

Automobiles - Monthly update

BSE Sensex: 17,329

S&P CNX: 5,069

1 October 2007

COMPANY NAME	RECOS	Snapshot of monthly sales for September 2007
Maruti	(Buy, Rs992)	✂ Maruti (in-line) has reported volume growth of 13.5% in September 2007, with strong growth in A2 and A3 segments. Volumes would have been higher if not for a delayed export shipment and lower production of <i>Omnis</i> .
M&M	(Buy, Rs759)	✂ M&M (mixed bag) displayed robust UV growth despite lower Scorpio sales; three-wheelers are flat, while tractor sales have declined by 10.9%.
Tata Motors	(Buy, Rs773)	✂ Tata Motors (below expectations) disappointed in all segments except LCVs, which were boosted by the sales of new launches – Magic and Winger.
Bajaj Auto	(UR, Rs2,484)	✂ Bajaj Auto (in-line) strong decline in volumes, but signs of trend reversal for the company and the two-wheeler industry in general are now in evidence
Hero Honda	(Neutral, Rs733)	✂ Hero Honda (above expectations) sales increased by 4.1% YoY and 30.4% MoM, lending further credence, to expectations of recovery in two-wheelers in 2HFY08.
TVS Motor	(Neutral, Rs71)	✂ TVS Motors (in-line) has seen the drop in motorcycle sales continue, while mopeds and scooter sales remain the major growth drivers.

SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY		YOY (%) CHG	MOM		YTD			RESIDUAL		
	SEP-07	SEP-06		AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR. (%)
Maruti Suzuki	67,448	59,420	13.5	65,968	2.2	360,994	302,631	19.3	788,875	16.9	14.9
A1	5,221	7,680	-32.0	5,480	-4.7	34,665	40,445	-14.3			
C	6,350	7,289	-12.9	7,889	-19.5	42,084	37,332	12.7			
A2	46,216	37,955	21.8	41,736	10.7	233,102	191,197	21.9			
A3	4,885	3,410	43.3	4,839	1.0	25,174	15,960	57.7			
MUV	414	272	52.2	285	45.3	1,733	1,688	2.7			
Export	4,362	2,814	55.0	5,739	-24.0	24,236	16,009	51.4			
Mahindra & Mahindra	28,539	25,649	11.3	24,841	14.9	155,612	129,066	20.6	310,256	10.5	10.2%
UV's	13,548	12,016	12.7	12,325	9.9	71,674	58,754	22.0	152,862	12.5	5.3
LCV	930	742	25.3	832	11.8	5,473	3,921	39.6	9,950	15.0	-5.4
PV - Logan	2,185	0	NA	2,252	NA	12,494	0	NA			NA
Three-Wheelers	3,208	3,162	1.5	2,860	12.2	16,453	15,469	6.4	38,755	15.0	22.3
Tractors	8,668	9,729	-10.9	6,572	31.9	49,518	50,922	-2.8	108,689	6.0	14.7
Tata Motors	48,347	48,938	-1.2	45,144	7.1	262,950	265,350	-0.9	622,078	7.4	14.5
HCV's	15,299	16,127	-5.1	13,066	17.1	75,753	82,424	-8.1	192,941	4.1	13.8
LCV's	14,752	13,513	9.2	13,681	7.8	75,934	68,520	10.8	167,319	12.1	13.2
Cars	14,682	15,138	-3.0	14,917	-1.6	89,823	93,775	-4.2	208,594	6.7	16.9
UV's	3,614	4,160	-13.1	3,480	3.9	21,440	20,631	3.9	53,223	8.4	11.7
Bajaj Auto	232,496	300,141	-22.5	195,707	18.8	1,185,683	1,355,211	-12.5	2,774,498	2.0	16.5
Motorcycles	204,152	271,377	-24.8	167,483	21.9	1,025,558	1,191,249	-13.9	2,424,048	2.0	18.0
Total Two-Wheelers	206,208	272,271	-24.3	170,203	21.2	1,039,466	1,203,661	-13.6	2,452,720	2.3	18.4
Three-Wheelers	26,288	27,870	-5.7	25,504	3.1	146,217	151,550	-3.5	321,778	0.0	3.1
Hero Honda	314,000	301,577	4.1	240,875	30.4	1,558,919	1,584,659	-1.6	3,378,491	1.3	3.9
TVS Motor	115,091	162,200	-29.0	102,734	12.0	643,157	794,691	-19.1	1,463,497	-4.2	11.8
Motorcycles	53,991	106,972	-49.5	46,235	16.8	294,953	491,517	-40.0	761,422	-17.6	7.7

