

The Week Gone By

Weekly Newsletter



Parag's View

Beware Margin Borrowing

As you surely know, there's good debt and not-so-good debt. Good debt can help you go to school or buy a home (provided you do so with a sensible, appropriate mortgage, and don't buy more house than you can afford). Not-so-good debt is sadly familiar to anyone burdened with hefty credit card bills. But there's another kind of debt that's just as worrisome to a growing number of people, though you might not think much about it: purchasing stocks with borrowed money, also known as "buying on margin."

Margin and investing

Buying on margin means you're buying stocks with money you've borrowed from your brokerage firm. It's attractive because you can turn a profit using money you don't even have (a technique known as leverage). For that privilege, you're paying interest to the brokerage, just as with any other loan. Interestingly, it's a lot easier to open a margin account than to apply for a bank loan -- many brokerages will give you margin accounts automatically, unless you specifically tell them not to. If the market turns against you, you either sell for a loss -- plus interest costs -- or hold on until the market picks up, paying interest all the while.

Margin isn't necessarily bad. When used in moderation, it offers the opportunity to juice your gains a bit.

But since most people go overboard with it -- say, borrowing 40% of their portfolios' value -- and since it can also compound their losses, it does have a major downside. That's why it pays to think twice before using margin.

But certainly, you won't go wrong if you decide to avoid it entirely, as all successful investors do.

Infosys Technologies Limited

Q109 Result Update | CMP - Rs. 1677 | ACCUMULATE | Analyst - Jigar Valia

The test of faith intensifies for the IT bellwether. Infosys gets lucky to report a decent reported performance for Q109. The reported topline & bottomline grew by 6.9% & 4.2% respectively, led by weakening INR and some tax credits. Excluding the reversal of taxation of Rs. 31 Crs, the performance is actually flat.

The average INR depreciation for Infosys was about 5.5%, which led to ~2.5% improvement in EBITDA margins. However, other factors like salary hikes (-2.2%), higher visa costs (-0.7%) and lower utilization (-1.5%) took the lead in lowering the overall margins by 200 bps. Infosys had a setback in terms of the share of its top client, a large European Telecom player (British Telecom) dropped from 10.3% to 7.9%.

Client & Employee addition was strong. Infosys added 49 new clients during the quarter, of which 20 clients were added in the manufacturing segment alone. Share of Manufacturing segment increased from 16.4% to 18.4% over the quarter. The company added 7,182 employees at Gross level & the net addition stood at 3,182 for Q1. The addition in Q2 is expected to be strong at 10,000. The seasonality aspect of the employee addition has led to a sharp decline in utilization rates at 72.2% from 75.4% in the preceding quarter.

Infosys has gone ahead with a big increase in its INR guidance for the year.

Quarter ending September 30, 2008 : Income is expected to be in the range of Rs. 5,229 crore and Rs. 5,272 crore; YoY growth of 27.4% - 28.4%. Earnings per share is expected to be in the range of Rs. 23.52 and Rs. 23.95; YoY growth of 22.1% - 24.4%

Fiscal year ending March 31, 2009 : Income is expected to be in the range of Rs. 21,278 crore and Rs. 21,622 crore; YoY growth of 27.5% - 29.5%. Earnings per share are expected to be between Rs. 99.34 and Rs. 101.06; YoY growth of 21.9% - 24.0%.

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SpiceJet Limited

Bajaj Auto Limited

Infosys Limited

CMP - Rs. 1,677.0 | ACCUMULATE

Analyst - Jigar Valia

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This is mainly on account of change in the exchange rate expectation from Rs. 40 to Rs. 43. There is no change in the \$ based guidance.

The management has indicated a fairly tough time especially for the BFSI business and also for telecom & retail. There is no possibility of any price increases but contrarily there is a cloud of pricing pressure. The hope of higher outsourcing & therefore some support to margins is the silver lining here.

Infosys expects the weak INR (thanks to the rising crude prices) and the improvement in offshoring & utilization rates to help withstand the onslaught of lower growth with pricing risks coupled with inflationary cost pressures.

The scrip has traded between 14x & 19x one-year forward PE during the quarter and currently trades at 16.7x its FY09E EPS.

We have revised our estimates upwards for Infosys on account of the weakened INR and lower taxation for FY10, as the tax breaks get an one year extension. However, we lower our target multiple to 17x from 17.5x earlier to reflect the management's confirmation of the fact that there are slowdown concerns & downward price-negotiation risks. We expect the scrip to trade in the range of Rs. 1,570-Rs. 1,885, during this current quarter. We remain positive on the company's long term outlook & recommend ACCUMULATE.

Earnings Statement					
YE March (Rs. Mn.)	Q1FY09	Q4FY08	Q-Q(%)	Q1FY08	Y-Y(%)
Net Revenues	4,854.0	4,542.0	6.87%	3,773.0	28.65%
Direct Expenses	2,754.0	2,482.0	10.96%	2,169.0	26.97%
Selling & Marketing expenses	257.0	223.0	15.25%	205.0	25.37%
General & Admin Expenses	364.0	359.0	1.39%	315.0	15.56%
Total Expenditure	3,375.0	3,064.0	10.15%	2,689.0	25.51%
Operating Profit	1,479.0	1,478.0	0.07%	1,084.0	36.44%
Other Income	117.0	139.0	-15.83%	253.0	-53.75%
EBITDA	1,596.0	1,617.0	-1.30%	1,337.0	19.37%
Depreciation	169.0	157.0	7.64%	144.0	17.36%
PBT	1,427.0	1,460.0	-2.26%	1,193.0	19.61%
Tax	125.0	211.0	-40.76%	114.0	9.65%
PAT	1,302.0	1,249.0	4.24%	1,079.0	20.67%
EPS	22.7	21.8	4.22%	18.8	20.62%

Ratio Analysis					
YE March (Rs. Mn.)	Q1FY09	Q4FY08	Q-Q(bps)	Q1FY08	Y-Y(bps)
OPM (%)	30.47%	32.54%	(207.1)	28.73%	173.9
EBITDA (%)	32.88%	35.60%	(272.1)	35.44%	(255.6)
PBIT (%)	29.40%	32.14%	(274.6)	31.62%	(222.1)
PAT (%)	26.82%	27.50%	(67.6)	28.60%	(177.5)
Tax Rate (%)	8.76%	14.45%	(569.2)	9.56%	(79.6)

