

# Bajaj Auto

Relative to sector: **Outperformer**

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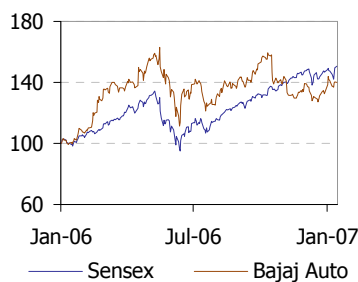
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 101.2mn
Market cap	: Rs.280bn
52 week high/low	: Rs.3,325/ Rs.1,974
Avg. daily vol. (6mth)	: 287,000 shares
Bloomberg code	: BJA IN
Reuters code	: BJAT.BO

## Shareholding (%) Sep-06 QoQ chg

Promoters	: 29.8	0.0
FII's	: 19.5	0.4
MFs / UTI	: 2.4	(0.3)
Banks / FIs	: 6.0	(0.1)
Others	: 42.4	(0.0)

## Financial summary

Y/E Mar	Sales (Rs. mn)	EBIDTA (Rs.mn)	Core PAT (Rs.mn)	Core EPS (Rs.)	Change YoY (%)	Core P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	57,240	8,524	3,937	38.9	(8)	5.8	21	23	9
2006	74,694	12,622	6,450	63.7	64	25.5	25	28	19
2007E	97,375	15,171	8,055	79.6	25	17.1	24	28	15
2008E	115,427	18,282	9,981	98.6	24	13.8	24	29	12

Source: Company, ENAM estimates, Core EPS pertains to auto business

## Q3 A BLIP, LONG TERM STORY INTACT

Bajaj Auto's (BAL) Q3FY07 revenues are in line with our expectations. Higher promotion expenses (price cut on Platina and 0% finance scheme), led to a steep fall in sequential EBITDA margin. We believe higher promotional expenses were imperative for BAL to maintain its competitiveness and market share.

Going forward, the recent price increases across the product portfolio and lower subvention cost, due to withdrawal of 0% finance scheme, will help BAL cushion its margins.

On a 12 month rolling basis, margin has declined by 34bps YoY and 98bps QoQ at 14.2% (Please refer to our variance analysis on Pg 2)

The market value of BAL's investment portfolio stands at Rs 85bn (~Rs 838/ share).

## Revenue growth

- 28.4% YoY, driven by 22.9% volume growth + 4.5% realization growth
- 5.4% QoQ, driven by 4.2% volume growth + 1.1% realization growth

**Recent rounds of price hikes to mitigate impact:** While a price cut of Rs 2,000 on Platina had impacted realizations during Q2FY07, we believe the price hikes of Rs 500- Rs 1,000 across the product portfolio in Nov 2006 and Rs 500 each on Platina and Discover during Jan 2007, will have a positive impact on the overall performance. *During the quarter, while the price segment (Platina and CT-100) accounted for 50%, value and premium segments accounted for 31% and 19% of sales, respectively.*

