

Bajaj Auto

Automobiles takes a back seat

A price war and high dealer inventories for sector players will add to margin pressure for Bajaj, in our view, despite its relatively better production and product strategy. We cut our EPS by 17-20% for FY08-09F. Non-auto actions should protect the downside. Hold.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	59520.3	76896.0	94018.1	110648	125382
EBITDA (Rsm)	9383.5	13779.7	13747.5▼	14760.7▼	16436.1▼
Reported net profit (Rsm)	7291.6	11016.8	11828.4▼	13428.0▼	14983.1▼
Normalised net profit (Rsm) ¹	8158.3	11243.2	12071.4	13428.0	14983.1
Normalised EPS (Rs)	80.6	111.1	119.3▼	132.7▼	148.1▼
Dividend per share (Rs)	25.0	40.0	50.0	58.0	65.0
Dividend yield (%)	1.02	1.63	2.04	2.36	2.65
Normalised PE (x)	30.5	22.1	20.6▲	18.5▲	16.6▲
EV/EBITDA (x)	23.0	15.0	14.7	13.4	11.3
Price/book value (x)	6.01	5.21	4.62	4.11	3.66
ROIC (%)	43.9	75.2	120.1	95.5	90.5

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Sector growth has eased sharply in recent months

Domestic motorcycle industry growth tapered sharply from mid-teen levels until December 2006 to a decline of 4% in March 2007. Although the interest rate impact is minimal for motorcycles in terms of the absolute amount, it is nearly 16% of the monthly running cost of a motorcycle. Hence, given its high sensitivity to interest-rate volatility, the sector was the first to feel the effects. The intense price war in the segment reduced manufacturers' ability to extend further benefits, such as subsidised interest rates, to attract consumers.

Slackness in new product launches hits Bajaj's growth rate

In the slowing motorcycle industry, Bajaj received a blow in terms of market share as new product rollouts by the company have been slow in recent times, while industry leader Hero Honda regained strength by refurbishing its entry-level motorcycle series, CD-Dawn. With new scooter and Pulsar 200cc volumes slow to catch up, Bajaj's domestic two-wheeler market share slipped from a peak of 32% in September 2006 to 22% in March 2007. Hence, it ended FY07 with only a 41bp gain to 26.7%.

We cut EPS by 17-21% for FY08-09F on volume and margin downgrades

The recent sharp decline in industry growth caused our FY07 volume estimate for Bajaj to slip 7%. Considering the India Meteorological Department's projection of 5% below normal rainfall, we cut Bajaj FY08F volume 13.6% to 3.15m. This is 5% higher than company guidance, as we expect Bajaj Auto to use new Pantanagar plant tax benefits to gain volume over profits. Hence, due to margin pressure despite higher other income, we cut FY08F EPS by 17% to Rs132.7 and FY09F by 21% to Rs148.

Downgrade to Hold

The volatile stock price traces the path of Bajaj's volume momentum and motorcycle market share. Although we think the company remains ahead of the competition on production and new product strategy, the weak momentum in sector growth is cause for concern. Hence, on the back of reduced earnings, we downgrade our rating from Buy to Hold and reduce our DCF-based target price by 23%, from Rs2,912.60 to Rs2,244.40. In the short term, a demerger announcement, response to new product launches and the listing of insurance subsidiaries might be triggers for the stock.

Priced at close of business 27 April 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

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Hold

(from Buy)

Absolute performance

n/a

Short term (0-60 days)

Neutral

Market relative to region

Automobiles & Components

India

Price

Rs2456.45

Target price

Rs2244.40 (from Rs2912.60)

Market capitalisation

Rs248.55bn (US\$6.05bn)

Avg (12mth) daily turnover

Rs174.73m (US\$3.87m)

Reuters

BJAT.BO

Bloomberg

BJA IN

Asset allocation

Equities

Underweight

Cash

Overweight

Bonds

Overweight

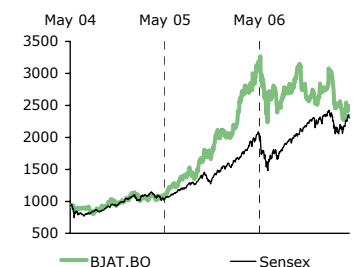
Price performance (1M) (3M) (12M)

