

Q3FY2012 Review
 Sector: Automobiles
 BSE Sensex: 16,644

BAJAJ AUTO

 Maintain BUY
 CMP Rs1,467
 TP Rs1,850

19 January 2012

Rupee Weakness Compensates For Domestic Sluggishness

Bajaj Auto's (BJAUT) Q3FY12 results were ahead of our expectation with better margins of 21% (PINCe 20.3%). Export realisations surged 9.9% QoQ as the company reaped benefits of price hikes undertaken and a sharp depreciation of the rupee. EBITDA per vehicle touched an all time high of Rs9.9k/unit (PINCe Rs9.4k/unit). Adjusting for a notional forex loss of Rs589mn (Rs400mn post tax), net profits grew 25% YoY to Rs8.4bn.

Exports compensate domestic weakness: Domestic volumes during the quarter grew at a modest 6.8% to 695k units. While motorcycle dispatches were up 7.3%, three wheeler volumes were flat at 52k units. The company witnessed a lower offtake especially post the festive season. The relaunched Boxer150 targeted at the rural segment failed to evoke a favourable response. Exports on the other hand continued to outperform with a growth of 26.9% and 35% in the motorcycle and three wheeler segments respectively. Contribution of exports to overall sales was at 35.4%.

Price hikes and rupee depreciation boost profitability: BJAUT undertook a price hike of 3.5% in the export markets to compensate for the reduction in export benefits. Sharp depreciation of the rupee vis-a-vis the USD also helped the company. The twin factors led to a 9.9% QoQ jump in export realisations to Rs44.9k/unit. Domestic realisations were up a modest 0.6% QoQ to Rs45k/unit on the back of price hikes on select products. Other operating income, despite lower export benefits, was 40% higher than our estimate at Rs2.2bn. Better export realisations and the higher other operating income led to 90bps QoQ margin expansion to 21%.

Notional forex loss of Rs589mn: Company suffered a MTM loss of Rs589mn on the forex hedges taken to protect export profitability. This is in addition to the Rs954mn hit taken in preceding quarter. With the appreciation of the rupee in the last few days, a part of these losses are expected to be reversed in Q4FY12. Adjusted for the notional loss, net profit rose 25.2% YoY to Rs8.4bn (PINCe Rs7.8bn).

Outlook: We have marginally (less than 1%) lowered our volume estimates for FY12 and FY13 to 4.4mn and 4.9mn units respectively. Accounting for the benefit of a weaker currency we have increased our margin estimates for FY12 and FY13 by ~50bps to 20.2%. As a result our earnings estimate for FY12 is increased by 1.5% to Rs109.2 while FY13 earnings estimate remains virtually unchanged at Rs123.1. Additionally we introduce FY14 earnings estimate of Rs139.

VALUATIONS AND RECOMMENDATION

The stock has underperformed in the recent past on account of sluggish domestic demand scenario. However, we expect strong exports and a weak currency to aid profit growth. The stock is trading at 11.9x 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)
	FY10	FY11	FY12E	FY13E	FY14E	
Net Sales	115,085	159,981	193,604	219,928	249,282	
YoY Gr.(%)	36.4	39.0	21.0	13.6	13.3	
EBITDA	25,752	33,836	40,835	46,048	51,233	
EBITDA Marg.(%)	21.6	20.4	20.2	20.2	19.8	
Adjusted Net Profit	18,118	26,152	31,586	35,630	40,227	
YoY Gr.(%)	128.2	44.3	20.8	12.8	12.9	
KEY RATIOS						
Dil. EPS (Rs)	62.6	90.4	109.2	123.1	139.0	
ROCE (%)	65.4	73.4	69.0	61.5	54.8	
RoE (%)	78.5	66.7	55.5	48.1	42.3	
PER (x)	23.4	16.2	13.4	11.9	10.6	
EV/Net sales (x)	3.7	2.4	2.0	1.6	1.4	
EV/EBDITA (x)	16.4	11.5	9.2	7.8	6.6	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Sales	47,773	52,673	50,632
YoY Gr. (%)	22.8	21.3	21.2
EBITDA	9,108	10,574	10,614
EBITDA mar. (%)	19.1	20.1	21.0
Adj. Net Profit	7,111	7,907	8,352
YoY Gr. (%)	20.5	15.9	25.2

