

## Automobiles

### Upbeat tempo

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#### Top picks

Maruti Udyog  
Tata Motors  
Bajaj Auto  
Bharat Forge

The i-SEC auto universe is set to register robust revenue growth of 25.1% YoY in Q3FY07E though benefits of operating leverage would be offset to a large extent by the increase in input costs and competitive pressures. Therefore, while EBITDA margin would be up 60bps QoQ at 13.1%, it would dip 60bps YoY. Consequently, recurring net profit is expected to grow 22.1% YoY in Q3FY07E. We expect Mahindra & Mahindra (M&M), Ashok Leyland (ALL) and Tata Motors (TAMO) to lead the pack with their recurring net profits rising 48.2% YoY, 38.1% YoY and 27.9% YoY respectively. Our top picks in the sector are Maruti Udyog (MUL), TAMO and Bajaj Auto (BAL). Bharat Forge (BFL) remains our top pick in auto ancillaries.

- ▶ **Robust revenue growth at 25.1% YoY; CVs witnessed the highest volume growth.** The i-SEC auto universe is expected to register robust sales growth of 25.1% YoY to Rs218bn in Q3FY07E. Among various segments, commercial vehicles (CVs) registered the highest volume growth of 40.6% YoY on the back of the Supreme Court ruling against overloading and strong economic fundamentals. Passenger vehicles (PVs) followed with 17% YoY growth, while two-wheelers recorded 14.1% YoY growth.
- ▶ **Input costs and competitive pressures mitigate operating leverage benefits.** Benefits of operating leverage would be offset to a large extent by increase in input costs and competitive pressures; therefore, while EBITDA margin would be up 60bps QoQ at 13.1%, it would be down 60bps YoY. We expect BFL, M&M and Punjab Tractors (PTL) to register margin expansion. For the i-SEC auto universe, we estimate EBITDA and recurring net profits to rise 19.1% YoY and 22.1% YoY respectively.
- ▶ **M&M, ALL & TAMO top profit growth charts.** We expect M&M to record the highest net profit growth in the i-SEC auto universe in Q3FY07E on the back of a volume surge across segments, especially in LCVs (up 40.5%), three-wheelers (up 34.3%) and exports (up 36.5%). Overall, 17.6% volume growth coupled with 180bps YoY EBITDA margin expansion would drive 48.2% YoY growth in recurring net profits to Rs2.73bn. ALL and TAMO would benefit from the growth in CV industry on the back of: i) the Supreme Court ban on overloading of CVs ii) strong macro-economic fundamentals and iii) emergence of the hub and spoke model. Despite EBITDA margin contraction on a YoY basis, ALL and TAMO would record a strong 38.1% YoY and 27.9% YoY recurring net profit growth respectively.
- ▶ **Top picks.** Our top picks in the sector are MUL, TAMO and BAL. BFL remains our top pick in auto ancillaries.

