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Q1 FY08
Result Update

Bajaj Auto

Market Performer

Rs 2,195

July 12, 2007

Reason to re-consider

Company Details		Result Snapshot	
Market Cap:	Rs 252,980m	<p>Bajaj Auto's Q1 FY08 results surpassed our expectations. Net sales were down only by 4%, to Rs 2.1bn, despite a 12% yoy deceleration in volumes.</p> <p>Contribution per vehicle slightly improved (increasing by 2.2% yoy) despite material cost (as percent of sales) being up by 178bp yoy as 3-wheeler exports formed a greater proportion of sales. The margin, at 13%, was in line with our expectations. PAT was down by 18% to Rs 2.26bn against our expectations of Rs 2.06bn.</p> <p>The stock trades at 12.4x FY09 EPS of Rs 177. With the clarity surrounding the success of its new bike yet to materialise, we maintain a MARKET PERFORMER.</p>	
52-Week High/Low:	Rs 3,325/2,085		
Bloomberg Code:	BJA@IN		
Reuters Code:	BJAT.BO / NS		
Shares O/s:	101m		
Average Volume (3 months):	0.4m		
Price Performance			
(%)	1m	3m	12m
Absolute	0.1	(16.9)	(17.0)
Relative to Sensex	(4.5)	(16.5)	(42.5)

Q1 FY08 Result Overview

(Rs m)

Y/e March	Q1 FY08	Q1 FY07	yoy gr. (%)	Q4 FY07	qoq gr. (%)
Net Sales	21,091	22,027	(4.2)	23,136	(8.8)
Raw Material	15,233	15,320	(0.6)	17,155	(11.2)
Change in Stock	27	224		(237)	(111.4)
<i>as % of Net Sales</i>	<i>72.4</i>	<i>70.6</i>	<i>178</i>	<i>73.1</i>	
Personnel Cost	987	856	15.3	688	43.4
<i>as % of Net Sales</i>	<i>4.7</i>	<i>3.9</i>		<i>3.0</i>	
Manufacturing Expenses	2,122	2,086	1.7	2,407	(11.9)
<i>as % of Net Sales</i>	<i>10.1</i>	<i>9.5</i>		<i>10.4</i>	
EBITDA	2,754	3,607	(23.7)	3,263	(15.6)
<i>EBITDA Margin (%)</i>	<i>13.1</i>	<i>16.4</i>		<i>14.1</i>	
Depreciation	490	481	1.9	458	7.1
EBIT	2,263	3,126	(27.6)	2,805	(19.3)
Net Interest	1	7	(91.8)	24	(97.5)
Non-Operating Income	1,027	946	8.6	1,577	(34.9)
PBT	3,290	4,064	(19.1)	4,358	(24.5)
Tax	1,025	1,300	(21.2)	1,017	0.8
<i>Total Tax Rate (%)</i>	<i>31.2</i>	<i>32.0</i>		<i>23.3</i>	
Adj. Profit after Tax	2,265	2,764	(18.1)	3,342	(32.2)
Extraordinary Expenses	-	104		125	
Reported Profit	2,265	2,660	(14.9)	3,217	(29.6)

(Stock price as on May 17, 2007)

Result highlights

Bajaj Auto's Q1FY08 results surpassed our expectations. Net sales were down by only 4% to Rs 2.1bn despite a 12% yoy slide in volumes. This was partially helped by excise relief at the Uttaranchal plant.

Contribution per vehicle marginally improved despite the fact that material cost (as a percent of sales) was up by 178bp yoy, as 3-wheeler exports formed a greater proportion of sales. Contribution per vehicle increased by 2.2% yoy.

