Initiation of Coverage

Autos & Auto Parts

Two wheelers: Past its peak

SECTOR VIEW

New: 1 - POSITIVE
Old: 1 - POSITIVE

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We believe the current slowdown in the two-wheeler market is led by credit availability issues. Declining volumes in FY08 are likely to lead to a base correction. Volume growth should continue from next year because of investment-led job creation and growth in incomes. We expect the domestic two-wheeler industry to show steady growth of 10% over the next three years.

- We expect domestic motorcycle volume growth to achieve a CAGR of 10% over FY09E-11E and slow down to 7% in FY12E-16E. Thereafter, we expect the market to become saturated with terminal growth of 4% from FY17 onwards.
- The economy segment – the lowest end of the motorcycle spectrum – has been hardest hit by the credit crunch, but we expect it to pick up from FY09. This is because the maximum impact of growth in incomes and job creation could be felt in this segment.
- We believe consumers in the executive spectrum (middle-segment product) will start to look for cheaper automobiles, currently being developed by Tata Motors (TTMT.IN, 1-OW) and explored by Bajaj Auto (BJA.IN, 1-OW) in the medium term. We expect the top-end premium segment to continue to grow in tandem with industry volume growth.
- Bajaj Auto is our top pick in the sector, and we expect it to lead industry growth, mainly on its export initiatives. We believe Bajaj Auto's sales volume will post a CAGR of 12.9% from FY08E-10E.

Figure 1: Initiating coverage of India's two-wheeler industry

Company	Ticker	Rating	Price (INR)	Price target (INR)	Potential upside (%)
Hero Honda	HH IN	2-EW	769.6	754.4	-2.0
Bajaj Auto	BJA IN	1-OW	2459.0	2939.6	19.5
TVS Motors	TVSL IN	2-EW	40.8	43.4	6.5

Source: Bloomberg, Lehman Brothers estimates: Prices as of 4th Feb 2008

Analyst Certification
We, Prabhat Awasthi, Kapil Singh and Alok Kumar Nemani, hereby certify (1) that the views expressed in this research Industry Report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Industry Report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Industry Report.

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February 06, 2008

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Investment summary

Two-wheeler industry is past its peak

We expect the Indian two-wheeler industry to maintain a steady growth trajectory in the medium term, with a volume CAGR of 10% over the next three years. This is slower than the historical 13.2% CAGR over the past five years, during which the two-wheeler penetration rate in India rose from 15% of households to 25% of households. Penetration of financing in two-wheeler sales also jumped from 40% in FY03 to 65% in FY07. Given the higher penetration rate, we expect to see a slowdown in volume growth in the future.

Negative growth in the current financial year is due to credit availability issues

The lower end of the vehicle segment has observed negative growth because financiers put the brakes on credit in this current financial year. In FY08 (until December 2007), industry volume dropped 7.7% YoY. Increases in retail lending rates by 200-300 bp in FY07 led to higher delinquencies. This has prompted banks to slow their lending to customers who have a riskier profile, especially those in rural areas. We believe this is the reason for negative volume growth in the current year.

Medium-term growth prospects remain strong

Historical data reveal that the performance of this sector has some positive leverage to industrial growth, which leads to rising incomes and job creation at the lower levels of the income pyramid in strong economic growth scenarios. Medium-term growth prospects still remain strong, although slower than those observed in the past due to higher penetration of both two-wheelers and financing in two wheelers.

Once the base corrects this fiscal year, steady growth should resume

We estimate that if the level of financing remains stable at current levels, a base correction this fiscal year should enable volume growth to recover from next year. Credit growth in this fiscal year has been weak at 21.4% YoY, while deposit growth has been relatively healthy at 23.6% YoY. We believe there is excess liquidity in the banking system, with the incremental credit-to-deposit ratio at 67% for 9MFY08 compared with 92% during the corresponding period last year. Hence, we believe it is unlikely that interest rates will move up further.

Greater demand in low- and high-end segments …

We expect two wheelers at the low-end (economy) and high-end (premium) of the price spectrum to achieve higher growth, which would essentially lead to a more balanced demand curve for the industry.

Figure 2: Growth forecast for various segments

Price segment (%)	Three-year CAGR (FY04-07)	Three-year CAGR (FY07-FY10E)
Economy	23.8	13
Executive	14.0	8
Premium	16.6	10
Aggregate	17.7	10

Source: Crisinfac

... but margins to remain subdued in the short term, in our view

Industry margins have been strained over the past few quarters, and we expect the pressure to persist in the short term, given the combined effect of negative volume growth, an ongoing fight for supremacy between Bajaj Auto and Hero Honda (HROR NS, 2-EW), and increasing commoditization of the motorcycle market.

Figure 3: Margin forecast for two-wheeler major players

(%)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Hero Honda	15.6	15.5	11.7	11.7	11.8	12.2
Bajaj Auto	15.7	17.5	14.9	14.6	15	15.1
TVS	7.4	6.3	3.6	2.7	3.4	4.0

Source: Company data, Lehman Brothers estimates

Intensifying turf war

The two-wheeler industry is currently in the midst of a turf war between the two biggest players, Hero Honda and Bajaj Auto. While these companies were earlier content to take over the market share of marginal players, they are now eyeing a share of each other's pie. Structurally, the contest for market leadership is likely to cap price increases, with contenders adopting a discount-led approach to raise volume sales at the expense of margins.

Increasingly commoditized market

Both Bajaj Auto and TVS Motors (TVS) have made inroads into the higher-end segments of the motorcycle market, which were largely Hero Honda's domain (note that Hero Honda has been able to regain some share from TVS in the current year). Therefore, competitive stress, which so far was restricted to the lower-end segments, has spread throughout the industry. This essentially means that even higher-margin segments are likely to face pressure, thus keeping the industry's overall margins capped.

The product contest is primarily between Bajaj Auto and Hero Honda

Quick launches and high product mortality rates have characterized the two-wheeler industry in the past few years. Bajaj Auto has recently attempted to break into Hero Honda's stronghold, i.e. executive segment motorcycles with the launch of XCD. Similarly, Hero Honda's new launches are aimed at breaking into Bajaj Auto's stronghold in the premium segment of the motorcycle market. Most other players in the industry have been playing catch-up to Hero Honda and Bajaj Auto.

Bajaj Auto is our top pick

We initiate coverage of Bajaj Auto with a 1-Overweight rating and a 12-month sum-of-the-parts-based price target of INR2,939.60, representing potential upside of 19.5% from current levels. While Bajaj Auto has not performed well in the domestic market this year, we believe it has enough potential upside catalysts, including: 1) We expect Bajaj Auto's newly launched XCD to gain some ground over Hero Honda's flagship product Splendour; 2) Bajaj Auto's insurance business has grown strongly in the recent past and the upcoming demerger could bring valuation upside; and 3) Bajaj Auto's exports have ramped up strongly and we expect this robust growth to be sustained over the next few years.

Hero Honda has limited potential upside due to volume growth

Hero Honda has introduced a series of new models (mostly variants) in the past year. While this has helped it gain market share in FY08, we think that such a high pace of product launches is unsustainable. With new launches like XCD from Bajaj Auto coming to the fore in the executive segment, we believe Hero Honda's market share will once again face threats. Its export opportunity is also limited, given the non-competitive agreement with Honda (7267.T, 1-OW). Nonetheless, flat volume growth this year has caused the stock to underperform the market by 18% and its valuation is not expensive, in our view. We initiate coverage of Hero Honda with a 2-Equal weight rating and a DCF-based 12-month price target of INR754, representing 2% potential downside.

TVS faces a threat to its margins; low financial flexibility to mar prospects, in our view

We initiate coverage of TVS Motors with a 2-Equal weight rating and a discounted cash flow-based 12-month price target of INR43.4, representing 6.5% potential upside from current levels. We believe TVS's margins will remain under constant threat from the strong competitive environment. TVS's past success in volumes had come entirely from the economy segment, where pricing power is very low. In order to improve its performance, TVS must demonstrate success with high-end products, which it is yet to do convincingly, in our view. We also believe TVS has the least financial flexibility among the three large two-wheeler players in India. The company's capex plans are aggressive in relation to cash flows, rendering it more susceptible to negative pressure on margins, in our view.

