

Bajaj Auto

BSE SENSEX	S&P CNX	CMP: INR1,770	TP: INR1,825	Buy						
18,682	5,684									
Bloomberg	BJAUT IN									
Equity Shares (m)	289.4									
52-Week Range (INR)	1,850/1,410									
1,6,12 Rel.Perf.(%)	0/-4/-1									
M.Cap. (INR b)	512.2									
M.Cap. (USD b)	9.5									
Year	Net Sales	PAT	EPS	EPS	P/E	P/CE	P/BV	EV/	RoE	RoCE
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(X)	EBITDA	(%)	(%)
3/11A	163,981	26,150	90.4	43.9	-	-	-	-	66.7	76.0
3/12A	195,290	31,069	107.4	18.8	16.5	15.7	8.5	12.0	56.7	73.0
3/13E	197,832	29,277	101.2	-5.8	17.5	16.6	7.0	12.2	44.0	60.6
3/14E	226,292	35,146	121.5	20.0	14.6	13.9	5.7	9.7	43.4	59.8

Bajaj Auto (BJAUT) posted better than expected results for 2QFY13, with EBITDA margin at 18.4% (v/s our estimate of 17.8%) and adjusted PAT at INR7.4 (v/s our estimate INR7.05b), driven by higher domestic realizations (up 6.4% YoY, 5.1% QoQ) on mix improvement .

- **Earnings call highlights:** (1) **Domestic demand:** Flat/marginally positive during the first five days of the Navratri festival; expects FY13 industry growth at 3-4%. (2) **New launches:** *Pulsar 200NS* (8k/month) and *Discover 125ST* (34k/month) ramping up well; *New Discover 100* to be launched in January 2013; probable launch of four-wheeler, *RE60* in 1QFY14. (3) **Demand in Africa remains healthy**, with 10-15% growth; ex-Africa and Sri Lanka, demand largely flat, in line with global weakness. (4) **FY14 forex hedge:** USD600m (~40%) hedged at INR53/USD (v/s our assumption of INR52.5/USD). (5) **Duty drawback cut:** To increase export prices by ~2.5% from November 2012.
- Successful ramp-up of recent motorcycle launches and opening-up of three-wheeler permits would be key drivers for the stock over the next 6-9 months.
- We upgrade our FY13/FY14 EPS estimates by 4.7%/3.3% to factor in higher realizations on better product mix. We build-in partial pass through (2.5%) of the impact of recent cut in duty drawback rates by 3.5%, with consequent impact on export volume growth for FY14. For FY13/FY14, we expect volumes to decline 2.7% / grow 11.9% and estimate EBITDA margin at 18.1% / 18.8%. Maintain **Buy** with a target price of INR1,825.

Quarterly Performance	(INR Million)									
	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volumes (nos)	1,092,815	1,164,137	1,075,441	1,017,167	1,078,971	1,049,208	1,104,500	1,000,018	4,349,560	4,232,697
Change (%)	17.7	16.3	13.6	10.7	-1.3	-9.9	2.7	-4.7	13.7	(2.7)
Realization	43,066	44,543	46,361	47,392	45,095	47,392	47,150	47,373	11,973	46,739
Change (%)	2.8	2.6	5.1	8.4	4.7	6.4	1.7	0.0	(72.1)	290.4
Net Sales	47,063	51,854	49,859	49,724	48,657	49,724	52,077	47,374	52,077	197,832
Change (%)	21.0	19.4	19.4	20.0	3.4	-4.1	4.4	-4.7	-68.2	279.9
RM/Sales %	73.6	72.6	71.5	71.8	72.1	71.8	72.2	71.9	72.2	72.0
Staff cost/Sales %	3.0	2.7	2.6	3.1	3.3	3.1	3.1	3.1	3.1	3.1
Oth. Exp./Sales %	5.5	6.2	6.5	7.0	6.9	7.0	7.0	7.1	7.0	7.0
EBITDA	8,398	9,755	9,841	9,152	8,717	9,152	9,308	8,559	9,308	35,735
EBITDA Margins (%)	17.8	18.8	19.7	18.4	17.9	18.4	17.9	18.1	17.9	18.1
Other Income	1,441	1,564	1,681	1,395	1,820	1,667	1,800	1,984	1,800	7,271
Interest	2	202	0	18	0	2	25	22	25	50
Depreciation	306	394	321	434	352	410	415	427	415	1,605
PBT	9,531	9,768	10,612	10,407	10,184	10,407	10,668	10,093	10,668	41,351
Tax	2,420	2,510	2,660	2,631	3,000	3,000	3,115	2,960	3,115	12,075
Effective Tax Rate (%)	25.4	25.7	25.1	28.8	29.5	28.8	29.2	29.3	29.2	29.2
Rep. PAT	7,111	7,258	7,952	7,407	7,184	7,407	7,553	7,134	7,553	29,277
Change (%)	20.5	6.4	19.2	(47.1)	1.0	2.0	(5.0)	(3.7)	-77.4	287.6
Adj. PAT	7,111	7,898	8,340	7,590	7,184	7,407	7,553	7,134	7,553	29,277
Change (%)	20.5	15.8	25.0	9.6	1.0	(6.2)	(9.4)	(3.7)	-78.1	287.6

