

Auto Sector

Pre-festive buying boost volumes

Auto sales continued to be in top gear in August 2010 backed by positive consumer sentiment and robust demand ahead of the festival season. All two- and four-wheeler majors maintained strong sales momentum recording robust sales growth during the month, largely aided by healthy economic growth and easy financing. Further, dealers stocking pre-festive season helped to clock higher volumes during August 2010. Demand for vehicles continues to surpass supply; this is despite the fact that most auto majors have hiked prices passing on the cost impact to the consumers owing to the high commodity prices and changes in the emission norms.

- **Maruti Suzuki (Maruti)** recorded yet another month of record sales growing 23.6% yoy to 104,791 units (84,808). This includes 12,117 units of exports, down 18.4% yoy. The exports growth was negative as expected as the company is deliberately cutting down on exports to focus on meeting the domestic demand ahead of the festival season. In August 2010, the company sold 92,674 units in the domestic market, up 32.5% yoy. Maruti continued its growth momentum in the domestic A2, A3 and C segments, registering 25.7%, 34% and 114.5% growth respectively, in August 2010. The company introduced a variant of its best-selling *Alto* model *Alto-K10* with a K series engine and CNG variants of some of its models in August.
- **Mahindra & Mahindra (M&M)** reported strong overall growth of 28.1% yoy in total sales to 42,338 units (33,059) in August 2010, aided by 29% yoy growth in auto vehicles and 26.2% growth in farm equipment vehicles. The utility vehicle (UV) segment recorded a growth of 14% to 12,994 units (11,443), whereas the four-wheeler pick up segment grew substantially by 45% yoy. The pickup segment sales were boosted by the launch of *Maxximo* in South India. Domestic tractor sales grew 22.6% in August 2010. M&M continues to deliver exceptionally well on the tractor exports side, growing by 102.5% yoy. M&M sales on the UV and tractor front continued to be impacted by component shortages (fuel injection system, tyres and castings).
- **Tata Motors** reported 32.4% yoy growth in total volumes, with the passenger vehicles (PV) segment growing by 46% yoy during the month. Growth in the PV segment was aided by 51.8% yoy increase in the cars category as the *Indigo* range continued to register good volumes. However, *Nano* volumes declined 10% mom. The commercial vehicles (CV) space grew 24.7% on the back of growth in the medium and heavy commercial vehicles (M&HCV) segment, which grew 36.3% yoy. Exports boosted the company's performance as it reported 92.1% yoy growth.
- **Two and Three-wheelers:** Hero Honda reported a jump of 2.3% in sales volume on a high base at 424,617 units (415,137) led by growth across segments. Bajaj Auto yet again led the two-wheeler pack posting sales growth of 54.6%, with *Pulsar* and *Discover* performing very well and posting highest-ever sales during the month. TVS Motor reported an impressive 33.5% yoy growth led by robust growth in all segments of the two and three-wheeler market.

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Tata Motors

Tata Motors volumes grew 32.4%,
 Nano volumes down 10% mom

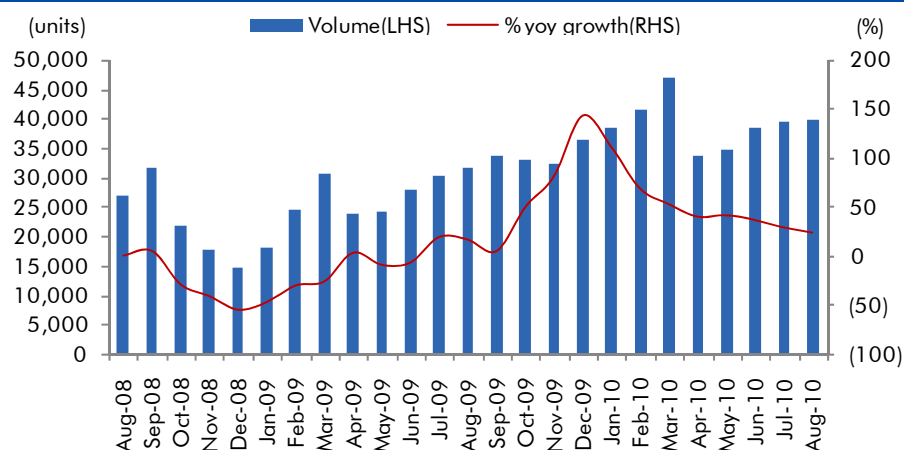
- TML registered 32.4% yoy growth in total sales to 65,938 units (49,810).
- The CV segment recorded robust 24.7% yoy growth aided by the M&HCV segment, which registered a substantial 36.3% yoy growth.
- The PV segment reported growth of 46% yoy, with dispatches of 8,103 units of Nano, though down 10% mom.
- Indigo recorded sales of 6,678 units, up 151.4% yoy.
- The Sumo/Safari/Xenon XT range reported sales of 2,884 units, up 10.5% yoy.

