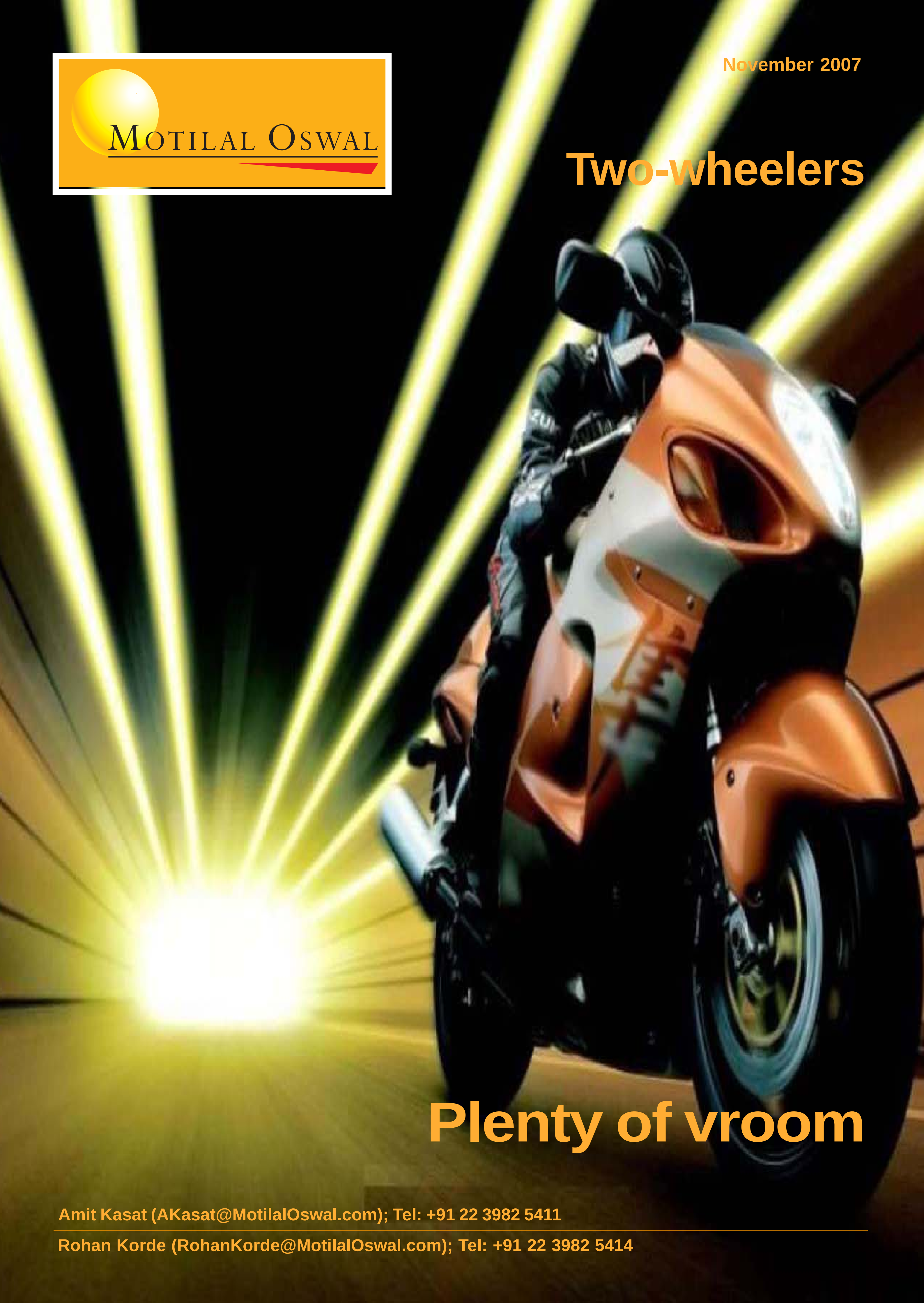
Motilal Oswal

November 2007

Two-wheelers



Plenty of vroom

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Two-wheelers

BSE Sensex: 19,785 S&P CNX: 5,912

15 November 2007

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TVS Motor (Neutral; Rs60)	48
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We expect the two-wheeler industry to witness a turnaround in fortunes in 2HFY08, driven by better operating performance and an improvement in the demand scenario. While the inherent structural factors driving domestic two-wheeler demand are in place, we believe that the recent short-term concerns arising out of higher interest rates are now fading. Coupled with stable raw-material costs and new plants in tax-exempt regions becoming operational, we expect this phase of volume growth to lead to healthy increase in profitability for the industry leaders – Hero Honda and Bajaj Auto.

Domestic demand drivers still in place: A buoyant economy, and rising income levels coupled with rising aspirations have increased the size of the target audience for two-wheelers. Poor public transportation necessitates the ownership of personal vehicles, and two-wheelers are both affordable and practical. Besides, a large base of aging two-wheelers and increasing desire to replace scooters/mopeds with motorcycles (or to replace old motorcycles with new versions) is driving replacement demand.

Huge export potential: Exports represent a big growth opportunity for the large two-wheeler manufacturers. Being truly global-sized players, with products comparable with their Japanese counterparts both in terms of price and quality, the top three players are well positioned to capitalize on the opportunity. For Bajaj Auto, exports already constitute 22% of its two-wheeler volumes and TVS Motor exports 9.5% of its volumes.

Operating performance on an upswing: Apart from strong volume growth, we believe that the two-wheeler companies would be able to sustain better EBITDA margins, which would be driven by lower raw-material costs, and improvements in product mix. We expect earnings growth to remain strong in 2HFY08 and FY09. The stocks have significantly underperformed the benchmark indices and are trading at very attractive valuations. We are changing our sector stance from Neutral to Positive. **Buy** Bajaj Auto and Hero Honda.

COMPARATIVE VALUATION

COMPANY	RECO	PRICE	TARGET	MKT CAP	EPS (RS)		P/E (X)		EV/EBITDA (X)		ROE (%)	
		(RS)	(RS)	(RS B)	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Bajaj Auto	Buy	2,342	3,039	237	138.8	158.9	16.9	14.7	11.6	9.4	21.6	21.0
Hero Honda	Buy	682	819	136	43.9	51.4	15.6	13.3	9.5	7.8	32.4	31.7
TVS Motor	Neutral	60	57	14	1.9	2.8	31.3	21.2	14.0	10.1	5.4	7.6

Source: Motilal Oswal Securities

Expect volumes to bounce back

After six years of continuous growth, two-wheeler volumes declined 6% YoY during April-October 2007. Among the factors that had contributed to the slowdown were:

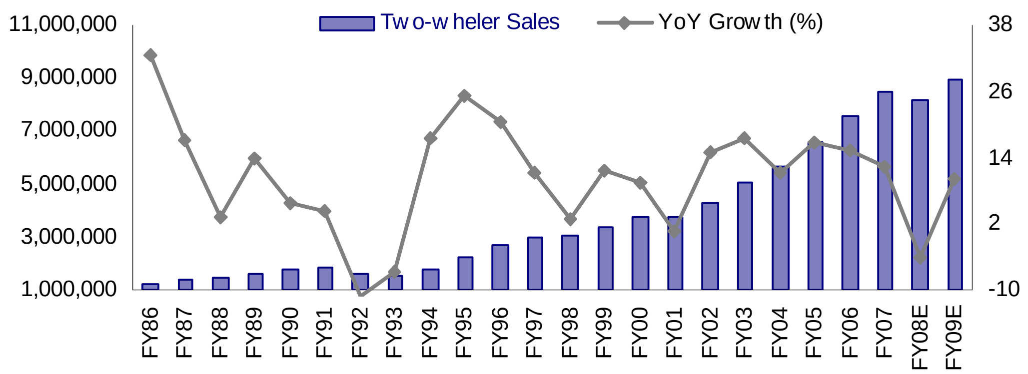
- Stringent financing norms and higher interest rates had made it more difficult/expensive for prospective buyers to obtain loans, leading to shrinkage in effective demand for two-wheelers.
- Most two-wheeler companies, which were busy boosting production, were caught unaware by the sudden demand shrinkage and had to resort to inventory correction.

The 2-w sector will witness robust volumes in 2HFY08

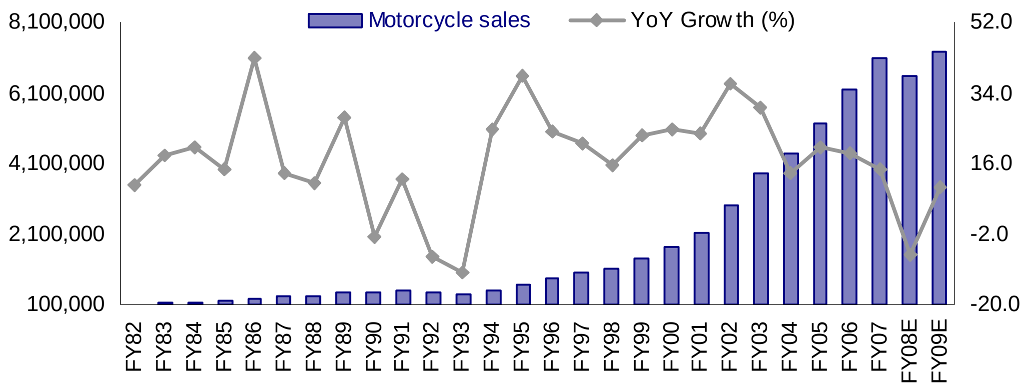
We expect the two-wheeler industry to begin witnessing robust volumes once again in 2HFY08. We believe that the longer-term growth drivers are in place and the relatively low base of FY08 would aid double-digit growth in FY09 and FY10.

Moreover, the historical trend indicates that two-wheeler sales have bounced back strongly after a year of slowdown – the previous instance of flat two-wheeler sales for the industry was in FY01, which was followed by sustained double-digit growth over the next six years (14.6% CAGR in volumes over FY01-07).

TWO-WHEELER VOLUME (UNITS): STRONG LONG-TERM GROWTH



MOTORCYCLE VOLUME (UNITS): KEY DRIVER OF TWO-WHEELERS GROWTH



Source: SIAM/Motilal Oswal Securities

WHAT WILL DRIVE TWO-WHEELER VOLUME GROWTH?

A. Easing of financing problems – stable interest rate scenario, with a strong possibility of rate decline
B. Credit expansion v/s credit squeeze – credit expansion being effected in 1HFY09, as compared to the credit squeeze seen in 1HFY08
C. Strong GDP growth being sustained – this would lead to increase in rural and urban incomes, favorably impacting demand
D. Structural drivers such as increasing size of target audience and poor public transportation system are still intact
E. Sustained new model launches, whetting consumer demand further

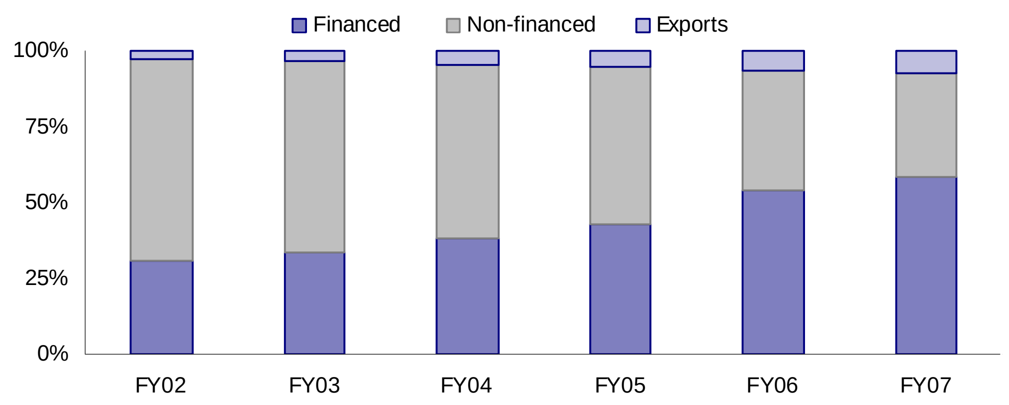
A. Easing of financing problems

Financing has been an important growth driver…

Financing has played an important role in driving volumes

Financing plays a key part in boosting two-wheeler sales in general, and motorcycle sales in particular. The quantum of two-wheelers financed has increased significantly from just 25% in FY00 to 63% in FY07, driven by declining interest rates and wider availability of bank loans.

FINANCING PLAYS AN IMPORTANT ROLE IN TWO-WHEELER SALES



Source: Crisil Research

…but bank loans have lately been more expensive

But rising inflation has led to higher interest rates on finance for 2-w

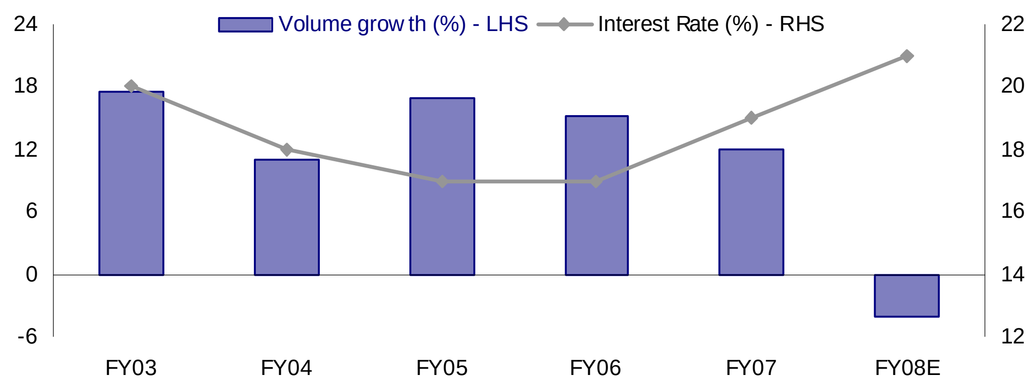
Concerned about rising inflation during FY07, RBI initiated a series of measures to suck out excess liquidity. CRR hikes were implemented, which resulted in higher interest rates. This in turn raised the cost of two-wheeler ownership, negatively impacting volumes.

INCREASING INTEREST RATES HAVE LED TO HIGHER OWNERSHIP COST (RS) ...

	FY06	FY07	FY08E
Increase in ownership cost of two-wheelers			
Average cost of a two-wheeler (Rs)	32,000	32,000	32,000
Amount financed (%)	70	70	70
Loan Amount (Rs)	22,400	22,400	22,400
Interest rate (%)	17	19	21
Duration (months)	36	36	36
Monthly EMI (Rs)	799	821	844
Per day usage (km)	30	30	30
Fuel efficiency (km/lt)	50	50	50
Petrol price (Rs/lt)	43.7	49.2	47.5
Fuel cost per month (Rs)	787	885	855
Monthly maintenance cost (Rs)	400	420	441
2W ownership cost (per month)	1,985	2,126	2,140
YoY increase (%)		7.1	0.7

Source: Industry

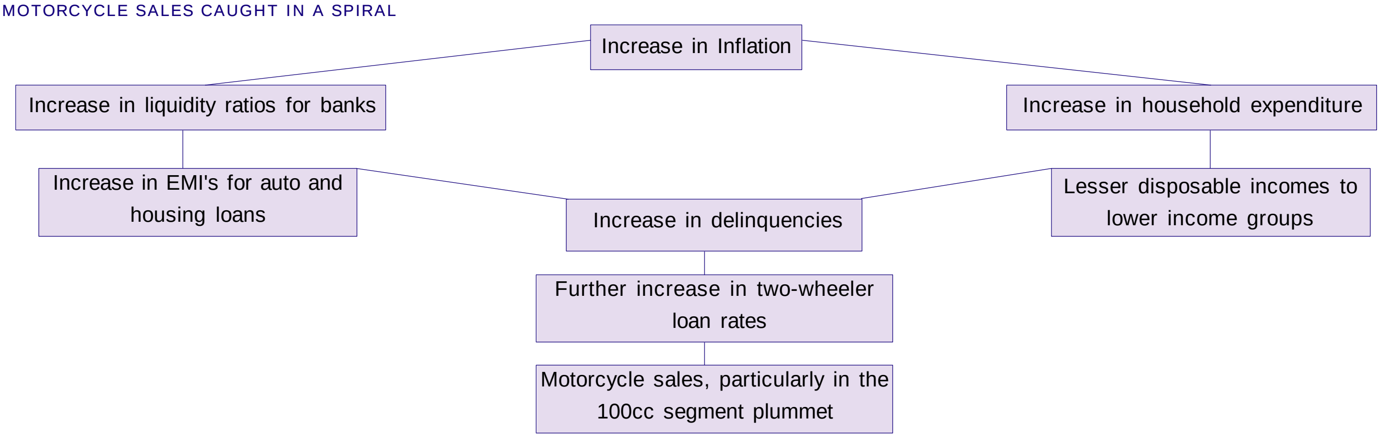
... AND HAVE NEGATIVELY IMPACTED TWO-WHEELER SALES



Source: Crisil Research/Industry

Higher inflation also led to the cost of living increasing, which led to higher delinquencies, particularly among entry-level motorcycle purchasers. This too prompted banks to increase interest rates to cover delinquency risk.

MOTORCYCLE SALES CAUGHT IN A SPIRAL

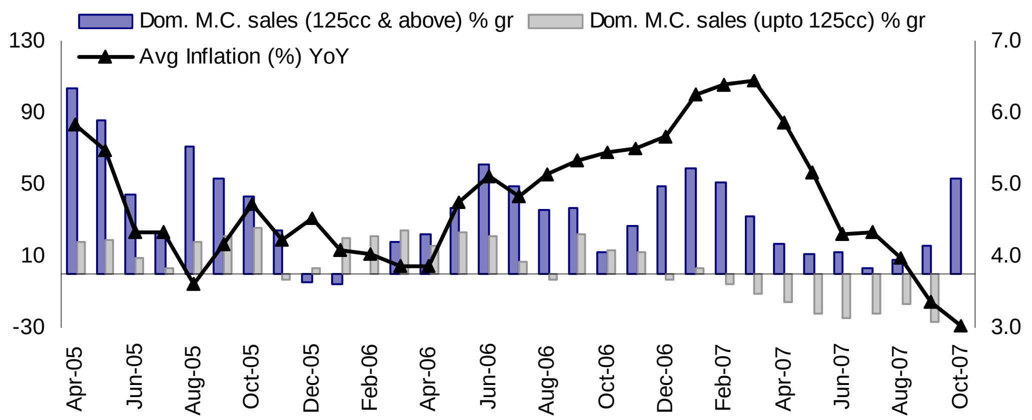


Concerns on inflation are now abating…

However, concerns on inflation are reducing …

With inflation at a five year low, we believe that concerns on interest rates and further monetary tightening are easing. This will increase the flow of funds to provide two-wheeler loans. While on the one hand, lower delinquency risk would prompt banks to consider lowering financing rates, on the other, it would also translate into a relaxation in the extremely cautious stance that bankers currently have on two-wheeler financing.

IMPACT OF INFLATION ON MOTORCYCLE DEMAND



Source: SIAM/Bloomberg

…and we expect interest rates to remain stable

… and we expect interest rates to remain stable

After rising 350bp within six months, interest rates on two-wheeler loans have been stable during the last five months. Given that inflation has been at manageable levels despite rising liquidity, we believe that interest rates are likely to remain stable or moderate slightly. A possible interest rate decline would significantly drive up effective demand. Industry leaders – Hero Honda and Bajaj Auto – would be the key beneficiaries.

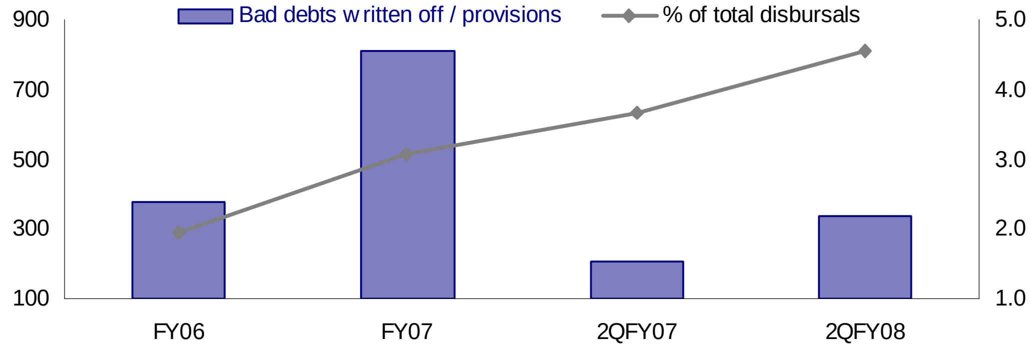
B. Credit expansion v/s credit squeeze

Reckless lending in a competitive environment…

The urgency to increase market share in a competitive environment led to the two-wheeler majors pushing inventory to dealers and passing off loans to buyers who may not have been entirely creditworthy. This has resulted in higher provisioning for bad debts and recovery commissions for the lenders. We cite below the case of Bajaj Auto Finance (BAF), for which auto loans constitute 60% of overall disbursals.

BAF's write-offs due to bad debts and debt provisioning increased from 1.9% of disbursals in FY06 to 3.1% of disbursals in FY07; this has further increased in FY08. Provisioning in 2QFY08 increased to 4.6% of disbursals from 3.7% in 2QFY07. The higher provisioning has led to BAF's PAT for 2QFY08 declining 38.6% YoY to Rs37.8m, as compared to a growth of 19.5% in 1QFY08 and 25.3% in FY07. Moreover, the company expects its provisioning and bad debts rate to continue in the near term.

INCREASE IN BAF'S NPA PROVISIONING (RS M)



Source: Company/Motilal Oswal Securities

…made way for extreme caution

2-w lending was lower in 1HFY08 as banks got extremely cautious

Higher delinquencies have led to the major banks shirking away from further exposure to two-wheeler financing in 1HFY08. We believe that the confidence in two-wheeler lending was at its lowest ebb in 1HFY08, with the banks taking an extremely cautious approach towards two-wheeler loans.

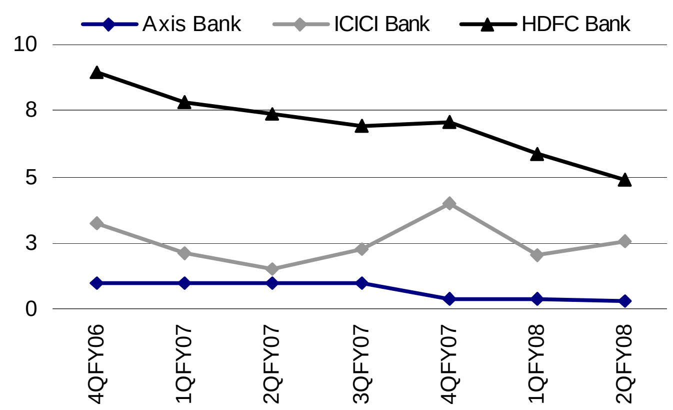
REQUIREMENTS FOR A TWO-WHEELER LOAN

	IN OCTOBER 2007	IN OCTOBER 2006
Proof of residence	Mandatory	Required, but not insisted upon
Proof of income	Mandatory	Required, but not insisted upon
Proof of identity	Mandatory	Required, but not insisted upon
Signature verification	Mandatory	Required, but not insisted upon

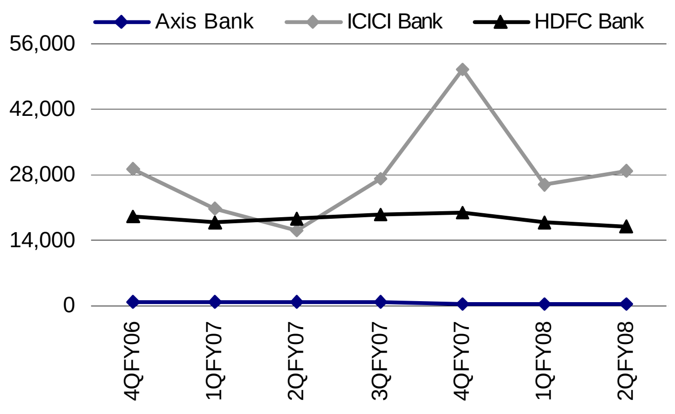
Source: Industry

TWO-WHEELER LOAN ALLOCATION REDUCED BY MAJOR BANKS

TWO-WHEELER LOANS AS % OF TOTAL RETAIL ASSETS



TWO-WHEELER LOAN PORTFOLIO (RS M)



Source: Company/Motilal Oswal Securities

Hence any comparison in two-wheeler declines is essentially a comparison between an expansionary stage when banks were aggressive pitching in for two-wheeler loans egged on by the likes of Hero Honda and Bajaj Auto (in FY07) and a situation wherein the banks conscious of the pitfalls involved coupled with the high cost of lending started showing a steady aversion to the sector (in 1HFY08).

