

Speedometer

Subdued pace

April '07

Reason for report: Monthly update

'Speedometer' a monthly product on the automobile sector comprises relevant themes, industry statistics and analysis of trends.

Rising interest rates, tightening of credit norms by financiers, price hikes and high base effect in passenger vehicles (cars & utility vehicles) as well as inventory pile-up in two wheelers led to a slowdown across segments. Commercial vehicles (CV) led the pack with 13% YoY volume growth in March '07 on the back of 7.9% YoY and 20.3% YoY rise in M/HCV and LCV volumes respectively. In FY07, CVs grew 32.2% led by 32.9% rise in M/HCVs and 31.3% in LCVs. Despite a high base (deferred car purchases to March '06 in anticipation of excise duty cut in the budget), passenger vehicle (PV) sales rose 7.4% YoY in March '07. PVs grew 19.7% in FY07. In March '06, two-wheeler and three-wheeler volumes were flat YoY; however, in FY07, two wheelers and three wheelers grew 11.9% YoY and 25.4% YoY respectively. Maruti Udyog (MUL), Tata Motors (TAMO) and Bajaj Auto (BAL) are our top picks in the sector. Bharat Forge (BFL) remains our top pick in auto ancillaries.

- **CVs – Leading the pack.** CV volumes surged 13% YoY to 55,220 units. Key gainers were TAMO in the M/HCV segment (90bps YoY market share gain to 61.3%) and Mahindra & Mahindra (M&M) in the LCV segment (420bps YoY market share gain to 24.1%).
- **PVs – On a high base.** PV volumes rose 7.4% YoY in March '07 led by 19.5% YoY growth in the compact segment and a strong 70.8% rise in the executive segment. MUL maintained its leadership with 43% market share (up 10bps YoY).
- **Two-wheelers – Momentum slowdown.** Two-wheeler volumes were flat YoY in March '07. In FY07, volumes rose 11.9% led by 14.6% growth in motorcycles and 4.7% growth in mopeds even as scooter volumes dipped 1.7%. Hero Honda Motors (HHML) continued to lead the motorcycle segment in March '07 with 52.9% market share (up 480bps YoY) followed by BAL at 27% (down 310bps YoY) and TVS Motor (TVSM) at 12.8% (down 220 bps YoY).
- **Q4FY07 results preview – Mixed bag.** We expect revenues for the i-SEC auto universe to grow a robust 20% YoY in Q4FY07E. While all the companies in the universe would face rising input costs, two wheelers would fare the worst with 550bps YoY and 90bps QoQ EBITDA margin contraction. But, margin expansion in TAMO, M&M and BFL would limit the overall margin contraction to 120bps YoY for the i-SEC auto universe, up 10bps QoQ. Consequently, recurring net profits would grow 11.7% YoY in Q4FY07E. We expect TAMO, BFL and M&M to lead the pack with recurring net profit rising 35% YoY, 29.8% YoY and 28.8% YoY respectively.

March '07 volumes

Segment	% change		Sub-Segment	% change		Gainers	Losers
	(YoY)	(MoM)		(YoY)	(MoM)		
PV	7.4	27.4	Cars	2.9	22.5	MUL, TAMO	Hyundai
			UV	13.4	49.3	TAMO, Toyota	GM
Two-wheeler	(0.2)	2.8	Motorcycle	(1.5)	1.4	HHML	BAL, TVSM
			Scooter	4.8	5.6	HMSI#, TVSM	HHML
CV	13	14.3	M/HCV	7.9	10.3	TAMO, Eicher	ALL
			LCV	20.3	19.9	M&M	TAMO, Eicher
Three-wheeler	0.5	(5.0)	Passenger	8.0	(9.2)	Piaggio	BAL
			Goods	(12.1)	5.7	Piaggio, M&M	BAL

Honda Motorcycle and Scooter India (Pvt)

Automobiles

Ashok Leyland

BUY (Rs38)

Bajaj Auto

BUY (Rs2,444)

Bharat Forge

BUY (Rs317)

Hero Honda Motors

BUY (Rs648)

Mahindra & Mahindra

BUY (Rs745)

Maruti Udyog

BUY (Rs772)

Punjab Tractors

HOLD (Rs307)

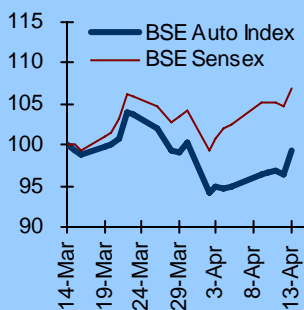
Tata Motors

BUY (Rs726)

TVS Motor Company

BUY (Rs58)

Auto Index vs Sensex



Shilpa Gupta

shilpa_gupta@isecltd.com

+91 22 6637 7134

TABLE OF CONTENTS

March '07 volumes: Slow tempo	3
PVs – On a high base	3
Two-wheelers – Momentum slowdown.....	5
CVs – Leading the pack.....	7
Three-wheelers – Flat tone	9
Quarterly results preview: Mixed bag.....	11
Ashok Leyland (Buy)	12
Bajaj Auto (Buy)	12
Bharat Forge (Buy).....	12
Hero Honda (Buy)	13
Mahindra & Mahindra (Buy)	13
Maruti Udyog (Buy)	14
Punjab Tractors (Hold).....	14
Tata Motors (Buy)	14
TVS Motor (Buy)	15
Valuations	16
Earnings watch	18
Index of Tables and Charts	19

Note: Sensex level and stock prices as of April 13, 2007

March '07 volumes: Slow tempo

Rising interest rates, tightening of credit norms by financiers, price hikes and high base effect in passenger vehicles (cars & utility vehicles) as well as inventory pile-up in two wheelers led to a slowdown across segments. CVs led the pack with 13% YoY volume growth in March '07 on the back of 7.9% YoY and 20.3% YoY rise in M/HCV and LCV volumes respectively. In FY07, CVs grew 32.2% led by 32.9% rise in M/HCVs and 31.3% in LCVs. Despite a high base ((as customers deferred car purchases in February '06 in anticipation of excise duty cut, which led to unusually strong March '06), PV sales rose 7.4% YoY in March '07. PVs grew 19.7% in FY07. In March '06, two-wheeler and three-wheeler volumes were flat YoY; however, in FY07, both two wheelers and three wheelers grew 11.9% YoY and 25.4% YoY respectively.

PVs – On a high base

PV volumes rose 7.4% YoY to 168,333 units in March '07 on a high base. In CY06, customers deferred car purchases in February (in anticipation of excise duty cut to be announced in the Budget). On the back of deferment of purchases and boost from the excise duty cut, March '06 witnessed a strong 18.6% volume growth led by 22.3% YoY growth in domestic volumes. In March '07, domestic volumes rose 5.2% YoY to 150,074 units and exports surged 29.2% YoY to 18,259 units. The PV growth was driven by 6.1% YoY and 12.1% YoY increase in volumes of cars and utility vehicles (UVs) respectively. The growth was led by the popular B segment (compact), volumes for which grew 19.5% YoY to 93,045 units; D segment (executive), too, accelerated 70.8% YoY to 5,769 units. In FY07, PV volumes rose a strong 19.7% YoY led by 20.6% growth in cars – compact and executive segments rose 27.2% and 69.7% respectively – and 16% in UVs.

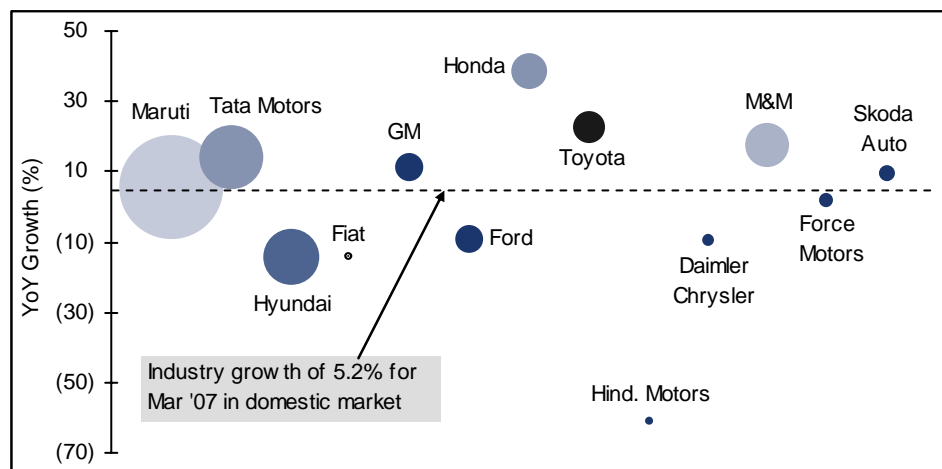
Top-ten models

Model	Mar-07	Mar-06
Alto [^]	21,145	17,908
Indica [@]	15,283	13,000
Santro [#]	13,963	16,838
Wagon R [^]	11,661	10,843
Swift [^]	7,319	6,651
Estillo [^]	6,943	
M 800 [^]	6,141	10,937
Honda City	5,164	5,466
Indigo [@]	4,368	4,669
Fiesta [*]	4,011	4,544

[^] MUL, [@] TAMO, [#] HMI, ^{*} Ford
Source: Industry

- **Winners and losers.** MUL maintained its leadership with 43% market share in March '07 (up 10bps YoY) followed by TAMO at 17.2% (up 130bps YoY) and Hyundai Motor (HMI) at 12.9% (down 290bps YoY). Among other players, while Honda and M&M gained market share, Ford's market share dipped.

