

NEUTRAL

Price	494
Target Price	-
Investment Period	-

Stock Info

Sector	Automobile
Market Cap (Rs cr)	7,147
Beta	0.71
52 WK High / Low	945/395
Avg Daily Volume	207586
Face Value (Rs)	10
BSE Sensex	13,926
Nifty	4,162

BSE Code	532977
NSE Code	BAJAJ-AUTO
Reuters Code	-
Bloomberg Code	BJAUT IN

Shareholding Pattern (%)

Promoters	50.3
MF/Banks/Indian FIs	6.9
FII/ NRIs/ OCBs	15.8
Indian Public	27.0

Abs.	3m	1yr	3yr
Sensex (%)	(16.8)	(7.4)	90.6
BAL* (%)	NA	NA	NA

Note: *Listed on May 26, 2008

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Performance Highlights

- Net Sales, Profit lower than expectation:** For 1QFY2009, Bajaj Auto (BAL) clocked Net Sales of Rs2,311cr, which was in line with our expectation. Total volumes moved up 8.5% yoy while average realisations per vehicle improved marginally by 1% primarily due to the change in Sales mix and better performance by the 125cc-plus segment. Growth in the 125cc plus segment was however, offset by the decline in the 100cc segment. Hence, the company's overall motorcycle marketshare fell from 34% last year to 32% now. BAL's Bottom-line for the quarter at Rs175.1cr, was below our expectation owing to the lower OPM.
- High Input costs impact Margins:** During 1QFY2009, BAL witnessed a 184bp yoy decline in EBITDA Margins owing to the high input costs, which moved up 317bp yoy. However, BAL managed to prune its Other Expenses by 137bp yoy. Staff costs increased only marginally by 4bp. The company reported OPM of 11.5% (13.4%) in 1QFY2009. However, Operating Profits (excluding Other Income) declined 5.5% yoy to Rs266.8cr.
- Low Margin, Higher Tax restricts Net Profit growth:** Lower OPM and higher Tax outlay restricted Net Profit growth during the quarter to Rs175.1cr. Figures for the previous year / period have been re-grouped wherever necessary owing to the de-merger of erstwhile Bajaj Auto into three separate entities.
- Forex losses:** The company recognised Rs98cr losses owing to the forex losses arising out of Forward Covers acquired to hedge future exports.
- Maintaining leadership in 125cc+ segment:** Rising interest rates and lack of finance options continue to impact the Two-wheeler sector growth. Though the performance has improved in the last 2-3 months, future outlook is not very bright. BAL witnessed a growth of 13% yoy growth in Two-wheelers during 1QFY2009 as against industry growth of 11% during the same period. The company maintained its market leadership in 125cc-plus category with a marketshare of 50%. However, its overall marketshare in the domestic market declined to 32% (34%). The company expects to significantly improve its performance in 2HFY2009 post launching several new models during the period. It targets to record sales of 75,000 units on the XCD platform during FY2009.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	10,639	9,046	9,873	10,977
% chg	24.1	(15.0)	9.1	11.2
Net Profits	1,238	756	853	968
% chg	12.4	(38.9)	12.9	13.5
OPM (%)	12.6	14.3	12.8	13.0
EPS (Rs)	122.4	52.2	59.0	66.9
P/E (x)	-	9.5	8.4	7.4
P/BV (x)	-	4.5	3.3	2.5
RoE (%)	22.4	47.6	39.1	33.8
RoCE (%)	13.6	38.2	30.4	29.3
EV/Sales (x)	-	0.9	0.9	0.8
EV/EBITDA (x)	-	6.5	6.7	5.9

Source: Company, Angel Research Note: *FY2008 onwards are for the de-merged company and hence not comparable with previous years.

