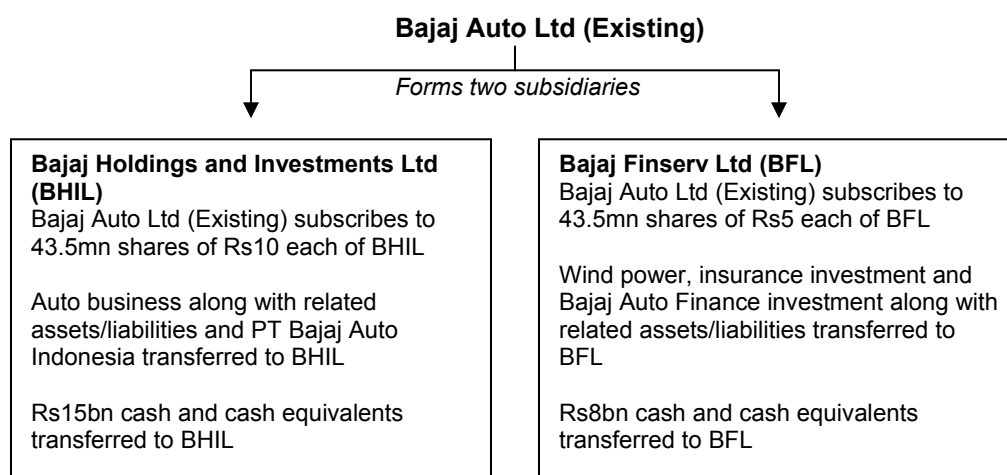


May 18, 2007

### Financial highlights

Period to	03/07	03/06	Growth	03/07	03/06	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Net sales	23,136	21,659	6.8	95,204	76,679	24.2
Expenditure	(19,873)	(17,409)	14.2	(81,034)	(63,116)	28.4
Operating profit	3,263	4,250	(23.2)	14,170	13,563	4.5
Other income	1,577	1,031	53.0	5,556	4,385	26.7
Interest	(24)	(1)	3,883.3	(53)	(3)	1,470.6
Depreciation	(458)	(468)	(2.1)	(1,903)	(1,910)	(0.4)
PBT	4,358	4,813	(9.4)	17,770	16,034	10.8
Tax	(1,151)	(1,476)	(22.0)	(4,901)	(4,791)	2.3
PAT	3,208	3,336	(3.9)	12,869	11,243	14.5
Extraordinary items	(125)	(119)	5.2	(490)	(226)	116.3
Prior period items	0	252	(99.9)	(9)	216	(104.0)
Adjusted PAT	3,083	3,470	(11.1)	12,371	11,233	10.1
OPM (%)	14.1	19.6	-	14.9	17.7	-
Equity capital	1,012	1,012		1,012	1,012	
EPS (Rs) Annualized	126.8	131.9		127.2	111.1	

### Business restructuring and demerger arrangement



Source: Company, India Infoline Research

- ✓ BHIL would be the new auto company with its name changed to Bajaj Auto Ltd. Bajaj Auto Ltd (Existing) would act as the parent holding company with its name changed to Bajaj Holdings and Investments Ltd.
- ✓ Shareholders in BAL (existing) will be issued shares in the two new companies in the ratio of 1:1.
- ✓ Balance assets and investment to be retained by Bajaj Auto Ltd (Existing). Around Rs60bn would be in the books of this new holding company.

**Table: Equity holding structure**

(Number of shares in Mn)	Present equity capital	Infused by BAL (Existing)	Shares issued to shareholders of BAL (Existing)	Equity post demerger	FV (Rs)
BAL (Existing) to be renamed BHIL	101.2	-	-	101.2	10
BHIL to be renamed BAL	-	43.5	101.2	144.7	10
BFL	-	43.5	101.2	144.7	5

Source: Company, India Infoline Research

Present shareholders of BAL (Existing) will continue to hold shares in the same proportion in that company. Shareholders will also hold around 70% each in the two new subsidiaries, while the balance 30% would be held by BAL (Existing).

Demerger process to be completed by end of calendar year 2007. The board structure has not been decided, however, it was indicated that it would largely remain unchanged. JM Morgan Stanley Pvt Ltd and J. Sagar & Associates are advisors for the restructuring.