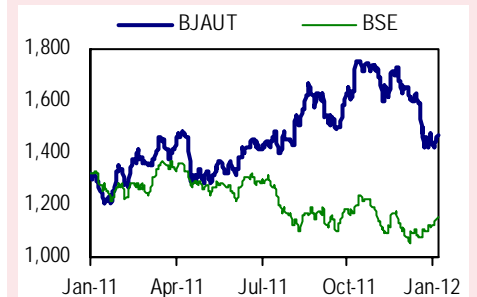
STOCK DATA

Market Cap	Rs424.5bn
Book Value per share	Rs169.7
Eq Shares O/S (F.V. Rs10)	289.4mn
Free Float	50%
Avg Traded Val. (6 mnts)	Rs908mn
52 week High/Low	Rs1822/1190
Bloomberg Code	BJAUT IN
Reuters Code	BAJA.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(10.8)	(9.2)	11.2
Relative	(19.0)	(7.5)	23.5

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	50,632	49,414	2.5	Higher export realisations and other operating income boost revenues
EBITDA	10,614	10,053	5.6	
EBITDA Margin (%)	21.0	20.3	60bps	Benefit of higher realisations flows to profitability
Adjusted PAT	8,352	7,815	6.9	Margin outperformance reflected in higher profits

Financial Table

Rs mn	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Net Sales	50,632	41,771	21.2	52,673	(3.9)	151,077	124,090	21.7
EBITDA	10,614	8,493	25.0	10,574	0.4	30,296	25,234	20.1
<i>EBITDA Margins %</i>	<i>21.0</i>	<i>20.3</i>	<i>63bps</i>	<i>20.1</i>	<i>89bps</i>	<i>20.1</i>	<i>20.3</i>	<i>-28bps</i>
Other Income	908	995	(8.7)	745	21.9	2,384	2,648	(10.0)
Interest	0	4	-	202		205	16	
Depreciation	321	310	3.6	394	(18.5)	1,022	928	10.1
PBT	11,201	9,174	22.1	10,722	4.5	31,453	26,938	16.8
Tax	2,848	2,503	13.8	2,815	1.2	8,084	7,545	7.1
% PBT	25.4	27.3	-185bps	26.3	-83bps	25.7	28.0	-231bps
Adjusted PAT	8,352	6,671	25.2	7,907	5.6	23,370	19,393	20.5
Exceptional Items (Net)	(400)	-		(649)		(1,049)	-	
Reported PAT	7,952	6,671	19.2	7,258	9.6	22,321	19,393	15.1
EPS (Rs)	28.9	23.1	25.2	27.3	5.6	80.8	67.0	20.5

(%) of Sales

(%)	Dec-11	Dec-10	YoY (bps)	Sep-11	QoQ (bps)	9MFY12	9MFY11	YOY (bps)
Material Cost	70.4	71.4	(100)	71.4	(100)	71.4	71.1	30
Staff Cost	2.6	2.6	10	2.5	10	2.7	2.8	(10)
Other Expenses	6.0	5.7	30	6.0	0	5.9	5.8	10
EBITDA Margins	21.0	20.3	60	20.1	90	20.1	20.3	(30)

Per Vehicle

(Rs)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Domestic realisations	45,066	44,541	1.2	44,777	0.6	44,488	43,388	2.5
Export realisations	44,892	38,160	17.6	40,860	9.9	41,634	37,667	10.5
Blended realisations*	47,080	44,115	6.7	45,246	4.1	45,336	43,150	5.1
Material cost	33,136	31,500	5.2	32,312	2.6	32,384	30,677	5.6
Staff cost	1,228	1,126	9.1	1,126	9.0	1,206	1,207	(0.1)
Other Expenses	2,846	2,519	13.0	2,725	4.4	2,654	2,491	6.5
EBITDA	9,869	8,970	10.0	9,083	8.7	9,091	8,775	3.6

