

Bajaj Auto

Relative to sector: **Outperformer**

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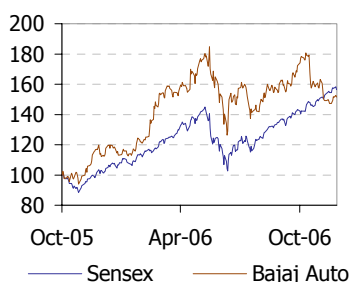
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 101.2mn
Market cap	: Rs.267bn
52 week high/low	: Rs.3,325/ Rs.1,968
Avg. daily vol. (6mth)	: 282,500 shares
Bloomberg code	: BJA IN
Reuters code	: BJAT.BO

Shareholding (%) Sep-06 QoQ chg

Promoters	: 29.8	0.0
FIIs	: 19.5	0.4
MFs / UTI	: 2.4	(0.3)
Banks / FIs	: 6.0	(0.1)
Others	: 42.4	(0.0)

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)
2005	57,240	8,524	8,158	38.9	(8)	5.8	21	23	9
2006	74,694	12,622	11,243	63.7	64	25.5	25	28	19
2007E	96,624	15,742	13,424	82.3	29	15.6	25	29	14
2008E	114,977	18,993	15,741	101.1	23	12.7	25	29	11

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

DISAPPOINTMENT PRICED IN

We believe current valuations of Bajaj Auto (BAL) adequately factor in the market response to its disappointing operating level performance in Q2FY07, and the concerns are over done at the current juncture. We reiterate our sector **Outperformer** rating on BAL.

Investment Argument

- We expect BAL to register better than industry growth rate owing to successful launches in the recent past, and its ability to close the fuel efficiency and design gaps with its competitors.
- While domestic growth is likely to remain strong, we are positive on its export strategy. We believe exports can account for 13% of total sales in FY08E driven by three-wheelers and high-end bikes. BAL has launched Pulsar in Indonesia, and plans to set up a manufacturing facility in Nigeria.
- While the price cut of Rs.2,000 had negatively impacted BAL's operating performance in Q2FY07, it helped achieve volumes. BAL sold more than 100,000 units in Sep-06, and successfully weaned consumer preference away from CT-100. *Post festive season, BAL has increased the price of Platina models by Rs.500.*

Valuation and Outlook

- We continue to remain positive on BAL's prospects, in the medium as well as long term. BAL trades at a premium to Hero Honda and we believe it should continue to do so. Though a price war will impact margins, rising volumes of BAL will mitigate a part of it. We maintain our estimates, outlook and rating on the stock.
- At CMP of Rs.2,639, BAL trades at 16x and 13x FY07E and FY08E Core EPS of Rs.82 and Rs.101, respectively. Our target price of Rs.3,077 is based on 16x FY08 Core EPS + Insurance value of Rs.720/shr + Cash per share of Rs.638 (at a discount of 15%).
- Our order of preference on the stocks in this sector (most preferred to least): BAL, Hero Honda and TVS Motors.

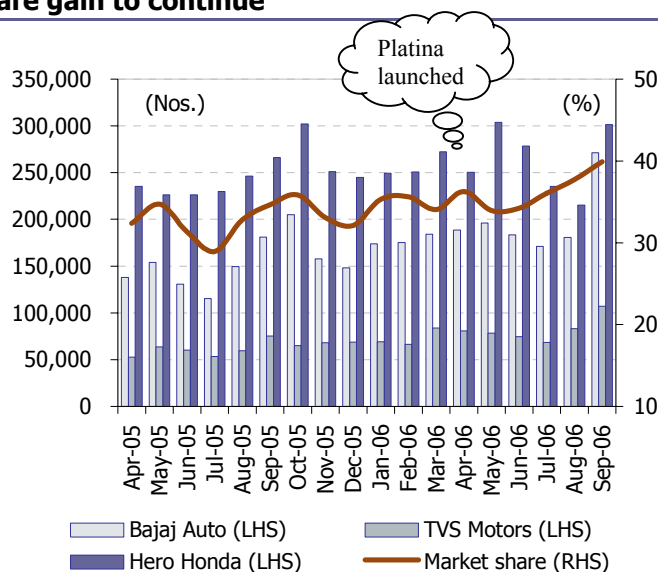
DEMAND OUTLOOK

Motorcycles: CAGR (FY06-08E) 25%

Motorcycle sales accounted for 83% of volumes and 71% of revenues in FY06. We expect revenues CAGR of 25%, driven by market share gain in the value segment and favorable product mix towards value and premium segment.