#### **Rationale for restructuring and demerger**

The Group is mainly into four business areas, namely auto, insurance, finance and wind energy.

- ✓ Bajaj Auto demerged its business activities into separate entities to focus on core business and strengthen competencies
- ✓ New auto company will focus on auto business
- ✓ Wind power and financial services under one company
- ✓ Primary investment company will focus on new business opportunities and provide funds to group companies, if needed
- ✓ Investors will hold separate focused stocks
- ✓ Will list these companies in due course

#### **Call and put options with insurance partner**

Allianz has a call option to increase its stake and BAL has a put option to reduce its holding in the two insurance subsidiaries. The terms, proportion of increase/decrease in stake, time and prices are the same for both the call and put option for Allianz and BAL respectively.

**Table: Present holding structure for insurance and riders**

Company	BAL equity (%)	Allianz equity (%)	Comments
Bajaj Allianz General Insurance Company Ltd	74	26	Allianz has call option to increase stake to 50%*
Bajaj Allianz Life Insurance Company Ltd	74	26	Allianz has call option to increase stake to 74%*#

Source: Company, India Infoline Research

\* Subject to applicable laws and regulatory approvals

# Management responsibilities shared equally even incase Allianz emerges as the major shareholder

**Table: Pricing formula for exercise of options**

	<b>Bajaj Allianz General Insurance Company Ltd</b> <i>Subscription date: 23<sup>rd</sup> April 2001</i>	<b>Bajaj Allianz Life Insurance Company Ltd</b> <i>Subscription date: 31<sup>st</sup> July 2001</i>
Up to 15 years from subscription date	Rs10 per share + Interest @ 16% compounded per annum from subscription date	Rs5.42 per share + Interest @ 16% compounded per annum from subscription date
After 15 years	<b>Higher of:</b> Rs10 per share + Interest @ 16% compounded per annum from subscription date or Market price in case shares listed on stock exchange or Fair value determined by mutually accepted accounting firm	<b>Higher of:</b> Rs5.42 per share + Interest @ 16% compounded per annum from subscription date or Market price in case shares listed on stock exchange or Fair value determined by mutually accepted accounting firm

Source: Company, India Infoline Research

### **Rationale for embedded options in insurance business**

On account of the long term gestation of insurance ventures, especially, life insurance, the put option and pricing formula was agreed upon to ensure safety of investment and assured 16% return was taken for the initial years. On completion of this period, fair value or market price based upside would take over.

**Table: Insurance business snapshot**

(Rs mn)	FY07	FY06	yoy (%)
<b>General insurance</b>			
Gross written premium	18,033	12,846	40.4
PAT	754	516	46.1
<b>Life insurance</b>			
New business	42,700	27,170	57.2
Gross written premium	53,100	31,336	69.5
Net loss...	(717)	(985)	-
...(Post transfer to policymakers account)	972	1,085	-

Source: Company

### **Management comments on insurance**

The BAL management refused to comment on the valuation of the insurance business. It stated that it has requested IRDA for a uniform method of valuation for insurers, post which they would declare any details on the same.

BAL has invested close to Rs1800mn as its equity contribution for 74% stake in both insurance businesses. Its net investment in the two insurance ventures is approximately Rs700mn as it had also received money from Allianz as goodwill. Therefore, BAL is in a comfortable position since both insurance companies are well placed in their segments.

Mr. Rahul Bajaj said that he does not foresee BAL exercising the put option. While Allianz does have a call option, it is subject to applicable laws and regulatory approvals. He does not foresee the government permitting foreign partners to pick up 74% stake in insurance companies soon. He said that the cap could be probably raised to 50% by 2016, but not more.

**Points to be noted**

- ✓ The auto business will have an expanded equity base with 144.7mn shares as compared to 101.2mn currently.
- ✓ Around Rs5bn of other income would be substantially reduced from the auto business as most of the investment portfolio is being demerged.
- ✓ Exercise of the call option by Allianz before the year 2016, if permitted by laws, could mean significant lowering of the value assigned to the insurance business.
- ✓ Value unlocking likely to take place with demerger of companies. Listing on the bourses would be another positive if it were to happen.

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