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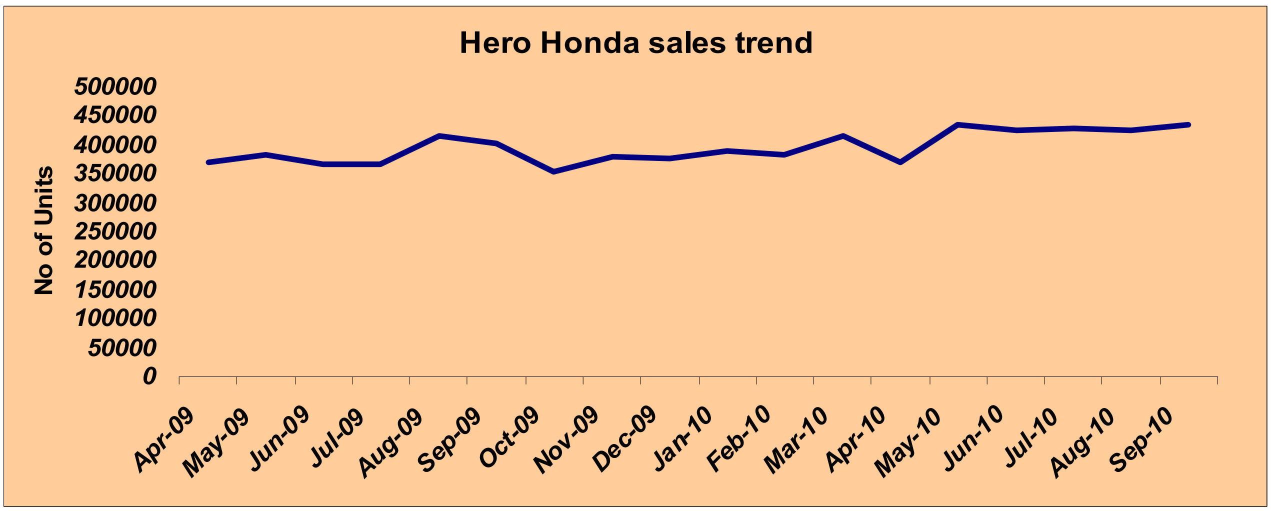
Q2FY11 Preview – What to expect?

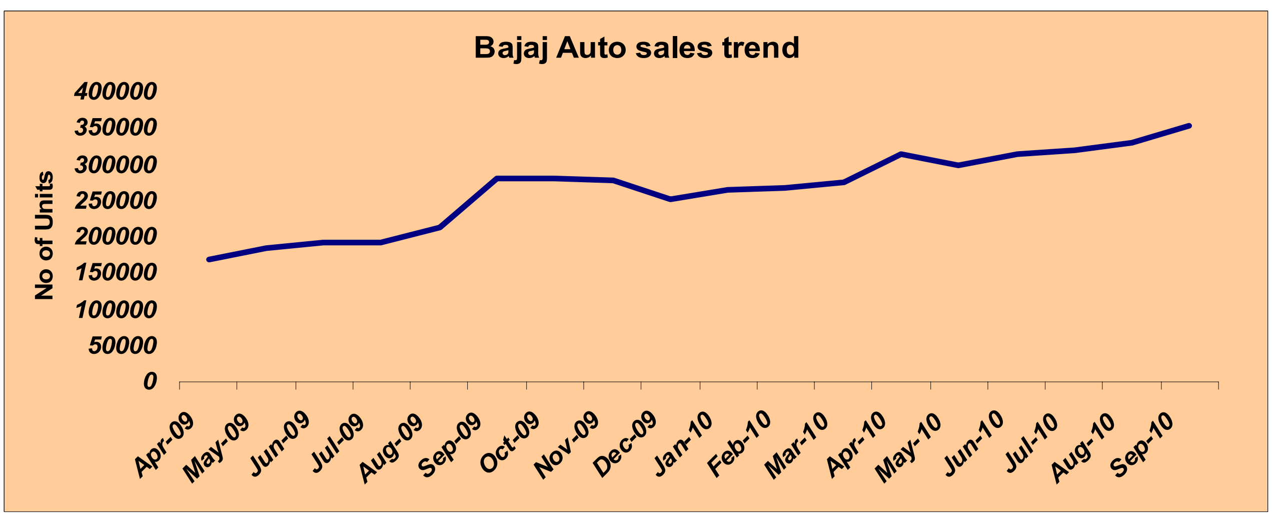
Key Driver for the Quarter – *Volume Growth*

