

Bajaj Auto Ltd - Company Visit

Creating brands through differentiated products!

Ashish Nigam

+91 22 4031 3443

ashish.nigam@antiquelimited.com



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Strictly confidential

Antique organized a meeting for investors on 1st August 2009, with the top management on Bajaj Auto:

Mr. Rajiv Bajaj	–	Managing Director
Mr. Kevin D'sa	–	Vice President (Finance)
Mr. S Sridhar	–	CEO (Two Wheelers)
Mr. R C Maheshwari	–	CEO (Commercial Vehicles)
Mr. Rakesh Sharma	–	CEO (International Business)

Key takeaways from the extremely vibrant interactive session with Mr. Rajiv Bajaj:

Question: *The Tata Ace ate into the share of the three-wheeler goods carrier industry. Did we miss this trend? Couldn't we have earlier launched a four wheeler ourselves? What did we miss?*

Answer: We don't think that the Ace is viable for in-city movement. The three-wheeler is more viable for the same. The Ace is like a down-sized truck. Our perspective is that three-wheelers and trucks are different businesses. Strategically, it is wrong to be distracted.

Bajaj will definitely not ape the Ace. Our thinking is that **if we invest INR1 in capex, that product should generate INR10 in the future. Our main focus is on profitability.**

Anyways cargo has never really been a major focus... Passenger carriers are more a focus point for us (which accounts for around 90% of three-wheeler sales). So we let the Ace have that segment and don't compete with them.

Question: *Tata's plan to launch the Penguin... Won't that affect you?*

Answer: We don't know much about that product. We've heard of the name, but besides that, we are not really aware of that product.

Question: *Do you have plans to launch a four-wheeler small commercial vehicle?*

Answer: Yes

Question: *Doesn't that contradict what you just said?*

Answer: Our product will be different. It will have a totally different platform and technology

We do not want to make a "me too" product. We don't want to make a 100cc motorcycle cheaper than Hero Honda's. We don't want to make something like the Nano. No point in making a "me too" product and it is not the right business strategy.

Question: *10-15 years down the line, do you see yourselves going back to the scooter way?*

Answer: Bajaj no longer makes scooters. That space belongs to someone else

Question: *In the three-wheeler space, TVS, M&M and Piaggio have very strong launch plans... Won't that cap pricing / profitability?*

Answer: Delivering a good, fuel efficient product is our focus. Our new product is more expensive but 30% more fuel efficient. We are betting on a better technological product to counter competition.

Competition is everywhere. Has competition diminished the pricing power of the TVS Scooty? No! Has it diminished the pricing power of the Hero Honda Splendour? No! **Has it diminished the pricing power of the Bajaj Pulsar? No!**

Question: *In the larger segment (passenger carriers), what is our strategy?*

Answer: We have a product that delivers and it is doing the job for us. We will continue to focus on the same. **We are focusing on the concept of lesser people, more trips.**

Question: *You mentioned that in our exports to Nigeria, our product costs 90,000 Nigerian Nairas, whereas the next most expensive is 65,000 Nigerian Nairas. Isn't that a concern? Is the premium sustainable?*

Answer: As far as product technology is concerned, they (Chinese products) are inferior. They all look alike. That isn't the kind of product we want to have.

The 40% premium was previously 20%. I think our hypothesis is thereby validated. In Uganda we used to sell 1,000 units per month. Now we sell 4,000 per month. The higher quality has been accepted.

Quality is not the only condition. Bajaj is focusing on a differential, durable and fuel-efficient premium bike. The Chinese are doing something that everyone is doing. There is no product differentiation. **The Chinese have learnt the art of commoditizing a motorcycle. That is the not the way to build a brand.** For example, the Harley Davidson is of worse quality than the Honda and it is more expensive. But it still sells. It is their brand that sells.

By the way, 90,000 Nigerian Nairas works out to an F.O.B of approximately USD450, which is less than INR25,000. The side-view mirror of a Mercedes costs INR25,000 so that is not expensive by any means. It's just that the Chinese product is very cheap and not at all original, so our product looks expensive compared to that.

Question: *Moving from Chinese to Japanese competitors. What is our strategy to counter that?*

Answer: **Honda and Yamaha are bigger and ahead of Bajaj as a corporation... We are betting on the lever of branding.** Honda makes great engines. But it makes engines for motorcycles, premium cars like the Accord and maybe even airplanes. It is a more vertical strategy. On the other hand, Toyota (with the Lexus) and Volkswagen (with Skoda) have a more horizontal product strategy. And ours is no different from that.

The global motorcycle market is a 50 million market out of which 27 million are motorcycles. Of the 27 million, 14 million are cheap Chinese brands. There is no scope for market share gains in this segment. Honda and Yamaha don't compete in this segment because it would not help their brand. When you make a Honda product, it must come with a minimum spec. Therefore they don't compete here. We are present here with the Boxer (without the Bajaj name). From the balance 13 million motorcycles, 10 million is for Indian bikes and the balance 3 million are high-end bikes like KTM, Ducati, etc.

We comprise of 2 million out of this 27 million and we see more scope to grow this 2 into something more. **We will therefore focus more on becoming a motorcycle specialist.**

In Nigeria our technology is better than the others and our distribution is the same if not better. Nigeria is relatively much more under penetrated.

Question: *With exports the currencies are volatile. How do you deal with that? Do we take cash advances from the dealers?*

Answer: We deal only in the US dollar. So our volatility is restricted to managing the INR~USD. We do take advance from our distributors.

Question: *So are the exports a negative working capital business?*

Answer: Yes

Question: *How much scope for growth do you see in exports?*

Answer: **We can see a 25% growth in exports going forward**

Question: *How about setting up assembly units over there?*

Answer: It makes more sense manufacturing it here. We make the use of cost efficiencies of the Indian operations. For exports we need to focus on quality and distribution.

Question: *We don't have mopeds. Our USP is neither the distribution, nor the pricing... Is it only the brand?*

Answer: **Scooty, Splendour and Pulsar have built their own brands. These were the first products and brands to create their own categories!**

As far as we are concerned, **8 out of 10 people buy a Hero Honda, but when they upgrade, 1 out of 2 moves to a Bajaj.** In the same way, you first buy a Maruti 800 and then upgrade to maybe a Honda City. You don't move to a Nano.

We believe that we must make money on our product. The XCD sells around 7,000 a month, the Hunk around 4,000 a month, the Stunner around 6,000 a month and the CBZ Xtreme around 10,000 a month. And then you when you compare it to how much money that goes into advertising these products, it's difficult to believe that they make much money. **Only the Splendour and the Passion sell and make money.**

The domestic motorcycle market can be categorized into two types of buyers. Those who commute and those who bike. The Discover is for the commuter and the Pulsar is for the biker.

