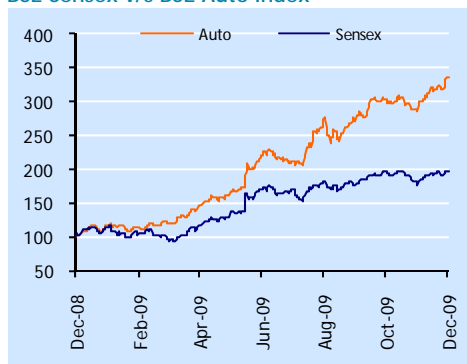


December 3, 2009

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BSE Sensex v/s BSE Auto Index



Source: Bloomberg

Absolute Stock Performance

(%)	1M	6M	12M
Sensex	11.6	15.7	96.6
Auto	15.8	50.7	232.3
Ashok Leyland	14.8	46.0	295.5
Bajaj Auto	16.1	46.5	439.1
Hero Honda	14.5	24.7	132.1
M&M	20.8	55.0	344.1
Maruti Suzuki	11.2	51.9	227.3
Tata Motors	27.3	94.0	427.6

Led by positive consumer sentiments, availability of finance at cheaper rates, anticipated price hikes from January 2010 and low base effect of last year, the auto companies reported spectacular set of numbers in the month of November 2009. Our interaction with the auto companies suggest that this momentum is likely to continue in the near term.

- Maruti Suzuki (MSIL) - 'Swift' and Steady:** MSIL reported a robust growth of 60.1% YoY in domestic sales at 76,359 units for November 2009. On a MoM basis, domestic sales grew by 6.7%, mainly on account of 8.8% growth in the A2 segment. Exports for the month grew by 128.6% YoY to 11,448 units, taking the total sales to 87,807 units, a growth of 66.6% YoY. Exports declined by 17.4% MoM mainly due to a delay in shipment of consignment.
- Mahindra & Mahindra (M&M) - Automotive segment drives growth:** M&M reported a 105.1% YoY growth in the domestic automotive segment, with 21,387 units sold, driven by 102.0% YoY increase in domestic UV sales. On a MoM basis, the UV segment declined by 17.5%, mainly on account of October 2009 sales being higher due to the festive season and in line with historic trends. Tractor sales, including exports, grew by 48.2% YoY, mainly on account of merger with Punjab Tractors (PTL). On a cumulative basis, the total tractor sales grew by 39.1% YoY, to stand at 115,189 units.
- Tata Motors- M&HCV segment reports a 5% MoM growth:** Tata Motors reported 65.5% YoY growth in overall sales for November 2009. CV volumes grew by 81.2% YoY to stand at 29,408 units mainly due to a 115.9% YoY growth in M&HCV segment sales, which stood at 12,507 units in November. On a sequential basis, the M&HCV segment sales were higher by 5%, which indicates pick up in the freight activity. At the same time, LCV segment reported sales of 16,901 units, a growth of 61.9% YoY. On a MoM basis, the LCV sales are down by 10%, in line with the normal trend.
- Hero Honda - Highest ever November sales:** Hero Honda reported despatch sales of 381,378 units of two-wheelers in November 2009, a growth of 32% over the corresponding month in 2008. This is the company's 11th consecutive month of more than 3 lac sales. On a MoM basis, the company reported a growth of 7.7% as the company did not face any supply issues from the component manufacturers (which marginally impacted volumes in October 2009).
- Bajaj Auto - 'Discover'ing the 'pulse'ar:** Bajaj Auto reported a 73.2% YoY growth in overall sales for the month of November 2009, led by 84.1% YoY growth in motorcycle sales at 2.4 lac units. Domestic volumes of motorcycles were up 95.9% at 1.6 lac units mainly contributed by 94,265 volumes of the 'Discover' family and 46,000 volumes of the 'Pulsar' brand. On a MoM basis, the domestic motorcycle sales were down by 9.3%.

