

January 19, 2012

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Rating	Accumulate
Price	Rs1,468
Target Price	Rs1,581
Implied Upside	7.7%
Sensex	16,644
Nifty	4,956

(Prices as on January 19, 2012)

### Trading data

Market Cap. (Rs bn)	420.4
Shares o/s (m)	289.0
3M Avg. Daily value (Rs m)	1009.2

### Major shareholders

Promoters	50.02%
Foreign	15.89%
Domestic Inst.	7.87%
Public & Other	26.12%

### Stock Performance

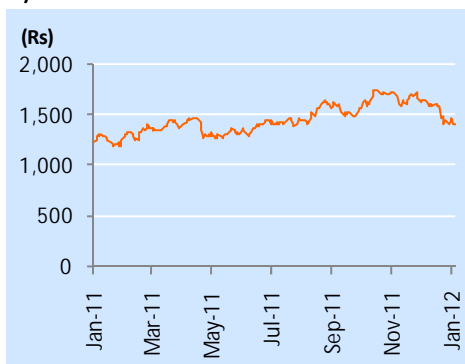
(%)	1M	6M	12M
Absolute	(10.6)	2.3	11.0
Relative	(18.8)	13.1	23.3

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	121.6	119.5	1.8
2014	133.9	133.4	-

### Price Performance (RIC: BAJA.BO, BB: BJAUT

IN)



■ **Operational performance in line:** Bajaj Auto (BJA) reported 21.2% YoY improvement in its top-line at Rs50.6bn (PLe: Rs50.0bn), mainly on account of 13.6% YoY volume growth and 6.7% YoY realization growth. On a sequential basis, the top-line de-grew by 4.0%, mainly on account of 7.6% QoQ decline in volumes. However, blended realisations were higher by 4.0% QoQ, mainly on account of a more than ~10% QoQ improvement in average/realisation in the export segment. Absolute EBITDA grew by 25.0% YoY at Rs10.6bn (PLe: Rs10.4bn), whereas Adj. PAT (Adj. for MTM Forex loss of Rs589m) grew by 28.0% YoY at Rs8.4bn, mainly on account of lower tax rate which stood at 25.1% (as against 27.3% in Q3FY11).

■ **Robust Export realisation led to 100bps improvement in EBITDA margins:** Export volumes for the quarter grew at 28.4% YoY, whereas the average realisation/vehicle was up 17.6% YoY. As a result, export revenues for the quarter were up 51% YoY at Rs17.1bn. On a sequential basis, BJA got the benefit of ~6% on export realisation due to rupee depreciation in addition to a ~3.5%-4.0% price hike taken on exports. As a result, raw material/total income ratio decreased by 100bps QoQ, thereby, leading to a 1% increase in the EBITDA margins to 21.0% (PLe: 20.7%).

■ **Our volume estimates:** We expect the two-wheeler volumes to grow by 11% YoY at 4.28m in FY13E, mainly driven by 18% YoY growth in the export volumes at 1.48m. We expect the three-wheeler volumes to grow at 11% YoY in FY13E.

■ **Outlook & Valuation:** With slowdown evident in the two-wheeler segment, we are cautious on the domestic two-wheeler growth. However, with ~50% of the revenues for BJA coming from relatively stable export and three-wheeler business, we remain positive on the stock. At the CMP, the stock trades at 12.1x its FY13E EPS, which in our view is attractive. Maintain 'Accumulate'.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	166,099	199,237	226,464	251,114
Growth (%)	39.3	20.0	13.7	10.9
EBITDA (Rs m)	33,849	40,261	46,746	51,641
PAT (Rs m)	26,152	31,716	35,192	38,747
EPS (Rs)	90.4	109.6	121.6	133.9
Growth (%)	40.2	21.3	11.0	10.1
Net DPS (Rs)	40.0	50.0	60.0	65.0

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	20.4	20.2	20.6	20.6
RoE (%)	66.7	56.1	49.3	44.4
RoCE (%)	55.1	53.7	48.2	44.1
EV / sales (x)	2.5	2.1	1.8	1.6
EV / EBITDA (x)	12.5	10.3	8.7	7.7
PE (x)	16.2	13.4	12.1	11.0
P / BV (x)	8.6	6.6	5.4	4.4
Net dividend yield (%)	2.7	3.4	4.1	4.4

