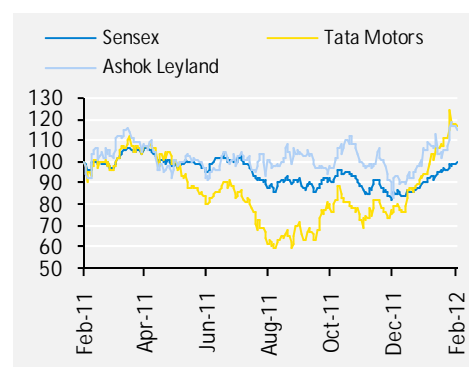


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Sensex v/s. Tata Motors & Ashok Leyland



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	10.1	14.2	1.2
Auto	17.1	26.2	18.5
Ashok Leyland	9.4	14.3	15.3
Tata Motors	23.8	90.4	16.8

Stock Data

	CMP (Rs)	TP (Rs)	PE (x)	
			FY12E	FY13E
Tata Motors	271	296	6.5	5.8
Ashok Leyland	29	30	9.8	8.4

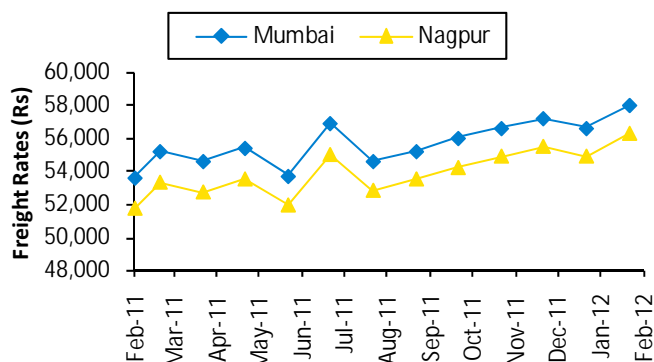
Our interaction with industry experts suggests that LCV Goods segment is likely to grow at 25-26%, whereas M&HCV Goods segment can grow at 6-7% in FY12E. According to our assessment, it is unlikely that M&HCV Goods space will see a negative growth, whereas LCV segment is likely to grow in 12-15% range in FY13E. According to IFTRT report, the ensuing 2 months of February and March 2012 should witness increased sale volumes because the fleet owners are making extra purchases due to tax benefit of 50% depreciation allowance under the Income Tax Act and hefty discounts on purchase offered by Commercial Vehicle dealers in the country. Key findings of the IFTRT report are mentioned below:

- **Freight offering continues to be robust:** According to IFTRT report, Truck Rentals during January 2012 moved up by 2.5% - 3% on trunk routes with strong cargo offerings from agri-products led by an increase of 30%-35% in arrival of fresh fruit and vegetables in the APMCs, healthy increased 10%-15% movement of food grain and cereal items coupled with improvement in cargo offerings by 8%-10% from manufacturing sector. Currently availability of freight is not an issue as there is no situation where vehicles are standing idle.
- **Freight rates increase by 10.8%-17.8% during April-Dec'11:** The cargo offerings from the manufacturing sector grew at a lower average rate of 5% - 6% for April-Dec 2011 period, however the food grain, cereals and edible oils offered 10%-11% extra cargo all through last three quarters and the fresh fruit and vegetables during October - December 2011 displayed 20%-25% extra arrival in comparison to the previous quarter in the same fiscal. This led to higher fleet utilization and increase in the truck rentals on the trunk routes by 10.8% to 17.8% during April - Dec 2011. (Exhibit 4&5).
- **CV Goods segment still growing at a brisk pace of 21.2%:** Industry Truck sales (LCV & MHCVC Goods segment) grew by 21.2% during April-January 2012 over the same period last year due to steady cargo availability and higher truck rentals to transport operators. For YTD FY12, LCV goods segment grew by 29.0% YoY, whereas M&HCV goods segment (7.5-40T) grew by 11.9% YoY. (Exhibit 6).
- **February and March'12 volumes likely to improve:** According to IFTRT report, the current quarter of this fiscal has started with double digit growth (13.8%) in Jan 2012 for Goods segment (M&HCV and LCV) and the last 2 months of February and March 2012 should witness even increased sale volumes because the fleet owners are making extra purchases due to tax benefit of 50% depreciation allowance under the Income Tax Act and convenient low cost auto finance schemes coupled with hefty discounts on purchase offered by Commercial Vehicle dealers in the country. The overall cargo offerings are expected to be buoyant in next couple of months leading to additional demand for fleet replacement and expansion.

