

India Automobile Sector ----- Initiating coverage with UNDERWEIGHT

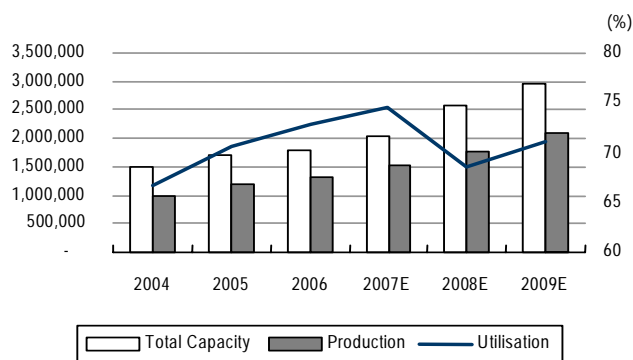
High demand, more competition

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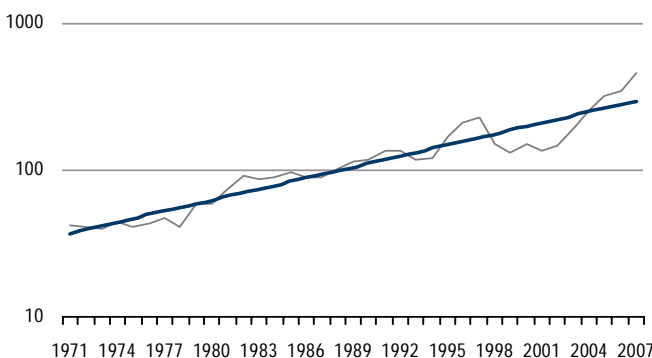
- India's auto industry is witnessing an influx of new players and unprecedented capacity addition. Utilisation is set to fall in passenger vehicles (PV) and in commercial vehicles (CV). The competitive environment is worsening in cars and two-wheelers.
- While PVs and two-wheelers are likely to see strong demand growth, we expect CVs to grow slower and tractor demand to weaken. Exports of cars and two-wheelers will likely grow strong.
- We expect aggregate sector EBITDA to grow at a 14% CAGR in FY06-09E, at half the pace as in FY03-06. Increasing capex will likely result in lower free cash flows, especially for PVs & CVs
- Bajaj is our top pick, as we expect the company to benefit from higher domestic market share and growing exports. We rate Hero Honda and Maruti, both leaders in their respective segments, as underperformers, as they will likely see most deteriorating prospects. We rate Tata Motors, Mahindra & Ashok Leyland as Neutral
- Key risks include delays in capacity additions by the competition (upside), infrastructure issues stalling export plans (downside)

Figure 1: Falling capacity utilisation in cars



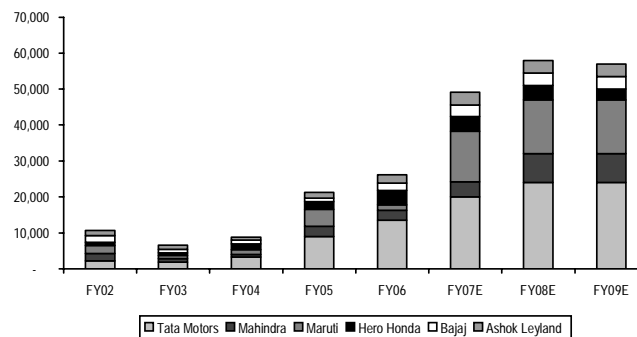
Source: Company data, Credit Suisse estimates.

Figure 2: Longest CV cycle ever



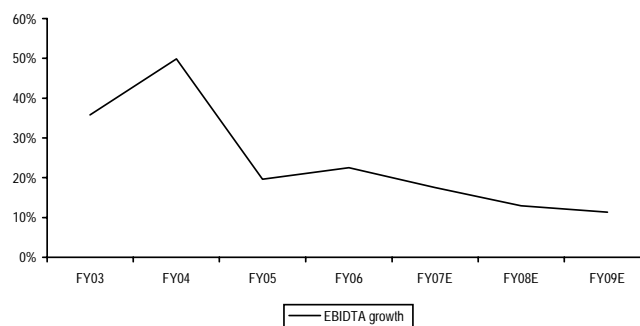
Source: Company data, Credit Suisse estimates.

Figure 3: Massive jump in capex plans



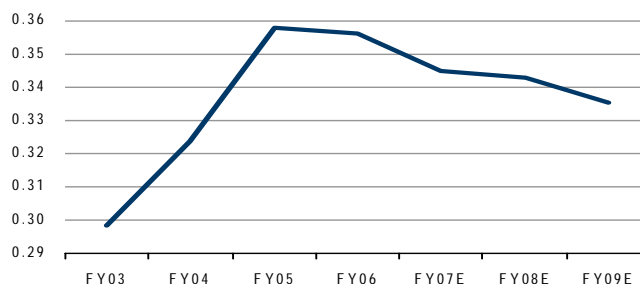
Source: Company data, Credit Suisse estimates.

Figure 4: Average EBITDA growth for the sector



Source: Company data, Credit Suisse estimates.

Figure 5: Herfindahl Index for two-wheelers: Increasing competition



Source: Company data, Credit Suisse estimates.

Figure 6: Summary of recommendations

Company	CMP (Rs)	TP (Rs)	Rating	P/E at current price		
				FY07E	FY08E	FY09E
Ashok Leyland	47.5	46.2	Neutral	15.5	13.6	12.1
Bajaj	2783.7	2999.9	Outperform	22.2	19.7	16.7
Hero Honda	729.9	676	Underperform	16.8	16	14.8
Mahindra	966.6	971.2	Neutral	27.9	23.7	20.4
Maruti	918.3	727.4	Underperform	17.9	16	15.5
Tata Motors	952.8	950.8	Neutral	19.8	18.2	16.6

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 19 Jan 07)

Hero Honda Motors Ltd (HROH.BO, Rs730.15, UNDERPERFORM, TP Rs676, UNDERWEIGHT)
Tata Motors Ltd. (TAMO.BO, Rs950.10, NEUTRAL, TP Rs950.8, UNDERWEIGHT)
Maruti Udyog Ltd (MRTL.BO, Rs910.85, UNDERPERFORM, TP Rs727.4, UNDERWEIGHT)
Mahindra & Mahindra (MAHM.BO, Rs934.55, NEUTRAL, TP Rs971.2, UNDERWEIGHT)
Ashok Leyland Ltd (ASOK.BO, Rs47.20, NEUTRAL, TP Rs46.2, UNDERWEIGHT)
Bajaj Auto Ltd (BJAT.BO, Rs2729.70, OUTPERFORM, TP Rs3000, UNDERWEIGHT)

Disclosure Appendix

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