

October 22, 2012

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Rating	Accumulate
Price	Rs1,772
Target Price	Rs1,853
Implied Upside	4.6%
Sensex	18,682
Nifty	5,684

(Prices as on October 19, 2012)

### Trading data

Market Cap. (Rs bn)	512.1
Shares o/s (m)	289.0
3M Avg. Daily value (Rs m)	856.6

### Major shareholders

Promoters	50.02%
Foreign	15.11%
Domestic Inst.	9.97%
Public & Other	24.90%

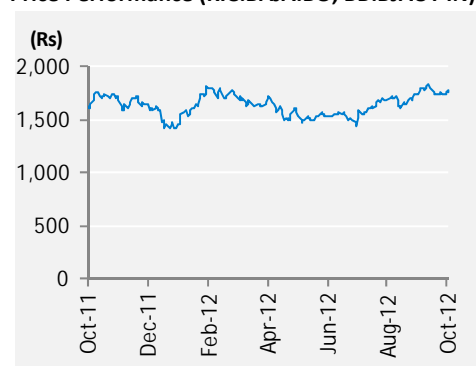
### Stock Performance

(%)	1M	6M	12M
Absolute	1.3	2.5	8.3
Relative	0.3	(4.3)	(1.1)

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	107.6	110.9	-3.0
2014	126.7	129.8	-2.4

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



Source: Bloomberg

■ **Price hikes & better product mix cushion EBITDA margins despite lower volumes:** Despite a 9.9% YoY decline in volumes, the top-line decline was restricted to 4.1% YoY at Rs50.5bn (PLe: incl. other income Rs49.3bn) mainly on account of 6.4% YoY realization growth. Better product mix (higher sales of new Discover 125ST and Pulsar 200NS), coupled with a price increase, effective July'12, led to a -8.7% YoY increase in realisation in the domestic market. At the same time, the three-wheeler segment accounted for 11.5% compared to 8.9% of overall volumes, thereby, leading to higher realisations YoY. On a sequential basis, the top-line grew by 2.0%, despite a 2.8% de-growth in volumes, led by ~4.9% increase in ASP/vehicle. Despite the slowdown, BJA improved its EBITDA margins by 30bps QoQ to 19.7% (PLe: 19.5%). However, on account of lower volumes, employee expenses increased by 50bps YoY leading to a 40bps YoY decline in EBITDA margins at 19.7%. As a result, EBITDA for the quarter declined by 6.1% YoY to Rs9.9bn (PLe: Rs9.5bn). On account of higher tax rate, PAT for the quarter de-grew by 9.8% at Rs7.4bn (PLe: Rs7.2bn).

■ **Three-wheeler volumes likely to improve:** With the success of the recently launched diesel variants in domestic three-wheeler market, BJA has performed better than the industry with a growth of 3%. Overall market share stood at ~41% in the quarter. With opening of new permits, outlook for coming quarters in the domestic commercial vehicle segment is encouraging. As far as the export market is concerned, average sales in Sri Lanka have recovered to ~7,500 units/month (10,000 units at peak). We have built-in monthly run rate of 46,000 units for H2FY13 as against 36,000 units/month in H1FY13. As a result, we expect a 4% YoY decline in volumes at 4.95lac units for FY13E.

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Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	163,982	195,290	207,254	235,617
Growth (%)	37.6	19.1	6.1	13.7
EBITDA (Rs m)	31,713	37,154	41,489	48,806
PAT (Rs m)	26,123	31,341	31,147	36,655
EPS (Rs)	90.3	108.3	107.6	126.7
Growth (%)	40.1	20.0	(0.6)	17.7
Net DPS (Rs)	40.0	45.0	50.0	55.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	19.3	19.0	20.0	20.7
RoE (%)	66.7	57.2	46.1	43.7
RoCE (%)	55.0	55.4	45.5	43.2
EV / sales (x)	3.1	2.5	2.4	2.0
EV / EBITDA (x)	16.1	13.4	11.9	9.7
PE (x)	19.6	16.4	16.5	14.0
P / BV (x)	10.4	8.5	6.9	5.5
Net dividend yield (%)	2.3	2.5	2.8	3.1

