

AUTO SALES UPDATE – MAY 2007



Key Highlights

* Two wheelers: Poor show; wait-and-watch approach

Two-wheeler sales for May were down 7.1% Y-o-Y at 671,349 units; motorcycle sales were down 12.3%. Major players have cut production to reduce inventory positions in times of falling retail sales. Scooters and mopeds, however, registered strong growth, growing at 21.1% and 17.8%, respectively. We have scaled down our volume growth estimates to about 10%, following the recent trend. Total motorcycle and scooter sales for May stood at 538,160 units and 94,622 units, respectively. We recommend a wait-and-watch approach for the next few months.

* Commercial vehicles: Sluggish performance; basic drivers intact

LCV sales were up a healthy 17.0% for May to 18,238 units. The strong growth is expected to continue over the next few quarters. M&HCV sales were down 8.2% Y-o-Y to 19,040 units. Ashok Leyland continued to grab market share from Tata Motors during May (Y-o-Y). Commercial vehicle sales are sensitive to rising interest rates as most of the CV purchases (>95%) are financed. Rising interest costs have severely affected commercial vehicle sales. However, the basic demand drivers of strong industrial growth and freight availability are intact and we believe industry sales growth for M&HCVs will be around 10% for FY08E, though the first half may record a negative growth.

* Passenger vehicles: Car sales moderate; UV's outperform

Passenger vehicles recorded moderate sales in May, with passenger cars growing at 6.6% to 111,564 units, while utility vehicles grew at 12.3% Y-o-Y to 18,654 units. While the compact segment's growth slowed down to 8.5% to 67,843 units, UV sales registered a healthy growth of 13%, with *Mahindra Scorpio* and *Bolero* driving sales. Hyundai Motor's sales in the compact segment were down 1.9% Y-o-Y. Passenger car exports were down 7.7% at 14,642 units for May. The *Logan* has sold 2,786 units for the month. Profitability is expected to suffer with increasing competition, but the volume outlook is expected to remain good.

Company wise

* Bajaj Auto: Shocking options; downgrade to REDUCE

Bajaj Auto's domestic motorcycle sales for May declined 24.9% Y-o-Y to 129,724; three-wheeler domestic sales were down 19.4% to 12,195 units. While motorcycle exports were up 60.2% to 37,284, three wheeler exports were up 33.8% to 11,915. Bajaj Auto also announced plan to demerge its financial assets from the automotive business, giving details of the arrangement it has with Allianz regarding transfer of its stake in the life and general insurance ventures. Bajaj is expected to launch a new motorcycle platform by the third quarter to boost its presence in the executive segment. Following the demerger details, we have downgraded our recommendation on Bajaj from a 'BUY' to 'REDUCE', with our insurance valuations being corrected significantly downwards. We will review our recommendation on a further decline in the price.

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* **Hero Honda: Volumes stagnate, margins crack; downgrade to REDUCE**

Hero Honda's total motorcycle sales (including exports) were down 6.1% Y-o-Y for May at 276,917 units. Scooter sales were down 5.0% to 8,192 units. Hero Honda's market share in the motorcycle segment and scooter segment now stands at 51.5% and 8.8%, respectively. The company has cut production in response to the soft market volume outlook. We have revised our earnings 4-5% downwards and downgraded our recommendation from 'ACCUMULATE' to 'REDUCE' following the soft volume outlook and disappointing Q4 results.

* **TVS Motor Company: Motorcycles continue to fall; scooters, mopeds shine**

TVS Motors recorded disappointing sales numbers for May. While motorcycle sales were down 36.6% to 49,651 units, scooter sales were up 23.9% to 25,280 units. Moped sales were up 27.7% to 33,220 units. Scooter and moped sales now contribute 54.1% to the total volumes as against 37.2% in April. We believe the volume growth will be negative for the first quarter, but sales are expected to revive during the second half of the year. The company is expected to launch *TVS NEO*, a new bike in Indonesia, by this month. This launch will help total volumes to recover, with the Indian market slowing down. We maintain a 'ACCUMULATE' recommendation with a long term view.