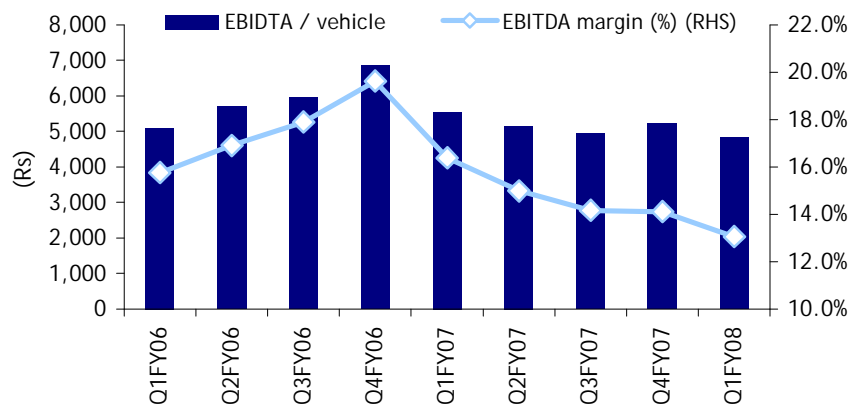
Margins, at 13%, were in line with our expectations. PAT was down by 18% to Rs 2.26bn against our expectations of Rs 2.06bn, helped by lower excise duty. The effective tax rate has remained at the 31% levels. This indicates that the company is not making profits on Platina after passing on a Rs-3,000 discount per bike. In other words, the company has not been able to avail of the income tax benefits from Uttaranchal as yet.

This has been the lowest-margin quarter for the company for a long time, which means that BAL has started to feel the pressure of cutthroat competition prevalent in the industry. To provide some margin relief, the company has raised prices on its Platina and Discover by Rs 500 wef 1st July.

Lowest-ever margins

The company had reduced the price of its Platina by Rs 3,000 last quarter, soon after production was shifted to Uttaranchal, thereby passing on the excise benefits to customers. Pricing pressure coupled with rising raw material cost has dealt a double blow, with the company reporting, at 13.1%, its lowest-ever margins in the recent past.

Lowest EBITDA Margin at 13.1%



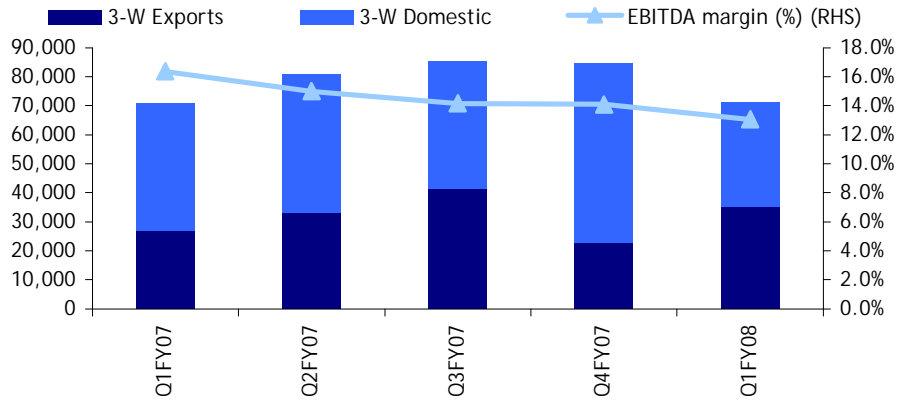
Source Company Data, PL Research

With falling margins, EBITDA / vehicle has also attained an all-time low of Rs 4,817.

3-Wheeler sales growth flat

BAL's 3-wheeler sales volumes for Q1, at 71,336 vehicles, have almost been flat. While almost 50% came from exports, its sales at home seem to have flattened out. Pricing pressure, higher raw material costs and a flat 3-wheeler growth seem to have resulted in Bajaj Auto registering its lowest-ever margins.