Figure 4: Relative valuation

Company	Ticker	Currency	Price (Feb 4, 08)	Mkt cap (US$ mn)	LB Rating	CY06-09E EPS CAGR (%)	P/E (x) CY06	CY07E	CY08E	CY09E
China										
H Share										
Dongfeng Motor	489 HK	HK$	5.3	5,843	1-OW	19.2	20.1	12.7	11.2	10.0
Denway Motor	203 HK	HK$	4.9	4,742	1-OW	12.7	16.3	15.5	12.6	10.1
Great Wall Motor	2333 HK	HK$	9.7	1,355	1-OW	17.4	11.9	10.7	8.0	6.3
Brilliance China	1114 HK	HK$	1.6	748	3-UW	n.a.	NA	43.0	17.5	12.0
Geely Auto	175 HK	HK$	0.9	567	3-UW	20.6	16.7	17.7	9.7	7.9
H Share average						17.5	16.3	14.1	11.8	9.3
A Share										
Shanghai Auto	600104 CH	CNY	21.5	19,573	2-EW	44.6	98.5	27.3	25.8	22.5
Korea										
Hyundai Motor (a)	005380 KS	KRW	71,400.0	1,666,029	1-OW	24.9	13.1	8.6	6.9	5.4
Kia Motors (a)	000270 KS	KRW	10,350.0	381,390	1-OW	n.a.	NA	117.6	15.6	6.2
Ssangyong Motor (a)	003620 KS	KRW	4,770.0	61,152	1-OW	n.a.	NA	28.1	8.0	5.2
Korea Average						24.9	13.1	51.4	10.2	5.6
					0					
India							FY07A	FY08E	FY09E	FY10E
Maruti Suzuki India	MSIL IN	INR	896.6	6,563	1-OW	15.6	16.6	12.2	10.6	9.3
Tata Motors	TTMT IN	INR	770.0	7,521	1-OW	8.2	13.9	15.4	11.8	10.1
Ashok Leyland	AL IN	INR	37.3	1,256	2-EW	4.0	11.3	11.9	10.6	9.6
*Bajaj Auto Ltd	BJA IN	INR	1263.2	6,305	1-OW	4.2	9.9	10.9	9.6	8.4
Hero Honda	HH IN	INR	769.6	3,894	2-EW	7.3	17.9	18.3	16.1	13.5
TVS Motor Company	TVSL IN	INR	40.75	245	2-EW	3.9	14.5	26.6	20.2	12.5
India Average						9.3	13.9	13.2	11.0	9.7

*Source: Bloomberg, Lehman Brothers estimates, Pricing as of Feb 4, 2008, *Estimated ex-insurance business*

Industry update

We expect steady growth amidst increased consolidation

We expect volume growth in the domestic two-wheeler sector to rebound in FY09. While the recent credit crunch has resulted in a sharp drop in growth in FY08 year-to-date (YTD), we expect a base correction to wear off this one-off impact. With jobs and incomes in India slated to grow strongly, led by investment in infrastructure, we estimate that domestic volumes will post a CAGR of 10% over FY08-FY11.

In our view, Bajaj Auto will top industry volume growth because its export initiatives are paying off. Other marginal two-wheeler Indian players are likely to be left on the sidelines because they have neither the financial muscle nor product innovation skills to compete effectively.

Figure 5: Domestic bike volume growth forecast for Indian two-wheeler major players

Units	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Industry sales volumes	4,170,445	4,963,498	5,810,533	6,557,405	5,901,665	6,491,831	7,141,014
YoY growth (%)		19.00	17.10	12.90	-10.00	10.00	10.00
Bajaj Auto							
Volumes	973,307	1,344,922	1,747,806	2,078,860	1,725,454	1,897,999	2,087,799
YoY growth (%)		38.20	30.00	18.90	-17.00	10.00	10.00
Market share (%)	23.30	27.10	30.10	31.70	29.20	29.20	29.20
Hero Honda							
Volumes	2,033,649	2,557,385	2,893,070	3,157,429	3,147,768	3,461,482	3,807,630
YoY growth (%)		25.80	13.10	9.10	-0.30	10.00	10.00
Market share (%)	48.80	51.50	49.80	48.20	53.30	53.30	53.30
TVS							
Volumes	682,698	640,271	751,662	841,970	558,285	601,007	646,954
YoY growth (%)		-6.20	17.40	12.00	-33.70	7.70	7.60
Market share (%)	16.40	12.90	12.90	12.80	9.50	9.30	9.10

Source: Society of Indian Automobile Manufacturers (SIAM), Lehman Brothers estimates

Figure 6: Total volume sales growth forecast for Indian two-wheeler major players (including exports)

Units	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Bajaj							
Volumes	1,288,949	1,602,646	2,029,176	2,399,996	2,240,373	2,538,984	2,855,448
YoY growth (%)	3.0	24.3	26.6	18.3	-6.7	13.3	12.5
Hero Honda							
Volumes	2,070,147	2,621,400	3,015,766	3,347,019	3,356,317	3,691,948	4,061,143
YoY growth (%)	23.4	26.6	15.0	11.0	0.3	10.0	10.0
TVS							
Volumes	1,147,161	1,167,016	1,340,375	1,526,289	1,344,322	1,446,348	1,547,283
YoY growth (%)	2.5	1.7	14.9	13.9	-11.9	7.6	7.0

Source: SIAM, Lehman Brothers estimates

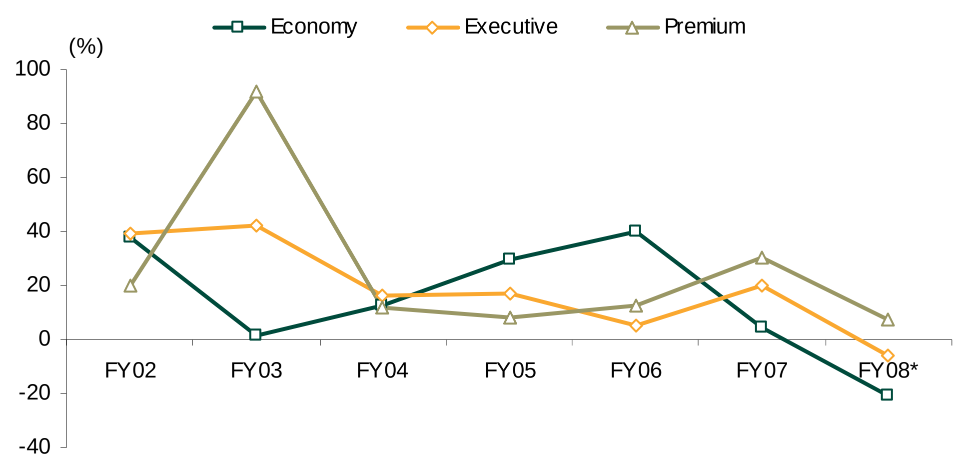
Changing demographics to propel low-end two-wheeler sales

To figure out which stocks in the two-wheeler market offer good investment opportunities, we believe that it is important to examine the composition of growth in the market. We believe growth will shift from being affordability-led (i.e. via financing) to being led by the creation of new buyers, given the strong economic growth outlook.

Credit crunch has impacted financing-led growth

We believe that credit availability has been the primary demand dampener in FY08. In the past, a number of banks were aggressively lending to two-wheeler customers, which pushed the penetration of financing in two-wheeler sales up from 40% in FY03 to 65% in FY07. Consequently, growth was strong for the past four years with a CAGR of 13%. With the rise in interest rates in the past one year, customers are facing a crunch from a number of factors, such as higher housing interest rates and the availability of personal loans. We believe this has increased delinquency ratios for financers, causing them to halt credit expansion in the two-wheeler financing market (e.g., GE Money). We expect these ratios to remain high, which should mute growth in FY08 until the base corrects.

Figure 7: Growth in the economy segment most affected



* YTD until October 2007
Source: Crisil

Investment-led job creation likely to fuel demand for the next three years

Under the Eleventh Five-Year Plan, the Committee on Infrastructure headed by the Prime Minister estimated investments in some key sectors such as highways, civil aviation, ports, and railways to be at INR2,200 bn (US$55 bn), INR400 bn (US$10 bn), INR500 bn (US$12.5 bn) and INR300 bn (US$7.5 bn), respectively. In addition, work is already underway for schemes like the Bharat Nirman Yojna and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), which were launched in 2005-06. We believe this will help fuel job creation and provide thrust to strong income growth in the next few years.

Economy segment is likely to pick up growth

Figure 7 shows that the middle-income group is growing at a robust rate, with the strongest growth seen in the INR90,000-200,000 income bracket, followed by the INR200,000-500,000 bracket. Most bicycle owners, who desire to move up to owning motorcycles, fall in the INR90,000-200,000 range. The creation of new buyers in this group constitutes a huge opportunity for two-wheeler players because these new buyers will fuel growth in entry-level (economy) bikes.

