



Q1FY2008 Auto earnings preview

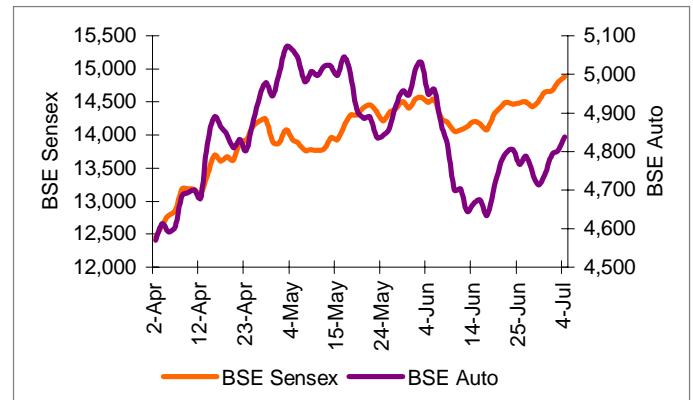
Weakness across!! Maruti, Ceat likely winners

The first quarter of the current fiscal has started on a weak note for the automobile industry, as the sales volumes were affected by the rising interest rates, tightening of liquidity by the financiers and the seasonal effect of the monsoon. The two-wheeler segment was the worst affected as the sales in the 100cc segment were hit by price wars that led to stringent checks and lower loan sanctions by financiers. The commercial vehicle (CV) sales too slowed down during the quarter due to lower availability of finance as well as freight (the latter due to the monsoon). The surprise in the pack was the passenger car segment, which saw a good growth led by a number of new launches in the recent times.

The automobile sector has underperformed the Sensex since April 2007 (as can be seen from the chart). This underperformance is likely to continue in the second quarter as well and a revival is expected from September-October onwards.

Among the heavyweights, Bajaj Auto Ltd's (BAL) sales volumes declined by 11.9%, whereas Hero Honda Motors (Hero Honda) reported a decline of 3.6% in its sales for the first quarter. Maruti Udyog Ltd's (MUL) car sales grew by a

Auto Index vs Sensex performance during last quarter



strong 17.1%; the overall sales of Mahindra & Mahindra (M&M) were up by 21.9% and Tata Motors' sales grew by a mere 1%.

The operating profit margins (OPMs) are expected to remain under pressure for the whole sector considering the high raw material prices and increasing competition (particularly in the two-wheeler segment). We expect **MUL, Ceat, Apollo Tyres and Ahmednagar Forgings** to be among the lead performers in the sector in Q1FY2008.

Quarterly estimates

(Rs crore)	Net sales			Profit after tax		
	Q1FY08E	Q1FY07	% change	Q1FY08E	Q1FY07	% change
Bajaj Auto	1,987.5	2,202.7	-9.8	241.2	277.6	-13.1
Maruti Udyog	3,817.6	3,114.0	22.6	374.8	338.0	10.9
Mahindra & Mahindra	2,548.5	2,236.3	14.0	203.7	205.7	-0.9
Tata Motors	5,791.2	5,819.0	-0.5	326.9	417.5	-21.7
Ashok Leyland	1,598.3	1,423.9	12.3	71.4	75.6	-5.6
Omax Auto	150.5	160.3	-6.1	1.6	5.7	-71.9
Sundaram Clayton	214.2	189.9	12.8	19.5	18.0	8.6
Subros	159.7	141.6	12.8	5.4	5.9	-10.0
Ahmednagar Forgings*	172.5	98.7	74.8	18.7	10.3	82.5
SKF India**	364.2	327.9	11.1	28.6	25.3	13.0
Federal-Mogul Goetze**	126.4	114.5	10.3	3.1	-3.4	NA
Ceat	537.5	497.7	8.0	22.5	0.2	9,685.4
Apollo Tyres	830.8	757.3	9.7	38.1	16.3	134.1
Auto universe	18,298.8	17,083.6	7.1	1,353.9	1,392.6	-2.8

*June ending **December ending

BAL

We expect BAL to report disappointing numbers for the first quarter. Its sales performance in the first quarter was disappointing as the sales were affected by the slowdown in the sector, particularly in the 100cc segment, and inventory corrections. The motorcycle sales declined sharply by 13.1% year on year (yoy) while the three-wheeler sales remained flat at 0.7%. Due to increased competition from archrival Hero Honda, the company lost considerable market share in the economy segment, even though it reduced *Platina's* prices during the quarter and passed on the benefit derived from the commissioning of its new plant at Uttarakhand.

As a result the sales for the quarter are projected to decline by 9.8%. The OPM is likely to fall to 13.7% from 16.4% in Q1FY2006 on the back of a higher raw material cost and intensified competition. The profit after tax (PAT) is thus projected to decline by 13.1%.