We see no reason why we can't sell 100,000 Discovers and 100,000 Pulsars (40,000 now). With 70% of your costs being materials, our calculations are that **if your advertisement costs are over 3-4%, that product doesn't make money.**

At the bottom end, we have branded the Boxer (in Africa) as "Stronger for Longer". With KTM it is "Ready to Race". At Bajaj we have "Distinctly Ahead". Internally our motto is "Performance everyday". Pulsar is like a value-for-money sports bike.

Question: *If the Discover is the Commuter and the Pulsar is the Biker, what is the Platina?*

Answer: **Platina is Greed!** So are the other bikes besides the Discover and Pulsar. Same in the case of other Hero Honda bikes besides the Splendour and the Passion. **It's the greed for volumes!**

Question: *You are betting too much on the Pulsar and the new Discover. What if they are not successful?*

Answer: We will focus on enhancing these brands. **One dealer told us that after we put 2 pieces of plastic on the side of the fuel tank of one of our bikes, the sales are up by 40%.**

Question: *When did this 2 brand thought process come about?*

Answer: We have been thinking about it and working towards it for the last 2 years.

Question: *How has the response to the new launch been?*

Answer: Response has so far been very good. Dealers feel that the imaging of the bike is right. Branding makes that difference. **The same technology and same features wouldn't sell on a Platina. But it will on a Discover. The Discover is profitable even at INR40,000.** I think we will have to wait for another 2 months for see the real response.

Question: *Why ignore half the market (mopeds)? You seem to have a good cash flow and do have surplus money. Why not foray into this segment?*

Answer: Our strategy is to try and increase our share from the current 2 million in the 27 million motorcycle market. The moped category is already taken.

We want to focus more on motorcycles. Toyota cars can be sold, saying "Buy it, it comes from the world's largest car maker". **Hopefully a Bajaj dealer can someday tell the customer – "Buy this motorcycle, it comes from the world's largest motorcycle producer".**

Question: *Yes but foraying into mopeds is not very capital intensive. Why not take the risk?*

Answer: It is less capital intensive and therefore has low entry barriers. **When everyone makes everything, no-one makes money.**

Question: *How do you plan to uproot the Splendour with its extremely strong rural brand, which has been around for almost a decade?*

Answer: **The Splendour as a brand created a category. The Discover will create another category of the long distance bike.** We haven't realized this on our own. Our customers have made us aware that they are looking for that. The 100cc Discover is very similar to the 135cc. Crankshaft downwards, it is exactly the same as the 135cc Discover.

Question: *We are exporting low cost bikes whereas domestically we have premium bikes. Shouldn't it be the other way around with India being such a price conscious market?*

Answer: It depends on the type of branding in the market and the positioning of the product. Nigeria is not ready for a Pulsar. **Taking the Pulsar to Nigeria and bringing the Boxer to India is ridiculous!** In Nigeria we sold 20,000 Boxers last month, but only 85 Pulsars.

Question: *How fix the supposed problem that “Bajaj resale value is bad”?*

Answer: Products that we made with Kawasaki didn't do well because it was trying to do better than the Splendour. They were “me too” products. We can't sell another “me too” product. We need these buyers to upgrade to a Bajaj.

As far as resale is concerned, ***The Pulsar comprised of half the premium category. I don't think it would be so if it had a bad resale value.***

Question: *Competition from Yamaha and Honda is increasing... Do you see it like a case like what LG and Samsung did to Indian brands?*

Answer: No. If you see how Walmart is operating, it has a major presence in America, Canada, Mexico, etc. It just goes to show that ***you need to be in 5 countries to be a USD400bn giant.***

Question: *Drought in key Hero Honda markets, coupled with the launch of the Discover. The money they make per bike is at their highest. Do you think there is a high probability that they will cut prices?*

Answer: ***Hero Honda is so far ahead. They have too much at stake. I don't think that they will react so rashly.*** We didn't do it when last year the FZ-16, the Apache and the CBZ Xtreme did well and the Pulsar sales fell. ***Reacting rashly in such a scenario can deteriorate the brand.***

As far as profitability is concerned, you will see pressure on raw material costs as they have begun to go up again. We have also kept a high budget for ad spends this year. I therefore believe that ***these 19-20% margins aren't sustainable going forward.***

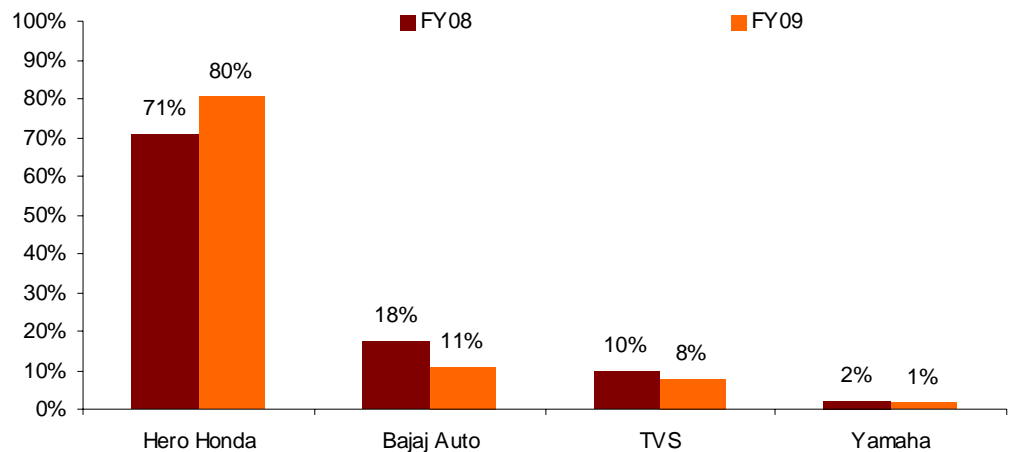
Our View:

We believe that the company's renewed focus on the 100cc segment is an extremely positive move and was long overdue. The segment (65% of total motorcycle industry) was too large to be ignored

Segment overview:

- The entry-level segment (75-125cc) accounts for over 65% of the total motorcycle industry.
- Hero Honda is the clear leader in this category. Its continued focus on this segment with its popular flagship models (Splendor and Passion) resulted in its market share increasing from 71% in FY08 to 80% in FY09.
- This huge segment was previously almost ignored by Bajaj Auto, wherein they had only one model (Platina). Due to this, Bajaj Auto's market share in the segment fell from 18% in FY08 to 11% in FY09.
- We expect the company's renewed focus on this segment with the launch of the new Discover to boost volumes for the company, based on an increased contribution from the largest segment in the motorcycle industry.
- Commercial production of the motorcycle began on July 17, 2009 at the company's Chakan plant.

75-125cc motorcycles market share



Have they got the product right this time?

We believe they have!