Figure 8: Growth rate of income classes

Income groups (INR '000)	Expected growth rate from 2005-06 to 2009-10 (%)	Growth rate from 2001-02 to 2005-06 (%)	No. of households (2001-02) (mn)
Up to 90	-13.5	-2.3	135.4
90-200	41.3	29.1	41.3
200-500	61.2	52.9	9
500-1000	92.2	87.6	1.7
1000-2000	111.5	105.5	0.5
2000-5000	128.4	125.9	0.2
5000-10,000	147.6	157.5	-
Above 10,000	166	165	0.02
Total	8.6	8.6	188.2

Source: Tata Statistical Outline of India, 2004-05

Hence, we expect the low-end pricing segment of the two-wheeler market to grow faster since the purchasing power of new buyers would not be very high. This has important implications for the industry margins and player strategies.

Better volumes for Indian players over MNCs ...

The current product positioning suggests that beneficiaries of the economy segment-led growth would primarily be Hero Honda (CD Dawn and CD Deluxe), Bajaj Auto (CT100 and Platina) and TVS (Star City). MNCs are practically non-existent at the lower end of the price band, leaving the three Indian majors to reap significant volume benefits.

... though margins will remain strained

Lower-end motorcycle margins are much slimmer than those at the higher end. Furthermore, buyers in this segment are highly price sensitive and tend to shift preferences more easily. We believe this has led to a significant incidence of price undercutting among players (recent examples include TVS's aggressive pricing of Star City and resultant price cuts announced by Bajaj Auto for Platina).

Bajaj Auto-Hero Honda tussle for market share could constrain pricing power

In the face of strong industry growth and rising player concentration, pricing power could still remain subdued. This is primarily because the fight to capture the number one position may continue to put pressure on both Bajaj Auto and Hero Honda, considering the likely onset of discount-led pricing wars.

We therefore think it will be difficult for margins to expand from current levels. At the same time, we believe that cost pressures, due to significantly higher raw material prices, will likely ease up in comparison with the past two to three years.

Bajaj Auto's handle on executive segment could strengthen sales mix

We believe Bajaj Auto can make further inroads in the mid-range or executive segment, given it is a relatively new player in this segment. Feedback from dealers also supports our view. In addition, given that Bajaj Auto has built decent demand traction in the lower-end segment, buyers opting for an upgrade may choose to do so within the Bajaj Auto family, in our view.

Hence, the company's sales mix is likely to remain relatively healthy while Hero Honda's could deteriorate in favour of lower-end motorcycles.

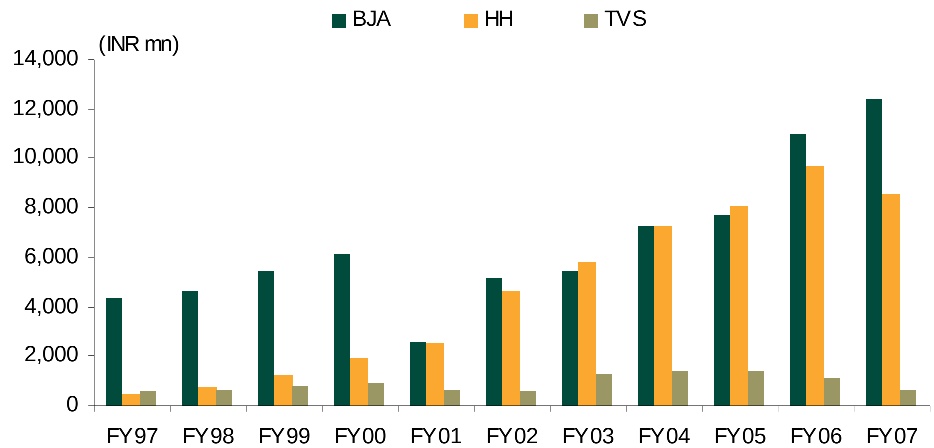
Export spade work would pay rich dividends

Bajaj Auto is the leading motorcycle exporter in India with more than a 60% market share in FY08 YTD. Its export volume has registered a CAGR of 74% in the past five years. We expect the company to sustain this momentum because we think its risks will dissipate due to a much higher base. Hero Honda has a global scale and it is the largest manufacturer of two wheelers in the world, but it would have to go through Honda's network. Given that Honda also has its own 100%-owned subsidiary in India, we think exports from Hero Honda's stable will remain limited.

Smaller players may be gradually edged out

We believe smaller players will find it progressively tougher to compete in the market. One reason is their lack of financial strength (please refer to Figure 8). Note that Hero Honda, apart from Bajaj Auto, is the only company that has managed to make it big in the two-wheeler space. Hero Honda's success can be attributed to Bajaj Auto's earlier miscalculated moves in product offerings (its focus was on scooters). However, no such headroom remains in the market currently, in our view.

Figure 9: Absolute profit differential between various players



Source: Company data, Lehman Brothers research

Another factor is changing market behaviour, characterized by shrinking product life cycles. This implies that a company's competitive quotient could be determined by its ability to continually churn out new products, which would be a tall order for financially weaker players.

We therefore believe that the two-wheeler market will remain consolidated, if not get even more concentrated amongst the top players.

Domestic penetration levels are much higher than in the past

The domestic volume growth of two-wheelers in the past five years has been strong with a CAGR of 13.3%, fuelled by strong GDP growth and consequently growth in incomes. While we expect strong GDP ahead, we think the penetration level of two-wheelers in the system is at a much higher level compared to the past. At our estimated growth rates, penetration would cross 40% of households in FY16E compared with 25% in FY08E .

Figure 10: Penetration of addressable market ('000)

Replacement cycle		FY02	FY06
	No. of Households in target group	50,296	67,089
Eight years	No. of two-wheelers in the market	25,875	38,462
	% Penetration	51.4	57.3
Ten years (Our base case)	No. of two-wheelers in the market	29,138	44,473
	% Penetration	57.9	66.3
Six years	No. of two-wheelers in the market	21,012	31,349
	% Penetration	41.8	46.7

Source: Lehman Brothers research,

Figure 11: Overall penetration of two-wheelers

	FY02	FY08E	FY10E	FY16E
No of households(m)	193.6	212	218	238
Bike stock (mn)	29.1	53.4	62.7	99.8
% Penetration	15.1	25.2	28.7	41.9

Source: Lehman Brothers estimates

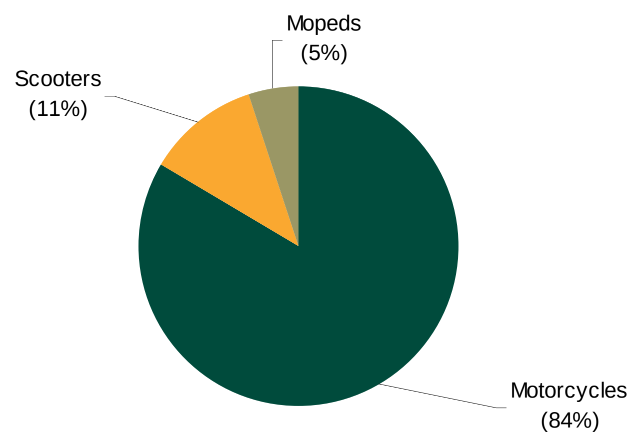
High base would result in a slowdown in long-term growth rates

We believe volume growth will stay subdued, but still remain healthy at a 10% CAGR over FY09E-11E before slowing further to a 7.2% CAGR during FY11E-16E. We expect the number of two-wheelers to rise from 53.4 mn in FY08E to 100 mn in FY16E, compounded by a high base of 13.4 mn two-wheelers per year sold in FY16E, which would result in lower growth rates thereafter. We estimate the long-term two-wheeler volume growth to be close to 4% thereafter.

Market segmentation

The two-wheeler market can be broadly categorized into motorcycles, scooters and mopeds. Motorcycles have emerged as the largest segment and are the focus of our analysis. Over time, the motorcycle market has changed from a monolithic structure with most models priced at around INR40,000 to one with three broad price segments, namely premium (INR50,000-plus), executive (INR40,000-50,000) and economy (INR30,000-40,000). The introduction of low-end motorcycles has aided the rapid shift in customer preferences towards this two-wheeler category, leading to a drastic reduction in scooter and moped sales, a situation which we think is unlikely to change in the near future.

Figure 12: Category-wise two-wheeler volume sales for FY07



Source: SIAM, Lehmann Brothers research

Motorcycles

The motorcycle market has seen significant segmentation over the past few years. The process started with TVS's launch of its MAX bike. However, the MAX is only slightly cheaper than Hero Honda's best-selling bike, the CD100 Deluxe.

