

**RESULTS REVIEW**
**Share Data**

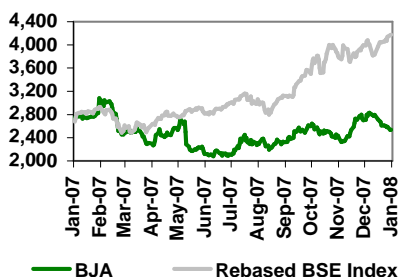
Market Cap	Rs. 256.8 bn
Price	Rs. 2,538.05
BSE Sensex	20,873.33
Reuters	BJAT.BO
Bloomberg	BJA IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 3,171.9 / 2,063
Shares Outstanding	101.2 mn

**Valuation Ratios (Standalone)**

Year to 31 March	2008E	2009E
EPS (Rs.)	122.0	133.6
+/- (%)	(0.4)%	9.5%
PER (x)	20.8x	19.0x
EV/ Sales (x)	2.8x	2.5x
EV/ EBITDA (x)	19.7x	17.7x

**Shareholding Pattern (%)**

Promoters	30.0
FIs	18.4
Institutions	8.9
Public & Others	42.7

**Relative Performance**

**Bajaj Auto Limited**
**Buy**
**Riding on XCD**

Bajaj Auto Limited's (BAL) performance for the second quarter of FY08E surpassed our expectations with 4.9% yoy growth in net profit despite decline in volumes by 13.3% yoy to 614K units. The steep decline in volumes was arrested by 9.6% yoy improvement in realisations during the quarter. The shift in the Company's focus from the low margin entry level bikes to high margin premium segment bikes along with the shutdown of the assembly operations at Akrudi plant, resulted in the expansion of margins for Q2'08. While Adj. EBITDA margin expanded by a sharp 100 bps yoy to 16%, Adj. net profit margin showed a substantial improvement of 110 bps yoy to 14.6%. In the insurance business, Bajaj reported a robust growth with gross written premium increasing 40% yoy in general insurance and 127.8% yoy in life insurance business.

BAL's recent launch XCD, in the 125cc segment, is performing exceptionally well due to its unbeatable mileage with the sale of 18K units in the month of September alone. To meet the strong demand for XCD, the Company is planning to increase production to 75K units per month from Jan 2008. BAL also launched Avenger 200cc recently, in the premium segment, to increase the market share and enlarge its product base.

Considering the better than expected growth in the bottom line, we have revised our earnings estimates by 3.5% and 4.1% for FY08E and FY09E, respectively. Based on our SOTP valuation, we have upgrade our rating to Buy with a revised target price of Rs. 2,928 for FY09E.

**Key Figures (Standalone)**

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	24,360	21,091	23,623	(3.0)%	12.0%	46,386	44,714	(3.6)%
Adj. EBITDA	3,652	2,754	3,785	3.6%	37.5%	7,271	6,539	(10.1)%
Adj. Net Profit	3,280	2,265	3,442	4.9%	52.0%	6,019	5,706	(5.2)%
<b>Margins(%)</b>								
EBITDA	15.0%	13.1%	16.0%			15.7%	14.6%	
NPM	13.5%	10.7%	14.6%			13.0%	12.8%	
<b>Per Share Data (Rs.)</b>								
Adj. EPS	32.4	22.4	34.0	4.73%	51.6%	59.5	56.4	(5.3)%

### Result Highlights

*Better realisations driven by higher sales of premium segment bikes*

The motorcycle industry witnessed a steep decline of 11% yoy during the first half of 2008E. Despite the continued sluggishness in the auto industry, the decline in BAL's top line got restricted to 3% yoy due to enhanced product mix. The improvement in average realisation per unit by 9.6% yoy, arrested the impact of dip in volumes by 13.3% yoy to 614K units. Exports for the quarter grew 41.5% yoy to 158K units on the back of strong demand while three-wheeler volumes registered a dip of 7.2% yoy to 75K units.

*Improved product mix and better cost management led to expansion in margin*

Adjusted EBITDA increased 3.6% yoy to Rs. 3.8 bn driven by an enhanced product mix and better cost management during the quarter. EBITDA margin which has been on a downslide for the industry and has hit a bottom of 13.2% for BAL in Q1'08, showed a substantial expansion of 100 bps yoy to 16% in Q2'08. Raw material cost for the quarter declined 40 bps yoy to 72.2% of net sales and other expenditure dipped 90 bps yoy to 8.7% of net sales. Closure of the Akrudi plant also contributed to curb the rising costs for the quarter.