Source: Company/Motilal Oswal Securities

Maruti: Buy

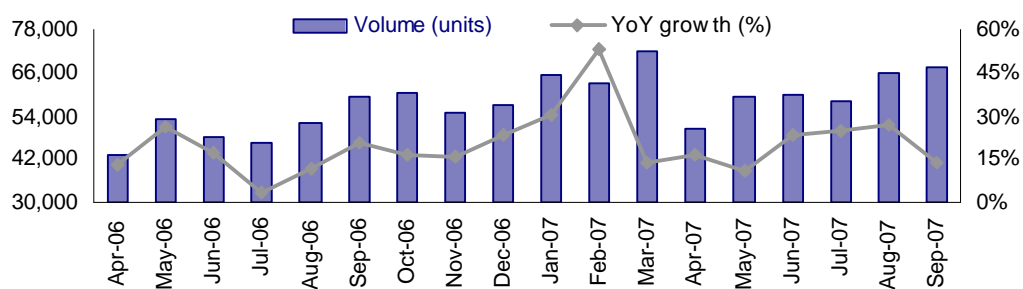
YEAR	TOTAL INC.	PAT	ADJ. EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	149,663	15,574	53.9	28.5	18.4	4.2	22.8	30.2	1.6	10.7
3/08E	183,774	19,564	67.7	25.6	14.6	3.3	22.6	30.6	1.3	8.1
3/09E	218,430	22,892	79.2	17.0	12.5	2.7	21.2	29.1	1.0	6.6

Maruti Suzuki - 11.4% YoY domestic growth and 55% export growth

Maruti reported growth of 13.5% in September 2007 sales to 67,448 units; domestic sales are up 11.4% YoY to 63,086 units, while exports have increased by 55% to 4,362 units. The fastest growth was in A3 segment, where sales increased by 43.3% to 4,885 units, boosted by the success of SX4. Growth momentum was sustained in the A2 segment at 21.8% to 46,216 units. However, there was a decline in the C segment - volumes declined by 12.9% to 6,350 units - growth in this segment over April - September 2007 is 12.7%. This was mainly on account of no production of the *Omni* in the second half of September. Normal production is expected to resume in the first half of October (*Omni* sales are likely to be impacted in October as well). Moreover, exports too would have been higher if there was not a delay of an export shipment of 800 units.

We remain positive on Maruti and retain it as our top pick in the sector. The stock trades at 14.6x FY08E EPS of Rs67.7 and 12.5x FY09E EPS of Rs79.2. Maintain **Buy**.

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

MARUTI: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY		MOM		YTD			RESIDUAL			
	SEP-07	SEP-06	YOY (%) CHG	AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR. (%)
Maruti Suzuki	67,448	59,420	13.5	65,968	2.2	360,994	302,631	19.3	788,875	16.9	14.9
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C	6,350	7,289	-12.9	7,889	-19.5	42,084	37,332	12.7			
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MUV	414	272	52.2	285	45.3	1,733	1,688	2.7			
Export	4,362	2,814	55.0	5,739	-24.0	24,236	16,009	51.4			