E: MOSL Estimates

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Volumes remain under pressure, but product mix improves QoQ

- Net revenue declined 4.1% YoY (grew 2.2% QoQ) to INR49.7b (v/s our estimate of INR48.3b), driven by volume de-growth of 9.9% YoY (2.8% QoQ) to 1.049m units (v/s our estimate of 1.045m units). Realizations improved 6.4% YoY (5.1% QoQ) to INR47,392/unit (v/s our estimate of INR46,151/unit) on better product mix (new launches and higher three-wheeler volumes).
- Domestic volumes declined 11% YoY (0.7% QoQ), with decline of ~12.1% YoY (2.7% QoQ) in motorcycles and 4.7% YoY (10.3% QoQ) in three-wheelers.
- Export volumes de-grew 8% YoY, impacted by 4.7% YoY and 21.9% YoY de-growth in motorcycles and three-wheelers, respectively. Three-wheeler exports were significantly impacted due to headwinds in the key markets of Sri Lanka (50% increase in customs duty w.e.f. April 2012). While Africa continues to perform well, other export markets have been weak.
- Better product mix, with new launches and higher three-wheeler volumes led to sequential improvement in realizations. While export realizations improved by 2% QoQ, domestic realizations improved by 6.5% QoQ.
- BJAUT's market share improved in the domestic market, driven by new launches. The new *Discover 125ST* has helped to increase BJAUT's share in the commuter (deluxe) segment from ~16% in April 2012 to ~25% in September 2012. Its market share in the premium segment (*Pulsar 200NS*) has also improved from ~45% in April 2012 to ~50% in September 2012. BJAUT's overall share in the motorcycles market increased 220bp QoQ (declined 120bp YoY) to 25.7% in 2QFY13.

Trend in product mix (units)

	2Q FY13	2Q FY12	YoY (%)	1QFY13	QoQ (%)	FY13 YTD	FY12 YTD	YoY (%)
Motorcycles								
Domestic	601,876	684,671	-12.1	618,489	-2.7	1,220,365	1,307,846	-6.7
Exports	326,648	342,686	-4.7	364,134	-10.3	690,782	682,562	1.2
Total Motorcycles	928,524	1,027,357	-9.6	982,623	-5.5	1,911,147	1,990,408	-4.0
% of total	88.5	88.3		91.1		89.8	88.2	
Three Wheelers								
Domestic	57,047	55,332	3.1	44,837	27.2	101,884	97,608	4.4
Exports	63,637	81,448	-21.9	51,511	23.5	115,148	168,936	-31.8
Total 3Ws	120,684	136,780	-11.8	96,348	25.3	217,032	266,544	-18.6
% of total	11.5	11.7		8.9		10.2	11.8	
Total Volumes	1,049,208	1,164,137	-9.9	1,078,971	-2.8	2,128,179	2,256,979	-5.7

