



## Auto Sector Update

### May 2008

#### Showing strength....

The Four-wheeler and Two-wheeler segments have been displaying some change in trend since the last couple of months. Overall, the robust growth in May 2008 came on the back of the low volume base in May 2007. Also, we believe that in anticipation of an increase in auto prices, the inventory at dealers' desk has been on the rise, with Passenger Vehicles clocking higher volumes in May 2008.

Maruti Suzuki, clocked high 16.2% yoy spurt in volumes in May 2008. Tata Motors registered an 8.9% yoy rise in volumes for May 2008, with the M&HCV division reporting a 9.5% yoy surge in volumes as the positive lag effect of increasing freight rates was visible.

Two-wheelers major, Bajaj Auto, posted positive growth of 6.9% yoy in two-wheeler sales volumes while the leader, Hero Honda, reported a 9.5% yoy growth for May 2008. TVS Motor continued its sluggish trend with a yoy growth of 4.3% in May 2008. However, despite the decent monthly sales volumes numbers, the volume growth numbers of the sector would have to be tracked closely over the next couple of quarters in the face of challenges like high inflation, high raw material prices and interest rate uncertainties.

**Tata Motors (TML):** TML reported total sales of 46,339 vehicles (42,558) including exports for May 2008, an increase of 8.9% yoy. The company's Commercial Vehicle sales in May 2008 stood at 26,606 units (23,621), a yoy increase of 12.6%. While its M&HCV sales at 12,519 units, a yoy increase of 9.5%, LCV sales stood at 14,087 units, a yoy growth of 15.6%. TMLs' Passenger Vehicle business reported total sales of 19,733 vehicles (18,937) in May 2008, a yoy increase of 4.2%. The *Indica* reported sales of 9,686 units, a decline of 19% yoy. Notably, the *Indica LPG* was launched during the month, and has received a good response. The *Indigo* family recorded sales of 4,542 units, a strong 105% yoy growth on the back of good demand seen for the recently launched *Indigo CS*. The *Sumo* and *Safari* accounted for sales of 5,006 units, a growth of 49% yoy. The *Sumo* recorded a 70% yoy growth with sales of 3,226 units, as the *Sumo Grande* established itself in the market, whereas *Safari* sales at 1,780 units grew by 21% yoy.

Tata Motors has also recently announced a hike in prices of its products in the range of 1-3% in a bid to offset high Raw Material costs. Further, the company has completed the formal acquisition of Jaguar and Land Rover from Ford Motor Company for a net consideration of US\$ 2.3bn.

#### Exhibit 1: Tata Motors

Segment	May		%chg	YTD		%chg
	2008	2007		FY2009	FY2008	
<b>Tata Motors</b>	<b>46,339</b>	<b>42,558</b>	<b>8.9</b>	<b>84,488</b>	<b>83,044</b>	<b>1.7</b>
M&HCV	12,519	11,434	9.5	24,558	22,705	8.2
LCV	14,087	12,187	15.6	24,960	23,491	6.3
<b>Total Commercial Vehicles</b>	<b>26,606</b>	<b>23,621</b>	<b>12.6</b>	<b>49,518</b>	<b>46,196</b>	<b>7.2</b>
Utility Vehicles	5,071	3,447	47.1	8,744	6,844	27.8
Cars	14,662	15,490	(5.3)	26,226	30,004	(12.6)
<b>Total Passenger Vehicles</b>	<b>19,733</b>	<b>18,937</b>	<b>4.2</b>	<b>34,970</b>	<b>36,848</b>	<b>(5.1)</b>
<b>Exports (Inc Above )</b>	<b>3,423</b>	<b>4,303</b>	<b>(20.5)</b>	<b>5,728</b>	<b>8,340</b>	<b>(31.3)</b>

Source: Company; Angel Research

**Maruti Suzuki:** Maruti Suzuki delivered a 16.2% yoy increase in total volumes to 69,001 vehicles in May 2008. Exports rose 40.9% to 4,858 vehicles. On the domestic front, Maruti reported a 14.6% yoy growth to 64,143 vehicles on the back of 14.5% spurt in volumes in the A2 segment while in the A3 segment the company registered a good growth of 18.7%. This was on account of sustained demand for *SX4* and the new launch, *Dezire*, in the segment in May 2008. Its closest competitor in the domestic market, Hyundai Motor, also reported a strong 47.3% yoy growth on the back of its new launch, the *i10*, in the dominant A2 segment in May 2008.

