

## Industry

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# India Autos

 Equity 

## June Sales: Mixed Trends

- **Two-wheelers: Sales at 583,139 grow 21%YoY** — Two-wheelers reported encouraging YoY growth, buoyed by the North Indian wedding season that continued in June. While HH June sales grew ~17%YoY, YTD sales volume grew by ~10%. TVS Motors had strong two-wheeler sales growth of 36% YoY and 31% YTD (44% YoY for motorcycles). We await Bajaj's sales numbers to gain more color on the industry trend.
- **Maruti Suzuki registers 17% YoY growth...** — ...driven by domestic growth of c18% YoY. There was a six-day plant shutdown for maintenance purposes; consequently overall sales were down 14%MoM. The C segment (driven by the Eco) and A3 segment (driven by Swift D'Zire) were the main contributors to overall domestic growth. The A2 segment grew by a moderate 11% YoY. Exports were a positive surprise, (15% YoY and 26% MoM growth) especially against the backdrop of decelerating growth in European markets. With mgmt hinting at reducing EU's share in exports, we remain optimistic on MSIL's export outlook.
- **M&M's sales impacted by component shortage + plant closure** — Mahindra and Mahindra reported a moderate 7% YoY growth (down 4% MoM). Production was hampered due to component shortage (engine parts, tyres, dies and casting) and was exacerbated by a five-day maintenance shutdown. UVs and tractors declined 4% and 9% YoY, respectively. The 3-W+Gio segment continued its robust growth of ~125% and aided in boosting overall sales growth figures. Exports growth of c154% reflects a low base.
- **Tata Motors: Strong June sales of 67,730** — Tata Motors showed a strong overall growth rate of ~49% YoY (+19% MoM) with domestic sales up 45% YoY (+19% MoM). MHCV sales at 15,139 rose strongly by 52%, while LCV sales of 19,652 were up 21% YoY. Sequential growth figures also showed positive trends. In Passenger Vehicles, Indica sales (9,003) were hit by strong competition in the A2 segment and declined 12% YoY while the Indigo range (7,502) continued on its growth path with 113% YoY (14% MoM) growth. The Nano registered robust sales of 7,704 (+117% MoM) as production commenced at the new Sanand plant.
- **New model launches** — Mahindra & Mahindra launched a new 25tonne MHCV Truck from its new JV. Priced at ~Rs1.5mn, the truck has a 7.2 litre-210HP engine. Though customer feedback is not yet available, we believe that M&M will be able to leverage its extensive UV sales and service network for its MHCV venture as well.

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## Two-Wheelers Sales Growth at 32% Reflects Marriage Season Build-Up + Low Base Effect

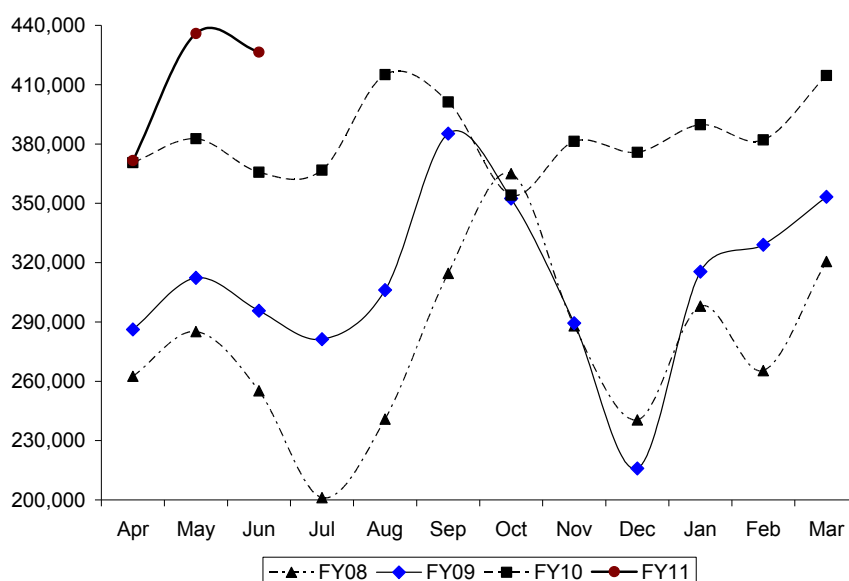
Figure 1. Two-Wheeler Sales – June 2009

	June Sales (Nos)	YoY Chg (%)	MoM chg (%)	YTD Sales (Nos)	YoY chg (%)
<b>Hero Honda</b>	426,454	16.6	-2.2	1,234,039	10.3
<b>TVS Motors</b>					
Motorcycles	66,452	44.3	(2.1)	200,358	31.1
2 wheelers	156,685	35.7	1.3	456,041	31.4
<b>Total</b>	<b>583,139</b>	<b>21.2</b>	<b>(1.3)</b>	<b>1,690,080</b>	<b>15.3</b>

Source: Company, Citi Investment Research and Analysis

**Hero Honda** – HH reported healthy growth figures of c17% YoY though there was slight sequential slippage. The figures were aided by the marriage season that continued in June. We expect a marginal dip in sales before a pickup again during the festive season in Oct-Nov.

