Q2FY2008 Auto earnings preview

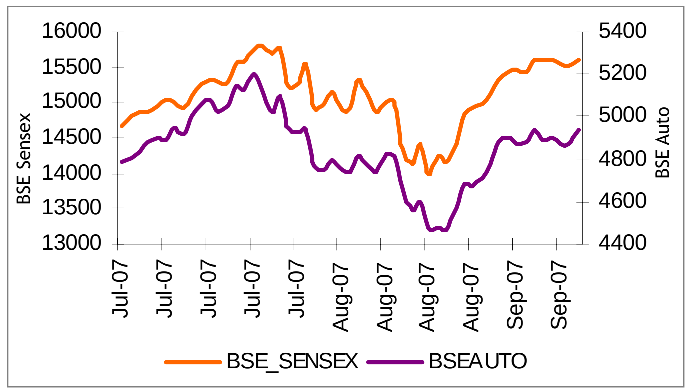
Maruti, Apollo, Ceat likely to be top performers

The slowdown in the automobile industry continues in the second quarter of FY2008. The sales volumes continue to decline due to the higher interest rates, the seasonal effect of the monsoons and the high base of the last year. The two-wheeler segment remains the worst affected as the sales in the entry level motorcycles, ie the 100cc segment, have been affected by the higher cost of credit and product fatigue. The motorcycle segment accounts for 86% of the overall two-wheeler sales and the entry-level motorcycles account for 75% of the total motorcycle sales. The slowdown in the sales of commercial vehicles (CVs) too continues due to the lower freight availability because of the monsoons, the high base of FY2007 and the loosening of the ban on overloading. The surprise in the pack remains the passenger car segment, where growth has been led by a number of new launches in the recent times.

Among the heavyweights, the sales volume of Bajaj Auto Ltd (BAL), Tata Motors and Ashok Leyland is expected to decline by 14%, 5% and 8% respectively. Maruti Suzuki is the exception with a 23.6% expected growth in its sales volume for the second quarter of FY2008.

The operating profit margins (OPMs) are expected to be under pressure for the whole sector considering the decline in the sales volumes. We expect Maruti Suzuki, SKF India, Ceat and Apollo Tyres to be the lead performers in the sector in Q2FY2008.

Auto Index vs Sensex performance



BAL

We expect BAL to report disappointing numbers for the second quarter. The company's sales performance has been disappointing so far and the second quarter is expected to report a drop of 14.1% year on year (yoy). The sales have declined mainly due to a fall in the sales of the 100cc segment, which contributes 50% to the motorcycle sales volume. The three-wheeler sales are expected to show a decline of 8%.

Quarterly estimates

(Rs crore)	Net sales			Profit after tax		
	Q2FY08E	Q2FY07	% change	Q2FY08E	Q2FY07	% change
Ashok Leyland	1,628.8	1,675.7	-2.8	76.1	77.7	-2.0
Bajaj Auto	2,270.2	2,436.0	-6.8	262.4	331.5	-20.8
Maruti Suzuki	4,512.6	3,419.2	32.0	478.6	367.4	30.3
Mahindra & Mahindra	2,554.9	2,490.5	2.6	202.2	245.4	-17.6
Tata Motors	6,557.8	6,571.8	-0.2	349.2	486.9	-28.3
Ahmednagar Forgings	160.0	122.0	31.1	15.6	13.5	15.6
Apollo Tyre	832.7	767.3	8.5	38.6	19.3	99.4
Ceat	575.2	537.6	7.0	22.6	4.3	426.4
Federal Mogul Goetze	166.9	139.1	20.0	4.8	12.3	-61.4
Subros	170.9	165.8	3.1	7.8	7.8	0.7
Sundaram Clayton	211.0	203.4	3.8	23.9	23.0	3.8
SKF India	400.5	339.4	18.0	37.2	22.4	66.3
Auto universe	**20,041.4**	**18,867.7**	**6.2**	**1,519.0**	**1,611.5**	**-5.7**

In view of the decline in sales in Q2FY2008 the sales for the quarter are projected to see a drop of 6.8%. The OPM is likely to fall to 13.6% from 15.0% in Q2FY2007 owing to the lower sales volumes. The profit after tax (PAT) is projected to decline by 20.8%. However, we feel that on a quarter-on-quarter basis the performance of the company is set to improve in terms of better earnings before interest, tax, depreciation and amortisation (EBITDA) margin. Going forward, with the launch of its new bike *XCD* and the onset of the festive season, both volumes and EBIDTA margin should improve.