Exports now constitute a large portion

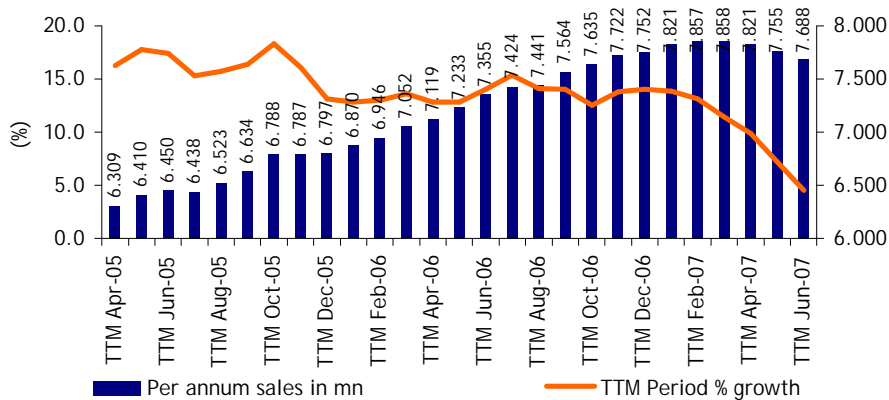


Source: Company Data, PL Research

Consumer needs reason to re-consider

In the motorcycle market, huge replacement demand is estimated at nearly 50%. In fact, 2-wheelers that are older than five years are estimated at 55%. These bike owners need an upgrade and are currently “brand-fatigued”. The industry for quite some time has not innovated enough to cajole these buyers into re-purchases. Coupled with the fact that banks have made lending norms more stringent under the high interest rate scenario currently prevailing, 2-wheeler sales have exhibited sluggishness.

“Fatigue” visible in 2-wheeler industry sales



Source: PL Research

The higher growth rate in 2-wheelers in the last couple of years (of over 20%), coupled with the rising interest rates, seem to have affected the 2-wheeler growth rate. The TTM chart shows that the 2-wheeler sales momentum is declining at an higher rate. However, we expect the 2-wheeler sales momentum to pick up from the second half of FY08 after the festive season, conditional on interest-rate stability.



The new product platform that Bajaj Auto is banking upon promises the excitement that the customer is looking for. The product will deliver the following key “reasons-to-change” propositions:

- New DTS si technology that will offer path-breaking fuel economy
- New “clothes” that emphasise style, without intimidating customers
- Price -- about 10-15% higher than the entry-level bike
- Finance package with a loose-string approach.

Estimates maintained

With the uncertainty surrounding the success of its new bike in the entry-level segment, we have maintained our estimates. We expect BAL to post a 16.8% growth in its top line at Rs 111bn in FY08. However, PAT is expected to rise by only 9% yoy to Rs 14bn.

Estimates maintained

	Revised Estimates		Earlier Estimates		% Revision	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Net Sales (Rs m)	111,609	135,812	110,756	136,508	0.8	(0.5)
Adj. PAT (Rs m)	14,026	17,903	14,027	17,731	0.0	1.0
EPS (Rs)	138.6	176.9	138.6	175.2	0.0	1.0

Source: PL Research

Management View

Management believes that it would be able to sell 1m 2-wheelers in H1 FY08 while, for the year, it expects to sell about 2.5m 2-wheelers, backed by the success of its new product. Management has also articulated its intention of moving into the 4-wheeler segment. While it does not intend to exit the 3-wheeler segment as yet, it is utilising its R&D to develop a 4-wheeler.

Our View

We believe that BAL would be able to sell about 1.1m 2-wheelers in H1 FY08 while it would end the year with sales volumes of about 2.7m. Also, if the new 2-wheeler proves a success in the likes of Pulsar, BAL would make a major breakthrough in the entry-level 100-cc segment where Hero Honda has a 90% share. However, although we believe that the new bike might provide a positive surprise, we have not included any major contribution from it in our estimates. The stock trades at 12.4x FY09E EPS of Rs 177. With the clarity surrounding the success of its new bike yet to materialise, we maintain a **MARKET PERFORMER** rating.

We continue to represent our forecast according to the old BAL structure. We shall introduce financial figures after the balance-sheet division is complete.



Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	76,896	95,535	111,609	135,812
EBITDA (Rs m)	13,780	14,500	16,544	21,196
Margin (%)	17.9	15.2	14.8	15.6
PAT (Rs m)	11,124	12,869	14,026	17,903
EPS (Rs)	109.9	127.2	138.6	176.9
PER (x)	20.0	17.3	15.8	12.4
EV / E (x)	12.9	11.9	10.2	7.6
EV / Sales (x)	2.0	1.6	1.3	1.1
RoCE (%)	19.2	19.2	18.3	20.4
RoE (%)	23.3	23.3	22.1	24.2

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