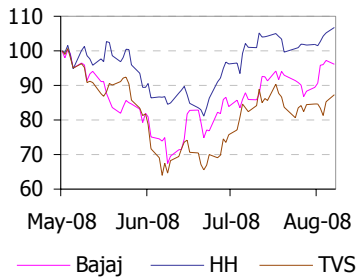


# Auto Monitor

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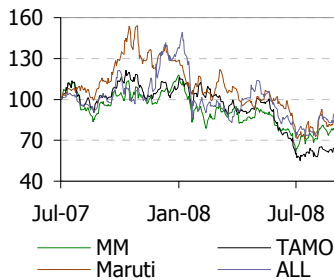
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## Relative Performance



Source: Bloomberg, ENAM Research

## Relative Performance



Source: Bloomberg, ENAM Research

## MOTORCYCLES GROW EVEN AS INDUSTRY SLOWS

Volumes in August remained weak across the board with the exception of two-wheelers, which continued to show strong growth.

- **Two-wheelers:** Volumes continued their upward journey in August. Hero Honda delivered the highest growth of 27%.
- **Commercial vehicles:** Demand for M&HCVs declined while LCVs sustained their good run.
- **Cars:** Volumes for all players remained under pressure. Both Maruti and Tata Motors witnessed a decline in volumes.

**Possible delay in Nano launch:** With the political unrest surrounding the manufacturing of the *Nano* at Singur, Tata Motors is looking at alternate locations to start production. We see that there could be a delay in the eventual launch of *Nano*, which is expected by the end of CY08.

**Lending remains tight:** Over the past few weeks leading banks such as ICICI have further pruned their exposure to the auto sector. Most OEMs believe that availability of finance will be the key to volumes in the coming months.

**Commodities stable:** Prices for commodities such as steel and aluminium have remained stable over the past few weeks, alleviating some pressure on OEMs. *We expect OEMs to pass on such savings via price discounts to boost volumes.*

**Outlook:** We expect volumes to remain under pressure in September as well. As a result, we see poor operating performances in Q2FY09 akin to Q1FY09.

Most auto stocks have outperformed the benchmark indices over the last few weeks as inflation data has shown signs of tapering. However, we believe that macro factors still remain challenging and most stocks seem to be fairly valued at current prices. **Therefore we are downgrading Maruti to sector Neutral and Ashok Leyland to sector Underperformer.**

Considering valuation parameters, our order of preference on stocks is: (most preferred to least): MM, BAL, TAMO, MSIL, HH, ALL, TVS.

## Volume snapshot

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
Bajaj Auto	200,955	195,707	2.7	1,014,754	952,710	6.5	2,595,690	2,458,257
TVS Motor	114,321	102,734	11.3	564,655	528,261	6.9	1,458,563	1,287,973
Hero Honda	305,516	240,875	26.8	1,481,077	1,244,919	19.0	3,586,780	3,337,142
<b>Total</b>	<b>620,792</b>	<b>539,316</b>	<b>15.1</b>	<b>3,060,486</b>	<b>2,725,890</b>	<b>12.3</b>	<b>7,641,032</b>	<b>7,083,372</b>
Ashok Leyland	4,819	6,055	(20.4)	29,446	29,792	(1.2)	89,197	83,309
Tata Motors	43,576	45,132	(3.4)	216,038	214,591	0.7	596,438	582,389
Maruti Suzuki	59,908	65,968	(9.2)	311,035	293,546	6.0	845,616	764,848
Mahindra & Mahindra	26,808	24,841	7.9	142,850	126,846	12.6	355,460	322,885

Source: Company; ENAM Research

## MARUTI SUZUKI (MSIL)

- Passenger car volumes registered a sharp decline of 11% YoY, while only the A3 segment showed a growth of 12%, mainly due to the continued good response for the *Swift-Dzire*. Exports increased marginally by 1% YoY.
- MSIL is expected to launch its new model A-star in October, and start exports by Jan'09. (Source: media reports)