We are optimistic about FY09 given it will come off the base of FY08

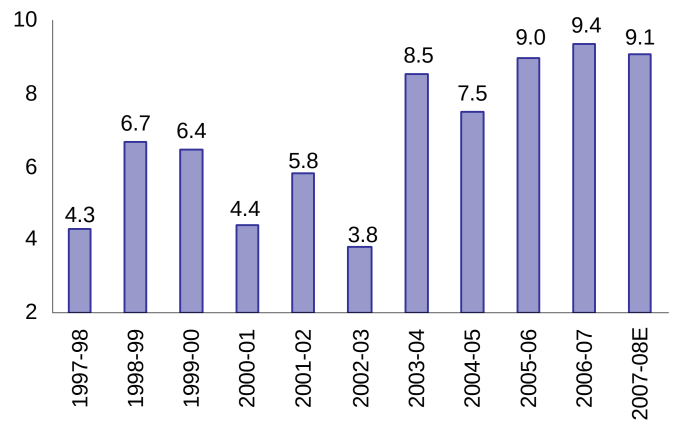
In a scenario where the interest rates are stable, in FY09 we will be in a position to witness a situation wherein the sector will be coming off the base of FY08. In a scenario of credit expansion, we strongly believe that the growth seen will be good. If the banks relax their cautious approach, the potential for demand to thrive increases even further.

C. Strong GDP growth being sustained

Expectation of the robust GDP being sustained is high

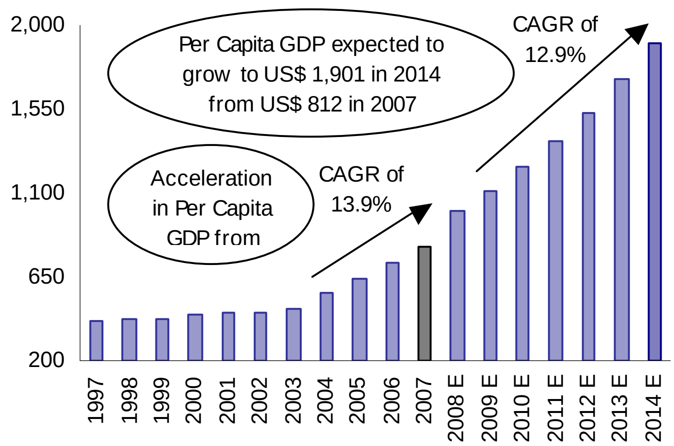
After witnessing a low 2.2% CAGR in per capita income growth through the nineties, the scenario has significantly changed for the better over the past four years. The acceleration in the GDP growth rate commenced FY03 onwards, and the GDP growth ranged between 7.5%-9.4% over FY03-07 (as compared to 3.8%-6.7% GDP growth range over FY98-03. This has also resulted in the per capita income increasing at a 13.9% CAGR over FY03-07. While the industrial and service sectors remain strong contributors to GDP growth, agricultural GDP growth is also expected to be higher with adequate monsoons being seen for a five succesive years. As a result, we expect the per capita GDP to increase from US$812 in FY07 to US$1,901 by FY14 - a CAGR of 12.9% over this period. With strong growth expected in per capita incomes over the long-term, we expect demand for two-wheelers to be robust.

GDP GROWTH EXPECTED TO SUSTAIN (%)



Source: CMIE

RISING PER CAPITA INCOME (US$)



Source:Motilal Oswal Securities

D. Structural drivers still intact

Further, other fundamental and structural factors support a rise in 2-w demand

Apart from GDP growth, the other fundamental and structural factors supporting an increase in two-wheeler demand also remain intact. A buoyant economy, and rising income levels coupled with rising aspirations (facilitating movement from bicycles to motorcycles) have increased the size of the target audience for two-wheelers. Poor public transportation (particularly in the rural areas) necessitates the ownership of personal vehicles, and two-wheelers are both affordable and practical. Besides, a large base of aging two-wheelers and increasing desire to replace scooters/mopeds with motorcycles (or to replace old motorcycles with new versions) is driving replacement demand.

Increasing size of the target audience

The strong economic growth witnessed in India is leading to upward mobility of the population (including the lower tranches classified as 'deprived' in a survey by NCAER). This would result in the target households for first-time two-wheeler purchasers increasing at a 9% CAGR over FY06-10. In absolute terms, this translates into 22m additional households in the next segment (termed as 'aspirers'). A buoyant economy would lead to demand for two-wheelers sustaining over the long-term.

RAPID GROWTH IN MIDDLE/HIGH INCOME HOUSEHOLDS (INCOME IN RS '000 PA AND HOUSEHOLDS IN '000)

		NUMBER OF HOUSEHOLDS			CAGR (%)	
CLASSIFICATION	INCOME CLASS	2001-02	2005-06*	2009-10*	2002-10	2006-10
Deprived	<90	135,378	132,250	114,394	-2.1	-3.6
Aspirers	90 - 200	41,262	53,276	75,304	7.8	9.0
Seekers	200 - 500	9,034	13,813	22,268	11.9	12.7
Strivers	500 - 1,000	1,712	3,212	6,173	17.4	17.7
Near Rich	1,000 - 2,000	546	1,122	2,373	20.2	20.6
Clear Rich	2,000 - 5,000	201	454	1,037	22.8	22.9
Sheer Rich	5,000 - 10,000	40	103	255	26.1	25.4
Super Rich	>10,000	20	53	141	27.7	27.7
	Total	**188,193**	**204,283**	**221,945**	**2.1**	**2.1**

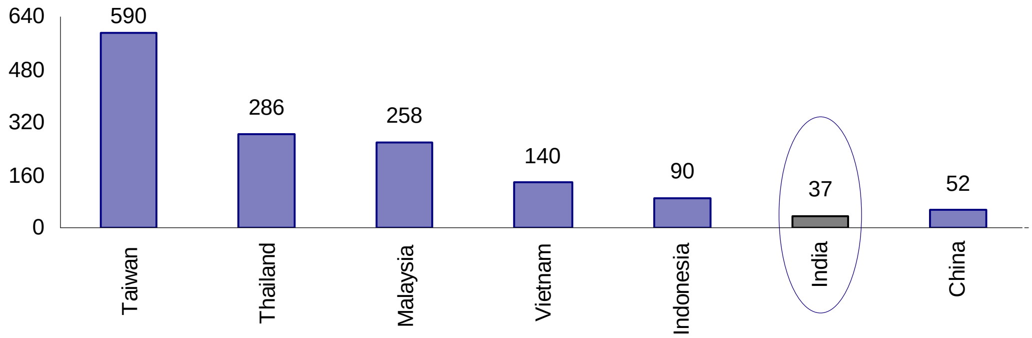
Mainly two-wheeler buyers

* Estimates Source: NCAER

2-w penetration India is very low v/s the world average

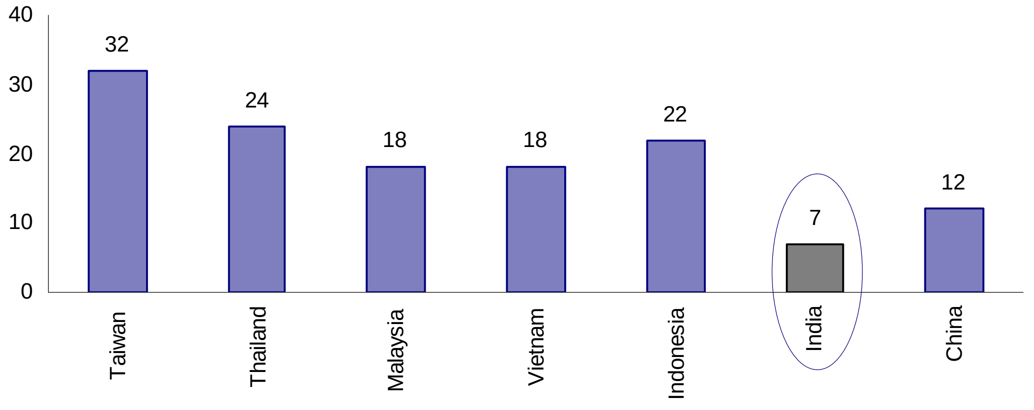
As compared to the global averages for two-wheelers, the penetration in India is still abysmally low. We believe that the penetration in India will tend towards the average of the other Asian countries.

RATIO OF MOTORCYCLES /1000 PEOPLE IN 2005



Source: Company

YEARLY SALES PER 1000 PEOPLE IN 2005



Source: Company

The poor public transport system necessitates ownership of personal vehicles

Poor public transport system

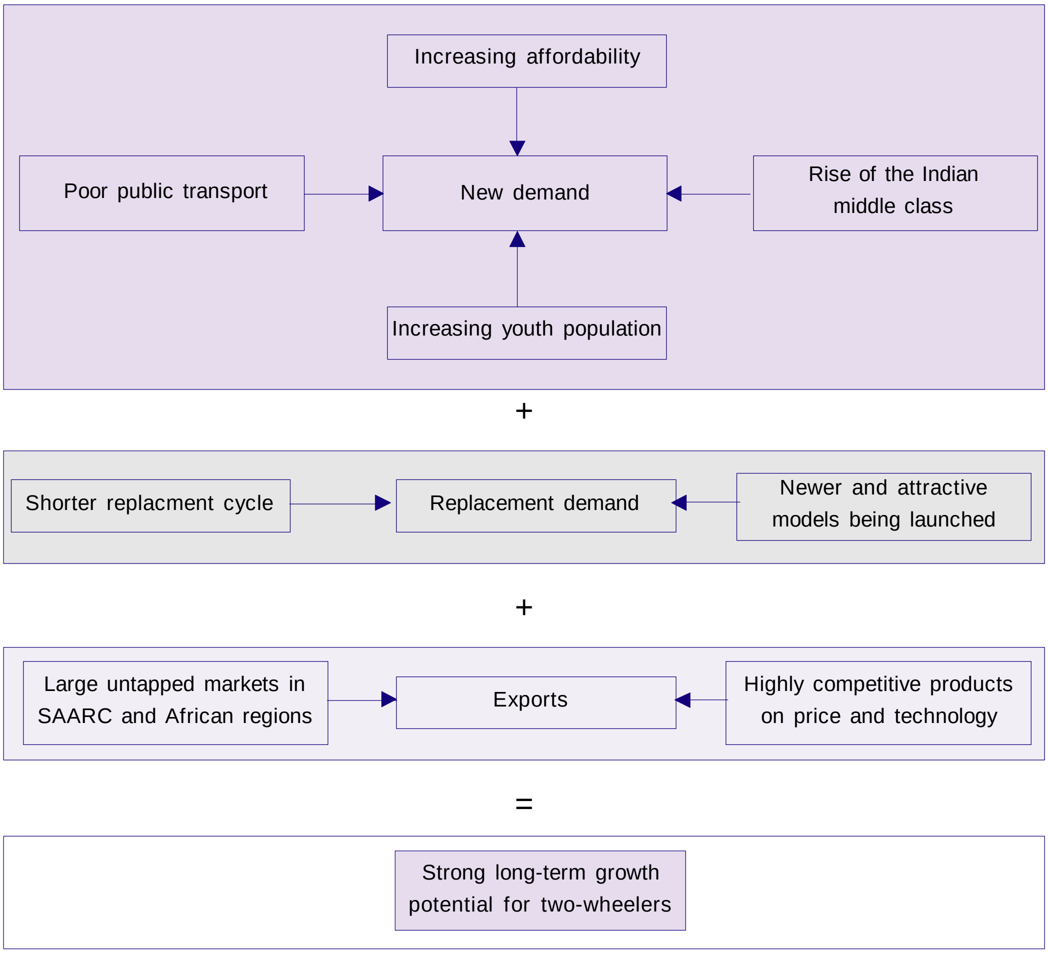
The public transport system in India is in poor shape, especially in semi-urban and rural areas. The condition of roads is extremely poor in most of these areas and a public transport system is either absent or grossly inadequate. Most state transport undertakings (STUs) have been making losses and are unable to upgrade/add to their fleets to the extent required. In such a scenario, two-wheelers provide a practical and affordable solution.

Higher replacement demand

Replacement demand is expected to be a big driver of volumes – the six year sustained boom has created a large mass of two-wheelers. According to the industry, replacement demand constitutes nearly 35% of two-wheeler sales. A significant portion of the two-wheeler replacement demand during FY01-07 was a result of scooter and moped users shifting to motorcycles. We now expect replacement demand to be driven by the desire to replace old motorcycles with newer versions.

Also, the replacement cycle has reduced from seven years earlier to five years. The shrinkage of the replacement cycle is due to factors such as relatively high cost of operations of an old vehicle (due to higher fuel consumption, higher maintenance expenses, etc), and increasing availability of newer models with state of the art technology and features.

DEMAND TRIGGERS FOR TWO-WHEELERS



Source: Industry/Motilal Oswal Securities

E. Sustained new model launches

2-w companies are launching newer models to keep consumer interest alive

To maintain/whet consumer interest, two-wheeler companies have lined up a host of new launches. These new launches and new variants coupled with those already launched in the market so far, should help push up two-wheeler demand in 2HFY08 and in FY09.

New bikes launched by the two-wheeler companies have always seen a good response in the initial months of the launch. A recent example of this happening is the launch of the *XCD* 125 by Bajaj Auto. *XCD* sales crossed 63,000 units within two months of launch, leading to Bajaj Auto deciding to increase the manufacturing capacity of the bike from 50,000 units to 75,000 units in November 2007 itself (it had previously planned to do the same in January 2008). Another instance of a new launch becoming a runaway success was the *Platina* which was launched in the entry-level segment to complement the *CT-100*. *Platina* soon started outselling the *CT-100* and became the flagship entry-level product of Bajaj Auto. *Platina* sales reached their peak in September 2006, when they crossed the 100,000 units mark within six months of its launch, while the older *CT-100* sold only ~50,000 units in that same month.

MOTORCYCLES: NEW MODELS LAUNCHED APRIL 2006 ONWARDS

MANUFACTURER	MODEL	MONTH OF LAUNCH	ENGINE CAPACITY (CC)
Bajaj Auto	Platina	Apr-06	100 cc
	Pulsar [Variant]	Dec-06	180 cc
	Pulsar DTS-Fi [Variant]	Jan-07	220 cc
	Pulsar [Variant]	Feb-07	200 cc
	Discover [Variant]	Apr-07	135 cc
	XCD	Sep-07	125 cc
Hero Honda	Glamour Fi [Variant]	Aug-06	125 cc
	Passion Plus [Variant]	Oct-06	112 cc
	CBZ Xtreme	Oct-06	150 cc
	CD Dawn [Variant]	Dec-06	100 cc
	CD Deluxe [Variant]	Dec-06	100 cc
	Achiever [Variant]	Jun-07	150 cc
	Hunk	Oct-07	150 cc
Suzuki	Zeus	Apr-06	125 cc
	Heat [Variant]	Jan-07	125 cc
	Zeus [Variant]	Jan-07	125 cc
TVS Motor	Star City [Variant]	Oct-06	100 cc
	Star City [Variant] (Sport)	Mar-07	100 cc
	Apache RTR	Jul-07	160 cc
HMSI	Shine	May-06	125 cc
Yamaha	Gladiator	May-06	125 cc
	Alba	May-07	110 cc

Source: Industry

TWO-WHEELERS: NEW MODELS TO BE LAUNCHED IN FY08

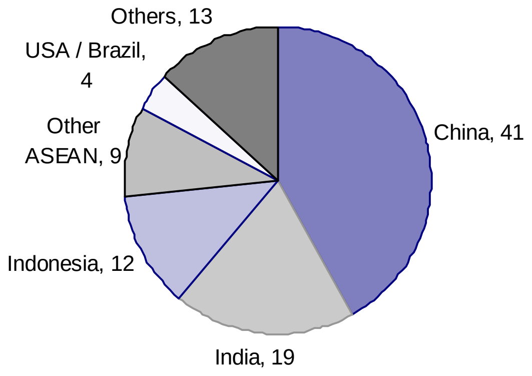
MANUFACTURER	SEGMENT	MODEL	ENGINE CAPACITY (CC)
Hero Honda	Motorcycle	Passion and Splendor variants	125cc
	Motorcycle	Premium segment model	180cc
Bajaj Auto	Motorcycle	Sonic DTS-Fi	125cc
	Scooter	Blade DTS-i	Heavy ungeared scooter
TVS Motor	Motorcycle	Apache variant	-
	Motorcycle	Flame	125cc
	Scooter	Scooty variant	-
Yamaha Motors	Scooter	Majesty	125 cc, Gearless
	Motorcycle	Premium segment model	150 cc
	Motorcycle	Premium segment model	180 cc
	Motorcycle	YZF-R1	1000 cc
	Motorcycle	MT-01	1670 cc
HMSI	Motorcycle	Economy segment model	100cc
	Scooter	Unspecified	-
Suzuki	Motorcycle	Unspecified	150 cc
Kinetic	Scooter	Six new models to be launched	-

Source: CRISIL Research

Huge export potential

Exports represent a big growth opportunity for the large two-wheeler manufacturers. The size of the global market was 41m units in 2005, with India constituting 19% and Indonesia 12%. China is the largest market, with a share of 41%. Both Bajaj Auto and TVS Motor, the second and third largest two-wheeler players in India, have a presence in both India and Indonesia, which together constitute 31% of the global market.

SHARE OF GLOBAL MARKET (%)

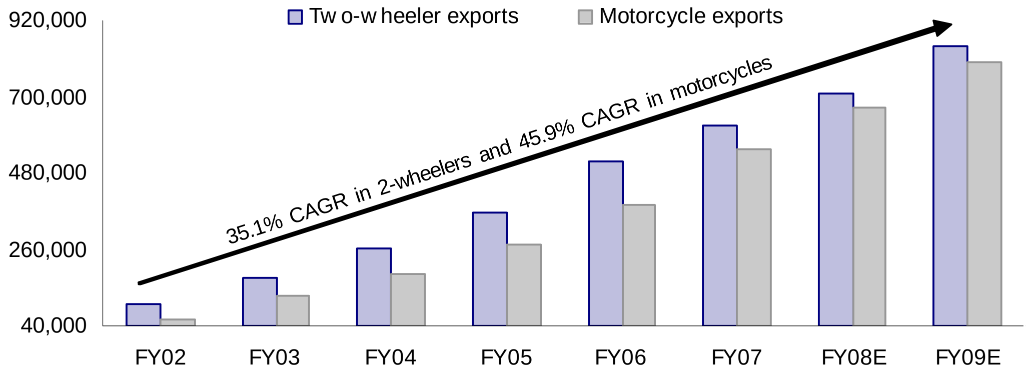


Source: Company

Bajaj Auto, TVS Motor best placed to capitalize on the global opportunity

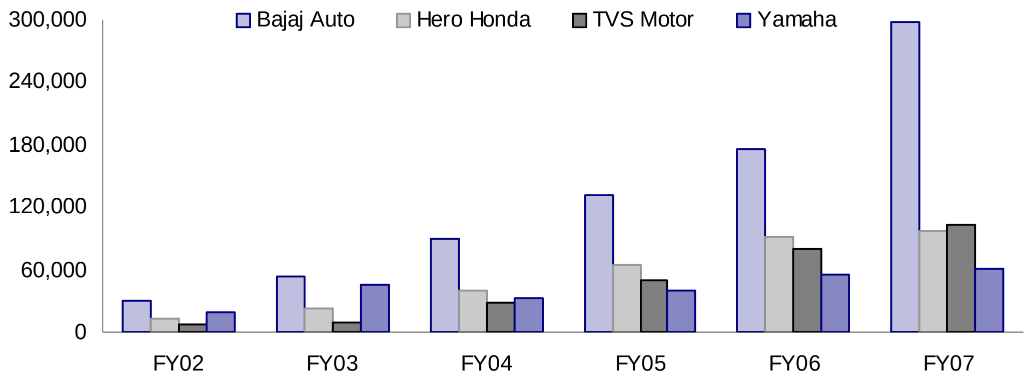
Being truly global-sized players, with products comparable to their Japanese counterparts both in terms of price and quality, the top two players are well positioned to capitalize on the opportunity. Bajaj Auto's exports constitute ~22% of its two-wheeler volumes and TVS Motor exports ~9.5% of its volumes (expected to increase further as Indonesian operations gather steam). So far, Hero Honda has been unable to tap the overseas market fully, but if the requisite approvals from Honda are received, even Hero Honda may be able to grab a share of the exports pie.

EXPORTS HAVE SEEN RAPID GROWTH (NOS)



Source: SIAM

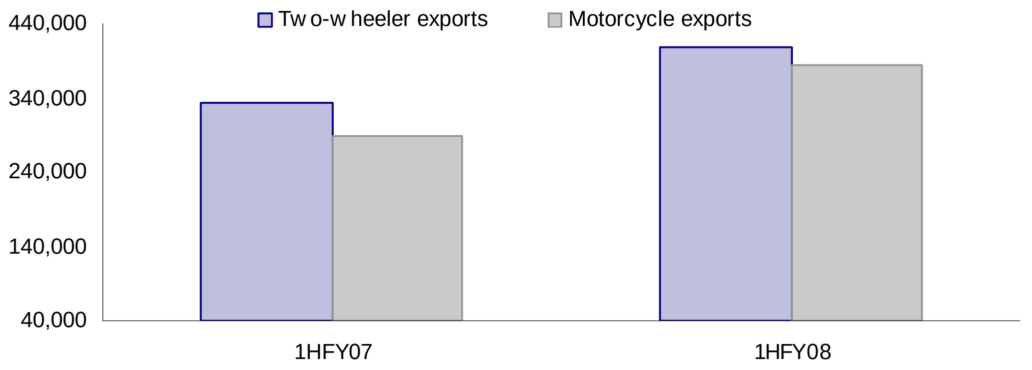
BAJAJ AUTO IS THE BIGGEST TWO-WHEELER EXPORTER (NOS)



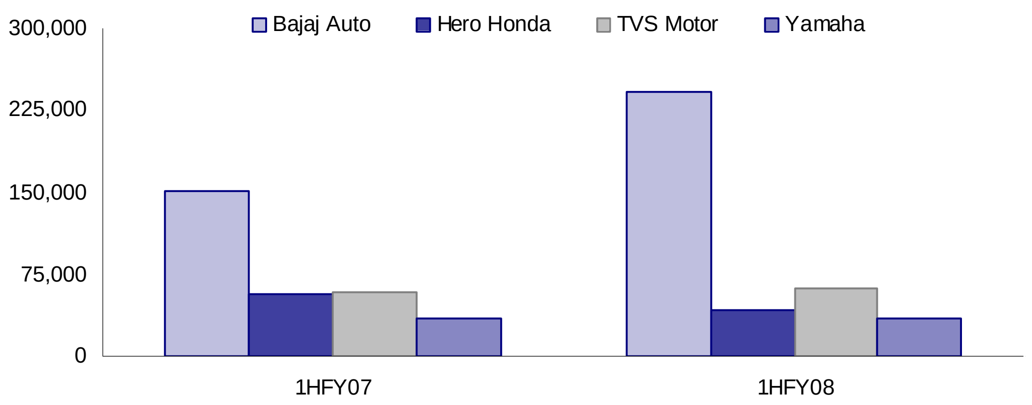
Source: SIAM

Countries where Bajaj Auto's products are sold include Bangladesh, Colombia, Dubai, Egypt, Guatemala, India, Indonesia, Iran, Mexico, Nigeria, Peru, Philippines, Sri Lanka, etc. Bajaj has been working to enter into tie-ups for distribution and financing (key parameters for success in the overseas markets), and is now confident of taking a market share of 5-10% overseas. In 1HFY08, Bajaj Auto reported an impressive growth in exports.

EXPORTS: TWO WHEELERS AND MOTORCYCLE (NOS)



TWO WHEELER EXPORTS: BAJAJ AUTO SHOWS IMPRESSIVE GROWTH (NOS)



Source: SIAM

Bajaj Auto exports: recent highlights

Bajaj Auto has several export achievements to boot

- In FY07, Bajaj Auto sold over 150,000 two and three-wheelers in Sri Lanka as compared to 110,000 in FY06.
- Exports to Bangladesh doubled to 32,000 units in FY07.
- Bajaj Auto's exports to the Philippines crossed 25,000 units for the first time ever in FY07.
- Exports to Latin America were 100,000 vehicles within a single financial year; the main Latin American markets are Colombia, Guatemala, Peru, and Mexico.
- The biggest export driver was motorcycles, particularly *Pulsar* – 126,000 vehicles (80% growth).
- Through its distributor in Dubai, Bajaj Auto has penetrated many small countries in Africa and the Middle East – total sales in Africa and the Middle East (including Nigeria and Iran) were about 100,000 vehicles; Egypt, Sudan, and Nigeria were the major growth drivers.

