

Bajaj Auto

Relative to sector: **Underperformer**

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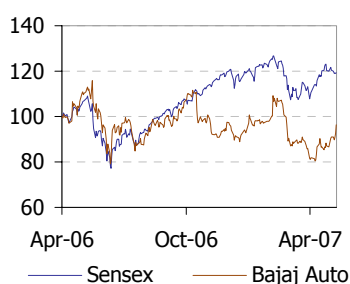
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 101.2mn
Market cap	: Rs 253bn
52 week high/low	: Rs 3,325/ Rs 2,085
Avg. daily vol. (6mth)	: 324,100 shares
Bloomberg code	: BJA IN
Reuters code	: BJAT.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 29.9	0.0
FIIs	: 19.5	0.6
MFs / UTI	: 2.0	(0.1)
Banks / FIs	: 5.6	(0.6)
Others	: 43.1	0.1

DEMERGER APPROVED, CALL-OPTION DISAPPOINTS

De-merger Scheme: The board of BAL has approved the de-merger of the company. This will result into three separate entities:

- New Bajaj Auto (BAL): Auto business + Rs 15bn of Cash
- Bajaj Holdings (BHIL): Cash + Investments of Rs 37bn
- Bajaj Finserve (BFL): Insurance Business + NBFC + Rs 8bn cash

The existing shareholders will be allotted one share of New Bajaj Auto (FV: Rs 10) and one share of BFL (FV: Rs 5). (*Details on pg 3*).

Bajaj-Allianz call option

Allianz has a call option till 2016 to increase its stake in Bajaj-Allianz Life Insurance at 5.42 per share plus 16% interest p.a. from 2001. We believe that there is a high possibility that a change in FDI norms will allow Allianz to exercise their option, and hence are valuing the life insurance business at Bajaj's residual stake of 26%. (*Details pg3*).

Q4FY07: Key Highlights

- Bajaj Auto's (BAL) Q4FY07 revenues were above our expectations with ~6% growth in realisations both QoQ and YoY.
- EBIDTA margin at 14% remained stable QoQ, largely due to lesser input cost pressures.
- BAL has indicated that the slowdown witnessed in two-wheeler sector has largely been on account of retail credit slowing down and a glut of products in the price segment.
- The loss in market share has been on account of aggressive pricing by competitors. BAL believes that the new platform to be launched by 2HFY08, will help in shifting customers away from the price segment.

Outlook

We retain our conservative FY08 EPS estimates of Rs 81.7 for BAL's auto business, till we see revival in volume offtake. Our SOTP valuation now stands at Rs 2,274. Hence at CMP of Rs 2,500, we are downgrading BAL to sector **Underperformer**. However, since clarity on the call-option emerged after market, the stock could crack drastically tomorrow, may be even resulting in a decent entry-point.

Financial summary

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	Core PAT (Rs mn)	Core EPS (Rs.)	Change YoY (%)	Core P/E (x)	RoE (%)	RoCE (%)	EV/ EBIDTA (x)
2006	74,694	12,622	6,450	63.7	64	28	25	28	19.0
2007	94,059	14,170	7,868	77.8	22	18	24	27	14.1
2008E	107,010	15,767	8,271	81.7	5	18	22	26	12.6
2009E	123,839	18,223	9,630	95.2	16	15	22	26	10.4

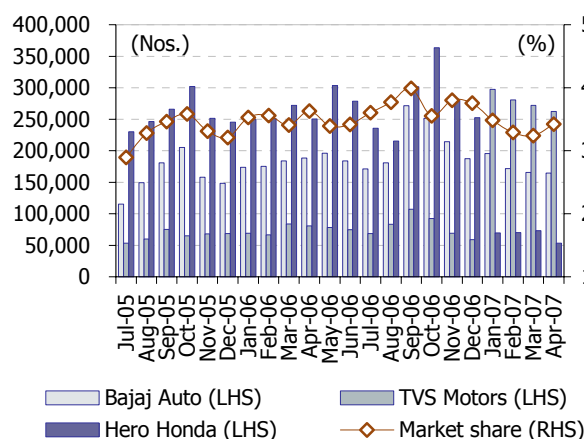
Source: Company, ENAM estimates, Core EPS pertains to auto business