Exhibit 1: Tata Motors - Sales trend

Segment	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	65,938	49,810	32.4	315,448	220,977	42.8
M&HCV	16,716	12,266	36.3	80,578	52,926	52.2
LCV	23,022	19,596	17.5	105,513	85,572	23.3
Total Commercial Vehicles	39,738	31,862	24.7	186,091	138,498	34.4
Utility Vehicles	2,993	2,662	12.4	16,121	13,518	19.3
Cars	23,207	15,286	51.8	113,236	68,961	64.2
Total Passenger Vehicles	26,200	17,948	46.0	129,357	82,479	56.8
Exports (Inc Above)	5,157	2,684	92.1	21,641	10,359	108.9

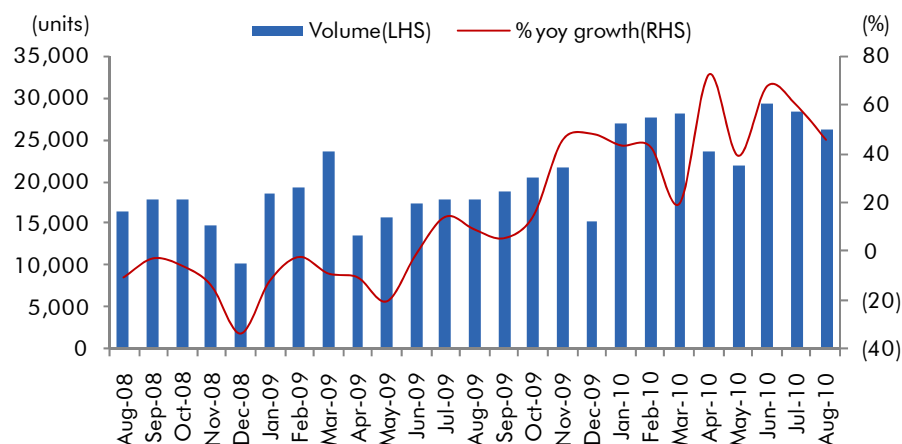
Source: Company, Angel Research

Exhibit 2: CV segment - Monthly sales trend



Source: Company, Angel Research

Exhibit 3: PV segment - Monthly sales trend



Source: Company, Angel Research

Maruti Suzuki

Maruti volumes up 23.6% yoy, domestic sales a priority

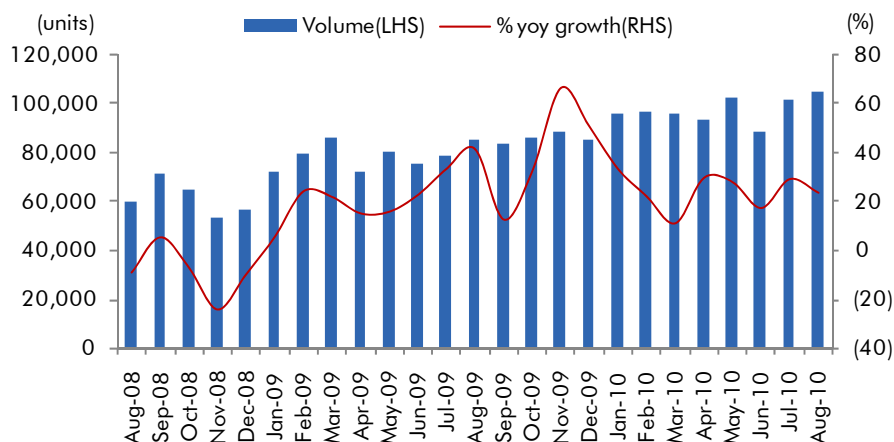
- Maruti registered sales growth of 23.6% yoy to 104,791 units (84,808).
- The A2 segment grew 25.7% yoy; sales of the C segment increased by 114.5% yoy boosted by sales of its new offering, Eeco, which was launched in January 2010.
- The company registered 32.5% yoy increase in domestic sales volumes.
- However, Maruti reported 18.4% yoy dip in exports to 12,117 units (14,847).

Exhibit 4: Maruti Suzuki - Sales trend