Figure 13: TVS's MAX, first attempt at market segmentation

Model	1998 price (INR)	Volumes in 1998
CD100 Deluxe	41,507	95,000
MAX	39,137	12,500

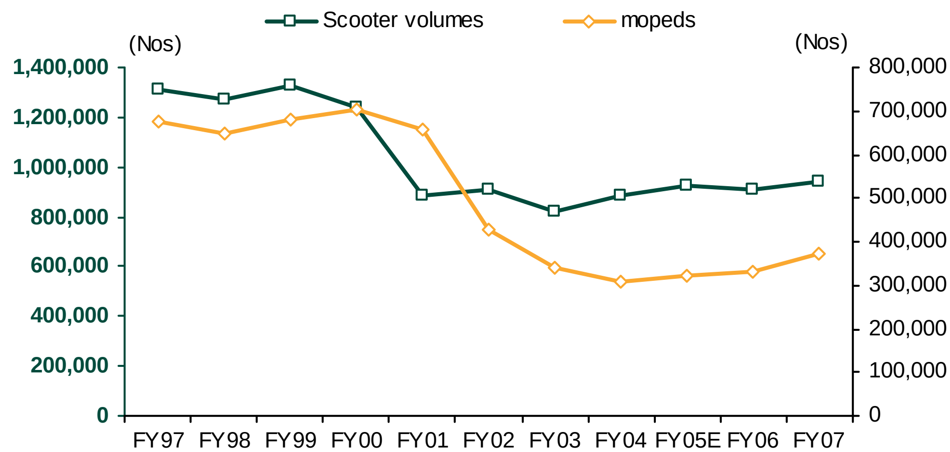
Source: Company data, Lehmann Brothers research

Bajaj Auto's Boxer changed the rules of the game at the lower end

At the low end, Bajaj Auto changed the rules of the game by launching Boxer in July 2000. At INR36,000, it was priced cheaper than any other bike. TVSL was the first to have tried that with its MAX bike, but on a smaller scale. Bajaj Auto's move paved the way for the migration of a large number of users from scooters and even mopeds to motorcycles.

Figure 13 shows that volume sales of scooters and mopeds started to decline sharply around the start of FY01, which coincided with the launch of Boxer in July 2000. In addition, a steady decline in interest rates and increasing availability of consumer loans eased the switch from scooters and mopeds to somewhat pricier (though cheaper than before) motorcycles.

Figure 14: Volume sales of scooters and mopeds dipped with the launch of Boxer



Source: SIAM, Lehmann Brothers research

Hero Honda first segmented the upper end ...

At the upper end, Hero Honda was the first to segment the market with the launch of its 150cc bike CBZ in 1999. At INR55,000, it was priced at a significant premium to other bikes then available. After a strong initial response, the bike's sales volume tapered off gradually.

... but Bajaj Auto has since been crowned leader

Bajaj Auto entered into this segment relatively late as it introduced its Pulsar only in November 2001. However, Pulsar has since emerged as the leader, in part attributable to its superior features even as pricing has played an important role. The fully loaded 180cc Pulsar with disc brakes and electric start was launched at INR53,896, the 150cc model with disc brakes and electric at INR48,923, and the 150cc model with disc brakes at INR44,884 (all prices ex-showroom price). Since Bajaj Auto was making a strong bid to push volume sales, its pricing strategy was more aggressive.

A three-tier market structure

To summarize, the motorcycle market in India has changed from a monolithic structure with most models priced around INR40,000 to a market with three broad price segments: premium (INR50,000-plus), executive (INR40,000-50,000) and economy (INR30,000-40,000).

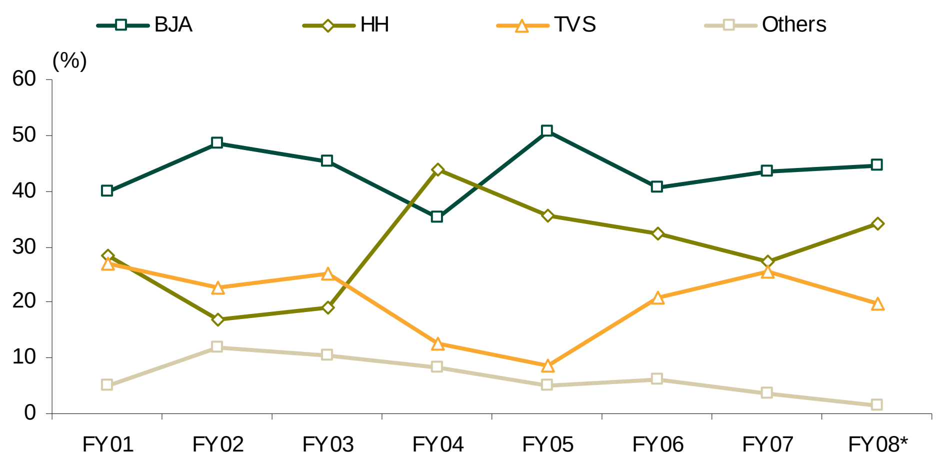
Figure 15: Price segmentation and models of each competitor

(INR)	Hero Honda	Bajaj Auto	TVS	Suzuki	HMSI	Yamaha
Premium						
55,000+	CBZ Xtreme, Karizma; Glamour FI, Hunk	Pulsar 180, Avenger	Apache RTR		Unicorn ES	
50,000-55,000	Achiever; Glamour	Pulsar 150	Apache KS		Unicorn KS	Fazer DLX
Executive						
45,000-50,000	Super Splendor,	Discover upper end	Victor upper end, Flame	Zeus CD	Shine	Fazer LX, Gladiator DLX
40,000-45,000	Splendor, Passion, Glamour	Discover, XCD	Victor Edge	Zeus DU		Libero; Gladiator; Alba
Economy						
35,000-40,000	CD Deluxe	Platina	Centra; Star City ES	Heat		Crux
30,000-35,000	CD Dawn	CT100;	Star	-	-	

Source: Autocar Magazine, October 2007

Bajaj Auto has maintained the lead in the economy segment; we expect this segment to gain momentum after a slowdown in FY08; maximum benefits should accrue to the market leader

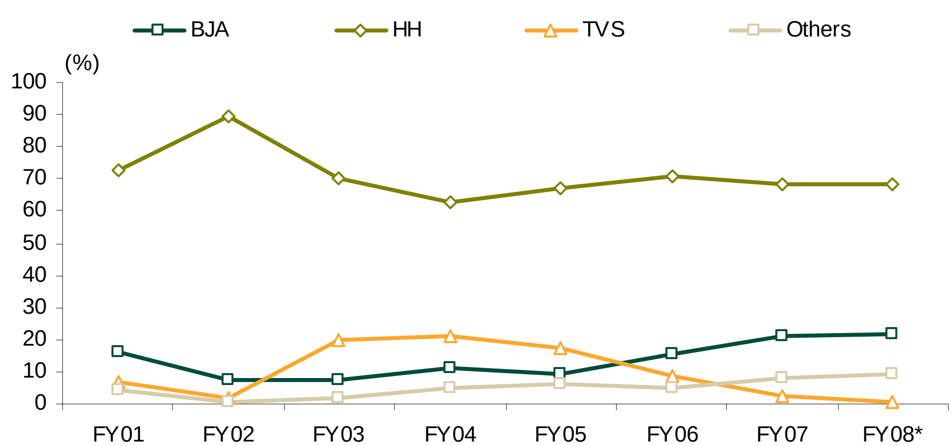
Figure 16: Market share in economy segment



Source: Crisinfac Note: * denotes YTD until October 2007

Hero Honda has led the executive segment fort many years; we expect it to remain the leader, but also believe Bajaj Auto will win significant share from it in the next few years

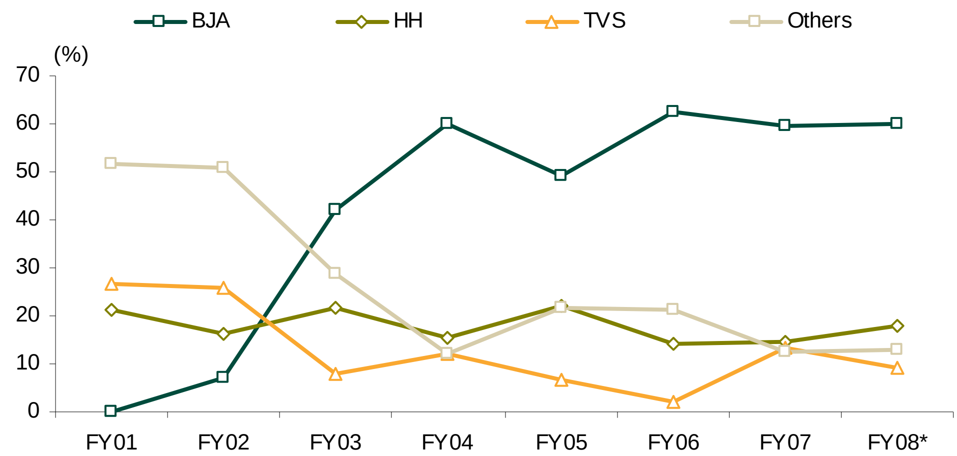
Figure 17: Market share in executive segment



Source: Crisinfac Note: * denotes YTD until October 2007

The premium segment has been Bajaj Auto's forte; we expect Bajaj Auto to continue to lead this segment with its flagship product, Pulsar

Figure 18: Market share in premium segment



Source: Crisinfac Note: * denotes YTD until October 2007

We believe the evolution of the market in terms of segmental growth will determine how the market share of various players will shift in the future.