Source: Company Data; PL Research

- **New products to help recovery in the domestic motorcycle segment:** Motorcycle volumes for H1FY12 declined 7% to 1.3m units. However, with the success of the new Discover 125ST (volume of 35,000/month) and Pulsar 200NS (volume of 8,000/month), we expect a 3.3% YoY growth in the domestic motorcycle segment in H2FY13. At the same time, a new 100cc bike to be launched in Jan'13 would aid volume growth for the company. We expect modest 2% YoY decline in the domestic motorcycle volumes to 2.5m in FY13E.
- **Conference call highlights – recovery in sight:** Management expects the growth for the two-wheeler market at 4-5% for FY13E. The company is planning to launch a new 100cc bike by Jan'13. Raw material is likely to remain benign, thereby, aiding margin recovery. For FY14E, the company is finalising its cover with a base rate of Rs53-55/\$, thereby, benefiting ~7-8% in terms of realisation in FY14E. Bajaj Auto will pass on ~80% of duty drawback burden (benefit cut by 3.5% to 2% recently) to the customers starting 1<sup>st</sup> Nov'12. EBITDA margins are likely to improve on account of recent price hikes in the domestic motorcycle market, improved three-wheeler volumes and the launch of new products in the high margin segment (125cc Discover and Pulsar 200 NS).
- **Outlook & Valuation:** With ~45% of the revenues for BJA coming from relatively stable export and three-wheeler business, we believe 19%+ EBITDA level margins are sustainable. In our view, margins are likely to improve from here on (mainly H2FY13), led by better product mix in favour of high-end motorcycles and three-wheelers. At the CMP, the stock is trading at 16.5x FY13E EPS and 14.0x FY14E EPS, which in our view, is attractive. Maintain '**Accumulate**' with a TP of Rs1, 853 based on 14.5x FY14E EPS.

**Exhibit 1: Q2FY13 Result Overview (Rs m)**

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
Vehicles Sold (2&3 wheeler)	1,049,208	1,164,137	(9.9)	1,078,971	2,128,179	2,256,952	(5.7)
<b>Net sales</b>	<b>50,496</b>	<b>52,673</b>	<b>(4.1)</b>	<b>49,557</b>	<b>100,052</b>	<b>100,846</b>	<b>(0.8)</b>
Total Expenditure	40,572	42,099	(3.6)	39,940	80,512	80,763	(0.3)
Total Material Cost	35,686	37,616	(5.1)	35,080	70,767	72,274	(2.1)
<i>as % of Net Sales</i>	<i>70.7</i>	<i>71.4</i>		<i>70.8</i>	<i>70.7</i>	<i>71.7</i>	
- Staff costs	1,532	1,311	16.9	1,604	3,136	2,742	14.4
<i>as % of Net Sales</i>	<i>3.0</i>	<i>2.5</i>		<i>3.2</i>	<i>3.1</i>	<i>2.7</i>	
- Other expenses	3,479	3,285	5.9	3,362	6,841	5,874	16.5
<i>as % of Net Sales</i>	<i>6.9</i>	<i>6.2</i>		<i>6.8</i>	<i>6.8</i>	<i>5.8</i>	
- Expenses capitalized	(125)	(112)		(107)	(232)	(126)	
<b>Operating Profit</b>	<b>9,924</b>	<b>10,574</b>	<b>(6.1)</b>	<b>9,617</b>	<b>19,541</b>	<b>20,082</b>	<b>(2.7)</b>
<i>as % of Net Sales</i>	<i>19.7</i>	<i>20.1</i>		<i>19.4</i>	<i>19.5</i>	<i>19.9</i>	
Other Income & Wind Power	895	745	20.2	920	1,815	1,075	68.9
<b>EBITDA</b>	<b>10,819</b>	<b>11,319</b>	<b>(4.4)</b>	<b>10,537</b>	<b>21,356</b>	<b>21,157</b>	<b>0.9</b>
Interest	2	202		0	3	205	
Depreciation	410	394	4.1	352	763	701	8.9
Extraordinary		954				954	
<b>Profit Before Tax</b>	<b>10,407</b>	<b>9,768</b>	<b>6.5</b>	<b>10,184</b>	<b>20,591</b>	<b>19,298</b>	<b>6.7</b>
Taxation	3,000	2,510	19.5	3,000	6,000	4,930	21.7
<i>as % of PBT</i>	<i>28.8</i>	<i>25.7</i>	<i>12.2</i>	<i>29.5</i>	<i>29.1</i>	<i>25.5</i>	<i>14.1</i>
<b>PAT</b>	<b>7,407</b>	<b>7,258</b>	<b>2.0</b>	<b>7,184</b>	<b>14,591</b>	<b>14,368</b>	<b>1.6</b>
<b>Adjusted PAT</b>	<b>7,407</b>	<b>8,212</b>	<b>(9.8)</b>	<b>7,184</b>	<b>14,591</b>	<b>15,322</b>	<b>(4.8)</b>

