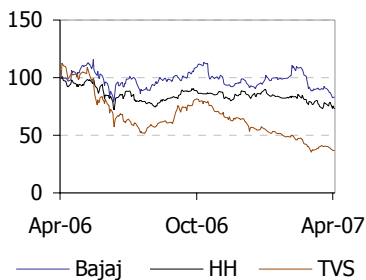


AutoMonitor

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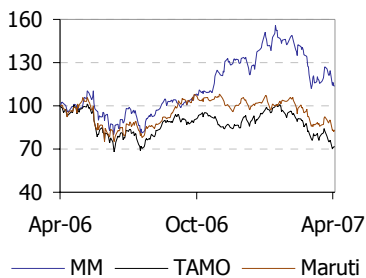
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Relative Performance



Source: Bloomberg, ENAM Research

Relative Performance



Source: Bloomberg, ENAM Research

CAUTION: SPEED BREAKER AHEAD

Sales in March were subdued, as a steep rise in lending rates has dampened sentiment, with increased pressure on cost of ownership indicating a moderation in volume growth.

- **Two wheelers:** Volume has de-grown by 4% YoY in March, indicating that historic growth rates may not be sustainable. Inventory build-up and revision of growth estimates downwards by major players (Bajaj Auto has revised its volume guidance to 10% from earlier guidance of 25%) indicate moderation in growth rates for FY08.
- **Commercial vehicles:** Demand remained strong with a 10% YoY growth in March. However with rising interest rates, we understand that pay-back period for a fleet operator has increased from an average 30 months to ~60 months. Increase in tenure of loans is expected to have an adverse impact on sales going ahead.
- **Cars:** Demand for cars slowed a bit with ~8% growth. We expect competition to intensify and ~10-12% growth for Industry in FY08.

Outlook for Q4FY07:

- **Revenues** – Growth to remain in line with volume growth due to flat realisations on account of aggressive pricing/discounts.
- **Margins** – We expect pressure on operating margins as companies struggle to cope with rising raw material costs along with higher advertising and marketing expenses for new product launches.

(Rs mn)	Sales			EBITDA			Adj PAT		
	Q4FY07E	QoQ	YoY	Q4FY07E	QoQ	YoY	Q4FY07E	QoQ	YoY
Bajaj	21,262	(17.2)	(1.8)	2,840	(21.9)	(33.2)	2,754	(22.9)	(17.5)
TVS Motors	9,103	(2.7)	8.5	291	(1.7)	(39.6)	89	(22.0)	(69.3)
HH	24,831	(6.9)	10.1	2,620	(13.2)	(27.9)	1,884	(9.9)	(29.5)
TAMO	83,791	21.6	22.4	9,887	15.3	26.4	6,080	35.8	55.2
MUL	42,558	15.7	29.9	5,598	13.8	11.0	3,897	7.9	2.8
M&M	27,591	7.1	20.5	3,311	6.9	21.7	2,372	(2.1)	34.7

Source: ENAM Securities

Ratings change – We are downgrading Bajaj Auto to Sector Neutral, Hero Honda to Sector Underformer and upgrading MUL to Sector Outperformer.

Considering Valuations, our order of preference on stocks is as follows (most preferred to least): TAMO, MUL, M&M, BAJAJ, HH, ALL and TVS

Volume Snapshot

(Nos)	Monthly			YTD		
	Mar-07	Mar-06	YoY (%)	FY07	FY06	YoY (%)
Bajaj Auto	193,562	211,062	(8.3)	2,718,795	2,280,986	19.2
TVS Motor	128,207	128,857	(0.5)	1,520,366	1,342,228	13.3
Hero Honda	272,312	277,915	(2.0)	3,331,153	3,006,353	10.8
Total	594,081	617,834	(3.8)	7,570,314	6,629,567	14.2
Tata Motors	62,779	56,406	11.3	579,367	453,818	27.7
Maruti Udyog	71,772	63,214	13.5	674,924	561,837	20.1
Mahindra & Mahindra	28,428	23,720	19.8	280,824	234,425	19.8

Source: Company; ENAM Research

MARUTI UDYOG

- Maruti's volume growth in March was ahead of expectations, with buoyant demand in the A2 segment. Overall growth stood at 6.5% for March and 21% cumulatively for FY07.
- MUL has indicated that they are in talks with rural and public sector banks to provide lending for auto loans in a bid to soften the blow of rising interest rates.
- MUL has announced that it will launch the SX4-sedan in 1HFY08 as a replacement to the ailing Baleno. This launch is expected to boost MUL's presence in the C segment. The SX4 will be manufactured on an extended swift platform. It is part of Suzuki's global offering and was recently displayed at the Geneva Motor show.

