

Bajaj Auto Ltd

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In-line results, betting big on the new launch

Driven by the disappointing demand for 2 & 3 wheelers in the domestic market, Bajaj Auto reported 18% decline in net profit during Q1FY08. However, there were no major disappointments from the results. The company is now betting big on the new bike launch in September 2007, expected to provide the much-needed fillip to its growth in H2FY08.

Results Highlights

- Net sales at Rs 21.1 billion were down 4.2% YoY and above our estimates, driven by higher gross realization (up 6.8% YoY).
- OPM at 13.1% was below estimates, but we expect it to recover in coming quarters on better raw material management. Operating profit stood at Rs. 2.75 billion (down 23.7% YoY), in line with estimates.
- Net profit for the quarter dipped 18.1% YoY to Rs 2.26 billion below our estimate of Rs 2.37 billion.

Outlook

- BAL is betting big on its new bike launch in Sept'07, aimed at upgrading customers from 100cc to a much powerful and comfortable bike, without compromising on fuel efficiency.
- We cut FY08 and FY09 volume estimates by 6% each and estimate a volume CAGR of 8.5% during FY07-FY09E, driven by 8.9% CAGR in motorcycle sales.
- We revise our core EPS estimates for FY08E and FY09E downwards to Rs 90.6 (from Rs 96.7) and Rs 101 (from Rs 107.2), respectively.

Valuations and Rating

- At the current market price of Rs 2194.8, the stock trades at 11x and 9.8x FY08E and FY09E core EPS. We maintain our SOTP-based price target of Rs 2514 (14.5% upside) and Outperformer rating on the stock.

Valuation summary

Y/E Mar, Rs mn	FY05	FY06	FY07	FY08E	FY09E
Net Sales	57,489	74,893	93,253	102,448	115,401
Growth, %	20.2	30.3	24.5	9.9	12.6
EBIDTA	9,322	13,650	14,365	14,917	16,450
EBIDTA margins, %	15.7	17.8	15.1	14.2	13.9
MAN Net profit	8,158	11,243	12,869	12,929	14,089
Net profit margin, %	14.2	15.0	13.8	12.6	12.2
MAN EPS, Rs	80.6	111.1	127.2	127.8	139.2
EPS Growth, %	2.4	37.8	14.5	0.5	9.0
PER, x	27.2	19.8	17.3	17.2	15.8
Core EPS, Rs	53.9	81.2	84.3	90.6	101.0
Core EPS Growth, %	1.6	50.8	3.8	7.4	11.6
Core PER, x	18.4	12.2	11.8	11.0	9.8
EV/EBIDTA, x	25.1	17.3	16.6	15.9	14.4
EV/Net Sales, x	4.1	3.2	2.6	2.3	2.1
Price/Book Value, x	5.4	4.7	4.0	3.5	3.1
ROIC, %	19.9	29.7	28.9	25.6	27.3
ROE, %	20.8	25.3	25.0	21.8	21.0
Dividend Yield, %	1.1	1.8	1.8	2.1	2.3

Source: Company, Man Financial Research Estimates

Maintain Outperformer
 Rs 2195/Target Rs 2514 (14%)

Sector (Relative to market)

OW	N	UW

Stock (Relative to market)

B	OP	N	UP	S
> 10%	5% to 10%	5% to -5%	-5% to -10%	< -10%

This note should be read for

- Quarterly Results Analysis
- Estimate Revision

Bloomberg code : BJA IN
 Reuters code : BJAT.BO
 www.bajajauto.com

BSE Sensex : 15092
 NSE Nifty : 4446

Company data

O/S shares :	101mn
Market cap (Rs) :	222bn
Market cap (USD) :	5bn
52 - wk Hi/Lo (Rs) :	3375 / 2058
Avg. daily vol. (3mth) :	0.5mn
Face Value (Rs) :	10

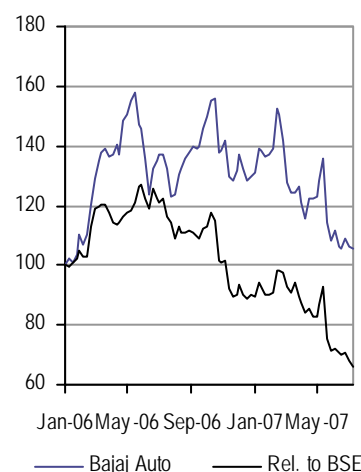
Share holding pattern, %

Promoters :	29.9
FII / NRI / OCBs :	22.1
FI / MF / Banks :	7.6
Non Promoter Corp. Holdings :	14.0
Public & Others :	26.5