Sales performance

Particulars	Q2FY08E	Q2FY07	% growth
Other two-wheelers	8,140	4,380	85.8
Motorcycles	522,847	623,062	-16.1
Total two-wheelers	530,987	627,442	-14.8
Three-wheelers	73,593	80,683	-8.8
Grand total	**604,580**	**708,125**	**-14.1**

M&M

M&M's utility vehicle (UV) sales are expected to rise by 17.4%, backed by the good sales of *Scorpio* and the re-launched *Bolero*. The light commercial vehicle (LCV) sales continue to be strong while three-wheeler sales have also performed better than the industry. Tractors sales are expected to decline by 14% yoy.

Sales performance

Particulars	Q2FY08E	Q2FY07	% growth
UVs	34567	29,505	17.1
LCVs	2862	1,991	43.7
Three-wheelers	8709	8,887	-2.0
Total domestic automotive	46138	40,383	14.3
Exports	2258	2,761	-18.2
Total automotive	48396	43144	12.2
Tractors	20259	23565	-14.0
Total	68655	66709	2.9
Cars (in JV)	7442		NA

Maruti Suzuki

The winner of the quarter remains Maruti Suzuki with its persistent impressive performance. The volumes in the A2 segment comprising *Alto*, *Zen Estilo*, *Wagon R* and *Swift* are expected to grow by 23.9% in the quarter, led by the strong performance of *Diesel Swift* and *Zen Estilo*. The sales of the A3 segment are expected to grow by 68% led by the launch of *Sx4*. The exports are expected to grow by 100% yoy to 16,509 units on the back of good export orders for *Zen Estilo* from Indonesia.

On a year-on-year (y-o-y) basis we expect the company to maintain its margins at 14% due to the higher contribution from the new products and the continuing loss of the Manesar plant. The company has also been offering heavy discounts during the quarter to boost sales volumes. The net profit is expected to grow by 30% to Rs478.6 crore.

Sales performance

Particulars	Q2FY08E	Q2FY07	% growth
M-800	16,850	20,145	-16.4
Omni, Versa	22803	20,523	11.1
Alto, Zen, Wagon-R, Swift	123635	99,747	23.9
SX4, Esteem	14133	8,389	68.5
Total passenger cars	**177421**	**148,804**	**19.2**
MUV	1009	714	41.3
Domestic	178430	149,518	19.3
Export	16509	8,165	102.2
Total sales	**194939**	**157,683**	**23.6**

Tata Motors

Tata Motors' performance in Q2FY2008 continues to suffer because of the slowdown in the CV segment and a drop in the sales of passenger vehicles due to product fatigue. We estimate the overall volume would decline by 5.1% in the second quarter. The sales in the CV segment continue to be affected by the high base of the last year and a slower movement of freight due to the monsoons. We expect a decline of 17% in the medium and heavy commercial vehicle (M&HCV) segment. The LCV segment continues to be the saving grace with the launch of new products such as *Magic* and *Winger*. The sales of the car segment are expected to decline by 5% due to a lack of new products as compared with the competitors. The weakening of the Indian Rupee against the dollar may lead the company to declare a foreign exchange (forex) loss this quarter as against a forex gain in Q1FY2008. The adjusted PAT for the quarter is expected to decline by 28.5% to Rs348.10 crore.

Sales performance

Particulars	Q2FY08E	Q2FY07	% growth
M&HCV	33742	40787	-17.3
LCV	34944	30443	14.8
Total CV	68686	71230	-3.6
UV	9455	11506	-17.8
Cars	40776	42882	-4.9
Domestic sales	118,917	125618	-5.3
Exports	13,875	14276	-2.8
Total sales	132,792	139894	-5.1

Ashok Leyland

Ashok Leyland has benefited from the orders from State Transport Undertakings for its passenger vehicles. This segment is expected to report a growth of 56.5%. The decline in the CV segment continues with a 23.4% fall expected in the second quarter. Overall, the volumes for Q2 are expected to decline by 8%.