## Valuation and Outlook

We continue to remain positive on BAL's prospects, in the medium to long term. BAL trades at a premium to Hero Honda and we believe it should continue to do so. Though a price war will impact margins, BAL's rising volumes will mitigate a part of it. At CMP (Rs 2,775), the stock trades at 17.1x FY07E and 13.8x FY08E Core EPS of Rs 80 and Rs 99 respectively. Our target price of Rs 3,093 is based on 17x FY08 Core EPS of Rs 99 + cash/ equivalents of Rs 711 (15% discount) + insurance business, at Rs 704/ share. We maintain our sector **Outperformer** rating on the stock.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-07E	Mar-06	% Chg
<b>Net Sales</b>	<b>25,682</b>	<b>20,009</b>	<b>28.4</b>	<b>24,360</b>	<b>5.4</b>	<b>97,375</b>	<b>74,694</b>	<b>30.4</b>
<b>EBIDTA</b>	<b>3,636</b>	<b>3,581</b>	<b>1.5</b>	<b>3,652</b>	<b>(0.4)</b>	<b>15,171</b>	<b>12,622</b>	<b>20.2</b>
Other income	1,609	1,064	51.3	1,424	13.0	5,519	5,325	3.6
<b>PBIDT</b>	<b>5,245</b>	<b>4,645</b>	<b>12.9</b>	<b>5,077</b>	<b>3.3</b>	<b>20,690</b>	<b>17,947</b>	<b>15.3</b>
Depreciation	472	491	(3.8)	492	(4.0)	1,950	1,910	2.1
Interest	2	1	340.0	20	(89.0)	30	3	782.4
<b>PBT</b>	<b>4,771</b>	<b>4,154</b>	<b>14.8</b>	<b>4,565</b>	<b>4.5</b>	<b>18,710</b>	<b>16,034</b>	<b>16.7</b>
Tax	1,200	1,245	(3.6)	1,250	(4.0)	5,687	4,791	18.7
<b>Adjusted PAT</b>	<b>3,571</b>	<b>2,909</b>	<b>22.7</b>	<b>3,315</b>	<b>7.7</b>	<b>13,023</b>	<b>11,243</b>	<b>15.8</b>
Extra ordinary income/ (exp.)	(120)	(118)	1.0	(139)	(13.8)	(375)	(10)	3,647.5
<b>Reported PAT</b>	<b>3,451</b>	<b>2,791</b>	<b>23.7</b>	<b>3,176</b>	<b>8.7</b>	<b>12,648</b>	<b>11,233</b>	<b>12.6</b>
No. of shares (mn)	101	101	-	101	-	101	101	-
EBIDTA margin (%)	14.2	17.9	-	15.0	-	15.6	16.9	-
PBIDT margin (%)	20.4	23.2	-	20.8	-	21.2	24.0	-
<b>EPS - annualized (Rs.)</b>	<b>141.2</b>	<b>115.0</b>	<b>22.7</b>	<b>131.0</b>	<b>7.7</b>	<b>128.7</b>	<b>111.1</b>	<b>15.8</b>

Source: Company, ENAM Research

## Bajaj Q3FY07: Reported nos vs. expectations

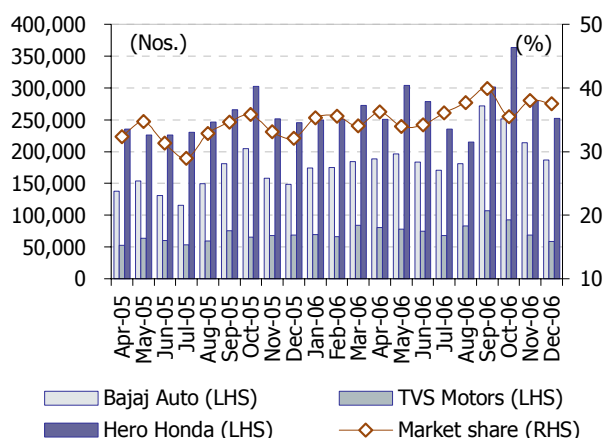
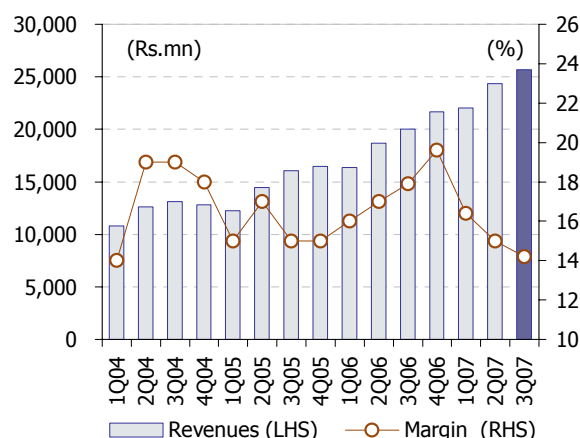
	Reported	Forecast	Variance (%)	Comment
Realization	Rs 34,790	Rs 34,500	0.8%	Higher contribution from non 100cc segment
EBITDA	Rs 3.6bn	Rs 3.9bn	(9.4%)	EBITDA impacted due to price cut for Platina by Rs.2,000, higher SG&A costs (festive discounts) and continued pressure from RM costs (73.4% v/s 72.6% QoQ)
Margin	14.2%	15.6%	(140bps)	
Adj. PAT	Rs 3.45bn	Rs 3.38bn	2%	Higher than expected other income, due to treasury gains (Rs 1.6bn v/s our est. of Rs.1.3bn) and lower incidence of tax (25% v/s our est. of 29%).