Suzuki SX4: MUL's latest offering



Source: www.sx4.ca

Outlook:

- We expect Maruti to do better than the passenger car industry in FY08, as a majority of its sales come from the compact segment.

Maruti: Volume break-up

(Nos)	Monthly			YTD		
	Mar-07	Mar-06	YoY (%)	FY07	FY06	YoY (%)
A1	6,141	10,937	(43.9)	79,245	89,223	(11.2)
C	8,661	8,390	3.2	83,091	66,366	25.2
A2	47,068	37,297	26.2	440,375	335,154	31.4
A3	2,414	3,735	(35.4)	29,697	31,939	(7.0)
Tot PC	64,284	60,359	6.5	632,408	522,682	21.0
MUV	272	800	(66.0)	3,221	4,374	(26.4)
Domestic	64,556	61,159	5.6	635,629	527,056	20.6
Exports	7,216	2,055	251.1	39,295	34,781	13.0
Total Sales	71,772	63,214	13.5	674,924	561,837	20.1

Source: Company, ENAM Research

MAHINDRA AND MAHINDRA

- Domestic demand for Scorpio continues to be robust with 17% growth for FY07. A slowdown however is visible in the FES segment with growth of 11% for March as against 21% for FY07.
- M&M has launched the Renault Logan in India, making its debut as a sedan manufacturer. The car will be manufactured from their Nashik plant, with an initial capacity of 50,000 units.
- Going ahead the new plant at Chennai will be used to manufacture cars for both Renault and Nissan. This plant is expected to have a capacity of 0.4mn units p.a.

Outlook

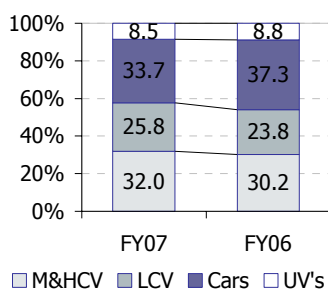
- We expect lending in the FES segment to slowdown on account of higher interest rates and NPA's in this segment.
- In the car segment, with the aggressive pricing on the Logan, M&M could see good volumes. We expect a ~3,000 run- rate for the model to achieve break-even.

M&M: Volume break-up

(Nos)	Monthly			YTD		
	Mar-07	Mar-06	YoY (%)	FY07	FY06	YoY (%)
UV	15,210	12,299	23.7	127,913	114,688	11.5
Out of which - Scorpio	4,769	2,949	61.7	38,029	32,491	17.0
LCV	1,011	593	70.5	8,652	6,777	27.7
Total 4-Wheelers	16,221	12,892	25.8	136,565	121,465	12.4
3-Wheelers	3,648	2,686	35.8	33,700	22,419	50.3
Exports	754	816	(7.6)	8,023	5,534	45.0
Total	20,623	16,394	25.8	178,288	149,418	19.3
Tractors (Domestic)	7,053	6,320	11.6	95,002	78,048	21.7
Tractors (Exports)	752	1,006	(25.2)	7,534	6,959	8.3
Tractors (Total)	7,805	7,326	6.5	102,536	85,007	20.6
Total vehicles	28,428	23,720	19.8	280,824	234,425	19.8

Source: Company, ENAM Research

Product breakup



TATA MOTORS

- TAMO registered a 11% growth in volumes for Mar 2007, driven by strong sales in LCVs and UVs. Overall volume growth for FY07 stood at ~28%, largely driven by M&HCV and LCV sales.
- The recently launched Indica Xeta has elicited a good response from the market with the Indica having sold 15,283 units for March 2007 (highest ever), with cumulative sales of 144,690 for FY07. Indigo on the other hand sold 4,368 for March and 34,310 on a cumulative basis.

Outlook

- Higher rate on loans is expected to impact sales of M&HCV going ahead. We expect volume growth to be ~4% and a realisation growth of 4% for FY08.
- In the LCV space, demand for the Ace continues to be robust and is expected to continue. TAMO's Uttaranchal facility for the Ace is also expected to be operational sometime in FY08.

