

Equities

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India Autos

November 2011 Sales: Mixed Bag

■ Industry Overview

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- **2W OEMs: Driven by HMCL** — 2W sales in November (HMCL+TVS) rose a healthy 23% YoY, but were mainly driven by HMCL with a 27% YoY growth. We believe that, after depleting inventory in October (per mgmt, Oct'11 had the highest ever retail sales), mgmt could be building up inventory to cater to the marriage season demand. TVS vols rose a moderate 12% YoY while motorcycle volumes dropped ~1% YoY. TVS mgmt expressed concerns on 2W demand scenario and did not expect any uptick for the next 3-6 months.
- **Maruti: Strike over, but effect lingers** — With 19% YoY volume decline, November was another month of below-par performance by Maruti. Mgmt attributed the volume decline to 1) gradual ramp-up of Manesar-B plant, as the workers are not yet given any target to improve mgmt –worker relations, 2) diesel engine supply is still capped at 20,000 / month and is a major constraint in catering to the massive backlog of ~98k Swift Diesels. Mgmt hiked prices by 2,000-10,000 on its diesel models in November. Most competitors reported moderate-flat vol growth in Nov, barring Tata Motors (cars)
- **M&M: UVs trump tractors** — M&M's overall volumes rose a fairly strong 30% YoY. UV sales rose a sharp 46% YoY- a confluence of weak base (maintenance plant shutdown in Nov 2010) and incremental volumes of the XUV500. 4W pick-ups segment continued to report very robust volumes and is now an important contributor to overall M&M sales. Tractor volumes declined, the first time since June 2010, as the base reflected festive season in 2010 falling in November, as against October this year.
- **Tata Motors: CVs remain buoyant, PVs too spring a surprise** — After October vols were marred by curfew at Pantnagar, LCV segment regained its growth trajectory (+41% YoY). MHCv volumes rose a more moderate ~9% YoY- fair, given the macro environment. Domestic PV segment was the major positive surprise with 81% volume growth (+44% ex-Nano, with 509 units in Nov 2010). We believe this volume spurt is a confluence of increased marketing & advertising activities, new variant launches (esp in Indica) and a revamped Nano (more features at same price). However, given the fluctuating vol history, we would keenly observe if the current growth trend is sustainable.
- **New model launches** — 1) Tata Motors launched a new revamped Nano (better features at the same price); 2) Skoda launched the mid-sized sedan, Rapid, (Rs675-919k ex-showroom Delhi) and a 2-wheel drive version of the SUV Yeti at Rs 1.32mn.

Figure 1. Indian Auto OEMs: November 2011 Sales

	Nov-10	Oct-11	Nov-11	% Chg YoY	% Chg MoM	FY12 YTD	Residual Growth for FY12
Tata Motors (Overall)	54,622	68,009	76,823	40.6%	13.0%	544,492	-3.0%
Maruti Suzuki	112,554	55,595	91,772	-18.5%	65.1%	681,200	20.9%
M&M (Autos)	26,666	41,506	40,722	52.7%	-1.9%	305,679	-6.9%
M&M (Tractors)	17,993	31,838	17,527	-2.6%	-44.9%	166,885	12.1%
Hero Honda (2Ws)	421,366	512,238	536,772	27.4%	4.8%	4,122,902	14.4%

Source: Companies, Citi Investment Research and Analysis

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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November 2011 Sales – Mixed Bag