Price (Rs) 2509.7 2746.4 2929.7

Absolute % -2.1 -10.6 -16.2

Rel market % -7.6 -8.2 -28.7

Rel sector % 3.5 -1.3 -13.4



Stock borrowing: Moderate

Volatility (30-day): 30.12%

Volatility (6-month trend): ↓

52-week range: 3325.00-2085.00

Sensex: 13908.58

BBG AP Autos: 225.11

Source: ABN AMRO, Bloomberg

Researched by

ABN AMRO Institutional

Equities Team

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Skids on volume and margins

The slippage on FY07 volume guidance and sober volume outlook for FY08 surprised us. We cut EPS by 17-21% for FY08-09F and downgrade to Hold. Plans for a demerger and entry-level bike should support the share price.

Pipeline inventory correction might take longer

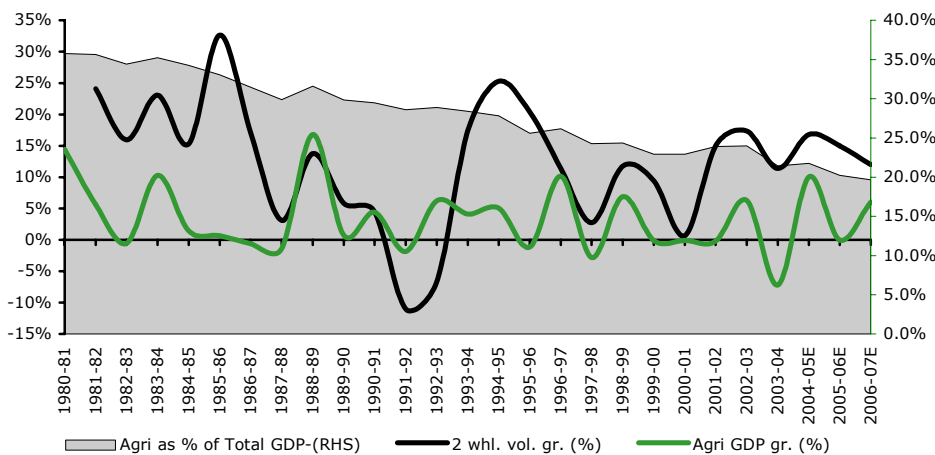
For FY07, two-wheeler industry growth was healthy at 11.4% to 7.9m vehicles. But channel checks clearly indicate retail sales are much lower than company dispatches as measured by SIAM. With dealer inventory levels as high as 1-1.5 months of sales, the retail growth of the two-wheeler industry has slipped to flattish for FY07. We think the marginal reduction in growth in March 2007 is just the tip of iceberg. With the India Meteorological Department's initial estimate of rainfall for FY08 5% below normal, the deceleration in company sales dispatches might drag on for longer than expected to clear the pipeline inventory. As per industry estimates, rural demand makes up more than 60% of total sales for the two-wheeler industry.