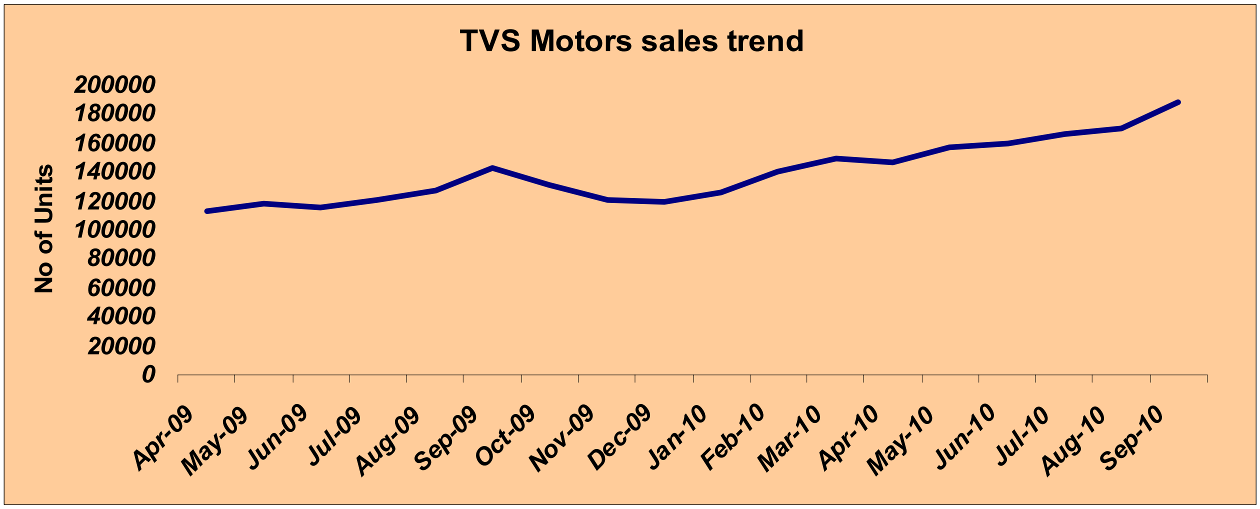
The volume growth for the automobile sector in Q2FY11 has been better than that of Q1FY11.

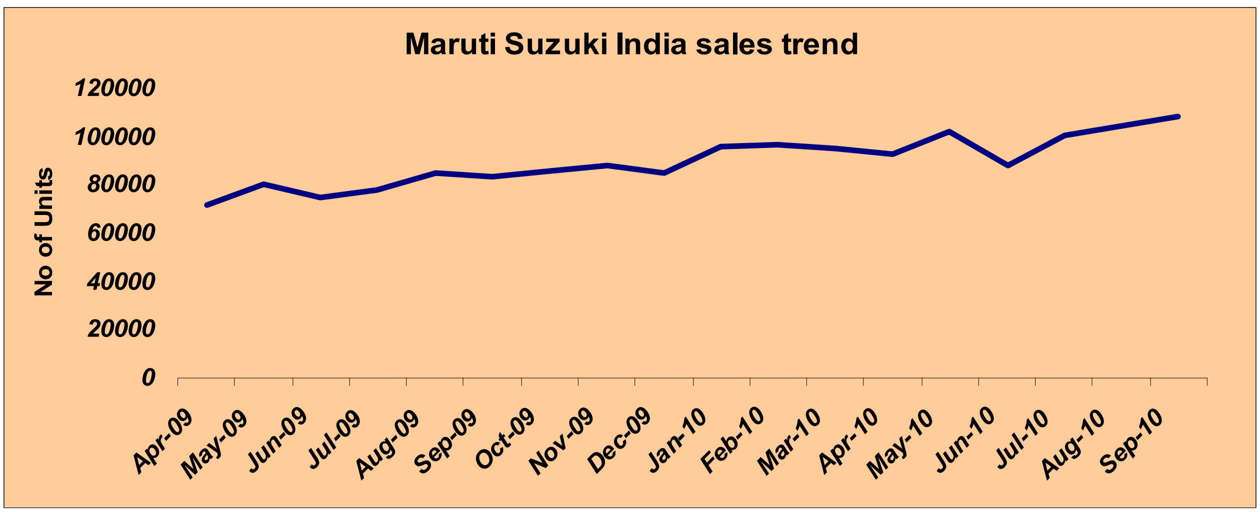
Among the 2Wheeler space in terms of growth rate, TVS Motors, whose volume growth is 13% QoQ, has outperformed its peers BAL & Hero Honda. Bajaj Auto comes second with a 7% QoQ growth, while Hero Honda's volumes have shown a jump of 4% QoQ.