The new Discover is expected to deliver:

- World-class mileage (indicative testing suggests an estimated mileage of 80 km/litre).
- Technology, which will be available for the first time in the segment (proprietary twin-spark technology, specially designed pent-roof combustion chamber and 5-speed gearbox).
- It is expected to have the longest wheelbase in the segment

Branding:

- The motorcycle has been designed as the “Long Distance Bike,” since it will be built on the solid current Discover format.
- Bajaj is expected to do a series of outdoor promotional activities. ‘Rediscover India with Discover 100cc’ would be the message of the campaign.

Key Players in the 100cc segment

Hero Honda			Bajaj Auto			TVS		
Models	Price ('000s)	cc	Models	Price ('000s)	cc	Models	Price ('000s)	cc
CD Dawn	36	97.2	Platina	38	99.2	Star Sports	38	99.7
CD Deluxe	39	97.2	New Discover	44	100			
Splendour NXG	44	97.2						
Splendour Plus	44	97.2						
Passion Plus	48	97.2						
Passion Pro	52	97.2						

Some of the Splendour and Passion buyers are expected to be diverted towards the new Discover, with the better technology and more comfort during long distance rides

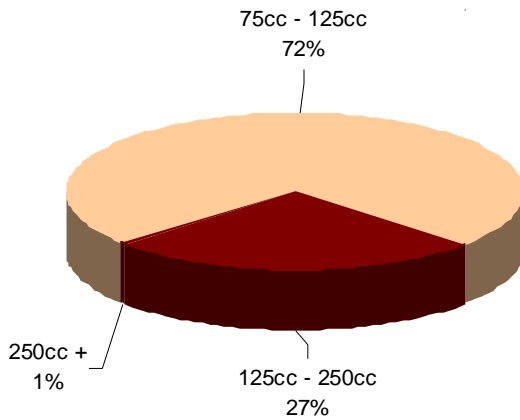
We expect the motorcycle to be priced below the Platina 125 and XCD 125.

Was the shift towards the premium segment a wise choice?

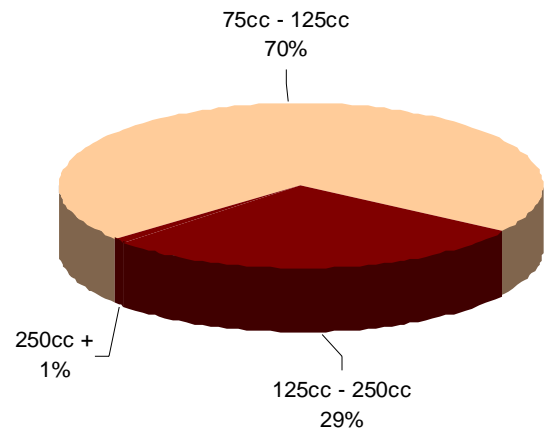
We believe it was!

- Bajaj Auto made a conscious effort to migrate to the higher margin premium segment (125cc+), with its flagship model, the Pulsar.
- We believe that this was a strategic move, because as an industry trend, premium segment has seen a higher contribution (increasing from 27% in FY08 to 29% in FY09).

Domestic motorcycle Industry (FY08)

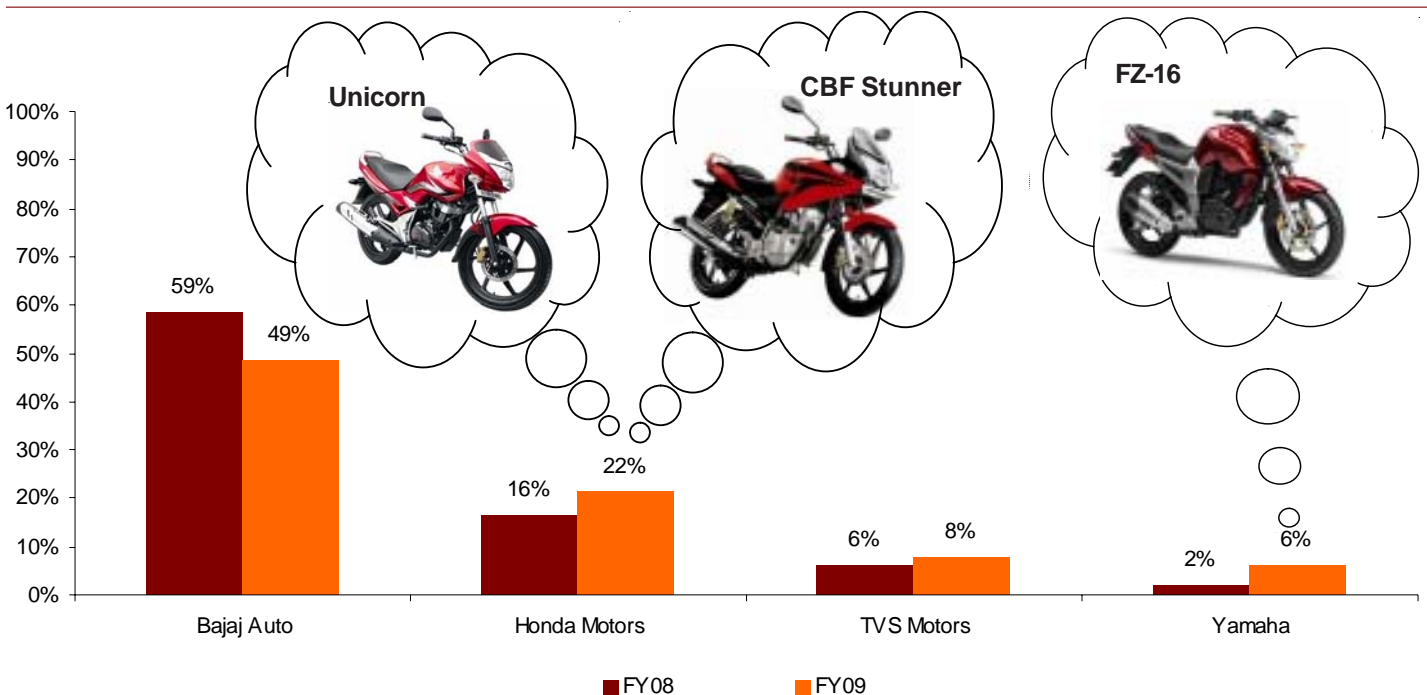


Domestic motorcycle Industry (FY09)



- However the company soon began to lose market share in this segment to the likes of Honda (Unicorn, CBF Stunner), TVS (Apache) and Yamaha (FZ-16).

Domestic Motorcycles Market Share (125-250cc)



On the path of regaining market share!