Segment	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	104,791	84,808	23.6	488,972	389,611	25.5
A1 M800	1,919	2,734	(29.8)	10,505	12,649	(16.9)
C Omni, Versa	14,157	6,601	114.5	61,295	36,136	69.6
A2 Alto, WagonR, Zen, Swift, A-Star, Ritz	65,953	52,473	25.7	300,545	247,321	21.5
A3 SX4, Dezire	10,479	7,821	34.0	49,789	36,869	35.0
Total Passenger Cars	92,508	69,629	32.9	422,134	332,975	26.8
MUV Gypsy, Vitara	166	332	(50.0)	3,541	1,929	83.6
Domestic	92,674	69,961	32.5	425,675	334,904	27.1
Exports	12,117	14,847	(18.4)	63,297	54,707	15.7

Source: Company, Angel Research

Exhibit 5: PV segment - Monthly sales trend



Source: Company, Angel Research

Mahindra & Mahindra

M&M volumes grew 28.1%; tractor exports up 102.5%; Maxximo doing well

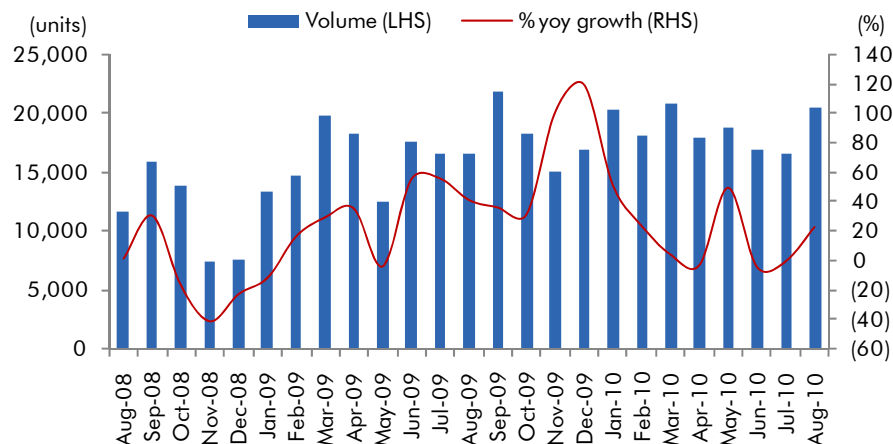
- M&M monthly sales grew 28.1% yoy to 42,338 units (33,059).
- The tractor segment grew 26.2% yoy on account of the 22.6% yoy increase in domestic tractor sales and 102.5% rise in tractor exports.
- The automotive segment grew 29% yoy led by growth in the passenger UV, four-wheeler pick up and three-wheeler sales.
- The UV segment (including Xylo and Bolero) reported 14% yoy growth, while the LCV segment reported 33% yoy growth. Logan sales were up 71% yoy.
- Production in the UV and tractor space continues to face supply shortages.

