



Q2FY2009 Auto earnings preview

Pressure on earnings to continue

The automobile sector has reported mixed sales volumes for Q2FY2009. Sales of two-wheelers recovered whereas that of passenger cars as well as commercial vehicles (CVs) remained weak during the quarter. The higher cost of raw materials is expected to have maintained pressure on the profitability of the automakers in Q2FY2009. Due to the price increases undertaken in Q1FY2009, some improvement is expected in their profitability on a sequential basis but on a year-on-year basis, the profit margin is expected to be lower.

The volume growth in the sector was affected by the significant rise in the cost of financing, stringent financing norms that led to lower availability of credit and a higher cost of fuel in the quarter. The two-wheeler segment saw growth in the second quarter due to a low base of the last year and the decreasing dependence of buyers on borrowed funds (30% two-wheelers bought on borrowed funds as compared with 50% in FY2007 and FY2008). The main impact of the rising interest rates was felt by the passenger car segment with the B and C segments witnessing a slowdown in sales during the quarter. Sales of the CV segment were also affected due to the higher interest rates as this segment grows mostly on borrowed funds. The slowdown

in overall economic activity also affected this segment during the quarter.

Among the heavyweights, Maruti Suzuki's sales volumes declined by 1% for the quarter. The volume sales of Mahindra and Mahindra (M&M) were better with a growth of 13.6% during the quarter. Ashok Leyland's volumes for the quarter are estimated to decline by 8.6%, whereas those of Bajaj Auto Ltd (BAL) have grown by 4.2%.

BAL

BAL's sales volume for the quarter grew by 4.2%, with its motorcycle sales growing by 5.6%. Its scooter sales declined and three-wheeler sales remained flat during the quarter. BAL's Q2FY2009 performance will not be fully comparable with its Q2FY2008 performance, as the company has seen a spilt since. As during the quarter the company suffered the full impact of the price increases effected during the previous quarter; announced another price hike in mid August; retained some benefits of the reduction in the excise duty; and focussed on the 125cc segment, we expect its operating profit margin (OPM) to improve by 70 basis points on a sequential basis to 12.2%. However, its profit margin is expected to decline by 330 basis points year on year (yoy).

Quarterly estimates

(Rs crore)	Net sales			EBITDA margin (%)			Adj profit after tax		
	Q2FY09E	Q2FY08	% chg	Q2FY09E	yoy chg	qoq chg	Q2FY09E	Q2FY08	% chg
Bajaj Auto	2,496.2	-	NC	12.2	NC	+70 bps	197.2	-	NC
Maruti Udyog	4,824.3	4,547.4	6.1	10.8	-240 bps	+100 bps	368.9	466.5	-20.9
Mahindra & Mahindra	3,127.2	2,709.5	15.4	9.9	-85 bps	+40 bps	219.7	225.9	-2.8
Ashok Leyland	1,754.7	1,745.9	0.5	8.0	-140 bps	0.0	66.8	78.6	-15.1
Apollo Tyre	1,013.2	844.3	20.0	9.0	-380 bps	-120 bps	36.1	51.1	-29.4
Subros	174.0	157.1	10.8	11.5	-80 bps	-20 bps	7.1	6.4	10.5
AUTO UNIVERSE*	10,893.4	10,004.1	8.9				698.5	828.5	-15.7

NC- Not comparable as the company has been spilt

*Excluding Bajaj Auto as NC

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Sales performance

	Q2FY09	Q2FY08	% growth
Other two-wheelers	3,621	7,696	-52.9
Motorcycles	561,475	531,516	5.6
Total two-wheelers	565,096	539,212	4.8
Three-wheelers	74,944	74,881	0.1
Grand total	640,040	614,093	4.2

The company expects to launch two new products on the *DTS-Si* platform in the H2FY2009, which is expected to improve the motorcycle sales growth to double digits in the H2FY2009. The three-wheeler sales are also expected to pick up in the second half with a product launch each in the passenger vehicle range and the goods carrier range.