### Maruti: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
A1	3,717	5,480	(32.2)	25,319	29,444	(14.0)	60,000	69,553
C	6,540	7,889	(17.1)	33,554	35,734	(6.1)	91,200	89,729
A2	37,667	41,736	(9.7)	197,889	186,886	5.9	538,800	499,280
A3	5,427	4,839	12.2	27,376	20,289	34.9	69,000	49,335
<b>Tot PC</b>	<b>53,351</b>	<b>59,944</b>	<b>(11.0)</b>	<b>284,138</b>	<b>272,353</b>	<b>4.3</b>	<b>759,000</b>	<b>707,897</b>
MUV	762	285	167.4	2,979	1,319	125.9	4,080	3,927
<b>Domestic</b>	<b>54,113</b>	<b>60,229</b>	<b>(10.2)</b>	<b>287,117</b>	<b>273,672</b>	<b>4.9</b>	<b>763,080</b>	<b>711,824</b>
<b>Exports</b>	<b>5,795</b>	<b>5,739</b>	<b>1.0</b>	<b>23,918</b>	<b>19,874</b>	<b>20.3</b>	<b>76,885</b>	<b>53,024</b>
<b>Total Sales</b>	<b>59,908</b>	<b>65,968</b>	<b>(9.2)</b>	<b>311,035</b>	<b>293,546</b>	<b>6.0</b>	<b>839,965</b>	<b>764,848</b>

Source: Company, ENAM Research

## MAHINDRA AND MAHINDRA (M&M)

- M&M's UV portfolio grew marginally by 2% YoY in August, while tractors registered a strong 16% growth YoY, on the back of increased domestic demand.
- The 3-wheeler business continued to clock a healthy growth of 51%, whereas the volumes for Logan declined sharply by 35% YoY.
- M&M has acquired a 51% stake in China's third largest tractor company, Jiangsu Yueda Yancheng, for USD 26mn.

### M&M: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
UV	11,731	11,494	2.1	60,322	54,232	11.2	156,600	145,802
LCV *	811	832	(2.5)	4,912	4,543	8.1	11,000	10,402
Logan *	1,464	2,252	(35.0)	7,465	10,082	(26.0)	20,000	25,666
<b>Total 4-Wheelers</b>	<b>14,006</b>	<b>14,578</b>	<b>(3.9)</b>	<b>72,699</b>	<b>68,857</b>	<b>5.6</b>	<b>187,600</b>	<b>181,870</b>
3-Wheelers	4,315	2,860	50.9	19,791	13,245	49.4	45,000	34,076
Exports#	890	831	7.1	5,182	3,894	33.1	12,000	8,023
<b>Total</b>	<b>19,211</b>	<b>18,269</b>	<b>5.2</b>	<b>97,672</b>	<b>85,996</b>	<b>13.6</b>	<b>244,600</b>	<b>223,969</b>
Tractors (Domestic)	7,000	6,011	16.5	41,455	37,611	10.2	-	-
Tractors (Exports)	597	561	6.4	3,723	3,239	14.9	-	-
<b>Tractors (Total)</b>	<b>7,597</b>	<b>6,572</b>	<b>15.6</b>	<b>45,178</b>	<b>40,850</b>	<b>10.6</b>	<b>104,160</b>	<b>98,916</b>
<b>Total vehicles</b>	<b>26,808</b>	<b>24,841</b>	<b>7.9</b>	<b>142,850</b>	<b>126,846</b>	<b>12.6</b>	<b>348,760</b>	<b>322,885</b>

Source: Company, ENAM Research. \* Volumes of LCV and Logan are part of JVs and hence not considered for M&M on a standalone basis.

## TATA MOTORS (TAMO)

- TAMO volumes continued its downward journey with no signs of recovery in M&HCV and passenger vehicle segment. UVs recorded a marginal decline of 2%.
- LCV volumes continued to register a good growth of 17% on the back of strong export demand.
- TAMO has pruned its rights issue to Rs 42bn (initially Rs 72bn) towards funding the JLR acquisition.
- TAMO also launched the new *Indica-Vista* in September. This new launch should help TAMO regain some of their lost market share in the A2 segment. The *Indica-Vista* range starts from Rs 0.35mn.