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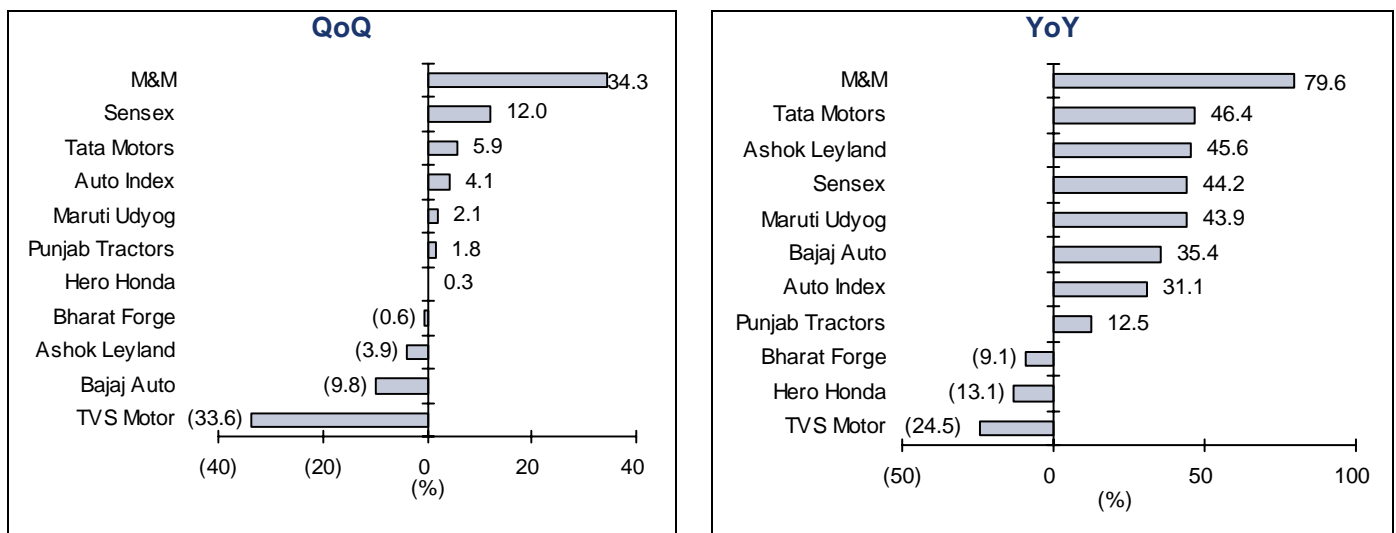
Table 1: Quarterly summary

Company	Sales			EBITDA			Recurring PAT		
	(Rs mn)	% Chg		% Chg		% Chg			
	OND '06*	(YoY)	(QoQ)	OND '06*	(YoY)	(QoQ)	OND '06*	(YoY)	(QoQ)
Ashok Leyland	17254	43.5	3.0	1,437	23.8	6.4	772	38.1	(3.5)
Bajaj Auto	25430	27.1	4.4	4,285	19.7	17.3	3,493	21.6	6.7
Bharat Forge	4,818	20.6	6.9	1,251	26.9	6.4	655	23.0	5.3
Hero Honda	27084	17.0	21.5	3,867	2.3	36.4	2,738	4.6	26.8
M&M	27,458	25.6	10.2	3,829	45.3	3.6	2,725	48.2	0.3
Maruti Udyog	36,488	17.2	6.7	5,290	13.6	11.2	4,029	18.8	9.6
Punjab Tractors	2,704	5.0	21.5	388	6.3	40.6	234	12.5	27.9
Tata Motors	67,418	32.9	2.6	7,607	23.6	2.7	4,263	27.9	(3.5)
TVS Motor	9,380	7.6	(13.0)	535	(11.8)	(4.5)	220	(29.0)	(11.2)
<b>Total</b>	<b>218,033</b>	<b>25.1</b>	<b>6.0</b>	<b>28,489</b>	<b>19.1</b>	<b>10.8</b>	<b>19,129</b>	<b>22.1</b>	<b>5.7</b>