Price performance, %

	1mth	3mth	1yr
Abs	4.2	-6.5	-20.1
Rel to BSE	-2.6	-21.6	-58.1

Price vs. Sensex



Source: Bloomberg, Man Financial Research

Quarterly Financials

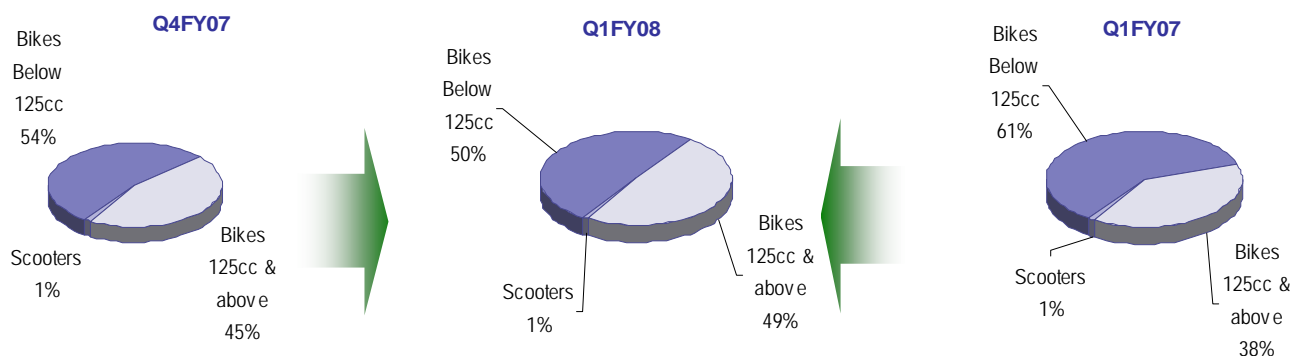
	Q1FY08	Q1FY07	Q4FY07	FY2007	FY2008E
Net sales	21091	22027	23136	93,253	102,448
<i>Growth Yoy, %</i>	-4.2	34.8	6.8	24.5	9.9
Other operating income				2,147	2,404
Total income	21,091	22,027	23,136	95,399	104,852
Operating expenses	18338	18420	19873	81034	89935
EBITDA	2,754	3,607	3,263	14,365	14,917
<i>Growth Yoy, %</i>	-23.7	40.1	-23.2	5.2	3.8
<i>Margin %</i>	13.1	16.4	14.1	15.1	14.2
Depreciation	490	481	458	1903	2131
EBIT	2,263	3,126	2,805	12,462	12,786
<i>Growth Yoy, %</i>	(19.2)	33.9	(9.0)	6.2	2.6
<i>Margin %</i>	10.7	14.2	12.1	13.4	12.5
Interest paid	1	7	24	-2695	-2940
Other Income	1,027	946	1,577	2613	2230
Pre-tax profit	3,290	4,064	4,358	17,770	17,956
Tax provided	1,025	1,300	1,151	4901	5028
MAN Net profit	2,265	2,764	3,208	12,869	12,929
<i>Growth Yoy, %</i>	-18	32	-4	14	0
Reported PAT	2,265	2,660	3,083	12,371	12,929
<i>NPM %</i>	10.7	12.1	13.3	13.3	12.6
Extraordinary items: Gains/(Losses)	0	-104	-124	-498	0
EPS, Rs	22.4	26.3	30.5	122.3	127.8
Annualised EPS, Rs	90	105	122	NA	NA
Unadj. shares (m)	101	101	101	101	101
Wtd avg shares (m)	101	101	101	101	101