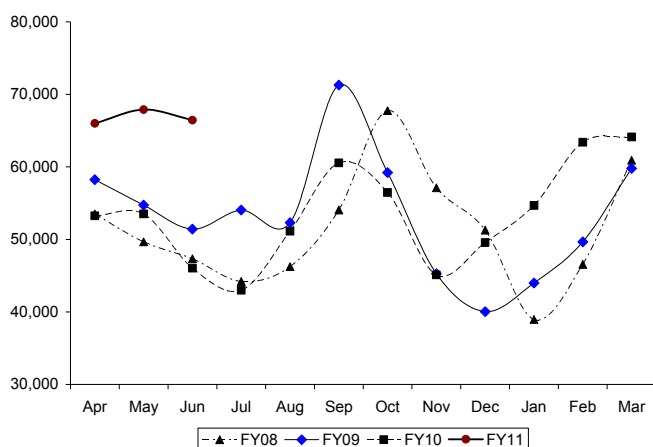
Figure 2. Hero Honda: Two-Wheeler Sales Trends



Source: Citi Investment Research and Analysis, Company

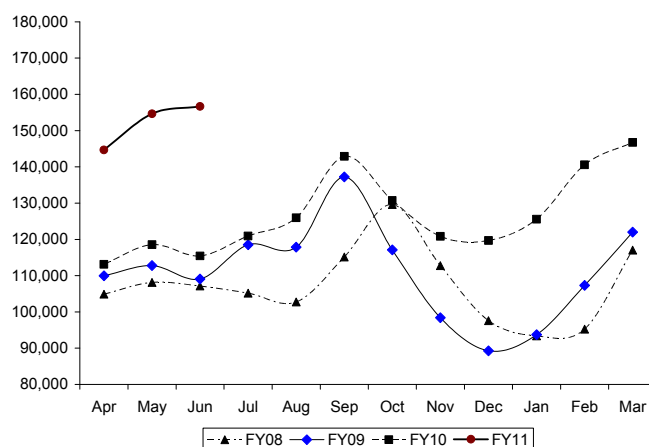
**TVS Motors** – TVS Motors continued its growth trend with a 36% YoY growth (+1% MoM) for its two-wheelers. Though motorcycle sales declined slightly on a MoM basis, YoY figures were healthy at +44%. The company also reported healthy growth for its scooter + mopeds (+30% YoY and +4% MoM). We believe the growth in scooter sales (+42% YoY) was partly a result of a low base and partly driven by a new model launch (Wego).

Figure 3. TVS Motors: Motorcycles Sales Trends



Source: Citi Investment Research and Analysis, Company

Figure 4. TVS Motors: Two-Wheelers Sales Trends



Source: Citi Investment Research and Analysis, Company

## Maruti Suzuki – Domestic Sales Decline Sequentially

Figure 5. Maruti: June 2010 Sales

	June-10 Nos	% chg YoY	% chg over May	FY11 YTD (Nos)	% chg YoY
A1 (M800)	2,090	(14.3)	(18.3)	6,906	(3.0)
C (Omni, Eeco)	9,914	43.9	(23.5)	33,521	50.8
A2 (Alto, Wagon-R, Estilo, Swift, Ritz, A-Star)	51,418	11.4	(18.0)	170,513	16.2
A3 (Dezire, SX4)	8,081	32.5	(25.7)	28,958	45.2
MUV (Gypsy, Vitara)	1,309	588.9	35.2	2,989	116.1
<b>Total Domestic</b>	<b>72,812</b>	<b>17.9</b>	<b>(19.1)</b>	<b>242,887</b>	<b>23.0</b>
Exports	15,279	14.6	25.9	40,437	37.9
<b>Overall</b>	<b>88,091</b>	<b>17.3</b>	<b>(13.8)</b>	<b>283,324</b>	<b>25.0</b>

Source: Company, Citi Investment Research and Analysis

After a strong May, the June 2010 sales volume was disappointing. While on a YoY basis, domestic sales increased c18% (+27% in May), the MoM figures were disappointing with a decline of 19%. The mgmt noted that the plant was closed for six days in June for a maintenance shutdown.