Datapoints

Client Matrix					
Particulars	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07
Active Clients	567	538	530	520	509
Added during the quarter	49	40	47	48	35
Clients accounting for > 5% revenues	1	1	1	1	1
Revenue - Top client %	7.9	10.3	9.5	7.9	8.6
Revenue - Top 5 clients %	19.9	22	21.6	19.5	21.4
Revenue - top 10 clients %	30.1	32	32.5	29.9	32.3
Repeat business %	99.6	95	96.3	97.7	99.5
Account receivables - LTM(in days)	69	72	60	61	62
Revenue by Geographical Segment					
Particulars (%)	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07
North America	62.6	60.7	62.3	62.6	62.6
Europe	27.3	29.3	28.6	27.4	26.8
India	1.3	1.3	1.2	1.0	1.8
Rest of World	8.8	8.7	7.9	9.0	8.8
Revenue by Industry					
Particulars (%)	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07
Transportation	2.4	2.8	2.4	2.3	2.3
Telecom	19.7	22.5	21.1	20.6	22.0
Services	5.5	5.5	6.0	7.7	7.6
Retail	12.2	11.9	12.0	12.5	10.8
Manufacturing	18.4	16.4	14.6	13.9	13.6
Insurance banking & financial	34.5	33.9	36.8	36.5	36.1
Energy & Utilities	5.4	5.2	5.2	5.3	4.9
Others	1.9	1.8	1.9	1.2	2.7
Revenue by Project Type Excluding Products					
Particulars (%)	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07
Fixed Price	32.8	33.2	32.8	29.8	27.5
Time & Materials	67.2	66.8	67.2	70.2	72.5
Revenue by Service Offerings					
Particulars (%)	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07
Application Development	21.4	21.8	21.5	21.8	21.6
Application Maintenance	22.0	23.4	24.8	22.4	24.4
Business Process Management	6.3	6.0	5.9	5.2	5.4
Consulting & Package Implementation	23.7	24.1	24.0	23.6	23.3
Infrastructure Management Services	5.7	4.6	4.5	5.5	5.1
Product Engineering Services	2.2	1.8	1.7	1.6	1.4
System Integration	3.1	3.0	2.7	2.8	2.9
Testing Services	7.4	7.2	7.4	7.8	7.5
Others	4.3	4.4	3.8	5.6	5.1
Total Services	96.1	96.3	96.3	96.3	96.7
Products	3.9	3.7	3.7	3.7	3.3
Total Revenue	100.0	100.0	100.0	100.0	100.0

Financials

Earnings Statement				
YE March (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Net Sales	13,893.0	16,692.0	21,908.3	25,236.2
Software Dvlp. Exp.	7,458.0	9,207.0	12,202.4	12,202.4
Gross Profit	6,435.0	7,485.0	9,705.8	9,705.8
Total Expenditure	9,502.0	11,454.0	15,080.6	17,583.3
Operating Profit	4,391.0	5,238.0	6,827.6	7,652.9
Other Income	370.0	704.0	702.2	963.8
EBITDA	4,761.0	5,942.0	7,529.8	8,616.7
Depreciation	514.0	598.0	763.3	928.3
EBIT	4,247.0	5,344.0	6,766.5	7,688.4
Interest	-	-	-	-
PBT	4,247.0	5,344.0	6,766.5	7,688.4
Tax	386.0	685.0	1,015.0	1,345.5
PAT	3,856.0	4,659.0	5,751.6	6,342.9

Ratio Analysis				
YE March (Rs. Mn.)	FY07	FY08	FY09E	FY10E
OPM (%)	31.6%	31.4%	31.2%	30.3%
EBITDA (%)	34.3%	35.6%	34.4%	34.1%
PBIT (%)	30.6%	32.0%	30.9%	30.5%
PAT (%)	27.7%	27.9%	26.3%	25.1%
EPS (Rs.)	67.3	81.5	100.6	110.9
P/E (x)	24.9	20.6	16.7	15.1
P/BV (x)	8.5	7.0	5.3	4.2
BVPS (Rs.)	196.8	241.2	315.4	397.1
Market Cap (Rs. Mn.)	95,924.4	95,924.4	95,924.4	95,924.4
M Cap/Sales (x)	6.9	5.7	4.4	3.8
EV (Rs. Mn.)	95,924.4	95,924.4	95,924.4	95,924.4
EV/EBITDA (x)	21.8	18.3	14.0	12.5
EV/Sales (x)	6.9	5.7	4.4	3.8
ROCE (%)	37.7%	38.7%	37.5%	33.8%
RONW (%)	34.2%	33.8%	31.9%	27.9%
Debtors T/o Days	64.0	72.1	70.0	70.0
Advances T/o Days	31.9	60.6	60.0	60.0
Creditors T/o Days	38.6	41.8	37.0	37.0
Working Cap T/o Days	193.7	193.0	210.4	241.3
Fixed Assets T/o (Gross)	3.0	3.1	3.2	3.2
DPS (Rs.)	11.4	33.3	22.5	25.0
Dividend Payout (%)	17.0%	40.8%	22.4%	22.5%
Dividend Yield (%)	0.7%	2.0%	1.3%	1.5%

Balance Sheet				
YE March (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Equity Capital	286.0	286.0	286.0	286.0
Reserves	10,969.0	13,509.0	17,757.0	22,429.2
Shareholders Funds	11,255.0	13,795.0	18,043.0	22,715.2
Pref Shares by Subsidiary	-	-	-	-
Minority Interest	4.0	-	-	-
Total Liabilities	11,259.0	13,795.0	18,043.0	22,715.2
Fixed Assets	3,771.0	4,777.0	5,189.7	5,761.4
Investments	25.0	72.0	72.0	72.0
Current Assets				
Sundry Debtors	2,436.0	3,297.0	4,201.6	4,839.8
Loans & Advances	1,214.0	2,771.0	3,601.4	4,148.4
Cash & Bank Balance	5,871.0	6,950.0	9,566.1	13,273.1
Current Liabilities				
Sundry Creditors	1,469.0	1,912.0	2,220.8	2,558.2
Provisions	681.0	2,279.0	2,518.6	3,016.1
Net Current Assets	7,371.0	8,827.0	12,629.6	16,687.0
Deferred Tax Assets	92.0	119.0	151.6	151.6
Total Assets	11,259.0	13,795.0	18,043.0	22,715.2