Source: Company, Man Financial Research

Revenue downfall capped at 4% on better product mix

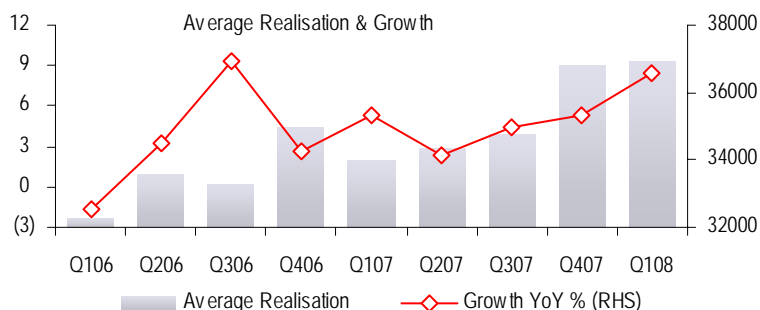
BAL's net sales during Q1FY08 de-grew by 4.2% YoY to Rs 21.1 billion, beating our sales estimate of Rs 20.5 billion. The out performance was mainly on account of better product mix (see chart below), which resulted into gross realization increase of 6.8% YoY against estimated 5.3%. While the overall motorcycle industry saw YoY decline of 10.6% in demand during the quarter, lower-end bike segment was affected the most and de-grew 20.6% due to higher interest rates and tightening of lending norms by the financial institutions.

Product Mix



Source: SIAM, Man Financial Research

Average Realization & Growth Trend

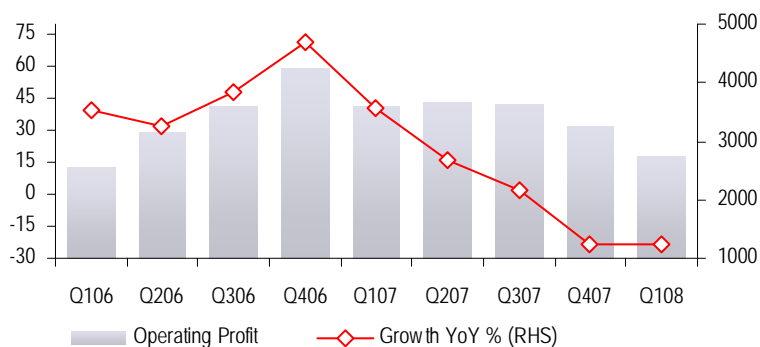


Source: Company, Man Financial Research

Operating margin contracts to 13.1%, below estimates

Even if the company managed to display some control over the rising raw material cost (which dipped 70bps QoQ to 72.4% of sales) operating margin for the quarter slipped 330 bps YoY and 100 bps QoQ to 13.1%. Staff cost during the quarter jumped significantly to Rs 987 million, increasing 43.4% QoQ and 15.3% YoY, much higher than our expectations and the key reason for lower OPM. We believe that the higher staff cost is primarily due to start of Pantnagar plant (started in April 2007) and one-time employee incentives. We expect the staff cost to normalize in coming quarters (at about Rs 850 million-Rs 860 million), adding to the improvement in operating margins. Operating profit at Rs 2.75 billion was down by 23.7% YoY, in line with our estimates.

Operating Profit & OPM

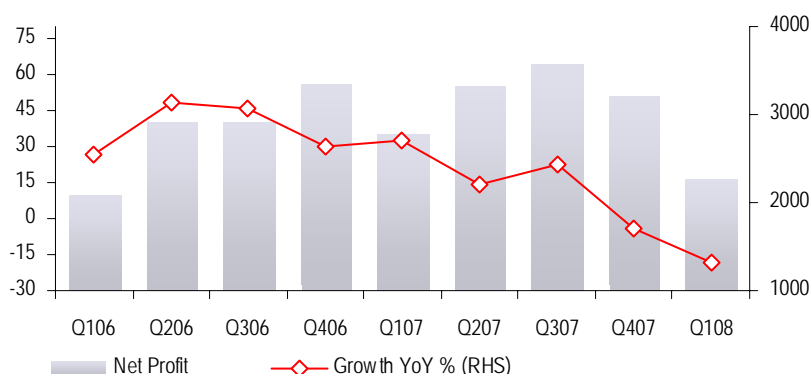


Source: Company, Man Financial Research

Adjusted net profit down by 18%

Despite 23.7% decline in operating profit, adjusted net profit of the company during the quarter was down only by 18.1% YoY due to higher other income (up 9% to Rs 1.03 billion) and lower tax of 31.2% of PBT (32% in Q1FY07). The company reported net profit of Rs 2.26 million, translating into an EPS of Rs 22.4.

