

Market Movement

	Close	Diff	% Chg
BSE 100	5,636.5	-245.3	-4.2%
CNX Nifty Jr	5,971.5	-302.5	-4.8%
Dow Jones	11,144.1	15.8	0.1%
Nasdaq	2,193.9	13.6	0.6%

Turnover

	Rs mn		% Chg
BSE	51,340	↑	5.6%
NSE	108,270	↑	2.2%

Advances/Declines (%)

	Advances	Declines
BSE	11.6%	87.1%
NSE	8.3%	91.1%

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
HDFC	385,481	76.3
Sun Pharma	124,029	76.2
Hero Honda	419,572	73.5
Jet Airways	153,589	71.1
Least Delivered		
IPCL	511,402	26.8
Hindalco	3,193,770	26.1
SBI	938,459	23.5
ACC	794,274	23.0

* to trade quantity.

Institutional Activity

18 May 2006	Cash (Rs mn)	F&O (Rs mn)
FII's		
Buy	21,040	44,111
Sell	29,146	39,806
Net	-8,106	4,306
Mutual Funds		
Buy	12,442	-
Sell	4,820	-
Net	7,622	-

Key Statistics

	Close	Change
Rs/US\$	45.57	-0.11
Rs/Euro	58.22	-0.17
10 yr G-Sec (%)	7.62	-0.01
Call rate (%)	5.60	-
Brent-spot (US\$/bbl)	67.71	-1.09
WTI-spot (US\$/bbl)	68.53	-0.92
Aluminium (LME, US\$/t)	2,742	-108.00
Copper (LME, US\$/t)	7,951	-199.00
Zinc (LME, US\$/t)	3,325	-169.00
Steel (US\$/t)	465	0.00

Inside

□ Bajaj Auto: Positive outlook continues

Bajaj Auto (BAL) reported strong operational performance for 4Q FY06 driven by robust volume growth and change in product mix towards higher end executive bikes. The company registered a 30% YoY growth in adjusted net profit to Rs3.3 bn (as against our expectation of Rs3.1 bn). For FY06, the company reported revenue growth of 31% YoY, a 300 bps improvement in operating margins to 17.7% and a 66% jump in PAT to Rs11.2 bn.

Over the last year, BAL has been swiftly gaining market share in the executive bike segment and is pursuing further gains in other segments through new launches. The company has also recorded strong growth in three-wheeler sales and increased its focus on the ungeared scooter segment (the company has already planned future launches of Bajaj Kristal and Bajaj Blade). We expect the company to maintain its growth momentum and outperform the industry during FY07 too.

On account of strong margin expansion and upward revision of volume growth for FY07, we are revising upwards our FY07E earnings by 11% to Rs135. We are introducing our FY08 earning estimates of Rs159.5. Based on our FY08 sum-of-the-parts valuation, we have arrived at a revised fair value of Rs3,325 for the stock (40% higher than our previous fair value) and maintain our Buy rating.

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Sector: Auto

Target Price	Rs3,325
Market cap (bn)	Rs298/US\$7
52-week range	Rs3,325/1,186
Shares in issue (mn)	101.2
6-mon avg daily vol (no of shares)	142,494
6-mon avg daily vol (mn)	Rs420.3/US\$9.2
Bloomberg	BJA IN
Reuters	BJAT.BO
BSE Sensex	10939
Website:	www.bajajauto.com

Shareholding Pattern (%)

Promoters	29.8
FII	22.7
FI/MF	7.5
Public	26.6
Others	13.4

(As of 31 March 2006)

Price Performance (%)

	1M	3M	12M
Absolute	(0.7)	16.0	142.4
Relative*	8.3	9.0	74.1

* To the BSE Sensex

Relative Performance



(As of 11 May 2006)

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Positive outlook continues

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Highlights

- **Operating performance exceed expectations:** BAL's 4Q FY06 sales revenue registered a 32% YoY increase to Rs21.6 bn, driven by 29% volume growth and improvement in realisations. As a result, operating margins improved by 450 bps YoY to 19.6% driving adjusted net profit growth by 30% YoY to Rs 3.3 bn. The company reported full year net profit growth of 47% to Rs11.2 bn.

Exhibit 1: Key financials

(Rs mn)

Y/E March	FY05	FY06	FY07E	FY08E
Total Income	59,270	76,679	94,893	111,069
Operating Profit	8,642	13,563	17,080	20,600
OPM (%)	14.6	17.7	18.0	18.5
Adjusted Net Profit	7,666	11,243	13,634	16,132
Adjusted EPS (Rs)	75.8	111.1	134.7	159.4
EPS Growth (%)	2.7	46.7	21.3	18.3
RONW (%)	16.3	23.2	24.2	24.6
ROCE (%)	12.3	18.2	20.4	21.5
PE (x)	38.9	26.5	21.9	18.5
PEG (x)	14.2	0.6	1.0	1.0
EVI/EBIDTA (x)	30.6	18.6	14.1	10.9

Source: Company, ASK-Raymond James. Note: Valuations as of 19 May 2006.

