

Bajaj Auto Ltd.

₹ 1822

Auto-Matic Growth**Accumulate**

May 03, 2013

Company Background

Bajaj Auto Limited (Bajaj Auto) is the second largest two-wheeler manufacturer in India with a domestic market share of 28%. It offers products in all motorcycle segments: Platina (entry), Discover (executive) and Pulsar (premium). It is also the largest three-wheeler manufacturer in India. Post the demerger in May 2008, The Company has been solely focused on the automobile business. In the past few years, the company has shown strong growth in exports that now forms nearly 35% of its total volumes. Bajaj Auto is a diversified player with domestic motorcycle, three wheeler and export portfolio. Revival of exports in key destinations (like Africa and Sri Lanka) and performance of new launches in the domestic market augur well for further volume growth.

Key Highlights

- ➔ Bajaj Auto has a number of refreshed/new models lined up for launch in FY14 and management is focusing on introducing differentiated products with an eye on margins (target of ~20%) rather than competitive pricing. New product launches in FY13 have partly helped counter the slowdown in the two-wheeler space. In export markets, management expects at least 10% growth in FY14.
- ➔ Bajaj Auto is preferred in the two-wheeler space given its higher margin profile, and relatively defensive portfolio with a presence in export markets and three-wheelers, coupled with healthy new launch performance.
- ➔ Bajaj Auto expects its partnerships with Kawasaki and KTM for access to new markets and technology, along with its foray into Brazil and growth potential in Africa to drive exports over the next 4-5 years.
- ➔ The African market continues to grow at the targeted pace (12% YTD), and growth in Egypt has picked up sequentially. In many of these markets, there are concerns over Balance of Payments and inflation, causing respective governments to artificially curtail demand. However the Management expects at least 10% growth in export in FY14.
- ➔ The company expects to maintain its overall average EBITDA margin at 20% in FY14. Brand-wise, it expects to earn margins in the mid-teens for Discover, 20%+ in Pulsar and double-digit margins in the Platina brand.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	120,673.4	178,178.8	201,461.6
Rev. growth (%)	30.94	47.65	13.07
EBITDA (INR mn)	24,492.2	44,657.2	42,052.4
Net profit (INR mn)	17,001.1	33,397.3	30,040.5
Shares outstanding (mn)	144.7	289.4	289.4
EPS (INR)	117.5	115.4	103.8
EPS growth (%)	159.76	(1.78)	(10.05)
P/E (x)	8.6	12.6	16.2
RONW (%)	70.8	63.1	53.9
ROCE (%)	43.4	52.0	51.8

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Info Codes

Reuters	: BAJA.BO
Bloomberg	: BJAUT@IN
NSE	: BAJAJ-AUTO
BSE	: 532977

Market Data

52 Wk Range (₹)	: 1423 / 2229
Shares in Issue (mn)	: 93.1
Mkt. Cap (₹ bn)	: 524.33
BSE 2 Wk Avg Vol	: 27000

Share Holding Pattern (%)

Promoters	: 50.02
DII's	: 07.26
FII's	: 18.20
Others	: 24.52

Investment Theme

Bajaj Auto, is ranked as the world's 4th largest 2 & 3 wheeler manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia. Bajaj Auto has continuously specialise its Motorcycle & Commercial Vehicle brands through its strategy of differentiation. The company has continuously improved its core competencies in all its functions, as also across its supply chain, including suppliers & dealers. It's core competence rest on its values of innovation, perfection and speed. Bajaj Auto has adopted TPM, The Prime Mover towards excellence, to build and to continuously improve its core competencies. TPM has provided a holistic, structured and quantifiable methodology for deeper and wider continuous improvement in an integrated way aligned to company's business vision to its growth.

Growth on wheels

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	123999.2	173322.2	39.78	204791.8	18.16
Other Income	2681.5	14002.5	422.19	6185.8	(55.82)
Change in Stocks	476.0	827.9	73.93	941.5	13.72
Raw Material Con.	77673.0	113968.9	46.73	135557.9	18.94
Employee Exp.	5946.4	4935.8	(17.00)	5401.1	9.43
Indirect Taxes	6269.3	9625.2	53.53	9750.6	1.30
Other Exp.	12775.8	14965.5	17.14	19157.1	28.01
Operating Exp.	102188.5	142667.5	39.61	168925.2	18.40
Operating Profit	21810.7	30654.7	40.55	35866.6	17.00
Total Interest	59.8	16.9	(71.74)	1635.0	9574.56
Gross Profit	24432.4	44640.3	82.71	40417.4	(9.46)
Net Dep.	356.3	1162.8	226.35	155.7	(86.61)
Total Taxation	7075.0	10080.2	42.48	10221.2	1.40
Net Profit/Loss	17001.1	33397.3	96.44	30040.5	(10.05)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	34,473.6	42,689.9	52,364.4	61,661.0
Equity Share capital	1,446.8	1,446.8	2,893.7	2,893.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	17,250.1	27,836.6	46,208.5	57,517.0
Long Term Loans	15,699.7	13,255.8	1,677.3	275.5
Short Term Loans	77.0	150.7	1,584.9	974.8
USES OF FUNDS	34,473.6	42,689.9	52,364.4	61,661.0
Gross Block	33,376.7	33,829.8	33,951.6	33,960.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	18,107.9	19,033.9	19,124.5	19,143.3
Net Block	15,268.8	14,795.9	14,827.1	14,817.3
Capital Work in Progress	1,218.9	1,208.4	698.6	416.5
Investments	17,792.3	23,757.0	47,219.1	48,828.1
Current Assets	24,360.6	47,627.7	31,450.0	48,359.4
Less : Current Liabilities	26,000.0	44,699.1	41,830.4	50,760.3
Total Net Current Assets	(1,639.4)	2,928.6	(10,380.4)	(2,400.9)
Misc. Expenses not written	1,833.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	7,140.9	8,347.6	14,529.5	16,473.9
Mkt Val. Quoted Investments	10,517.0	15,398.1	31,407.3	30,335.0
Contingent Liabilities	12,357.1	11,290.1	9,596.6	14,456.7
Dividend (%)	220	400	400	450

