Four-Wheeler Industry

Indian Automobile Sector

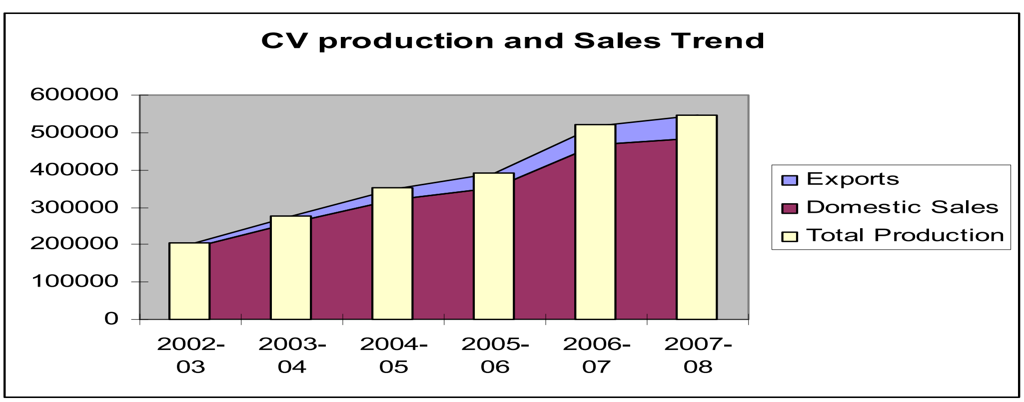
The Indian economy has grown at an annual rate of more than 8% over the last five years and the industrial production has made an outstanding contribution to this growth. Auto industry was licensed, controlled and restricted in the early years of independent India and had a limited contribution to the economy. But post de-licensing in 1991 the industry has grown at an average rate of 17%. The industry currently contributes about 5% of the GDP and it is targeted to grow five fold by 2016 and account for over 10% of India's GDP. Automotive mission plan (AMP) expects the industry to reach a turnover of $150-200 billion in the next ten years from the current $45 billion levels. Over the last five years the production of four wheelers in India has increased from 9.3 lakh units in 2002-03 to 23 lakh units in 2007-08 reporting a CAGR of 20%. Vehicle manufacturers are increasingly adopting an outward looking approach and exploring new markets & territories, ranging from Middle East, Europe, South Africa, Algeria, Latin America, Russia, etc. Exports have increased immensely from 84,000 units in 2002-03 to 280,000 units in 2007-08. Crisil estimates the passenger vehicle exports to cross 7 lakh units by 2011-12.

Commercial Vehicle Industry

The commercial vehicle (CV) Industry in India, as is the trend internationally, is cyclical, with periods of volume growth leading to investments in fleet capacity and subsequently to periods of correction. In spite of the inherent cyclical nature, the long-term growth prospects for the industry remain closely linked to the development of road infrastructure, growth in gross domestic product (GDP) and industrial production. The Indian CV industry is currently going through demand correction following one of the longest up-cycles in its history. The Industry which grew at a rate of above 25% over 2001-07 has grown by just 5% in FY08. The long up-cycle was driven by strong economic growth and investments in road infrastructure, besides favorable regulatory changes and a benign financing environment. The industry, on its part, has used its period of growth and the resulting financial surplus to invest in product development and improvement in operating efficiencies. These efforts have resulted in industry extending its presence into newer geographies and exports have increased at a CAGR of almost 40% over the last five years. Going forward this could help in mitigating the effect of down cycle to an extent.