PL Auto Universe

Company	CMP (Rs)	Rating	EPS (Rs)		PER (x)		EV / EBITDA (x)		RoE (%)	
			FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Bajaj Auto	1,691	Acc	106.1	123.3	15.9	13.7	9.0	8.3	62.0	46.4
Hero Honda	1,710	Acc	103.6	114.8	16.5	14.9	10.6	8.9	44.4	35.4
M & M*	1,066	Acc	66.6	70.5	12.1	11.4	7.5	6.6	31.5	26.2
Maruti Suzuki	1,613	Acc	82.4	91.2	19.6	17.7	12.9	11.2	22.8	20.6
Tata Motors*	730	Acc	28.3	36.5	21.4	16.6	11.6	10.0	11.1	12.0

Source: PL Research

All Prices as on December 2, 2009

* PE Adjusted for Subsidiary Valuations

**Maruti Suzuki India (MSIL): 'Swift' and Steady**

Segments	Nov'09	Nov'08	YoY gr. (%)	Oct'09	Apr - Nov'09	Apr - Nov'08	YoY gr. (%)
A1	3,040	2,307	31.8	3,124	22,020	34,400	(36.0)
C	8,320	3,845	116.4	8,018	60,771	51,177	18.7
A2	56,005	34,976	60.1	51,437	407,271	321,920	26.5
A3	8,741	5,975	46.3	8,804	61,770	46,176	33.8
Total Passenger Cars	76,106	47,103	61.6	71,383	551,832	453,673	21.6
MUV	253	601	(57.9)	168	2,576	4,957	(48.0)
Domestic Sales	76,359	47,704	60.1	71,551	554,408	458,630	20.9
Export	11,448	5,007	128.6	13,864	91,731	40,606	125.9
Total Sales	87,807	52,711	66.6	85,415	646,139	499,236	29.4

Source: Company Data, PL Research

MSIL reported a robust growth of 60.1% YoY in domestic sales at 76,359 units for November 2009. On a MoM basis, domestic sales grew by 6.7%, mainly on account of 8.8% growth in the A2 Segment. The A2 segment (*Wagon-R, Alto, Swift & Ritz*) continues to grow at a blistering pace of 60.1% YoY to 56,005 units.

Exports for the month grew by 128.6% YoY to 11,448 units, taking the total sales to 87,807 units, a growth of 66.6% YoY. Exports declined by 17.4% MoM mainly due to a delay in shipment of consignment. According to the management, going forward, they would be able to maintain a monthly runrate of 12,500 -13,000 units in the export markets. For YTD FY10, MSIL's domestic sales increased by 20.9% YoY, whereas overall sales including exports were up 29.4% YoY to 646,139 units.

MSIL would be able to expand its capacity to 90,000 units/month in the near future. This, coupled with exports at 12,500 -13,000 units / months, will lead to a volume growth of 26.2% YoY at 1.0m units in FY10E. We expect a 20.7% growth for the remaining four months of this fiscal. At the CMP, the stock trades at 19.6x and 17.7x its FY10E and FY11E earnings, respectively. We strongly believe that MSIL still holds a healthy potential to take on the competition through its existing product line-up, new product launches and competitive pricing. We maintain our 'Accumulate' rating on the stock.

Mahindra & Mahindra (M&M): Automotive segment drives growth

Particulars	Nov'09	Nov'08	YoY gr. (%)	Oct'09	Apr - Nov'09	Apr - Nov'08	YoY gr. (%)
UVs	15,193	7,523	102.0	18,410	137,603	97,839	40.6
LCV	778	302	157.6	841	6,488	6,559	(1.1)
Logan	279	300	(7.0)	401	4,581	11,437	(59.9)
GIO	1,019				1,775		
3-Wheelers	4,118	2,305	78.7	4,886	29,000	32,318	(10.3)
Total Domestic	21,387	10,430	105.1	24,538	179,447	148,153	21.1
Exports	1,200	525	128.6	1,132	5,089	7,036	(27.7)
Total Automotive	22,587	10,955	106.2	25,670	184,536	155,189	18.9
Tractors							
Domestic	11,604	7,960	45.8	17,796	110,011	77,303	42.3
Exports	988	538	83.6	976	5,220	5,553	(6.0)
Total	12,592	8,498	48.2	18,772	115,231	82,856	39.1

Source: Company Data, PL Research

M&M reported a 105.1% YoY growth in the domestic automotive segment, with 21,387 units sold, driven by 102.0% YoY increase in domestic UV sales. On a MoM basis, the UV segment declined by 17.5% mainly on account of October sales being higher due to the festive season and in line with historic trends. Three-wheelers reported a growth of 78.7% YoY, at 4,118 units. Including exports, the sales were up 106.2% YoY to stand at 22,587 units. On a MoM basis, the volumes declined by 12.0%. On a cumulative basis, the UV sales grew by 40.6%, whereas the overall volumes grew by 18.9%. 'Logan' volumes continued their declining trend, with sales of only 279 units in the month, whereas on a cumulative basis the volumes declined by 59.9% at 4,581 units.