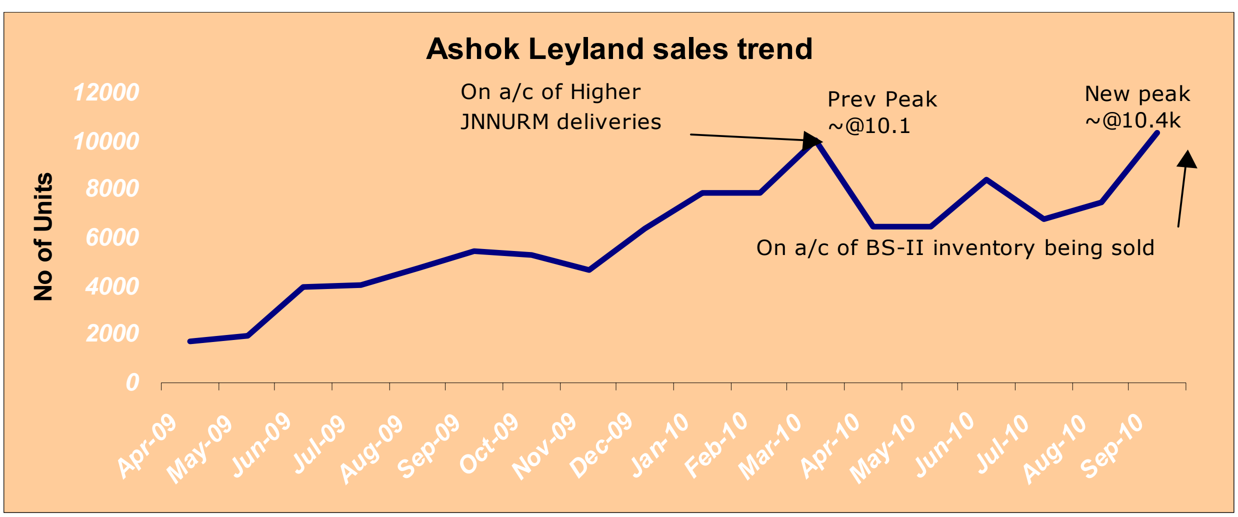
Among the 4Wheeler space (including CV manufacturers), Ashok Leyland has reported the highest growth at 14.8% QoQ as compared to Maruti's 11% QoQ growth & Tata Motors 9.2% growth.