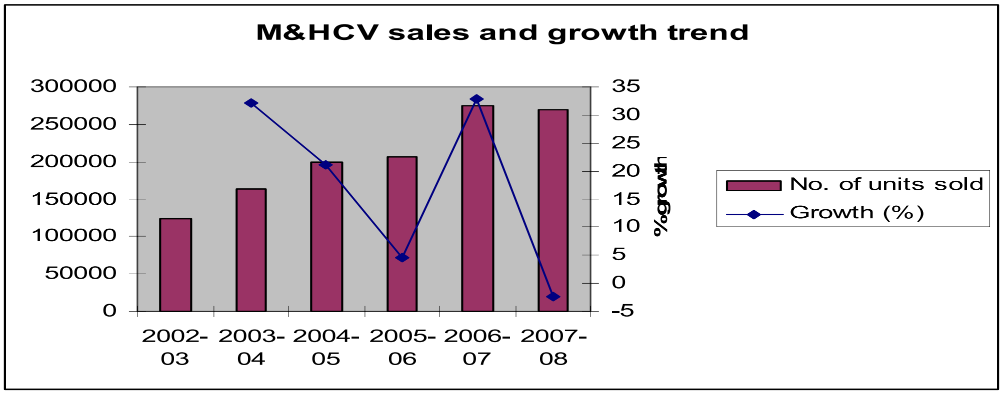
Industry growth

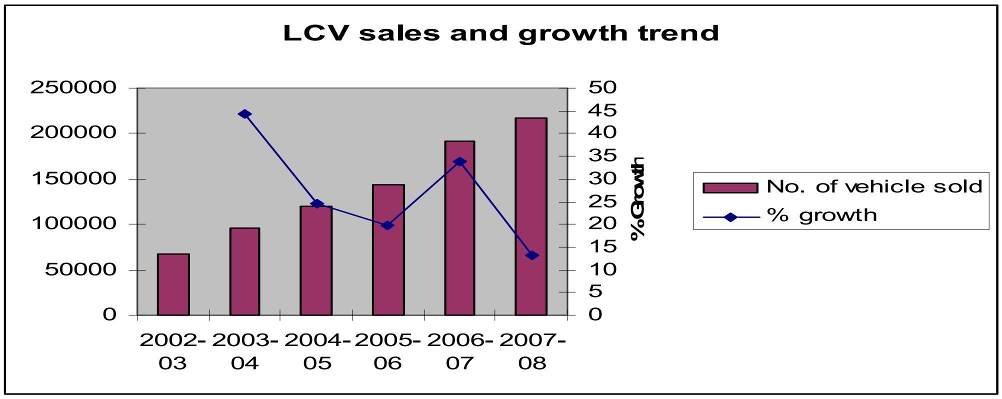
Over the last five years light commercial vehicles (LCV) and medium/ heavy commercial vehicle (M/HCV) segment have grown at a CAGR of 27% and 17% respectively. Although growth of these segments has shown similar trend, volume growth in the M/HCV segment has been more volatile. The demand for M/HCV goods carrier segment mainly depends on higher capacity addition at the fleet operator level and also prone to severe demand shocks. The LCV segment, though cyclical, usually exhibits steadier demand patterns on account of wide usage range.



Source- SIAM

Overall Sales trend





Source- SIAM

Structure of Indian CV segment

The CV industry in India is split between the LCV and M/HCV segments, with the classification being based on gross vehicle weight (GVW). According to Industry norms, vehicles with GVW less than 7.5 tonnes are classified as LCVs while the ones heavier than these are termed M/HCVs. In terms of usage, CVs may be categorized as goods carriers and passenger carriers. Among the passenger carriers in the less than 7.5 tonne GVW segment, those with sitting capacity up to 13 are categorized as utility vehicles (UVs, and not part of LCVs) while those with capacity over 13 passengers are grouped as LCVs. According to Crisil statistics, the overall CV industry is split between the LCV and M/HCV segments roughly in the ratio of 45:55.The Indian four-wheeler industry is duopolistic in nature with Mahindra and Mahindra (M&M) and Tata Motors holding a major share in LCV segment (90.8%) and Ashok Leyland (ALL) and Tata Motors holding a major share in M&HCV segment (88.6%).

M&HCV – Passenger Carrier

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YoY (%)	FY07	FY08
Tata Motors Ltd.	13,751	16,939	23	47.92	43.82
Ashok Leyland Ltd.	11,674	17,582	51	40.69	45.48
Eicher Motors Ltd.	1,609	1,804	12	5.61	4.67
Swaraj Mazda Ltd.	1,422	2,090	47	4.96	5.41
Total	**28,693**	**38,655**	**35**	**100**	**100**

Source: SIAM

M&HCV – Goods Carrier

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YoY (%)	FY07	FY08
Tata Motors Ltd.	159,630	149,099	-7	64.66	64.17
Ashok Leyland Ltd.	65,069	57,846	-11	26.36	24.9
Eicher Motors Ltd.	17,149	20,666	21	6.95	8.89
Swaraj Mazda Ltd.	4,300	3,663	-15	1.74	1.58
Total	**246,863**	**232,339**	**-6**	**100**	**100**

Source: SIAM

LCV – Passenger Carrier

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YoY (%)	FY07	FY08
Tata Motors Ltd.	11,892	13,317	12	50.09	48.11
Mahindra & Mahindra Ltd.	3,535	5,284	49	14.89	19.09
Force Motors Ltd.	3,698	4,330	17	15.58	15.64
Swaraj Mazda Ltd.	2,492	2,234	-10	10.5	8.07
Eicher Motors Ltd.	1,637	1,853	13	6.89	6.69
Ashok Leyland Ltd.	332	616	86	1.4	2.23
Total	**23,742**	**27,683**	**17**	**100**	**100**

