

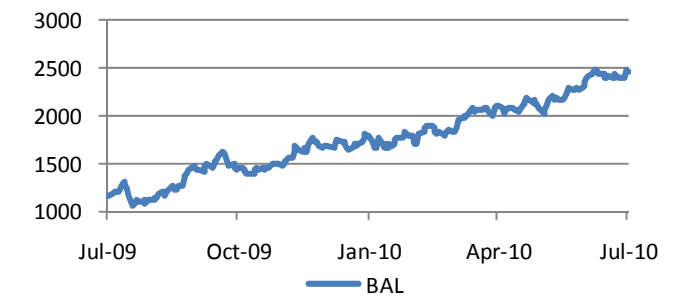
Q1 FY11 Result Update
Bajaj Auto Limited (BAL)

Recommendation	HOLD
CMP (23/07/2010)	Rs. 2469
Sector	Auto

Stock Details

BSE Code	532500
NSE Code	BAJAJ-AUTO
Bloomberg Code	BJAUT IN
Market Cap (Rs. Crs)	35724
Free Float (%)	49.99%
52- wk HI/Lo	2525/1045
Avg. volume BSE (Quarterly)	28323
Face Value	10.00
Dividend payout	400%
Shares o/s (Crs)	14.5

Relative Performance	1Mth	3Mth	1Yr
BAL	4.9%	17.2%	110.5%
Sensex	2.1%	2.5%	19.0%


Shareholding Pattern as of 30/06/2010

Promoters Holding	49.65%
Institutional (Incl. FII)	24.64%
Corporate Bodies	8.59%
Public & others	17.12%

Ashish Khetan – Research Analyst (+91 22 3027-2259)
ashish.khetan@nirmalbang.com

Aditya Powani - Research Associate (+91 22 3027-2241)
aditya.powani@nirmalbang.com

Snapshot

Bajaj Auto Limited (BAL) is the world's fourth largest two-wheeler and three-wheeler manufacturer and the brand 'Bajaj' is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia. The company is the largest exporter of two-wheelers and three-wheelers in the country. The company has two subsidiaries, viz. Bajaj Auto International Holdings BV and PT Bajaj Indonesia.

Key Highlights

- BAL registered highest quarterly motorcycle sales in Q1 FY11. Its sale stood at 928,336 vehicles during the quarter. BAL's market share currently stands at 33% with brands like Pulsar & Discover contributing over 80% of the total domestic sales.
- In Q1 FY11, BAL reported EBIDTA margin of 20.8% which is the best in the industry, however it took a hit during the quarter due to higher employee cost and raw material costs.
- BAL expects that its two key brands- the Discover and Pulsar will register a sale one million units each in FY 2011. For Q1 FY11 Discover averaged 110,000 units a month while the Pulsar averaged around 76,000 units a month. Overall the company expects to sell 4 million units in FY 2011. We expect company to sell around 3.88 mn units in FY 2011 broadly in line with the Management's expectations.
- BAL's capacity will increase to 5 mn units by the end of FY 2011.
- Bajaj Auto has approved the Issue of Bonus share in the Ratio of 1:1 (1 Bonus share for every share held).

Valuation & Recommendation

At the current market price of Rs 2469 per share, BAL is currently trading at a PE of 17.1x FY11E and 14.1x FY12E earnings, which looks fairly valued. We expect the company to earn a ROCE of 62.9% in FY11E and 60.9% in FY12E. At Rs. 2469 the stock is trading at a discount of 1.7% from our intrinsic price of Rs. 2510 per share arrived using DCF valuation. Given our target price, we do not expect significant upside from current levels and maintain our HOLD rating on the stock.