Source: Company, MOSL

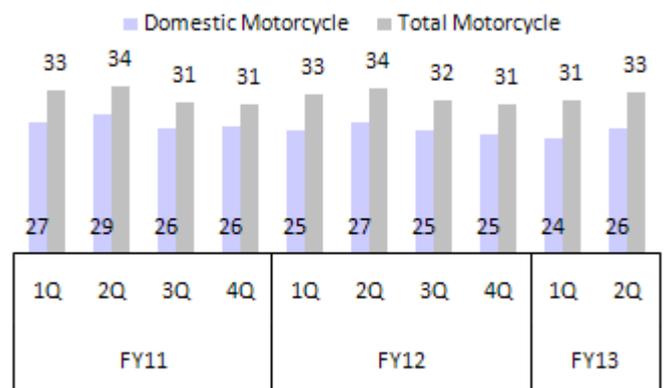
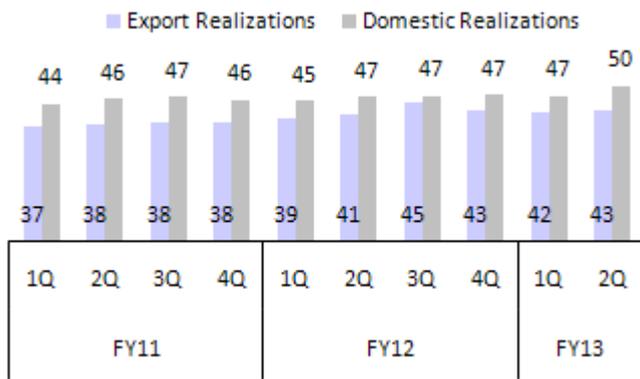
Trend in market share (%)

	2QFY13	2QFY12	YoY (BP)	1QFY13	QoQ (BP)
Dom. Motorcycles	25.7	26.9	-120	23.5	220
Total Motorcycles	33.2	33.7	-50	31.4	180
Total Dom. 2W	18.3	20.0	-170	17.4	90
Total 2W (incl exports)	24.8	26.2	-140	24.3	50
Dom. 3W	41.0	39.9	110	40.3	70
3W (incl exports)	56.0	58.3	-230	56.3	-30

Source: SIAM, MOSL

Realizations improved in domestic market (INR '000)

Market share improved in domestic two-wheeler market (%)

