

COMPANY WATCH: BAJAJ AUTO Ltd.

- Higher sales growth narrows gap between Hero Honda and Bajaj Auto
- The second largest player is priced double than the market leader
- Bajaj Auto gives 37% year-to-date return compared to 18% loss on Hero Honda

Whenever you ask a stock analyst about favourite picks in a particular sector, the analyst may safely answer most of the times—stay with the leaders. India's powered two-wheeler segment, however, has an inverted preference of analysts. Most of them fancy the second largest player – Bajaj Auto Ltd, more than the market leader Hero Honda Motors Ltd in this segment.

The inverted preference is not without reasons. Although Bajaj Auto is well behind the market leader Hero Honda in terms of unit sales, it is certainly filling the gap quickly with higher growth rate almost every passing month.

Bajaj has reported 34% growth in total vehicle sales to 199,821 units for July 2006 compared to 149,406 units for the same month last year. Compared to the previous month of June 2006, it registered a growth of 6.6%. The real magnetic power, however, lies in the growth rate of its bike sales. In July 2006, company sold 171,115 bikes compared to 115,216 units in July 2005, achieving a growth rate of 48.5%. On month-to-month basis, it faced a decline of 6.77% from a high of 183,549 bikes in June 2006. The export volume surged 189% to 42,476 in July 2006 from 14,698 units in July 2005.

On the other hand, the market leader Hero Honda (in fact the world's number one two-wheeler company) posted only 2.3% growth in July 2006 to 235,314 units compared to 230,050 in July 2005. It faced a month-on-month decline of 15.5% from 278,660 units in June 2006.

Bajaj Auto has shown a high growth for quite some time now, and the stock market has rewarded it accordingly. Bajaj Auto commands the market capitalisation of \$6 billion (Rs. 277 billion), almost double when compared to Hero Honda's market capitalisation of \$3 billion (Rs. 141 billion). The stock of Bajaj Auto traded at Rs. 2741 (\$61) on August 16, 2006 compared to Rs. 2001 (\$45) on the last trading day of the previous year, giving a return of 37% year-to-date. Hero Honda traded at Rs. 705 (\$15) on August 16, 2006 compared to Rs. 860 (\$19) on December 30, 2005 putting its investors in to a loss of 18% year-to-date.

Price (in Rs.)	As on 30.12.2005	As on 16.08.2006	Difference
Bajaj Auto	2001 (\$45)	2741 (\$61)	+37%
Hero Honda	860 (\$19)	705 (\$15)	-18%

If we look at the quarterly performance of both the companies, Bajaj Auto earned a total revenue of about \$480 million (Rs. 2202.66 crore) during April-June 2006, 34.8% higher than the same quarter in the previous year. Hero Honda achieved total turnover of about \$525 million (Rs. 2416.65 crore) in April-June 2006, registering a growth of 20.4%. Despite having lower revenue, Bajaj Auto outscored Hero Honda in terms of net profit. Bajaj Auto earned net profit of about \$57.8 million (Rs. 266 crore) compared to Hero Honda's net profit of \$51.68 million (Rs. 237.74 crore). Bajaj Auto's net profit grew by 27.3% compared to Hero Honda's growth of 16.3%.

It is a tough call to make, if you ask whether Bajaj Auto can outscore Hero Honda in the number game. Hero Honda has already stepped up its efforts to acquire more capacity. It has announced a new plant in Uttaranchal to create new capacity. Although Bajaj Auto and TVS Motor took the lead on the technology front, Hero Honda has now paid proper attention toward improving the technology used in its bikes. New product launches lined up for near future will also give a new makeover to its image. Perhaps, that is the reason Bajaj Auto has never acknowledged that it wants to reach the number one position in terms of volumes, the position it possessed till early 90s. Bajaj Auto simply wants to be the most valuable two-wheeler company of India. No doubt, the company is creating value for itself in the two-wheeler market and also for its investors in the stock market.

Although, a world of caution is advisable here. While the total revenue and net profit figures of Bajaj Auto and Hero Honda are not drastically different, the market capitalisation of Hero Honda is just half of Bajaj Auto. Of course, Bajaj Auto is genuinely commanding higher price multiple because of its higher growth rate. The stark difference in the market capitalization, however, is indicating that the current stock prices of Bajaj Auto might also be having the hype factor built in.