Revenues: Rs. 62bn, Rs.82bn and Rs.96bn in FY06, FY07E & FY08E respectively

Market share gain to continue



Source: Company, ENAM Research

Scooters: 16% Revenue CAGR (FY06-08E)

The market has migrated from geared to gearless scooters and we expect a similar shift in BAL's portfolio.

BAL has stopped production of geared scooters and plans to launch 2 models in the gearless segment, namely Kristal and Blade to drive volumes.

Revenues: Rs 2.7bn, Rs 1.7bn and Rs 3.6bn in FY06, FY07E & FY08E respectively.

Three wheelers: 19% Revenue CAGR (FY06-08E)

This segment accounts for 11% of volumes and 20% of revenues. It has been a major profit spinner for BAL, and continues to remain a cash cow with gross margins of around 25% compared to 15% for 2 wheelers.

We understand BAL is facing competition from Piaggio in passenger segment, its dominant niche. On back of better than performance registered till date, we are revising our volume growth estimates for FY07E and FY08E to 16.6% and 10% from 7.1% and 7.0% respectively. The recently launched 'Mega' has been well received in the market place.

Revenues: Rs.17bn, Rs.21.6bn and Rs.24.9bn in FY06E, FY07E & FY08E respectively

Replacement demand to maintain volume momentum

- Monthly demand (Retrofit) of ~2,000 units likely from Ahmedabad due to the Government's initiative to replace 50,000 units with CNG engines
- New permits are expected to open up in Chennai, Calcutta and Pune to create fresh demand.

Volume estimates for FY07E

BAL	7mFY07	7MFY06	YoY (%)	FY07E	FY06	Achieved MRR till date	Required MRR for F07E
Motorcycles	1,442,271	1,073,112	34.4	2,430,000	1,912,306	206,039	197,546
Total 2-wheelers	1,457,134	1,157,351	25.9	2,490,000	2,029,176	208,162	206,573
Three-wheelers	180,065	143,677	25.3	294,000	252,054	25,724	22,787
Total Sales	1,637,199	1,301,028	25.8	2,784,000	2,281,230	233,886	229,360

Source: Company, ENAM Research

Valuation comparison

Co. Name	Period	Net sales (Rs.mn)	EBITDA (Rs.mn)	Adj. PAT (Rs.mn)	FDEPS (Rs.)	Core EPS (Rs.)	Cash per Share (Rs.)	Value of Invst (Rs.)	RoCE (%)	RoE (%)	Core P/E (x)
Bajaj Auto	FY05	57,240	8,524	8,158	81	39	461	395	23	21	6
(CMP: 2639)	FY06	74,694	12,622	11,243	111	64	587	533	28	25	26
(MCap: Rs.267bn)	FY07E	96,624	15,742	13,424	133	82	638	720	29	25	16
(RECO: OP)	FY08E	114,977	18,993	15,741	156	101	638	720	29	25	13
Hero Honda	FY05	74,217	11,645	8,104	41	34	102	-	81	62	13
(CMP: 742)	FY06	87,140	13,645	9,678	48	42	111	-	72	55	19
(MCap: Rs.148bn)	FY07E	99,920	13,749	9,931	50	41	111	-	59	44	15
(RECO: N)	FY08E	113,948	15,907	11,410	57	48	111	-	57	42	13
TVS Motors	FY05	28,759	2,116	1,076	5	5	-	-	23	18	15
(CMP: 99)	FY06	32,350	2,045	1,170	5	5	-	-	20	18	28
(MCap: Rs.23bn)	FY07E	38,112	2,020	1,086	5	5	-	-	15	16	22
(RECO: UP)	FY08E	43,822	2,673	1,481	6	6	-	-	19	19	16

Source: Company, ENAM Research

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