Chart 1 : Monthly industry growth easing



Source: SIAM

Chart 2 : Two-wheeler industry's dependence on agriculture



Source: SIAM, GOI

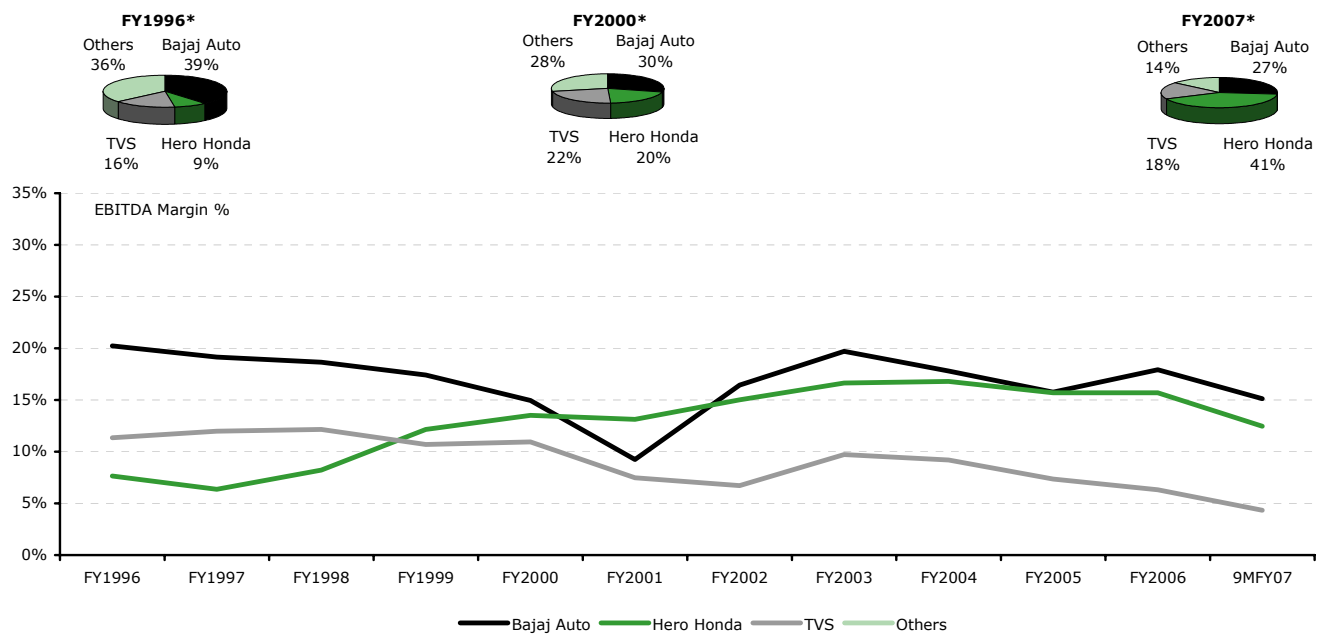
Rising interest rate concern – 16% of total operating cost

As per industry estimates, nearly 65-70% of two-wheeler purchases are financed. Even though in terms of the absolute rise (ie, Rs650 per annum), interest rate volatility is not a cause for concern for the two-wheeler sector, the fact that interest rates make up such a large proportion of the total operating cost of motorcycles is a serious concern. Interest cost forms nearly 16% of the operating cost of motorcycles, with low fuel consumption (better mileage) and low maintenance costs making up the rest of the total operating cost of Rs30,000 per annum. Hence, we see initial signs of a slowdown in the sector compared to cars, for which interest rates make up 10% of total operating cost of compact cars and just 2% in the case of trucks.

Vehicle price corrections faster than expected in the sector

Signalling a mature market, where technology differences have reduced sharply between manufacturers, the manufacturers have resorted to a price war in FY07 to gain an edge in a market whose growth is tapering. To gain market share in the intensively competitive motorcycle segment, we expect vehicle prices will see further sharp correction in the coming quarters as companies do their utmost to pass on the benefit of lower material costs and duty concessions at the new plants coming on-stream in FY08 in states offering tax concessions. Hence, volume growth will not be shareholder friendly for two-wheeler companies, in our view.

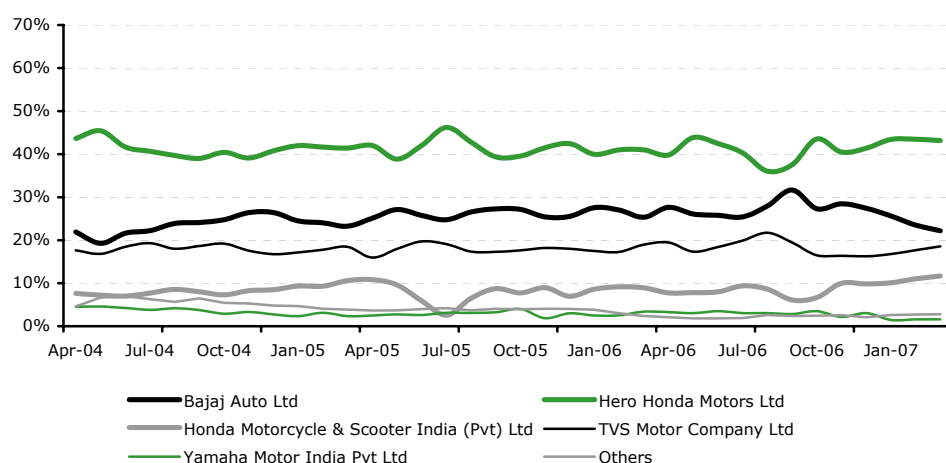
Chart 3 : Industry volume and EBITDA margin trend