\*October-December '06

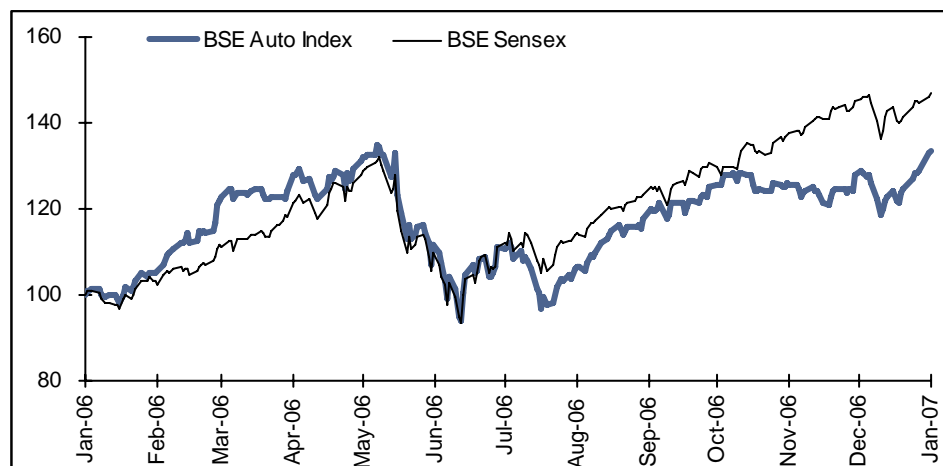
Source: i-SEC Research

Chart 1: Auto sector – Stock price performance



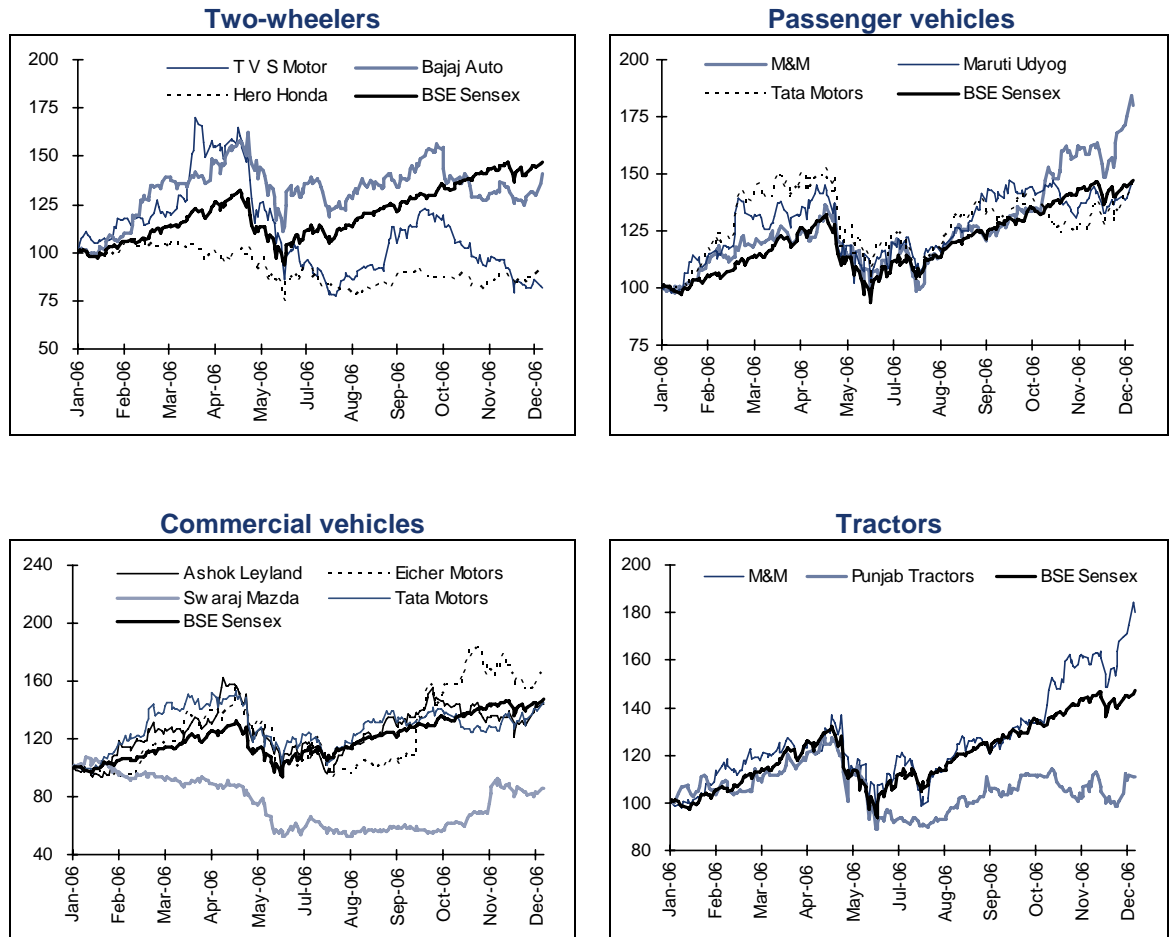
Source: Reuters, i-SEC Research

Chart 2: BSE Auto Index versus the Sensex



Source: CMIE

**Chart 3: Share price performance of various categories of auto companies**



Source: BSE, NSE, i-SEC Research

## Ashok Leyland (BUY)

(QoQ chg: -3.9%; YTD chg: 12.7%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	17,254	12,024	43.5	3.0	30,996	23,133	34.0
EBITDA	1,437	1,161	23.8	6.4	2,563	2,020	26.9
PBT	1,072	816	31.4	(0.8)	2,073	1,570	32.0
PAT	772	559	38.1	(3.5)	1,520	1,173	29.6

Source: Company data, i-SEC Research

\* April-September

- We estimate revenue growth at 43.5% YoY led by 55.7% YoY volume growth
- EBITDA margin is expected to contract 140bps YoY to 8.3% on the back of input cost pressures leading to 23.8% YoY and 38.1% YoY EBITDA and recurring net profit growth respectively

## Bajaj Auto (BUY)

(QoQ chg: -9.8%; YTD chg: -0.6%)

### Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	25,430	20,009	27.1	4.4	46,386	35,011	32.5
EBITDA	4,285	3,581	19.7	17.3	7,259	5,732	26.7
PBT	4,872	4,153	17.3	6.7	8,629	7,068	22.1
PAT	3,493	2,872	21.6	6.7	6,000	4,991	20.2

Source: Company data, i-SEC Research

\* April-September

#standalone

- BAL is likely to register 27.1% YoY revenue growth on the back of 22.9% growth in volumes. The volume growth was led by motorcycles (up 27.6%) and three-wheelers (up 48.8%), even as sales of geared and ungeared scooters declined
- Richer product mix with higher share of three wheelers would result in 190bps QoQ margin expansion to 16.9%, though on a YoY basis, margins would be down 100bps
- Key factors to watch for are: i) launch of *Kristal* – ungeared scooter (January '07) and increase in motorcycle capacity to 3,00,000 units/month by April '07