Hero Honda leads the motorcycle market ...

The motorcycle market continues to be dominated by the executive segment, in which Hero Honda is the largest player. Hero Honda's largest-selling model is Splendor and its variants.

... but Bajaj Auto is catching up, opening a new segment ...

Bajaj Auto made its entry into the motorcycle market with segments in which Hero Honda had little presence. At the low end, Bajaj Auto first tasted success with the Boxer, and then with the CT 100. Its recently launched Platina was also well received in the market. At the high end, Bajaj Auto has done very well with the Pulsar.

... and is now moving into Hero Honda's territory

Bajaj Auto's biggest achievement in the past two years is the inroads it has made into Hero Honda's territory, i.e., in executive segment motorcycles. The success of Discover has significantly accelerated Bajaj Auto's volume growth and we expect XCD to further dent sales volume of Hero Honda's Splendour. As a result, Bajaj Auto now performs well in all segments whereas Hero Honda's volumes are mainly from the executive segment. We believe Bajaj Auto's broad product range will attract more customers and raise the potential of scaling customers up the value chain once they enter showrooms.

Scooters

Scooters, which formed the mainstay of the two-wheeler market until the early 1990s, are now down to 12% of the market's volume sales (based on FY07 sales). Since most buyers have shifted to motorcycles, scooter players have seen a significant shift in product focus.

No USP remains …

The original grounds for the popularity of scooters are as follows:

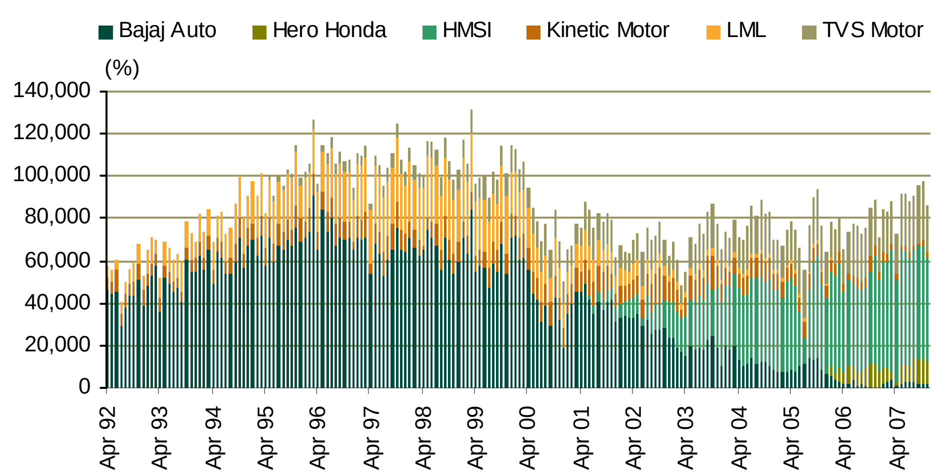
- *Lower pricing*. This is no longer true. Honda's largest-selling scooter model is priced at INR37,000, higher than the typical entry-level motorcycle at INR33,000. In the past when scooters were the largest-selling two-wheeler category, they were cheaper than motorcycles by INR10,000.
- *Family vehicle*. This positioning clearly does not work now because the slot has been taken over by small cars.

Given that the above-mentioned planks for sales of scooters have dissipated, their appeal as a mass-market product has disappeared, in our view. Besides, the typical scooter's engine capacity of ~150cc is a natural constraint on fuel efficiency, which is an important consideration in these times of high fuel prices.

… which means major volumes from this segment are ruled out

Since customer preference has shifted in favour of motorcycles, traditional leaders in the scooter business have withdrawn from the market, giving way to new leaders in a significantly smaller market. From June to November 2007, sales of scooters barely averaged 94,430 per month, compared with 561,511 for motorcycles.

Figure 19: Scooter volumes by player



Source: SIAM, Lehmann Brothers research

Note that TVS's volume sales mainly come from TVS Scooty, which at INR35,000, is priced about the same as a low-end motorcycle.

Scooters would be a niche market

In our view, the market for scooters is confined to: 1) low-priced vehicles like Scooty, which appeal to low-budget buyers like youngsters. Yet, in this segment volumes are still likely to remain low because buyers would have to stretch their budget just a bit to graduate to motorcycles; and 2) niche vehicles, such as Hero Honda's scooters, are positioned as easy-to-ride vehicles for women.

We believe there will be no major change in the fortunes of the scooter market in the near future. Even if there was a major push by any company in the scooter segment, we do not expect it to translate into significant volumes.

Mopeds

Sales of mopeds have shrunk radically over the years, owing to the drop in prices of entry-level motorcycles and increased availability of cheap loans that have made motorcycles more affordable to consumers. Note that the fuel efficiency gap that existed between motorcycles and mopeds in the early 1990s has narrowed.

Overall, we believe that mopeds will continue to remain a very small segment. It is possible for some growth in other segments to trickle down to mopeds given the high economic growth. We estimate that the moped segment will rise at a CAGR of 6.7% for the next three years.

Competitive landscape

The two-wheeler industry in India has become highly consolidated since the competitive strength of smaller players has progressively dwindled. Hero Honda, Bajaj Auto and TVS have emerged as the top three players, commanding over 84% of the two-wheeler market. Despite the high market concentration, the pricing power of these players is not very high since much of the volume growth in the industry comes from low-priced segments. As Bajaj Auto and Hero Honda battle for market share, we believe it will cap price increases.

Two-wheeler industry has witnessed increasing consolidation

One of the most striking features of the two-wheeler industry is that despite rapid growth over the past ten years, the competitive strength of at least four players – LML (not rated), Yamaha Motor India Pte Ltd (not listed), Enfield (not listed) and Kinetic (not rated) – has taken a significant beating. Even TVS has lost ground to Bajaj Auto and Hero Honda. To that extent, the two-wheeler industry in India has become increasingly consolidated over a period of time.

Figure 20: Rising market share of major players reflects industry consolidation

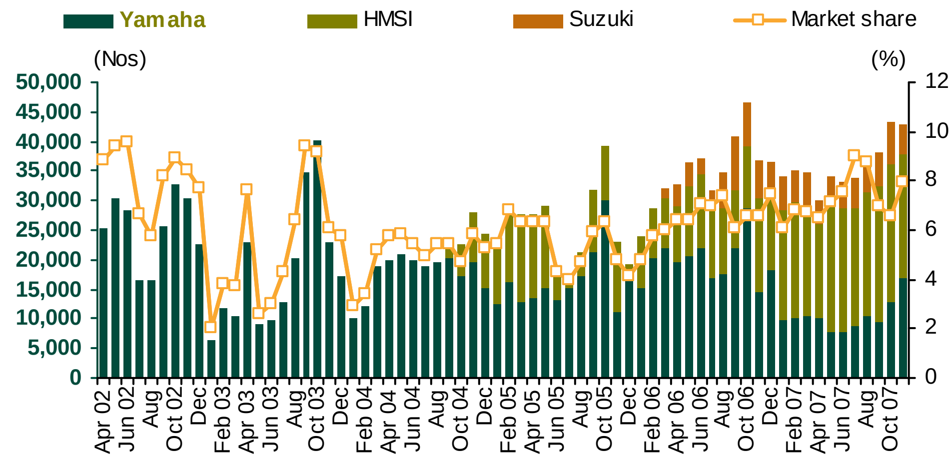
(%)	Bajaj Auto	Yamaha	Hero Honda	Honda	Kinetic	TVS	Top 2
Mar 97	41.6	7.3	9.1	0	9.1	17.3	50.7
Mar 98	37.2	5.9	13.4	0	8.8	18.9	50.6
Mar 99	36.1	5.6	15.6	0	7.7	20.7	51.7
Mar 00	32.6	6.5	20.3	0	7.4	22.4	52.9
Mar 01	28.6	4.2	27.9	0	7.4	23.4	56.5
Mar 02	27.8	5.0	33.5	1.3	5.8	20.4	61.3
Mar 03	24.8	5.3	34.2	3.1	4.6	22.4	59.0
Mar 04	22.4	4.3	37.9	5.8	3.7	20.9	60.3
Mar 05	23.7	3.4	41.2	8.3	2.8	18.0	64.9
Mar 06	26.3	2.9	41.2	8.0	1.7	17.9	67.5
Mar 07	26.6	2.7	41.3	8.8	1.0	18.1	67.9
Dec 07*	24.1	1.6	43.7	11.8	0.6	16.2	67.9