Source: Company Data, PL Research

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

Y/e March	Q2FY13	Q2FY12	YoY gr. (%)	Q1FY13	H1FY13	H1FY12	YoY gr. (%)
Vehicles Sold (2&3 wheeler)	1,049,208	1,164,137	(9.9)	1,078,971	2,128,179	2,256,952	(5.7)
Total Income / Vehicle	48,128	45,246	6.4	45,930	47,013	44,682	5.2
Material Cost / Vehicle	34,013	32,312	5.3	32,513	33,252	32,023	3.8
Other Expn per unit	3,316	2,822	17.5	3,116	3,214	2,602	23.5
EBITDA / Vehicle	9,458	9,083	4.1	8,913	9,182	8,898	3.2
Net Profit / Vehicle	7,059	7,054	0.1	6,658	6,856	6,789	1.0

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>163,982</b>	<b>195,290</b>	<b>207,254</b>	<b>235,617</b>
Raw Material Expenses	117,975	141,027	146,721	165,625
Gross Profit	46,007	54,263	60,533	69,992
Employee Cost	4,936	5,446	5,944	6,513
Other Expenses	9,359	11,663	13,100	14,673
<b>EBITDA</b>	<b>31,713</b>	<b>37,154</b>	<b>41,489</b>	<b>48,806</b>
Depr. & Amortization	1,228	1,456	1,551	1,605
Net Interest	17	222	50	50
Other Income	13,011	4,740	4,000	4,600
<b>Profit before Tax</b>	<b>43,478</b>	<b>40,215</b>	<b>43,888</b>	<b>51,751</b>
Total Tax	10,110	10,215	12,741	15,096
<b>Profit after Tax</b>	<b>33,368</b>	<b>30,001</b>	<b>31,147</b>	<b>36,655</b>
Ex-Od items / Min. Int.	7,246	(1,340)	—	—
<b>Adj. PAT</b>	<b>26,123</b>	<b>31,341</b>	<b>31,147</b>	<b>36,655</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>90.3</b>	<b>108.3</b>	<b>107.6</b>	<b>126.7</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	20,136	27,806	25,037	44,682
C/F from Investing	(6,966)	629	(5,118)	(4,618)
C/F from Financing	(8,620)	(17,446)	(16,855)	(18,541)
Inc. / Dec. in Cash	4,550	10,988	3,064	21,524
Opening Cash	1,015	5,565	16,552	19,616
Closing Cash	5,565	16,552	19,616	41,140
FCFF	29,872	35,119	22,873	42,760
FCFE	19,738	32,843	22,873	42,760