Cash Flow				
YE March (Rs. Mn.)	FY07	FY08	FY09E	FY10E
Opening Cash & Bank	3,429.0	5,871.0	7,403.0	10,019.1
Profit After Tax	3,856.0	4,659.0	5,751.6	6,342.9
Less : Invt Income	(370.0)	(704.0)	(702.2)	(963.8)
Depreciation	514.0	598.0	763.3	928.3
Deferred Taxation	(27.0)	(22.0)	(32.6)	(43.2)
Others	(6.0)	0.0	0.0	0.0
Change in Working Cap	(941.0)	(377.0)	(1,186.5)	(350.4)
CF - Operating Activities	3,026.0	4,154.0	4,593.5	5,913.8
Change in Fixed Assets	(2,053.0)	(1,156.0)	(1,176.0)	(1,500.0)
Change in Investments	730.0	(47.0)	0.0	0.0
Investment Income	370.0	704.0	702.2	963.8
CF - Investing Activities	(953.0)	(499.0)	(473.8)	(536.2)
Increase in Equity	1,189.0	106.0	(0.0)	(0.0)
Changes in Borrowings	0.0	0.0	0.0	0.0
Dividend Paid	(756.0)	(2,225.0)	(1,503.6)	(1,670.7)
CF - Financing Activities	369.0	(2,123.0)	(1,503.6)	(1,670.7)
Net Change in Cash	2,442.0	1,532.0	2,616.1	3,707.0
Closing Cash & Bank Bal	5,871.0	7,403.0	10,019.1	13,726.1

SpiceJet Limited

CMP - Rs. 32.40 | AVOID

Research Associate : Hiren Samani

Q4 Performance Review

Spice Jet, India's second largest low cost airline reported huge losses for the fourth quarter ended March 2008. The airline reported a loss of Rs. 1,236 Mn. against a profit of Rs. 93.4 Mn. for the preceding quarter. On a Q-o-Q basis, the company saw a dip of 2.26% in its operating revenues & an increase of almost 32% in Total Expenditures. Interest Costs rose to a staggering Rs. 34.2 Mn. for Q4FY08 from Rs. 4.4 Mn. for Q3FY08. The company earned a Profit on Sale of Aircrafts of Rs. 50 Mn. in this quarter & suffered a Forex loss of Rs. 58.5 Mn.

Since Spice Jet had a 10 month year ending March 2007, the full year numbers are not comparable. For a full year ending March 2008, the airline has reported a Net Loss of Rs. 1,335.1 Mn., thereby reporting a negative earnings per share (EPS) of Rs. 5.55 for the year.

Company Profile

Spice Jet was the second low cost airline to enter the Indian Aviation sector in May 2005. It was relaunched as a low fare, no frills airline by Royal Airways Limited which took over from the erstwhile Modiluft Ltd. in the late 90's. Spice Jet currently operates a fleet of 15 Boeing aircrafts providing point-to-point services to 17 destinations within India & operating 94 flights daily. The airline enjoys about 10% of the domestic market share.

In a scenario where fuel prices are rising constantly, the company has already reduced the number of daily flights & also cut down on its operating destinations. The airline is also looking at ways to raise upto US\$ 100 Mn. to boost its working capital. It has appointed merchant banker NM Rothschild & Sons (India) Pvt. Ltd. to suggest fund raising options. Spice Jet has also reserved an option of merger to raise funds.

In the NEWS recently

Spice Jet has been in the limelight recently, owing to talks of a possible stake sale, with the promoters planning to exit. After competing airlines, Naresh Goyal owned Jet Airways & Vijay Mallya owned Kingfisher Airlines had shown interest in picking up a stake in Spice Jet, recent additions to the list of possible suitors have been names like Anil Ambani led ADAG, US Venture Capitalist Wilbur Ross & global investment banking & securities firm Goldman Sachs.

As per the current FDI ceiling in the Indian domestic aviation sector, foreign investments in an airline company cannot exceed 49%. Spice Jet currently has foreign holdings of 38.35%, including US based promoters - Kansagra family & Dubai based investment firm Istithmar PJSC holding 12.91% & 13.42% respectively. This leaves scope for any further foreign investments of a little less than 10%, making it the third largest shareholder in Spice Jet.

Outlook & View

The aviation industry is facing turbulent times in the skies due to constantly rising fuel prices & declining load factors. According to Centre for Asia Pacific Aviation (CAPA), the Indian aviation industry is expected to post a combined loss of about US\$ 1.5 Billion this year. These airline companies have already started to cut down on the number of operating routes & have deferred their fleet expansion plans significantly.

In the current scenario, unless the fuel costs moderate, we do not expect Spice Jet to post positive operating results for the coming few quarters. The scrip might see some upside in the next couple of weeks, due to the stake sale trigger that is expected to be decided upon before this month end. Except this, we believe the stock would perform negatively & suggest an AVOID for the scrip.