M&M

M&M has reported a decent volume growth of 13.6% for the quarter, driven by automotive sales that grew by 18.1% during the quarter. The company's three-wheeler sales maintained their growth momentum and increased by 57.2%, indicating encouraging response to its three-wheeler, *Alfa*. Growth in the sales of tractors decelerated in Q2FY2009 to 4% yoy from 10.3% yoy in Q1FY2009.

Sales performance

	Q2FY09	Q2FY08	% change
Utility vehicles	38,462	35,307	8.9
Three-wheelers	14,335	9,117	57.2
Exports	2,941	2,760	6.6
Total automotive	55,738	47,184	18.1
Tractors	23,154	22,272	4.0
Total	78,892	69,456	13.6

The new UV *Ingenio* is slated for launch in the H2FY2009. The company is also planning to unlock its value through an initial public offer of its subsidiary Mahindra Holiday Resorts, which has refilled the draft red herring prospectus.

Maruti Suzuki India

Maruti Suzuki India's sales volumes for the quarter declined by 1.0%. The sales of the A2 segment were affected by the increasing competition and rising interest rates during the quarter. The A3 segment did well due to new product launches and capacity constraint at the Manesar plant. The company's margin is expected to be under pressure due to higher raw material, royalty and overhead costs. The net profit is expected to decline by 21% to Rs368.9 crore.

Sales performance

Volumes	Q2FY09	Q2FY08	% change
M-800	12,137	16,671	-27.2
Alto, Zen, Wagon-R, Swift	118,083	122,689	-3.8
SX4, Dzire	18,849	14,118	33.5
Omni, Versa	20,209	21,453	-5.8
MUV	2,428	1,223	98.5
Export	17,745	15,171	17.0
Total sales	189,451	191,325	-1.0

The new car *A-Star* is slated for launch in Q3FY2009. The success of this product would be crucial to the company's performance in the domestic as well as export markets. *A-Star* would be the first product to be manufactured and exported from India along with Nissan in other Suzuki markets.

Ashok Leyland

Ashok Leyland's volumes are projected to decline by 8.6% during the quarter. Due to the price increases undertaken during the quarter, the company's sales for the quarter are expected to remain flat at Rs1,754.7 crore. Due to a decline in the sales volumes, the profit margin is also expected to drop. The adjusted net profit is expected to fall by 15.1%.

Sales performance

	Q2FY09	Q2FY08	% yoy
MDV passenger	6,552	6,684	-2.0
MDV goods	10,563	12,061	-12.4
LCV	146	147	-0.7
Total sales	17,261	18,892	-8.6

Recovery in the commercial vehicle segment and improvement in the profit margins holds the key to the company's performance in the rest of the year.

Apollo Tyres

Apollo Tyres' sales for the quarter are expected to grow by 20% to Rs1,013.2 crore. The margins are expected to decline as compared with that in Q1FY2009 in view of the higher prices of rubber and the other raw materials and the depreciation in the rupee during the quarter. We expect the margin to drop to 9%. The net profit for the quarter is expected to decline by 29% to Rs36.1 crore.

The company is contemplating a price hike from October onwards due to rising raw material prices.

Subros

Subros' performance is dependent on the performance of its key clients: Maruti Suzuki India and Tata Motors. In view of the poor performance of Tata Motors and Maruti Suzuki India during the quarter, Subros' sales are expected to grow by 10.8% in Q2FY2009. The company's operating profit margin is expected to decline by 80 basis points. The profit after tax is projected to grow by 10.5% to Rs7.1 crore.

Valuation table—Sharekhan auto universe

Particulars	CMP (Rs)	EPS FY08	EPS FY09E	PER FY08	PER FY09E	EV/EBIDTA FY08	EV/EBIDTA FY09E
Apollo Tyres	38	4.5	4.2	8.4	9.0	3.7	4.6
Ashok Leyland	27	3.2	3.2	8.3	8.3	4.3	4.5
Bajaj Auto	600	52.3	58.0	11.5	10.3	8.9	5.6
Maruti Udyog	698	59.9	62.6	11.7	11.1	6.9	6.0
M&M	506	39.0	37.6	13.0	13.5	8.3	8.5
Subros	26	4.8	5.6	5.4	4.7	2.9	2.7

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

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