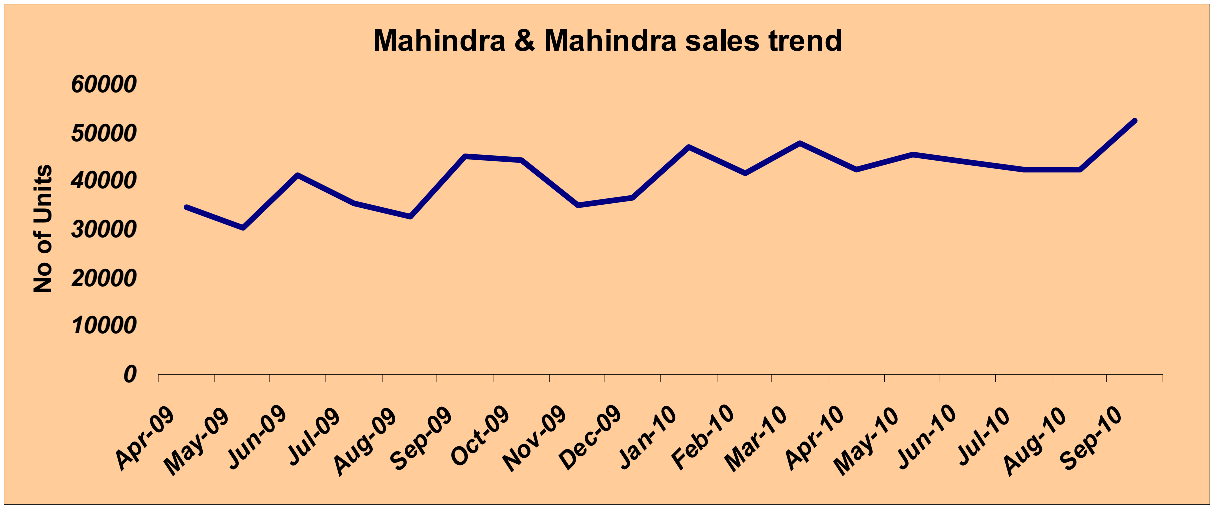


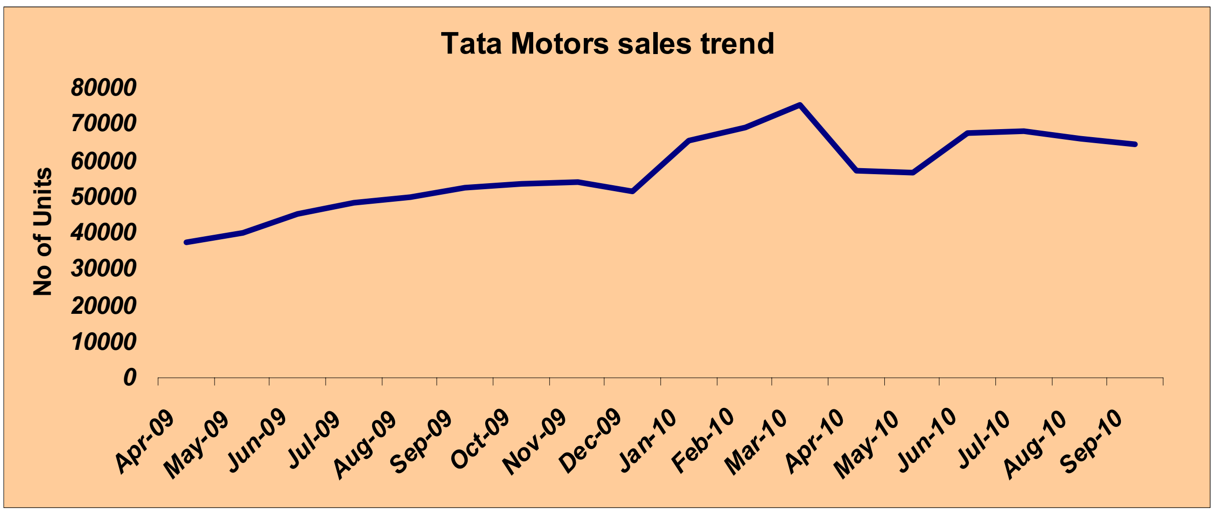



TVS Motors sales trend
No of Units
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10


Maruti Suzuki India sales trend
No of Units
120000
100000
80000
60000
40000
20000
0
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10