Within the high volume A2 segment, MSIL mgmt noted that the Alto and new Wagon-R had seen positive customer response. In our discussion with dealers, Swift, Wagon-R and Alto have waiting periods ranging from 2-3 weeks to 5-6 weeks.

Eeco has been leading the C segment, which saw a YoY increase of c44%. This indicates a negative trend in mix-shift due to the aggressive pricing of the Eeco. However, the initial discount that MSIL offered on Eeco has been withdrawn, and we expect the negative impact on margins to reduce.

Exports surprised positively with a YoY increase of c15% and a MoM increase of c26%. Mgmt has hinted at reduction in EU sales contribution to the total export figures, thereby reducing the impact of the EU slowdown. We believe that the company will be able to meet its guidance of 150,000 export units in FY11.

In the highly competitive A2 segment, pricing has improved. MSIL's main competitors in the segment, Ford Figo, GM Beat and VW Polo have also withdrawn any discount/promotion and are facing supply constraints. We believe that the competition in the segment will increase with new product launches from Nissan and Toyota.

## M&M: Volumes Suffer as Component Shortage Persists

Figure 6. M&M – June 2010 Sales

	June-10 Nos	% change yoy	% change over May	FY11 YTD Nos	% chg yoy
UVs	17,010	(3.6)	(10.2)	53,948	10.7
LCVs	1,111	9.5	10.3	2,978	19.4
3-wheelers+ Gio	7,559	125.2	13.8	20,076	122.3
Exports (Auto sector)	1,201	153.9	12.5	3,125	172.9
Logan	681	35.9	(18.1)	1,966	33.0
<b>Auto division</b>	<b>27,562</b>	<b>19.8</b>	<b>(3.3)</b>	<b>82,093</b>	<b>30.6</b>
Tractors (Dom + Exp)	16,590	(9.1)	(3.9)	50,148	15.6
<b>Total</b>	<b>44,152</b>	<b>7.1</b>	<b>(3.5)</b>	<b>132,241</b>	<b>24.5</b>

Source: Company, Citi Investment Research and Analysis

M&M's June 2010 sales suffered on two accounts. There was a plant shutdown for five days for maintenance purpose (it happened in May last year), which reduced overall production. Secondly, the component shortage that began in April continues to hinder production. The company is facing a supply shortage in Fuel Injection Pumps, tyres, Dies and castings. The mgmt feels that this shortage might continue in the next quarter as well.

UVs declined ~4% YoY (down 10% MoM) due to the above reasons. However, we remain optimistic on M&M given its overall leadership in the segment. The 3w+Gio segment continued its growth trend – a result of a low base as well as encouraging demand for Gio. Tractors dropped ~9% YoY mainly due to tyre and casting shortage. A good monsoon should be a positive trigger for the company. Pricing remains stable for the company.

## Tata Motors: Strong Sales in Commercial + Passenger Vehicles

Figure 7. Tata Motors: June 2010 Sales

	June Sales (Nos)	YoY Chg (%)	MoM chg (%)	YTD Sales (Nos)	YoY chg (%)
Total sales	67,730	49%	19%	181,708	48%
Domestic MHCV	15,139	52%	9%	42,156	58%
Domestic LCV	19,652	21%	12%	55,073	21%
<b>Domestic CVs</b>	<b>34,791</b>	<b>33%</b>	<b>11%</b>	<b>97,229</b>	<b>35%</b>
Indigo	7,502	113%	14%	21,303	139%
Indica	9,003	-12%	6%	26,507	-8%
Nano	7,704		117%	14,779	
UVs	3,602	9%	33%	9,647	20%
<b>Domestic PV</b>	<b>27,811</b>	<b>63%</b>	<b>30%</b>	<b>72,236</b>	<b>58%</b>

Source: Company, Citi Investment Research and Analysis

Tata Motors showed strong sales numbers for its passenger and commercial vehicles segments. Domestic MHCVs rose 52% YoY while LCVs rose 21% YoY.

In Passenger Vehicles, Indigo reported strong sales growth of 113% indicating positive response to the New Manza. Nano sales grew 117% MoM as the new Sanand plant started commercial production in June 2010. However, the Indica range is facing stiff competition in the A2 segment and sales declined 12% YoY. We await further granularity in export sales figures of 5,128 vehicles (+138% YoY).

## Appendix A-1

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