Chart 1: Passenger vehicles – Maruti and Tata Motors gain market share



Source: SIAM, i-SEC Research

Segment-wise car sales

Model	March Volume	% Chg (YoY)
A – Mini	8,455	(28.6)
B – Compact	93,045	19.5
C – Mid sized	23,665	(21.5)
D – Executive	5,769	70.8
E – Premium	959	(9.4)
F – Luxury	61	

Source: SIAM, i-SEC Research

- **MUL's** total volumes rose 13.6% YoY to 71,772 units in March '07. While domestic volumes grew 5.6% YoY to 64,556 units, exports surged 3.5x YoY to 7,216 units. Among the various sub-segments, passenger car sales rose 16.2% YoY to 62,620 units, while UV sales declined 1.9% YoY to 9,152 units. *Alto* continued to be the largest selling car model in the domestic market registering a strong 18% growth to 21,145 units; *Wagon R* registered a 7.5% YoY growth to 11,661 units and improved its ranking from fifth to fourth. Volumes for A (*M 800*) and C (*Esteem* and *Baleno*) segments dipped 43.9% YoY and 35.4% YoY to 6,141 units and 2,414 units respectively.
- **TAMO's** PV volumes rose 10.1% YoY to 27,701 units in March '07 on the back of a 13.9% YoY growth in domestic volumes even as exports dipped 24.1% YoY. Car volumes rose 8.2% YoY to 21,474 units and UV volumes surged 17% YoY to 6,227 units. TAMO's flagship model, *Indica*, was the second highest selling model in the domestic market with 17.6% YoY growth to 15,283 units; however, *Indigo's* volumes dipped 6.4% YoY to 4,368 units.
- **HMI's** total volumes dipped 6% YoY to 28,239 units in March '07. While domestic volumes declined 14.3% YoY to 19,300 units, exports rose 19% YoY to 8,939 units. *Santro Xing* occupied the third position with volumes at 13,963 units (down 17.1% YoY).

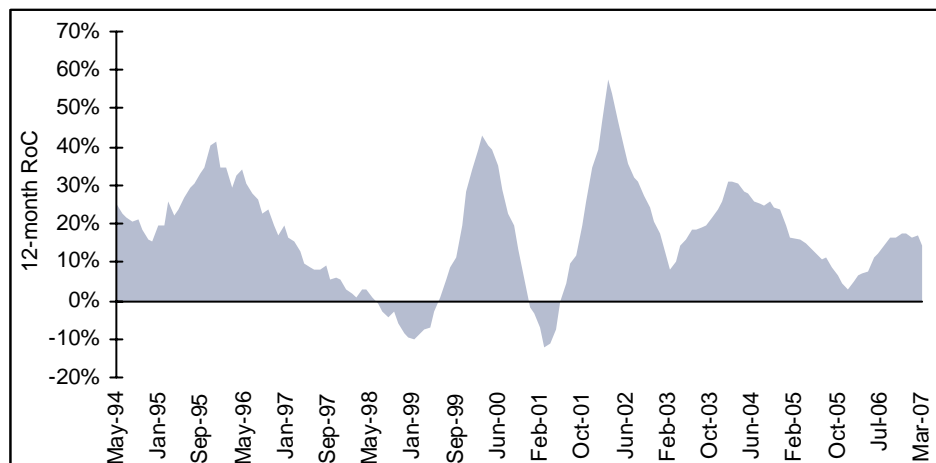
Table 1: PVs – March '07 volumes

(Nos)

Company	Domestic Sales				Mkt. Share (%)		Exports				Total			
	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Mar-06	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Gr.%	FY07	Gr.%
Maruti	64,556	5.6	635,629	20.6	43.0	42.9	7,216	251.1	39,294	13.0	71,772	13.6	674,923	20.1
Tata Motors	25,760	13.9	226,893	20.1	17.2	15.9	1,941	(24.1)	18,041	(9.8)	27,701	10.1	244,934	17.3
Hyundai	19,300	(14.3)	195,261	22.8	12.9	15.8	8,939	19.0	115,526	13.2	28,239	(6.0)	310,787	19.0
Fiat	259	(14.2)	2,198	76.5	0.2	0.2	0	N.A	5	N.A	259	(14.2)	2,203	76.9
GM	4,542	11.6	38,857	26.1	3.0	2.9	0	N.A	0	N.A	4,542	11.6	38,857	26.1
Ford	5,382	(9.2)	41,798	44.8	3.6	4.2	0	(100.0)	22,988	42.5	5,382	(29.5)	64,786	44.0
Honda	8,487	38.7	61,325	43.5	5.7	4.3	0	N.A	43	(15.7)	8,487	38.5	61,368	43.5
Toyota	6,687	22.5	51,343	10.8	4.5	3.8	4	N.A	6	N.A	6,691	22.5	51,349	10.8
Hind. Motors	739	(61.2)	13,663	(9.6)	0.5	1.3	0	N.A	15	N.A	739	(61.2)	13,678	(9.5)
Diamler Chrysler	385	(9.8)	2,054	16.4	0.3	0.3	0	N.A	0	N.A	385	(9.8)	2,054	16.4
M&M	11,287	17.4	89,734	6.8	7.5	6.7	159	(46.8)	2,521	2.4	11,446	15.5	92,255	6.7
Force Motors	1,078	1.6	8,499	17.7	0.7	0.7	0	N.A	39	(15.2)	1,078	1.4	8,538	17.5
Skoda Auto	1,612	9.9	12,444	23.4	1.1	1.0	0	N.A	0	N.A	1,612	9.9	12,444	23.4
Total	150,074	5.2	1,379,698	20.7	100.0	100.0	18,259	29.2	198,478	13.1	168,333	7.4	1,578,176	19.7

Source: SIAM, i-SEC Research

Chart 2: Passenger vehicles – 12-month RoC



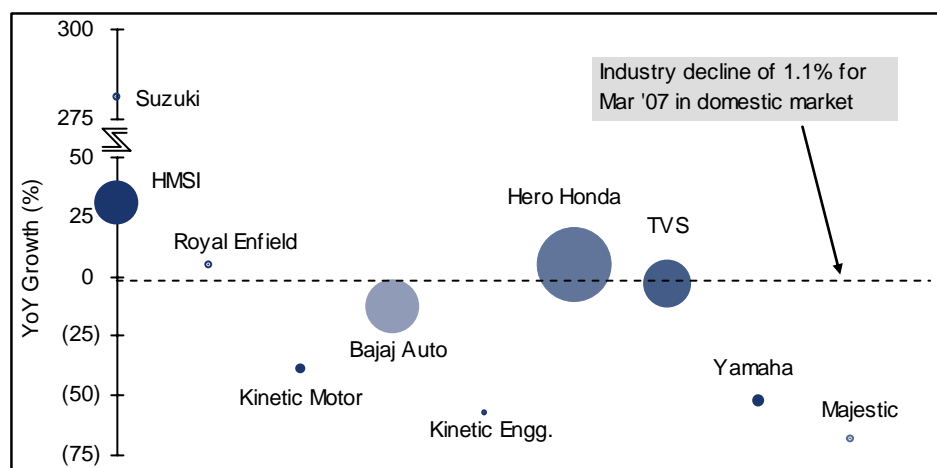
Source: SIAM, i-SEC Research

Two-wheelers – Momentum slowdown

Issues of inventory pile-up, rising auto finance rates and tightening of credit norms by financiers took its toll as was evident in flat YoY volumes for the two-wheeler industry in March '07. In FY07, volumes rose 11.9% led by 14.6% growth in motorcycles and 4.7% rise in mopeds even as scooter volumes dipped 1.7%.

- Winners and losers.** HHML continued to lead the motorcycle segment with 52.9% market share (up 480bps YoY) followed by BAL at 27% (down 310bps YoY) and TVSM at 12.8% (down 220 bps YoY). In the scooters segment, HMSI continued to lead with 65% market share (up 390bps) followed by TVSM at 22.3% (up 240bps). HHML's *Pleasure* lost market share by 430bps to 5.1%. In the mopeds segment, TVSM's market share rose 870bps YoY to 95.1%.

Chart 3: Two-wheelers – Hero Honda gains



Source: SIAM, i-SEC Research

- HHML – Moving ahead.** HHML registered a 4.7% YoY rise in sales of motorcycles and scooters to 277,915 units (motorcycles up 7.1% YoY to 283,662 units, scooters down 39.7% to 4,519 units) in March '07. The growth was led by a strong demand in *CD-Deluxe* and *CBZ X-treme*. HHML plans to expand its offerings at the entry level, which constitutes ~40% of its revenues. The company announced Rs1,000 discount across its models from March 1, '07, which would impact its Q4FY07 margins.
- BAL – Subdued month, but recovery ahead.** Total volumes dipped 9.3% YoY to 168,986 units in March '07 led by a 10% YoY decline in motorcycles to 165,524 units. However, we expect motorcycle growth to pick up from these levels on the back of the launch of *Pulsar 220* in Q1FY08 and a new motorcycle platform in Q2FY08 as well as an expected rise in exports. In FY07, motorcycles grew 24.2% YoY as against 14.6% industry growth; consequently, BAL's market share rose 160bps to 31.7%. The scooters segment grew 43.5% YoY in March '07 to 3,445 units on the back of the *Kristal* launch.
- TVSM – Flat volumes.** Total volumes were flat at 128,207 units – though scooter volumes rose 16.6% YoY to 20,297 units and mopeds grew 25.8% YoY to 34,671 units, the motorcycles segment declined 12.7% YoY to 73,239 units. In FY07, the company's total volumes rose 13.9% YoY – motorcycles up 14.7% YoY to 925,140 units, mopeds up 18.7% to 344,558 units and scooters up 5.6% YoY to 258,967 units.

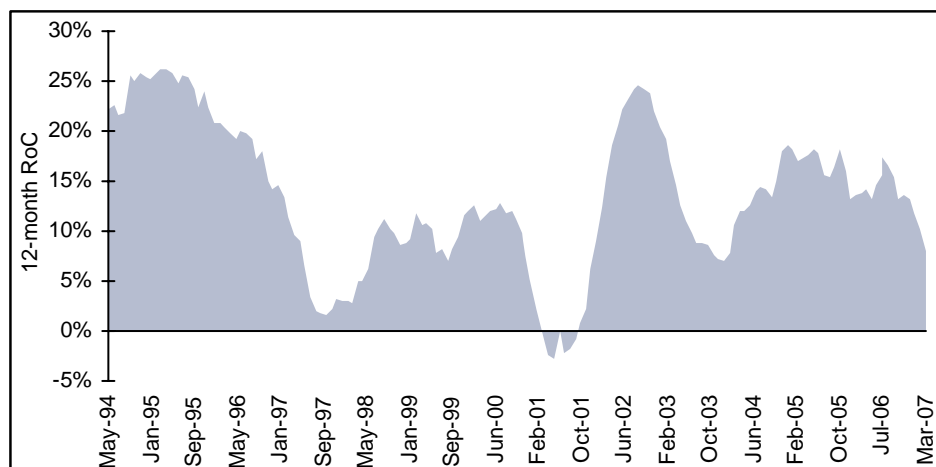
- **HMSI's** scooter volumes rose 8.5% YoY to 57,395 units in March '07. The company's domestic market share in the segment rose 390bps YoY to 65%. Motorcycle volumes rose 2.15x YoY to 18,864 units.