* Includes other operating income

Vehicle sales

(units)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Total Sales	1,075,441	946,872	13.6	1,164,127	(7.6)	3,332,383	2,875,756	15.9
Domestic	694,529	650,228	6.8	739,993	(6.1)	2,099,973	1,947,881	7.8
Exports	380,912	296,644	28.4	424,134	(10.2)	1,232,410	927,875	32.8
2-Wheelers	946,749	838,509	12.9	1,027,347	(7.8)	2,937,147	2,550,399	15.2
Domestic	642,395	598,580	7.3	684,661	(6.2)	1,950,231	1,797,378	8.5
Exports	304,354	239,929	26.9	342,686	(11.2)	986,916	753,021	31.1
3-Wheelers	128,692	108,363	18.8	136,780	(5.9)	395,236	325,357	21.5
Domestic	52,134	51,648	0.9	55,332	(5.8)	149,742	150,503	(0.5)
Exports	76,558	56,715	35.0	81,448	(6.0)	245,494	174,854	40.4

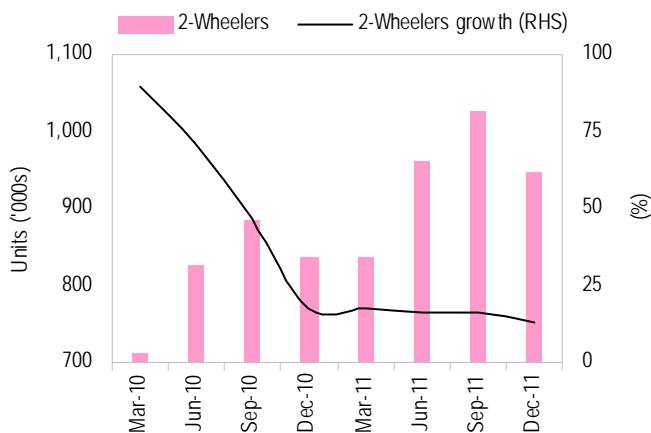
Bajaj Auto - Motorcycle Volume Break Up

(units)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Total Motorcycle	946,705	838,509	12.9	1,027,285	(7.8)	2,937,030	2,550,372	15.2
75-125 CC	456,281	421,448	8.3	511,263	(10.8)	1,509,926	1,349,156	11.9
125-250 CC	490,424	417,061	17.6	516,022	(5.0)	1,427,104	1,201,216	18.8
Domestic Motorcycles	642,351	598,580	7.3	684,599	(6.2)	1,950,114	1,797,351	8.5
75-125 CC	269,525	265,711	1.4	291,722	(7.6)	867,321	863,925	0.4
125-250 CC	372,826	332,869	12.0	392,877	(5.1)	1,082,793	933,426	16.0
Export Motorcycles	304,354	239,929	26.9	342,686	(11.2)	986,916	753,021	31.1
75-125 CC	186,756	155,737	19.9	219,541	(14.9)	642,605	485,231	32.4
125-250 CC	117,598	84,192	39.7	123,145	(4.5)	344,311	267,790	28.6

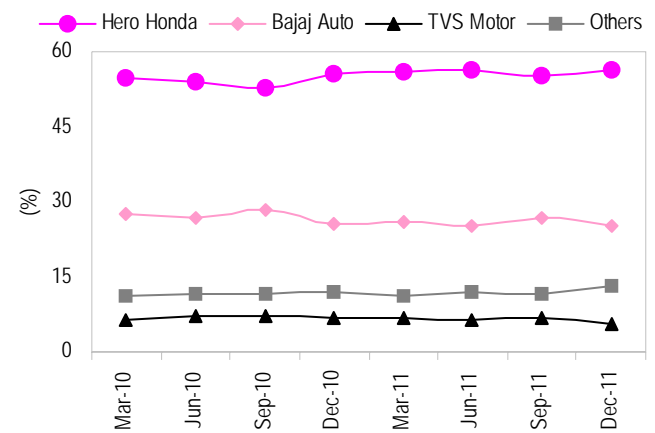
Domestic Motorcycles Market Share

(units)	Dec-11	Dec-10	YoY (%)	Sep-11	QoQ (%)	9MFY12	9MFY11	YoY (%)
Industry Sales	2,556,782	2,340,350	9.2	2,558,453	(0.1)	7,579,378	6,654,257	13.9
Market Share (%)	25.1	25.6	-50bps	26.8	-160bps	25.7	27.0	-130bps

