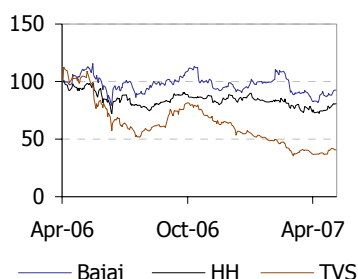


# Auto Monitor

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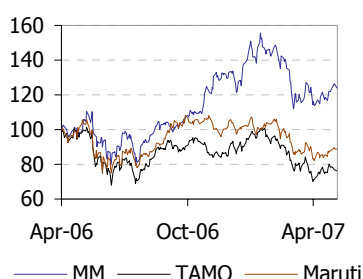
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## Relative Performance



Source: Bloomberg, ENAM Research

## Relative Performance



Source: Bloomberg, ENAM Research

## BUMPY RIDE CONTINUES FOR TWO-WHEELERS

In April 2007, four-wheeler growth continued to remain buoyant, while two-wheeler demand abated YoY:

- **Two-wheelers:** The two-wheeler sector continued to register negative growth in volumes (5% YoY) indicating no signs of revival in the slowdown.
- **Commercial vehicles:** Demand has historically been weak in the month of April. Both TAMO and Ashok Leyland have indicated that dealer inventory remains low implying that demand momentum is expected to continue.
- **Cars:** Rise in auto loans has impacted demand for cars within certain segments. The compact segment continues to grow at a healthy rate while the luxury segment has seen some slowdown.

**Interest rates** on auto loans have increased by another 200bps for cars and two-wheelers over the last two months. Conversations with finance companies indicate that the interest rate on M&HCVs (currently at 14.5%) is likely to reduce by 50bps in the near term.

**Price Increases in M&HCV:** Our dealer check indicates that both TAMO and ALL are expected to increase prices by 2-2.5% and 1% respectively w.e.f. 1<sup>st</sup> May-07

## New Launches:

In the month of April a number of new cars/variants were launched:

Company	Model	Segment	Price*	Competition
M&M	Logan	A3	0.46 to 0.66	Indigo, Accent, Entry level sedans
Chevrolet	Spark	A2	0.31 to 0.39	Santro, Alto, Zen, Indica etc.
Hyundai	Getz-Prime	A2	0.4 to 0.55	Swift, Entry level Sedans
Fiat	Palio-Stile	A2	0.4 to 0.46	Zen, Getz etc.
MUL	SX4	A3	0.62 to 0.75	City, Verna etc.

Source: Industry sources, ENAM Research, Note \* prices in (Rs mn)

**Outlook:** We expect overall performance of companies to remain subdued on account of moderation in demand coupled with margin pressures. Considering valuation parameters, our order of preference on stocks is as follows (most preferred to least): TAMO, M&M, ALL, BAJAJ, MUL, HH, TVS.

## Volume Snapshot

(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	FY08E	FY07
Bajaj Auto	190,052	211,148	(10.0)	3,001,665	211,148
TVS Motor	104,893	124,917	(16.0)	1,657,800	1,520,365
Hero Honda	262,544	250,366	4.9	3,654,000	250,366
<b>Total</b>	<b>557,489</b>	<b>586,431</b>	<b>(4.9)</b>	<b>8,313,465</b>	<b>1,981,879</b>
Ashok Leyland	5,849	5,039	16.1	88,583	83,094
Tata Motors	40,486	36,574	10.7	654,342	579,367
Maruti Udyog	50,352	43,127	16.8	735,823	674,924
Mahindra & Mahindra	21,927	20,231	8.4	303,878	280,824

Source: Company; ENAM Research

## MARUTI UDYOG (MUL)

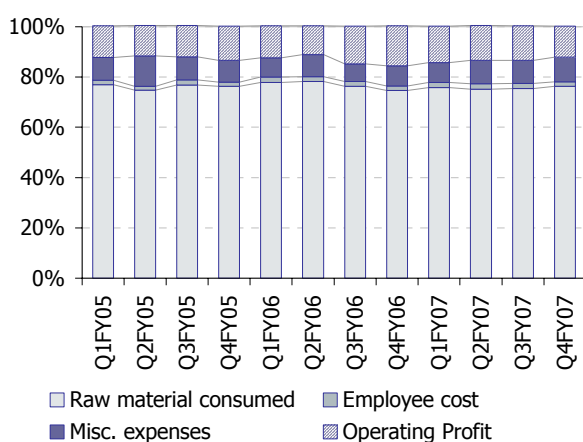
- Growth momentum continued in the compact segment registering YoY growth of 20.3%. However, aggressive competition from new entrants and new launches by existing players is likely to put pressures on volumes in the compact segment.
- The SX4 will be MUL's re-entry into the A3 segment after the Baleno was discontinued. The SX4 has the new generation M-series engine, and will be manufactured from the Manesar facility. The SX4 has been launched with two versions priced between Rs 6.2 - 6.8 lakhs (ex-delhi showroom prices).