Maruti also showed a recovery in the A1, where sales of its older model *Maruti 800* increased 25.2% yoy, which has been witnessing continued drop in sales over the last one year. However, rising input costs is expected to exert pressure on the company's margins and it has partially passed on the same to customers by way of a price hike in May 2008.

#### Exhibit 2: Maruti Suzuki

Segment/Model	May		%chg	YTD		%chg
	2008	2007		FY2009	FY2008	
<b>Maruti Suzuki</b>	<b>69,001</b>	<b>59,400</b>	<b>16.2</b>	<b>131,337</b>	<b>109,752</b>	<b>19.7</b>
A1 M800	6,830	5,456	25.2	11,288	11,780	(4.2)
C Omni, Versa	6,092	6,496	(6.2)	13,797	12,614	9.4
A2 Alto, Wagon R, Zen, Swift	44,539	38,889	14.5	87,660	72,767	20.5
A3 SX4, Esteem, Dezire	5,946	5,009	18.7	10,133	7,133	42.1
<b>Total Passenger Cars</b>	<b>63,407</b>	<b>55,850</b>	<b>13.5</b>	<b>122,878</b>	<b>104,294</b>	<b>17.8</b>
MUV Gypsy, Vitara	736	102	621.6	804	310	159.4
<b>Domestic</b>	<b>64,143</b>	<b>55,952</b>	<b>14.6</b>	<b>123,682</b>	<b>104,604</b>	<b>18.2</b>
<b>Exports</b>	<b>4,858</b>	<b>3,448</b>	<b>40.9</b>	<b>7,655</b>	<b>5,148</b>	<b>48.7</b>

Source: Company; Angel Research



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**Mahindra & Mahindra (M&M):** The company reported an overall yoy growth in volume sales of 15.8% to 30,123 units for May 2008 aided by an 18.8% growth in Utility Vehicle (UV) sales. M&M recorded a good 69.2% yoy growth in Exports whereas LCVs registered an almost flat yoy growth of 0.3% in volumes for the month. Logan sales have declined by 40% yoy to 1,531 units (2,551) in May 2008. M&M's three-wheeler sales posted a 46.2% yoy growth to 3,708 units. The Tractor segment reported an increase in volume sales of 4.8% yoy to 8,628 tractors led by domestic tractor sales that reported a yoy growth of 18.7% in May 2008. However, Exports sales showed a decline of 16.3% yoy. The Tractor industry has witnessed some slowdown over the last few months on account of the high interest rates and lack of availability of easy finance.

#### Exhibit 3: Mahindra & Mahindra

Segment/Model	May			YTD		
	2008	2007	%chg	FY2009	FY2008	%chg
<b>Mahindra &amp; Mahindra</b>	<b>30,123</b>	<b>26,023</b>	<b>15.8</b>	<b>58,781</b>	<b>47,950</b>	<b>22.6</b>
Utility Vehicles	13,048	10,986	18.8	26,608	20,574	29.3
Exports	1,357	802	69.2	1,995	1,434	39.1
LCV	1,009	1006	0.3	1,785	1,648	8.3
Logan	1,531	2551	(40.0)	3,244	2,551	27.2
Three wheelers	3,708	2,536	46.2	7,051	4,541	55.3
<b>Total Automotive Sales</b>	<b>20,653</b>	<b>17,881</b>	<b>15.5</b>	<b>40,683</b>	<b>30,748</b>	<b>32.3</b>
Domestic Tractor Sales	8,825	7,432	18.7	16,950	15,707	7.9
Exports Tractor Sales	645	710	(9.2)	1,148	1,495	(23.2)
<b>Total Tractor Sales</b>	<b>9,470</b>	<b>8,142</b>	<b>16.3</b>	<b>18,098</b>	<b>17,202</b>	<b>5.2</b>