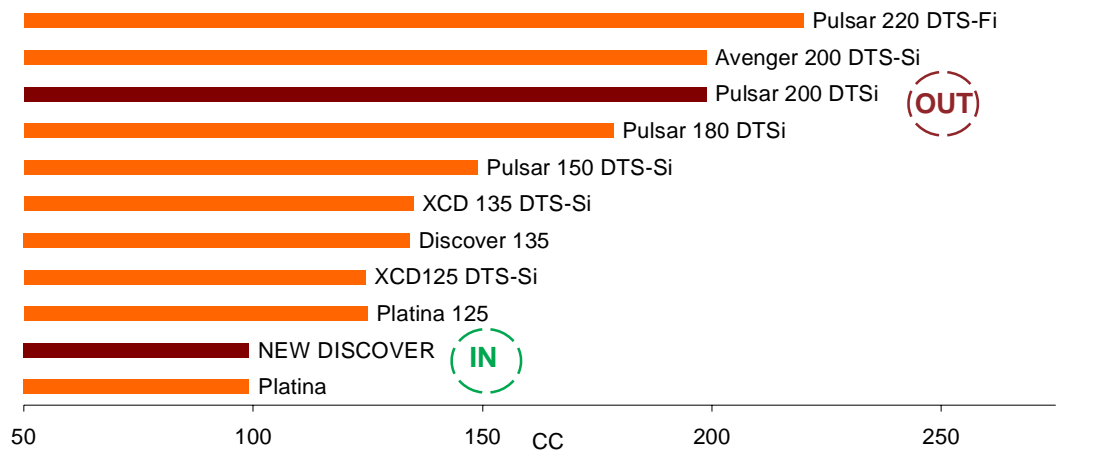
New Pulsar 220 Dts-i



About the new Pulsar 220:

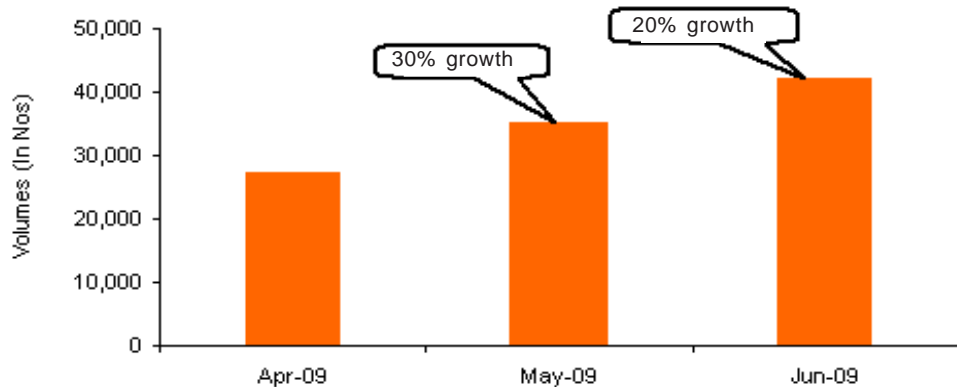
- The new Pulsar, christened “The Fastest Indian” is the fastest bike in its class.
- The bike has been very competitively priced, at INR 81,000 (on-road Mumbai), a staggering 14,000 cheaper, than the previous 220, which cost INR95,000 (on-road Mumbai)
- Infact, the new Pulsar 220 has been priced, low enough to even cannibalize Pulsar 200 volumes (the Pulsar 200 was only a few thousands cheaper than the new 220, despite the latter being more powerful.
- Due to the same, Bajaj Auto has phased out the Pulsar 200 model.

Realigning product profile



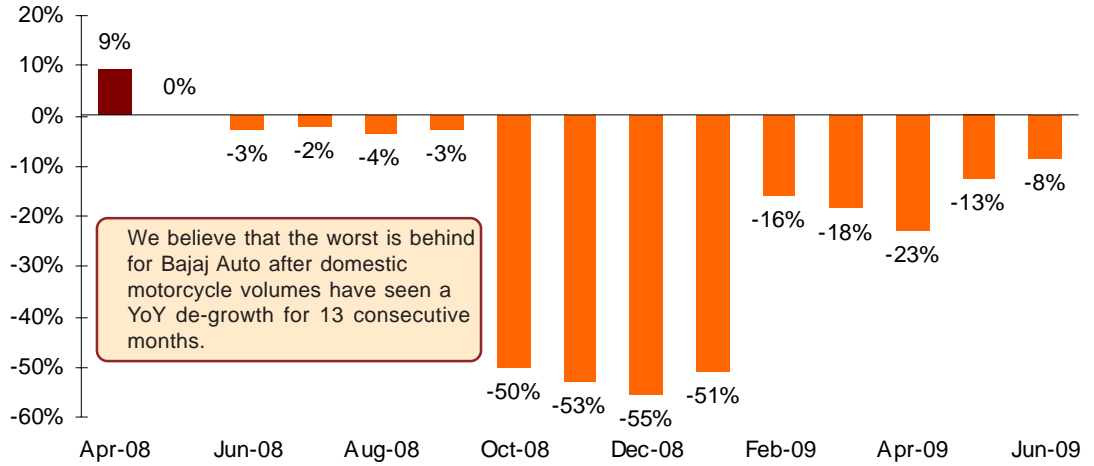
- Initial responses to the new Pulsar 220 have been extremely encouraging.
- We therefore, expect it to help Bajaj regain some of the lost market share in the premium (125cc-250cc) segment

Growth in Pulsar volumes



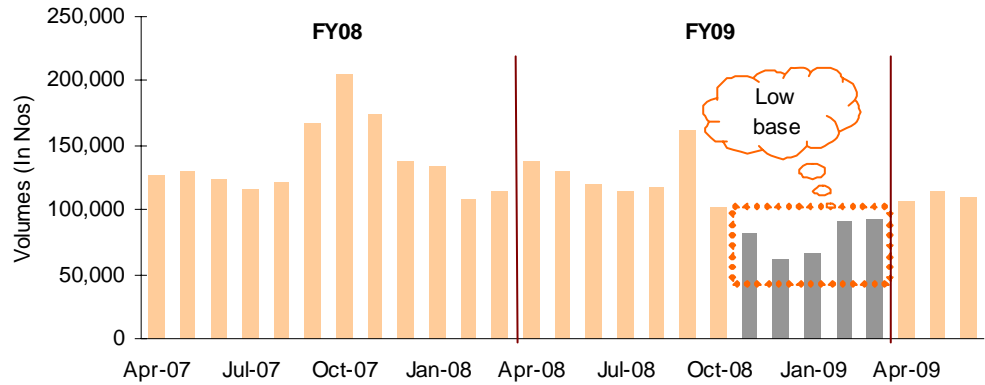
Worst is behind!