Source: Company/Motilal Oswal Securities

Mahindra & Mahindra: Buy

CMP: Rs759

MKT CAP: USD4.5B

BLOOMBERG: MM IN

REUTERS CODE: MAHM.BO

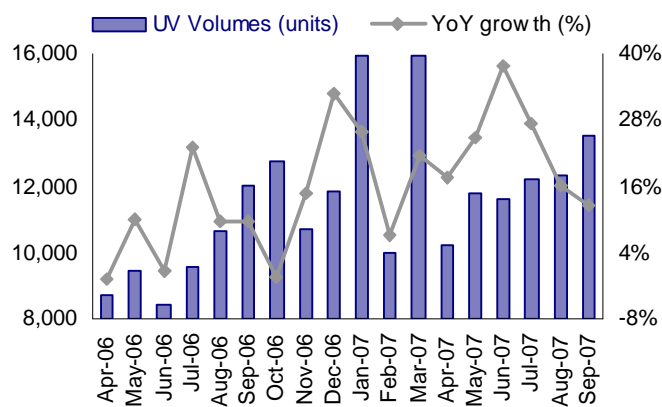
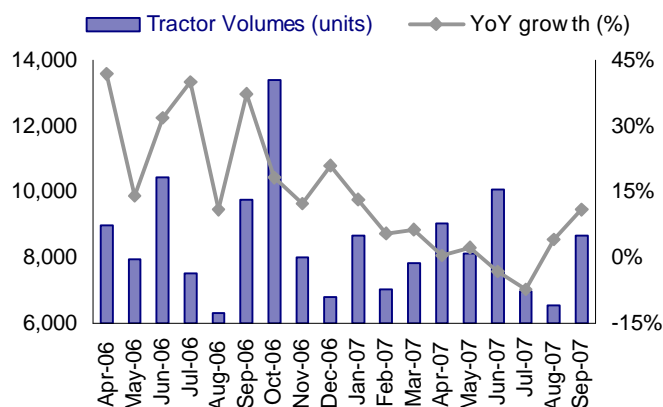
YEAR END	NET SALES (RS M)	S/A PAT (RS M)	ADJ.EPS (RS)	CONS. EPS (RS)	P/E (X)	CONS, P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	99,874	9,198	35.9	55.1	21.1	13.8	25.9	22.3	1.6	13.5
3/08E	112,230	9,536	37.3	64.3	20.4	11.8	22.6	20.7	1.4	11.6
3/09E	124,299	10,085	39.4	75.2	19.3	10.1	20.8	20.4	1.2	10.1

M&M: Tractor sales dip

M&M reported sales growth of 11.3% YoY in September 2007 to 28,539 units with strong growth in UVs (+12.7% YoY) and LCVs (+25.3% YoY). UV growth in YTD FY08 has been mainly led by the non-Scorpio UVs, which have increased by 21.6% YoY. Overall growth in the automotive segment is 24.8% YoY. However, adjusted for Logan, automotive sales have increased by 11.1% YoY, while overall sales have increased by merely 2.7% YoY. This is mainly on account of tractor sales dipping by 10.9% YoY to 8,668 units (below expectations).

With several growth drivers for the company over the next 3-4 years, coupled with attractive valuations, we remain positive on M&M. The stock trades at 11.8x FY08E EPS of 64.3 and 10.1x FY09E EPS of Rs75.2. Maintain **Buy**.

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

MAHINDRA & MAHINDRA: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY			MOM		YTD			RESIDUAL		
	SEP-07	SEP-06	YOY (%) CHG	AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR. (%)
Mahindra & Mahindra	28,539	25,649	11.3	24,841	14.9	155,612	129,066	20.6	310,256	10.5	10.2
UV's	13,548	12,016	12.7	12,325	9.9	71,674	58,754	22.0	152,862	12.5	5.3
LCV	930	742	25.3	832	11.8	5,473	3,921	39.6	9,950	15.0	-5.4
PV - Logan	2,185	N.A.	N.A.	2,252	N.A.	12,494	N.A.	N.A.	N.A.	N.A.	N.A.
Three-Wheelers	3,208	3,162	1.5	2,860	12.2	16,453	15,469	6.4	38,755	15.0	22.3
Tractors	8,668	9,729	-10.9	6,572	31.9	49,518	50,922	-2.8	108,689	6.0	14.7

