

Bajaj Auto

Rs 2,752
Hold

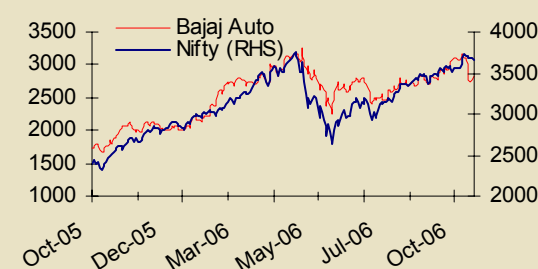
26th October 2006

Quarter sees slow down

SCRIP DETAILS	
Market Cap (Rs crores)	27,946
P/E (x)-FY07(E)	20.5
Market Cap/Sales (x) FY07(E)	2.6
EV/EBIDTA (x) FY07(E)	10.4
Dividend (Rs)/ Yield (%)	40/ 1.45
Equity Capital (Rs crores)	101.18
Face Value (Rs)	10
52 Week High/Low (Rs)	3,325/ 1,650
Website: www.bajajauto.com	
NSE Code	BAJAJAUTO
Sensex	12698
Nifty	3678

SHARE HOLDING PATTERN (As on 30th Jun 2006)	
Promoters	29.8
Mutual Funds/ Banks/ FIs	2.57
FII's	19.48
Others	1.98
Public	46.17

COMPARATIVE PRICE MOVEMENT



Bajaj Auto Limited (BAL) Q2FY07 results have been disappointing and are below expectations, on account of its aggressive pricing strategies initiated during the quarter.

Entry segment squeezes margins: In Q2FY07, the operating profit margin has fallen by 190 bps YoY and by 140 bps QoQ, to 15%, due to lower margins on its 100cc motorcycles, which constitute 50% of sales. The lower margins are on account of the Company's promotional strategy, wherein it had reduced the prices of the Platina model by Rs 2,000, from Rs 37,000. The Company is planning to exit this segment in the next 2-3 years, due to its lower profitability, and intends to replace it with its premium and executive models, which constitute the remaining 50% of sales. BAL's market share in the premium segment is 63%, whereas in the entry segment, it is 43%.

Volumes accelerate sales: BAL has reported a 30.5% standalone growth in its topline, to Rs 2,436 crores, and a 29% consolidated growth, to Rs 2,539 crores. This has largely been on account of its motorcycle segment, which has clocked volumes of 6,23,061 units in Q2FY07 as against 4,45,557 units in Q2FY06. This reflects a growth of 40%, which is twice the industry growth rate of 18%. In H1FY07, it posted a growth of 37%, to 11,91,248 units, with a market share of 34%, as against 31% in FY06. Net profit rose marginally by 10%, to Rs 318 crores on account the exceptional item (VRS compensation) of Rs 12.6 crores. The EPS is at Rs 31.4, as compared to Rs 28.6 in Q2FY06.

Magnificent growth in exports: Exports grew by 81% in Q2FY07, to 1,11,846 units, which were triggered by the motorcycle growth of 105% and the 2-wheeler growth of 95%. Of the total turnover, exports constitute 16%, which are expected to go up, as the Company's initiatives of entering new markets is in progress. It has incorporated a subsidiary, PT Bajaj Auto Indonesia, to avail access to the Indonesian market. The Company is also supplying shipments to a Nigerian distributor, who has set up an assembly line for the Company's motorcycle segment. Exports are estimated to grow by 25% in FY07, with significant volumes coming from the markets of Sri Lanka, Colombia and Egypt.

New Launches on track: The Company is planning a set of launches for the coming quarters, in the category of the premium segment, which would eliminate the 100cc motorcycles. A new model, the Pulsar 150, is expected to be launched in Q3FY07, along with additional upgrades of 3-wheelers. Further, the Company intends to re-enter the ungeared scooter segment with its Blaze and Kristal models, to be launched in Q4FY07 and November-end, respectively.

Valuation: BAL has faced margin pressure, having observed aggressive pricing strategies during the Quarter. This has led to a fall in the OPM for the Quarter, from 16.9% to 15%. The margin is expected to be maintained at this level, for the coming quarters. The Company believes that the next three years would see a big shift to +125cc motorcycles, as this segment would occupy 80% of the market and elbow out commuter bikes. This change of product mix in/for the Company would impact its growth, as well as its margins. The coming quarter, i.e. Q3FY07, would prove to be very crucial for the company. At the CMP of Rs 2752, the stock is available at 20.5x, its FY07 (E) EPS of Rs 134 and EV/ EBITDA of 10.4x after adjusting for the cash equivalents of Rs 6019 crore. We would advise investors to Hold the stock.

 Email: content@way2wealth.com

Telephone: 022 - 4019 2900

Subsidiaries & Joint Ventures Performance

Bajaj Allianz General Insurance recorded a gross premium of Rs 392 crores during Q2FY07, as against Rs 305.4 crores in Q2FY06, which is a growth of 28%. Profit after tax was Rs 8.4 crores, as compared to Rs 9.5 crores in Q2FY06 and the profit for H1FY07 was Rs 27 crores, as against Rs 21.7 crores in H1FY06. The Company has expanded its presence to 100 locations across the country, with staff strength of 2,018 employees, as of 30th September 2006.