* Represents market share.
Source: SIAM, Company data

Bajaj’s long time between new product launches leads to market share erosion

The long time between volume-driving new product launches by Bajaj Auto compared to its competition and its own historical track record has led to low footfalls at its dealers, thus affecting sales and market share in recent months. Market leader Hero Honda strengthened its entry-level motorcycle CD series, whereas Bajaj upgraded its Premium bike, Pulsar, to 200cc. Bajaj’s motorcycle market share slipped from a high of 37% in September 2006 to 27% in March 2007. Further, given the slow volume ramp-up of the recently launched ungeared scooter, the weakness in Bajaj’s domestic two-wheeler monthly market share followed motorcycles down, dipping from 32% in September 2006 to 22% in March 2007. To create enthusiasm for its product, Bajaj cut Platina prices by Rs3,000 in mid March 2007.

Chart 4 : Domestic monthly market share trend of two-wheelers

Source: SIAM

EPS cut by 17-21% for FY08-09F on the back of a poor volume outlook

The weakness in the industry on the back of a steep increase in interest rates, coupled with leader Hero Honda gaining an edge with its CD series upgrade, lead to a poor performance from Bajaj in 4Q07, causing it to fall short of management's sales volume guidance for FY07 by 7%. On top of this, management guided for a sober 10% growth outlook for total sales volumes. However, considering the aggressive pricing strategy on Bajaj's Platina motorcycle, produced in the tax-haven state of Uttaranchal and taking its cue from vendor feedback, we build in 15.8% growth in total sales volume to 3.15m vehicles, which is still 13.6% lower than our earlier estimate. For FY09, we cut our volume estimate by 16% to 3.54m as the visibility for the Tata Mini car (priced at US\$2,500) improves, leading to a threat to the sector.

In terms of the EBITDA margin, in the short term we expect the tax benefits at the Uttaranchal plant to help Bajaj recover from a low of 13.1% in 4Q07F. However, with competition expected to start production in 1H08, the company will be forced to pass-on the entire benefit. Hence, we cut our EBITDA margin assumptions to 13.3% for FY08F and 13.1% for FY09F. With marginal help from other income, however, which benefits from the rising yield on Bajaj's investments, we trim EPS by 17% in FY08F to Rs132.7, and by 20.6% in FY09F to Rs148.1.

Table 1 : Estimate revisions at a glance

(Rsm)	FY07F		FY08F		FY09F	
	Old	New	Old	New	Old	New
Sales volume	2,919,554	2,718,776	3,643,689	3,148,313	4,214,713	3,542,353
Change		-6.9%		-13.6%		-16.0%
Net sales	101,999	94,018	129,808	110,648	151,142	125,382
Change		-7.8%		-14.8%		-17.0%
EBITDA margin	15.4%	14.6%	15.0%	13.3%	14.7%	13.1%
EBITDA	15,673	13,747	19,473	14,761	22,254	16,436
Change		-12.3%		-24.2%		-26.1%
Normalised EPS	128.6	119.3	160	132.7	186.4	148.1
Change		-7.2%		-17.1%		-20.6%

Source: ABN AMRO forecasts

Automobiles cool off; unlocking of investment book value takes centre stage

The steep cut in EPS on the back of weakness in industry volumes and EBITDA margin pressure leads to a sharp erosion in the core automobile business valuation based on a three-stage DCF model. We maintain our conservative valuation of Rs199 per share for the insurance subsidiaries and the finance company as a whole, against street estimates of Rs600-900 per share. As a result, we cut our target price by 23% to Rs2,244. However, we think management's plans to unlock value by splitting the company into separate entities to manage automobiles and investment books supports the share price. Hence, with 8.5% potential downside, we reduce our rating from Buy to Hold.

