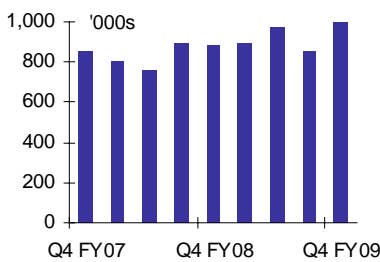


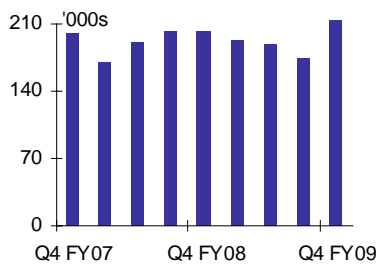
## Automobiles – Q4 FY09

### Hero Honda sales volume



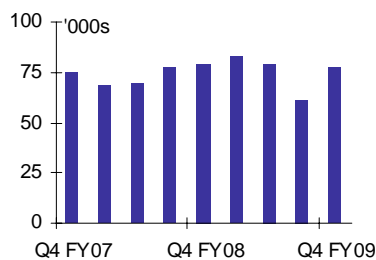
Source: Company

### Maruti sales volume



Source: Company

### M&M sales volume



Source: Company

Q3 FY09 was one of the worst quarters for the Indian Auto Industry. However, Q4 FY09 brought some revival with volumes improving on a qoq basis for most sub-segments. Improved credit availability, especially by PSU banks along with better affordability lead by excise duty cuts, VI pay commission payout for government employees and fuel price cuts changed the fortunes. With high cost inventory of raw materials consumed in Q3 FY09, significant benefits of lower aluminum and steel prices will be seen in Q4 FY09. Marked-to-market losses on account of rupee depreciation will continue to impact profitability for Tata Motors and M&M.

### Volumes recover lead by improved affordability

During Q4 FY09, volumes for all auto companies under our coverage improved on a qoq basis, except for Bajaj Auto. On a yoy basis, Hero Honda, TVS Motors and Maruti saw increase in volumes. Consumer sentiments improved during the quarter owing to cut in excise duties, lower fuel prices and VI pay commission payouts to government employees. Credit availability improved from PSU banks as they resorted to aggressive lending and rate cuts. Nevertheless, private banks have continued to restrain lending for the sector.

### Lower raw material costs to result in margin expansion

Although, prices of steel and aluminum, witnessed a steep fall but benefits did not to flow to all auto manufacturers during Q3 FY09. However, with most of high cost inventory of raw material consumed in Q3 FY09, we expect significant improvement in margins in Q4 FY09. Further, higher volumes will translate into benefits of operating leverage with fixed costs getting distributed over increased volumes.

### Rupee depreciation will continue to impact profitability

Indian rupee has depreciated by over 4% during the quarter. Resultantly, companies having dollar denominated loans will have to report forex losses. Tata Motors and M&M will be the worst hit.

### Outlook remains subdued

We expect the recovery in volumes witnessed in Q4 FY09 to be short lived as benefits of higher income for government employees will fade out in a quarter or two. Further, private sector banks have continued to be reluctant to lend to the sector. With industrial production not improving a great deal, any major recovery in CV volumes can be ruled out. We believe, the two wheeler segment will continue with its outperformance in the near term led by Hero Honda.