## Bharat Forge (BUY)

(QoQ chg: -0.6%; YTD chg: -20.9%)

### Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	4,818	3,994	20.6	6.9	8,713	7,401	17.7
EBITDA	1,251	986	26.9	6.4	2,250	1,857	21.2
PBT	980	802	22.2	6.3	1,768	1,518	16.4
PAT	655	533	23.0	5.3	1,182	1,007	17.4

Source: Company data, i-SEC Research

\* April-September

# Standalone

- We expect BFL to record 20.6% YoY revenue growth driven by 16.4% growth in the domestic market and 27.9% growth in exports
- On the back of benefits from higher operating leverage, we expect margin expansion of 130bps YoY to 26% driving 26.9% YoY growth in EBITDA
- However, increase in interest and depreciation expenses would cap the net profit growth to 23% at Rs655mn

## Hero Honda (BUY)

(QoQ chg: 0.3%; YTD chg: -15.8%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	27,084	23,148	17.0	21.5	45,944	41,433	10.9
EBITDA	3,867	3,781	2.3	36.4	6,025	6,259	(3.7)
PBT	3,997	3,827	4.4	26.9	6,574	6,342	3.7
PAT	2,738	2,618	4.6	26.8	4,538	4,322	5.0

Source: Company data, i-SEC Research

\* April-September

- We expect Hero Honda (HHML) to register 17% YoY revenue growth in Q3FY07E on the back 15.8% YoY volume growth
- While we expect margins to expand 160bps QoQ to 14.3% in Q3FY07E, they would be down 200bps YoY capping EBITDA and net profit growth to 2.3% YoY and 4.6% YoY respectively
- Key factor to watch for – Growth momentum picking up with: i) the resolution of the capacity constraint issue and ii) accelerated pace of product launches

## Mahindra & Mahindra (BUY)

(QoQ chg: 34.3%; YTD chg: 44.3%)

### Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	27,458	21,867	25.6	10.2	47,077	37,267	26.3
EBITDA	3,829	2,636	45.3	3.6	6,208	4,111	51.0
PBT	3,759	2,501	50.3	(0.3)	6,419	3,755	70.9
PAT	2,725	1,839	48.2	0.3	4,633	3,029	52.9