Table 2 : Subsidiary value

Year	FY07F	FY08F	FY09F
Current stock price	2,456	2,456	2,456
Subsidiary value	200	200	200
Cash and investments	553	572	627
Residual price	1,703	1,684	1,629
Automotive business EPS	81	87	96
PE	21	19	17

Source: Company data, ABN AMRO forecasts

Table 3 : Sum-of-the-parts valuation for company

Company	No of shares (m)	Price (Rs)	Value (Rsm)	Discounted Value* (Rsm)	Value per share of Bajaj (Rs)
DCF value of Bajaj Auto	101.2				2,044.8
Bajaj Auto Finance	6.6	422.0	2,783.9	2,088.0	20.6
Bajaj Allianz Life Insurance	111.1		21,000.0	16,800.0	166.0
Bajaj Allianz General Insurance	81.4		1,628.0	1,302.4	12.9
Sum of the parts				20,190.4	2,244.3

Source: Company data, ABN AMRO forecasts

Note : * parent holding discount of 20%

Volume and per-unit assumptions

Table 4 : Sales volume and per unit assumptions

(Number of vehicles)	FY05	FY06	FY07F	FY08F	FY09F
Volume break-up	133,738	115,996	20,480	60,000	96,000
Scooters-geared	102,779	59,238	5,500	-	-
<i>Growth</i>	-42.3%	-42.4%	-90.7%		
Scooters-ungeared	30,959	56,758	14,980	60,000	96,000
<i>Growth</i>	-43.4%	83.3%	-73.6%	300.5%	60.0%
<i>Total scooters</i>	133,738	115,996	20,480	60,000	96,000
<i>Growth</i>	-42.6%	-13.3%	-82.3%	193.0%	60.0%
<i>Of which scooter exports</i>	6,999	9,619	1,110	5,000	15,000
<i>Growth</i>	-10.1%	37.4%	-88.5%	350.5%	200.0%
Step-thrus	19,198	870	-	-	-
<i>Growth</i>	-40.9%	-95.5%	-100.0%		
Domestic motorcycles	1,325,760	1,747,012	2,078,859	2,316,172	2,539,440
<i>Growth</i>	40.9%	31.8%	19.0%	11.4%	9.6%
Export motorcycles	123,950	165,288	297,659	416,723	520,903
<i>Growth</i>	50.4%	33.4%	80.1%	40.0%	25.0%
Total motorcycle	1,449,710	1,912,300	2,376,518	2,732,894	3,060,344
<i>Growth</i>	41.6%	31.9%	24.3%	15.0%	12.0%
Total two-wheelers	1,602,646	2,029,166	2,396,998	2,792,894	3,156,344
<i>Growth</i>	24.3%	26.6%	18.1%	16.5%	13.0%
Three-wheelers	222,053	252,006	321,778	355,418	386,009
<i>Growth</i>	-3.1%	13.5%	27.7%	10.5%	8.6%
Total vehicles	1,824,699	2,281,172	2,718,776	3,148,313	3,542,353
<i>Growth</i>	20.2%	25.0%	19.2%	15.8%	12.5%
Per vehicle assumptions (Rs)	FY05	FY06	FY07F	FY08F	FY09F
Net realisation/vehicle	32,619	33,709	34,581	35,145	35,395
<i>Growth</i>	0.2%	3.3%	2.6%	1.6%	0.7%
Contribution/vehicle	10,138	10,367	9,562	9,665	9,734
<i>Growth</i>	-11.7%	2.3%	-7.8%	1.1%	0.7%
EBITDA/vehicle	5,143	6,041	5,056	4,688	4,640
<i>Growth</i>	-11.2%	17.5%	-16.3%	-7.3%	-1.0%
EBITDA margin	15.8%	17.9%	14.6%	13.3%	13.1%

