales (x)	5.6	4.0	2.7	2.2	1.8
EV/EBITDA (x)	40.2	18.1	12.8	10.7	9.1
PER (x)	58.9	25.8	17.9	15.0	13.1
Price/Book (x)	27.7	16.0	9.5	7.2	5.6

P/E Band



EV/EBITDA



T E A M

EQUITY DESK

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SINGAPORE DESK

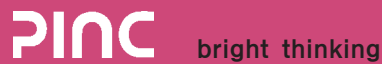
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