### Tata Motors: New Indica Vista



Source: Company, ENAM Research

### TAMO: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
<b>HCV</b>	<b>11,141</b>	<b>13,054</b>	<b>(14.7)</b>	<b>60,283</b>	<b>60,442</b>	<b>(0.3)</b>	<b>188,830</b>	<b>179,388</b>
- Domestic	10,143	11,613	(12.7)	56,075	54,635	2.6	-	-
- Exports	998	1,441	(30.7)	4,208	5,807	(27.5)	-	-
<b>LCV</b>	<b>15,979</b>	<b>13,681</b>	<b>16.8</b>	<b>71,222</b>	<b>61,182</b>	<b>16.4</b>	<b>195,662</b>	<b>173,434</b>
- Domestic	13,088	11,806	10.9	61,017	51,188	19.2	-	-
- Exports	2,891	1,875	54.2	10,205	9,994	2.1	-	-
<b>CAR</b>	<b>13,049</b>	<b>14,917</b>	<b>(12.5)</b>	<b>65,804</b>	<b>75,141</b>	<b>(12.4)</b>	<b>159,600</b>	<b>179,268</b>
- Domestic	12,216	13,588	(10.1)	62,956	69,076	(8.9)	-	-
- Exports	833	1,329	(37.3)	2,848	6,065	(53.0)	-	-
<b>UV</b>	<b>3,407</b>	<b>3,480</b>	<b>(2.1)</b>	<b>18,729</b>	<b>17,826</b>	<b>5.1</b>	<b>52,346</b>	<b>50,299</b>
- Domestic	3,357	3,032	10.7	18,363	16,395	12.0	-	-
- Exports	50	448	(88.8)	366	1,431	(74.4)	-	-
<b>Total</b>	<b>43,576</b>	<b>45,132</b>	<b>(3.4)</b>	<b>216,038</b>	<b>214,591</b>	<b>0.7</b>	<b>596,438</b>	<b>582,389</b>

Source: Company, ENAM Research.

## ASHOK LEYLAND (ALL)

- ALL witnessed a sudden decline of 26% YoY in the goods segment; while passenger segment registered a sharp 11% YoY fall.
- The LCV segment volumes showed a marginal drop of 2.4% YoY.
- ALL and Nissan have formally entered into an agreement for an entry into light commercial vehicles (LCV) segment. The JV is expected to start production by FY11.

### ALL: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
Domestic	1,594	1,832	(13.0)	7,500	7,821	(4.1)	-	17,573
Exports	376	388	(3.1)	1,582	1,510	4.8	-	4,689
<b>MDV Passengers</b>	<b>1,970</b>	<b>2,220</b>	<b>(11.3)</b>	<b>9,082</b>	<b>9,331</b>	<b>(2.7)</b>	<b>24,043</b>	<b>22,262</b>
Domestic	2,633	3,656	(28.0)	19,125	19,276	(0.8)	-	57,835
Exports	176	138	27.5	863	963	(10.4)	-	2,389
<b>MDV Goods</b>	<b>2,809</b>	<b>3,794</b>	<b>(26.0)</b>	<b>19,988</b>	<b>20,239</b>	<b>(1.2)</b>	<b>63,235</b>	<b>60,224</b>
<b>Total HCV</b>	<b>4,779</b>	<b>6,014</b>	<b>(20.5)</b>	<b>29,070</b>	<b>29,570</b>	<b>(1.7)</b>	<b>87,278</b>	<b>82,486</b>
Domestic	(2)	24	(108.3)	247	188	31.4	-	615
Exports	42	17	147.1	129	34	279.4	-	208
<b>Total LCV</b>	<b>40</b>	<b>41</b>	<b>(2.4)</b>	<b>376</b>	<b>222</b>	<b>69.4</b>	<b>1,029</b>	<b>823</b>
<b>Total Vehicles sold</b>	<b>4,819</b>	<b>6,055</b>	<b>(20.4)</b>	<b>29,446</b>	<b>29,792</b>	<b>(1.2)</b>	<b>88,307</b>	<b>83,309</b>