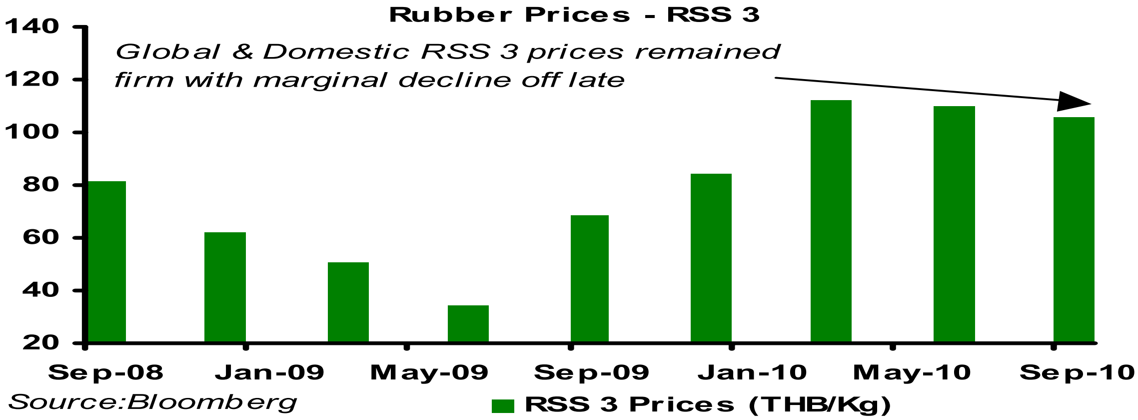

Ashok Leyland sales trend
On a/c of Higher
JNNURM deliveries
Prev Peak
~@10.1
New peak
~@10.4k
On a/c of BS-II inventory being sold
No of Units
12000
10000
8000
6000
4000
2000
0
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10