New export destinations of Bajaj Auto

Bajaj Auto has expanded its export destinations and entered into newer tie-ups

- **Indonesia:** Bajaj Auto has entered into a JV with a local company in Indonesia (95% of the JV held by Bajaj), through which it has launched its CNG three-wheeler, the *RE-4S* in August 2006 and the upgraded *Pulsar 180 DTS-i* in November 2006. The *RE-4S* is being placed as a fuel-efficient, environment friendly, and low cost public transport vehicle. Indonesia has annual bike sales of 5m and has been growing at 20%. It has been selected as the company's manufacturing hub for South East Asia and will facilitate Bajaj's entry into other Asean countries like Indonesia, Thailand, Vietnam and Philippines.
- **Nigeria:** Bajaj Auto's operations in Nigeria started with assembling *Boxer-S* from June 2006, and were scaled up to sell over 7,000 vehicles in FY07. The company also sees good potential for its three-wheelers in the region.
- **Iran:** Bajaj has a partner M/s FARS Motors in Iran, to whom it has started selling. *Pulse 180*, a variant of the *Pulsar 180 DTS-i* was introduced in the first phase to build a high performance brand image.

The Indonesian market is expected to pick up CY07 onwards, as it comes off the low base of the previous year. This provides tremendous upside for both Bajaj Auto and TVS Motor.

About Indonesia

- It is the third largest motorcycle market in the world, following China and India
- Overall demand in CY06 (wholesale local sales) was 4.63m units (down 13.8% YoY)
- Demand negatively impacted due to the government raising interest rates to curb inflation brought about by rising gasoline prices
- In CY07 demand is expected to return to CY05 levels
- As in India, a buoyant economy is expected to continue prompting high rates of market expansion

About Brazil

- Market size expanded 24% in CY06 to 1.27m units
- Sales in CY07 expected to be 1.55m units
- Strong economic performance is expected to drive demand in Brazil as well as Latin American countries

About Japan

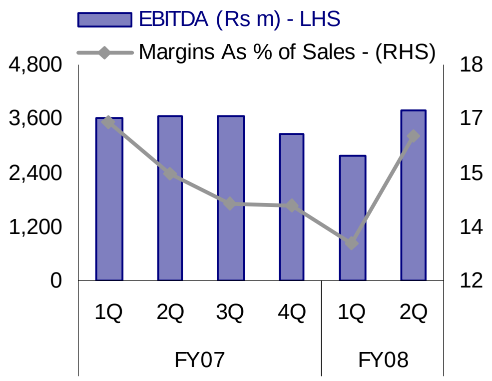
- In FY07, demand for motorcycles under 50cc (largest segment) fell due to the declining percentage of youth in the population
- Overall demand declined 2% to 730,000 units

EBITDA margins to remain stable

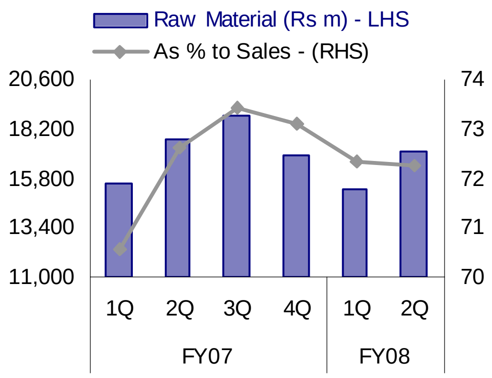
We expect EBITDA margin to display a positive trend

In 2QFY08, two-wheeler companies witnessed significantly higher EBITDA margins on a sequential basis. This is largely because prices of key raw materials (except steel) have declined. With lower raw material prices, improving product mix, and higher DEPB benefit, increasing efficiency, EBITDA margins should display a positive trend.

BAJAJ AUTO: EBITDA MARGINS

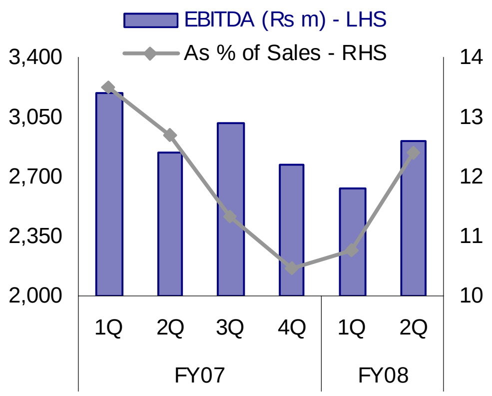


RAW MATERIAL TO SALES

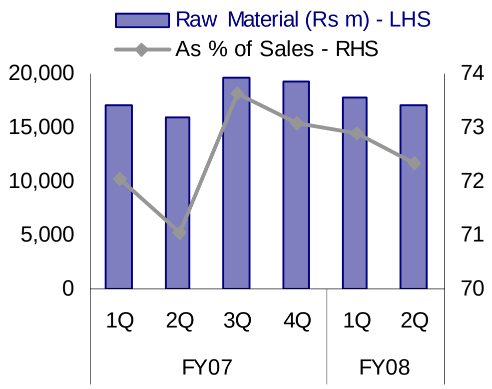


HERO HONDA: EBITDA MARGIN IMPROVES

Hero Honda's EBITDA margin has improved after seven consecutive sequential declines



ON LOWER RAW MATERIAL COST



Source: Company/Motilal Oswal Securities

Lower raw-material prices

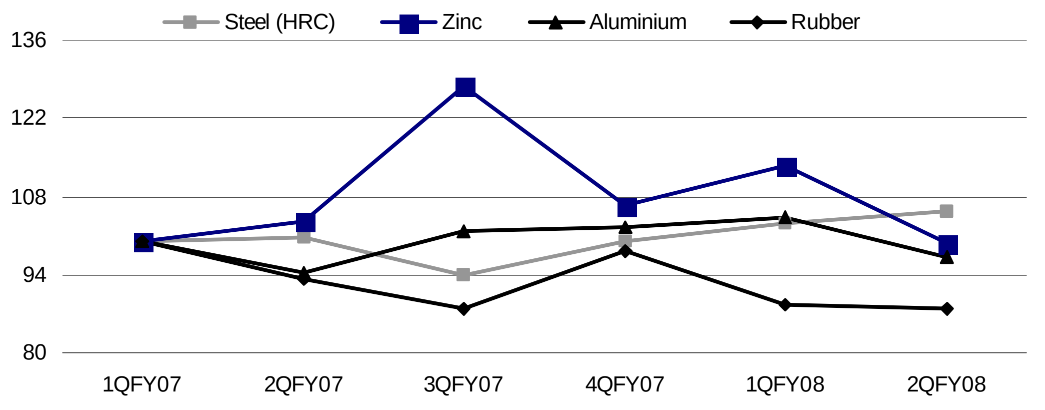
Low RM prices in 2QFY08 are aiding EBITDA margin expansion

Prices of key inputs like aluminum, nickel, etc have declined in 2QFY08, leading to easing of cost pressures on companies. This, in turn, aided EBITDA margin expansion. We expect raw material prices to remain benign in the near future.

WEIGHT PROPORTION IN 2-WHEELERS

Steel (kg)	55.0
Aluminium (kg)	16.0
Rubber and tyre (kg)	10.0

TREND IN PRICES OF KEY RAW MATERIALS (INDEXED)



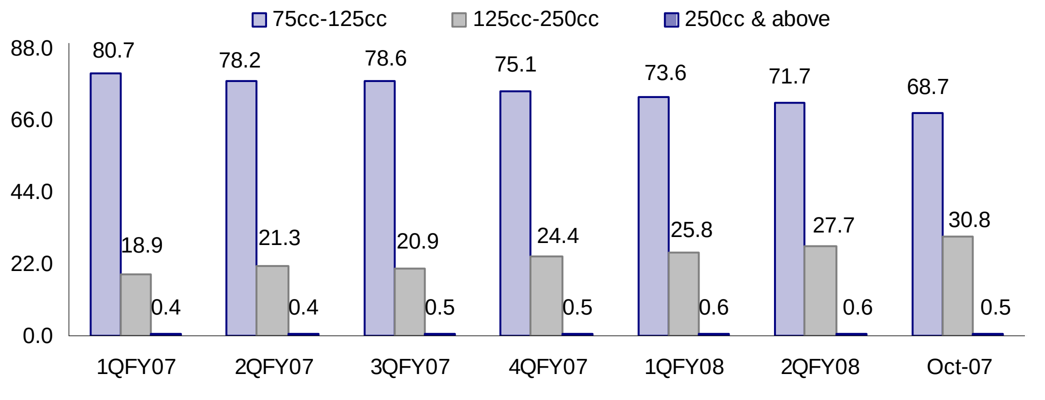
Source: LME/Bloomberg/Rubber Board of India/Motilal Oswal Securities

Improving product mix

Hero Honda, Bajaj Auto making serious attempts to improve launches in premium/executive segments

Hero Honda and Bajaj Auto are both focusing on improving their product mix. Even in the entry-level segment, there is a marked preference for deluxe versions. Further, both the companies are making serious attempts to increase their penetration in segments they were previously weak – Bajaj Auto launched *XCD* in the executive segment and Hero Honda launched *Hunk* in the premium segment.

PRODUCT MIX (%)

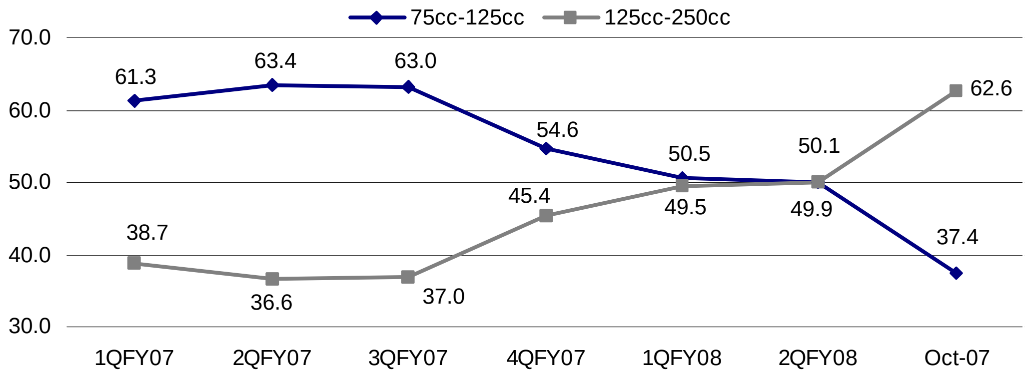


Source: Company/Motilal Oswal Securities

Bajaj Auto's product mix is shifting from entry level to upper-end mobikes

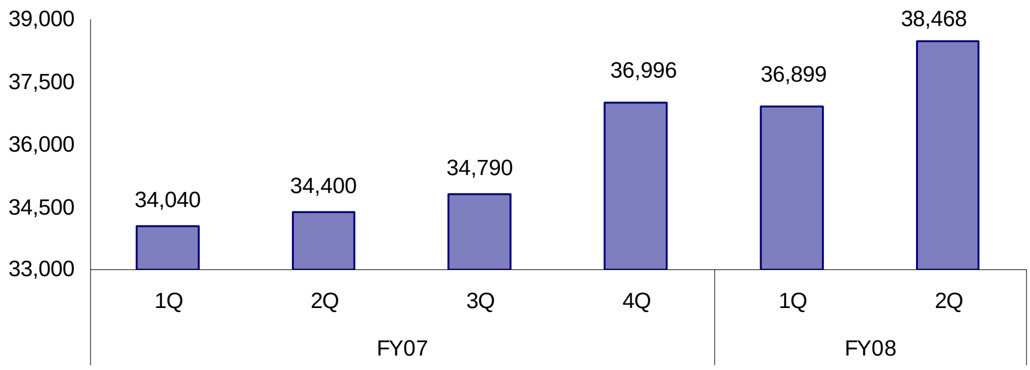
Bajaj Auto: Bajaj Auto's product mix is shifting towards upper-end motorcycles and away from the entry-level segment. This trend has been witnessed even in the wake of declining two-wheeler sales during April-October 2007. The share of >125cc bikes in the company's total sales has increased from 38.7% in 1QFY08 to 50% in 2QFY08 – indicating an improvement in the company's product mix.

BAL PRODUCT MIX (%)



Source: Company/Motilal Oswal Securities

BAJAJ AUTO: IMPROVING REALIZATIONS (RS/UNIT)

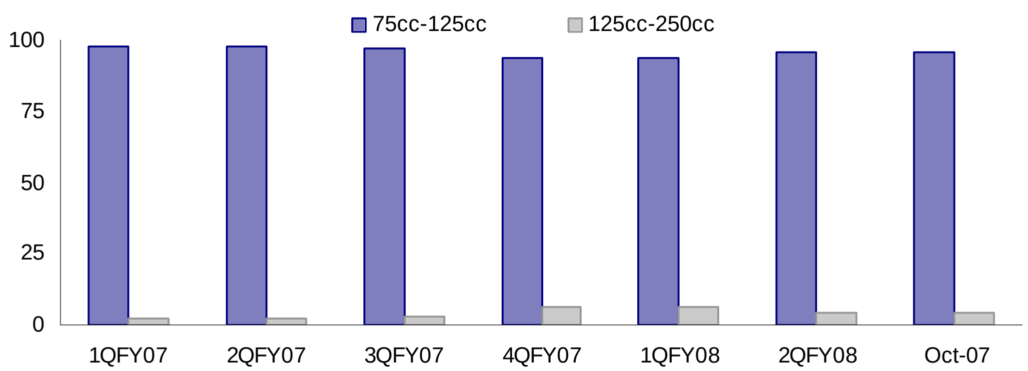


Source: Company/Motilal Oswal Securities

Hero Honda is increasing launches in the executive/ premium segment

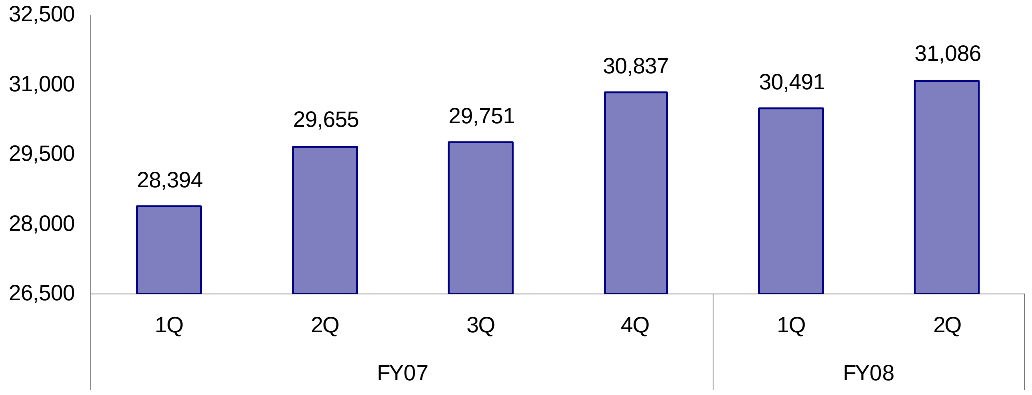
Hero Honda: Hero Honda is witnessing similar improvement in product mix. New launches in the executive and premium segment have led to a shift in the product mix in favor of higher-end bikes. The 125-250cc motorcycle segment accounted for 4.1% of Hero Honda's motorcycle sales in 2QFY08 as compared to just 1.8% in 2QFY07 (6.2% in 1QFY08, however).

HERO HONDA: SHARE OF 125-250CC BIKES HAS INCREASED (%)



Source: Company/Motilal Oswal Securities

HERO HONDA: REALIZATIONS IMPROVE DUE TO BETTER PRODUCT MIX (PER UNIT REALIZATION - RS)



Source: Company/Motilal Oswal Securities

Higher DEPB benefit

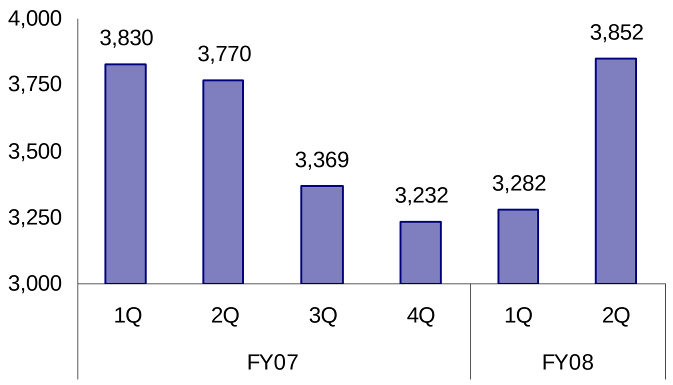
Continuous attempts to improve EBITDA margins via cost control have had a positive impact on Bajaj Auto and Hero Honda

Bajaj Auto has significant exposure to exports, which contributed 16.2% of its volumes and 17.8% of its sales in FY07. The proportion of exports to total volumes has increased significantly during April-October 2007 to 25% – apparently, the company has sought to make up for the slump in domestic volumes with greater exports. The DEPB benefit has increased by 3% due to the appreciating Rupee and this benefit accrues directly to revenues and profits. This would help reduce the cost of exports and improve EBITDA margins.

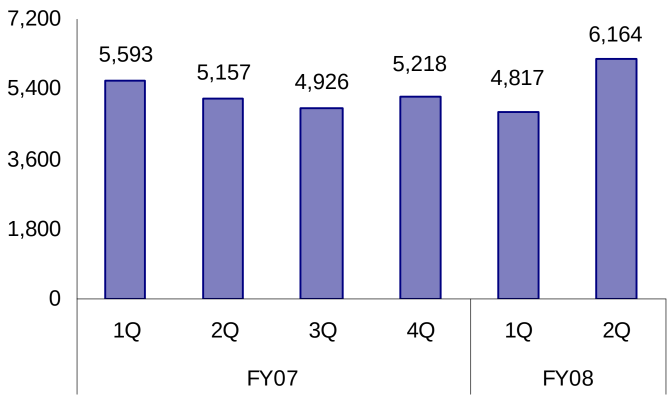
Increase in efficiency

Cost reduction and productivity measures, as well as other options like VRS (being offered at Akurdi by Bajaj Auto) have helped in controlling expenses and thereby improving EBITDA margins. Continual attempts to improve EBITDA margins through cost control have had a positive impact on both Bajaj Auto and Hero Honda.

HERO HONDA: PER UNIT EBITDA (RS)



BAJAJ AUTO: PER UNIT EBITDA (RS)



Source: Company/Motilal Oswal Securities

New plants in fiscal incentive areas to boost profits

The top three players are setting up their new plants at Uttaranchal, where they get fiscal incentives. These are in the nature of:

- 100% excise exemption for 10 years
- 100% income tax exemption for the first 5 years
- 30% income tax exemption for the next 5 years

We have assumed a 2.5% reduction in the average tax rate for Hero Honda in FY09, while for Bajaj Auto we have assumed 1.3% reduction in the effective tax rate, due to commencement of the Uttaranchal plant.

These benefits provide companies with two options - either they can retain the benefits entirely for themselves and thereby improve profitability or they can pass on the benefits to customers in terms of price reductions / promotional offers.

We believe that Hero Honda and Bajaj Auto will continue to adopt the latter approach. While prices were not reduced in the immediate aftermath of Bajaj Auto's Uttaranchal plant commencing operations in April 2007, the company was able to do the same at a later date. The most recent instance is when Hero Honda reduced the price of its entry-level CD-series bikes prior to the festive season by Rs2,000, Bajaj Auto reduced the price of its Platina by Rs4,000 per bike. The commencement of the plant in the fiscal incentive area has thus allowed the company to offer such interim schemes for key months like the festive season without the threat of profitability being impacted too much. We believe that Hero Honda will follow a similar strategy once it commences operations at its Uttaranchal plant in FY09.

POTENTIAL BENEFIT FROM UTTARANCHAL PLANT (RS)

	AT NON-BENEFIT AREA	AT UTTARANCHAL	% DIFFERENCE
Ex-showroom Cost of XCD	41,000	41,000	0
Excise Duty	5,655	0	-100
Realization to Company	35,345	41,000	16
PBT	4,167	4,167	0
Tax on Bike	1,167	0	-100
Profit to Company	3,000	4,167	39

Source:Motilal Oswal Securities

Valuation and view

We believe that the scenario is improving for the two-wheeler industry and expect better performance both on the operating and the volume front for the top two players – **Hero Honda** and **Bajaj Auto**. We are changing our stance on the sector from Neutral to Positive and have a **Buy** rating on Bajaj Auto and Hero Honda.

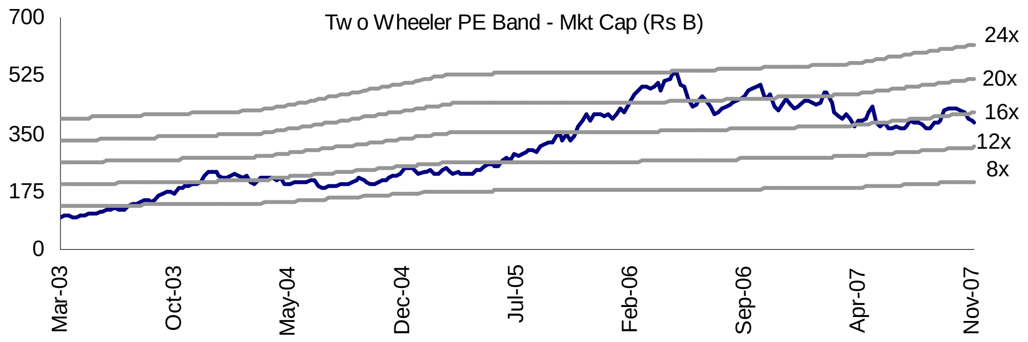
We are upgrading our view based upon the better operating performance of the top two players, and expectations of improvement in two-wheeler volumes in 2HFY08 and in FY09. While profit growth for the sector is expected to be lower at 4.8% in FY08 (on account of lower volume growth in 1HFY08), we expect the profits of the sector to bounce back in FY09 and increase by 16.2%, with strong growth being displayed by all the three players. We expect the two-wheeler sector to display revenue CAGR of 8.9% over FY07-09E, and EBITDA CAGR of 11.3%, while the PAT CAGR over the same period is expected to be 10.4%.

COMPARATIVE VALUATION

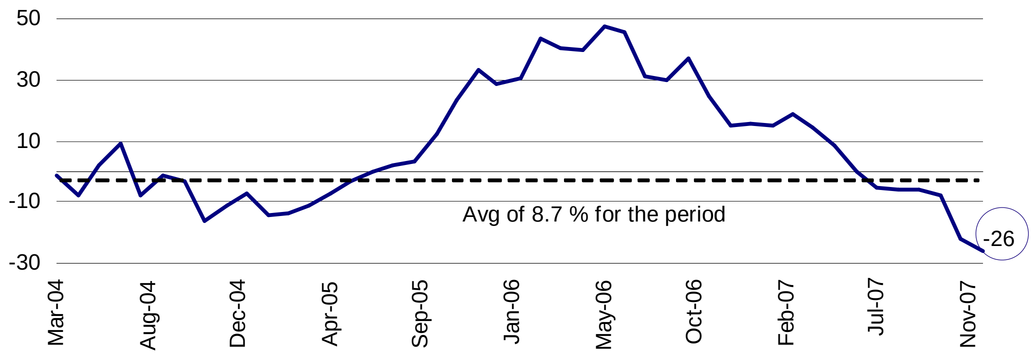
COMPANY	RECO	PRICE (RS)	TARGET (RS)	MKT CAP (RS B)	EPS (RS)		P/E (X)		EV/EBITDA (X)		ROE (%)	
					FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Bajaj Auto	Buy	2,342	3,039	237	138.8	158.9	16.9	14.7	11.6	9.4	21.6	21.0
Hero Honda	Buy	682	819	136	43.9	51.4	15.6	13.3	9.5	7.8	32.4	31.7
TVS Motor	Neutral	60	57	14	1.9	2.8	31.3	21.2	14.0	10.1	5.4	7.6

Source: Motilal Oswal Securities

SECTOR PE BAND



TWO WHEELER PE REALTIVE TO SENSEX



Companies

BSE Sensex: 19,785 S&P CNX: 5,912 15 November 2007

Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	BJA IN
	REUTERS CODE
S&P CNX: 5,912	BJAT.BO

15 November 2007 **Buy**

Previous Recommendation: Buy Rs2,342

Y/E MARCH	2006	2007	2008E	2009E
Total Income (Rs m)	76,679	95,204	104,247	117,295
EBITDA (Rs m)	13,563	14,170	15,641	17,969
Net Profit (Rs m)	11,243	12,869	14,042	16,081
EPS (Rs)	111.0	127.2	138.8	158.9
EPS Growth (%)	46.5	14.6	9.1	14.5
BV/Share (Rs)	471.5	547.0	643.0	756.9
P/E (x)	21.1	18.4	16.9	14.7
P/BV (x)	5.0	4.3	3.6	3.1
EV/EBITDA (x)	14.2	13.3	11.6	9.4
EV/Sales (x)	2.6	2.0	1.8	1.5
RoE (%)	23.6	23.3	21.6	21.0
RoCE (%)	25.4	24.6	23.9	23.6

KEY FINANCIALS	
Shares Outstanding (m)	101.2
Market Cap. (Rs b)	237.0
Market Cap. (US$ b)	6.0
Past 3 yrs. Sales Growth (%)	24.6
Past 3 yrs. NP Growth (%)	18.5
Dividend Payout (%)	36.8
Dividend Yield (%)	1.7

STOCK DATA	
52-Week Range (H/L - Rs)	3,172/2,063
Major Shareholders (as of September 2007)	%
Promoters	30.0
Domestic Institutions	8.9
FIIs/FDIs	20.8
Others	40.4
Average Daily Turnover	
Volume ('000 shares)	336.8
Value (Rs million)	835.4
1/6/12 Month Rel. Performance (%)	-13/-53/-57
1/6/12 Month Abs. Performance (%)	-9/-11/-10

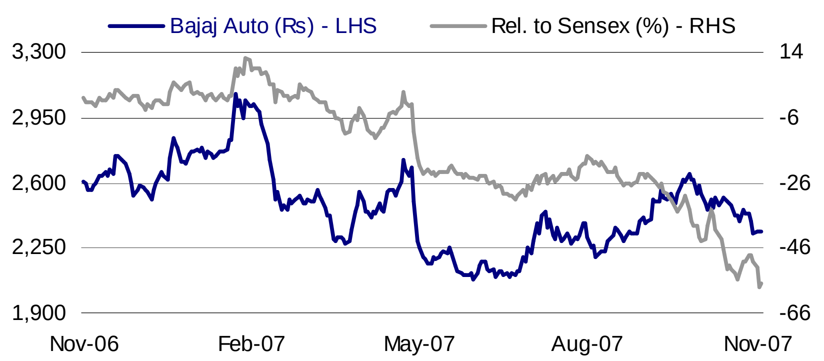
Bajaj Auto has taken aggressive steps to re-invent itself. From playing the volumes game in the entry-level segment, it has shifted focus to strengthening its dominance in the premium motorcycle segment. The company has also created an identity for Indian motorcycles in the global market, as exports constitute an increasing portion of its volumes. While we expect core business profitability to sustain the improvement shown in 2QFY08, its insurance business is a potential value driver.