* **Maruti Udyog: Margins take a hit; *Swift*, *Estilo* continue to perform**

Maruti's total domestic sales were up 9.9% to 55,952 units. The sales growth was primarily boosted by the compact segment with the *Swift* (both diesel and petrol) and Zen *Estilo* doing extremely well. Domestic sales for the compact segment stood at 38,889 units, up 7.8% Y-o-Y. Maruti's executive segment grew strongly with the launch of the *SX4* sedan. We maintain a 'BUY' following moderate volume growth in the backdrop of rising margin pressures.

* **Mahindra and Mahindra: Strong performance**

Mahindra reported strong sales numbers for May. UV sales were up a strong 22.8% to 10,986 units, while three wheeler sales were up 22.3% to 2,536 units. The *Logan* sold 2,786 units, which is impressive considering that it has not been launched throughout the country as yet. While domestic tractor sales were up 3.6% to 7,432 units, tractor exports were down 9.4% to 710 units. Tractor sales forecasts for the next year will depend on the impending South-West monsoon. Though the monsoon forecasts are encouraging for the farm equipment segment, the industry inventory is high. The automotive segment is growing strongly and the company has significant value embedded in its subsidiaries. We maintain a 'BUY' recommendation on the stock.

* **Tata Motors: Top pick**

Tata Motors's sales were depressed, down 4.1% at 42,558 units. While M&HCV's domestic sales stood at 10,500 units, down 17.2% Y-o-Y, LCV sales (domestic) were up 10.3% Y-o-Y. LCV sales continue to be driven by the *Tata ACE*. UV sales were up 17.5% to 3,363 with the *Tata Safari* continuing to perform well. The company's expansion plans with regards to its new platforms (small car, utility vehicles, commercial vehicles including the world truck) are on track, to be launched starting 2008. Tata Motors has indicated a cut in production in response to the falling sales. We expect negative growth for the first quarter, but expect sales to revive thereon. Tata Motors continues to remain our top pick in the automobile space. We maintain 'BUY' recommendation.

* **Ashok Leyland: Muted growth**

Ashok Leyland's total sales for May were subdued, up 3.1% at 5,804 units. M&HCV sales were 2.6% at 5,734 units (including exports). Passenger bus sales were at about 1,704 units, up 123%. The higher interest rate regime is affecting sales of commercial vehicles and buyers are holding back. With diesel prices stable and freight rates strong, we believe that freight operator profitability is healthy. Demand revival is expected by the end of the first half of FY08 following strong industrial growth. We maintain 'BUY' recommendation.

Monthly sales numbers

Two Wheelers

Volume (Units)	May-07	May-06	%Change	Apr-07	%Change	YTD FY08	YTD FY07	% Change
Motorcycles	538,160	613,662	(12.3)	516,857	4.1	1,055,017	1,165,391	(9.5)
Scooters	94,622	78,119	21.1	74,689	26.7	169,311	149,003	13.6
Mopeds	36,221	30,735	17.8	35,248	2.8	71,469	61,253	16.7
Electric Two-Wheelers	2,346	-	-	1,578	48.7	3,924	-	NA
Total Two Wheelers	671,349	722,516	(7.1)	628,372	6.8	1,299,721	1,375,647	(5.5)
Three Wheelers	41,340	40,120	3.0	39,871	3.7	81,211	75,991	6.9

Four Wheelers

Volume (Units)	May-07	May-06	%Change	Apr-07	%Change	YTD FY08	YTD FY07	% Change
LCV's	18,238	15,587	17.0	15,818	15.3	34,056	28,381	20.0
M & HCV's	19,040	20,732	(8.2)	18,994	0.2	38,034	39,260	(3.1)
Total CV's	37,278	36,319	2.6	34,812	7.1	72,090	67,641	6.6
Passenger Cars	111,564	104,677	6.6	96,955	15.1	208,519	194,710	7.1
Utility Vehicles	18,654	16,609	12.3	17,120	9.0	35,774	32,093	11.5
MPV's	6,584	5,397	22.0	6,145	7.1	12,729	10,489	21.4
Total PV's	136,802	126,683	8.0	120,220	13.8	257,022	237,292	8.3