TAMO: Volume break-up

(Nos)	Monthly			YTD		
	Mar-07	Mar-06	YoY (%)	FY07	FY06	YoY (%)
HCV	19,083	17,348	10.0	185,175	136,851	35.3
- Domestic	17,673	16,312	8.3	173,381	128,715	34.7
- Exports	1,410	1,036	36.1	11,794	8,136	45.0
LCV	15,995	13,892	15.1	149,258	108,084	38.1
- Domestic	13,047	10,977	18.9	125,792	86,236	45.9
- Exports	2,948	2,915	1.1	23,466	21,848	7.4
CAR	21,474	19,845	8.2	195,408	169,102	15.6
- Domestic	19,651	17,655	11.3	179,000	150,952	18.6
- Exports	1,823	2,190	(16.8)	16,408	18,150	(9.6)
UV	6,227	5,321	17.0	49,526	39,781	24.5
- Domestic	6,109	4,954	23.3	47,893	37,903	26.4
- Exports	118	367	(67.8)	1,633	1,878	(13.0)
Total	62,779	56,406	11.3	579,367	453,818	27.7

Source: Company, ENAM Research

TWO-WHEELER INDUSTRY

Momentum Continues

(Nos)	Monthly			YTD		
	Mar-07	Mar-06	YoY (%)	FY07	FY06	YoY (%)
Bajaj Auto						
- Motorcycles	165,524	183,927	(10.0)	2,376,519	1,912,224	24.3
- Total 2-wheelers	168,986	186,339	(9.3)	2,396,999	2,028,980	18.1
- Three-wheelers	24,576	24,723	(0.6)	321,796	252,006	27.7
Total Sales	193,562	211,062	(8.3)	2,718,795	2,280,986	19.2
TVS Motors						
- Scooters	20,297	17,410	16.6	258,967	245,297	5.6
- Motorcycles	73,239	83,896	(12.7)	925,093	806,654	14.7
- Mopeds	34,671	27,551	25.8	336,306	290,277	15.9
Total Sales	128,207	128,857	(0.5)	1,520,366	1,342,228	13.3
Hero Honda						
- Motorcycles	272,312	277,915	(2.0)	3,331,153	3,006,353	10.8
Total Sales	272,312	277,915	(2.0)	3,331,153	3,006,353	10.8

Source: Company, ENAM Research

Sector Outlook: Remain Underweight

- We remain underweight on the overall two-wheeler sector. Moderation of growth in the recent past, inventory build-up and revision of growth estimates downwards by major players (Bajaj Auto has revised its volume guidance to 10% from earlier guidance of 25%) indicates likely moderation in the growth rates for FY08.
- Intense competition and price wars to keep realizations and margin under check. Historically it is seen that price cuts do not lead to volume and/or profit growth.
- We are downgrading Bajaj Auto from Sector Outperformer to Sector Neutral and downgrading Hero Honda from Sector Neutral to Sector Underperformer. We continue to maintain Sector Underperformer rating on TVS Motors.