### Maruti: Volume break-up

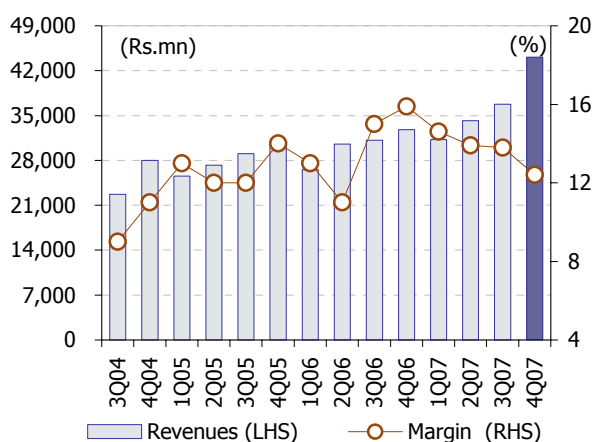
(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	Apr-08E	Apr-07
A1	6,324	5,761	9.8	78,000	79,245
C	6,118	5,050	21.1	90,000	83,091
A2	33,878	28,156	20.3	492,000	440,375
A3	2,124	2,433	(12.7)	31,182	29,697
<b>Total PC</b>	<b>48,444</b>	<b>41,400</b>	<b>17.0</b>	<b>691,182</b>	<b>632,408</b>
MUV	208	174	19.5	3,480	3,221
Domestic	48,652	41,574	17.0	694,662	635,629
Exports	1,700	1,553	9.5	41,161	39,295
<b>Total Sales</b>	<b>50,352</b>	<b>43,127</b>	<b>16.8</b>	<b>735,823</b>	<b>674,924</b>

Source: Company, ENAM Research

### Cost break-up (% of total sales)



### MUL: Revenue & margin trend



Source: Company, Industry, ENAM Research

## MAHINDRA AND MAHINDRA (M&M)

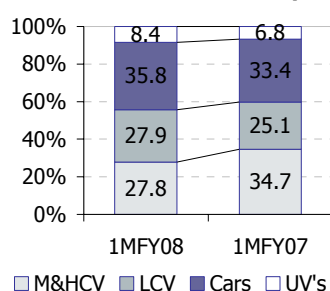
- As highlighted in our previous note, moderation in FES and the auto segment continues for M&M. We are still concerned about increasing NPA's and rising inventory levels of the FES segment.
- The recently launched Logan will start commercial sales in the month of May. We expect that the company needs to sell ~3,000 vehicles per month to achieve cost of capital.

### M&M: Volume break-up

(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	Apr-08E	Apr-07
UV	9,588	8,389	14.3	138,000	127,913
Out of which - Scorpio *	-	3,153	-	-	-
LCV	642	511	25.6	9,960	8,652
<b>Total 4-Wheelers</b>	<b>10,230</b>	<b>8,900</b>	<b>14.9</b>	<b>147,960</b>	<b>136,565</b>
3-Wheelers	2,005	2,021	(0.8)	37,200	33,700
<b>Exports</b>	<b>632</b>	<b>312</b>	<b>102.6</b>	<b>10,831</b>	<b>8,023</b>
<b>Total</b>	<b>12,867</b>	<b>11,233</b>	<b>14.5</b>	<b>195,991</b>	<b>178,288</b>
Tractors (Domestic)	8,275	8,350	(0.9)	99,600	95,002
Tractors (Exports)	785	648	21.1	8,287	7,534
Tractors (Total)	9,060	8,998	0.7	107,887	102,536
<b>Total vehicles</b>	<b>21,927</b>	<b>20,231</b>	<b>8.4</b>	<b>303,878</b>	<b>280,824</b>

Source: Company, ENAM Research, Note: \* M&M has stopped reporting Scorpio sales w.e.f Apr-07.

