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India Research



Sector: Indian Auto Two Wheeler Monthly Update

Strong overall demand & build up in dealer inventory for festive season drive robust Y-o-Y growth in industry volumes for September 2010...

Bajaj Auto's volumes grow 25.6% Y-o-Y & 7.1% sequentially, TVS' volumes increase 30.5% & 10.1% sequentially, while Hero Honda's volumes rise 8.1% Y-o-Y & 2.1% sequentially...

October 19, 2010

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Key Highlights

- ❑ *Data released by the Society of Indian Automobile Manufacturers (SIAM) for the month of September 2010 shows that combined volumes of the two-wheeler and three-wheeler industry grew significantly by 21.6% Y-o-Y and 4.3% sequentially*
- ❑ *In September 2010, exports recorded a remarkable Y-o-Y growth, with exports of Motorcycles and Three-wheelers witnessing a strong Y-o-Y growth, while Scooters exports also recorded a Y-o-Y growth on account of a low base*
- ❑ *Bajaj Auto's volumes grew by a strong 25.6% Y-o-Y and 7.1% sequentially, TVS' volumes increased 30.5% and 10.1% sequentially, while Hero Honda's volumes rose 8.1% Y-o-Y and 2.1% sequentially*



Industry Volumes – Strong overall demand & build up of dealer inventory for festive season drive robust Y-o-Y & sequential growth...

Total Industry Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	901,840	765,983	17.7%	847,815	6.4%	5,067,600	4,018,501	26.1%
Scooters	170,328	115,877	47.0%	174,922	-2.6%	998,044	688,366	45.0%
Three Wheelers	70,377	55,747	26.2%	71,224	-1.2%	381,764	274,148	39.3%
Moped	60,316	51,867	16.3%	59,622	1.2%	341,833	276,386	23.7%
Total Sales	1,202,861	989,474	21.6%	1,153,583	4.3%	6,789,241	5,257,401	29.1%

Source: SIAM

Domestic Industry Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	778,352	673,893	15.5%	727,540	7.0%	4,313,928	3,521,017	22.5%
Scooters	166,494	112,956	47.4%	170,482	-2.3%	974,494	675,008	44.4%
Three Wheelers	48,837	41,131	18.7%	49,732	-1.8%	249,095	207,811	19.9%
Moped	60,316	51,303	17.6%	59,280	1.7%	337,882	274,416	23.1%
Total Sales	1,053,999	879,283	19.9%	1,007,034	4.7%	5,875,399	4,678,252	25.6%

Source: SIAM

Export Industry Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	123,488	92,090	34.1%	120,275	2.7%	753,672	497,484	51.5%
Scooters	3,834	2,921	31.3%	4,440	-13.6%	23,550	13,358	76.3%
Three Wheelers	21,540	14,616	47.4%	21,492	0.2%	132,669	66,337	100.0%
Moped	0	564	NM	342	NM	3,951	1,970	100.6%
Total Sales	148,862	110,191	35.1%	146,549	1.6%	913,842	579,149	57.8%

Source: SIAM, NM: Not Meaningful.

In September 2010, the combined volumes of the Two-wheeler and Three-wheeler industry increased significantly by 21.6% Y-o-Y and 4.3% sequentially, mainly due to demand across all segments, aided further by dealer inventory built up for the festive season ahead. Domestic volumes were up 19.9% Y-o-Y and 4.7% sequentially, while exports grew significantly by 35.1% Y-o-Y and 1.6% sequentially, thereby driving the industry's overall volume growth in September 2010. Bajaj Auto's volumes jumped up by 25.6% Y-o-Y and 7.1% sequentially to 352,769 units, marking the company's highest ever monthly volumes. Hero Honda's volumes rose 8.1% Y-o-Y and 2.1% sequentially to 433,641 units in September 2010. Industry Motorcycle sales grew 17.7% Y-o-Y to 901,840 units, while Scooter sales rose 47% Y-o-Y, but fell 2.6% sequentially to 170,328 units in September 2010. Volumes in the Three-wheeler segment grew by a strong 26.2% Y-o-Y, but declined 1.2% sequentially to 70,377 units. Mopeds sales were up 16.3% Y-o-Y and 1.2% sequentially to 60,316 units in September 2010.