Source: Company data, ABN AMRO forecasts

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BAJAJ AUTO: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	59520.3	76896.0	94018.1	110648	125382
Cost of sales	-43313	-55739	-70867	-83799	-95091
Operating costs	-6823.7	-7377.1	-9403.5	-12087	-13854
EBITDA	9383.5	13779.7	13747.5	14760.7	16436.1
DDA & Impairment (ex gw)	-1853.7	-1910.0	-1947.7	-2389.5	-2909.7
EBITA	7529.9	11869.7	11799.8	12371.2	13526.4
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	7529.9	11869.7	11799.8	12371.2	13526.4
Net interest	-6.68	-3.40	-55.0	-75.0	-90.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	3831.5	4168.0	5500.0	6500.0	7230.0
Reported PTP	11354.6	16034.3	17244.8	18796.2	20666.4
Taxation	-3196.3	-4791.1	-5173.4	-5368.2	-5683.3
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	-866.7	-226.4	-243.0	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	7291.6	11016.8	11828.4	13428.0	14983.1
Normalised Items Excl. GW	-866.7	-226.4	-243.0	0.00	0.00
Normalised net profit	8158.3	11243.2	12071.4	13428.0	14983.1

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	44543.9	56742.0	57627.0	63753.4	75888.8
Other current assets	24810.6	27739.8	29779.8	31506.7	33581.3
Tangible fixed assets	11448.9	11571.8	15640.7	19246.2	21336.5
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	2148.6	2648.6	2648.6	2648.6	0.00
Total assets	82952.0	98702.2	105696	117155	130807
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	7850.7	12288.7	14717.1	17297.9	19593.1
Long term debt (3)	12269.9	14671.5	11740.0	12540.0	13500.0
Oth non-current liab	21487.9	24034.7	25470.6	26810.7	29721.4
Total liabilities	41608.6	50994.9	51927.7	56648.6	62814.6
Total equity (incl min)	41343.5	47707.3	53768.4	60506.4	67992.1
Total liab & sh equity	82952.0	98702.2	105696	117155	130807
Net debt (2+3-1)	-32274	-42070	-45887	-51213	-62389

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	9383.5	13779.7	13747.5	14760.7	16436.1
Change in working capital	479.6	2710.8	1155.3	1578.8	1170.7
Net interest (pd) / rec	3824.8	4164.6	5445.0	6425.0	7140.0
Taxes paid	-3383.6	-5185.5	-5345.9	-5450.9	-5579.9
Other oper cash items	-1570.5	1118.4	426.0	615.1	1960.8
Cash flow from ops (1)	8733.9	16587.9	15427.9	17928.7	21127.6
Capex (2)	-905.0	-2032.9	-6016.6	-5995.0	-5000.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-6864.1	-12607	-1327.6	-5917.3	-9603.3
Cash flow from invest (3)	-7769.1	-14640	-7344.2	-11912	-14603
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	2212.7	2401.6	-2931.5	800.0	960.0
Ordinary dividend paid	-2884.4	-4615.0	-5767.3	-6690.0	-7497.4
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	-671.7	-2213.4	-8698.8	-5890.0	-6537.4
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	293.1	-265.9	-615.0	126.4	-13.2
Equity FCF (1+2+4)	7828.8	14555.0	9411.3	11933.7	16127.6