Domestic motorcycle YoY Growth



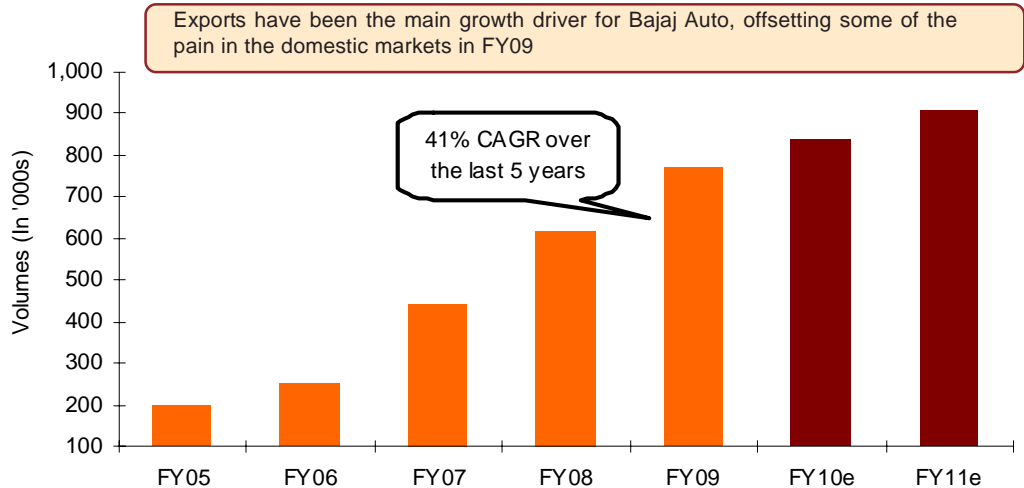
Domestic motorcycle volumes

After a 15% fall in domestic motorcycle volumes in 1QFY10, we estimate a 20% growth for the rest of the year, driven by the new product launches and the extremely low base of 2HFY10. Based on the same, we expect a 9% growth in domestic motorcycles volumes in FY10.



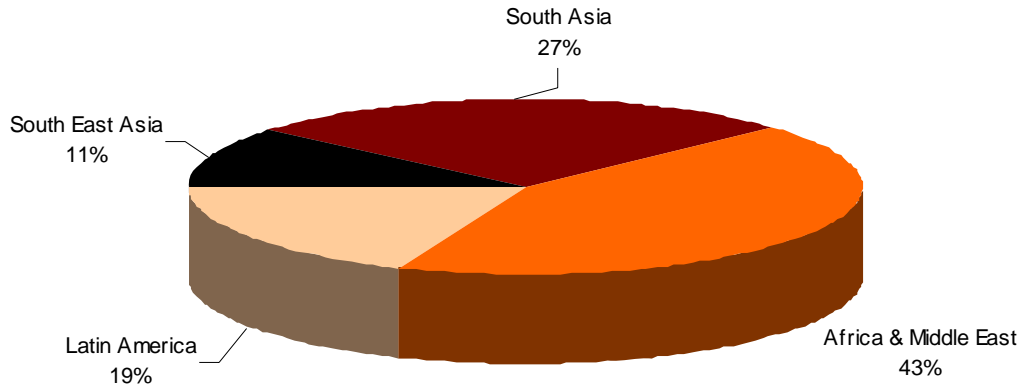
Exports gaining traction!

Domestic motorcycle YoY Growth

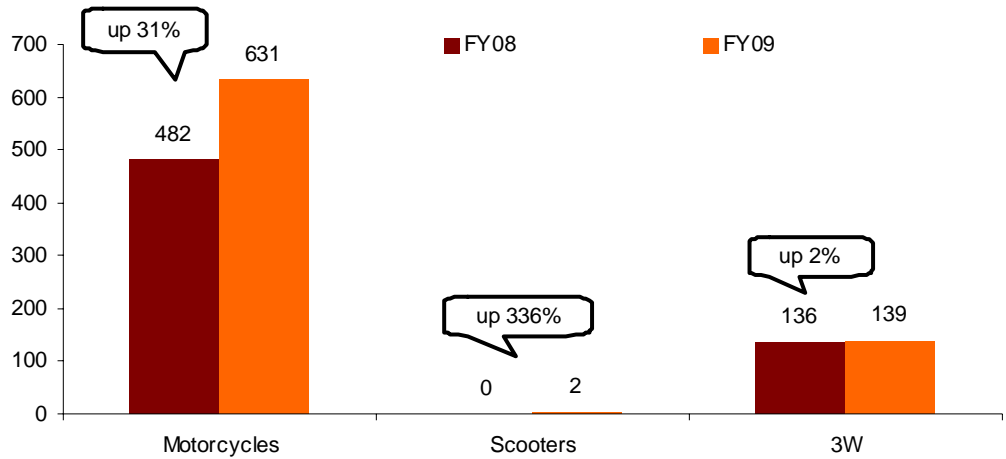


Geographical Export Breakup

Exports are spread all across the globe, with the majority export destinations being Africa, South Asia and Latin America

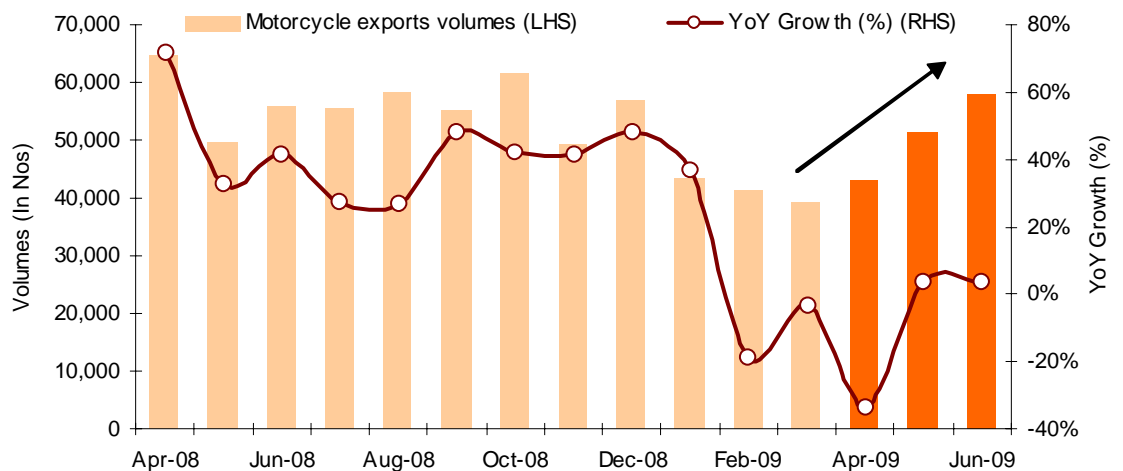


Bajaj Auto Exports (Volumes in '000s)



Motorcycle export volumes

Motorcycle export volumes have seen a sharp uptrend in volumes in 1QFY10 from the lows of 4QFY09. The higher export realisations will help boost export revenues further



Benefit from Higher export realisations:

