

India Update

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Highlights

Sector/event	Impact
AUTO: Bajaj Auto – Results review	Bajaj Auto announced the much awaited de-merger that will create three separate entities. The de-merger would lead to value unlocking, a more focussed management approach to growth of each business and allow investors to hold separate focussed stocks. The Q4FY07 results were above our as well as consensus estimates with sales growth of 6.8%YoY, a flat QoQ EBITDA margin despite input cost and competitive pressures, and recurring net profits declining a marginal 3.8% YoY to Rs3.17bn (i-SEC: Rs3bn, consensus: Rs2.97bn). We believe that the stock price overreacted to the call option news favouring Allianz (26% JV partner in life insurance) to up its stake to 74% in life insurance at nominal price. We believe a 74% foreign equity stake is highly unlikely, even as the regulation allowing increase to 49% foreign equity stake – which has met strong opposition from the Left – may eventually come through. We have revised our fair value estimate to Rs3,112/share, implying a 24% upside; the current weakness in the stock price should be used as an opportunity to BUY.

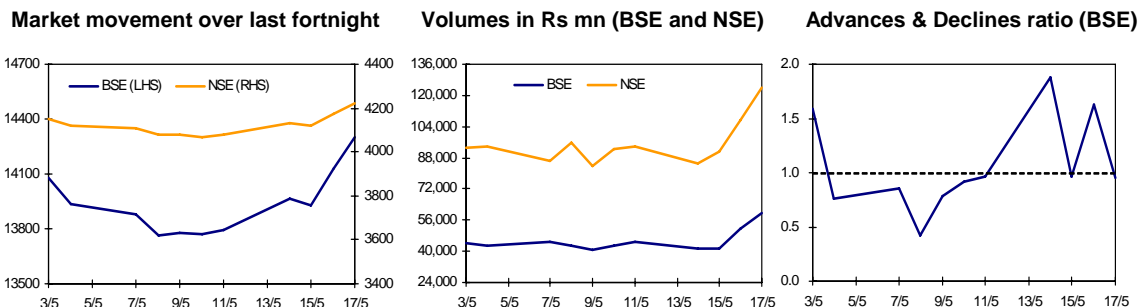
News Snippets

Sectoral

- The Government is likely to amend the controversial Press Note 2005 that requires a foreign company to obtain a no-objection certificate from its existing partner before setting up another venture in the same business. (The Financial Express)

Corporate

- HDFC Bank proposes to raise Rs42bn through a mix of preference shares to its promoters and an equity issue. (Business Standard)
- SpiceJet plans to raise US\$650mn through '09-11 of which US\$550mn would be through EXIM Bank and the remaining US\$100mn via equity dilution, to fund a fresh order of 10 aircraft for delivery beginning '09. (The Financial Express)
- Air Deccan is reportedly close to finalising a deal with R-ADAG, which is eyeing a substantial stake in the carrier. (The Economic Times)



Market data as on May 17, 2007

INDICES		
		% chg (DoD)
BSE Sensex	14300	1.22
S&P CNX Nifty	4220	1.17
BSE 100	7315	1.24
BSE 200	1731	1.15
Instanex Skindia DR	2605	3.08
Mindex	5868	1.04

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	13477	(0.08)
Nasdaq Comp.	2539	(0.32)
S&P 500	1513	(0.09)
Hang Seng	20995	0.27
Nikkei	17499	(0.17)

ADVANCES/DECLINES (BSE)			
Group	A	B1	B2
Advances	110	328	409
Declines	95	367	424
Unchanged	-	16	23

FII TURNOVER (BSE+NSE)*		
(Rs mn)		
Bought	Sold	Net
24973	26366	(1393)

NEW HIGHS AND LOWS (BSE)			
Group	A	B1	B2
Highs	16	41	21
Low	-	-	5

CURRENCY
 US\$1 = Rs40.84

* FII turnover (BSE + NSE) as on May 16, 2007

Bajaj Auto (Buy)

AUTO

Q4FY07 RESULTS REVIEW

Golden opportunity

Rs2,500

Shilpa Gupta

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Bajaj Auto (BAL) announced the much awaited de-merger that will create three separate entities. The de-merger would lead to value unlocking, a more focussed management approach to growth of each business and allow investors to hold separate focussed stocks. The Q4FY07 results were above our as well as consensus estimates with sales growth of 6.8%YoY, a flat QoQ EBITDA margin despite input cost and competitive pressures, and recurring net profits declining a marginal 3.8% YoY to Rs3.17bn (i-SEC: Rs3bn, consensus: Rs2.97bn). We believe that the stock price overreacted to the call option news favouring Allianz (26% JV partner in life insurance) to up its stake to 74% in life insurance at nominal price. We believe a 74% foreign equity stake is highly unlikely, even as the regulation allowing increase to 49% foreign equity stake – which has met strong opposition from the Left – may eventually come through. We have revised our fair value estimate to Rs3,112/share, implying a 24% upside; the current weakness in the stock price should be used as an opportunity to BUY.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (17/05/07) (Rs)	2,500	2005	81.0	30.9	22.4	BSE Sensex	14300
52 wk Range (Rs)	3,148/2,234	2006	101.6	24.6	13.2	M.Cap (Rs bn)	253
DPS FY08E (Rs)	50	2007P	126.8	19.7	10.2	M.Cap (US\$ bn)	6.2
Dividend yield (%)	2.0	2008E	145.6	17.2	8.7	Shares Out (mn)	101.2
Face value (Rs)	10.0	2009E	164.4	15.2	6.9	Float (%)	70.1