Bajaj Auto

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Motorcycles	167,008	196,120	(14.8)	164,304	1.6	331,312	384,638	(13.9)
Scooters-gearred	0	618	(100.0)	0	NA	0	1,256	NA
Scooters-ungeared	2,319	1,307	77.4	1,388	67.1	3,707	2,140	73.2
Stepthrus	0	0	NA	0	0.0	0	0	NA
Total two wheelers	169,327	198,045	(14.5)	165,692	2.2	335,019	388,034	(13.7)
Three wheelers	24,110	24,029	0.3	24,360	(1.0)	48,470	45,188	7.3
Total	193,437	222,074	(12.9)	190,052	1.8	383,489	433,222	(11.5)
Export (included above)	49,203	32,179	52.9	51,926	(5.2)	101,129	63,894	58.3
Market Share (%)	31.0	32.0		31.8		31.4	33.0	

Hero Honda

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Motorcycles (D+E)	276,917	295,045	(6.1)	261,141	6.0	538,058	538,924	(0.2)
Scooters	8,192	8,621	(5.0)	1,403	483.9	9,595	15,108	(36.5)
Exports (of the above)	7,441	9,908	(24.9)	5,845	27.3	13,286	19,243	(31.0)
Total	285,109	303,444	(6.0)	262,544	8.6	547,653	554,032	(1.2)
Market Share (%)	51.5	48.1		50.5		51.0	46.2	

TVS Motors

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Motorcycles	49,651	78,271	(36.6)	53,499	(7.2)	103,150	159,133	(35.2)
Scooters	25,280	20,396	23.9	18,798	34.5	44,078	38,365	14.9
Mopeds	33,220	26,011	27.7	32,596	1.9	65,816	52,097	26.5
Total	108,151	124,678	(13.3)	104,893	3.1	213,044	249,595	(14.6)
Market Share (%)	9.2	12.8		10.4		9.8	13.7	

Maruti

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY07	YTD FY06	% Change
Domestic sales	55,952	50,904	9.9	48,652	15.0	104,604	92,478	13.1
Export sales	3,448	2,492	38.4	1,700	102.8	5,148	4,045	27.3
Total sales	59,400	53,396	11.2	50,352	18.0	109,752	96,523	13.7
M800	5,456	6,743	(19.1)	6,324	(13.7)	11,780	12,504	(5.8)
Omni/ Versa	6,496	5,295	22.7	6,118	6.2	12,614	10,345	21.9
Alto/Wagon R/ Zen/Swift	38,889	36,066	7.8	33,878	14.8	72,767	64,222	13.3
SX4/ Baleno/ Esteem	5,009	2,458	103.8	2,124	135.8	7,133	4,891	45.8
Total Cars	55,850	50,562	10.5	48,444	15.3	104,294	91,962	13.4
MUV-Gypsy/Vitara	102	342	(70.2)	208	(51.0)	310	516	(39.9)
Total Domestic sales	55,952	50,904	9.9	48,652	15.0	104,604	92,478	13.1
Exports	3,448	2,492	38.4	1,700	102.8	5,148	4,045	27.3
Total Sales	59,400	53,396	11.2	50,352	18.0	109,752	96,523	13.7