Tractor sales, including exports, grew by 48.2% YoY mainly on account of merger with PTL. On a cumulative basis, the total tractor sales grew by 39.1% YoY, to stand at 115,189 units. Consequent to the merger of PTL effective August 2008, the YTD figures exclude the 11,643 units of sales by PTL for the period April -July 2008. Including these figures, the actual growth for April - November 2009 period works to 22% YoY.

We expect M&M to report a 32.8% YoY growth in the UV volumes for FY10E at 2.04 lac units, implying a residual growth of 19.0% for the remaining fiscal. On the tractors front, we expect the overall volumes of 1.7 lac units compared to YTD volumes of 1.15 lac units. Adjusted for subsidiaries value of Rs260/share, the stock is currently trading at 12.1x and 11.4x its FY10E and FY11E earnings, respectively. We maintain our 'Accumulate' call on the stock.

**Tata Motors: M&HCV segment reports a 5% MoM growth**

Particulars	Nov'09	Nov'08	YoY gr. (%)	Oct'09	Apr - Nov' 09	Apr - Nov' 08	YoY gr. (%)
M & HCV	12,507	5,792	115.9	11,916	85,845	81,909	4.8
LCV	16,901	10,437	61.9	18,625	135,804	99,214	36.9
Total CV	29,408	16,229	81.2	30,541	221,649	181,123	22.4
Utility	2,226	1,811	22.9	2,454	20,382	26,409	(22.8)
Cars	18,480	12,516	47.7	17,557	118,903	102,837	15.6
Total PV	20,706	14,327	44.5	20,011	139,285	129,246	7.8
Exports	3,994	2,140	86.6	2,852	20,068	27,741	(27.7)
Grand Total	54,108	32,696	65.5	53,404	381,002	338,110	12.7

Source: Company Data, PL Research

Tata Motors reported 65.5% YoY growth in overall sales for November 2009. CV volumes grew by 81.2% YoY to stand at 29,408 units mainly due to a 115.9% YoY growth in M&HCV segment sales, which stood at 12,507 units for November. On a sequential basis, the M&HCV segment sales were higher by 5%, which indicates pick up in the freight activity on account of better economic growth. At the same time, LCV segment reported sales of 16,901 units, a growth of 61.9% YoY. On a MoM basis, the LCV sales are down by 10% in line with the normal trend (dispatches decline on a sequential basis due to higher dispatches in the festive season). On a cumulative basis, the CV segment grew by 22.4%, mainly led by the 36.9% YoY growth in the LCV segment.

The company's PV segment grew by 3.5% MoM and 44.5% YoY mainly on account of 5.3% MoM and 47.7% YoY growth in the passenger car segment. 'Nano' reported sales of 3,406 units, whereas the 'Indigo' range recorded its highest ever sales of 5,963 units, reporting a growth of 71.5% YoY on account of the newly launched 'Indigo - Manza' being well accepted in the market. Sumo & Safari sales stood at 2,226 units, a 23% growth on a YoY basis. On a cumulative basis, the PV segment grew by 7.8% YoY. Overall sales for the month grew by 65.5% YoY and 3.2% MoM.

With the economy growing at a blistering pace and infrastructure spend on the rise, we believe that the CV segment is on a recovery path. At the CMP, the stock is trading at 21.4x and 16.6x its earnings of FY10E and FY11E, respectively. We value the company on a SOTP basis, with core business valued at Rs620/share and subsidiaries valued at Rs124/share. We maintain our 'Accumulate' rating on the stock.



Hero Honda: Highest ever November sales

Particulars	Nov'09	Nov'08	YoY gr. (%)	Oct'09	Apr - Nov' 09	Apr - Nov' 08	YoY gr. (%)
Total Sales	381,378	289,426	31.8	354,156	3,038,316	2,508,214	21.1

Source: Company Data, PL Research

Hero Honda reported despatch sales of 381,378 units of two-wheelers in November 2009, a growth of 31.8% over the corresponding month in 2008 when the company had sold 289,426 units. This is the company's 11th consecutive month of more than three lakh sales. On a MoM basis, the company reported a growth of 7.7% as the company did not face any supply issues from the component manufacturers (which impacted volumes in October 2009). The growth of 32% in the post-festive season month of November is of added significance, considering the large base of the previous year.