Table 2: Two-wheelers – March '07 volumes

(Nos)

Company	Domestic Sales				Mkt. Share (%)		Exports				Total			
	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Mar-06	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Gr.%	FY07	Gr.%
Scooter														
Bajaj Auto	3,455	43.2	19,370	(81.8)	3.9	3.0	7	N.A	1,110	(88.5)	3,462	43.5	20,480	(82.3)
Kinetic Engg			1,537	(57.8)	0.0	0.0		N.A	21	N.A	0	N.A	1,558	(57.2)
Kinetic Motor	3,221	(39.2)	50,495	(27.3)	3.7	6.6	731	N.A	5,104	121.8	3,952	(25.3)	55,599	(22.5)
LML Ltd.	0	N.A	0	(100.0)	0.0	0.0	0	N.A	0	(100.0)	0	N.A	0	(100.0)
TVS	19,481	22.2	250,085	6.9	22.3	19.9	816	(44.4)	8,882	(21.5)	20,297	16.6	258,967	5.6
HMSI	56,895	16.2	527,241	13.7	65.0	61.1	500	(87.2)	19,536	(45.7)	57,395	8.5	546,777	9.4
Hero Honda	4,463	(40.5)	91,945	512.4	5.1	9.4	56	N.A	1,032	N.A	4,519	(39.7)	92,977	519.2
Majestic	0	N.A	0	N.A	0.0	0.0	0	N.A	0	(100.0)	0	N.A	0	(100.0)
Total	87,515	9.2	940,673	3.5	100.0	100.0	2,110	(60.8)	35,685	(57.5)	89,625	4.8	976,358	(1.7)
Motor Cycles														
Bajaj Auto	139,460	(13.7)	2,078,860	18.9	27.0	30.1	26,064	16.8	297,659	80.1	165,524	(10.0)	2,376,519	24.2
Kinetic Engg	460	(70.9)	4,976	(80.1)	0.1	0.3	252	100.0	2,402	(57.7)	712	(58.3)	7,378	(75.9)
Hero Honda	273,452	6.0	3,157,429	9.1	52.9	48.1	10,210	47.7	96,613	4.3	283,662	7.1	3,254,042	9.0
LML	0	N.A	0	(100.0)	0.0	0.0	0	N.A	0	N.A	0	N.A	0	(100.0)
TVS	66,454	(17.2)	844,174	12.2	12.8	15.0	6,785	85.5	80,966	49.7	73,239	(12.7)	925,140	14.7
Yamaha	10,365	(52.7)	210,315	2.4	2.0	4.1	3,600	(11.9)	61,395	12.0	13,965	(46.3)	271,710	4.4
Majestic	0	N.A	0	(100.0)	0.0	0.0	0	N.A	0	N.A	0	N.A	0	(100.0)
HMSI	18,192	110.2	163,997	67.2	3.5	1.6	672	N.A	4,529	N.A	18,864	115.4	168,526	67.4
Suzuki	6,103	N.A	63,534	N.A	1.2	0.3	0	N.A	90	N.A	6,103	N.A	63,624	N.A
Royal Enfield	2,848	4.3	30,379	6.0	0.6	0.5	366	30.2	2,233	(4.8)	3,214	6.7	32,612	5.2
Total	517,334	(3.5)	6,553,664	12.8	100.0	100.0	47,949	27.9	545,887	41.4	565,283	(1.5)	7,099,551	14.6
Mopeds														
Kinetic Engg	919	(44.0)	17,127	(31.1)	2.6	5.3	0	N.A	5,721	N.A	919	(59.0)	22,848	(19.9)
Majestic Auto	806	(68.5)	7,350	(77.0)	2.3	8.3	997	(58.5)	18,680	(25.8)	1,803	(63.7)	26,030	(54.4)
TVS	33,764	26.7	331,393	20.1	95.1	86.4	907	-	13,165	(8.2)	34,671	25.8	344,558	18.7
Total	35,489	15.1	355,870	7.0	100.0	100.0	1,904	(51.3)	37,566	(13.0)	37,393	7.6	393,436	4.7
Total 2-W	640,338	(1.1)	7,850,207	11.3			51,963	11.1	619,138	20.6	692,301	(0.2)	8,469,345	11.9

Source: SIAM, i-SEC Research

Chart 4: Two-wheelers – 12-month RoC

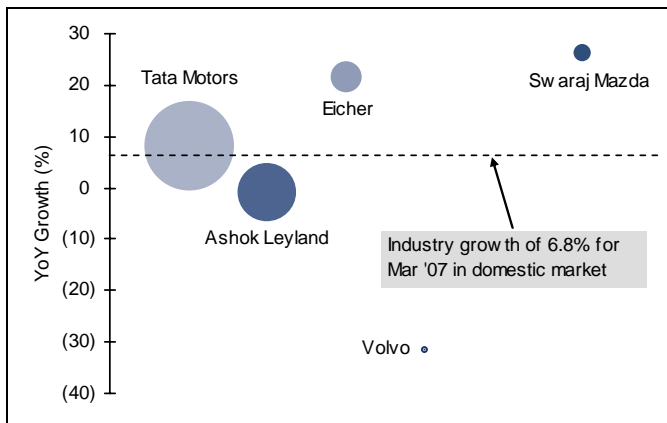
Source: Company data, i-SEC Research

CVs – Leading the pack

CV volumes grew 13% YoY in March '07 to 55,220 units. Domestic volumes rose 13.2% YoY to 49,245 units and exports increased 11.7% YoY to 5,975 units. Among various sub-segments, M/HCV volumes rose 7.9% YoY to 30,966 units and LCV volumes increased 20.3% YoY to 24,254 units.

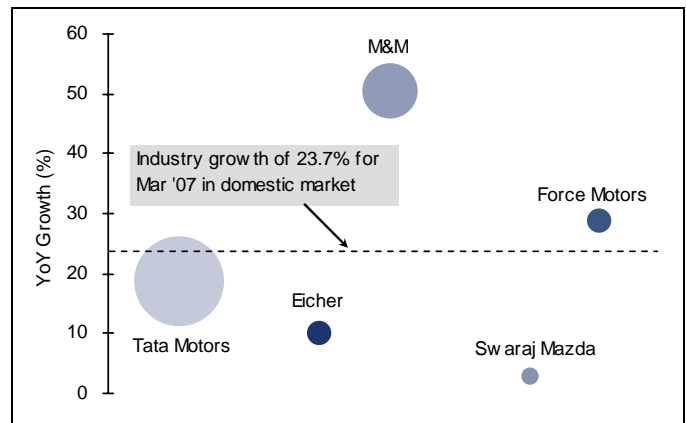
- **Winners and losers.** TAMO continued to be the market leader with 61.3% market share (up 90bps YoY); however, ALL lost market share by 220bps to 27.5%. M&M registered a 420bps market share gain to 24.1% in LCVs.

Chart 5: M/HCV – Tata Motors gains



Source: SIAM, i-SEC Research

Chart 6: LCV – M&M gains



Source: SIAM, i-SEC Research

- **TAMO's** total CV volumes grew 25.1% YoY to 35,078 units. Further, domestic sales rose 12.3% YoY to 30,720 units and exports increased 10.3% YoY to 4,358 units. M/HCV volumes increased 10% YoY to 19,083 units – domestic sales for the segment rose 8.3% YoY to 17,673 units and exports surged 36.1% YoY to 1,410 units. LCV volumes, too, rose 15.1% YoY to 13,047 units on the back of continued buoyancy in the demand for the mini-truck ACE – domestic sales of the LCV segment increased 18.8% YoY to 13,047 units and exports rose 1.1% YoY to 2,948 units.
- **ALL's** volumes dipped 1.6% YoY to 8,444 units on the back of a 1.9% YoY decline in domestic volumes to 7,936 units even as exports rose marginally 3.7% to 508 units. Among various segments, volumes for M/HCV goods segment declined 1.9% YoY to 6,773 units in March '07. M/HCV passenger segment volumes rose 4.9% YoY to 1,671 units.
- **M&M's** LCV volumes grew 45.6% YoY to 5,529 units in March '07. Further, domestic sales increased 50.4% YoY to 4,934 units and exports rose 15.1% YoY to 595 units. M&M's market share in the LCV segment rose 420bps to 24.1%.

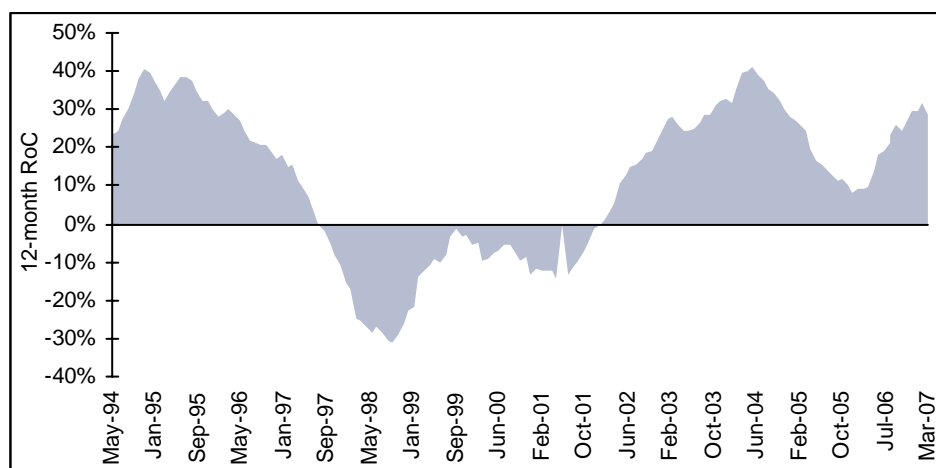
Table 3: CVs – March '07 volumes

(Nos)