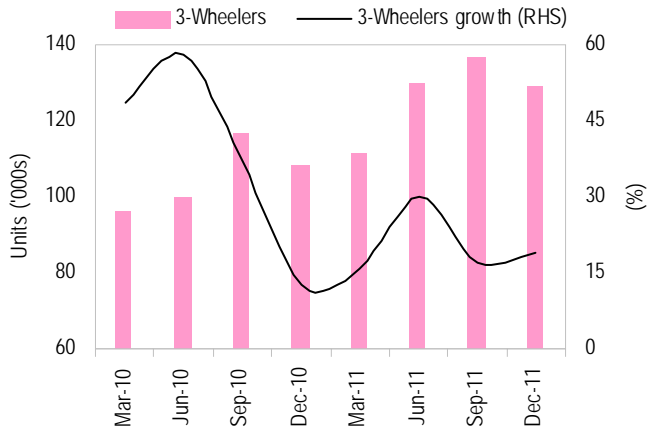
Bajaj Auto 2-Wheelers Volumes



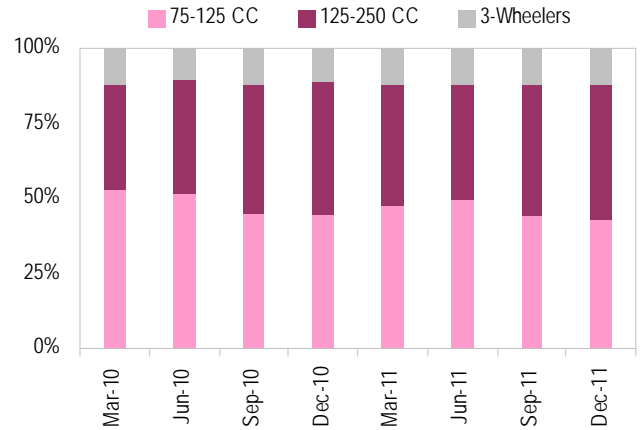
Domestic Motorcycles Marketshare



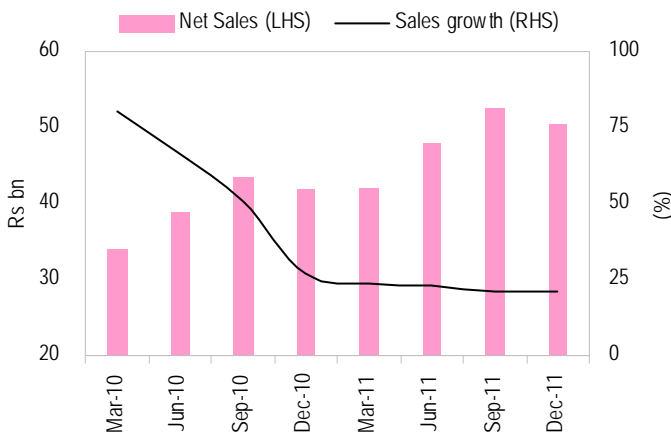
Bajaj Auto 3-Wheeler Volumes



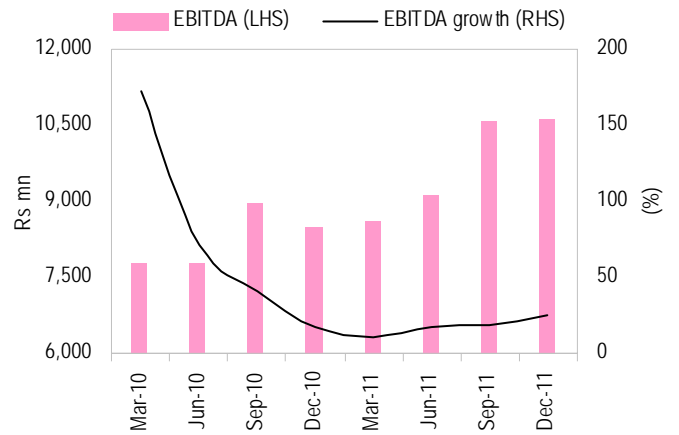
