

Bajaj Auto

Buy

Absolute performance

n/a

Short term
Neutral
Market relative to region
Automobiles & Components
India
Price

Rs2596.40

Target price

Rs2912.60 (from Rs3015.00)

Market capitalisation

Rs262.81bn (US\$5.84bn)

Avg (12mth) daily turnover

Rs171.35m (US\$3.79m)

Reuters

BJAT.BO

Bloomberg

BJA IN

Asset allocation
Equities Underweight

Cash Overweight

Bonds Overweight

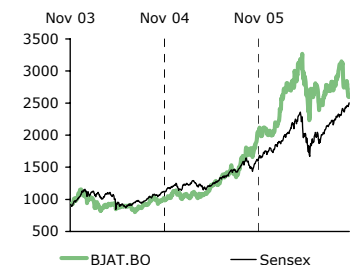
Price performance (1M) (3M) (12M)

Price (Rs) 3121.4 2651.6 1872.6

Absolute % -16.8 -2.1 38.7

Rel market % -20.9 -18.2 -12.3

Rel sector % -20.1 -12.3 5.9



Stock borrowing: Moderate

Volatility (30-day): 33.91%

Volatility (6-month trend): ↓

52-week range: 3325.00-1855.75

Sensex: 13399.00

BBG AP Autos: 234.85

Source: ABN AMRO, Bloomberg

Researched by
**ABN AMRO Institutional
Equities Team**
www.abnamrobroking.co.in

Margins skid

The 2Q07 result surprised us and we reduce our EPS estimates by 4-9%, although we did expect a gradual decline with Bajaj focusing on market share. On strong product development, 3-wheeler business and value unlocking in insurance, we maintain Buy.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	59520	76896	101999	129808	151142
EBITDA (Rsm)	9384	13780	15673 ▼	19473 ▼	22254
Reported net profit (Rsm)	7292	11017	12765 ▼	16186	18859
Normalised net profit (Rsm) ¹	8158	11243	13008	16186	18859
Normalised EPS (Rs)	80.6	111.1	128.6 ▼	160.0	186.4
Dividend per share (Rs)	25.0	40.0	50.0	58.0	65.0
Dividend yield (%)	0.96	1.54	1.93	2.23	2.50
Normalised PE (x)	32.2	23.4	20.2 ▲	16.2	13.9
EV/EBITDA (x)	24.6	16.0	13.7	10.7	8.78
Price/book value (x)	6.36	5.51	4.80	4.09	3.48
ROIC (%)	43.9	75.2	138.4	143.1	126.8

1. Post-goodwill amortisation and pre-exceptional items

Source: Company data, ABN AMRO forecasts

Accounting Standard: Local GAAP

year to Mar, fully diluted

Bajaj achieved volume growth at the cost of margins in 2Q07

Bajaj's volume growth remained ahead of the industry's in 2Q07, as the company recorded 40% growth in motorcycles. However, Bajaj, being a leader in entry-level bike, slashed bike prices in the quarter to match TVS's new entry, which caused its EBITDA margins (3x those of competitor TVS) to fall 190bp.

Volumes rose as the company focused on garnering market share

Bajaj improved its market share in the domestic motorcycle segment by 290bp in 1H07, to 32.5%, following the launch of entry-level 'Platina' and improved volumes for the 'Discover' and 'Pulsar'. We expect Bajaj to maintain its market share gains, leading to upgrades in motorcycle volumes by 6.4% for FY07F and 11% for FY08F. We marginally upgrade estimates for 3-wheelers as class-A towns opt for emission upgrades and the goods segment remains buoyant.

We trim EPS estimates by 4-9% on the margin drop

We expect margins to bottom in 3Q07 and to improve slightly in 4Q07. The higher prices in the company's new steel contract are unlikely to be completely offset by the Rs500-1,000 product price hikes that took effect after the 2Q07 results. Festival promotion offers will also put some pressure on margins. We estimate EBITDA margins at 15.4% for FY07 and 15% for FY08, which has led reductions in our EPS estimates of 9.5% for FY07 and 4% for FY08.