Company	Domestic sales				Mkt. Share (%)		Exports				Total			
	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Mar-06	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Gr.%	FY07	Gr.%
MHCV														
Tata Motors	17,673	8.3	173,381	34.7	61.3	60.4	1,410	36.1	11,719	42.1	19,083	10.0	185,100	35.1
Ashok Leyland	7,936	(0.9)	76,791	37.1	27.5	29.7	508	3.7	6,011	24.2	8,444	(0.6)	82,802	36.0
Eicher	2,358	21.7	18,758	21.6	8.2	7.2	209	37.5	778	30.3	2,567	22.9	19,536	21.9
Volvo	65	(31.6)	891	0.6	0.2	0.4	0	N.A	53	(57.6)	65	(31.6)	944	(6.6)
Tatra	5	(79.2)	61	(51.2)	0.0	0.1	0	N.A	0	N.A	5	(79.2)	61	(51.2)
Swaraj Mazda	775	26.2	5,722	(8.9)	2.7	2.3	27	28.6	277	5.3	802	26.3	5,999	(8.4)
Total	28,812	6.8	275,604	32.8	100.0	100.0	2,154	26.8	18,838	33.8	30,966	7.9	294,442	32.9
LCV														
Tata Motors	13,047	18.8	125,792	45.9	63.9	66.5	2,948	1.1	23,471	7.4	15,995	15.1	149,263	38.1
Ashok Leyland	0	(100.0)	289	(61.5)	0.0	0.5	0	N.A	13	(68.3)	0	(100.0)	302	(61.8)
Eicher	925	10.1	7,314	11.5	4.5	5.1	238	36.8	1,222	21.1	1,163	14.7	8,536	12.7
M&M	4,934	50.4	46,841	25.2	24.1	19.9	595	15.1	5,482	78.4	5,529	45.6	52,323	29.2
Hind. Motors	0	(100.0)	226	(24.4)	0.0	0.3	0	N.A	6	(82.9)	0	(100.0)	232	(30.5)
Swaraj Mazda	534	2.9	4,539	(10.5)	2.6	3.1	40	66.7	321	18.5	574	5.7	4,860	(9.0)
Force Motors	993	29.0	7,281	1.1	4.9	4.7	0	(100.0)	412	88.1	993	25.9	7,693	3.7
Total	20,433	23.7	192,282	33.9	100.0	100.0	3,821	4.7	30,927	16.7	24,254	20.3	223,209	31.3
Total CV	49,245	13.2	467,886	33.3			5,975	11.7	49,765	22.7	55,220	13.0	517,651	32.2

Source: SIAM, i-SEC Research

Chart 7: Commercial vehicles – 12-month RoC



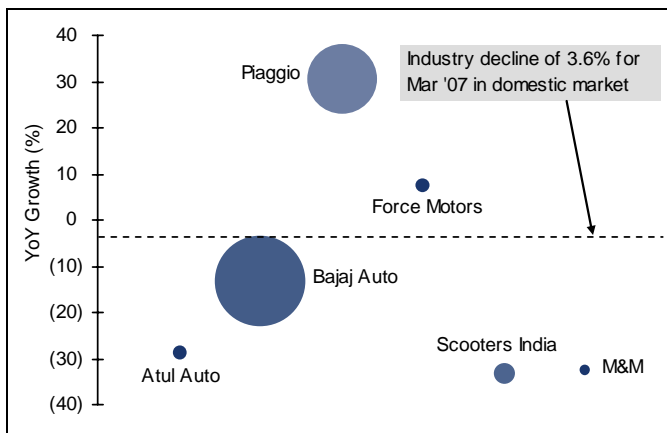
Source: SIAM, i-SEC Research

Three-wheelers – Flat tone

Three-wheeler volumes were flat in March '07. Domestic YoY sales in the passenger and goods segments declined 3.6% YoY and 12.4% YoY respectively, driving an overall 7.3% dip in three-wheeler domestic sales. Exports, however, surged 43.1% to 9,872 units led by strong growth in both the passenger and goods segments. BAL continued to maintain its overall leadership. Also, Piaggio registered smart market share gain, both in the passenger and goods segments, and M&M increased its market share in the goods segments.

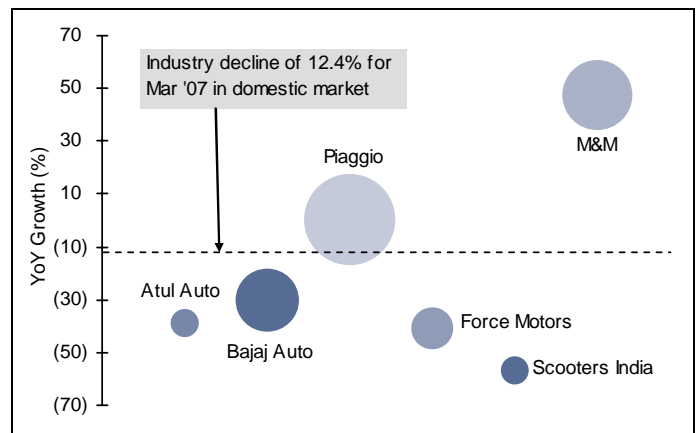
- Winners and losers.** Although BAL maintained its overall leadership with 43% market share (down 490bps YoY) in March '07, the company lost market share in both the passenger and goods segments. Piaggio registered 880bps YoY and 390bps YoY market share gain in the passenger and goods segments to 33.5% and 39.5% respectively, increasing its overall share 700bps to 35.9%. M&M retained its third position in the goods segment with 24.3% share (up 890bps YoY).

Chart 8: Passenger segment – Piaggio gains



Source: SIAM, i-SEC Research

Chart 9: Goods segment – M&M gains



Source: SIAM, i-SEC Research

- BAL's** total three-wheeler volumes were flat at 24,576 units in March '07. While domestic volumes declined 16.9% YoY to 14,984 units, exports surged 43.6% YoY to 9,592 units. Among various sub-segments, passenger volumes rose 5% YoY to 21,738 units. While exports rose an impressive 42.9% YoY to 9,548 in the segment, domestic volumes declined 13.1% YoY to 12,190 units. The goods segment's volumes declined 29.3% YoY to 2,838 units – domestic volumes dipped 30.4% YoY.
- M&M's** total three-wheeler volumes jumped 35.8% YoY to 3,648 units in March '07. Among various sub-segments, domestic volumes in the goods segment increased 47.5% YoY to 3,383 units as against the 12.4% industry decline; consequently, M&M's market share expanded 990bps YoY to 24.3%.

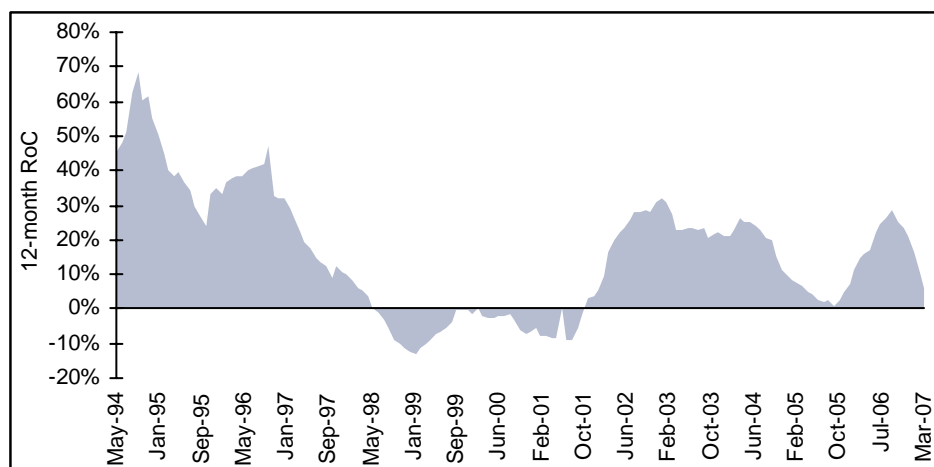
- **Piaggio** continued to witness buoyant growth with the passenger segment driving its overall growth in March '07. Total volumes increased 15.5% YoY to 12,711 units. The growth was led by the passenger segment – volumes surged 31.8% YoY to 7,160 units, while goods segment's volumes were flat at 5,551 units. Piaggio was the biggest gainer in the passenger segment with its market share rising 880bps YoY to 33.5%, translating into an overall market share gain of 700bps to 35.9%.

Table 4: Three-wheelers – March '07 volumes

(Nos)

Company	Domestic sales				Mkt. Share (%)		Exports				Total			
	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Mar-06	Mar-07	Gr.%	FY07	Gr.%	Mar-07	Gr.%	FY07	Gr.%
Passenger														
Atul Auto	346	(28.8)	5,655	(7.6)	1.7	2.2	35	600.0	184	38.3	0	N.A	0	N.A
Bajaj Auto	12,190	(13.1)	138,759	(1.8)	58.2	64.5	9,548	42.9	140,556	88.3	21,738	5.0	279,315	29.3
Piaggio	7,020	30.7	77,469	47.7	33.5	24.7	140	129.5	1,817	114.0	7,160	31.8	79,286	48.7
Force Motors	407	7.7	3,408	39.5	1.9	1.7	28	N.A	379	441.4	435	(2.7)	3,787	50.7
Scooters India	726	(33.0)	8,404	26.4	3.5	5.0	0	N.A	0	N.A	726	(33.0)	8,404	26.4
M&M	265	(32.4)	3,092	(16.4)	1.3	1.8	0	N.A	8	N.A	265	(32.4)	3,100	(16.2)
Total	20,954	(3.6)	236,787	11.3	100.0	100.0	9,751	43.1	142,944	88.9	30,324	8.0	373,892	32.5
Goods														
Atul Auto	590	(38.6)	8,608	(13.3)	4.2	6.0	30	N.A	88	225.9	620	(36.7)	8,696	(12.7)
Bajaj Auto	2,794	(30.4)	42,374	19.7	20.1	25.2	44	N.A	107	(83.2)	2,838	(29.3)	42,481	17.9
Piaggio	5,504	0.1	66,658	18.1	39.5	34.6	47	(28.8)	696	34.6	5,551	(0.3)	67,354	18.2
Force Motors	1,153	(41.0)	12,037	(33.7)	8.3	12.3	0	N.A	51	121.7	1,153	(41.0)	12,088	(33.5)
Scooters India	505	(56.9)	6,836	(20.1)	3.6	7.4	0	N.A	0	N.A	505	(56.9)	6,836	(20.1)
M&M	3,383	47.5	30,608	63.5	24.3	14.4	0	N.A	10	N.A	3,383	47.5	30,618	63.5
Total	13,929	(12.4)	167,121	13.5	100.0	100.0	121	42.4	952	(20.9)	14,050	(12.1)	168,073	13.2
Three-wheelers Total														
Atul Auto	936	(35.3)	14,263	(11.1)	2.7	3.8	65	N.A	272	N.A	1,001	(32.0)	14,535	(10.3)
Bajaj Auto	14,984	(16.9)	181,133	2.5	43.0	47.9	9,592	43.6	140,663	86.9	24,576	(0.6)	321,796	27.7
Piaggio	12,524	15.2	144,127	32.3	35.9	28.9	187	47.2	2,513	84.0	12,711	15.5	146,640	33.0
Force Motors	1,560	(33.1)	15,445	(25.0)	4.5	6.2	28	N.A	430	362.4	1,588	(33.9)	15,875	(23.3)
Scooters India	1,231	(45.4)	15,240	0.3	3.5	6.0	0	N.A	0	N.A	1,231	(45.4)	15,240	0.3
M&M	3,648	35.8	33,700	50.3	10.5	7.1	0	N.A	18	N.A	3,648	35.8	33,718	50.4
Total 3-W	34,883	(7.3)	403,908	12.2	100.0	100.0	9,872	43.1	143,896	87.2	44,755	0.5	547,804	25.4

Source: SIAM, i-SEC Research

Chart 10: Three-wheelers – 12-month RoC

Source: SIAM, i-SEC Research

Quarterly results preview: Mixed bag

We expect the i-SEC auto universe to register a robust 20% YoY revenue growth in Q4FY07E. While all companies in the universe would face rising input costs, two wheeler companies would fare the worst with 550bps YoY and 90bps QoQ EBITDA margin contraction. However, margin expansion in TAMO, M&M and BFL would limit overall margin contraction to 120bps YoY for the i-SEC auto universe, up 10bps QoQ. Consequently, recurring net profit is expected to grow 11.7% YoY in Q4FY07E. We expect TAMO, BFL and M&M to lead the pack with recurring net profit rising 35% YoY, 29.8% YoY and 28.8% YoY respectively.