Source: SIAM

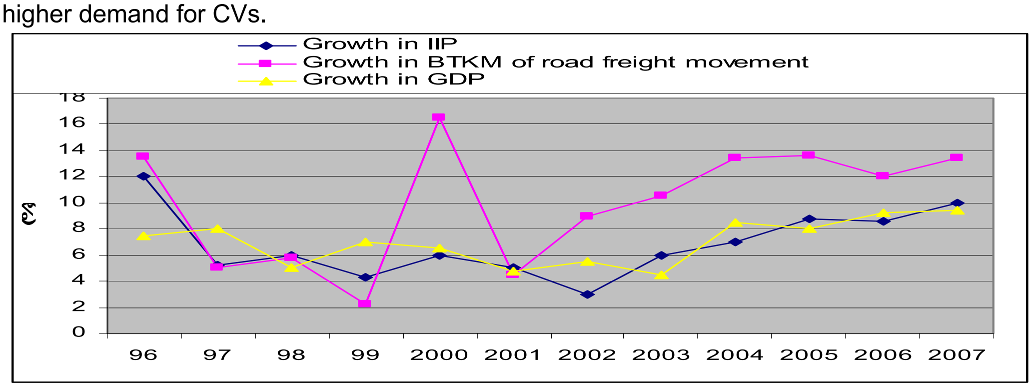
LCV – Goods Carrier

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YoY (%)	FY07	FY08
Tata Motors Ltd.	113,900	120,856	6	67.61	64.24
Mahindra & Mahindra Ltd.	43,186	49,860	15	25.63	26.5
Eicher Motors Ltd.	5,677	3,288	-42	3.37	1.75
Force Motors Ltd.	3,583	6,572	83	2.13	3.49
Swaraj Mazda Ltd.	2,047	2,610	28	1.22	1.39
Total	**168,467**	**188,140**	**12**	**100**	**100**

Source- SIAM

Demand Drivers

GDP/IIP- CV industry has high degree of correlation with the GDP and IIP (Index of Industrial production) of the country. The Industry follows the path by which these two goes and good performance of GDP and IIP results in higher demand for CVs.



Source- CRISIL Research

Freight outlook- CV sales have a direct correlation with the state of the freight industry, with growth in CV sales (MHCV trucks) closely tracking increase in freight movements. Strong economic activity in the country, especially in sectors like cement, mining, steel production, automobiles, consumer durables, food processing and food grain production, leads to increased demand for freight movement by road.

Freight rates and fuel price- Truck operators' profitability is most sensitive to freight rates and fuel prices (60-65% of the total cost). With other things remaining constant, operator profit before depreciation and tax rises 6.5% with a 1% rise in freight rates and 3.5% for a 1% decline in fuel prices

Policy initiatives- The CV industry has benefited from regulations like discouraging the use of old, polluting and uneconomical vehicles. The Supreme Court ban on overloading has also been very positive, leading to incremental volumes in the last two years. Further any government's likely policy initiatives like scrapping vehicles more than 15 years old can potentially unleash a huge replacement demand. Further the industry is also expected to benefit from the proposed phase-out of Central sales Tax by 2010.

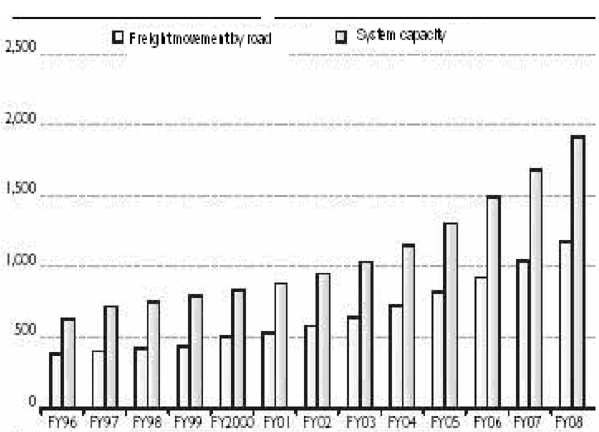
Replacement cycle- Replacement cycle for trucks has been shrinking, declining from about 12 years to nearly seven years now. The proportion of trucks under five years of age rose from about 34% in FY02 to nearly 45% in FY06.

Competition from Indian Railways- Road transport competes with the Indian Railways (IR) for transportation of all major commodities, with roads having an edge in transportation of non-bulk commodities owing to point to point delivery with railways commanding a higher share in transportation of bulk commodities. Over the years, roads have gained an increasing preference vis-à-vis the railways and the share of road transport currently stands at about 65%.

Demand supply scenario- The significant part of the demand for new trucks comes from capacity additions by small fleet operators and first-time users. This along with policy changes like ban on overloading has led to significant addition in the truck population. Also with easy availability of finance at low interest rate helped in increase of capacity in the past five years. But as interest rates are set to increase it might lead to slight dampening in demand for M&HCV in near future. However, demand is likely to remain healthy for LCV owing to the rise in demand for small commercial vehicle for providing the last mile connectivity and the creation of hub and spoke models.

Demand and supply trend

Freight movement by road vs. system capacity



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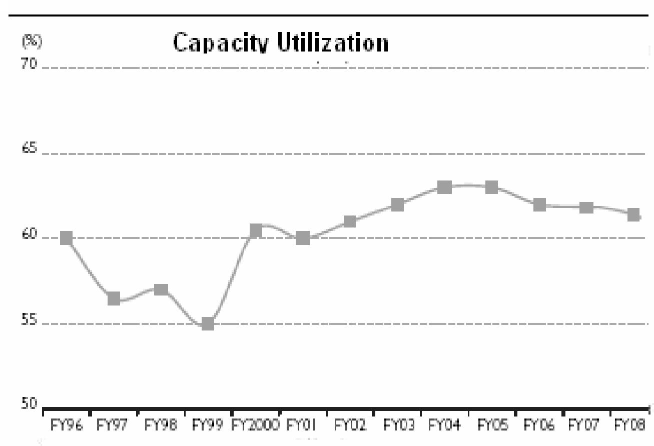


Key Success Factors

- **Ability to enhance and vary product mix -** A diverse and broad product mix enables a manufacturer to serve a wide variety of transportation solutions across different load levels. It also helps in building strong brand loyalty among customers. In addition the presence in business such as auto spares, buses, exports and defence helps companies to weather the cyclicity in CV sales.