Exhibit 6: Mahindra & Mahindra - Sales trend

Segment	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	42,338	33,059	28.1	217,220	174,726	24.3
Utility Vehicles	12,994	11,443	13.6	63,929	58,134	10.0
Four-wheel pick up (GIO + Maxximo)	7,533	5,188	45.2	37,580	23,905	57.2
LCV	873	658	32.7	4,858	4,171	16.5
Logan	801	469	70.8	2,869	2,391	20.0
Three wheelers	5,074	3,652	38.9	22,660	16,490	37.4
Exports	1,628	1,003	62.3	7,149	2,754	159.6
Total Automotive Sales	28,903	22,413	29.0	139,045	107,845	28.9
Domestic Tractor Sales	12,453	10,161	22.6	73,703	64,252	14.7
Exports Tractor Sales	982	485	102.5	4,472	2,629	70.1
Total Tractor Sales	13,435	10,646	26.2	78,175	66,881	16.9

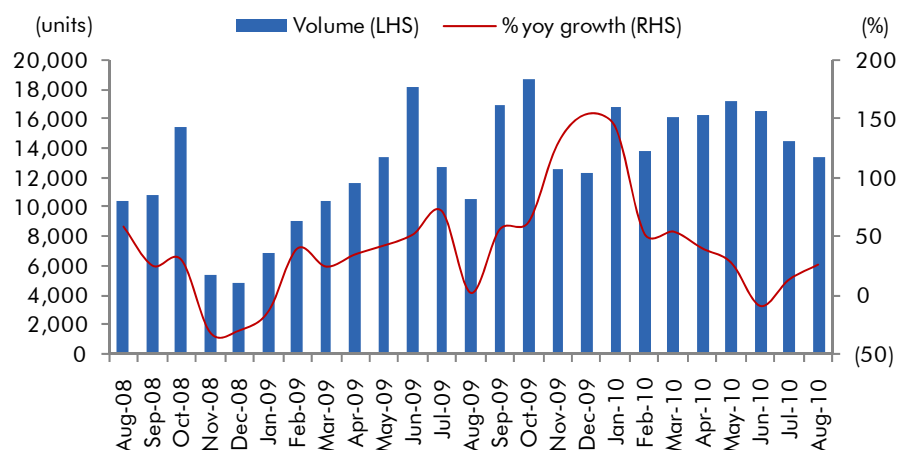
Source: Company, Angel Research

Exhibit 7: UV segment - Monthly sales trend



Source: Company, Angel Research

Exhibit 8: Tractor segment - Monthly sales trend



Source: Company, Angel Research

Bajaj Auto

Bajaj Auto continues to lead the two-wheeler segment; posted highest-ever motorcycle and three-wheeler sales in August 2010

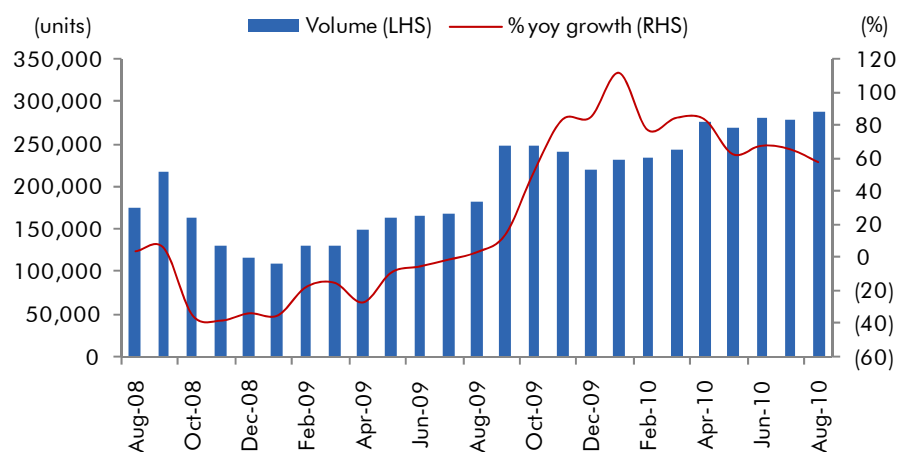
- Bajaj Auto reported overall sales growth of 54.6% yoy to 329,364 units (213,072).
- The motorcycle segment posted highest-ever sales for the month, registering 58% yoy growth led by two of its major brands, *Pulsar* and *Discover*.
- The three-wheeler segment reported 33.9% yoy growth to 40,188 units (30,021 units), highest ever for the month.
- New capacity for motorcycles that came on-stream in August 2010 benefited the company.