Source: Company/Motilal Oswal Securities

Tata Motors: Buy

CMP: Rs773

MKT CAP: USD7.9B

BLOOMBERG: TTMT IN

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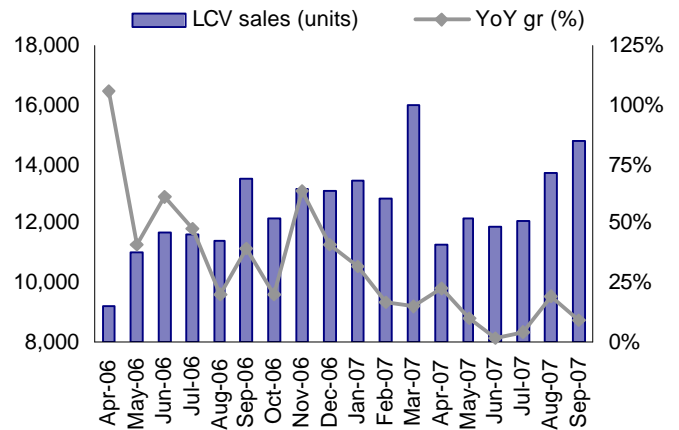
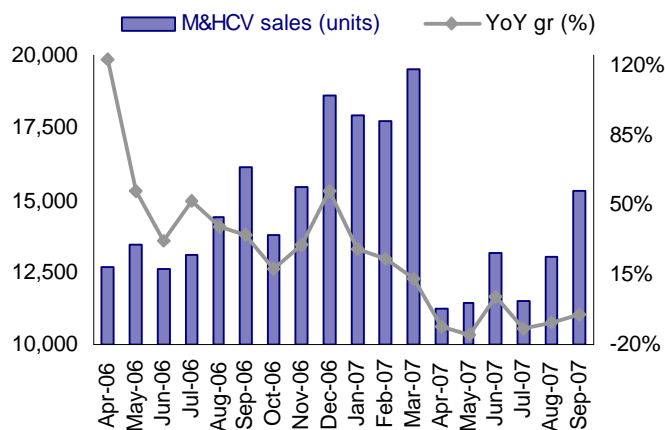
YEAR END	SALES (RS M)	S/A PAT (RS M)	ADJ EPS (RS)	CONS, EPS (RS)	P/E RATIO	CONS. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	274,048	18,963	46.6	52.9	16.6	14.6	27.6	27.1	1.1	9.3
3/08E	292,521	16,823	41.3	51.9	18.7	14.9	21.4	22.5	1.0	10.0
3/09E	327,556	18,803	46.2	59.0	16.7	13.1	21.0	22.9	0.9	9.0

Disappointing volumes

Tata Motors reported marginal 1.2% YoY decline in September vehicle volumes to 48,347 units (below expectations). LCV sales were the only segment showing growth, as sales increased by 9.2% YoY. Other three segments - M&HCVs, Passenger cars, and Utility Vehicles recorded volume declines of 5.1%, 3% and 13.1% respectively. The company has reiterated that high interest rates continue to affect retails.

We believe that pursuant to softening in CV interest rates in the past 2-3 months, the CV demand is likely to pick up again. Tata Motors trades at 14.9x FY08E cons EPS of Rs51.9, and 13.1x FY09 consolidated earnings of Rs59.