Superior product mix: Bajaj Auto has a stronghold over the performance segment (>125cc motorcycles), wherein it sports the models *Pulsar* and *Discover*. Its share in this segment was 60% in FY07. Profitability of performance bikes is higher than that of entry-level bikes and the launch of its 125cc *XCD* would help to strengthen the company's position in this segment further.

EBITDA margin set to improve: We believe Bajaj Auto's EBITDA margin will sustain the improvement shown in 2QFY08 due to the company's improving product mix, lower raw-material prices and accrual of higher DEPB benefit. We expect EBITDA margin of 15.3% in 2HFY08 and 15% in FY09 v/s 13.1% in 1QFY08 and 14.6% in 1HFY08.

Maintain Buy: Given the better business prospects, increase in insurance valuation, and significant underperformance of the stock, we remain positive on Bajaj Auto. Our SOTP-based price target of Rs3,039 indicates a 30% upside.

STOCK PERFORMANCE (ONE YEAR)



Expect better volumes 2HFY08 onward

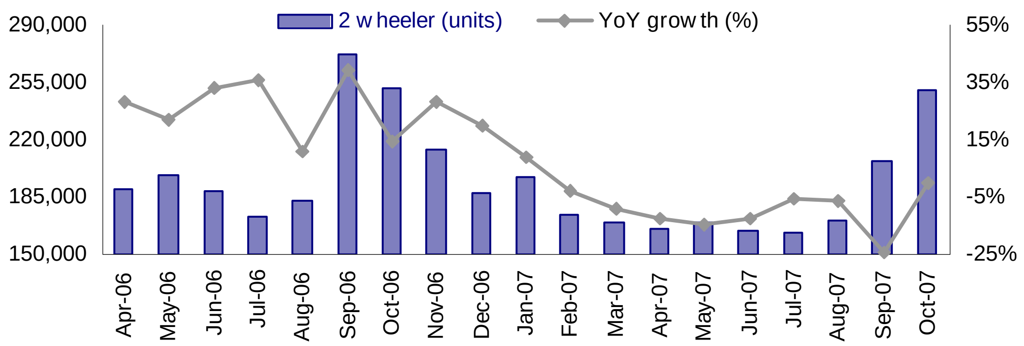
Volumes to pick up

After a slack 1HFY08, we expect the two-wheeler industry to begin witnessing robust volumes once again in 2HFY08. We believe that the longer-term growth drivers are in place and the relatively low base of FY08 would aid double-digit growth in FY09.

Volume growth is expected to be driven by:

- stable / possible decline in interest rates, which would drive effective demand up
- expectation of GDP growth being sustained at +8% in the next few years
- completion of reduction of inventory in 1QFY08, leading to lower discrepancy between despatches and retail sales
- Continuous new models / variants being launched, thereby whetting the consumer appetite
- Low base of FY08 will increase the growth rate for FY09

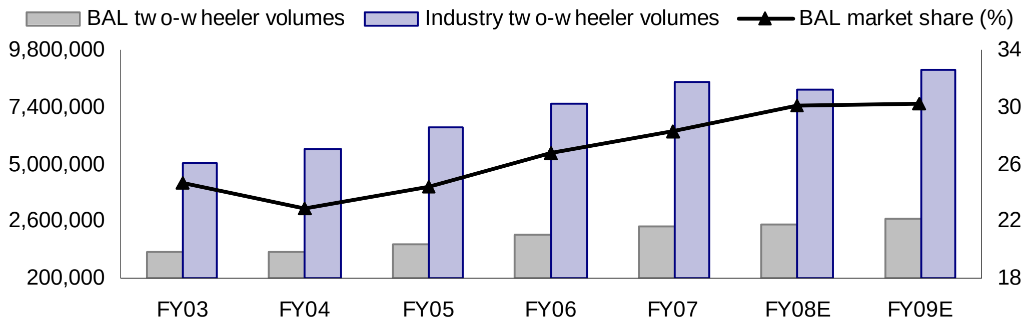
TREND IN TWO-WHEELER SALES



Source: Company/Motilal Oswal Securities

Also, with industry focus shifting from entry-level motorcycles to performance motorcycles, we expect an improvement in profitability. With a 60% market share in the relatively high margin performance motorcycles (>125cc) segment – good performance of the *Pulsar* variants and the launch of its 125cc *XCD* – Bajaj Auto is best placed, in our opinion to improve volumes and gain further market share.

EXPECTED TO SUSTAIN MARKET SHARE IMPROVEMENT TREND (NOS)

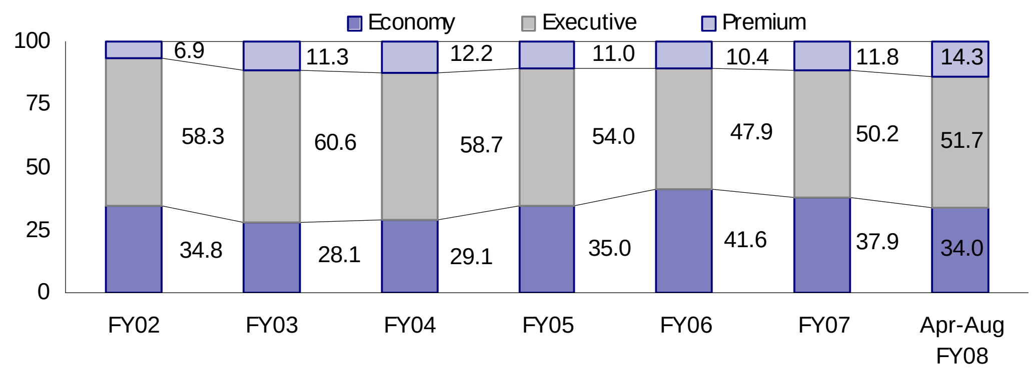


Source: Company/Motilal Oswal Securities

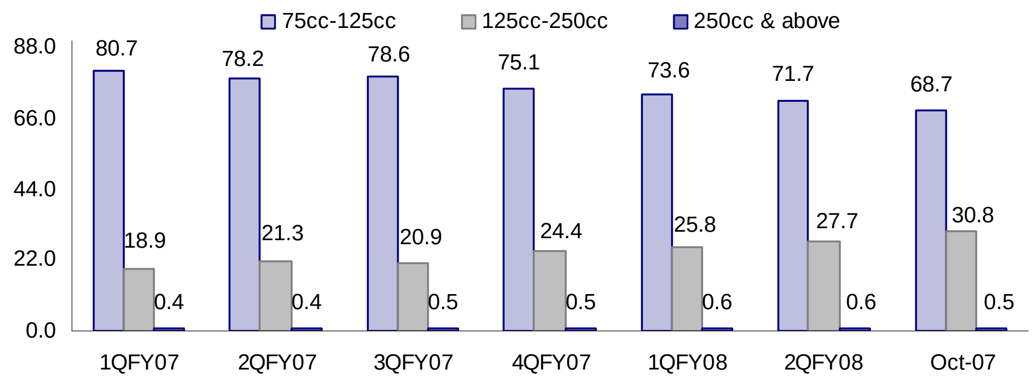
Bajaj Auto is dominant in the performance segment

Bajaj Auto has a stronghold over the performance segment (>125cc motorcycles), wherein it sports its *Pulsar* and *Discover* bikes. Its market share in this segment was 60% in FY07, down from 68% in FY06. Profitability of performance bikes is higher than that of entry-level bikes. Since Bajaj Auto is dominant in the performance segment, it has greater potential to expand its EBITDA margins.

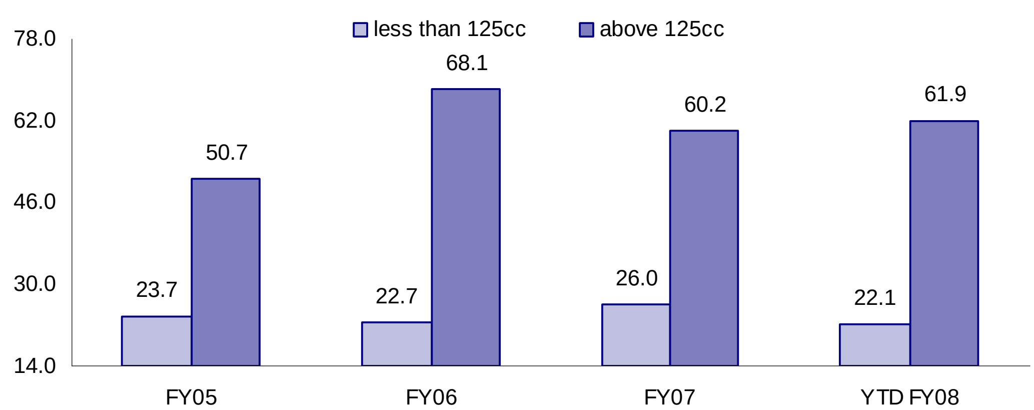
PERFORMANCE BIKES GAINING PROMINENCE (%)



INDUSTRY PRODUCT MIX (%)



BAJAJ AUTO: DOMINANT IN THE PERFORMANCE SEGMENT (MARKET SHARE, %)



Source: Company/Motilal Oswal Securities

Bajaj Auto's market share loss in the performance segment in FY07 was exacerbated by the success of its 100cc *Platina* – while the company offered discounts for this model, there was no aggressive marketing for *Pulsar*. Moreover, the initial success of TVS Motors' *Apache* and the launch of *CBZ Xtreme* by Hero Honda also impacted Bajaj Auto's market share in the performance segment.

In 1QFY08 too, the company's market share continued to decline. However, sales have picked up strongly in 2QFY08 in the performance segment due to good demand for *Pulsar* and the launch of *XCD*. We believe Bajaj Auto is well positioned to regain lost market share based on:

- It has launched the 125cc *XCD*, combining the best of 100cc bikes (superior mileage) and 125cc bikes (better performance)
- It has a strong product portfolio in the executive and premium segments, without too much brand overlapping
- The management has taken a conscious decision to stay away from the numbers game in the entry-level segment, henceforth
- The company is setting up more *Pro-biking* shops to market its premium bikes

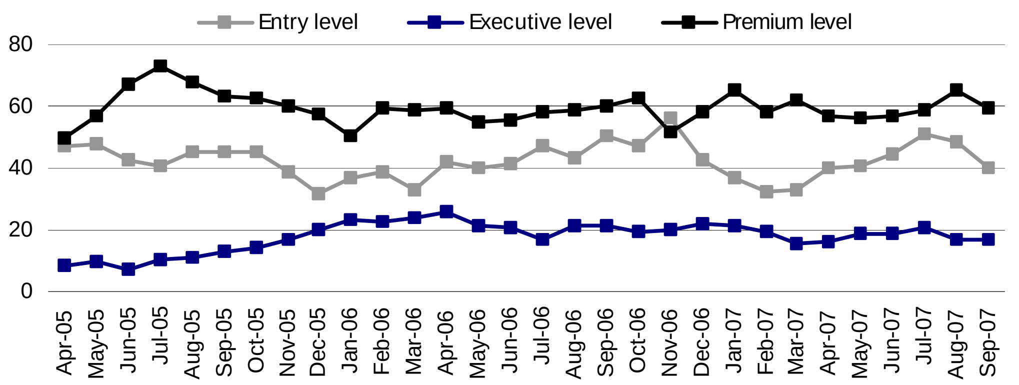
Bajaj Auto's increasing focus on higher-end (and more profitable) motorcycles is evident in its recent launches. All its new launches in the post-*Platina* period have been geared towards giving it greater traction in the premium and executive segments. Since April 2006, it has launched only one entry-level bike (*Platina*), while Hero Honda has launched three new entry-level bikes/variants and TVS Motors has launched two new entry-level bikes/variants.

XCD launch will strengthen its position in the executive segment

Bajaj Auto has launched a new motorcycle, XCD 125 DTS-Si (Digital Twin Spark – Swirl Induction) at an ex-showroom price of Rs41,000 (on-road price of ~Rs47,000). It is a 125cc motorcycle offering mileage equivalent to that of a 100cc bike. The company expects this product to be a blockbuster, causing a shift in consumer preference away from 100cc motorcycles.

The bike is positioned in the space between the Platina (100cc) and the Discover (135cc), in a segment where Bajaj Auto's presence is the weakest. To pave the way for greater visibility of XCD, the company has discontinued the Discover twins – 110cc and 125cc (Discover 135cc will be the sole Discover variant available now). This would overcome any confusion over brands from the Bajaj stable. The company has a strong presence in the premium segment (58.8% share in 1HFY08) and the entry segment (44.1% share in 1HFY08). However, it remains a weak player in the executive segment (18% share in 1HFY08), even though the Discover twins and the newly launched Discover 135cc have met with good response.

BAJAJ AUTO: SEGMENT-WISE MARKET SHARE (%)



Source: Company/Motilal Oswal Securities

Higher volumes of *XCD* would also help boost Bajaj Auto's EBITDA margins. Inevitable cannibalization of *Platina* on account of the lower-than-*Discover* price point and promise of mileage similar to *Platina* would nevertheless help improve profitability. Profit margin on *XCD* is expected to be similar to that of *Discover*, while the company makes no profit on *Platina*. The management expects a profit margin of Rs3,000/unit of *XCD* sold.

Building a portfolio in three-wheelers

Bajaj Auto has a stronghold over the domestic three-wheeler market and is India's largest exporter of three-wheelers. While passenger vehicles would remain the key drivers of growth for Bajaj Auto, it is building a portfolio of light goods carrying vehicles. The company is also developing a four-wheel LCV, which it intends to launch in the same segment as Tata Motor's Ace and Piaggio's Ape.

Passenger segment: Expect flat volumes for FY08

Traditionally, the three-wheeler market is permit-driven, with sales dependent on new permits issued. However, we believe that the transition to alternate fuel vehicles (owing to the implementation of fuel-emission regulatory norms) would be the growth driver over the next 2-3 years. Older petrol vehicles are being phased out in favor of LPG/CNG powered vehicles (in cities such as Ahmedabad, Chennai, Delhi and Kolkata). Bajaj has developed new three-wheeler models scheduled for launch over next few quarters. We believe some of these products would also find acceptance in export markets. However, due to the high base effect of FY07, we expect FY08 three-wheeler volumes to be flat.

Goods segment: Potential for market share gains

Though Bajaj Auto has nearly 72% share of the passenger three-wheeler market as of October 2007 (76% in FY07), its share of the overall three-wheeler market is just about 58% as of October 2007 (61% in FY07). This is because it is still developing its goods portfolio. As it makes further progress, we believe its market share in the goods segment would increase. The company is also developing a four-wheel LCV, which it intends to launch in the same segment as Tata Motor's *Ace* and Piaggio's *Ape*.

THREE-WHEELER VOLUMES (UNITS)

		FY07	FY06
Passenger - 3 seater	Industry	358,585	269,209
	BAL	279,341	215,993
	BAL Market Share (%)	*77.9*	*80.2*
Passenger - 6 seater	Industry	10,795	11,958
	BAL	Nil	Nil
Total Passenger	Industry	369,380	281,167
	BAL	279,341	215,993
	BAL Market Share (%)	*75.6*	*76.8*
Goods carriers	Industry	159,417	138,688
	BAL	42,487	36,061
	BAL Market Share (%)	*26.7*	*26.0*
Total 3 wheelers	Industry	528,797	419,855
	BAL	321,828	252,054
	BAL Market Share (%)	*60.9*	*60.0*

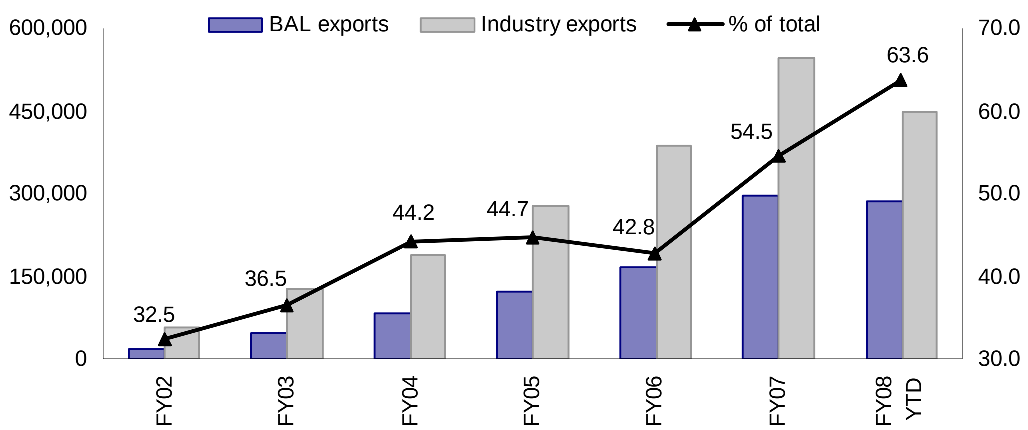
Note: BAL - Bajaj Auto Limited *Source: Company*

Exports: The increasing contributor

Bajaj Auto is India's largest exporter of two- and three-wheelers. It accounts for about 55% of India's motorcycle exports and around 98% of India's three-wheeler exports. We believe that exports, which constituted 16.2% of its sales volume in FY07, would grow at 22.1% CAGR over FY07-FY10 to 798,984 units, accounting for 24.5% of sales volume.

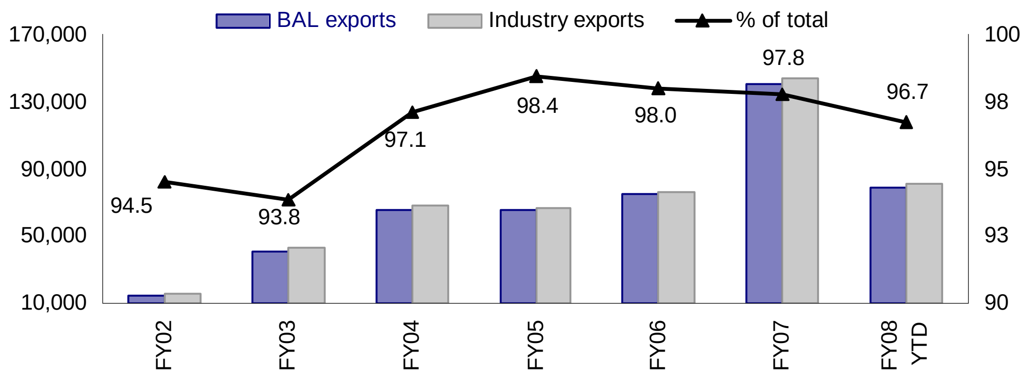
Countries where Bajaj Auto's products are sold include Bangladesh, Colombia, Dubai, Egypt, Guatemala, India, Indonesia, Iran, Mexico, Nigeria, Peru, Philippines, Sri Lanka , etc. Bajaj has been making efforts to enter into tie-ups for distribution and financing (key parameter for success in the overseas market) and is now confident of taking a market share of 5-10% of this market.

BAJAJ AUTO: HAS HAD A LEADING POSITION IN MOTORCYCLE EXPORTS (NOS)



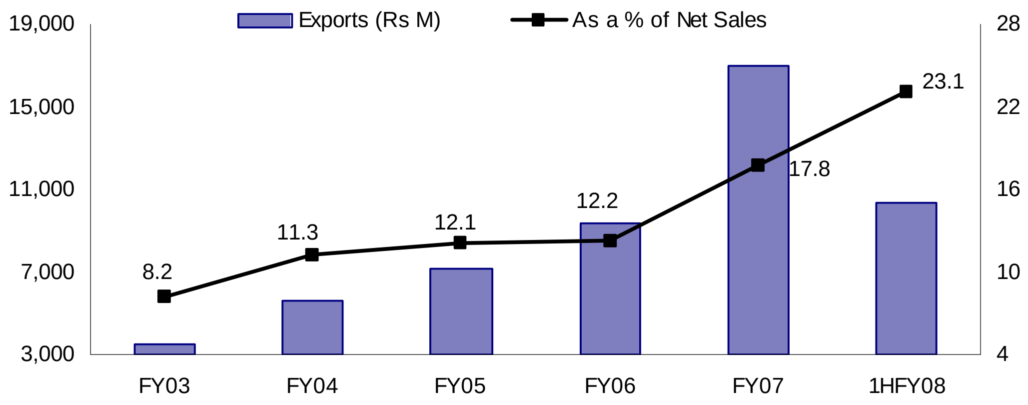
Source: Company/Motilal Oswal Securities

BAJAJ AUTO: DOMINATING THREE-WHEELER EXPORTS (NOS)



Source: Company/SIAM

BAJAJ AUTO: CONTRIBUTION FROM EXPORTS (VALUE TERMS) RISING



Source: Company/Motilal Oswal Securities

Acquisition of stake in KTM Power Sports

BAL has acquired in November 2007 a 14.5% stake in KTM Power Sports AG (through its 100% subsidiary), which is the second largest European sport motorcycle manufacturer. The two companies have also agreed upon wide ranging co-operation and joint projects. The two companies will co-develop a range of products for manufacture by BAL for both BAL and KTM brands.

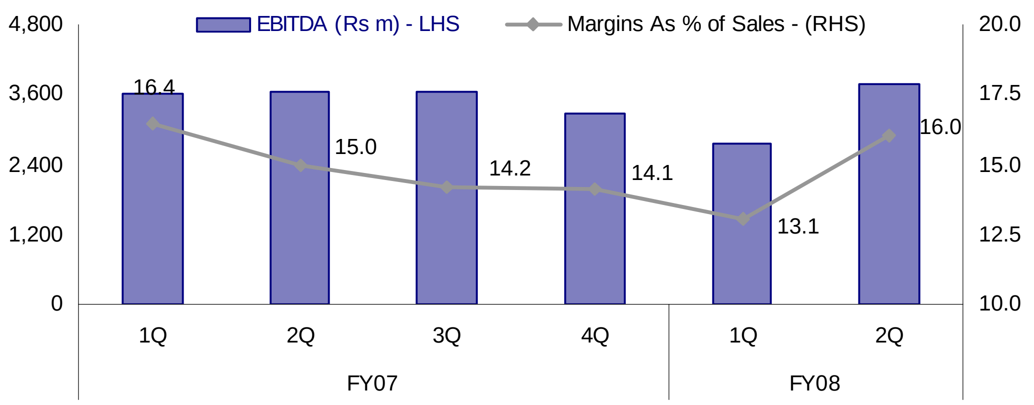
The arrangement also allows the KTM group to extend its product portfolio for the future with a 125cc product line (its existing line covers the 1,190cc, 990cc, and 690cc platforms). The sourcing for production and assembly for these motorcycles will take place in India. BAL will also take over distribution of KTM products in India and South East India. BAL will also benefit by being able to access the European market via KTM.