Maintain Buy on product development, 3-wheeler business & insurance

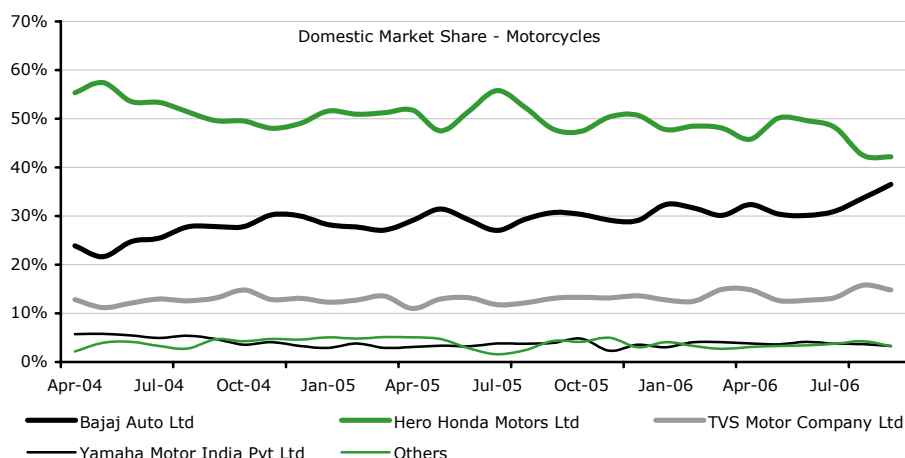
The lower-than-expected EBITDA margin that resulted in our EPS downgrade appears already to be factored into the stock, which declined sharply in the past fortnight. Adjusting for our estimated subsidiary value of Rs199 per share and cash/investments, it trades at what we see as attractive valuations of 15.2x FY08F on a 22% CAGR in auto business earnings for FY07-09F. We maintain Buy with a reduced DCF-based price target of Rs2,912, on sustained growth in 2-wheeler volumes given the company's product innovation capability, a buoyant 3-wheeler segment, insurance business value unlocking in the medium term and expanding international business.

Priced at close of business 13 November 2006. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Broad based revenue stream keeps Bajaj ahead of pack

The 2-wheeler segment has suffered margin pressure. But we believe Bajaj’s strong product development, 3-wheeler business, the unlocking of value in insurance and expanding international operations will keep it ahead. Buy.

Chart 1 : Impressive market share gain



Bajaj achieved a 290bp market share gain in the motorcycle segment in 1H07, reaching a high of 37% in September 2006

Source: Company data, SIAM

Table 1 : 1HFY07 volume performance ahead of industry

Sub-segment	2QFY07		1HFY07	
	Volume	Growth (%)	Volume	Growth (%)
Motorcycles	623,062	39.8	1,191,249	37.2
Total 2-wheelers	627,442	28.9	1,203,661	28.2
Three wheelers	80,683	17.8	151,558	24.4
Grand total	708,125	27.5	1,355,219	27.8
Exports (included above)	111,846	80.7	210,109	86.9

Source: Company data, ABN AMRO

Table 2 : 3-wheelers saved by exports and goods; passenger vehicles weaken

Sub-segment	1HFY07 Sales Volume	Growth (%)	Market share (%)	Change (bp)
3-wheelers domestic	91,524	9.8	46.3	-426
Passenger	69,213	1.2	60.1	-864
Goods	22,311	49.0	27.1	414
Exports	60,034	56.2	97.5	-93
Total	151,558	24.4	58.5	-127