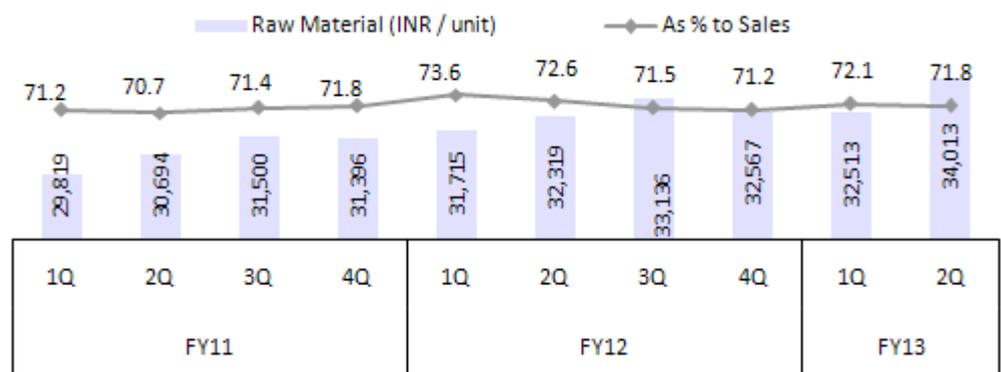


Source: Company, MOSL

Better mix, lower staff cost/other expenses drive QoQ profitability improvement

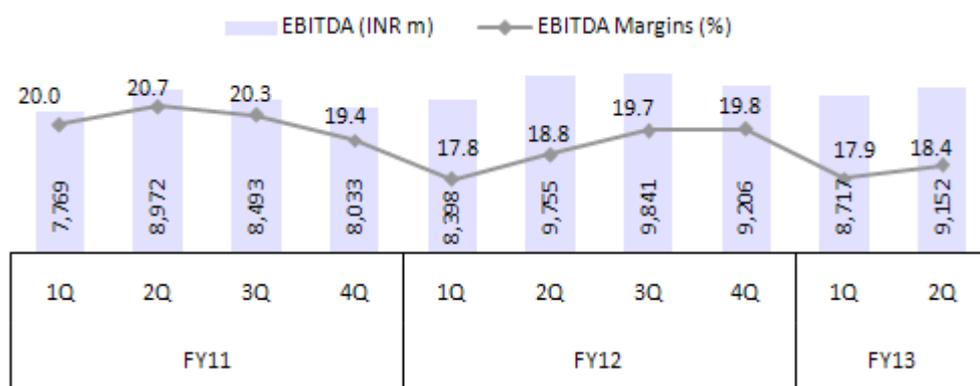
- EBITDA margin expanded 50bp QoQ (declined 40bp YoY) to 18.4% (v/s our estimate of 17.8%), driven by better product mix (new launches and higher three-wheeler volumes) and pricing action in July together with lower staff cost (down 20bp QoQ; up 40bp YoY) and stable other expenditure. Based on old Schedule VI, EBITDA margin improved by 30bp QoQ (down 40bp YoY) to 19.7%.
- EBITDA grew 5% QoQ (6.2% YoY) to INR9.15b (v/s our estimate of INR8.57b). Tax rate increased to 28.8% (v/s our estimate of 29.5%) compared to 25.7% in 2QFY12, on expiry of partial income tax exemption for Pantnagar plant. Adjusted PAT declined 6.2% YoY (grew 3.1% QoQ) to INR7.4b (v/s our estimate of INR7.05b), in line with EBITDA de-growth.
- During the quarter, BJAUT booked reversal of MTM loss of INR630m incurred in FY12 (v/s 330m in 1QFY13) under 'Other Income'. Also, the company provided INR120m loss (v/s 360m in 1QFY13) in 'Other Expenditure' for shortfall in exports with respect to budgeted/hedged exports.
- BJAUT indicated that forex has impacted 2Q/1HFY13 EBITDA margin by ~60bp.

RM cost declined QoQ on better mix/price increase



Source: Company, MOSL

Trend in EBITDA and EBITDA margin



Source: Company, MOSL

Other takeaways

- Domestic demand:** The management indicated that demand during the first five days of the Navratri festival has been flat to marginally positive YoY. It expects the industry to grow by 3-4% in FY13, as there could be meaningful inventory correction in 2HFY13.
- Recent/new launches:** Recent launches of *Pulsar 200NS* (8k/month) and *Discover 125ST* (34k/month) have been ramping-up well and are the key reasons for domestic market share improvement. New *Discover 100* is likely to be launched in January 2013. The four-wheeler, *RE60* would be launched in 1QFY14, probably starting with the export markets.
- Share in domestic market improves,** driven by new launches. The new *Discover 125ST* has helped to increase share in the commuter (deluxe) segment from ~16% in April 2012 to ~25% in September 2012. With the help of new *Discover 100* launch in January 2013, the company expects to touch 30% market share in the commuter (deluxe) segment by the end of March 2013. Market share in the premium segment (*Pulsar 200NS*) has also improved from ~45% in April 2012 to ~50% in September 2012.
- Three-wheelers:** The launch of diesel variants helped BJAUT to gain market share in three-wheelers. It currently has a market share of ~41% in the diesel segment and ~85% in the petrol/alternate fuel segment. The management is optimistic on the recent issue of 10k three-wheeler permits in Delhi and 20k permits in Hyderabad. BJAUT expects to maintain three-wheeler sales of 17k-18k units/month. If new permits are issued, its three-wheeler sales could touch 22k-23k units/month.
- Exports:** During the quarter, BJAUT exported 7.5k three-wheelers per month (against the usual 10k per month) and 7k two-wheelers per month (against the usual 12k per month). Better performance in the Egypt market helped to partially offset the loss of sales in Sri Lanka. The management expects demand in Africa to remain healthy, with 10-15% growth for the next couple of quarters. Ex-Africa and Sri Lanka, demand is largely flat, in line with global weakness.
- Forex hedge:** Net realizations for exports were at INR48.81/USD for 2QFY13. BJAUT has guided INR49.5/USD for 2HFY13. It has hedged USD600m (~40%) at INR53/USD (v/s our assumption of INR52.5/USD) for FY14.

- Post the recent cut in duty drawback rates, BJAUT plans to raise export prices by ~2.5% from November 2012.
- The company has increased prices on Discover 125ST by INR750, Discover 100 by INR200 in Oct-12. It has also raised prices in domestic 3Ws by INR1,000-1,500.
- Volumes from Pantanagar stood at ~267k units (~25% of sales) in 2QFY13
- RM contracts for 3QFY13 are marginally lower than 2Q levels.
- Capex (excl. aircraft purchase of INR2.5b) for next two years guided at INR5b.
- As at September 2012, surplus cash stood at INR45.2b (v/s INR56.8b as at June 2012), as dividend was paid out in 2QFY13.

