

22 October 2012

## Bajaj Auto

Long-term bet; Buy

Rating: **Buy**

Target Price: ₹2,028

Share Price: ₹1,770

Owing to subdued sales both domestically and overseas, Bajaj Auto reported lower 2Q results yoy, although largely on expected lines. With recovery in export volumes and positive impact of a delayed festival season, we expect steady recovery in 2H. We maintain our positive view of good profit growth in FY14.

- **Sales down yoy, qoq.** BAL's 2QFY13 sales were affected by a combination of factors such as lower motorcycle demand, delayed festival season, inauspicious periods for capital purchases and problems in export markets. As a result, its 2Q vehicle sales declined 9.9% yoy and 2.8% qoq. We expect volumes to recover in 3Q (due to festival demand) and export sales to recover following inventory correction (likely in 3Q).
- **2Q results subdued.** Bajaj Auto's 2QFY13 results were largely as per our expectations; income declined 4% yoy to ₹49.7, EBITDA was down 5% yoy to ₹9.3bn and adjusted profit dipped 10% yoy to ₹7.2bn (as per expectations). Adjusted EBITDA margin was 18.6%.
- **Per unit parameters better.** Despite lower volumes yoy and qoq, and a 5% increase in RM cost/vehicle, EBITDA/vehicle is up ~5% yoy and qoq. This is due to increase in realizations and the company's strategy of lower fixed costs (which lowers the negative operating leverage impact).
- **Volume traction visible.** We expect unit sales in October and November to cross 0.4m, boosted by festival demand and new launches. We anticipate residual growth of 10% in 2HFY13. We expect overall three-wheeler volumes to normalize to a plus 40,000 units monthly run-rate as demand in export markets like Sri Lanka recovers.
- **Valuation.** We reiterate Buy on Bajaj Auto with a price target of ₹2,028, based on 15x core earnings at ₹1,727, and value of cash and investments at ₹301. **Risks.** Keen competition leading to destructive price wars, adverse forex movements and a steep rise in commodity prices.

Key data	BJAUT IN / BAJA.BO
52-week high / low	₹1,850 / ₹1,410
Sensex / Nifty	18682 / 5684
3-m average volume	US\$13.8m
Market cap	₹512.2bn / US\$9.7bn
Shares outstanding	289.4m

Shareholding pattern (%)	Sep' 12	Jun' 12	Mar '12
Promoters	50.02	50.02	50.02
- of which, Pledged	0.14	0.92	0.92
Free Float	49.98	49.98	49.98
- Foreign Institutions	15.11	14.82	16.42
- Domestic Institutions	9.97	9.80	8.44
- Public	24.90	25.36	25.12

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	206,274	243,621
Net profit (₹m)	30,774	38,856
EPS (₹)	106.3	134.3
Growth (%)	-0.9	26.3
PE (x)	16.6	13.2
PBV (x)	6.6	5.1
RoE (%)	39.8	38.8
RoCE (%)	55.0	54.0
Dividend yield (%)	2.7	3.1
Net gearing (%)	15.3	12.9

Source: Anand Rathi Research

Quarterly results (YE Mar)	2QFY12	2QFY13e	% yoy	FY11	FY12	% yoy
Sales (₹m)	51,854	49,724	-4.1	98,917	98,381	-0.5
EBITDA (₹m)	9,755	9,272	-4.9	18,153	18,349	1.1
EBITDA margin (%)	18.8	18.6	-16bps	18.4	18.7	30bps
Interest (₹m)	0	0	-105.0	205	3	-98.7
Depreciation (₹m)	394	410	4.1	701	763	8.9
Other income (₹m)	1,564	1,247	-20.2	3,005	2,967	-1.3
PBT (₹m)	9,768	10,407	6.5	19,299	20,591	6.7
Tax (₹m)	2,510	3,000	19.5	4,930	6,000	21.7
Tax rate (%)	25.7	28.8	313bps	25.5	29.1	359bps
Adjusted Profit (₹m)	7,974	7,197	-9.7	15,084	14,563	-3.5