** YTD. Source: SIAM, Lehmann Brothers research*

Multinationals have not been able to make much headway

Yamaha was the first multinational company (MNC) to expand its two-wheeler business to India, followed by Honda, and more recently, Suzuki (7269 T, 1-OW). But the combined volume sales of these companies constitute less than 7.5% of the domestic two-wheeler market.

Figure 21: Market share of MNCs in overall two-wheeler industry



Source: SIAM, Lehmann Brothers research

The failure of MNCs to establish a strong presence in the domestic market can be attributed to a number of factors: 1) widespread service networks of domestic manufacturers, which make for low cost of ownership on their vehicles compared with a sprinkling of MNC service centers; 2) MNCs' inability to establish any significant technological superiority; and 3) difficulty in dealing with Indian labor (examples include strikes at the Honda and Toyota plants).

Another issue is that the two-wheeler business is not really a capital guzzler, unlike the car business. That means that MNCs cannot steal a march over their domestic competitors just by pumping in extra capital. Hence, we do not believe that MNCs pose any threat to Indian companies, at least not in the medium term.

However, pricing power remains limited

Although the two-wheeler market is relatively consolidated, the pricing power of players is not very high. This is largely due to the following.

- *Emergence of low-end segments.* The two-wheeler market has undergone a structural change – what was earlier a homogenous market, comprising 100cc bikes, has been segmented into three price categories. Much of the volume growth in the industry is due to the emergence of low-priced segments. While this has bolstered growth in volume sales of motorcycles (partly by inducing users of mopeds and scooters to trade up), we think price competition in this segment has led to margin erosion; and

- *Volume competition between Bajaj Auto and Hero Honda.* Bajaj Auto has come a long way in catching up with Hero Honda's volumes in the past two years. For Hero Honda, it is of utmost importance to protect its volume leadership, which rests primarily on the 13-year-old brand Splendor (note that there have been several upgrades to the product). Hence, if Bajaj Auto's volumes continue to inch closer to Hero Honda's, the latter might resort to price cuts. We believe that structurally, the contest for market leadership will tend to cap price increases, with contenders adopting a discount-led approach to raise volume sales.

ROI of the biggest two-wheeler companies are still very large

Indian two-wheeler companies continue to generate very high returns on their investment. Despite strong competition, the return on investment (ROI) of top players has remained high because investments required to raise volumes have been relatively low.

Figure 22: ROIs – Indian two-wheeler companies

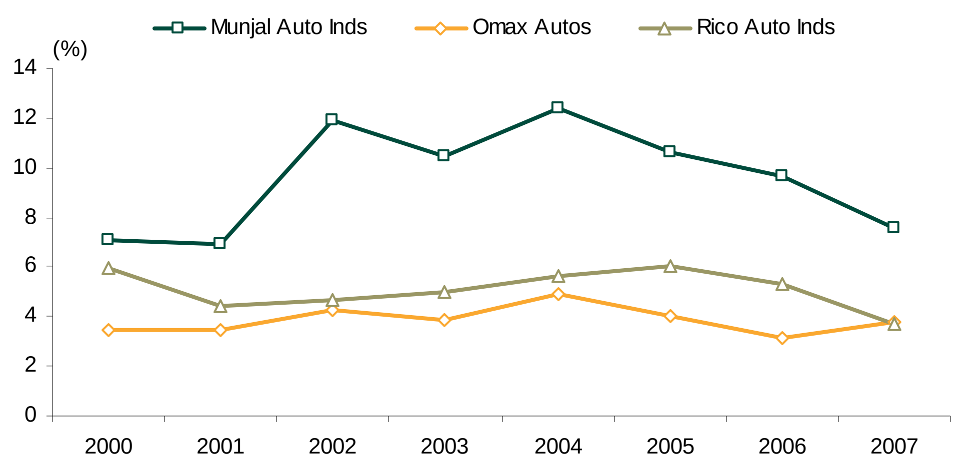
		Bajaj Auto (%)	Hero Honda (%)	TVS (%)
EBIT/Avg (total assets-current liabilities)	ROCE	62.80	120.03	16.00
EBIT/(D+E-invest.-cash)	ROIC 2007	283.50	195.50	12.20
	ROIC 2006	553.70	IC negative	23.20

Source: Company data, Lehmann Brothers research

Large players pass on a sizeable part of investments to their vendors

One result of the industry's consolidation is that vendors of leading motorcycle brands have very low bargaining power against manufacturers that have the leverage of huge volumes. As a result, a large part of cost escalation and even required investments sit in the books of vendors. The financials of the vendors show that the ROIC of the business is not high and is supported by keeping returns for vendors very close to their cost of capital, in our view.

Figure 23: PAT margin of auto ancillaries



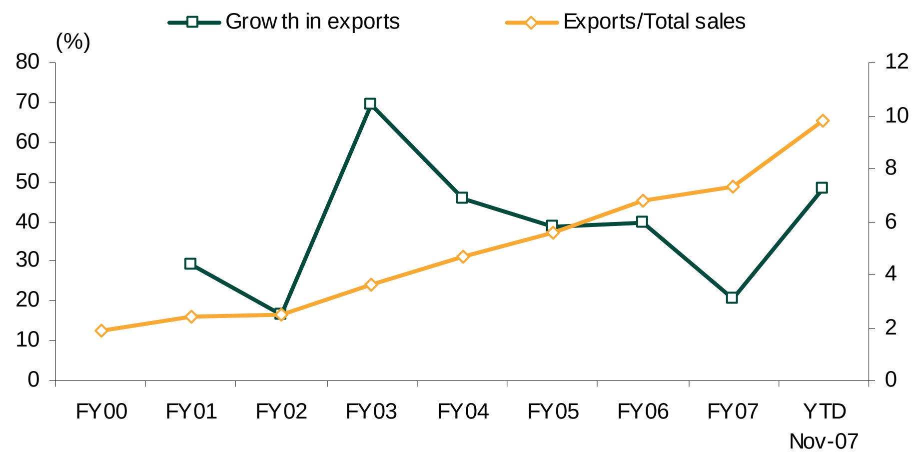
Source: Company data, Lehmann Brothers research

The export opportunity

India's two-wheeler exports are accelerating …

Indian two-wheeler companies started exploring the export market after a slowdown in the domestic market. We believe their exports initiatives are now starting to pay off. Figure 23 shows that export growth of Indian two-wheeler companies has been accelerating on a rising base, indicating increased acceptance of Indian goods in foreign markets.