Source: SIAM, Company data

Passenger vehicle market share declines steeply as competition intensifies

Table 3 : 1HFY07 financial performance at a glance

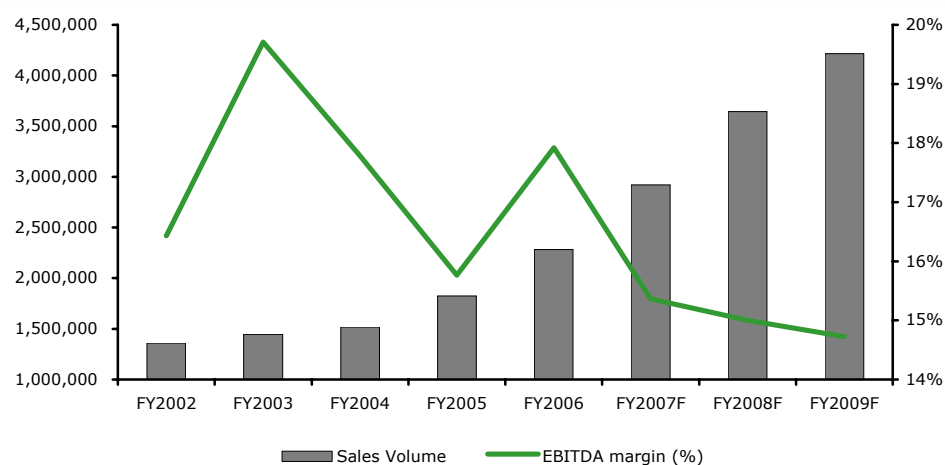
(Rsm)	2QFY06	2QFY07	yoy ch (%)	1QFY07	yoy ch (%)	1HFY07	yoy ch (%)	2HFY06F	yoy ch (%)	FY2007F
Per vehicle matrix (Rs)										
Net realisation/vehicle	33,625	34,400	2.3	34,039	5.3	34,228	3.7	35,550	3.6	34,937
Contribution/vehicle	10,245	9,416	-8.1	10,018	3.0	9,704	-2.9	9,785	-8.5	9,747
EBITDA/vehicle	5,698	5,157	-9.5	5,574	9.4	5,356	-1.0	5,379	-18.4	5,368
Net profit/vehicle	5,252	4,681	-10.9	4,271	3.3	4,485	-5.0	4,429	-13.4	4,455
Profit & Loss Account										
Net sales	18,670	24,360	30.5	22,027	34.8	46,386	32.5	55,613	32.8	101,999
Expenditure										
Raw material as % of net sales	69.5	72.6		70.6		71.6		72.5		72.1
Employee as % of net sales	3.5	3.0		3.9		3.4		2.8		3.1
Mfg & oth as % of net sales	10.5	9.6		9.5		9.6		9.9		9.7
Total expenditures	15,506	20,708	33.5	18,420	33.8	39,128	33.7	47,199	39.5	86,326
EBITDA	3,163	3,652	15.4	3,607	40.1	7,259	26.5	8,414	4.6	15,673
EBITDA margin (%)	16.9	15.0	-195.3	16.4	61.6	15.6	-74.3	15.1	-406.8	15.4
Depreciation	490	492	0.4	481	4.1	973	2.2	1,102	15.1	2,075
EBIT	2,674	3,160	18.2	3,126	47.9	6,286	31.3	7,312	3.2	13,597
Net interest	(1)	20		7		27		28		55
Non-operating income	1,362	1,424	4.6	946	1.9	2,370	3.5	2,670	42.2	5,040
PBT	4,036	4,564	13.1	4,064	33.7	8,629	21.9	9,954	11.1	18,582
Tax - total	1,120	1,250	11.6	1,300	36.8	2,550	23.2	3,025	11.2	5,575
Tax rate (%)	27.7	32.0		32.0		29.6		30.4		30.0
Normalised Profit	2,916	3,314	13.7	2,764	32.2	6,079	21.4	6,929	11.1	13,008
Extraordinary income	-	-		-		-		-		-
Extraordinary expenses	15	139		104		243		1		243
Reported Net Profit	2,902	3,176	9.5	2,660	27.9	5,836	17.1	6,929	14.7	12,765

Source: Company data, ABN AMRO forecasts

Table 4 : Volume increase helps offset 2Q07 margin contraction

	FY07F		FY08F	
	Old	New	Old	New
Sales volume (nos)	2,850,899	2,919,554	3,308,659	3,643,689
Change (%)		2.4		10.1
Net Sales (Rsm)	99,091	101,999	116,067	129,808
Change (%)		2.9		11.8
EBITDA margin (%)	17.8	15.4	17.7	15.0
EBITDA (Rsm)	17,594	15,673	20,506	19,473
Change (%)		-10.9		-5.0
Normalised EPS (Rs)	142.0	128.6	167	160.0
Change (%)		-9.5		-4.2

Source: ABN AMRO forecasts

Chart 2 : Sales volume and margin trend

Source: Company data, ABN AMRO

Table 5 : Snapshot of SOTP valuation

Company	No of shares (m)	Stock price (Rs)	Value (Rsm)	Value per share (Rs)
DCF value of Bajaj Auto	101.18			2,713.6
Bajaj Auto Finance	6.597	385	2,539.8	20.1
Bajaj Allianz Life Insurance	111.06		21,000.0	166.0
Bajaj Allianz General Insurance	81.4		1,628.0	12.9
SOTP			20,134.3	2,912.6