Year	Net Sales (Rs. Crs.)	Growth %	EBITDA (Rs. Crs.)	Margin %	PAT (Rs. Crs.)	Margin %	EPS (Rs.)	PE (x)	P/BV (x)
FY09	9058.8	-7%	854.8	10.1%	641.8	7.6%	44.4	55.7	19.7
FY10	12152.7	35%	2587.2	22.4%	1777.6	15.4%	122.9	20.1	13.1
FY11E	16963.5	40%	3016.3	19.1%	2091.4	13.3%	144.6	17.1	8.8
FY12E	19975.9	18%	3654.4	19.7%	2532.7	13.3%	175.1	14.1	6.2

Performance Analysis

- ✓ Net sales for Q1 FY11 grew 65.4% on a YoY basis to Rs 3,737.3 Crs driven by 84% growth in volumes. On a QoQ basis net sales increased 13.6% in Q1 FY11 driven by 14.8% increase in vehicles sold.
- ✓ EBIDTA grew 70.6% YoY to Rs. 776.9 Crs driven by improved sales. On a QoQ basis, EBITDA stayed flat as the significant growth in the top-line was offset by increase in employee cost and other expenses. Consequently, EBITDA margin declined 283 bps QoQ to 20.8% in Q1 FY11.
- ✓ Adjusted PAT increased 85.9% YoY to Rs. 590.2 Crs in Q1 FY 2011. On a QoQ basis, net margin declined by 170 bps to 15.8% reflecting the decline at the EBITDA level.
- ✓ BAL reported EPS of Rs. 40.79 in Q1 FY 2011 marginally above Q4 FY10 EPS of Rs.39.77.

Quarterly Results (In Crs Rs.)

	Q1 FY11	Q4FY10	QoQ[%]	Q1FY10	YoY[%]
Gross Sales	3942.1	3475.3	13.4%	2375.1	66.0%
Excise Duty	204.8	184.9	10.8%	116.1	76.5%
Net Sales	3737.3	3290.5	13.6%	2259.0	65.4%
Other operating Income	152.8	109.0	40.2%	79.5	92.2%
Total Income	3890.1	3399.5	14.4%	2338.5	66.4%
Raw Material Consumed	2556.2	2337.3	9.4%	1417.2	80.4%
Stock Adjustment	86.9	-100.6	NA	47.7	82.2%
Purchase of Finished Goods	125.1	117.7	6.3%	82.1	52.3%
Employee Expenses	126.4	86.2	46.6%	112.9	11.9%
Other Expenses	218.6	181.8	20.2%	223.1	-2.0%
TOTAL EXPENDITURE	3113.1	2622.4	18.7%	1883.1	65.3%
PBIDT	776.9	777.1	0.0%	455.4	70.6%
	20.8%	23.6%	(283) bps	20.2%	63 bps
Other Income	81.7	42.5	92.2%	23.1	
Interest	0.6	0.0	NA	6.0	-89.4%
PBDT	858.0	819.6	4.7%	472.6	81.5%
Depreciation	31.8	34.1	-6.7%	33.1	-3.8%
Tax	236.0	207.5	13.7%	122.0	93.4%
Deferred Tax	0.0	2.6	NA	0.0	NA
Extra-ordinary Items	0.0	46.7	NA	24.0	NA
Profit After Tax	590.2	528.7	11.6%	293.5	101.1%
Adjusted Profit	590.2	575.4	2.6%	317.5	85.9%
	15.8%	17.5%	(170) bps	14.1%	174 bps
EPS (Unit Curr.)	40.79	39.77	100.9%	20.30	169.9%

Source :Company data, Nirmal Bang Research

Break up of Sales

Particulars	Q1 FY11	Q4FY10	QoQ[%]	Q1FY10	YoY[%]
-Motor Cycle	828391	712390	16.3%	482727	90.7%
-Scooter Geared/Un Geared	27	258	-89.5%	1693	-85.1%
Two Wheeler (a)	828418	712648	16.2%	484420	89.8%
Three Wheeler (b)	99918	96271	3.8%	63242	48.5%
TOTAL(a + b)	928336	808919	14.8%	547662	83.8%

Source :Company data, Nirmal Bang Research

- BAL's motorcycle sales increased 90.7% y-o-y in Q1 FY11 while sales of scooters declined 85.1% in the quarter. Company has stopped manufacturing scooters from May 2010. On a QoQ basis motorcycle sales increased 16.3% in Q1 FY11 to 828,418 units.
- Sales of 3-wheelers continues to increase rapidly growing by 48.5% y-o-y in Q1 FY11.