Mahindra & Mahindra

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Utility vehicles	10,986	8,945	22.8	9,588	14.6	20,574	17,334	18.7
Scorpio	3,384	2,640	28.2	2,970	13.9	6,354	5,793	9.7
UVs w/o Scorpio	7,602	6,305	20.6	6,618	14.9	14,220	11,541	23.2
LCVs	1,006	611	64.6	642	56.7	1,648	1,122	46.9
Logan	2,786	-	NM	-	-	2,786	-	-
3 Wheelers	2,536	2,073	22.3	2,005	26.5	4,541	4,094	10.9
Total Automotive (Domestic)		11,629	(100.0)	12,235	(100.0)	29,549	22,550	31.0
Exports	802	488	64.3	632	26.9	1,434	800	79.3
Total Automotive (D+E)	18,116	12,117	49.5	12,867	40.8	30,983	23,350	32.7
Tractors								
Tractors (Domestic)	7,432	7,174	3.6	8,275	(10.2)	15,707	15,524	1.2
Exports	710	784	(9.4)	785	(9.6)	1,495	1,432	4.4
Total Tractors	8,142	7,958	2.3	9,060	(10.1)	17,202	16,956	1.5

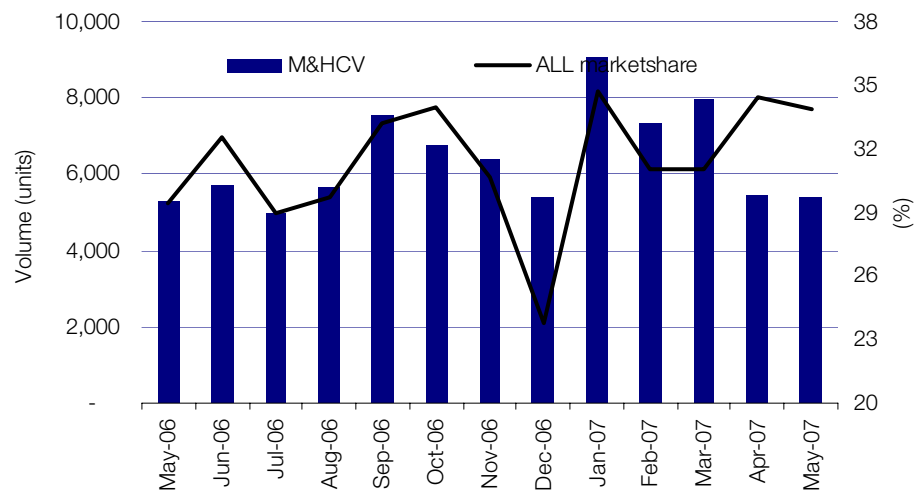
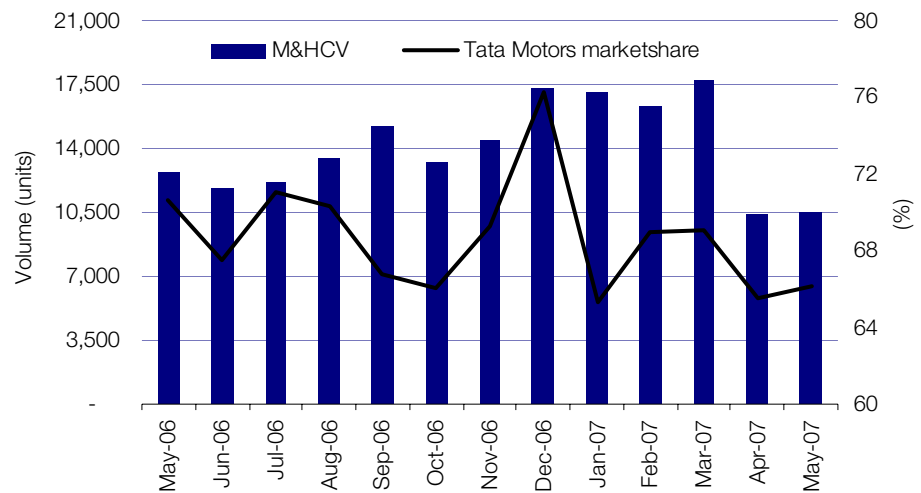
Tata Motors

