

Results Review

Share Data

| | |
|-----------------------|---------------------|
| Market Cap | Rs. 249.0 bn |
| Price | Rs. 2,460.65 |
| BSE Sensex | 17,998.39 |
| Reuters | BJAT.BO |
| Bloomberg | BJA IN |
| Avg. Volume (52 Week) | 0.1 mn |
| 52-Week High/Low | Rs. 3,171.9 / 2,063 |
| Shares Outstanding | 101.2 mn |

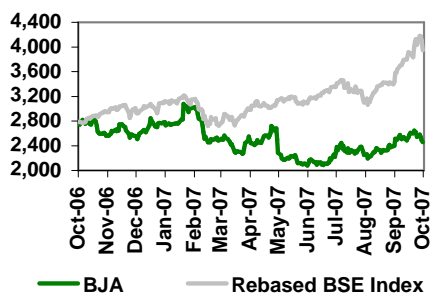
Valuation Ratios (Standalone)

| Year to 31 March | 2008E | 2009E |
|------------------|--------|-------|
| EPS (Rs.) | 117.9 | 128.3 |
| +/- (%) | (3.7)% | 8.8% |
| PER (x) | 20.9x | 19.2x |
| EV/ Sales (x) | 2.8x | 2.5x |
| EV/ EBITDA (x) | 20.2x | 18.5x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoters | 30 |
| FIs | 18 |
| Institutions | 8 |
| Public & Others | 44 |

Relative Performance



Bajaj Auto Limited

Hold

Volumes and market share fading out

Bajaj Auto Limited (BAL) reported disappointing 1Q'08 numbers with net sales declining 4.2% yoy primarily due to 11.7% decrease in volumes to 572k. However, this decline was cut short by 8.4% rise in sales realisation and 140bps reduction in excise duty. Rising interest rates and stringent financing norms have affected the sales of two-wheelers in the country. EBITDA declined by a steep 23.9% yoy and margins fell 337bps to 13.1% owing to rising cost pressures and increasing competition. To enhance the product mix and recapture the lost market share, the Company is currently shifting its focus from low margin entry level bikes to high margin premium segment bikes. Hence, to fight the slowdown and enlarge the product base, the Company has launched Pulsar 220 DTS-Fi in the premium segment. In the insurance business, Bajaj reported a solid growth with gross written premium increasing 27.5% yoy in general insurance and 44.8% yoy in life insurance business.

Despite some short term hurdles, we continue to remain positive on the long term growth prospects for Bajaj. We have valued Bajaj on SOTP valuation on account of significant value coming from insurance business. On a stand alone basis we have valued BAL at Rs. 1,579, insurance business at Rs. 419, and Rs. 598 for its investments and holdings in Maharashtra Scooters and Bajaj Auto Finance Limited. Therefore, we maintain our Hold rating with the target price of Rs. 2,597 for FY08E.

Key Figures (Standalone)

| Quarterly Data | 1Q'07 | 4Q'07 | 1Q'08 | YoY% | QoQ% |
|--|--------|--------|--------|---------|---------|
| (Figures in Rs. mn, except per share data) | | | | | |
| Net Sales | 22,027 | 23,136 | 21,091 | (4.2)% | (8.8)% |
| EBITDA | 3,619 | 3,263 | 2,754 | (23.9)% | (15.6)% |
| Net Profit | 2,660 | 3,083 | 2,265 | (14.9)% | (26.5)% |

Margins(%)

| | | | |
|--------|-------|-------|-------|
| EBITDA | 16.4% | 14.1% | 13.1% |
| NPM | 11.6% | 12.5% | 10.2% |

Per Share Data (Rs.)

| | | | | | |
|--------------|------|------|------|---------|---------|
| Adjusted EPS | 26.3 | 30.5 | 22.4 | (14.8)% | (26.6)% |
|--------------|------|------|------|---------|---------|

Volumes declined 11.7% in comparison to 3.6% decline reported by Hero Honda

Result Highlights

Bajaj Auto Limited reported a 4.2% decline in sales primarily on account of lower volume which decreased 11.7% yoy to 572k units (Hero Honda reported 3.6% decrease in volume). However, this decline was arrested by growth of 8.4% in realisations to Rs. 36,899 due to improved sales mix. Despite decreasing domestic sales, exports during the quarter showed a robust growth of 52.5% yoy to 150k units. Moreover, the contribution of export to the total units sold during the quarter increased 11.1pts to 26.2%. In the three-wheeler segment, the Company reported a marginal growth of 0.7% yoy to 71k units.

