Q4 RESULTS

Costlier bikes fuel rise in Bajaj Auto net profit

Excluding one-time items, profit grows 27% to ₹675 crore; exports account for a third of quarterly revenue

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MUMBAI

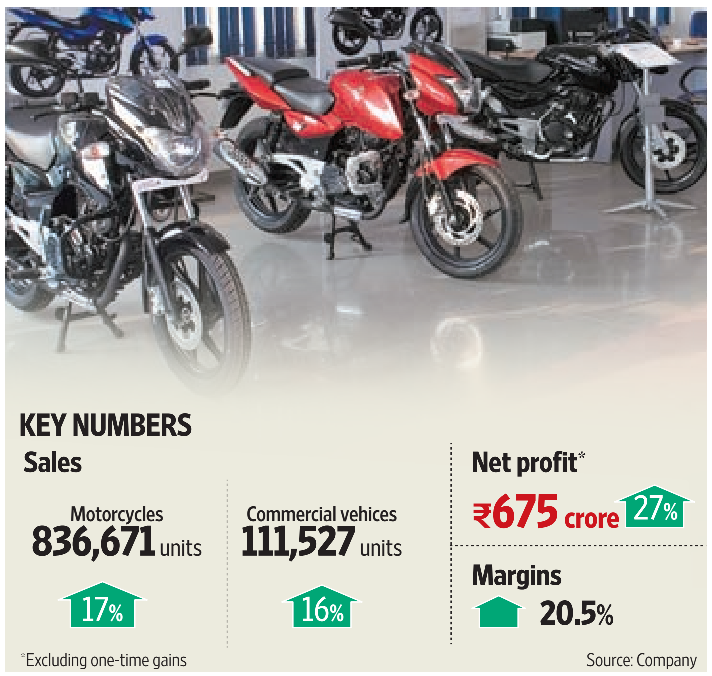

PHOTO BY RAJKUMAR; GRAPHIC BY YOGESH KUMAR/MINT

Bajaj Auto Ltd, India's second largest motorcycle maker, said fourth quarter profit more than doubled boosted by one-time gains and sales of pricier bikes.

Net income rose to ₹1,400 crore in the three months ended 31 March from ₹532 crore a year earlier, the firm said in a statement on Wednesday. Excluding one-time items, net profit grew 27% to ₹675 crore, beating analysts' estimates. A *Mint* survey of five analysts had estimated net profit of ₹635 crore, on average.

Fourth quarter sales rose 23% to ₹4,052 crore. The firm hiked prices by ₹500-1,500 across its range of models at the beginning of the quarter.

Profit was boosted by a one-time gain of ₹827 crore through pre-payment of sales tax, even as the company wrote down a loss of ₹102 crore from its Indonesian unit **PT Bajaj Auto Indonesia**, which has been accumulating losses for three years.

Bajaj had a liability of ₹1,200 crore on account of sales tax to be paid to the Maharashtra government over the next 10 years. The firm chose to pre-pay the amount and got a discount of ₹827 crore.

Exports accounted for a third of the quarterly revenue, the firm said in a statement.

But with the government considering to scrap duty entitlement passbook benefits—a duty drawback scheme granted against exports—from 1 June, analysts said Bajaj's margins could be hurt in the coming quarters. The duty drawback programme allows exporters to claim refunds on taxes paid on imports.

"Should the government go ahead with scrapping the incentive, it will drag the company's operating margins from the current 20% to 16%," said Mahantesh Sabarad, analyst at **Fortune Equity Brokers (Pvt.) Ltd**.

The firm's duty drawback rate will drop 2 percentage points from 11%, Sabarad said.

For the year ended March, Bajaj Auto reported sales of ₹15,998 crore, up 39% from ₹11,509 crore a year earlier.

"Focus on high-end motorcycles and near record sales of commercial vehicles enabled the company to record healthy operating Ebitda margins of 20.5%, the best in the industry," the firm said in a note. Ebitda, or earnings before interest, taxes, depreciation and amortization, is a measure of operating profitability.

Costlier models such as Pulsar and Discover contribute almost one-third to the company's sales volume.

Bajaj Auto's commercial vehicle sales rose 16% to 110,000 units from a year earlier.

The firm has not been affected too much by high prices of key raw materials such as rubber, aluminium and steel, which have eaten into the profits of some other automakers. "This is despite the company missing the volume guidance of four million units for the full year," said Umesh Karne, analyst at the brokerage **Bric Securities Ltd**.