Upgrading FY13/FY14 EPS estimates by ~4.7%/3.3%

- We upgrade our FY13/FY14 EPS estimates by 4.7%/3.3% to factor in higher realizations on better product mix.
- We build in partial pass-through (2.5%) of the impact of the recent cut in duty drawback rates (from 5.5% to 2%), with consequent pressure on export growth for FY14. For FY13/FY14, we expect volumes to decline 2.7% / grow 11.9% and estimate EBITDA margin at 18.1% / 18.8%.
- We model INR/USD at 50/52.5 for FY13/FY14. Our estimates could see upgrades, as BJAUT hedges its FY14 receivables at a favorable rate of INR53-55/USD.

Revised forecast (INR M)

	FY13E			FY14E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes (units)	4,232,697	4,257,832	-0.6	4,734,861	4,803,628	-1.4
Net Sales	197,832	194,101	1.9	226,292	223,652	1.2
EBITDA	35,735	33,943	5.3	42,637	40,898	4.3
EBITDA Margins (%)	18.1	17.5	60	18.8	18.3	60
Net Profit	29,277	27,951	4.7	35,146	34,025	3.4
EPS (INR)	101.2	96.6	4.7	121.5	117.6	3.3

Source: MOSL

Valuation and view

- While the short-term volume outlook remains challenging, changing competitive structure poses a risk in the long term. However, BJAUT is relatively better placed due to its diversified portfolio, with just ~30% of volumes coming from sale of <125cc motorcycles in the domestic market.
- Successful ramp-up of recent launches in the motorcycle segment and opening-up of permits for three-wheelers would be key drivers for the stock over the next 6-9 months.
- The stock trades at 17.5x FY13E EPS of INR101.2 and 14.6x FY14E EPS of INR121.5. Maintain **Buy**, with a target price of INR1,825 (15x FY14E EPS).

Bajaj Auto: an investment profile

Company background

Bajaj Auto (BJAUT), the flagship of the Bajaj group, is a leading manufacturer of two-wheelers (~88% of volumes) and three-wheelers (~12% of volumes). It is the market leader in three-wheelers, and is the second largest player in motorcycles, with leadership in the premium segment. It is also the largest exporter of two-wheelers and three-wheelers (~36% of its volumes).

Key investment arguments

- Well diversified product/market mix, with dom. >125cc 2W contributing ~33% of vols., 2W export ~29% and 3W's ~12% of volumes. Its exposure to domestic <125cc segment, where competitive intensity is set to increase, is only ~26%.
- Prime beneficiary of up-trading, over the longer term, with rise in customers' income and aspiration levels helped by its leadership in premium motorcycle segment.
- Exports, which are scaling up rapidly to ~40% in FY13, are expected to benefit from alliance with Kawasaki (market access) and KTM (access to technology & markets).

Key investments risks

- Increasing competitive intensity in the domestic two-wheeler market could restrict pricing power.

- Political/other disruptions in any of the major export markets.

Recent developments

- Has taken price increases of INR1,000-1,500 on domestic 3Ws, INR750 on Discover 125ST and INR200 on Discover 100cc. Exports prices increased by average 2.5% from Nov-12.
- RM contracts for 3QFY13 are marginally lower than 2Q levels.

Valuation and view

- The stock trades at 17.5x FY13E EPS of INR101.2 and 14.6x FY14E EPS of INR121.5.
- Maintain **Buy**, with a target price of INR1,825 (15x FY14E EPS).

Sector view

- Demand drivers in place, driven by increasing penetration in rural markets and replacement demand from urban markets
- Two-wheeler exports provide huge opportunity, with ~2x the India opportunity in markets similar to India.
- Industry dynamics favorable, with focus on profitability rather than market share.