Source: Company data, i-SEC Research

\* April-September

# Standalone

- We estimate 25.6% YoY revenue growth led by 17.6% growth in volumes – tractors (17.1%), three-wheelers (34.3%) and exports (36.5%)
- Better product mix would offset the increase in input costs, enabling the company to register a margin expansion of 180bps YoY to 13.9%
- EBITDA margin expansion to drive net profit growth of 48.2% YoY

## Maruti Udyog (BUY)

(QoQ chg: 2.1%; YTD chg: 6.1%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	36,488	31,142	17.2	6.7	65,447	56,671	15.5
EBITDA	5,290	4,659	13.6	11.2	9,322	6,746	38.2
PBT	5,855	5,027	16.5	9.5	10,356	7,202	43.8
PAT	4,029	3,390	18.8	9.6	7,150	4,880	46.5

Source: Company data, i-SEC Research

\* April-September

- We estimate 17.2% YoY revenue growth on the back of 18.7% volume growth (57.3%-Alto and 53.8%-WagonR)
- Higher level of indigenisation (*Swift* localisation level up from 85% at the time of launch to 90% at present) and tight cost controls would help MUL enhance margins by 60bps QoQ to 14.5%; however, margins would be down 50bps YoY on the back of input cost increase, competitive pressures and promotional expenses
- We expect the above factors to drive net profit growth of 18.8% YoY

## Punjab Tractors (HOLD)

(QoQ chg: 1.8%; YTD chg: -0.6%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	2,704	2,575	5.0	21.5	4,662	4,557	2.3
EBITDA	388	365	6.3	40.6	577	559	3.2
PBT	346	309	12.0	28.2	530	506	4.7
PAT	234	208	12.5	27.9	360	345	4.4

Source: Company data, i-SEC Research

\* April-September

- We estimate PTL to register 5% YoY revenue growth
- Benefitting from higher capacity utilisation, we expect EBITDA margin to expand 20bps YoY to 14.4% YoY driving 12.5% YoY growth in recurring net profit

## Tata Motors (BUY)

(QoQ chg: 5.9%; YTD chg: -2.6%)

### Quarterly estimates#

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	67,418	50,746	32.9	2.6	123,552	86,594	42.7
EBITDA	7,607	6,154	23.6	2.7	14,454	10,361	39.5
PBT	5,647	4,285	31.8	(3.7)	11,208	8,161	37.3
PAT	4,263	3,332	27.9	(3.5)	8,512	6,121	39.1

Source: Company data, i-SEC Research

\* April-September

# Standalone

- TAMO is likely to register 32.9% YoY revenue growth on the back of 27.1% volume growth – M/HCVs (up 33.9% YoY), LCVs (up 40.1%), cars (up 14.3%) and UVs (up 15.9%)
- Margins likely to remain flat QoQ at 11.3%, but would be down 80bps YoY
- We expect this to result in EBITDA and net profit growth of 23.6% YoY and 27.9% YoY respectively

## TVS Motors (BUY)

(QoQ chg: -33.6%; YTD chg: -46.5%)

### Quarterly estimates

(Rs mn, year ending March 31)

	Q3FY07E	Q3FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	9,380	8,714	7.6	(13.0)	19,997	15,243	31.2
EBITDA	535	607	(11.8)	(4.5)	976	956	2.1
PBT	315	450	(30.1)	(13.1)	724	490	47.8
PAT	220	311	(29.0)	(11.2)	461	569	(18.9)

Source: Company data, i-SEC Research

\* April-September

- We expect TVS Motors (TVSM) to clock 7.6% YoY revenue growth on the back of muted 1.4% YoY growth in volumes
- We expect EBITDA margin to expand 50bps QoQ to 5.7% YoY; however, it would be down 130bps YoY on account of higher input costs and competitive pressures
- This would result in EBITDA and recurring net profit declining 11.8% YoY and 29% YoY respectively

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