Steel prices increased 6% in the quarter ended March from the preceding three months, whereas aluminium prices rose 7% from the December quarter, putting further pressure on profitability of companies. Lead, a key ingredient in making batteries, has risen 9% from the preceding quarter, but the highest rise has been recorded by natural rubber, up 33% from the quarter ended December, Sachin Gupta and Chetan Vohra of **Edelweiss Securities Ltd** wrote in a recent research report.

Bajaj Auto sold 3.8 million units of two- and three-wheelers in both domestic and export markets during the fiscal, a rise of 34%.

"They have been able to manage their costs a lot better on back of a rich product mix and a price (hike) taken during the quarter," said Surjit Arora, analyst at the brokerage **Prabhudas Lilladher Pvt. Ltd**.

Bajaj Auto's shares slipped 1.7% to close at ₹1,286.65 on the Bombay Stock Exchange, while the benchmark Sensex shed 0.3% to the close at 18,086 points.

The board of directors recommended a dividend of ₹40 a share on the expanded share capital after the issue of bonus stock to investors.

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SCRUTINY LIMITS

CCI's merger norms may be eased further

BY SANGEETA SINGH
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NEW DELHI

The ministry of corporate affairs (MCA) plans to further relax merger and acquisition (M&A) norms less than a month before the Competition Commission of India (CCI) starts scrutinizing deals above a certain size.

The easing applies to regulations that require CCI approval for M&A deals involving global firms that also have interests in the country, according to two senior officials at the regulator and one at the ministry.

According to current regulations, global firms with a presence in India will need CCI clearance if combined worldwide sales amount to \$2.25 billion (around ₹10,000 crore), with total local sales of ₹2,250 crore or assets of ₹750 crore. For global conglomerates, the threshold is \$9 billion worldwide, with combined sales in India of ₹2,250 crore or assets of ₹750 crore.

CCI is to start examining M&As that are above the threshold in June. This is irrespective of the impact of such mergers on the Indian market, and is referred to as domestic nexus in competition law parlance. This will be the second time MCA relaxes the norms—the threshold was raised by 50% from ₹1,500 crore of turnover and ₹500 crore of assets in March.

Industry had extensively lobbied CCI and MCA for diluting norms saying they would lead to confusion, according to one of the officials cited above. "The domestic nexus threshold may be removed totally or modified considerably," said a senior MCA official who did not want to be identified. "We are looking at it. If the ministry decides to remove this or modify the limit, it will issue a notification."

CCI won't need to be notified unless there is a significant local impact for overseas mergers, chairman Dhanendra Kumar had said last week while briefing reporters on the changes incorporated in the draft regulations. He had added that the ministry would clarify on this soon.

There's still considerable ambiguity over establishing the India nexus related to a transaction for the purpose of notifying CCI; therefore, MCA needs to elaborate, said Samir Gandhi, partner, Economic Laws Practice. "The government will need to take concrete steps to ensure that only those transactions with a strong connection to India or Indian markets are subject to merger notification requirements," said Gandhi.

This includes clarification on whether only the target firm's Indian assets or sales are to be included in determining a deal is above the threshold, he said. "The government also needs to clarify that only assets or turnover of the specific entity being acquired will be counted in applying thresholds, and not that of its parent's or owner's."

There are complicated tests to gauge the appreciable adverse effects of mergers by global firms, and mere threshold limits for turnover and assets will not help, Vijaya Sampath, group general counsel and company secretary, **Bharti Enterprises Ltd**, said last month while representing industry lobbies Federation of Indian Chambers of Commerce and Industry and Confederation of Indian Industry.

PROJECT FUNDING

IL&FS Financial to raise \$4-5 bn this year

BY JOEL REBELLO
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MUMBAI

IL&FS Financial Services Ltd, the investment banking arm of **Infrastructure Leasing and Financial Services Ltd** (IL&FS), plans to raise \$10-15 billion (₹45,000-67,500 crore) in the next five years to finance the company's infrastructure projects such as power plants, roads and ports.

Of this, \$4-5 billion will be raised in 2011-12, managing director and chief executive officer Ramesh Bawa said over the telephone on Wednesday.

"For our own projects we will need to raise about \$10 billion to \$15 billion in the next five years, but we will also help other companies raise money for their projects and that amount this year could be about \$15 billion, 15-20% of which will come from abroad," Bawa said.

On Tuesday, the company announced the opening of a new office in Dubai, its third one overseas, to help it raise money for its own needs as well as that of clients.

"We already have offices in Singapore and London through which we offer syndication and advisory services to other companies as well," he said. A Hong Kong office is also planned for this year, he said.