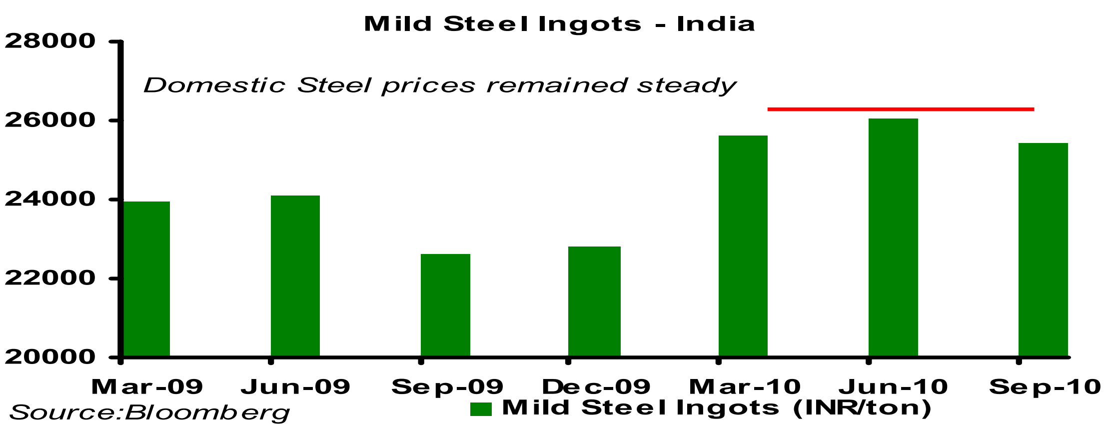


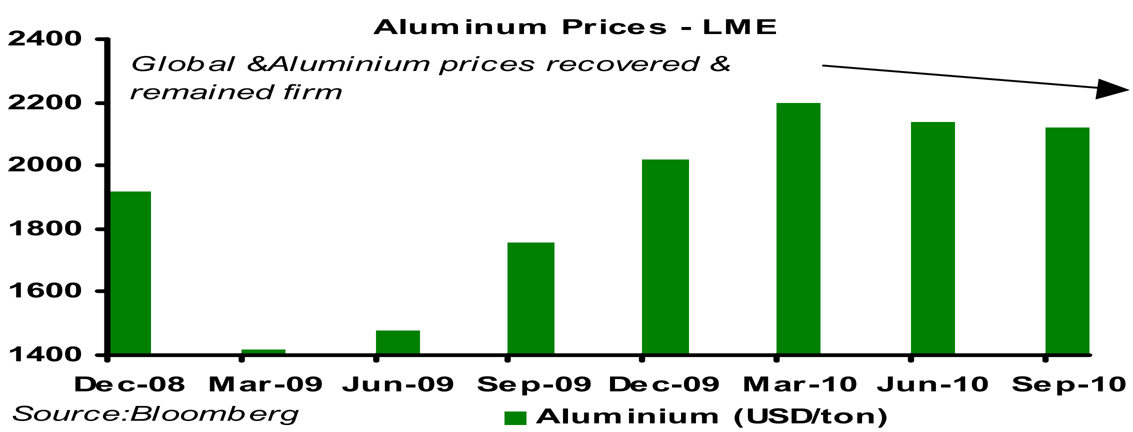


Key Decliner for the Quarter - *RM Cost*

The RM/Sales ratio remains close to its levels reported in Q1FY11 as the prices of raw materials such as Rubber , Steel & Aluminum remained flat in the past 3 quarters. Also, the spot prices have starting moving up, which indicates continued pressure on the margins in the near term. Steelmakers have already started undertaking price hikes across their product categories. We have Bajaj Auto & Hero Honda in a better position by partially offsetting this pressure with the actualization of their price hikes seen in Q2FY11. Ashok Leyland will also see a actualization of its price actions in Q2FY11. Recently, we have seen MSIL, M&M and Tata Motors hiking their prices across their product categories to meet with input inflation & emission costs.


Rubber Prices - RSS 3
140
120
100
80
60
40
20
Global & Domestic RSS 3 prices remained firm with marginal decline off late
Sep-08
Jan-09
May-09
Sep-09
Jan-10
May-10
Sep-10
Source:Bloomberg
RSS 3 Prices (THB/Kg)


Mild Steel Ingots - India
28000
26000
24000
22000
20000
Domestic Steel prices remained steady
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Source:Bloomberg
Mild Steel Ingots (INR/ton)


Aluminum Prices - LME
2400
2200
2000
1800
1600
1400
Global &Aluminium prices recovered & remained firm
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Source:Bloomberg
Aluminium (USD/ton)

Q2FY11E Results – Our Expectations

Q2FY11E	Net Sales	EBIDTA	EBIDTA	Net Profit	PAT	EPS	Event in Q2FY11	Relative Performance to previous quarter
Specified as	*In Rs cr*	*In Rs cr*	*(%)*	*In Rs cr*	*%*	*Rs*		*In terms of margins*
Hero Honda	4179	603.9	14.4	505.1	12.1	25.3	Div Rs 30 per share	Better
Bajaj Auto	4140	872.0	21.1	647.9	15.6	22.4	Div Rs 82 per share, BONUS 1:1	Better
TVS Motors	1580	106.6	6.7	41.2	2.6	0.9	Div Rs 0.5 per share,BONUS 1:1	To witness Pressure
Maruti	8990	888.8	9.9	528.1	5.9	18.3	Div Rs6 per share	Better
M&M	5240	811.6	15.5	641.6	12.2	11.3	DivRs9.5 per share	Better
Tata Motors	11420	1175.8	10.3	460.7	4.0	8.1	Div Rs15 per share	OPM faces pressure, Pat margin to improve
Ashok Leyland	2525	282.5	11.2	154.0	6.1	1.16	Div Rs1.5 per share	Better

Source: W2W Research
**Note - Q2FY10 Results of M&M and Tata Motors includes an exceptional income (*profit made on sale of shares/long term investments)*
Result Timetable
BAL - October 19th
Ashok Leyland - October 20th
M&M - October 29th

Expectations on a YoY basis

Q2FY11E	Volumes	Net Sales	Realisations	RM Cost	OPM	PAT
YoY Change	No of Units	Rs cr	Rs per unit	RM/Sales	(%)	(%)
Hero Honda	▲	Flat	▼	▲	▼	▼
Bajaj Auto	▲	▲	▼	▲	▼	▲
TVS Motors	▲	▲	▲	▲	▲	▲
Maruti	▲	▲	▼	▲	▼	▼
M&M	▲	▲	▼	▲	▼	▼
Tata Motors	▲	▲	▲	▲	▼	▼
Ashok Leyland	▲	▲	▼	▲	▲	▲

As we can see BAL, TVS Motors & Ashok Leyland would be earnings driver and outperforming companies this quarter