Source: Company data, i-SEC Research

- **De-merger – Step in the right direction.** The de-merger would lead to value unlocking, more focussed management approach to growth of each business and allow investors to hold separate focussed stocks in respective businesses. The three-way split has created: i) the auto company with Rs15bn cash & cash equivalent (C&CE) transferred ii) financial services (insurance, consumer finance and new initiatives in consumer finance) & wind power company with Rs8bn C&CE transferred, and iii) the primary investment company with ~Rs63bn C&CE to focus on new business opportunities.
- **Q4FY07 results – A positive surprise.** Q4FY07 results were above our and consensus estimates with sales growth of 6.8%YoY, a flat QoQ EBITDA margin despite input cost and competitive pressures, and recurring net profits declining a marginal 3.8%YoY to Rs3.17bn (i-SEC: Rs3bn, consensus: Rs2.97bn). In FY07, BAL gained 160 bps market share to 31.7% in motorcycles, revenues were up 24.2% to Rs95.2bn and net profit grew 13.9% to Rs12.73bn. On consolidated basis, recurring net profits were up 13.2%YoY in Q4FY07 and 17% in FY07.
- **Stock price reaction overdone, BUY.** Our sum-of-the-parts valuation (SOPV) methodology-based fair value of Rs3,112/share implies an upside of 24%. We maintain BAL as our third top pick in the auto sector.

Table 1: Results review – Standalone*(Rs mn, year ending March 31)*

	Q4FY07	Q4FY06	% chg (YoY)	Q3FY07	% chg (QoQ)	FY07	FY06	% chg (YoY)
Net Sales	23,136	21,659	6.8	25,682	(9.9)	95,204	76,679	24.2
(Inc)/Dec in Stock	(237)	(430)	(44.9)	(47)	405.6	9	(490)	(101.8)
Raw Materials	17,155	15,291	12.2	18,903	(9.2)	69,001	53,736	28.4
Staff Cost	688	682	1.0	757	(9.1)	3,015	2,741	10.0
Other Expenditure	2,266	1,866	21.4	2,433	(6.9)	9,009	7,129	26.4
Total Expenses	19,873	17,409	14.2	22,046	(9.9)	81,034	63,116	28.4
EBITDA	3,263	4,250	(23.2)	3,636	(10.3)	14,170	13,563	4.5
Interest	24	1	3,883.3	2	986.4	53	3	1,470.6
Depreciation	458	468	(2.1)	472	(3.1)	1,903	1,910	(0.4)
Other Income	1,577	1,031	53.0	1,610	(2.0)	5,556	4,385	26.7
Recurring pre-tax income	4,358	4,813	(9.4)	4,771	(8.7)	17,770	16,034	10.8
Ext. Ord Inc/(Exp)	(124)	133	(193.3)	(120)	4.1	(498)	(10)	4,879.0
Taxation	1,151	1,476	(22.0)	1,200	(4.1)	4,901	4,791	2.3
Reported Net Income	3,083	3,470	(11.1)	3,452	(10.7)	12,371	11,233	10.1
Recurring Net Income	3,174	3,299	(3.8)	3,541	(10.4)	12,728	11,174	13.9
Ratios (%)								
RM/Sales	73.1	68.6		73.4		72.5	69.4	
Staff Cost/Sales	3.0	3.1		2.9		3.2	3.6	
Other Expenses/Sales	9.8	8.6		9.5		9.5	9.3	
EBIDTA Margins	14.1	19.6		14.2		14.9	17.7	
Net profit margins	13.7	15.2		13.8		13.4	14.6	
Effective Tax Rate	27.2	31.4		25.8		28.4	30.3	

Source: Company data, i-SEC Research

For details in our report 'Golden opportunity' dated May 17, '07

Recent reports/updates		
Analyst	Company/Sector	Date
Shilpa Gupta	Bajaj Auto: Golden opportunity	May 17
S Ramesh/Amit Mishra	Netback Margin (May '07): Refining stocks to fly	May 16
Shilpa Gupta	Hero Honda Motors: Long and winding road...	May 14
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	May 22
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	May 17			
48	Videsh Sanchar Nigam	-			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 6

Quarterly results date reckoner

MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 Bharat Forge	23 PNB	24 .	25 .	26 .
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		

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