Source: Company Data; PL Research

**Exhibit 1: Q3FY12 Result Overview (Rs m)**

Particulars	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
<b>Net sales</b>	<b>50,632</b>	<b>41,771</b>	<b>21.2</b>	<b>52,673</b>	<b>151,077</b>	<b>125,201</b>	<b>20.7</b>
Total Expenditure	40,018	33,278	20.3	42,099	120,781	99,763	21.1
Total Material Cost	35,636	29,826	19.5	37,616	107,916	89,043	21.2
<i>as % of Net Sales</i>	<i>70.4</i>	<i>71.4</i>		<i>71.4</i>			
- Staff costs	1,320	1,066	23.9	1,311	4,020	3,500	14.8
<i>as % of Net Sales</i>	<i>2.6</i>	<i>2.6</i>		<i>2.5</i>			
- Other expenses	3,226	2,427	32.9	3,285	9,136	7,345	24.4
<i>as % of Net Sales</i>	<i>6.4</i>	<i>5.8</i>		<i>6.2</i>			
- Expenses capitalized	(165)	(41)		(112)	(291)	(125)	
<b>Operating Profit</b>	<b>10,614</b>	<b>8,493</b>	<b>25.0</b>	<b>10,574</b>	<b>30,296</b>	<b>25,438</b>	<b>19.1</b>
<i>as % of Net Sales</i>	<i>21.0</i>	<i>20.3</i>		<i>20.1</i>	<i>20.1</i>	<i>20.3</i>	
Other Income & Wind Power	908	995	(8.7)	745	2,384	2,207	8.0
<b>EBITDA</b>	<b>11,522</b>	<b>9,488</b>	<b>21.4</b>	<b>11,319</b>	<b>32,680</b>	<b>27,645</b>	<b>18.2</b>
Interest	0	4		202	205	10	
Depreciation	321	310	3.6	394	1,022	970	5.4
Extraordinary	589			954	1,543	-	
<b>Profit Before Tax</b>	<b>10,612</b>	<b>9,174</b>	<b>15.7</b>	<b>9,768</b>	<b>29,911</b>	<b>26,665</b>	<b>12.2</b>
Taxation	2,660	2,503	6.3	2,510	7,590	7,422	2.3
<i>as % of PBT</i>	<i>25.1</i>	<i>27.3</i>		<i>25.7</i>	<i>25.4</i>	<i>27.8</i>	
<b>PAT</b>	<b>7,952</b>	<b>6,671</b>	<b>19.2</b>	<b>7,258</b>	<b>22,321</b>	<b>19,244</b>	<b>16.0</b>
<b>Adjusted PAT</b>	<b>8,540</b>	<b>6,671</b>	<b>28.0</b>	<b>8,212</b>	<b>23,863</b>	<b>19,244</b>	<b>24.0</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics (Rs)**

Particulars	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Vehicles Sold (2&3 wheeler)	1,075,441	946,850	13.6	1,164,137	3,332,393	2,875,756	15.9
Total Income / Vehicle	47,080	44,116	6.7	45,246	45,336	43,537	4.1
Material Cost / Vehicle	33,136	31,500	5.2	32,312	32,384	30,963	4.6
Other Expenses / Vehicle	2,999	2,563	17.0	2,822	2,741	2,478	10.7
EBITDA / Vehicle	9,869	8,970	10.0	9,083	9,091	8,846	2.8
Net Profit / Vehicle	7,941	7,046	12.7	7,054	7,161	6,692	7.0

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>166,099</b>	<b>199,237</b>	<b>226,464</b>	<b>251,114</b>
Raw Material Expenses	117,976	141,886	160,489	178,392
Gross Profit	48,123	57,351	65,975	72,723
Employee Cost	4,768	5,336	5,602	5,883
Other Expenses	9,506	11,754	13,627	15,199
<b>EBITDA</b>	<b>33,849</b>	<b>40,261</b>	<b>46,746</b>	<b>51,641</b>
Depr. & Amortization	1,228	1,357	1,398	1,440
Net Interest	17	215	120	110
Other Income	10,904	1,757	3,650	4,100
<b>Profit before Tax</b>	<b>43,508</b>	<b>40,447</b>	<b>48,878</b>	<b>54,191</b>
Total Tax	10,110	10,273	13,686	15,445
<b>Profit after Tax</b>	<b>33,398</b>	<b>30,173</b>	<b>35,192</b>	<b>38,747</b>
Ex-Od items / Min. Int.	7,246	(1,543)	—	—
<b>Adj. PAT</b>	<b>26,152</b>	<b>31,716</b>	<b>35,192</b>	<b>38,747</b>
<b>Avg. Shares O/S (m)</b>	<b>289.4</b>	<b>289.4</b>	<b>289.4</b>	<b>289.4</b>
<b>EPS (Rs.)</b>	<b>90.4</b>	<b>109.6</b>	<b>121.6</b>	<b>133.9</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	20,137	25,633	39,443	39,724
C/F from Investing	(6,966)	(1,995)	(9,199)	(8,699)
C/F from Financing	(8,620)	(17,855)	(21,226)	(22,912)
Inc. / Dec. in Cash	4,550	5,783	9,018	8,114
Opening Cash	1,015	5,565	11,349	20,367
Closing Cash	5,565	11,349	20,367	28,481
FCFF	29,901	24,227	35,244	36,026
FCFE	19,767	23,227	34,244	35,026