Sales performance

Volume	Q1FY08	Q1FY07	% yoy chg
Other two-wheelers	6,212	9,007	-31.0
Motorcycles	493,565	568,187	-13.1
Total two-wheelers	499,777	577,194	-13.4
Three-wheelers	71,336	70,875	0.7
Grand total	571,113	648,069	-11.9

M&M

M&M rendered a good performance in Q1FY2008 with the sales of its utility vehicles (UVs) rising by an impressive 23.5%. The growth was backed by the good sales of the all-new *Scorpio*, whose sales grew by 16.1%, and *Bolero*. The light commercial vehicle (LCV) sales continued to be strong while three-wheeler sales were also good in comparison with the industry, as the same grew by 11.5% on the back of the success of its offering *Alfa*. Tractor sales remained sluggish, almost flat, during the quarter but are expected to improve going forward on the back of a good monsoon.

Sales performance

Volume	Q1FY08	Q1FY07	% yoy chg
Utility vehicles	31,171	25,216	23.6
Scorpio	9,392	8,093	16.1
UVs w/o Scorpio	21,779	17,123	27.2
LCVs	2,681	1,930	38.9
Three-wheelers	7,336	6,582	11.5
Total domestic automotive	41,188	33,728	22.1
Exports	2,436	1,331	83.0
Total automotive	43,624	35,059	24.4
Tractors	27,291	27,367	-0.3
Total	70,915	62,426	13.6
Cars (in JV)	5,175	0	NA
Grand total	76,090	62,426	21.9

MUL

The winner is MUL as it continued its impressive show in the first quarter of the fiscal. The volumes in the A2 segment comprising *Alto*, *Zen Estilo*, *Wagon R* and *Swift* grew by 20.7% in the quarter, led by the strong performance of the *Alto* and *Diesel Swift*. The sales of *Omni* and *Versa* were also good in Q1 (up 22.7% yoy) while the greatest improvement was in the A3 segment's sales, which grew by 46% led by the launch of *SX4*. The model is already believed to have toppled *Honda City* in the premium sedan category. The exports grew by 15.6% yoy to 9,065 units during the quarter.

We expect slight pressure on the margin front, due to the higher contribution from the new products and the continuing loss suffered by the Manesar plant. The company also offered heavy discounts during the quarter to achieve sales volumes. Consequently, we expect the OPM to decline by 116 basis points to 13.45%, while the net profit before extraordinary is expected to grow by 10.9% to Rs374.8 crore.

Sales performance

Volume	Q1FY08	Q1FY07	% yoy chg
<i>M-800</i>	17,994	20,300	-11.4
<i>Omni, Versa</i>	20,631	16,809	22.7
<i>Alto, Zen, Wagon-R, Swift</i>	110,413	91,450	20.7
<i>SX4, Esteem</i>	11,056	7,571	46.0
Total passenger cars	160,094	136,130	17.6
MUV	510	974	-47.6
Domestic	160,604	137,104	17.1
Export	9,065	7,844	15.6
Total sales	169,669	144,948	17.1

Tata Motors

Tata Motors delivered a lacklustre performance in Q1FY2008 with an overall volume growth of just 1%. The CV segment's sales were hit during the month as the segment faced heat from the financiers. Many financiers, in their endeavour to reduce exposure to the automobile sector, withdrew from the market. The sales were also affected by the onset of the monsoon. The UV segment continued to do well as *Safari* continued to do well. The car sales also slowed down in Q1FY2008, growing by 0.7%, as sales of *Indigo* and *Indica* were affected due to the recent launches from competition, such as *Chevrolet Spark* and *Mahindra Logan*. The PAT for the quarter is expected to decline sharply by 21.7% to Rs326.9 crore.

Sales performance

Volume	Q1FY08	Q1FY07	% yoy chg
M&HCV	32,655	36,607	-10.8
LCV	29,044	26,535	9.5
UV	10,040	8,417	19.3
Cars	41,800	41,489	0.7
Domestic sales	113,539	113,048	0.4
Exports	13,822	13,106	5.5
Total sales	127,361	126,154	1.0

Ashok Leyland

Ashok Leyland has made up for the slowdown in the CV segment by higher sales of buses during the quarter, as some of the orders to the State Transport Corporation were due. The sales volume for the quarter have grown by 6.6%.

For Q1, we expect Ashok Leyland to post a sales growth of 12.3%; while the net profit for the quarter is projected to decline by 5.6% to Rs71.4 crore.

Sales performance

Volume	Q1FY08	Q1FY07	% yoy chg
MDV passenger	5,128	2,181	135.1
MDV goods	12,876	14,762	-12.8
LCV	159	97	63.9
Total sales	18,163	17,040	6.6

Ahmednagar Forgings

We expect Ahmednagar Forgings to continue on its growth path and report good numbers for the last quarter of the fiscal ending June. The company had recently commissioned its two Anvil lines and is slowly ramping up production from those lines. It will be further raising its capacity to 140,000 tonne per annum in the next couple of months. For Q4FY2007, we expect the company to post a top line growth of 74.8% and a bottom line growth of 82.5%.