Quarterly Financials

Earnings Statement						
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	12M08	10M07	Y-Y(%)
Net Revenues	3,992.6	4,085.1	-2.26%	12,949.9	6,447.1	100.86%
Total Expenditure	4,685.1	3,550.0	31.98%	12,991.1	6,678.5	94.52%
Operating Profit	(692.5)	535.1	-229.41%	(41.2)	(231.4)	-82.19%
Forex Gain/(Loss)	(58.5)	35.3	-265.44%	169.9	51.4	230.54%
Other Income	157.7	201.7	-21.82%	827.4	542.3	52.57%
EBITDAR	(593.3)	772.1	-176.84%	956.1	362.3	163.90%
Aircraft Lease Rentals	609.3	708.9	-14.06%	2,526.0	1,367.1	84.77%
EBITDA	(1,202.6)	63.2	-2003.07%	(1,569.9)	(1,004.8)	56.24%
Depreciation	23.1	20.1	14.83%	78.2	58.5	33.71%
EBIT	(1,225.6)	43.1	-2944.35%	(1,648.1)	(1,063.3)	55.00%
Interest	34.2	4.4	685.32%	90.1	42.7	111.30%
PBT	(1,259.9)	38.7	-3352.96%	(1,738.2)	(1,105.9)	57.17%
Tax	14.9	3.0	397.67%	24.2	9.9	143.86%
PAT	(1,274.8)	35.7	-3667.87%	(1,762.5)	(1,115.9)	57.94%
Extra-ordinary Income	38.8	57.6	-32.72%	427.4	408.4	4.66%
Profit on Sale of Aircrafts	50.0	57.6	-13.25%	438.6	442.0	-0.78%
Other EI	(11.2)	0.0		(11.2)	(33.7)	-66.68%
Reported PAT	(1,236.0)	93.4	-1423.79%	(1,335.1)	(707.5)	88.70%
Equity Capital	2,406.5	2,406.5		2,406.5	2,406.5	
EPS	-5.14	0.39	-1423.79%	-5.55	-2.94	88.70%

Ratio Analysis						
Profitability						
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	12M08	10M07	Y-Y(bps)
OPM (%)	-17.3%	13.1%	(3044.4)	-0.3%	-3.6%	327.1
EBITDA (%)	-14.9%	18.9%	(3376.0)	7.4%	5.6%	176.3
EBIT (%)	-30.7%	1.1%	(3175.2)	-12.7%	-16.5%	376.6
PAT (%)	-31.9%	0.9%	(3280.3)	-13.6%	-17.3%	369.9

Operational Parameters						
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	12M08	10M07	Y-Y(bps)
RM Consumed	0.0%	0.0%	0.0	0.0%	0.0%	0.0
Staff Cost	11.9%	8.7%	320.0	11.1%	13.3%	(220.4)
Operating Expenses	83.9%	72.3%	1163.2	79.1%	81.0%	(189.5)
Aircraft Fuel Expenses	58.0%	48.2%	975.9	54.3%	54.2%	5.0
Aircraft Maintenance	10.6%	8.2%	237.7	9.2%	10.4%	(125.0)
Airport Charges	7.6%	7.2%	40.6	8.2%	9.3%	(110.0)
Other Operating Expenses	7.7%	8.7%	(91.0)	7.5%	7.1%	40.5
Legal/Professional Expenses	0.8%	0.4%	43.8	0.6%	0.9%	(29.2)
Rent	0.6%	0.4%	16.8	0.6%	0.6%	4.1
Other Expenses	20.1%	5.1%	1500.6	8.9%	7.8%	107.9
Aircraft Lease Rentals	15.3%	17.4%	(209.4)	19.5%	21.2%	(169.9)
Effective Tax Rate	-1.2%	7.7%	(893.1)	-1.4%	-0.9%	(49.6)

Financials

Earnings Statement (Rs. Mn.)					Balance Sheet (Rs. Mn.)				
Particulars	FY04	FY05	FY06	FY07	Particulars	FY04	FY05	FY06	FY07
Total Revenues	0.0	20.1	4,211.7	6,447.1	Equity Capital	1,444.7	1,609.7	1,843.4	2,406.5
- Growth (%)			20902.0%	53.1%	Reserves	(1,625.4)	(1,912.4)	(1,971.1)	(560.7)
Total Expenditure	66.2	273.3	4,084.7	6,678.5	Shareholders Funds	(180.7)	(302.7)	(127.7)	1,845.8
Operating Profit	(66.2)	(253.2)	127.0	(231.4)	Minority Interest	0.0	0.0	0.0	0.0
Non Operating Income	41.4	18.6	131.1	593.7	Borrowed Funds	391.1	1,120.4	4,207.3	4,321.5
EBITDAR	(24.7)	(234.6)	258.1	362.3	Deferred Tax Liability	0.0	0.0	0.0	0.0
Aircraft Lease Rental	0.0	34.7	771.7	1,367.1	Total Liabilities	210.4	817.6	4,079.5	6,167.3
EBITDA	(24.7)	(269.3)	(513.6)	(1,004.8)	Fixed Assets	11.2	614.1	4,119.4	7,427.3
Depreciation	3.4	5.2	81.6	58.5	Investments	2.5	0.0	0.0	812.2
EBIT	(28.1)	(274.5)	(595.2)	(1,063.2)	Current Assets				
Interest	2.9	11.1	41.6	42.7	Inventory	12.5	18.0	34.0	79.4
PBT	(31.0)	(285.6)	(636.8)	(1,105.9)	Sundry Debtors	4.0	17.6	37.2	55.6
Tax	0.0	1.5	13.1	9.9	Loans & Advances	482.3	674.4	798.8	1,153.8
PAT Before EI	(31.0)	(287.0)	(649.9)	(1,115.8)	Cash & Bank Balance	128.0	289.7	634.3	3,510.5
- Growth (%)		824.6%	126.4%	71.7%	Current Liabilities				
Extra-ordinary Items	0.0	0.0	235.7	408.4	Sundry Creditors	429.6	805.6	1,496.0	6,456.2
PAT	(31.0)	(287.0)	(414.2)	(707.5)	Provisions	0.5	2.1	141.9	415.3
					Net Current Assets	196.7	191.9	(133.6)	(2,072.2)
					Miscellaneous Exp.	0.0	11.6	93.8	0.0
					Total Assets	210.4	817.6	4,079.5	6,167.3