Rising costs and declining volumes putting pressure on EBITDA margin

EBITDA declined unexpectedly by 23.9% yoy to Rs. 2.8 bn and margin compressed 337 bps to 13.1%. Low EBITDA margin was attributable to rise in prices of steel and tyres which led to a 180 bps increase in the raw material cost as a percentage of net sales. In addition, staff cost rose by 16.9% yoy to Rs. 986.7 mn on back of wage revision and higher fixed cost percentage on account of lower volumes reported in Q1'08. Other expenditure grew 1.7% to Rs. 2.1 bn owing to higher selling expenses to support new launches during the quarter. In view of the rising cost structure along with intense competition in the two-wheeler industry, we expect margins to remain under pressure.

Net profit declined 14.9% yoy

Despite higher other income, net profit took a steep decline of 14.9% yoy to Rs. 2.3 bn, owing to declining volumes, stiff price competition from competitor Hero Honda, and rising cost structure. Hence, adjusted net profit margin eroded 134 bps yoy to 10.2%.

Non-automotive business performing well

While the automotive business did not performed well in 1Q'08, the non-automotive business viz. insurance and investments continue to grow at a good pace. Gross written premium for the insurance business showed robust growth of 27.5% yoy in general insurance and 44.8% in life insurance while investments recorded growth of 9.6% yoy. The contribution of insurance business in the consolidated revenues of the Company

increased from 29.7% in Q1'07 to 47.7% in Q1'08. However, the EBIT for insurance business remains negative at Rs. 49.8 mn while investments EBIT grew by 10.7% yoy to Rs. 968 mn.

Key Event

Bajaj to be De-merged into three entities

Shareholders and unsecured creditors of Bajaj Auto Limited have given their approval for the de-merger of the Company. The Company is to be split into three entities – Bajaj Auto Ltd, Bajaj Finserve Ltd and a holding company Bajaj Holdings and Investments Ltd. The existing shareholders will be issued shares in the new companies in the ratio 1:1. Prima facie, the demerger proposal is expected to unlock shareholder value by splitting the manufacturing and financial assets of Bajaj Auto into two separate companies.

Shareholders and creditors approved the scheme of de-merger

Key Risks

'Exceed' failing to achieve targeted volumes

Bajaj Auto's expectation from Exceed a risk to our rating as Bajaj is expecting to sell 50k units per month of this bike till Jan 2008 which is presently between 15k to 20k units per month. If the company is unable to meet the target it might lose further market share to its rival Hero Honda.

Exceed's volumes - crucial for topline growth

Instability in interest rates and rising costs

Instability in interest rates and rise in prices of steel, tyre and aluminium pose a threat to our rating. Any decline in interest rates is likely to boost the sales of the currently stagnant two-wheeler industry.

Bajaj ready to explore four wheel cargo vehicle market

Increasing contribution from insurance business

Outlook

Despite a bad quarter for BAL we continue to hold a positive outlook on its long term growth prospects in the 7 mn Indian two-wheeler market. While there might be some short term hurdles for the Company, the long term prospects remain bright. In spite of the Auto industry showing signs of slowdown and the two-wheeler segment been the worst affected, Bajaj Auto still enjoys the second largest market share in the two wheeler market. The Company is also planning to enter the four wheel cargo market which is expected to be launched in the mid of 2009. On the back of approaching festive season, increasing discounts, declining inflation and GDP growing over 9%, volumes are likely to get a boost. Moreover, with new models launched and some more in the pipeline, we expect the sales to pick up in the upcoming quarters.

Baja's insurance business registered whopping rise of 107.6% yoy in revenue to Rs. 20.1 bn for the first quarter of FY08E. With 18% increase in revenue contribution of insurance business to the Company's consolidated top line; we are expecting insurance business to play a major role in Bajaj Auto's long term growth story.

Considering the performance of the Company in the first quarter of FY08E, we expect the standalone net sales to grow at a CAGR of 5.4% over FY07-09E. At the current price of Rs. 2,460.65 the stock is trading at 19.2x FY09E earnings estimates for the core-auto business. We maintain our Hold rating on the stock.

Key Figures (Standalone)

| Year to March | FY05 | FY06 | FY07 | FY08E | FY09E | CAGR (%) |
|---|--------|--------|--------|--------|---------|----------|
| (Figures in Rs. mn, except per share data) (FY07-09E) | | | | | | |
| Net Sales | 59,147 | 76,679 | 95,204 | 94,388 | 105,715 | 5.4% |
| EBITDA | 9,261 | 13,690 | 14,311 | 13,060 | 14,310 | 0.0% |
| Net Profit | 7,702 | 11,120 | 12,390 | 11,927 | 12,979 | 2.3% |
| Margins(%) | | | | | | |
| EBITDA | 15.7% | 17.9% | 15.0% | 13.8% | 13.5% | |
| NPM | 13.0% | 14.5% | 13.0% | 12.6% | 12.3% | |
| Per Share Data (Rs.) | | | | | | |
| Adjusted EPS | 76.1 | 109.9 | 122.5 | 117.9 | 128.3 | 2.3% |
| PER (x) | 14.2x | 25.0x | 20.1x | 20.9x | 19.2x | |

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