In this quarter, we expect Ashok Leyland's sales to drop by 2.8% yoy and reported net profit to decline by 20.2% to Rs76.1 crore.

Sales performance

Particulars	Q2FY08E	Q2FY07	% growth
MDV passenger	5903	3,771	56.5
MDV goods	12263	16,010	-23.4
LCV	159	88	-5.7
Total sales	18249	19,869	-8.1

Ahmednagar Forgings

The company's performance in the domestic market is expected to be affected by the slowdown in the original equipment manufacturer (OEM) segment due to its high exposure to Tata Motors and BAL. However, the exports are expected to be strong due to the commencement of the Anvil lines and a ramp-up in production. For Q2FY2008, we expect the company to post a top line growth of 31.1% and a bottom line growth of 15.6%.

Sundaram Clayton

The impact of the slowdown in the CV segment is expected to be visible in the second quarter too, as Sundaram Clayton's key clients, Tata Motors and Ashok Leyland, are likely to report sluggish performances for the quarter. The sales are projected to grow by 3.8%. With the margin being maintained at the last quarter's level, the dividend income would help the net profit to grow by 3.8% to Rs23.9 crore.

Subros

Subros' performance is majorly dependent on the performance of its key clients, Maruti Suzuki and Tata Motors. In view of the poor performance of Tata Motors, and a high base of the same quarter last year, Subros' sales are expected to grow by a nominal 3.1% in Q2FY2008, while the OPM is expected to be maintained at the last year's level. However, the higher interest and depreciation charges are expected to affect the company's profitability during the quarter and hence its PAT is projected to be flat at Rs7.8 crore.

Ceat

We expect Ceat to continue to deliver a strong performance in Q2FY2008, despite the slowdown in the OEM segment. 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 a 7% growth in its top line to Rs575.2 crore. The margins are expected to be maintained due to the lower raw material prices. On a y-o-y basis, we expect the margin to improve by 420 basis points yoy to 9.2%. The PAT is expected to be at Rs22.6 crore as against Rs4.3 crore in Q2FY2007.

Apollo Tyres

Apollo Tyres' sales growth for the quarter is expected to be driven mainly by volumes, as price increase is expected to be minimal in view of the lower raw material prices. The volume is expected to grow by 5%. We expect the overall sales to grow by 8.5% to Rs832.7 crore. The margin is expected to be maintained at 11%, ie Q1FY2008 level. The net profit for the quarter is expected to grow by 99.4% to Rs38.6 crore.

SKF India

The strong performance of Q2FY2007 is expected to be repeated mainly due to the strong demand emerging from the industrial segment which is offsetting the slowdown in the automobile sector. We anticipate SKF India's sales would grow by 18% to Rs400.5 crore. The OPM is expected to remain strong on the back of the greater operating efficiencies resulting from the increased capacity utilisation and higher margins of the direct customer delivery (DCD) or indenting business. The PAT is expected to grow by 66.3% to Rs37.2 crore.

Federal Mogul Goetze

The slowdown in the CV, two-wheeler, and tractor segments is expected to take its 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 20%. The profit margin is expected to be maintained at Q2FY2007's levels of 10%. The profit is expected to decline by 61.4% to Rs4.8 crore.

Valuation table—Sharekhan auto universe

Particulars	EPS		PER		EV/EBIDTA	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Ahmednagar Forgings	30.9	42.5	7.5	5.5	5.2	3.5
Apollo Tyres	3.0	3.6	13.8	11.6	6.3	5.4
Ashok Leyland	3.0	3.9	12.2	9.5	7.7	6.1
Bajaj Auto	109.7	120.4	21.7	19.7	15.3	12.7
Ceat	16.3	20.6	11.0	8.7	4.9	3.9
Federal Mogul Goetze	12.6	17.9	12.6	8.8	7.8	6.2
Maruti Suzuki	63.0	71.9	13.8	12.1	8.5	7.1
M&M*	61.8	69.7	11.3	10.0	7.1	6.2
Subros	27.7	42.8	8.1	5.3	4.1	2.8
Sundaram Clayton	53.3	73.1	14.1	10.3	10.6	7.9
Tata Motors*	54.3	64.9	12.8	10.7	6.4	5.3
SKF India	27.6	33.4	13.6	11.2	7.6	6.1

*-consolidated

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