Results update

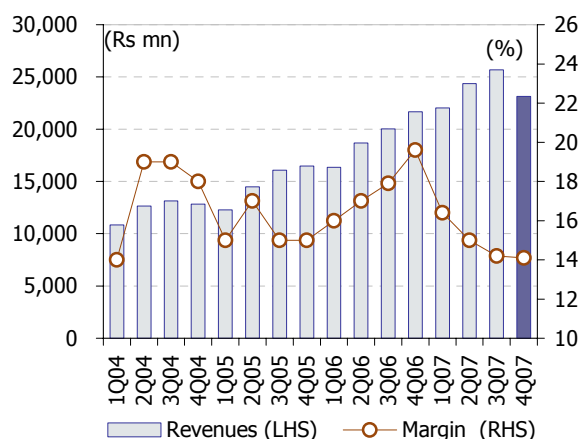
(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	23,136	21,659	6.8	25,682	(9.9)	107,010	94,059	13.8
EBIDTA	3,263	4,250	(23.2)	3,636	(10.3)	15,767	14,170	11.3
Other income	1,570	1,030	52.4	1,609	(2.4)	5,963	5,556	7.3
PBIDT	4,833	5,280	(8.5)	5,245	(7.9)	21,730	19,726	10.2
Depreciation	458	468	(2.1)	472	(3.1)	2,100	1,903	10.4
Interest	24	(1)	-	2	986.4	15	53	(71.9)
PBT	4,351	4,813	(9.6)	4,771	(8.8)	19,615	17,770	10.4
Tax	1,151	1,476	(22.0)	1,200	(4.1)	5,977	4,901	22.0
Adjusted PAT	3,201	3,337	(4.1)	3,571	(10.4)	13,638	12,869	6.0
Extra ordinary income/ (exp.)	(125)	(133)	(6.0)	(120)	4.6	1	(498)	-
Reported PAT	3,076	3,204	(4.0)	3,451	(10.9)	13,639	12,371	10.3
No. of shares (mn)	101	101	-	101	-	101	101	-
EBIDTA margin (%)	14.1	19.6	-	14.2	-	14.7	15.1	-
PBIDT margin (%)	20.9	24.4	-	20.4	-	20.3	21.0	-
EPS - annualized (Rs.)	126.5	131.9	(4.1)	141.2	(10.4)	134.8	127.2	6.0

Source: Company, ENAM Research

Bajaj: Volume and Market share movement*



Bajaj: Revenue & margin trend



Source: Company, Industry, ENAM Research, *indicated figures for only motorcycle segment

BJA Q4FY07: Reported nos. vs. expectations

(Rs mn)	Reported	Forecast	Variance (%)	Comment
Sales	23,135	21,260	8.8	Above our expectation on account of higher than expected realization growth (up 8% YoY v/s est 1%)
Net Realization	36,996	34,500		
EBITDA	Rs 3.2bn	Rs 2.9bn	14	Above expectation on account of lower than expected raw material to sales (73.1% v/s est. of 73.4%)
Margin	14.1%	13.4%	70bps	

Source: Company, ENAM Research

De-merger Scheme

Step 1

Formation of 2 new subsidiaries

As per the scheme of de-merger two new subsidiaries will be formed namely

- Bajaj Holdings and Investments Limited (BHIL): Auto business
- Bajaj Finserv Limited: Insurance + NBFC