- **Demand for younger fleet to drive FY13E growth :** The corporate as well as PSU consignors are nowadays seeking younger truck fleet for their transport contracts thereby leading to a voluntary scrappage of very old truck fleet. This trend has gained momentum in last couple of years which increases the ultimate demand for new trucks.
- **Trend towards contractual basis - a positive for the industry:** The truck freight market has seen a positive development in the last five years in which the long-term contractual transport business has grown up to 25-30% over 5-10% of the total freight volume. Also, these transport contracts duly carry escalation clause in the contracts to give transport contractor a reflection in freight charges of the pro-rata increase in diesel price change on every occasion, thereby, hedging the risk of lower profitability.
- **LCV goods segment market share improves by 12.5% in the last 4 years:** The need for Hub and Spoke model has fuelled growth in the LCV Goods segment which has grown at a brisk pace of 20.9% CAGR for FY08-FY12E as against a 2.8% CAGR in the M&HCV Goods segment. Agriculture sector is driving growth in the small and medium Commercial Vehicles. As a result of robust growth, LCV segment now accounts for 53.5% of the total Commercial Vehicles – Goods segment, an increase of 12.5% over FY08 levels.
- **Newer players gaining Market Share:** Relatively newer players in the M&HCV Goods segment are gaining market share and are likely to grow at a faster clip. Both Volvo-Eicher Commercial Vehicles (VECV) and Asia Motor Works (AMW) gained 90bps in Market Share for YTD FY12 to 11.1% and 3.4% respectively. Pan-India presence led to an 11.6% YoY growth for Tata Motors, whereas over-dependence on South led to flattish sales for Ashok Leyland in the M&HCV Goods segment.

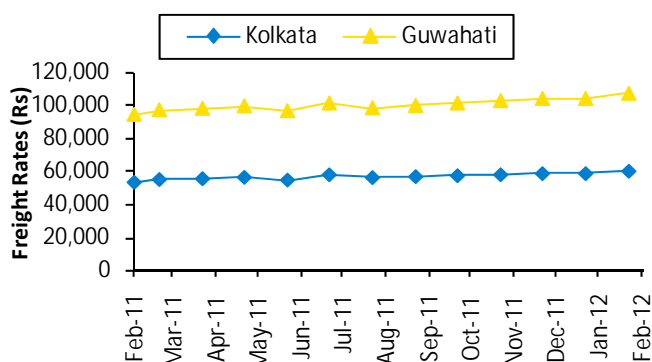
Freight rates strong across trunk routes

Exhibit 1: 9T payload Truck for a round trip from Delhi



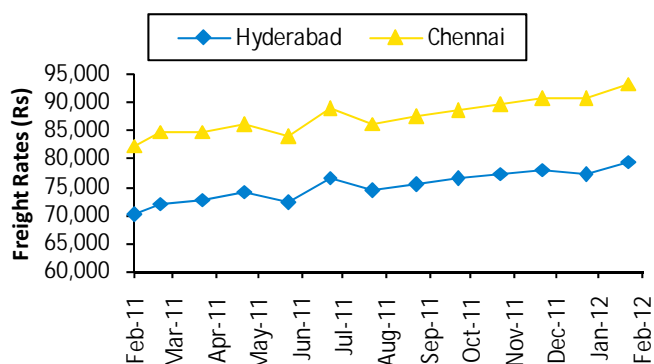
Source: IFTRT, PL Research

Exhibit 2: 9T payload Truck for a round trip from Delhi



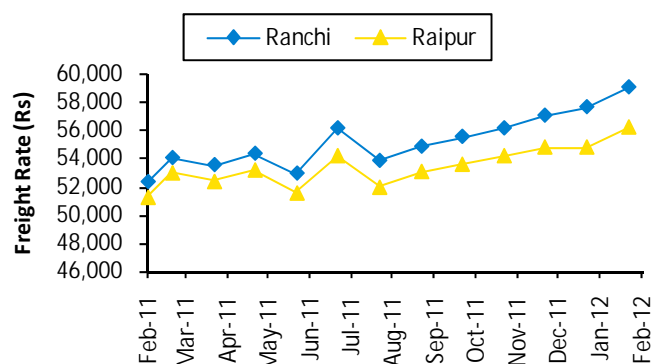
Source: IFTRT, PL Research

Exhibit 3: 9T payload Truck for a round trip from Delhi



Source: IFTRT, PL Research

Exhibit 4: 9T payload Truck for a round trip from Delhi



Source: IFTRT, PL Research

The food grain, cereals and edible oils offered 10%-11% extra cargo all through last three quarters and the fresh fruit and vegetables during October - December 2011 displayed 20%-25% extra arrival in comparison to the previous quarter in the same fiscal. This led to higher fleet utilization and increase in the truck rentals on the trunk routes by 10.8% to 17.8% during April - Dec 2011

According to IFTRT, Truck Rentals during January 2012 moved up by 2.5% - 3% on trunk routes with strong cargo offerings from agri-products by an increase of 30%-35% in arrival of fresh fruit and vegetables in the APMCs, healthy increased 10%-15% movement of food grain and cereal items coupled with improvement in cargo offerings by 8%-10% from manufacturing sector.