Comparative valuations

		Bajaj Auto	Hero MotoCorp
P/E (x)	FY13E	17.5	17.1
	FY14E	14.6	14.9
EPS Gr (%)	FY13E	-5.8	-9.3
	FY14E	20.0	14.9
RoE (%)	FY13E	44.0	41.8
	FY14E	43.4	39.7
EV/EBITDA (x)	FY13E	12.2	10.4
	FY14E	9.7	8.5

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	50.0	50.0	50.0
Domestic Inst	10.0	9.8	8.3
Foreign	15.5	15.3	16.4
Others	24.5	24.9	25.2

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	101.2	111.1	-8.9
FY14	121.5	130.0	-6.5

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,770	1,825	3.1	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Volumes	3,823,954	4,349,560	4,232,697	4,734,861	
Change (%)	34.1	13.7	-2.7	11.9	
Gross Sales	173,311	204,757	208,607	239,080	
Less: Excise	9,330	9,468	10,775	12,788	
Net Sales	163,981	195,290	197,832	226,292	
Change (%)	37.6	19.1	1.3	14.4	
Total Expenditure	132,270	158,090	162,097	183,655	
EBITDA	31,711	37,200	35,735	42,637	
EBITDA Margins (%)	19.3	19.0	18.1	18.8	
Depreciation	1,228	1,456	1,605	1,681	
Int. & Fin. Charges	17	222	50	13	
Other Income	5,765	6,080	7,271	8,909	
Non-recurring Exp.	-7,246	1,340	0	0	
PBT	43,476	40,262	41,351	49,852	
Effective Rate (%)	23.2	25.4	29.2	29.5	
Adj. PAT	26,150	31,069	29,277	35,146	
Change (%)	43.9	18.8	(5.8)	20.0	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	2,894	2,894	2,894	2,894	
Net Worth	49,102	60,411	72,759	89,284	
Deferred Tax	297	484	981	1,728	
Loans	3,252	975	975	975	
Capital Employed	52,651	61,870	74,715	91,987	
Net Fixed Assets	14,827	14,817	15,129	16,448	
Capital WIP	699	417	1,000	1,000	
Investments	47,952	48,828	48,828	48,828	
Current Assets	28,726	46,749	60,978	83,634	
Inventory	5,473	6,785	7,428	8,514	
Sundry Debtors	3,628	4,228	4,572	5,240	
Cash & Bank Balance:	5,565	16,538	30,117	48,919	
Current Liab. & Prov.	39,553	48,941	51,220	57,922	
Sundry Creditors	19,431	20,031	21,718	24,891	
Net Current Assets	-10,827	-2,192	9,758	25,712	
Application of Funds	52,651	61,870	74,715	91,987	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	90.4	107.4	101.2	121.5	
EPS growth (%)	43.9	18.8	-5.8	20.0	
Cash EPS	94.6	112.4	106.7	127.3	
Book Value per Share	169.7	208.8	251.4	308.5	
DPS	40.0	45.0	50.0	55.0	
Payout (Incl. Div. Tax)	51.4	48.7	57.8	53.0	
Valuation (x)					
P/E		16.5	17.5	14.6	
Cash P/E		15.7	16.6	13.9	
EV/EBITDA		12.0	12.2	9.7	
EV/Sales		2.3	2.2	1.8	
Price to Book Value		8.5	7.0	5.7	
Dividend Yield (%)		2.5	2.8	3.1	
Profitability Ratios (%)					
RoE	66.7	56.7	44.0	43.4	
RoCE	76.0	73.0	60.6	59.8	
Leverage Ratio					
Debt/Equity (x)	0.1	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
OP/(Loss) before Tax	32,867	38,829	34,130	40,956	
Interest/Div. Received	3,631	3,261	7,271	8,909	
Depreciation & Amort	1,228	1,456	1,605	1,681	
Direct Taxes Paid	-9,743	-11,483	-11,578	-13,959	
(Inc)/Dec in Working Capital	-8,215	797	1,628	2,849	
CF from Oper. Activity	19,768	32,860	33,057	40,437	
Extra-ordinary Items			0	0	
CF after EO Items	19,768	32,860	33,057	40,437	
(Inc)/Dec in FA+CWIP	-1,678	-1,159	-2,500	-3,000	
(Pur)/Sale of Invest.	-8,184	-6,557	0	0	
CF from Inv. Activity	-9,863	-7,716	-2,500	-3,000	
Inc/(Dec) in Debt	-1,866	-2,001	0	0	
Interest Paid	-17	-222	-50	-13	
Dividends Paid	-6,737	-13,420	-16,928	-18,621	
CF from Fin. Activity	-8,620	-15,644	-16,978	-18,634	
Inc/(Dec) in Cash	1,285.4	9,501	13,578	18,803	
Add: Beginning Bal.	1,002	5,565	16,538	30,117	
Closing Balance	2,287	15,066	30,117	48,919	

Disclosures

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