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Mar

BAJAJ AUTO: PERFORMANCE AND VALUATION

Standard ratios	Bajaj Auto					Hero Honda Motors			Maruti Udyog Ltd		
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F
Sales growth (%)	20.4	29.2	22.3	17.7	13.3	15.2	14.1	12.5	21.1	17.1	16.3
EBITDA growth (%)	6.73	46.8	-0.23	7.37	11.4	-7.73	8.19	10.9	20.9	12.6	17.7
EBIT growth (%)	7.68	57.6	-0.59	4.84	9.34	-10.3	5.87	10.7	25.6	9.69	14.5
Normalised EPS growth (%)	2.43	37.8	7.37	11.2	11.6	-3.71	12.3	15.3	28.2	10.6	14.4
EBITDA margin (%)	15.8	17.9	14.6	13.3	13.1	12.5	11.9	11.7	15.1	14.5	14.6
EBIT margin (%)	12.7	15.4	12.6	11.2	10.8	11.2	10.4	10.2	13.2	12.4	12.2
Net profit margin (%)	13.7	14.6	12.8	12.1	12.0	9.29	9.14	9.36	10.2	9.62	9.46
Return on avg assets (%)	10.6	12.4	11.8	12.1	12.1	19.0	18.2	17.7	15.4	13.6	13.1
Return on avg equity (%)	20.8	25.3	23.8	23.5	23.3	41.7	38.3	36.1	24.7	22.1	20.8
ROIC (%)	43.9	75.2	120.1	95.5	90.5	34.5	29.5	26.8	57.5	38.8	29.3
ROIC - WACC (%)	30.4	61.7	106.6	82.0	77.0	21.3	16.3	13.6	44.3	25.6	16.1
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	3.63	2.69	2.16	1.78	1.48	1.34	1.17	1.04	1.32	1.14	0.99
EV/EBITDA (x)	23.0	15.0	14.7	13.4	11.3	10.7	9.86	8.88	8.75	7.88	6.79
EV/EBITDA @ tgt price (x)	20.8	13.4	13.2	11.9	10.0	10.6	9.77	8.80	11.6	10.4	8.93
EV/EBIT (x)	28.7	17.4	17.2	16.0	13.8	12.0	11.3	10.2	9.95	9.20	8.15
EV/invested capital (x)	20.7	31.7	23.6	19.9	29.4	5.03	4.14	3.43	5.33	3.56	2.64
Price/book value (x)	6.01	5.21	4.62	4.11	3.66	5.42	4.44	3.64	3.35	2.75	2.28
Equity FCF yield (%)	3.15	5.86	3.79	4.80	6.49	5.51	7.34	8.67	2.07	-0.09	0.08
Normalised PE (x)	30.5	22.1	20.6	18.5	16.6	14.3	12.8	11.1	15.1	13.7	11.9
Norm PE @tgt price (x)	27.8	20.2	18.8	16.9	15.2	14.2	12.6	11.0	19.3	17.5	15.3
Dividend yield (%)	1.02	1.63	2.04	2.36	2.65	3.14	3.29	3.59	0.57	0.63	0.79
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Per share data	FY05A	FY06A	FY07F	FY08F	FY09F	Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	101.2	101.2	101.2	101.2	101.2	Net debt to equity (%)	-78.1	-88.2	-85.3	-84.6	-91.8
Reported EPS (INR)	72.1	108.9	116.9	132.7	148.1	Net debt to tot ass (%)	-38.9	-42.6	-43.4	-43.7	-47.7
Normalised EPS (INR)	80.6	111.1	119.3	132.7	148.1	Net debt to EBITDA	-3.44	-3.05	-3.34	-3.47	-3.80
Dividend per share (INR)	25.0	40.0	50.0	58.0	65.0	Current ratio (x)	8.83	6.87	5.94	5.51	5.59
Equity FCF per share (INR)	77.4	143.9	93.0	117.9	159.4	Operating CF int cov (x)	-2.17	-4.23	-2.82	-2.64	-2.74
Book value per sh (INR)	408.6	471.5	531.4	598.0	672.0	Dividend cover (x)	2.83	2.44	2.09	2.01	2.20
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: BJAT.BO - Rs2456.45; HROH.BO - Rs668.20; MRTI.BO - Rs795.00
Source: Company data, ABN AMRO forecasts