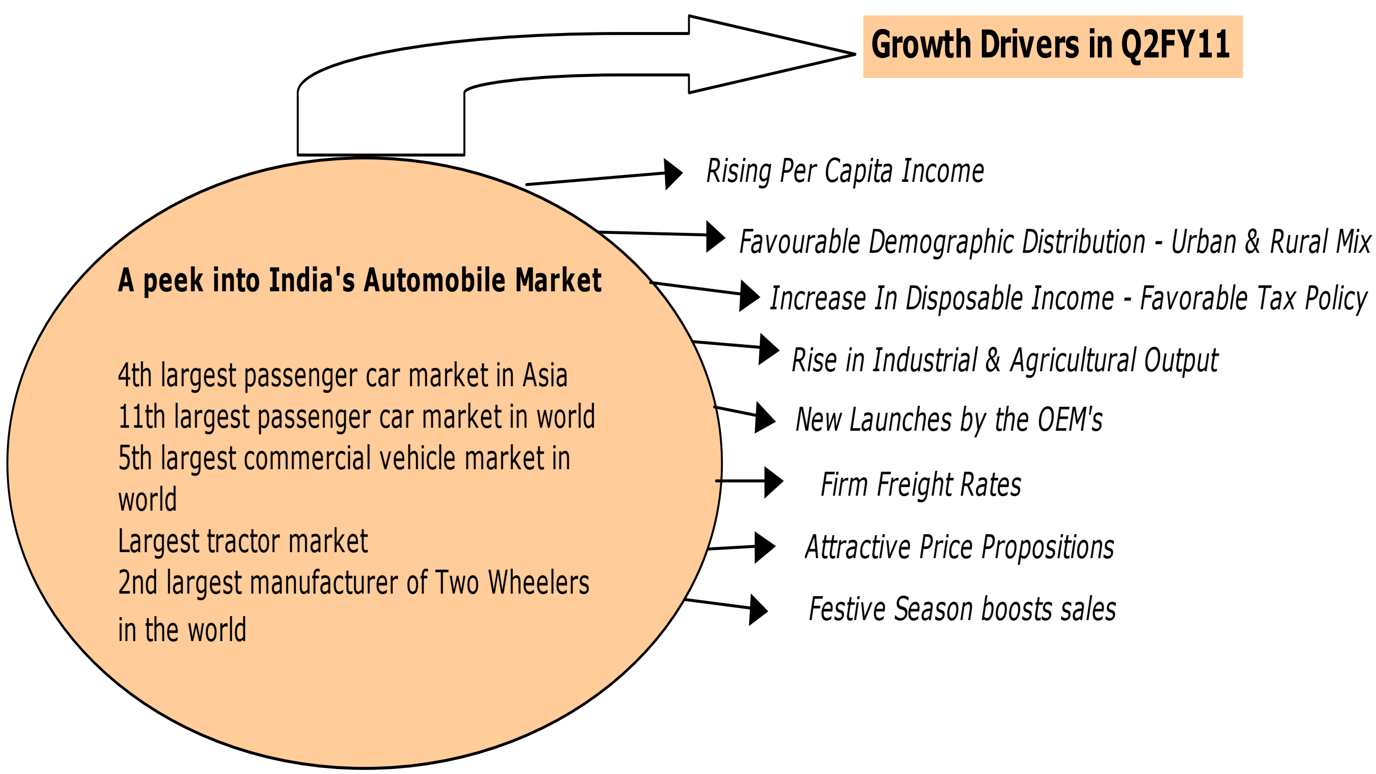
Auto to be the outperforming sector in Q2FY11

The demand remains robust in the month of September with concerns on the inventory levels of the OEM's. Despite deregulation of fuel prices and interest rate hike, the demand environment remains attractive encouraging aggressive competition in the industry. Every player is trying to capture a larger share of the automobile market. According to us the *automobile pie* is large enough to accommodate such competition, with the only concern on the capacity front. New launches, in the form of new models or variants of the existing models are driving sales as they have been attractively priced, resulting into higher levels of acceptance by the consumer. If traction continues in the auto space, the concerns on the inventory levels will bring out a spill over effect, wherein, post festive season we would be seeing better demand as compared to last year. Similarly, as commercial vehicle inventory with excise clearance and that pertaining to BS-II would be allowed to be sold post the change in the emission norms , ie post October, we are likely to see a continuity in demand.

Q2FY11 volume sale numbers have been higher than that witnessed in Q1FY11, strengthening our belief that this quarter would be better for the automobile companies. There have been signs of moderation across selective segments and for selective companies, but the underlying trend remains healthy.

We expect the PV, CV, 2&3Wheelers Industry to see a growth of 20%, 25% & 18% resp over FY10, touching new highs, post which we would see moderation in the same.

PV- Passenger Vehicles
CV- Commercial Vehicles



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