2-Wheeler OEMs: HMCL Sales Zoom While TVS Skids

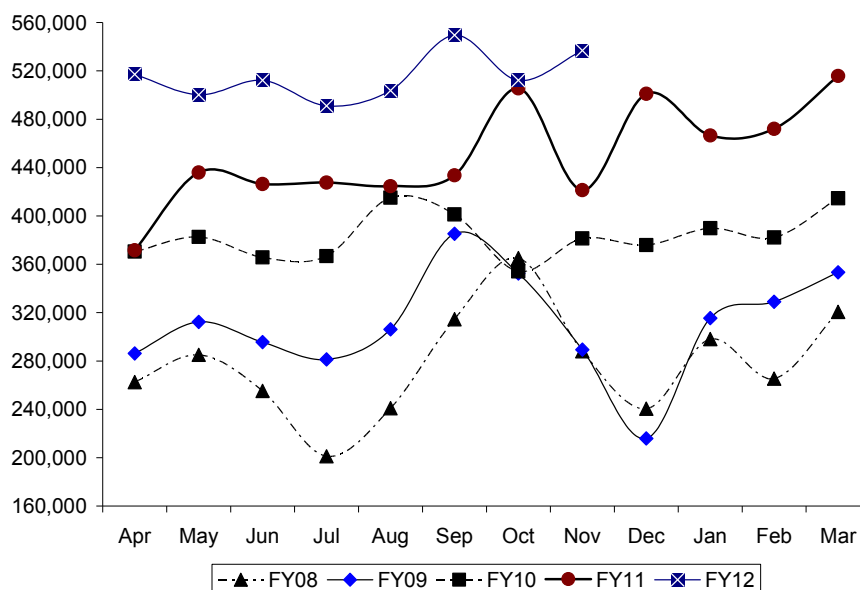
Figure 2. Two-Wheeler Sales : November 2011

	Nov-11 Nos	% chg YoY	% chg over Oct	FY12 YTD (Nos)	% chg YoY
Hero MotoCorp	536,772	27.4	4.8	4,122,902	19.6
TVS Motors					
Motorcycles	62,608	-0.6	-17.2	592,055	6.4
2 wheelers	172,829	12.3	-4.0	1,470,088	11.6
Total 2 wheelers	709,601	23.4	2.5	5,592,990	17.4

Source: Companies, Citi Investment Research and Analysis

Hero MotoCorp: HMCL registered yet another month of strong volumes, with ~27% YoY volume growth. We note that the robust growth rate reflects a very weak base of Nov 2010 (Nov 2010 was the month with second lowest volumes in FY11). This could also reflect slight inventory build-up as during October, strong retail sales (highest ever, as per company press release) could have resulted in inventory falling down.

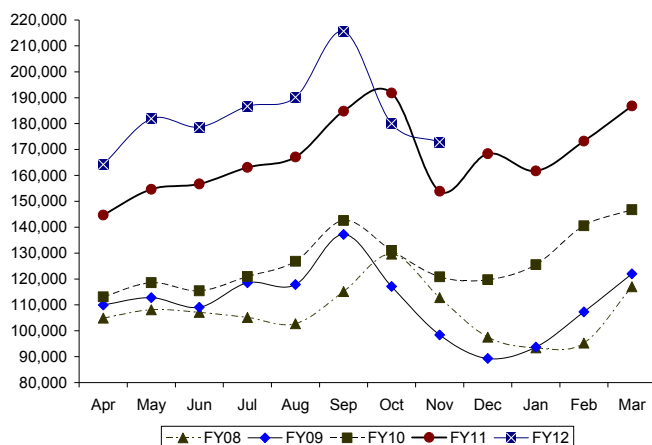
Figure 3. Hero Honda: Two-Wheeler Sales Trends



Source: Company, Citi Investment Research and Analysis

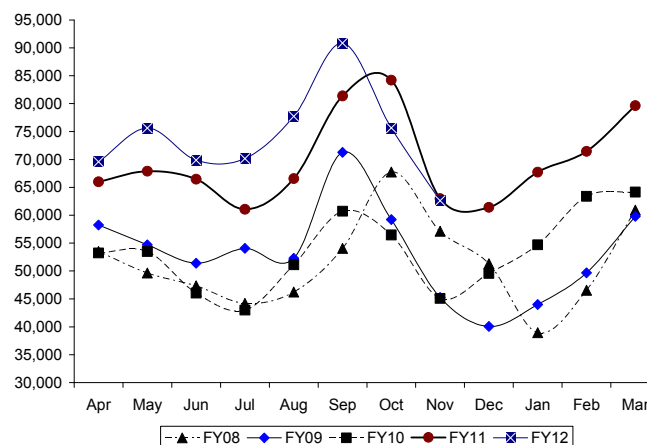
TVS Motor Company: TVS reported a rather modest ~12% YoY growth in overall 2w sales in November 2011. The tepid growth was also buoyed significantly by ~56% growth in export volumes (domestic volumes rose an even weaker 8%). Mgmt cited lower overall economic growth, high inflation, increased fuel prices and interest rates as reasons for an industry-wide slowdown (HMCL volumes appear to contradict). Mgmt believes that current lackluster demand would continue over next 3-6 months and hence has not built up significant inventory. Yamaha India sold 39,162 units in November 2011, 29% YoY growth.