- **Gaining ground in the executive motorcycle segment:** During FY06, BAL gained significantly in the executive segment, led by *Discover* (launched during FY05). A stripped down version of this model *Discover-112* was introduced in December 2005, which led to a surge in volumes from this model to an average of 60,000 units per month in 4Q FY06 from an average of around 30,000 units in 9M FY06. BAL is slowly gaining share from the industry leader Hero Honda in this segment, having acquired 16% market share from around 8-9% previously.
- **Continues domination in the economy and premium segments:** BAL maintained its dominant position in the economy and premium segments in the domestic markets, led by *CT100* and *Pulsar*. The company has recently launched a new higher end economy model *Platina* to consolidate its position (41% market share) in the segment. In the premium segment, we believe BAL's *Pulsar* faces threat from the new *TVS Apache*. We understand that the company is planning to bring an updated version of *Pulsar* to take on the competition and maintain its lead.
- **Replacement demand aiding three-wheeler growth:** The three-wheeler segment reported 13% YoY growth in volumes for the year, recovering from the slump faced during the past few years. The growth in 4Q FY06 was much better at 35% YoY on account of replacement demand from certain regions and pick up in exports.
- **New launches in the scooter segment:** To cater to the fast growing ungeared scooter segment, BAL would be launching two new models, *Bajaj Kristal* and *Bajaj Blade* in FY07. These products would aid the company to compete with the market leader Honda's *Activa* and *TVS Scooty*. The ungeared models are expected to record steady growth over the next two years and compensate for the fall in geared scooter volumes.
- **Export volumes on a rise:** BAL recorded export volume growth of 27% YoY in FY06 led by strong demand in existing markets of South East Asia and foray into new markets of Mexico and Argentina. They are further expanding their reach by entering into new markets of Jakarta, Nigeria and Iran in the current fiscal. We believe that exports will continue to remain robust and record around 30% CAGR over FY06-FY08.
- **Revising upwards volume growth estimates for FY07:** Given the strong growth momentum in its executive segment, we are raising our full year FY07 motorcycle division growth estimates from 15% to 24%. We believe that BAL will continue to outperform the industry growth during FY07 backed by strong product portfolio and new launches. Overall, we expect the company to post volume growth of 21% in FY07 as against our earlier expectation of 15% growth.
- **Introducing FY08 estimates:** Based on the strong operational performance in FY06, improving product mix in favour of the executive segment and upward revision of volume estimates, we are revising upward our earning estimates for FY07 by 11% to Rs135. We are also introducing FY08 estimates with volume and revenue growth of 16% YoY and 17% YoY respectively and earnings growth of 18% to Rs159.5. We have valued the life insurance subsidiary at Rs558 per share and the general insurance subsidiary at Rs70.

- Maintain Buy based on our some-of-the-parts valuation:** The core business of the company, stripped off the surplus cash and insurance value, is attractively valued at 11x FY08E core earnings. Based on our constituent valuations and by assigning a target PE of 14x to the core earnings of Rs128 (adjusted for non operating income) we arrive at a fair value of Rs3,325 for the stock and maintain our Buy rating.

Exhibit 2: Some-of-the-parts valuation based on FY08E

Segment (value per share)	Rs	
Core business	1,787	assigning 14x to core earnings
Life insurance	558	12% margins, assigning 12x GWP
General insurance	70	12x net profit, 30% discount to global peers
Cash & Investments	910	
Total	3,325	

Source: Company data, ASK Raymond James.

Exhibit 3: Results review

(Rs mn)

Y/E March	4Q			Full year		
	FY06	FY05	% chg	FY06	FY05	% chg
Total Income	21,659	16,470	31.5	76,679	58,659	30.7
Total Exp. (a+b+c)	17,409	13,987	24.5	63,116	50,017	26.2
RMC (a)	14,862	11,374	30.7	53,246	41,021	29.8
Staff cost (b)	682	599	13.9	2,741	2,491	10.1
Other Exp. (c)	1,866	2,015	-7.4	7,129	6,506	9.6
Operating Profit	4,250	2,483	71.2	13,563	8,642	56.9
Interest	-1	2	-135.3	3	7	-49.3
Depreciation	468	460	1.6	1,910	1,854	3.0
PBT before OI	3,782	2,024	86.8	11,649	6,781	71.8
Other Income	1,031	1,266	-18.5	4,385	4,081	7.4
PBT	4,813	3,290	46.3	16,034	10,862	47.6
Tax	1,476	726	103.2	4,791	3,196	49.9
Effective Tax Rate	30.7	22.1		29.9	29.4	
Adjusted PAT	3,337	2,564	30.1	11,243	7,666	46.7
Adjusted EPS (Rs)	33.0	25.3	30.1	111.1	75.8	46.7
Extraordinary expense	119	163	-	226	490	-
Prior period adjustments	252	-351	-	216	-339	-
Reported PAT	3,470	2,050	69.3	11,233	6,837	64.3
Key Ratios						
Raw Material Cost	68.6	69.1		69.4	69.9	
OPM	19.6	15.1		17.7	14.7	
NPM	15.4	15.6		14.7	13.1	

Source: Company data, ASK Raymond James.

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