In September 2010, the combined volumes of the Two-wheeler and Three-wheeler industry increased significantly by 21.6% Y-o-Y and 4.3% sequentially, mainly due to demand across all segments, aided further by dealer inventory built up for the festive season ahead

Read on to find out how the major players fared in September 2010...



Hero Honda (HH) – Higher volumes in premium segment (125-250 cc) drive overall Two-wheeler volumes...

Hero Honda -Total Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	405,941	383,355	5.9%	396,909	2.3%	2,362,838	2,200,331	7.4%
Scooters	27,700	17,935	54.4%	27,708	-0.03%	157,145	101,891	54.2%
Total Sales	433,641	401,290	8.1%	424,617	2.1%	2,519,983	2,302,222	9.5%

Source: SIAM

Hero Honda -Domestic Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	397,085	373,926	6.2%	386,574	2.7%	2,305,198	2,154,783	7.0%
Scooters	26,468	17,299	53.0%	26,588	-0.5%	149,865	99,519	50.6%
Total Sales	423,553	391,225	8.3%	413,162	2.5%	2,455,063	2,254,302	8.9%

Source: SIAM

Hero Honda -Export Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	8,856	9,429	-6.1%	10,335	-14.3%	57,640	45,548	26.5%
Scooters	1,232	636	93.7%	1,120	10.0%	7,280	2,372	206.9%
Total Sales	10,088	10,065	0.2%	11,455	-11.9%	64,920	47,920	35.5%

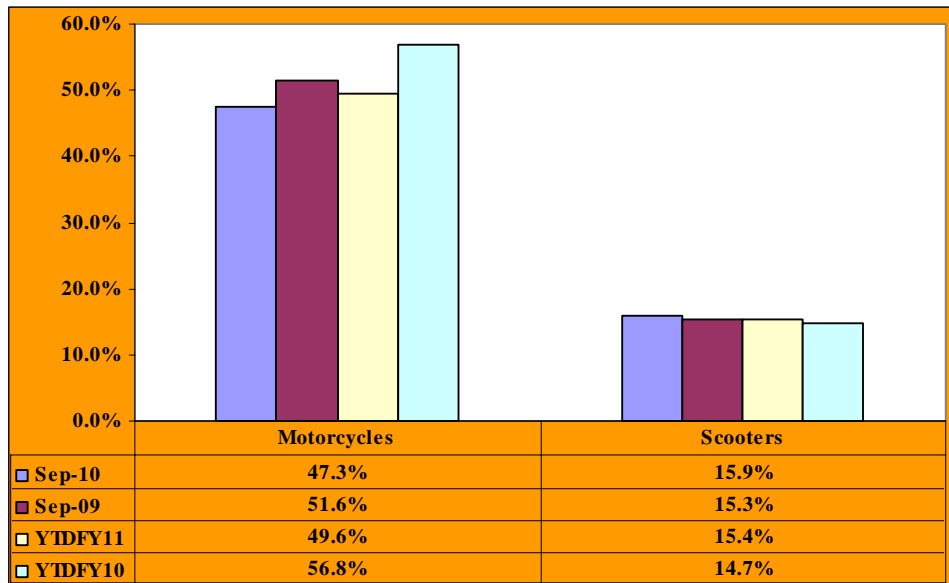
Source: SIAM

In September 2010, Hero Honda's overall Two-wheeler volumes grew 8.1% Y-o-Y and 2.1% sequentially to 433,641 units. Motorcycle sales rose 5.9% Y-o-Y and 2.3% sequentially to 405,941 units. Scooter sales grew 54.4% Y-o-Y, but remained flat sequentially at 27,700 units, due to a growth of 53% Y-o-Y in domestic volumes, as well as an increase of 93.7% Y-o-Y in exports to 1,232 units. Hero Honda's overall Two-wheeler volumes were driven by higher volumes in the premium segment (125-250 cc). However, the launch of the New Discover 100cc by Bajaj Auto severely impacted Hero Honda's sales in the segment. Hero Honda's volumes in the entry-level Motorcycle segment (75-125cc) were up 4.9% Y-o-Y to 370,944 units, as against a growth of 5.8% Y-o-Y in industry volumes. The company's sales in the domestic 125-250cc segment rose 28.2% Y-o-Y to 26,141 units, as against a growth of 45.7% Y-o-Y in industry volumes. In September 2010, Hero Honda's exports grew merely 0.2% Y-o-Y to 10,088 units.