Net Profit & Growth Trend



Source: Company, Man Financial Research

Betting big on the new motorcycle platform

Bajaj Auto is betting big on its new bike platform, scheduled to launch on 9th September 2007. The bike is expected to be a >100cc (probably a 115cc/125cc) model at a competitive price, targeted to be marginally higher than Platina (BAL's 100cc offering). The launch will be in line with company's strategy to upgrade its customers from 100cc to a much powerful and comfortable bike, without compromising on fuel efficiency. The new bike will have an advance DTSSi (Digital Twin Spark Swirl Induction) technology, which would ensure a better fuel economy compared to other high-powered motorcycles. The company is targeting to sell about 50,000 units/month of the new motorcycle within few months of the launch, lending the much-needed impetus to its volume growth in H2FY08. Success of the new bike is very critical for company's performance in coming quarters, more so in H2FY08 and thereafter.

It is feared that the new bike would cannibalize into the sales of 'Platina'. This, in our view would augur well for company's profitability in coming quarters, since the new bike would not only enjoy higher realization, but also superior profits compared to Platina.

Cutting FY08 and FY09 volume estimates by 6% each

Higher interest rates and stricter lending norms by the financing companies led to strong disappointment in Q1FY08 for all the two-wheeler companies. The impact was more on Bajaj Auto (compared to Hero Honda), since the company went for strong inventory correction and thereby cutting deliveries to dealers. The inventory of the company now stands at about 15-16 days, which is much better than the competition. The drop of 11.7% YoY in over all sales volume (domestic sales slipping 23.2% YoY) during Q1FY08 was significantly higher than our expectations and the scenario is expected to remain highly challenging during Q2FY08 as well. Hence, we cut our FY08 and FY09 volume estimates of the company by 6% each (see table below). We now estimate the volume CAGR to be at 8.5% during FY07-FY09E, driven by 8.9% CAGR in motorcycle sales.

	FY2008E	FY2009E
OLD		
2-Wheelers	2,713,039	3,030,193
<i>% growth</i>	13%	12%
3-Wheelers	345,048	367,583
<i>% growth</i>	7%	7%
Total Volume	3,058,087	3,397,776
<i>% growth</i>	12%	11%
REVISED		
2-Wheelers	2,545,371	2,846,512
<i>% growth</i>	6%	12%
3-Wheelers	335,678	356,414
<i>% growth</i>	4%	6%
Total Volume	2,881,049	3,202,926
<i>% growth</i>	6%	11%
% Revision		
2-Wheelers	-6%	-6%
3-Wheelers	-3%	-3%
Total Volume	-6%	-6%

Source: Company, Man Financial Research

Subsidiary Performance has been impressive

Bajaj Allianz General Insurance Co recorded a gross premium of Rs 5.7 billion during Q1FY08 as against Rs 4.5 billion in Q1FY07, reporting a growth of 27%. Profit before tax of the company for the quarter stood at Rs 354 million (up 16% YoY), while profit after tax grew by 18% YoY to Rs 219 million. The company currently operates out of 158 branches across the country.

Bajaj Allianz Life Insurance Co continued to witness strong business momentum and reported a 45% YoY jump in gross written premium (GWP) during Q1FY08 at Rs 10.6 billion vis-à-vis Rs 7.3 billion in Q1FY07. The company posted a healthy profit of Rs 306 million for the quarter as compared to a loss of Rs 191 million in Q1FY07. The company currently enjoys the largest distribution network within the private life insurance sector.

Maintain Outperformer with SOTP-based price target to Rs 2514

We maintain our view that the margin pressure on two-wheeler players would continue. However, we also believe that Bajaj Auto would be able to revive its OPM from current 13.1% to close to 14% by Q2FY08 due to effective raw material cost management and lower staff cost (compared to Q1FY08). Further, on account of cut in volume estimate, we revise our core EPS estimates for FY08E and FY09E downwards to Rs 90.6 (from Rs 96.7) and Rs 101 (from Rs 107.2), respectively.

At the current market price of Rs 2194.8, the stock trades at 11x and 9.8x FY08E and FY09E core EPS. We maintain our SOTP-based price target of Rs 2514 (14.5% upside) and Outperformer rating on the stock.

