

AUTOMOBILES

Q3FY07 earnings preview



We expect the Q3FY07 results for auto sector to vary widely among companies. We expect commercial vehicle manufacturers, Tata Motors and Ashok Leyland to post strong profit growth on back on volume growth and QoQ margin improvement; M&M and Maruti are likely to post moderate performance mostly on back of volume growth and flattish margins. However, two wheeler companies are likely to face significant margin declines due to competitive pressures and would likely post profit declines or single digit growth. We maintain Tata Motors, M&M and Bajaj Auto as our top picks in the automotive sector.

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* **Bajaj Auto**

In the third quarter of FY07, Bajaj Auto had a strong volume growth of 23% YoY, driven by a 49% growth in 3-wheelers and a 27% growth in motorcycles. Exports also showed an excellent growth of 80%. We expect the company to register an EBITDA margin of 14.7%, lower by 320 bps YoY and 30 bps QoQ, due to higher input costs as well as selling expenses offsetting the benefits from operating leverage. We expect net profit to grow by 9% YoY and decline 5% QoQ to INR 3.04 bn. The company's net profits could surprise on the upside on higher than expected other income from treasury operations.

* **Hero Honda**

Hero Honda had a strong third quarter with 19% QoQ and 12% YoY growth in volumes, partly as a result of new model launches and partly due to sales incentives offered during festival season. We expect EBITDA margins to be flat QoQ and decline by 360 bps YoY to 12.7% for Q3FY07. Net profit is estimated to decline by 8% YoY to INR 2.4 bn, though there is likely to be a QoQ growth of 11% due to strong volume growth.

* **TVS Motor**

TVS Motor had a poor third quarter with volumes declining by 13% QoQ and a growth of only 1% YoY. This is largely because of the competitive pressures and the company's refusal to participate in the aggressive sales push strategy through incentives and schemes. We expect EBITDA margins for the quarter to register a decline of 190 bps YoY and 10 bps QoQ to 5.1%. Net profit will likely decline 43% YoY and 29% QoQ to INR 177 mn.

* **Maruti Udyog**

MUL has shown a 19% growth YoY in volumes in Q3FY07, driven largely by the A2 segment. We expect EBITDA margins to improve by 30 bps QoQ to 14.2% but decline 80 bps YoY, on back increasing input costs and new model launches. The company will also likely include the results of its merged subsidiary Maruti Suzuki Automobiles India (MSAIL) from Q3FY07. We expect PAT to increase 16% YoY to INR 3.95 bn.

* Tata Motors

TAMO had a volume growth of 38% YoY in commercial vehicles, and 22% YoY in passenger cars in Q3FY07. The company took a price hike of 2-2.5% on CVs in October 2006. We expect TAMO to report a 70 bps improvement QoQ in EBITDA margins to 12.2%, on back of improved product mix, and the price hike. The company will benefit from a foreign exchange gain of an estimated INR 700 mn on outstanding foreign exchange liabilities. We expect a adjusted profit growth of 43% YoY in Q3FY07 to 4.2 bn compared with INR 2.97 bn (excluding profit on sale of equity in subsidiary).

* Ashok Leyland

ALL showed a volume growth of 54% in Q3FY07 and took a price hike of 2-2.5% in November. The product mix continues to improve in favour of higher tonnage tractor trailer segment. As a result, we expect the company to report EBITDA margins of 9.5% compared with 9.7% in Q3FY06, 8.1% in Q2FY07. PAT is likely to grow by 53% YoY to INR 867 mn. EPS growth is likely to be 38% due to equity dilution on conversion of FCCB.

* Mahindra and Mahindra

M&M registered an overall volume growth of 17% YoY, driven by a 34% growth in three wheelers. Utility vehicle sales grew 13% YoY. We expect the company to report a 10 bps improvement in EBITDA margins YoY and 25% growth in adjusted net profits. Sequentially EBITDA margins are likely to decline 120 bps given increases in input costs and selling costs. Consolidated earnings are likely to see an even higher growth, given higher growth at Tech Mahindra and other key subsidiaries.

Table 1 – Automobile: Earnings estimate Q2FY07

Name of company	Net sales (INR mn)			PAT (INR mn)			EBITDA margin (%)	
	Q3FY07E	Q3FY06	Growth (%)	Q3FY07E	Q3FY06	Growth (%)	Q3FY07E	Q3FY06
Bajaj Auto	25,522	20,009	27.5	3,035	2,790	8.8	14.7	17.9
Hero Honda Motors	26,707	23,148	15.4	2,402	2,618	(8.2)	12.7	16.3
TVS Motor	9,445	8,714	8.4	177	311	(43.0)	5.1	7.0
Ashok Leyland	17,179	12,024	42.9	867	566	53.3	9.5	9.7
Tata Motors	67,751	50,746	33.5	4,245	2,969	43.0	12.2	12.3
Maruti Udyog	37,318	37,318	-	3,947	3,947	-	14.2	14.2
Mahindra & Mahindra	26,828	21,867	22.7	2,069	1,660	24.6	12.2	12.1

Source: Edelweiss research

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Priyanko Panja	- 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg	- 2286 4282
Hitesh Zaveri	- 2286 4424	Information Technology	Swati Khemani	- 2286 4266
Priyank Singhal	- 2286 4302	Media, Retail	Neha Shahra	- 2286 4276
Prakash Kapadia	- 2286 4432	Mid Caps	Priya Ramchandran	- 2286 4389
Niraj Mansingka	- 2286 4304	Oil & Gas, Petrochemicals	Anubhav Kanodia	- 2286 4361
Nimish Mehta	- 2286 4295	Pharmaceuticals, Agrochemicals	Tushar Mahajan	- 2286 4439
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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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