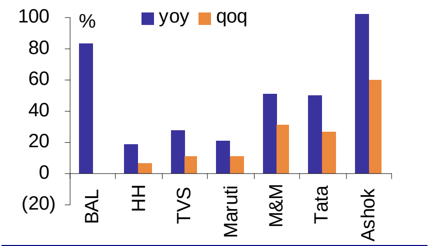
Automobiles – Q4 FY10

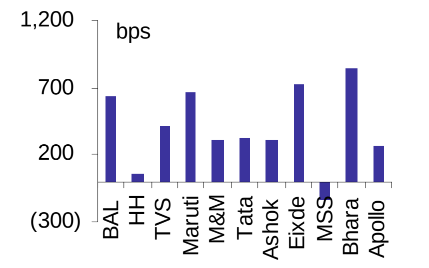
Indian automobile manufacturers are expected to report yet another strong quarterly performance (yoy) driven by robust growth in volumes and margin expansion. Across our coverage universe, OEMs have registered 18.9% - 138.9% growth in volumes. Volume growth has been driven by 1) improved consumer sentiment, 2) better finance availability (except 2-Ws), 3) pre-budget buying and 4) higher industrial activity (CVs). Margins are expected to be under pressure sequentially owing to higher raw material prices but will be substantially higher on yoy basis due to benefits of operating leverage. Auto component manufacturers in our coverage are also expected to report robust performance backed by improved domestic revenues and better margins.

Volume growth



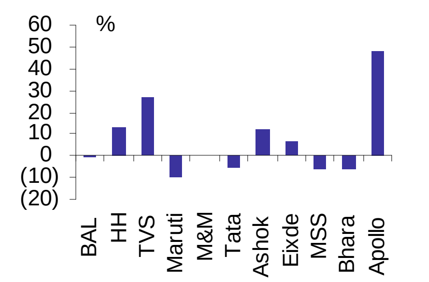
Source: India Infoline Research

Yoy expansion in OPM



Source: India Infoline Research

Stock performance v/s Sensex



Source: Bloomberg, India Infoline Research

- In terms of volume growth, amongst 2-Ws, Bajaj Auto outperformed Hero Honda and TVS Motors by registering a jump of 83.7% yoy. Pre-budget buying has fueled growth in the passenger car market. Domestic passenger car volumes for Maruti Suzuki and Tata Motors increased by 16.7% yoy and 41.5% yoy respectively. Demand for CVs has seen a huge jump driven by a sharp rise in industrial production and a large year-end buying witnessed in Q4 FY10. CV volumes for Tata Motors and Ashok Leyland jumped by 73.6% yoy and 72.8% yoy respectively. Exports for most companies witnessed a sharp yoy jump as global sentiment improved substantially.
- Benefits of operating leverage on account of surge in volumes would translate into a strong margin expansion for all automotive OEMs under coverage on a yoy basis. Nevertheless, sequentially margins are likely to be under pressure as key commodity prices including steel, aluminum and copper have strengthened over the past few months. Operating profit gains along with tax incentives (for few players) will result in a strong PAT growth for all OEMs on a yoy basis.
- Broadly, Auto component sector is expected to post strong set of numbers on the back of continued momentum from the domestic OEM market. Cumulative revenue for the companies under coverage is expected to grow by 57% yoy and 4.8% qoq. Lower cost of raw materials in Q4 FY10 v/s Q4 FY09 coupled with various cost reduction initiatives implemented by the companies will translate into robust PAT growth of 220% on yoy basis.

Q4 FY10 Estimates

		(%) growth			Change (bps)			(%) growth	
(Rs m)	Revenues	yoy	qoq	OPM (%)	yoy	qoq	PAT*	yoy	qoq
Bajaj Auto	33,108	75.8	0.5	21.5	632	(45)	4,391	237.2	(7.6)
Hero Honda	38,997	13.9	1.9	16.6	56	(67)	5,224	36.4	(2.5)
TVS Motors	12,287	37.7	12.8	7.5	408	(18)	325	146.0	36.1
Maruti	85,435	32.8	13.9	13.6	662	(151)	7,230	197.4	5.2
M&M	54,278	49.3	20.7	14.1	302	(79)	4,765	95.6	15.2
Tata Motors	112,745	63.5	25.6	11.6	325	(98)	5,236		23.4
Ashok Leyland	28,456	133.6	56.7	12.5	307	114	1,993	250.4	88.7
Exide Industries	9,678	21.0	6.1	24.0	723	9	1,364	100.0	4.7
Mothersonsumi Systems	19,056	126.0	5.0	9.3	(136)	1	697	153.7	23.6
Bharat Forge	5,100	74.9	0.4	23.0	836	(45)	456		11.4
Apollo Tyres	13,962	25.7	5.5	12.8	267	(269)	820	77.5	(19.6)

*Source: Companies, India Infoline Research; *Pre-exceptional PAT*

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

The information provided in the document is from publicly available data and other sources, which we believe, are reliable. Efforts are made to try and ensure accuracy of data however, India Infoline and/or any of its affiliates and/or employees shall not be liable for loss or damage that may arise from use of this document. India Infoline and/or any of its affiliates and/or employees may or may not hold positions in any of the securities mentioned in the document.

The report also includes analysis and views expressed by our research team. The report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. The recipients of this material should take their own professional advice before acting on this information.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons.

India Infoline Ltd. One India Bull Center, Jupiter Mill Compound, 841, Senapati Bapat Marg, Nr, Elphinstone Road, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000