Hero Honda's overall Two-wheeler volumes were driven by higher volumes in the premium segment (125-250 cc). However, the launch of the New Discover 100cc by Bajaj Auto severely impacted Hero Honda's sales in the segment



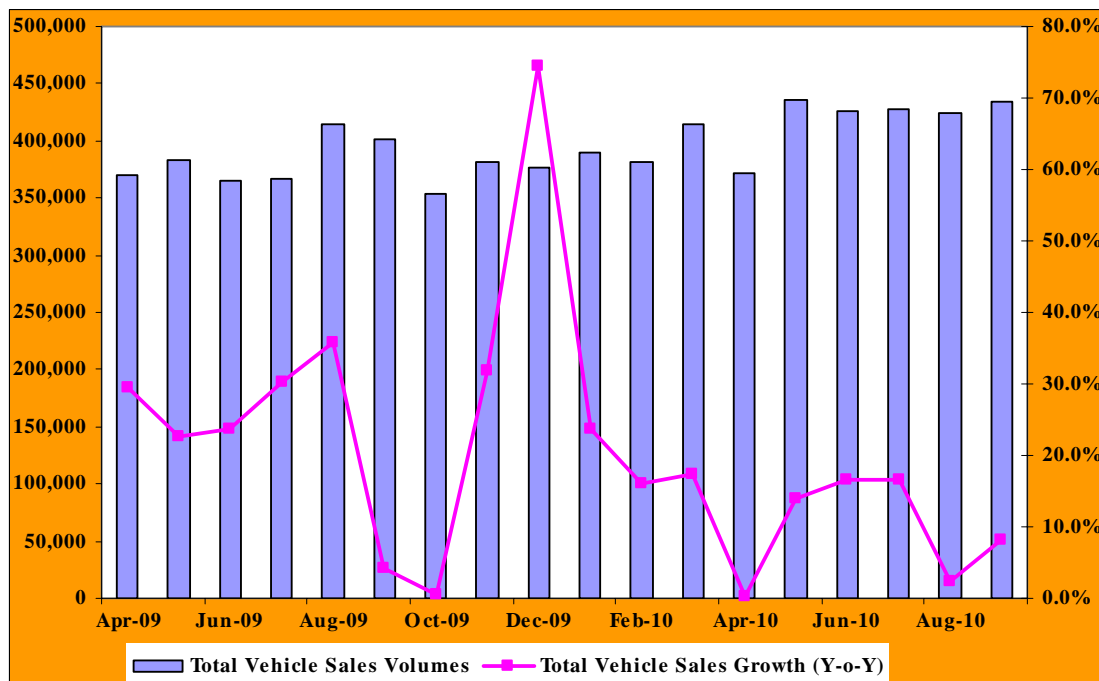
Hero Honda's Domestic Market Share Trend



Source: SIAM

Hero Honda's domestic market share in the overall Two-wheeler segment fell sharply by 454 bps Y-o-Y to 42.1%. The company's domestic market share in the entry-level segment declined 60 bps Y-o-Y to 69.6% and was down 148 bps Y-o-Y to 10.8% in the premium segment. In the Scooter segment, Hero Honda's domestic market share rose 58 bps Y-o-Y at 15.9%.

Hero Honda's Sales Trend



Source: SIAM



Bajaj Auto (BJA) – Highest ever monthly volumes achieved in September 2010...

Bajaj Auto – Total Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	314,515	249,133	26.2%	289,176	8.8%	1,711,863	1,082,464	58.1%
Scooters	0	662	NM	0	NM	27	3,533	-99.2%
Three Wheelers	38,254	31,121	22.9%	40,188	-4.8%	216,994	148,488	46.1%
Total Sales	352,769	280,916	25.6%	329,364	7.1%	1,928,884	1,234,485	56.3%

Source: SIAM, NM: Not Meaningful.