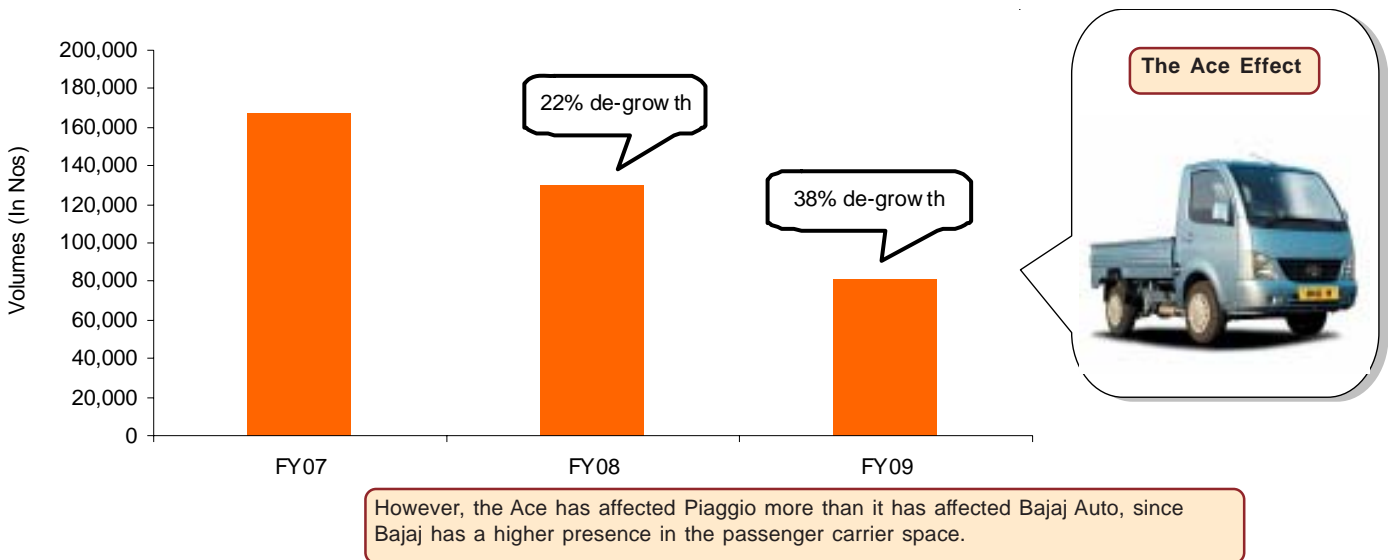
- In FY09, the export realisations were at INR41/USD.
- For FY10, the company has taken a ranged cover of USD535m, ranging between INR47 and INR55.
- Therefore, if the INR appreciated, the downside is protected at INR47, whereas if the INR depreciates, the upside is capped at INR55.
- Even at the lower end of the range, the company's exports realizations are approximately 15% higher

Three-wheelers witnessing sharp revival

Three-wheeler Goods carriers: A shrinking industry

- Due to the Ace, the three-wheeler goods carrier industry has been shrinking as an industry.

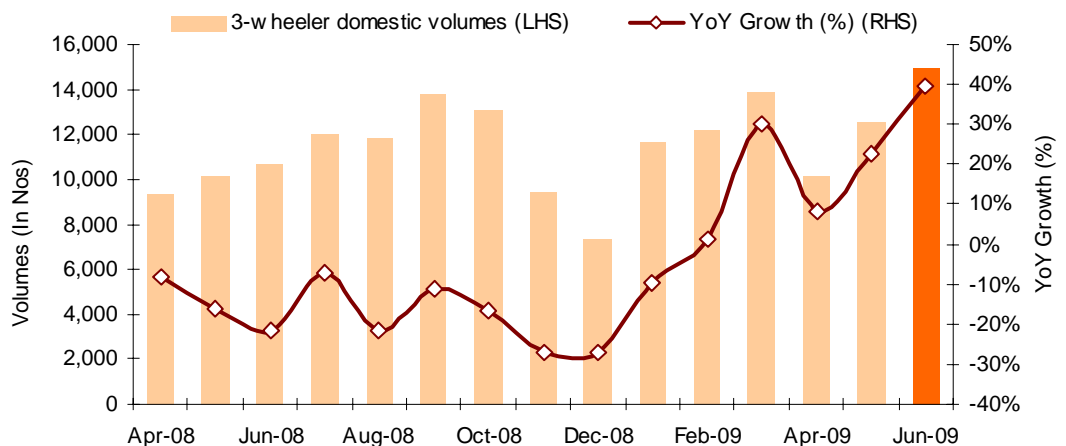
Three Wheeler Industry (Goods Carriers)



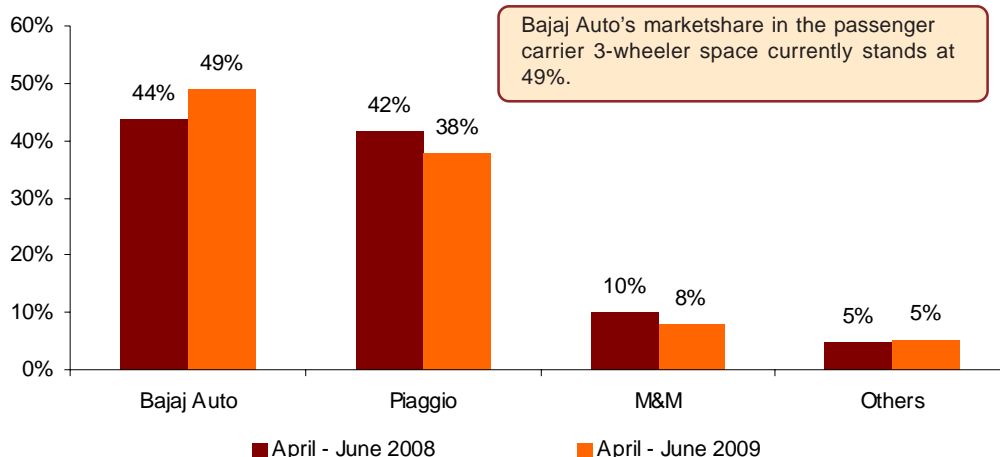
Three-wheelers witnessing sharp revival

Domestic 3-wheeler volumes

Domestic 3-wheeler volumes have witnessed a sharp revival with volumes in June, growing by 40% YoY. This is the highest domestic 3-wheeler volumes that the company has done in the last 20 months.



Three-wheeler market share (Passenger carriers)



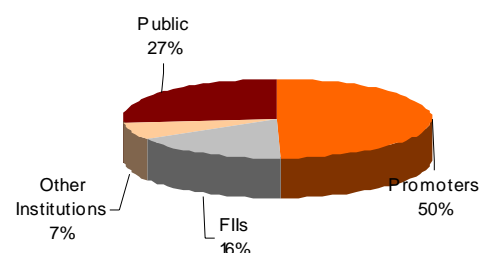
Valuation and recommendation:

- At the current price of INR1,225, the stock is trading at a P/E 13.5x and 12.1x our FY10e and FY11e adjusted EPS of INR91.0 and INR101.6, respectively.
- We recommend a BUY on the stock with a target price of INR1,444, (15x our one-year forward EPS estimate of INR96.3), which provides an 18% upside from current levels.