Money for infrastructure projects in India is available as long as the developers are serious, said Ankit Babel, research analyst at Mumbai-based **Pioneer Investcorp Ltd**.

"If the money is cheaper abroad, they can borrow from there, it doesn't matter. There is a big need for good infrastructure in the country and users are ready to pay if the end result is good, so recovery is also not a problem," he said.

Local bank lending rates have been on their way up in the last few months as the Reserve Bank of India (RBI) has raised interest rates to fight inflation. **State Bank of India**, the country's largest lender, has raised its main lending base rate by 1.25 percentage points since January, while RBI has hiked its repo rate by 100 basis points to 7.25%.

One basis point is 0.01%.

Bawa said his firm will look for cheaper funds from abroad through its branches there. In India, the company has about 15,000 megawatts (MW) of coal-based thermal power projects in the pipeline, funding for 4,500MW of which is already tied up.

"We are in talks with three companies from the Middle East to sell equity stake for the remaining 10,500MW of power projects here," managing director and chief executive officer, Bawa said.

BASE EFFECT

Dell sees India sales rise 28% in Mar quarter

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Dell Inc., the world's second largest maker of personal computers, said sales at its Indian unit rose 28% in the three months ended March from the year earlier. India is also one of fastest growing markets for the company in the Asia-Pacific and Japan (APJ) region for Dell.

The firm does not provide revenue details for individual countries and only gives growth rates for their operations. The Indian growth rate is high because of the low base compared with other countries in the region. China grew at 22%, while Korea grew at 15%.

"We believe we are quite successful here; however, the growth also depends on the vibrancy of the market," said Paul-Henri Ferrand, global chief marketing officer for consumer and small and medium business, and president, Dell Asia.

India's personal computer market (which includes desktops and mobile PCs) grew 6.2% in the March quarter from a year earlier to 2.6 million units, according to market researcher **Gartner Inc.** Dell is the market leader in India with a 16.7% share followed by the local units of **Hewlett-Packard Co.** and **Acer Inc.**, according to Gartner.

Dell's APJ revenue grew 15% to \$3 billion in the quarter. At the global level, revenue declined in the consumer segment by 7%, as demand was softer than expected. In APJ this grew 26%, with China, India and Korea contributing most to the growth.

The firm employs 40,000 people in the region, out of which 24,000 are located in India and 6,000 in China. Ferrand indicated that Dell is looking to expand its workforce in the region though he did not give the numbers. He also said the firm is looking at expanding its manufacturing facility in Sriperumbudur in Tamil Nadu. The company has already increased capacity to 1.6 million units a year from about one million units.

Dell, which announced quarterly earnings on Tuesday, said revenue grew 1% to \$15 billion. Net income rose to \$945 million from \$341 million.

DRIVING IN

Scania to set up plant in Bangalore

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NEW DELHI

Heavy trucks and bus maker **Scania Commercial Vehicles**, a subsidiary of Germany-based **Volkswagen AG**, will set up an assembly plant in India, its second largest outside Sweden in terms of volume.

The firm will set up the facility in Bangalore with an initial capacity of 2,000 trucks, 1,000 buses and 1,500 engines. The engines will be made for industrial and marine applications and can be used in escalators and generator sets, among other things.

"As part of a long-term plan, we will start with setting up a product centre in Bangalore that will have 100 people working with us," said Henrik Fagrenius, managing director of Scania's Indian arm. "We have not yet decided on the amount of investment to be made, but the centre will be second to the biggest, which is in South Africa."

Scania has six such centres in Taiwan, Malaysia, Dubai, South Africa, South Korea and Russia. It has two engine plants in Stockholm and Sao Paulo, Brazil.

"We hope to be up and running by next year. The investment and other details will be ready by the end of this year," said Fagrenius. "We will bring a range of products in trucks and premium city and inter-city bus segments."

> The Indian assembly plant will be the firm's second largest outside Sweden in terms of volume

Scania is present in India in partnership with the engineering company **Larsen and Toubro Ltd** (L&T), which has been selling its mining trucks since 2007-08.

The company has sold around 600 mining trucks in this period. "This initiative will further strengthen our relationship with L&T," said Fagrenius. "This will also support L&T's position, since the company's Scania customers will benefit from a larger range of models, shorter delivery times and higher service availability."

Scania will test-run some heavy haulage trucks and luxury buses for city and inter-city routes in India by September. Its heavy trucks are in the range of 220-730 horse power; the company will decide which ones to bring to India after the tests.

The Indian market in the category of vehicles with a load capacity of 25 tonnes and above was 35,000 in 2009, according to Scania.