Adjusted net profit for Q2'08 grew 4.9% yoy to Rs. 3.4 bn driven by better product mix, higher other income and lower interest expense. Other income increased 40 bps yoy to 6.2% of net sales while interest expense decreased 32% yoy to Rs. 14 mn. Depreciation for the quarter remained relatively flat at 2.1% of net sales. As a result, net profit margin expanded 110 bps yoy to 14.6%.

*Strong performance by Insurance business*

The non-automotive business viz. insurance and investments continued to grow at a good pace even in Q2'08. Gross written premium for the insurance business showed robust growth of 40% yoy in general insurance and 127.8% in life insurance while investments recorded growth of 3.3% yoy. The contribution of the insurance business in the consolidated revenues of the Company increased from 30.5% in Q2'07 to 57.3% in Q2'08. EBIT for the insurance business turned positive in Q2'08 to Rs. 701 mn in comparison to negative Rs. 400 mn in Q2'07. Investments EBIT grew by 2.6% yoy to Rs. 1.4 bn.

### *BAL acquired 18% stake in KTM*

#### Key Events

- Bajaj Auto Ltd has acquired a stake of 14.5% in KTM of Austria, Europe's second largest two-wheeler manufacturer, from the open market for Euro 566 mn in Nov 2007. The Company further increased the stake by 3.5% later in the month. The acquisition is in line with the BAL's strategy and would lead to the expansion of its product portfolio.
- The Company has recently launched the new 200cc Avenger DTS-I in the premium segment to widen its product base and increase its market share in the premium bike market.

#### Key Risks

Key risks to our rating are:

- Weak demand for 'XCD'
- Increase in interest rates and rise in prices of steel, tyre and aluminium
- Prolonged slowdown in the Indian auto industry

#### Outlook

BAL continues to lead the premium bike segment with a market share of 47%. The shift in the Company's strategy from the low margin entry level bikes to high margin premium segment bikes has rebounded the margins of the Company. The Company is presently concentrating on increasing volumes of its "125cc plus" segment bikes due to availability of higher margins rather than "100cc" segment (led by Bajaj Platina). We believe that the performance of 'XCD' would play a crucial role in the Company's future growth prospects. To meet the robust demand for XCD, the Company has already increased its production capacity from 50K units to 75K units per month.

The Company is also planning to enter the four wheel cargo market which is expected to be launched in the mid of 2009. Moreover, BAL and Renault have entered into a joint venture to manufacture a low-cost car. The start of

### *Bajaj-Renault to manufacture a low-cost car*

*Increasing contribution from insurance business*

the commercial production would act as a catalyst for the stock price of BAL.

BAL's insurance business registered enormous rise of 197.2% yoy to Rs. 33.5 bn for the second quarter of FY08E. With 26.8% increase in the revenue contribution of the insurance business to the Company's consolidated top line; we are expecting the insurance business to play a major role in Bajaj Auto's long term growth story.

Considering the performance of the Company in the second quarter of FY08E, we have revised our net profit estimates by 3.5% and 4.1% for FY08E and FY09E, respectively.

BAL is currently trading at 20.8x FY08E and 19x and FY09E on standalone earnings of Rs. 122 and Rs. 133.6, respectively. On a stand alone basis, we have valued BAL at Rs. 1,505, insurance business at Rs. 675, and Rs. 748 for its investments and holdings in Maharashtra Scooters and Bajaj Auto Finance Limited. Hence, we upgrade our rating to Buy with a revised target price of Rs. 2,928 for FY09E.

**Key Figures (Standalone)**

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	59,147	76,679	95,204	97,629	109,344	7.2%
Adj. EBITDA	9,261	13,690	14,311	13,792	15,338	3.5%
Adj. Net Profit	7,702	11,120	12,390	12,346	13,515	4.4%
<b>Margins(%)</b>						
EBITDA	15.7%	17.9%	15.0%	14.1%	14.0%	
NPM	13.0%	14.5%	13.0%	12.6%	12.4%	
<b>Per Share Data (Rs.)</b>						
Adj. EPS	76.1	109.9	122.5	122.0	133.6	4.4%
PER (x)	14.2x	25.0x	20.7x	20.8x	19.0x	

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