- **Robust revenue growth – PVs race ahead.** The i-SEC auto universe is expected to register a strong 20% YoY sales growth to Rs242bn in Q4FY07E. Among various segments, PVs led the pack at 23.3% YoY volume growth, followed by CVs at 22.7% YoY and two-wheelers at a muted 5.8% YoY.
- **Two-wheelers face the heat.** Two-wheeler growth slowed to 5.8% YoY in Q4FY07 as compared with 16.9% in 9MFY07. The key reasons for this deceleration are inventory pile-up, steady rise in interest rates (300-400bps increase in the past two years), tightening of norms by financiers (including a reduced loan-to-value for many products and stricter guidelines for disbursements) and production constraints faced by some players such as BAL. Further, companies are likely to face margin pressure in Q4FY07E due to increased competitive pressures, race to increase market share, commoditisation of the 100cc motorcycle segment and accelerating trend of offering more value to customer at the same price point. We expect margins to contract 550bps YoY and 90bps QoQ for the top three two-wheeler companies, resulting in 19.7% YoY decline in recurring net profit. We maintain BAL as the top two-wheeler pick on the back of its rich product pipeline, export initiatives, being best positioned to meet pricing pressures and expected value unlocking arising out of the de-merger.
- **TAMO, M&M & BFL top profit growth chart.** TAMO and ALL would benefit from the growth in the CV industry on the back of i) the Supreme Court ban on overloading ii) strong macro-economic fundamentals and iii) emergence of the hub-and-spoke model. TAMO and ALL are likely to register a strong 35% YoY and 26.6% YoY recurring net profit growth respectively. We expect M&M to record a robust net profit growth on the back of a volume surge across segments – LCVs (up 66% YoY), three-wheelers (up 37.7%), UVs (up 18.5%), tractors (up 8.5%) and exports (up 38.8%). Overall, 18.9% YoY volume growth coupled with 40bps YoY EBITDA margin expansion would drive 28.8% YoY growth in recurring net profit to Rs2.45bn. Benefiting from strong growth in the domestic CV industry and margin expansion of 230 bps YoY on the back of benefits of operating leverage, BFL is expected to register strong net profit growth of 29.8% YoY.

Table 5: Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	JFM 07*	% Chg		JFM 07*	% Chg		JFM 07*	% Chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Ashok Leyland	22,719	31.0	27.8	2,762	26.3	50.1	1,709	26.6	59.1
Bajaj Auto	21,998	1.6	(14.3)	2,960	(30.4)	(18.6)	3,008	(8.8)	(15.0)
Bharat Forge	5,245	19.6	9.9	1,378	30.8	11.2	688	29.8	9.3
Hero Honda	25,080	11.2	(5.9)	2,558	(29.6)	(15.3)	1,833	(31.4)	(12.4)
M&M	28,385	24.0	10.2	3,500	28.6	13.0	2,448	28.8	1.1
Maruti Udyog	43,633	33.2	18.6	6,319	21.3	19.6	4,638	20.5	18.6
Punjab Tractors	2,614	4.0	(0.8)	324	(15.4)	(2.1)	196	(6.9)	(4.9)
Tata Motors	82,637	20.1	18.8	10,992	30.9	19.0	6,102	35.0	18.8
TVS Motor	9,255	10.3	(1.1)	342	(29.0)	15.6	187	(35.7)	63.1
Total	241,566	20.0	10.3	31,135	9.9	11.3	20,810	11.7	8.8

Source: i-SEC Research;

* January-March '07

Ashok Leyland (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	22,719	17,348	31.0	27.8	48,772	35,157	38.7
EBITDA	2,762	2,187	26.3	50.1	4,378	3,214	36.2
PBT	2,407	1,869	28.8	55.7	3,857	2,437	58.3
PAT	1,709	1,350	26.6	59.1	2,770	1,766	56.8

Source: Company data, i-SEC Research; * April - December

- We estimate revenue growth at 31% YoY, led by a 30.5% YoY volume growth.
- EBITDA margin is expected to contract 40bps YoY to 12.2% on the back of input cost pressures, leading to 26.3% YoY and 26.6% YoY EBITDA and recurring net profit growth respectively.

Bajaj Auto (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	21,998	21,659	1.6	(14.3)	72,069	55,020	31.0
EBITDA	2,960	4,250	(30.4)	(18.6)	10,907	9,313	17.1
PBT	4,178	4,813	(13.2)	(12.4)	13,412	11,221	19.5
PAT	3,008	3,299	(8.8)	(15.0)	9,554	7,863	21.5

Source: Company data, i-SEC Research; * April - December

- BAL is likely to register 1.6% YoY revenue growth on the back of 1% YoY growth in volumes – motorcycles (flat YoY), three wheelers (up 16.5%). Even as sales of ungeared scooters rose 31.4% YoY, total scooter sales declined 41.7% YoY.
- Weak market dynamics for motorcycles in terms of pricing pressures, race to gain market share and inventory pile-up are likely to result in 610 bps YoY and 160 bps QoQ decline to 13.5% in EBITDA margin.
- The key factors to watch for are i) tax breaks from the company's Pantnagar facility (operational April '07 onwards) ii) roll out of a new platform in Q2FY08 and iii) pick up in margins and volume growth in H2FY08.

Bharat Forge (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	5,245	4,384	19.6	9.9	13,484	11,395	18.3
EBITDA	1,378	1,053	30.8	11.2	3,433	2,843	20.7
PBT	1,043	828	25.9	11.8	2,701	2,321	16.4
PAT	688	530	29.8	9.3	1,812	1,540	17.7

Source: Company data, i-SEC Research; * April - December

- We expect BFL to record 19.6% YoY revenue growth, driven by 26.4% YoY growth in the domestic market and 12.1% YoY growth in exports.
- We expect 230bps YoY margin expansion to 26.3% to drive the 30.8% YoY growth in EBITDA on the back of benefits from higher operating leverage.
- However, increase in interest and depreciation expenses would cap net profit growth at 29.8% at Rs688mn.

Hero Honda (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	25,080	22,559	11.2	(5.9)	72,604	64,581	12.4
EBITDA	2,558	3,632	(29.6)	(15.3)	9,044	10,048	(10.0)
PBT	2,618	3,797	(31.0)	(13.7)	9,608	10,178	(5.6)
PAT	1,833	2,672	(31.4)	(12.4)	6,629	6,941	(4.5)

Source: Company data, i-SEC Research; * April - December

- We expect Hero Honda (HHML) to register 11.2% YoY revenue growth in Q4FY07E on the back of a 10.8% YoY volume growth – motorcycles (up 10% YoY) and scooters (up 52.4% YoY)
- We estimate margins to contract a sharp 590bps YoY and 230 bps QoQ to 10.2% in Q4FY07E due to price cuts, promotional & advertising expenses (including sponsorship costs during the World Cup) and rising input costs.
- The key factor to watch for is that margin pressures are likely to continue in FY08, given the company's key segment (100cc motorcycles) continuing to get commoditised and the increasing trend of value offering to customers at the same price point, in a bid to gain market share.

Mahindra & Mahindra (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	28,385	22,888	24.0	10.2	73,028	59,133	23.5
EBITDA	3,500	2,721	28.6	13.0	9,494	6,747	40.7
PBT	3,180	2,410	31.9	0.8	10,074	6,280	60.4
PAT	2,448	1,901	28.8	1.1	7,478	4,861	53.9

Source: Company data, i-SEC Research; * April - December

- We estimate 24% YoY revenue growth led by 18.9% YoY growth in volumes – LCVs (up 66% YoY), three wheelers (up 37.7%), UVs (up 18.5%), tractors (up 8.5%) and exports (up 38.8%).
- A better product mix would offset increase in input costs and the strong volume growth of 18.9% YoY would enable M&M to register margin expansion of 40bps YoY to 12.3%.
- EBITDA margin expansion is likely to drive net profit growth of 28.8% YoY.

Maruti Udyog (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	43,633	32,770	33.2	18.6	102,241	87,812	16.4
EBITDA	6,319	5,211	21.3	19.6	14,607	11,405	28.1
PBT	6,674	5,604	19.1	18.1	16,009	12,245	30.7
PAT	4,638	3,849	20.5	18.6	11,063	8,281	33.6

Source: Company data, i-SEC Research; * April - December

- We estimate 33.2% YoY revenue growth on the back of a 29.6% YoY volume growth in MUL – 32.6% for *Alto*, 47.6% for *Swift* and 38.3% for *Omni*.
- While margins are likely to expand 10bps QoQ, rising input cost pressures, promotional expenses and merger of the loss-making wholly owned subsidiary, Maruti Suzuki Automobiles India, is likely to result in 140bps YoY decline in EBITDA margins to 14.5%.
- As a result, we expect net profit to grow 20.5% YoY.

