

RESULTS REVIEW

Bajaj Auto Ltd.

Rs. 2,287 | Accumulate

Q4FY07 results update

Analyst

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Nifty: 4215; Sensex: 14303

Key Stock Data

Sector	Automobiles
Bloomberg/Reuters	BJA@IN/BJAT.BO
Shares o/s (m)	101.2
Market cap (Rs bn)	231.4
Market cap (US\$ m)	5,657
3-m daily average vol.	83,612

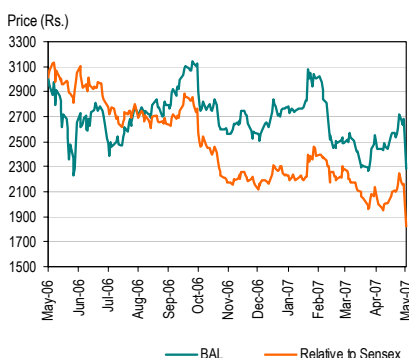
Price Performance

52-week high/low	Rs3,325/2,085		
	-1m	-3m	-12m
Absolute (%)	(8.4)	(24.4)	(24.1)
Rel to Sensex (%)	(13.0)	(23.7)	(49.6)

Shareholding Pattern (%)

Promoters	29.85
FII/NRIs/OCBs/GDR	22.08
MFs/Banks/FIs	7.58
Non Promoter Corporate	13.98
Public & Others	26.51

Stock vs Relative to Sensex



Source: Capitaline

Highlights

Bajaj Auto Ltd. (BAL) has announced the demerger into three entities – Bajaj Auto Ltd., Bajaj Finserve Ltd. and a holding company, Bajaj Holding and Investments Ltd. (presently Bajaj Auto Ltd.). The existing shareholders will be issued shares in new entities in the ratio 1:1.

The company has disclosed that Allianz has a call option to increase its stake in life insurance to 74% and general insurance to 49% from the current 24% at nominal prices. The stock fell by ~14 % since this news due the implied reduced effective stake of BAL in the insurance business from call option to favoring Allianz.

The company has reported net sales at Rs.23,135.5m up 7% YoY, corresponding to a slow volume growth in motorcycles and 3-wheelers. This represents the lowest quarterly turnover the company achieved in the last 8 quarters. EBITDA margins took a hit of 350bps on higher raw-material prices and promotional/marketing expenses.

The current price discounts 17.6x FY08E EPS of Rs.130.3. We believe that the current price gives opportunity to investors to accumulate the stock at these levels. Therefore, we recommend 'Accumulate' on the stock.

■ Poor domestic sales performance in Q4FY07 and FY07

The total motorcycles sold by the company in Q4FY07 stood at 532,864 as compared to 533,018 in Q4FY06 which is a fall of 0.03% YoY. For FY07, the sales of motorcycles stood at 2,376,518 as compared to 1,912,224 up 24%. This growth has been lackluster due to poor domestic sales during the quarter. Plummeting export volumes in the scooter segment also hit the sales growth.

The total 3-wheelers sold by the company in Q4FY07 stood at 84,598 as compared to 72,638 in Q4FY06 reporting a growth of 16% YoY. For full year, the sales of 3-wheelers stood at 321,778 as compared to 252,006 up 28%.

Table 1: Sales volume

Product	Q4FY06	Q4FY07	% Change	FY06	FY07	% Change
Motorcycles	5,33,018	5,32,864	(0.03)	19,12,224	23,76,518	24
Total 2-wheelers	5,49,334	5,40,759	(2)	20,27,856	23,99,400	18
3-wheelers	72,638	84,598	16	2,52,006	3,21,778	28
Total 2 & 3-wheelers	6,21,972	6,25,357	1	22,79,862	27,21,178	19
Exports (out of the above)	73,403	1,13,703	55	2,50,168	4,39,413	76

Source: Company reports; IDBI Capital Market Services

■ Top line growth and margins

BAL reported the sales Rs.23,135.5m, up 7% YoY in Q4FY07. The full year sales were Rs.95,204m up 27.0% against previous year. As mentioned above, the sales performance was lackluster due to tepid volumes.