Source: Company, ENAM Research

## TWO-WHEELER INDUSTRY

(Nos)	Monthly			YTD			Y/E	
	Aug-08	Aug-07	YoY (%)	5MFY09	5MFY08	YoY (%)	FY09E	FY08
<b>Bajaj Auto</b>								
- Motorcycles	175,274	167,483	4.7	902,743	820,929	10.0	2,291,490	2,139,156
- Total 2-wheelers	176,631	170,203	3.8	908,579	832,781	9.1	2,325,690	2,167,956
- Three-wheelers	24,324	25,504	(4.6)	106,175	119,929	(11.5)	270,000	290,301
<b>Total Sales</b>	<b>200,955</b>	<b>195,707</b>	<b>2.7</b>	<b>1,014,754</b>	<b>952,710</b>	<b>6.5</b>	<b>2,595,690</b>	<b>2,458,257</b>
<b>TVS Motors</b>								
- Scooters	25,392	24,645	3.0	113,249	118,526	(4.5)	270,000	259,521
- Motorcycles	52,304	46,235	13.1	270,674	241,157	12.2	736,664	616,740
- Mopeds	36,625	31,854	15.0	180,732	168,578	7.2	438,000	411,712
<b>Total Sales</b>	<b>114,321</b>	<b>102,734</b>	<b>11.3</b>	<b>564,655</b>	<b>528,261</b>	<b>6.9</b>	<b>1,444,664</b>	<b>1,287,973</b>
<b>Hero Honda</b>								
- Motorcycles	305,516	240,875	26.8	1,481,077	1,244,919	19.0	3,586,780	3,337,142
<b>Total Sales</b>	<b>305,516</b>	<b>240,875</b>	<b>26.8</b>	<b>1,481,077</b>	<b>1,244,919</b>	<b>19.0</b>	<b>3,586,780</b>	<b>3,337,142</b>

Source: Company, ENAM Research

- **Bajaj Auto (BAL):** BAL motorcycles registered a growth of 5%, whereas the 3-wheeler segment saw a 5% YoY decline. Exports for the month stood at 71,105 units registering a healthy 26% growth YoY. BAL is expected to launch the new variant of the Platina in September.
- **Hero Honda (HH):** HH continued to clock a robust growth in volumes. HH's market share marginally increased to 57.3% compared with 55.8% in July'08. We have revised our volume estimates for Hero Honda upwards given its strong volumes in the recent months.
- **TVS Motors (TVS):** TVS posted a strong 11% volume growth in August.