Key Highlights

- The company has recognised Rs98cr losses owing to the impact of forex fluctuations arising out of Forward Covers acquired to hedge future exports. The impact of unrealised losses are carried as Hedge Reserves to be ultimately set off when the underlying transaction comes up for maturity, in the Profit and Loss account, as against the practice of recognising the same in the Profit and Loss account as valuation at the end of each period.
- The Motorcycle segment sales increased 13.1% in 1QFY2009. The shift from the 100cc segment to the 125cc-plus segment continues. The company continued to focus on the profitable 125cc-plus segment and clocked growth of 21% as against industry growth of 14%. As a result, the company's marketshare in the 125cc-plus segment is close to 50%. The 125cc plus segment now constitutes 37% (31%) of the Two-wheeler market. New launches by BAL during the year viz., *XCD 125 DTS-Si*, *Discover 135 DTS-i*, *Pulsar 200 DTS-i* and *Pulsar 220 DTS-Fi* led to the growth in the 125cc-plus segment. However, this growth in 125cc plus segment was offset by the decline in BAL's 100cc portfolio. The company plans to launch four new motorcycles in 125cc-plus category in the current financial year. BAL's overall motorcycle marketshare fell marginally to around 32% (34%), though it is targeting to increase its marketshare to 40% over the next couple of years.
- Three-wheeler sales continued to reflect the overall slowdown in market conditions and reported a yoy decline of 18.5% in 1QFY2009. BAL continued to be the dominant player in the three-wheeler market. In the three-wheeler passenger carrier segment, BAL enjoyed marketshare of 67% in 1QFY2009. Around 50% of its three-wheelers were exported during the quarter. The company expects to clock 35-40% growth in exports during FY2009 and more than one million vehicles in FY2010.
- Exports continued to clock better growth, up 33% yoy in 1QFY2009. Motorcycle export sales registered a yoy growth of 49% during the quarter. Overall, Two-wheeler exports sales stood at 4,82,026 units, up 60% yoy in FY2008. In Sri Lanka, Bangladesh and Colombia BAL's bikes strengthened their leadership position. In Lagos and Nigeria, *Boxer* is the most visible two wheeler brand form BAL's stable.
- The company has a wholly-owned Netherlands-based subsidiary, viz., Bajaj Auto International Holdings BV. Through this company, it acquired 24.5% (as on date) equity in KTM Power Sports AG., at a total investment of Euro 98.4mn or Rs583cr during FY2008. KTM is the second largest European motorcycle maker and world-wide is the leading manufacturer of power sport vehicles.
- PT. Bajaj Auto Indonesia was incorporated in FY2007 as a subsidiary in Indonesia with an issued, subscribed and paid-up capital of US \$12.5mn or Rs56.2cr. BAL holds 97.5% share in the company. The company assembles and markets *Pulsars* in Indonesia. In FY2008, variants of the *Pulsar* were launched through an exclusive dealer network in the key markets of Jakarta, Java, Sumatra, Bali and Sulawesi.
- Bajaj plans to roll out its small car by 2011. BAL has a joint venture (JV) with Nissan and Renault to manufacture the small cars. It aims to price the lowest version of the small car at US \$2,500.

- New launches in 2008:** BAL proposes to launch four 125cc-plus new bikes in FY2009. The four new bikes would be launched before December 2008 starting from August 2008. Besides, it would be launching two new three wheelers in the year, one in the Goods space and the other in the Passenger category. Bajaj would also be launching the KTM and Kawasaki bikes over the next four-six months. These high-end bikes will be launched through exclusive pro-biking showrooms to be set up by BAL. The company also intends to launch LPG-powered bikes in the ensuing months.

Outlook and Valuation

We model 7% and 9% volume growth for BAL in FY2009 and FY2010, respectively. Two-wheeler sales continue to be adversely impacted by the stringent financing norms, which have resulted in volumes declining sharply. We maintain that outlook for the domestic two-wheeler industry continues to be muted due to the non-availability of finance, rising urban penetration and changing lifestyle shift towards the four-wheeler segment. Nonetheless, the positive yoy growth reported in 1QFY2009 indicates a recovery in FY2009, though near term volume figures need to be watched closely owing to further tightening of finance available and rise in interest rates. We estimate BAL to clock EPS of Rs59 in FY2009 and Rs66.9 in FY2010. At the CMP, the stock is trading at 8.4x FY2009E and 7.4x FY2010E EPS. **We remain Neutral on the stock.**

We expect the stock to perform when there is reasonable confidence that FY2009 and FY2010 will see better volume growth for the Two-wheeler industry despite hardening of interest rates. Our volume growth estimates are based on the assumption that the Two-wheeler segment will likely grow at a CAGR of 8% over the next two years.

Exhibit 1: Volume Performance

Y/E March	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
Motorcycles	558,633	494,042	13.1	2,139,779	2,379,499	(10.1)
2-Wheelers	561,977	500,255	12.3	2,161,095	2,399,996	(10.0)
3-Wheelers	58,118	71,336	(18.5)	290,312	321,828	(9.8)
Total	620,095	571,591	8.5	2,451,407	2,721,824	(9.9)
Exports (out of above)	1,98,717	1,49,804	32.7	6,18,341	4,42,411	39.8

Source: Company, Angel Research

Exhibit 2: 1QFY2008 Performance

Y/E Mar (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
Net Sales	2,310.8	2,108.7	9.6	9,046.2	9,520.4	(5.0)
Other Income	28.8	33.3	(13.7)	122.7	555.6	(77.9)
Total Income	2,339.5	2,142.0	9.2	9,168.8	10,076.1	(9.0)
EBITDA	266.8	282.3	(5.5)	1,293.5	1,417.0	(8.7)
OPM (%)	11.5	13.4		14.3	14.9	
Interest	0.9	0.1		5.2	5.3	
Depreciation	33.5	41.5	(19.2)	174.0	190.3	(8.6)
Profit Before Tax	261.1	274.0	(4.7)	1,237.1	1,777.0	(30.4)
Tax	86.0	91.0		378.8	490.1	
PAT & EOI	175.1	183.0	(4.3)	755.8	1,237.1	(38.9)
EPS (Rs)	12.1	14.8		52.2	122.3	

Source: Company; Angel Research; Note: 1QFY2008 figures have been re-grouped wherever necessary owing to the de-merger of erstwhile Bajaj Auto into three separate entities. FY2007 Results are for the before de-merger period and are hence not comparable with FY2008. 1QFY2008 EPS calculated on weighted average equity shares.



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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	