Figure 24: Two-wheeler export growth



Source: SIAM, Lehmann Brothers research

… and we expect the growth momentum to be sustained

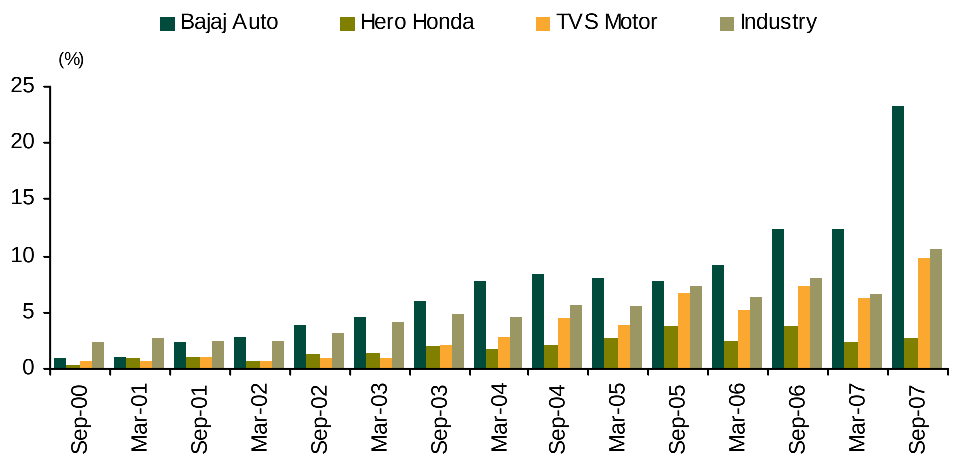
We expect strong growth in exports to continue on the strength of:

- Global scale (Hero Honda is the world's largest maker of two-wheelers);
- Quality, partly thanks to tie-ups with global companies and fierce competition in the domestic market;
- Ample cash flows to invest in long-term customer acquisition in target markets; and
- Spade work from export leader Bajaj Auto.

We believe a lack of focus on exports has kept volumes low…

Until now, two-wheeler exports were not considered a focus area primarily because of the limited technical capability of two-wheeler players and a small portfolio of successful models. For the half year ending September 2000, exports constituted just 2.3% of sales. While this has since risen to 10.6% in 1HFY08 at a CAGR of 25%, the volume are still very low (0.7 mn vehicles for 2006-07).

Figure 25: Company exports as a percentage of total sales (half yearly)



Source: SIAM, Lehmann Brothers research

... but Indian players are now geared for foreign markets

However, armed with a wider and more technologically advanced product portfolio as well as pricing advantage, there is no reason to believe that Indian companies cannot replicate their domestic success in other markets as well. Bajaj Auto is already showing signs of confidence in its products as evidenced by its entry into the Indonesian sports motorcycle market, which is dominated by world giants like Honda.

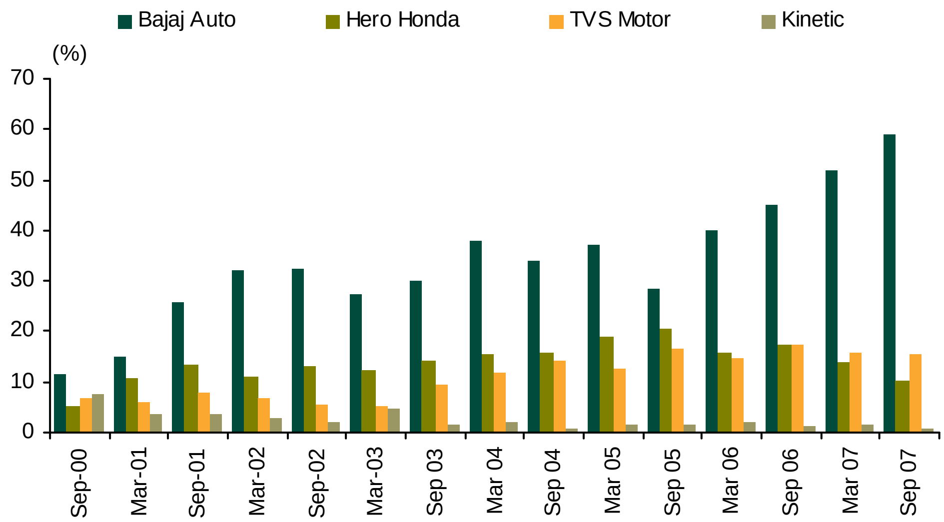
Emerging markets offer tremendous opportunity

Indian two-wheeler companies have adopted a strategy of targeting markets that are comparable to India in terms of purchasing power and, therefore, have a similar appetite for products. So far, players have been exploring smaller untapped markets like Nigeria (bike market of 1 mn), Iran (0.5 mn), Indonesia (5 mn), and Columbia (1 mn). Nigeria, for instance, is currently dominated by Chinese and second-hand Japanese bikes. These are either high on maintenance or suffer from the unavailability of genuine spare parts. In countries like Iran, more stringent emission norms are likely to put pressure on the position of Chinese competitors. Similarly, other world markets offer significant untapped potential.

Bajaj Auto is the clear leader in exports

Bajaj Auto has been leading the pack in terms of exports, clocking consistent expansion in its share of exports in the industry for the past five years. Its strong performance is a function of several factors, such as consumer preferences, good distributors, a strong after-sales service and spare parts availability.

Figure 26: Export market shares in two-wheelers (half-yearly)



Source: SIAM, Lehman Brothers research

Bajaj Auto Ltd: 1-Overweight with a price target of INR2,939.60

We have valued BJA on a sum-of-the-parts (SOTP) basis. For this, we have taken into account the structure that will emerge after the de-merger. As guided by management through a press release on 17 May 2007, the de-merger should happen in fiscal 1H09. While we believe that there is likely to be value dilution at the holding company level, value discovery in the insurance business is likely to be a stronger trigger on an overall basis, in our view. BJA will de-merge into three companies:

- New Bajaj Auto (NBJA). This entity will hold 70% of BJA's (1) existing auto business and (2) cash and investments of INR15,000 mn.
- Bajaj Finserve (BFS). This entity will hold 70% of BJA's (1) general insurance business, (2) life insurance business, (3) Bajaj Auto Finance, and (4) cash and investments worth INR8,000 mn.
- Bajaj Holding and Investments Ltd (BHIL). This entity will hold (1) 30% of NBJA, (2) 30% of BFS, (3) listed equity and (4) the company's remaining cash and investments.

1-Overweight with a price target of INR 2,939.6

We have assumed a discount of 30% to the holding company because it will be purely an investment company with no core business. We have valued cash at 10x FY09E non-core EPS of INR42.76 and allocated it to the three different companies on the basis of their cash holdings.

Figure 27: BJA – sum-of-the-parts valuation

	Full value (INR mn)	Discount (%)	Value of stake (INR mn)	Value/share (INR)
New Bajaj Auto (NBJA)				
Existing auto business	108,049	0.0	108,049	1,067.7
Cash + investments	15,000	41.9	10,568	104.4
Total			118,616	1,172.1
Value of 70% stake			83,031	820.5
Bajaj Finserve (BFS)	Full value (INR mn)	Discount (%)	Value of stake (INR mn)	Value/share (INR)
Bajaj General Insurance	43,805	51.0	22,341	220.8
Bajaj Allianz Life Insurance	429,659	26.0	111,711	1,103.9
Bajaj Auto Finance	14,074	46.3	6,518	64.4
Cash + investments	8,000	41.9	5,636	55.7
Total			146,206	1,444.7
Value of 70% stake			102,344	1,011.3
Bajaj Holding & Investments Ltd. (BHIL)	Full value (INR mn)	Discount (%)	Value of stake (INR mn)	Value/share (INR)
New BJA	118,616	30.0	35,585	351.6
Bajaj Finserve	146,206	30.0	43,862	433.4
Listed equity			47,193	466.3
Cash + investments with BHIL			27,067	267.5
Total			153,707	1,518.8
Value of BHIL after holding discount @30%			118,236	1,168.3
Total value of all three shares				3,000.1
Price target (end Jan 2009)				2939.6

Source: Company data, Lehman Brothers estimates

Valuation of auto business

Figure 28: BJA – auto business valuation

	EPS FY09E (INR)	Multiple (x)	Value/share (INR)
Core earnings	89.0	12.0	1,068
Non-core earnings	42.8	10.0	428
Total	131.7	11.4	1,495
Rolled back to Jan 2008	131.7	11.0	1,450

Source: Lehman Brothers estimates

We value BJA's core auto business at 12x FY09E core EPS of INR89 and non-core earnings at 10x FY09E non-core EPS of INR42.8. The weighted average multiple of these is 11x FY09E EPS. We have allocated the value of non-core earnings in the ratio of cash being given to the three companies post de-merger. After allocation, the discount works out to be 41.9% of the company's cash on books in FY09E

Valuation of insurance JVs

Bajaj has done two joint ventures with Allianz group of Germany for life insurance and general insurance business. The valuation of these JVs has been done by our Indian banking analyst, Srikanth Vadlamani. We value Bajaj's life insurance business at 23x FY09E NBAP and its general insurance business at 21x FY09E surplus PAT.

Bajaj Allianz Life Insurance

We value the life insurance business at INR1,070. We are building in assumptions of 120%, 50% and 35% growth in annualized premium equivalent (APE) for FY08E, FY09E and FY10E, respectively. We are building in NBAP margins of 18% in FY09E and 17% in FY10E. We value the life insurance business at 23x FY09E NBAP, which implies a value of INR430 bn for the life insurance entity. We value the 26% effective stake of Bajaj at INR104 bn or INR1,070/share.