Bajaj Auto – Domestic Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	230,945	182,902	26.3%	209,567	10.2%	1,198,771	743,901	61.1%
Scooters	0	402	NM	0	NM	27	2,909	-99.1%
Three Wheelers	19,864	16,931	17.3%	21,219	-6.4%	98,855	84,950	16.4%
Total Sales	250,809	200,235	25.3%	230,786	8.7%	1,297,653	831,760	56.0%

Source: SIAM, NM: Not Meaningful.

Bajaj Auto – Export Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	83,570	66,231	26.2%	79,609	5.0%	513,092	338,563	51.5%
Scooters	0	260	NM	0	NM	0	624	NM
Three Wheelers	18,390	14,190	29.6%	18,969	-3.1%	118,139	63,538	85.9%
Total Sales	101,960	80,681	26.4%	98,578	3.4%	631,231	402,725	56.7%

Source: SIAM, NM: Not Meaningful.

In September 2010, Bajaj Auto's overall volumes rose significantly by 25.6% Y-o-Y and 7.1% sequentially to 352,769 units, marking the highest ever monthly volumes recorded by the company, driven by a growth of 25.3% Y-o-Y in domestic volumes and 26.4% Y-o-Y in exports. The company's domestic volumes increased 25.3% Y-o-Y and 8.7% sequentially to 250,809 units in September 2010. Bajaj Auto's overall Motorcycles volumes rose 26.2% Y-o-Y and 8.8%

In September 2010, Bajaj Auto's overall volumes rose significantly by 25.6% Y-o-Y and 7.1% sequentially to 352,769 units, marking the highest ever monthly volumes recorded by the company, driven by a growth of 25.3% Y-o-Y in domestic volumes and 26.4% Y-o-Y in exports

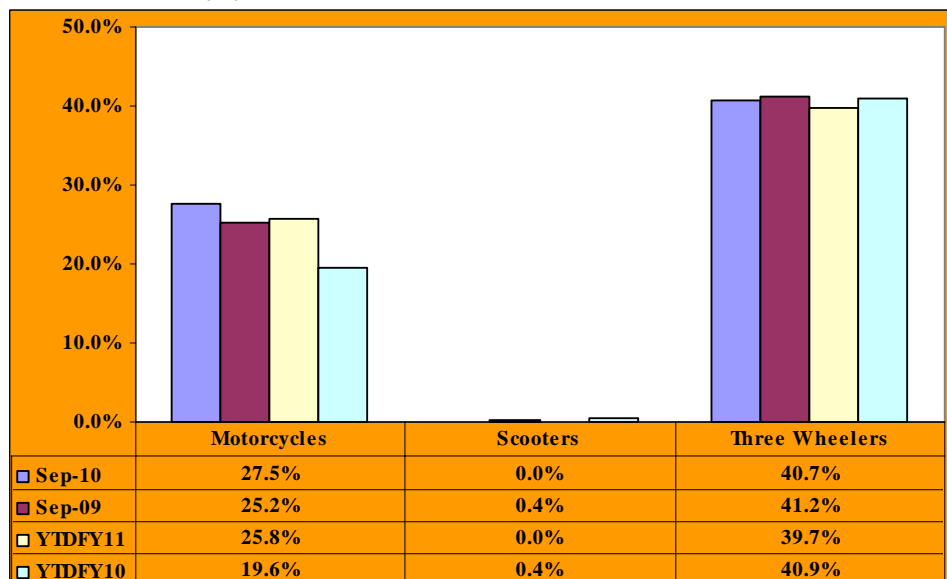
sequentially to 314,515 units, with domestic Motorcycles sales up 26.3% Y-o-Y and 10.2% sequentially to 230,945 units. In the entry-level segment, Bajaj Auto's domestic volumes declined 14.5% Y-o-Y to 92,490 units. Bajaj Auto's volumes in the premium segment grew 85.4% Y-o-Y to 138,455 units, due to the success of Discover 150 cc, while it recorded nil volumes in the Scooter segment, as the company finally completed its exit from the segment. Bajaj Auto's domestic Three-wheeler sales jumped up by 17.3% Y-o-Y to 19,864 units, as against a growth of 18.7% Y-o-Y in industry volumes, resulting in the company losing some market share in the Three-wheeler segment. *The company's domestic motorcycle sales continued to increase, on account of*