The company's cumulative sales in the financial year so far have now risen to 3.0m - a 21% growth over the corresponding period last year (April-November 2008), when Hero Honda had sold 2.5m. All the recent launches - the fuel injected *ZMR*, the refreshed version of the best-selling *Hunk*, and a Special Edition *Splendor+* have received very encouraging response from customers. The company plans to announce few more launches in the coming months, which will be across segments to further augment the already strong Hero Honda range. The management has indicated that they could easily surpass their earlier guidance of 4m units in FY10E in the near future.

We estimate a growth of 19.7% YoY in volumes at 4.5m for FY10E, implying a residual growth of 16.7% for the remaining fiscal. At the CMP, the stock trades at 16.5x and 14.9x its FY10E and FY11E earnings, respectively. Hero Honda has always enjoyed a premium to the auto sector and traded at 16 - 20x one year forward P/E. We believe it can enjoy similar valuations on account of a sustained demand for its products and strong balance sheet. Maintain 'Accumulate'.

Bajaj Auto: 'Discover'ing the 'pulse'ar

Particulars	Nov'09	Nov'08	YoY gr. (%)	Oct'09	Apr - Nov'09	Apr - Nov'08	YoY gr. (%)
Motorcycles	242,390	131,681	84.1	249,681	1,574,439	1,415,639	11.2
Total 2 Wheelers	242,648	132,421	83.2	249,974	1,578,523	1,424,971	10.8
3 Wheelers	34,111	27,326	24.8	30,481	213,080	186,751	14.1
Total Sales	276,759	159,747	73.2	280,455	1,791,603	1,611,722	11.2
Exports (incl. in above)	98,521	40,148	145.4	84,012	585,162	548,136	6.8

Source: Company Data, PL Research

Bajaj Auto reported a 73.2% YoY growth in overall sales for the month of November 2009 led by 84.1% YoY growth in motorcycle sales at 2.4 lac units. Domestic volumes of motorcycles were up 95.9% at 1.6 lac units mainly contributed by 94,265 volumes of the 'Discover' family and 50,153 volumes of the 'Pulsar' brand. On a MoM basis, the domestic motorcycle sales were down by 9.3%.

Three-wheelers reported a 24.8% YoY growth in volumes at 34,111 units, with exports accounting for ~19,000 units of the above. The company reported highest ever overall exports at 98,521 units, including ~80,000 units of motorcycle exports. On a cumulative basis, motorcycle sales were higher by 11.2% YoY, whereas the three-wheeler volumes increased by 14.1% YoY. Exports for April - November 2009 period grew by 6.8% YoY.

According to our interaction with the company, Bajaj Auto is likely to sustain the export momentum of 80,000 units/month in the remaining part of this fiscal. At the same time, the company is planning to launch new sub 150cc 'Pulsar' on December 9, 2009 to support the growth momentum in the next financial year.

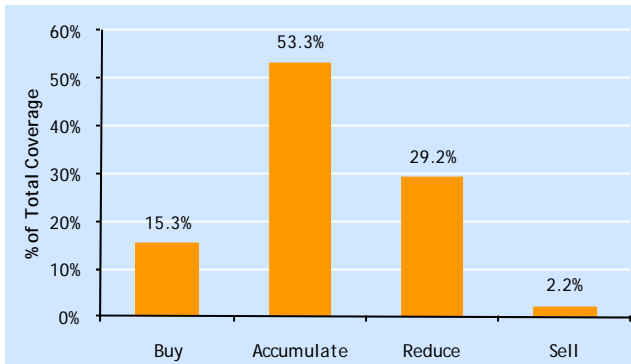
We estimate volume growth of 34.5% YoY at 2.9m for FY10E and a growth of 17.2% YoY in overall volumes (including three-wheelers) at 3.5m for FY11E. At the CMP, the stock is trading at 15.9x FY10E and 13.7x FY11E earnings which in our view, is attractive. Maintain 'Accumulate'.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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