VOLUME GROWTH TREND



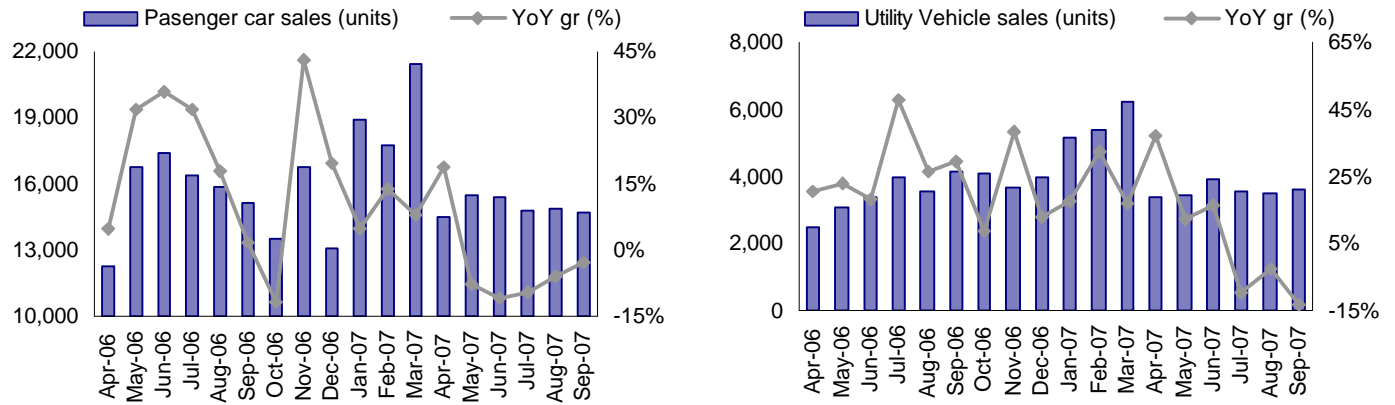
Source: Company/Motilal Oswal Securities

TATA MOTORS: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY			MOM		YTD			RESIDUAL		
	SEP-07	SEP-06	YOY (%) CHG	AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR. (%)
Tata Motors	48,347	48,938	-1.2	45,144	7.1	262,950	265,350	-0.9	622,078	7.4	14.5
HCV's	15,299	16,127	-5.1	13,066	17.1	75,753	82,424	-8.1	192,941	4.1	13.8
LCV's	14,752	13,513	9.2	13,681	7.8	75,934	68,520	10.8	167,319	12.1	13.2
Cars	14,682	15,138	-3.0	14,917	-1.6	89,823	93,775	-4.2	208,594	6.7	16.9
UV's	3,614	4,160	-13.1	3,480	3.9	21,440	20,631	3.9	53,223	8.4	11.7

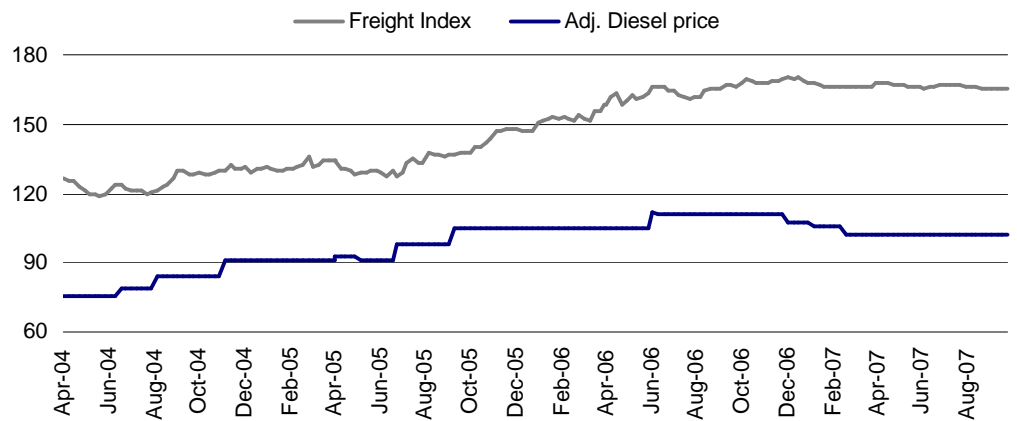
Source: Company/Motilal Oswal Securities

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

FREIGHT RATE INDEX



Source: TCIL/Industry

The freight rate index has remained flat in the wake of steady diesel prices and competition from the Railways.