- **Sales and distribution service network -** A widespread sales and distribution setup enables the company to ensure a geographically diversified client profile.

- **Access to new technologies –** In addition to matching competitor's new products and upgraded machinery, technology is also going to be critical with emission norms are going to be stricter going forward. The requirement of updated technologies has driven domestic players into acquisition/collaborations/JVs with global majors.

- **Balance between outsourcing and in-house production -** Companies with high integration level have higher fixed costs which results in higher profitability in robust growth scenario. However it also results in sharp drop in performance as they would be affected by lower sales volume backed by Industry cyclical nature. More over company's proximity to their raw material and component suppliers help them in reducing procurement costs.

Concerns

- Higher steel prices have been a key concern over the last two years. The CV industry has tackled this both by passing part of the costs through price hikes and also by optimizing their selling, advertising costs and treasury efficiencies.

- Another concern is a slowdown in the Indian economy. This would lead to lower investment in infrastructure which in turn will affect the CV demand

- Higher domestic inflation and increase in fuel prices are other major concerns. Without a concomitant increase in freight rates increase in fuel price will have a negative impact on demand for CVs.

- Rise in interest rates may prove to be a dampener on the CV demand, especially given the fact that around 60-70% of vehicles purchased are financed.

Outlook

Although rise in interest rates and fuel price may dampen the growth of the sector in short run the long-term outlook for the domestic CV industry remains strong. The expected continuance of economic growth and investments in infrastructure will help the sector report robust growth going forward. The entry of new players in the industry and the significant capacity additions expected are however likely to keep the competitive pressures high. On the demand side, a combination of tightening regulatory norms (on emissions and vehicle scrapping) and increasing customer selectivity is expected to drive a shift towards high tonnage quality products. The top players in the domestic CV industry have robust financials, supported by strong cash accruals and a comfortable capital structure. These players are capable of funding their significant investment plans over the medium term without resorting to any large borrowings. Moreover, the ongoing capacity expansions are based largely on outsourcing models, which aim at better sharing of risks with component suppliers and lower the break-even levels. The significant export drives being made by the leading CV players are likely to lower the risks arising from concentration on the domestic market and mitigate the impact of cyclical downturns to an extent.

Passenger vehicle Industry

The past few years have witnessed a rapid change in all the segments of the Indian passenger vehicle industry. International competition, increase in the number of participants, and the need to counter pressure on margins have made it a buyer's market rather than a seller's one. Today customers have wide model choices and the rising income levels, especially among young adults, coupled with the low equal monthly installments (EMIs), have made vehicle purchase affordable. With increased foreign competition in passenger vehicles, domestic participants are scrambling to catch up and compete by investing in R&D and improving overall efficiency. Automobile manufacturers are now intending to provide cars in every segment with widened price range and reaching more potential customers.

Segment classification

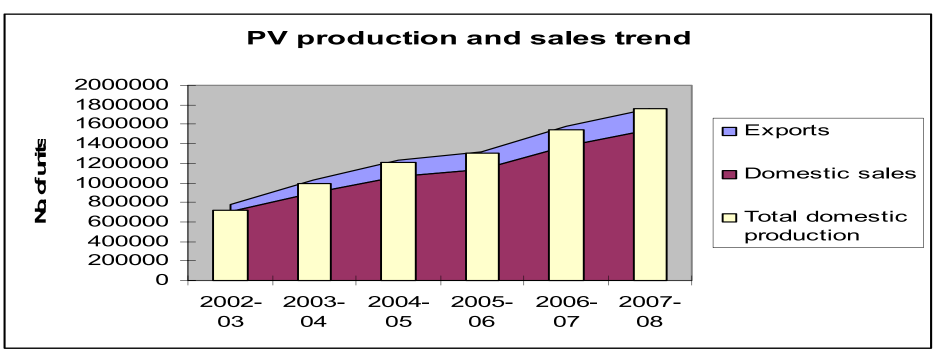
The Passenger Vehicle (PV) industry is divided into passenger cars, utility vehicles (UV) and multi utility vehicles (MUV). Passenger cars based on their size are further divided into six sub classes.