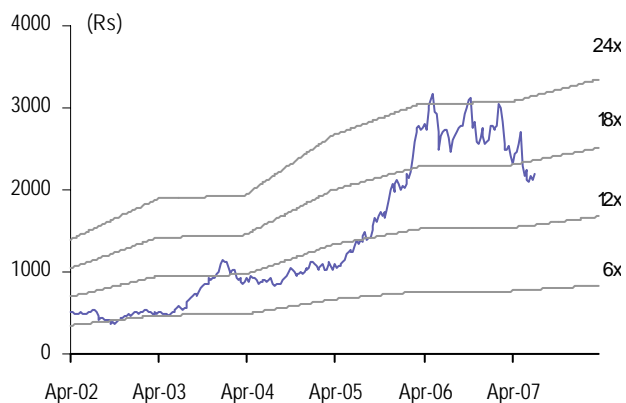
SOTP Valuation Table

Businesses	Parameter	Discount	Multiple	Per Share Value (Rs)
Automotive Business	EPS		13	1,313
Bajaj Allianz Life Insurance	NBAP		12	299
Bajaj Allianz General Insurance	10x NP		10	62
Investment and Cash	Absolute	15%	1	791
Invt in BAFL	Market Price	15%		49
Total Value Per Share				2,514

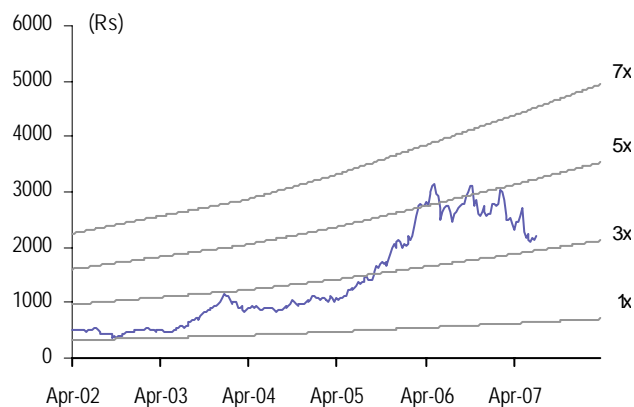
Source: Company, Man Financial Research

ABSOLUTE ROLLING VALUATION BAND CHARTS

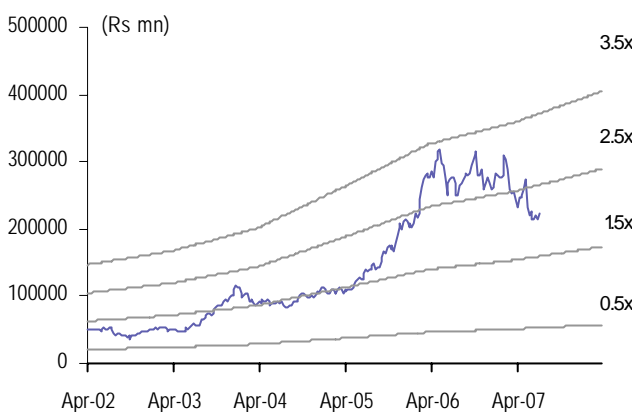
PE band



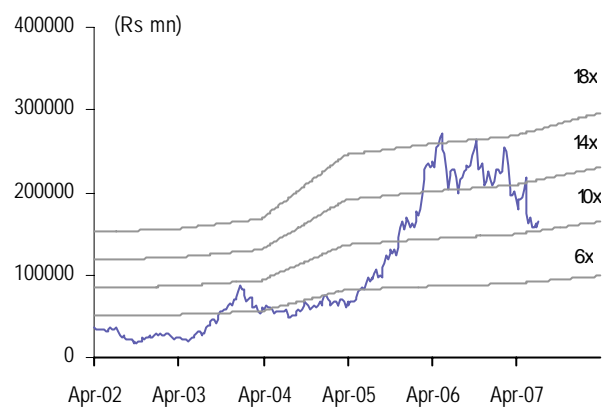
PBV band



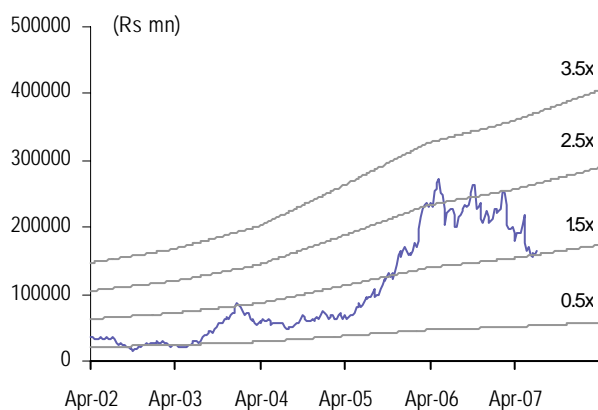
MCap/Sales band



EV/EBIDTA band



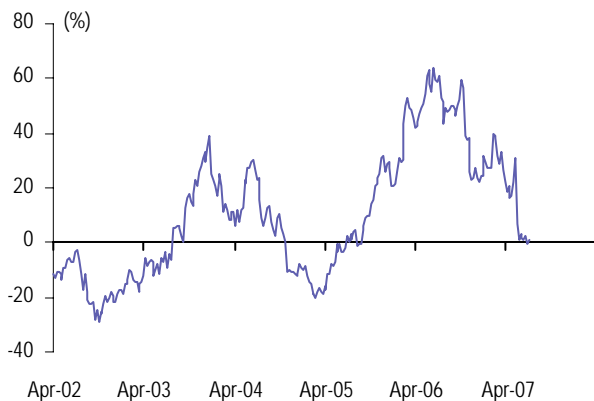
EV/Sales band



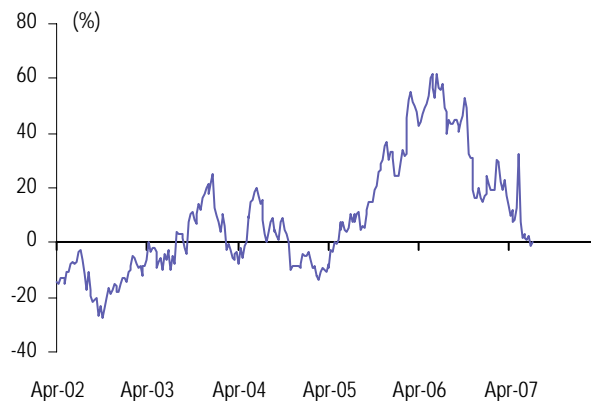
Source: Man Financial Research

PREMIUM / DISCOUNT TO SENSEX

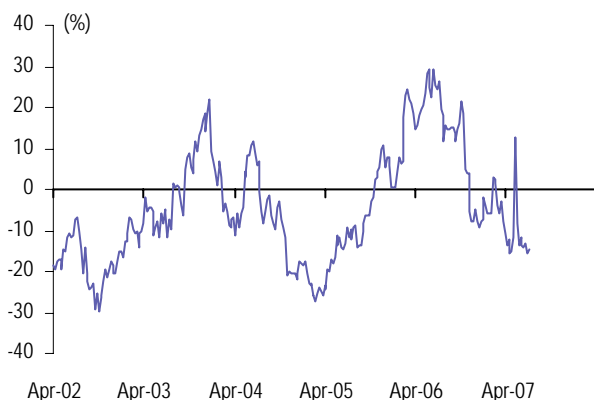
PE



PBV

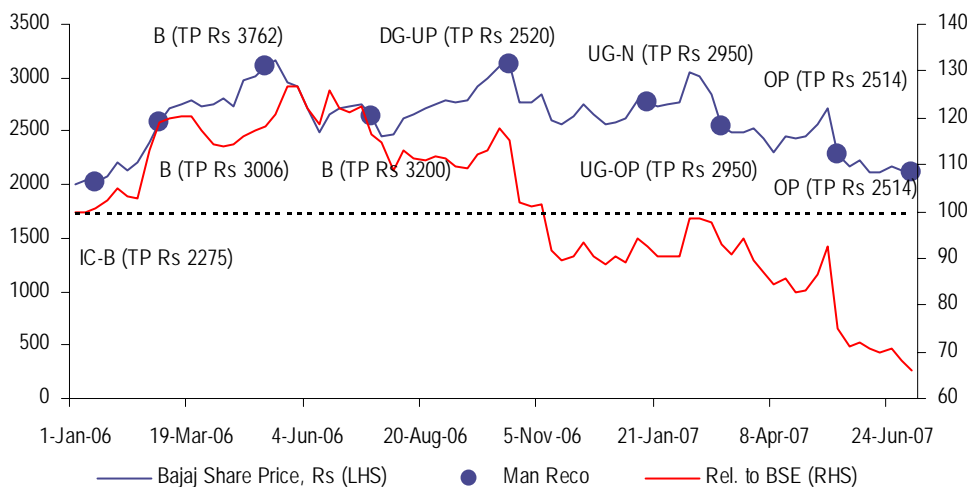


MCap/Sales



Source: Man Financial Research

Recommendation performance



IC = Initiating Coverage; DG = Downgrade; UG = Upgrade; TP = Target Price;