Punjab Tractors (Hold)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	2,614	2,514	4.0	(0.8)	7,296	7,076	3.1
EBITDA	324	383	(15.4)	(2.1)	908	878	3.4
PBT	286	337	(15.0)	(1.0)	819	755	8.5
PAT	196	211	(6.9)	(4.9)	567	598	(5.1)

Source: Company data, i-SEC Research; * April - December

- We estimate Punjab Tractors to register 4% YoY revenue growth.
- We expect EBITDA margin to contract 280bps YoY and remain flat QoQ to 12.4% YoY resulting in 6.9% YoY decline in recurring net profit.

Tata Motors (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	82,637	68,828	20.1	18.8	192,507	137,195	40.3
EBITDA	10,992	8,399	30.9	19.0	22,907	16,660	37.5
PBT	8,597	6,389	34.6	21.2	17,944	12,445	44.2
PAT	6,102	4,520	35.0	18.8	13,375	9,479	41.1

Source: Company data, i-SEC Research; * April - December

- TAMO is likely to register 20.1% YoY revenue growth on the back of 16% YoY volume growth – M/HCVs (up 19.5% YoY), LCVs (up 20.6%), UVs (up 21.9%) and cars (up 8.6%)
- Margins are expected to expand 110bps YoY to 13.3%.
- We expect these factors to result in 30.9% YoY and 35% YoY EBITDA and recurring net profit growth respectively.

TVS Motor (Buy)

Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	9,255	8,393	10.3	(1.1)	29,351	23,957	22.5
EBITDA	342	482	(29.0)	15.6	1,272	1,563	(18.6)
PBT	261	410	(36.3)	85.3	805	1,274	(36.8)
PAT	187	291	(35.7)	63.1	575	879	(34.5)

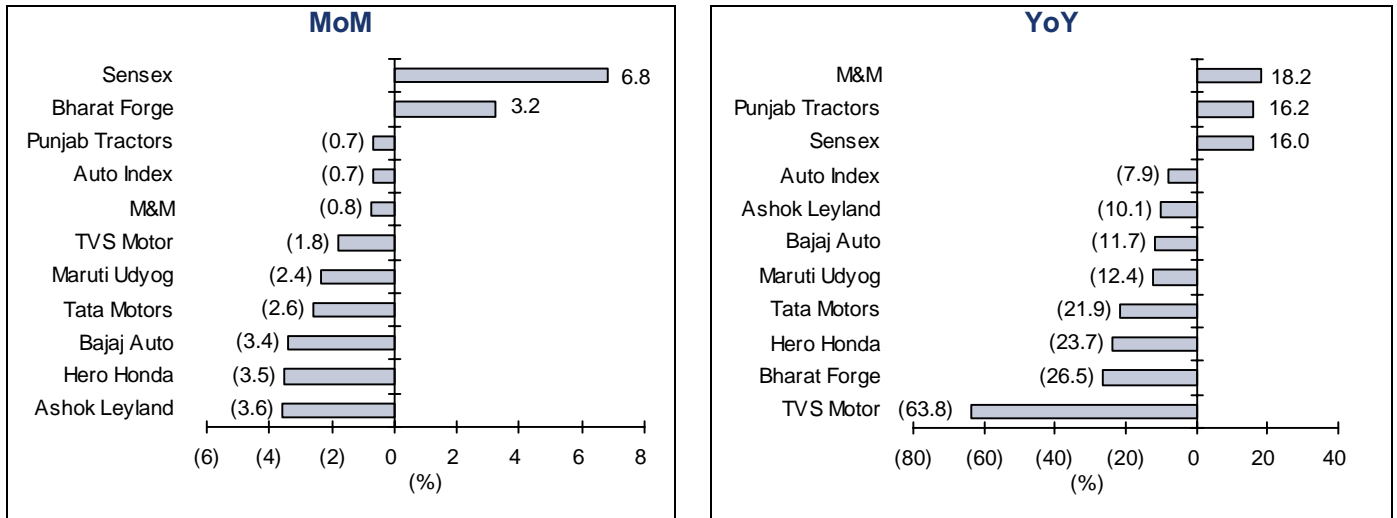
Source: Company data, i-SEC Research; * April - December

- We expect TVS Motor to register 10.3% YoY revenue growth on the back of a 5.3% YoY growth in volumes.
- We estimate EBITDA margin to contract 200bps YoY to 3.7% on account of higher input costs and competitive pressures.
- These factors would result in a decline in EBITDA and recurring net profit by 29% YoY and 35.7% YoY respectively.

Valuations

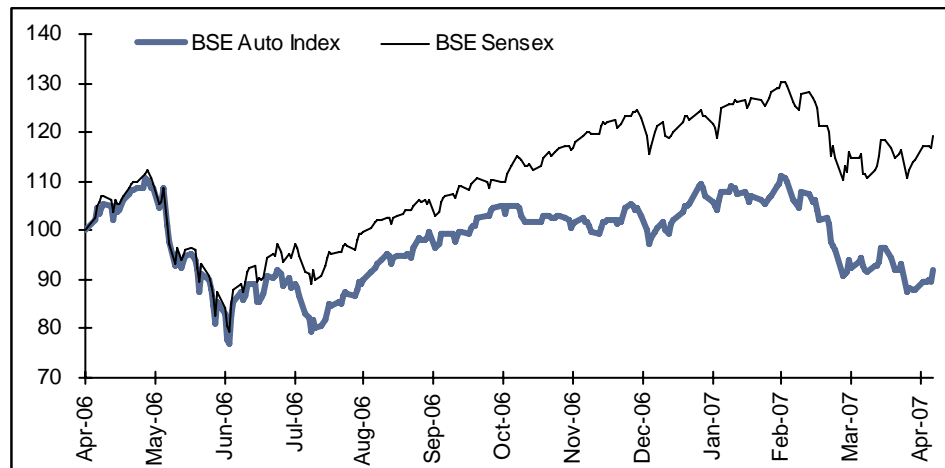
The thrust on infrastructure development, favourable demographics, robust banking system, strong R&D capabilities and low-cost advantage would help India emerge as a major automotive market and global supplier of automobiles, auto parts and services. Our top picks in the sector are MUL, TAMO and BAL. BFL remains our top pick in the auto ancillary universe.

Chart 11: Auto sector – Stock price performance



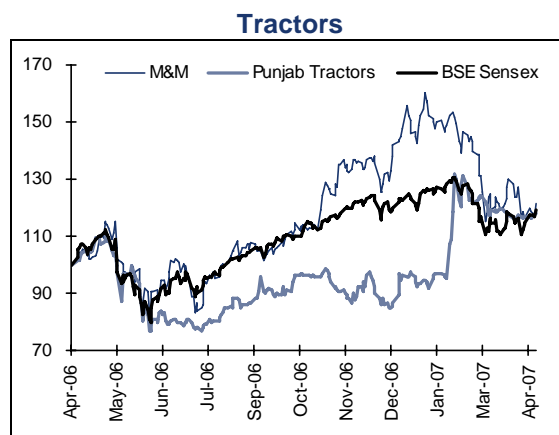
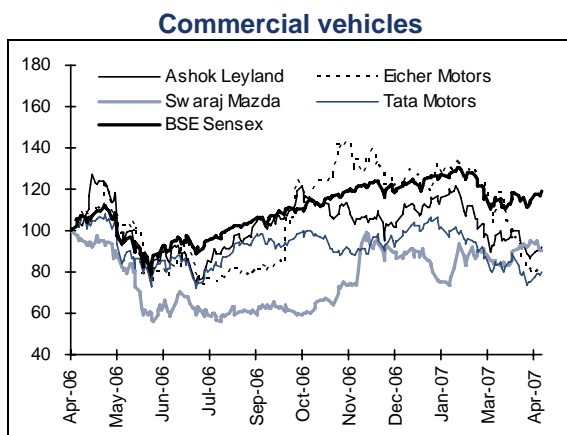
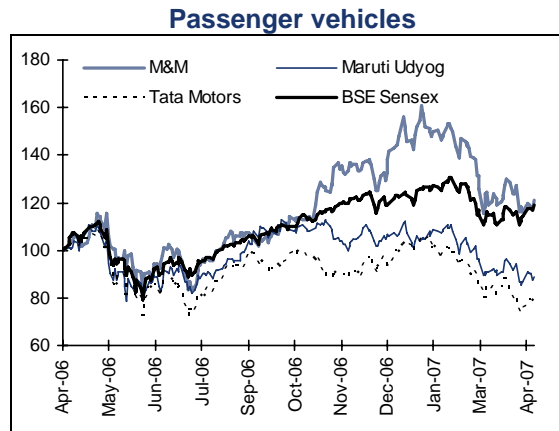
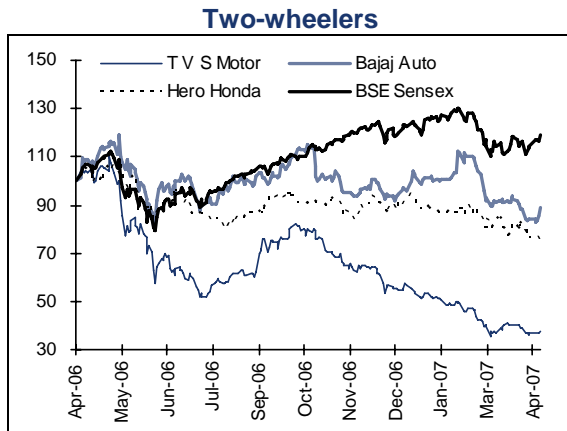
Source: Reuters, i-SEC Research