INRm (Standalone)	FY08a	FY09a	FY10e	FY11e	FY12e
Revenues	90,462	88,104	102,656	113,504	130,530
EBITDA	12,935	12,023	19,255	21,289	24,604
PAT	8,583	8,616	13,714	14,692	17,055
EPS	52.2	45.2	83.6	101.6	117.9
Adjusted EPS	57.0	55.7	91.0	101.6	117.9
EBITDA Margin (%)	14.3%	13.6%	18.8%	18.8%	18.8%
PE (X)	21.5	22.0	13.5	12.1	10.4
EV/EBITDA (X)	13.7	15.1	9.2	8.1	6.7
Div Yield (%)	1.6%	1.8%	2.0%	2.0%	2.0%

Source: Antique Estimates

Shareholding pattern



Company Info

	Unit	Amount
Market Capital	USD bn	3.5
Free Float	%	50%
Shares O/s	Mn	145

Key takeaways from the detailed presentation on each business segment made by the respective business heads:

Two-wheeler business: Mr. S Sridhar – CEO (Two Wheelers)

Industry Trends (Motorcycles):

Company earlier forecasted domestic motorcycle industry growth at 7-10%. After the visible improvement in demand, the company now expects the growth rate to be 14%.

Insights:

Industry Penetration:

Motorcycles:	2006	13%
	2008	16%
2 wheelers:	2006	24%
	2008	27%

Rural ~ Urban Penetration:

Motorcycles:

Rural:	2006	8%
	2008	10%
Metros:	2008	22%

Bajaj Auto market share:

Metro:	31%
Rural:	22%
Difference:	9%

Hero Honda caters to the 40 + segment, whereas Bajaj caters to the younger age groups with its flagship Pulsar brand

Bajaj Auto customer profile (2008):

<20:	35%
>40:	24%
Difference:	11%

Ratio of first time buyers : replacement buyers – 50:50 (Far from saturated)

New Discover 100cc

The initial billing has been 9,500 units and the motorcycle is built for running 100 / km / day. The wheelbase is the longest in its class. The motorcycle also has an electric starter (which is normally considered as a modern bike in smaller towns)

Commercial Vehicle business: Mr. R C Maheshwari – CEO (Commercial Vehicles)

Passenger carriers

- In 1QFY10 Bajaj Auto grew by 33%, whereas the industry grew at 8%.
- New products expected to be launched in 2QFY10 and 3QFY10.
- The company has been partnering oil and gas companies to promote use of LPG/CNG in Auto rickshaws
- The company has launched a product in the passenger carrier space with direct injection (having a 33% better mileage than the previous technology)

Bajaj Auto:

Network	2006	2008
Sales touch point	435	599
Service touch point	376	599

3 wheeler sales projection:

	FY10	FY11	FY12
Passenger carriers	145455	166000	182000
Goods carriers	12440	24000	24500
Total	157895	190000	206500

International business: Mr. Rakesh Sharma – CEO (International Business)

Exports of two wheelers and three wheelers:

FY02 - FY05	54% CAGR
FY06 - FY09	45% CAGR

Geographical spread:

Africa & Middle East	43%
South Asia	27%
Latin America	19%
South East Asia	11%

Business Strategy:

Improve business profitability while maintaining volume and market share

Drive topline through higher sales from Africa

Retain exchange rate benefit

Strengthen dealer networks and consumer finance

About African markets:

For Bajaj Auto, Nigeria accounts for 40% of this market

Last month sales of 21,000 units

Bajaj Auto's key product costs 90,000 Nigerian Nairas (next most expensive product at 65,000 Nigerian Nairas)

Three-wheeler exports per month:

Egypt	3,000
Ethiopia	1,000
Nigeria	1,800
Cairo	1,400

Indonesia:

Two-wheeler market – 5 million units

Motorcycles from the same - 500,000

Indonesian motorcycle industry grew by 12% in 1HCY09

Strategy:

Shift from SKD to CKD (which would lead to lower duties and thereby better margins)

Focus on motorcycles (Build the Pulsar and Dts-i brand)

Two wheeler retail sales: (from company to distributor)

May-09	40,938 units
Jun-09	48,587 units

Three wheeler retail sales:

May-09	7,576 units
Jun-09	9,435 units
August 2009	Target of over 10,000 units

International business outlook: (Growth in FY10)