Bajaj Auto: Under Review

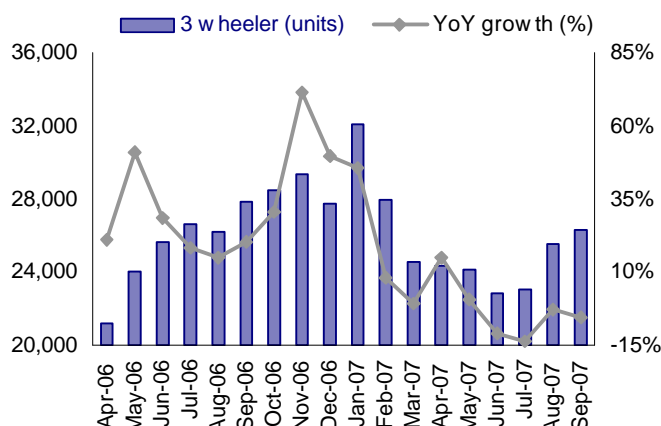
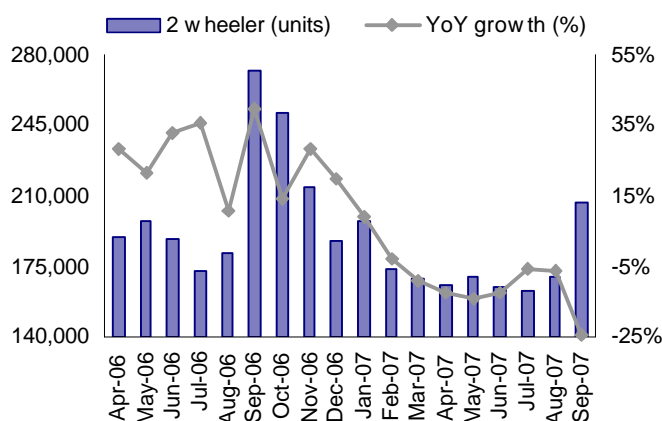
CMP: Rs2,484	MKT CAP: USD6.3B	BLOOMBERG: BJA IN	REUTERS CODE: BJAT.BO							
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	95,204	12,869	127.2	14.6	19.5	4.5	23.3	24.6	2.2	14.3
3/08E	101,868	13,283	131.3	3.2	18.9	3.9	20.6	22.6	2.0	13.7
3/09E	114,593	15,530	153.5	16.9	16.2	3.3	20.6	23.1	1.6	10.7

Turnaround on the cards

Bajaj Auto reported volume decline of 22.5% YoY in September 2007 to 232,496 units (in line with expectations). Motorcycle volumes declined by 24.8% YoY to 204,152 units (+21.9% MoM). Three wheelers sales were subdued as well, declining by 5.7% YoY to 26,288 units. For 1HFY08, motorcycle sales have declined by 13.9%, while three-wheeler sales have declined by 3.5%, leading to overall YTD volume decline of 12.5% for BAL. Exports growth momentum has continued to be robust, increasing by 29.6% in September and by 46.6% in Apr-Sep 2007.

The management has stated that the new bike XCD 125 met its first month's sales target of 18,131 units and advance bookings have covered the October 2007 production target of 50,000 units. The company is now expanding the manufacturing capacity of this bike to 75,000 units. We are currently reviewing our recommendation on Bajaj Auto. The stock trades at 18.9x FY08E EPS of Rs131.3 and 16.2x FY09E EPS of Rs153.5.