Exhibit 9: Bajaj Auto - Sales trend

Segment	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	329,364	213,072	54.6	1,576,115	953,569	65.3
Motorcycles	289,176	182,441	58.5	1,397,348	833,331	67.7
Scooters	-	610	-	27	2,871	(99.1)
Total 2 Wheelers	289,176	183,051	58.0	1,397,375	836,202	67.1
Three Wheelers	40,188	30,021	33.9	178,740	117,367	52.3
Export (Incl Above)	98,578	75,164	31.2	529,271	322,044	64.3

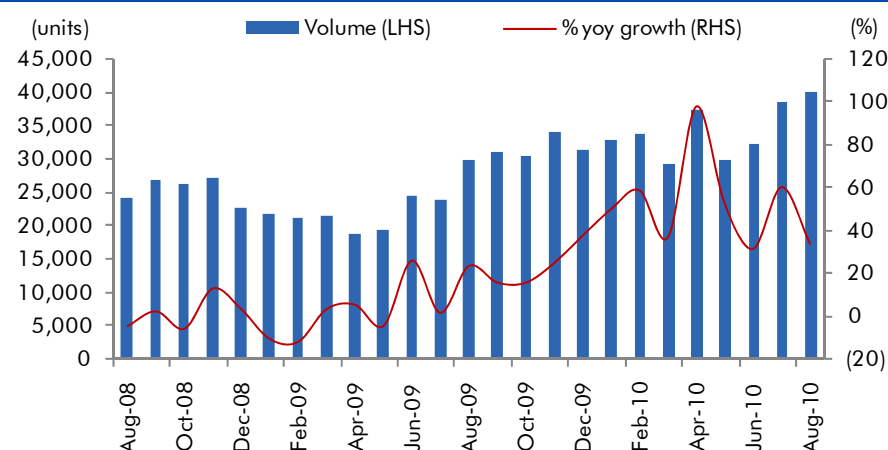
Source: Company, Angel Research

Exhibit 10: Motorcycle segment- Monthly sales trend



Source: Company, Angel Research

Exhibit 11: Three-wheeler segment - Monthly sales trend



Source: Company, Angel Research

Hero Honda

HH posted robust sales; new launches on the anvil ahead of the festival season

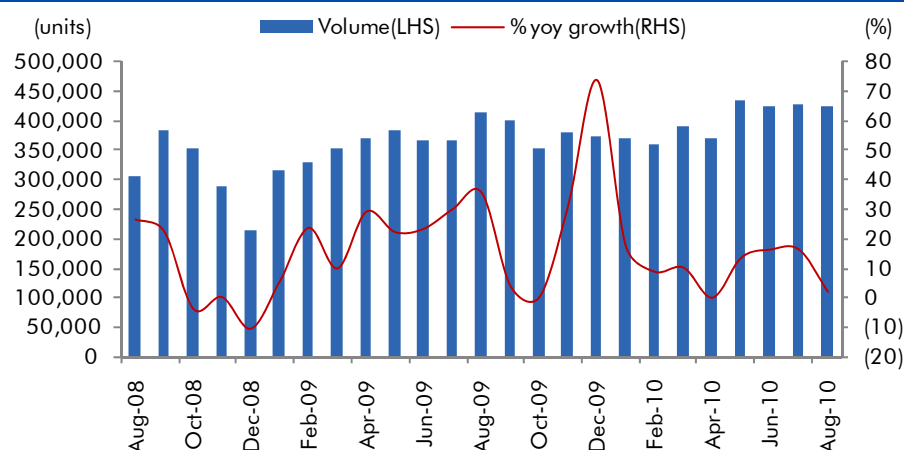
- Hero Honda (HH) sold 424,617 units (415,137) during the month, registering a marginal growth of 2.3% yoy.
- Though the growth was marginal, it has come on a high base.
- Pleasure in the scooter segment sold over 27,000 units in August 2010.
- Ongoing constraints in supply of key components continue to restrict the overall sales growth.
- Moreover, HH is planning a series of new launches ahead of the festival season, which would help it carry forward the sales momentum.