Segment	Description	2006-07 - Sales	CAGR Over 5 years	Major Models
A1 Mini	Cars having length up to 3400mm	79,245	-11.5%	Maruti 800
A2 Compact	Cars having length between 3401 and 4000 mm	786,590	23%	Alto, swift, Zen, Indica, Santro
A3 Midsize	Cars having length between 4001 and 4500 mm	200,918	19%	Esteem, Indigo, Accent, Honda City
A4 executive	Cars having length between 4501 and 4700mm	37,099	87%	Honda Civic, Toyota Corolla
A5 Premium	Cars having length between 4701 and 5000 mm	5,963	6%	Honda Accord, Hyundai Sonata
A6 Premium	Cars having length more than 5000 mm	189	23%	S class
UV		222,495	16%	Tat Sumo, Safari, Mahindra Bolero, Scorpio
MUV		84,707	6%	Omni, Versa

Source- CRISIL

Growth in Industry

The Passenger Vehicles (PV) market grew 14% YoY to 1,762,131units as against 1,545,223 units sold in 2007-08. It is largely attributed to the impressive growth in the passenger car segment in FY07 08. The passenger car segment contributed 80% to the total PV sales in financial year 2007-08. Marketwise, it was backed by healthy growth in its domestic sales and exports. Its domestic sales grew 12% YoY to 1,547,985 units in financial year 2007-08. Also exports grew by 9.4% YoY to 217,054 units in FY2007-08. Over the last five years total PV production has increased at a CAGR of 19.5%, from 723,330 units in 2002-03 to 1,762,131 units in 2007-08. In the same period domestic sales and exports of PV increased at a CAGR of 17% and 25% respectively. The share of exports to total sales increased from 9.25% in FY03 to 12.3% in FY08.



Source- SIAM

Comparative Production, Domestic Sales and Exports Data

Segment / Sub segment	Production			Domestic Sales			Export		
	FY07	FY08	% change	FY07	FY08	% change	FY07	FY08	% change
Passenger Cars	1,238,021	1,416,480	14.4	1,076,582	1,203,531	11.8	192,723	209,864	8.9
Utility Vehicles (UVs)	222,495	244,650	10	220,306	243,589	10.6	4,399	6,274	42.6
Multi Purpose Vehicles (MPVs)	84,707	101,001	19.2	83,091	100,865	21.4	1,330	916	-31.1
Total PVs	1,545,223	1,762,131	14	1,379,979	1,547,985	12.2	198,452	217,054	9.4

Source-CRISIL

Capacity vs. utilization

Total capacity for PV in India stood at around 2.5 million units in 2007-08 against 1.25 million units in 2002-03, a CAGR of around 15%. However, the capacity utilization of the industry has fallen to around 71% in 2007-08 from 87% in 2006-07. During 2007-08 total capacity increased by almost 40%. This is on account of major capacity expansions undertaken by OEMs like Honda Siel, Maruti and Hyundai towards the end of 2007-08. Moving forward car manufacturers have announced ambitious capital expenditure plans over the next 2-3 years. Driven by high domestic demand and increasing exports capacity is expected to touch 3.9 million units by 2009-10 (CRISIL).

Structure of Indian PV segment

Passenger vehicle industry is divided into three segments namely Passenger Vehicle (PV) segment, Utility vehicle segment and Multi Purpose Vehicle segment. PV segment contributes to about 80% of the volume while rest 20% is divided between UV and MPV. Indian passenger vehicle industry is highly fragmented especially if we compare it to two wheeler or commercial vehicles Industry. Although overall Maruti is the clear market leader with about 50% of the market share and the second largest player have only one third of the share of Maruti.

Passenger Cars

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YOY (%)	FY07	FY08
Maruti Suzuki India Ltd.	549,317	618,168	13	51.02	51.36
Hyundai Motor India Ltd.	194,870	216,307	11	18.1	17.97
Tata Motors Ltd.	179,007	167,058	-7	16.63	13.88
Honda Siel Cars India Ltd.	59,452	59,373	0	5.52	4.93
Ford India Pvt. Ltd.	39,820	30,962	-22	3.7	2.57
General Motors India Ltd.	16,986	45,265	166	1.58	3.76
Mahindra Renault Pvt. Ltd.		25,891			2.15
Others	37,130	66,398	9	3.45	5.53
Total	1,076,582	1,203,531	12	100	100

Source- SIAM

Utility Vehicles

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YOY (%)	FY07	FY08
Mahindra Renault Pvt. Ltd.	89,784	104,020	16	40.75	42.7
Tata Motors Ltd.	47,917	49,725	4	21.75	20.41
Toyota Kirloskar Motor	43,563	48,202	11	19.77	19.79
General Motors India Ltd.	21,871	21,278	-3	9.93	8.74
Force Motors Ltd.	8,499	8,113	-5	3.86	3.33
Maruti Suzuki India Ltd.	3,221	3,927	22	1.46	1.6
Honda Siel Cars India Ltd.	1,873	3,428	83	0.85	1.41
Ford India Pvt. Ltd.	1,975	2,918	48	0.9	1.2
Others	1,603	1,978	23.4	0.73	0.82
Total	220,306	243,589	12	100	100

Source- SIAM

Multi Purpose Vehicles

Manufacturers	Domestic Sales (Nos.)			Market Share (%)	
	FY07	FY08	YOY (%)	FY07	FY08
Maruti Suzuki India Ltd.	83,091	89,729	8	100	88.96
Tata Motors Ltd.	0	11,136		0	11.04
Total	83,091	100,865	21	100	100

Source- SIAM

Demand drivers

Increase in affordability - the demand for passenger cars are driven mainly by greater affordability, which in turn increases the aspiration level of the customers. Today with high amount of disposable income in the hand of Indian youth, who forms major portion of the population, PV market has larger addressable market.