 OP = Outperformer; UP = Underperformer; N = Neutral; S = Sell, B = Buy
 Source: Bloomberg, Man Financial Research

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY05	FY06	FY07	FY08E	FY09E
Net sales	57,489	74,893	93,253	102,448	115,401
<i>Growth (%)</i>	20.2	30.3	24.5	9.9	12.6
Op. Other income	1,845	1,873	2,147	2,404	2,693
Total income	59,334	76,767	95,399	104,852	118,093
Operating expenses	50,013	63,116	81,034	89,935	101,644
EBITDA	9,322	13,650	14,365	14,917	16,450
<i>Growth (%)</i>	7.7	46.4	5.2	3.8	10.3
Margin	15.7	17.8	15.1	14.2	13.9
Depreciation	1,854	1,910	1,903	2,131	2,377
EBIT	7,468	11,740	12,462	12,786	14,073
<i>Growth (%)</i>	8.9	57.2	6.2	2.6	10.1
Margin	13.0	15.7	13.4	12.5	12.2
Interest received	2,079	2,929	2,748	3,000	3,150
Interest paid	7	3	53	60	70
Net interest	-2,073	-2,925	-2,695	-2,940	-3,080
Non-recurring items	1,814	1,368	2,613	2,230	2,147
Pre-tax profit	11,355	16,034	17,770	17,956	19,300
Tax provided	3,196	4,791	4,901	5,028	5,211
Profit after tax	8,158	11,243	12,869	12,929	14,089
Reported Net profit	7,292	11,233	12,371	12,929	14,089
Man net profit	8,158	11,243	12,869	12,929	14,089