Product breakup



## TATA MOTORS (TAMO)

- Strong momentum continues in the car segment, which has registered a YoY growth of 22%, mostly due to the continued success of the Indica Xeta.
- The M&HCV segment has registered de-growth of 11.1%. We understand that historically demand remains weak during the month of April.
- Volume momentum continued in the LCV segment, aided by strong demand for Tata Ace. TAMO is expected to launch a passenger variant of Ace in the near term.
- TAMO has launched Spacio Gold Plus, a new upgraded range of its entry-level utility vehicle Tata Spacio.
- Our dealer check indicates that TAMO has increased prices by 2-2.5% across all M&HCV products, effective from 1 May 2007.

### TAMO: Volume break-up

(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	Apr-08E	Apr-07
<b>HCV</b>	<b>11,271</b>	<b>12,676</b>	<b>(11.1)</b>	<b>194,434</b>	<b>185,175</b>
- Domestic	10,392	12,117	(14.2)	-	-
- Exports	879	559	57.2	-	-
<b>LCV</b>	<b>11,304</b>	<b>9,196</b>	<b>22.9</b>	<b>186,573</b>	<b>149,258</b>
- Domestic	9,215	7,557	21.9	-	-
- Exports	2,089	1,639	27.5	-	-
<b>CAR</b>	<b>14,514</b>	<b>12,222</b>	<b>18.8</b>	<b>218,857</b>	<b>195,408</b>
- Domestic	13,502	11,080	21.9	-	-
- Exports	1,012	1,142	(11.4)	-	-
<b>UV</b>	<b>3,397</b>	<b>2,480</b>	<b>37.0</b>	<b>54,479</b>	<b>49,526</b>
- Domestic	3,340	2,248	48.6	-	-
- Exports	57	232	(75.4)	-	-
<b>Total</b>	<b>40,486</b>	<b>36,574</b>	<b>10.7</b>	<b>654,342</b>	<b>579,367</b>

Source: Company, ENAM Research

## ASHOK LEYLAND (ALL)

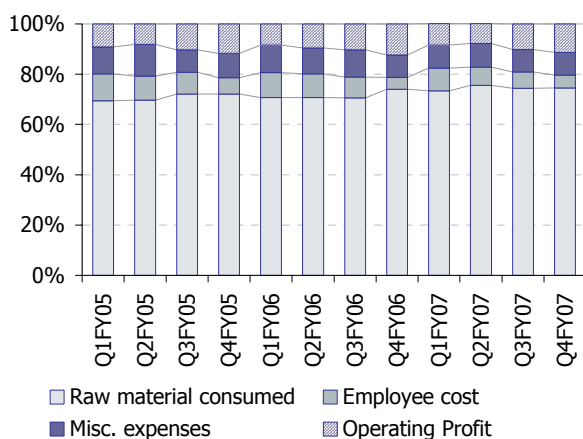
- ALL has clocked sales of 83,094 during FY07, registering a volume growth of 35%. The volume momentum continued in April 2007 as well, with sales clocking 5,849 units with a growth of 16%. Majority of the growth came from the passenger vehicles segment as against from the goods segment.
- ALL expects its volume to touch 100,000 vehicles in FY08, thereby growing by 20% for FY08.
- ALL has also indicated that they will be taking a 1% (Rs 10,000) hike in prices w.e.f. 1 May 2007.

### ALL: Volume break-up

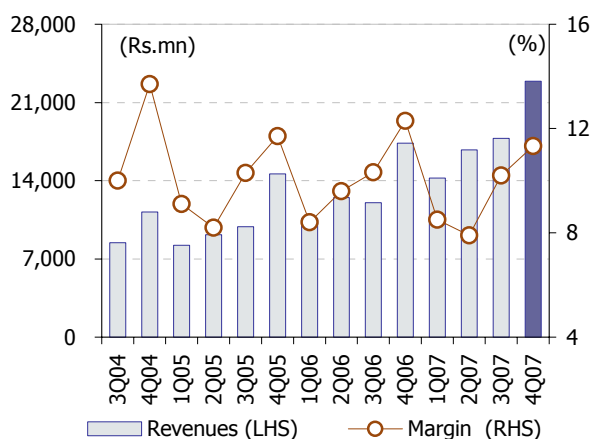
(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	Apr-08E	Apr-07
Domestic	1,097	398	175.6	-	11,717
Exports	235	187	25.7	-	3,778
MDV Passengers	1,332	585	127.7	16,270	15,495
Domestic	4,366	4,335	0.7	-	65,063
Exports	127	102	24.5	-	2,233
MDV Goods	4,493	4,437	1.3	72,007	67,296
<b>Total HCV</b>	<b>5,825</b>	<b>5,022</b>	<b>16.0</b>	<b>88,276</b>	<b>82,791</b>
Domestic	24	17	41.2	-	289
Exports	-	-	-	-	14
<b>Total LCV</b>	<b>24</b>	<b>17</b>	<b>41.2</b>	<b>306</b>	<b>303</b>
<b>Total Vehicles sold</b>	<b>5,849</b>	<b>5,039</b>	<b>16.1</b>	<b>88,583</b>	<b>83,094</b>