Source: Company, ENAM Research

**New launches and capacity expansion:** BAL continues to remain focused on its strategy of moving consumer preference away from 100cc bikes. In line with this strategy, it plans to launch new platforms/ engines in the 110-180 cc segments in the next few months. BAL has already done a soft launch of its 200cc high-end Pulsar bike in Pune. It also plans to increase its motorcycle capacity to 300,000 units per months by April 2007.

## Revising FY07 and FY08 estimates downward

To factor in lower than expected operating performance for 9MFY07, we are revising our Core EPS estimates downward for FY07E and FY08E by 4.2% and 2.7% respectively to Rs 79.6 and Rs 98.7, as compared to our earlier estimates of Rs 82.9 and Rs 101.4.

**Bajaj: Volume and Market share movement\*****Bajaj: Revenue & margin trend**

Source: Company, Industry, ENAM Research, \*indicated figures for only motorcycle segment

**Sales volumes**

(Nos.)	9MFY07	9MFY06	% chg	FY07E
* Scooters/ Step-thrus	12,585	102,802	-	16,000
Motorcycles	1,843,655	1,379,206	33.7	2,478,000
<b>Total Two-Wheelers</b>	<b>1,856,240</b>	<b>1,482,008</b>	<b>25.3</b>	<b>2,494,000</b>
Total Three- Wheelers	237,198	179,368	32.2	321,600
<b>Total Volumes</b>	<b>2,093,438</b>	<b>1,661,376</b>	<b>26.0</b>	<b>2,815,600</b>

Source: Company, ENAM Research, \* Bajaj has stopped the production of geared scooters from Dec-05

**Performance of Subsidiaries****Bajaj Allianz Life Insurance Company Limited**

Gross written premium (GWP), for the quarter stood at Rs.11bn, up by 36% as compared to Rs.8bn in the corresponding quarter last year. The total number of policies issued during Q3FY07 stand at 435,504 v/s 177,026 YoY. The loss for nine months was Rs 1.2bn against Rs.0.77bn in the corresponding quarter last year.

**Bajaj Allianz General Insurance Company Limited:**

GWP for the quarter stood at to Rs 4.6bn which increased by ~38% on a YoY basis. PAT for the quarter was Rs 86mn against Rs 38mn on a YoY basis.

**Bajaj Auto Finance Limited**

Total disbursements increased 35% YoY to Rs 7.82bn v/s Rs 5.8bn in Q3FY06. The stock of hire purchase finance and receivables stood at Rs 25.7bn v/s Rs 17.7bn for the same period. The PAT stood at Rs 169mn v/s Rs 48mn on a YoY basis.

## Export story to unfold in next 2-3yrs

### Nigeria: 1.0 mn market

- Set up an assembly unit in Nigeria in collaboration with local distributor. BAL will supply kits from India and will be assembled in Nigeria.
- The market is largely dominated by Japanese manufacturers.
- In the initial phase, margins are likely to be lower than the domestic market but will help BAL to compete with the Japanese manufacturers.
- To focus on fuel efficiency.

### Indonesia: 5.0 mn market

- BAL has set up a subsidiary named PT Bajaj Auto Indonesia to cater to the Indonesian market.
- To focus on top end segment, this is presently 0.5mn market. BAL has launched 180cc Pulsar in Nov 2006 to target this market.
- BAL is currently focusing on network development, sales, and after sales services plus brand building.
- The market is largely dominated by Honda (75%+ market share).

### IRAN: 0.4 mn market

- Recently concluded a tie up with local partner to assemble the CKD kits
- Dispatches to Iran have started.

BAL, in order to target ASEAN market, is establishing Indonesia, Nigeria and Iran as beachheads. Exports now account for 17% of total volumes. We remain positive on BAL's export strategy.

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