the launch of its most successful bike, the new 100cc Discover, in July 2009. In order to further strengthen its position in the Motorcycle segment, the company had launched the 135cc Pulsar at very competitive prices in January 2010. Management also announced that the company will increase its focus on the Motorcycle segment. In order to achieve this objective, the company launched the new Discover 150 cc at very competitive prices in the beginning of June 2010.



Bajaj Auto's Motorcycle exports were up 26.2% Y-o-Y to 83,570 units, while Three-wheeler exports grew 29.6% Y-o-Y to 18,390 units. Bajaj Auto's total exports for September 2010 increased 26.4% Y-o-Y to 101,960 units and accounted for 29% of its overall volumes.

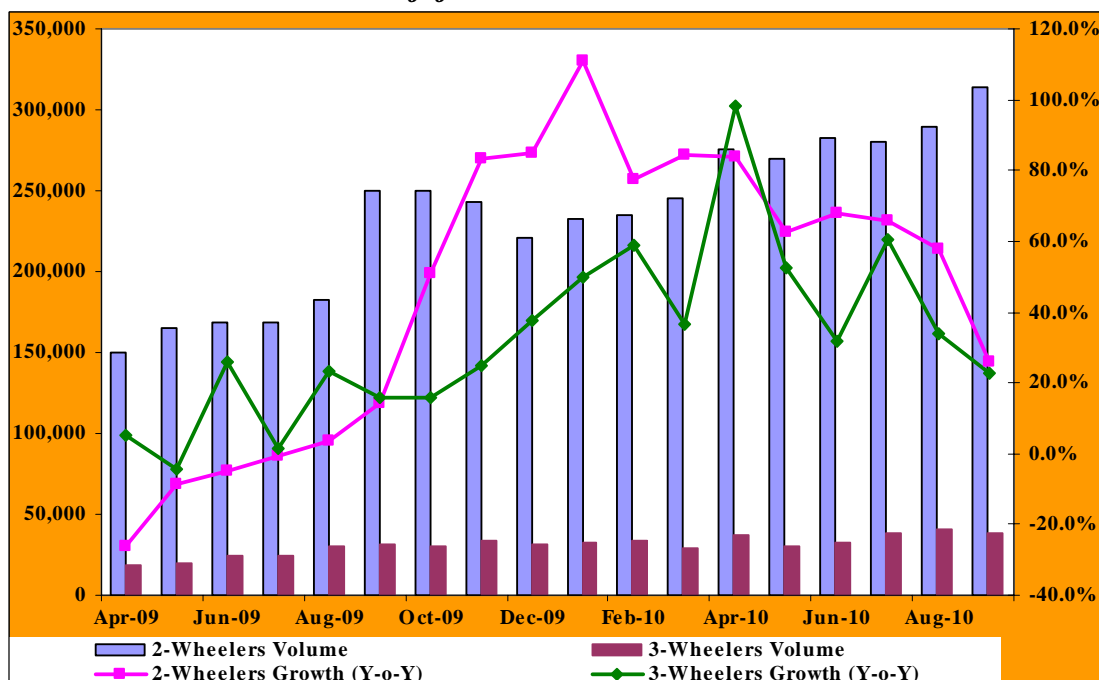
Bajaj Auto's Domestic Market Share Trend



Source: SIAM

In September 2010, Bajaj Auto's market share in the domestic Motorcycle segment increased 232 bps Y-o-Y to 27.5%. The company's market share in the 75-100cc segment fell 414 bps Y-o-Y to 17.4%, on the back of strong volumes of the new 100cc Discover, while its market share in the 125-250cc segment jumped up by 1,225 bps Y-o-Y to 57.2%. In the Three-wheeler domestic market, the company's market share declined 49 bps Y-o-Y to 40.7%.

Bajaj Auto's Sales Trend



Source: SIAM



TVS Motor (TVSL) – Growth momentum in exports continues...