Two-wheelers	3%
Three-wheelers	9%
Total	4%

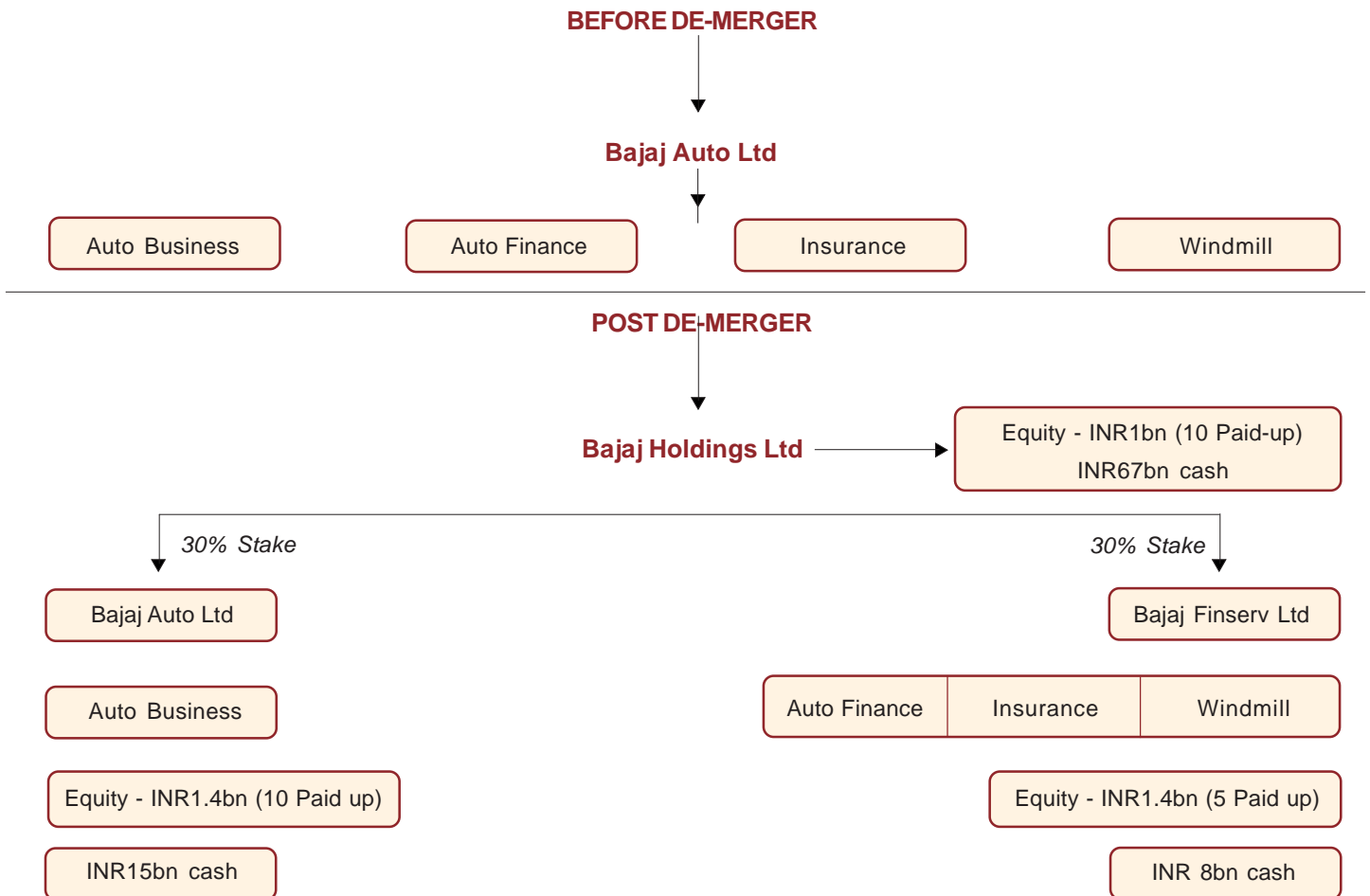
About the company

- Bajaj Auto Ltd (BAL) is the flagship company of the Bajaj group. It is the largest exporter and second-largest manufacturer of two-wheeler and three-wheelers in India. The company's plants are located at Waluj, Chakan and Pantnagar. The Akurdi plant is closed since September 2007.
- In two-wheelers, the company is largely present in the motorcycle segment through its range of 10 variants. It also has a marginal presence in the scooters segment through Kristal. In three-wheelers, it is a leading player in the passenger carrier segment.

The demerger process:

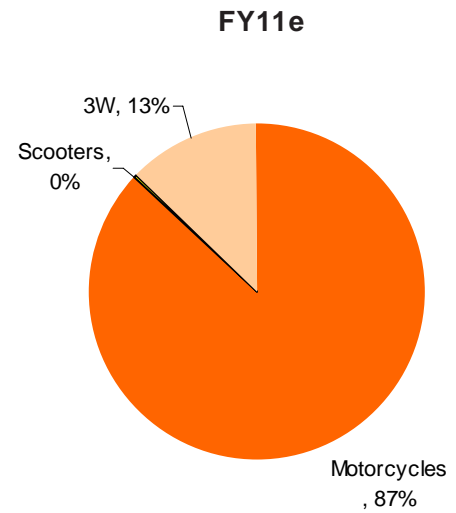
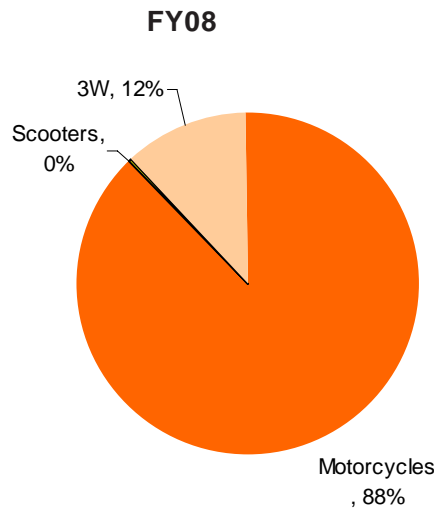
- The erstwhile BAL was an entity with interests in diverse business segments such as auto, wind energy, insurance and consumer durable financing segments. The demerger, which became effective from February 2008, was undertaken with a view to strengthen competencies in core businesses. The demerger resulted in the creation of three companies: Bajaj Auto Ltd (BAL), Bajaj Finserve and Bajaj Holdings and Investments Ltd (BHIL). As part of the demerger process, a shareholder holding one share of erstwhile BAL received one share each of the three newly-formed companies.
- Post-demerger, the automobile business, along with cash and equivalents of INR15bn, has been transferred to BAL. The wind energy business, investments in the insurance (life and general) business and the consumer financing business as well as cash and equivalents of INR8bn have been transferred to Bajaj Finserve. BHIL would be an investment company with a 30% stake each in BAL and Bajaj Finserve, having cash and equivalents of INR67bn.

DE-MERGER STRUCTURE

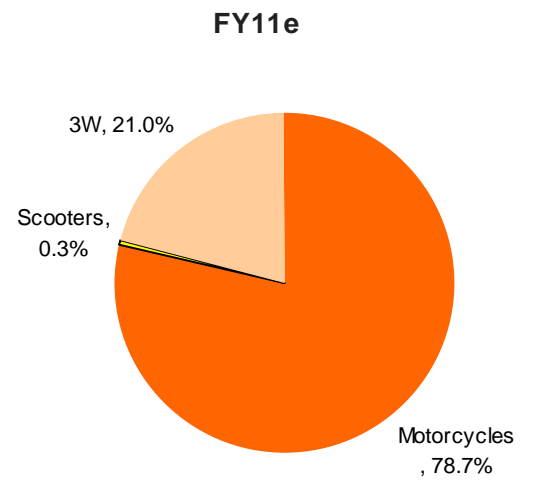
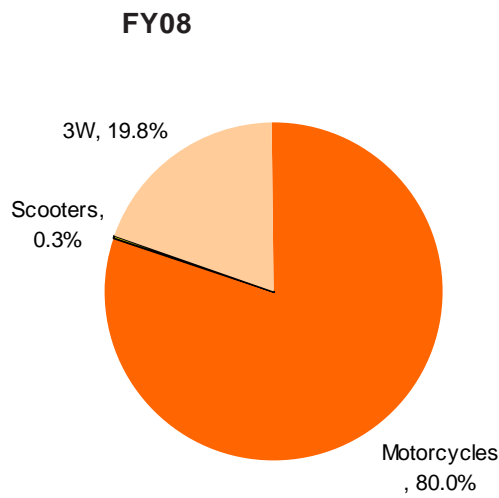


Source: Company, Antique

Volumes Break-up



Revenues Break-up



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Antique Stock Broking Limited

Nirmal, 2nd Floor, Nariman Point, Mumbai 400 021.

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445

www.antiquelimited.com