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	163,982	195,290	206,274	243,621	279,818
Revenue growth (%)	37.6	19.1	5.6	18.1	14.9
- Op. expenses	132,270	158,090	167,162	194,349	225,263
<b>EBIDTA</b>	<b>31,712</b>	<b>37,200</b>	<b>39,112</b>	<b>49,273</b>	<b>54,556</b>
EBITDA margin (%)	19.3	19.0	19.0	20.2	19.5
- Interest expenses	17	222	13	13	13
- Depreciation	1,228	1,456	1,477	1,536	1,653
+ Other income	5,765	6,080	5,814	7,391	9,034
- Extraordinary items	-7,246	1,340	-40	0	0
- Tax	10,080	10,221	12,672	16,259	18,268
Effective tax rate (%)	23.2	25.4	29.1	29.5	29.5
Reported Profit	33,397	30,040	30,804	38,856	43,657
Adjusted Profit	26,152	31,045	30,774	38,856	43,657
Adj. Profit growth (%)	44.0	18.7	-0.9	26.3	12.4
Adj. FDEPS (₹/share)	90.4	107.3	106.3	134.3	150.9
Adj. FDEPS growth (%)	44.0	18.7	-0.9	26.3	12.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	46,209	57,517	74,431	97,372	123,667
Net worth	49,102	60,411	77,325	100,266	126,560
Total debt	3,487	1,250	1,250	1,250	1,250
Def. tax liab. (net)	297	484	484	484	484
<b>Capital employed</b>	<b>52,886</b>	<b>62,145</b>	<b>79,060</b>	<b>102,001</b>	<b>128,295</b>
Net fixed assets	15,490	15,234	17,257	18,721	20,068
Investments	47,219	48,828	66,828	88,828	110,828
Net working capital	-12,111	-18,455	-19,065	-22,688	-20,739
Cash and bank balance	2,288	16,538	14,040	17,140	18,138
<b>Capital deployed</b>	<b>52,886</b>	<b>62,145</b>	<b>79,060</b>	<b>102,001</b>	<b>128,295</b>
No. of shares (m)	289	289	289	289	289
Net debt	-46,020	-64,116	-79,617	-104,718	-127,715
Net debt / Equity	-0.9	-1.1	-1.0	-1.0	-1.0
WC turn days	-20	-17	-16	-16	-16
Book value (₹/sh)	169.7	208.8	267.2	346.5	437.4

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Reported Profit	33,397	30,040	30,804	38,856	43,657
+ Depreciation	1,228	1,456	1,477	1,536	1,653
Cash profit	34,626	31,497	32,281	40,392	45,310
- Incr./decr. in WC	1,644	-6,344	-610	-3,624	0
Operating cash-flow	32,982	37,841	32,891	44,015	45,310
- Capex	1,507	1,200	3,500	3,000	3,000
Free cash-flow	31,475	36,641	29,391	41,015	42,310
- Dividend	13,311	14,975	15,973	18,303	19,967
+ Equity raised	1,447	0	0	0	0
+ Debt raised	-10,134	-2,001	0	0	0
- Investments	7,004	1,609	18,000	22,000	22,000
- Misc. items	1,199	3,805	-2,083	-2,387	-655
Net cash-flow	1,274	14,251	-2,499	3,100	998
+ Op. cash & bank bal.	1,014	2,288	16,538	14,040	17,140
Cl. cash & bank bal.	2,288	16,538	14,040	17,140	18,138

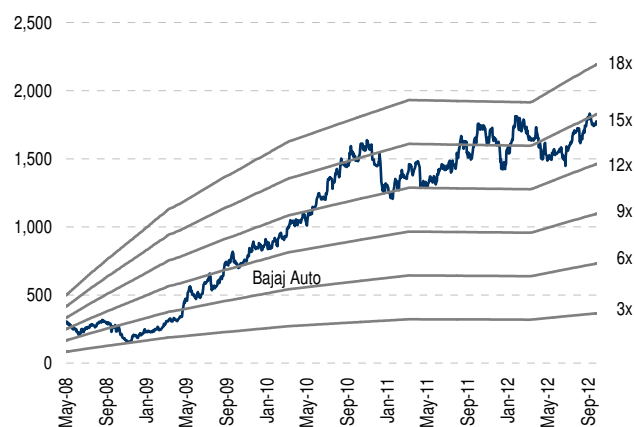
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,770**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	19.6	16.5	16.6	13.2	11.7
P/B (x)	10.4	8.5	6.6	5.1	4.0
EV/EBITDA (x)	14.7	12.0	11.1	8.3	7.0
RoE (%)	53.3	51.4	39.8	38.8	34.5
RoCE (%)	68.5	67.3	55.0	54.0	48.3
Dividend yield (%)	2.3	2.5	2.7	3.1	3.4
Dividend payout (%)	39.9	49.8	51.9	47.1	45.7
Debt to equity (%)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	16.7	18.7	18.7	14.8	13.4
Cash P/E	18.7	15.8	15.9	12.7	11.3
EV/sales	2.9	2.4	2.2	1.7	1.4
Inventory days	13	13	15	15	15
Receivables days	8	8	9	9	9
Payables days	41	39	40	40	40
Asset Turnover	3.0	3.0	2.5	2.3	2.1