TVS Motor – Total Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	81,381	60,559	34.4%	66,574	22.2%	409,364	307,462	33.1%
Scooters	43,086	30,460	41.5%	40,913	5.3%	219,842	153,965	42.8%
Moped	60,316	51,867	16.3%	59,622	1.2%	341,833	276,386	23.7%
Three Wheelers	3,222	1,200	168.5%	3,626	-11.1%	17,755	5,504	222.6%
Total Sales	188,005	144,086	30.5%	170,735	10.1%	988,794	743,317	33.0%

Source: SIAM

TVS Motor – Domestic Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	63,698	51,831	22.9%	49,630	28.3%	309,430	248,067	24.7%
Scooters	41,404	29,480	40.4%	39,171	5.7%	211,223	148,894	41.9%
Moped	60,316	51,303	17.6%	59,280	1.7%	337,882	274,416	23.1%
Three Wheelers	2,100	1,106	89.9%	2,409	-12.8%	12,333	5,204	137.0%
Total Sales	167,518	133,720	25.3%	150,490	11.3%	870,868	676,581	28.7%

Source: SIAM

TVS Motor – Export Volume Analysis

Units	Sep-10	Sep-09	Y-o-Y (%)	Aug-10	M-o-M (%)	YTDFY11	YTDFY10	Y-o-Y (%)
Motorcycles	17,683	8,728	102.6%	16,944	4.4%	99,934	59,395	68.3%
Scooters	1,682	980	71.6%	1,742	-3.4%	8,619	5,071	70.0%
Moped	0	564	NM	342	NM	3,951	1,970	100.6%
Three Wheelers	1,122	94	1093.6%	1,217	-7.8%	5,422	300	1707.3%
Total Sales	20,487	10,366	97.6%	20,245	1.2%	117,926	66,736	76.7%

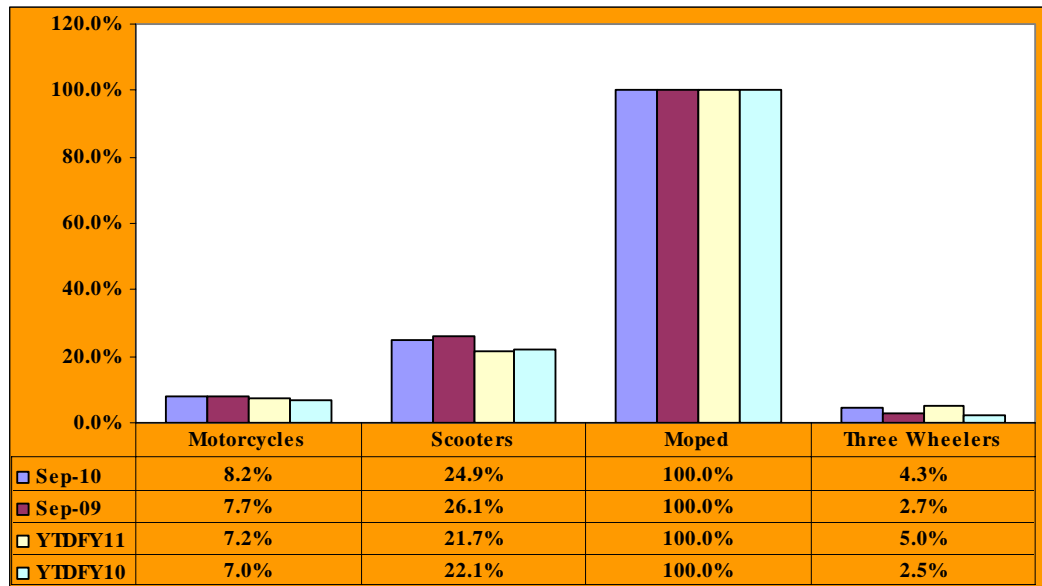
Source: SIAM, NM: Not Meaningful.