Freight rates increase by 10.8%-17.8% during April-Dec'11

Exhibit 5: YTD Truck rentals

Round Trip/ 9 ton pay load	Monthly Avg. for Apr-Dec'11	Monthly Avg. for Apr-Dec'10	% ch. YoY
Delhi - Mumbai-Delhi	55,744	50,311	10.8%
Delhi - Nagpur-Delhi	53,933	48,144	12.0%
Delhi - Kolkata-Delhi	56,678	49,456	14.6%
Delhi - Guwahati-Delhi	99,944	89,333	11.9%
Delhi - Hyderabad-Delhi	75,222	65,944	14.1%
Delhi - Chennai-Delhi	87,411	78,989	10.7%
Delhi - Bangalore-Delhi	85,556	77,067	11.0%
Delhi - Ranchi-Delhi	55,011	49,100	12.0%
Delhi - Raipur-Delhi	53,389	47,856	11.6%
Delhi - Kandla-Delhi	40,767	34,611	17.8%
Delhi - Bilaspur-Delhi	53,011	46,311	14.5%

Source: IFTRT, PL Research

CV Goods segment still growing at a brisk pace

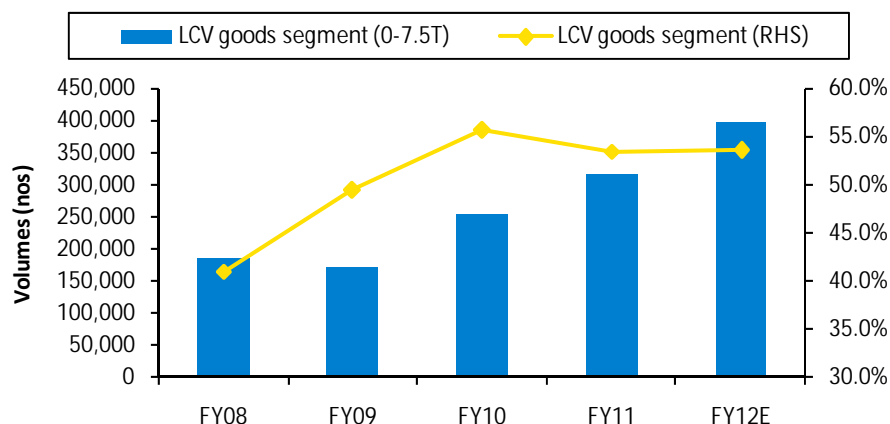
Exhibit 6: Segment-wise break-up of volumes

Segment-wise Break-up	Domestic Sales					YTD 10-11	YTD 11-12
	FY08	FY09	FY10	FY11	FY12E		
LCV goods segment (0-7.5T) } (A)	185,751	170,949	253,364	316,140	397,000	253,486	327,022
% ch. YoY		(8.0)	48.2	24.8	25.6		29.0
ICV goods segment (7.5T - 12T)	71,675	53,993	43,679	55,330	64,500	43,568	53,093
% ch. YoY		(24.7)	(19.1)	26.7	16.6		21.9
Rigid Vehicles (12T-16T)	60,445	42,657	48,605	61,478	60,000	45,748	49,263
% ch. YoY		(29.4)	13.9	26.5	(2.4)		7.7
Rigid Vehicles (16T-35T)	109,634	68,259	90,904	129,435	140,800	100,676	112,873
% ch. YoY		(37.7)	33.2	42.4	8.8		12.1
Tractor Trailer / Tippers (16T-49T)	25,007	9,994	18,673	28,992	29,000	22,495	22,571
% ch. YoY		(60.0)	86.8	55.3	-		-
M&HCV Goods Segment (7.5T-49T) } (B)	266,761	174,903	201,861	275,235	294,300	212,487	237,800
% ch. YoY		(34.4)	15.4	36.3	6.9		11.9
CV Goods Segment (A + B)	452,512	345,852	455,225	591,375	691,300	465,973	564,822
% ch. YoY		(23.6)	31.6	29.9	16.9		21.2