Auto valuation sheet: RECOMMENDATIONS ARE RELATIVE TO SECTOR

Co. Name	Period	Net sales (Rs.mn)	EBIDTA (Rs.mn)	Adj. PAT (Rs.mn)	FDEPS (Rs.)	Core EPS (Rs)	Cash per Share (Rs)	Value of Invst (Rs)	RoCE (%)	RoE (%)	Core P/E (x)
Tata Motors (Conso.)	FY05	192,792	24,038	13,891	36	35.8	-	-	33	34	12
(CMP: 686)	FY06	231,523	29,236	17,306	43	42.9	-	-	32	32	22
(MCap: Rs.248bn)	FY07E	314,579	38,490	23,524	58	57.8	-	-	33	34	13
(RECO: OP)	FY08E	363,162	45,705	28,569	70	70.2	-	-	33	33	10
Tata Motors (Stand.)	FY05	174,191	21,040	12,508	32	32.2	-	99	32	33	10
(CMP: 686)	FY06	206,022	24,967	15,140	38	37.5	-	119	30	31	22
(MCap: Rs.248bn)	FY07E	277,302	33,700	20,212	50	49.6	-	138	34	33	12
(RECO: OP)	FY08E	318,887	37,926	21,466	53	52.7	-	138	32	28	10
Maruti Udyog	FY05	108,945	14,063	8,583	30	25.2	88	-	31	22	13
(CMP: 756)	FY06	120,034	16,266	11,890	41	35.3	120	-	35	24	21
(MCap: Rs.218bn)	FY07E	144,900	20,249	14,729	51	44.4	120	-	35	24	16
(RECO: OP)	FY08E	164,337	22,656	16,797	58	50.9	120	-	32	22	13
M&M (Stand.)	FY05	65,307	7,904	4,994	22	16.7	-	136	26.4	26.6	7
(CMP: 714)	FY06	79,888	9,896	6,479	28	23.0	-	170	26.7	28.4	20
(MCap: Rs.166bn)	FY07E	100,251	13,063	8,598	35	28.0	-	397	31.6	29.8	14
(RECO: N)	FY08E	112,952	14,965	10,343	42	35.0	-	397	31.6	29.3	9
Ashok Leyland	FY05	41,819	4,240	2,407	2	1.8	-	-	14	22	12
(CMP: 36)	FY06	52,477	5,401	3,056	2	2.3	-	-	15	24	18
(MCap: Rs.47bn)	FY07E	70,862	6,182	3,658	3	2.7	-	-	17	24	14
(RECO: UP)	FY08E	78,314	6,946	4,133	3	3.1	-	-	17	23	11
Bajaj Auto	FY05	57,240	8,524	8,158	81	38.9	461	395	23	21	6
(CMP: 2308)	FY06	74,694	12,622	11,243	111	63.7	587	533	28	25	26
(MCap: Rs.233bn)	FY07E	94,369	14,192	12,357	122	73.0	711	704	26	23	14
(RECO: N)	FY08E	107,010	15,778	13,646	135	81.8	711	704	26	22	11
Hero Honda	FY05	74,217	11,645	8,104	40.6	34.2	102	-	81	62	13
(CMP: 632)	FY06	87,140	13,645	9,678	48.5	41.6	111	-	72	55	19
(MCap: Rs.126bn)	FY07E	97,596	11,663	8,537	42.7	34.1	111	-	52	39	17
(RECO: UP)	FY08E	108,857	11,593	8,486	42.5	32.6	111	-	47	35	16
TVS Motors	FY05	28,759	2,116	1,076	5	4.5	-	-	23	18	15
(CMP: 57)	FY06	32,350	2,045	1,170	5	4.9	-	-	20	18	28
(MCap: Rs.13bn)	FY07E	38,161	1,565	671	3	2.8	-	-	11	10	21
(RECO: UP)	FY08E	43,066	1,938	832	4	3.5	-	-	14	12	16

Source: ENAM Research, OP: Outperformer; N: Neutral; UP: Underperformer

Note: Core PAT and EPS pertains to auto biz. and is adjusted for non operating income. P/E reflects multiple for core business.

Note: Prices are as on April 5, 2007

Sum of the Parts (SOTP) Valuation for respective companies

Segment	Target Price (Rs.)	SOTP
TAMO	876	Core biz valued at 14x FY08 EPS of 52.7 + Rs 138/ share for value of subsidiaries & investments. We have calculated the value of TCS holding at Rs 60/ share and taken a 50% discount
M&M	817	Auto and Tractor biz. valued at 12x FY08E Core EPS of Rs 35 + Value of subsidiaries at Rs 397/ share, which is based on the proportionate share of mkt-cap of the entities
MUL	883	Valued at 15x FY08 Core EPS of Rs 50.9+ Cash/ Equivalents of Rs 120/ share
TVS Motor	42	Valued at 12x FY08 EPS of Rs 3.5
Bajaj Auto	2,642	15x FY08 Core EPS of Rs 81.8 + Cash/ Equivalents of Rs 711 (at 15% discount) + Insurance biz. at Rs 704/ share
HH	567	Core biz. Valued at 14x Core EPS of Rs 32.6+ Cash/ Equivalents of Rs 111/ share

Source: ENAM Research

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Disclosure of interest statement (As of April 5, 2007)	Ashok Leyland	Bajaj Auto	Hero Honda	TVS Motors	Tata Motors	M & M	Maruti Udyog
1. Analyst ownership of the stock	No	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	No	No	No
3. Directors ownership of the stock	No	No	No	No	No	No	Yes
4. Investment Banking mandate	No	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	No	No	No

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