Figure 29: Bajaj Allianz Life Insurance – valuation methodology

(INR mn)	FY06	FY07	FY08E	FY09E	FY10E
APE	13,379	31,518	69,339	104,008	140,411
Growth rate (%)		136	120	50	35
NBAP margins (%)				18	17
NBAP				18,722	23,870
P/E multiple				23	18
Structural value				429,659	429,659
Embedded value (net of capital costs)					-
Total value of BJA				429,659	429,659
Total value of Bajaj's 26% stake				111,711	111,711
No of shares				101	101
Value/share of Bajaj – end FY09				1,104	1,104
Value/share of Bajaj – 12-month forward				1,070	1,070

Source: Company data, Lehman Brothers estimates

Bajaj Allianz General Insurance

We value the general insurance business at INR214 per share

Bajaj reported a combined growth ratio of 98% in FY07. We are building in assumptions of 30%, 80% and 30% growth in post-tax combined surplus for FY08E, FY09E and FY10E, respectively. We value the general insurance business at 21x FY09E post-tax combined surplus, which is INR22 bn or INR214/share of Bajaj.

Figure 30: Bajaj Allianz General Insurance – valuation methodology

(INR mn)	FY07	FY08E	FY09E	FY10E
Gross written premium	17,863			
Growth (%)	40			
Retention ratio (%)	58			
Net written premium	10,398			
Growth (%)	49			
Combined growth ratio	98%			
Combined ratio surplus	900			
Investment income	300			
Total surplus – PBT	1,200			
Tax rate (%)	25			
PAT – surplus	900	1,170	2,106	2,738
Growth (%)		30	80	30
Multiple			21	16
Business valuation			43,805	43,805
Stake of Bajaj (%)			51	51
Value of Bajaj's stake			22,340	22,340
Value/share of Bajaj – end FY09			221	221
Value/share of Bajaj – 12-month forward			214	214

Source: Company data, Lehman Brothers estimates

Hero Honda: 2-Equal weight with target price of INR754

We have valued HH by discounting free cash flow to equity (FCFE). For this purpose, we have assumed flat profit for FY08, followed by a 15.5% profit CAGR until FY11. We have assumed a terminal growth rate of 4%, a cost of equity at 13%, and a terminal ROE of 30%. This implies a multiple of 15.8x FY09E EPS.

Figure 31: HH – DCF-based valuation

(INR mn)	FY05	FY06	FY07	FY09E	FY10E	FY11E
Total revenue	74,551	87,515	99,482	110,779	123,008	136,587
YoY growth (%)		17.4	13.6	11.0	11.0	11.0
Operating profit	11,923	13,910	12,099	13,522	15,501	17,210
OPM (%)	16.0	15.9	12.2	12.2	12.6	12.6
Interest	-11	-61	-230	0	0	0
Depreciation	894	1,146	1,398	1,992	2,246	2,479
PBT	12,173	14,122	12,461	13,657	15,874	17,913
Tax	4,068	4,409	3,882	4,140	4,481	4,982
Tax rate (%)	33.42	31.22	31.15	30.31	28.23	27.81
PAT	8,105	9,713	8,579	9,517	11,393	12,930
YoY growth (%)	–	19.85	(11.68)	13.45	19.71	13.50
Depreciation	894	1,146	1,398	1,992	2,246	2,479
Increase in WC	-4,097	1,858	1,662	-668	-1,019	-891
Capex	2,499	3,711	4,744	2,500	2,500	2,500
Debt raised-Debt repaid	271	-160	-206	229	116	185
Equity raised	0	0	0	0	0	0
Free cash flow	10,868	5,130	3,365	9,906	12,274	13,986
	FY12	FY13	FY14	FY16		
PAT	14,094	15,363	16,745	19,172		
YoY growth (%)	9.00	9.00	9.00	7.00		
FCFE	9,866	10,754	11,722	14,698		
ROE (%)	30.0	30.0	30.0	30.0		
Retention ratio	30.0	30.0	30.0	23.3		
NPV of FCFE	133,320		Term. ROE (%)	Cost of Eq. (%)	TV (INR mn)	
No of shares	200		30.0	13.0	191,999	
Price/share [Jan 2008]	668					
Price/share [Jan 2009]	754.4					

Source: Company data, Lehman Brothers estimates

TVS Motor: 2-Equal weight with target price of INR43.4

We initiate coverage of TVS with a 2-Equal weight rating and a 12-month price target of INR43.4, which is based on discounted cash flow (DCF) of free cash flow-to-equity (FCFE). This implies a multiple of 13.3x FY10E earnings.

Figure 32: TVS – DCF-based valuation

INR (mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Total revenues	29,498	32,821	39,101	35,041	38,790	42,165	45,835
YoY growth (%)		12.5	19.2	-10.3	10.7	8.7	8.7
Operating Profit	2,855	2,516	1,924	1,400	1,821	2,230	2,686
OPM (%)	9.7	7.7	4.9	4.0	4.7	5.3	5.9
Interest	8	131	321	346	341	307	241
Depreciation	896	939	876	985	1,093	1,154	1,215
PBT	2,005	1,684	908	519	683	1,107	1,645
Tax	629	515	243	156	205	332	493
Tax rate (%)	31	31	27	30	30	30	30
PAT	1,376	1,170	666	363	478	775	1,151
YoY growth (%)		-15.0	-43.1	-45.4	31.6	62.0	48.6
Depreciation	896	939	876	985	1,093	1,154	1,215
Increase in WC	580	934	820	-720	156	135	146
Capex	1,520	1,113	2,835	1,000	1,000	1,000	1,000
Debt raised-debt repaid	678	1,982	2,485	362	116	138	311
Equity raised	0	0	0	0	0	0	0
Free cash flow	850	2,044	373	1,431	531	931	1,531
	FY12E	FY13E	FY14E	FY15E	FY16E		
PAT	1076	1162	1255	1343	1437		
YoY growth (%)	8.00	8.00	8.00	7.00	7.00		
FCFE	359	418	483	647	692		
ROE (%)	12.00	12.50	13.00	13.50	13.50		
Retention ratio	66.67	64.00	61.54	51.85	51.85		
NPV of FCFE	9,115		Term. ROE	Terminal growth	Cost of Eq.	TV	
No of shares (mn)	238		13.50	4.00	13.00	11,688	
Price per share [Jan 2008]	38.4						
Price per share [Jan 2009]	43.4						

Source: Company data, Lehman Brothers estimates

Table of Figures

Important Disclosures:

Other Material Conflicts

Hyundai Motor Company (005380.KS): Lehman Brothers International (Europe), Seoul branch is a liquidity provider of equity linked notes for Hyundai Motor Company.

Mentioned Company	Ticker	Price (04-Feb-2008)	Stock / Sector Rating
Ashok Leyland	ASOK.NS	INR 37.25	2-Equal weight / 1-Positive
Bajaj Auto	BJAT.NS	INR 2459.05	1-Overweight / 1-Positive
Brilliance China Automotive	1114.HK	HKD 1.61	3-Underweight / 1-Positive
Denway Motors Limited	0203.HK	HKD 4.90	1-Overweight / 1-Positive
Dongfeng Motor Group Co Ltd	0489.HK	HKD 5.29	1-Overweight / 1-Positive
Geely Automobile Holdings	0175.HK	HKD 0.84	3-Underweight / 1-Positive
Great Wall Motor Co	2333.HK	HKD 9.81	1-Overweight / 1-Positive
Hero Honda	HROH.NS	INR 769.60	2-Equal weight / 1-Positive
Honda Motor	7267.T	JPY 3430	1-Overweight / 2-Neutral
Hyundai Motor Company	005380.KS	KRW 71300	1-Overweight / 1-Positive
Kia Motors Corporation	000270.KS	KRW 10300	1-Overweight / 1-Positive
Maruti Suzuki India Limited	MRTI.NS	INR 896.55	1-Overweight / 1-Positive
Shanghai Automotive Co.	600104.SS	CNY 21.37	2-Equal weight / 1-Positive
Ssangyong Motor	003620.KS	KRW 5000	1-Overweight / 1-Positive
Suzuki Motor	7269.T	JPY 2870	1-Overweight / 2-Neutral
Tata Motors	TAMO.NS	INR 769.95	1-Overweight / 1-Positive
TVS Motor	TVSM.NS	INR 40.75	2-Equal weight / 1-Positive

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