Ratio Analysis				
Particulars	FY04	FY05	FY06	FY07
OPM (%)	Err:503	-1262.6%	3.0%	-3.6%
EBITDA (%)	Err:503	-1342.7%	-12.2%	-15.6%
PBIT (%)	Err:503	-1368.7%	-14.1%	-16.5%
PAT (%)	Err:503	-1431.4%	-9.8%	-11.0%
Interest Cover (x)	(9.5)	(24.7)	(14.3)	(24.9)
EPS (Rs.)	(0.2)	(1.8)	(2.2)	(2.9)
P/E (x)	(150.8)	(18.2)	(14.4)	(11.0)
P/BV (x)	(25.9)	(16.6)	(27.0)	4.2
BVPS (Rs.)	(1.3)	(2.0)	(1.2)	7.7
Market Cap (Rs. Mn.)	4,680.9	5,215.5	5,972.6	7,797.1
M Cap/Sales (x)	Err:503	260.1	1.4	1.2
EV (Rs. Mn.)	4,943.9	6,046.1	9,545.5	8,608.2
EV/EBITDA (x)	(200.0)	(22.5)	(18.6)	(8.6)
EV/EBITDAR (x)	(200.0)	(25.8)	37.0	23.8
EV/Sales (x)	Err:503	301.5	2.3	1.3
ROCE (%)	-13.4%	-34.1%	-14.9%	-17.2%
RONW (%)	17.2%	91.3%	293.4%	-60.5%
Debt/Equity Ratio (x)	(2.2)	(3.6)	(19.0)	2.3
Inventory T/o Days	Err:503	328.2	2.9	4.5
Debtors T/o Days	Err:503	319.6	3.2	3.1
Advances T/o Days	Err:503	12,274.5	69.2	65.3
Creditors T/o Days	Err:503	14,663.1	129.6	365.5
Working Cap T/o Days	Err:503	3,493.5	(11.6)	(117.3)
Fixed Assets T/o (Gross)	0.0	0.1	7.2	10.4

Cash Flow (Rs. Mn.)				
Particulars	FY04	FY05	FY06	FY07
Opening Cash & Bank	109.7	128.0	289.7	634.3
Profit After Tax	(31.0)	(287.0)	(649.9)	(1,115.8)
Invnt Income	(41.4)	(18.6)	(131.1)	(593.7)
Interest Paid	2.9	11.1	41.6	42.7
Miscellaneous Exp W/Off	0.0	(11.6)	(82.2)	93.8
Depreciation	3.4	5.2	81.6	58.5
Deferred Taxation	0.0	0.0	0.0	0.0
Others	2.1	(4.0)	209.9	388.8
Change in Working Cap	(33.9)	166.5	670.1	4,814.7
CF - Operating Activities	(98.0)	(138.4)	140.1	3,689.0
Change in Fixed Assets	(0.2)	(604.1)	(3,561.0)	(3,346.9)
Change in Investments	0.0	2.5	0.0	(812.2)
Investment Income	41.4	18.6	131.1	593.7
CF - Investing Activities	41.3	(583.0)	(3,429.9)	(3,565.4)
Increase in Equity	19.0	165.0	589.2	2,681.0
Changes in Borrowings	59.1	729.3	3,086.9	114.3
Interest Paid	(2.9)	(11.1)	(41.6)	(42.7)
Dividend Paid	0.0	0.0	0.0	0.0
CF - Financing Activities	75.1	883.2	3,634.4	2,752.6
Net Change in Cash	18.3	161.7	344.6	2,876.1
Closing Cash & Bank Bal	128.0	289.7	634.3	3,510.5

Bajaj Auto Limited

CMP - Rs. 500.0 | HOLD

Analyst : Anuj Anandwala

Q1FY09 Performance Review

BAL reported net sales of Rs. 23,107.6Mn for the quarter ended Jun'09, mainly driven by an 8.1% growth in volumes. Higher input costs pulled down the company's margins to 11.5% in Jun'08 as against 13.4% in Jun'07; PAT before extra-ordinary items decreased by 4.3% to Rs. 1,751Mn for the quarter ended Jun'08 as compared to Rs. 1,830Mn for Jun'07. Increase in interest rates continues to dampen the 2-wheeler industry due to its inability to pass on this burden to maintain its volume growth.

During Q1FY09, BAL sold 620,095 units v/s 571,591 units in Q1FY08, a growth of 8.5% Y-Y. In the high-margin 125cc plus segment, the company recorded a growth of 21% Y-Y against the industry growth of 14%; consequently, BALs market share inched up closer to 50%. In the overall 2-wheeler segment, BALs market share marginally improved on a Y-Y basis to 26.5%.

In the three-wheeler market, BAL continued its dominance in the passenger carrier segment with a market share of 62.7% in Q1FY09. Exports grew 32.7% Y-Y to 198,717 for the quarter ended Jun'08 as against 149,804 for the quarter ended Jun'07. Sri Lanka, Bangladesh, Nigeria, & Colombia continue to be BALs key export destinations.

New Launches - Maintaining its focus in the 125cc plus motorcycle segment, BAL recently launched the new Discover DTS-I. The company has also lined up four new models in this segment for the current fiscal. Besides, BAL plans to launch two variants of 3-wheelers, thus attempting to arrest the decline in the segment.

Key Highlights Going Ahead

- ✓ EBITDA margins to be maintained between 13-14% over the year.
- ✓ Exports & bikes will help boost volumes going further.
- ✓ The management expects 3-wheeler sales to bounce back to 12,000 levels by August & will achieve sales 75,000 units based on Xcd Platform this year.
- ✓ Lack of finance has affected only the bottom segment of bikes. As a result of this over the last 18 months the bottom segment has contracted from about 36% of the market to around 28% & will stabilize here.
- ✓ 125cc+ segment to grow @ 14% this year & Bajaj has grown 21%.
- ✓ 2nd area of growth being exports where the company has grown at 35-40%.
- ✓ The company expects to export 850,000 vehicles this year.
- ✓ Growth in motorcycles & exports will keep the momentum going for BAL.

Motorcycle Sales								
Particulars (Units)	Jun 08	May 07	M-M(%)	Jun 07	Y-Y(%)	Q109	Q108	Y-Y(%)
Motorcycle Sales	175,903	179,649	-2.1%	162,730	8.1%	558,633	494,042	13.1%
Total 2 Wheelers	177,112	180,935	-2.1%	165,236	7.2%	561,977	500,255	12.3%
3 Wheelers	19,629	20,576	-4.6%	22,866	-14.2%	58,118	71,336	-18.5%
Total 2 & 3 Wheelers	196,741	201,511	-2.4%	188,102	4.6%	620,095	571,591	8.5%
Exports	64,878	60,215	7.7%	48,675	33.3%	198,717	149,804	32.7%

Operational Parameters								
Particulars (%)	Jun 08	May 07	M-M(bps)	Jun 07	Y-Y(bps)	Q109	Q108	Y-Y(bps)
Motorcycle Sales	89.4%	89.2%	25.7	86.5%	289.7	90.1%	86.4%	365.6
3 Wheelers	10.0%	10.2%	(23.4)	12.2%	(217.9)	9.4%	12.5%	(310.8)
Exports	33.0%	29.9%	309.5	25.9%	709.9	32.0%	26.2%	583.8

Company Profile - Bajaj Auto Limited (BAL) is a leading manufacturer of two/three wheelers operating out of three manufacturing facilities in Western India & a new unit in North India. The company is a dominant player in three-wheelers & holds No.2 position in motorcycles.