Demographic drivers- Cars being aspirational products, purchase decisions are influenced by the overall economic environment. Increase in per capita income increases the consumption tendency of the customer. Growth in per capita income and rising aspirations and changing lifestyle is leading to increased preference for cars over two-wheelers, which is also having a positive rub off on car demand.

Replacement cycle, second car and up gradation- Factors like the rapid pace of new product introductions, rising income levels and a buoyant used car market have shrunk the average replacement cycle for cars. According to Crisil statistics, over the last decade, car replacement cycle has shrunk from 10 years to nearly five years at present. With more than one working member in the family concept of a second car is also on rise in urban India

Availability of easy financing options- a majority of PV purchases are financed through financial institutions. Over the past 4-5 years car industry has been benefited through significant increase in affordability due to the decrease in EMIs. Car finance rates dropped from 17% in 2000-01 to 11% in 2005-06. However it has increased and averaged at 13.75% in 2006-07. The current hardening of interest rates is expected to affect demand by reducing affordability.

Rural market- PV has been traditionally seen as luxurious item in India, especially so in rural areas. Today PV manufacturers are ready to break this myth and are exploring rural market, which constitutes more than 2/3rd of countries population, with great vigor. To penetrate in semi urban and rural market manufacturers are trying to increase the availability of finance in these areas by having tie-ups with financial institutions. .

New offerings - car sales increases when a new model hits the market. Due to escalation in competition in Indian car market, frequency of new model launches has increased. In the past one year only the Indian car market has seen many launches namely SX4, Swift Diesel, Zen Estilo, Spark, Logan, etc.

Increased distribution reach- Distribution is another key factor in driving demand. Increase in distribution reach brings a large number of households into the target population. Having realized the purchasing power of Tier II & III Indian cities companies are expanding their distribution network their.

Exports - The share of exports from domestic production is currently at 12-13%, which is much lower than current export hubs. Currently, India's share of global passenger cars export volume stands at less than 1%. But India is fast emerging as a manufacturing hub for leading global car makers, and several manufacturers have already firmed up plans for setting up manufacturing bases in India, which will also be used for exports.

Nano Effect - Ever since the unveiling of the Tata Nano—and the hysterical response it triggered off in India and overseas—the ultra low cost car is right on top of the automotive mind-space. All the attention it has got and all the promises it has generated makes the Nano a terribly exciting product. But that's not all. What makes the ultra low cost (ULC) trend even more exciting is the number of top MNC carmakers that have indicated that they would be looking at the segment in the near future. According to C K Prahlad, the management mahaguru, the Nano represents an important inflection point in the global auto industry and in the evolution of Indian Automotive industry. What originally started as an alternative to a scooter now has the capability to cater to a multiple set of needs and therefore will address a number of segments.

Key success factors

Presence across segments - Manufacturers with presence across various product segments can ensure higher volume and better capacity utilization by using the common manufacturing capacity. Typically a customer upgrades from one segment to higher segment and the presence across various segments ensures that the company retains its existing customers.

Efficient operations - Competition in PV segment is very intense and this requires the existing players to initiate steps to reduce their cost of production. Effective and successful operation methods like platform commonality, reduction in vendor base and workforce rationalization can help a company immensely.

Wide dealer network and availability of finance - A wide dealer network helps the company serve customers over wide geographical area. For e.g. Maruti has used its available wide service network as point of difference over competitors. The companies are tying up with the financial institutions having rural presence to provide additional financing options to customers in such areas.

Access to latest technologies - Indian PV segment is highly competitive with as many a 14 players operating in it and more than 80 models on the offering. But still any new model launch meets with increase in sales volume for the company. Moreover in a time when a substantial portion of Indian customer is looking to upgrade in higher segment, companies with latest technologies and latest models will catch more attentions. .

Key concerns

- In the recent past cost of all most all the key raw materials (especially for metals) for automobile segment has gone up. This combined with current high inflation rates looks set to affect demand for PV globally and in India.

- Easy availability of low cost finance is one key demand driver for automobile sector. But as the RBI has taken some liquidity tightening steps, interest rates are set to increase in short term and it can have dampening effect.

- Unlike two wheeler or commercial vehicle sector, PV market is fairly fragmented. There are 14 players and more than 80 models in the market. So, there exists high competition in the segment. Increased competition has led to fierce price competition which in turn has resulted reduced margins for players. Now with increase in cost of inputs competition can result in further reduction in profitability.

Used Car Market

The Indian used car market has increased significantly, growing at a CAGR of around 28% between 2001-02 and 2006-07 driven by reduction in the holding period of vehicles, increase in variety of models and the development efforts taken by organized players like Maruti True value, Mahindra First Choice, Honda Auto Terrace, and Ford Assured etc. Entry of manufacturers in the used car market has resulted in increase of share of organized players in a predominantly unorganized market. Moreover entry of these players is also set to help the market which was otherwise suffering through the issues of valuation, ownership, documentation and quality of car.