Going Forward

Over the last few quarters we have seen strong QoQ growth in vehicles sale driven by increased demand following the economic recovery in late FY 2010. Going forward, we expect the growth rate to moderate over coming quarters due to higher base effect and stabilizing demand. The has targeted to sell 4 mn vehicles in FY 2011. Going by Q1 FY11 sales of 928,336 units we expect the company to reach very close to its target of 4 mn vehicles. Considering this we expect the QoQ growth in volumes to be in single digit in coming quarters.

2-wheelers: In the 2-wheeler segment, demand has been in full swing for the new launches viz. Discover 150 cc and Pulsar 220 cc. BAL continues driving volumes through the sales of Discover and garner higher margins with the sales of the various variants of Pulsar, thus making the business more profitable than before.

During Q1 FY11, company sold around 76,000 units of Pulsar every month. The Discover reached a sale of 110,000 units per month and is estimated to be the second largest motorcycle brand in the country. Discover 150 which was launched in mid May 2010 in selected states sold 20,000 units in June. Company has planned full roll-out of Discover 150 in Q2 FY11 and expect to sell around 40,000 units per month going forward. The company expects the motorcycle capacity to increase to 300,000 units/month from the month of July. Considering the robust growth in last few months and positive outlook we have revised our sales forecast upwards and expect the company to sell 3.48 mn motorcycles in FY 2011.

3-wheelers: In this segment, the company continues its strong growth recording volumes of 99,918 units in Q1 FY11 . BAL is increasing its 3 wheeler capacity to 35,000 units per month. The company expect the growth to continue from exports especially from Markets like Sri Lanka, Egypt, Bangladesh to some extent from Africa. BAL also expects demand from Tamil Nadu following the government decision to scrap permits and sees a potential to sell 30,000-35,000 units over a period of time. With increased focus on 3-wheeler segment we expect its sales to reach 0.39 mn units in FY 2011.

Valuation & Recommendation

At the current market price of Rs 2469 per share, BAL is currently trading at a PE of 17.1x FY11E and 14.1x FY12E earnings, which looks fairly valued. We expect the company to earn an ROCE of 62.9% in FY11E and 60.9% in FY12E. At Rs. 2469 the stock is trading at a discount of 1.7% from our intrinsic price of Rs. 2510 per share arrived using DCF valuation. We believe that the company being the second largest player in the two-wheeler segment and a market leader in the three-wheeler segment in India has an edge over its competitors. Given our target price, we do not expect significant upside from current levels and maintain our HOLD rating on the stock.

Financial-Statements
Income Statement (in crores Rs.)

	2008	2009	2010	2011E	2012E
Sales	9,692.6	9,058.8	12,152.7	16,963.5	19,975.9
Excise	1,029.5	610.1	609.6	1,187.4	1,398.3
Net Sales	8663.1	8448.7	11543.2	15776.1	18577.6
Other Income	522.9	369.7	431.0	516.8	551.2
Total Income	9,185.9	8,818.4	11,974.2	16,292.9	19,128.8
Cost Of Raw Material	6,684.3	6,439.7	7,718.5	11,020.4	12,897.6
Stock Adjustment	(67.9)	24.5	(37.2)	-	-
Employee Expenses	449.1	543.4	406.1	508.9	599.3
Manufacturing and Selling exp	824.0	956.0	1,299.5	1,747.2	1,977.6
Total Expenditure	7,889.6	7,963.6	9,386.9	13,276.6	15,474.5
EBITDA	1,296.4	854.8	2,587.2	3,016.3	3,654.4
Interest	5.2	21.9	6.8	9.6	8.2
Depreciation & Amortization	174.6	130.6	137.4	126.4	131.6
Other income	-	121.9	122.5	245.0	269.5
Exceptional items	-	-	161.5	-	-
Profit Before Tax	1,116.6	824.2	2,404.1	3,125.4	3,784.1
Total Taxes	392.0	308.4	703.5	1,031.4	1,248.7
Minority interests	(0.7)	(0.5)	103.4	-	-
Net Income After Taxes	752.9	535.8	1,594.6	2,091.4	2,532.7
Extraordinary Items	(52.4)	(106.0)	(183.0)	-	-
Adjusted Net Profit	805.3	641.8	1,777.6	2,091.4	2,532.7
Earnings Per Share (Rs)	55.7	44.4	122.9	144.6	175.1

Source :Company data, Nirmal Bang Research

Balance Sheet (in crores Rs.)