Valuation

At the CMP of Rs. 500/-, BAL trades at a PE of 9.6x its FY08 earnings & an EV/EBITDA of 4.7x. We suggest a 'Hold' on the scrip as the valuations could turnaround in terms of sharp rupee depreciation, cost cutting & improvement in productivity, which would further cushion margins.

Earnings Statement								
YE March (Rs. Mn.)	Q109	Q408	Q-Q(%)	Q108	Y-Y(%)	FY08	FY07	Y-Y(%)
Net Revenues	23,107.6	20,744.3	11.4%	21,086.5	9.6%	90,461.5	95,204.1	-5.0%
Cost of Materials	16,191.0	14,347.2	12.9%	14,566.2	11.2%	63,484.4	69,001.1	-8.0%
Gross Profit	6,916.6	6,397.1	8.1%	6,520.3	6.1%	26,977.1	26,203.0	3.0%
Stock Adjustments	346.5	(389.0)	-189.1%	27.0	1183.3%	(678.5)	9.0	-7638.9%
Purchase of Traded Goods	916.8	1,282.1	-28.5%	667.0	0.0%	3,397.8	0.0	0.0%
Staff Costs	1,081.1	863.0	25.3%	977.4	10.6%	3,416.2	3,015.2	13.3%
Other Expenditure	1,935.2	2,088.4	-7.3%	2,057.4	-5.9%	8,136.8	9,329.6	-12.8%
Expenses Capitalised	(30.8)	(62.9)	-51.0%	(31.0)	-0.6%	(230.4)	(320.5)	-28.1%
Total Expenditure	4,248.8	3,781.6	12.4%	3,697.8	14.9%	14,041.9	12,033.3	16.7%
Operating Profit	2,667.8	2,615.5	2.0%	2,822.5	-5.5%	12,935.2	14,169.7	-8.7%
OPM (%)	11.55%	12.61%	-8.4%	13.39%	-13.7%	14.30%	14.88%	-3.9%
Other Income	287.8	204.6	40.7%	333.3	-13.7%	1,226.9	5,556.4	-77.9%
EBITDA	2,955.6	2,820.1	4.8%	3,155.8	-6.3%	14,162.1	19,726.1	-28.2%
Depreciation	335.3	413.9	-19.0%	415.1	-19.2%	1,739.6	1,902.6	-8.6%
EBIT	2,620.3	2,406.2	8.9%	2,740.7	-4.4%	12,422.5	17,823.5	-30.3%
Interest	9.2	18.1	-49.2%	0.6	1433.3%	51.6	53.4	-3.4%
Compensation under VRS	0.0	511.8	-100.0%	0.0	0.0%	1,023.6	385.7	165.4%
Exceptional Items	0.0	0.0	0.0%	0.0	0.0%	0.0	103.9	-100.0%
PBT	2,611.1	1,876.3	39.2%	2,740.1	-4.7%	11,347.3	17,280.5	-34.3%
Tax	860.0	669.6	28.4%	910.1	-5.5%	3,787.8	4,900.9	-22.7%
PAT Before EOI	1,751.1	1,206.7	45.1%	1,830.0	-4.3%	7,559.5	12,379.6	-38.9%
EOI / PPA	0.0	1.2	-100.0%	0.0	0.0%	1.7	(8.6)	-119.8%
Reported PAT	1,751.1	1,207.9	45.0%	1,830.0	-4.3%	7,557.8	12,388.2	-39.0%
Equity Capital	1,446.8	1,446.8	0.0%	1,011.8	43.0%	1,446.8	1,011.8	43.0%
EPS	12.1	8.3	45.1%	18.1	-33.1%	52.2	122.4	-57.3%
Ratio Analysis								
Profitability								
YE March - (%)	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	FY08	FY07	Y-Y(bps)
OPM (%)	11.5%	12.6%	(106.3)	13.4%	(184.0)	14.3%	14.9%	(58.4)
EBITDA (%)	12.8%	13.6%	(80.4)	15.0%	(217.5)	15.7%	20.7%	(506.4)
EBIT (%)	11.3%	11.6%	(26.0)	13.0%	(165.8)	13.7%	18.7%	(498.9)
PAT (%)	7.6%	5.8%	176.1	8.7%	(110.1)	8.4%	13.0%	(464.7)
Operational Parameters								
YE March - (%)	Q109	Q408	Q-Q(bps)	Q108	Y-Y(bps)	FY08	FY07	Y-Y(bps)
RM Consumed	70.1%	69.2%	90.6	69.1%	99.0	70.2%	72.5%	(229.9)
Staff Costs	4.0%	6.2%	(221.3)	3.2%	80.4	3.8%	0.0%	375.6
Other Expenditure	-0.1%	-0.3%	17.0	-0.1%	1.4	-0.3%	-0.3%	8.2
Effective Tax Rate	32.9%	35.7%	(275.1)	33.2%	(27.8)	33.4%	28.4%	502.0

Financials

Earnings Statement				
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08
Net Revenues	59,270.5	76,679.0	95,204.1	90,461.5
Total Expenditure	50,136.9	63,116.3	81,034.4	77,526.3
Operating Profit	9,133.6	13,562.7	14,169.7	12,935.2
Other Income	4,081.3	4,384.5	5,556.4	1,226.9
EBITDA	13,214.9	17,947.2	19,726.1	14,162.1
Depreciation	1,853.6	1,910.0	1,902.6	1,739.6
EBIT	11,361.3	16,037.2	17,823.5	12,422.5
Interest	6.7	3.4	53.4	51.6
Compensation under VRS	490.2	226.4	385.7	1,023.6
Exceptional Items	0.0	0.0	103.9	0.0
PBT	10,864.4	15,807.4	17,280.5	11,347.3
Tax	3,196.3	4,791.1	4,900.9	3,787.8
PAT Before EOI	7,668.1	11,016.3	12,379.6	7,559.5
EOI / PPA	376.5	216.4	(8.6)	1.7
Reported PAT	7,291.6	11,232.7	12,388.2	7,557.8