EBITDA margin: Set to improve

We believe that Bajaj Auto will sustain the improvement in its EBITDA margin seen in 2QFY08. Although we expect EBITDA margin to be lower in 3Q on a QoQ basis on account of the festival season discount of Rs4,000 for Platina, the margins are expected to improve in 4Q once again. As result, after dipping to 14.9% in FY07, we expect EBITDA margin of 15% in FY08 and 15.3% in FY09.

Our view is based on the company's improving product mix, completion of dealer inventory rationalization, lower salary costs (as annual bonuses have been paid out in 1QFY08), and accrual of higher DEPB benefit due to higher exports and increased DEPB rate.

TREND IN EBITDA MARGINS

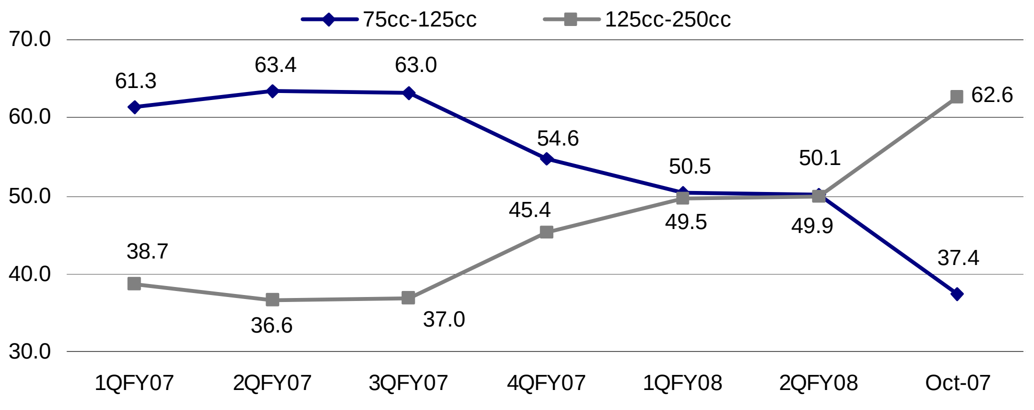


Source: Company/Motilal Oswal Securities

Improving product mix

Bajaj Auto's product mix is shifting towards upper-end motorcycles and away from the entry-level segment. This trend has been witnessed even in the wake of declining two-wheeler sales during April-August 2007. The share of >125cc bikes in the company's total sales has increased from 38.7% in 1QFY07 to 49.9% in 2QFY08 – indicating an improvement in the company's product mix.

PRODUCT-MIX HAS BEEN STEADILY IMPROVING (%)



Source: Company/Motilal Oswal Securities

The September 2007 launch of its new 125cc motorcycle, XCD will help shift demand away from the near-nil profit Platina to the higher profitability new bike, leading to higher EBITDA margins from 2HFY08.

Lower staff cost

Bajaj Auto pays its annual employee bonus in the first quarter of every year - staff expenses in the first quarter, are therefore, the highest. Staff costs in 1QFY08 also included compensation towards annual bonus of about Rs130m. With this expense being absent during the remainder of the year, we expect margins in the remaining three quarters to be higher compared with 1QFY08.

Moreover, the company intends to stop vehicle manufacturing at its Akurdi plant. While this would mean VRS expenses, it would also result in lower staff costs, as the Akurdi plant is a heavily manned plant (2,300 employees), with high cost of manufacture.

Higher DEPB benefit

Bajaj Auto has significant exposure to exports, which contributed 16.2% to its volumes and 17.8% to its sales in FY07. The proportion of exports to total volumes has increased significantly during April-October 2007 to 24.8% – apparently, the company has sought to make up for the slump in domestic volumes with greater exports. The DEPB benefit has increased by 3% due to the appreciating rupee and this benefit accrues directly to revenues and profits. This will help reduce the cost of exports and enhance EBITDA margin.

Shifting of production away from Akurdi

Bajaj Auto is likely to move production away from its 720,000-unit Akurdi plant to its Chakan and Uttaranchal plants to avail of fiscal incentives on offer at these locations. The company plans to use the Akurdi facility solely for research and development activities. Production at the Akurdi plant was already lower by 100,000 units in FY07 at 350,000 units. The benefits of shifting production away from the Akurdi plant could result in Bajaj’s profits increasing by 5-10%, even after considering the impact of VRS expenses at this plant. Moreover, there would be no capacity constraints due to this move in the medium term, with the new plant in Uttaranchal coming on stream.

Insurance business: Potential value driver

We value Bajaj Auto's life insurance business at Rs681/share of the post-demerger equity (Rs973/share of the existing equity). In our valuation exercise, we have assumed a CAGR of 67.9% in APE (annualized premium equivalent) for Bajaj Allianz Life during FY07-09 and stable NBAP margin of 21%. We have also taken cognizance of Bajaj Auto's 26% economic interest in Bajaj Allianz Life.

VALUATION: BAJAJ ALLIANZ LIFE INSURANCE

FY09E APE	90,276
NBAP Margin (%)	21
FY09E NBAP (Rs m)	18,944
Value of Bajaj Life at 20x FY09E NBAP	**378,873**
Value for Bajaj Auto's 26% stake	**98,507**
Value per Share of Bajaj Auto (Rs)	681

Source: Company/Motilal Oswal Securities

We are not factoring in the potential upside to Bajaj Auto if the foreign investment limit in life insurance remains capped at 49% until 30 July 2016, beyond which Bajaj Auto is eligible for the market price or fair value of its stake in the JV or if IRDA guidelines prescribe a valuation methodology for stake transfers.

Considering the strong growth in the company's life insurance business along with the higher NBAP margin of 22% (v/s 19% for Prudential ICICI Life), we expect Bajaj Allianz Life's valuations to remain higher. Bajaj Allianz Life has not only maintained its position as second largest private life insurer, it has been able to improve its market share despite intense competition among the players.

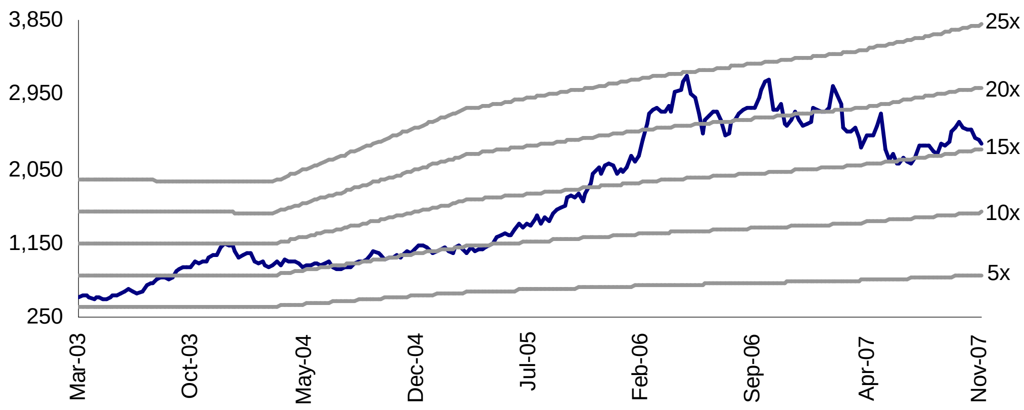
Valuation and view

Given the better business prospects, increase in insurance valuation, and significant underperformance of the stock, we remain positive on Bajaj Auto. Our SOTP-based price target is Rs3,039. We have valued the auto business at Rs1,171 (14x FY09E earnings), the financial services business at Rs683 and assigned a value of Rs1,185 for the holding company. Our SOTP valuation indicates 30% upside.

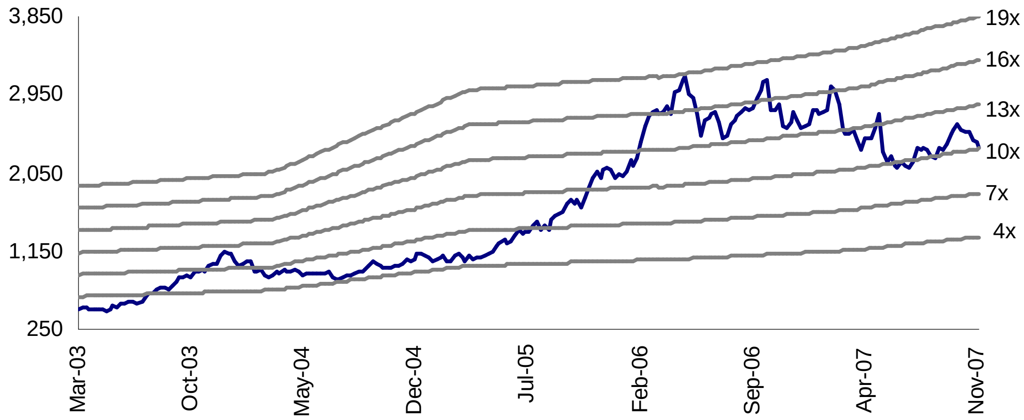
VALUATION OF CURRENT BAJAJ AUTO SHARES BASED ON THE PROPOSED DE-MERGER SCHEME

	FY07	FY08E	FY09E
A] Valuation of Bajaj Auto Ltd (New)			
Core business profit (Rs m)	8,424	9,228	11,062
Core EPS (Rs)	58	64	76
PE (x)	14	14	14
Value of core business (Rs/share)	**815**	**893**	**1,070**
Cash held after de-merger (Rs m)	15,000	16,500	18,150
Cash per share (Rs)	104	114	125
Outstanding shares (M nos)	145	145	145
Total Value of demerged Auto business (Rs/Share)	919	1,007	1,196
Value of demerged Auto business with 20% disc. on Cash (Rs/Share)	**898**	**984**	**1,171**
B] Valuation of Bajaj Finserv Ltd			
Life Insurance (Rs)	515	592	681
General Insurance (Rs)	44	52	61
Total Value (Rs/ Share)	559	644	742
Bajaj Auto Finance			
Value (Rs)	**39**	**39**	**39**
Cash held after de-merger (Rs m)	8,000	8,800	9,680
Value of call option exercised (16% interest) (Rs m)	677	785	911
Cash per share (Rs)	60	66	73
Outstanding shares (M nos)	145	145	145
Value of Finserv with 20% disc. on insurance business (Rs/Share)	**538**	**613**	**698**
Value of Finserv company with overall 20% disc. (Rs/Share)	**526**	**599**	**683**
C] Valuation of Bajaj Holdings and Investments Ltd (BHIL)			
Net Cash & Investments (MV) (Rs m)	73,339		
Less: Cash transfer to auto business (Rs m)	15,000		
Less: Cash transfer to Finservices business (Rs m)	8,000		
Net Cash & Equivalents (BV) (Rs m)	50,339		
Value per share (Rs/Share)	497	547	602
Outstanding shares (M nos)	101	101	101
Value of Bajaj Auto business (30% of value) (Rs/Share)	394	432	513
Value of Bajaj Finserv Business (30% of value) (Rs/Share)	282	321	366
Total value (Rs/Share)	1,174	1,300	1,481
Value of BHIL @ 20% disc. on cash, 20% holding co disc. (Rs/Sh)	**939**	**1,040**	**1,185**
Value of BHIL @ 0% disc. on cash, 20% holding co disc. (Rs/Sh)	**1,038**	**1,150**	**1,305**
Value of BHIL @ 0% disc. on cash, 30% holding co disc. (Rs/Sh)	**971**	**1,074**	**1,217**
Total Value of Current Bajaj Auto/Share (Rs) - [A + B + C]			
@ 20% holding company disc., 20% disc. on cash (Rs)	**2,363**	**2,624**	**3,039**
@ 20% holding company disc., 0% disc. on cash (Rs)	**2,495**	**2,769**	**3,199**
@ 30% holding company disc., 0% disc. on cash (Rs)	**2,428**	**2,694**	**3,111**

BAJAJ AUTO: PE BAND



BAJAJ AUTO: EV/EBITDA



INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	**57,240**	**74,694**	**92,922**	**101,852**	**114,780**
Change (%)	*20.4*	*30.5*	*24.4*	*9.6*	*12.7*
Operating Other Income	1,907	1,985	2,282	2,396	2,516
Total Income	**59,147**	**76,679**	**95,204**	**104,247**	**117,295**
Change (%)	*20.3*	*29.6*	*24.2*	*9.5*	*12.5*
Total Expenditure	**50,013**	**63,116**	**81,034**	**88,607**	**99,326**
EBITDA	**9,134**	**13,563**	**14,170**	**15,641**	**17,969**
Change (%)	*7.1*	*48.5*	*4.5*	*10.4*	*14.9*
% of Net Sales	*15.4*	*17.7*	*14.9*	*15.0*	*15.3*
Depreciation	1,854	1,910	1,903	2,062	2,158
Interest & Finance Charges	7	3	53	56	56
Other Income	4,081	4,385	5,556	6,018	6,275
Non-recurring Expense	490	226	490	77	0
Non-recurring Income	0	216	-9	0	0
PBT	10,865	16,024	17,272	19,463	22,029
Tax	3,196	4,791	4,901	5,498	5,948
Effective Rate (%)	*29.4*	*29.9*	*28.4*	*28.3*	*27.0*
PAT	**7,668**	**11,233**	**12,371**	**13,965**	**16,081**
Adj. PAT	**7,987**	**11,243**	**12,869**	**14,042**	**16,081**
Change (%)	*3.2*	*40.8*	*14.5*	*9.1*	*14.5*

RATIOS

Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	**75.8**	**111.0**	**127.2**	**138.8**	**158.9**
EPS growth (%)	-0.9	46.5	14.6	9.1	14.5
Cash EPS	94.1	129.9	141.1	158.4	180.3
Book Value per Share	408.6	471.5	547.0	643.0	756.9
DPS	25	40	40	42	45
Payout (Incl. Div. Tax) %	33.0	40.5	36.8	35.0	32.6
Valuation (x)					
P/E		21.1	18.4	16.9	14.7
Cash P/E		18.0	16.6	14.8	13.0
EV/EBITDA		14.2	13.3	11.6	9.4
EV/Sales		2.6	2.0	1.8	1.5
Price to Book Value		5.0	4.3	3.6	3.1
Dividend Yield (%)		1.7	1.7	1.8	1.9
Profitability Ratios (%)					
RoE	19.3	23.6	23.3	21.6	21.0
RoCE	20.7	25.4	24.6	23.9	23.6
Leverage Ratio					
Debt/Equity (x)	0.3	0.3	0.3	0.2	0.2

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	1,012	1,012	1,012	1,012	1,012
Reserves	40,332	46,696	54,331	64,046	75,574
Net Worth	**41,343**	**47,707**	**55,343**	**65,058**	**76,586**
Deferred Tax	1,399	876	742	742	742
Loans	12,270	14,672	16,254	16,254	16,254
Capital Employed	**55,012**	**63,255**	**72,339**	**82,054**	**93,582**
Gross Fixed Assets	27,436	28,929	31,744	34,013	34,813
Less: Depreciation	16,286	17,787	19,224	21,286	23,445
Net Fixed Assets	**11,150**	**11,142**	**12,520**	**12,727**	**11,369**
Capital WIP	84	242	269	0	0
Investments	45,606	58,570	64,475	64,475	64,475
Curr.Assets, L & Adv.	**25,897**	**28,561**	**38,186**	**44,960**	**59,585**
Inventory	2,242	2,729	3,097	3,332	3,724
Sundry Debtors	1,763	3,016	5,298	5,701	6,371
Cash & Bank Balances	1,087	821	835	6,971	20,534
Loans & Advances	20,120	21,274	28,594	28,594	28,594
Others	685	721	362	362	362
Current Liab. & Prov.	**27,940**	**35,448**	**43,328**	**40,325**	**42,063**
Sundry Creditors	7,351	11,802	13,745	14,789	16,528
Other Liabilities	499	487	1,245	1,245	1,245
Provisions	20,089	23,159	28,338	24,291	24,291
Net Current Assets	**-2,042**	**-6,887**	**-5,141**	**4,636**	**17,522**
Application of Funds	**55,012**	**63,255**	**72,339**	**82,054**	**93,582**

E: MOSt Estimates

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	7,280	11,653	12,267	13,579	15,811
Interest/Div. Received	4,081	4,385	5,556	6,018	6,275
Depreciation & Amort.	1,854	1,910	1,903	2,062	2,158
Direct Taxes Paid	-3,026	-5,314	-5,035	-5,498	-5,948
(Inc)/Dec in Working Capital	-395	4,579	-1,732	-3,643	675
CF from Oper. Activity	**9,795**	**17,212**	**12,960**	**12,519**	**18,972**
Extra-ordinary Items	-490	-10	-498	-77	0
CF after EO Items	**9,304**	**17,202**	**12,461**	**12,442**	**18,972**
(Inc)/Dec in FA+CWIP	-905	-2,033	-3,336	-2,000	-800
(Pur)/Sale of Invest.	-7,051	-12,964	-5,906	0	0
CF from Inv. Activity	**-7,956**	**-14,997**	**-9,242**	**-2,000**	**-800**
Inc. / Dec.in Networth	-731	-316	-182	0	0
Inc/(Dec) in Debt	2,213	2,402	1,583	0	0
Interest Paid	-7	-3	-53	-56	-56
Dividends Paid	-2,530	-4,553	-4,553	-4,250	-4,553
CF from Fin. Activity	**-1,055**	**-2,471**	**-3,206**	**-4,306**	**-4,609**
Inc/(Dec) in Cash	293	-266	14	6,136	13,563
Add: Beginning Balance	794	1,087	821	835	6,971
Closing Balance	**1,087**	**821**	**835**	**6,971**	**20,534**

E: MOSt Estimates

Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	HH IN
	REUTERS CODE
S&P CNX: 5,912	HROH.BO

15 November 2007 **Buy**

Previous Recommendation: Buy Rs682

Y/E MARCH	2006	2007	2008E	2009E
Net Sales (Rs m)	87,140	99,000	105,008	117,979
EBITDA (Rs m)	13,645	11,810	12,443	14,334
NP (Rs m)	9,713	8,659	8,767	10,273
EPS (Rs)	48.6	43.4	43.9	51.4
EPS Growth (%)	20.8	-10.9	1.2	17.2
BV/Share (Rs)	100.6	123.7	147.6	176.5
P/E (x)	14.0	15.7	15.6	13.3
P/BV (x)	6.8	5.5	4.6	3.9
EV/EBITDA (x)	8.5	10.0	9.5	7.8
EV/Sales (x)	1.3	1.2	1.1	0.9
RoE (%)	55.5	38.3	32.4	31.7
RoCE (%)	68.4	48.5	40.9	39.5

KEY FINANCIALS	
Shares Outstanding (m)	199.7
Market Cap. (Rs b)	134.2
Market Cap. (US$ m)	3.4
Past 3 yrs. Sales Growth (%)	19.3
Past 3 yrs. NP Growth (%)	5.9
Dividend Payout (%)	46.3
Dividend Yield (%)	3.0

STOCK DATA	
52-Week Range (H/L - Rs)	808/556
Major Shareholders (as of September 2007)	%
Promoters	55.0
Domestic Institutions	7.6
FIIs/FDIs	28.0
Others	9.4
Average Daily Turnover	
Volume ('000 shares)	340.0
Value (Rs million)	240.4
1/6/12 Month Rel. Performance (%)	-14/-44/-51
1/6/12 Month Abs. Performance (%)	-11/-2/-4

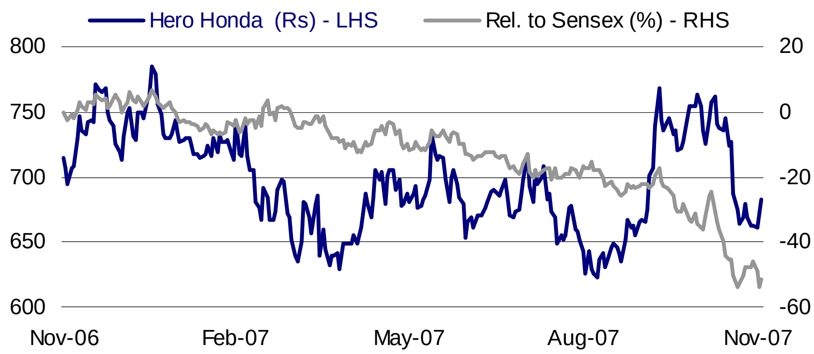
Hero Honda is the industry leader in two-wheelers in India. However, it has seen its market share decline in FY07 due to the intense competition in the industry. With the industry scenario expected to improve in 2HFY08, volumes are expected to be better, while the improvement in the company's operating performance and commencement of production at the Uttaranchal plant in FY09 will help boost profitability.

Substantial rural presence: Hero Honda's substantial presence in rural India insulates it somewhat from the onslaught of the competition. It also ensures continual access to the majority of the population, which is as yet largely untapped and is seeing an improvement in its economic condition.

Improvement in EBITDA margin: We believe that Hero Honda's EBITDA margin will sustain the improvement seen therein in 2QFY08. While 3QFY08 margins will be lower on account of the festival season discounts, the outlook for 4QFY08 and FY09 is better on account of the decline in raw-material prices, commencement of the Uttaranchal plant in FY09 (where Hero Honda will be able to avail of tax incentives) and launch of bikes in the performance segment leading to an improvement in the product mix.

Maintain Buy: We expect Hero Honda to report volume growth of 1.3% in FY08 and 8.4% in FY09. We expect the company to report EPS of Rs43.9 in FY08 and Rs51.4 in FY09. The stock trades at 15.6x FY08E EPS and 13.3x FY09E EPS. Maintain **Buy** with a target price of Rs819.

STOCK PERFORMANCE (ONE YEAR)



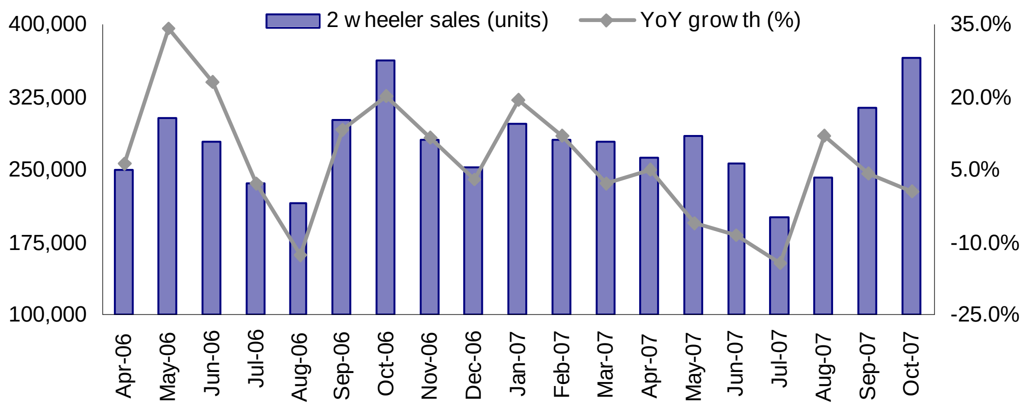
Widespread and strong reach across India

Volumes will pick up

We expect improvement in two-wheeler volumes 2HFY08 onward. Hero Honda will also benefit from growth drivers such as:

- enhancement in the fortunes of rural sector consumers
- stable/possible decline in consumer loan interest rates,
- expectation of the envisaged strong GDP growth being sustained,
- launch of a continuous stream of new models/variants, arousing consumer appetite
- on the low base of FY08, the growth rate for FY09 will record substantial increase

TREND IN HERO HONDA'S TWO-WHEELER SALES



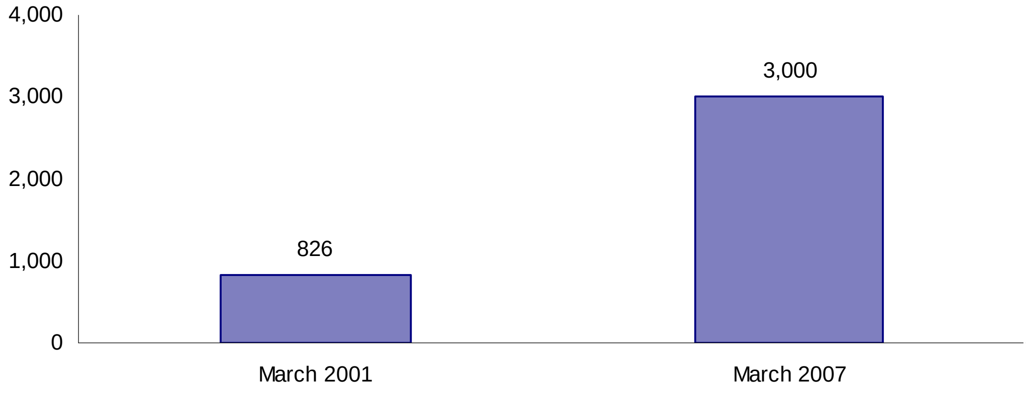
Source: Company/Motilal Oswal Securities

As the bar chart above shows, post the decline in 1HCY07, sales have picked up over the past two months, lending credibility to our thinking along the lines of a revival in the two-wheeler sector. We note, while the YoY growth rate remains in single digits, the growth rate is no longer negative.