Source: Company, ENAM Research

### Cost break-up (% of total sales)



### ALL: Revenue & margin trend



Source: Company, Industry, ENAM Research

## TWO-WHEELER INDUSTRY

### Momentum Continues

(Nos)	Monthly			Y/E	
	Apr-07	Apr-06	YoY (%)	Apr-08E	Apr-07
<b>Bajaj Auto</b>					
- Motorcycles	164,304	188,518	(12.8)	2,604,000	188,518
- Total 2-wheelers	165,692	189,989	(12.8)	2,631,600	189,989
- Three-wheelers	24,360	21,159	15.1	370,065	21,159
<b>Total Sales</b>	<b>190,052</b>	<b>211,148</b>	<b>(10.0)</b>	<b>3,001,665</b>	<b>211,148</b>
<b>TVS Motors</b>					
- Scooters	18,798	17,969	4.6	282,000	258,967
- Motorcycles	53,499	80,862	(33.8)	1,009,800	925,092
- Mopeds	32,596	26,086	25.0	366,000	336,306
<b>Total Sales</b>	<b>104,893</b>	<b>124,917</b>	<b>(16.0)</b>	<b>1,657,800</b>	<b>1,520,365</b>
<b>Hero Honda</b>					
- Motorcycles	262,544	250,366	4.9	3,654,000	250,366
<b>Total Sales</b>	<b>262,544</b>	<b>250,366</b>	<b>4.9</b>	<b>3,654,000</b>	<b>250,366</b>

Source: Company, ENAM Research

### Highlights

- Bajaj Auto has registered negative growth in motorcycles on a YoY basis for the third consecutive month (Feb 07 – down 2%, March 07 – down 10% and April 07 – down 13% YoY). As a result Bajaj Auto lost market share to Hero Honda.
- Bajaj Auto has also indicated that primary sales to dealers have been lower on a YoY basis *in order to reduce the inventory at dealerships*. The company expects inventory correction to be completed by May 2007.
- Hero Honda has managed to register better than the industry growth rates, owing to the success of their newly launched CD deluxe, in the price segment.