<i>Growth (%)</i>	2.4	37.8	14.5	0.5	9.0
Extraordinary items: Gains/(Losses)	-867	-10	-498	0	0
Unadj. shares (m)	101	101	101	101	101
Wtd avg shares (m)	101	101	101	101	101

Cash Flow

Y/E Mar, Rs mn	FY05	FY06	FY07	FY08E	FY09E
PBT	11,355	16,034	17,770	17,956	19,300
Depreciation, amortisation	1,854	1,910	1,903	2,131	2,377
Chg in working capital	1,818	6,980	-373	1,664	1,255
Total taxes paid	-3,026	-5,314	-5,035	-5,028	-5,211
Other operating activities	-867	-128	-498	0	0
Cash flow from operating activities (a)	11,134	19,482	13,766	16,723	17,721
Capital expenditure	-905	-2,033	-3,336	-3,250	-2,650
Chg in investments	499	114	-389	-344	-344
Chg in marketable securities	-7,550	-13,078	-5,517	-7,156	-7,156
Other investing activities	0	-67	0	0	0
Cash flow from investing activities (b)	-7,956	-15,064	-9,242	-10,750	-10,150
Free cash flow	3,178	4,418	4,525	5,973	7,571
Dividend (incl tax)	-2,884	-4,615	-4,735	-5,236	-5,818
Other financial activities	0	-69	0	0	0
Cash flow from financing activities (c)	-2,885	-4,684	-4,511	-5,236	-5,818
Net chg in cash (a)+(b)+(c)	293	-266	14	737	1,753