Source: Company data, ABN AMRO

Table 6 : Valuation at a glance

(Rs)	FY07F	FY08F
Current stock price	2,597	2,597
Subsidiary value per share	198.5	198.5
Cash & investments per share	553.3	587.3
Residual price per share	1,845.4	1,811.4
Automotive business EPS	93.7	119.0
Automotive business PE (x)	19.7	15.2

Note these PEs apply only to the auto business

Source: Bloomberg, ABN AMRO forecasts

Management indicated the declining margin trend would take effect in the medium term, however it has hit earlier

We value life insurance at 15x new business premium for a 51% stake. We value non-life insurance at 2x P/BV. We assign a holding company discount of 20%

High ROCE in the core automotive business increases our comfort at current valuations

Volume and per unit assumptions

Table 7 : Sales volume and per unit assumptions

(Number of vehicles)	FY2005	FY2006	FY2007F	FY2008F	FY2009F
Scooters-gearred	102,779	59,238	5,500	-	-
Growth (%)	-42.3	-42.4	-90.7		
Scooters-ungeared	30,959	56,758	15,000	240,000	288,000
Growth (%)	-43.4	83.3	-73.6	1500.0	20.0
Total scooters	133,738	115,996	20,500	240,000	288,000
Growth (%)	-42.6	-13.3	-82.3	1070.7	20.0
Of which scooter exports	6,999	9,619	3,000	5,000	15,000
Growth (%)	-10.1	37.4	-68.8	66.7	200.0
Step-throughs	19,198	870	-	-	-
Growth (%)	-40.9	-95.5	-100.0		
Domestic motorcycles	1,325,760	1,747,012	2,283,424	2,630,080	3,053,717
Growth (%)	40.9	31.8	30.7	15.2	16.1
Export motorcycles	123,950	165,288	300,000	420,000	483,000
Growth (%)	50.4	33.4	81.5	40.0	15.0
Total motorcycles	1,449,710	1,912,300	2,583,424	3,050,080	3,536,717
Growth (%)	41.6	31.9	35.1	18.1	16.0
Total 2-wheelers	1,602,646	2,029,166	2,603,924	3,290,080	3,824,717
Growth (%)	24.3	26.6	28.3	26.4	16.2
3-wheelers	222,053	252,006	315,630	353,609	389,996
Growth (%)	-3.1	13.5	25.2	12.0	10.3
Total vehicles	1,824,699	2,281,172	2,919,554	3,643,689	4,214,713
Growth (%)	20.2	25.0	28.0	24.8	15.7
Per vehicle assumptions (Rs)					
Net realisation/vehicle	32,619	33,709	34,937	35,626	35,861
Growth (%)	0.2	3.3	3.6	2.0	0.7
Contribution/vehicle	10,138	10,367	9,747	9,797	9,862
Growth (%)	-11.7	2.3	-6.0	0.5	0.7
EBITDA/vehicle	5,143	6,041	5,368	5,344	5,280
Growth (%)	-11.2	17.5	-11.1	-0.4	-1.2
EBITDA margin (%)	15.8	17.9	15.4	15.0	14.7

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	76896	101999	129808	151142
Cost of sales	-43313	-55739	-76391	-97616	-113681
Operating costs	-6824	-7377	-9935	-12720	-15207
EBITDA	9384	13780	15673	19473	22254
DDA & Impairment (ex gw)	-1854	-1910	-2075	-2541	-2910
EBITA	7530	11870	13597	16931	19344
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	7530	11870	13597	16931	19344
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	4168	5040	5800	6300
Reported PTP	11355	16034	18582	22656	25554
Taxation	-3196	-4791	-5575	-6471	-6695
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	7292	11017	12765	16186	18859
Normalised Items Excl. GW	-866.7	-226.4	-243.0	0.00	0.00
Normalised net profit	8158	11243	13008	16186	18859

Source: Company data, ABN AMRO forecasts

year to Mar

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	44544	56742	59290	67219	80947
Other current assets	24811	27740	30370	34872	39416
Tangible fixed assets	11449	11572	15513	18967	21057
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	2149	2649	2649	2649	n/m
Total assets	82952	98702	107822	123706	141420
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	7851	12289	15920	20185	23475
Long term debt (3)	12270	14672	11740	12540	13500
Oth non-current liab	21488	24035	25457	26780	28883
Total liabilities	41609	50995	53117	59505	65858
Total equity (incl min)	41343	47707	54705	64200	75562
Total liab & sh equity	82952	98702	107822	123706	141420
Net debt (2+3-1)	-32274	-42070	-47550	-54679	-67447