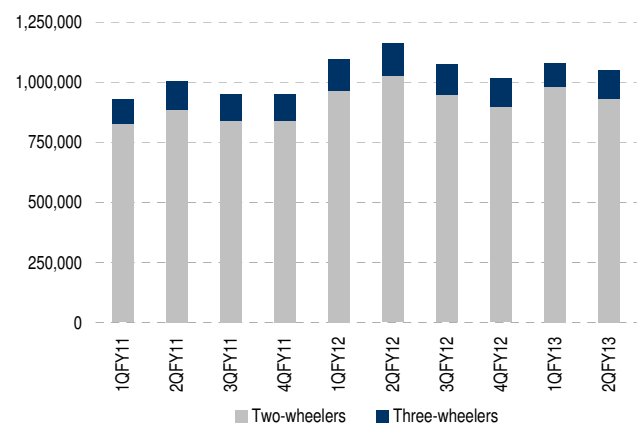
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**



Source: Company

## Conference call highlights

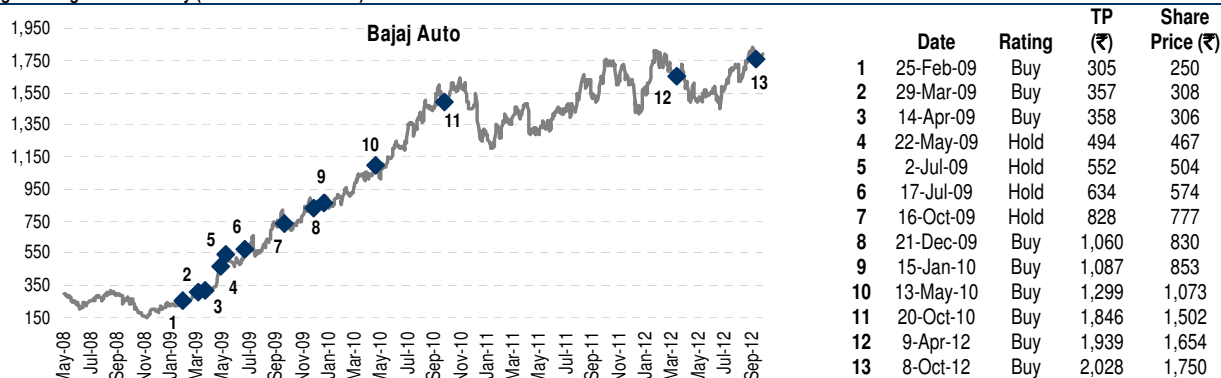
- Bajaj Auto's inventory is well within targeted levels for the early festival season. The management appears confident of selling its production in the festival season demand ahead, and currently is not seeing any need for discounts in the industry. The company is also seeing adequate demand pull from dealers, and hence doesn't see the need to push sales.
- Industry volume guidance for two-wheelers in FY13 is for a growth of 3-4% (slightly lowered guidance), while the ytd volume decline is ~1%.
- Demand trends in the first five days of Navratri indicate flat-to-marginally higher sales vs last year.
- 3Q outlook for three-wheelers is good as new permits have opened up in Delhi (10,000 units) and Hyderabad (20,000 permits, but on hold as a stay has been obtained).
- There have been two rounds of price increases for three-wheelers (₹2500 each in July and October), while in two-wheelers the Discover platform has seen price increase.
- RE60 is likely to be launched in 1QFY14, probably in the exports markets. The company expects this product to supplement rather than substitute existing three-wheeler demand.
- Results in the quarter include forex loss of ₹120m in other expenditure on lower than hedged exports and forex gain of ₹420m in other income on write-back of forex loss provided earlier. Adjusting for the forex component in other expenditure, the EBITDA margin in 2Q is 18.6% (vs 18.4% if unadjusted) and adjusted profit is ₹7.2bn (vs a reported profit of ₹7.4bn).
- The forex loss of ₹480m in 1H is mainly notional in nature, cash loss is only ₹18m.
- Rupee realization on US\$ in 2Q was ₹48.81. 2H is likely to be at ₹49.5, while FY14 is likely to be at a lower level of ₹53.
- With the lowering of the duty drawback rates, the effective benefit available for Bajaj Auto is 2% on duty drawback + 2% on favoured market scheme. The company has passed on the impact of the lower duty drawback rates for nearly 75-80% of the exports market.
- Capex for the next two years is ₹5bn. This is excluding the ₹2.5bn spent on purchasing aircraft earlier this year.

## Appendix

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