Figure 4. TVS Motor: Two-Wheeler Sales Trends



Source: Company, Citi Investment Research and Analysis

Figure 5. TVS Motor: Motorcycle Sales Trends



Source: Company, Citi Investment Research and Analysis

Maruti Suzuki: Strike Over But Aftermath Continues

Figure 6. MSIL: Product Mix

Segment	Nov-10	Oct-11	Nov-11
Mini (M 800, A Star, Alto, Wagon R)	52.2%	48.6%	47.0%
Compact (Swift, Estilo, Ritz)	22.5%	21.1%	26.7%
Super Compact (Dzire)	9.6%	9.7%	12.6%
Mid-size (SX4)	1.3%	0.6%	1.7%
Executive (Kizashi)	0.0%	0.0%	0.2%
MUVs (Gypsy, Grand Vitara)	0.2%	0.5%	0.2%
Vans (Omni, Eeco)	14.3%	19.4%	11.6%

Source: Company, CIRA

Figure 7. Maruti Suzuki: November 2011 Sales

	Nov-11 Nos	% chg YoY	% chg over Oct	FY12 YTD (Nos)	% chg YoY
Mini (M 800, A Star, Alto, Wagon R)	38,921	(27.2)	55.6	298,830	(17.4)
Compact (Swift, Estilo, Ritz)	22,159	(3.7)	104.1	133,533	(24.3)
Super Compact (Dzire)	10,403	6.0	108.0	60,787	(12.9)
Mid-size (SX4)	1,433	9.8	347.8	11,662	(11.9)
Executive (Kizashi)	162	na	5,300.0	336	na
MUVs (Gypsy, Grand Vitara)	180	(9.5)	(33.3)	4,296	(3.0)
Vans (Omni, Eeco)	9,612	(34.5)	(3.8)	97,973	(6.9)
Total Domestic	82,870	-19.2	61.0	607,417	-16.9
Exports	8,902	-11.4	115.2	73,783	-24.4
Overall	91,772	-18.5	65.1	681,200	-17.8

Source: Company, Citi Investment Research and Analysis

Maruti Suzuki's volumes in November continued to be lackluster on a YoY basis with ~18% decline. Per press reports (*Source- Bloomberg*) the Manesar – B, facility produced ~500 cars per day which is ~38% lower than the full capacity of ~800 per day. The company expects the full production at Manesar-B only by January 2011. Mgmt also said that the waitlist for the new Diesel Swift is 8-10 months, with an order backlog of ~98,000 vehicles.

Per mgmt, while the labour issues at the strike-impacted Manesar plant have been largely resolved, the mgmt is not setting tough targets for the workers as yet. Also, per mgmt, the company is facing diesel engine constraints with the current supply of ~20,000 being clearly inadequate in the backdrop of strong demand scenario for diesel variants.

The product mix improved in November, with better volume growth in the Compact, (we expect most of the incremental volumes for the new Swift), Super Compact and Mid Size segments while low-margin segments, notably the MPV segment, showed lower proportion in overall sales.

Maruti Suzuki also increased the prices of its diesel cars by as much as Rs10,000 to offset the impact of an appreciating yen and rising input costs. The price increase on the Ritz diesel model is Rs2,000 and Rs10,000 on the other models (*Source: Mint*). Mgmt said (*Source: Economic Times*) that the company may raise prices early next year to counter rising import costs due to a weakened rupee even though the near-term demand outlook remains weak.

Competitive landscape — Other players in the car segment reported a mixed set of November volumes. MSIL's key competitor, **Hyundai Motors India, reported a strong 28% YoY** growth in overall volumes. While export volumes rose a very strong ~70% YoY, domestic volume growth was a more moderate 11% YoY. Hyundai India's mgmt noted that the demand does not look too buoyant as interest rates and fuel prices are unlikely to soften in the foreseeable future (*Source: Financial Express*). **Ford India's November sales rose a fairly healthy 11% YoY** while **GM reported a flattish volume growth trajectory in November** (*Source: Economic Times*). Nissan India reported volumes of 2,688 in the domestic market, which was 149% more than Nov 2010 volumes of 1,079 (IANS). However, on a MoM basis (more significant), volumes declined ~10%.