Bajaj Allianz Life Insurance posted a gross written premium of Rs 878.4 crores, which is a growth of 64% YoY. The total number of policies issued were 2,89,616, as against 1,32,268 in Q2FY06. In H1FY07, it recorded a loss of Rs 87.9 crores, as compared to a Rs 45.9-crore loss in H1FY06.

Bajaj Auto Finance's total disbursements increased by 27%, to Rs. 563 crores in Q2FY07, as against Rs 444.6 crores in Q2FY06. Profit after tax for the quarter was Rs. 6.2 crores, against Rs. 12.3 crores in Q2FY06.

Financials

Consolidated (YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY07(E)	Chg (%)
Net Sales	2,538.9	1,969.6	28.9	4,833.1	3,725.4	29.7	10,697	32
Raw Mat. consumed	1,769.2	1,299	36.2	3,324.6	2,442.2	36.1	7,274	36.5
Personnel	73.2	65.8	11.2	158.2	139.6	13.3	340	23
Other expenses	234.4	196.8	19.1	442.2	362.4	22	877	18.7
Total expenditure	2,071.2	1,553.2	33.4	3,912.9	2,930.6	33.5	8,465	34
Operating Profit	467.6	416.4	12.3	920.2	794.8	15.8	2,232	25
OPM (%)	18.4	21.1		19	21.3		20.9	
Other Income								
Interest	2.0	0.1		2.7	0.1		3.0	
Gross Profit	465.6	416.4	11.8	917.5	794.7	15.5	2,228.9	24.9
Depreciation & Amortisation	49.2	49.1	0.3	97.4	95.3	2.2	200	4.6
PBT Before Extra-ord	416.4	367.3	13.4	820.1	699.3	17.3	2,028.9	27.3
PBT (%)	16.4	18.6		17.0	18.8		19.0	
PBT	406.4	373	8.9	799.9	710.3	12.6	2,028.9	28.4
Prov. for Tax - Current	130	118.4	9.8	272	220.8	23.2	669.5	31.4
PAT	275.1	253.2	8.7	526.7	487	8.2	1,359	24.4
PAT (%)	10.8	12.9		10.9	13.1		12.7	
PAT (adj. for extraordinary)	283.2	250.7	12.9	541.3	481.9	12.3	1,359	25.9
Equity Share capital	101.2	101.2		101.2	101.2		101.2	
EPS (Rs)	27.2	25.0		52.1	48.1		134.3	
CEPS (Rs)	32.1	29.9		61.7	57.6		154.1	

Standalone (YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)
Net Sales	2,436	1,866.9	30.5	4,638.6	3,501.1	32.5
Total Expenditure	2,070.8	1,551.3	33.5	3,911.6	2,927.9	33.6
Operating Profit	365.2	315.6	15.7	727.1	573.2	26.8
OPM (%)	15.0	16.9		15.7	16.4	
PBT before Extra-ord	456.5	402.8	13.3	864	706.8	22.2
PBT (%)	18.7	21.6		18.6	20.2	20.9
PBT	443.9	402.8	10.2	839.9	706.8	18.8
PAT	317.6	289.3	9.8	583.6	498.4	17.1
PAT (adj. for extraordinary)	327.9	290.8	12.8	601.7	499.8	20.4
Equity Share capital	101.2	101.2		101.2	101.2	
EPS (Rs)	31.4	28.6		57.7	49.3	
CEPS (Rs)	36.2	33.4		67.3	58.7	

Valuation and Conclusion

BAL has faced margin pressure, having observed aggressive pricing strategies during the Quarter, on account of its 100 cc segment, which forms 50% of its motorcycle sales. This has led to a fall in the OPM for the Quarter, from 16.9% to 15%. The margin is expected to be maintained at this level, for the coming quarters.

The 100cc segment is about 75% of the motorcycle market and BAL holds only 27-29% market share in the same. BAL intends to reduce its dependence on this entry-level segment, as it does not contribute much to the profitability. Its focus is now on the executive and premium motorcycle segments, as, going forward, the premium segment would contribute more to the volumes. BAL dominates the market in the premium segment, with a market share of 63%, which is expected to amplify in the coming quarters, with the launch of its upgraded Pulsar.

The Company believes that the next three years would see a big shift to +125cc motorcycles, as this segment would occupy 80% of the market and elbow out commuter bikes. This change of product mix in/for the Company would impact its growth, as well as its margins. The coming quarter, i.e. Q3FY07, would prove to be very crucial for the Company.

At the CMP of Rs 2752, the stock is available at 20.5x, its FY07 (E) EPS of Rs 134 and EV/ EBITDA of 10.4x after adjusting for the cash equivalents of Rs 6019 crore. We would advise investors to Hold the stock.

WAY2WEALTH Research

Disclaimer, Disclosure and Copyright Notice

The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers.

This material does not take into account the specific investment objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s. A qualified professional should be consulted before making an investment decisions or acting on any information contained in this material.

All investments involve risk and past performance does not guarantee future results. Investigate before you invest. You are strongly cautioned to verify any information before using it for any personal or business purpose.

Way2wealth Brokers (P) Limited (herein after called Way2Wealth) does not guarantee the accuracy, quality or completeness of any information. Much of the information is relevant only in India. Way2wealth makes no warranties, either express or implied, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement.

In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has been advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others.

This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities thereof, of companies mentioned herein.