Apollo Tyres

The slowdown in CV sales would affect Apollo Tyres as well. We expect the sales volume to grow by 10% during the current quarter. The margin is expected to improve to 11% mainly on the back of soft rubber prices. The first quarter of last year was one of the worst quarters for the whole industry as the rubber prices were at their peak then and price hikes were effected for part of the quarter only. The net profit for the quarter is expected to improve by 134% to Rs38.1 crore.

Ceat

We expect Ceat to continue to deliver a strong performance in Q1FY2008, despite the slowdown from the original equipment manufacturers (OEMs). The company is realigning its strategies to push its replacement and export sales to counter the slowdown in the OEM segment. For the current quarter, we expect the company to report an 8% growth in its top line to Rs537.5, while we expect the margins to improve due to lower raw material prices. On a year-on-year basis, we expect the margins to improve by 430 basis points to 8%. There also might be an extraordinary gain to the tune of Rs20 crore during the quarter relating to certain tax refunds. Excluding the same, we expect the company to report a net profit of Rs22.5 crore against Rs0.2 crore reported last year.

Federal Mogul Goetze

The slowdown in the CV and two-wheelers segment is expected to take a toll on the performance of the company as it has a large exposure to these segments. For the quarter we expect the sales to grow by 10%. We expect the company to report a profit of Rs3.1 crore as against a loss of Rs3.4 crore in the corresponding period of the previous year.

Omax Auto

We expect the performance of Omax Auto to be adversely affected as the majority of its sales comes from the two-wheeler segment. We expect the company to report a decline of 6% in its top line while its margins too would be lower due to the low volume growth and the pressure from the OEMs to reduce prices. We expect the company to report a marginal profit of Rs1.6 crore for the first quarter.

Sundaram Clayton

The slowdown in the CV segment is expected to affect the performance of Sundaram Clayton too in the first quarter, as its key clients Tata Motors and Ashok Leyland reported a sluggish growth during the period. The margins are expected to be maintained at last year's levels, but the bottom line is expected to be affected by the higher interest and depreciation costs as a result of its high capital expenditure. Overall, we expect the sales to grow by 12.8% and the net profit to grow by 8.6% to Rs19.5 crore.

Subros

Subros' performance is dependent on the performance of its key clients MUL and Tata Motors. The company is already supplying for *M800*, *Alto* and *WagonR*, and is also a part supplier for *Swift* and *SX4*. We expect Subros to report a decent top line growth for Q1FY2008, as the net sales are projected to grow by 12.8%, while the OPM is expected to be maintained at 11%. However, higher interest and depreciation costs are expected to affect the profitability during the quarter and hence the PAT is projected to decline by 10% to Rs5.4 crore.

SKF India

SKF India is expected to report steady performance for the second quarter of CY2007, though the performance would be slightly lower due to the slowdown in the automobile sector. We also anticipate an improvement in its OPM on the back of greater operating efficiencies resulting from increased capacity utilisation. For Q2CY2007, we anticipate a top line growth of 11%, a margin improvement of 40 basis points to 13.4% and a PAT growth of 13% to Rs28.6 crore.

Valuation table–Sharekhan auto universe

Particulars	CMP (RS)	EPS		PER		EV/EBIDTA	
		FY07	FY08E	FY07	FY08E	FY07	FY08E
Ahmednagar Forgings	240	20.3	36.5	11.8	6.6	7.7	4.6
Apollo Tyres	360	24.4	31.3	14.7	11.5	6.3	5.1
Ashok Leyland	38	3.1	3.5	12.5	11.0	7.5	7.4
Bajaj Auto	2,090	98.6	116.8	21.2	17.9	13.8	11.5
Ceat	167	8.7	15.9	19.2	10.5	7.6	4.9
Federal Mogul Goetze	200	-	12.6	-	15.9	23.7	9.0
Maruti Udyog	805	54.0	59.2	14.9	13.6	11.2	9.3
M&M*	771	62.3	71.3	12.4	10.8	6.7	5.7
Omax Auto	81	11.1	9.3	7.3	8.7	4.2	4.5
Subros	219	26.6	32.8	8.2	6.7	4.3	3.4
Sundaram Clayton	830	48.9	59.1	12.1	10.0	9.1	7.7
Tata Motors*	707	56.3	60.9	12.6	11.6	6.6	5.9
SKF India	417	18.8	24.2	22.2	17.2	11.9	9.4

*Consolidated numbers

The author doesn't hold any investment in any of the companies mentioned in the article.

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