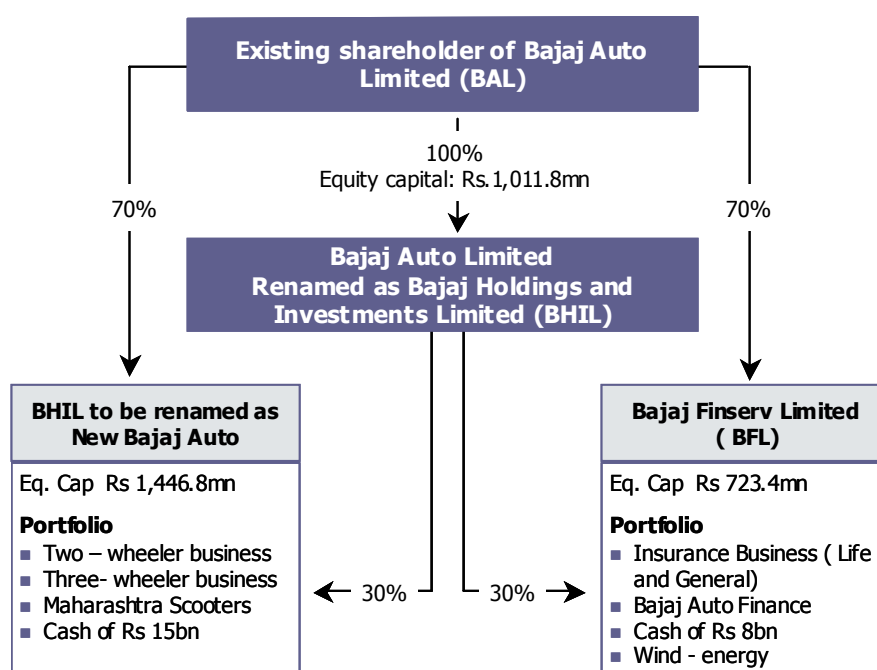
Step 2

Change of names

- Existing company i.e. Bajaj Auto Limited (BAL) will be renamed as BHIL.
- New subsidiary BHIL will be renamed as New Bajaj Auto Limited

Existing shareholder of Bajaj Auto Limited (now BHIL) will continue to hold one share of BHIL (FV: Rs10) and will be allotted one share of New BAL (FV: Rs.10) and 1 share of BFL (FV: Rs.5).

Post de-merger structure



Source: Company, ENAM Research

Insurance Twist

Life Insurance business

Currently BAL is holding 74% and Allianz is holding 26% in Bajaj Allianz Life Insurance Co Ltd. According to the press release by BAL, Allianz can exercise call option to increase its stake to 74% from the existing 26% (upto 1st July, 2016) at a price per share of Rs.5.42 plus compounded interest at 16% from 2001.

Q4FY07 performance: Gross written premium (GWP), for the quarter stood at Rs.26bn, up by 67% as compared to Rs 15bn in the corresponding quarter last year. GWP for the full year FY07 stood at Rs 53bn v/s 31bn for FY06.

Lack of fresh infusion by BAL: The table below indicates that in FY06, while, Allianz had maintained its 24% stake in Bajaj Allianz by paying huge premium of Rs 2.3bn, BAL had increased its stake at face value.

Bajaj Allianz Life Insurance (Rs mn)	2005	2006	Change
Eq. Share Capital	1,501	1,502	1.51
Share Premium	1,177	3,495	2,319
Other Reserves	(1,058)	(2,042)	(985)
Share Holders Equity	1,620	2,955	1,336

Source: Company, ENAM Research

Valuation: We believe that since most of the investments into the company have been made by Allianz and also with their embedded call option, we will consider Bajaj's stake in the JV at 26% for valuation purposes.

Bajaj Allianz Life Insurance	
GWP in FY07 (Rs mn)	53,100
NBAP (assumed at 16%)	8,496
Valuation Multiple (x)	15
Total Value of Bajaj Allianz Life Insurance	127,440
26% stake for Bajaj	33,134
Per Share value (Rs.)	327

Source: Company, ENAM Research

General Insurance business

Currently BAL is holding 74% and Allianz is holding 26% in Bajaj Allianz General Insurance Co Ltd. According to the press release by BAL, Allianz can exercise call options to increase its stake to 50% from the existing 26% at a price per share of Rs 10 plus compounded interest at 16% (upto 1st July, 2016).

Valuation: Again as there is a possibility that the call option will get exercised before 2016, we are considering Bajaj's stake in the JV at 50% for valuation purposes.

Q4FY07 Performance: GWP for the quarter stood at Rs 5bn which increased by ~52% on a YoY basis.

Sum of part valuation

Bajaj Allianz Life Insurance	
Auto Business (14x FY08E EPS of Rs 81.8)	1,144
Life insurance business	327
General insurance business	23
Bajaj Auto Finance Limited (at 20% discount to Market Cap)	54
Value of investments (at 15% discount to Market value)	726
Total value per share	2,274

Source: Company, ENAM Research

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