M&M: Tractor Volumes Decline 3%; UVs Drive Volumes

Figure 8. Mahindra & Mahindra: November 2011 Sales

	Nov-11 Nos	% chg YoY	% chg over Oct	FY12 YTD Nos	% chg YoY
Passenger UVs	16,686	45.8	(1.5)	125,554	16.4
4 Wheel pick-ups (incl Gio +Maxximo)	13,362	73.6	2.0	96,973	52.0
3-wheelers	5,889	31.8	(7.0)	45,370	17.7
LCVs & MHCVs	1,095	62.0	(5.8)	8,457	14.0
Exports (Auto sector)	2,563	70.9	19.0	17,673	68.9
Verito	1,127	28.7	(38.0)	11,652	59.1
Auto division	40,722	52.7	(1.9)	305,679	29.9
Tractors (Dom + Exp)	17,527	(2.6)	(44.9)	166,885	21.0
Total	58,249	30.4	(20.6)	472,564	26.6

Source: Company, Citi Investment Research and Analysis

Overall, M&M's volumes for November 2011 increased 30% YoY. The growth drivers were the passenger UV and the 4W pick-ups segment, with 46 / 74% YoY growth respectively. Mgmt had a 5 day plant maintenance shutdown in November last year (this year it happened in Oct), resulting in a low base of FY11 UV sales. This, coupled with ~2,000 incremental sales of the XUV500 (our assumption), resulted in a very high 46% YoY growth of the passenger UV segment.

After a 16 month run of positive volume growth, tractor volumes in November declined 3% YoY, the first MoM decline since June 2010. This could partly reflect the fact that the festive season this year was in October, as compared with November last year. Thus a high base effect resulted in YoY decline. We believe that while rural demand appears healthy as of now, the tractor volume growth should moderate in 2H12 from the strong 24% growth in 1H12. M&M has also increased the production of Yuvraj215 tractors from 1,800 units to 2,500 units per year (*Source: Economic Times*).

The 4w pick-up segment is steadily becoming an important segment for M&M at 21% share of overall volumes for FY11 YTD (~17% in Nov 2010). Thus a ~74% growth in this segment significantly buoys overall volumes.

Tata Motors: LCV Segment Buoy CV Volumes, PV Volumes Also Show Healthy Growth

Figure 9. Tata Motors: November 2011 Sales

	Nov-11 Nos	% chg YoY	% chg over Oct	FY12 YTD (Nos)	% chg YoY
Overall Volumes	76,823	41%	13%	544,492	9%
Domestic MHCV	16,064	9%	-5%	129,120	10%
Domestic LCV	28,673	41%	31%	197,465	26%
Total Domestic Commercial Vehicles	44,737	28%	16%	326,585	19%
Domestic Indigo	6,213	3%	-1%	44,683	-23%
Domestic Indica	10,926	91%	1%	63,021	-2%
Domestic Nano	6,401	1258%	65%	39,646	-3%
Domestic passenger UVs	4,197	35%	1%	30,959	21%
Total Domestic Passenger Vehicles	27,737	81%	10%	178,309	-6%

Source: Company, Citi Investment Research and Analysis

Tata Motors reported an overall healthy sales volume in November 2011. MHCV sales were moderate at 9% YoY- fairly healthy in the backdrop of current macro environment. LCV volumes were very strong, with ~41% YoY volume growth. The strong MoM volume growth of ~31% reflects a weak base of Oct 2011 when the production at the Pantnagar plant (manufacturing the Ace) was impacted by curfew.

At an optically very strong 81% YoY growth, the domestic passenger vehicles segment was a positive surprise, albeit on a very weak base. However, we note that, excluding the Nano (which reported only 509 units' sales in Nov 2010), the PV segment growth was still a strong 44% YoY. We believe that heightened brand building, weakness in Maruti dispatches and revamped models could be driving factors behind the spurt. That said, we would observe the sustainability of this sudden volume growth to become more positive on TTMT's PV business.

Appendix A-1

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