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	46,514.40	48,656.60	49,724.00	54,127.10
Cost Of Sales	37,308.90	39,939.60	40,571.90	44,009.60
Operating Profit	9,205.50	8,717.00	9,152.10	10,117.50
Recurring Income	1,597.60	1,819.70	1,667.20	2,031.90
Adjusted PBDIT	10,803.10	10,536.70	10,819.30	12,149.40
Financial Expenses	17.70	0.40	2.20	1.00
Depreciation	434.20	352.40	410.40	410.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	10,351.20	10,183.90	10,406.70	11,737.60
Tax Charges	2,631.20	3,000.00	3,000.00	3,550.20
Adjusted PAT	7,720.00	7,183.90	7,406.70	8,187.40
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	7,720.00	7,183.90	7,406.70	8,187.40

52 Week Index Relative Percentage Appreciation



Bajaj Auto vs SENSEX vs Automobile

Points to Ponder

- In the three-wheeler segment, Jaipur has opened permits for 4,000 new vehicles, while Hyderabad has opened 20,000 new permits. Management expects to sell 18,000-19,000 units per month in the domestic market excluding new permits. Overall, Bajaj Auto expects a run-rate of 45,000-47,000 units in the three-wheeler segment for FY14, backed by a range of upgrades in the pipeline. Currently, three-wheeler capacity stands at 50,000 units and the company has plans to take this up to 60,000.
- Bajaj Auto has a number of refreshed or new models lined up for launch in FY14 and management would focus on introducing differentiated products with an eye on margins rather than competitive pricing. New product launches in FY13 have partly helped counter the slowdown in the two-wheeler space. Bajaj Auto remains cautious on any aggressive expansion, and plans to take total production capacity up to 6mn (from 5.1mn currently) in FY14.
- The launch of RE-60 in India hinges around introduction of quadricycle norms in India. Else, Sri Lanka would be the top target market for this product. Production is scheduled to begin from Q2FY14 and margins for this product should be in line with that seen in three-wheelers.
- The company has Rs 55bn in cash on its books (~9% of current MCap). Management has given no guidance on utilisation of this cash pile and may use this for a good acquisition or expansion.
- Bajaj Auto have a healthy pipeline of refreshes in both 2-wheeler and 3-wheeler category over the next 2 years, with substantial improvements expected in the product line up in the 3-wheeler.

Bajaj Auto In a Nutshell

The Bajaj Group is amongst the top 10 business houses in India. Its footprint stretches over a wide range of industries, spanning automobiles (two-wheelers and three-wheelers), home appliances, lighting, iron and steel, insurance, travel and finance. The group's flagship company, Bajaj Auto, is ranked as the world's fourth largest two- and three- wheeler manufacturer and the Bajaj brand is well-known across several countries in Latin America, Africa, Middle East, South and South East Asia. Founded in 1926, at the height of India's movement for independence from the British, the group has an illustrious history. The integrity, dedication, resourcefulness and determination to succeed are characteristic of the group today. We expect volume growth for BAL in FY14 to be aided by new launches and recovery in export markets. Company's recent new launches have done well and we expect their contribution to increase further in FY14. EBITDA margins are expected to receive boost from higher export realization and product-mix improvement. In line with the same the company is planning to ramp-up capacity within 5-6 months, if required. In FY14, Bajaj Auto plans to take up capacity to ~6mn units pa. In 3W, the company will raise capacity from 50,000 units per month to 60,000 units as per requirement. Even though there is a slug in the market Company has categorically denied any discounting / subventions in the local market. Brand-wise, the company expects to earn margins in the mid-teens for Discover, 20%+ in Pulsar and double digit margins in the Platina brand. With the help of Kawasaki, the company plans to initially enter the Indonesian market before moving into other South East Asian nations. With KTM, BAL has developed the platform and will be launching various new products (350cc and below) over the next few years. All this would augur well for the company.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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