Exhibit 12: Hero Honda - Sales trend

	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	424,617	415,137	2.3	2,086,342	1,900,932	9.8

Source: Company, Angel Research

Exhibit 13: Two-wheeler segment - Monthly sales trend



Source: Company, Angel Research

TVS Motor

TVS Motor volumes increased 33.5% yoy led by growth in scooters, motorcycles and exports

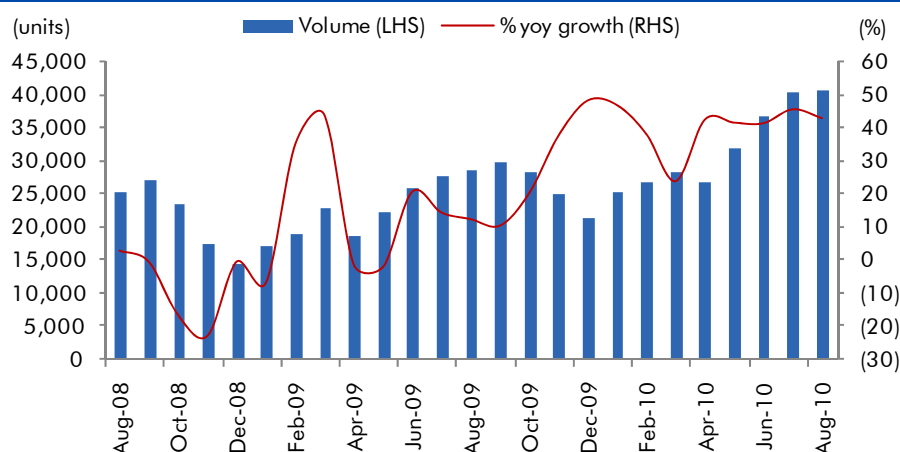
- TVS Motor reported 33.5% yoy growth in overall volumes to 170,735 units (127,875).
- Domestic sales grew 30.6% yoy to 151,707 units (116,128).
- The scooter segment recorded 43.1% yoy growth to 40,913 units (28,582).
- The motorcycle segment grew by 30.2% yoy to 66,574 units (51,127).
- Exports reported impressive growth of 62% to 19,028 units (11,747).
- Three-wheeler sales surged 251%, registering sales of 3,626 units (1,033).

Exhibit 14: TVS Motor - Sales trend

Segment / Model	August			YTD		
	2010	2009	% chg	FY2011	FY2010	% chg
Total Sales	170,735	127,875	33.5	800,783	599,185	33.6
Motorcycles	66,574	51,127	30.2	327,983	246,903	32.8
Scooters	40,913	28,582	43.1	176,756	123,505	43.1
Mopeds	59,622	47,133	26.5	281,511	224,609	25.3
Total 2 Wheelers	167,109	126,842	31.7	786,250	595,017	32.1
Export (Incl Above)	19,028	11,747	62.0	93,139	56,164	65.8
Three Wheelers	3,626	1,033	251.0	14,533	4,168	248.7