Source: Company; Angel Research

**Bajaj Auto (BAL):** The company continued with positive performance in the second consecutive month of the current fiscal, reporting a 4.2% yoy growth in May 2008 to 201,511. Total Sales improved on the back of a 7.6% yoy increase in Motorcycle volumes to 179,649 and despite the 14.7% decline in Three-wheeler volumes to 20,576. The growth in Motorcycle volumes was led mainly by higher bike sales in the +125cc category - sales of *Pulsar*, *Avenger*, *XCD* and *Discover* grew 23% yoy. Scooter sales stood at 1,286 units (2,319). In all, the low base of last year has been supporting the positive yoy volume growth for BAL.

**Hero Honda (HHML):** For May 2008, HHML sold a total of 312,317 Two-wheelers, clocking a yoy growth of 9.5%. HHML's numbers were good in the backdrop of the slowdown in the Two-wheelers industry, which is facing

challenging times due to the prevailing high interest rate situation. HHML managed this performance on the back of its recent new product launches such as the refurbished *Pleasure*, *Splendor NXG* and new *Passion Plus*, which have been accepted well by the market. The recently launched *Hunk* has also met with encouraging response and will help HHML consolidate and garner marketshare in the Premium segment.

**TVS Motor (TVS):** The company continued its under-performance. TVS clocked a 4.3% yoy increase in volumes sales in May 2008 to 112,770 units due to the 10.2% yoy growth in Motorcycle sales to 54,717. TVS has been the worst hit by the slowdown in the Two-wheeler industry compared to Hero Honda and Bajaj Auto. The company resumed sales of the *Flame* with a new engine from February 2008 owing to which it reported better yoy growth in Motorcycle sales. TVS also plans to launch a number of new models in the coming months to pep up demand for its Motorcycles. On the Export front, TVS managed 10,213 units (7,231), up 41.5% yoy.

The company is planning to strengthen its Premium segment with the launch of the Fuel Injection variant of the *Apache RTR*. It will be the first time that the company is offering fuel injection technology in the 160cc category.

**Our Top Picks in the sector are Maruti Suzuki and M&M.**

#### Exhibit 4: Bajaj Auto, Hero Honda and TVS Motor

Company/ Segment	May			YTD		
	2008	2007	%chg	FY2009	FY2008	%chg
<b>Bajaj Auto</b>	<b>201,511</b>	<b>193,437</b>	<b>4.2</b>	<b>433,335</b>	<b>656,815</b>	<b>(34.0)</b>
Motorcycles	179,649	167,008	7.6	382,730	331,312	15.5
Scooters	1,286	2,319	(44.5)	2,135	3,707	(42.4)
<b>Total 2 Wheelers</b>	<b>180,935</b>	<b>169,327</b>	<b>6.9</b>	<b>384,865</b>	<b>335,019</b>	<b>14.9</b>
Three Wheelers	20,576	24,110	(14.7)	48,470	321,796	(84.9)
Export (Incl Above)	60,215	49,203	22.4	133,839	101,129	32.3
<b>Hero Honda</b>	<b>312,317</b>	<b>285,109</b>	<b>9.5</b>	<b>598,569</b>	<b>547,653</b>	<b>9.30</b>
<b>TVS Motors</b>	<b>112,770</b>	<b>108,151</b>	<b>4.3</b>	<b>222,707</b>	<b>213,044</b>	<b>4.5</b>
Motorcycles	54,717	49,651	10.2	112,919	103,150	9.5
Scooters and Mopeds	58,053	58,500	(0.8)	109,788	109,894	(0.1)

Source: Company; Angel Research

**Analyst - Vaishali Jajoo**