Source: Company data, ABN AMRO forecasts

year ended Mar

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	9384	13780	15673	19473	22254
Change in working capital	479.6	2711	1768	2489	1695
Net interest (pd) / rec	3825	4165	4985	5725	6210
Taxes paid	-3384	-5186	-5761	-6570	-6900
Other oper cash items	-1570	1118	412.6	-1402	-847.0
Cash flow from ops (1)	8734	16588	17077	19714	22412
Capex (2)	-905.0	-2033	-6017	-5995	-5000
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-6864	-12607	-2814	-7400	-10796
Cash flow from invest (3)	-7769	-14640	-8831	-13395	-15796
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	2213	2402	-2932	800.0	960.0
Ordinary dividend paid	-2884	-4615	-5767	-6690	-7497
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	-8699	-5890	-6537
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	293.1	-265.9	-452.1	428.9	79.1
Equity FCF (1+2+4)	7829	14555	11061	13719	17412

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	32.6	27.3	16.4	17.9	15.1	11.1	20.5	20.5	14.2
EBITDA growth (%)	6.73	46.8	13.7	24.2	14.3	6.33	17.0	11.9	22.6	22.0	14.1
EBIT growth (%)	7.68	57.6	14.6	24.5	14.2	5.02	16.5	11.5	24.8	19.5	11.0
Normalised EPS growth (%)	2.43	37.8	15.7	24.4	16.5	5.76	15.4	11.1	25.1	17.4	10.2
EBITDA margin (%)	15.8	17.9	15.4	15.0	14.7	14.2	14.4	14.5	15.3	15.5	15.5
EBIT margin (%)	12.7	15.4	13.3	13.0	12.8	12.8	13.0	13.0	13.2	13.1	12.7
Net profit margin (%)	13.7	14.6	12.8	12.5	12.5	10.0	10.0	10.0	9.99	9.73	9.40
Return on avg assets (%)	10.6	12.4	12.6	14.0	14.3	22.7	23.3	21.9	15.9	15.7	14.7
Return on avg equity (%)	20.8	25.3	25.4	27.2	27.0	45.0	40.9	36.3	24.1	22.8	20.7
ROIC (%)	43.9	75.2	138.4	143.1	126.8	39.1	36.5	33.6	57.2	38.1	27.3
ROIC - WACC (%)	30.4	61.7	124.9	129.6	113.3	25.9	23.2	20.4	44.0	24.9	14.1
				<i>year to Mar</i>			<i>year to Mar</i>			<i>year to Mar</i>	
Valuation											
EV/sales (x)	3.87	2.87	2.11	1.60	1.29	1.40	1.21	1.08	1.59	1.36	1.20
EV/EBITDA (x)	24.6	16.0	13.7	10.7	8.78	9.88	8.38	7.47	10.4	8.76	7.77
EV/EBITDA @ tgt price (x)	28.0	18.3	15.8	12.3	10.2	12.0	10.2	9.12	12.5	10.5	9.31
EV/EBIT (x)	30.6	18.6	15.8	12.3	10.1	10.9	9.30	8.32	12.1	10.4	9.46
EV/invested capital (x)	22.0	33.9	27.4	20.6	23.0	5.16	4.23	3.45	5.81	3.86	2.97
Price/book value (x)	6.36	5.51	4.80	4.09	3.48	5.59	4.41	3.56	3.87	3.15	2.61
Equity FCF yield (%)	2.98	5.54	4.21	5.22	6.63	4.24	7.46	8.66	-0.28	-1.52	0.03
Normalised PE (x)	32.2	23.4	20.2	16.2	13.9	13.9	12.0	10.8	17.8	15.2	13.8
Norm PE @tgt price (x)	36.1	26.2	22.7	18.2	15.6	17.0	14.7	13.2	21.1	18.0	16.3
Dividend yield (%)	0.96	1.54	1.93	2.23	2.50	2.94	3.07	3.35	0.49	0.55	0.68
				<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	-86.9	-85.2	-89.3
Reported EPS (INR)	72.1	108.9	126.2	160.0	186.4	Net debt to tot ass (%)	-38.9	-42.6	-44.1	-44.2	-47.7
Normalised EPS (INR)	80.6	111.1	128.6	160.0	186.4	Net debt to EBITDA	-3.44	-3.05	-3.03	-2.81	-3.03
Dividend per share (INR)	25.0	40.0	50.0	58.0	65.0	Current ratio (x)	8.83	6.87	5.63	5.06	5.13
Equity FCF per share (INR)	77.4	143.9	109.3	135.6	172.1	Operating CF int cov (x)	-2.17	-4.23	-3.58	-3.59	-3.72
Book value per sh (INR)	408.6	471.5	540.7	634.5	746.8	Dividend cover (x)	2.83	2.44	2.26	2.42	2.52
				<i>year to Mar</i>						<i>year to Mar</i>	