Source: SIAM Data, PL Research

LCV goods segment market share improves by 12.5% in last 4 years

Exhibit 7: LCV share likely to increase to 56.3% of Goods segment



Source: SIAM Data, PL Research

Exhibit 8: LCV Goods segment

LCV Goods Carriers	FY10	FY11	FY12E	Apr-Jan'11	Apr-Jan'12
Mahindra & Mahindra	81,291	103,661	127,500	84,098	103,605
YoY growth (%)		27.5	23.0		23.2
MS (%)	32.1	32.8	32.1	33.2	31.7
Piaggio Vehicles	11,094	9,124	10,700	7,544	9,399
YoY growth (%)		(17.8)	17.3		24.6
MS (%)	4.4	2.9	2.7	3.0	2.9
Tata Motors	149,322	182,895	235,000	145,517	193,077
YoY growth (%)		22.5	28.5		32.7
MS (%)	58.9	57.9	59.2	57.4	59.0
Total (incl. other players)	253,364	316,140	397,000	253,486	327,022
YoY growth (%)		24.8	25.6		29.0

Source: SIAM Data, PL Research

The need for Hub and Spoke model has fuelled growth in the LCV Goods segment which has grown at a brisk pace of 20.9% CAGR for FY08-FY12E as against a 2.8% YoY growth in the M&HCV Goods segment. Agriculture sector is driving growth in the small and medium Commercial Vehicles. As a result of robust growth, LCV segment now accounts for 53.5% of the total Commercial Vehicles – Goods segment, an increase of 12.5% over FY08 levels.

Exhibit 9: M&HCV Goods segment

M&HCV Goods Carriers	FY10	FY11	FY12E	Apr-Jan'11	Apr-Jan'12
Ashok Leyland	40,730	62,674	59,800	46,474	46,790
<i>YoY growth (%)</i>		<i>53.9</i>	<i>(6.2)</i>		<i>0.7</i>
<i>MS (%)</i>	<i>20.2</i>	<i>22.8</i>	<i>20.3</i>	<i>21.9</i>	<i>19.7</i>
Asia Motor Works	3,792	6,793	10,200	5,287	8,080
<i>YoY growth (%)</i>		<i>79.1</i>	<i>50.2</i>		<i>52.8</i>
<i>MS (%)</i>	<i>1.9</i>	<i>2.5</i>	<i>3.5</i>	<i>2.5</i>	<i>3.4</i>
Tata Motors	133,036	171,431	183,600	134,064	149,632
<i>YoY growth (%)</i>		<i>28.9</i>	<i>7.0</i>		<i>11.6</i>
<i>MS (%)</i>	<i>65.9</i>	<i>62.3</i>	<i>62.4</i>	<i>63.1</i>	<i>62.9</i>
VE CVs - Eicher	19,218	27,748	32,000	21,778	26,333
<i>YoY growth (%)</i>		<i>44.4</i>	<i>15.3</i>		<i>20.9</i>
<i>MS (%)</i>	<i>9.5</i>	<i>10.1</i>	<i>10.9</i>	<i>10.2</i>	<i>11.1</i>
Total (incl. other players)	201,861	275,235	294,300	212,487	237,800
<i>YoY growth (%)</i>		<i>36.3</i>	<i>6.9</i>		<i>11.9</i>

Source: SIAM Data, PL Research

Relatively newer players in the M&HCV Goods segment are gaining market share and are likely to grow at a faster clip. Both Volvo-Eicher Commercial Vehicles (VECV) and Asia Motor Works (AMW) gained 90bps in Market Share for YTD FY12 to 11.1% and 3.4% respectively. Pan-India presence led to an 11.6% YoY growth for Tata Motors, whereas over-dependence on South led to flattish sales for Ashok Leyland in the M&HCV Goods segment.

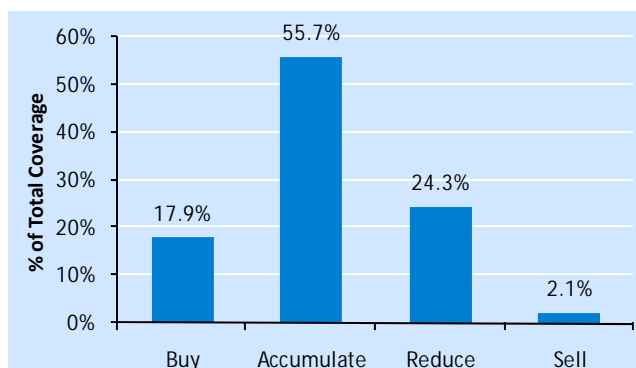


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Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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