According to Crisil data, the size of used car market in India is estimated to be equal to that of new car market with registered volume of 12-13 lakh cars in 2006-07 with the total sales in value terms of around Rs 250-260 billion. In India, the mini and compact segment accounts for around 60% of the total used car volumes. Mid sized cars form around 30% of the used car sales.

Outlook

The Passenger Vehicle segment has grown at an annual rate of 20% over the last five years. With the presence of about 14 players and with so many brands present or on the verge of making their debut, competition in the future is likely to intensify. Hence the margins that automobile players enjoy might be under pressure, as they will have little room for price hikes. Increase in interest rates and fuel price hikes are expected to dampen the demand in short run. Major players in this segment are also under tremendous pressure of increase in raw material costs owing mainly to high steel and aluminum prices. However with the increasing per head disposable income, lowering age of first-time car users, shorter replacement cycles and lower car penetration, it is expected that the Indian automobile industry would continue to grow at a robust rate in the long term.

Union Budget 2008 and impact

Budget Proposals	Impact
Excise duty cut on small cars from 16% to 12%	Small cars to become cheaper
Excise duty on hybrid cars reduced from 24% to 14%	Hybrid cars to become cheaper
Excise duty cut on buses and their chassis to 12% from 16%	Reduction in cost of buses
Weighted deduction on R&D expenditure	Significant benefit for the outsourcing of R&D in the automobile sector
World-class skill development Programme to be launched	

Major Players Profile

Maruti Suzuki India (MSIL): Maruti Suzuki is the market leader in the passenger car industry with a market share of 46.5% and with a 63% share in the overall compact car segment. Suzuki Motor Corporation of Japan holds a 54% stake in MSIL. Maruti has around 562 sales outlets covering 372 cities. Maruti plans to expand service its service network from 2,500 outlets in more than 1,200 cities to 3,800 outlets in 1,700 cities by FY10. In FY07-08, Maruti has launched SX4 and Dzire in mid size segment. MSIL has announced an investment of Rs.90 billion in the expansion of its manufacturing facilities. This investment will be made over a period of eight years and most of it would be in capacity expansion and setting up of R&D and design facility.

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
Passenger Cars	668,837	47%	587,078	46%
Utility Vehicles	4,012	2%	3,425	2%
Multi Purpose Vehicles	90,644	89%	84,421	100%
Total Of : Passenger Vehicles	763,493		674,924	

Source: SIAM

Key Models: M800, OMNI, Gypsy, Alto, Wagon R, Versa, Grand Vitara, Swift, Zen Estillo, Swift Diesel, SX4 and Dzire.

Mahindra & Mahindra (M&M): M&M is the dominant player in multi utility vehicle segment. In UV market The Company has around 51% market share in FY08. M&M has a market share of 11.2% in C-segment cars during FY08. M&M is second biggest player in the Indian LCV segment. The company has recently announced an investment of Rs 15 billion in the upcoming Greenfield Chakan facility in Pune. It plans to use the capacity for the production of LCV, M&HCV and UV at this plant with the initial capacity of around 2.5 lakh units.

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
Passenger Cars	25,891	2%	0	
Utility Vehicles	107,562	43%	92,305	41%
Total Of : Passenger Vehicles	133,453		92,305	

LCV	FY 08	FY 07	Growth
Industry	62,150	62,586	-0.7%
M&M	10,403	8,651	20.3%
M&M share	16.7	13.8	

Source: SIAM

Major Models: Utility Vehicles: Scorpio, Bolero, Pick-up, Commander, Hard-top etc.
Light commercial vehicles: Maxx Pickup, Maxx Maxi, and minibuses, Tourister

Ashok Leyland (ALL): ALL is the second-largest commercial vehicles manufacturer in India. The company plans to increase the installed capacity from 84,000 vehicles in FY08 to 184,000 vehicles by FY 10 with a capital expenditure of Rs 30 billion over the next three years. Nissan Motor and ALL have stepped up planned investment in their three new joint venture companies to $575 million. The JV will set up manufacturing capacity of one lakh vehicles in the first phase which would be scaled up subsequently. The plant is expected to start production by FY10-11.

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
M&HCV-Passenger Carriers	22,271	46%	15,452	41%
M&HCV-Goods Carriers	60,235	25%	67,302	26%
Total Of : M&HCV	82,506		82,754	
LCV-Passenger Carriers	820	2%	343	1%
LCV-Goods Carriers	5	0%	3	0%
Total Of : LCV	825		346	
Total Of : Comm. Vehicles	83,331		83,100	

Source: SIAM

Tata Motors (TML): TML is the world's fifth largest medium and heavy commercial vehicle manufacturer. The company has plants in Jamshedpur, Pune, Lucknow, and Dharwad and R&D centers in Pune, Jamshedpur, and Lucknow in India and in South Korea, Spain and the UK. The company markets its products in Europe, Africa, Middle East, South Asia, South East Asia and Australia. TML plans to produce new generation Indica from a new platform in later part of 2008. This new Indica will be manufactured at new Tata-Fiat joint venture plant at Ranjangaon in Maharashtra. The company plans to produce 2.5 lakh units of Nano from Singur in the first phase.
Tata Motors has planned a capacity of 2.25 lakh units for Ace, the sub-one-tonne truck, while the existing capacity in Pune is just around 60,000 units a year. Recently, TML has acquired Jaguar and Land Rover from Ford Motors for $2.3 billion.