Balance Sheet

As at 31st Mar, Rs mn	FY05	FY06	FY07	FY08E	FY09E
Cash & bank	1,087	821	835	1,572	3,326
Marketable securities at cost	42,920	55,998	61,515	68,670	75,826
Debtors	1,763	3,016	5,298	5,614	5,691
Inventory	2,242	2,729	3,097	3,649	4,110
Loans & advances	20,120	21,274	28,594	28,685	32,312
Other current assets	685	721	362	412	462
Total current assets	68,817	84,558	99,701	108,602	121,727
Investments	2,686	2,572	2,961	3,305	3,649
Gross fixed assets	27,652	29,117	31,960	35,230	37,980
Less: Depreciation	16,286	17,787	19,224	21,355	23,732
Add: Capital WIP	84	242	269	250	150
Net fixed assets	11,449	11,572	13,005	14,125	14,398
Non-current assets	14,135	14,144	15,966	17,430	18,047
Total assets	82,952	98,702	115,667	126,032	139,774
Current liabilities	32	3,801	2,682	561	-1,740
Provisions	20,089	23,159	28,338	30,734	34,620
Total current liabilities	20,121	26,960	31,019	31,295	32,881
Non-current liabilities	21,488	24,035	29,304	31,701	35,587
Total liabilities	41,609	50,995	60,324	62,996	68,467
Paid-up capital	1,012	1,012	1,012	1,012	1,012
Reserves & surplus	40,332	46,695	54,331	62,024	70,295
Shareholders' equity	41,343	47,707	55,343	63,036	71,307
Total equity & liabilities	82,952	98,702	115,667	126,032	139,774

Per-share data

	FY05	FY06	FY07	FY08E	FY09E
MAN EPS (INR)	80.6	111.1	127.2	127.8	139.2
<i>Growth, %</i>	2.4	37.8	14.5	0.5	9.0
Book NAV/share (INR)	408.6	471.5	547.0	623.0	704.8
FDEPS (INR)	80.6	111.1	127.2	127.8	139.2
CEPS (INR)	99.0	130.0	146.0	148.8	162.7
CFPS (INR)	78.8	156.6	101.7	150.7	158.9
DPS (INR)	25.0	40.0	40.0	45.0	50.0

Profitability, Productivity, Liquidity and Valuation Ratios

	FY05	FY06	FY07	FY08E	FY09E
Return on assets (%)	10.6	12.4	12.0	10.7	10.6
Return on equity (%)	20.8	25.3	25.0	21.8	21.0
Return on invested capital (%)	19.9	29.7	28.9	25.6	27.3
RoIC/Cost of capital (x)	1.5	2.3	2.2	1.9	2.0
RoIC - Cost of capital (%)	7.0	16.8	15.8	12.1	13.6
Return on capital employed (%)	13.9	16.7	16.5	14.5	14.0
Cost of capital (%)	13.0	12.9	13.2	13.6	13.7
RoCE - Cost of capital (%)	0.9	3.8	3.3	0.9	0.3
Asset turnover (x)	2.1	2.7	3.0	2.9	3.1
Sales/Total assets (x)	0.7	0.8	0.9	0.8	0.9
Sales/Net FA (x)	4.8	6.5	7.6	7.6	8.1
Working capital/Sales (x)	0.1	0.0	0.1	0.1	0.1
Fixed capital/Sales (x)	0.0	0.0	0.0	0.0	0.0
Receivable days	11.2	14.7	20.7	20.0	18.0
Inventory days	14.2	13.3	12.1	13.0	13.0
Payable days	57.3	71.1	67.5	65.0	65.0
Current ratio (x)	3.4	3.1	3.2	3.5	3.7
Quick ratio (x)	3.3	3.0	3.1	3.4	3.6
Interest cover (x)	n/a	n/a	n/a	n/a	n/a
Dividend cover (x)	3.2	2.8	3.2	2.8	2.8
P/E (x)	27.2	19.8	17.3	17.2	15.8
PEG (x) – 2-yr CAGR growth			3.7		
PCE (x)	22.2	16.9	15.0	14.7	13.5
PCF (x)	27.8	14.0	21.6	14.6	13.8
Price/Book (x)	5.4	4.7	4.0	3.5	3.1
Yield (%)	1.1	1.8	1.8	2.1	2.3
EV/Net sales (x)	4.1	3.2	2.6	2.3	2.1
EV/EBITDA (x)	25.1	17.3	16.6	15.9	14.4
EV/EBIT (x)	31.4	20.2	19.1	18.6	16.8
EV/NOPLAT (x)	43.7	28.8	26.4	25.8	23.1
EV/CE	3.7	3.3	2.8	2.5	2.2
EV/IC (x)	8.7	8.5	7.6	6.6	6.3

Source: Company, Man Financial Research Estimates

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