The EBITDA margins for the company for Q4FY07 were down by 350bps at 20.9% vis-à-vis 24.4% for Q4FY06. The EBITDA margins for FY07 stood at 20.7% vis-à-vis 23.70% for FY06.

The drop in margins is principally due to rise in prices of key raw materials of steel and rubber coupled with the higher marketing and promotional expenses. Also, rising interest rate scenario does not provide any comfort followed by rising inventory level. We expect margins to remain under pressure in the near term.

Demerger structure

BAL has announced the demerger of the business into two entities – Bajaj Auto Ltd. (BAL) and Bajaj Finserve Ltd. (BFL). The current company (Bajaj Auto Ltd.) will be renamed as Bajaj Holding and Investment Ltd. (BHIL). The current shareholders will be issued shares of BAL and BFL of face value Rs.10 and Rs.5 respectively in the ratio of 1:1

The current auto business and cash equivalents worth of Rs.15bn will be transferred to BAL with the nominal share capital of Rs.1,446.8m.

BFL will hold investments in insurance business, stake in Bajaj Auto Finance, wind power project business and cash equivalents worth Rs.8bn.

The holding company BHIL will hold residual cash equivalents (~Rs.60bn), 30% stake in each of two entities and stake in ICICI bank.

Table 2: Capital structure

BHIL (existing BAL)	BAL (New)	BFL
<ul style="list-style-type: none"> Rs.60bn cash equivalents 30% stake each in BAL& BFL ICICI Shares 	<ul style="list-style-type: none"> Auto Business Rs.15bn cash equivalents 	<ul style="list-style-type: none"> Insurance Business Bajaj Auto Finance stake Wind power business Rs.8bn cash equivalents
No. of shares: 101.18	No. of shares: 144.68	No. of Shares: 144.68
FV: Rs 10	FV: Rs 10	FV: Rs.5
Capital: Rs.1,011.8m	Capital: Rs.1,446.8m	Capital: Rs.723.4m

Source: Company reports; IDBI Capital Market Services

Insurance call option in favor of Allianz

According to the JV agreement with foreign partner Allianz SE, Allianz have a call option to increase its holding in life insurance to 74% from the present 26% subject to regulatory approvals.

The call option has exercise price of Rs.5.42/share, compounded annually at 16% p.a. and is exercisable upto 30 July, 2016.

After 30 July, 2016 option could be exercised at highest of following:

- The priced calculated from above mention formula.
- If the shares are listed, market price .
- If the shares are not listed the fair value calculated from mutually accepted accounting formula.

For General Insurance, Allianz SE have call options to increase its holding to 50% from the present 26% exercisable upto 22 April, 2016 at Rs.10/share, compounded annually @16% p.a. After this date the call option could be exercisable in the same manner as mention above.

The present regulations has FDI limit of 26% in insurance business. We believe that the government can increase the FDI limit to 49% but the possibility of increasing it to 74% is unlikely. Thus we believe that the call option is in favor of foreign partners.

Valuation

We believe that the stock price will continue to be under pressure in near term due to negative surprise on insurance business front. The auto volumes are expected to be tepid with the increasing interest scenario and intense competition from peers. The margins are also expected to be under pressure on the back of higher input costs and advertising expenses. Based on our SOP valuation we have revised our price target to Rs.2,519 and maintain 'Accumulate' on the stock.

Table 3: Financial snapshot

(Rs. m)

Year-end: March	Q4FY07	Q4FY06	YoY (%)	FY07	FY08E	YoY (%)
Net sales	23,136	21,659	7	95,204	104,753	10
Other income	1,577	1,031	53	5,556	6,800	22
Operating profit	3,263	4,250	(23)	14,170	14,351	1
OPM (%)	14.1	19.6		14.9	13.7	
Interest	24	1		53	53	
Depreciation	458	468		1,903	2,336	
Tax	1,151	1476		4,901	5,730	
PAT	3,083	3,470	(11)	12,869	13,182	2
NPM* (%)	13.9	15.4		13.5	12.6	
EPS (Rs.)	30.5	34.3		122.3	130.3	
No. of shares (m)	101.2	101.2		101.2	101.2	
CMP (Rs)	2,287	2,287		2,287	2,287	
PE (x)				18.7	17.6	

* Excluding extraordinary items

Source: Company reports; IDBI Capital Market Services

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