Bajaj Auto Sales-Mix



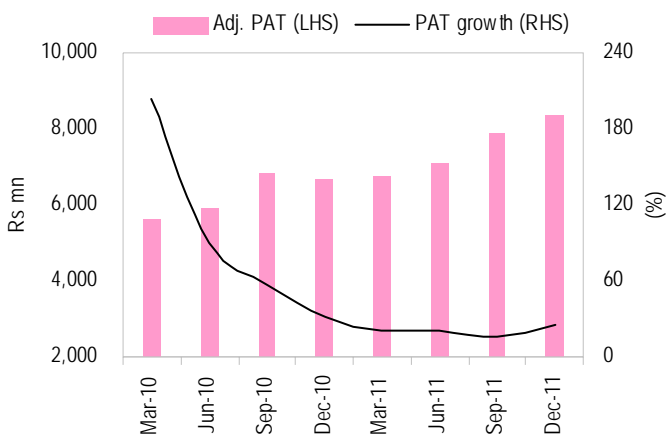
Net Sales



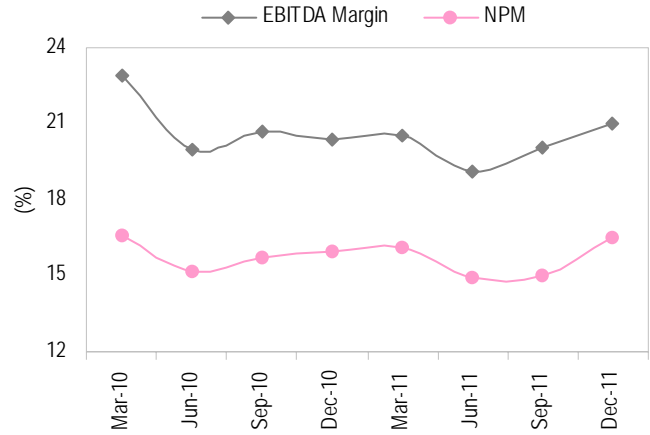
Operating Profits



Net Profit



Profitability Trend

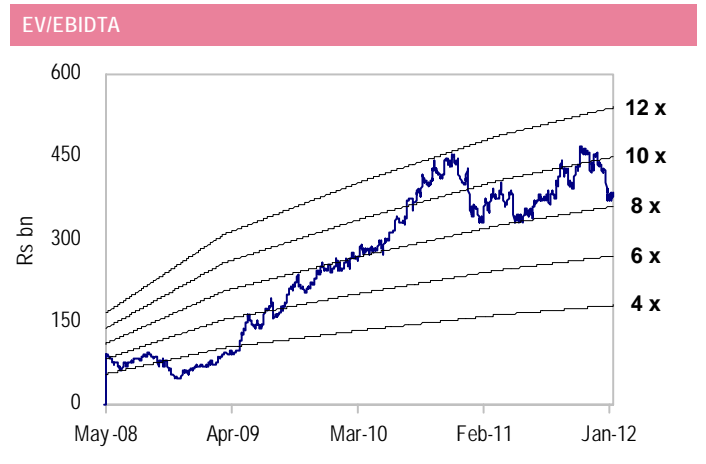
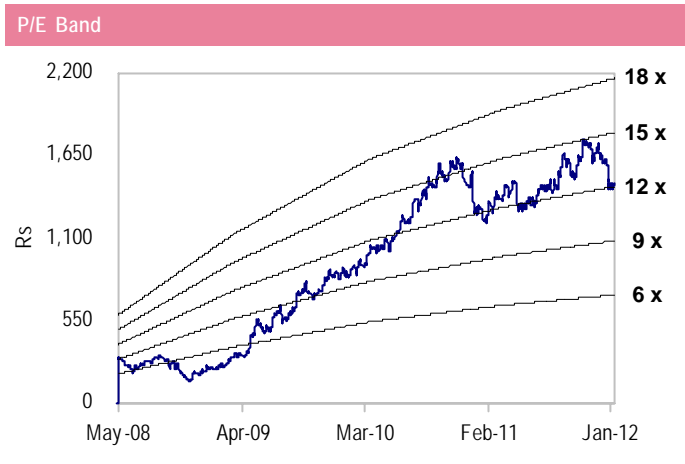


Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net sales	115,085	159,981	193,604	219,928	249,282
Growth (%)	36.4	39.0	21.0	13.6	13.3
Operating profit	21,835	27,942	32,325	37,669	42,043
Other operating income	3,917	5,894	8,510	8,379	9,190
EBITDA	25,752	33,836	40,835	46,048	51,233
Growth (%)	119.2	31.4	20.7	12.8	11.3
Depreciation	(1,365)	(1,228)	(1,370)	(1,539)	(1,642)
Other income	1,399	3,671	3,429	4,369	5,565
EBIT	25,786	36,279	42,894	48,878	55,155
Interest paid	(60)	(17)	(210)	(70)	(50)
PBT (before E/o items)	25,726	36,262	42,684	48,808	55,105
Tax provision	(7,608)	(10,110)	(11,098)	(13,178)	(14,878)
E/o Income / (loss)	(1,082)	7,246	(750)	-	-
Net profit	17,036	33,397	30,836	35,630	40,227
Adjusted net profit	18,118	26,152	31,586	35,630	40,227
Growth (%)	128.2	44.3	20.8	12.8	12.9
Diluted EPS (Rs)	62.6	90.4	109.2	123.1	139.0
Diluted EPS Growth (%)	128.2	44.3	20.8	12.8	12.9

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	24,644	43,508	41,934	48,808	55,105
Depreciation	918	128	1,370	1,539	1,642
Total tax paid	(7,506)	(9,773)	(10,930)	(12,961)	(14,639)
Chg in working capital	8,111	(4,124)	(234)	960	679
Other operating activities	(9)	-	-	-	-
Cash flow from oper. (a)	26,158	29,739	32,139	38,346	42,787
Capital expenditure	(485)	(443)	(3,200)	(2,690)	(2,690)
Chg in investments	(17,237)	8,899	(2,500)	(2,500)	(2,500)
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(17,722)	8,456	(5,700)	(5,190)	(5,190)
Free cash flow (a+b)	8,436	38,195	26,439	33,156	37,597
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(2,314)	(10,134)	(167)	(151)	(136)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(3,724)	(6,749)	(13,452)	(15,184)	(16,871)
Other financing activities	2,141	(126)	-	-	-
Cash flow from fin. (c)	(3,897)	(17,009)	(13,620)	(15,335)	(17,007)
Net chg in cash (a+b+c)	4,539	21,186	12,820	17,821	20,590

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	1,447	2,894	2,894	2,894	2,894
Reserves & surplus	27,837	46,209	61,860	80,619	103,974
Shareholders' funds	29,283	49,102	64,754	83,512	106,868
Preference Share Capital	-	-	-	-	-
Total Debt	13,386	3,252	3,084	2,934	2,798
Capital Employed	42,669	52,354	67,838	86,446	109,666
Net fixed assets	15,211	15,526	17,356	18,507	19,554
Cash & Cash Eq.	16,046	37,232	50,052	67,873	88,463
Net other Current Assets	(13,754)	(16,392)	(17,860)	(20,506)	(21,185)
Investments	25,184	16,285	18,785	21,285	23,785
Net Deferred Tax Assets	(17)	(297)	(495)	(712)	(952)
Total assets	42,669	52,354	67,838	86,446	109,666

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
EBITDA Margin (%)	21.6	20.4	20.2	20.2	19.8
Net margin (%)	15.7	16.3	16.3	16.2	16.1
Dividend yield (%)	1.4	2.7	3.1	3.4	3.4
Net debt/Equity (x)	(0.1)	(0.7)	(0.7)	(0.8)	(0.8)
Net Working Capital (days)	(39)	(33)	(33)	(34)	(33)
Asset turnover (x)	1.8	1.9	1.8	1.7	1.6
ROCE (%)	65.4	73.4	69.0	61.5	54.8
RoE (%)	78.5	66.7	55.5	48.1	42.3
EV/Net sales (x)	3.7	2.4	2.0	1.6	1.4
EV/EBITDA (x)	16.4	11.5	9.2	7.8	6.6
PER (x)	23.4	16.2	13.4	11.9	10.6
Price/Book (x)	14.5	8.6	6.6	5.1	4.0



T E A M

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COMPLIANCE

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



Member : Bombay Stock Exchange & National Stock Exchange of India Ltd. : Sebi Reg No: INB 010989331. Clearing No : 211
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