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

BAJAJ AUTO: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY			MOM		YTD			RESIDUAL		
	SEP-07	SEP-06	YOY (%) CHG	AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR (%)
Bajaj Auto	232,496	300,141	-22.5	195,707	18.8	1,185,683	1,355,211	-12.5	2,774,498	2.0	16.5
Motorcycles	204,152	271,377	-24.8	167,483	21.9	1,025,558	1,191,249	-13.9	2,424,048	2.0	18.0
Total Two-Wheelers	206,208	272,271	-24.3	170,203	21.2	1,039,466	1,203,661	-13.6	2,452,720	2.3	18.4
Three-Wheelers	26,288	27,870	-5.7	25,504	3.1	146,217	151,550	-3.5	321,778	0.0	3.1

Source: Company/Motilal Oswal Securities

Hero Honda: Neutral

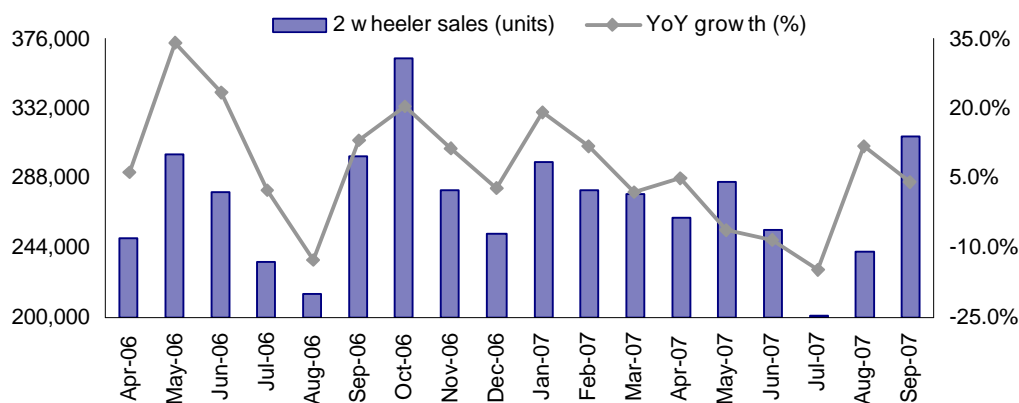
YEAR	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	99,000	8,659	43.4	-10.9	16.9	5.9	38.3	48.5	1.3	10.8
3/08E	104,085	8,609	43.1	-0.6	17.0	5.0	31.9	40.3	1.2	10.9
3/09E	116,946	10,019	50.2	16.4	14.6	4.2	31.2	39.3	1.0	8.7

Improved performance

Hero Honda has reported a 4.1% increase in its sales for September 2007 to 314,000 units (+30.4% MoM). This comes on the back of a robust 12% increase in August 2007. Sales in Apr - Sep 2007 have declined by 1.6% YoY. At our current estimates, we expect residual growth of 3.9% in FY08.

Hero Honda has adopted an aggressive new model / variant launch strategy. It launched the Splendor NXG and the refreshed Pleasure in 1QFY08, and has followed it up with the launch of refreshed versions of the Passion Plus and Super Splendor. The stock trades at 17x FY08E EPS of Rs43.1 and 14.6x FY09E EPS of Rs50.2. We maintain **Neutral**.

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

HERO HONDA: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY		MOM		YTD			RESIDUAL			
	SEP-07	SEP-06	YOY (%) CHG	AUG-07	MOM (%) CHG	2008	2007	YTD (%) CHG	FY08 ESTIMATE	YOY (%) CHG	GR. (%)
Hero Honda	314,000	301,577	4.1	240,875	30.4	1,558,919	1,584,659	-1.6	3,378,491	1.3	3.9