**Auto valuation sheet: RECOMMENDATIONS ARE RELATIVE TO SECTOR**

Co. Name	Period	Net sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	FDEPS (Rs.)	Core EPS (Rs.)	Cash per Share (Rs.)	Value of Invst (Rs.)	RoCE (%)	RoE (%)	Core P/E (x)
<b>Tata Motors</b> (Conso.)	FY06	231,523	28,519	17,306	43	43	-	-	31	32	21.7
(CMP: 728)	FY07E	326,349	38,992	22,881	56	56	-	-	32	32	13.0
(MCap: Rs.263bn)	FY08E	375,872	44,911	25,212	62	62	-	-	31	29	11.8
(RECO: OP)	FY09E	435,482	52,040	28,166	69	69	-	-	30	28	10.5
<b>Tata Motors</b> (Stand.)	FY06	206,022	24,967	15,140	38	38	-	119	30	31	21.7
(CMP: 728)	FY07E	277,302	33,793	20,283	50	50	-	146	33	31	11.7
(MCap: Rs.263bn)	FY08E	317,731	38,399	21,891	54	54	-	146	31	27	10.8
(RECO: OP)	FY09E	366,449	44,478	24,758	61	61	-	146	31	26	9.6
<b>Maruti Udyog</b>	FY06	120,034	16,266	11,890	41	35	120	-	35	24	21.4
(CMP: 805)	FY07	145,922	19,903	15,745	54	44	100	-	37	26	16.4
(MCap: Rs.233bn)	FY08E	162,912	21,510	16,142	56	47	100	-	31	21	15.1
(RECO: N)	FY09E	183,576	24,179	17,705	61	52	100	-	28	19	13.5
<b>M&amp;M (Stand.)</b>	FY06	79,888	9,896	6,479	28	23	-	170	27	28	19.9
(CMP: 776)	FY07	100,278	13,068	8,602	35	28	-	409	32	30	13.2
(MCap: Rs.180bn)	FY08E	117,204	15,205	10,372	43	35	-	409	32	29	10.4
(RECO: N)	FY09E	125,253	15,886	10,754	44	37	-	409	29	26	10.0
<b>Ashok Leyland</b>	FY06	52,477	5,401	3,056	2.3	2	-	-	15	24	17.5
(CMP: 39)	FY07	71,682	6,941	4,458	3.4	3	-	-	20	28	11.5
(MCap: Rs.52bn)	FY08E	80,921	8,102	4,519	3.4	3	-	-	17	24	11.4
(RECO: N)	FY09E	88,453	8,573	4,666	3.5	4	-	-	16	21	11.1
<b>Bajaj Auto</b>	FY06	74,694	12,622	11,243	111	64	587	533	28	25	25.5
(CMP: 2567)	FY07E	94,369	14,192	12,357	122	73	711	704	26	23	13.8
(MCap: Rs.260bn)	FY08E	107,010	15,778	13,646	135	82	711	704	26	22	14.1
(RECO: N)	FY09E	124,850	18,328	15,508	153	96	711	704	26	22	12.0
<b>Hero Honda</b>	FY06	87,140	13,645	9,678	48	42	111	-	72	55	18.7
(CMP: 704)	FY07E	97,596	11,638	8,519	43	34	111	-	52	39	16.9
(MCap: Rs.141bn)	FY08E	108,857	11,920	8,710	44	34	111	-	48	36	17.6
(RECO: UP)	FY09E	119,839	13,302	9,595	48	37	111	-	47	35	16.0
<b>TVS Motors</b>	FY06	32,350	2,045	1,170	4.9	4.9	-	-	20	18	28.4
(CMP: 62)	FY07E	38,161	1,565	671	2.8	2.8	-	-	11	10	21.1
(MCap: Rs.15bn)	FY08E	43,066	1,938	832	3.5	3.5	-	-	14	12	17.8
(RECO: UP)	FY09E	47,235	2,173	968	4.1	4.1	-	-	15	14	15.2

Source: ENAM Research, OP: Outperformer; N: Neutral; UP: Underperformer

Note: Core PAT and EPS pertains to auto biz. and is adjusted for non operating income. P/E reflects multiple for core business.

Note: Prices are as on May 7, 2007

**Sum of the Parts (SOTP) Valuation for respective companies**

Segment	Target Price (Rs.)	SOTP
TAMO	900	Core biz valued at 14x FY08 EPS of 53.8 + Rs 146/ share for value of subsidiaries & investments. We have calculated the value of TCS's holding at Rs 72/ share and taken a 50% discount
M&M	865	Auto and Tractor biz. valued at 13x FY08E Core EPS of Rs 35.1 + Value of subsidiaries at Rs 409/ share, which is based on the proportionate share of mkt-cap of the entities
MUL	802	Valued at 15x FY08 Core EPS of Rs 46.8+ Cash/ Equivalents of Rs 100/ share
TVS Motor	42	Valued at 12x FY08 EPS of Rs 3.5
Bajaj Auto	2,642	15x FY08 Core EPS of Rs 81.8 + Cash/ Equivalents of Rs 711 (at 15% discount) + Insurance biz at Rs 704/ share
HH	583	Core biz. valued at 14x Core EPS of Rs 33.7+ Cash/ Equivalents of Rs 111/ share

Source: ENAM Research



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<b>Disclosure of interest statement (As of May 7, 2007)</b>	<b>Ashok Leyland</b>	<b>Bajaj Auto</b>	<b>Hero Honda</b>	<b>TVS Motors</b>	<b>Tata Motors</b>	<b>M &amp; M</b>	<b>Maruti Udyog</b>
1. Analyst ownership of the stock	No	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	No	No	No
3. Directors ownership of the stock	No	No	No	No	No	No	Yes
4. Investment Banking mandate	No	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	No	No	No

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