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	37.6	19.1	6.1	13.7
EBITDA (%)	22.3	17.2	11.7	17.6
PAT (%)	40.1	20.0	(0.6)	17.7
EPS (%)	40.1	20.0	(0.6)	17.7
<b>Profitability</b>				
EBITDA Margin (%)	19.3	19.0	20.0	20.7
PAT Margin (%)	15.9	16.0	15.0	15.6
RoCE (%)	55.0	55.4	45.5	43.2
RoE (%)	66.7	57.2	46.1	43.7
<b>Balance Sheet</b>				
Net Debt : Equity	—	(0.3)	(0.2)	(0.4)
Net Wrkng Cap. (days)	(50)	(45)	(36)	(47)
<b>Valuation</b>				
PER (x)	19.6	16.4	16.5	14.0
P / B (x)	10.4	8.5	6.9	5.5
EV / EBITDA (x)	16.1	13.4	11.9	9.7
EV / Sales (x)	3.1	2.5	2.4	2.0
<b>Earnings Quality</b>				
Eff. Tax Rate	23.3	25.4	29.0	29.2
Other Inc / PBT	15.9	14.6	9.1	8.9
Eff. Depr. Rate (%)	3.6	4.3	4.3	4.3
FCFE / PAT	75.6	104.8	73.4	116.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	49,102	60,411	74,749	93,168
Total Debt	3,252	975	975	975
Other Liabilities	297	484	484	484
<b>Total Liabilities</b>	<b>52,651</b>	<b>61,870</b>	<b>76,208</b>	<b>94,627</b>
Net Fixed Assets	15,483	14,913	15,480	15,493
Goodwill	—	—	—	—
Investments	47,952	48,828	51,828	54,828
Net Current Assets	(10,827)	(2,192)	8,579	23,986
<i>Cash &amp; Equivalents</i>	<i>5,565</i>	<i>16,553</i>	<i>19,616</i>	<i>41,140</i>
<i>Other Current Assets</i>	<i>23,161</i>	<i>30,196</i>	<i>33,366</i>	<i>40,088</i>
<i>Current Liabilities</i>	<i>39,553</i>	<i>48,941</i>	<i>44,403</i>	<i>57,242</i>
Other Assets	43	320	320	320
<b>Total Assets</b>	<b>52,651</b>	<b>61,870</b>	<b>76,208</b>	<b>94,627</b>

**Quarterly Financials (Rs m)**

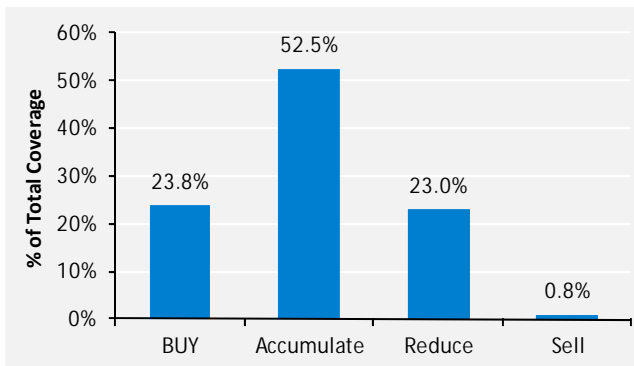
Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
<b>Net Revenue</b>	<b>49,859</b>	<b>47,019</b>	<b>49,557</b>	<b>50,496</b>
<b>EBITDA</b>	<b>9,841</b>	<b>9,711</b>	<b>9,617</b>	<b>9,924</b>
<i>% of revenue</i>	<i>19.7</i>	<i>20.7</i>	<i>19.4</i>	<i>19.7</i>
Depr. & Amortization	321	434	352	410
Net Interest	—	18	—	—
Other Income	1,681	890	920	895
<b>Profit before Tax</b>	<b>10,612</b>	<b>10,352</b>	<b>10,184</b>	<b>10,409</b>
Total Tax	2,660	2,631	3,000	3,000
<b>Profit after Tax</b>	<b>7,952</b>	<b>7,720</b>	<b>7,184</b>	<b>7,409</b>
<b>Adj. PAT</b>	<b>8,540</b>	<b>7,518</b>	<b>7,184</b>	<b>7,409</b>

**Key Operating Metrics**

Y/e March	2011	2012	2013E	2014E
2W Domestic Vol. (nos)	2,414,603	2,566,757	2,520,365	2,721,994
2W Export Vol. (nos)	972,437	1,267,648	1,390,060	1,598,569
3W Domestic Vol. (nos)	206,884	202,979	225,123	234,133
3W Export Vol. (nos)	230,000	312,176	270,032	310,537
Total Vol. (nos)	3,823,924	4,349,560	4,405,580	4,865,234
Net Realization/Unit (Rs)	42,883	44,899	47,118	48,491
RM Cost/Unit (Rs)	30,852	32,423	33,349	34,043
EBITDA/Unit (Rs)	8,293	8,542	9,441	10,094
Net Profit /Unit (Rs)	6,839	7,204	7,090	7,597
Tyres & Tubes (Rs m)	5,143	6,732	6,401	7,079
Other Comp./Unit (Rs)	27,859	28,971	29,695	30,289
Employee Cost (Rs m)	4,936	5,446	5,944	6,513
Advertisement (Rs m)	817	1,603	2,100	2,550
Tax Rate (%)	23.2	25.4	29.0	29.0

Source: Company Data, PL Research.

**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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