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	39.3	20.0	13.7	10.9
EBITDA (%)	30.6	18.9	16.1	10.5
PAT (%)	40.2	21.3	11.0	10.1
EPS (%)	40.2	21.3	11.0	10.1
<b>Profitability</b>				
EBITDA Margin (%)	20.4	20.2	20.6	20.6
PAT Margin (%)	15.7	15.9	15.5	15.4
RoCE (%)	55.1	53.7	48.2	44.1
RoE (%)	66.7	56.1	49.3	44.4
<b>Balance Sheet</b>				
Net Debt : Equity	—	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	(50)	(40)	(35)	(36)
<b>Valuation</b>				
PER (x)	16.2	13.4	12.1	11.0
P / B (x)	8.6	6.6	5.4	4.4
EV / EBITDA (x)	12.5	10.3	8.7	7.7
EV / Sales (x)	2.5	2.1	1.8	1.6
<b>Earnings Quality</b>				
Eff. Tax Rate	23.2	25.4	28.0	28.5
Other Inc / PBT	10.1	7.9	7.5	7.6
Eff. Depr. Rate (%)	3.6	3.7	3.4	3.2
FCFE / PAT	75.6	73.2	97.3	90.4

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	49,102	63,963	78,929	95,764
Total Debt	3,252	2,252	1,252	252
Other Liabilities	297	297	297	297
<b>Total Liabilities</b>	<b>52,651</b>	<b>66,512</b>	<b>80,478</b>	<b>96,313</b>
Net Fixed Assets	15,483	17,075	19,876	22,135
Goodwill	—	—	—	—
Investments	47,952	47,952	52,952	57,952
Net Current Assets	(10,827)	1,442	7,607	16,183
<i>Cash &amp; Equivalents</i>	5,565	11,937	20,955	29,069
<i>Other Current Assets</i>	23,161	36,432	38,710	47,705
<i>Current Liabilities</i>	39,553	46,927	52,058	60,591
Other Assets	43	43	43	44
<b>Total Assets</b>	<b>52,651</b>	<b>66,512</b>	<b>80,478</b>	<b>96,314</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>42,000</b>	<b>47,773</b>	<b>52,673</b>	<b>50,632</b>
<b>EBITDA</b>	<b>8,615</b>	<b>9,108</b>	<b>10,574</b>	<b>10,614</b>
<i>% of revenue</i>	20.5	19.1	20.1	21.0
Depr. & Amortization	301	306	394	321
Net Interest	—	—	202	—
Other Income	1,010	731	745	908
<b>Profit before Tax</b>	<b>16,570</b>	<b>9,533</b>	<b>9,768</b>	<b>10,612</b>
Total Tax	2,565	2,420	2,510	2,660
<b>Profit after Tax</b>	<b>14,004</b>	<b>7,113</b>	<b>7,258</b>	<b>7,952</b>
<b>Adj. PAT</b>	<b>6,759</b>	<b>7,113</b>	<b>8,212</b>	<b>8,540</b>

**Key Operating Metrics**

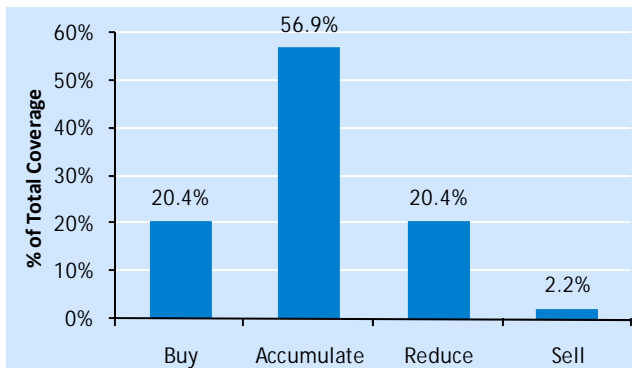
Y/e March	2011	2012E	2013E	2014E
2W Domestic Vol. (nos)	2,414,603	2,595,698	2,803,354	3,027,622
2W Export Vol. (nos)	972,437	1,254,444	1,480,244	1,657,873
3W Domestic Vol. (nos)	206,884	205,523	200,231	185,030
3W Export Vol. (nos)	230,000	310,000	372,000	444,424
Total Vol. (nos)	3,823,924	4,365,665	4,855,828	5,314,949
Net Realization/Unit (Rs)	43,437	45,637	44,887	45,553
RM Cost/Unit (Rs)	30,852	32,500	33,051	33,564
EBITDA/Unit (Rs)	8,852	9,222	9,627	9,716
Net Profit /Unit (Rs)	6,839	7,265	7,247	7,290
Tax Rate (%)	23.2	25.4	28.0	28.5

Source: Company Data, PL Research.



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**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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