Ratio Analysis				
Particulars	FY05	FY06	FY07	FY08
OPM (%)	15.4%	17.7%	14.9%	14.3%
EBITDA (%)	22.3%	23.4%	20.7%	15.7%
PBIT (%)	19.2%	20.9%	18.7%	13.7%
PAT (%)	12.3%	14.6%	13.0%	8.4%
Interest Cover (x)	1,695.7	4,716.8	333.8	240.7
EPS (Rs.)	72.1	111.0	122.4	52.2
P/E (x)	6.9	4.5	4.1	9.6
P/BV (x)	1.2	1.1	0.9	4.6
BVPS (Rs.)	408.6	471.5	547.0	109.7
Market Cap (Rs. Mn.)	50,590.0	50,590.0	50,590.0	72,340.0
M Cap/Sales (x)	0.9	0.7	0.5	0.8
EV (Rs. Mn.)	16,167.2	5,870.9	1,534.2	66,551.3
EV/EBITDA (x)	1.2	0.3	0.1	4.7
EV/Sales (x)	0.3	0.1	0.0	0.7
ROCE (%)	21.2%	25.7%	24.9%	42.5%
RONW (%)	17.6%	23.5%	22.4%	47.6%
Debt/Equity Ratio (x)	0.3	0.3	0.3	0.8
Inventory T/o Days	13.8	13.0	11.9	14.1
Debtors T/o Days	10.9	14.4	20.3	11.1
Advances T/o Days	123.9	101.3	109.6	35.9
Creditors T/o Days	48.3	58.5	57.5	42.1
Working Cap T/o Days	(12.6)	(32.8)	(19.7)	(9.2)
Fixed Assets T/o (Gross)	2.2	2.7	3.0	3.0
DPS (Rs.)	25.0	40.0	40.0	20.0
Dividend Payout (%)	34.7%	36.0%	32.7%	38.3%
Dividend Yield (%)	5.0%	8.0%	8.0%	4.0%

Balance Sheet				
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08
Equity Capital	1,011.8	1,011.8	1,011.8	1,446.8
Reserves	40,331.7	46,695.5	54,331.4	14,429.1
Shareholders Funds	41,343.5	47,707.3	55,343.2	15,875.9
Borrowed Funds	12,269.9	14,671.5	16,254.3	13,343.4
Deferred Tax Liability	1,399.0	875.8	741.7	109.8
Total Liabilities	55,012.4	63,254.6	72,339.2	29,329.1
Fixed Assets	11,408.3	11,558.4	12,963.9	12,928.2
Technical Know-how	40.6	13.4	41.3	105.3
Investments	45,605.8	58,569.7	64,475.3	18,571.4
Current Assets				
Inventory	2,241.7	2,729.3	3,097.0	3,496.1
Sundry Debtors	1,763.5	3,015.5	5,298.3	2,753.1
Loans & Advances	20,120.0	21,273.7	28,594.0	8,887.7
Cash & Bank Balance	1,086.9	820.9	834.8	560.7
Other Current Assets	685.3	721.3	362.2	799.5
Current Liabilities				
Sundry Creditors	7,850.7	12,288.7	14,989.7	10,432.5
Provisions	20,089.0	23,158.9	28,337.9	8,340.4
Net Current Assets	(2,042.3)	(6,886.9)	(5,141.3)	(2,275.8)
Total Assets	55,012.4	63,254.6	72,339.2	29,329.1

Cash Flow				
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08
Opening Cash & Bank	793.7	1,086.9	820.9	834.8
Profit after Tax	7,668.1	11,016.3	12,379.6	7,559.5
Less: Investment Income	(4,081.3)	(4,384.5)	(5,556.4)	(1,226.9)
Interest Paid	6.7	3.4	53.4	51.6
Depreciation	1,853.6	1,910.0	1,902.6	1,739.6
Deferred Taxation	(187.3)	(394.4)	(134.1)	(173.2)
Others	(552.5)	(321.6)	(456.8)	(3988.7)
Change in Working Cap	(394.7)	4,578.6	(1,731.7)	(3,139.6)
CF - Operating Activities	4,312.6	12,407.8	6,456.6	822.3
Change in Fixed Assets	(407.1)	(1,650.9)	(2,842.7)	1,824.4
Change in Investments	(7,051.4)	(12,963.9)	(5,905.6)	45,903.9
Change in Tech. Know-how	36.1	27.2	(27.9)	(64.0)
Investment Income	4,081.3	4,384.5	5,556.4	1,226.9
CF - Investing Activities	(3,341.1)	(10,203.1)	(3,219.8)	48,891.2
Increase in Equity	0.1	(253.9)	(17.2)	(43,639.6)
Changes in Borrowings	2,212.7	2,401.6	1,582.8	(2,910.9)
Interest Paid	(6.7)	(3.4)	(53.4)	(51.6)
Dividend Paid	(2,884.4)	(4,615.0)	(4,735.1)	(3,385.5)
CF - Financing Activities	(678.3)	(2,470.7)	(3,222.9)	(49,987.6)
Net Change in Cash	293.2	(266.0)	13.9	(274.1)
Closing Cash & Bank Bal	1,086.9	820.9	834.8	560.7

Local Equity Market					
INDICES	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
Sensex	13,469.85	13,454.00	0.12	15,250.20	(11.67)
Nifty	4,049.00	4,016.00	0.82	4,539.35	(10.80)
CNX Nifty Junior	6,446.75	6,219.05	3.66	7,414.95	(13.06)
S&P CNX500	3,232.20	3,178.15	1.70	3,645.60	(11.34)
CNX Midcap 200	5,236.70	5,149.10	1.70	6,104.40	(14.21)
CNX IT	3,839.50	4,000.80	(4.03)	4,300.70	(10.72)