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
Passenger Cars	179,268	13%	195415	15%
Utility Vehicles	52,324	21%	49550	22%
Multi Purpose Vehicles	11,137	11%	0	
Total Of : Passenger Vehicles	242,729		244965	

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
M&HCV-Passenger Carriers	21,776	45%	18,743	49%
M&HCV-Goods Carriers	157,625	64%	166,129	65%
Total Of : M&HCV	179,401		184,872	
LCV-Passenger Carriers	18,575	55%	16,358	57%
LCV-Goods Carriers	141,697	65%	132,902	68%
Total Of : LCV	160,272		149,260	
Total Of : Comm. Vehicles	339,673		334,132	

Source: SIAM

Eicher Motors (EML): EML produces commercial vehicles including trucks, buses, motorcycles, automotive gears and components. The company has sold 8.1% of promoter's holding to Swedish bus maker Volvo to form a joint venture, in which Volvo will pump up Rs 1,082 crores. The JV would be a subsidiary of EML, where Eicher would hold 54.4% equity and Volvo 45.6%. The manufacturing facility of Eicher Motors is located in Pithampur, Madhya Pradesh. The plant houses some top-of-the-line equipments, a robust infrastructure and has an annual production capacity of 30,000 vehicles. The company is one of the leading manufacturers of commercial vehicles in India with a 33% market share in the 7T-11T segment.

	Sales + Exports			
	FY 08	% Market Share	FY 07	% Market Share
M&HCV-Passenger Carriers	2,148	4%	1,947	5%
M&HCV-Goods Carriers	21,341	9%	17,589	7%
Total Of : M&HCV	23,489		19,536	
LCV-Passenger Carriers	2,283	7%	1,915	7%
LCV-Goods Carriers	4,055	2%	6,621	3%
Total Of : LCV	6,338		8,536	
Total Of : Comm. Vehicles	29,827		28,072	

Source: SIAM

Inter-Firm Cost Structure Comparison

Cost Structure (as % of Net sales) FY08 Vs FY07												
	Tata Motors		Maruti Suzuki		M&M		Ashok Leyland		Eicher motors		Industry	
	FY08	FY07	FY08	FY07	FY08	FY07	FY08	FY07	FY08	FY07	FY08	FY07
Raw materials	68.82	67.28	76.7	76.56	70.8	64.47	75.56	67.13	74.58	69.85	72.56	73.31
Staff cost	4.82	4.41	1.89	1.82	6.89	5.87	6.45	5.08	4.95	4.45	4.33	3.91
Other expenditure	13.66	13.42	10.1	9.74	8.68	12.54	7.2	8.90	15.11	15.14	12	12.03
Depreciation	2.14	1.91	1.72	1.62	2.2	2.22	1.96	2.10	1.6	1.72	1.93	1.83
Interest	0.85	0.72	0.29	0.35	0.23	-0.75	0.62	0.08	0.62	0.66	0.53	0.45
Tax	2.52	2.46	4.64	4.97	1.66	2.93	1.41	2.50	1.42	1.57	3.11	3.20

Source- BSE, Capitaline

Inter-Firm Financial Performance Comparison (FY08)

	Tata Motors	Maruti Suzuki	M & M	Ashok Leyland	Eicher Motors
Total Income	29,461.85	18,823.75	11,836.84	7,803.12	2,280.30
Var%	4.8%	25.1%	13.1%	4.3%	15.0%
Total Expenditure	25,807.46	15,692.91	10,167.17	6,933.54	2,133.85
Var%	5.0%	25.9%	15.3%	3.5%	15.9%
% net sales	87.6%	83.4%	85.9%	88.9%	93.6%
Operating Profit	3,654.39	3,130.84	1,669.67	869.58	146.45
Var%	3.6%	20.9%	1.3%	10.9%	2.9%
Adjusted Net Profit	1,879.43	1,730.82	973.8	477.72	63.23
Var%	0.2%	12.7%	-0.1%	12.2%	3.2%
PBIDTM (%)	12.4%	16.6%	14.1%	11.1%	6.4%
APATM (%)	6.4%	9.2%	8.2%	6.1%	2.8%
ROCE (%)	24.1%	31.0%	25.7%	26.2%	16.2%
RONW (%)	27.7%	22.7%	24.7%	23.9%	14.5%
EPS -Unit Curr.	46.63	59.91	46.24	3.53	21.59
Latest P/E Ratio	9.63	10.77	13.95	7.98	12.71
Market Capitalization	17,319.99	18,635.34	13,580.82	3,811.31	773.18

Source- BSE, Capitaline

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STOCK RATINGS : Strong BUY: >30% upside in the next 6 months; BUY: >20% upside in 12 months; Hold: 10% to 20% upside over the next twelve months; Fully Valued Trade within a +/-10% range over the next 12 months; Sell: >10% downside over the next 12 months