Chart 12: BSE Auto Index underperformed the Sensex



Source: CMIE

Chart 13: Share price performance in various categories of auto companies



Source: BSE, NSE, i-SEC Research

Earnings watch

	Key Data	Year	Valuation				Growth Rates (% YoY)				Forecasts (Rs mn)					Ratios						
			P/E	P/CEPS	*EVE	Div. Yield	Rec. EPS	Rep. EPS	EBITDA	Rev.	Rev.	EBITDA	Rec. PAT	Rep. PAT	Op. FCF (post-capex)	Rec. EPS (Rs)	EBITDA Margin (%)	RoE (%)	RoCE (%)	Net D/E (%)		
AUTOMOBILE																						
Ashok Leyland BUY																						
Price (Rs)	38	MCap (Rs mn)	44,896	FY05	19.9	13.1	11.0	2.6	13.2	40.1	7.2	23.6	42,591	4,230	2,500	2,714	2,555	1.9	Component of: MSCI India			
52 week Hi/Lo (Rs)	54/30	MCap (US\$ mn)	1,055	FY06	16.4	11.1	8.6	3.7	21.5	20.6	27.7	25.9	53,643	5,401	3,029	3,274	290	2.3	10.1	23.7	14.8	11.3
Free float (%)	49.1	*BVPS (Rs)	8.7	FY07E	12.6	9.4	7.4	4.0	30.4	18.5	24.6	23.6	66,327	6,732	3,935	3,880	(1,814)	3.0	10.1	26.2	18.2	32.2
Shares out (mn)	1189.3	*Returns (%): 1 mo	(3.6)	FY08E	11.1	7.9	6.5	4.2	13.3	14.7	17.5	14.0	75,630	7,908	4,492	4,449	342	3.4	10.5	26.3	19.1	36.6
Year ending	March	12 mo	(10.1)	FY09E	9.7	6.9	5.4	4.8	14.7	14.5	14.1	13.0	85,465	9,021	5,128	5,092	5,325	3.9	10.6	26.1	20.2	16.1
Bajaj Auto BUY																						
Price (Rs)	2444	MCap (Rs mn)	247,343	FY05	30.2	26.1	21.8	1.0	3.1	1.3	32.0	24.6	59,198	9,234	8,196	7,603	11,845	81.0	Component of: MSCI India, BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	3325/2085	MCap (US\$ mn)	5,813	FY06	24.1	19.1	12.7	1.7	25.4	45.3	38.3	28.0	75,755	12,767	10,279	11,046	13,876	101.6	16.9	15.4	12.4	cash
Free float (%)	70.2	*BVPS (Rs)	565.2	FY07E	18.9	16.4	9.5	1.9	27.0	18.2	25.8	23.7	93,684	16,061	13,051	13,051	9,919	129.0	17.1	15.1	12.8	cash
Shares out (mn)	101.2	*Returns (%): 1 mo	(3.4)	FY08E	15.9	13.8	7.2	2.1	19.5	19.5	20.6	20.5	112,892	19,367	15,594	15,594	14,572	154.1	17.2	16.3	14.4	cash
Year ending	March	12 mo	(11.7)	FY09E	13.5	11.8	5.4	2.3	17.5	17.5	16.7	18.1	133,274	22,603	18,330	18,330	17,320	181.2	17.0	17.2	15.4	cash
Bharat Forge BUY																						
Price (Rs)	317	MCap (Rs mn)	62,668	FY03	76.5	49.8	35.2	0.4	308.5	281.0	70.5	50.5	6,378	1,894	794	811	781	4.1	Not a component of key indices			
52 week Hi/Lo (Rs)	451/221	MCap (US\$ mn)	1,473	FY04	49.0	35.6	27.3	0.6	56.1	54.0	28.7	30.9	8,352	2,436	1,159	1,249	540	6.5	29.7	75.8	19.6	313.8
Free float (%)	64.2	*BVPS (Rs)	24.9	FY05	31.2	22.5	16.2	1.0	57.1	61.0	75.4	139.1	19,968	4,273	2,011	2,011	(3,219)	10.2	21.4	56.8	25.7	130.8
Shares out (mn)	197.8	*Returns (%): 1 mo	3.2	FY06	27.6	18.2	12.7	1.1	13.2	24.6	38.6	43.0	30,218	5,256	2,505	2,505	(3,454)	11.5	17.4	28.6	16.0	33.4
Year ending	March	12 mo	(26.5)	FY07E	19.6	13.7	8.7	1.2	40.9	53.1	29.1	25.2	41,967	8,062	3,836	3,836	(2,651)	16.2	19.2	27.3	16.6	48.9
Hero Honda BUY																						
Price (Rs)	648	MCap (Rs mn)	129,436	FY05	16.0	14.4	9.6	4.1	11.3	11.3	18.8	27.3	74,216	11,644	8,104	8,104	7,267	40.6	Component of: MSCI India, BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	898/624	MCap (US\$ mn)	3,042	FY06	13.3	11.9	8.1	3.5	19.8	19.9	17.2	17.4	87,140	13,644	9,713	9,713	4,824	48.6	15.7	55.5	47.4	cash
Free float (%)	45.0	*BVPS (Rs)	74.8	FY07E	11.9	10.5	7.0	3.7	12.3	12.8	11.0	14.2	99,486	15,151	10,958	10,958	7,238	54.6	15.2	47.1	42.3	cash
Shares out (mn)	199.7	*Returns (%): 1 mo	(3.5)	FY08E	10.5	9.3	5.8	3.9	13.0	12.5	11.2	10.2	109,603	16,841	12,326	12,326	11,518	61.7	15.4	41.3	38.5	cash
Year ending	March	12 mo	(23.7)	FY09E	9.5	8.4	4.7	4.1	10.2	10.2	9.5	8.8	119,273	18,441	13,587	13,587	12,491	68.0	15.5	36.1	34.1	cash
Mahindra & Mahindra BUY																						
Price (Rs)	745	MCap (Rs mn)	172,760	FY05	29.1	20.0	17.5	0.8	52.2	63.4	47.0	35.3	93,873	11,773	6,339	6,815	(6,888)	25.6	Component of: MSCI India, BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	1002/488	MCap (US\$ mn)	4,060	FY06	18.8	11.9	13.0	0.8	54.8	86.3	46.2	31.3	123,278	17,216	9,806	12,697	(24,806)	39.6	14.0	32.3	14.3	136.7
Free float (%)	76.4	*BVPS (Rs)	96.0	FY07E	15.3	11.5	10.7	0.9	22.7	6.0	28.8	19.6	147,437	22,175	12,534	13,463	(16,109)	48.6	15.0	29.5	13.6	133.7
Shares out (mn)	232.0	*Returns (%): 1 mo	(0.8)	FY08E	13.4	10.6	9.0	1.0	14.4	6.4	19.5	14.9	169,398	26,507	14,324	14,324	(1,735)	55.6	15.6	26.7	13.5	109.1
Year ending	March	12 mo	18.2	FY09E	11.8	9.2	7.9	1.1	13.8	14.0	16.0	12.8	191,058	30,760	16,326	16,326	(5,460)	63.3	16.1	24.7	13.8	95.7
Maruti Udyog BUY																						
Price (Rs)	772	MCap (Rs mn)	223,238	FY05	25.4	16.6	12.4	0.3	40.5	47.5	30.2	17.4	112,966	16,364	8,801	8,801	5,111	30.5	Component of: MSCI India, BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	991/670	MCap (US\$ mn)	5,246	FY06	18.3	14.8	10.1	0.5	38.5	38.5	16.4	10.5	124,800	19,053	12,191	12,191	10,171	42.2	15.3	24.3	21.9	cash
Free float (%)	27.5	*BVPS (Rs)	154.5	FY07E	14.8	12.1	8.1	0.6	23.8	25.6	22.7	15.7	144,358	23,374	15,094	15,312	1,359	52.2	16.2	24.1	22.1	cash
Shares out (mn)	289.0	*Returns (%): 1 mo	(2.4)	FY08E	12.6	10.4	6.4	0.6	17.0	15.3	18.2	16.4	168,020	27,619	17,653	17,653	10,744	61.1	16.4	22.7	21.5	cash
Year ending	March	12 mo	(12.4)	FY09E	11.0	9.1	5.1	0.7	14.5	14.5	12.8	12.6	189,212	31,154	20,209	20,209	16,586	69.9	16.5	21.2	20.5	cash
Punjab Tractors HOLD																						
Price (Rs)	307	MCap (Rs mn)	18,638	FY05	29.6	23.6	16.9	2.0	60.1	60.1	50.5	43.6	8,580	1,139	629	629	426	10.3	Component of: MSCI India			
52 week Hi/Lo (Rs)	359/191	MCap (US\$ mn)	438	FY06	25.8	12.9	14.9	3.9	15.0	105.8	10.7	11.7	9,586	1,261	724	1,294	458	11.9	13.2	13.4	13.5	1.9
Free float (%)	76.5	*BVPS (Rs)	92.0	FY07E	22.2	18.8	12.7	2.6	16.0	(35.2)	10.9	6.2	10,180	1,399	839	839	1,235	13.8	13.7	14.3	14.7	cash
Shares out (mn)	60.8	*Returns (%): 1 mo	(0.6)	FY08E	19.2	16.6	10.8	2.8	15.9	15.6	12.7	5.8	10,772	1,576	970	970	1,067	16.0	14.6	15.5	15.9	cash
Year ending	March	12 mo	16.2	FY09E	17.5	15.3	9.7	3.1	9.4	9.6	7.2	5.8	11,400	1,689	1,063	1,063	1,029	17.5	14.8	15.8	16.3	cash
Tata Motors BUY																						
Price (Rs)	726	MCap (Rs mn)	262,685	FY05	19.8	14.1	10.7	1.8	52.2	51.4	23.6	40.7	195,295	24,084	13,520	13,853	2,760	36.6	Component of: MSCI India, BSE Sensex, Nifty			
52 week Hi/Lo (Rs)	997/651	MCap (US\$ mn)	6,174	FY06	17.5	12.1	9.6	1.9	13.5	24.7	22.0	21.4	237,100	29,388	16,072	17,281	(23,428)	41.6	12.4	30.6	20.2	30.3
Free float (%)	66.3	*BVPS (Rs)	110.1	FY07E	13.9	10.3	7.7	1.9	25.5	17.5	21.4	19.1	282,503	35,681	20,305	20,305	9,496	52.2	12.6	29.7	21.6	18.0
Shares out (mn)	362.0	*Returns (%): 1 mo	(2.6)	FY08E	12.5	8.9	6.7	2.0	11.6	12.1	15.2	12.1	316,578	41,089	22,769	22,769	5,233	58.2	13.0	27.3	22.2	14.1
Year ending	March	12 mo	(21.9)	FY09E	11.2	7.7	5.7	2.1	11.3	11.3	14.2	12.4	355,838	46,907	25,348	25,348	11,272	64.8	13.2	25.1	21.3	5.7
TVS Motor BUY																						
Price (Rs)	58	MCap (Rs mn)	13,751	FY05	12.4	6.0	7.4	2.6	(19.9)	(1.7)	(17.1)	2.3	29,130	2,215	1,107	1,359	230	4.7	Not a component of key indices			
52 week Hi/Lo (Rs)	175/53	MCap (US\$ mn)	323	FY06	12.6	6.6	8.6	2.6	(1.3)	(18.8)	(6.3)	12.2	32,669	2,075	1,104	1,104	(2,097)	4.6	6.4	17.6	11.8	62.6
Free float (%)	43.2	*BVPS (Rs)	25	FY07E	8.8	5.3	7.0	2.8	43.5	41.8	30.5	27.2	41,561	2,708	1,565	1,565	(1,535)	6.6	6.5	21.4	13.4	64.3
Shares out (mn)	237.5	*Returns (%): 1 mo	(1.8)	FY08E	6.7	4.1	5.1	2.8	31.8	32.4	29.8	17.2	48,694	3,516	2,072	2,072	767	8.7	7.2	23.1	15.2	41.4
Year ending	March	12 mo	(63.8)	FY09E	5.2	3.3	3.7	2.9	27.6	27.8	24.1	12.5	54,761	4,364	2,647	2,647	1,463	11.1	8.0	24.2	17.9	18.7