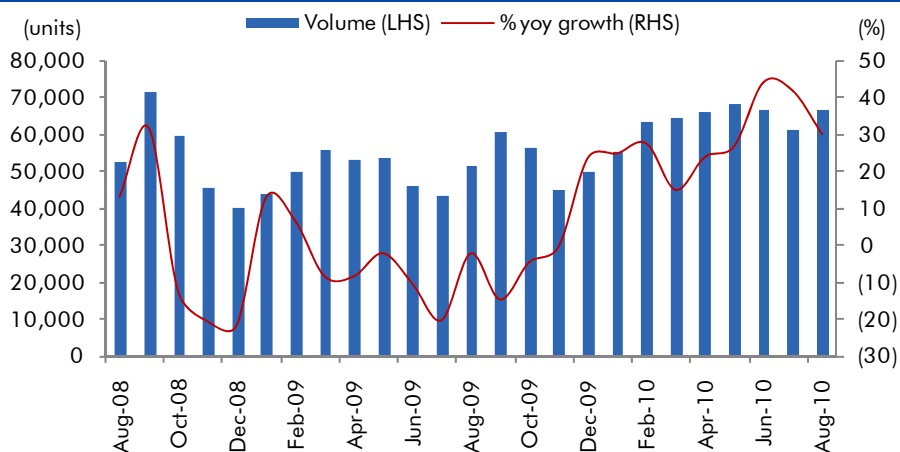
Source: Company, Angel Research

Exhibit 15: Scooter segment - Monthly sales trend



Source: Company, Angel Research

Exhibit 16: Motorcycle segment- Monthly sales trend



Source: Company, Angel Research

Outlook

We remain positive on the Indian auto sector. We estimate overall auto volumes to register CAGR of around 14% over FY2010-12E aided by the improved economic environment for the sector. Over the longer term, comparatively low penetration levels, a healthy economic environment and favourable demographics supported by higher per-capita income levels are likely to help the auto companies in sustaining their top-line growth. However, increase in input costs and interest rates are anticipated headwinds that could impact volume and earnings growth of the sector. We expect rising input costs to restrict profitability, despite positive view on demand. **We maintain a Buy on M&M and Tata Motors and Accumulate on Maruti Suzuki, Hero Honda and Bajaj Auto.**

Exhibit 17: Relative valuation and recommendation

Companies	Reco	CMP (Rs)	TP (Rs)	Sales (Rs cr)		P/E (x)		P/BV (x)		RoE (%)		EV/EBITDA (x)		FY 10-12E EPS CAGR
				FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
Ashok Leyland	Neutral	75	-	9,793	11,389	17.2	14.4	3.8	3.3	15.1	16.7	11.7	10.1	34.1
Bajaj Auto	Accumulate	2,749	2,896	15,530	17,635	17.6	15.3	9.0	6.5	61.5	49.2	11.4	9.6	23.5
Hero Honda	Accumulate	1,759	1,970	17,945	19,559	15.2	13.7	8.0	6.6	58.9	53.2	11.1	9.5	11.1
Maruti	Accumulate	1,273	1,394	33,874	39,056	15.4	13.2	2.5	2.1	18.0	16.1	8.1	6.4	7.6
M&M	Buy	628	771	22,074	25,788	15.8	13.5	3.9	3.2	25.2	24.2	10.4	8.4	15.2
Tata Motors	Buy	1,009	1,214	108,549	122,786	8.3	7.6	4.3	3.0	63.9	45.8	5.6	4.4	170.5
TVS Motor	Neutral	144	-	5,821	6,644	20.0	14.7	3.6	3.2	18.8	22.9	8.9	6.7	64.0

Source: Company, C-line, Angel Research; Note: Market price as of September 1, 2010

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	Analyst ownership of the stock	Angel and its Group companies ownership of the stock	Angel and its Group companies' Directors ownership of the stock	Broking relationship with company covered
Ashok Leyland	No	Yes	No	No
Tata Motors	Yes	No	No	No
Maruti Suzuki	Yes	No	No	No
Mahindra & Mahindra	Yes	Yes	No	No
Bajaj Auto	No	No	No	No
Hero Honda	No	No	No	No
TVS Motor	No	No	No	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)

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