Priced as follows: BJAT.BO - Rs2596.40; HROH.BO - Rs715.15; MRTI.BO - Rs916.05
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	5572.0	2	Value of Phase 1: Explicit (2007 to 2009)	27677.1	12
NPV of Economic Profit During Explicit Period	29437.2	13	Value of Phase 2: Value Driver (2010 to 2020)	123911.8	54
NPV of Econ Profit of Remaining Business (1, 2)	101991.0	45	Value of Phase 3: Fade (2021 to 2031)	61625.9	27
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	91081.4	40	Terminal Value	14865.9	7
Enterprise Value	228081.6	100	Enterprise Value	228080.6	100
Plus: Other Assets	20134.3	9	FCF Grth Rate at end of Phs 1 implied by DCF Valuation		7.4
Less: Minorities	0.0	0	FCF Grth Rate at end of Phs 1 implied by Current Price		6.2
Less: Net Debt / Leases (as at 13 Nov 2006)	-46484.9	-20			
Equity Value	294700.8	129			
No. Shares (millions)	101.2				
Per Share Equity Value	2912.64				
Current Share Price	2596.40				

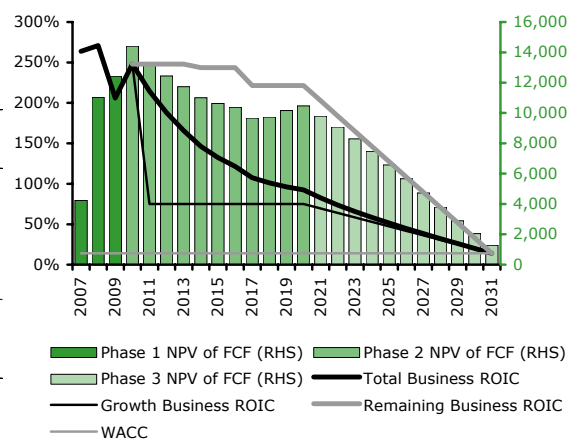
Sensitivity Table	No of Years in Fade Period				
	15	18	20	23	25
WACC					
13.0%	3421.56	3658.58	3823.89	4083.85	4265.77
13.5%	3570.00	3835.15	4021.37	4316.28	4524.09
14.0%	3570.00	3835.15	4021.37	4316.28	4524.09
14.5%	3421.56	3658.58	3823.89	4083.85	4265.77
15.0%	3156.00	3345.80	3476.37	3678.93	3818.79

Performance Summary	2007	2008	2009	Phase 2 Avg (2010 - 2020)
Invested Capital Growth (%)	18.8	48.4	13.5	23.5
Operating Margin (%)	18.3	17.5	17.0	16.8
Capital Turnover (x)	21.8	23.3	18.3	21.3

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.

Buy

Price relative to country



Strategic analysis

Average SWOT company score: 3

FY06 revenue mix

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.

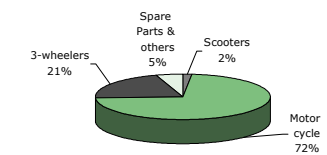
3

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

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



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%)

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.

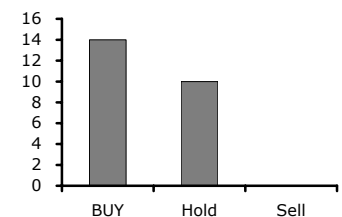
2+

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-

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



Source: Bloomberg