Well established dealer network

Hero Honda has the largest dealership network in India that has been built up over the past decade. This gives the company access to most of the regions in the country, thereby making a larger portion of the potential customer base available to them. Unlike other players, Hero Honda is also able to access a large portion of the rural population as well owing to its widespread dealer network. The company is now focusing on increasing its presence in the north-eastern part of the country.

INCREASE IN HERO HONDA'S DEALER NETWORK (NOS)

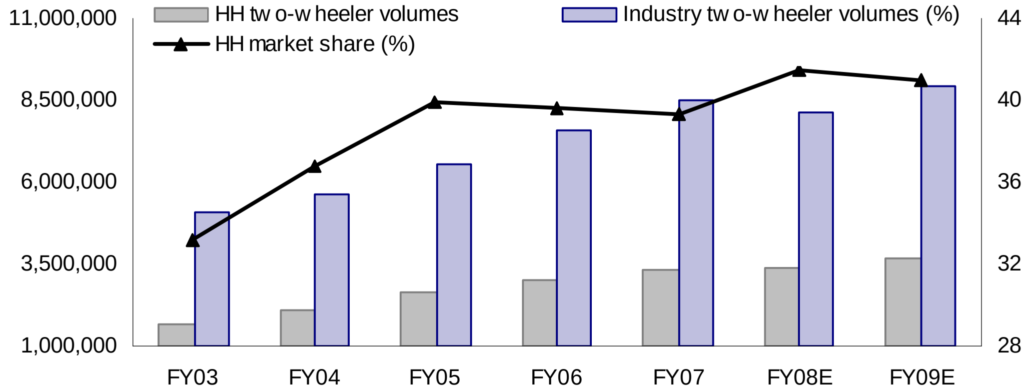


Source: Company

Expected to remain the industry leader

Hero Honda has been the industry leader in motorcycles for some time, and it is expected to retain its leadership position in the future as well, even in the wake of increased competition. Its well established presence in the executive segment with models like Super Splendor and Glamour ensures adequate volumes for the company. Entry level brands such as Splendor and Passion, and premium segment bikes like CBZ Extreme, Karizma and the newly launched Hunk, will help boost volumes further.

EXPECTED TO MAINTAIN LEADERSHIP IN TWO-WHEELERS (NOS)



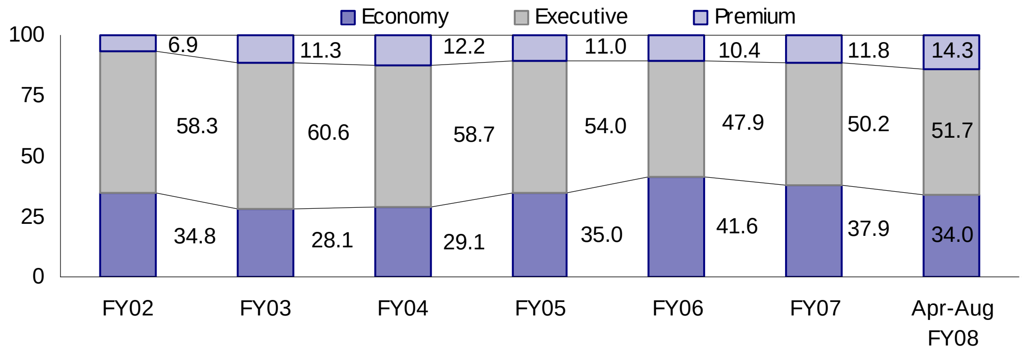
Source: Company/Motilal Oswal Securities

Hero Honda's share losses in FY07 was exacerbated by the success of Bajaj Auto's 100cc *Platina*, while Hero Honda was left to catch up on the volumes game.

Hero Honda to maintain leadership in the executive segment

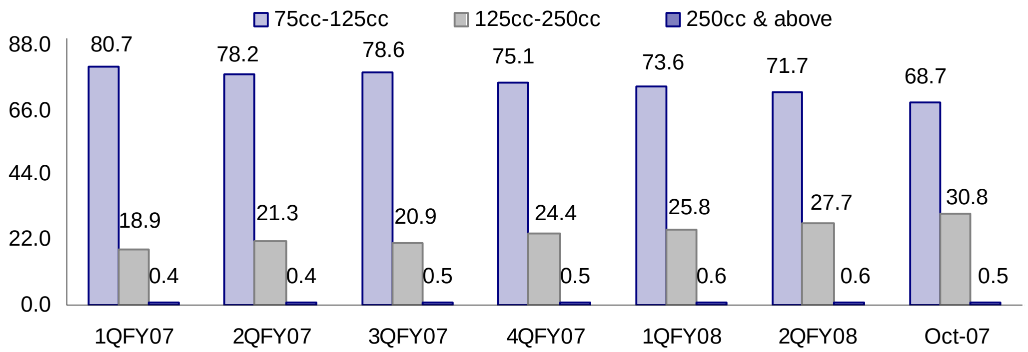
Hero Honda enjoys a dominant position in the executive segment with its Glamour and Super Splendor bikes. The executive segment is its biggest bike segment, and is expected to continue to lead in today's domestic motorcycle scenario even in the wake of premium segment bikes garnering greater market share (we believe this cannibalization would occur more at the expense of entry level bikes rather than executive segment bikes).

PERFORMANCE BIKES GAINING PROMINENCE (%)



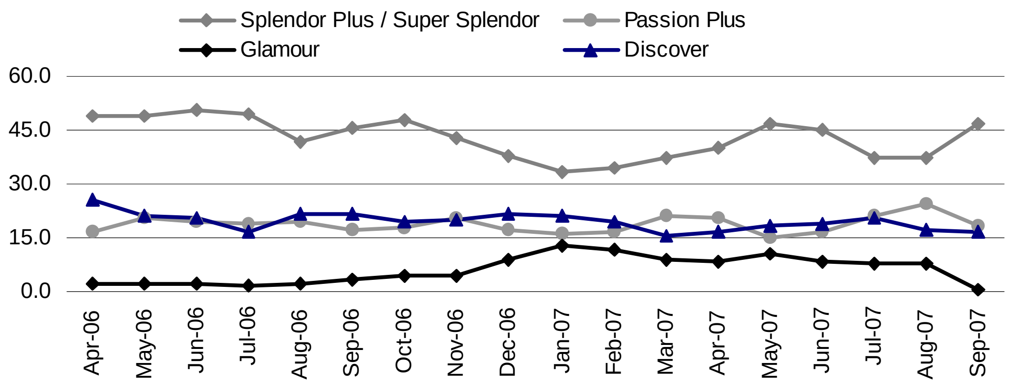
Source: Crisinfac

INDUSTRY PRODUCT MIX (%)



Source: Company/Motilal Oswal Securities

HERO HONDA'S SPLENDOR PLUS/SUPER SPLENDOR LEADS THE EXECUTIVE SEGMENT (%)



Source: Company/Motilal Oswal Securities

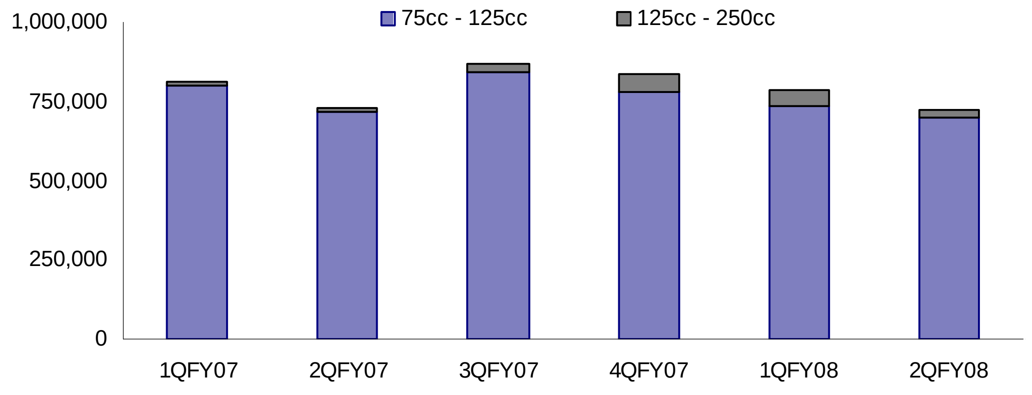
To counter BAL's strategy of focusing on higher-end (more profitable) motorcycles, Hero Honda has supplemented its offerings in the premium segment – CBZ Xtreme and Karizma with launch of the 150cc Hunk. This launch will help Hero Honda offer a more complete portfolio of bikes.

POSITIONING OF HH'S BIKES

MOTORCYCLE MODEL	PRICE (RS '000, ON ROAD DELHI)	ENGG DISPLACEMENT (CC)
CD Dawn	35.6	97.2
CD Deluxe	39.2	97.2
Splendor Plus	42.3	97.2
Splendor NXG	48.0	97.2
Super Splendor	47.4	124.7
Passion Plus	45.2	97.2
Glamour (Spoke)	44.8	124.7
Glamour (Alloy)	50.1	124.7
Glamour PGM (Drum)	52.6	124.8
Glamour PGM (Disc)	58.9	124.8
Achiever (Kick)	54.4	149.1
Achiever (Self)	56.2	149.1
CBZ Xtreme (Kick)	58.4	149.2
CBZ Xtreme (Self)	60.5	149.2
Karizma	77.5	223.0

Source: Industry/Motilal Oswal Securities

SEGMENTWISE MARKET SHARE OF HERO HONDA (NOS)



Source: Company/Motilal Oswal Securities

Scooters: Expect an improvement in penetration

Hero Honda's venture into the scooters segment scaled up rapidly in FY07, but volumes turned sluggish in 4QFY07 and 1QFY08. However, scooter volumes have picked up again in 2QFY08 – increasing 40.8% YoY and 64.7% QoQ. While there has been a slowdown in volumes in the two-wheeler industry, Hero Honda was able to record volume growth mainly due to strong scooter volumes. Even in motorcycles, the company displayed only a marginal (1.6% YoY) volume decline, whereas industry motorcycle volumes declined 9.9% YoY.

HERO HONDA: SCOOTERS MARKET SHARE

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	OCT-07
Hero Honda: Scooter Sales	22,100	21,703	29,279	19,895	18,549	30,551	12,099
Industry	231,906	233,547	250,329	260,576	263,194	280,971	100,998
Market Share (%)	*9.5*	*9.3*	*11.7*	*7.6*	*7.0*	*10.9*	*12.0*
Total Hero Honda Sales	832,692	751,967	896,113	855,984	802,853	756,633	365,022
Share of HH sales (%)	*2.7*	*2.9*	*3.3*	*2.3*	*2.3*	*4.0*	*3.3*

Source: Company/Motilal Oswal Securities

Improvement in EBITDA margin

We believe that Hero Honda's EBITDA margin will sustain the improvement witnessed in 2QFY08. While 3Q margins will be lower on account of the festival season discounts, the scenario for 4QFY08 and FY09 is, we believe, better on account of the decline in raw material prices, commencement of the Uttaranchal plant in FY09 (Hero Honda will be able to avail tax incentives) and launch of bikes in the performance segment leading to improvement in the product mix.

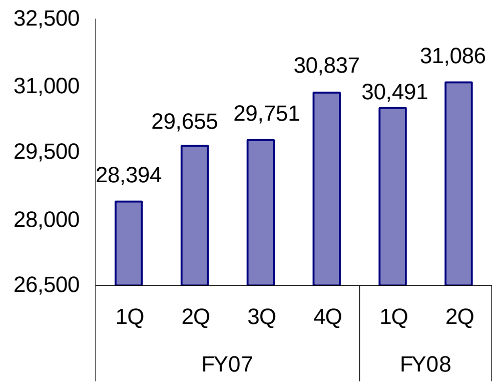
As a result of the improvement in the product mix, while Hero Honda's volumes increased by a marginal 0.6%, net sales grew 5.5% YoY based on realizations increasing 4.8% YoY in 2QFY08. The higher realization in the quarter is due to the shift in product mix toward premium models. The 125cc-250cc motorcycle segment contributed 4.1% to Hero Honda's motorcycle sales in 2QFY08 (1.8% in 2QFY07 and 6.2% in 1QFY08).

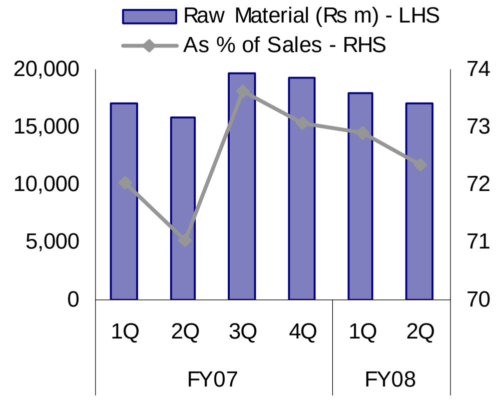
Hero Honda's 2QFY08 results surprised positively, with EBITDA margin expanding 160bp QoQ (contracting 30bp YoY) to 12.4%. We believe this has been achieved by:

- greater penetration in the +125cc segment,
- sales of deluxe versions,
- lower raw material prices (7.5% QoQ decline in aluminum prices; likewise for copper), focus on cost management,
- lower advertising expenditure (no major launches versus 1QFY08) leading to other expenditure to sales declining 10% QoQ,
- lower cost of imported alloy wheels (imports were booked when the exchange rate was Rs42/US$; dollar payment was made at Rs39.5/US$).

Thereby EBITDA increased 2.8% YoY and 10.6% QoQ to Rs2.9b.

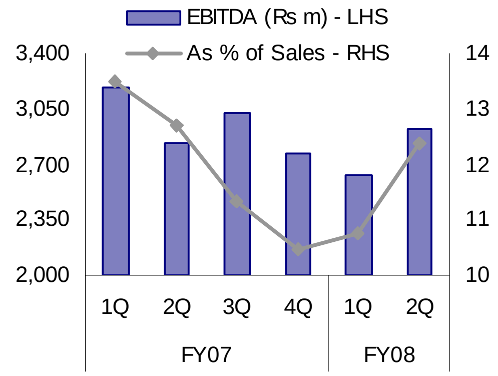
HERO HONDA: REALIZATIONS IMPROVE DUE TO BETTER PRODUCT MIX (RS)



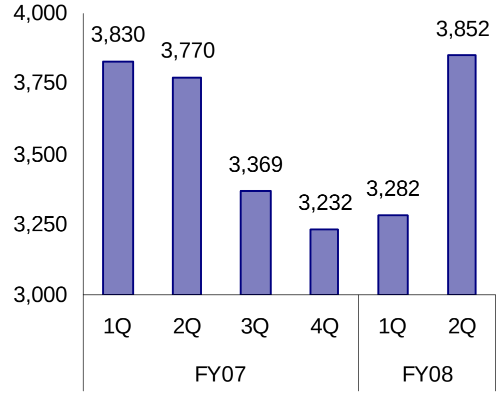


Source: Company/Motilal Oswal Securities

HERO HONDA: EBITDA MARGIN IMPROVES …



IN RS



Source: Company/Motilal Oswal Securities

In the previous four quarters, the company was facing lower EBITDA per vehicle owing to higher raw material prices and lower average realizations. In contrast, we now see a sharp reversal in this trend, with the lower raw material prices leading to EBITDA per vehicle increasing 17.4% QoQ.

Uttaranchal plant to commence production in FY09

Hero Honda has set up a manufacturing facility for 2-wheelers at Haridwar, Uttaranchal with an initial capacity of 0.5m units, expected to be completed by mid-FY08. However, production is likely to commence only in the next fiscal, due to lower volume growth visibility in FY08. This would help Hero Honda avail tax benefits during FY09. The new plant, coupled with expansion at its existing plants at Dharuhera and Gurgaon would help the company achieve annual production capacity of 4.4m units in FY09.

The Haridwar plant would be a flexible facility, capable of manufacturing any bike model. The capacity could be ramped up to 1.5m units by 2010, with a combined investment of Rs1.9b by Hero Honda and its ancillary companies.

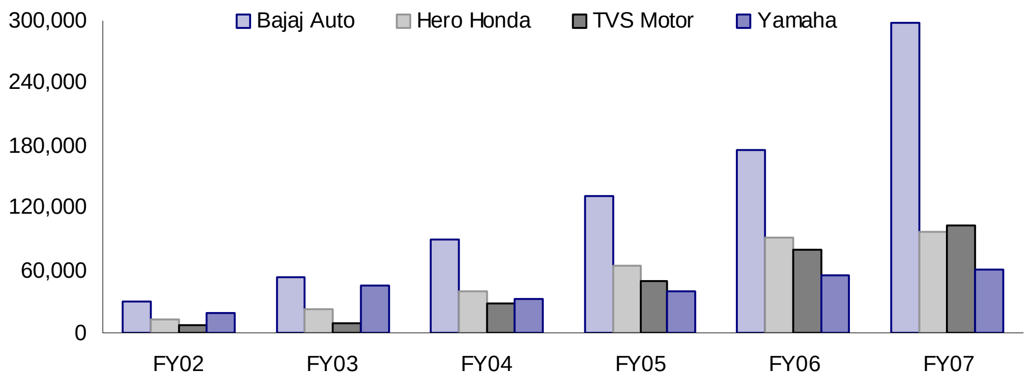
The company would be benefiting from tax concessions – 100% excise exemption for 10 years, 100% income tax exemption for the first five years and 30% for the next five years. We have assumed a 2.5% decrease in the average tax rate in FY09 on this count.

Export potential yet to be factored in

Export represents a big growth opportunity for the large two-wheeler manufacturers. Being truly global-sized players, with products comparable with their Japanese counterparts both in terms of price and quality, the top two players are well-positioned to capitalize on the opportunity. Bajaj Auto's exports constitute 22% of its two-wheeler volumes; even TVS Motors exports 9.5% of its volumes (expected to increase further as its Indonesian operations gathers steam).

So far Hero Honda has not been able to tap the overseas market, but if the requisite approvals from Honda are received, even Hero Honda may be able to grab a share of the export pie. In the event this should occur, it would provide an upside opportunity for our volume assumptions with respect to Hero Honda.

HERO HONDA: EXPORTS CAN IMPROVE FURTHER (UNITS)



Source: Company/Motilal Oswal Securities

Valuation and view

We expect Hero Honda to report volume growth of 1.3% in FY08 and 8.4% in FY09. While we believe that the improvement in EBITDA margin is sustainable, and this value factors in the Rs2,000/bike discount offered on the CD series in the festival season, we expect the company to report EBITDA margin estimate of 11.9% in FY08 and 12.2% for FY09.

Hero Honda's efficiency ratios are the best in the industry. The company is expected to have cash of Rs126 per share in FY08. The stock has an attractive dividend yield (3.6% on FY09 estimated dividend of Rs25).

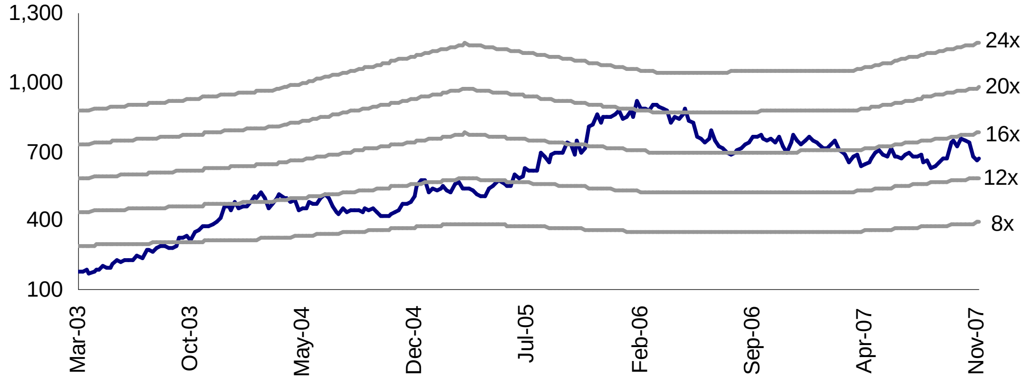
We expect EPS of Rs43.9 in FY08 and Rs51.4 in FY09. The stock is trading at 15.6x FY08E EPS and 13.3x FY09E EPS. We maintain **Buy** with a target price of Rs819 (20% upside).

HERO HONDA - SOTP VALUATION

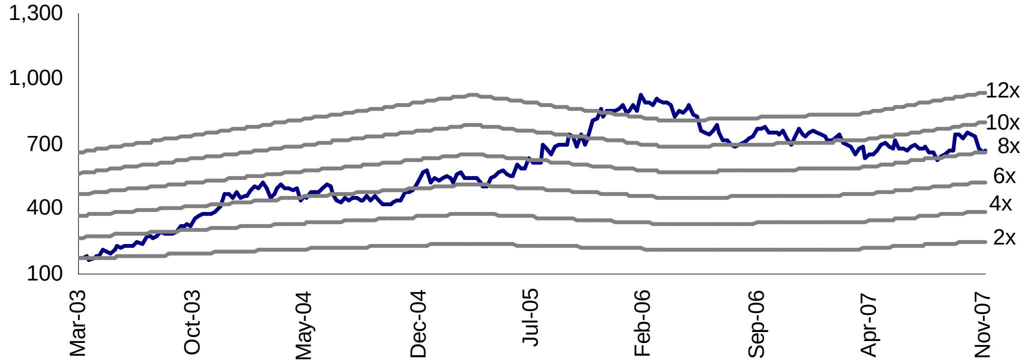
	FY08	FY09E
Core EPS (Rs)	39.0	46.2
Mulitple (x)	15.0	15.0
Value (Rs)	584.9	692.5
Cash Per Share (Rs)	89.4	126.2
Target Price (Rs)	674.3	818.7

Source: Motial Oswal Securities

HERO HONDA: PE BAND



HERO HONDA: EV/EBITDA



INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	**74,217**	**87,140**	**99,000**	**105,008**	**117,979**
Change (%)	*27.2*	*17.4*	*13.6*	*6.1*	*12.4*
Expenditure	62,576	73,498	87,192	92,566	103,647
EBITDA	**11,645**	**13,645**	**11,810**	**12,443**	**14,334**
Change (%)	*18.8*	*17.2*	*-13.4*	*5.4*	*15.2*
% of Net Sales	*15.7*	*15.7*	*11.9*	*11.9*	*12.2*
Depreciation	894	1,146	1,398	1,574	1,855
EBIT	**10,751**	**12,498**	**10,413**	**10,870**	**12,480**
Interest & Finance Charges	11	-61	-230	-415	-415
Other Income	1,369	1,563	1,899	1,420	1,473
Non-recurring Expense	0	0	-80	0	0
PBT	**12,109**	**14,122**	**12,461**	**12,706**	**14,368**
Tax	4,068	4,409	3,882	3,939	4,095
Effective Rate (%)	*33.6*	*31.2*	*31.2*	*31.0*	*28.5*
PAT	**8,042**	**9,713**	**8,579**	**8,767**	**10,273**
% of Net Sales	*10.8*	*11.1*	*8.7*	*8.3*	*8.7*
Adj. PAT	**8,042**	**9,713**	**8,659**	**8,767**	**10,273**
Change (%)	*10.4*	*20.8*	*-10.9*	*1.2*	*17.2*