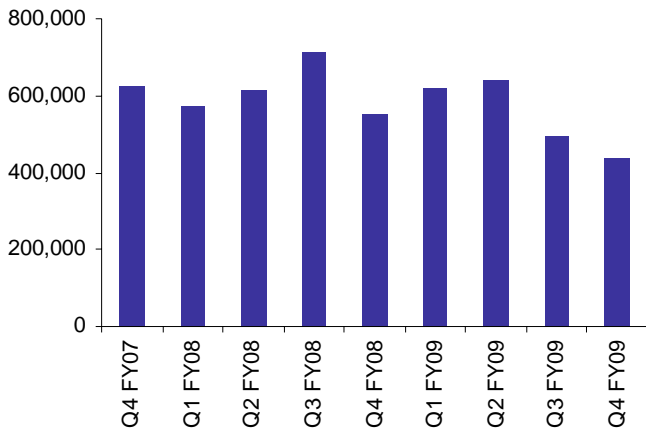
### Q4 FY09 Estimates

(Rs m)	Revenues	(% growth)		OPM (%)	Change (bps)		PAT*	(% growth)	
		yoy	qoq		yoy	qoq		yoy	qoq
Hero Honda	33,817	21.3	17.4	15.2	43	73	3,959	32.5	31.8
Bajaj Auto	19,748	(4.8)	(6.1)	14.0	169	(55)	1,709	(0.5)	(24.2)
TVS Motors	9,207	24.8	6.0	5.2	(211)	7	67	(91.2)	(793.7)
Maruti	61,550	29.2	36.4	9.8	23	322	3,415	14.7	59.9
Tata Motors	64,960	(25.8)	36.5	4.9	(495)	326	257	(96.5)	(169.9)
M&M	31,236	(0.8)	24.0	9.3	(158)	300	2,009	(3.1)	65.6
Ashok Leyland	13,494	(47.3)	34.8	8.5	(304)	19	326	(82.1)	54.7

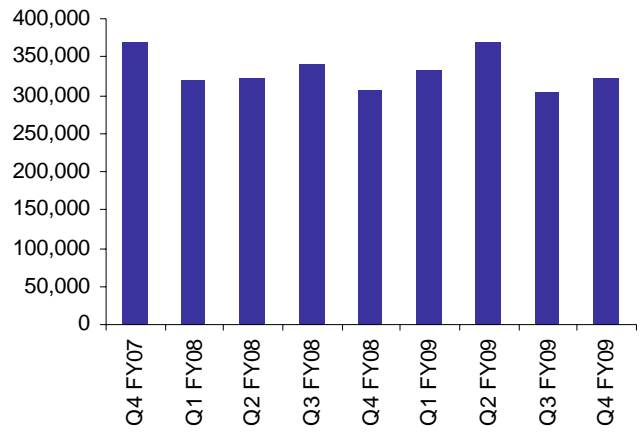
Source: Company, India Infoline Research

\*Pre-exceptional PAT

**Bajaj Auto sales volume**

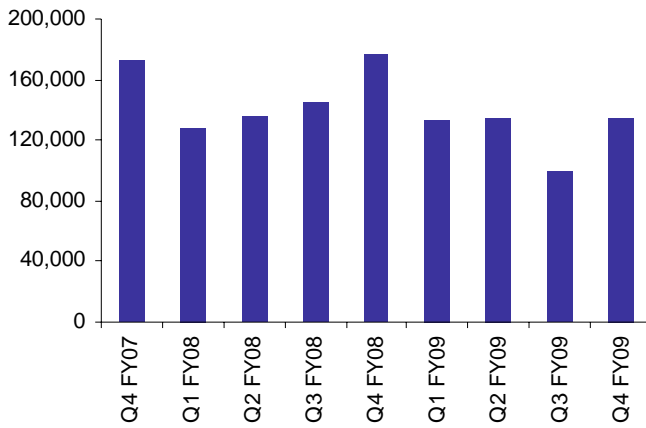


**TVS Motors sales volume**

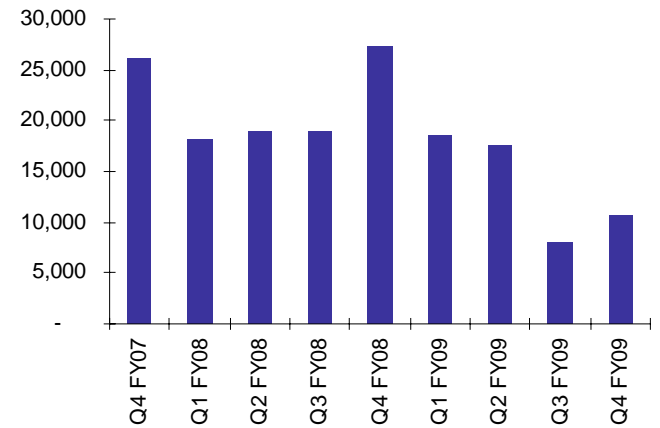


Source: Company

**Tata Motors sales volume**



**Ashok Leyland sales volume**



Source: Company

**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

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

**Sell** – Absolute return below -10%

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