

# Bajaj Auto

Apple Green

Stock Update

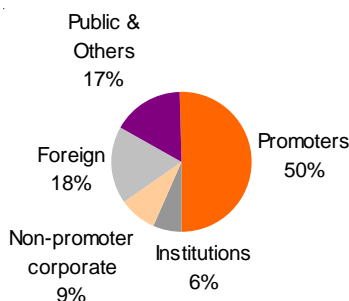
Price target revised to Rs2,527

Buy; CMP: Rs2,454

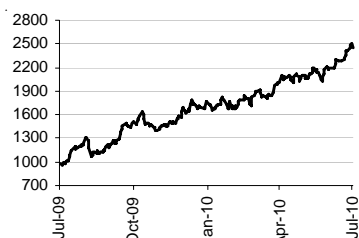
## Company details

Price target:	Rs2,527
Market cap:	Rs35,504 cr
52 week high/low:	Rs2507/935
NSE volume: (No of shares)	2.3 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJAUTO
Free float: (No of shares)	7.3 cr

## Shareholding pattern



## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	15.3	24.9	42.2	152.7
Relative to Sensex	8.6	25.4	40.7	108.1

- Highest ever monthly sales:** Bajaj Auto has announced its monthly numbers for June 2010, reporting a robust growth momentum on the back of the low base of the previous year and the incremental volumes of its new launches. For June 2010, the total volumes grew by a massive 63% year on year (yoy) to 315,422 units, also the highest volumes recorded by the company in any month. Furthermore, the company's total sales volumes also grew by a handsome 5% on a month-on-month basis.
- Motorcycle sales continue to shine in June:** The motorcycle segment grew by a strong 68.4% yoy to 282,808 units in June 2010. The newly launched Discover 150cc sold over 20,000 units for the month. The performance of its key brands, Pulsar and Discover, has been impressive which has also resulted in the company gaining a major chunk of the market share in the motorcycle segment to 27% as against 19% a year ago.
- Strong three-wheeler and export volumes:** Three-wheeler sales registered a growth of 32%yoy and that of 9% month on month (mom) to 32,614 units. Furthermore, the company will launch a new product, RE445, in the three-wheeler segment in this month, which is likely to result in incremental volumes going forward. The exports for the month grew by a healthy 68% yoy and by 19% mom to 114,024 units on account of a strong demand in the key export markets of Sri Lanka, Bangladesh, the Philippines and Africa.
- Debottlenecking of capacity:** The management has indicated that the supply constraints from the company's vendors limited the motorcycle sales during June. This constraint is likely to ease from July, translating into a monthly production capacity of 300,000 units of motorcycles. Moreover, the management has also indicated that the debottlenecking of its three-wheeler capacity from July will result in a higher production of 35,000 units per month. Consequently, after this debottlenecking of capacity, we expect the company to maintain an average monthly run rate of about 3.24 lakh units (a tad below the management's guidance of 3.33 lakh units per month) for the remaining nine months of FY2011.

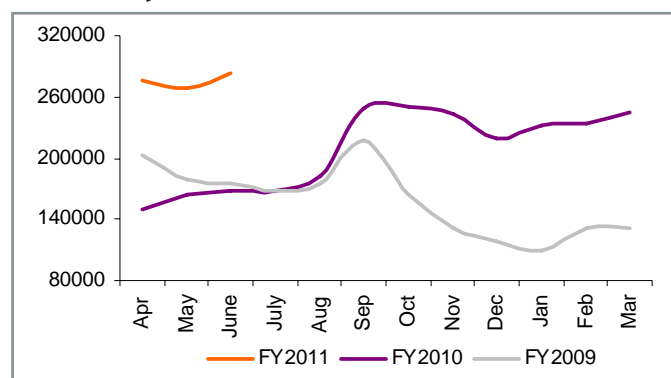
## Valuation table

Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales (Rs cr)	9,011.0	8,776.2	11,921.0	15,864.1	17,875.0
Net profit (Rs cr)	750.1	820.7	1,865.3	2,312.2	2,611.7
EPS (Rs)	51.8	56.7	128.9	159.8	180.5
% yoy growth	-17.8	9.4	127.3	24.0	12.9
PER (x)	47.3	43.3	19.0	15.4	13.6
P/B (x)	22.4	19.0	12.0	7.6	5.3
EV/EBIDTA (x)	27.6	30.0	12.9	9.8	8.2
RoCE (%)	24.1	35.9	67.9	65.3	55.4
RoNW (%)	23.3	47.5	77.3	60.5	45.8

- ◆ **Demand remains strong:** In view of a strong demand in the segment and to partially overcome the raw material cost pressure the company had raised prices of the Discover and Pulsar brands by Rs500-1,000 per unit in mid June and has also taken a price increase of approximately 2% in the exports markets. Moreover, the management has indicated that the strong retail demand has resulted in a lower inventory of two weeks currently as against a normal inventory of three weeks.
- ◆ **Raising estimates and price target:** We believe that the incremental volumes of the new launches coupled with the low base of the previous year and the debottlenecking of capacities will result in a robust 38% volume growth in the motorcycle segment and a strong 16.7% growth in the three wheeler segment during FY2011. Thus, we expect the company to post an overall volume growth of 34.7% in FY2011 (this is higher than the earlier forecast of a 32.6% growth in FY2011).

Factoring in the higher than earlier expected volume growth, we have revised upwards our estimates for FY2011 and FY2012 by 2.9% and 4.5% to Rs159.8 and Rs180.5 respectively. Consequently our price target stands revised to Rs2,527 (Rs2,419 earlier). We maintain our Buy recommendation on the stock. At the current market price, the stock is trading at 13.6x its FY2012E earnings of Rs180.5 and enterprise value/earnings before interest, tax, depreciation and amortisation of 8.2x.

Total motorcycle sales



## Sales volumes for June 2010

Segment	Jun 2010	Jun 2009	% yoy	% mom	YTD FY11	YTD FY10	% yoy
Motorcycles	282,808	167,945	68.4	4.9	828,391	482,727	71.6
Total two-wheelers	282,808	168,471	67.9	4.9	828,418	484,420	71.0
Three-wheelers	32,614	24,731	31.9	8.9	99,918	63,242	58.0
<b>Grand total</b>	<b>315,422</b>	<b>193,202</b>	<b>63.3</b>	<b>5.3</b>	<b>928,336</b>	<b>547,662</b>	<b>69.5</b>
Exports (out of the above)	114,024	67,726	68.4	18.8	323,899	178,295	81.7

The author doesn't hold any investment in any of the companies mentioned in the article.

## Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj Finserv  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Tea  
Wipro

## Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement  
Tourism Finance Corporation of India

## Emerging Star

3i Infotech  
Alphageo India  
Allied Digital Services  
Axis Bank (UTI Bank)  
Cadila Healthcare  
Emco  
Greaves Cotton  
Max India  
Opto Circuits India  
Patels Airtemp India  
Thermax  
Zydus Wellness

## Ugly Duckling

BASF India  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
Orbit Corporation  
Pratibha Industries  
Punjab National Bank  
Ratnamani Metals and Tubes  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Sunil Hitech Engineers  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
Zensar Technologies

## Vulture's Pick

Esab India  
Mahindra Lifespace Developers  
Orient Paper and Industries  
Tata Chemicals  
Unity Infraprojects

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