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	399	399	399	399	399
Reserves	14,534	19,694	24,301	29,074	34,854
Net Worth	14,934	20,093	24,701	29,473	35,253
Deferred Tax	1,015	1,201	1,296	1,296	1,296
Loans	2,018	1,858	1,652	1,652	1,652
Capital Employed	**17,967**	**23,152**	**27,648**	**32,421**	**38,201**
Gross Fixed Assets	11,042	14,720	18,006	23,406	25,406
Less: Depreciation	4,297	5,226	6,351	7,925	9,779
Net Fixed Assets	**6,745**	**9,494**	**11,655**	**15,481**	**15,626**
Capital WIP	409	442	1,899	0	0
Investments	20,267	20,619	19,739	19,239	18,739
Curr.Assets, L & Adv.	**5,545**	**8,212**	**9,133**	**9,419**	**16,276**
Inventory	2,043	2,266	2,756	2,923	2,263
Sundry Debtors	896	1,587	3,353	3,556	3,232
Cash & Bank Balances	176	1,587	358	273	8,114
Loans & Advances	2,396	2,738	2,631	2,631	2,631
Current Liab. & Prov.	**15,005**	**15,628**	**14,792**	**11,731**	**12,453**
Sundry Creditors	6,503	6,344	5,511	5,845	6,567
Other Liabilities	3,655	4,385	4,909	4,909	4,909
Provisions	4,847	4,899	4,372	978	978
Net Current Assets	**-9,459**	**-7,416**	**-5,659**	**-2,312**	**3,822**
Application of Funds	**17,967**	**23,152**	**27,648**	**32,421**	**38,201**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	**40.3**	**48.6**	**43.4**	**43.9**	**51.4**
EPS growth (%)	10.4	20.8	-10.9	1.2	17.2
Cash EPS	44.7	54.4	50.0	51.8	60.7
Book Value per Share	74.8	100.6	123.7	147.6	176.5
DPS	20.0	20.0	17.0	19.5	22.0
Payout (Incl. Div. Tax) %	49.7	46.3	44.5	52.4	50.3
Valuation (x)					
P/E		14.0	15.7	15.6	13.3
Cash P/E		12.6	13.7	13.2	11.2
EV/EBITDA		8.5	10.0	9.5	7.8
EV/Sales		1.3	1.2	1.1	0.9
Price to Book Value		6.8	5.5	4.6	3.9
Dividend Yield (%)		2.9	2.5	2.9	3.2
Profitability Ratios (%)					
RoE	61.1	55.5	38.3	32.4	31.7
RoCE	75.7	68.4	48.5	40.9	39.5
Turnover Ratios					
Debtors (Days)	4	7	12	12	10
Asset Turnover (x)	4.1	3.8	3.6	3.2	3.1
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	10,751	12,498	10,413	10,870	12,480
Interest/Div. Received	1,369	1,563	1,899	1,420	1,473
Depreciation & Amort.	894	1,146	1,398	1,574	1,855
Direct Taxes Paid	-3,953	-4,223	-3,787	-3,939	-4,095
(Inc)/Dec in Working Capital	1,754	-633	-3,146	-3,431	1,706
Other Items	1	-7	-1	0	0
CF from Oper. Activity	**10,816**	**10,345**	**6,775**	**6,494**	**13,419**
(Inc)/Dec in FA+CWIP	-2,159	-3,929	-5,017	-3,500	-2,000
(Pur)/Sale of Invest.	-4,616	-352	880	500	500
CF from Inv. Activity	**-6,775**	**-4,281**	**-4,137**	**-3,000**	**-1,500**
Changes in Reserves	-502	-560	-577	0	0
Inc/(Dec) in Debt	271	-160	-206	0	0
Interest Paid	-11	61	230	415	415
Dividends Paid	-3,994	-3,994	-3,395	-3,994	-4,493
CF from Fin. Activity	**-4,236**	**-4,652**	**-3,948**	**-3,579**	**-4,078**
Inc/(Dec) in Cash	**-195**	**1,411**	**-1,229**	**-84**	**7,841**
Add: Beginning Balance	371	176	1,587	358	273
Closing Balance	**176**	**1,587**	**358**	**273**	**8,114**

E: MOSt Estimates

TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	TVSL IN
	REUTERS CODE
S&P CNX: 5,912	TVSM.BO

15 November 2007

Neutral

Previous Recommendation: Neutral

Rs60

Y/E MARCH	2006	2007	2008E	2009E
Net Sales (Rs m)	32,350	38,550	37,456	40,542
EBITDA (Rs m)	2,045	1,373	1,161	1,583
NP (Rs m)	1,073	666	456	673
EPS (Rs)	4.5	2.8	1.9	2.8
EPS Growth (%)	-22.0	-37.9	-31.6	47.8
BV/Share (Rs)	32.3	34.1	35.6	37.1
P/E (x)	13.3	21.4	31.3	21.2
P/BV (x)	1.9	1.8	1.7	1.6
EV/EBITDA (x)	7.1	11.9	14.0	10.1
EV/Sales (x)	0.4	0.4	0.4	0.4
RoE (%)	14.0	8.2	5.4	7.6
RoCE (%)	13.2	7.7	5.9	7.6

TVS Motor's sales have been lagging for the last four years owing to its weak performance in the motorcycle segment. The company's efforts to put in place a strong product portfolio are ongoing; this is likely to drive growth going forward. However, pressure on margins due to low volume and intense competition remains a concern.

Scooters and mopeds: Leading the way: TVS has maintained its leadership in mopeds and second position in scooters (these two segments have posted robust volumes even as motorcycle sales were plummeting). TVS Scooty has been faring well in the women's segment enabling TVS to garner a market share of 26.9% in YTD FY08. In mopeds, TVS has a market share of 93.5%.

New ventures and launches provide hope: To diversify its revenues and enter newer geographies, TVS Motor has set up a plant in Indonesia. The company's new 3-wheeler plant being set up in Hosur (capacity: 90,000 units) will help penetrate a new segment.

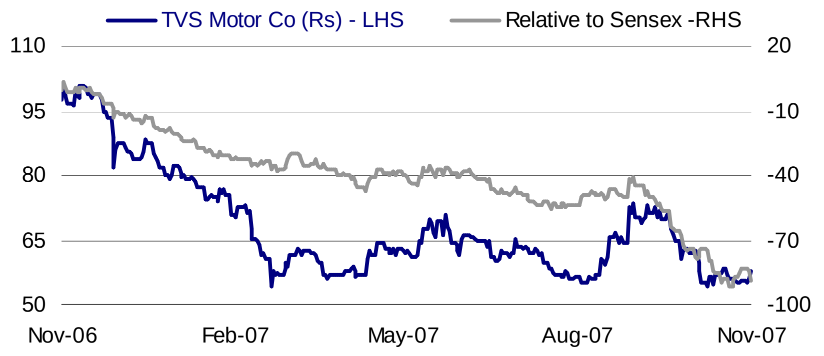
Motorcycles in a squeeze: Although, TVS has products across motorcycle segments, it is a distant third in the fiercely competitive market, with declining market share. The impending launch of Flame will help create a mark in the 125cc space, currently dominated by Hero Honda.

We maintain Neutral: We expect TVS to face pressure on volumes as well as at the operating level in FY08. We expect volumes to decline 4.2% in FY08. The stock is trading at 31.3x FY08E EPS of Rs1.9 and 21.2x FY09E EPS of Rs2.8. Maintain **Neutral**.

KEY FINANCIALS	
Shares Outstanding (m)	237.5
Market Cap. (Rs b)	13.8
Market Cap. (US$ m)	0.3
Past 3 yrs. Sales Growth (%)	11.0
Past 3 yrs. NP Growth (%)	-21.7
Dividend Payout (%)	34.1
Dividend Yield (%)	1.5

STOCK DATA	
52-Week Range (H/L - Rs)	105/53
Major Shareholders (as of September 2007)	%
Promoters	56.8
Domestic Institutions	17.7
FIIs/FDIs	4.8
Others	20.7
Average Daily Turnover	
Volume ('000 shares)	2,078.0
Value (Rs million)	1,748.0
1/6/12 Month Rel. Performance (%)	-12/-14/-17
1/6/12 Month Abs. Performance (%)	-2/-18/-33

STOCK PERFORMANCE (ONE YEAR)



Scooters and mopeds: Leading the way

TVS has successfully positioned the Scooty as a women's bike targeting working women and college girls in particular. The success of this positioning can be gauged from the fact that the scooterette has been faring well in the women's segment helping TVS capture 26.5% market share in the scooter segment in FY07 (26.9% in YTD FY08).

This segment has seen growth continue unabated even as motorcycle sales have seen a declining trend in YTD FY08. TVS has initiated a number of steps like the Scooty Driving Institute for girls to ensure that the target audience is tapped. The growth in this segment is expected to be steady due to increasing urbanization and growing number of women in the working population.

SHARE OF SCOOTY IN SCOOTERS

	FY02	FY03	FY04	FY05	FY06	FY07	YTD FY08
TVS Motor	144,087	148,843	188,933	224,314	245,276	258,967	173,844
Industry	936,569	862,382	930,315	982,612	992,984	976,358	645,163
Market Share (%)	*15.4*	*17.3*	*20.3*	*22.8*	*24.7*	*26.5*	*26.9*

Source: Compan/Motilal Oswal Securities

In mopeds, TVS remains the undisputed leader with a market share of 87.7% in FY07 (93.5% in YTD FY08). But over the long term, the moped segment has been shrinking due to a shift in consumer preference toward ungeared scooters and motorcycles. Mopeds now find limited use and are only used for carrying sundry goods in rural areas and for personal transportation in a few southern states.

Nevertheless, this segment saw strong volume growth in YTD FY08. The key reason is that mopeds (and scooters as well) are mainly purchased on a cash basis, while motorcycles are more often purchased by availing of loans. Mopeds are also a cheaper option compared with motorcycles. Hence, motorcycle sales have declined in a rising / high interest rate regime, while moped and scooter sales have been strong.

Over the long term, we expect this segment to register stagnant volumes / decline in volumes.

SHARE OF TVS IN OVERALL MOPED SALES

	FY02	FY03	FY04	FY05	FY06	FY07	YTD FY08
TVS Motor	271,388	253,071	251,153	263,393	290,273	344,558	236,282
Industry	425,748	362,231	333,743	350,166	375,922	392,956	252,767
Market Share (%)	63.7	69.9	75.3	75.2	77.2	87.7	93.5

Source: Company/Motilal Oswal Securities

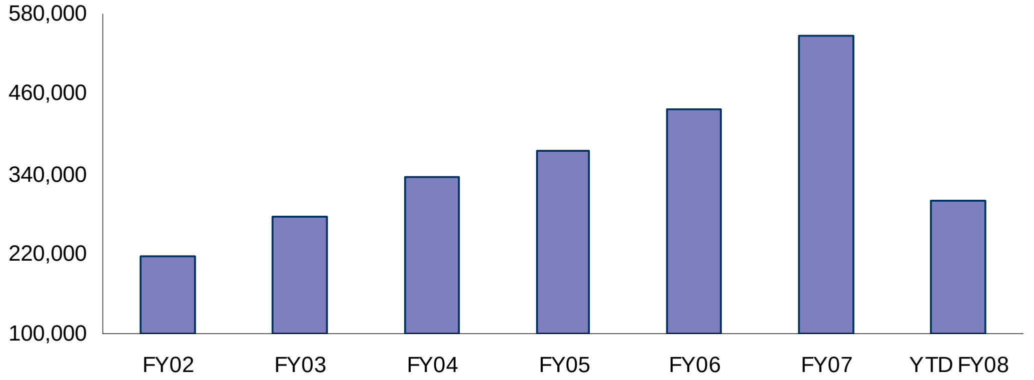
Attempting to make a mark in three-wheelers

The new three-wheeler plant being set up in Hosur with a capacity of 90,000 units (investment of ~US$25m) will provide the company an entry into the rapidly growing three-wheeler segment. This segment has witnessed 20% growth in the last four years. Narrow and poorly maintained rural and semi urban roads, along with the emerging hub and spoke model of transportation (where three-wheelers are used for transporting goods across the last mile), will ensure sustained growth in the three-wheeler segment.

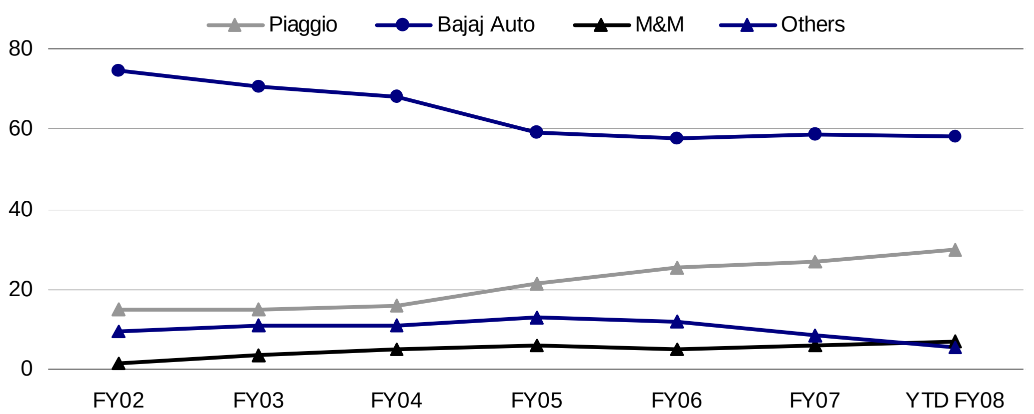
Benefits of entry into three-wheelers:

- Third highly profitable segment with a market size of 550,000 units valued at Rs25b (US$600m) with CAGR of 10% over last 10 years,
- High export potential – BAL is currently dominant in 3-wheeler exports,
- Launch of first models to take place shortly.

INDUSTRY THREE-WHEELER MARKET VOLUME (UNITS)



MARKET SHARE OF EXISTING PLAYERS



Source: Company/Motilal Oswal Securities

TVS' three-wheeler launch has been a much delayed effort, and its products are expected to hit the retail market only in November 2007. The initial target will be major metros such as Mumbai, Delhi, Ahmedabad, and the neighboring markets of Sri Lanka, Bangladesh and Africa. In the long run, the company targets a 25% three-wheeler share.

Indonesia project on schedule

The Indonesian market is the third largest motorcycle market in the world trailing China and India. Overall demand in CY06 (wholesale local sales) was 4.63m units (down 13.8% YoY). Demand was negatively impacted due to the government raising interest rates to curb inflation led by rising gasoline prices. In CY07, demand is expected to return to CY05 levels.

TVS Motor's two-wheeler plant in Indonesia with a capacity of 120,000 units is ready, and products are being tested. The plant will have a capacity of 300,000 units. TVS has planned an investment of US$70m in two phases, which will eventually create a capacity of 300,000 units at that location.

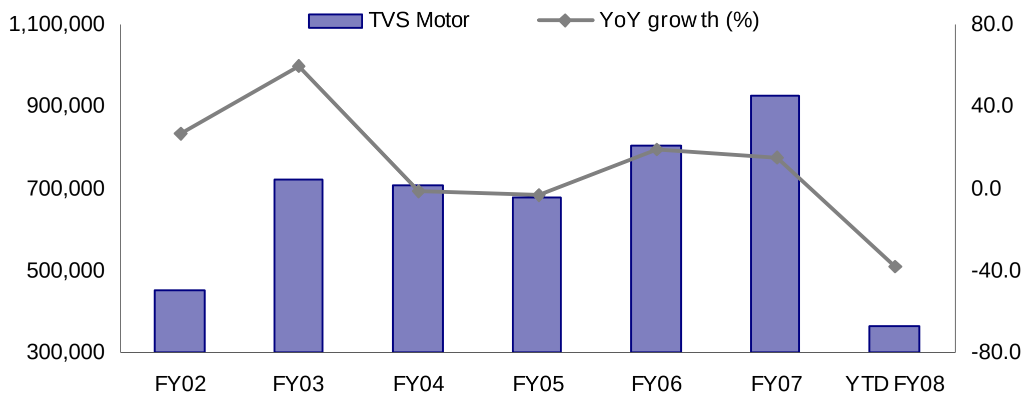
This plant will help TVS address opportunities in the Asean region. The unit will primarily cater to the huge Asean two-wheeler market, which has cumulative sales of nearly 7m vehicles. We believe this unit will give TVS an inroad into the rapidly expanding Asean and African two-wheeler markets, which have dynamics similar to the Indian market – low per capita income, poor public infrastructure and a large population base.

Motorcycles in a squeeze

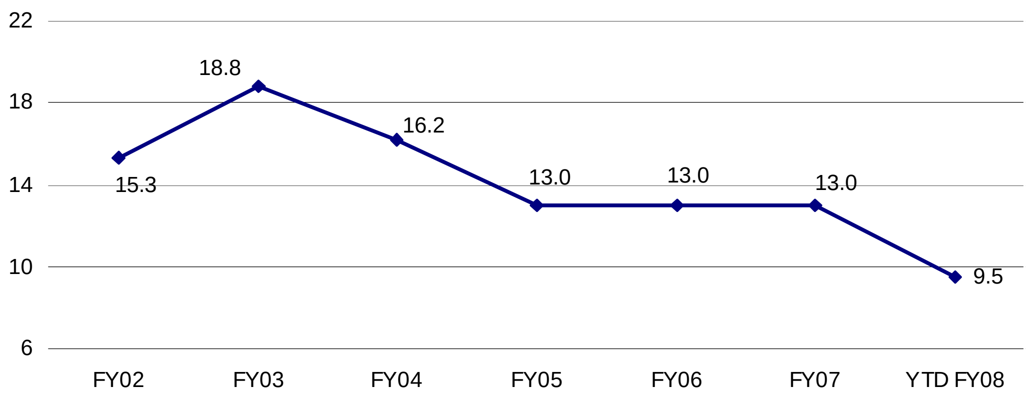
TVS has products across segments in the motorcycle industry. However, it is a distant third in the fiercely competitive market, with declining market share. Its volumes are mainly driven by the Star series.

TVS Motor's volumes have declined due to the slow down in the two-wheeler industry on account of higher interest rates for two-wheeler financing. In the motorcycles segment, in particular, sales have been impacted by the higher interest costs and stringent norms being followed by retail financers. On the other hand, since mopeds and scooter sales are not as dependent on financing for sales, these segments have witnessed higher growth rates.

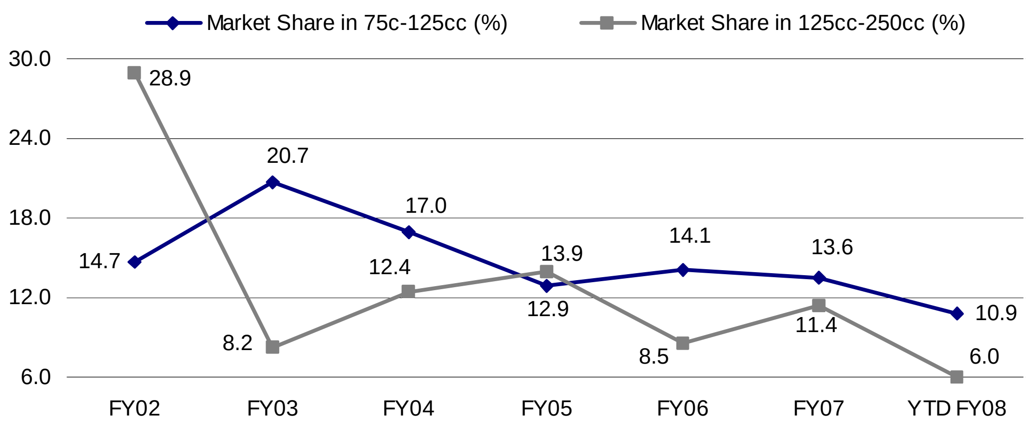
TVS: MOTOR CYCLE VOLUME TREND (UNITS)



TVS: OVERALL MOTORCYCLE MARKET SHARE



TVS: SEGMENT MARKET SHARE



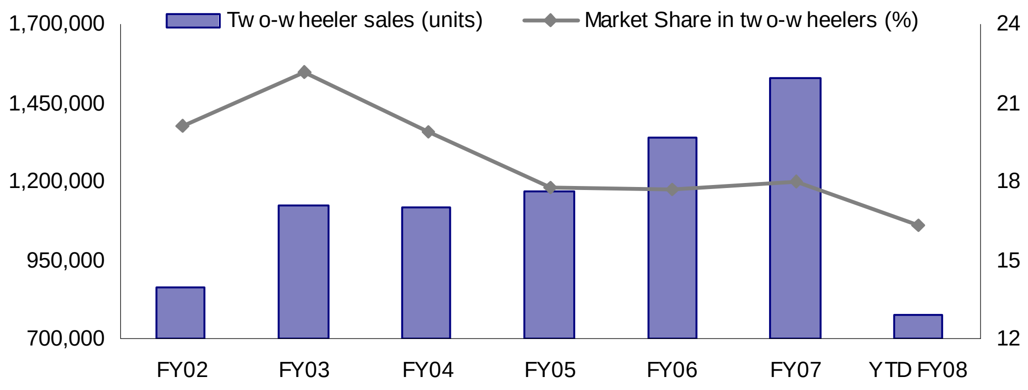
Source: Company/Motilal Oswal Securities

The impending launch of the *Flame* will help create a mark in the 125cc space dominated currently by Hero Honda. TVS also plans to launch hybrid and CNG bikes, which the company estimates will bring down fuel costs by 50%. The company expects a good response for its proposed CNG bike.

In FY08, we expect TVS to register an overall volume decline of 4.2% - motorcycle volumes are expected to decline 17.5%, moped sales are expected to increase by 19% and scooter sales by 3.5%.

We believe that TVS will continue to face challenging times in the competition to improve its motorcycles share in the wake of intense competition not only from the top 2 players, but also from others such as Honda Motorcycles, Suzuki Motorcycles and Yamaha, which have eaten into the company's market share in CY07.

TVS VOLUMES AND MARKET SHARE TREND



Source: Company/Motilal Oswal Securities

PRODUCT PORTFOLIO OF TVS MOTORS

MODEL	CC	PRICE (RS '000 ON-ROAD DELHI)
Scooty Pep+	87.8	37.1
Star	99.7	40.6
Star City (spokes)	99.7	41.1
Star City (alloy)	99.7	44.1
Srtar Sport	99.7	39.8
Victor GX	124.8	44.0
Victor GLX	124.8	46.2
Apache RTR 160	159.7	50.9

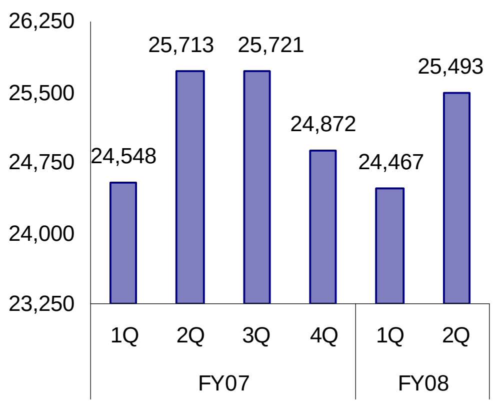
Source: Industry/Motilal Oswal Securities

EBITDA margin under pressure

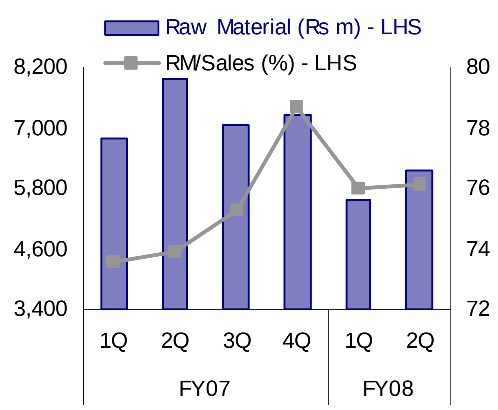
While TVS Motors' EBITDA margin was always lower than that of the top 2 in the two-wheeler industry, its margin pressure has intensified in the past four quarters on account of the intense competition prevailing in the industry, higher adspend, and a series of new launches in a short space of time (the company has announced the launch of seven new products in 3QFY08). Management is making constant efforts at rationalization of expenses and cost reduction, with an objective to improve margins. However, these are yet to have a positive impact on margins.

TVS plans to invest Rs500-Rs600m annually to increase capacity, invest in product lines and launch new products with an aim to consolidate its position in the domestic market. The company plans to invest ~3% of its turnover in R&D and develop future technologies (2.6% in FY07 and 2.3% in FY06).