	2008	2009	2010	2011E	2012E
Sources of Funds					
Shareholders' Equity	144.7	144.7	144.7	144.7	144.7
Reserves	1,478.9	1,668.1	2,572.3	3,901.9	5,588.2
Minority Interest	0.4	-	0.4	0.4	0.4
Share Holders Funds	1,624.0	1,812.8	2,717.3	4,046.9	5,733.3
Secured Loans	7.0	-	13.0	13.0	13.0
Unsecured Loans	1,339.4	1,595.4	1,348.1	1,048.1	708.1
Total Debt	1,346.4	1,595.4	1,361.0	1,061.0	721.0
Deferred Tax Liabilities	-	4.2	1.7	1.7	1.7
Total Liabilities and Equity	2,970.4	3,412.3	4,080.0	5,109.7	6,456.0
Application Of Funds					
Net Fixed Assets	1,574.5	1,530.1	1,483.3	1,607.0	1,725.3
WIP	34.7	22.1	41.5	41.5	41.5
Investments	1,563.3	1,423.2	3,445.2	3,445.2	3,445.2
Goodwill	-	383.5	329.0	329.0	329.0
Current Assets, Loans & Adv					
Cash	71.2	142.6	107.3	577.5	1,760.4
Receivables	252.9	280.9	271.9	379.5	547.3
Inventories	366.1	371.8	458.4	697.1	875.7
Loans and Advances	977.8	1,506.6	2,190.8	2,556.1	2,736.4
Total Current Assets	1,668.1	2,301.9	3,028.4	4,210.3	5,919.8
Current Liabilities & Prov					
Current Liabilities	1,049.7	1,234.0	2,031.8	2,179.5	2,496.2
Provisions	834.1	1,224.2	2,249.5	2,377.6	2,542.5
Total Curr.Liabs & Prov.	1,883.8	2,458.1	4,281.3	4,557.2	5,038.7
Net Current Assets	(215.8)	(156.2)	(1,252.9)	(346.9)	881.1
Deferred Tax Assets	13.6	26.4	33.8	33.8	33.8
Misc Exp	-	183.3	-	-	-
Total Assets	2,970.4	3,412.3	4,080.0	5,109.7	6,456.0

Source :Company data, Nirmal Bang Research

Ratios

Profitability Ratios	FY 09 A	FY 10A	FY 11 E	FY 12 E
EBITDA	10.1%	22.4%	19.1%	19.7%
PAT	7.6%	15.4%	13.3%	13.6%
RoCE	22.7%	65.4%	62.9%	60.9%
RoNW	37.4%	78.5%	61.8%	51.8%

Growth Ratios	FY 09 A	FY 10A	FY 11 E	FY 12 E
Sales	-6.5%	34.2%	39.6%	17.8%
EBITDA	-34.1%	202.7%	16.6%	21.2%
PAT	-20.3%	177.0%	17.7%	21.1%

Valuation Ratios	FY 09 A	FY 10A	FY 11 E	FY 12 E
PE	55.7	20.1	17.1	14.1
P/BV	19.7	13.1	8.8	6.2
EV/EBIDTA	0.0	13.0	10.9	8.5
M.Cap/Sales	3.9	2.9	2.1	1.8

Per Share Data	FY 09 A	FY 10A	FY 11 E	FY 12 E
BV	125.3	187.8	279.7	396.2
EPS	44.4	122.9	144.6	175.1
Cash EPS	46.1	119.7	153.3	184.2
DPS	22.0	46.8	52.7	58.5

Source :Company data, Nirmal Bang Research

NOTE

Disclaimer

This Document has been prepared by Nirmal Bang Research (Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.