TVSL's overall volumes grew 30.5% Y-o-Y and 10.1% sequentially to 188,005 units in September 2010, marking the company's highest ever monthly volumes. The company's total Motorcycle sales increased 34.4% Y-o-Y and 22.2% sequentially to 81,381 units. TVSL's Motorcycle exports climbed up by 102.6% Y-o-Y to 17,683 units and the company's domestic Motorcycle volumes rose 22.9% Y-o-Y and 28.3% sequentially to 63,698 units in September 2010. The company's domestic volumes in the entry-level segment increased 41.8% Y-o-Y to 50,779 units, while volumes in the high-end segment declined 19.3% Y-o-Y to 12,919 units. TVSL sold 41,404 units of Scooters in the domestic market in September 2010, up 40.5% Y-o-Y. TVSL's domestic Moped sales grew 17.6% Y-o-Y to 60,316 units, with the company maintaining a market share of 100% in the segment. Following the increase in exports recorded for seven consecutive months, the growth momentum in TVSL's exports continued in September 2010 as well, up 97.6% Y-o-Y to 20,487 units. In the Three-wheeler segment, TVSL sold 3,222 units in September 2010, up 168.5% Y-o-Y.

Following the increase in exports recorded for seven consecutive months, the growth momentum in TVSL's exports continued in September 2010 as well, up 97.6% Y-o-Y to 20,487 units



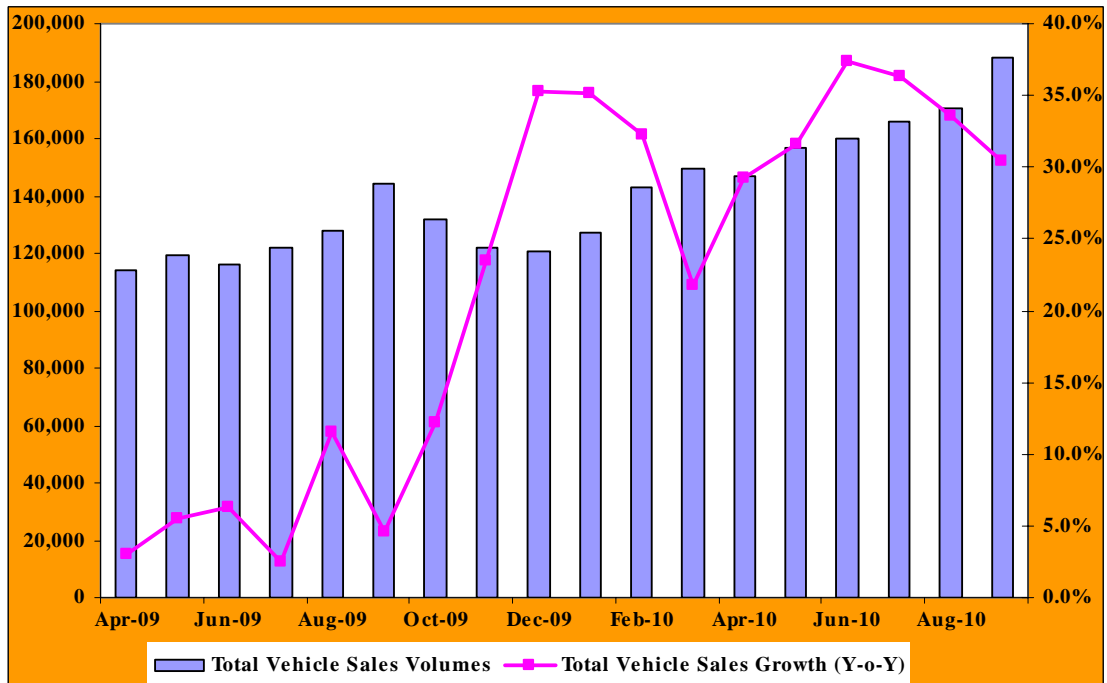
TVS Motor's Domestic Market Share Trend



Source: SIAM

In September 2010, TVSL's market share in the domestic Motorcycle segment rose 49 bps Y-o-Y to 8.2%. In the Scooters segment, the company's market share was down 122 bps Y-o-Y to 24.9%, but up 161 bps Y-o-Y in the Three-wheeler segment to 4.3%.

TVSL's Sales Trend



Source: SIAM



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non-financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

No ratings have been given in this report.



First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty Index

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(iii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment



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