Pricing as on April 13, 2007

BVPS - Book Value per share; Returns - Absolute Returns; Rec. - Recurring; Rep. - Reported; Rev. - Revenue

Index of Tables and Charts

Tables

Table 1: PVs – March '07 volumes	4
Table 2: Two-wheelers – March '07 volumes	6
Table 3: CVs – March '07 volumes	8
Table 4: Three-wheelers – March '07 volumes.....	10
Table 5: Quarterly summary	11

Charts

Chart 1: Passenger vehicles – Maruti and Tata Motors gain market share	3
Chart 2: Passenger vehicles – 12-month RoC	4
Chart 3: Two-wheelers – Hero Honda gains.....	5
Chart 4: Two-wheelers – 12-month RoC	6
Chart 5: M/HCV – Tata Motors gains.....	7
Chart 6: LCV – M&M gains	7
Chart 7: Commercial vehicles – 12-month RoC	8
Chart 8: Passenger segment – Piaggio gains	9
Chart 9: Goods segment – M&M gains.....	9
Chart 10: Three-wheelers – 12-month RoC.....	10
Chart 11: Auto sector – Stock price performance.....	16
Chart 12: BSE Auto Index underperformed the Sensex.....	16
Chart 13: Share price performance in various categories of auto companies.....	17

Key/recent auto sector reports

Company / Product	Title	Date
Quarterly results preview	Mixed bag	April 12, 2007
Speedometer – March'07	Balanced manoeuvre	March 14, 2007
Ashok Leyland	Margin blues	October 31, 2006
Tata Motors	Creditable calibre	October 31, 2006
Mahindra & Mahindra	Driven by excellence	October 30, 2006
TVS Motor	Rubbed raw	October 27, 2006
Maruti Udyog	Higher, better, stronger...	October 27, 2006
Hero Honda	Low spirits	October 26, 2006
Punjab Tractors	Listless pallor	October 20, 2006
Bajaj Auto	Momentary blip	October 18, 2006
Speedometer – October '06	Turbocharged	October 13, 2006
Speedometer – September '06	Show of strength	September 13, 2006
Speedometer – August '06	Advancing ahead	August 17, 2006
Bajaj Auto	Pulsating performance	July 17, 2006
Speedometer – July '06	Zip, zap...	July 13, 2006
Speedometer – June '06	Soaring high	June 14, 2006
Speedometer – May '06	Unfolding prowess	May 15, 2006
Speedometer – April '06	On the march	April 17, 2006
Speedometer – March '06	On a strong note	March 14, 2006
Speedometer – February '06	Radiant visage	February 15, 2006
NRB Bearings (Unrated)	On a roll	February 1, 2006
Maruti Udyog	On a joyride	January 23, 2006
Speedometer – January '06	Pace lap	January 18, 2006
2006: The road ahead	Chequered flag	January 2, 2006
Ashok Leyland	ALL for growth	December 19, 2005
Speedometer – December '05	Off a high base	December 15, 2005
Speedometer – November '05	Festive <i>dhamaka</i>	November 17, 2005
Speedometer – October '05	Vroom...	October 17, 2005
Tata Motors	Eyeing global brand equity	October 13, 2005
Speedometer – February'05	Revving it up	October 14, 2005
Maruti Udyog	Negotiating the bend	August 25, 2005
Ashok Leyland	All geared up	August 24, 2005
Speedometer – August '05	Damp show	August 16, 2005
Mahindra & Mahindra	Surging ahead	July 25, 2005
Speedometer – July '05	CVs rebound	July 19, 2005
TVS Motor	Wide angle	June 22, 2005
Speedometer – June'05	Momentum continues	June 21, 2005
Tractor industry update	Winds of change	June 13, 2005
Bharat Forge	Aiming to be the best and the biggest	June 25, 2005
Speedometer – May'05	Strong footing	June 18, 2005
Tata Motors	Wholesome growth	June 18, 2005
Bajaj Auto	Vantage position	June 12, 2005
Maruti Udyog	Base effect	June 6, 2005
Punjab Tractors	Losing ground	June 2, 2005
Ashok Leyland	On a solid ground	April 29, 2005
Speedometer – April'05	All round growth	April 21, 2005
Hero Honda	Meets expectation	April 13, 2005
Speedometer – March'05	CVs shine	March 17, 2005
Maruti Udyog	Margin Pressure	March 16, 2005
Mahindra & Mahindra	Firing on all cylinders	March 4, 2005

ANALYST CERTIFICATION

We /I, Shilpa Gupta, PGDM, BTech analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that Shilpa Gupta, PGDM, BTech research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Shilpa Gupta, PGDM, BTech research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

EQUITIES			
A Murugappan	Head of Equities	+91 22 6637 7101	a_murugappan@isecltd.com
Equity Research – Telephone : +91 22 2288 2460/70 Fax: +91 22 2288 2448			
ANALYST	SECTOR ALLOCATION	DIRECT Nos.	E-MAIL
Anand Shah	FMCG	+91 22 6637 7230	anand_shah@isecltd.com
Amar Kedia	Aviation	+91 22 6637 7271	amar_kedia@isecltd.com
Gaurav Pathak	Real Estate	+91 22 6637 7339	gaurav_pathak@isecltd.com
Poonam Nishal	Telecom, Utilities	+91 22 6637 7443	poonam_nishal@isecltd.com
Rajesh Vora	Pharmaceuticals	+91 22 6637 7508	rajesh_vora@isecltd.com
S Ramesh	Oil & Gas, Petrochemicals	+91 22 6637 7254	s_ramesh@isecltd.com
Shilpa Gupta	Automobiles, Healthcare, Hospitality	+91 22 6637 7134	shilpa_gupta@isecltd.com
Vikash Mantri	Media	+91 22 6637 7161	vikash_mantri@isecltd.com
Vinay Patel	Economist	+91 22 6637 7275	vinay_patel@isecltd.com
Alok Kapadia	Associate (Banking)	+91 22 6637 7231	alok_kapadia@isecltd.com
Amit Mishra	Associate (Oil & Gas)	+91 22 6637 7274	amit_mishra@isecltd.com
Nishant Bhargava	Associate (Pharma)	+91 22 6637 7143	nishant_bhargava@isecltd.com
Sagar Thakkar	Associate (Technology)	+91 22 6637 7225	sagar_thakkar@isecltd.com
Shilpa Yadav	Associate (FMCG)	+91 22 6637 7196	shilpa_yadav@isecltd.com
Prakriti Singh	Editor	+91 22 6637 7239	prakriti_singh@isecltd.com
Simmu Kahlon	Editor	+91 22 6637 7202	simmu_kahlon@isecltd.com
Hemant Jathar	Production	+91 22 6637 7135	hemant_jathar@isecltd.com
Ruben Fernandes	Production	+91 22 6637 7442	ruben_fernandes@isecltd.com
Equity Sales – US			
Melrick D'souza		+1 646 701 4465	melrick_dsouza@icicisecurities.com
Equity Sales – Europe			
Chintan Maniar		+44 (020) 7618 7889	chintan_maniar@icicisecurities.com
Equity Sales – Asia-Pacific – Telephone : +91 22 2288 2460/70 Fax: +91 22 2288 2341			
Celine D'souza		+91 22 6637 7281	celine_dsouza@isecltd.com
Darshit Shah		+91 22 6637 7152	darshit_shah@isecltd.com
Rishikesh Joshi		+91 22 6637 7229	rishikesh_joshi@isecltd.com
Sachin Shahane		+91 22 6637 7223	sachin_shahane@isecltd.com
T S Baskaran		+65 6823 1556	ts_baskaran@icicisecurities.com
Yudhvir Mahajan		+91 22 6637 7124	yudhvir_mahajan@isecltd.com
Equity Dealing – Telephone : +91 22 2281 4570 Fax: +91 22 2288 2341			
Paresh Shah		+91 22 6637 7130	paresh_shah@isecltd.com
Rajashekhar Hiremath		+91 22 6637 7319	rajashekhar_hiremath@isecltd.com
Viren Sompura		+91 22 6637 7316	viren_sompura@isecltd.com
Equity Derivatives – Telephone : +91 22 2288 2460/70 Fax: +91 22 2288 2341			
Dr. C. K. Narayan		+91 22 6637 7365	ck_narayanan@isecltd.com
Bhavesh Mehta, CFA		+91 22 6637 7471	bhavesh_mehta@isecltd.com
Keyur Shah		+91 22 6637 7255	keyur_shah@isecltd.com
Monal Desai		+91 22 6637 7474	monal_desai@isecltd.com
Sriram Jagdish		+91 22 6637 7455	sriram_jagdish@isecltd.com
Anant Rao		+91 22 6637 7131	anant_rao@isecltd.com
ICICI Securities Limited			
ICICI Centre, H T Parekh Marg, Churchgate, Mumbai 400 020, Telephone: +91 22 2288 2460/70 Fax: +91 22 2288 2448			
ICICI Securities Inc.		ICICI Securities Inc.	
Level 57, Republic Plaza, 9, Raffles Place, Singapore 048 619		MIWB Business Exchange, Office No.523, 78 Cannon Street, London EC4N 6 NQ, United Kingdom	
Telephone: +65 6823 1556/57 Fax: +65 6823 1425		Telephone: +44 20 7618 7889/92 Fax: +44 20 7618 8041	
ICICI Brokerage Services Limited		ICICI Securities Inc.	
ICICI Centre, H. T. Parekh Marg, Churchgate, Mumbai 400 020, India		500 Fifth Avenue, 28 th Floor, New York, NY 10110, USA	
Telephone: +91 22 2288 2460/70 Fax: +91 22 2288 2312		Telephone: +1 212 921 2344 Fax: +1 646 827 8436	