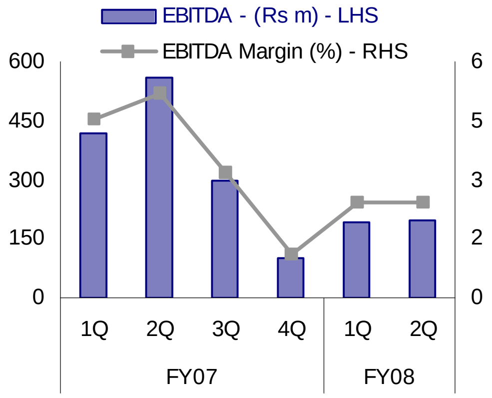
REALIZATIONS DROP 1% YOY (RS)



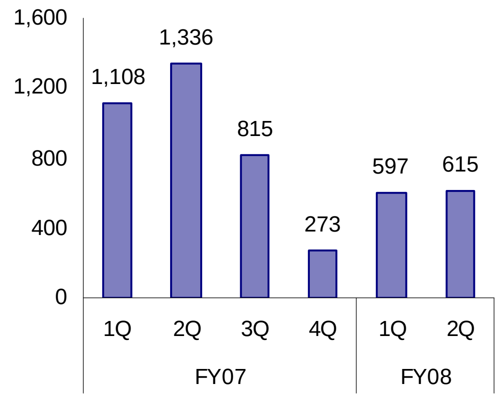
RM COST STILL HIGHER



EBITDA MARGIN UNDER PRESSURE



EBITDA PER VEHICLE IS STILL LOW (RS)



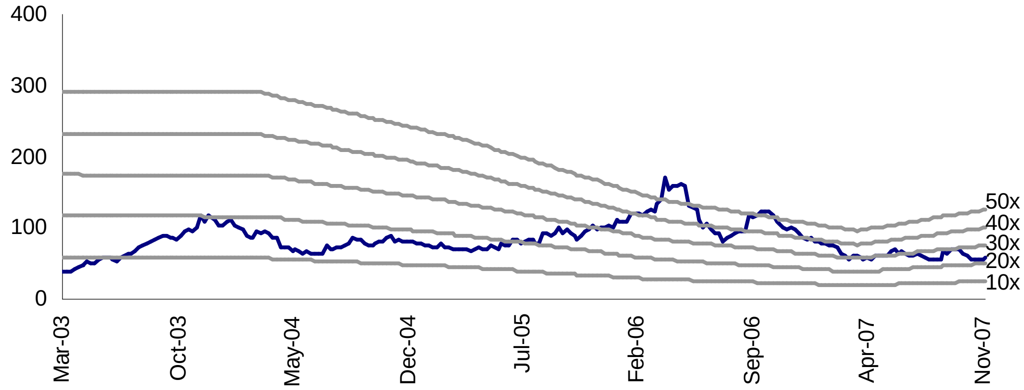
Source: Company/Motilal Oswal Securities

TVS Motor's balance sheet size is much smaller relative to Hero Honda and BAL. The lower amount of cash of Rs4.3b v/s Rs65.3b for BAL makes its position vulnerable in the event of a slowdown in industry sales or increase in competitive activity. TVS Motors also has to spend a higher amount as a percentage of sales for advertising and R&D. This is essential to maintain competitiveness and brand presence in the face of competition.

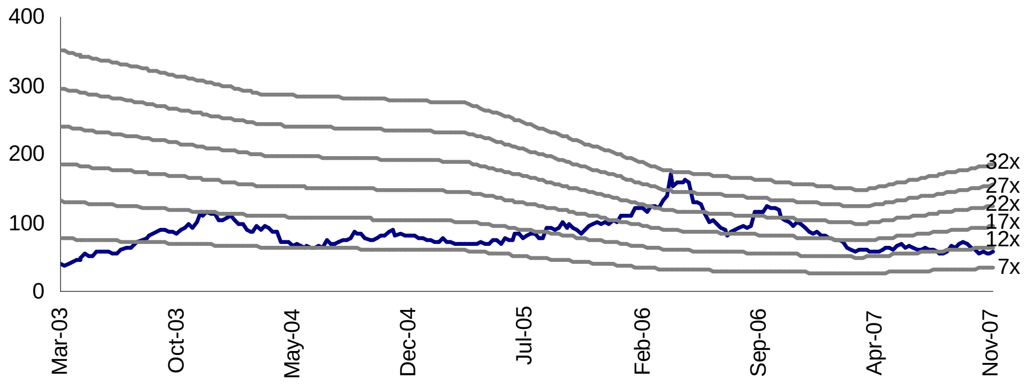
Valuation and view

We expect TVS to continue to face margin pressure in FY08 due to high raw material costs and increased marketing expenses following consolidation of the product portfolio and intense competitive activity. We expect TVS to face pressure on volumes as well as at the operating level in FY08. We expect volumes to decline 4.2% in FY08. The stock is trading at 31.3x FY08E EPS of Rs1.9 and 21.2x FY09E EPS of Rs2.8. Maintain **Neutral**.

TVS MOTOR: PE BAND



TVS MOTOR: EV/EBITDA



INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	**28,759**	**32,350**	**38,550**	**37,456**	**40,542**
Change (%)	*2.0*	*12.5*	*19.2*	*-2.8*	*8.2*
Total Expenditure	26,643	30,305	37,177	36,295	38,959
EBITDA	**2,116**	**2,045**	**1,373**	**1,161**	**1,583**
Change (%)	*-18.4*	*-3.4*	*-32.9*	*-15.4*	*36.3*
% of Net Sales	*7.4*	*6.3*	*3.6*	*3.1*	*3.9*
Depreciation	896	939	876	989	1,128
Interest & Fin. Ch.	8	131	321	348	348
Other Income	793	613	732	795	816
Non-recurring Income	0	97	0	174	0
PBT	**2,005**	**1,684**	**908**	**793**	**922**
Tax	629	515	243	204	249
Effective Rate (%)	*31.4*	*30.5*	*26.7*	*25.8*	*27.0*
PAT	**1,376**	**1,170**	**666**	**589**	**673**
Change (%)	*-0.7*	*-15.0*	*-43.1*	*-11.6*	*14.3*
% of Net Sales	*4.8%*	*3.6%*	*1.7%*	*1.6%*	*1.7%*
Adj. PAT	**1,376**	**1,073**	**666**	**456**	**673**
Change (%)	*-0.7*	*-22.0*	*-37.9*	*-31.6*	*47.8*

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	238	238	238	238	238
Reserves	6,551	7,424	7,855	8,207	8,583
Net Worth	**6,788**	**7,661**	**8,093**	**8,444**	**8,820**
Deferred Tax	1,485	1,490	1,590	1,590	1,590
Loans	1,868	3,850	6,336	6,336	6,336
Capital Employed	**10,142**	**13,002**	**16,018**	**16,370**	**16,746**
Gross Fixed Assets	12,872	13,784	14,830	18,133	19,477
Less: Depreciation	5,236	6,116	6,859	7,848	8,977
Net Fixed Assets	**7,636**	**7,668**	**7,971**	**10,285**	**10,501**
Capital WIP	69	270	2,058	0	0
Investments	1,754	3,442	3,447	3,447	3,447
Curr.Assets, L & Adv.	**5,117**	**6,556**	**8,224**	**8,120**	**8,743**
Inventory	2,332	3,579	3,966	3,853	4,171
Sundry Debtors	396	582	1,114	1,082	1,172
Cash & Bank Balances	739	244	866	906	1,122
Loans & Advances	1,647	2,149	2,276	2,276	2,276
Current Liab.&Prov.	**5,078**	**5,869**	**6,268**	**6,068**	**6,530**
Sundry Creditors	4,522	5,245	5,770	5,607	6,068
Provisions	556	624	497	462	462
Net Current Assets	**39**	**687**	**1,957**	**2,052**	**2,213**
Application of Funds	**10,142**	**13,002**	**16,018**	**16,370**	**16,746**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	5.8	4.5	2.8	1.9	2.8
Cash EPS	9.6	8.9	6.5	6.6	7.6
Book Value per Share	28.6	32.3	34.1	35.6	37.1
DPS	1.3	1.3	0.9	1.0	1.3
Payout (Incl. Div. Tax) %	22.5	29.7	34.1	46.4	50.7
Valuation (x)					
P/E		13.3	21.4	31.3	21.2
Cash P/E		6.8	9.2	9.0	7.9
EV/EBITDA		7.1	11.9	14.0	10.1
EV/Sales		0.4	0.4	0.4	0.4
Price to Book Value		1.9	1.8	1.7	1.6
Dividend Yield (%)		2.2	1.4	1.7	2.1
Profitability Ratios (%)					
RoE	20.3	14.0	8.2	5.4	7.6
RoCE	19.8	13.2	7.7	5.9	7.6
Leverage Ratio					
Debt/Equity (x)	0.3	0.5	0.8	0.8	0.7

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007	2008E	2009E
OP/(Loss) before Tax	1,219	1,106	497	172	454
Interest/Div. Received	793	613	732	795	816
Depreciation & Amort.	896	939	876	989	1,128
Direct Taxes Paid	-374	-510	-143	-204	-249
(Inc)/Dec in Working Capital	239	-1,144	-647	-55	55
Other Items	-516	-291	318	0	0
CF from Oper. Activity	**2,258**	**714**	**1,633**	**1,697**	**2,205**
(Inc)/Dec in FA+CWIP	-1,559	-1,172	-2,968	-1,245	-1,344
(Pur)/Sale of Invest.	-474	-1,688	-6	0	0
CF from Inv. Activity	**-2,033**	**-2,860**	**-2,973**	**-1,245**	**-1,344**
Changes in Reserves	-28	50	0	0	0
Inc/(Dec) in Debt	678	1,982	2,485	0	0
Interest Paid	-8	-131	-321	-348	-348
Dividends Paid	-309	-347	-202	-238	-297
CF from Fin. Activity	**334**	**1,554**	**1,963**	**-586**	**-645**
Inc/(Dec) in Cash	**559**	**-495**	**623**	**40**	**216**
Add: Beginning Balance	180	739	244	866	906
Closing Balance	**739**	**244**	**866**	**906**	**1,122**

E: MOSt Estimates

Honda Motorcycles and Scooters India

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	N.A.
	REUTERS CODE
S&P CNX: 5,912	N.A.

15 November 2007

Not Listed

Honda Motorcycles and Scooters India (HMSI) is a wholly-owned subsidiary of Honda Motor Company, Japan. The company commenced operations in India in 2001 with its first scooter, the 100 cc Activa. This model enjoyed leadership status in the scooters segment. Subsequently, HMSI has also launched models in the motorcycles segment and is today a key player in the industry in this segment. HMSI has invested Rs3b in India for its plant at Manesar, where it has a manufacturing capacity of 1m units annually.

HONDA MOTORCYCLES AND SCOOTERS INDIA: KEY PRODUCTS

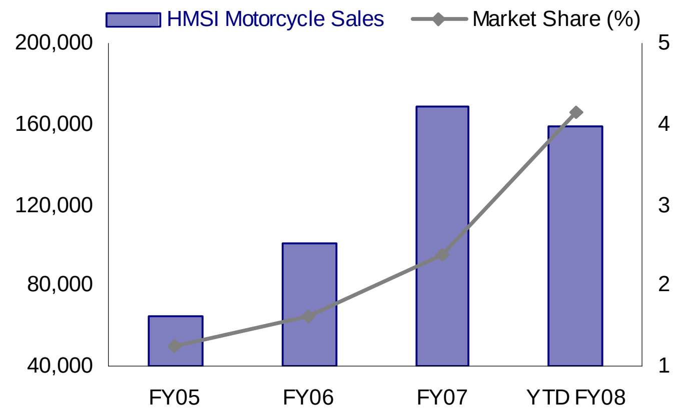
MODEL	PRICE (RS '000, ON ROAD DELHI)	ENGG DISPLAC-EMENT (CC)
Dio	39.0	102.0
Activa	40.4	102.0
Eterno 150	39.3	147.7
Shine (base model)	42.8	124.7
Shine (upper model)	50.8	124.7
Unicorn	60.4	149.1

Source: Industry/Motilal Oswal Securities

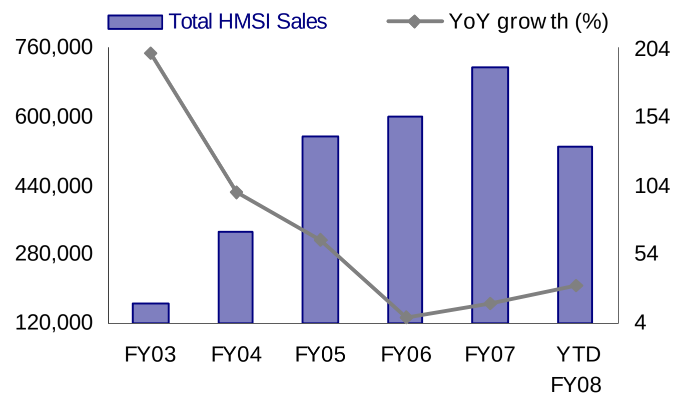
HMSI plans to introduce new scooter and motorcycle models to strengthen its product portfolio in India. The new scooter model is likely to be launched in January 2008, while the new motorcycle targeting youngsters will be launched in early FY09. An entry level motorcycle 100cc is also on the cards, and is expected to be rolled out from the new plant in FY10.

The company is aiming to achieve sales of 880,000 units in FY08 (+23% YoY), of which 32,000 are targeted for export (+28% YoY). It is also in the process of investing Rs3b to expand its production capacity at Manesar to 1.2m units by FY10. This could be followed by setting up a new plant to scale up production further.

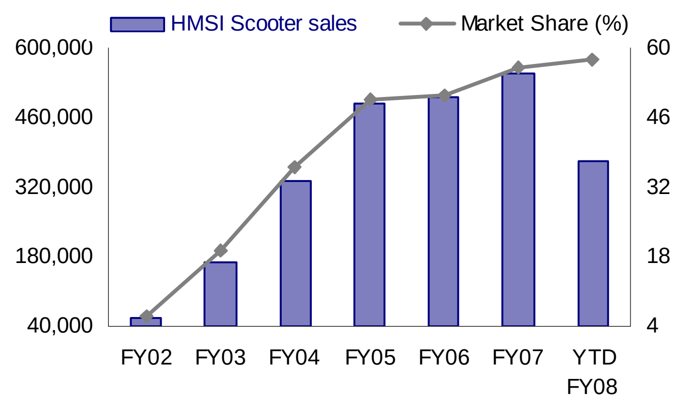
TWO-WHEELER SALES OF HMSI (NOS)



MARKET SHARE IN SCOOTERS (NOS)



MARKET SHARE IN MOTORCYCLES (NOS)



Source: Company/Motilal Oswal Securities

Royal Enfield (a unit of Eicher Motors)

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	EIM IN
	REUTERS CODE
S&P CNX: 5,912	EICH.BO

15 November 2007

Not Listed

The Eicher group acquired the ailing Enfield India Company in March 1994. The company's name was subsequently changed to Royal Enfield Motors Ltd. The management had earlier taken a decision to transfer the loss-making motorcycle business into a 100% subsidiary. The decision was, however, not implemented. Considering the better financial performance of the motorcycle business 4QFY07 onwards, the company decided not to transfer the motorcycle business.

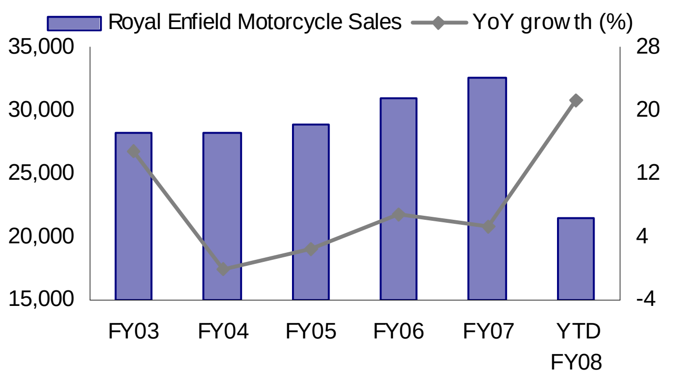
ROYAL ENFIELD: PRODUCT PORTFOLIO OF ROYAL ENFIELD

MODEL	PRICE (RS '000, ON ROAD DELHI)	ENGG DISPLACEMENT (CC)
Standard 350	71.2	346.0
Electra (Base model)	72.3	346.0
Electra (Premium model)	96.2	346.0
Machismo 350	88.7	346.0
Machismo 500	104.0	499.0
Thunderbird	93.0	346.0

Source: Industry/Motilal Oswal Securities

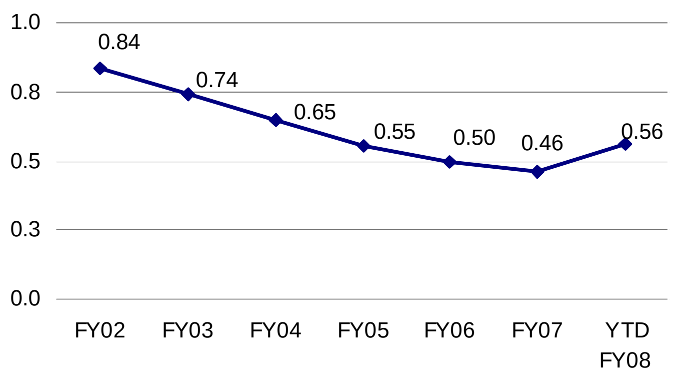
The company operates in a small niche segment, where it has nearly no domestic competitors. It faces competition from imports of global brands, Yamaha, Bajaj Auto's Avenger etc., but has managed to hold its own and has put up a stellar performance in 1HFY08. The company targets to sell 50,000 bikes by FY09.

TWO-WHEELER SALES OF ROYAL ENFIELD (NOS)



Source: Industry/Motilal Oswal Securities

MARKET SHARE IN MOTORCYCLES (%)



Source: Industry/Motilal Oswal Securities

New products

Royal Enfield Ltd. will introduce a new engine and two new international bike designs in the export market. For this product and design development, the company will invest Rs400m. The engine would be available in 350cc and 500cc engine displacements and is primarily being made to adhere to the ongoing strict emission norms (Euro III) that are present in the company's export markets like Europe (Germany, the UK, Switzerland), America and Australia.

Currently, the company has two international models that cater to the export markets. They are the 'Classic' and the 'Electra'; the latter would be phased out and the company is working to re-introduce 'Classic' with a facelift.

With the new engine and two new designs introduced in a phased manner, the company intends to increase export sales. Currently only 10% of the production caters to the export market -management plans to increase this to 25%. On the domestic front, the company sold 30,000 vehicles in FY07, it now intends to sell 50,000 units by the FY09. For that, the company has plans to increase its existing number of 'Royal Enfield' dealerships, run exclusively run by the company.

EICHER MOTORS SEGMENTAL REVENUES (RS M)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08
Revenues						
Two-wheelers	450	469	508	558	561	577
Total Revenues	3,865	4,591	4,954	6,205	4,721	5,412
EBIT						
Two-wheelers	3	-3	-1	13	21	12
Total EBIT (after unallocables)	123	206	244	306	155	230
EBIT Margin (%)						
Two-wheelers	0.7	-0.6	-0.1	2.2	3.7	2.0
Total EBIT Margin	3.2	4.2	4.9	5.0	3.7	4.5
Capital Employed						
Two-wheelers	353	313	185	246	302	307
Total (after unallocables)	3,624	6,717	3,637	3,237	3,816	6,923
RoCE (%)						
Two-wheelers	0.9	-0.9	-0.4	5.1	6.9	3.7
Total RoCE (after unallocables)	3.4	3.1	6.7	9.5	4.0	3.3

Source: Company/Motilal Oswal Securities

Suzuki Motorcycle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	N.A.
	REUTERS CODE
S&P CNX: 5,912	N.A.

15 November 2007

Not Listed

Suzuki Motorcycle India is a subsidiary of Suzuki Motorcycle Corporation Japan. With a late entry into the domestic market, subsequent to the dissolution of its JV with the TVS group, Suzuki is yet to attain critical mass in its Indian operations. Suzuki's plant is located at Gurgaon, where it has a manufacturing potential of 170,000 units (likely to be scaled up to 220,000-240,000 units by FY09).

Suzuki has already invested Rs3.5b in India so far and it plans to invest another Rs1.5b over the next few years (to FY10) to expand production capacities, augment its product portfolio and expand the company's dealer network. The company plans to increase its manufacturing capacity to 350,000 units and also double its dealership network from 145 dealers over the next 2 years.

SUZUKI MOTORCYCLE INDIA: KEY PRODUCTS

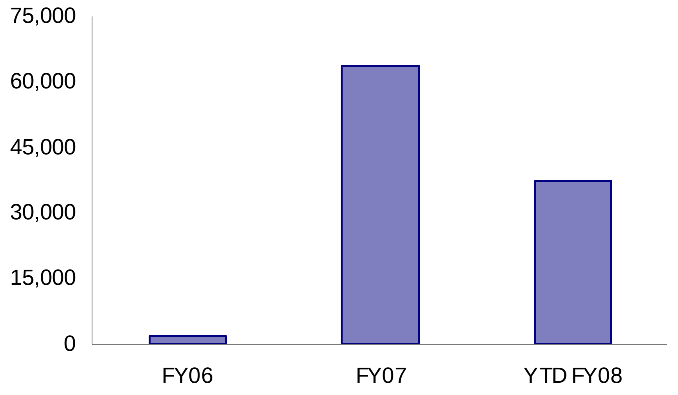
MODEL	PRICE (RS '000, ON ROAD DELHI)	ENGG DISPLACEMENT (CC)
Heat	37.3	124.0
Zeus (Kick)	47.3	124.0
Zeus (Self)	48.9	124.0
Access	42.8	125.0

Source: Industry/Motilal Oswal Securities

Suzuki's latest offering is the Access 125cc gearless scooter launched in September 2007 in line with the company's plans to exist across all two-wheeler segments. The company was targeting 5,000 scooter sales per month initially, but following the good response to the scooter, decided to expand scooter capacity to 10,000 units by April 2008. It is also targeting an overall domestic share of 4% in two-wheelers by FY10 and a share of 20% in scooters by mid-FY09.

Further, Suzuki will introduce 3-4 models by FY09-end to cater to the higher than 125cc segment in scooters and motorcycles. The company is also evaluating the possibility of introducing high-end motorcycles to cater to the racing enthusiast. On the exports front, the company has commenced exports to Nepal, while ahead, Suzuki Motorcycle India could also be an export hub for countries in Latin America and South Africa.

MOTORCYCLE SALES OF SUZUKI (NOS)



Source: Industry/Motilal Oswal Securities

Yamaha Motor India

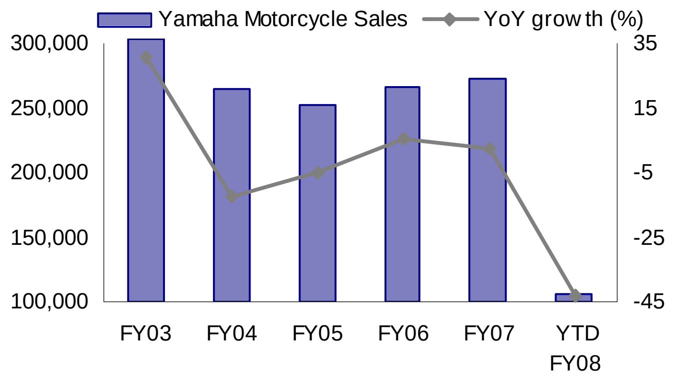
STOCK INFO.	BLOOMBERG
BSE Sensex: 19,785	N.A.
	REUTERS CODE
S&P CNX: 5,912	N.A.

15 November 2007

Not Listed

Yamaha was one of the first global two-wheeler manufacturers to set up a base in India in 1985. It subsequently formed a JV with the Escorts group in 1996, but this was entirely bought out by Yamaha, Japan in August 2001. However, even though the company has been operating in the Indian market for a decade, it has been unable to progress beyond the position of a small player. Yamaha has a manufacturing capacity of nearly 600,000 units in India, but sells around only 200,000 units annually.

TWO-WHEELER SALES OF YAMAHA (NOS)

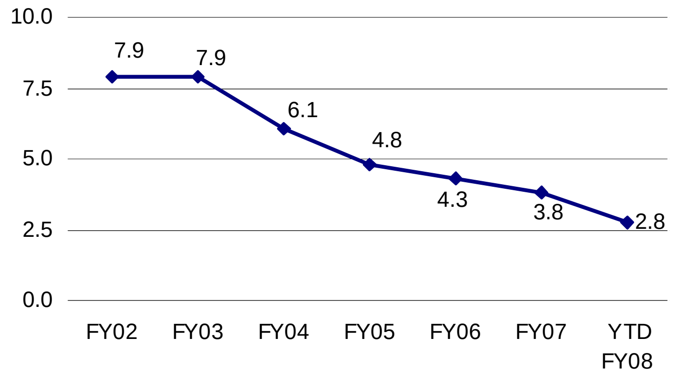


YAMAHA: KEY PRODUCTS

MODEL	PRICE (RS '000, ON ROAD DELHI)	ENGG DISPLACEMENT (CC)
Alba	50.2	105.6
Crux	35.2	106.0
Crux S	36.1	106.0
G5	43.8	106.0
Gladiator Std	49.5	123.7
Gladiator DX	51.6	123.7

Source: Industry/Motilal Oswal Securities

MARKET SHARE IN MOTORCYCLES (%)



Source: Industry/Motilal Oswal Securities

To stem five years of losses from its operations in India, Yamaha now plans to introduce new India-only models here by the middle of next year. The models will be locally built and will also be exported to Europe with some modifications. The company also plans to foray into the automatic scooters segment.

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Disclosure of Interest Statement	Bajaj Auto	Hero Honda	TVS Motor
1. Analyst ownership of the stock	No	No	No
2. Group/Directors ownership of the stock	No	Yes	No
3. Broking relationship with company covered	No	No	No
4. Investment Banking relationship with company covered	No	No	No