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Domestic								
M&HCV	10,500	12,682	(17.2)	10,392	1.0	20,892	24,799	(15.8)
LCV	10,175	9,221	10.3	9,215	10.4	19,390	16,778	15.6
UV	3,363	2,862	17.5	3,340	0.7	6,703	5,110	31.2
Cars	14,217	15,253	(6.8)	13,502	5.3	27,719	26,333	5.3
Sub total	38,255	40,018	(4.4)	36,449	5.0	74,704	73,020	2.3
Export								
M&HCV	934	779	19.9	879	6.3	1,813	1,338	35.5
LCV	2,012	1,828	10.1	2,089	(3.7)	4,101	3,467	18.3
UVs	84	215	(60.9)	57	47.4	141	447	(68.5)
Cars	1,273	1,517	(16.1)	1,012	25.8	2,285	2,659	(14.1)
Sub total	4,303	4,339	(0.8)	4,037	6.6	8,340	7,911	5.4
Total	42,558	44,357	(4.1)	40,486	5.1	83,044	80,931	2.6

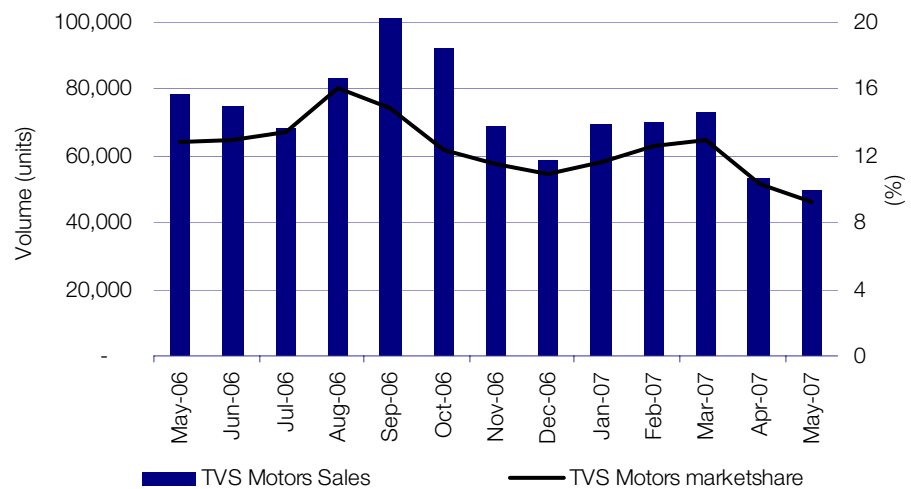
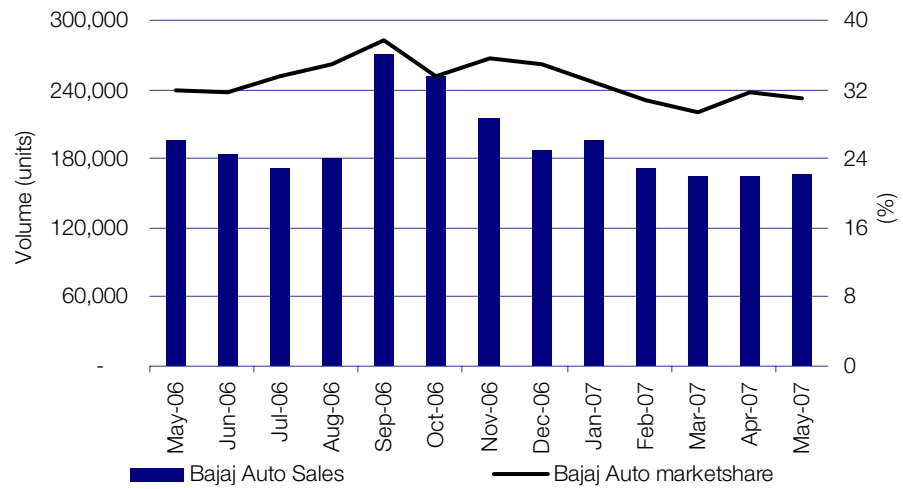
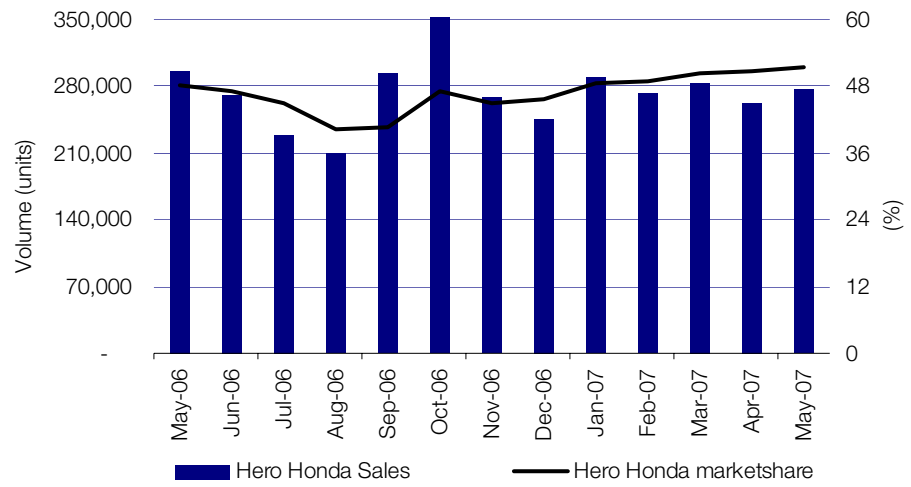
Ashok Leyland