International Equity Market

INDICES	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
DJIA	11,100.54	11,288.54	(1.67)	12,141.58	(8.57)
Nasdaq	2,239.08	2,245.38	(0.28)	2,404.35	(6.87)
S&P 500	1,239.49	1,262.90	(1.85)	1,339.87	(7.49)
FTSE 100	5,261.60	5,412.80	(2.79)	5,790.50	(9.13)
Nikkei 225	13,039.69	13,237.89	(1.50)	13,888.60	(6.11)
Hang Seng	22,184.55	21,423.82	3.55	23,023.86	(3.65)
HSCEI	12,306.99	11,225.18	9.64	12,522.89	(1.72)

MSCI Indices

MSCI Indices	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
The World Index	1,345.47	1,367.04	(1.58)	1,459.95	(7.84)
Emerging Market	1,043.00	1,030.32	1.23	1,120.02	(6.88)
EM Asia	391.12	379.41	3.09	417.22	(6.26)
EM India	390.03	387.30	0.70	441.70	(11.70)

Commodities

Commodities	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
GOLD (\$/oz)	964.20	933.25	3.32	868.20	11.06
SILVER (\$/oz)	18.82	18.10	3.98	16.48	14.17
ALUMINIUM (\$/t)	3,317.00	3,160.00	4.97	2,950.00	12.44
COPPER (\$/t)	8,270.00	8,472.50	(2.39)	7,840.00	5.48
CRUDE - BRENT (\$/bbl)	144.49	144.42	0.05	137.25	5.28
CRUDE - WTI (\$/bbl)	145.08	145.29	(0.14)	137.38	5.60

Transportation

Commodities	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
World SCALE	232.50	242.50	(4.12)	192.50	20.78
BALTIC FREIGHT INDEX	9,230.00	8,854.00	4.25	10,142.00	(8.99)

Forex

FOREX	12-Jul-08	Week Ago	% Chng	Month Ago	% Chng
USD	42.89	43.15	(0.61)	42.80	0.20
GBP	85.29	85.58	(0.34)	83.30	2.38
EURO	68.35	67.81	0.80	66.08	3.44
YEN	40.34	40.43	(0.22)	39.65	1.74

Global Listings

Scripts	10-Jul-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR
Infosys ADR	38.14	(10.47)	(5.10)	-2.46%	1
Wipro ADR	11.03	(5.24)	(8.27)	14.76%	1
ICICI Bank ADR	26.61	(1.92)	(16.86)	-3.55%	2
Satyam ADR	23.07	(6.22)	(2.84)	11.54%	2
HDFC Bank ADR	71.17	(0.13)	(11.53)	-4.72%	3
MTNL ADR	4.36	0.23	(1.14)	1.56%	2
Dr. Reddy ADR	15.54	2.30	(5.89)	2.77%	1
Reliance GDR	94.00	(2.49)	(5.95)	-0.03%	2
ITC GDR	3.33	(14.40)	(14.69)	-18.19%	1
Ranbaxy GDR	12.26	(1.37)	(6.89)	-1.20%	1
L & T GDR	55.00	0.18	(9.26)	0.19%	1

Top Gainers & Losers of the Week

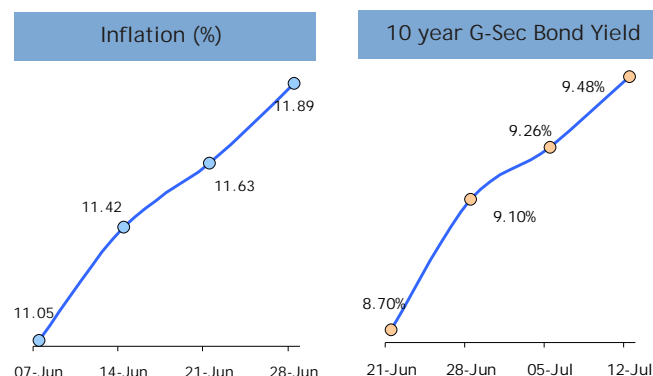
Top Gainers	Jul 12, 08	% Chng
Jindal Poly Films Ltd.	247.90	29.38
Nepc Micon Ltd	12.95	28.86
Zandu Pharmaceutical Works Ltd.	18,179.90	27.63
Garden Silk Mills Ltd.	57.75	27.48
Consolidated Finvest & Holdings Ltd.	64.00	23.08
Lumax Industries Ltd.	141.40	23.06
Dabur India Ltd.	94.65	21.74
Thiru Arooran Sugars Ltd.	84.15	19.87

Top Losers

I-Flex Solutions Ltd.	1,333.30	(11.81)
Tata Power Co. Ltd.	975.70	(11.69)
RSWM Ltd.	61.65	(10.46)
Moser Baer India Ltd.	109.05	(10.28)
Bajaj Hindusthan Ltd.	158.30	(9.34)
GTL Ltd.	213.15	(8.97)
Dabur Pharma Ltd.	68.75	(8.58)
Infotech Enterprises Ltd.	214.35	(8.44)

Sectoral Performance

Sectors	Week	Month	3 Months
Aluminium	12.05	(17.37)	(10.86)
Chemicals - Inorganic	9.29	(2.86)	(16.17)
Packaging	8.72	(1.64)	(9.37)
Airconditioners	8.29	(4.86)	(14.59)
Chemicals - Speciality	7.48	(3.89)	9.40
Compressors / Pumps	7.35	7.15	(1.64)
Electrical Equipment	6.86	(8.45)	(19.27)
Textiles - Synthetic	6.84	(10.48)	(16.05)
Electrodes	6.63	(9.03)	(10.36)
Castings/Forgings	6.11	(11.31)	(21.52)
Electronics - Industrial	6.10	(12.92)	(26.54)
Dyes And Pigments	5.55	(0.73)	(6.43)
Oil Exploration/Production	5.48	(2.36)	(9.58)
Tyres	5.38	(16.53)	(30.85)
Travel And Transport	5.34	(10.04)	(12.09)
Financial Institution	4.92	(12.79)	(28.34)
Metals	4.88	(9.95)	(6.09)
Refineries	4.81	(10.36)	(22.03)
Cables - Telecom	4.77	(5.77)	(22.27)
Steel And Steel Products	4.74	(12.13)	(8.24)



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