**Auto valuation sheet: RECOMMENDATIONS ARE RELATIVE TO SECTOR**

Co. Name	Period	Net sales (Rs.mn)	EBITDA (Rs.mn)	Adj. PAT (Rs.mn)	FDEPS (Rs.)	Core EPS (Rs.)	Cash per Share (Rs.)	Value of Invst (Rs.)	RoCE (%)	RoE (%)	Core P/E (x)
<b>Tata Motors (Conso.)</b>	FY07	360,329	38,115	21,467	52.7	52.7	-	-	28	30	-
(CMP: 420)	FY08	390,186	40,934	20,344	47.8	47.8	-	-	21	24	-
(MCap: Rs.152bn)	FY09E	451,682	37,946	16,833	39.5	39.5	-	-	15	17	10.6
(RECO: N)	FY10E	508,812	45,125	19,682	46.2	46.2	-	-	15	18	9.1
<b>Tata Motors (Stand.)</b>	FY07	267,153	32,274	19,135	47.0	47.0	-	196	30	31	-
(CMP: 420)	FY08	279,893	28,586	17,208	40.4	40.4	-	114	20	23	-
(MCap: Rs.152bn)	FY09E	302,314	26,064	14,395	33.8	33.8	-	114	15	18	9.1
(RECO: N)	FY10E	338,460	33,229	17,372	40.8	40.8	-	114	16	19	7.5
<b>Maruti Suzuki</b>	FY07	145,922	19,904	15,745	54.5	45.6	122	-	36	26	-
(CMP: 708)	FY08	178,603	22,963	17,118	59.2	47.4	135	-	30	22	12.1
(MCap: Rs.205bn)	FY09E	209,129	23,043	17,583	60.8	47.6	135	-	24	19	12.0
(RECO: N)	FY10E	239,170	26,594	18,422	63.7	52.2	135	-	22	17	11.0
<b>M&amp;M (Stand.)</b>	FY07	96,277	13,229	9,896	40.0	33.1	-	410	30	31	-
(CMP: 582)	FY08	108,046	14,034	9,382	36.7	31.5	-	317	22	24	-
(MCap: Rs.135bn)	FY09E	115,898	13,741	9,894	38.3	32.2	-	317	18	21	8.2
(RECO: OP)	FY10E	126,837	15,257	10,622	41.2	34.7	-	317	17	20	7.7
<b>Ashok Leyland</b>	FY07	71,682	7,027	4,544	3.4	3.4	-	-	20	28	-
(CMP: 33)	FY08	77,291	8,040	4,820	3.6	3.6	-	-	19	24	-
(MCap: Rs.44bn)	FY09E	87,094	7,434	3,926	3.0	3.0	-	-	13	18	11.1
(RECO: UP)	FY10E	98,641	8,702	4,230	3.2	3.2	-	-	12	18	10.3
<b>Bajaj Auto</b>	FY07	-	-	-	-	-	-	-	-	-	-
(CMP: 594)	FY08	86,633	12,390	7,559	52.2	44.2	89	-	83	95	11.4
(MCap: Rs.86bn)	FY09E	93,679	11,986	8,114	56.1	47.4	89	-	37	44	10.6
(RECO: N)	FY10E	102,231	13,329	8,982	62.1	52.2	89	-	35	38	9.7
<b>Hero Honda</b>	FY07	99,000	11,730	8,579	43.0	34.9	101	-	51	38	-
(CMP: 829)	FY08	103,318	13,494	9,679	48.5	40.6	133	-	48	36	-
(MCap: Rs.166bn)	FY09E	119,385	14,876	11,797	59.1	50.8	133	-	43	35	13.7
(RECO: UP)	FY10E	132,557	16,810	13,363	66.9	58.2	133	-	39	32	12.0
<b>TVS Motor Co.</b>	FY07	38,550	1,374	667	2.8	2.8	-	-	10	9	-
(CMP: 34)	FY08	32,195	413	122	0.5	0.5	-	-	1	2	-
(MCap: Rs.8bn)	FY09E	40,281	1,602	659	2.8	2.8	-	-	8	8	12.2
(RECO: UP)	FY10E	46,152	2,196	997	4.2	4.2	-	-	11	12	8.1

Source: ENAM Research, OP: Outperformer; N: Neutral; UP: Underperformer.

Note: Core PAT and EPS pertains to auto biz. and is adjusted for non operating income. P/E reflects multiple for core business. The TAMO conso forecasts do not include JLR. Pls note Tata Motors estimates have not been adjusted for the upcoming rights issue

**Sum of the Parts (SOTP) valuation for respective companies**

Segment	Target Price (Rs.)	SOTP
TAMO	494	Core biz valued at 10x FY09E EPS of Rs 33.8 + Rs 156/ share for value of subsidiaries & investments (including JLR)
M&M	639	Auto and Tractor biz valued at 10x FY09E Core EPS of Rs 32.2 + Value of subsidiaries at Rs 317/ share, which is based on a proportionate share of mkt-cap of the entities (30% discount)
MSIL	709	Valued at 12x FY09E Core EPS of Rs 47.8 + Cash/ Equivalents of Rs 135/ share
Bajaj Auto	610	Core biz. valued at 11x FY09E Core EPS of Rs 47.4 + Cash/ Equivalents of Rs 89/ share
HH	829	Core biz. valued at 14x FY09E Core EPS of Rs 50.8 + Cash/ Equivalents of Rs 118/ share
TVS	28	10x FY09E EPS of Rs 2.8
ALL	30	10x FY09E EPS of Rs 3

Source: ENAM Research

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<b>Disclosure of interest statement (As of Sept. 9, 2008)</b>	<b>Ashok Leyland</b>	<b>Bajaj Auto</b>	<b>Hero Honda</b>	<b>TVS Motors</b>	<b>Tata Motors</b>	<b>M &amp; M</b>	<b>Maruti Udyog</b>
1. Analyst ownership of the stock	No	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	No	No	No
3. Directors ownership of the stock	No	No	No	No	No	No	Yes
4. Investment Banking mandate	No	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	No	No	No

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