Source: Company/Motilal Oswal Securities

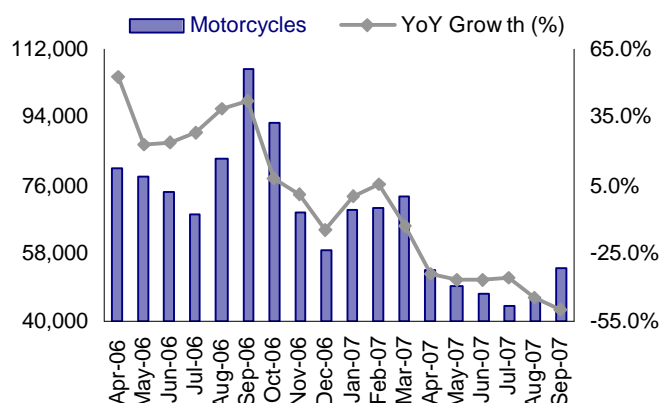
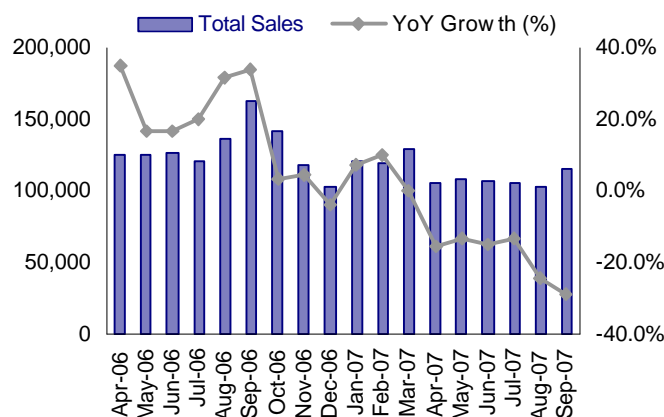
TVS Motor: Neutral

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	38,550	666	2.8	-37.9	25.2	2.1	8.2	7.7	0.5	13.7
3/08E	37,456	513	2.2	-22.9	32.7	2.0	6.1	6.7	0.5	14.3
3/09E	40,542	645	2.7	25.6	26.1	1.9	7.3	7.5	0.5	11.8

Motorcycles disappoint again

TVS Motor reported 29% YoY decline in its September 2007 sales, with motorcycle sales continuing the downward trend, declining by 49.5% YoY to 53,991 units. However, scooter sales and moped sales have continued to display good growth rates. The management expects the sales of the company to increase by 20% MoM in October as it unveils its new models. The stock trades at 32.7x FY08E EPS of Rs2.2 and 26.1x FY09E EPS of Rs2.7. Maintain **Neutral**.

VOLUME GROWTH TREND



Source: Company/Motilal Oswal Securities

TVS MOTORS: SNAPSHOT OF SEPTEMBER VOLUMES

COMPANY SALES	YOY		MOM		YTD		RESIDUAL			
	SEP-07	SEP-06	AUG-07	MOM	2008	2007	FY08	YOY		
							ESTIMATE	GR.		
			(%) CHG	(%) CHG		(%) CHG		(%)		
TVS Motor	115,091	162,200	-29.0	12.0	643,157	794,691	-19.1	1,463,497	-4.2	11.8
Motorcycles	53,991	106,972	-49.5	16.8	294,953	491,517	-40.0	761,422	-17.6	7.7

Source: Company/Motilal Oswal Securities

Other two-wheeler companies

Among other two-wheeler companies, Suzuki Motorcycles reported sales of ~5800 units, which is a decline of nearly 38%. However, Honda Motorcycles and Scooters reported robust growth in the month, boosted by the small base of the previous year. Its motorcycle sales nearly doubled to ~20,000 (22,990 units in August 2007), while its scooter sales increased nearly 50% to ~58,300 units (51,824 units in August 2007).

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Disclosure of Interest Statement

The MOST group and its Directors own shares in the following companies covered in this report: Tata Motors and Hero Honda.

MOST does not have a broking relationship with any of the companies covered in this report.

MOST is engaged in providing investment-banking services in the following companies covered in this report: Nil

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