Volume (units)	May-07	May-06	% Change	Apr-07	% Change	YTD FY08	YTD FY07	% Change
Domestic								
M&HCV	5,370	5,282	1.7	5,463	(1.7)	5,463	4,733	15.4
Goods	3,890	4,732	(17.8)	4,366	(10.9)	4,366	4,335	0.7
Passenger	1,480	550	169.1	1,097	34.9	1,097	398	175.6
LCV	66	40	65.0	24	NA	24	17	41.2
Sub total	5,436	5,322	2.1	5,487	(0.9)	5,487	4,750	15.5
Exports								
M&HCV	364	309	17.8	362	0.6	362	289	25.3
Goods	140	95	47.4	127	10.2	127	102	24.5
Passenger	224	214	4.7	235	(4.7)	235	187	25.7
LCV	4	-	NA	-	NA	-	-	-
Sub total	368	309	19.1	362	1.7	362	289	25.3
Total	5,804	5,631	3.1	5,849	(0.8)	5,849	5,039	16.1

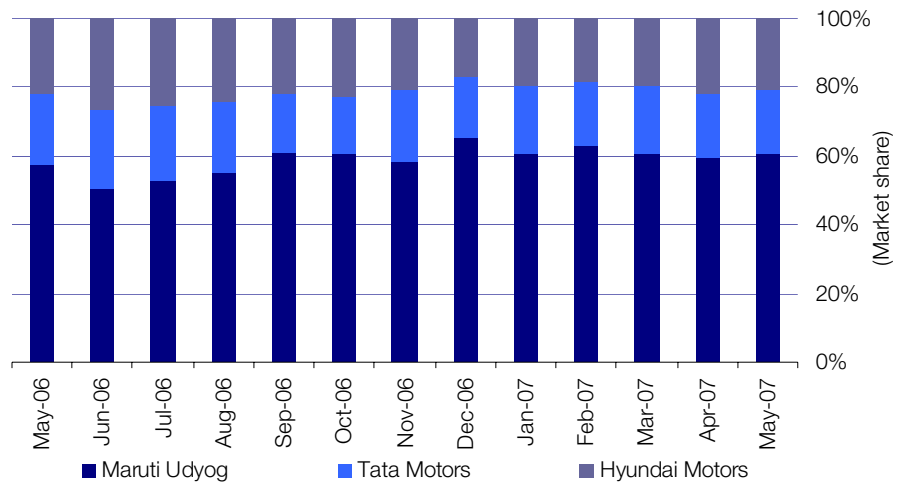
Monthly sales and market share (M&HCV Segment)



Monthly sales and market share (motorcycles)



Passenger car—Monthly market share (compact car segment)



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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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