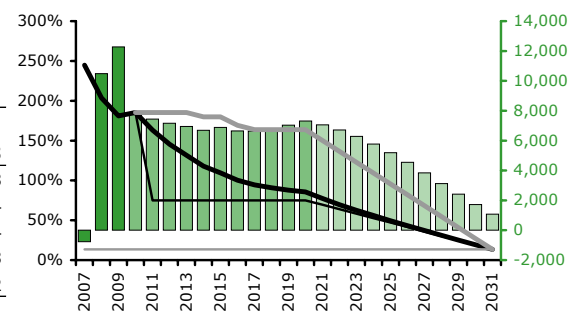
BAJAJ AUTO: VALUATION METHODOLOGY

Economic Profit Valuation	Rs m	%	Discounted Cash Flow Valuation	Rs m	%	
Adjusted Opening Invested Capital	6670.8	4	Value of Phase 1: Explicit (2007 to 2009)	21987.2	14	
NPV of Economic Profit During Explicit Period	20866.9	13	Value of Phase 2: Value Driver (2010 to 2020)	77398.0	48	
NPV of Econ Profit of Remaining Business (1, 2)	57516.5	36	Value of Phase 3: Fade (2021 to 2031)	47749.6	30	
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	75412.9	47	Terminal Value	13331.0	8	
Enterprise Value	160467.2	100	Enterprise Value	160465.8	100	
Plus: Other Assets	20134.3	13	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		4.3	
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		5.4	
Less: Net Debt / Leases (as at 28 Apr 2007)	-46484.9	-29				
Equity Value	227086.4	142				
No. Shares (millions)	101.2					
Per Share Equity Value	2244.38					
Current Share Price	2456.45					
Sensitivity Table	No of Years in Fade Period					
	15	18	20	23	25	
WACC	12.5%	2654.11	2868.13	3021.35	3268.50	3445.73
	13.0%	2765.13	3004.38	3176.90	3457.20	3659.64
	13.5%	2765.13	3004.38	3176.90	3457.20	3659.64
	14.0%	2654.11	2868.13	3021.35	3268.50	3445.73
	14.5%	2456.15	2627.76	2748.89	2941.56	3077.82
Performance Summary	2007	2008	2009	Phase 2 Avg (2010 - 2020)		
Invested Capital Growth (%)	31.1	23.7	-12.5	23.6		
Operating Margin (%)	18.4	17.1	16.6	16.0		
Capital Turnover (x)	20.1	18.0	16.5	16.5		

Source: ABN AMRO estimates

- In periods following the Explicit Period i.e. Phase 2 and Phase 3
- Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
- Net Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow



Bajaj Auto

Company description

Bajaj Auto is the largest manufacturer of two- and three-wheelers in India. The company has a tie-up with Kawasaki for motorcycles. Bajaj Auto is also among the lowest-cost producers of two-wheelers in the world and consequently is the price leader in the country. Beyond India, the company is pursuing export opportunities in Asia and South America, in both the two-wheeler and three-wheeler segments.

Hold

Price relative to country



Strategic analysis

Average SWOT company score: 3

Revenue mix, FY06

Strengths

The company's product-development skills are clearly demonstrated across its product segments. Strong distribution skills and established goodwill.

3

Weaknesses

Bajaj Auto adopts a reactive approach. The company missed the opportunity of a market-share shift towards motorcycles, and is again losing out as scooters gain a foothold. Similarly, a weak product in goods three-wheelers led to loss of market share in this high-growth segment.

1

Opportunities

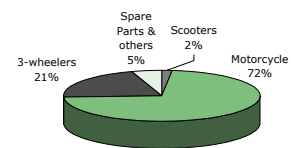
Increasing distribution reach in export markets for two- and three-wheelers. R&D focused to deliver products for niche segments like performance bikes.

3

Threats

Price-driven competition is a key threat. Further, entry of the world's two leading two-wheeler manufacturers, Honda and Suzuki, along with TVS's plans for a three-wheeler entry, pose a threat to the company.

3



Source: Company data

Market data

Headquarters

Mumbai-Pune Road, Akurdi, Pune 411 035, India

Website

www.bajajauto.com

Shares in issue

101.2m

Freefloat

70%

Majority shareholders

Bajaj Group (30%)

Scoring range is 1-5 (high score is good)

India

Country view

Neutral

Country rel to Asia Pacific

The market looks expensive, but we believe it will remain supportive when regional funds seek a domestically-driven home with continuing robust earnings growth. The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. At the sector level, we still like autos, software and construction-related stocks.



The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Competitive position

Average competitive score: 2+

Broker recommendations

Supplier power

Suppliers have negligible power because of their high dependence on few OEM manufacturers.

4+

Barriers to entry

The build-up of a wide product range for country-wide distribution and replacement-value credibility is time consuming, but there are minimal technology and capital investment barriers.

2+

Customer power

Customer supremacy is increasing with increasing competition.

2-

Substitute products

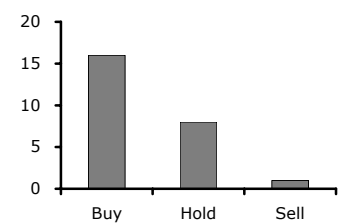
Scooters are substitutes for motorcycles, especially in urban markets, and are gradually gaining lost ground. Small cars gain at the expense of motorcycles on declining interest rates and low EMIs.

2+

Rivalry

Competitive pressures are increasing and are reflected in price wars. Also, several new model launches are in store, reducing return on incremental capital.

2-



Source: Bloomberg

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse